

CHAPTER I INTRODUCTION

1.1. Research Background

Sustainability has been a crucial focus in global economic discussions, especially as public knowledge increases about the effects of economic activity on the environment and social systems. Sustainability underscores the necessity of balancing economic growth, environmental preservation, and social welfare to fulfill the requirement of the current generation without compromising the ability of future generations to meet their own requirements. In the business realm, sustainability is now regarded not just as philanthropy, but as a fundamental component of long-term strategy that affect competitiveness, reputation, and corporate value in capital markets.

Climate change represents a crucial concern for humanity in the 21st century, evidenced by significant temperature increases, the melting of polar ice caps, increasing sea levels, and an unparalleled escalation in climate related natural disasters. This occurrence is mainly driven by the buildup of greenhouse gas (GHG) emissions from various human actions, including fossil fuel combustion, deforestation, and the escalation of industrialisation since the Industrial Revolution, resulting in widespread environmental degradation. The effects of global warming are enduring, lasting for decades, owing to the long lasting presence of GHG emission in the atmosphere. Research indicates that even if humanity immediately eliminate carbon emissions, the Earth's temperature is projected to increase by 1.5°C (Laine et al., 2021).

Global warming has resulted from human activities that emit greenhouse gases, global surface temperatures have risen by about 1.1°C above values recorded between 1850 and 1900 during the period 2011–2020 (IPCC, 2023). For the first time, governments worldwide articulated concern and initiated measures to stabilise greenhouse gas concentrations with the adoption of the Paris Agreement

during the historic 21st Conference of the Parties (COP21) in December 2015 in Paris. During the summit, 195 parties affirmed their dedication to implementing measures to restrict the increase in global temperature to below 2°C, while endeavouring to maintain the rise below 1.5°C relative to pre-industrial levels. The agreement seeks to enhance the ability of parties to adapt to the impacts of climate change and low-emission technologies to ensure food security remains intact (UNFCCC, 2018).

The United Nations has required Intended Nationally Determined Contributions (INDCs), in the agreement preceding the historic Paris Agreement, detailing the measures countries would undertake to mitigate GHG emissions (Matemilola et al., 2020). Indonesia has participated in the global climate change commitment since the outset through the enactment of Law No. 16 of 2016 regarding the ratification of the Paris Agreement within the United Nations Framework Convention on Climate Change, thereby legally obligating the nation to fulfil the designated NDC targets. This ratification is integral to Indonesia's national climate change mitigation and adaptation strategies, in which the country commits to lowering greenhouse gas emissions by 29% through internal measures and 41% with international assistance by 2030 relative to the Business As Usual scenario (Suwatno, 2023).

The Paris Agreement represents a pivotal advancement in global climate policy and alters corporate operations. The Paris Agreement indirectly establishes a robust institutional pressure framework on corporate operations via legislation, investor expectations, and shifts in market preferences, therefore motivating corporations to improve their ecological impact (Fan et al., 2025). The revelation of corporate environmental performance underpins the utilization of legitimacy and stakeholder theories in this research.

According to legitimacy theory, firms must meet their societal commitments to attain social acceptance, as they do not function solely for their own purposes (Wibowo et al., 2024). Thus, companies need to analyze how a company behaves

to assure the public that the company has conducted its business within the limits and rules that are acceptable to society by disclosing its environmental performance through sustainability reports. In carrying out its operational activities, a company always interacts with internal and external stakeholders who influence the company's achievements. The existence of stakeholders requires public relations so that companies do not only prioritize profits but also environmental impacts (Pusparini et al., 2023). All stakeholders in a corporation own the entitlement to access information regarding corporate operations that could impact decision-making (Asjuwita., 2020). This aligns with stakeholder theory, which posits that firms function not for their own gain but as organizations that are required to provide benefits to stakeholders, such as investors, lenders, customers, the state, society, and other related groups (Setiawan et al., 2019). Concern for the environment and fulfillment of stakeholder demands are efforts to pursue legitimacy and trust so that companies have a level of sustainability in carrying out their industrial activities (Khairunisa et al., 2022).

The disclosure of carbon emissions, ESG scores, and the achievement of international environmental certification reflect corporations' commitment to environmental stewardship and nature protection, serving as indicators of corporate environmental performance. Sustainability trends are increasingly concerning the public, investors, and the government. The execution of environmental performance in accordance with the Paris Agreement not only signifies normative adherence but also constitutes a pragmatic economic strategy that affects investor perceptions and stock price fluctuations. However, studies on this topic in Indonesia are still limited and the results vary, requiring further exploration.

Carbon disclosure refers to reporting on the total carbon emissions generated by a business and setting targets to reduce their use (Manurung et al., 2022). The correlation between carbon disclosure and stock prices aligns with legitimacy and stakeholder theory, suggesting that corporations strive for legitimacy from their

external environment over their business operations. Meanwhile, in stakeholder theory, investors may also benefit from the disclosure of their emissions as investment risk is low viewed from the aspect of equity pressure on the company. That means equity costs decline and company performance and share prices go up. According to research findings from (Aprilia., 2023), indicate that carbon emission disclosure significantly enhances stock prices. Additionally, carbon emission disclosure exerts a beneficial yet negligible influence on the stock prices of hospitals listed on the Indonesia Stock Exchange from 2019 to 2023 (Fauzi et al., 2024). Unlike the two studies mentioned above, research by Lestari et al. (2024) on non-financial companies listed on the Indonesia Stock Exchange from 2012 to 2020 indicated that carbon emissions disclosure did not influence stock prices. The significant expenses linked to carbon reporting transparency may explain its lack of impact on stock prices, as these expenses ultimately diminish profitability. Consequently, if revenues diminish as a result of expenses associated with carbon emission disclosure, investor returns will similarly decline.

(Ha et al., 2024) demonstrate a positive correlation between ESG and stock prices. The study carried out by Nugraha et al. (2025) investigated the correlation between stock price returns, stock volatility, and overall ESG scores, revealing that elevated ESG scores were associated with diminished market returns but greater stability in stock prices. Consequently, ESG influences stock prices through several principal mechanisms: heightened expectations of future cash flows, less risk and volatility, enhanced investor confidence, and bolstered corporate legitimacy among stakeholders. The latest study by Bifulco et al. (2023) Analyzed 600 publicly traded companies across Europe between 2014 and 2020, demonstrating a negative relationship between ESG disclosure and share prices. Investors have articulated that business investment in ESG is perceived as a misallocation of resources, leading to adverse reactions to the disclosed information and subsequent declines in stock prices.

ISO 14001 certification serves as a global benchmark for environmental management frameworks that aims to promote systematic and sustainable enhancement of environmental performance within organisations. Research from Paulraj et al. (2011) indicates that announcements of ISO 14001 certification adversely affect stock performance. Significantly, the findings demonstrate that shareholder wealth diminishes following such announcements. Moreover, a significant correlation exists between ISO 14001 accreditation and a decline in stock prices, as evidenced by Alsadan (2025). Certified firms are more inclined to suppress unethical conduct and unfavourable news. Exploration by Chen et al. (2018) indicates that companies announcing ISO 14001 certification positively influence their stock values. This method aligns with legitimacy theory, which underscores the necessity for businesses to conduct operations in compliance with relevant legislation to manage carbon emissions reduction, hence fostering public perception of companies as legitimate and accountable.

This study seeks to examine the influence of Carbon Emission Disclosure, ESG Score, and International Environmental Certification on Stock Price, targeting companies included in the IDX ESG Leaders index during the four-year interval from 2021 to 2024. This period was selected to evaluate how the independent variables affect market values, particularly from the beginning of the COVID-19 pandemic to its end. The IDX ESG Leaders index, as noted on the Indonesia Stock Exchange website (www.idx.co.id), comprises equities of companies with the highest ESG scores on the Indonesia Stock Exchange (IDX) according to Sustainalytics' evaluation. The index constituents comprise enterprises exhibiting robust environmental, social, and governance performance, alongside substantial liquidity and market capitalisation. The index serves as the most effective proxy for assessing the influence of sustainability practices on the Indonesian capital market, encompassing 30 companies annually.

Companies included in the IDX Leader are chosen according to their superior ESG and environmental profiles, representing environmentally sustainable

equities with the best ratings in the Indonesian market. This sample emphasises the testing dynamics within major businesses, where sustainability pledges are further advanced than in general indices. This selection also illustrates changes in the Indonesian capital market following 2020, when the OJK promotes ESG reporting via POJK No. 51/2017. The index's superior performance compared to the IHSG and other indexes offers compelling empirical evidence that stocks with elevated ESG ratings are generally viewed more favourably by the market, rendering them an appropriate sample for investigating the correlation between environmental performance and company valuation.

This study integrates three environmental indicators (carbon emission disclosure, ESG scores, ISO 14001) into a unified model for stock price analysis, whereas most prior research concentrated on one or two variables. The emphasis on firms listed in the IDX ESG Leader index, chosen for their exceptional ESG performance, offers pertinent empirical data for investors and capital market authorities in Indonesia amid the growing worldwide focus on climate risk and sustainability.

1.2. Research Problem

Drawing from the background of the problem outlined above, the research questions to be addressed are as follows:

1. Does carbon emissions disclosure has a significant effect stock prices of companies indexed in the IDX ESG Leaders for the period 2021-2024?
2. Does the ESG Score has a significant effect stock prices of companies indexed on the IDX ESG Leaders for the period 2021-2024?
3. Does International Environmental Certification has a significant effect stock prices of companies indexed on the IDX ESG Leaders for the period 2021-2024?

1.3. Research Objective

Based on the problem formulation above, the objectives of this study are to test:

1. Carbon Emission Disclosure has a significant effects stock prices in companies indexed on the IDX ESG Leaders for the period 2021-2024.
2. ESG Score has a significant effects stock prices in companies indexed on the IDX ESG Leaders for the period 2021-2024.
3. International Environmental Certification has a significant effect on stock prices of companies indexed on the IDX ESG Leaders for the 2021-2024 period.

1.4. Research Benefits

With the achievement of the research objectives described above, this study is expected to provide the following theoretical and practical benefits:

1.4.1 Theoretical Benefits

This study can serve as literature and reference for developing further similar studies related to corporate environmental awareness. This study is also anticipated to offer supplementary knowledge and perspective for students, lecturers, and the community who read it.

1.4.2 Practical Benefits

This investigation is projected to deliver actionable benefits to numerous parties, namely:

1. For Companies

The results of this study are expected to be taken into consideration by companies in making policies, decisions, and implementing corporate responsibility towards the environment.

2. For Investors

The results of this study are expected to provide information for potential investors on how to make investment decisions by considering companies' concern for the environment.

3. For Future Researchers

The results of this study are expected to contribute to the development of theories regarding carbon emissions disclosure, ESG scores, and international environmental certificates on stock prices, and are expected to be used as a comparison for future studies.

4. For Academics

The findings of this research are anticipated to serve as a valuable reference and source of information for future scholars.

5. For the Researcher

The findings of this research are projected to be a helpful learning experience and a foundation for the investigator's further studies.

1.5. Writing Systematic

This thesis comprises five sections, with each chapter containing multiple interrelated sub-sections that facilitate the derivation of conclusions regarding the studied subjects. The framework for thesis writing is organised as follows:

Chapter I: Introduction

This chapter delineates the context of the issue, the research enquiries, the research aims, the advantages of the research, the constraints of the research, and the research methodology.

Chapter II: Literature Review

This chapter encompasses the scientific foundation pertinent to the research issue, the theoretical framework, and the development of research hypotheses.

Chapter III: Research Methodology

This chapter delineates the research methodologies, classifications of research, population and sampling, data gathering procedures, and data analysis strategies employed in the study.

Chapter IV: Research and Discussion Results

This chapter delineates the results derived from data analysis utilising the SPSS 27 software, supplemented by a discourse that correlates the research findings with established theories or prior studies.

Chapter V: Closing

This chapter provides a synthesis of the research findings, their ramifications, and recommendations for future research endeavours.

