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Literature Review ESG and Sustainability Finance

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Abstract

Nowadays, the corporate performance is not only measured by financial ratio, the company's contribution to environmental sustainability, the welfare of the surrounding community is currently part of the corporate' performance. It can be said to be successful if it consider economic, environmental and social aspect. This literature review describes several studies related to socially responsible investment. The result show that the application of CSR or ESG practices has an effect on the sustainability of the company's business, and many researchers measure it by firm value. There is also a contradiction between the influence of ESG on the sustainability of the corporate's business, and it turns out that what affects it is the time frame. The application of CSR practices ESG disclosure have a positive effect on the long term business performance and not the short term's corporate performance.

Keywords
CSR; ESG; sustainable business

I. Introduction

On the concept of investment conventionally, the main concern of investors is focused on how the rate of return that can be obtained and the risks faced from the investment that is being implanted. Profitability was a benchmark to measure the success of a company. But in recent decades, the concept has become more widely than just the yield and risk. The performance of the current company can be measured by the ability of the financial aspects, the contribution of the company towards environmental sustainability and the welfare of the community around the company.

The company should pay more attention to social and environmental responsibility so that it can got the legitimacy on the role of social and environmental concern that has been done by the company, so the company will get the trust and support from the community. This will have an impact on the survival of the company in the foreseeable future. Both ethical and responsible for has a lot to be heard right now. A series of standards have been developed in the industry to evaluate how the company operates in connection with the surrounding environment, the people they are working with and whether they are doing good governance in a responsible way.

The development of the concept of this investment gave birth to the concept of investment is referred to as socially responsible investment (Socially Responsible Investment) or often abbreviated as SRI. Socially Responsible Investment (SRI) is an investment that includes the paradigm of ethics (the factors of non-financial) and financial in choosing the investment options available. One of the foundations of SRI is the measurement of the Environment, Social and Governance.

In Indonesia, the application of the concept of SRI is not yet as advanced as in western countries (e.g. the UK, the United States), but Indonesia has had the special stock

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for the shares of stocks listed on the capital market are classified as SRI. This index is referred to as the SRI- Kehati index. The SRI-Kehati index created from the cooperation between the Indonesian stock Exchange and the Indonesian Biodiversity Foundation. The SRI-Kehati index consists of the 25 companies listed on the Indonesia stock exchange and has met the financial criteria and also the criteria of ESG.

SRI cause debate among academics and also the practitioner of investments. Parties to the counter with the concept of SRI assume that the practice of investment of SRI will only make the investment generates profits that are less than optimal. Meanwhile, parties that support the concept of SRI argue that the application of the concept of ESG will make the investment to produce optimum benefit and sustainability of the company in the foreseeable future.

We also see that the increasing interest about social and environmental responsibility as well as the participation of the business world and society in the achievement of various global commitment to development has not been accompanied by the proper knowledge, there is a phenomenon where the initiative of the house of Representatives set practices corporate social responsibility is promoting CSR as a source of construction funds instead of as sustainable business practices.

The application of the ESG for the company to be very important for the survival of the business, because ESG can provide many positive effects on the business performance of the company. (Maya et al., 2020) stated that the quality of disclosure of ESG affect the profitability of the company. This is in line with (Li et al., 2018) which states that the disclosure of ESG positively related to the value of the company. The application of the ESG to the business of the company will improve the company's performance and impact on the improvement of the performance of the company's stock.

Studies associated with the party that is counter to the concept of SRI been done by (Shakil et al., 2019) who conducted a study on banks in emerging markets find that there is a positive relationship between environmental performance ,social performance with financial performance, while governance does not affect the financial performance of banks in emerging markets such. (Xiao et al., 2013) stated that sustainable investment does not affect the return portfolio.

II. Review of Literature

Environmental, Social, Governance and Sustainability of the Company

Environmental, social, governance, commonly abbreviated as ESG is corporate social responsibility. Information ESG now become the focus of everyone's attention because it provides the potential long-term impact given by the investment to the stakeholders. The importance of the measurement of ESG in SRI due to the measurement of ESG plays two important roles, namely as a proxy for the performance of sustainable and market movers SRI. The application of factor ESG in investment should ensure three things.

The elaboration of the 3 factors ESG:

1. The core business of the company is not in the business category of pesticides, nuclear, weapons, tobacco, alcohol, pornography, gambling and genetically modified organism (GMO).
2. Management of human resources pay attention to human rights in its implementation.
3. Activities of the company must be qualified in various aspects such as governance 11 companies, community involvement, behavior business that is fair and ethical.

ESG includes a variety of problems related to the environment (e.g. climate change), the responsibility social (e.g. human rights) and good corporate governance or corporate governance (for example the protection of shareholders). ESG is also a key indicator of the performance of non-financial. Score ESG from the report of the company's performance include the use of natural resources, human rights, levels of corruption and how companies invest in social relationships with the community that would eventually lead to the sustainability of the company.

Sustainability is one of a very significant trend in the financial market over the last few decades. Either in the form of the desire of investors to invest responsibly sustainable (SRI) and the focus of the management of the company on CSR, sustainability and ESG. This study examines some of the academic studies and sources about the sustainability of the company so that you can see evidence of the business case for corporate sustainability, integrate sustainability into investment decisions and implement policy ownership active in portfolio investors.

From some of the studies reviewed found evidence of strong and transparent about the impact of the management of ESG and investment company that is sustainable. (Strategy, 2012) revealed that a company that eco-efficient has a higher market value compared to a company that does not have the environmental strategy. This research is in line with the study conducted by (Hamrouni et al., 2019), (Shakil et al., 2019), which states that there is the influence of environmental disclosures on the company's performance improvement and sustainability. (Widiyanti et al., 2019) in his research found that CSR positively correlated significantly to the company's performance. Hayes in Dalimunthe (2020) stated that strategy is all activities that exist within the scope of the company. Strategy is the art of using organizational skills and resources (including human resources) to achieve goals through effective relationships with the environment in the most favorable conditions.

Although the disclosure of ESG affect the sustainability of the company, it turns out, there are still pros and cons about it. As stated by (Xiao et al., 2013) which concluded that sustainable investment has no significant effect on the return of the portfolio. This research was supported by (Haryono & Iskandar, 2015) which states that corporate social performance does not affect the firm value. Many factors lead to such contradictions as the factors that moderate the relationship between ESG with the sustainability of the company. This was stated by (Parastoo et al., 2015) which states that the relationship between CSR and the financial performance of the company is the relationship that is mediated fully by other factors such as reputation and competitive advantage (Parastoo et al., 2015), CEO power (Li et al., 2018), institutional factors (P, 2020) or the practice of strategic management (Widiyanti et al., 2019).

Here are presented some of the research carried out related to socially responsible investment and sustainability firm with variables that moderate it.

Table 1. Research Related to Social Responsible Investment in Different Countries

No.	Researchers	Variable	Results
1	(Strategy, 2012)	Dependent: Firm performance (ROA) Independent: BV, EPS, Leverage, market price, R&D, Eco-efficiency indicators. Variable control: Size (Ln total assets)	A company that eco-efficient has a higher market value compared to a company that does not have the environmental strategy.
2	(Xiao et al., 2013)	Dependent: a test of Excess monthly returns of the portfolio on the portfolio i at time t Independent: market value, firm size, book to market value, sustainability at time t.	Sustainable investment does not affects significantly to the return.

3	(Parastoo et al., 2015)	Dependent: Firm performance (ROI, ROE, ROA, ROS, sales growth, marketshare growth, net profit margin Independent: the CSR (the four main dimensions of CSR) Moderating: the competitive advantage, reputation, customer satisfaction Variable control: firm size, aage, sales revenue	- The relationship between CSR with firm performanceis the relationship mediatedentirely. - Reputation and competitive advantage strengthens the positive relationship between CSR with firm performance.
4	(Haryono & Iskandar, 2015)	Endogen: Firm Value (Tobins' Q and PBV) Eksogen: Corporate social performance (economic performance, social performance, environmental performance) Intervening: - Risk - Corporate Financial Performance	- CSP significant positive effect on CFP. - CSP significant negativeeffect on firm risk. - CSP no significant effect onfirm value. - CFP significant positive effect on firm value. - Firm risk and the negative effect significant impact on firm value. - CSP influential significantto firm value through the CFP. - CSP no significant effect on firm value through the firm'srisk.
5	(Flammer, 2015)	Dependent: Abnormal return on the day of shareholder meeting (four factor model of Carhart) Independent: - Shareholder proposal (using the Risk Metrics and Shark Repellent Intervening: - Labour productivity (the ratio of salesto the number of employees - Sales growth (the growth in sales compared with the previous fiscal year	- There is the influence of the adoption of the proposal closecall CSR to the announcement of a positive return and the performance of accounting services. - Productivity of workers and the level of the effect of sales to sustainable finance after voting on the close call CSR .
6	(Rodriguez-fernandez, 2016)	Dependent: Model 1: Financial performance (ROA,ROE, Tobin's Q) Model 2: Firm CSR behavior (GRI, DJSI, Comp-recom, GC) Independent: Model 1: GRI (global report initiative), DJSI (dow jones sustainability index), comp_recom (compliance of the recommendation of GCG), GC (global compact) Model 2: FP (ROA, ROE, Tobin's Q)Variable control: Model 1 dan 2 : Size (Ln total assets)	- GRI sustainable reporting guidelines significant positive effect on financial performance of companies. - Improved financial Performance significant positive effect on the social benefits.
7	(Atan et al., 2018)	Dependent: - Profitability (ROE) - Firm value (Tobin's Q) - Cost of capital (WACC)	- There is no significant relationship either partially or combined factors of ESGon

		Independent: ESG factors (ESG ratings published inthe Bloomberg database) Variabel control : - Leverage (total liabilities/total capital) - Size (total assets)	profitability and firm value. - Factor ESG has no significant effect with the cost of capital (WACC) but the combined score ESG significant effect on the cost of capital (WACC) of the company.
8	(Lu et al., 2018)	Endogen: Growth of revenue (Lnrevenue) Eksogen:CSR (weighted average CSR score) Variable Control : - Firm size (Ln firm marketcapitalization) - Capital structure (debt/equity) - Industry (dummy variabel) - National level control variables - Dummy variables for year 2008 &2009	CSR negatively affect the CFP in the short term but in the long term will be a positive influence on the sustainability of the company.
9	(Li et al., 2018)	Dependent : Firm value (tobin's q) Independent: ESG Disclosure(Bloomberg's ESG score) Moderating variables: CEO remuneration (annual compensation received CEO total annual compensation of the board of directors. Data taken from Boardex. Variable control : - PPE (rasio net property, plant, equipment / total sales) - Size (ln total assets) - CAPEX (capital expenditure/totalasset) - Leverage (total debt/toal asset) - Growth (a percentage change in sales over the prior year) - Cash (cash/total asset)	- The level of disclosure of ESG correlated significantly positive with the value of the company. - CEO of power to strengthen the relationship between the level of disclosure of ESG with the value of the company.
10	(Pei & Guo, 2018)	Dependent: Tobin's Q Independent: - Firm's transparency (Bloomberg ESG disclosure score) - ESG disclosure^2 - Environmental disclosure - Environmental disclosure^2 - R&D intensity	- The disclosure of the issue ofESG, which is large will increase the value of the company. - Companies with assets greater, better liquidity, intensity of R&D more often, fewer insider holding and financial performance of the previous good will be more transparent in the issue of ESG.
11	(Almeyda & Darmansyah, n.d.)	Dependent: ROA, ROC, Stock price, P/E Independent: - ESG disclosure (Bloomberg ESG data index) - Environmental disclosure - Social disclosure - Governance disclosure Variable Control: size (total assets), country, market capitalization	- There is a significant positive relationship between the disclosure of ESG with ROA and ROC company and is not significantly associated with P/E and stock price. - There is a positive and significant correlation between environmental factors to the ROC

			company and stock price. There was no significant relationship between social factors and governance with the company's financial performance.
12	(Hou, 2019)	Dependent: Corporate Financial performance (Tobin’s Q) Independent: - CSR (CSR excellent award annually - N News (negative news from TEJCSR) - Board Ownership (percentage of shareholding of directors) - Size (Ln Total assets) - Leverage (Total debts/Total assets) - Family (dummy variable) - Firm visibility (Searc Volume Index)	- Companies using CSR is superior in financial results than not using CSR in the company. - SVI has a positive influenceon the relationship between CSR and CFP. - SVI has the influence of psotif in the relationship between CSR and CFP in the electronics companies inTaiwan. - The percentage of ownership of the board of directors significant positive effect in explaining therelationship between CSR and CFP and influential nengatif if the company is a family business.
13	(Hamrouni et al., 2019)	Dependent; cosf of debt (ratio of financial interset’s expenses on total financial debt) Independent: - Disclosure ESG (bloomberg’s ESG score) - Social disclosure score - Environmental disclosure score - Governance disclosure score Variabel control: - Size (Ln total assets) - Leverage (total debt/total assets) - Profitability (ROA) - Price to Book Ratio (marketvalue/book value of equity)	- Disclosure score of CSR as a combination of the disclosure score ESG negative effect on cost of debt - The disclosure of the environment has a positiveeffect on the cost of debt. - The disclosure of the social positive effect on the cost ofdebt. - The disclosure of governance have is no significant relationship with cost of debt.
14	(Shakil et al., 2019)	Dependent : operating and financial performance (ROA, ROE) Independent: ESG taken from the Asset4 database Refinitiv, formerly known as Thomson Reuters with the 61 indicators EP, 51 indicators SP and 54 indicators GP Variable control: - Size (Log total assets) - Leverage ratio (long term debt to total assets)	- There is a positive relationship between environmental performance, social performance with financial performance of banking companies in emerging markets. - Governance does not affect the company's

		- Dividend yield (dividend per share/current price per share	financial performance banking in emerging markets
15	(Riyadh et al., 2019)	Dependent: corporate performance(ROA) Independent: - CSR disclosure (CRSD score adopting GRI guidelines) - Board independence (the percentage of independent directors of the total number of directors on the board of a company) - Board size (total number of directors on the board of each sample firm which is inclusive of the CEOand Chairman for each accounting year) - Gender diversity	- Board size and gender diversity have a significant effect on the financial performance of the company. - CSR disclosure and board independence has no significant effect on the financial performance of the company.
16	(Triyani et al., 2020)	Dependent : the company's performance (ROE) Independent : - the disclosure of ESG (Bloomberg score (0-100) the higher the better the quality andquantity of disclosure of ESG - the tenure of the CEO (the amount of work experience of theCEO in units of months) Variable control : leverage (DER), size(Ln total assets)	- The disclosure of ESG positive effect on the performance of the company. - The tenure of the CEO weaken the relationship between the disclosure of ESG performance of companies.
17	(P, 2020)	Dependent: Financial performance Independent: CSR Moderating: Institutional Factors: - Country characteristic - CSR forms and dimensions - CSR measurements - FP measurement	- There is a positive relationship between CSR with financial performance. - Factors of Institutional can strengthen or weaken the relationship between CSR with financial performance.
18	(Anwar & Malik, 2020)	Dependent: Investment efficiency disclosure (dichotomy variable to made based on the residual model of investment) Score the quality of CSR disclosure (skrothe average company on the quality of CSR disclosure) Variable control: - Slack (current ratio) - Size (Log of age) - Leverage (total liabilities/total assets) - Financial distress (Z scores) - Sales volatility (standard deviation of sales for the previous 5 years)	- There is a positive significant correlation between the quality of CSR disclosure on the efficiencyof investment. - The disclosure of good quality affect the efficiency of investment

Source: *Summary Of Research Related To ESG And Sustainability Firm*

III. Research Methods

The design of the study used the method of literature review. Literature review is research that is done by collecting a number of books, magazines related to the research objectives. In this study, a literature review was obtained from Science Direct, Elsevier, BASE and textbook relating to issues of environment, social and government as well as its impact on the sustainability of the company. Empirical research is used as a literature review is a research published starting from the year 2012 to the year 2020.

IV. Result and Discussion

Sustainability in the business or the company becomes an important thing for a business, where to achieve the concept or purpose of the sustainability of the company must understand how sustainability in the company should be built and what should be done by the company if they want to be sustainability in its business. Research on social reporting the company has done a lot in the past few decades. The implications of the social reporting of the company also has been shown to correlate positively with financial performance of the company.

Literature ESG has provided a variety of views and arguments about about the the importance of the company meets the rule about ESG, taking into account the implementation of the ESG in the company will have an impact on the financial performance of the company in the long term gives the effect of sustainability for the company.

Reporting of ESG, which gives a significant positive effect on financial performance, which is then increased over the financial performance of impact positive and significant impact on social benefits (Rodriguez-fernandez, 2016). (Lu et al., 2018) shows that CSR have a positive influence on the financial performance of the company's long-term. Another study conducted by (Li et al., 2018) also support the statement that the level of disclosure of ESG positively correlated with the value of the company. With respect to the social aspects made by the company, the empirical research conducted by (Widiyanti et al., 2019) also has strengthened that CSR positively correlated significantly to the company's performance.

Although a lot of literature that shows that ESG or CSR has a positive impact on financial performance of companies that have an effect on the sustainability of the company but there is also a literature that rejects the statement. As shown by (Haryono & Iskandar, 2015) that corporate social performance does not affect the company's financial performance, as also stated by (Atan et al., 2018) that there is a significant relationship between the ESG on profitability and firm value. And this is supported by (Lu et al., 2018) that the CSR of a negative effect on the company's financial performance in the short term.

Based on the difference of views about the relationship between the ESG with the financial performance of the company, especially the company's sustainability in the future, then no conclusion is absolute about the influence of information ESG on the financial performance of a company.It is possible that this happens from the point of view of the company and the investor views the information of ESG.

V. Conclusion

In line with the literature on sustainability in the business of the company and the view- based resources company, the company may engage in CSR and ESG to improve efficiency (Anwar & Malik, 2020) and enhance the reputation and trust of the customer against the company (Parastoo et al., 2015). So that the company can attract new customers who are aware of the social impact on increasing the profitability of the company (Maya et al., 2020), (Hou, 2019) so that the sustainability of the business can be run.

There is a contradiction between the disclosure of ESG with the sustainability of the company as seen from the financial performance and value of the company, this is because the practice of the application of the CSR impact on the financial sustainability of the company's long-term and not for short-term (Lu et al., 2018).

Regardless of the contradictions, in the end the practice of corporate social responsibility (CSR) through the ESG disclosure on the company leads on the financial performance of superior companies that enhance the competitiveness of the company so that the impact on the business sustainable.

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