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The effect of environmental, social disclosure, and financial performance on firm value

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ABSTRACT

This research analyzes the effect of environmental and social disclosure (ESD) on firm value (FV) with financial performance (FP) as an intervening variable. Objects of this research are companies involved in Indonesia Sustainability Reporting Award (ISRA). The samples are companies that participated in the ISRA during the period starting from 2013 to 2016. The sample of this research is 15 companies if the period used four years, then the final number of observations used for further analysis is 60. The result of this study shows four essential findings. First, the direct effect of ESD on FV is not significant, the impact of ESD on FP is positive and significant, the effect of FP on FV is positive and significant, FP mediates the impact of social and economic performance on FV. This finding confirms the application of legitimacy and stakeholder theory in developing countries where stakeholders have no power to pressure corporate management into social and environmental activities. The results also benefit managers and standards setters. For managers, this finding emphasizes that ESD is a crucial factor in legitimizing the company's products in the eyes of stakeholders. For standard makers, the results are useful for them to develop social and environmental reporting guidelines.

Introduction

In recent years the concern of the global community on sustainability issues is increasing, such as global warming, depletion of natural resources, and increasing economic inequality between the rich and the poor. The government is unable to handle all environmental and social issues, and companies are increasingly expected to play a role in addressing both problems. Researchers and practitioners emphasize the need for companies to be actively involved in corporate social responsibility (CSR). Corporate involvement in CSR programs can reduce the negative impact of business on society, improve the balance between business and social interests, and enhance corporate activities related to society and the environment.

Traditionally a company as a business entity has an economic goal to be achieved, namely maximizing profits. The goal causes companies to neglect social and environmental responsibility. But today, internal and external stakeholders demand companies be more involved in CSR activities (Maqbool & Zameer, 2018). The activities are indicated to improve the company's FP. Companies that can meet stakeholder expectations will have higher social and environmental performance. Therefore, stakeholders will support the company, which in turn can have an impact on improving FP (Davis et al., 2016; Lu & Taylor, 2018). However, the prior research has shown inconsistent findings of CSR activities' impact on FP. The results of this research can be grouped into three categories. These three categories are negative, positive, and no or insignificant associations. For example, Blacconiere and Patten (1994), Jaggi and Freedman (1992), McPeak et al. (2010), and Smith et al. (2007) found that a negative correlation exists between CSR disclosure and FP; a positive relationship has been documented by Kabir and Thai (2017), Lin et al. (2009), Mahrani and Soewarno (2018), Maqbool and Zameer (2018), and Sun (2012), and no correlation was found by Aras et al. (2010) and Lin et al. (2019)

Furthermore, another beneficial impact on CSR activity is the impact of the activities on FV. Research on the effect of CSR disclosure on FV and has shown inconsistent results. Prior research has presented positive, negative, and insignificant associations. Bird et al. (2007), Lorraine et al. (2004), and Richardson and Welker (2001) find a negative association between ESD and market value. Whereas, research such Aboud and Diab (2018), Barus and Maksum (2011) Nekhili et al. (2017) Qiu et al. (2016), and Zhang and Cui (2020), documents a positive relationship, and no correlation was found by Kurniasari and Warastuti (2015). Inconsistency results from previous studies due to the presence of other variables that influence the relationship (Bhimani & Soonawalla, 2005; Michelon & Parbonetti, 2012).

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The phenomenon of Corporate Social Responsibility (CSR) issues has been quite popular in Indonesia in recent years. Much research has been conducted to examine the effect of CSR on FV, but once again, the study has produced inconsistent findings. Deswanto and Siregar (2018), Ilmi et al. (2017), and Kurniasari and Warastuti (2015), do not observe any effect of CSR disclosure on FV. Studies by Nikmah and Ayem (2019), Purbawangsa et al. (2019), and Rahmantari et al. (2019) find that CSR has a significant and positive impact on FV. Brooks and Oikonomou (2018) suggests that future research should empirically investigate many different angles of CSR. Many studies have examined various aspects of CSR disclosure, for examples, corporate characteristics (Smith et al., 2007), FV (Deswanto & Siregar, 2018; Plumlee et al., 2015), earnings management and tax avoidance (Liu & Lee, 2019), consumer brand advocacy (Xie et al., 2019), environmental sustainability (Prasad et al., 2019), work engagement (Gürlek & Tuna, 2019).

Three reasons that motivate the author to do this research. Firstly, the previous research still produces inconsistent findings regarding the effect of ESD on FV. The inconsistency shows that there might be another variable influences the relationship between the two variables. Secondly, many studies examine the impact of CSR on the FP and FV. However, there is still little research investigating the impact of ESD separately on FP and FV. Thirdly, no study to date has investigated ESD using companies that participated in ISRA. Based on the explanation above, the purpose of this study is fourfold. First, to examine the effect of ESD on FV. Second, to investigate the impact of ESD on FP. Third, to investigate the impact of FP on FV. Fourth, to discuss the effects of ESD on FV through FP.

The rest of this paper is structured as follows: Section two reviews the prior literature in environmental and social related disclosure, including legitimacy theory, stakeholder theory, signaling theory, and hypotheses development. Section three presents a description of the methodology. Part four contains empirical findings and discussions. Finally, Section five presents conclusions, implications, limitations, and suggestions for future research.

Literature Review

Three theories are widely used in research on CSR, namely legitimacy, stakeholder, and signaling theory. In adopting the perspective of legitimacy theory, a company will voluntarily report on social and environmental activities, because management feels that the action is expected by the communities in which it operates. Stakeholder theory emphasizes that companies operate not merely for their interests but also for the benefit of their stakeholders. This theory emphasizes that companies must be able to provide benefits to stakeholders. The benefits can be provided by implementing social and environmental programs. With this program, the company is expected to improve environmental sustainability, the welfare of employees, customers, and the local community.

Furthermore, ESD has become one of the means to ensure sustainability for the company. The present and future social and environmental consequences have become one of the new considerations in investment decision making by investors in addition to financial factors. ESD is one way to increase FP and corporate value. The value will be reflected in an increase in stock prices as a form of investor reaction after the announcement is received in addition to getting legitimacy from the public. ESD provides investors with information about the prospects of a substantial future return. Disclosure in accordance with stakeholder expectations is a positive signal to stakeholders that the company has good prospects in the future.

Legitimacy Theory

The concept of legitimacy is beneficial for studying the interaction between a company and its environment. Maurer (1971) states that the objective of legitimacy is to equate perceptions or assumptions that actions taken by an entity are actions that are desirable, appropriate, or following a system of norms, values, beliefs, and socially developed definitions. If there is harmony between the existence of the company and the existence of the existing value system in society and the environment, then it can be said that legitimacy has been obtained (Dowling & Pfeffer, 1975).

Legitimacy theory focuses on the concept of social contracts. The concept stresses that the survival of a company depends on the extent to which the company operates within the boundaries and norms of society (Deegan, 2001). The Social Contract was developed to explain the relationship between the company and the community. Shocker and Sethi (1973) point out that social contracts are people's expectations of how the organization should operate. They further state that an explicit or implied agreement between business institutions and the community, where the survival and growth of the company depend on providing benefits to the community, which can be in the form of economic, social, or political.

Thus, legitimacy is the company's effort to ensure that the company operates within the norms that exist in the community or environment of the company. Legitimacy is an important factor for companies because people's legitimacy has a strategic impact on the company's development in the future. Legitimacy is a system that emphasizes interactions between companies with communities, individual governments, and community groups. A company can continue to exist if the community realizes that the organization operates for a value system that is commensurate with the value system of the community itself.

Stakeholder Theory

Stakeholders are all internal or external parties who have relationships, influential or influenced, directly or indirectly by the company. Stakeholders can be classified into two groups, internal and external stakeholders. Internal stakeholders are individuals or groups within the structure of a business organization that have an influence on the company's goals, for example, shareholders, company employees, top management. External stakeholders are individuals or groups that are outside the structure of business organizations that have a direct or indirect influence on business policies and processes, for example, suppliers, competitors, consumers, government.

Stakeholder theory is a leading theory that is widely used by researchers to explain why companies must carry out CSR activities (Barus & Maksum, 2011; Mahrani & Soewarno, 2018). Stakeholder theory emphasizes that there is a link between business and society; therefore, in carrying out its activities, the company is morally responsible to the stakeholders. Stakeholder theory states that in carrying out its operational activities, the company does not merely seek profit for itself, but must provide benefits for all its stakeholders. Disclosure of information in company reports must take into account stakeholder expectations

Two approaches can be used to explain stakeholder rights, namely, ethical (moral) and positive (managerial). An ethical approach is also called normative. This approach emphasizes that companies must act fairly and equally in fulfilling stakeholder rights. Whereas, a positive (managerial) approach describes that companies must accommodate the wishes and expectations of various stakeholders and then analyze their support for the company's survival (Deegan, 2001).

Signaling Theory

Signal theory shows the information asymmetry between the company's management and the parties concerned with the information. The more informed party will provide reliable information to the less informed party with the aim of reducing asymmetry (Horne & Wachowicz, 2009).. Signals can be sent by company managers by taking specific actions to show, for example, company profitability that is used by uninformed parties for decision making (Horne & Wachowicz, 2009). Furthermore, compensation and benefits of managers can be determined based on the market value of the company, so in this case, the manager can utilize the information that is not owned by other parties to maximize the corporate value.

Signaling theory emphasizes that various parties associated with the company receive different information. Managers need to provide information to those who are concerned with the issuance of financial statements. Signal theory explains how companies must signal various parties using financial statements. The signal is essential information related to what has been done by management in realizing the expectations of the owner. Signals can mean giving a hint that the company has better prospects compared to other companies. The positive signal provided by the company will influence the decisions of shareholders, which in turn will affect the increase in share ownership.

Social Disclosure (SD)

SD is defined as published information related to human welfare. This information can be presented in an annual financial statement or in a separate report. This disclosure is still under the umbrella of corporate social responsibility. SD emphasizes the need for companies to care about human welfare. Human welfare is an important aspect because it can affect the sustainability of the company. Every company should ideally pay more attention to society, in addition to gaining legitimacy. Some social programs that can be carried out by companies are education, health, and economic agenda. Educational programs include the provision of educational scholarships to ensure the continuing education of children around the company. The health program consists of the establishment of health facilities such as polyclinics and hospitals to help improve public health. Economic programs include helping to strengthen the economy of local communities. SD can be mandatory or voluntary, depending on the regulations where the company is located. SD can vary substantially between companies. At present many countries require companies to disclose their social activities, and this results in an increase in the level of SD in these countries (Ioannou & Serafeim, 2017).

At present, stakeholders pay more serious attention to social issues. Disclosure of corporate social information is beneficial for stakeholders. This information is used by investors and financial analysts to evaluate social performance and estimate the social risks that the company may face in the future. Social information is also used by the government to develop social regulations and to ascertain whether the regulations have been complied with. Communities also need social information to ensure that their rights have been fulfilled. Increased public pressure on business people to manage their social responsibilities has motivated them to spend more time and resources on social activities so that stakeholder expectations can be met (Nekhili et al., 2017; Zhang & Cui, 2020).

Environmental Disclosure (ED)

ED can be defined as a collection of information related to environmental management activities in the past, present, and future. There are several ways to obtain information, such as qualitative statements, quantitative facts, footnotes in financial statements. Based on previous literature, there are several ways to express environmental responsibilities. These responsibilities can be reported in notes to financial statements, environmental reports, or sustainability reports

Issues concerning the environment are increasingly gaining attention and are considered as important issues for stakeholders. The increase in environmental damage that occurs due to the impact of the company's operations makes the company pay more attention to the consequences that will arise as a result of their actions. Companies have different reasons for each other about the disclosure of social and environmental information. Guthrie and Parker (1989) state that the owner of the organization is part of the community. Therefore as a good citizen, the owner should convey and disseminate sufficient environmental information to stakeholders. A study conducted by Brammer and Pavelin (2004) find that the disclosure was made because the company was pressured by the company's external environment.

Based on existing theories, this study argues that stakeholders use social and environmental information in decision making. ESD can create stakeholder trust in the company, which in turn can improve company performance and value. Based on these arguments, the hypothesis of this study can be explained in the following section.

The influence of ESD on FV

Previous research has documented the positive impact of CSR on FV (Aboud & Diab, 2018; Bajic & Yurtoğlu, 2018; Barus & Maksum, 2011; Qiu et al., 2016; Zhang & Cui, 2020). ESD is considered goodwill by investors for several reasons. The company's involvement in CSR activities is goodwill, which is indicated can improve competitive advantages and the company's image (Bitektine, 2011; Jamali, 2008; Kim & Kim, 2014; Lu & Taylor, 2018). In addition, ESD also offers other benefits, for example, company practices in terms of diversity, gender equality, equal pay, can increase the company's ability to attract, engage, and retain talented and competent employees. (Cormier & Magnan, 2007; Park et al., 2014), establish good relationships with stakeholders (McGuire et al., 2012; Park et al., 2014), decreases information asymmetry and transaction costs (Dhaliwal et al., 2011). Hence, companies that disclose environmental and social information will benefit from their actions, which then positively influence the perceptions of stakeholders and consequently increase company value. Based on the explanations above, the hypotheses below are formulated.
H1a: Firms with higher ED will have higher FV.
H1b: Firms with higher SD will have a higher FV

The influence of ESD on FP

The study of the impact of ESD on FP has received much attention from researchers. For instance, Kabir and Thai (2017), Mahrani and Soewarno, 2018), and Maqbool and Zameer (2018) have analyzed the effect of CSR on a company's FP, and their findings indicate that CSR has a positive impact on performance. Legitimacy theory is one of the arguments used by many researchers to explain the company's reasons for implementing CSR. This theory bases on the premise that companies will signify their legitimacy by making adequate disclosures about their social and environmental activities. CSR disclosure is a signal given by management. The signal can be interpreted by investors as a positive signal about the company's success to meet their expectations. ESD affect FP in various ways, among others: CSR strengthens stakeholder trust (Zhang & Cui, 2020), creating positive relationships with customers, attracting and retaining employees, and reducing company risk (Maqbool & Zameer, 2018). Similarly, Bird et al. (2007) argues that investment in social and environmental activities provides benefits for the company, which includes increasing stakeholder satisfaction, company reputation, which can further lead to an increase in the company's FP. Based on the explanation above, the hypotheses can be formulated as follows.
H2a: Firms with higher ED will have higher FP.
H2b: Firms with higher SD will have higher FP

The effect of FP on FV

Profitability is the ability of a company to generate profits during a certain period. Companies must maintain the profits that have been obtained. If not, the company will find it difficult to attract capital from outside parties. High profits indicate good company prospects, which can further trigger an increase in FV. Horne and Wachowicz (2009) mention that profitability shows the company's ability to generate profits in a certain period. Investors interested in profitability to analyze profits will be received in the form of dividends. Increasing company profitability means expanding the company's net profit. The Increasing net profit can be one indication

that the firm's value also increases because of the increase in the net firm's profit means stock price increases. The previous studies reveal that there is a positive and significant impact of FP on the FV (Al-Nawaiseh, 2017; Heidarpoor et al., 2012). Thus, the following hypothesis is proposed.
H3: Firms with higher FP will have higher FV.

The influence of ESD on FV with firm performance as an intervening variable

ESD has become the company's main agenda. The disclosure is intended to meet stakeholder expectations. The company's active involvement in CSR attracts customers to buy their products and services (Kim & Kim, 2014). This result is in line with stakeholder theory, which emphasizes that organizations benefit from CSR through improved stakeholder relationships. Voluntary ESD will be responded positively by investors and potential investors (Martin & Moser, 2016). The disclosure contains information that is useful for investors in making investment decisions, hence increasing the firm performance, which ultimately also increases FV (Iatridis, 2013).
H4a: Firms with higher ED will have higher FP, and ultimately have a higher level of FV.
H4b: Firms with higher SD will have higher FP, and ultimately have a higher level of FV.

Based on the hypotheses development above, the model of this research is as follows.

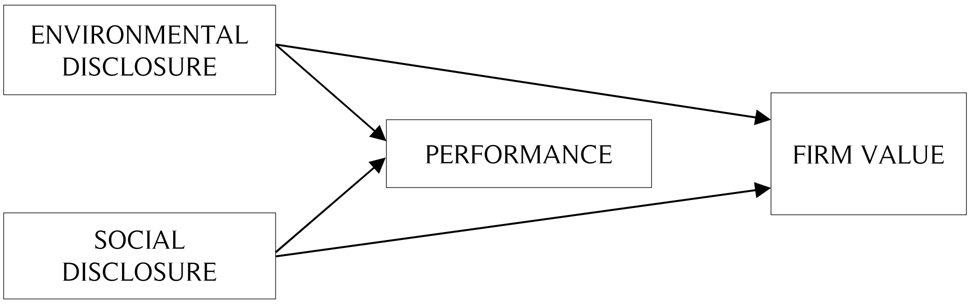

Figure 1. Research Model

Research Method

Population and Sample

This study uses the entire population of companies who participated in ISRA in the period 2013-2016. The purposive sampling method is used based on the following criteria: (a) Companies that successively participate in the Indonesia Sustainability Reporting Award (ISRA) in the period of 2013-2016, (b) Companies that consecutively disclose sustainability reports and publish annual reports for the period 2013-2016. Based on these criteria, the number of samples in this study is 15 companies if the period used four years, then the total sample is 60.

Variable and Measurement

Firm value (FV)

FV is measured using Tobin's Q ratio. The ratio is calculated by comparing the ratio of the market value of a company's shares with the replacement cost of the firm's assets. The formula of Tobin's Q as follows.

$$\text{Tobin's Q} = \frac{\text{MVE} + \text{DEBT}}{\text{Total Asset}}$$

Environmental Disclosure (ED)

ED is defined as the company's contribution to environmental sustainability. ED is measured using GRI 4.0 guidelines covering 34 items, which can be calculated as follows.

$$\text{ED} = \frac{\text{Number of environmental items disclosed}}{34}$$

Social Disclosure (SD)

SD is a corporate contribution related to social responsibility. SD is measured using GRI 4.0 guidelines covering 48 items, which can be calculated as follows.

$$SD = \frac{\text{Number of social items disclosed}}{48}$$

Financial Performance (FP)

FP is the company's ability to generate profit from operations through various business activities. The ROA formula is as follows.

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}}$$

Data Analysis of this study uses SEM (Structural Equation Modeling) through a variance-based approach (VB-SEM) with PLS-SEM (Partial Least Square Path Modeling) method. The method is used because it does not require a lot of assumptions. It also has advantages, such as being able to model multiple dependents and several independents, being able to handle multicollinearity among independents, and being able to make stronger predictions. To test the immediate effect is done by looking at the sig value, if sig<0.05, then the hypothesis is supported. The indirect effect is done in two ways. First by comparing the total effect with the direct effect, if the total effect is greater than the direct effect, then it can be concluded that FP is a mediating variable, second with the Sobel test, if the significance level> 0.05, then it can be said that FP is a mediating variable.

Results and Discussion

Hypothesis Testing

Table 1. Path Coefficients

	Original Sample	Standard Deviation	Standard Error	T Statistics	SIG
ED → FV	0.057622	0.220524	0.220524	0.261295	0.794841
ED → FP	0.312014	0.143606	0.143606	2.172708	0.034128
FP → FV	0.383431	0.145795	0.145795	2.629928	0.011054
SD → FV	0.108295	0.195042	0.195042	0.555241	0.580981
SD → FP	0.320080	0.130592	0.130592	2.450998	0.017453
T Table = 2.004045					

Hypothesis 1a states that firms with higher ED will have higher FV. From Table 1, it can be seen that T-statistics is 0.261295, which is higher than the value of T-table 2.004045 (p = 0.261295> 0.05). It indicates that the effect of ED on FV is not significant. Based on the result, it can be said that hypothesis 1a is not supported. Furthermore, Hypothesis 1b states that firms with higher SD will have higher FV. Table 1 shows that T-statistics < T-table (0.555241 < 2.004045) and p-value (0.580981)>0.05. This finding indicates that the effect of SD on FV is not significant. Thus H1b is not supported.

It is expected in hypothesis 2a that the higher the level of ED, the higher the level of FP. Table 1 shows there is significant and positive effect of ED on FP, p-value (0.034128) < 0.05 and T-statistics > T-table (2.172708 >2.004045). Hence, H2a is supported. Moreover, hypothesis 2b states that firms with higher SD will have higher FP. Table 1 shows that T-statistics > T-table (2.450998 > 2.004045) and p-value (0.017453) < 0.05. This result indicates that the higher the SD, the higher the FP. Thus the effect of SD on FP is significant. Therefore H2b is supported.

The third hypothesis requires a test of the expected positive and significant relationship between FP and FV. Table 1 shows that FP has positive and significant effect on FV where T-statistics<T-table (2.629928 > 2.004045) and p-value (0.011054) < 0.05. Hence, the results support for hypothesis 3.

Tables 1 and 2 are used to test hypotheses 4a and 4b.

Table 2. Direct, Indirect and Total Effect

Path	Effect		
	Direct	Indirect	Total
ED→FV	0,058	0,312 x 0,383 = 0,120	0,058 + 0,120 = 0,178
ED→ FP	0,312		
SD→ FV	0,108	0,320 x 0,383 = 0,123	0,108+ 0,123 = 0,231
SD→ FP	0,320		
FP →FV	0,383		

It is expected in hypothesis 4a that ED has an indirect effect on FV through FP. The result demonstrates the significant effect of ED on FP with T statistics>T table (2.172708 > 2.004045. Moreover, Table 1 also shows that the effect of FP on FV is significant T-statistics < T-table (2.629928 > 2.004045) and (p 0.011054 < 0.05). Furthermore, Table 2 shows that total effect>direct effect (0,178>0,058), and Sobel test shows significance level 0.04703757<0.05. Thus, because two paths are significant and the Sobel test is significance, it can be concluded that FP mediates the effect of ED on FV. Thus hypothesis 4a is supported.

Hypothesis 4b states that firms with higher SD will have higher FP, and ultimately have a higher level of FV. Table 1 shows that the T value of the effect of SD on FP is 2.450998, which is greater than the value of T-table 2.004045. Furthermore, table 1 also shows that the effect of FP on FV is significant (T – statistics= 2.629928 > T table = 2.004045 and p-value = 0.011054 < 0,005). Furthermore, Table 2 shows that total effect > direct effect (0,231 > 0,123), and Sobel test shows significance level of 0.03657412 (p<0.05). Thus, because two paths are significant and the Sobel test is significance, it can be concluded that FP mediates the effect of SD on FV. Thus hypothesis 4b is supported.

A summary of the hypothesis testing described above is presented in Table 3.

Table 3. Summary of the Results

Paths	Results	
	Direct Effect	Indirect Effect (Through FP)
ED→ FV	Hypothesis 1a not supported	Hypothesis 4a supported
SD→ FV	Hypothesis 1b not supported	Hypothesis 4b supported
ED→ FP	Hypothesis 2b supported	
SD→ FP	Hypothesis 2b supported	
FP → FV	Hypothesis 3 supported	

Discussion

ESD is an important factor in achieving the company's competitive success. The legitimacy theory emphasizes that companies are required to be socially, environmentally, and economically responsible so they can continue to live sustainably. This study evaluates the effect of ESD on FV with FP as an intervening variable. There are four critical findings of this study. First, the direct impact of ESD on FV is not significant. This result is not consistent with previous studies that have found that ESD is positively related to FV (Aboud & Diab, 2018; Bajic & Yurtoğlu, 2018; Barus & Maksum, 2011; Nekhili et al., 2017; Qiu et al., 2016; Zhang & Cui, 2020). However, these results support Kurniasari and Warastuti (2015), which found that CSR does not affect FV. These findings indicate that the company has not been successful in effectively communicating environmental and social programs to stakeholders. As a result, stakeholders may not consider the program to be an essential factor.

Second, the direct effect of ESD on FP is positive and significant. The results of this study support previous research (Kabir & Thai, 2017; Mahrani & Soewarno, 2018; Maqbool & Zameer, 2018). Companies use ESD to enhance their reputation. ESD is deemed as necessary for the company as part of the legitimacy process and fulfills social contracts between the company and its stakeholders. Besides, ESD is also intended to obtain recognition from stakeholders. This recognition indicates the company's legitimacy in the eyes of stakeholders, which can further enhance the company's reputation. With its reputation, the company gets stronger support from the authorities and attracts more investors, both of which can reduce commercial risk, which can have an impact on improving FP. Lu and Taylor (2018) argue that ESD leads to stronger financial results. Furthermore, Richardson et al. (1999) argue that there are two reasons for the importance of companies to be involved in social and environmental activities. First, companies that voluntarily undertake ESD can avoid regulatory costs and future cash flows, which can adversely affect the survival of the company. Second, customers prefer products that are more sensitive to the environment. Consumers are willing to pay more for products or services provided by companies that have contributed positively to solving social and environmental problems.

Third, the effect of FP on FV is positive and significant. This result agrees with the studies of Al-Nawaiseh (2017) and Heidarpoor et al. (2012). One of the essential goals of the firm's management is to maximize financial and operational performance because it will affect share price, market value, the owners' wealth, and the numbers of investors. Profitability has an essential meaning in maintaining long-term survival. Profitability shows that a business entity has good prospects in the future. Investors rate profitability as a good signal. This profitability can attract investors to invest their money to fund operational activities and even expand their business, which, in turn, results in an increased FV. Fourth, this study found that FP mediates the effect of ESD on FV. This means that investing more in a social and environmental program, increasing FP, which ultimately enhances FV.

Conclusion

This study aims to explore the direct and indirect effects of ESD on FV. The present research demonstrated that: (1) the impact of ESD on FV is not significant; (2) the impact of ESD on FP is positive and significant; (3) FP has a significant and positive impact on FV; (4) FP mediates the effect of ESD on FV. The results of this study, besides having theoretical contributions, also have practical contributions. This research contributes to accounting theory relating to the effect of ESD on FP and FV by providing empirical evidence about the interrelationship between the variables studied in the Indonesian context. This finding supports the application of legitimacy and stakeholder theory that has been carried out in developing countries. In these countries, in general, they have special characteristics where stakeholders do not have power over the companies so that the stakeholders can not put more pressure on company management to carry out social and environmental programs. Analyzing the effect of corporate ESD on a company's FP has several policy implications. The study finds that ESD has a positive impact on organizational FP. Companies must be more organized in managing environmental and social programs. It is crucial for companies to create better approaches and policies related to the implementation of the program. This result is useful for various parties, including managers, researchers, and standard setters. For managers, this finding shows that to legitimize the company's products and services in the eyes of stakeholders, companies need to carry out environmental and social activities, and then make disclosures and dissemination of these activities. Dissemination of information on these activities must be done in various ways so that they can be known and understood by stakeholders. For researchers, this study contributed to the lack of literature analyzing the effects of ESD conducted separately. Finally, this finding is useful for regulators who intend to develop guidelines for social and environmental reporting.

Like other empirical studies, this research also has several limitations that provide initiatives for future research. This study only examined companies registered in ISRA, where in the end, the sample size used was relatively small. Further research will increase coverage by reviewing more companies, such as all companies listed on the Indonesian stock exchange. This research was conducted with a longitudinal research approach. More research efforts are needed to investigate the models and findings in this study. It would be interesting to investigate the model using snapshot research, which can improve our understanding of causality and the interrelationships between variables. Future research can employ both questionnaires and in-depth interviews. Besides, further analysis can also develop this research using different models, for example, using profitability as a moderating variable.

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