THE EFFECT OF ENVIRONMENTAL AND SOCIAL GOVERNANCE ON COMPANY PROFITABILITY LEVELS

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"Sembilan bulan ibuku merakit tubuhku untuk menjadi mesin penghancur badai, maka tak pantas aku tumbang hanya karena mulut seseorang."

"Orang lain tidak akan bisa paham gimana struggle *dan masa sulitnya kita, yang mereka ingin tau hanya bagian senang dan cerita suksenya. Berjuanglah untuk diri sendiri walaupun tidak ada yang tepuk tangan. Kelak diri kita di masa depan akan sangat bangga dengan apa yang kita perjuangkan hari ini. Semoga raga dari tubuh ini selalu diberikan kesehatan dan dilancarkan rezekinya, sehingga bisa menyenangkan banyak orang (terutama kedua orang tua dan keluargaku). Tetap semangat, berdoa, dan berjuang ya 😊."*

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THE EFFECT OF ENVIRONMENTAL AND SOCIAL GOVERNANCE ON COMPANY PROFITABILITY LEVELS

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ABSTRACT

The aim of this research is to find out how Environmental, Social, and Governance (ESG) Disclosure awareness is related to profitability in Food and Beverage (FnB) sector companies listed on the Indonesia Stock Exchange (BEI). This research includes traditional assumption testing, hypothesis evaluation, and descriptive statistical analysis. The test consists of multiple linear regression analysis, simultaneous f test, coefficient of determination test (R2), and partial t test. The preliminary findings suggest that there is no meaningful influence on the dependent variable from ESG disclosure because the significance level of the ESG variable is above 0.05. Conversely, the ENV, SOC, and GOV factors possess a substantial impact regarding the dependent variable as their significance level is below 0.05. The research emphasizes the importance of the link between ESG disclosure and company profitability within the realm of corporate social responsibility, indicating that ESG disclosure could have a positive influence on company profitability through improving the company's reputation and boosting customer loyalty. The results of the research provide several implications, namely that FnB companies can develop effective ESG strategies to increase profitability and long-term value, companies can understand the complex relationship between ESG and profitability in the FnB context, and can help investors and other stakeholders make more informed investment decisions taking ESG factors into consideration.

Keywords: Environmental; Social; Governance (ESG) Disclosure; ROA

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ABSTRAK

Tujuan dari penelitian ini adalah untuk mengetahui bagaimana hubungan kesadaran Environmental, Social, and Governance (ESG) Disclosure terhadap profitabilitas pada perusahaan sektor Food and Beverage (FnB) yang terdaftar di Bursa Efek Indonesia (BEI). Penelitian ini meliputi pengujian asumsi tradisional, evaluasi hipotesis, dan analisis statistik deskriptif. Uji yang dilakukan terdiri dari analisis regresi linier berganda, uji f simultan, uji koefisien determinasi (R2), dan uji t parsial. Temuan awal menunjukkan bahwa tidak terdapat pengaruh yang berarti terhadap variabel dependen dari pengungkapan ESG karena tingkat signifikansi variabel ESG berada di atas 0,05. Sebaliknya, faktor ENV, SOC, dan GOV mempunyai pengaruh yang cukup besar terhadap variabel dependen karena tingkat signifikansinya di bawah 0,05. Penelitian ini menekankan pentingnya hubungan antara pengungkapan ESG dan profitabilitas perusahaan dalam bidang tanggung jawab sosial perusahaan, yang menunjukkan bahwa pengungkapan ESG dapat memberikan pengaruh positif terhadap profitabilitas perusahaan melalui peningkatan reputasi perusahaan dan peningkatan loyalitas pelanggan. Hasil penelitian memberikan beberapa implikasi yaitu perusahaan FnB dapat mengembangkan strategi ESG yang efektif untuk meningkatkan profitabilitas dan nilai jangka panjang, perusahaan dapat memahami hubungan kompleks antara ESG dan profitabilitas dalam konteks FnB, serta dapat membantu investor dan pemangku kepentingan lainnya dalam mengambil keputusan. keputusan investasi yang lebih tepat dengan mempertimbangkan faktor-faktor ESG.

Kata kunci: Pengungkapan Lingkungan; Sosial; Tata Kelola (ESG); ROA

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SUMMARY

1. Background

Indonesia, as one of the largest countries in Asia, holds a strategic position in global trade, attracting entrepreneurs to establish and expand businesses. With increasing competition, companies in Indonesia are urged to maintain productivity and improve financial performance. The food and beverage sector, growing at 7.99%, plays a vital role in the economy but faces challenges in managing social and environmental impacts in a sustainable context. This has led to a growing focus on Environmental, Social, and Governance (ESG) practices, as companies with strong ESG commitments are believed to manage their business more effectively and enhance their value. ESG performance is measured through the Global Reporting Initiative (GRI) Standards, providing a consistent framework for reporting social, economic, and environmental impacts.

This study addresses the gap in research concerning the specific impact of ESG implementation on profitability in Indonesia's food and beverage sector. It aims to analyze the influence of environmental, social, and governance variables on company profits and to investigate how ESG disclosure affects financial success. Companies with high profitability benefit from increased market value and investor interest. Furthermore, ESG disclosure can improve a company's image, attract consumers, and enhance consumer loyalty. The research aims to offer practical insights for companies to develop effective sustainability strategies that boost profitability and comply with evolving regulations, while also improving operational efficiency and reducing environmental impacts

2. Research Methode

This study uses a quantitative approach with secondary data from the Indonesia Stock Exchange (IDX) and company reports, such as annual and

sustainability reports, focusing on Food and Beverage (FnB) sector companies listed on the IDX from 2019 to 2023. A purposive sampling method was applied to select 18 companies based on specific criteria. Data analysis involved descriptive statistics, including central tendency and variation measures, as well as classical assumption tests like normality, multicollinearity, and heteroscedasticity. Hypothesis testing was conducted using the R^2 test, F test, and T test to evaluate the relationships and impacts of the studied variables on FnB company performance.

3. Research Result

The descriptive statistical results indicate that the ENV (Environmental) variable has an average of 0.1695 with low variation, while the SOC (Social) variable averages 0.2157, showing consistency. The GOV (Governance) variable has a higher average of 0.4120, indicating more variation. The ESG variable averages 0.2378 with minimal fluctuation, and the ROA (Return on Assets) variable averages 0.1056, with some negative performance but mostly positive values. After removing extreme outliers, the normality test confirmed the data's normal distribution. Multicollinearity tests showed that ENV, SOC, and GOV met the requirements, while ESG did not, requiring model adjustments. The heteroscedasticity test indicated stable variance, and the Durbin-Watson test confirmed no autocorrelation.

The multiple linear regression analysis showed that the ESG variable has no significant impact on profitability, with a coefficient of 0.069, while the ENV, SOC, and GOV variables all significantly affect profitability. The ENV variable negatively impacts profitability, while SOC and GOV have a positive effect. The model explained 37.4% of the variation in profitability. The F-test confirmed that the independent variables significantly influence profitability simultaneously, while the T-test results indicated that only the GOV variable has a significant positive impact. The findings align with previous research and suggest that good ESG practices can positively signal to stakeholders and increase profitability.

4. Conclusions and Suggestions

This study examines the impact of ESG factors on the profitability of FnB companies listed on the IDX between 2019 and 2023 using SPSS and multiple linear regression analysis. The results from the partial T-test show that the ESG variable does not affect profitability, leading to the rejection of hypothesis 1. However, the Environmental, Social, and Governance variables each significantly influence profitability, resulting in the acceptance of hypotheses 2, 3, and 4. Based on these findings, FnB companies seeking to improve profitability through ESG practices are advised to implement sustainable environmental policies, optimize energy and resource use, manage waste effectively, and protect the environment.

TABLE OF CONTENTS

PERNYATAAN BEBAS DARI PLAGIAT ii
PERTANGGUNGJAWABAN SKRIPSI iii
ACKNOWLEDGEMENTS v
ABSTRACT ix
SUMMARY xi
TABLE OF CONTENTS xiv
LIST OF TABLES xvi
LIST OF FIGURES xvii
CHAPTER I INTRODUCTION 1
1.1 Background 1
1.2 Problem Formulation 3
1.3 Research Objectives 4
CHAPTER II LITERATUR REVIEW 5
2.1 Theoretical Foundation 5
2.1.1 Signalling Theory 5
2.1.2 Explanation of Environmental, Social, Governance (ESG) 5
2.1.3 Company Profitability 6
2.2 Empirical Study 7
2.3 Conceptual Framework and Research Hypotheses 9
2.3.1 Conceptual Framework 9
2.3.2 Research Hypotheses 10
CHAPTER III RESEARCH METHODE 13
3.1 Types of Research 13
3.2 Population and Sample 13
3.2.1 Population 13
3.2.2 Sample 14
3.3 Analysis Techniques 15
3.3.1 Descriptive Statistics 15
3.3.2 Test Classical Assumptions 15
3.3.3 Hypothesis Testing 17

CHAPTER IV RESULT AND DISCUSSION 19
4.1 Research Results 19
4.1.1 Descriptive Statistics Test 19
4.1.2 Classical Assumption Test 19
4.1.3 Hypothesis Testing 25
4.2 Discussion 29
4.2.1 The Effect of ESG on Company Profitabilitas 30
4.2.2 The Effect of ENV on Company Profitabilitas 30
4.2.3 The Effect of SOC on Company Profitabilitas 31
4.2.4 The Effect of GOV on Company Profitabilitas 31
CHAPTER V CONCLUSION AND SUGGESTION 32
5.1 Conclusion 32
5.2 Suggestion 32
REFERENCES 34
ATTACHMENT 38

LIST OF TABLES

Table 2.1 Empirical Study 7
Table 3.1 Until Research 14
Table 4.1 Descriptive Statistics Test Results 19
Table 4.2 Normality Test Results (N = 90) 21
Table 4.3 Normality Test Results (N = 72) 21
Table 4.4 Multicollinearity Test Results 23
Table 4.5 Multicollinearity Test Results (Treated) 23
Table 4.6 Heteroscedasticity Test Resullts 24
Table 4.7 Autocorrelation Test Results 25
Table 4.8 Results of Multiple Linear Regression Analysis 25
Table 4.9 Coefficient of Determination Test Results (R^2) 27
Table 4.10 F Test Results (Simultaneous) 27
Table 4.11 T Test Results (Partial) 28
Table 4.12 Summary of Research Results 30

LIST OF FIGURES

Figure 2.1 Conceptual Framework..... 9
Figure 4.1 Normality Test Results Graph (P-Plot)..... 22

CHAPTER I
INTRODUCTION

1.1 Background

Indonesia, one of the largest countries in the Asian region, is also known as a strategic country in the global trade route. This makes it a place of interest for entrepreneurs to establish and develop businesses, both locally and globally. In the context of increasingly tight competitive pressures, companies in Indonesia are encouraged to remain productive and improve their financial performance. According to the Minister of Industry (MenPerin), the performance of the manufacturing industry is still strong, including the food and beverage sub-sector, which is growing and developing by 7.99%. Seeing the development of the industrial world, especially the development of food and beverage companies at this time, with the progress that has occurred, companies are expected to improve their financial performance by achieving optimal profits so that their businesses can operate efficiently. Companies will submit reports on their company performance in terms of economy, social, and governance to all parties who have an interest in the company through the Sustainability Report document (Tarigan & Semuel, 2015). The food and beverage industry has grown rapidly for a long time and plays an important role in the world economy. However, companies in this sector are faced with pressure to manage the social and environmental impacts of their actions in an increasingly sustainable context. According to Triyani et al. (2020), the level of corporate sustainability is greatly influenced by the extent to which the company is connected to society and the environment. In an effort to achieve business sustainability, the main emphasis has been placed on the concept of Environmental, Social, and Governance (ESG).

The Research GAP that supports this study is the lack of focus on the specific impact of ESG implementation on the profitability of companies in the food and beverage sector, especially in the context of the Indonesian market. By considering this aspect, this study is expected to fill the gap by providing more focused and

applicable insights into ESG policies that affect the profitability and sustainability of the food and beverage sector. The Research GAP that does not support this is the lack of research that investigates specific variables in ESG and how these variables contribute to the profitability of companies in this sector. This study aims to address this gap by providing a more comprehensive and detailed analysis, as well as presenting relevant data to help companies in the food and beverage sector formulate more effective sustainability strategies that impact their profitability. Business entities that demonstrate ESG are companies that are known for being responsible regarding ESG. Companies that demonstrate a commitment to ESG are believed to be able to manage their business effectively and increase their company value. The role of sustainability reports in disclosing ESG issues has a relevant effect in helping investors make investment choices (De Lucia et al., 2020). One of the considerations that must be considered by companies in making long-term investments in ESG is their expertise in implementing actions that care about corporate governance, the environment, and society. ESG performance is measured using the Global Reporting Initiative (GRI) Standards index elements in sustainable reporting. The GRI Standards known as the GRI Standards Index, is a measurement instrument that is consistent and in accordance with global standards for developing a framework for reporting social, economic, and environmental impacts to the community. This standard is recognized globally as a trusted standardization tool.

One of the main measures of financial success is the level of profitability of a business in the food and beverage industry (Tumandung et al., 2017). Supply chain management, customer relationships, operational efficiency, and product innovation are all components that affect the profitability of this business. However, in an increasingly sustainable era, it is important to understand whether ESG components also have an impact on the level of profitability of a business in this industry. Companies that have high profitability benefit in several ways. First, consistent and increasing profits can attract investors, increasing market value. Second, high profitability indicates the efficiency and productivity of the company, which can result in better overall use of resources. According to Ferriani & Natoli (2021), during the economic crisis triggered by COVID-19, interest in ESG disclosure

increased, especially from companies with large assets and market share listed on the IDX stock index, such as KOMPAS 100. It is expected that the public will make sustainable investments that will continue to increase with ESG disclosure and regulatory authorities. From a business perspective, providing information about ESG can attract the interest of investors who care about the sustainability aspect in developing their capital.

In addition, ESG disclosure can also improve a company's image or identity. Improving a company's image and reputation can open up opportunities to attract consumers, which can then have an impact on higher levels of consumer loyalty. Evidence from previous studies shows that companies with high levels of sustainability tend to be stronger in facing difficult times or crises. Hoepner et al. (2023), argues that integrating the ESG concept in a company can reduce the risk of declining financial performance. Signaling theory explains that organizations with superior ESG levels can be better signals for investors, this is because they can reflect organizational complexity and information asymmetry costs. Companies or organizations that have higher ESG levels tend to have increased profitability and higher company value. The implementation of ESG factors in companies is growing. This can help companies fulfill their social and environmental obligations, which in turn can increase profitability and company value (Agustine et al., 2024). This study is different from previous researchers, namely that it focuses more on the FnB sector listed on the IDX for the 2019-2023 period. This makes it possible to observe the impact of ESG directly on industries that have unique characteristics, such as changes in consumer preferences and food and beverage regulations.

1.2 Problem Formulation

According to the description in the background above, the main issue in this research is as follows:

1. Does ESG disclosure have an impact on a company’s ability to generate profits?

1.3 Research Objectives

Based on the background and problem formulation explained above, the objectives of this research are as follows:

1. To examine the impact of the environmental variable (Environmental) on the profit level of companies in the Food and Beverage (FnB) sector listed on the Indonesia Stock Exchange.
2. To examine the influence of the social variable (Social) on the profit level of companies in the Food and Beverage (FnB) sector listed on the Indonesia Stock Exchange.
3. To examine the influence of the corporate governance variable (Governance) on the profit level of companies in the Food and Beverage (FnB) sector listed on the Indonesia Stock Exchange.
4. To examine the influence of the explanation regarding Environmental, Social, Governance (ESG) on the profit level of companies in the Food and Beverage (FnB) sector listed on the Indonesia Stock Exchange.