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The Influence of *Environmental, Social, Governance* (ESG) Disclosures on Financial Performance

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Abstract

This research aims to examine the effect of disclosure of environmental performance, social performance, governance performance (ESG) on company financial performance as proxied by Return on Assets (ROA). Data analysis This research uses panel data regression analysis. The research used 13 samples of KBMI 3 and 4 bank financial industry companies listed on the Indonesia Stock Exchange (BEI) for the 2020-2022 period. The sample was selected using a purpose sampling technique. This research uses the Return on Assets (ROA) proxy as financial performance. The test results show that individually there is no significant effect of disclosure of environmental performance, social performance, governance performance (ESG) on the company's financial performance.

Keywords: *environmental; governance; ROA; social; sustainability report*

Introduction

Global business players' awareness of the practices and implementation of operational activities to better support environmental sustainability, environmental friendliness and positive impacts on social activities has increased in the last two decades (OJK Institute, 2022) . Business activities must pay more attention to aspects of environmental damage, not only aimed at large economic profits. So far, the assessment of company performance has only been seen from the income it generates. According to (Scholtens, 2008) the impact of the relationship that exists between the company and the community and the surrounding environment really determines the survival of the company, so that currently companies are becoming aware of their social responsibilities.

Investors initially had the view that the benefits of ESG (Environmental, Social, and Governance) were not very important and the costs incurred were too large (OJK Institute, 2022). However, in recent years there has been a new trend among investors that when measuring company performance, they must take ESG factors into account. Most empirical evidence shows that "good" issuers will have high ESG scores. This means that ESG is directly proportional to the level of return on investment and the company's profitability ratio. In addition, assessing a company's environmental performance will have a significant positive effect on company value (Eccles et al., 2012). As a result, companies with the ESG/SRI (Sustainable and Responsible Investment) label are more likely to obtain a higher rate of return on investment (ROE) and continue to grow sustainably (Hassel, 2013).

Based on the two things explained above, different efforts are needed to meet the needs and improve the performance of the financial services industry (IJK) in Indonesia through the implementation of

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Environmental, Social and Governance (ESG) in a planned, measurable and sustainable manner. The Financial Services Authority as the regulator has issued Financial Services Authority Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies. In this regulation, Article 10 regulates that LJKs (Financial Services Institutions), Issuers and Public Companies are required to prepare Sustainability Reports, where the obligation to implement sustainable reporting begins in 2019. Sustainability reporting has developed and become one of the most important things for every organization (Ernst & Young, 2013) . With a sustainability report, companies are expected to be able to disclose the company's performance and the impact it has on all interested parties.

A company's financial performance is an important factor for users of financial reports, both internal and external to the company. In this research, financial performance is proxied by Return on Assets (ROA). ROA reflects how much the company has obtained results from the financial resources invested in the company (Ramadhan & Hidayat, 2023) . If the company's performance is good, the business value will also be high. For external parties, namely investors, information about the company's financial performance can be used to see whether they can maintain their investment in the company or look for other alternatives. The form of disclosure provided by companies, whether in the form of financial or non-financial information, has now turned out to be an important indicator in assessing and evaluating the performance of a company, regardless of whether the information can influence the company's performance or not (Safriani & Utomo, 2020) .

The use of environmental, social and governance performance information (ESG disclosure) is considered appropriate to encourage better business performance. This is reinforced by survey results (Nabil Al Faruq et al., 2021) . Companies that implement ESG disclosure become popular with many investors, not only abroad but also at home so that the company will become more prosperous. Based on the survey, as many as 88% of the companies surveyed showed a positive correlation to their operational performance when the company practiced ESG well. Meanwhile, up to 80% of companies showed better stock price movement performance.

Globe Scan and Global Reporting Initiative (GRI) survey (2020), i.t shows that more and more companies are realizing the important role of companies in maintaining environmental, social and corporate governance aspects to continue to gain public trust.

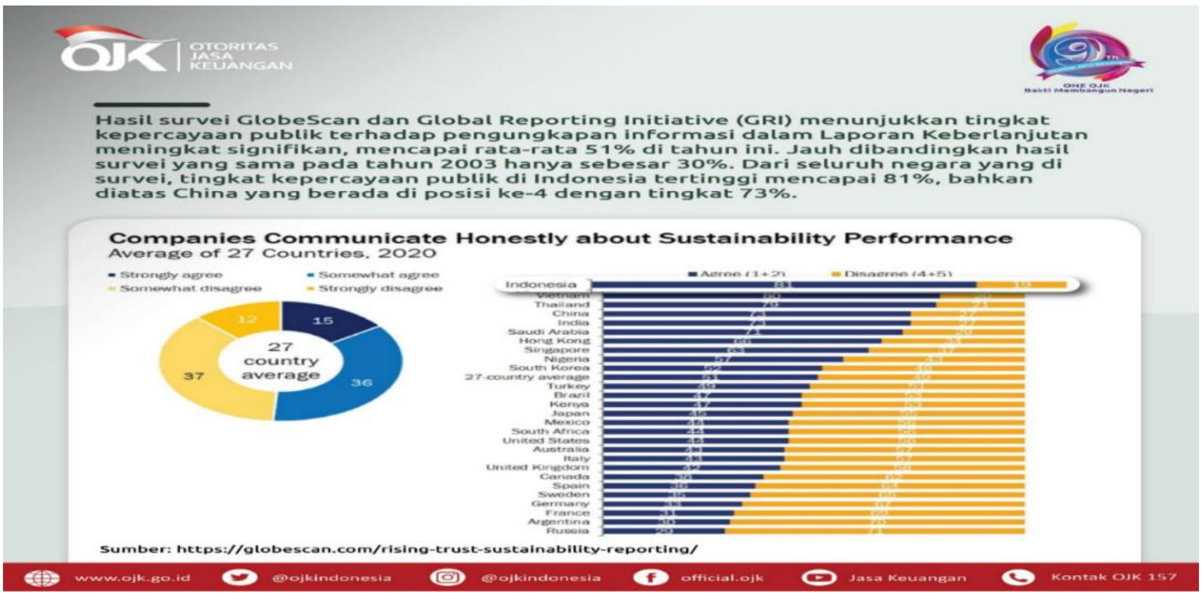

Figure 1. Globe Scan Survey Results (2020)
Source: Globe Scan, 2020

However, research (Hersugondo & Zahroh, 2021) shows that in practice in Indonesia there are still problems related to the implementation of company operations that do not pay enough attention to environmental, social and governance (ESG) conditions in their surroundings, especially for companies whose business activities are related to resource management. natural power. Apart from that, based on survey results by the Indonesia Business Council for Sustainable Development (IBCSD) in 2021, Indonesia's ESG index ranks 36th out of 47 capital markets in the world. Another IBCSD study shows that 40% of companies in Indonesia still do not understand the importance of implementing ESG. The results of the Mandiri Institute survey also showed that around 60% of issuers admitted that it was difficult to determine ESG-based criteria, metrics and KPIs (performance indicators). Another factor that is the biggest challenge in implementing ESG is the lack of information or data (Wawan, 2022) .

Based on previous research by (Buallay, 2019) , which analyzed the effect of disclosure of environmental performance, social performance, governance performance (ESG dsiclousure) on company financial performance as proxied by return on assets (ROA), on banking sector in Europe as many as 235 banks over ten years (2007-2016). The results show a significant positive impact of overall or simultaneous ESG disclosure on financial performance (ROA). Positive results were also shown from research by (Alareeni & Hamdan, 2020) which examined companies in the US S&P 500 during the period 2009 to 2018. Research by (Puspitandari & Septiani [1] , 2017) which analyzed the effect of sustainability report disclosure on banking performance also produced a positive influence .

This indicates that the more a company discloses its ESG performance, it has an impact on improving the company's financial performance. Research result different by (Buallay, Fadel, Alajmi, et al., 2020) , (Buallay, 2020) , (Rahi et al., 2022) , which analyzes the influence of ESG performance disclosure on financial performance (ROA) in the banking sector, shows negative influence results. This indicates that ESG disclosure weakens the company's financial performance. One possible explanation for the negative relationship is that sustainability practices require long-term investments that have an inverse impact on financial performance (Ameer & Othman, 2012) , (Bodhanwala & Bodhanwala, 2018) , (López et al., 2007) . Research results (Buallay, Fadel, Al-Ajmi, et al., 2020) , (Husada & Handayani, 2021) also show different results that ESG disclosure has no effect on financial performance.

The research results vary individually from three aspects, namely environmental, social and governance. From the environmental aspect, several studies by (Buallay, 2019) , (Mulpiani, 2019) , (Puspitandari & Septiani [1] , 2017) show that the environment has a positive effect on financial performance. Different results by (Rahi et al., 2022) , (Alareeni & Hamdan, 2020) show that the environment has a negative effect on financial performance. Other research from (Yawika & Handayani, 2019) , (Husada & Handayani, 2021) , shows that the environment has no influence on financial performance. From the social aspect, research by (Mulpiani, 2019) , (Buallay, 2019) , (Buallay, Fadel, Al-Ajmi, et al., 2020) , (Rahi et al., 2022) , (Alareeni & Hamdan, 2020) , shows the results of a negative influence on financial performance, while research (Puspitandari & Septiani [1] , 2017) shows the results of a positive influence on financial performance.

There are also different results from research (Yawika & Handayani, 2019) , (Husada & Handayani, 2021) that social aspects have no effect on financial performance. From the governance aspect, research (Rahi et al., 2022) , (Alareeni & Hamdan, 2020) , (Yawika & Handayani, 2019) shows a positive influence on financial performance. Different research from (Buallay, 2019) shows that governance aspects have a negative influence on financial performance. Research (Husada & Handayani, 2021) shows that governance aspects have no effect on financial performance.

This research is a replication of research (Nugroho & Hersugondo Hersugondo, 2022) which analyzes the influence of Environmental, Social, Governance (ESG) Disclosure on Company Financial Performance as proxied by Return on Assets (ROA) in manufacturing companies. The difference in this research is that it uses research subjects as financial industry companies (Bank KBMI 3 and 4) which are listed on the Indonesia Stock Exchange in 2020-2022, and uses asset turnover, leverage, and operational costs to operating income (BOPO) as control variables.

From the results of the research described above, this research was conducted to re-analyze the influence of Environmental, Social, Governance (ESG) Disclosure on the Financial Performance of Companies in the Financial Industry Sector (Bank KBMI 3 and 4) listed on the Indonesia Stock Exchange in 2020- 2022.

Literature Review

Stakeholder theory

Stakeholder theory first created by Freeman (1984) in Strategic Management Theory: The Stakeholder Approach. This stakeholder theory states that the prosperity and success of a company is very dependent on the company's ability to balance the various interests of its stakeholders. Based on the stakeholder perspective, companies need to meet expectations beyond shareholder interests, satisfying multiple stakeholders, such as employees, customers, suppliers, financiers, communities, government agencies, political groups, trade associations, and labor unions (Freeman, 1984; Ifeani et al. al., 2016). In this case, companies benefit from social and environmental responsibility, where stakeholder relationships are key in expressing these responsibilities (Sisaye, 2021) (Barnett and Salomon, 2012; Sisaye, 2021). Stakeholders have different expectations of company performance and companies need to please different stakeholders to ensure long-term survival and success. The core group of stakeholders has expectations regarding sustain-ability practices, namely ESG practices expressed through ESG reporting. Companies are pressured to meet the demands of various types of performance by multi-faceted stakeholders along with regulatory enforcement (Bodhanwala & Bodhanwala, 2018) . Thus, the existence of a company is greatly influenced by the support provided by stakeholders to the company (Ghozali and Chariri, 2007).

Signaling theory

Signaling theory is an action taken by company management that provides investors with clues about how management views the company's prospects. This theory explains the reasons why companies need to share or provide financial report information to third parties. The desire to send or provide financial report information to third parties stems from the information asymmetry that exists between management and third parties (Bergh et al., 2014).

Legitimacy theory

Legitimacy theory was first coined by Dowling and Pfeffer (1975) who emphasized that companies must pay attention to all their activities so that they are in accordance with the social values and norms that apply in the society where the company is located with the aim of the company gaining legitimacy from society. Legitimacy theory states that companies must consider the rights of the public, not just the rights of shareholders. Companies strive to ensure that company activities are accepted by outside parties as 'legitimate' (Degaan, 2006). However, it cannot be denied that there will always be differences between the values held by companies and the values believed by society. The difference between company values and the social values of society is often referred to as the "legitimacy gap" which can affect the company's ability to continue its business. Therefore, companies must evaluate social values and align with social values in society or perceptions of the company as a legitimacy tactic (O' Donovan, in Chariri, 2008). Revealing accountability for environmental, social and corporate governance practices is one way to reduce the legitimacy gap.

Sustainability Report

According to the global reporting initiative (GRI) and Qiu et al. (2016), a sustainability report is an information publication that reflects an organization's performance in economic, environmental and social dimensions. Can be used as a medium for companies to inform all stakeholders about their organizational perfor-mance. For investors, sustainability reports function as a control tool in achieving company performance and as a medium for investors' considerations in allocating their financial resources. Meanwhile, for other stakeholders such as the media, government, consumers, academics, and others, sustainability reports are used as a benchmark to assess the seriousness of a company's commitment to sustainable development. The opinion of Kamatra and Kartikaningdyah (2015) is that companies that disclose sustainability reports have an impact on financial performance, especially profitability. Likewise, Weber et al. (2008) stated that sustainability reports are positively correlated with financial performance. A similar opinion was also expressed by Li et al. (2018) that most ESG activities reveal a positive relationship with company financial performance. Therefore, a company's ability to communicate its

ESG activities and performance effectively through sustainability reports is considered a form of corporate accountability, responsibility and transparency to stakeholders which is believed to be able to improve the company's performance and financial value (Zhao et al., 2018).

Financial performance

According to Hery (2016:13) financial performance is a formal effort to evaluate the efficiency and effectiveness of a company in generating profits and certain cash positions. By measuring financial performance, you can see the prospects for financial growth and development based on available resources. In this research, financial performance can be measured using the profitability ratio, namely Return on Assets (ROA) because ROA better reflects the company's ability to provide returns to company funders (Sparta, 2020; Hidayat, Taufiq, 2021) . Return on Assets (ROA) is the ratio between the company's net profit and the average value of assets owned by the company (Weygandt, Kimmel and Kieso, 2019). This ratio can be calculated using the formula:

$$ROA = \frac{Net\ Income}{Average\ Total\ Assets}$$

Environmental, Social and Governance (ESG)

According to (Whitelock, 2015), ESG is a company's activities in relation to the surrounding ecology, interaction with the social environment, and the company's internal control system, which is aimed at achieving company goals and meeting stakeholder needs. ESG has three factors that can be explained broadly, namely environmental, social and governance. Environmental factors involve the company's relationship with the physical environment, social factors include the company's social impact on society, and governance factors relate to how the company is managed (FSCO, 2016). Environmental performance indicators reveal issues related to the business environment and the relationship between business and society, for example: CO2 gas emissions, energy use, energy efficiency, waste, and emission reduction policies (Nugroho & Hersugondo Hersugondo, 2022) . Social performance indicators can be measured using corporate social responsibility information, for example: fair trade principles , gender equality, number of employees, employee turnover rate, ratio of women in the management hierarchy (Nugroho & Hersugondo Hersugondo, 2022) . Governance indicators reflect issues about good corporate governance, for example: corruption, bribery, disclosure of corporate governance (Nugroho & Hersugondo Hersugondo, 2022) .

ESG Disclosure

ESG disclosure is a new measure of disclosure of corporate voluntary assistance, usually formed in a CSR report, sustainability reporting or integrated reporting in a stand-alone annual report (Putri, 2019). ESG disclosures vary by country. Many companies are adopting the Global Reporting Initiative (GRI) as a guide for reporting their ESG performance. In this research, the ESG disclosure assessment point indicators are based on the 2019 ESG Reporting Guide 2.0 published by NASDAQ (National Association of Sec Dealers), totaling 30 indicators, each of environmental, social, governance, totaling 10 indicators. The following is a picture of the ESG disclosure indicators used in this research.

Figure 2. ESG disclosure assessment point indicators
Source: 2019 NASDAQ ESG Reporting Guide 2.0

Asset Turnover

According to Weygandt, Kimmel and Kieso (2019) Asset Turnover is a ratio that measures the efficiency of a company in using its assets to generate sales. The higher the ratio, the more efficient the use of assets to increase sales. The asset turnover ratio can be calculated using the formula:

$$Aset\ Turnover\ (TATO)\ = \frac{Net\ Sales}{Average\ Total\ Assets}$$

Leverage

According to Hery (2018:162) the leverage ratio is a ratio used to measure the extent to which a company's assets are financed by debt. The leverage ratio can be calculated using the debt to equity ratio . According to Kasmir (2018:158), the formula for finding the debt to equity ratio can use the comparison between total debt to total equity as follows.

$$Debt\ to\ Equity\ Ratio\ = \frac{Total\ utang}{Ekuitas}$$

The higher the DER, the more unprofitable it is, because the higher the risk of failure that could occur in the company. The large debt burden of a company can reduce the company's profits.

Operational Costs to Operational Income

According to Rivaidkk. (2007) BOPO ratio is a comparison between operational costs and operational income in measuring the level of efficiency and ability of a bank in carrying out its operational activities. This ratio is formulated as:

$$BOPO\ = \frac{Beban\ operasional}{Pendapatan\ operasional}\ x\ 100\%$$

The smaller the operating expense ratio, the better, because the bank concerned can cover its operational expenses with its operating income.

Hypothesis development

Based on previous research analyzing the influence of individual ESG disclosure on financial performance (*Return on Assets*), it can be described in the framework of this research as follows:

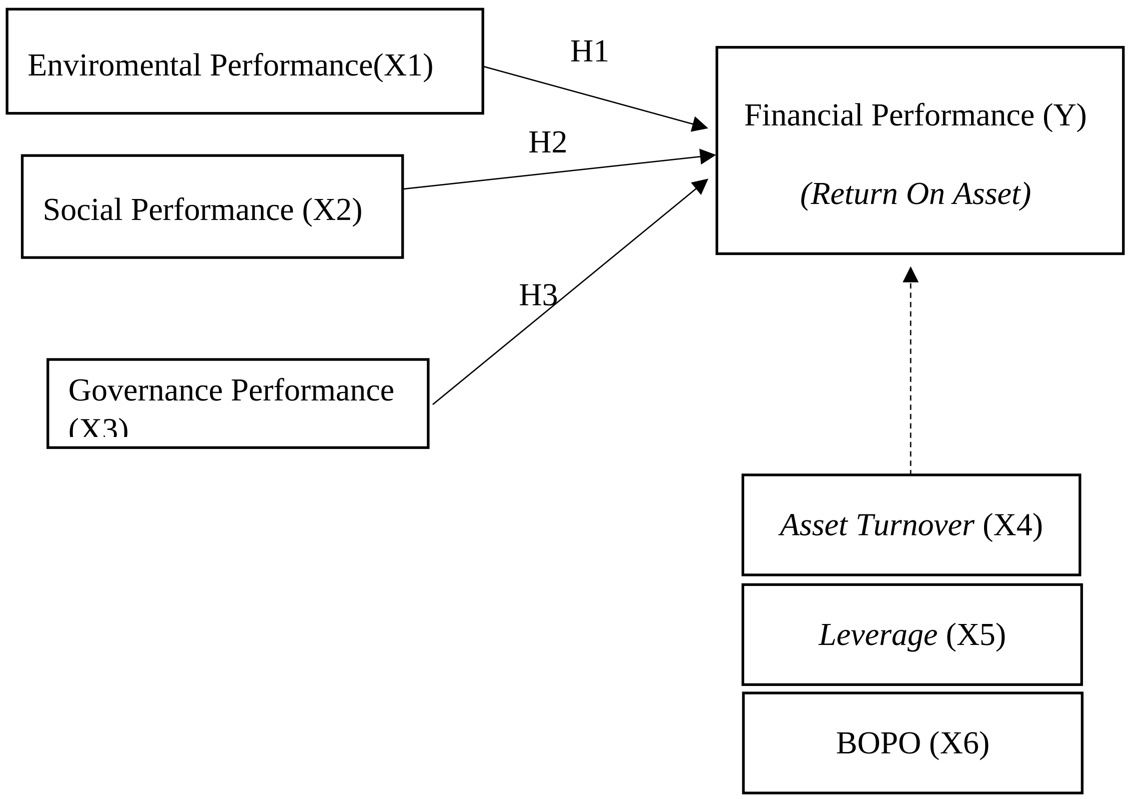

Figure 3. Research Framework

The influence of environmental performance disclosure (environmental) on the company's financial performance (Return on Assets)

When companies implement good management to avoid environmental risks, the company can obtain better opportunities and improve company performance (Tarmuji et al., 2016). This is because good environmental practices in operational activities can avoid business impacts due to pollution problems, both from environmental, social and governance aspects, thereby saving costs for the company. These cost savings increase the company's ability to generate better profits (Susi and Melinda, 2019). Stakeholder theory encourages companies to increase environmental awareness and increases the need to improve planning by adapting to changes in market demand. Melnyk, Sroufe, & Calantone (2003) stated that strong environmental performance can increase company value and attract new investors. Many researchers argue that environmental performance improves the corporate image of the company, increases revenues, reduces costs, and shows positive abnormal stock returns from environmental performance announcements, which sends positive signals to investors (Jacobs et al., 2010; Klassen & McLaughlin, 1996; Yadav et al., 2015). This is in line with legitimacy theory which relates to how management attempts to control public perception by improving or improving the company's image; One step is to convey information about the company's environmental performance. Previous research by (Buallay, 2019) , (Mulpiani, 2019) , (Puspitandari & Septiani [1] , 2017) shows that there is a positive relationship between a company's environmental performance and financial performance . Different results by (Rahi et al., 2022), (Alareeni & Hamdan, 2020), show that environmental performance has a negative relationship with financial performance. Other research from (Yawika & Handayani, 2019), (Husada & Handayani, 2021) also shows different results that environmental performance does not affect financial performance. Based on this explanation, this research proposes the following hypothesis:

H1: Environmental performance has a positive impact on the Company's financial performance (ROA)

Social performance disclosure on company financial performance (Return on Assets)

Sustainable responsibility practices can have an influence on financial performance and company value (Dhaliwal, Li, Tsang, & Yang, 2011). Therefore, when a company has the intention to carry out its social responsibilities voluntarily, it can help the company to avoid government sanctions, increase productivity, and moreover reduce complaint costs. As a stakeholder theory, fulfilling stakeholder interests can turn corporate social responsibility into profits (Tarmuji et al., 2016). When compared with companies that have low or normal (average) social performance, companies with high social performance have the best financial performance (Barnett & Salomon, 2011). In addition, social practices can increase demand for company products and services (Fombrun & Gardberg, 2013) and improve company reputation and shareholder satisfaction (Dhaliwal et al., 2011). This is related to legitimacy theory, where legitimacy is essential for companies to ensure long-term prosperity. The general view agrees that social responsibility can increase long-term benefits and support company sustainability (Ho, 2010 in Pyo & Lee, 2013). Previous research by (Mulpiani, 2019), (Buallay, 2019), (Buallay, Fadel, Al-Ajmi, et al., 2020), (Rahi et al., 2022), (Alareeni & Hamdan, 2020), shows that Social performance has a negative relationship with financial performance, while research (Puspitandari & Septiani1, 2017) shows a positive relationship with financial performance. There are also different results from research (Yawika & Handayani, 2019), (Husada & Handayani, 2021) that social performance does not affect financial performance. Based on this explanation, this research proposes the following hypothesis:

H2: Social performance has a positive effect on company financial performance (ROA)

Governance disclosure on company financial performance (Return on Assets)

Governance plays an important role in making strategic company decisions. The board must be able to manage risk by anticipating activities that can affect the community and the surrounding environment (Mallin, Michelon, & Raggi, 2013). This can be done by considering sustainability aspects at the core of the decision-making process which will direct the company to achieve the expected sustainability value for achieving its goals. With the strategy of disclosing information to stakeholders, company performance can be improved (Tarmuji et al., 2016). In another aspect, governance structures and processes that consider social responsibility will make it easier for companies to accommodate stakeholder interests in the company's sustainability strategy. Stakeholder trust is maintained, and company sustainability is guaranteed to provide good economic performance for the company. Previous research by (Rahi et al., 2022), (Alareeni & Hamdan, 2020), (Yawika & Handayani, 2019), shows that governance performance shows a positive influence on financial performance, where companies that have good governance performance those with higher levels tend to have higher financial performance. This is in line with signaling theory, that disclosure is carried out by managers who have confidence in the quality of the company, considering that the costs that will occur for signaling will be higher for companies that have poor quality (Scott-Phillips et al., 2009). Different research from (Buallay, 2019) shows that governance performance has a negative influence on financial performance and research (Husada & Handayani, 2021) shows that governance performance has no effect on financial performance. Based on this explanation, this research proposes the following hypothesis:

H3: Governance performance has a positive impact on company financial performance (ROA)

Research Methods

Data, Population and Research Sample

This research is quantitative research with a causality design. The data source used uses secondary data, namely data from annual reports and company sustainability reports for the 2020-2022 period. This data was taken from each company's website. The research population is financial industry companies (Bank KBMI 3 and 4) listed on the Indonesia Stock Exchange for the 2020-2022 period . The final sample selection was to use a "purposive sampling" technique that met the following criteria:

1. Financial industry companies (Bank Books 3 and 4) listed on the Indonesia Stock Exchange for the period 2020 to 2022.
2. Financial industry companies (Bank Buku 3 and 4) which publish annual reports and sustainability reports sequentially for the period 2020 to 2022.

Variable Operationalization

The dependent variable in this research is financial performance which is proxied by Return on Assets (ROA). The independent variables are disclosure of environmental performance, social performance, governance performance. The ESG disclosure assessment points are guided by the 2019 ESG Reporting Guide 2.0 published by NASDAQ (National Association of Sec Dealers). To get a score for each performance disclosure, use the content analysis method in the company's sustainability report or annual report and dummy variables. This analysis will produce values for each indicator. This research uses three control variables, namely asset turnover, leverage, and operating income costs on operating income.

Research Model

This research uses panel data regression analysis to test the proposed hypothesis. The regression equation used is as follows:

$$\mathbf{ROAit= \alpha 0 + \beta 1ENV+ \beta 2SOS+ \beta 3GOV+ \beta 4ATO+ \beta 5LEV + \beta 6BOPO + \varepsilon it}$$

Information:

ROA	: Financial performance
α	: Constant
β	: Regression coefficient
ENV	: Environmental Performance
SOS	: Social Performance
GOV	: Governance Performance
ATO	: Asset Turover
LEV	: Leverage
BOPO	: Operational Costs against

Data analysis in this research uses software Eviews 9. Before carrying out hypothesis testing (t test and coefficient of determination test), first select a suitable model by carrying out the Chow test, Hausman test and Lagrange multiplier test. After carrying out the model test, classical assumption tests were carried out, namely the normality test, multicollinearity test, heteroscedasticity test and autocorrelation test (Durbin-Watson test).

Results and Discussion

Research result

Based on the specified criteria *(purposive sampling)*, the number of companies used was 13 companies with a total of 39 observations. The following table explains the process of determining the research sample:

Table 2. Research Sample

No	Criteria	Amount
1	Financial industry companies (Bank KBMI 3 and 4) listed on the Indonesia Stock Exchange for the period 2020 to 2022	14
2	Financial industry companies (Bank KBMI 3 and 4) which do not publish sustainability reports and/ annual reports and sequentially for the period 2020 to 2022	1
3	Total companies that are sample companies	13
4	Research period	3 years)
5	Total research observations	39

Source: Data processed by the author, 2023

Table 3. Descriptive Statistics Results

	ROA	ENV	SAUCE	GOV	ATO	LEV	BOPO
Mean	0.019100	0.897436	0.815385	0.917949	0.068668	5.868071	0.766136
Median	0.017000	1,000000	0.800000	0.900000	0.065582	5.401400	0.795400
Maximum	0.042200	1,000000	1,000000	1,000000	0.101858	16.07858	0.933000
Minimum	0.005000	0.300000	0.600000	0.700000	0.052373	3.164617	0.465000
Std. Dev.	0.009859	0.172424	0.093298	0.079046	0.012290	2.865321	0.117428
Skewness	0.720353	-2.300320	-0.505823	-0.648298	0.841090	2.535561	-0.742974
Kurtosis	2.630480	8.162243	2.665019	2.835837	2.960224	9.058417	2.751828
Jarque-Bera	3.594788	77.69879	1.845418	2.775678	4.600880	101.4336	3.688153
Probability	0.165730	0.000000	0.397441	0.249614	0.100215	0.000000	0.158171
Sum	0.744900	35,00000	31.80000	35.80000	2.678033	228.8548	29.87930
Sum Sq. Dev.	0.003694	1.129744	0.330769	0.237436	0.005740	311.9824	0.523998
Observations	39	39	39	39	39	39	39

Source: Eviews 9 output, processed 2023

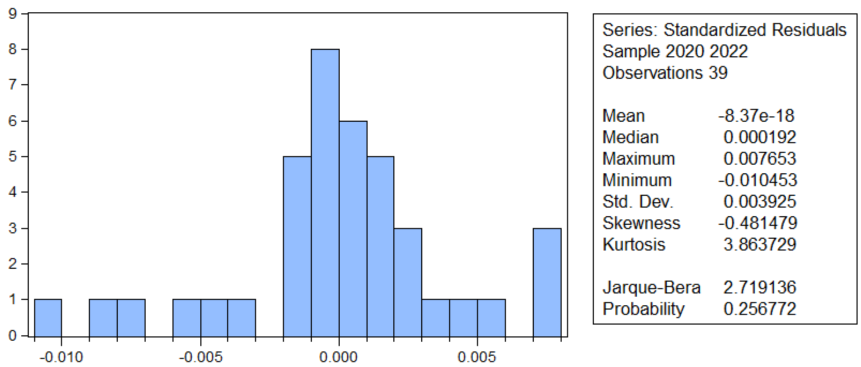

Figure 4. Normality Test Results
Source: Eviews 9 output, processed 2023

Descriptive statistics

Based on table 3, it shows the results of descriptive statistical testing of the research variables involved in this research. The results of descriptive statistics show that the average dependent variable proxied by ROA, the average level of company profitability at Bank KBMI 3 and 4 is 0.019100 (1.91%). Bank MEGA produces the highest rate of return on assets of 4.22%, while Bank Danamon produces the lowest rate of return compared to other banks, namely 0.5%. The first independent variable, which is proxied by *environmental disclosure* has an average value of 0.897436 (89.7 %). The highest value of 1.0 (100%) was recorded at Bank BRI, BNI, Mandiri, Cimb Niaga, MEGA, OCBC NISP, BTN, May Bank Indonesia, DANAMON, and Permata and the lowest value was 0.30 (30%) recorded at Bank Panin Indonesia. The second independent variable, which is proxied by *social disclosure*, has an average value of 0.815385 (81.54%). The highest value was 1.0 (100 %), recorded at Bank Permata and the lowest value was 0.60 (60 %) recorded at Bank Panin Indonesia. The third independent variable, which is proxied by *governance disclosure*, has an average value of 0.917949 (91.8%). The highest value was 1.0 (100 %), recorded at Bank BRI, BNI, Mandiri, Cimb Niaga, BTPN and the lowest value was 0.70 (70 %) recorded at Bank Panin Indonesia.

Based on the output above, it is known that the *Jarque-Bera probability value* is 0.256772 and is greater than α (5%). So it can be concluded that the data used in this research is normally distributed with a total of 39 observations.

Based on table 4, the results of the multicollinearity test above show that *the correlation matrix* between independent variables is less than 0.90, so it can be concluded that all independent variables are free from multicollinearity problems.

Table 4. Multicollinearity Test Results

	ENV	SOC	GOV
ENV	1,000000	0.493276	0.524781
SOC	0.493276	1,000000	0.461137
GOV	0.524781	0.461137	1,000000

Source: Eviews 9 output, processed 2023

Heteroskedasticity Test: White

F-statistic	5.133118	Prob. F(27,11)	0.0034
Obs*R-squared	36.13224	Prob. Chi-Square(27)	0.1124
Scaled explained SS	20.94439	Prob. Chi-Square(27)	0.7889

Figure 5. Heteroscedasticity Test Results
Source: Eviews 9 output, processed 2023

Table 6. Autocorrelation Test Results

Criteria	**Dependent Variable (ROA)**
Durbin Watson Stats.	1.648843

Source: Eviews 9 output, processed 2023

Table 7. Regression Analysis Results

Variable	Prediction	Coefficient	Std. Error	t-Statistics	Prob.	Conclusion
C		0.068130	0.012056	5.651331	0.0000	-
ENV	+	0.003022	0.004164	0.725752	0.4733	Not significant
SAUCE	+	-0.007584	0.007984	-0.949924	0.3493	Not significant
GOV	+	-0.000314	0.012185	-0.025795	0.9796	Not significant
ATO	+/-	0.158315	0.064966	2.436878	0.0206	Significant
LEV	+/-	-8.55E-05	0.000412	-0.207438	0.8370	Not significant
BOPO	+/-	-0.072623	0.005519	-13.15970	0.0000	Significant
R-squared						0.894166
Adjusted R-squared						0.874322
Prob(F-statistic)						0.000000

Source: Eviews 9 output, processed 2023

Based on Figure 3, it can be seen that the value of *Prob. Chi-Square* is 0. 1124, greater than α (5%). Thus, it can be concluded that there is no heteroscedasticity problem in the model as a whole.

Autocorrelation testing with the DW-Test is by using the DW table to observe 39 independent and control variables with 6 values of DL = 0.982 and DU = 1.655. Because Durbin Watson Stat. for the dependent variable is between DL = 0.982 and DU = 1.655, then the results are inconclusive. The autocorrelation test only occurs in linear regression models of time series data. Therefore, the classical assumption test does not have to be carried out completely on every regression model. For data that is not a time series (cross section or panel), autocorrelation testing is meaningless or can be said to be useless (Basuki & Prawoto, 2017).

Discussion

Environmental performance on performance Company finances (Return on Assets)

Environmental performance disclosure on company financial performance as proxied by ROA as in table 4.5 shows that the results have an insignificant positive effect on (ROA). The results of this research indicate that the company's environmental performance has not had an influence on its ability to generate better profits. Disclosure of environmental performance has not been able to reduce efficiency, has not been able to reduce increased income, and also the cost of environmental practices to total income, the percentage of total costs is very small. The public also does not understand the importance of ESG aspects and without disclosing environmental aspects will not cause company bankruptcy. Apart from that, the cost of banking environmental practices does not affect performance, but the higher the performance, the higher the environmental practice activities. It is possible that there is an inverted element causing it to have no effect. So environmental performance disclosure has not yet become a driving factor for achieving overall company performance and is only a matter of fulfilling obligations.

The results of this research are not in line with research conducted by (Buallay, 2019) , (Mulpiani, 2019) , (Puspitandari & Septiani [1] , 2017) which shows that there is a positive relationship between the company's environmental performance and financial performance (ROA). However, this research is in line with research conducted by (Yawika & Handayani, 2019) that environmental performance has no influence on ROA. This is because the company's motivation for environmental performance is based on fulfilling obligations, so that environmental performance is not directed as a form of investment for the company to carry out better and environmentally friendly operational activities. In line with other research by (Husada & Handayani, 2021) where environmental performance has no effect on company performance (ROA) because investors in the financial sector have not considered environmental practices and disclosures as one of the factors driving the decision to invest in a company (Buallay, 2019b).

Based on the explanation above, the results of this research are not in line with stakeholder theory, where when companies implement good management to avoid environmental risks, the company can obtain better opportunities and improve company performance. Apart from that, this research is also not in line with legitimacy theory, which relates to how management attempts to control public perception by improving or improving the company's image, one of the steps is by conveying information about the company's environmental performance. However, it is in line with agency theory which shows that the agent and the owner have different goals, the agent is concerned with personal gain in the form of reputation, while the owner's goal is profit. So companies try to minimize costs associated with environmental practices and divert them to maximize profits for owners.

The influence of social performance on company financial performance (Return on Assets)

social performance disclosure on company performance as proxied by ROA as in table 4.5 shows that the results have an insignificant negative effect on ROA. These results indicate that social aspects still have a low influence compared to other factors outside the research. The costs of social practices, for example for CSR activities, depend on the company's performance, not performance that depends on CSR, so CSR is not what influences performance but performance influences CSR. It is possible that there is an inverse element that causes it to have no effect. However, if we compare it with share prices, there is a possibility that it will have an effect because the market considers that if ESG accounting issues are responded to, appreciated in the form of achievements, then it will affect share prices and high investor interest will also have an impact on the company's performance. This means that the continuity of the company will be guaranteed by the existence of these social practice activities. However, whether or not it affects performance depends on the time period. In the long term it might have an effect, but in the short term it has no effect. Apart from that, if you look at third parties, customers, creditors, they don't care whether they implement ESG practices or not and also the percentage of social practice costs to total income, to total costs is also very small so the results have no effect.

The results of this research are not in line with research (Puspitandari & Septiani1, 2017) which shows that social performance disclosure has a positive relationship with company financial performance (ROA), but is in line with research (Yawika & Handayani, 2019) which shows that social performance does not affect performance. financial (ROA). In his research, he stated that the efforts made by the company focused on community empowerment, not on internal company development which could provide added value to its financial performance. In addition, social performance is not a strategy considered by management to significantly improve financial performance. Management's attention is more focused on conditions that are directly related to income and sales compared to non-financial performance, so that this does not affect social performance on the company's financial condition. Meanwhile, investors still see the company's financial condition as an aspect in making investment decisions (Aditama, 2022) . This research is also in line with research by (Husada & Handayani, 2021) and (Rahi et al., 2022) , where social performance has no effect on company performance (ROA) , that this condition occurs because social practices will only provide results when investment is at the level certain and/or achievements in social practices have been made, so that before the company reaches that point, any expenditure in social practices will not have an effect on financial performance (Nollet, Filis, & Mitrokostas, 2016).

Based on the explanation above, the results of this research are not in line with stakeholder *theory*. When a company carries out social performance that is not aimed at stakeholder management, but at participation in social issues in society, it will not provide the same value to stakeholders (Hillman & Keim, 2010). Apart from that, this research is also not in line with legitimacy theory, where legitimacy is essential for companies to ensure long-term prosperity. The general view agrees that social responsibility can increase long-term benefits and support company sustainability (Ho, 2010 in Pyo & Lee, 2013).

of governance performance on company financial performance (Return on Assets)

The effect of governance performance disclosure on company performance as proxied by ROA as in table 4.5 shows that the results have an insignificant negative effect on ROA. Based on descriptive statistics, in this study the average governance score of the sample companies received a higher value compared to the average social score and environmental score. This shows that the company has considered governance aspects well in accordance with previous research. It is possible that when the average company has disclosed good governance points, investors are confident in the company that the company will maintain and improve its governance performance. Therefore, the governance sector is no longer used as a criterion in making investment decisions, so that the governance score does not affect company performance. The research results are not in line with research (Rahi et al., 2022), (Alareeni & Hamdan, 2020), (Yawika & Handayani, 2019), that governance performance shows a positive influence on financial performance, where companies that have good governance performance those with higher levels tend to have higher financial performance. However, the results of this research are in line with research (Husada & Handayani, 2021) , where governance performance has no effect on company performance (ROA).

Based on the explanation above, the results of this research are not in line with *signaling* theory, that disclosure is carried out by managers who have confidence in the quality of the company, considering that the costs that will occur for signaling will be higher for companies that have poor quality (Scott-Phillips et al., 2009).

The regression results for the control variable *asset turnover* (ATO) show that asset turnover is significantly positively correlated with ROA. This means that the higher the asset turnover in the company, the higher the asset efficiency (ROA). *Leverage* shows an insignificant negative influence on ROA. This is because the amount of debt does not exceed total assets so that the amount of assets owned is able to guarantee the debt it has. Apart from that, the company is able to manage its debt funds optimally so that the income obtained can pay off its obligations even though it has high debt. BOPO shows a significant negative relationship with bank profitability (ROA). This means that when BOPO increases, the company's efficiency will decrease, and the bank's profitability will decrease.

Conclusion

Based on the results of the analysis and discussion from the previous chapter regarding the influence of environmental, social, governance (ESG) disclosure on financial performance as proxied by Return on Assets (ROA), it can be concluded that environmental, social, governance (ESG) disclosure does not have a significant influence. on company financial performance (ROA), both individually and as a whole in financial industry companies (Bank KBMI 3 and 4). So the ESG sustainability aspect in the banking sector still does not have a significant influence on the company's financial performance. Reporting sustainability reports for many new companies is just about fulfilling obligations, not yet a driving factor in achieving overall company performance.

This research has several limitations, including Data analysis and input techniques use disclosure items issued by NASDAQ (National Association of Sec Dealers) with a total disclosure of 30 indicators including environmental, social and governance indicators. The research period is relatively short, namely three years, namely 2020-2022 and the number of banks in the sample is relatively small, only focusing on KBMI 3 and 4 banks. Based on the conclusions and limitations of this research, suggestions that can be given for further research are data analysis and input techniques to pay attention to sampling and can use disclosure items based on POJK Number 51/POJK.03/2017 or other techniques, the need for additional samples, and increase the research time span, for example 5 years, and can use another proxy for the dependent variable, namely Company Value (Share Price).

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Apendix 1 Variable Operationalization

Variable Name	Variable Definition	Dementia	Indicator	Scale
Dependent (Y) *Return On Assets (ROA)*	*Return on Assets* (ROA) is the ratio between the company's net profit and the average value of assets owned by the company. Weygandt, Kimmel and Kieso (2019)	Profitability	$ROA = \frac{Net\ Income}{Average\ Total\ Asset}$ Weygandt, Kimmel and Kieso (2019)	Ratio
Independent (X1) Environmental Performance	Environmental performance is an indicator that reveals issues related to the business environment and the relationship between business and society (for example: CO2 gas emissions, use of energy, energy efficiency, waste, and emission reduction policies). (Nugroho & Hersugondo Hersugondo, 2022)	Company performance	$Environmental\ disclosure\ \ index = \frac{Jumlah\ pengungkapan}{Total\ item\ pengungkapan}$ (Puspitandari & Septiani [1] , 2017)	0-1
Independent (X2) Social Performance	Social performance is an indicator that is measured using corporate social responsibility information *fair trade* principles , gender equality, number of employees, employee turnover rate, ratio of women in the management hierarchy). (Nugroho & Hersugondo Hersugondo, 2022)		$Social\ disclosure\ index = \frac{Jumlah\ pengungkapan}{Total\ item\ pengungkapan}$ (Puspitandari & Septiani [1] , 2017)	0-1
Independent (X3) Governance Performance	Corporate governance or corporate governance performance is an indicator that reflects issues about how good corporate governance is (example: corruption, bribery, disclosure of corporate governance) (Nugroho & Hersugondo Hersugondo, 2022)	Company performance	$Governance\ disclosure\ \ index = \frac{Jumlah\ pengungkapan}{Total\ item\ pengungkapan}$ (Puspitandari & Septiani [1] , 2017)	0-1
Control (X4) *Asset Turnover*	*Asset Turnover* is a ratio that measures the efficiency of a company in using its assets to generate sales. Weygandt, Kimmel and Kieso (2019)	Activity	$Asset\ Turnover = \frac{Net\ Sales}{Average\ Total\ Asset}$ Weygandt, Kimmel and Kieso (2019)	Ratio
Control (X5) *Leverage*	*leverage* ratio is a ratio used to measure the extent to which a company's assets are financed with debt. (Hery (2018:162)	Capital	$Debt\ to\ Equity\ Ratio = \frac{Total\ utang}{Ekuitas}$ Cashmere (2018:158)	Ratio
Control (X6) BOPO	Comparison of Operating Expenses to Operating Income	Profitability	$BOPO = \frac{Pendapatan\ Operasional}{Biaya\ operasional} x\ 100\%$ *Bank Indonesia Circular Letter No. 15/29/DKBU 31 July 2013*	Ratio