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The Contribution of Environmental, Social, and Governance (ESG) Disclosure to Reduce Investor Asymmetry Information

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ABSTRACT

The aim of this study is to determine whether environmental, social, and governance (ESG) disclosures have an effect on reducing information asymmetry between managers and stock market participants. This study tries to provide a comprehensive analysis of the company's ESG disclosure strategy. The data used in this study were collected from companies listed on the ESG Sector Leaders BEI KEHATI (ESGSKEHATI) and ESG Quality 45 IDX KEHATI (ESGQKEHATI). The findings show that ESG disclosure reduces stock market asymmetry. From these results, ESG disclosure strengthens the informativeness of environmental disclosures for the stock market. Stakeholders must assess and maintain an increased flow of information, a more efficient disclosure strategy becomes essential if companies are to convey a true picture of their ESG performance. The concept of company development in increasing ESG can be done through maintaining the surrounding environment, sustainable development, and establishing governance. The role of the company is also important, for example by maintaining good relations with employees, suppliers, consumers, shareholders, and various organizations or individuals who interact with the company.

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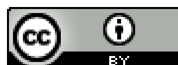

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1. INTRODUCTION

Issues in the world regarding the principles of environmental protection, global warming, and respecting the interests of people leading to a major social change are common concerns [7]. Companies are looking for more ethical and sustainable ways to run their long-term businesses, and capital markets focus on integrating the environment, governance, and society [4]. Companies fulfill their social responsibilities is a great concern to the labor market participants, a product (suppliers, customers, etc.), and financial (investors, financial analysts, etc.) [5]. To decrease the information asymmetry between external stakeholders and company managers, companies use corporate social information (ESG) [5]. ESG is one of the corporate social responsibilities for the public interest beyond the official requirements that refer to the company's management practices [20]. This research examines about environmental and social disclosures influence the information asymmetry in the main aspects of finance, namely the stock market that airs on the Indonesia Stock Exchange. To a certain extent, representative information asymmetry among companies and stakeholders outside the stock market is a form of information asymmetry among stock market participants and companies. An objective-based market that is constantly inferred

will fulfill the information needs of stock market participants.

ESG is a tool for analyzing the interrelationships between businesses and economic systems and the communities in which they exist [17]. The business model integrated the company's activities by considering the economic, environmental, and social dimensions. ESG generally focuses on corporate activities related to major social responsibility, including governance issues that are indirectly related to social and environmental considerations [8]. In addition, ESG has a purpose as a business obligation that acts in accordance with the general goals of society that connects to concept of supporting business in sustainable development [16]. ESG provides a perspective that the company's management decisions in achieving the economic performance of the company consider social and environmental implications of all production activities. All companies are required to be responsive to environmental and social issues and take all the risks also the consequences of the company's activities [9]. Then, managers need to consider management decisions that can affect multilevel stakeholders such as suppliers, employees, customers, suppliers, investors, and society [20]. Many companies have spent significant resources on policies in social and environmental responsibility. Attempting to increase the company's visibility and reputation in the public's eyes requires good social performance.

Managers expecting to be able to make decisions that benefit and contribute to the community's sustainable development by minimizing the influence of the company's activities on the environment. Beneficially, ESG is used to ensure the continuity and license of a company to continue operating in the community. Several index benchmarks for managing the value of a company's ESG are useful for meeting the information needs of products or labor and financial market participants. The quality of a company's social and environmental disclosures is included in a rating.

The International Organization for Standardization publish ISO 14001 for Measuring Environmental management regarding environmental management systems. ISO 14001 is a popular environmental certification designed to help improve environmental performance, reduce the impact of a company's operations on the environment and establish management processes to control [15]. The development and growth of ESG disclosure help fulfill the information needs of stakeholders and have further access to resources [10]. There is empirical evidence on this issue. For example, investors monitor and assess the social responsiveness of a company's gas and oil environment based on ESG performance. Investors give punishment to companies with low ESG scores and high ESG controversy [18]. The company's ESG performance is the benchmark in evaluating global environmental and corporate social responsibility. Investors were more concerned with the company's sustainable practices than the company's operations and finances. If investors find carelessness in ESG, it can have an impact on damaging the reputation of a company in the financial market.

The aim of this study is to investigate whether environmental and social disclosures have an effect in reducing the information asymmetry between managers and stock market participants This research provides a design of ESG analysis through the managing social disclosure as a determinant of environmental disclosure. In preparing the interpretation of environmental disclosures, investors use social disclosures. A company's business decisions have contrasting environmental and social implications. For example, a company's decision to close a production that causes environmental pollution is a good decision from an environmental sight. Then, it has a negative social impact because it can cause layoffs of all employees. In terms of information, each organization's stakeholders have different sight. For example, non-governmental organizations have no interest in the social impact of their activities, but from the side of trade unions who want a job, they are not concerned about the production of polluting companies. Therefore, environmental and social disclosure must be handled individually.

The data that used in this study focuses on companies that have the company's financial fundamental performance also have the results of the ESG performance assessment on the Indonesia Stock Exchange. Including stock indexes with ESG (Environment, Social, Government) performance assessment results above the sector average, and having good liquidity with industry classification referring to the IDX Industrial Classification (IDX-IC). IDX and the Biodiversity Foundation (KEHATI) have officially released two indices on Environment, Social, Governance (ESG) named ESG Quality 45 IDX KEHATI (ESGQKEHATI) and ESG Sector Leaders IDX KEHATI (ESGSKEHATI).

2. LITERATURE REVIEW

Environmental, Social, and Governance (ESG) is a reference for carrying out business activities by specific criteria set by the company so that the impact given by the company on the environment is favorable for many parties concerned. ESG is closely related to how a company contributes to the fulfillment of criteria, concern for the environment, and social life in society. In this assessment, the greater the ESG value owned by the company, the greater the public image and view. This assessment gives the company additional points so that it can be received by the government, society, and organizations related to the company. The role of ESG in the company is beneficial in maintaining value and even increasing the company's value in the eyes of the community through a long-term commitment to investments with social, environmental, and governance responsibilities.

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The concept of corporate development in increasing ESG through maintaining the surrounding environment, sustainable development, and establishing governance following the structure and system. Environmental maintenance standards can be seen as a method used by companies to maintain the condition of the surrounding environment. The company's role in managing environmental care by maintain relationships with employees, suppliers, consumers, shareholders, and various organizations or individuals interacting with the company. Maintaining the environment can be done by saving energy, managing waste and waste, filtering carbon dioxide emissions, and filtering air pollution. Sustainable development in the social aspect can be carried out by the company through the formation of good leadership, granting shareholder rights by provisions, and paying attention to the safety of the products offered to the public. ESG, in addition to bringing added value, in it there is a controversy in the management of financial risk, which is less precise when compared to the guiding literature. In the ESG strategy, the role of women's boards is considered more effective in determining the best decisions for the company [18]. It is because decisions related to plans and strategies made by women's councils have more potential for positive support from the surrounding environment. On the power side of the women's council there are risks. Risks from the woman council include gender factors, economic and financial problems, and equality.

Corporate governance is a system used to regulate and maintain a company's sustainability. The system used for this long-term plan could be in the form of making financial plans, income management, and other activities designed by the company's management to summarize the needs, strategies, and further goals of the company [1]. Five kinds of aspects can be used as a reference in corporate governance. These aspects include transparency, accountability, responsibility, independence, and justice. In the aspect of transparency, there are several sections with various policies such as audit certification, company risk disclosure, and open public access. The accountable aspect provides

- Further explanation regarding the presence of unit members.
- The implementation of the board of commissioners and directors.
- Provision of training programs.

The responsible aspect provides accountability through a consumer complaint center, customer service improvement, expense reports, environmental management, and protection activities. Independence revolves around committee regeneration, internal audit structure, and affiliation between board members, the company, and shareholders. In the aspect of justice, it contains some description of the duties and responsibilities of the audit committee, determination for directors, and procedures for remuneration.

The ESG concept applied in the Sri Kehati index contains the concept of responsible and sustainable investment in profit gain, financial calculations, and the economy. Sri-Kehati is a list of various company stocks going concerned for the environment as long as the company is running. The list of names of shares in the Sri-Kehati index will continuously be updated every six months. The list of share names can change from the old list to the newest list. Investors use the list information to predict investment returns [12]. This index has three aspects in selecting a list of stocks that match the index: fundamental aspects, financial aspects, and business influence. The selection is divided into two stages: the negative selection stage and the financial review stage. The selected company must be free from the criteria for producing negative things such as alcohol, weapons, pornography, and gambling. Companies included in the list must be free from products that can damage.

The application of Environmental, Social, and Governance (ESG) in theory is separated into stakeholder theory, legitimacy, and positive accounting. Stakeholder theory is a conceptual theory where the company is an organization or entity that plays a role in providing benefits to groups or individuals who have interests (stakeholders). These stakeholders are shareholders, consumers, society, government, suppliers, creditors, and so on, who generally have an interest in or are in contact with the activities carried out by the company. So, in this theory, companies are not only looking for profits and benefits for their interests but can also provide beneficial reciprocity for groups or individuals related to company activities. The second is the legitimacy theory. This theory is a condition where the company gets the trust of others who highlight environmental conditions both physically and non-physically. The company obtains legitimacy from the community if the company's appearance follows the rules or guidelines and does not disturb the surrounding environment. The legitimacy will help the company to create and maintain a company performance so that the company gets positive values to survive. The third is the positive accounting theory. Positive accounting is a theory used to increase accuracy in calculating and analyzing various kinds of data on computers and database engines. These calculations are used in accounting research to find new models and discoveries regarding the future accounting theory [19]. The positive accounting theory explains the ability to understand the science that is considered suitable to assist in solving problems that will be faced. PAT aims to predict, explain, and observe financial problems and company calculation techniques [19]. On the other hand, a normative accounting theory is used based on the point of view to support the demands or guidelines in accounting. The normative theory works by explaining how accountants should act in processing financial information [19].

Investment is an activity where someone invests their capital within a particular time through the purchase of shares or securities with the hope that the end can increase the value of investment to provide benefits for investors. An increase in the value of assets invested by investors, in which several risks can potentially reduce the value of investment or provide losses to investors. In this case, an investor must understand how to reduce and manage the risk as well as possible. Investors will need much information about company performance, economic conditions, and politics. Investments made by investors will get a profit in the form of dividends distributed at the end of the period.

Information asymmetry is fettle that a side gets superior information that can provide more benefits than the other party. Information asymmetry appears a lot in real-life buying and selling shares. For example, the seller has more information and understanding than the buyer. In this position, an investor naturally has to dig deeper before making a share purchase transaction. Of course, it has been intended that the investors create more significant opportunities to obtain capital gains in the future. Hunting for information about the capital market is a common thing for investors. Information related to shares in the capital market is generally not detailed and much clarified. Because stock information has a relationship with the secrets that exist in the company. However, not to worry, investors can also get quality information by conducting a descriptive analysis of various information collected from the field.

3. METHOD

ESG (Environmental, Social, and Governance) is an enterprise standard of investment practice encompassing three concepts or criteria: environmental, social, and governance. In other words, companies that apply ESG principles in their business and investment activities will also integrate and implement their corporate policies in line with the sustainability of these three factors. Environmental criteria will be the main criteria for companies to achieve high operational and financial efficiency but sustainably and without harming nature. Social criteria will seek to explore relationships between external communities and companies, as well as between workers, product suppliers, customers, communities, and more. Corporate governance criteria related to the company's capacity and legitimacy, internal relations, internal control, investor rightsetc [6].

The relationship between investment performance and ESG reporting, firstly, investment performance is described as an excellent internal system, good governance, and quality management system. Therefore, this can provide a reason for companies to invest effectively to reduce information asymmetry, especially when ESG has become a global problem. [14]

Information asymmetry is when managers access information about a company's prospects that outsiders do not hold. Typically, a market participant (for example, a seller) will know something about the asset being traded, while others (a buyer) will not. When this situation occurs, the market is characterized by information asymmetry. A statement explaining information asymmetry is that a party to a transaction has informational advantages and disadvantages—information regarding assets with other parties. The concept of information asymmetry is a condition that indicates that some investors have the knowledge and others do not. Information asymmetry occurs when management as a party has more control over information than investors/creditors. The concepts of signal and asymmetric information are closely related; the asymmetric theory holds that business participants do not have the same information, information on business prospects and risks. Some parties have better information than others (owners or shareholders). Assuming that individuals act to maximize their interests, asymmetry of available data for them will encourage agents to hide some information that is not known to the owner as the owner, so asymmetry between management (agent) and owner (owner) manager Managers have the opportunity to implement earnings management to increase its usefulness. Somebody can reduce the flexibility of control to manage profits by providing better information to outsiders. The quality of the financial statements will reflect the level of earnings management [11] [3].

IInformation asymmetry is measured using relative bid-ask spreads, where information asymmetry we can see from the difference between the selling and selling prices of a company's stock. Company or the difference between the sale and purchase price of a company's stock in a year [2].

The population of this study includes all companies in various industrial, mining, and gas sectors in Indonesia as of 2021

Obtained the selection population from the Indonesia Stock Exchange at www.IDX.co.id. The sample used in this study is reasonable. The sample for this study is a sample that meets specific criteria desired by the researcher and is then selected based on specific appropriate considerations. for research purposes [20]. The criteria are as follows:

1. Companies from various industrial sectors listed on the IDX in 2021.
2. Companies in various industrial sectors publish audited annual financial reports ending on December 31, 2021.
3. Companies from different industrial sectors make a profit during the research year

Data collection is complete using documentary and literature methods. In this method, data must be collected and recorded. This study uses secondary data in the form of financial reports of various companies in the industrial sector published by the IDX in the 2021 search period, taken from www.IDX.co.id. But instead, it involves the study of literature obtained from previous studies and supported by other literature [13].

4. RESULTS

The results of the study suggest that there is significant relationship between ESG disclosure and asymmetry information reduced (r ¼ 0.221, sig. ¼ 0.170). We reject the null hypothesis at the 5 percent level of significance.

5. CONCLUSION

Regarding the determinants of environmental disclosure, our results show that environmental performance, environmental news exposure, leverage, and firm size are key drivers of ESG disclosure. More specifically, a firm's environmental performance directly affects its ESG disclosure, with high polluting firms disclosing more than low polluting firms. This result is in stark contrast with the evidence reported who show that poor (good) environmental performance translates into less (more) disclosure. Hence, our finding corroborates prior research that relies on legitimacy theory [5]. We also document that a firm's governance influences the extent of its ESG disclosure and, ultimately, affects information asymmetry between a firm's managers and other stakeholders.

The results of this study should be interpreted with caution at least for four reasons. First, our measure of ESG disclosure is based upon a coding instrument that makes some explicit assumptions about the value and relevance of information. However, such an approach is consistent with recent research efforts. Second, sample size may be an issue. However, sample firms do represent a wide cross-section of Indonesia's industries as well as a significant proportion of the country's total stock market capitalisation. Third, information asymmetry between the firm and stakeholders cannot be directly measured and is inferred from the behaviour of proxy variables such as share price volatility and the bid-ask spread.

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