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The Effect of Environmental, Social, and Governance (ESG) Disclosure on Financial Performance of Companies Listed on the IDX ESG Leaders Index (IDXESGL) from 2021 to 2023

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Abstrak

Penelitian ini bertujuan untuk menguji pengaruh pengungkapan Environmental, Social, Governance (ESG) terhadap kinerja keuangan perusahaan yang diukur menggunakan Return on Assets (ROA) pada perusahaan yang terdaftar di IDX ESG Leaders Index periode 2021–2023. Variabel independen dalam penelitian ini adalah pengungkapan aspek Environmental, Social, dan Governance, sementara variabel kontrol terdiri atas ukuran perusahaan (firm size) dan leverage. Data sekunder diperoleh dari laporan tahunan dan laporan keberlanjutan perusahaan, dengan total 78 observasi yang dihasilkan melalui teknik purposive sampling. Hasil penelitian menunjukkan bahwa pengungkapan aspek Environmental berpengaruh positif dan signifikan terhadap kinerja keuangan perusahaan, sedangkan pengungkapan aspek Social dan Governance tidak menunjukkan pengaruh signifikan. Secara simultan, variabel ESG memiliki kontribusi yang signifikan dalam menjelaskan variabilitas ROA. Penelitian ini memberikan implikasi bahwa penerapan prinsip keberlanjutan melalui pengungkapan ESG dapat meningkatkan kinerja keuangan perusahaan, sekaligus memperkuat daya saing dan legitimasi di mata pemangku kepentingan. Penelitian ini diharapkan dapat menjadi referensi bagi perusahaan, investor, dan regulator untuk mendukung implementasi keberlanjutan di dunia bisnis Indonesia.

Kata Kunci: *Environmental; Social; Governance; IDX ESG Leaders Indeks; kinerja keuangan*

Abstract

This study aims to examine the effect of Environmental, Social, and Governance (ESG) disclosure on corporate financial performance, measured using Return on Assets (ROA), in companies listed in the IDX ESG Leaders Index for the 2021–2023 period. The independent variables in this study are the disclosure of Environmental, Social, and Governance aspects, while the control variables include firm size and leverage. Secondary data were obtained from annual reports and sustainability reports, resulting in 78 observations through purposive sampling. The results indicate that Environmental and Social disclosures have a positive and significant effect on financial performance, whereas Governance disclosure does not show a significant impact. Simultaneously, ESG variables significantly contribute to explaining ROA variability. This study implies that implementing sustainability principles through ESG disclosure can enhance financial performance, strengthen competitiveness, and improve legitimacy in the eyes of stakeholders. This research is expected to serve as a reference for companies, investors, and regulators in supporting sustainability implementation in the Indonesian business sector.

Keywords: *Environmental, Social, Governance, IDX ESG Leaders Index, financial performance*

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INTRODUCTION

A company is an organization that manages expertise and economic resources to produce and generate profits for its owners (Nikmah et al., 2023). According to Brigham and Houston (2022), the core activity of a company is oriented towards achieving profit, making financial performance a critical aspect, as potential investors often consider it one of the key factors when making investment decisions. This implies that companies are primarily focused on profitability, and financial performance plays a vital role in their operations, influencing the choices of investors.

In an era of globalization and intense business competition, corporate sustainability is crucial for long-term success. Sustainable businesses must address economic gains, social welfare, and environmental responsibility (Nugrahani & Artanto, 2022). Effective corporate governance also plays a vital role in supporting sustainability by ensuring responsible operational practices that protect natural resources for future generations (Surono et al., 2023). Consequently, companies are urged to enhance performance in environmental, social, and governance (ESG) dimensions to maintain competitiveness and boost firm value (Shakil, 2021). Integrating ESG considerations is thus essential in building resilient and ethically grounded business strategies.

ESG represents how companies enhance their positive impact on society and the environment while applying ethical business practices through effective governance (Kim & Li, 2021). However, in practice, many companies remain primarily focused on economic efficiency and financial gain, often neglecting their environmental and social impacts. Lee and Kim (2024) found that firms prioritizing economic efficiency tend to overlook sustainability, contradicting its core principles and risking long-term negative consequences for future societal well-being. This approach contradicts sustainability principles, as companies focusing solely on short-term financial performance may neglect their responsibilities toward the well-being of future generations.

The legitimacy theory posits that companies strive to gain societal legitimacy by ensuring their activities align with societal norms and expectations (Suchman, 1995). Implementing ESG practices can serve as a strategy for companies to gain legitimacy and enhance their reputation with investors and other stakeholders (Deegan, 2002). Therefore, companies with strong ESG practices are expected to build public trust, reduce business risks, and achieve long-term economic benefits. However, the relationship between ESG practices and financial performance remains uncertain, highlighting the need for further research to better understand this connection.

Financial performance remains an essential measure for companies, as it serves as a key indicator for investors when making investment decisions (Brigham & Houston, 2022). Financial performance is assessed through various financial analysis methods, aimed at evaluating a company's financial condition, assessing its risks and benefits, and assisting in strategic decision-making (Arifin & Marlius, 2017). Proper financial management can drive a company's economic growth and enhance its value over time (Widya Sari, 2021). One way to assess financial performance is through financial statement analysis, which serves as a form of accountability by management to stakeholders and provides insight into various performance indicators (Jacek Welc, 2022). Financial statement analysis also aids companies in formulating future strategies, identifying weaknesses, and improving already strong performance for long-term sustainability (Meliana, 2022).

The application of ESG principles has gained significant attention both nationally and globally, reflecting efforts to promote sustainable business practices. ESG assesses how companies consider their environmental impact, treat social communities, and adopt good governance practices in their operations (Eccles & Klimenko, 2019). In Indonesia, the implementation of ESG is encouraged through policies by the Financial Services Authority (OJK), which introduced the Sustainable Finance Roadmap to foster a sustainable financial ecosystem (OJK, 2021). Furthermore, OJK issued Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, which mandates companies to prioritize sustainability in their operations. Additional regulations, such as OJK Circular Letter No. 16 of 2021, stress the importance of sustainability reporting to improve transparency in managing environmental, social, and governance aspects (Farhana & Adelina, 2019). Sustainability reporting, promoted by organizations like the Global Reporting Initiative (GRI), provides standards and guidelines for reporting the environmental, social, and economic impacts of organizations, contributing to sustainable development goals (Global Reporting Initiative, 2016). However, implementing these regulations still faces challenges, such as a lack of understanding among companies about ESG and low compliance with existing regulations.

Sustainable investment trends have emerged in Indonesia, with an increasing number of companies offering environmentally themed products. A survey conducted by BNP Paribas Asset Management Global & Greenwich Associates in June 2020 revealed that over 80% of respondents had adopted sustainable investment practices. To encourage sustainable investments, the Indonesia Stock Exchange (IDX) launched the IDX ESG Leaders index in 2020. This index measures the stock performance of companies excelling in environmental, social, and governance practices, while minimizing controversies. Companies listed in this index exhibit strong financial performance and liquidity. According to the IDX report, the ESG Leaders index recorded a 44.49% increase in a given period, suggesting that companies with good ESG performance are also attractive to investors. However, despite the index's positive performance, research on its impact on financial performance is still limited, warranting further exploration.

Previous research on the relationship between Environmental, Social, and Governance (ESG) disclosures shows mixed results. Husada & Handayani (2021) and Utomo (2024) found no significant effect of ESG disclosures on financial performance as measured by ROA. In contrast, studies by Kim & Li (2021), Hwang et al. (2021), and Yoo & Managi (2022) suggested that ESG can enhance company performance. A study by Ramadhan, Suherman, & Kurnianti (2024) in the Indonesian industrial sector during 2018-2022 found that environmental, social, and governance aspects had no significant effect on company performance. Conversely, research by Nabilla & Sulistiyoningsih (2023) revealed a positive and significant relationship between ESG disclosures and company performance. The uncertainty of these findings indicates the need for further investigation into the relationship between ESG and financial performance in Indonesian companies.

METHODOLOGY

Type of Research and Data Collection Method

This research is a quantitative study utilizing secondary data, which consists of published information. Data is collected through the documentation method, which involves gathering financial statements and Sustainability Reports from companies listed in the ESG Leaders Index from 2021 to 2023. The data is sourced from the official website of IDX (www.idx.co.id) and each company's official site. Additionally, other relevant data can be gathered from articles, journals, and written sources related to the research topic. The study focuses on testing theories using numerical variables and performing data analysis through statistical procedures.

Population and Sample

The population in this study refers to a group of subjects or entities with specific qualities and characteristics identified by the researcher as the focus of the research. This group serves as the foundation for studying specific phenomena and drawing conclusions (Sugiyono, 2018). For this research, the population includes companies that are part of the IDX ESG Sector Leader Index, with a total of 30 companies.

The sample consists of a subset of the population selected based on particular criteria (Sugiyono, 2018). In this study, purposive sampling was applied, where samples were chosen according to specific criteria that align with the research goals. The selected criteria include public companies that are listed in the IDX ESG Sector Leader Index published by the Indonesia Stock Exchange, companies that have consistently been part of the ESG Sector Leaders Index from 2021 to 2023, and companies that have published complete and consistent reports from 2021 to 2023. The final sample includes 26 companies, providing 78 observations across the three years.

Variable Measurement and Operational Definition

The variables in this study refer to various elements that help analyze the phenomenon under investigation, drawn from individuals, objects, or activities selected by the researcher for analysis. These variables are used to gather diverse information related to the phenomenon, allowing for meaningful conclusions (Nasution, 2017). This study adopts one independent variable and one dependent variable.

The dependent variable in this study is financial performance, specifically measured by Return on Assets (ROA). ROA reflects a company's ability to generate profit from its assets during a specific period. An increase in ROA signifies improved efficiency in utilizing assets to generate profit. Previous studies have used ROA as an indicator of financial performance, particularly when analyzing the impact of environmental, social, and governance (ESG) practices (Kim & Li, 2021). ROA calculation is as follows: ROA = Net Income / Total Assets.

The independent variables in this research are environmental disclosure, social disclosure, and governance disclosure. Environmental disclosure refers to the company's reporting on resource use and waste management (Mulpiani, 2019). Social disclosure represents the company's transparency in its social responsibility achievements, including human rights, labor practices, and community contributions (Triyani et al., 2021). Governance disclosure relates to the company's reporting on its governance structures and practices, ensuring stakeholder trust and integrity (Shakil et al., 2019).

Additionally, control variables are used to account for factors that might affect the relationship between independent and dependent variables. Company size, measured by the natural logarithm of total assets, and leverage, measured by the Debt to Assets Ratio (DAR), are included as control variables. Company size influences financial performance and environmental behavior (Aragón-Correa, 1998). Leverage measures how much debt is used to finance the company's operations (Putri & Mayangsari, 2023).

Data Analysis Method

Data analysis methods aim to evaluate and interpret the collected data effectively. Descriptive statistics serve to summarize the data without making generalizations about the population as a whole. This analysis includes metrics such as the mean, standard deviation, variance, maximum and minimum values, total sum, range, and distribution indicators like kurtosis and skewness. Descriptive statistics help provide an understanding of the sample's characteristics before further hypothesis testing using more advanced statistical techniques.

Panel data regression models are used to estimate the parameters of a regression equation with panel data. There are three types of models: the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The CEM assumes the same intercept and slope coefficients across both cross-sectional units and time periods. The FEM considers variations in intercepts across companies using dummy variables, assuming constant slopes for all companies over time. The REM accounts for correlations between error components across time and individuals, using the Generalized Least Squares (GLS) method for more efficient handling of heterogeneity.

To select the appropriate panel data regression model, various tests are applied, including the Chow test, Hausman test, and Lagrange Multiplier (LM) test. These tests help determine whether the CEM, FEM, or REM is the most suitable for the analysis. Assumption testing in regression analysis ensures the reliability and validity of the results, with checks for normality, heteroscedasticity, autocorrelation, and multicollinearity to ensure accurate interpretations of the data.

Panel Data Regression Analysis

Panel data regression analysis is used to examine the relationship between independent and dependent variables, both simultaneously and individually, across different sectors over a specific period. According to Sugiyono (2016), panel data regression combines cross-sectional data (data from multiple entities at a single point in time) with time-series data (data from one entity over multiple time periods). The regression model in this study is represented as follows:

ROAit = α + β1ENVit + β2SOCit + β3GOVit + β4FIRMSIZEit + β5LEVit + ui + ϵit

Where ROA stands for Return on Assets, ENV for environmental factors, SOC for social factors, GOV for governance, firm size, and leverage, while α, β, and ε represent the constant term, regression coefficients, and error term, respectively.

T-Test

The t-test is used to assess the impact of each independent variable on the dependent variable, assuming that other independent variables remain constant (Ghozali, 2017). This test is conducted by comparing the calculated t-value with the critical t-value at a 99% confidence level or a 5% significance level ($\alpha = 0.05$). The criteria for evaluating the effect of each independent variable are as follows: If the probability value of the t-statistic is smaller than the specified significance level, the independent variable significantly influences the dependent variable, and the alternative hypothesis (Ha) is accepted. If the probability value is larger, the independent variable does not significantly impact the dependent variable, leading to the rejection of the alternative hypothesis (Ha).

Simultaneous Effect Test (F-Test)

The F-test is used to determine the extent to which independent variables collectively influence the dependent variable (Ghozali, 2018). This test is performed by comparing the calculated F-value with the critical F-value at a 0.05 significance level. The decision criteria for this test are as follows: If the calculated F-value is greater than the critical F-value or the significance probability (Sig) is less than or equal to 0.05 (Sig ≤ 0.05), the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted. This indicates that the independent variables have a significant simultaneous effect on the dependent variable. Conversely, if the calculated F-value is smaller than the critical F-value or the significance probability (Sig) is greater than or equal to 0.05 (Sig ≥ 0.05), the null hypothesis (H_0) is accepted, and the alternative hypothesis (H_1) is rejected, showing that the independent variables do not significantly affect the dependent variable simultaneously.

Coefficient of Determination Test

The coefficient of determination (R-squared) test measures how well the independent variables (X) explain the variation in the dependent variable (Y) within a regression model. A higher R-squared value indicates a stronger relationship between the independent and dependent variables, suggesting that the independent variables contribute significantly to explaining the changes in the dependent variable. R-squared values range from 0 to 1, where a value close to 0 implies a weak ability of the model to explain the independent variables' influence on the dependent variable. Conversely, an R-squared value near 1 indicates that the model can effectively explain the variation in the dependent variable (Ghozali, 2018).

RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistics analysis is used to summarize and describe the data collected in a research study. It provides an overview of the data through key measures such as mean, standard deviation, maximum, and minimum values. The data for this research was processed using E-Views 12 software. The dependent variable in the study is financial performance, represented by Return on Assets (ROA), while the independent variables include environmental, social, and governance (ESG) factors. Control variables such as firm size and leverage are also considered in the analysis.

The results of the descriptive statistics based on 67 observations after eliminating outliers. The minimum ROA was -0.0055 (or -0.55%), recorded by Elang Mahkota Teknologi Tbk., while the maximum was 0.1581 (or 15.81%) from Mitra Keluarga Tbk. The average ROA is 0.0523 (or 5.23%), indicating that, on average, the companies in the sample generated a profit of 5.23% from their assets. Most companies showed positive financial performance, with 23 companies maintaining a positive ROA over the three-year period. However, Elang Mahkota Teknologi Tbk. and Chandra Asri Petrochemical Tbk. reported negative ROA during 2021-2023.

Regarding environmental disclosure, a key component of ESG, the average value was 0.4764 (or 48.24%). This suggests that, on average, companies disclosed almost half of the environmental indicators. The highest disclosure score was 1.000 (100%), recorded by Mitra Keluarga Tbk., indicating full disclosure of environmental aspects. The lowest value of 0.1612 (16.12%) was noted by Bank Central Asia Tbk., highlighting the disparity in environmental disclosure across companies.

For social disclosure, the average value was 0.4764 (or 47.64%), indicating that companies generally reported nearly half of the social indicators. Mitra Keluarga

Tbk. had the highest social disclosure score of 0.9487 (94.87%), while Barito Pacific Tbk. had the lowest at 0.1538 (15.38%), showing considerable variation in social reporting. Governance disclosure, the third component of ESG, had an average score of 0.7936 (or 79.36%), with some companies fully disclosing governance aspects.

Firm size had an average value of 31.8504, indicating that the companies in the sample had relatively large asset bases. Leverage had an average value of 0.4731 (or 47.31%), with the highest value of 0.8688 (86.88%) at Bank Negara Indonesia (Persero) Tbk. and the lowest of 0.0117 (1.17%) at Elang Mahkota Teknologi Tbk., reflecting the variation in companies' funding structures.

Panel Data Regression Analysis

The analysis method used in this study is panel data regression with the Random Effect Model (REM). The independent variables include environmental disclosure (X1), social disclosure (X2), and governance disclosure (X3), with firm size and leverage as control variables. The dependent variable is financial performance, measured by return on assets (ROA).

Table 1. Panel Data Regression Analysis

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.280702	0.110149	2.548385	0.0134
ENVIRONMENTAL	0.028553	0.032693	0.873357	0.3859
SOCIAL	0.078662	0.035215	2.233791	0.0292
GOVERNANCE	-0.001182	0.012505	-0.094555	0.9250
FIRM_SIZE	-0.008480	0.003568	-2.376864	0.0206
LEVERAGE	-0.017978	0.021676	-0.829375	0.4101

Source: E-views 12 (processed data, 2025).

Based on the above results, the panel data regression equation is as follows:

ROA = 0.280702 + 0.02853ENV + 0.07866SOC - 0.001182GOV - 0.00848FM - 0.017978LEV

Partial Test

The partial test (t-test) evaluates the individual effect of each independent variable on the dependent variable (Ghozali, 2016). Based on the results of the selected Random Effect Model, the outcomes are as follows: Environmental disclosure does not significantly influence financial performance (ROA), with a probability value of 0.3859 (t = 0.8733), leading to the rejection of H1. However, social disclosure has a significant positive effect on financial performance (ROA), with a probability value of 0.0292 (t = 3.0863), leading to the acceptance of H2. Governance disclosure, on the other hand, has no significant effect, with a probability value of 0.9250 (t = -0.0945), resulting in the rejection of H3.

Simultaneous Test

The F-test assesses whether all independent variables collectively influence the dependent variable (Ghozali, 2016). Based on the results, the F-statistic probability value of 0.000058 is less than the 0.05 significance level, indicating that the independent variables—environmental, social, and governance—simultaneously have a significant effect on the company's financial performance (ROA). This finding supports the legitimacy theory, which suggests that companies with higher transparency in ESG disclosures can boost investor confidence, reduce business risks, and ultimately enhance their profitability. Thus, ESG disclosures play a role in improving financial outcomes for companies.

Coefficient of Determination Test

The coefficient of determination (R^2) test is used to measure the impact of environmental, social, and governance variables as independent factors, along with firm size and leverage as control variables, on the financial performance of companies as the dependent variable, expressed as a percentage. Based on the results of the Random Effect Model (REM) regression test, the Adjusted R-squared value is 0.35069, or 35.06%. This means that the combined effect of the independent variables and control variables on the company's financial performance is 35.06%, while the remaining 64.94% is influenced by other factors not included in the study.

The Effect of Environmental Disclosure on Company Financial Performance

The hypothesis testing results reveal that the environmental variable has a probability value of 0.3859, which is higher than the significance level of 0.05 or 5%. Additionally, the t-statistic of 0.08733 does not meet the significance criteria. Therefore, it can be concluded that environmental disclosure does not significantly affect the financial performance of the company, and the first hypothesis (H1) is rejected. This outcome contradicts legitimacy theory, which posits that companies seek legitimacy from society by aligning with prevailing values, norms, and social expectations (Suchman, 1995). According to this theory, companies demonstrating environmental responsibility through transparent and comprehensive information disclosure are expected to gain stakeholder trust, improve reputation, and positively impact financial performance. However, in this study, environmental disclosure did not show a positive effect. This finding is inconsistent with previous studies by Zainab & Burhany (2020) and Budita & Fidiana (2023), who found that environmental disclosure positively influences financial performance. According to these studies, companies that actively disclose their environmental performance are more likely to be trusted by investors, consumers, and governments, thus supporting financial performance growth. This discrepancy may be attributed to several factors, such as companies' environmental disclosures often being symbolic or merely fulfilling reporting obligations, without real implementation in operational and strategic policies. Moreover, stakeholder attention to environmental issues in Indonesia remains relatively low, making such disclosures less influential in investment decisions. Additionally, industry sector characteristics may also play a role in these differing results.

The Effect of Social Disclosure on Company Financial Performance

The research analysis indicates a probability value of 0.0292, which is less than 0.05, and a t-statistic value of 2.0863, clearly showing that social disclosure has a positive and significant impact on a company's financial performance. Therefore, the second hypothesis (H2) is accepted. It can be understood that as the level of social disclosure increases, the company’s contribution to enhancing financial performance also grows. This can be explained through legitimacy theory, which suggests that companies fulfilling public expectations in their business operations are more likely to gain legitimacy and public acceptance. When companies actively disclose information about their social efforts and achievements, it builds trust with the community and consumers. This trust, in turn, fosters employee loyalty, which can improve productivity within the company. Zahroh & Hersugondo (2021) support this view, stating that effective social performance disclosure can drive better financial results. However, this finding contrasts with Husada & Handayani (2021), who found no significant impact of social variables on financial performance. This difference suggests that the effect of social disclosure on financial performance varies depending on the context and conditions of each company, such as organizational culture and responsiveness to social demands. According to legitimacy theory, companies that effectively fulfill their social responsibilities and gain public recognition will have stronger legitimacy, ensuring their long-term business sustainability. Conversely, companies neglecting social disclosure risk losing public trust, negatively affecting their financial performance. Thus, social disclosure is not just an administrative obligation but also a crucial strategy for building reputation and fostering positive stakeholder relations. This strategy not only benefits society but also leads to sustainable improvements in the company’s financial performance.

The Effect of Governance Disclosure on Company Financial Performance

The results of this study indicate that governance disclosure does not have a significant impact on financial performance, as measured by Return on Assets (ROA). This is evidenced by the coefficient value of -0.001182 and a significance value of 0.9250, suggesting a negative relationship where greater governance disclosure leads to a decline in financial performance. Based on these findings, the third hypothesis (H3) is rejected. These results align with Husada & Handayani (2021), who found that governance disclosure did not significantly affect financial performance. Although legitimacy theory posits that companies seek public support and trust by aligning with societal values and expectations, in practice, most companies' governance disclosures do not reflect substantial transparency or accountability. This suggests weak governance structures, where companies often disclose governance information merely for compliance purposes, without it affecting financial performance. Topics like the role of the highest governance body in setting goals, values, and strategies related to economic, environmental, and social impacts are often omitted from sustainability reports. This finding contradicts Azmy et al. (2019), who showed a positive impact of governance disclosure on financial performance in the mining sector. The discrepancy arises due to the varied nature of the companies sampled, which include firms across different sectors listed on the Indonesian Stock Exchange. Furthermore, the lack of a significant impact from governance disclosure may be due to the voluntary nature of ESG disclosures, where companies have the discretion to choose which information to reveal. Shakil et al. (2019) also noted that managers sometimes engage in ESG investments to serve personal interests, which may not necessarily enhance financial performance, further explaining the results of this study.

CONCLUSION

Based on the analysis of the impact of environmental, social, and governance (ESG) disclosures on financial performance in companies listed on the IDX ESG Leaders Index from 2021 to 2023, the results show that environmental disclosure does not significantly affect financial performance. This contradicts legitimacy theory, which posits that companies aim to gain societal support and acceptance by aligning with social values and norms through transparent disclosures. While environmental disclosures should ideally enhance reputation and trust, they do not appear to have this effect in this study. In contrast, social disclosure has a positive and significant impact on financial performance. Companies that engage in social activities, such as employee welfare and social responsibility, can enhance their reputation and customer loyalty, leading to improved financial outcomes. Governance disclosure, however, does not significantly influence financial performance. Despite many companies following GRI standards, the disclosures remain formal and do not reflect meaningful changes in management integrity, which limits their impact on financial performance. For future research, it is recommended to extend the observation period, expand the sample size beyond Indonesian companies, and explore additional variables to diversify financial performance research. ESG disclosures could also be treated as dependent variables to better understand influencing factors. Companies should focus on transparent and balanced ESG disclosures, integrating them into core strategies. The government should establish policies that encourage comprehensive ESG disclosures to enhance corporate transparency based on these findings.

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