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Environmental, Social, Governance Disclosure, Leverage and Firm Value of Manufacturing Companies Listed on the Indonesian Sharia Stock Index

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Abstract

Purpose: This research aims to analyze the influence of environmental, social, governance disclosure and leverage on firm value in manufacturing companies listed on the Indonesian Sharia Stock Index (ISSI) for 2016-2021.
Methodology: The sample in this research is manufacturing companies that meet specific criteria which were selected using a purposive sampling technique with a total research sample of 129 observation data. The data analysis technique used is multiple regression analysis which is processed using e-views12.
Findings: The research results show that environmental disclosure has a negative effect on company value, social disclosure has a positive effect on company value, governance disclosure and leverage have no effect on company value. These results support signal theory and legitimacy theory, where a company's disclosure of certain information can provide a signal to show that the company has good value. Companies influence public perception by carrying out their business in accordance with applicable regulations in order to gain public trust which has implications for increasing company value.
Novelty: This research uses manufacturing companies listed on the indonesian sharia stock index from 2016 – 2021 and add leverage variable.

Keywords: Firm Value, Environmental Disclosure, Social Disclosure, Governance Disclosure and Leverage.

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Introduction

According to Hoque & Rakow (2016), market pressure would encourage management to distribute the company's profits to investors or risk losing control over the company. That is, the firm value will rise as profits are distributed to investors and if management fails to increase payments, then the company will fall. The firm value is the shareholder's perception of the success of a company that is reflected in the share price of the company (Sudiyatno, 2010). A good corporate value can give a positive response to both investors and creditors. For investors, the prospects of companies now and in the future are reflected in the good value of the company, whereas for creditors, a good company value reflects the company's ability to repay debts (Manoppo & Arie, 2016). The value of a company is the value that an investor needs to make an investment decision.

Growth and expansion of companies in every country can cause quite serious problems, namely environmental damage (Syafrullah & Muharam, 2017). Companies are under pressure from all sides to pay more attention to environmental, social, and corporate governance issues (Reschiwati et al., 2020). In this situation, the concept of sustainability is necessary in a business perspective that is the ability of a company to survive for a long time, both financially and non-financially (Giovannoni & Fabietti,

2013). In assessing the performance of corporate sustainability commitments, investors or stakeholders often use measurements of economic, environmental, and social performance based on sustainability reports (Melinda & Wardhani, 2020). Thomson Reuters has developed the Environmental, Social, Governance (ESG) Index. The ESG Index consists of three pillars of assessment: Environmental score, Social Score, and Governance Score.

The Government of Indonesia mandates corporations to be responsible for the environment through Law No. 32 of 2009 on the Protection and Management of the Environment, Act No. 40 of 2007 on Limited Entities (Article 66 (2c) and Article 74 (1)), Government Regulations No. 47 of 2012 on Social Responsibility and Limited Entity Environment and Regulations of the Capital Markets Supervisory Authority and Financial Institutions No. X.K.6 on Annual Reporting Obligations for Emiters or Public Companies (Deswanto & Siregar, 2018). (Financial Services Authority, 2017).

The firm value is also influenced by another factor, the leverage. Leverage is the proportion of capital financed by debt to equity or assets. Therefore, the higher leverage, the greater the amount of debt in the capital structure of a company. (Rayan, 2008). Leverage is an important tool in measuring the effectiveness of corporate debt. Investors should consider leverage when valuing stocks. As a result of the use of corporate debt, shareholders are liable for financial risks known as additional risks arising from the utilization of leverage. (Siahaan, 2013).

The relationship between environmental, social, and governance performance and firm value has been demonstrated by a number of previous studies. According to research by Deswanto & Siregar (2018); Ratri & Dewi (2017) environmental disclosure & performance does not affect the value of the company, then research by Fatemi et al. (2018; Atan and al. (2018) The firm value does not change as a result of environmental, social, governance disclosures. Meanwhile, according to Aboud & Diab (2018), Melinda & Wardhani (2020); Plumlee et al. (2015) environmental, social, governance disclosure influences firm value.

Research on how leverage affects the firm value still gives inconsistent results. On the one hand, Siahaan (2013) research found that leverage has no influence on the value of a company. On the other hand, Cheng & Tzeng (2011); Hasanudin et al. (2020) stated that the leverage increases firm value.

The findings were found to be inconsistent in previous studies. Therefore, the aim of this study is to re-test the impact of environmental, social, governance, and leverage disclosure on the firm value. The research on ESG is interesting to study because it is very relevant to the government program that is spreading the concept of sustainability in the industry aimed at making the industry grow in a better direction, not damaging the environment, and beneficial to all parties involved.

This research refers to the Aboud & Diab (2018) and Deswanto & Siregar research (2018). The differences from previous studies are in the object of the study, the period of observation, and the independent variables of the research. There is leverage adding independent variables in this study. Manufacturing companies that are included in the Indonesian Sharia Stock Index (ISSI) for the period 2016-2021 are the objects of this study. ISSI is a Sharia stock index that is listed on the Indonesia Stock Exchange (BEI). The performance of Indonesia's sharia stock market is measured by ISSI. All Sharia shares that are listed in the BEI and are in the Sharia Securities List (DES) published by OJK are ISSI constituents.

Literature Review

Signalling Theory

Corporate reporting aims to inform analysts and investors about the value of the company (Spence, 1973). Signal theory assumes that the management of the publisher company knows more about the quality of the company than an external investor. (Scott-Phillips et al., 2009). To attract investors and enhance the company's good reputation, the company seeks to send a signal to investors by providing specific information that shows the company is superior to other companies in the market. (Verrecchia, 1983).

By showing good environmental, social, governance, and leverage performance in sustainability reports and financial reports, it is expected to signal to investors about the company's condition. In addition, one of the topics of research related to corporate relevance is voluntary

disclosure. Based on previous research, voluntary disclosure has relevance to the value of the company and also to the cost of equity. (Hamrouni et al., 2015).

Legitimacy Theory

The regulatory burden on companies and the stigma of the market over the reputation of environmental negligence will affect the legitimacy of the public towards the company. (Brammer & Pavelin, 2006). Companies need to be legitimized because one of the factors determining the survival of the company is the company's efforts in conducting its operational activities in accordance with the social norms that apply in society. (Syafrullah & Muharam, 2017).

The theory of legitimacy states that management can influence the general public perception of the company. The attempt to manage legitimacy can be done in several ways. Companies can start by adjusting the company's operational activities in accordance with the social norms in force in society to influence public perception and evaluation (Melinda & Wardhani, 2020). Moreover, in order for a company to gain legitimacy for its operations and reduce the risks it faces, it must disclose information of higher quality publicly. (Fatima et al., 2015).

Firm Value

The investor's perception of a company's success rate as reflected in the stock price is a definition of firm value. Communication and openness to shareholders are becoming crucial in building firm value. The stock price is a reflection of investment decisions in the areas of funding and asset management that reveal the wealth of the company and its shareholders. The rise in the stock price reflects public confidence in the good prospects of the company concerned in the future. (Reschiwati et al. 2020). So, company value is a parameter that can be used by shareholders in determining investment decisions in a company, which can be seen from the price of the company's stock as well as its ability to manage ESG. In this study firm value was measured using Tobin's ratio Q because calculations using this ratio are more rational by including the liability element as the basis for the calculation (Putra, 2016).

Environmental, Social, Governance Disclosure

Corporate environmental disclosure is defined as a set of information items relating to the past, present, and future environmental management activities of the company and the financial implications resulting from them. Environmental disclosure items can include qualitative statements, facts or quantitative statements, figures in financial reports, or footnotes. (Berthelot et al., 2003). The higher the social ESG performance, the better the company's performance in the social field (Susilowati, 2013). The ESG governance score reflects the company's responsibility for management, CSR strategy, and shareholders. (Jensen & Meckling, 1976; La Porta et al., 2002).

Greenwashing

Greenwashing is when a company discloses a large amount of ESG data but has poor ESG performance. Greenwashing is a barrier to integrating ESG factors into investment decisions. Greenwashing occurs because environmental, social, and governance (ESG) data provided in corporate sustainability reports is often not audited (Kim & Lyon, 2015).

Leverage

According to Markonah, Salim, and Franciska (2020), leverage is the ratio used to determine how much debt is used to pay off a company's assets. It shows how much a company has in debt compared to its assets. The leverage ratio shows how far a company is able to pay its debt, both short-term and long-term. If the company's profits are greater than the fixed costs to be issued, the leverage will benefit the investor. However, if the profits generated are lower than the fixed costs issued, then the leverage can increase the risk.

Hypotheses Development

Impact of Environmental Disclosure on Corporate Value

Corporate environment disclosure is underpinned by the signaling theory because it is seen as a positive signal that will be received by other parties who have the power to influence decision-making. Investors can respond well to the disclosure of corporate non-financial information about corporate governance, social responsibility, and its environment. Through increased transactions, the demand for stocks will result in a rise in the price of stocks and an increase in the value of the company, so that the company will get a good assessment from investors (Safriani & Utomo, 2020).

Plumlee et al. (2015) investigated the relationship between the value of an enterprise and the quality value of voluntary environmental disclosure through its relationship with cash flows and equity cost components. They found that both items were positively and significantly related to the firm value. Qiu et al. (2014) explained that doing good environmental disclosure would benefit the company economically in the form of a higher share price. Based on the description above, the hypothesis is:

H_1: *Environmental Disclosure Positive Impact on Corporate Value*

Impact of Social Disclosure on Corporate Value

Based on the legitimacy theory, where corporate management seeks to influence public opinion in order to improve the corporate image, through social performance disclosure, companies describe the impact of social responsibility so that they are recognized by society. With public recognition, it is expected to increase the value of the company and encourage investors to make investment decisions. (Melinda & Wardhani, 2020).

Companies act not only as business entities pursuing financial success but also as good citizens. (Visser, 2014). This concept affirms that companies must expand their responsibilities in social and environmental aspects. Companies have rights, duties, and responsibilities towards the public, as well as other citizens. Qiu et al. (2014) found that companies that perform higher social disclosure have higher market values as well. Overall, these findings are consistent with the company's resource-based view and voluntary disclosure, which suggests that companies with larger economic resources make wider disclosures, resulting in positive economic benefits. Based on this description, the hypothesis is:

H_2: *Social Disclosure Positive Impact on Corporate Value*

Impact *Governance Disclosure* on Corporate Value

Good corporate governance can raise the stock price because investors anticipate that fewer cash flows will be redirected and most of the company's profits will be returned to them as interest or dividends. (Jensen & Meckling, 1976; Porta et al., 2002). Second, good corporate governance can reduce the expected ROE, which can reduce shareholder monitoring and audit costs, leading to lower capital costs. (Shleifer & Vishny, 1997).

Previous research conducted by Melinda and Wardhani (2020) found that ESG performance in the Asian region measured using the ESG Governance Score had a significant positive impact on the value of the company. Companies with a good governance rating have proven to have higher quality than companies with a lower governance score. Based on the description above, the hypothesis is as follows:

H3: Governance Disclosure has a positive impact on the firm value

Impact of *Leverage* on Corporate Value

Leverage is used to measure a company's ability to pay its entire liabilities, both short- and long-term. Companies have to balance the amount of debt and the resources to pay the debt. The size of the debt burden can reduce the amount of profit received, so it can lower the value of the company (Saputri

& Bahri, 2021). Laghari (2017) studied the influence of operating leverage and financial leverage on the value of a company using regression techniques.

According to Siahaan (2013), companies tend to use their assets to finance their own capital (internal financing) derived from retained profits and equity capital rather than using debt. The company's sufficiency of funds to finance its assets derived from its own capital has reduced the share of its debt. Excessive use of debt will reduce the benefits received from debt use because the benefits that are received are not proportionate to the costs spent, so a low proportion of the debt can increase the value of the company; otherwise, an increase in debt may decrease the firm's value. Based on this description, the hypothesis is:

H_4: Leverage has a negative impact on the firm value

Methodology

The type of research method applied is a quantitative method with descriptive research that involves the collection of data to then test the hypothesis of the subject of research. Data in this study was taken using the purposive sampling method, which means that samples were selected on the basis of certain criteria and the criteria must be met. This study uses samples with the following criteria:

a. Manufacturing companies listed in the Indonesian Sharia Stock Index (ISSI) 2016-2021
b. Manufacture companies in the Indonesia Sharia stock index (ISIS) which publish financial statements in the year 2016-2021.
c. Manufactory companies in Indonesia sharia share index (ISSI) that publish sustainability reports in the years 2016-2021.

Research data sources are obtained from the financial reports and sustainability reports of companies registered in the Indonesia Sharia Stock Index (ISSI) for 2016–2021. Data on the financial statements of companies is obtained from the website of BEI, www.idx.co.id, and data on the sustainability reports of companies is obtained from the respective websites of companies.

Research and Measurement Variables

Dependent Variable

A dependent variable is a variable that is influenced or resulting from the existence of an independent variable. (Sugiyono, 2015). The dependent variable of this research is the value of the company. The data taken for the value of the company is from the company's annual financial statements. The firm value is measured using Tobin's Q ratio. The ratio is calculated by comparing the ratio of the company's stock market value and total debt to the total company assets. Tobin's Q formula is as follows:

$$\textbf{Firm Value} = \frac{(\textbf{Price per share} \times \textbf{Amount of shares}) + \textbf{Total Debt}}{\textbf{Total Assets}}$$

Independent Variable

Widiyanto (2015) explains that independent variables are variables that influence the dependent variable. The independent variables contained in this research are environmental, social, governance disclosure, and leverage.

Environmental Disclosure

According to Machali (2020), environmental disclosure is defined as the company's contribution to environmental sustainability. Environmental disclosure is measured using GRI 4.0 guidelines that cover 34 items, which can be calculated as follows:

$$\textit{Environmental Disclosure} = \frac{\textbf{Number of environment items revealed}}{\textbf{34}}$$

Social Disclosure

Social disclosure is a corporate contribution linked to social responsibility. (Machali, 2020). Social disclosure is measured using GRI 4.0 guidelines that cover 48 items, which can be counted as follows:

$$\textit{Social Disclosure} = \frac{\textbf{Number of environment items revealed}}{\textbf{48}}$$

Governance Disclosures

Governance disclosure reflects corporate governance, which includes management, CSR strategy, and shareholders. Governance disclosure is measured using the GRI 4.0 guidelines, which include 22 items, which can be calculated as follows:

$$\textit{Governance Disclosure} = \frac{\textbf{Number of environment items revealed}}{\textbf{22}}$$

Leverage

Leverage is used to determine how much of a company's assets are financed by debt. It shows how much debt a company has compared to its assets. To measure leverage, researchers use the debt-to-asset ratio (DAR) as follows:

$$DAR = \frac{Total\ Debt}{Total\ Assets}$$

Data Analysis Methods

The method of data analysis in this study by performing descriptive analysis using e-views 12. Here is the regression model used in this research:

$$\mathbf{TQ_{it} = \alpha + \beta_1 ENV_{it} + \beta_2 SOC_{it} + \beta_3 GOV_{it} + \beta_4 LEV_{it} + \varepsilon}$$

Description:

TQ_{it} = Firm value projected with Tobin's Q

α = Constant

β_1- β_4 = Regression coefficient

ENV_{it} = *Environmental Disclosure*

SOC_{it} = *Social Disclosure*

GOV_{it} = *Governance Disclosure*

LEV_{it} = *Leverage* (DAR)

ε = Error

Results

Descriptive Statistics

Before analyzing the research variables, first the data for each research variable is described in the form of descriptive statistics. The results of the statistical analysis with 129 observation data from manufacturing companies carried out as a sample of the research are presented as table 1:

From the results of the descriptive statistics shown in Table 1, the dependent variable (Y) is the company value measured with Tobin's Q (TQ) in the table above, which has an average value (mean) of 1,659956 with a standard deviation of 1,206070. The independent variable (X1) environmental disclosure (ENV), measured by the number of disclosures divided by 34 in accordance with GRI 4.0 guidelines, has an average value (mean) of 0.337437 with a standard deviation of 0.196376. The

maximum ENV value is 0.85294, and the minimum value is 0.029412. An independent variable (X2), namely social disclosure (SOC), measured by the number of disclosures divided by 48 in accordance with GRI 4.0 guidelines, has an average value (mean) of 0.286337 with a standard deviation of 0.163115. The maximum SOC value is 0.812500, and the minimum value is 0.000000. An independent variant (X3), namely governance disclosure (GOV), measured by the number of disclosures divided by 22 in conformity with the GRI 4.0 guideline, has a mean value of 0,242072 with a standard deviation of 0.275387. The maximum GOV value is 1.000000, and the minimum value is 0.0000000. The independent variable (X4), the leverage (LEV) measured using the DAR (Debt to Asset Ratio), has an average value (mean) of 0.432685 with a standard deviation of 0.181137. The maximum value of the LEV is 0.773380, and the minimum value is 0.127130.

Table 1. Descriptive Statistic

	ENV	SOC	GOV	LEV	TQ
Mean	0.337437	0.286337	0.242072	0.432685	1.659956
Median	0.323529	0.291667	0.090909	0.431960	1.231890
Maximum	0.852941	0.812500	1.000000	0.773380	6.524450
Minimum	0.029412	0.000000	0.000000	0.127130	0.474100
Std. Dev.	0.196376	0.163115	0.275387	0.181137	1.206070
Skewness	0.589200	0.651364	1.542284	0.018702	2.286118
Kurtosis	2.539583	3.188144	4.372174	2.049234	8.261151
Observations	129	129	129	129	129

Source: e-views12 data output, 2023

Panel Data Regression Analysis

The results of regression analysis to see how great the influence of a free variable on a bound variable is, are presented in the table below: The results of regression analysis to see how great the influence of a free variable on a bound variable is, are presented in the table below:

Table 2. Regression Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.794924	0.291584	6.155776	0.0000
ENV	-0.927638	0.269969	-3.436096	0.0009
SOC	0.827079	0.319509	2.588591	0.0112
GOV	0.097223	0.150763	0.644869	0.5206
LEV	-0.190224	0.647862	-0.293617	0.7697

Source: e-views12 data output, 2023

Description:

TQ : Tobins Q
ENV : *Environmental Disclosure*
SOC : *Social Disclosure*
GOV : *Governance Disclosure*
LEV : *Leverage*

In this study, a regression model was developed using the regression equation as follows:

$$\mathbf{TQit = \alpha + \beta_1 ENVit + \beta_2 SOCit + \beta_3 GOVit + \beta_4 LEVit + \varepsilon}$$

Based on table 2, a double regression model is formulated:

$$\boldsymbol{TQit} = 1{,}794924 - 0{,}927638 + 0{,}827079 + 0{,}097223 - 1{,}90224$$

Based on table 2, it can be seen that the adjusted R-squared value is 0.928606. This means that the independent variable is able to influence the dependent variable by 92.8%, and the remaining 7.2% is influenced by variables outside the research. The prob value (F-statistic) shows the number 0.000000, namely <0.05. This means that the independent variables, namely environmental disclosure, social disclosure, governance disclosure, and leverage, are simultaneously able to influence the dependent variable, namely company value.

The environmental disclosure has a p-value of 0.0009, or <0.05; this shows that there is a significant influence on company value with a coefficient of -0.927638. From these results, it can be concluded that the environmental disclosure variable individually has a significant negative effect on company value, which means that Hypothesis 1 is rejected or not supported.

The social disclosure has a p-value of 0.0112, or <0.05; this shows that there is a significant influence on company value with a coefficient of 0.827079. From these results, it can be concluded that the social disclosure variable individually has a significant positive effect on company value, which means that Hypothesis 2 is accepted or supported.

The governance disclosure has a p-value of 0.5206, or > 0.05, with a coefficient of 0.097223, which shows that there is a positive but not significant influence on company value. From these results, it can be concluded that the governance disclosure variable individually has no effect on company value, which means that Hypothesis 3 is rejected or not supported.

The leverage has a p-value of 0.7697, or > 0.05, with a coefficient of -0.190224. This shows that there is a negative but not significant influence on company value. This indicates that if the leverage value increases, it will reduce the company's value. From these results, it can be concluded that the individual leverage variable has no effect on company value, which means that Hypothesis 4 is rejected or not supported.

Discussions

Environmental Disclosure and Firm Value

Based on the results of the partial test (test t) in Table 2, it can be seen that environmental disclosure has a significant negative impact on the value of an enterprise with a p-value < 0.05, i.e., 0,0009, and a t-statistic value of -3,436096. Thus, hypothesis 1 (H1) in this study is rejected, or environmental disclosure has no significant positive impact on the value of the company.

The findings support a study by Kim and Lyon (2015). Fatemi et al. (2018) Yu et al. (2020), which state that environmental disclosure leads to a decrease in firm value. It's related to greenwashing behavior, which is when companies disclose large amounts of data about the environment but in fact have poor environmental performance. When companies do too much environmental disclosure, investors assume that companies are trying to cover up their shortcomings in action against the environment. This is related to skepticism towards investors. In addition, environmental-related disclosures provided in sustainability reports are voluntary and often not audited, making it more difficult to verify the validity of the data. Therefore, the firm value is higher for companies that do less disclosure.

Disclosure helps legitimize company behavior by explaining to investors the compliance of company operations with ESG policies. Companies assure investors that they have made credible commitments to their operations. By making good environmental disclosures in sustainability reports, companies can signal to investors about the company's condition and show that the company is better than other companies, which can attract investors and improve the reputation of Verrecchia companies (1983). However, due to skepticism, investors believe that the company has been doing greenwashing because of too much environmental disclosure. The company adopted "greenwashing" as a company strategy to cover up poor environmental performance by disclosing large amounts of environmental data to mislead stakeholders. (Yu et al., 2020).

Companies that do a lot of environmental disclosure have lower corporate value. This is possible because investors have had a wary attitude in business and have understood the meaning of the Quran, surah al-Mu'minun [18]: 3 and al-An'am [6]: 141.

Social Disclosure and Firm Value

Based on the results of the partial test (test t) in Table 2, it can be seen that social disclosure has a significant positive effect on the value of a company, with a p-value < 0.05, i.e., 0.0112, and a statistical t-value of 2.588591. Thus, hypothesis 2 (H2) in this study is accepted, or social disclosure has a significant positive effect on the firm value.

The results support Qiu et al. (2014), Ioannou, and Serafeim (2017). Aboud & Diab (2018) and Melinda & Wardhani (2020) study, which states that social disloyalty leads to an increase in firm value. Social disclosure emphasizes the need for companies to care for human well-being. Human well-being is an important aspect, as it can affect the viability of a company. Social information is used by investors and financial analysts to make investment decisions by evaluating social performance and estimating the social risks that companies may face in the future. Social information is also used by governments to develop social regulations and ensure that regulations have been complied with. People also need social information to ensure that their rights have been met.

The results of this test are in line with the theory of legitimacy, in which the management of the company seeks to influence the public's viewpoint with the aim of improving the company's image through the disclosure of social performance. Having public recognition can encourage investors to make investment decisions, thereby raising the value of the company. (Melinda & Wardhani, 2020).

Governance Disclosure and Firm Value

Based on the results of the partial test (test) in Table 4.10, it can be seen that governance disclosure has no effect on the value of an enterprise with a p-value > 0.05, i.e., 0.5206, and a t-statistic value of 0.644869. Thus, hypothesis 3 (H3) in this study is rejected, or governance disclosure has no influence on the value of the company.

The findings support research by Haryono & Iskandar (2015) and Atan et al. (2018) that stated that governance scores were statistically insignificant in influencing Tobin's Q. A nonexistent relationship suggested that companies with governance information had roughly the same performance as companies that did not disclose it. In other words, either companies that disclose governance information or do not have the same value on the market.

Based on the above description, it is clear that the research results do not support the theory of signals, which states that showing good corporate governance performance in sustainability reports can signal to investors about the condition of the company so that it can attract investors and improve the company's reputation (Verrecchia, 1983). (Fatima et al., 2015).

Leverage and Firm Value

Based on the results of the partial test (test t) in Table 2, it can be found that the leverage has no influence on the value of the company, with a p-value > 0,05, i.e., 0.7697, and a statistical value of t of -0,293617. Thus, hypothesis 4 (H4) in this study is rejected, or leverage does not influence the firm's value.

The findings are in line with Prastika's (2012) study, which states that leverage has no influence on firm value. The absence of the influence of leverage on the value of the company indicates that the cost of debt and the cost of assets are relatively equivalent and have their respective advantages and disadvantages. If the company uses the assets acquired through debt well, it will benefit the company, and if the company is inadequate in the management of its assets, then it will be detrimental to the company.

In signal theory, it is explained that the purpose of company reporting is to inform analysts and investors of the company's value (Spence, 1973). The disclosure is intended to assure external parties of

the company's performance and capabilities. In addition, the company also legitimizes enhancing the company's image by disclosing information about leverage. Good resource management will affect high performance (Newbert, 2008). Based on the above description, it can be concluded that the results of this study are not supported by both theories.

Conclusion

Before making an investment decision, investors make considerations and assessments of a company. The researchers conducted tests and analyses related to the impact of ESG disclosure and leverage on firm value. Based on the results of testing 129 samples of observations using panel data regression, it can be concluded that environmental disclosures have a significant negative impact on the value of the company. Social disclosure has a significant positive impact on the value of a company. Governance disclosure has no effect on the value of the company.

The results of this study support the theory of signals, in which, by doing social disclosure, companies give signals to external parties to show that companies are better than other companies so that they can increase the value of the company. The results also support the legitimacy theory, in which companies influence public perception by running their businesses in accordance with the regulations in force so that the company gains public trust, which will affect the increase in firm value.

This research has some limitations and is expected to be considered for further research. As to the limitations in this study, they are: the sample on this study is only manufacturing companies listed in the Shariah Indonesia Stock Index (ISSI); the observation time is limited in the course of 6 years, namely 2016–2021, and the ESG data-related disclosure in this research is incomplete in the period 2016–2021.

Recommendations for further research are: First, take a wider sample, for example, companies from different countries and industries. Second, increase observation time so that research information results are better. Third, take more companies that are consistent in revealing ESG disclosure as a sample.

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