ABSTRACT

This study aims to analyze the influence of Environmental, Social and Governance (ESG) disclosure on firm risk. ESG disclosure covers the environmental, social and governance issues considered by stakeholders to reflect a company's accountability. This study used the indicators of GRI-G4 indices to measure the scores of ESG disclosure. Firm risk is represented by total risk which measured by calculating the standard deviation of daily stock returns to reflect the stock volatility. Total risk categorized into systematic risk which measured by calculating the market beta and idiosyncratic risk which measured by calculating the standard deviation of residuals. The measurement of risk in this study based on the Sharpe's CAPM model.

The research object of this study was non-financial companies listed in Indonesia Stock Exchange (IDX) that issued sustainability report over the period 2014-2016. This study used purposive sampling method in determining the sample and this study obtained 36 samples of companies as well as 90 firm-year observations. The data used in this study were secondary data which collected by performing documentation study and literature study. The data then tested by using multiple linear regression as analysis method in this study.

The findings of this study showed that environmental and social disclosures were significantly negatively influenced the total risk, systematic risk, and idiosyncratic risk. However, the governance disclosure just significantly influenced the total risk and insignificantly influenced the systematic risk and idiosyncratic risk. Nevertheless, the governance disclosure has a positive influence on all of the risk measure.

Keywords: ESG disclosure, total risk, systematic risk, idiosyncratic risk