THE EFFECT OF ENVIRONMENTAL SOCIALGOVERNANCE (ESG) DISCLOSURES ON FINANCIAL PERFORMANCE IN COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study aims to examine and analyze the effect of ESG disclosure on the projected Financial Performance with ROA and Sales Growth in companies listed on the Indonesia Stock Exchange. The research design used is causal quantitative. The sampling technique was purposive sampling, with a total sample that met the criteria of 19 companies. The research subjects are companies listed on the Indonesia Stock Exchange, and the research objects are ES and ROA. Data was collected through document recording and analyzed using multiple linear regression analysis. The results of the study show that (1) ESG has a negative and significant effect on ROA.

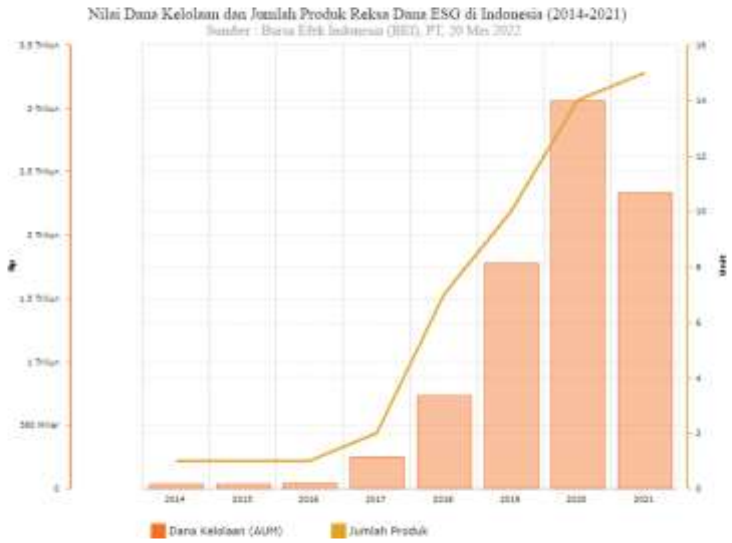
Keywoard: Environment, Social, Governance (ESG), Return On Assets (ROA), Financial Performance

1. Introduction

The purpose of establishing a company is inseparable from generating profits or adding value to the company. In measuring efficiency and effectiveness can be measured using financial performance. There are several factors that influence financial performance, namely capital structure, company size and total asset turnover (Sriwiyanti et al, 2021). Meanwhile, according to Faisal et al (2017) the measurement tool that can be used is to use several ratios, namely Liquidity Ratios, Leverage/solvability Ratios, Activity Ratios, Profitability/Income Ratios and Valuation Ratios.Disclosure of environmental, social and corporate governance responsibilities is expected to create a good reputation for the company. The company's income will eventually increase with increasing levels of reputation and consumer trust in the company so that it has an impact on capturing loyalty to the company itself (EY, 2013: Putri, 2021).

The Covid-19 pandemic that occurred certainly had an impact on the financial performance of companies listed on the Indonesia Stock Exchange. Many companies have experienced a decline in income. Based on data from the Central Statistics Agency (BPS), 82.85% of companies experienced a decrease in revenue due to the Covid-19 pandemic. Meanwhile, 14.6% of companies have fixed income. The remaining 2.55% of companies experienced an increase in revenue. The company's declining income level will affect cash flow because the company requires costs for its operational activities. Additionally, a survey conducted by the Ministry of Manpower noted that 88% of companies were affected by the pandemic and were in a state of loss. The loss was due to a decrease in the company's sales and income.

ESG-based investment in Indonesia has been on the rise. Based on data from the Indonesia Stock Exchange (IDX), the number of listed companies conducting sustainability reporting is increasing where as of 30 December 2021 there were already 154 listed companies or around 20% of the total stock 'listing' companies that issued and reported sustainability (sustainability reports). Disclosure of this sustainability report is not only used by global but also domestic investors in assessing the application of ESG in companies. The same thing is also shown by the value of assets under management (AUM). In 2014, when it was first launched, there was only one ESG mutual fund product. However, over time ESG mutual fund products continue to experience growth. In March 2021, the AUM of ESG mutual funds will reach IDR 2.3 trillion. Until 2021 there are 15 ESG-based mutual fund products in Indonesia. This figure proves that companies are increasingly aware that social and environmental aspects are an importantpart of running their business.



Figures 1.

Value of Funds Assets Under Management and Number of ESG Mutual Fund Products in Indonesia.

Based on research conducted by Naufal Adi, 2022 states that ESG Disclosure has a significant positive effect on the company'sfinancial performance (Return on Assets). The results of this study are in line withthe stakeholder theory where the theory states that the presence of stakeholders has an influence on the running of the company's performance through their support and trust. This studyshows that the three ESG components have an impact on financial performance. This isin contrast to research conducted by Era and Susi, 2022 that ESG disclosure has no effect on financial performance which is proxied by ROA, Tobin's Q and Sales Growth. Nasruzzaman Naeem,Serkan Çankaya (2021) stated that ESG performance has a significant correlation with the financial performance of energy and power generation corporations.

Many empirical studies in Indonesia only focus on one dimension of ESG and very few have conducted research on all three dimensions. This study will use the ESG disclosure score obtained from the company's annual sustainability report..This research shows t hat companies not only carry out operational functions but also provide benefits to their stakeholders. Based on this background, the authors are interested in researching "The Effect of ESG Disclosure on Financial Performance in Companies Listed on the Indonesian Stock Exchange". This study retrieves company data from the 2019-2021 period.

Based on the formulation of the problem above, the objectives of thisstudy are: (1) To Test the Effect of ESG Disclosure on Return On Assets (ROA) of Companies Listed on the Indonesia Stock Exchange. The results of this study can be used as information in making decisions for investors by considering the sustainability report. Environmental Social Governance (ESG) is a standard for companies in carrying out their investment practices which consists of three main components, namely environmental, social, and governance. Companies that apply the ESG concept will participate in implementing various policies by considering the three components contained in ESG. Environmental factors include the company's relationship with the physical environment, social factors include thecompany's social impact on society, and governance factors relate to how the companies managed. Social criteria discuss the company's relationship with external parties such as the community, suppliers, community groups, buyers, and other legal entities that have a relationship with the company (Hilwa and Sihar, 2021). Governance criteria focus on company internals such as 10 discussing the management system and sustainability in all its aspects. This criterion depends on company activities carried out by management and company owners so as to produce output that is in accordance with the wishes, standards, culture, and matters relating to the company (Kevin and Valentino, 2021

The ratio used to measure financial performance is Return On Assets (ROA). ROA is a ratio that can measurea company's abilityto generate profits in the past to be projected in the future. Return on Asset (ROA) ratio analysis is carried out to measure the extent to which this profitability ratio describes the company's performance in generating returns on a number of certain assets produced by the company (Naufal,2022). High ROA indicates that the company is successful in obtaining high profit.

Disclosure of information related to ESG is demanded by stakeholders. The company will try to provide information disclosure on the company's business activities to be able to change the perceptions and expectations of stakeholders. A good ESG score can provide a good image for the company. The support provided by stakeholders to the company will affect the sustainability and existence of a company (Ghozali and Chariri, 2007). In line with the stakeholder theory and legitimacy theory previously described, companies must provide benefits to all company stakeholders and not only focus on profits, but also in their activities must be in accordance with the values and social norms that develop in the community where the company is located. established (Rendy, 2019). Therefore, the company always tries to build a positive value in the eyes of society. If the company has a good image, it will be able to encourage increased funds from stakeholders. Increasing working capital will support operational improvements which will have an impact on increasing company profits. Thus ROA will increase with increasing company profits as well. Return on Assets ratio analysis is carried out to measure the 16 extent to which this profitability ratio describes the company's performance in generating returns on a number of certain assets produced by the company (Naufal, 2022). The implication is that the higher the company's ROA value, the higher the profit generated. Based on this description, the hypothesis is as follows Based on this description, the hypothesis is as follows:.

H1: ESG disclosure has a positive significant effect on ROA

2. Method

The research sites used in this research are companies listed on the Indonesia Stock Exchange and issuing sustainable reports successively. While the research time was compiled by researchers to facilitate the implementation of this research activity, namely from October 2022 to February 2023. This study uses a causal quantitative research design. Causal quantitative research is a scientific approach to research that aims to obtain evidence of a causal relationship or influence of research variables (Yogi, 2022). In this study the independent variable is ESG Disclosure (X). While the dependent variable is Financial Performance (Y) as measured by ROA (Y_1),) and Sales Growth (Y_2). In this study, the sampling method used purposing sampling. According to Sugiyono (2013: 392) purposing sampling is a sampling technique for data sources with certain considerations. The criteria are as follows (1) Companies listed on the Indonesia Stock Exchange, (2) Every company that has issued ESG reports in 2019- 2021 in a row, (3) Have complete data relating to the variables used in this study.

From a population of 96 companies listed on the Indonesia Stock Exchange, there were 75 companies that did not meet the criteria to be used as samples, because the firm did not report ESG consecutively during the study period. So that there were 21 companies that met

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the criteria as samples in this study. There are 63 samples in this study calculated from 2019-2021. A list of stock codes and company names listed on the Indonesia Stock Exchange that meet the criteria and are the sample for this study.

The document recording method is a data collection method by recording data related to the issues to be examined in the annual reports accessed from the Indonesia Stock Exchange through the official website of the Indonesia Stock Exchange (www.idx.co.id) and their on website of the company. This study uses the method of data analysis multiple linear regression. The methods of data analysis in this research consist of descriptive statistical analysis, classical assumption test and hypothesis testing. Processing in this study used the Statistical Software for Data Science (STATA) program.

3. Result and Disscusion

From descriptive analysis test shows that ROA and ESG have an average value that is greater than the standard deviation, which indicates that the distribution of data is evenly distributed and has values that do not vary. Meanwhile, Sales Growth has an average value smaller than the standard deviation

Table. 1
Descriptive Statistic Test Result

Variable	Obs	Mean	Std. Dev.	Min	Max
Y_1	57	1.567815	.2628111	.9100398	2.096395
X	57	33.49123	9.219782	19	55

Source: Output Stata

The results of the normality and heteroscedasticity tests showed that the data were normally distributed and there were no symptoms of heteroscedasticity. Based on the results of the classical assumption test, the data is declared feasible for further testing in hypothesis testing.

Table 2
Multiple Linear Regression Analysis Result

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Reg ROA ESG

      Source |       SS       df       MS              Number of obs =      57
-------------+------------------------------           F(  1,    55) =    4.08
       Model |  .267041596     1  .267041596           Prob > F      =  0.0483
    Residual |  3.60085874    55  .065470159           R-squared     =  0.0690
-------------+------------------------------           Adj R-squared =  0.0521
       Total |  3.86790034    56  .069069649           Root MSE      =  .25587

------------------------------------------------------------------------------
square_root2 |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         ESG |  -.0074899   .0037086    -2.02   0.048     -.014922   -.0000577
       _cons |    1.81866   .1287455    14.13   0.000     1.560649    2.076672
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Based on the results of multiple linear regression tests, the constant value (α) and the regression coefficient value are obtained. From these results, the regression equation is formulated Y_1= 1.818 – 0,007 ESG + 0,255. Based on the first regression equation, the results can be interpreted : the constant (α) is 1,818, meaning that if the ESG value is equal to zero, then the ROA is 1,818. The value of the ESG coefficient (β_1) of 0.007 means that ROA has a negative effect on ESG. This means that for every one unit increase in ROA, the ESG variable decreases by 0.007 so that it becomes 1,817.9 provided that the other independent variables remain the same. The higher the ROA value, the ESG will decrease and vice versa if ROA decreases, ESG will increase. The error value is 0.255, which means that there are other variables that can affect ESG besides ROA of 25%. The R^2 value is 0.0690 or (6.9%). This shows that ESG is affected by ROA of 6.9% while 93.1% is influenced by other variables not examined in this study. Based on the results of the multiple linear regression test, it can be seen that the p-value is 0.04830 <alpha 0.05, so it can be concluded that Ho is rejected, which means that there is a significant effect of ESG on ROA.

Based on the results of the research that has been done, it can be found that there is a partial and significant effect of ESG disclosure on the ROA of companies listed on the Indonesia Stock Exchange. The results of this study are in line with the results of research conducted by Maulida et al (2020) which revealed that the higher the ESG disclosure score obtained by the company, the higher the rate of return on company assets. Empirical studies that support this result are Era et al (2021) and Andi Gazali et al (2020).

The results of this study are in line with the stakeholder theory which states that a company is obliged to be responsible and beneficial to its stakeholders, because its existence is highly dependent on the support of its stakeholders (Gustin et al 2022). Relationships with the establishment of good relationships with stakeholders will support good business operational performance so as to help the company achieve its goals and generate greater profits.In addition, the results of this study are in line with the theory of legitimacy, Braam, L, Hauck, & Huijbregts, (2016) in (Era et al 2021) states that when a company cannot meet public expectations, the company has the potential to experience public pressure which results in the emergence of a legitimacy gap. . The public views that companies that pay attention to ESG disclosure are considered more companies that disclose ESG are considered to pay attention to that values and norms in society. Support from the community will help the company increase the value and image of the community so that it will affect the profitability that the company gets. In this way, ESG disclosure becomes an important factor in improving the company's financial performance. So companies from various sectors should start paying attention to ESG disclosure.

Based on the results of this study, companies must pay attention to the three aspects of disclosing ESG. In terms of the environmental aspect, companies can use environmentally friendly energy in their operational activities, manage waste so that it does not become a pollutant and so on. Meanwhile, in terms of environmental aspects, companies can ensure a healthy and safe work environment for employees, choose suppliers with ESG policies and practices and so on. Then in improving aspects of corporate governance, you can use the specified accounting standard method, connecting all shareholders, shareholders have the opportunity to participate in voting regarding decisions regarding important matters within the company and so on. These three aspects are important for the company to pay attention to. The application of ESG will help companies expand their market through various social and environmental engagements. Companies that apply ESG will also be viewed better by society, thereby encouraging investors to invest in companies. The increase in capital from investors will encourage an increase in operational costs so as to increase the company's profitability. Although the contribution of ESG influence to company profitability is relatively small, because the application of ESG in the short term reduces costs for companies. But ESG can provide benefits in the long term for companies. Shareholders, investors, creditors, governments and other stakeholders expect companies to do more on ESG because when they meet and exceed these expectations, the market will most likely reward them (Mahmud Aydogmus, 2022).

4. Conclusion and Suggestion

This study aims to determine the effect of ESG on the projected Financial Performance with ROA and Sales Growth. The object of this research is a company listed on the Indonesia Stock Exchange for a period of three years, namely 2019-2021. The results of the research can be used as additional knowledge for the accounting literature regarding the effect of ESG disclosure on Financial Performance. In addition, the results of this study are expected to be a consideration for management to pay attention to ESG aspects that can affect Financial Performance, as well as a consideration for investors in making investment decisions.

This study uses a causal quantitative design. Data collected to support research is collected through document recording. In processing the research data using multiple linear

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regression analysis with the STATA program. The results of the study show that ESG has a negative and significant effect on ROA.

The limitation in this research is the limited number of samples. This is because not all companies listed on the Indonesia Stock Exchange disclose ESG and several companies have not consistently disclosed ESG. This study was also limited to a period of three years. The research variable only uses three variables, there are still many other variables that can project financial performance. Based on the results of research that has been done, conclusions can be drawn (1) ESG (X) has a negative and significant effect on the ROA (Y_1) of companies listed on the Indonesia Stock Exchange.

Based on the results of the discussion and conclusions that have been stated above, several suggestions can be put forward as follows. (1) For companies to pay more attention to the three aspects of Environment, Social, and Governance in running their business because they can affect the company's profitability. (2) For investors, ESG can be one of the considerations in making investment decisions, because ESG can indicate that the company is more responsible (3) For further research, it is expected to be able to consider other variables that can project financial performance such as ROE, Tobin's Q, ROIC, stock returns and others. Future research can examine ESG aspects separately

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