

CHAPTER I INTRODUCTION

A. Background of Research

The Indonesia Shariah Stock Index (ISSI), which was introduced on May 12, 2011, is a gauge of the Indonesian Islamic stock market's performance. All of the sharia equities that make up the ISSI are listed on the IDX and are part of the Financial Services Authority's (OJK) List of Sharia Securities (DES).¹ Securities that are in the form of shares and do not contravene sharia standards in the capital market are referred to as shares in the context of sharia.²

The existence of Islamic equities like ISSI, JII, and JII70 is supported by several DSN MUI fatwas that oversee transactions involving Islamic stocks. DSNMUI Fatwa No.80/DSN-MUI/III/2011 is one of them; it provides a detailed, understandable, and targeted explanation of some of the regulations governing the Islamic capital market.³

On 11 November 2022 and 31 January 2023, the IDX LQ45 Low Carbon Leaders Index consisting of 24 carefully selected companies was introduced by the Indonesia Stock Exchange.⁴ The presence of IDXCarbon marks the beginning of carbon trading in Indonesia in the global effort to combat the climate crisis, especially to reduce carbon emissions.⁵

¹ Agus Fuadi, "Inflasi Dan Nilai Tukar Rupiah Terhadap Indeks Saham Syariah Indonesia," *Jurnal Akuntansi Bisnis Pelita Bangsa* 5, no. 01 (2020): 1–12, <https://doi.org/10.37366/akubis.v5i01.102>.

² Tirsia Anisa Wartabone, Nilawaty Yusuf, and Nurharyati Panigoro, "Pengaruh Pengungkapan Sustainability Reporting Terhadap Kinerja Keuangan Perusahaan Yang Terdaftar Di Indeks Saham Syariah Indonesia Periode 2018-2021," *Jurnal Simki Economic* 6, no. 2 (2023): 430–40, <https://doi.org/10.29407/jse.v6i2.364>.

³ Tuti Alawiyah and Rozi Fery Setiyaningsih, "Analisis Syariah Online Trading System (SOTS) Atas Kinerja Indeks Saham Syariah Indonesia Selama Pandemi Covid-19 Di Pasar Modal" 7 (2020): 13–22.

⁴ Winarni, "Daftar Indeks IDX LQ45 Low Carbon Leaders Hingga 31 Januari 2023," DataIndonesia.id, 2022, <https://dataindonesia.id/pasar-saham/detail/daftar-indeks-idx-lq45-low-carbon-leaders-hingga-31-januari-2023>.

⁵ Sarnita Sadya, "Daftar Saham IDX LQ45 Low Carbon, Bobot BBCA & BBRI Tertinggi," DataIndonesia.id, 2023, <https://dataindonesia.id/pasar-saham/detail/daftar-saham-idx-lq45-low-carbon-bobot-bbca-bbri-tertinggi>.

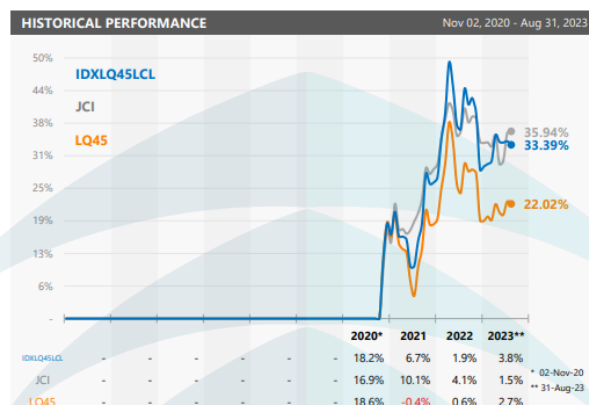


Figure Information 1. Historical Performance Chart of 3 (three) Stock Indices for the Period 2020-2023.

Source: Indonesia Stock Exchange IDXLQ45LCL 2023 Index Fact Sheet.

Based on the chart above, it shows that IDXLQ45LCL has a stronger performance compared to JCI and LQ45, especially since 2021, with an annualized performance of 6.7%. IDXLQ45LCL performed 33.39% of the stock performance analysis with an index value of 149,163 in August 2023. This indicates that the performance of this index is more stable and increases significantly compared to the other 2 (two) indices.⁶

IDX LQ45 Low Carbon Leaders is an index that aims to reduce the portfolio's weighted average carbon intensity by 50% compared to the parent LQ45 index, while maintaining the sectoral availability of the LQ45 index. It also excludes companies that produce coal.⁷ On its official website, the IDX states that the objective of the index is to reduce the intensity of the portfolio's carbon emissions exposure. The IDX states that investors who wish to use this index as a guide to achieve this goal.⁸

A portfolio is a capital market investment consisting of assets such as stocks and bonds. Reducing risk in investments can be done easily by investing in various investment instruments, known as an investment portfolio.⁹ Shares are

⁶ BEI, "IDX Index Fact Sheet IDXLQ45LCL," 2023, 2-4.

⁷ *Ibid.*

⁸ Winarni, "Daftar Indeks IDX LQ45 Low Carbon Leaders Hingga 31 Januari 2023."

⁹ Abdul Aziz, *Manajemen Investasi Syariah* (Bandung, 2010).

proof of ownership of a business and their owners, called shareholders or stockholders are one element of a portfolio.¹⁰

Paper securities known as shares signify that the owner of the paper is the owner of the business that issued the security. The stock price is the value of the stock which indicates the wealth of the company that issued it.¹¹ By buying a stock, one is actually buying a fraction of the ownership of the company.¹² It is crucial in management's knowledge to understand what drives price fluctuations if they want the stock price to remain stable. One strategy is to increase profitability and Price to Book Value (PBV), as these factors will increase the stock price if they continue to increase and stabilise.¹³

In the LQ45 Low Carbon Leaders Index, stocks with the highest carbon emissions intensity will be excluded from the index until the target to reduce carbon emissions intensity.¹⁴ Similarly, one of the consequences of the Kyoto Protocol is the expansion of carbon accounting, which requires companies to measure, record, present and disclose information about carbon.¹⁵ Disclosure about carbon emissions is one of the disclosures that can benefit investors.¹⁶

Companies can cooperate with Carbon Disclosure Projects (CDP) to find out the environmental impacts of their supply chain members, while investors can use Carbon Emissions Disclosure data to help them make decisions and risk management.¹⁷ It bridges the role of developed countries in developing various

¹⁰ Made Adnyana, *Manajemen Investasi Dan Portofolio*, 2020.

¹¹ Atqiya Haydar Luqman, "Analisis Himpunan Data Historis Untuk Mengidentifikasi Tren Dan Pola Dalam Pergerakan Harga Saham," 2024.

¹² Irawati Junaeni, "Pengaruh Indikator Keuangan Perusahaan Terhadap Harga Saham Dalam Kelompok Jakarta Islamic Indeks," *Owner* 4, no. 1 (2020): 216, <https://doi.org/10.33395/owner.v4i1.220>.

¹³ M R Hartono and I S Budhiarjo, "Pengaruh Return on Asset (Roa) Dan Price To Book Value (Pbv) Terhadap Harga Saham Pada Pt Holcim Indonesia Tbk (Pt Solusi ...," *Jurnal Ilmiah Swara ...* 1, no. 1 (2021): 45–63, <http://openjournal.unpam.ac.id/index.php/JISM/article/view/9589>.

¹⁴ BEI, "IDX Index Fact Sheet IDXLQ45LCL."

¹⁵ Rezka Krisna Wardhani and Warsito Kawedar, "Faktor-Faktor Yang Mempengaruhi Pengungkapan Emisi Karbon Dan Reaksi Saham Pada Perusahaan Manufaktur Di Indonesia," *Diponegoro Journal of Accounting* 8, no. 2 (2019): 1–11, <http://ejournal-s1.undip.ac.id/index.php/accounting>.

¹⁶ *Ibid.*

¹⁷ Alice Gomstyn and Alexandra Jonker, "Apa Itu Proyek Pengungkapan Karbon (CDP)?," IBM, 2024, <https://www.ibm.com/id-id/topics/carbon-disclosure-project>.

sectors to reduce emissions and increase carbon emission absorption through investment.¹⁸

Regarding the issue of carbon emissions, Indonesia is the largest contributor to greenhouse gas emissions in the world. This is evidenced by the increase in CO₂ concentration by 1.94 ppm from June 2004 at 371.7 ppm per year to 938.8 ppm per year in 2018.¹⁹ This is evidenced by the increase in CO₂ concentration by 1.94 ppm from June 2004 at 371.7 ppm per year to 938.8 ppm per year in 2018. Indonesia is trying to establish a carbon pricing policy, and succeeded in reducing emissions by 573.95 million tons of CO₂ per year in 2021. Indonesia is also dedicated to achieving net zero emissions by 2060.²⁰

As a developing nation, Indonesia is required to contribute to the United Nations Framework Convention on Climate Change (UNFCCC) by lowering its emissions.²¹ Climate change is one of the environmental issues that institutional investors are increasingly interested in.²² The impact of climate change on company performance can be lessened by initiatives pertaining to environmental performance and climate change transparency.²³ Investors benefit from increased climate change disclosure because it eliminates doubt about a potentially significant source of risk.²⁴

¹⁸ Wardhani and Kawedar, "Faktor-Faktor Yang Mempengaruhi Pengungkapan Emisi Karbon Dan Reaksi Saham Pada Perusahaan Manufaktur Di Indonesia."

¹⁹ Shanti Shanti and Tamara Gilberta De Floresta Pello, "Pengaruh Pengungkapan Climate Change Dan Kinerja Lingkungan Terhadap Kinerja Perusahaan," *Jurnal Rimba: Riset Ilmu Manajemen Bisnis Dan Akuntansi* 2, no. 1 (2024): 134–45, <https://doi.org/10.61132/rimba.v2i1.663>.

²⁰ Alvin Muhammad 'Ainul Yaqin et al., "Kajian Emisi Karbon: Faktor Pendorong Dan Peramalan Emisi Karbon Di Indonesia Dengan Metode SEM-RF," Lembaga Penelitian dan Pengabdian Kepada Masyarakat Institusi Teknologi Kalimantan, 2023, <https://lppm.itk.ac.id/detail-hasil-penelitian/kajian-emisi-karbon-faktor-pendorong-dan-peramalan-emisi-karbon-di-indonesia-dengan-metode-sem-rf>.

²¹ Wardhani and Kawedar, "Faktor-Faktor Yang Mempengaruhi Pengungkapan Emisi Karbon Dan Reaksi Saham Pada Perusahaan Manufaktur Di Indonesia."

²² Shanti and Pello, "Pengaruh Pengungkapan Climate Change Dan Kinerja Lingkungan Terhadap Kinerja Perusahaan."s

²³ Sudipta Bose et al., "Do Foreign Institutional Investors Influence Corporate Climate Change Disclosure Quality? International Evidence," *Corporate Governance: An International Review*, no. August 2022 (2023): 1–26, <https://doi.org/10.1111/corg.12535>.

²⁴ Roberto Vestrelli, Andrea Fronzetti Colladon, and Anna Laura Pisello, "When Attention to Climate Change Matters: The Impact of Climate Risk Disclosure on Firm Market Value," *Energy Policy* 185, no. 33 (2024): 113938, <https://doi.org/10.1016/j.enpol.2023.113938>.

The effects of climate change are not one-way, therefore it's critical to comprehend how managers and companies view them.²⁵ Climate change disclosures, also known as climate change-related corporate risk and opportunity disclosures, are required by capital markets and are currently being expanded. The rise of ESG (Environmental, Social and Governance) investing has driven efforts to develop a framework for climate change disclosure.²⁶

Even though ESG factors are becoming more and more important when making investing decisions, there is still disagreement over how they affect stock prices and investment performance.²⁷ Investor interest in companies that implement and/or disclose ESG aspects to improve financial performance through the establishment of a good public reputation.²⁸

Increasingly, business organizations are starting to publicly disclose their ESG efforts in their annual reports.²⁹ Additionally, it frequently publishes environmental, social, and governance (ESG) or corporate social responsibility (CSR) reports.³⁰ Through Law Number 40 of 2007 concerning Limited Liability Companies, the government engages in a call to action for business actors. The Financial Services Authority Regulation Number 51/Pojk.03/2017, specifically

²⁵ Hail Jung and Chang Keun Song, "Managerial Perspectives on Climate Change and Stock Price Crash Risk," *Finance Research Letters* 51, no. October 2022 (2023): 103410, <https://doi.org/10.1016/j.frl.2022.103410>.

²⁶ Kentaro Azuma and Akira Higashida, "Climate Change Disclosure and Evolving Institutional Investor Salience: Roles of the Principles for Responsible Investment," *Business Strategy and the Environment*, no. September 2023 (2024): 1–18, <https://doi.org/10.1002/bse.3649>.

²⁷ Abhinandan Kulal et al., "Impact of Environmental, Social, and Governance (ESG) Factors on Stock Prices and Investment Performance," *Macro Management & Public Policies* 5, no. 2 (2023): 14–26, <https://doi.org/10.30564/mmpp.v5i2.5659>.

²⁸ Andi Ghazali and Zulmaita, "Pengaruh Pengungkapan Environmental, Social, and Governance (ESG) Terhadap Tingkat Profitabilitas Perusahaan (Studi Empiris Pada Perusahaan Sektor Infrastruktur Yang Terdaftar Di Bursa Efek Indonesia)," *Prosiding SNAM PNJ*, 2020, 1–13.

²⁹ Egi Arvian Firmansyah, Umar Habibu Umar, and Rabiuh Saminu Jibril, "Investigating the Effect of ESG Disclosure on Firm Performance: The Case of Saudi Arabian Listed Firms," *Cogent Economics and Finance* 11, no. 2 (2023), <https://doi.org/10.1080/23322039.2023.2287923>.

³⁰ Faek Menla Ali, Yuanyuan Wu, and Xiaoxiang Zhang, "ESG Disclosure, CEO Power and Incentives and Corporate Risk-Taking," *European Financial Management*, 2023, <https://doi.org/10.1111/eufm.12447>.

in article 10, explains that public companies must prepare a sustainability report.³¹

According to Roestanto, ESG is a non-financial metric that includes corporate governance and social sustainability capabilities. A company's efforts to defend excessive spending in ESG initiatives is known as ESG.³²

In connection with this, according to empirical data research by Adhi and Cahyonowati which shows that ESG disclosure evaluated by ESG disclosure score increases firm value determined by market-to-book ratio in percentage form.³³ similar to Hasna et al.'s findings.³⁴ These findings suggest that firm value is positively influenced by environmental, social, and governance transparency.³⁵

Roestanto asserts that one factor that may have an impact on business value is Environmental Social Governance (ESG). ESG is a non-monetary metric that takes into account corporate governance skills and social sustainability.³⁶

On the other hand, an analysis of carbon emission disclosure by Rusmana et al. found that in partial test findings, business value increased significantly with carbon emission disclosure. According to the analysis, the more carbon emission items published by the company, the higher the value.³⁷ In the research on the variable of Climate Change Disclosure by Pratama et al., this study

³¹ Hilmy Muhammad Hartono and Agustinus Santosa Adiwibowo, "Pengaruh Pengungkapan ESG Terhadap Kinerja Perusahaan (Studi Empiris Pasa Perusahaan Manufaktur Yang Terdaftar Di BEI Tahun 2016-2021)," *Diponegoro Journal Of Accounting* 12, no. 4 (2023): 1–14.

³² Ryan Edriansyah Adhi and Nur Cahyonowati, "Pengaruh Environmental, Social, and Governance Disclosure Terhadap Nilai Perusahaan Dengan Ukuran Perusahaan Sebagai Variabel Moderasi (Studi Empiris Perusahaan Non-K keuangan Di Bursa Efek Indonesia Tahun 2019-2021)," *Diponegoro Journal of Accounting* 12, no. 3 (2023): 1–12.

³³ Adhi and Cahyonowati.

³⁴ Hasna Shafira and Christina Dwi Astuti, "ESG Disclosure Dan Dewan Komisaris Independen Terhadap Nilai Perusahaan Dengan Kualitas Audit Sebagai Variabel Moderasi" 6, no. April (2024): 664–76.

³⁵ Shafira and Astuti.

³⁶ Adhi and Cahyonowati, "Pengaruh Environmental, Social, and Governance Disclosure Terhadap Nilai Perusahaan Dengan Ukuran Perusahaan Sebagai Variabel Moderasi (Studi Empiris Perusahaan Non-K keuangan Di Bursa Efek Indonesia Tahun 2019-2021)."

³⁷ Oman Rusmana and Si Made Ngurah Purnaman, "Pengaruh Pengungkapan Emisi Karbon Dan Kinerja Lingkungan Terhadap Nilai Perusahaan," *Jurnal Ekonomi, Bisnis Dan Akuntansi (JEBA)* 22, no. 1 (2020): 42–52, <http://www.jp.feb.unsoed.ac.id/index.php/jeba/article/viewFile/1563/1577>.

resulted in the influence of Climate Change Disclosure on Company Value, as shown by the t-test.³⁸

No research has yet examined the factors that influence the stock price of Low Carbon Leaders companies, as the Low Carbon Leaders Index itself was only launched on 11 November 2022 and 31 January 2023. Despite the fact that many researchers have examined the impact of disclosure of carbon emissions, climate change, and environmental social governance (ESG) on stock prices or company value. This study also uses a different sample from previous studies, the sample used in this study is a sharia company listed on the Indonesian Sharia Stock Index (ISSI) which has different characteristics from global or conventional companies

Given that the Indonesian Sharia Stock Index LQ45 Low Carbon Leaders is a sharia product that not only fulfils legal requirements (provisions in Islam) but also takes responsibility for the environmental impact of carbon emissions or climate change. Disclosure of climate change and carbon emissions together is a hot topic right now and adds a new level of cohesion to the fight for environmental responsibility and sustainability.

Which current conditions are relevant to the phenomenon under study such as disclosure of climate change and carbon emissions which are simultaneously a hot topic today and increase the level of cohesiveness in fighting for environmental responsibility and sustainability. This study uses data from 2022-2023, a period where ESG trends are increasing, so market conditions are different from the previous research period, so this is a serious research gap.

In addition, the Carbon Disclosure Project (CDP) framework for reporting environmental information is one of several major ESG reporting frameworks and global disclosure systems. This indicator in the form of carbon emission disclosure standards encourages social responsibility (CSR) so that environmental performance will improve. Meanwhile, the use of the CDSB (Climate Disclosure Standard Board) framework, a new standard developed by

³⁸ Heri Pratama and Rita Wijayanti, "Pengungkapan Perubahan Iklim : Faktor Penentu Dan Konsekuensinya Terhadap Nilai Perusahaan," *E-Qien* 10, no. 1 (2022): 472–78.

the Task Force on Climate-Related Financial Disclosure (TCFD), is used as a research indicator of climate change disclosure that includes aspects of environmental sustainability and efficiency in addressing environmental impacts. Thus, this study will contribute to the understanding of how Low Carbon Leaders incorporate these factors and how they affect the company's stock price.

This study may offer fresh perspectives on how ISSI-listed Low Carbon Leaders companies can maximize their governance, social, and environmental obligations by examining the connection between carbon emissions disclosure practices, climate change disclosure, and environmental social governance (ESG). The study's findings can help the public, industry professionals, and regulators create environmentally friendly business plans that comply with the low carbon leaders company index regulation's requirements.

B. Research Questions

Given the given background information, the following issues with the research may be identified:

1. Does Carbon Emissions Disclosure (CED) affect on the Stock Price of Low Carbon Leaders listed on the Indonesian Sharia Stock Index?
2. Does Climate Change Disclosure (CCD) affect on the Stock Price of Low Carbon Leaders listed on the Indonesia Sharia Stock Index?
3. Does Environmental Social Governance (ESG) affect on the Stock Price of Low Carbon Leaders listed on the Indonesian Sharia Stock Index?
4. Does Carbon Emissions Disclosure, Climate Change Disclosure, and Environmental Social Governance affect on the Stock Price of Low Carbon Leaders listed on the Indonesian Sharia Stock Index?

C. Research Objectives

The objectives to be achieved by this researcher are:

1. To analyze the effect of Carbon Emissions Disclosure on the Stock Price of Low Carbon Leaders Companies listed on the Indonesian Sharia Stock Index.

2. To analyze the effect of Climate Change Disclosure on the Stock Price of Low Carbon Leaders Companies listed on the Indonesian Sharia Stock Index.
3. To analyze the effect of Environmental Social Governance (ESG) on the Stock Price of Low Carbon Leaders listed on the Indonesian Sharia Stock Index.
4. To analyze the effect of Carbon Emissions Disclosure, Climate Change Disclosure, and Environmental Social Governance on the Stock Price of Low Carbon Leaders listed on the Indonesian Sharia Stock Index.

D. Research Benefits

The following parties are anticipated to gain from the study's findings:

1. Theoretical Benefits

For scholars and future researchers interested in the advancement of financial management science, particularly in relation to Carbon Emissions Disclosure, Climate Change Disclosure, Environmental Social Governance (ESG), and Stock Price, this study is anticipated to provide additional references, data, and information.

2. Practical Benefits

Company

In the future, the stock price of Low Carbon Leaders companies in ISSI is anticipated to benefit from the results of this study, which are anticipated to be one of the evaluation materials and sources of company information in the implementation and improvement of the quality of Carbon Emissions Disclosure, Climate Change Disclosure, and Environmental Social Governance (ESG).