The Effect of Environmental Performance, ESG Disclosure, and ISO 14001 on Stock Prices of Food and Beverage Companies Listed on the Indonesia Stock Exchange

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Abstract. In the modern business world, sustainability issues are increasingly becoming a major concern as consumers and investors become more aware of corporate environmental responsibilities. Companies in the food and beverage sub-sector have an important role to play in implementing sustainable practices because their production activities have the potential to cause a high environmental impact. In this context, sustainability practices are expected to increase a company's legitimacy and market value. This study aims to analyze and examine the effect of sustainability practices such as environmental performance, ESG disclosure, and ISO 14001 certification on stock prices in food and beverage companies listed on the Indonesia Stock Exchange and participating in PROPER for the 2022–2024 period. Environmental performance is measured based on PROPER ratings, ESG disclosure uses the Global Reporting Initiative standards-based index, and ISO 14001 is based on the certification ownership. This study uses a quantitative approach and is analyzed using the random effect model of panel data regression. The results show that environmental performance has an insignificant effect on stock prices, ESG disclosure has a significant effect, while ISO 14001 has an insignificant effect. These findings indicate that the capital market responds more positively to transparency in sustainability disclosure (ESG) than to formal indicators such as PROPER and ISO 14001.

Keywords: sustainability, environmental performance, ESG disclosure, ISO 14001, stock price, and legitimacy

1 Introduction

Sustainability is an approach that integrates economic, social, and environmental aspects in a balanced and long-term manner to ensure responsible corporate practices that benefit both current and future stakeholders [1]. With the growing global awareness of responsible and transparent sustainable practices, consumers and investors increasingly expect companies to adopt them, as these factors now directly influence corporate reputation, competitiveness, and market trust [2]. A clear sign supporting this trend appeared in 2023, when NielsenIQ reported that Indonesia has the highest

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W. Sari et al. (eds.), *Proceedings of the 5th Mulawarman International Conference on Economics and Business (MICEB 2025)*, Advances in Economics, Business and Management Research 406,
https://doi.org/10.2991/978-94-6239-815-3_25

proportion of consumers (86%) in the Asia-Pacific region who prioritize sustainability far more now than two years ago [3].

Despite the increasing pressure, companies in emerging markets still face challenges in meeting environmental regulations. However, firms that adopt higher compliance standards may obtain competitive advantages [4]. This issue is particularly relevant in Indonesia's food and beverage sector, which contributes significantly to environmental impacts. Food waste alone accounted for 41% of the country's 13.68 million tons of national waste in 2023, emphasizing the sector's need for improved sustainability performance [5]. Recent market cases in the food and beverage sector illustrate differing responses to these issues. PT Indofood Sukses Makmur Tbk. experienced an increase in stock price after enhancing its sustainability programs [6,7], while PT Nippon Indosari Corpindo Tbk. received ESG recognition yet saw a decline in their stock price during the same period [8,7]. These inconsistencies highlight the importance of examining what actually drives firm value in the eyes of investors.

Empirical evidence on this matter remains mixed. In Indonesia, environmental performance in Indonesia is often assessed through the Company Performance Rating Program (PROPER), administered by the Ministry of Environment and Forestry (KLHK). As regulated in Ministerial Regulations No. 3/2014 which was later updated to No. 1/2021, PROPER assigns color-coded ratings (from gold to black) to evaluate corporate environmental responsibility [9]. Beyond serving as a monitoring tool, PROPER encourages companies to enhance their environmental responsibility sustainably. Given the growing public concern for environmental issues, analyzing environmental performance through PROPER is essential to understanding its contribution to firm value and competitiveness. So far, studies on environmental performance measured through the PROPER program show both significant and insignificant relationships with stock prices across industries [10,11].

Regulatory responses to sustainability concerns have also intensified. Indonesia's Financial Services Authority (OJK) issued Regulation No. 51/POJK.03/2017, which effectively mandated financial institutions, issuers, and public companies to produce sustainability reports covering environmental, social, and governance (ESG) aspects [12]. Internationally, standards like the IFRS S1 and S2 and the Global Reporting Initiative (GRI) promote integrated sustainability disclosures that include strategies, risk management, and performance metrics. Yet, studies on ESG disclosure similarly reports inconsistent effects on financial and market performance [13,14].

Another component that represents corporate sustainability efforts is the adoption of environmental management systems, particularly ISO 14001. ISO 14001 is part of the ISO 14000 family and provides internationally recognized standards for environmental management systems [15]. These standards support companies in minimizing negative environmental impacts, complying with regulations, and enhancing operational sustainability [16]. However, much like PROPER and ESG, findings on ISO 14001 adoption also vary, with some studies noting significant positive impacts [17] and others finding no significant effect [18].

Given these inconsistencies and the limited research focusing on food and beverage companies, which is an industry with high environmental exposure, it is

important to further investigate how different sustainability dimensions affect firm value. Therefore, this study examines the effect of environmental performance, ESG disclosure, and ISO 14001 on stock prices of food and beverage companies listed on the Indonesia Stock Exchange.

2 Literature Review

2.1 Legitimacy Theory and Stock Prices

Legitimacy theory argues that organizations seek alignment between their activities and the norms accepted within the broader social system to ensure that their operations are perceived as appropriate and acceptable [19]. To maintain this legitimacy, firms may adapt their goals and operations to societal expectations, influence public perceptions through communication, or associate themselves with symbols and institutions that already possess strong legitimacy [19]. This framework is particularly valuable for explaining corporate strategies aimed at demonstrating accountability and can be empirically examined [20].

As societal expectations have evolved, legitimacy has expanded beyond economic performance to include environmental and social responsibilities. Companies are increasingly expected to manage environmental impacts, engage in community development, and adopt transparent sustainability practices, all of which strengthen stakeholder trust and enhance legitimacy [21,22]. Studies consistently suggest that transparency and responsible behavior contribute to stronger stakeholder support, public acceptance, and long-term corporate reputation [23]. Thus, the pursuit of legitimacy provides a strong incentive for companies to adopt and disclose sustainability-related initiatives.

Stock prices, on the other hand, are the representation of the market value of a company and reflect investor perceptions of firm performance. Because stocks offer high return potential alongside substantial risk, stock prices fluctuate according to supply and demand dynamics, market sentiment, and assessments of company performance [24,25,26]. Generally, firms with strong operational performance generally attract more investors, resulting in higher stock prices, while weak performance can diminish investor interest and depress prices [10]. Investors primarily gain returns through dividends and capital gains arising from price appreciation [27].

Legitimacy theory provides an important lens for understanding stock price behavior. When a firm demonstrates alignment with societal norms, through environmental responsibility, social initiatives, or transparent governance, it becomes more "trustworthy" and sustainable in the eyes of the market. This enhanced legitimacy can increase investor confidence, strengthen market perception, and ultimately contribute to higher stock prices. Conversely, weak legitimacy or poor alignment with societal expectations may reduce investor trust and negatively affect market valuation [28]. Therefore, as firms reinforce legitimacy through responsible practices, the capital market may respond positively, reflecting the firm’s strengthened position in the eyes of investors.

2.2 Environmental Performance

Environmental performance is a key dimension of corporate sustainability, encompassing policies, practices, and initiatives related to environmental stewardship and social responsibility [29]. Environmental performance is often viewed as an organizational configuration that reflects principles of social responsibility, responsive processes, policies, programs, and observable outcomes associated with a firm's interaction with the environment [30].

In the Indonesian context, environmental performance is formally evaluated through the PROPER program. PROPER categorizes companies into Gold, Green, Blue, Red, and Black based on regulatory compliance and beyond-compliance initiatives. Compliance assessments cover technical aspects such as pollution control, waste management, and fulfillment of environmental permits, whereas beyond-compliance indicators include environmental management systems, energy and water efficiency, 3R (reduce, reuse, recycle) practices, biodiversity protection, and community empowerment [9].

This program provides a clear, measurable way mechanism to assess corporate environmental accountability and encourages firms to improve their environmental practices. Theoretically, better environmental performance enhances sustainability initiatives and may influence market outcomes, including favorable stock price movements [10]. From a legitimacy perspective, companies demonstrating strong environmental commitments are more likely to gain stakeholder trust and societal approval, thereby strengthening legitimacy and potentially increasing firm value. However, empirical findings on the relationship between environmental performance and stock prices are mixed. Studies reported that environmental performance positively affects stock prices [31,10], while some found a significant positive relationship only with firm's financial performance [18]. Based on this evidence, the study hypothesize:

H1: Environmental performance has a positive and significant effect on stock prices.

2.3 ESG Disclosure

ESG disclosure represents a framework through which companies communicate their environmental, social, and governance performance through sustainability or annual reports. ESG integrates three pillars: environmental efforts to mitigate operational impacts [32], social responsibilities related to stakeholder relationships [33], and governance mechanisms that ensure transparency, accountability, and investor protection [34].

International standards such as the Global Reporting Initiative (GRI) provide a structured framework for ESG reporting. The GRI Standards enable organizations to disclose material economic, environmental, and social impacts, improving transparency and accountability [35]. Other frameworks including IFRS Sustainability Standards, SASB, and TCFD further support growing global significance in sustainability reporting practices.

Comprehensive ESG disclosure is perceived by investors as a proxy for strong sustainability performance, effective risk management, and long-term corporate viability [34]. Higher levels of transparency tend to increase investor interest and market demand, which may drive stock prices upward [32]. Conversely, low or poor-quality ESG disclosure can create uncertainty and erode investor confidence [36]. From a legitimacy perspective, ESG disclosure functions as a communication strategy through which companies demonstrate alignment with societal expectations. Transparent disclosure strengthens stakeholder trust and reflects adherence to social norms, thereby enhancing legitimacy and potentially improving firm value.

Empirical findings on its impact, however, show mixed effects of ESG disclosure on stock prices, with some finding a significant positive effect [25], others observing that strong ESG performance reduces stock price volatility [36], and further study reporting that the impact varies across sectors [13]. Based on this evidence, the study hypothesize:

H2: ESG disclosure has a positive and significant effect on stock prices.

2.4 ISO 14001

Environmental management systems (EMS) are structured mechanisms that help companies manage environmental footprint through documentation, coordination, monitoring, stakeholder engagement, training, and certification [4]. The ISO 14000 series, introduced in 1996, provides internationally recognized voluntary standards for EMS, with ISO 14001 being the most widely adopted [16].

ISO 14001 is built on the Plan–Do–Check–Act cycle, requiring firms to plan environmental policies, implement operational controls, monitor performance, and ensure continual improvement [37]. Having this certification tells that a company's environmental management system complies with international benchmark and provides assurance regarding environmental risk reduction and operational efficiency [18].

Firms without a proper environmental management face risks such as sanctions, legal disputes, and reputational loss. Conversely, ISO 14001 can reduce operational risks, improve resource efficiency, and support long-term competitiveness [4]. Under legitimacy theory, ISO 14001 acts as a strategic tool for meeting societal expectations on sustainability and strengthens corporate legitimacy by demonstrating adherence to recognized environmental standards. However, empirical studies show varying effects of this certification on corporate performance, with findings indicating a significant positive influence on stock prices and financial performance [17], while other studies observe that its adoption enhances financial outcomes, which may subsequently affect market valuation [15,38]. Based on this evidence, the study hypothesize:

H3: ISO 14001 has a positive and significant effect on stock prices.

2.5 Conceptual Framework

Based on legitimacy theory, companies will strive to obtain legitimacy from society in order to maintain their existence, validation, and sustainability. To obtain this legitimacy, one way is through the implementation of sustainability practices. This study focuses on three key mechanisms through which firms may pursue legitimacy: environmental performance, ESG disclosure, and ISO 14001 certification. Environmental performance reflects firms' compliance with environmental standards and management of environmental impacts; ESG disclosure represents transparency in communicating sustainability-related information; and ISO 14001 adoption indicates the implementation of a formal environmental management system.

These sustainability practices are expected to enhance corporate legitimacy and strengthen stakeholder and investor confidence. As legitimacy increases, firms may experience more favorable market perceptions, which can be reflected in higher stock prices. Figure 1 illustrates the conceptual framework of the study.

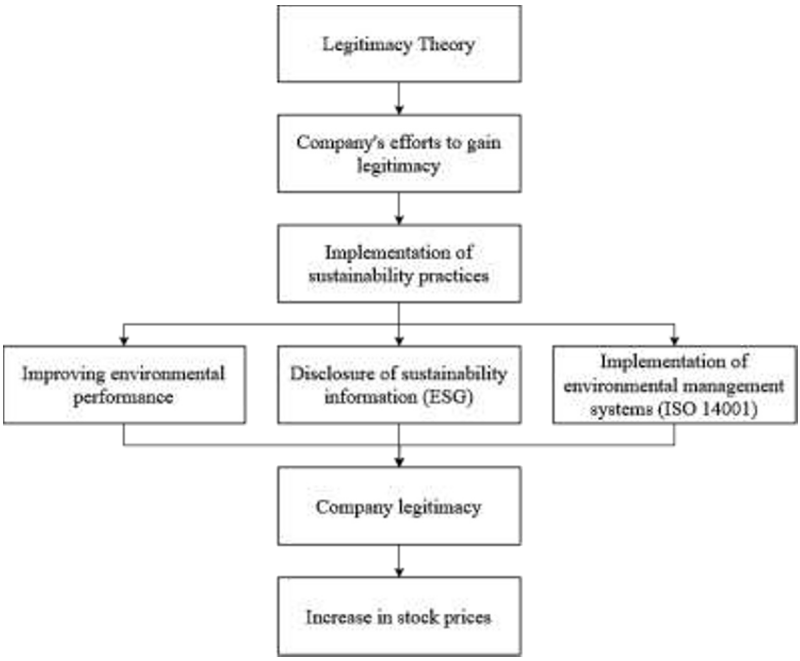


Fig. 1. Conceptual framework

3 Methodology

3.1 Research Design

This study uses a quantitative approach, using panel data to examine the effect of environmental performance, ESG disclosure, and ISO 14001 certification on stock prices. The analysis focuses firms in the food and beverage subsector listed on the

Indonesia Stock Exchange (IDX) and participating in the PROPER environmental assessment program during 2022–2024. Panel regression models are used to capture both cross-sectional and time-series characteristics of the data.

3.2 Data Description

The final sample consists of 18 food and beverage companies, providing 54 firm-year observations over the 2022–2024 period. A purposive sampling technique was employed based on the following criteria:

1. Firms are listed on the IDX within the food and beverage subsector.
2. Firms are included in the PROPER program consistently throughout all years of the observation period.
3. Firms published a sustainability report for each year of the observation period.

The secondary data were collected through official sources, including IDX (www.idx.co.id), stocks database (Investing.com), company websites, and the Ministry of Environment and Forestry's PROPER database. The data include year-end closing stock prices, PROPER's environmental performance ratings, ESG disclosure indicators, sustainability reports, and ISO 14001 certification information.

3.3 Variables and Measurement

Consistent with prior studies, stock price is measured using the year-end closing price [10,25]. Closing price provides a stable and is a widely accepted indicator of market valuation. Environmental performance is proxied by the PROPER rating, which classifies firms into five categories (Gold, Green, Blue, Red, Black). Following prior studies, each category is transformed into an ordinal score ranging from 5 to 1 [18]. For firms with multiple operating units and ratings, the final score is represented through the average PROPER rating. Following previous studies, ESG disclosure is measured using a GRI-based index. This index is calculated as the ratio of a company's disclosed ESG items to the total 80 disclosure items outlined in the GRI 2021 standards. ISO 14001 is treated as a dummy variable, where 1 indicates that the firm holds ISO 14001 certification in a given year, and 0 otherwise [18]. Table 1 summarizes the operationalization of all research variables.

Table 1. Operationalization of research variables

Variable Types	Research Variable	Variable Code	Operationalization
Dependent variable	Stock price	SP	Year-end closing price
Independent variable	Environmental performance	EP	Gold – 5 Green – 4 Blue – 3 Red – 2

		Black – 1
ESG disclosure	ESG	Ratio of the total disclosed ESG indicators to the total number of GRI 2021 indicators
ISO 14001	ISO	ISO 14001 certified – 1 Non-ISO 14001 certified – 0

3.4 Data Analysis Method

The study applies descriptive statistics and panel data regression analysis using EViews 12. The general regression model estimated is:

$$SP_{it} = \beta_0 + \beta_1 . EP_{it} + \beta_2 . ESG_{it} + \beta_3 . ISO_{it} + e_{it} \quad (1)$$

Model estimation considers three alternative specifications: common effect model, fixed effect model, and random effect model. The most appropriate model is selected based on the Chow test, Hausman test, and Lagrange Multiplier test.

To ensure model validity, standard diagnostic tests for panel data (normality, multicollinearity, heteroscedasticity, and autocorrelation) are conducted, followed by the F-test, coefficient of determination (R^2), and t-test to assess model significance and explanatory power.

4 Results

4.1 Descriptive Statistics

Table 2 lists the sample mean, median, maximum, minimum, and standard deviation value of each research variable.

Table 2. Descriptive statistics

Variable	Mean	Median	Maximum	Minimum	Std. Dev.
SP	3276.3	1537.5	13625	83.000	3717.2
EP	2.9106	3.0000	3.0435	2.0000	0.2621
ESG	0.3139	0.2188	0.8375	0.0000	0.3099
ISO	0.5185	1.0000	1.0000	0.0000	0.5044

The closing stock price (SP) shows substantial variation (mean = 3,276; SD = 3,717), with a right-skewed distribution due to several high-value observations. Environmental performance (EP), measured using PROPER scores, has a relatively narrow distribution (mean = 2.91; SD = 0.26), with most firms clustered around the blue and green ratings. ESG disclosure remains low on average and varies considerably across firms (mean = 0.31; SD = 0.31). Meanwhile, ISO 14001 certification is held by 52% of the sample firms.

Given the strong right-skewness of stock prices, a log-transformation was applied to stabilize variance and improve interpretability. Environmental performanc was not transformed due to its limited variation and lack of improvement after testing. Thus, the analysis uses a log-linear (semi-log) specification in which the dependent variable is expressed in logarithmic form. Consequently, the coefficient of an independent variable can be interpreted as the percentage change in the dependent variable for a one-unit increase in that independent variable.

4.2 Model Selection and Classical Assumption Tests

Model specification tests indicate that the random effect model is the most appropriate. The Chow test favors the fixed effect model; however, the Hausman test ($p = 0.0631$) supports the random effect model. The Lagrange Multiplier test confirms the random effect model as the best model ($p < 0.001$). These results show that the random component variance (error component variance) is significant, indicating that the individual effects of companies do exist and need to be modeled.

Classical assumption tests show that the model satisfies the normality assumption ($p = 0.3131$), does not exhibit multicollinearity (all correlations < 0.80), shows no heteroskedasticity based on the Glejser test ($p > 0.05$), and does not indicate problematic autocorrelation according to the Durbin–Watson statistic ($d = 1.658$).

4.3 Regression Analysis

Table 3 shows the weighted statistics of the model regression, which includes the coefficient of determination (R^2) and F-test results.

Table 3. Weighted statistics of model regression

R-Squared	Adjusted R-Squared	F-Statistic	Probability (F)
0.1075	0.0539	2.0067	0.1250

The random effect model yields an R^2 of 0.1075, indicating that the independent variables collectively only explain 10.75% of variation in stock prices. The F-test suggests that the model does not significantly explain stock price variation at the 5% significance level ($p = 0.125$). Table 4 shows the full regression results of the independent samples.

Table 4. Results of the independent samples t-test

Variable	Coefficient	Std. Error	t-Statistic	Probability
C (Constant)	7.0175	0.4586	15.302	0.000
EP	-0.0174	0.1160	-0.1497	0.882
ESG	0.6292	0.2477	2.5406	0.014
ISO	0.2280	0.1354	1.6838	0.099

*Dependent variable: SP

Environmental performance (EP) shows a coefficient value of -0.0174, which indicates that a one-point increase in environmental performance based on the PROPER assessment will decrease the share price by 1.74%. However, with a significance level of 5% ($\alpha = 0.05$) and a p-value of 0.882, this effect is not statistically significant. ESG disclosure (ESG) shows a coefficient value of 0.6292, which indicates that a one-point increase in ESG disclosure (1 = 100% = perfect score) will increase the stock price by 62.92%. With a p-value of 0.014, this effect is statistically significant. ISO 14001 (ISO) shows a coefficient value of 0.2280, which indicates that companies with certification will increase their stock price by 22.80%. However, with a p-value of 0.099, this effect is not statistically significant.

Environmental Performance and Stock Prices. Environmental performance shows a negative but insignificant effect on stock prices. Therefore, H1 is rejected. This aligns with findings from prior studies [11], suggesting that within Indonesia's industrial sectors, investors may not perceive PROPER ratings as financially value-relevant. The limited variation in PROPER ratings (dominated by the blue category) reduces their discriminatory power in differentiating firm value. From a legitimacy theory perspective, the absence of a significant market response implies that compliance-oriented indicators, particularly government-issued ratings, may not be strongly valued by capital market participants. Moreover, investors may view PROPER as a symbolic form of legitimacy, emphasizing administrative compliance rather than a comprehensive measure of environmental responsibility [39].

ESG Disclosure and Stock Prices. ESG disclosure demonstrates a positive and statistically significant effect on stock prices. Therefore, H2 is accepted. This finding is consistent with prior studies [13,25,36]. In emerging markets such as Indonesia, where information asymmetry remains relatively high, the market appears to value transparent sustainability reporting, perceiving it as a sign of better governance, reduced risk, and a substantive form of legitimacy, rather than symbolic. Under legitimacy theory, the disclosure of comprehensive ESG information strengthens stakeholder trust and enhances firms' social legitimacy, which in turn contributes to higher market valuation [13].

ISO 14001 and Stock Prices. ISO 14001 certification exhibits a positive but insignificant effect on stock prices. Therefore, H3 is rejected. Similar to findings from prior studies [18], in the Indonesian context, these findings suggest that certification alone may not be sufficient to influence investor perception. The benefits of ISO 14001, such as operational efficiency and environmental risk reduction, may require a longer time horizon to be reflected in market outcomes [40]. In line with legitimacy theory, ISO 14001 may be perceived as a form of symbolic legitimacy, representing formal compliance mechanism rather than a strong indicator of real environmental performance improvements, particularly in sectors where such certification has become relatively common [41].

5 Conclusion

This study examines the effect of environmental performance (PROPER), ESG disclosure, and ISO 14001 certification on stock prices of food and beverage companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Using panel data regression with the random effect model, the findings show that environmental performance has no significant effect on stock prices, ESG disclosure has a significant positive effect, and ISO 14001 certification has a positive but insignificant effect. Overall, the results provide empirical evidence that substantive legitimacy derived from detailed disclosure-based sustainability practices or its transparency are more strongly valued by the capital market than symbolic legitimacy associated with compliance-based or certification-based formal indicators within the Indonesian food and beverage companies.

This study has several limitations. The relatively low variation in PROPER scores may limit the ability to detect their effect on stock prices, and the focus on the food and beverage subsector limits the generalizability of the results. In addition, the GRI-based checklist approach may not fully capture the quality or materiality of ESG disclosures, and the three-year observation period may be insufficient to observe long-term market responses to sustainability initiatives. These limitations provide opportunities for future research, including expanding the sample across multiple sectors or extending the observation window, employing alternative or qualitative ESG ratings to capture disclosure quality, incorporating moderating variables such as firm size or profitability, and examining lagged or non-linear effects to better capture the long-term financial implications of sustainability practices.

The findings offer practical implications for managers, suggesting that enhancing ESG disclosure quality may strengthen investor confidence, while regulators may consider strengthening the value relevance of environmental assessments such as PROPER. The results also reinforce legitimacy theory by demonstrating that investors in emerging markets respond more favorably to substantive transparency-based sustainability than to compliance-oriented sustainability mechanisms.

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