ABSTRACT

This study aims to investigate the effect of Environmental, Social and Governance (ESG) disclosure independently to financial and market performance, and also to compare the level of ESG disclosure and firm performance between Sri-Kehati and LQ-45 index. This research adopted GRI.G4 indices to measure ESG disclosure. ROA_{t+1} is the proxy for financial performance. While market performance calculated by abnormal return which adopted CAPM method. The population of this research was all companies listed in Sri-Kehati and LQ-45 indices in second period of index announcement and published their sustainability or annual report in the year of 2011-2015. The total samples were 247 companies selected using purposive sampling. This research found out that companies with high environmental disclosure have negative impact on abnormal return. Nevertheless, companies with high social disclosure have positive impact on abnormal return. Companies with high governance disclosure have no effect at all on the abnormal return either for Sri-Kehati or LQ-45. This research also found out that only social disclosure which can increase ROA_{t+1} of companies in Sri-Kehati. Unlikely with Sri-Kehati index, this research indicated that only governance disclosure which has positive effect to ROA_{t+1} of companies which listed in LQ-45 index. Test of difference in this research proved that Sri-Kehati index which applied sustainable and responsible concept has higher ESG disclosure than LQ-45 index. While test of difference for financial and market performance did not show a significant difference between Sri-Kehati and LQ-45 indices.

Keywords: ESG disclosure, ROA_{t+1}, Abnormal return, Sri-Kehati, LQ-45, GRI. G4