



The impact of ESG Disclosure on the performance of manufacturing companies in Indonesia (A study of manufacturing companies listed on the IDX between the years 2018 and 2022)

Puspa Widya Rahmah, Marsono

Departement of Accounting, Diponegoro University, Jl. Prof. Soedharto SH Tembalang, Semarang, Indonesia

Abstract

This research aims to examine the influence of environmental disclosure (ENV), social disclosure (CSR), and governance disclosure (GVN) on operational performance (ROA), financial performance (ROE), and market performance (Tobins'Q) by involving control variables, namely firm size and asset turnover. The research population consisted of 120 manufacturing companies. Sample selection was carried out based on a purposive sampling method which resulted in 55 manufacturing companies being used as research samples. The analytical method used is multiple linear regression using time series data. Based on the tests result, ENV has a negative and significant effect on ROA, ROE, and Tobin's Q. GVN and asset turnover has a positive and significant effect on ROA, ROE, and Tobin's Q. CSR has a positive and significant effect on ROA and ROE, but has a negative and significant effect on Tobin's Q. Furthermore, firm size only has a positive effect on ROE and Tobin's Q.

Keywords: Environmental disclosure, social disclosure, governance disclosure, operational performance, financial performance, market performance

Introduction

The world economies are connected to each other through multinational trade channels. Due to these incidences, there are several issues regarding what the company needs to report to stakeholders in order to assess the company's performance. Assessment of company performance is an important factor in making decisions for stakeholders, especially investors. Basically, company performance is a description of the success of a company in achieving its business objectives over a certain period of time. A company with a high profit is considered to have a good performance because the profit illustrates the company's ability to manage its business.

Performance assessments that focus on profit often ignore the impact of company activities on the environment. Meanwhile, at present, following the evolution of business, the company is required not only to prioritize profit but also to consider the impact of the company's operational activities on the environment and surrounding society (Safriani and Utomo, 2020). This demand begins in a situation where natural resources on earth are depleting and environmental conditions are changing quickly as a result of pollution and global warming in the last few years. Another factor is the increasing global awareness of environmental and community conditions, which then changes the priorities of stakeholders, especially investors, towards more sustainable investments. Investors began to consider programs in companies that considered environmental, social, and governance aspects that were illustrated by ESG. In the past, environmental, social, and governance (ESG) was seen as a small activity that was often ignored by companies around the world. However, in the past few years, the seductiveness of ESG has increasingly attracted the attention of stakeholders. ESG is seen as financially material to investment performance (Gillan *et al.*, 2020^[16]; Bofinger *et al.*, 2022)^[11]. Therefore, Environmental, Social, and Governance Disclosure (ESGD) has played an important role in realizing investors' demand for corporate

non-financial information. ESG disclosure helps companies enter new markets, so it helps increase the company's corporate profits (Henisz *et al.*, 2019)^[17].

The issue of ESG disclosure is increasingly common both at the domestic and international levels. However, based on a survey by the Indonesia Business Council for Sustainable Development (IBCSD), 40% of companies in Indonesia have not recognized the importance of ESG applications. Then, according to Deni Daruri, the founder of Bumi Global Karbon Foundation, ESG disclosure in Indonesia is still below 50%. The low ESG disclosure score in Indonesia, according to the International Association for Public Participation Indonesia, is caused by several factors, such as low human resource knowledge, limited resources, and high ESG management consulting costs. Another influencing factor is the lack of regulation in Indonesia as stipulated in POJK Number 51/Pojk.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies.

Most of the company in Indonesia have not yet understood the importance of ESG disclosures, especially those whose activities are directly related to the environment. Based on the Industrial Confidence Index (IKI) survey in July 2023, the manufacturing industry, especially companies engaged in food and beverages, has been expanding. However, based on Bloomberg data from 2018–2022, from 440 manufacturing companies listed on the Indonesia Stock Exchange (IDX), only 120 companies disclosed ESG activities. This number illustrates the company's low awareness of environmental conditions and social issues. The low awareness of companies is reinforced by the IQAir World Air Quality report in March 2022, according to which Indonesia is ranked 17th as the country with the highest level of air pollution in the world. Air pollution occurs due to several factors, one of which is the company's factory activities that cause smoke. This can indicate that the company has not carried out its social responsibility adequately.

According to Shinta Kamdani, president of IBCSD, 88% of companies that implement ESG have superior performance. However, this is still a long debate in the literature because the results are sensitive to the selection of objects, time, and analysis methods. There are studies that contradict with Shinta Kamdani's opinion (Fahad and Busru, 2021^[14]; Yoon *et al.*, 2018)^[44] say that ESG disclosure causes a decrease in company performance because it has increased company expenses, while on another study by Shaikh (2021)^[38] on S&P 500 companies found the opposite result, namely that ENV and CSR are negatively correlated with company performance as measured by ROA, ROE, and Tobin's Q, but GVN is positively correlated with ROA and Tobin's Q. Next, Kalia and Aggarwal (2023)^[20] shows that ESG disclosure has a positive effect on company performance in highly developed countries, while for developing countries it is less favorable. This is due to the weakness of regulations in developing countries and difficulties in capital management. However, in previous research (Safriani and Utomo, 2020) on non-financial companies listed on the IDX in 2015–2018, it was found that ESG disclosure has a positive effect on operational performance and financial performance but has a negative effect on market performance. Furthermore, in the research of Khancel, *et al.* (2023), it was found that CSR and GVN have a positive and significant effect on operational performance with ROA as a proxy.

Based on the description above, it appears that there is a change in stakeholder interest in companies that prioritize sustainable programs. However, this has not been responded to very well by companies in Indonesia, especially in manufacturing. In Indonesia, awareness of corporate social responsibility is still low, which is therefore harmful to the environment and society. In addition, there are inconsistencies in the findings on the topic of ESG and company performance, so there is an opportunity to conduct research again on different companies that were different from before. This study contributes to connecting the research gap by considering the research object, research period, analysis method, as well as firm size and total asset turnover factors, so that it is expected to generalize the results of previous studies while contributing to better results. Firm size and total asset turnover are considered in this study because both of these need to be understood by stakeholders when assessing company performance in order to make decisions. This is in accordance with the opinion of Alareeni and Hamdan (2020), who stated that these are both important factors for assessing company performance because stakeholders, especially investors, have a tendency to be interested in companies with large asset holdings. By understanding both of them, the quality of stakeholder decision-making will certainly be better. Based on the description above, this study aims to examine the effect of environmental disclosure, social disclosure, and governance disclosure on the operational performance, financial performance, and market performance of manufacturing companies in Indonesia by considering firm size and total asset turnover factors.

Theoretical framework and hypothesis formulation

Stakeholder Theory

Stakeholder theory, according to Freeman and Dmytriiev (2020)^[15] is the position of both individuals and groups that

have an impact either directly or indirectly on company activities. Based on this understanding, it can be concluded that the company is not only responsible for achieving its goals in order to obtain maximum profit, but also responsible for providing benefits to stakeholders (Wasiuzzaman, 2023^[43]; Jamali *et al.*, 2017)^[19s].

Based on their power, stakeholders have a crucial role in maintaining the sustainability of the company's business because to maintain this, the company needs the support of various parties. Given the important role of stakeholders in the company, every time it carries out its activities, the company needs to consider the expectations and interests of stakeholders in order to achieve better performance. The better the company's efforts to realize stakeholder's demands, the more stakeholder confidence will increase to provide support in order to increase company profitability. The company's efforts to obtain stakeholder support can be done by making disclosures about ESG implementation. Given that ESG issues are currently a hot topic of conversation in the business world, where ESG is considered a source of value creation for stakeholders (Albitar *et al.*, 2021)^[4]. Well-disclosed information can have a positive impact on company performance through capital investment and increased product sales. This is because both are important things that can affect the level of company profitability. This statement is in line with research (Maji and Lohia, 2022^[24]; Wasiuzzaman *et al.*, 2023)^[43] which states that ESGD has a positive contribution to company profitability.

Legitimacy Theory

Behavior in organizations can be seen through legitimacy theory because that companies are part of society, so companies should adjust their values and norms to the values and norms that apply in society (Dowling and Pfeffer, 1975). The communities are an important factor in maintaining the company's reputation. Therefore, there must be an alignment of social values and norms that apply. If this is not happening, it could create a danger for the company to lose its legitimacy (Pham and Tran, 2020)^[31]. Thus, companies need to balance their business activities with social values and norms because this can create optimal company performance (Safriani and Utomo, 2020).

Due to the increasing global awareness of climate change and environmental conditions, companies need to show their responsibility to the social environment in order to gain public trust. This can be implemented through ESG disclosure, which shows the company's dedication to being responsible in managing environmental, social, and governance impacts. Information that is published in transparency is more easily trusted by stakeholders. Thus, a positive assessment will be created so as to improve the company's reputation, which is one of the crucial considerations for stakeholders in assessing company performance (Inawati dan Rahmawati, 2023).

Framework

The framework explain the relationship between independent variabel, dependent variable, and control variable in this study.

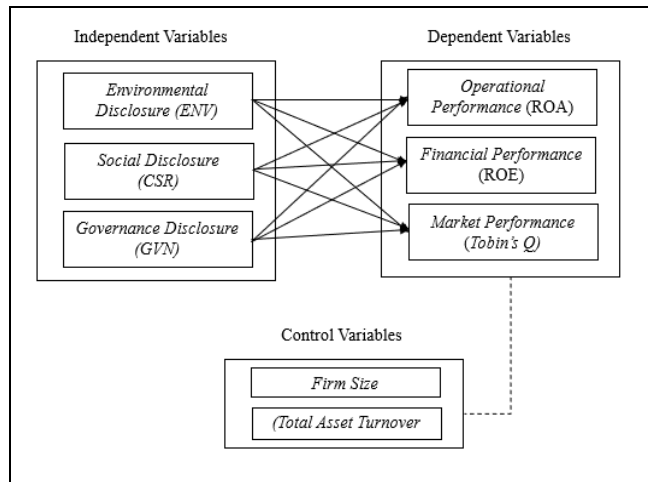


Fig 1: Framework

Hypothesis Formulation

The Effect of ESG Disclosure on The Company's Operational Performance (ROA)

The company with a high ESG score obtained a better rating in terms of market and operational performance (Bhaskaran *et al.*, 2020). Therefore, companies are trying to disclose ESG as a form of effort to fulfill stakeholder interests that help improve company performance (Ningwati *et al.*, 2022) [29]. Based on this statement, it can be concluded that stakeholders have an important role in the sustainability of the company. The company's efforts to satisfy stakeholder demands for improved performance can be realized through product innovation to improve product quality and competitiveness. This is supported by research by Naufal and Hersugondo (2018), which states that the company's operational performance improves if there is innovation.

Regarding the ESG aspect, a company that has high concern and is committed to protecting the environment is easier to get the attention of the public, this is in line with stakeholder theory. The company's concern triggers giving support to increase company profits and get a better performance assessment (Durlista and Wahyudi, 2023) [13]. Not only that, the company's interest in social activities, for example, helping citizens, can also create a positive image to maintain the company's reputation. In line with legitimacy theory, to gain stakeholder trust, it is necessary to disclose transparency about the company's condition. This can create a solid relationship between the company and stakeholders because, in this way, other parties can find out the governance system of a company. As mentioned by Khancel, *et al.* (2023), governance has positive implications for operational performance. This is because transparency can minimize conflicts between companies and the external community (Baier *et al.*, 2020) [8]. Thus, in order to improve its performance, the company must disclose activities that prioritize sustainable programs in a transparent way in order to gain stakeholder trust to provide operational funding assistance. Through this assistance, it is hoped that the ROA ratio can increase along with the increase in company profits. Based on the description above, the hypothesis proposed is as follows:

H1a: Environmental disclosure has a positive influence on operation performance

H1b: Social disclosure has a positive influence on operational performance

H1c: Governance disclosure has a positive influence on operation performance

The Effect of ESG Disclosure on The Company's Financial Performance (ROE)

ESG disclosure is defined as a way to align company goals with stakeholders who contribute to increasing financial performance through capital, investment, and loans (Kalia and Aggarwal, 2022) [20]. Almeyda and Darmansya's research (2019) [6] reveals that ESG disclosure can increase company revenue and return.

Research (Akbar *et al.*, 2021; Khoury *et al.*, 2021) [22] argues that a company that notices the impact of its activities on environmental and social conditions has a tendency to have a positive reputation. This is in line with legitimacy theory, where a positive reputation can help improve the company's financial performance. Besides the environmental aspect, there is another aspect that is a key element in increasing stakeholder trust, namely the social aspect (Barnett and Solomon, 2012) [9]. The greater the responsibility of the company toward the social environment, the more opportunity the company has to gain trust (Massubagiyo and Widyawati, 2022). Therefore, to undertake all environmental and social activities properly, a good governance system is also needed because the success of a program starts with the internal part of the company first.

Based on the previous statement, it is very important for companies to disclose all their activities to the public with transparency because it can increase stakeholder trust. The trust of stakeholders is needed by the company to simplify the company's access to capital, loans, and investment. These are important elements in corporate finance, which can increase profits related to return on capital, which ultimately has an impact on company performance. (Saygili *et al.*, 2021; Durlista and Wahyudi, 2023) [13] declare a positive correlation between governance disclosure and improved financial performance. Based on this description, the next hypothesis is follows:

H2a: Environmental disclosure has a positive influence on financial performance

H2b: Social disclosure has a positive influence on financial performance

H2c: Governance disclosure has a positive influence on financial performance

The Effect of ESG Disclosure on The Company's Market Performance (Tobin's Q)

Climate change and global warming are complex issues in the world. Both of them can affect the company's performance in the future. Therefore, ESG disclosure is an important factor in evaluating the company's performance in the future. According to Mardini (2022) [25], the three aspects of ESG are important elements for market growth because they are able to provide information for investors regarding the sustainability of the company's business. The assessment of the investors affects the value of shares on the stock exchange.

A good stock value reflects the company's capability to provide added value to shareholders and helps improve company performance. This statement is reinforced by (Safriani and Utomo, 2020) state that a high market value is aligned with an increase in market performance. Regarding the implementation of programs that prioritize ESG, Mardini (2022) [25] said that companies that have high ESG

values have a tendency to increase market performance. In addition to program implementation, investor interest in a company is also based on the alignment of the application of the three aspects of ESG with the values and social norms of society. This is consistent with legitimacy theory. Therefore, it is very important for the company to start implementing ESG according to applicable norms because ESG disclosure can improve market performance and firm value (Buallay, 2019 [12]; Mohammad and Wasiuzzaman, 2021) [28]. A high company value illustrates the company's position in the market, when the value in the market is high, the company's performance will also increase. Based on this description, the proposed hypothesis is as follows:

H3a: Environmental disclosure has a positive influence on market performance

H3b: Social disclosure has a positive influence on market performance

H3c: Governance disclosure has a positive influence on market performance

Research Method

Population and Sample

This study was conducted at manufacturing companies on the Indonesia Stock Exchange in 2018-2022 that publish ENV score, CSR score, and GVN score on the bloomberg database by the research sample was 55 companies. The sampling method used is purposive sampling technique by adjusted the criteria with the research objective.

Variables and Their Measurements

This research uses a quantitative approach and include three variables, such as dependent variables, independent variables, and control variables. This study consisted of 3 independent variables, namely Environmental disclosure, Social disclosure, and Governance disclosure. The dependent variables, namely operational performance which are proxied by ROA, financial performance by ROE, and market performance of the company which are proxied by Tobin's Q ratio. Then, the control variables in this research, namely firm size and asset turnover.

a. Dependent Variable

- ROA measured with the total net income divided by total asset of the company
- ROE measured with the total net income divided by total equity of the company
- Tobin's Q measured with market value of equity plus debt divided by total asset of the company

b. Independent Variable

Independent variabel measured based on the score of each company in Bloomberg database are provided in the range 0-100.

c. Control Variable

- Firm size measured by the natural logarithm value of the company's total asset
- Total asset turnover measured with sales divided by total asset of the company

Analysis Models

To determine the effect between the variable in a time series condition, this study using the multiple linear regression analysis method with IBM SPSS 25. This study has three regression models, as follows:

- a. $ROA = \alpha + \beta_1ENV + \beta_2CSR + \beta_3GVN + \beta_4SZ + \beta_5TATO + e$
- b. $ROE = \alpha + \beta_1ENV + \beta_2CSR + \beta_3GVN + \beta_4SZ + \beta_5TATO + e$
- c. $TOBIN'S Q = \alpha + \beta_1ENV + \beta_2CSR + \beta_3GVN + \beta_4SZ + \beta_5TATO + e$

Information

- α = Constanta
- $\beta_1-\beta_5$ = Coefficient
- ENV = Environmental disclosure
- CSR = Social disclosure
- GVN = Governance disclosure
- SZ = Firm Size
- TATO = Total Asset Turnover
- ROA = Return on Asset
- ROE = Return on Equity

Research Results and Discussion

Descriptive of the Research Sample

This study used purposive sampling method with the certain criteria, as follows manufacturing companies on the Indonesia Stock Exchange in 2018-2022 that publish environmental score, social score, and governance score on the bloomberg database for 5 years, manufacturing companies was not published the company's annual report sequentially from 2018-2022, manufacturing companies that have not presented the company's annual report in 2018-2022 using the rupiah as currency. Based on the criteria the total sample obtained in this study was 55 companies.

Descriptive Statitics

Fig 2: Statistic Descriptive

Variable	N	Statistic Descriptive			
		Minimum	Maximum	Mean	Std. Dev
ENV	55	20	58	38,7353	12,7416
CSR	55	10	53,93	29,9636	10,7774
GVN	55	51	87,63	76,4860	6,04603
SZ	55	1,28	5,84	3,5058	1,05919
TATO	55	0,24	2,03	0,8145	0,45649
ROA	55	0,0002	0,13	0,0527	0,03464
ROE	55	0,0007	0,29	0,1077	0,07321
TOBIN'S Q	55	0,07	1,79	0,75	0,44001

Based on the Fig 2, it can be seen that this study has a total sample 55 manufacturing companies. The first variables, namely environmental disclosure has a minimum value of 20 and maximum value 58, then the score is included in the average category. Then, the mean is 38,73 with a standard deviation 12,74. The second independent variable, social disclosure has a minimum value of 10 and maximum value 53,93, the score is classified as average category. The average value of this variable is 29,96 and a standard deviation 10,77. Governance disclosure variabel has a minimum value of 51 and maximum value of 87,63, the score on the GVN variable is classified as good category. Based on the table, this variable has a mean value of 76,48 with a standard deviation 6,04. Next, the control variable, firm size with the 55 sample has a minimum value of 1,28 and maximum value of 5,84. Then, the mean is 3,50 with a standard deviation 1,05. While, the other control variable, namely total asset turnover has a minimum value 0,24 and maximum value of 2,03. This variable has an average value of 0,81 with a standar deviation 0,45. The dependent

variable, operational performance which proxied by ROA has a minimum value of 0,0002 and maximum value of 0,13. Then, the average value from this variable is 0,05 with a standard deviation 0,03. Financial performance variable which proxied by ROE has a minimum value of 0,0007 and maximum value of 0,29. Then, this variable has a mean 0,10 with a standard deviation 0,07. The last variable, market performance by Tobin's Q ration has a minimum value 0,07 and maximum value 1,79. Then, the average value 0,75 with a standard deviation 0,44.

Determination Coefficient Test

Table 1: Determination Coefficient Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA	0,906	0,821	0,802	0,22437
ROE	0,94	0,883	0,871	0,18587
TOBIN'S Q	0,785	0,616	0,577	0,32024

Source: Secondary data processed, 2023

Based on the Table 1, it can be seen that the adjusted R square value in the first regression model (ROA) is 0.802, meaning that the independent and control variables can explain ROA by 80.2% and the other 19.8% is influenced by other models. In the second regression model (ROE), the adjusted R square value is 0.871, it means that the independent and control variables in this study can explain ROE up to 87.1%, while the remaining 12.9% is explained by other models. In the third regression model (Tobin's Q), it can be seen that the adjusted R square value is 0.577, it means that the independent and control variables can explain Tobin's Q by 57.7% and the left are explained by other models outside this study.

F Test Result

Based on Table 2, it can be seen that ROA, ROE, and Tobin's Q has a significance value smaller than 0,05. All of them have a significance value of 0,000. So, it can be concluded that the independent variables have a simultaneous positive and significant effect on the dependent variables.

Table 2: F test results

Model		Sum of Squares	Df	Mean Square	F	Sig.
ROA	Regression	11,277	5	2,255	44,801	0,000
	Residual	2,467	49	0,05		
	Total	13,744	54			
ROE	Regression	12,774	5	2,255	73,946	0,000
	Residual	1,693	49	0,035		
	Total	14,467	54			
TOBIN'S Q	Regression	8,057	5	1,615	15,747	0,000
	Residual	5,025	49	0,103		
	Total	13,1	54			

Source: Secondary data processed, 2023

T Test Result

Based on the t test result of ROA on the Table 3, it is known that the significance value of ENV, CSR, GVN, and TATO variable is 0,000 which means < 0,05, so it can be concluded that the variables partially affect dependent variable in this research. However, the ENV variable has a negative B value, so this variabel has a negative effect on ROA, but CSR, GVN, and TATO have a positive effect on ROA.

Table 3: t test results (ROA)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-3,356	0,186		-18,019	0,000
ENV	-0,482	0,098	-0,343	-4,924	0,000
CSR	0,509	0,087	0,418	5,855	0,000
GVN	2,233	0,388	0,375	5,748	0,000
SZ	0,080	0,030	0,167	2,643	0,011
TATO	0,955	0,071	0,864	13,529	0,000

Source: Secondary data processed, 2023

Based on Table 4, all independent and control variable have a significance value smaller than 0,05. However, the ENV variable has a negative B value, so this variable has a negative and significance effect on ROE. While the other variables have a positive B value, so it can be concluded that CSR, GVN, SZ, and TATO have a positive and significance effect on ROE.

Table 4: t test results (ROE)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-3,493	0,154		-22,640	0,000
ENV	-0,659	0,081	-0,458	-8,130	0,000
CSR	0,541	0,072	0,433	7,511	0,000
GVN	1,376	0,322	0,226	4,276	0,000
SZ	0,207	0,025	0,423	8,268	0,000
TATO	0,975	0,058	0,860	16,667	0,000

Source: Secondary data processed, 2023

Based on Table 5, it is known that the GVN, SZ, and TATO variable have a positive and significance effect on market performance which proxied by Tobin's Q, but ENV variable has a negative and significance effect on Tobin's Q. However, for CSR variable has a significance value higher than 0,05, so it can be concluded that CSR doesn't have an influence on market performance by Tobin's Q.

Table 5: t test results (Tobin's Q)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-0,913	0,266		-3,435	0,001
ENV	-0,423	0,140	-0,309	-3,033	0,004
CSR	0,057	0,124	0,048	0,457	0,649
GVN	3,284	0,554	0,566	5,924	0,000
SZ	0,130	0,043	0,279	3,007	0,004
TATO	0,727	0,101	0,673	7,209	0,000

Source: Secondary data processed, 2023

Discussion

The effect of environmental disclosure (ENV) on the company's operational performance (ROA). The test results in Table 3 show that ENV has a significance value of 0.000 and a B value of -0.482. These results indicate that environmental disclosure has a negative and significant effect on operational performance (ROA). So hypothesis 1a is rejected. This result does not align with stakeholder theory, which claims that disclosure of environmental-related issues can increase stakeholder trust, which can be an advantage to the company's profitability level.

It is different from this theory, the results of Alareeni and Hamdan's (2020) research also found a negative correlation between ENV and ROA. This happens because of the high costs of the disclosure process, so it is decreasing the profit. Besides, in terms of expenses, there are other arguments that mention the cause of ENV having a negative effect on ROA. According to Khancel, *et al.* (2023) the more environmental information that is disclosed to the public actually makes stakeholders overwhelmed in understanding the information, so all the information is presented loosely from their attention.

However, there are other studies that are consistent with stakeholder theory, namely (Shakil *et al.*, 2019^[39]; Al Amosh *et al.*, 2023^[2]; Durlista and Wahyudi 2023)^[13] which confirm that disclosure of environmental information contributes positively to ROA. These results are aligned with stakeholder theory as well as supporting the opinion of Maji and Lohia (2022)^[24] who stated that of the three aspects of ESG, the environmental component is the component that is the main concern of stakeholders so that it has a positive effect on the company's operational performance.

The effect of social disclosure (CSR) on the company's operational performance (ROA). Based on Table 3, the CSR variable has a significance value of 0.00 and a B value of 0.509, so it can be concluded that CSR has a positive and significant effect on operational performance (ROA) and hypothesis 1b is accepted.

These results support previous research by (Shakil *et al.*, 2019^[39]; Al Amosh *et al.*, 2022) which found a significant positive correlation between social disclosure and operational performance. The positive correlation is due to the company's social role, which shows its concern for the social conditions of society, so that it is more liked and trusted by the public. Both of these contribute to improving the company's reputation, becoming a factor to consider in evaluating the company's performance. This statement is in accordance with legitimacy theory, where support and legitimacy from the public are needed by companies to improve performance and maintain the sustainability of the company's business.

In addition to being a legitimization tool to get public support and trust, CSR is also a company's effort to respond to the demands of stakeholders. Through company programs that prioritize concern for the social environment and are able to balance their programs with prevailing values and norms, it can be expected to generate public trust. So it is easier for the company to get support for all its business activities that can increase profits. The increase in company profits, followed by effectiveness in resource management, will certainly have a positive effect on the return on assets, which are later used to finance the company's operational activities.

The effect of governance disclosure (GVN) on the company's operational performance (ROA). Based on the test results in Table 3, the GVN variable has a significance value of 0.00 and a B value of 2.233, so it can be concluded that the GVN variable has a positive and significant effect on ROA. Thus, hypothesis 1c is accepted.

The results of this study support stakeholder theory and legitimacy theory. The disclosure of information to satisfy public demands that is disclosed transparently can be more trusted because stakeholders become aware of the management system in the company. As stated by Hartono and Adiwibowo (2023), good governance disclosure can minimize the risk of conflict between the company and other parties related to business activities.

Companies with a good governance system show compliance with business ethics. Then, information that is communicated in a transparent manner can show its credibility in public. As a result, GVN disclosure becomes an appropriate consideration for stakeholders when making decisions. Thus, the disclosure can increase profits through the aid of donations from investors to cover the company's resources that are used in operational activities.

The effect of environmental disclosure (ENV) on corporate financial performance (ROE). The results in Table 4 show that ENV has a significance value of 0.00 with a B value of -0.659, meaning that ENV has a negative and significant effect on ROE. Thus, hypothesis 2a is rejected.

These results do not align with stakeholder theory because ENV actually reduces profits, which then decreases the company's performance. This condition makes it difficult for companies to obtain capital from investors because there is an assumption that the company is unable to generate good profits. The test results in this study also do not support the opinion of Buallay (2019)^[12], which reveals that ENV has a positive effect on ROE because it can minimize business threats. Based on the t test, ENV actually creates a business threat because it reduces ROE, so the company has a risk of encountering a threat.

Even so, there are studies that find the same results as this study. Research by Alareeni and Hamdan, 2020; Shaikh, 2021)^[38] shows that ENV causes a decrease in ROE because carrying out sustainable activities requires a large cost, which can result in the company experiencing financial suffering. Then, this research was conducted in the COVID-19 period, during which many companies experienced a decline in profits. CSR disclosure that requires a lot of costs in the midst of a company's weak economy will certainly worsen the company's financial condition. Thus, the company's performance also decreased.

The effect of social disclosure (CSR) on the company's financial performance (ROE). Based on Table 4, the value of CSR has a significance value of 0.00 with a B value of 0.54. These results indicate that social disclosure has a positive and significant effect on ROE. Thus, hypothesis 2b is accepted.

Consistent with stakeholder theory, CSR is one of the company's attempts to show its concern for society's issues as a response to stakeholder demands. As explained by (Al Amosh and Khatib, 2023^[2]; Treepongkaruna and Suttipun, 2024)^[40], CSR is positively correlated with ROE because CSR shows social responsibility that can minimize conflict

with society. This can create a good relationship between the company and stakeholders. Thus, it becomes easier for companies to obtain capital funds to maximize profits.

Capital plays an important role in business sustainability. So, the company should increase a program that involves CSR aspects and then disclose it to the public. In accordance with the research of Aritonang and Rahardja (2022) ^[7], who said that the more information on social responsibility practices that is disclosed, the more the company's profits will increase. An increase in capital, followed by good management, can assist the company in obtaining maximum profit. Thus, the return on capital received by the company is also increasing.

The effect of governance disclosure (GVN) on corporate financial performance (ROE). Table 4 shows that the GVN variable has a significance value of 0.00 and a B value of 1.376, so it can be concluded that GVN has a positive and significant effect on financial performance (ROE). Thus, hypothesis 2c is accepted.

Align with legitimacy theory as well as validating the findings (Ruan and Liu, 2021) ^[32], which indicate that governance can enhance the transparency of corporate management and is capable of optimizing the ENV and GVN factors to improve business performance. Information that is presented with transparency is more trusted by stakeholders, so it is easier for companies to attract stakeholders, especially investors, to increase capital receipts. This is because the amount of governance information being disclosed illustrates the integrity of the company in achieving its goals and maintaining its business continuity. The capital obtained can be used by the company to carry out business strategies that can increase profits.

This is reinforced by Durlista and Wahyudi's research (2023), which reveals that GVN is capable of optimizing the business operating system in order to increase profits and maintain the company's business continuity. The increase in company profits can affect the value of the return on capital ratio, which then also has an impact on the company's financial performance.

The effect of environmental disclosure (ENV) on the company's market performance (Tobin's Q). Based on table 5, the ENV variable has a significant value of 0.004 and a B value of -0.423. These results indicate that ENV has a negative and significant effect on market performance (Tobin's Q), so hypothesis 3a is rejected.

These results are contradicted by stakeholder and legitimacy theories, which say that transparency in information disclosure can create a positive image and public trust that can affect the company's position in the market. This statement is not in accordance with the research results, which are supported by the opinion of Kurniawan, *et al.* (2018) ^[23] that an attempt to improve the company's image through ENV disclosure cannot affect market performance. This is because the sustainability action has a significant impact over a long period of time, while in a short time the results cannot be seen properly. As stated by Velte (2017) ^[41], the process and impact of sustainable actions take place over a long period of time.

Previously, (Buallay, 2019 ^[12]; Alareeni and Hamdan, 2020) stated that market performance increases as environmental disclosure increases. However, these results are opposite to the research, this can occur due to differences in objects.

Based on the percentage of ESG scores that are still below 50%, accompanied by many environmental damage events, it is suspected that the disclosure is only made to improve the company's image. So that the investors are less interested in buying shares, thus the demand for shares in the market decreases, leading to a decrease in the company's value and market performance.

The effect of social disclosure (CSR) on the company's market performance (Tobin's Q). The t test results in Table 5 for the CSR variable with a significance value of 0.649 and a B value of 0.057 indicate that CSR has no effect on market performance (Tobin's Q). Hence, hypothesis 3b is rejected.

The results of this test are not consistent with stakeholder theory, which says that companies that are capable of responding to stakeholder needs can easily gain support from stakeholders. Previous research by Behl, *et al.* (2022) ^[10] suggests that CSR has imposed high costs on the company. Based on the period in this study, which includes the COVID-19 period, Behl's statement seems to be in accordance with these conditions. During the COVID-19 pandemic, several companies changed their policies to comply with health protocols. The costs incurred to support changes in company policy are applied to products, so that product prices have increased and decreased customer interest. This resulted in a decrease in profits and stakeholder interest in buying shares. Therefore, the value of the company's shares in the market *also* decreases.

There is no effect between CSR and market performance in this study, supporting the opinion of Kurniawan, *et al.* (2018) ^[23] which argues that social disclosure focuses on the direct relationship between the company and the surrounding community and company employees, so there is no relationship between CSR and the investor's interest in buying shares.

The effect of governance disclosure (GVN) on company market performance (Tobin's Q). Table 5 shows that the significance value of the GVN variable is 0.000 with a B value of 3.284. These results indicate a positive and significant correlation between GVN and market performance (Tobin's Q), so hypothesis 3c is accepted.

The results of this study support stakeholder theory, which focuses on the alignment of interests between stakeholders and the company. The amount of disclosure of information about governance that has been presented in an accurate and transparent way can eliminate stakeholder doubts because often this information, especially about company management, is hidden. With the disclosure, stakeholders believe that the company has the ability to realize their demands and provide beneficial impacts. This also has an impact on the company's reputation, which becomes more well known to the market, so that many investors are interested in buying the company's shares. The increased demand for shares certainly affects the value of the company, which ultimately also affects market performance. This result also supports the research of Saygili, *et al.* (2021), who said that GVN disclosure had contributed significantly to the company's market performance.

There are other arguments for explaining the results of this study. Previously, (Velte, 2017 ^[41]; Buallay, 2019) ^[12] have shown that management information that was disclosed to the public had an impact on company performance. This

statement is reinforced by Alareeni and Hamdan's (2020) ^[3] research, which says that GVN disclosure is an important factor in the sustainability of a company's business because it provides an overview of the governance system that complies with applicable laws and business ethics. Thus, investors' interest in buying the company's shares in the market has increased. It has an effect on the Q ratio because there is an increase in funds entering the company's finances.

Conclusion and Limitations

Conclusion

Based on the test results and analysis of the results, it was found that the ENV variable had a negative and significant effect on ROA, ROE, and Tobin's Q. This is because in the process of ENV disclosure, there are high costs required, so the company must spend more funds, which can reduce profits. Furthermore, the CSR variable has a positive and significant influence on ROA and ROE because the company's concern for social issues manifested in social programs can increase public trust. Through this trust, it becomes easier for companies to obtain additional funds to help finance operational activities in order to increase company profits. However, CSR has no effect on Tobin's Q because CSR focuses more on the company's relationship with the local community than with investors. Last, the GVN variable has a positive and significant effect on ROA, ROE, and Tobin's Q because a good governance system describes the company's compliance with the law. Then, transparency in information disclosure can be trusted more by stakeholders, especially investors, so that the support obtained by the company increases. That could increase the company's profit through the support of capital funds and stock purchases.

Limitations

This Study has a several limitations, such as (1) limited research time, which is only carried out over a 5-year period. (2) The measurement of ENV, CSR, and GVN variables in this study uses ESG scores sourced from Bloomberg, so it is not known exactly how the ESG assessment is for each company. (3) Many manufacturing companies have not published ESG, so the number of companies for the research sample is limited. (4) This study has not considered other factors that can change the influence of ESG on company performance.

Suggestions

Further studies can respond to several limitations on this study. Further studies can extend the research period to get more accurate results, use other ways to measure ESG scores for example, by manual calculation using sustainability reports, can add objects in order to achieve better results, consider other factors as mediators between ESG and company performance.

References

1. Akbar A, Jiang X, Qureshi MA, Akbar M. Does corporate environmental investment impede financial performance of Chinese enterprises? The moderating role of financial constraints. <https://doi.org/10.1007/s11356-021-14736-2>/Published.
2. Al Amosh H, Khatib SFA. ESG performance in the time of COVID-19 pandemic: cross-country evidence. *Environ Sci Pollut Res*,2023;30(14):39978–39993. <https://doi.org/10.1007/s11356-022-25050-w>.
3. Alareeni BA, Hamdan A. ESG impact on performance of US S&P 500-listed firms. *Corporate Governance (Bingley)*,2020;20(7):1409–1428. <https://doi.org/10.1108/CG-06-2020-0258>.
4. Albitar K, Gerged AM, Kikhia H, Hussainey K. Auditing in times of social distancing: the effect of COVID-19 on auditing quality. *Int J Account Inf Manage*,2021;29(1):169–178. <https://doi.org/10.1108/IJAIM-08-2020-0128>.
5. Almajali AY, Alamro SA, Al-Soub YZ. Factors Affecting the Financial Performance of Jordanian Insurance Companies Listed at Amman Stock Exchange. *J Manag Res*,2012;4(2). <https://doi.org/10.5296/jmr.v4i2.1482>.
6. Almeyda R, Darmansyah A. The Influence of Environmental, Social, and Governance (ESG) Disclosure on Firm Financial Performance.
7. Aritonang DR, Rahardja L. Pengaruh Corporate Social Responsibility (CSR) terhadap Kinerja Keuangan pada Perusahaan Sektor Consumer Non-Cylical dan Basic Material. *Int J Digit Entrep Bus*,2022;3(2):60–73. <https://doi.org/10.52238/ideb.v3i2.96>.
8. Baier P, Berninger M, Kiesel F. Environmental, Social, and Governance Reporting in Annual Reports: A Textual Analysis. *Financ Mark Inst Instrum*,2010;29(3):930118. <https://doi.org/10.1111/fmii.12132>.
9. Barnett ML, Salomon RM. Does It Pay to Be Really Good? Addressing the Shape of the Relationship between Social and Financial Performance. *Strateg Manag J*,2012;33:1304-1320. <http://dx.doi.org/10.1002/smj.1980>.
10. Behl A, Kumari PSR, Makhija H, Sharma D. Exploring the relationship of ESG score and firm value using cross-lagged panel analyses: case of the Indian energy sector. *Ann Oper Res*,2022;313(1):231–256. <https://doi.org/10.1007/s10479-021-04189-8>.
11. Bofinger Y, Heyden KJ, Rock B. Corporate social responsibility and market efficiency: Evidence from ESG and misvaluation measures. *J Bank Finance*,2022;134. <https://doi.org/10.1016/j.jbankfin.2021.106322>.
12. Buallay A. Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. *Manag Environ Qual Int J*,2019;30(1):98–115. <https://doi.org/10.1108/MEQ-12-2017-0149>.
13. Durlista MA, Wahyudi. Pengaruh Pengungkapan Environmental, Social, dan Governance (ESG) terhadap Kinerja Perusahaan pada Perusahaan Sub Sektor Pertambangan Batu Bara periode 2017-2022. *J Ilmiah MEA Manaj Ekon Akunt*,2023;7(3).
14. Fahad P, Busru SA. CSR disclosure and firm performance: evidence from an emerging market. *Corporate Governance (Bingley)*,2020;21(4):553–568. <https://doi.org/10.1108/CG-05-2020-0201>.
15. Freeman RE, Dmytriyev S. Corporate Social Responsibility and Stakeholder Theory: Learning From Each Other. *Symphonya Emerg Issues Manag*,2020;1:7–15. <https://doi.org/10.4468/2017.1.02freeman.dmytriyev>.

16. Gillan SL, Brint Ryan G, Koch A, Starks LT. Firms and Social Responsibility: A Review of ESG and CSR Research in Corporate Finance. <https://www.morningstar.com/articles/961765/sustainable-fund-flows-in-2019-smash-previous-records>.
17. Henisz W, Koller T, Nuttall R. Five ways that ESG creates value Getting your environmental, social, and governance (ESG) proposition right links to higher value creation. Here's why.
18. International Association for Public Participation. Situasi dan Tantangan Perjalanan ESG di Indonesia, 2022. Available from: <https://iap2.or.id/situasi-dan-tantangan-perjalanan-esg-di-indonesia/>. Accessed August 9, 2023.
19. Jamali D, Karam C, Yin J, Soundararajan V. CSR logics in developing countries: Translation, adaptation and stalled development. *J World Bus*,2017;52(3):343–359. <https://doi.org/10.1016/j.jwb.2017.02.001>.
20. Kalia D, Aggarwal D. Examining impact of ESG score on financial performance of healthcare companies. *J Glob Responsib*,2023;14(1):155–176. <https://doi.org/10.1108/JGR-05-2022-0045>.
21. Khanchel I, Lassoued N, Baccar I. Sustainability and firm performance: the role of environmental, social and governance disclosure and green innovation. *Manag Decis*,2023;61(9):2720–2739. <https://doi.org/10.1108/MD-09-2021-1252>.
22. Khoury REL, Naimy V, Iskandar S. ESG versus corporate financial performance: Evidence from east Asian firms in the industrials sector. *Estud Econ Apl*,2021;39(3). <https://doi.org/10.25115/eea.v39i3.4457>.
23. Kurniawan, *et al*. Pengungkapan Sustainability Report dan Nilai Perusahaan: Studi Empiris di Indonesia dan Singapura. *Kompartemen J Ilmiah Akunt*,2018;16(1). <https://doi.org/10.30595/kompartemen.v16i1.2100>.
24. Maji SG, Lohia P. Environmental, social and governance (ESG) performance and firm performance in India. *Soc Bus Rev*,2023;18(1):175-194. <https://doi.org/10.1108/SBR-06-2022-0162>.
25. Mardini GH. ESG Factors and Corporate Financial Performance. *Int J Manag Financ Account*,2022;14(3). <https://doi.org/10.1504/IJMFA.2022.10045742>.
26. Massubagiyo SA, Widyawati D. Pengaruh Corporate Social Responsibility Terhadap Kinerja KEUANGAN Perusahaan.
27. Ministry Finance Republic of Indonesia. Environment, Social, and Governance (ESG) Framework in Government Support and Facility for Infrastructure Financing. Available from: <https://kpbu.kemenkeu.go.id>. Accessed September 15, 2023.
28. Mohammad WMW, Wasiuzzaman S. Environmental, Social and Governance (ESG) disclosure, competitive advantage and performance of firms in Malaysia. *Clean Environ Syst*,2021;2. <https://doi.org/10.1016/j.cesys.2021.100015>.
29. Ningwati G, Septiyanti R, Desriani N. Pengaruh Environment, Social and Governance Disclosure terhadap Kinerja Perusahaan. *Goodwood Akuntansi Dan Auditing Reviu*,2022;1(1):67-78. <https://doi.org/10.35912/gaar.v1i1.1500>.
30. Nugroho NA, Hersugondo H. Analisis Pengaruh Environmental, Social, Governance (ESG) Disclosure terhadap Kinerja Keuangan Perusahaan. *E-Bisnis*,2022;15(2). <http://journal.stekom.ac.id/index.php/E-Bisnis> 233.
31. Pham HST, Tran HT. CSR disclosure and firm performance: The mediating role of corporate reputation and moderating role of CEO integrity. *J Bus Res*,2020;120:127-136. <https://doi.org/10.1016/j.jbusres.2020.08.002>.
32. Ruan L, Liu H. Environmental, social, governance activities and firm performance: evidence from China. *Sustainability*,2021;13(2):1-16. <https://doi.org/10.3390/su13020767>.
33. Safriani MN, Utomo DC. Pengaruh Environmental, Social, Governance (ESG) Disclosure Terhadap Kinerja Perusahaan. *Diponegoro J Account*. 9:1-11. <http://ejournal-s1.undip.ac.id/index.php/accounting>.
34. Sahir, Syafrida. Metodologi Penelitian. Jogyakarta: Penerbit KBM Indonesia,2021. Available from: <https://repositori.uma.ac.id/handle/123456789/16455>. Accessed October 5, 2023.
35. SAL POJK 51 - keuangan berkelanjutan.
36. Saygili E, Arslan S, Birkan AO. ESG practices and corporate financial performance: Evidence from Borsa Istanbul. *Borsa Istanbul Rev*,2022;22(3):525-533. <https://doi.org/10.1016/j.bir.2021.07.001>.
37. Sekaran U, Bouiger R. Research Methods for Business: a skill-building approach. 7th ed. Chichester, West Sussex, United Kingdom: John Wiley & Sons, 2016. Accessed October 3, 2023.
38. Shaikh I. Environmental, social, and governance (ESG) practice and firm performance: An international evidence. *J Bus Econ Manag*,2021;23(1):218-237. <https://doi.org/10.3846/jbem.2022.16202>.
39. Shakil MH, Mahmood N, Tasnia M, Munim ZH. Do environmental, social and governance performance affect the financial performance of banks? A cross-country study of emerging market banks. *Manag Environ Qual Int J*,2019;30(6):1331-1344. <https://doi.org/10.1108/MEQ-08-2018-0155>.
40. Treepongkaruna S, Suttipun M. The impact of environmental, social and governance (ESG) reporting on corporate profitability: evidence from Thailand. *J Financ Rep Account*,2024. <https://doi.org/10.1108/JFRA-09-2023-0555>.
41. Velte. Does ESG performance have an impact on financial performance? Evidence from Germany. *J Glob Responsib*,2017;2041-2568. <https://doi.org/10.1108/JGR-11-2016-0029>.
42. Wahdan AI, Rahmawati R. Dampak Environmental, Social, Dan Governance (ESG) Terhadap Kinerja Keuangan. *J Akad Akunt*,2023;6(2):225-241. <https://doi.org/10.22219/jaa.v6i2.26674>.
43. Wasiuzzaman S, Ibrahim SA, Kawi F. Environmental, social and governance (ESG) disclosure and firm performance: does national culture matter? *Meditari Account Res*,2023;31(5):1239-1265. <https://doi.org/10.1108/MEDAR-06-2021-1356>.
44. Yoon B, Lee JH, Byun R. Does ESG performance enhance firm value? Evidence from Korea. *Sustainability*,2018;10(10). <https://doi.org/10.3390/su10103635>.