



## ***Influence of Environmental, Social and Governance (ESG) on Firm Value: Literature Review***

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### **ABSTRACT**

*This research aims to classify relevant research regarding the impact of Firm performance in Environmental, Social and Governance (ESG) on Firm value in recent years through a literature review. The research was conducted by collecting 30 articles related to the topic of ESG and Firm Value in terms of research methods and Firm characteristics. It is hoped that the results of this research can provide a reference for companies in understanding opportunities and risks and for investors to optimize investment portfolios related to the influence of ESG on Firm value.*

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## **INTRODUCTION**

Environmental Social Governance or ESG is a Firm standard in its investment practices which consists of three concepts or criteria, namely Environmental , Social and Governance . The concept of sustainable development which requires transparency and organizational obligations towards society has become important and continues to develop in every organizational dimension globally. One of the dimensions of sustainability that is currently the main focus is what is called ESG, specifically, ESG indicators were created to capture additional dimensions of Firm performance that are not reflected in accounting data (Bassen & Kovacs, 2008).

Currently, ESG development is very rapid. The performance of issuers that apply the ESG concept shows superior financial performance compared to other issuers. The Economist Intelligence Unit (EIU) on sustainable financing said that of 161 investors and 154 issuers across Asia Pacific, 68% of investors and 63% of issuers said that their sustainable investments and financing performed better than comparable traditional investments. From the data presented by IDX for the period 30 December to 30 December 2019, it can be seen that the SRI-Kehati index was able to outperform the IHSIG Index in terms of returns, the SRI-kehati index produced a return of 173.66% higher than the IHSIG index which produced a return of 148.57. % and the LQ45 Index which returned 103.59%.

Many well-performing listed companies disclose ESG reports separately in addition to social responsibility reports which provides investors with more information channels and more effective quantitative decision-making methods to investigate the non-financial performance of invested companies, from the investor's perspective, to be more effective in Using this information, it is very important to explain the relationship between corporate social responsibility and ESG information and understand the impact of both on the value of invested companies, maximizing shareholder wealth, managing risks, and achieving their financial and non-financial goals more holistically, based on this is very important theoretically and practically to study the impact of a Firm's ESG performance on Firm value .

## RESEARCH METHOD

### Analysis Method

This research is a literature review, this research was conducted by analyzing the results of research findings related to the influence of ESG on Firm value, by collecting research obtained from the Google Scholar search engine and using publish and publish software using the keywords ESG and Firm Value. This research uses a descriptive analysis research method which aims to describe, summarize and provide a clearer picture of the impact of environmental, social and governance topics on Firm value.

## RESULTS AND DISCUSSION

### RESULTS

The search has gathered 30 research articles that focus on Environmental factors, Social, Governance (ESG) and Firm value, from the 30 articles collected, the following summary was obtained:

Writer	Title	Sample	Result
Wahdan Arum Inawati, Rahmawati	Environmental, Social and Governance (ESG) Impact on Financial Performance	96 non-financial sector samples	Social factors, environmental factors and governance factors have a positive influence on the financial performance of non-financial sector companies (Wahdan Arum Inawati & Rahmawati, 2023)
Hilwa Fithratul Qodary, Sihar Tambun	The Influence of Environmental Social Governance (ESG) and Retention Ratio on Stock Returns with Firm Value as a Moderating Variable	75 mining sector companies	ESG and retention ratio have no effect on stock returns, while Firm value moderates the effect of ESG on returns and retention ratio on stock returns (Мустафина et al., 2021)
Andrea Quintiliani	Esg And Firm Value	115 companies in Europe	findings show that there is a positive and significant relationship between the variables (Quintiliani, 2022)
Ryan Edriansyah and Nur Cahyonowati	The Effect of ESG Disclosure on Firm Value with Firm Size as a Moderating Variable	127 samples of non-financial companies	ESG disclosure has a positive and significant influence on Firm value, Firm size has a positive influence on Firm value, firm size has a positive influence on ESG disclosure and Firm value (Adhi & Cahyonowati, 2023)
Hedar Ria Wau	The Influence of Environmental Social and Governance Disclosure (ESG) on Firm Value in Food and Beverage Sub-Sector Manufacturing Companies Registered on BEI in 2017-2021	13 food and beverage sub-sector companies	ESG has a positive and significant effect on Firm value both partially and simultaneously (Area, 2023)
Muhammad Sadiq, Jaspal Singh, Muhammad Raza, Shafi Mohammad	The Impact Of Environmental, Social And Governance Index On Firm Value : Evidence From Malaysia	122 companies	ESG strength increases Firm value, while ESG disclosure and attention to ESG can reduce Firm value (Sadiq et al., 2020)
Afiafa Madinda	The Effect of ESG	60 companies	ESG can contribute to increasing Firm value

Writer	Title	Sample	Result
Kirani	Reporting on Firm Value with Cost Efficiency as a Moderating Variable	listed in Thomson Reuters assets	and cost efficiency can moderate the relationship between social performance reports and Firm value (Kirani, 2022)
Defang Ma, Liang JWei Li, Yuxi Song, Mengkai Wang, Qiaowen Han	Corporate Sustainability: The Impact of OE ESG Performance On Corporate Development And Innovation	companies listed on the A-share exchange	ESG performance has a positive impact on corporate development, especially in high-tech companies, by reducing financing constraints and encouraging corporate innovation (Ma et al., 2023)
Tahani Tahmid, Muhammad Nazmul Haque, Jamaliah Said, Paolo Saona, Md. Abdul Kalam Azad	Does ESG Initiatives Yield Greater Firm Value And Performance? New Evidence From European Firms	180 companies in 10 economic sectors in 22 countries	positive impact of ESG initiatives on Firm value and performance (Tahmid et al., 2022)
Bohyun Yoon, Jeong Hwan Lee, Ryan Byun	Does ESG Performance Enhance Firm Value? Evidence From Korea	212 companies	CSR practices have a positive and significant impact on a Firm's market value, the impact on share prices can differ depending on Firm characteristics (Yoon et al., 2018)
Nasruzzaman Naem, Serkan Cankaya, Recep Bildik	Does ESG Performance Affect The Financial Performance Of Environmentally Sensitive Industries? A Comparison Between Emerging And Developing Markets	383 companies with 305 coming from developed countries and 78 companies from developing countries	The ESG performance of companies operating in environmentally sensitive industries has a significant positive relationship with the Firm's ROE and Tobin Q (Naeem et al., 2022)
Luk Luk Fuadah, Mukhtaruddin, Isni Andriana, Anton Arisman	The Ownership Structure And The Environmental, Social And Governance (Esg) Disclosure, Firm Value And Firm Performance : The Audit Committee As Moderating Variable	140 companies	ESG disclosure has a positive influence on Firm value, but ESG disclosure has no effect on Firm performance (Fuadah et al., 2022)
Wen Qu, Junrui Zhang	Environmental, Social, And Corporate Governance (Esg), Life Cycle And Firm Performance : Evidence From China	26,412 companies observed	ESG has a significant positive impact on Firm performance depending on the stage of the Firm's life cycle. (Qu & Zhang, 2023)
Yiqun Duan, Fan Yang And Lin Xiong	Environmental, Social And Governance (Esg) Performance And Firm Value: Evidence From Chinese Manufacturing Firms	16,185 companies observed	the ESG performance of manufacturing companies has a significant positive impact on firm value (Duan et al., 2023)

Writer	Title	Sample	Result
Mahmut Aydogmus, Guzhan Gulay, Korkmaz Ergun	Impact Of ESG Performance On Firm Value And Profitability	5000 companies	the overall composite ESG score has a positive and significant relationship with Firm value (Aydoğmuş et al., 2022)
Yaghoub Abdi, Xiaoni Li, Xavier Camara Turull	Exploring The Impact Of Sustainability (Esg) Disclosure On Firm Value And Financial Performance (Fp) In Airline Industry: Moderating Role Of Size And Age	38 airline companies	contributions to governance initiatives increase a Firm's market to book value ratio. (Abdi et al., 2022)
Fen Zhang, Xiaonan Qin, Lina Liu	The Interaction Effect Between ESG And Green Innovation And Its Impact On Firm Value From The Perspective Of Information Disclosure	952 companies	disclosure of environmental and social information has a positive impact on Firm value (Zhang et al., 2020)
Yu Jin Chang, Byung Hee Lee	The Impact Of ESG Activities On Firm Value: Multi-Level Analysis Of Industrial Characteristics	87 companies	ESG was found to have a positive effect on firm value, industry concentration and industry growth rate moderate the relationship between ESG and firm value (Chang & Lee, 2022)
Xiaoling Yu, Kaitian Xiao	Does ESG Performance Affect Firm Value? Evidence From A New ESG-Scoring Approach For Chinese Enterprises	804 companies	there is a positive and significant relationship between composite ESG performance and Firm value (Yu & Xiao, 2022)
Yusheng Kong, Andrew Agyemang, Noha Alessa, Maxwell Kongkuah	The Moderating Role Of Technological Innovation On Environment, Social And Governance (ESG) Performance And Firm Value : Evidence From Developing And Least-Developed Countries	78 companies	environmental and social performance affects Firm value, but governance performance does not affect Firm value (Y. Kong et al., 2023)
Lingfu Kong, Minhas Akbar, Petra Poulouva	The Role Of Environment, Social, And Governance Performance In Shaping Corporate Current And Future Value : The Case Of Global Tech Leaders	64 companies	ESG performance has a significant and positive relationship with both value proxies for global leading technology companies. (L. Kong et al., 2023)
Yoonkyo Cho	Esg And Firm Performance: Focusing On The Environmental Strategy	210 companies	a Firm's environmentally friendly strategy has a positive impact on Firm value (Cho, 2022)

Writer	Title	Sample	Result
Yaghoub Abdi, Xiaoni Li, Xavier Camara Turull	Impact Of Sustainability On Firm Value And Financial Performance In The Air Transport Industry	27 airline companies	supports a positive relationship between environmental and governance pillar scores (Abdi et al., 2020)
Duy Thanh Nguyen, Thinh Gia Hoan, Hue Gia Tran	Help Or Hurt? The Impact Of ESG On Firm Performance In S&P 500 Non Financial Firms	57 non-financial companies	better ESG practices can improve a Firm's financial performance as measured by ROA, ROE and Tobin Q (Nguyen et al., 2022)
Nor Edi Azhar Bint Mohamad	Do Environmental, Social, And Governance Practices (ESG) Signify Firm Value? Evidence From Ftse4good Bursa Malaysia (F4gbm)	70 companies	A high level of transparency and accountability based on ESG policies for Firm members can increase stakeholder perception and trust and thereby increase Firm value (Mohamad, 2020)
Shiyu Wu, Xinyi Li, Xiaosen Du, Zexin Li	The Impact Of ESG Performance On Firm Value: The Moderating Role Of Ownership Structure	1,379 companies	ESG performance is important in increasing Firm value (Wu et al., 2022)
Guler Aras, Evrin Hacıoğlu Kazak	Enhancing Firm Value Through The Lens Of ESG Materiality : Evidence From The Banking Sector In Oecd Countries	1,115 banks	ESG performance based on ESG materiality has a positive influence on Firm value for both models (Aras & Hacıoğlu Kazak, 2022)
Mohd Ashari Bakri, Mohamad Isa Abd Jalil, Zakiah Hassan	Can Esg Increase Firm Value In The Banking Institution And Financial Services In Malaysia? An Insight From Social Norm Theory	24 companies	ESG significantly increases Firm value in all analyzes (Bakri et al., 2022)
Annisa Meidiana Thahira, Aria Farah Mita	Esg Disclosure And Firm Value: Family Versus Non Family Firms	390 companies	ESG disclosure has a positive relationship with Firm value (Thahira & Mita, 2021)
Metya Kartikasary, Maria Paramastri Hayuning Adi, Martogi Marojan Sitinjak, Hardiyansyah, Desti Yolanda Sari	Environmental, Social And Governance (ESG) Report Quality And Firm Value In Southeast Asia	608 companies	positive impact of ESG disclosure on Firm value, especially market capitalization (Kartikasary et al., 2023)

## DISCUSSION

From the research collected by researchers, there are several findings that can be identified that ESG factors have a positive influence on the financial performance of non-financial sector companies (Wahdan Arum Inawati & Rahmawati, 2023), this research also found that ESG has a positive and significant influence on Firm value in the sub-financial sector. -food and beverage sector (Area, 2023), ESG also has a positive impact on Firm development, especially in high technology-based companies (Ma et al., 2023). This research also shows that ESG disclosure has a positive and significant influence on Firm value and Firm size also has a positive influence on Firm value (Adhi & Cahyonowati, 2023),

Research related to the influence of ESG on Firm value provides insight into the relationship between ESG and Firm performance and value in various sectors and regions. Understanding this relationship can help companies and investors make decisions regarding investment and more sustainable corporate governance.

## CONCLUSION

The conclusion that can be drawn is that Environmental, Social and Governance have become increasingly important factors in determining Firm performance and value. This research provides a foundation for companies and investors to consider sustainable practices as part of their business and investment strategies. However, it should be noted that each study may have different methodology and variables, so the results may vary. therefore, it is important to consider the findings of this research in the specific context relevant to the Firm or investment under consideration.

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