5.1 Conclusion

The research objective is to analyze the relationship of climate change performance index to firm performance of firms listed in the Indonesian stock exchange and Bursa Malaysia. A total of 55 firms are used as a sample from 2017 to 2021 using a lagged environmental score and ESG score from 2016 to 2020 excluding financial institutions. The purpose of a lagged variable is to assess the effect of the prior year’s independent variable on the current year’s dependent variable. Other variables such as the climate change performance index are used as a moderating variable, which is used to enhance the effect of the environmental score. Other variables such as firm size, leverage, and firm age are used as control variables. These variables are tested on return on equity which acts as the dependent variable for firm performance. The results are obtained using multiple regression with random-effect panel data as the main analysis and conducted a robustness test by adding industry as a moderating variable. The INDMFG and INDAGC are dummy moderating variables translating 1 as companies in manufacturing and agriculture that are most likely to affect the environment and 0 as companies in manufacturing and agriculture that are least likely to affect the environment.

Several conclusions have been made from the result of the research analysis. In the case of an emerging country, the environmental score has a positive insignificant relationship to ROE, while CCPI has a negative insignificant relationship to ROE. When CCPI moderates the effect of the environmental score, the effect is enhanced but it changed from being positively insignificant to negatively insignificant. The result for ESG Score to firm performance is a negative significant relationship, but it is positively insignificant when moderated by CCPI. The result for firm size is as expected to have a positive relationship to ROE although insignificant. Leverage has also given a concrete
result of having a negatively significant relationship to ROE. Meanwhile, firm age has a negatively insignificant relationship to ROE. When the industry is added into the equation, the relationship remains similar with mixed results insignificance. E-Score, E-Score moderated by CCPI, Firm Size, and Firm age become more insignificant but the coefficient remains the same. The CCPI Score, ESG Score, and ESG moderated by CCPI become more significant. While, leverage remains the same, indicating that the model is robust.

This research is done to provide a better understanding for users the climate change performance index can be used to strengthen the relationship of environmental scoring from the three pillars of ESG. CCPI has the potential to improve the level of firm performance of every firm within a country. Thus, the government can use this research as a supporting factor in promoting rules and regulations that would promote environmental health, which in the end would raise the CCPI score and also firm performance within the country because CCPI score will also raise the country’s ranking within the CCPI leaderboard, indicating that the country is promoting to reduce climate change since climate change is an issue experienced by not only individuals but also businesses. A temperature too hot would be an unfit working condition for employees to work comfortably. Hence, raising the CCPI score by regulating policies to promote ESG disclosures as well as environmentally friendly policies will benefit the whole country in the long run.

5.2 Limitations

Although the research has proven the potential of CCPI as a factor affecting firm performance, it also comes with limitations that could be considered for future research. The data used for this research are obtained only from emerging countries. The author believes that using a developed country ranked similarly to emerging countries in the CCPI ranking as a third comparison would serve a better result in terms of the significance of the environmental score. Hence, categorical variables such as the country
being a developed country or a developing country can be used as a factor that affects the effect of CCPI on firm performance.

The sample size for this research is insufficient considering the span of the period used which is 2017-2021. Only 55 firms are used as a sample out of 1732 firms in the population. Better comparability and results should derive when more samples are used for this research.

5.3 Recommendations

Deriving from the limitations stated above, it is recommended for further research to use more countries as a comparison. It can either be a developing country placed in a different group in the CCPI leaderboard or it can also be a developed country placed similarly to a developing country within the CCPI leaderboard. It may serve as a good direction for users to focus on creating policies that benefit the environment as well as the community. The CCPI ranking has the potential to be used for further research which is related to the environment or to improve how environmental scoring is used as a firm valuation factor. Hence, the users of this research should make firm decisions and government policies to increase the country’s CCPI score as well as make the Earth a better place for us to live.