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Building Sustainability: The Effect of Sustainability Reports and Debt to Equity Ratio on the Financial Performance of IDX30 Issuers

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Keywords

sustainability report,
ESG,
debt to equity ratio,
ROA,
ROE ,
market capitalization ,
IDX30

Abstract

This research investigates how sustainability reporting encompassing environmental, social, and governance (ESG) factors along with capital structure (measured by Debt to Equity Ratio), company size, and liquidity (Current Ratio) influence the financial performance of IDX30-listed firms between 2019 and 2023. Performance indicators include Return on Assets (ROA), Return on Equity (ROE), and Market Capitalization (MC). The study utilized panel data regression techniques: Fixed Effect Model for ROA analysis, Random Effect Model for MC evaluation, and Seemingly Unrelated Regression for ROE due to statistical assumption violations. Findings demonstrate that higher debt levels (DER) negatively impact asset profitability (ROA), while larger company size positively enhances ROA. Surprisingly, ESG reporting, liquidity position, and all variables in ROE and MC models showed statistically insignificant effects. This evidence suggests that leverage management and organizational scale are critical drivers of profitability, whereas sustainability disclosures and short-term financial health provide minimal contribution to IDX30 companies' financial outcomes. Management should prioritize optimal debt levels and capitalize on scale advantages while reassessing sustainability reporting effectiveness in the Indonesian context.

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INTRODUCTION

Financial performance serves as a critical benchmark for a company's operational effectiveness and efficiency, indicating its ability to utilize resources to generate profit and facilitate strategic decision-making (Purwanti, 2021; *Sharma et al., 2019*). Recent data from the KPMG Indonesia Financial Performance Index (FPI) for 2024 reveals a volatile landscape, where only 12 out of 48 industrial subsectors recorded positive growth (Djaja & Horn, 2024). This trend underscores the significant challenges faced by businesses in Indonesia in maintaining profitability and financial stability. Key metrics such as Return on Assets (ROA) and Return on Equity (ROE) are central to evaluating this profitability, as they reflect a company's efficiency in using its asset base to generate earnings (*Meylinda et al., 2022*; Omodero, 2020).

A company's capital structure is a fundamental internal policy lever that influences its financial outcomes. The Debt to Equity Ratio (DER), a common measure of financial leverage, indicates the proportion of external debt financing relative to shareholders' equity. While the strategic use of leverage can amplify profits, it simultaneously introduces higher financial risk if not managed prudently (Andara & Wahidahwati, 2021; Ilyas & Hertati, 2022). Consequently, establishing an optimal leverage policy is a crucial strategic tool for ensuring long-term financial health and growth (Kurniawan & Mulyanta, 2021).

While modern corporate strategy increasingly recognizes sustainability reporting encapsulated by Environmental, Social, and Governance (ESG) criteria as a key driver of financial performance rather than just an ethical concern, its practical implementation faces significant hurdles (Quelhas & Meiriño, 2025; *Suhatmi et al., 2024*). Such reporting, which demonstrates a company's commitment to environmental preservation, social responsibility, and sound governance, is often aligned with global frameworks like the GRI and SASB *(Cahery et al., 2020)*. In Indonesia, this practice is mandated by the Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 for financial institutions and public companies (Damayanti & Hardiningsih, 2021). However, despite this regulatory reinforcement and growing awareness, data from the OJK (2023) indicates a slight decline in reporting compliance, signaling that persistent challenges in data collection, expertise, and cost continue to impede consistent execution.

For investors, the financial performance of the IDX30 index constituents comprising the 30 stocks with the highest liquidity and market capitalization serves as a vital barometer of fundamental strength and stability (Ramadhan & Prasetyia, 2024; William & Rarasati, 2024). However, the existing body of academic literature presents conflicting findings regarding the impact of sustainability initiatives and corporate financial policies on performance. While some studies report a positive correlation between ESG disclosure and financial results (Felita & Faisal, 2021; *Oncioiu et al., 2020*), others find no statistically significant relationship (Lukman & Sabrina, 2019). Similarly, research on the influence of leverage on profitability yields divergent conclusions (*Aziz et al., 2024*; Cathleen & Ekadjaja, 2023). These discrepancies are likely attributable to contextual factors such as industry heterogeneity, analysis timeframes, and the specific financial metrics employed.

This study aims to address this empirical ambiguity by investigating the influence of each ESG dimension (Environmental, Social, Governance) and key internal financial variables, namely DER, company size, and Current Ratio (liquidity measure) on financial performance. The specific focus is on non-banking companies in the IDX30 index over a five-year period from 2019 to 2023. This research approach differs significantly from previous studies in terms of the object, variables used, and financial performance measurement methods. Previous studies such as Caesaria & Basuki (2017) and Felita & Faisal (2021) relied more on market-based performance indicators such as Tobin's Q, while this study uses Return on Assets (ROA) to capture the operational efficiency and internal profitability of companies. Furthermore, unlike Lukman & Sabrina (2019), which assessed sustainability in aggregate, this study separates the composite ESG score into three core dimensions, namely environmental, social, and governance, to assess the specific influence of each dimension on financial performance. This approach also allows for a re-examination of the findings of Ronaldo & Handayani (2023), who only found a significant impact on the economic dimension, by applying it to the context of non-banking companies in the IDX30 index, which have different characteristics from the banking sector.

This study also expands the scope of analysis by including control variables that reflect internal company policies, namely DER, company size, and current ratio. These variables are rarely analyzed simultaneously in previous studies. For example, Aziz et al. (2024[1.1][G1.2]) only examined DER and company size in the banking sub-sector. By testing these three variables in cross-sector companies in the IDX30, which are characterized by high liquidity and large market capitalization and integrating them with ESG dimensions in a single empirical model, this study offers a more comprehensive and nuanced contribution to understanding the determinants of financial performance in Indonesia. The findings of this study are expected to strengthen the empirical basis for ESG integration in financial management practices and provide relevant strategic insights for corporate management and investors in the Indonesian capital market.

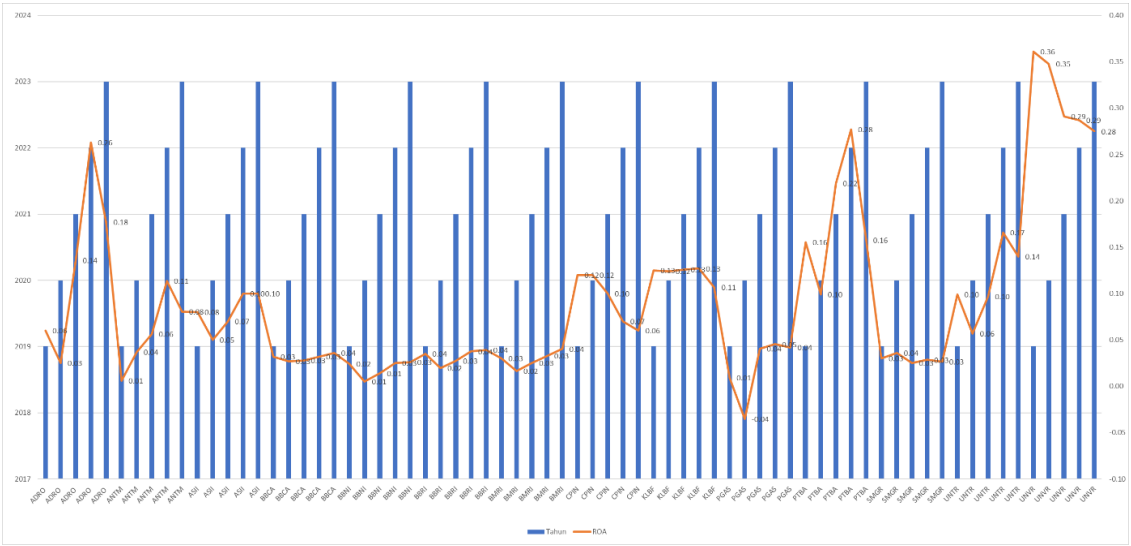

Figure 1. Trend of ROA of IDX30 Companies (2019–2023)

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The following literature summary will present relevant reference sources related to the research problem and various previous study findings, which will serve as the basis for formulating hypotheses and developing the conceptual framework. This literature review also explains the theoretical foundations used as the analytical basis for the research object.

Sustainable Development Goals (SDGs)

The Sustainable Development Goals (SDGs) are a global policy framework designed to address pressing humanitarian issues such as structural poverty, social disparities, and environmental degradation. Holistically, this agenda focuses on achieving a dynamic balance between inclusive economic growth, social justice, and ecological sustainability *(Low et al., 2023).* The SDGs are then realized in 17 goals and 169 targets, serving as a transformative guide for United Nations member states *(Zimon et al., 2024).*

Stakeholder Theory

Stakeholder Theory deconstructs the traditional view of the company, which focuses solely on shareholders, by asserting that business entities have moral and operational obligations to a broader spectrum of stakeholders *(Freeman et al., 2010).* The implication of this theory for corporate reporting is to promote transparency and accountability thru the disclosure of non-financial performance, including ESG aspects, in response to legitimacy demands from various stakeholder groups (Ngu & Amran, 2018).

Signaling Theory

Based on the premise of information asymmetry between internal management and the external market, Signaling Theory positions corporate disclosure as a strategic mechanism for conveying signals about the company's quality and future prospects (Spence, 1973). In the contemporary context, comprehensive sustainability reports serve as a credible signal of management's commitment to sustainable governance and long-term risk management, which in turn can influence investor perceptions *(Bergh et al., 2014).*

Sustainability Report

Sustainability Report is defined as a strategic communication instrument used by organizations to demonstrate accountability for the economic, social, and environmental impacts of their operational activities (Damayanti & Hardiningsih, 2021). In the context of Indonesian regulations, the publication of this report has been transformed from a voluntary practice into an obligation for Issuers and Public Companies, as mandated by the Financial Services Authority Regulation Number 51/POJK.03/2017 (POJK No 51, 2017).

Environmental, Social, and Governance (ESG)

Environmental, Social, and Governance (ESG) has emerged as a critical evaluative paradigm for assessing the alignment of corporate operations with long-term sustainability principles and business ethics *(Alsayegh et al., 2020).* This framework consolidates three main evaluation domains: first, operational performance and environmental impact; second, the quality of relationships and corporate responsibility toward social entities; and third, the effectiveness of organizational governance structures and mechanisms *(Deng et al., 2024).* The

implementation of substantive ESG practices is believed to make a strategic contribution to the realization of various SDGs targets (Gidage & Bhide, 2025). ESG performance measurement can be done by applying a disclosure-based index methodology. This quantitative approach allows for the transformation of qualitative data from sustainability reports into measurable metrics. The calculation of aggregate and dimensional indices is done using the following formula:

Aggregate ESG Index:

$$ESG\ Index = \frac{\Sigma Disclosure\ Score\ of\ ESG\ Items}{Maximum\ Number\ of\ ESG\ Items\ Disclosed}$$

Environmental Dimension Index (E):

$$E\ Index = \frac{\Sigma Disclosure\ Score\ of\ Environmental\ Items}{Maximum\ Number\ of\ Environmental\ Items}$$

Social Dimension Index (S):

$$S\ Index = \frac{\Sigma Disclosure\ Score\ of\ Social\ Items}{Maximum\ Number\ of\ Social\ Items}$$

Governance Dimension Index (G):

$$G\ Index = \frac{\Sigma Disclosure\ Score\ of\ Governance\ Items}{Maximum\ Number\ of\ Governance\ Items}$$

This method adapts the measurement principles used in standardized indices such as the ESG Sector Leaders IDX KEHATI (IDX, 2021).

Debt Equity Ratio (DER)

Corporate financing policy is manifested in its capital structure, with the Debt-to-Equity Ratio (DER) serving as the primary quantitative proxy. This ratio quantifies the relative proportion between external financing (debt) and internal financing (equity). The formula for calculating the DER is:

$$DER = \frac{Total\ Liabilities}{Total\ Shareholders'\ Equity}$$

An elevated DER value indicates a more aggressive financing strategy with high leverage, which is theoretically associated with increased financial risk and agency costs *(Morais et al., 2024).*

Financial Performance

Financial performance measures a company's effectiveness and efficiency in achieving economic goals *(Oketah et al., 2023).* This performance is a vital indicator of a company's resilience and competitiveness, with analysis focusing on its ability to generate revenue and profits (Adeoye & Olojede, 2019). The measurement uses the main financial statements, the

balance sheet (Buntu, 2023), and the income statement, and includes aspects of liquidity, solvency, activity, and profitability (Susanto & Tarigan, 2013). In this study, financial performance is measured thru three main ratios:

Return on Assets (ROA) – Measures the effectiveness of asset utilization: (Cahyani, 2018)

$$ROA = \frac{Net\ Profit}{Total\ Assets}$$

Return on Equity (ROE) – Measures the return on equity: (Lukman & Sabrina, 2019)

$$ROE = \frac{Net\ Profit}{Total\ Equity}$$

Market Capitalization (Market Cap) – Measures market valuation: (Omodero, 2020)

$$Market\ Cap = Number\ of\ Shares\ Outstanding \times Share\ Price$$

The Influence of Environmental Dimension on Financial Performance

Based on stakeholder theory, a company's commitment to environmental performance can increase stakeholder trust and impact financial support. Although there are inconsistent findings from various previous studies, such as the negative results from Ming et al. (2024) and the non-significant influence from Setiawati & Hidayat (2023), the hypothesis in this study is supported by the findings of *Aydoğmuş et al. (2022)* and *Hogiantoro et al. (2022)* who state that the disclosure of the environmental dimension in sustainability reports contributes positively to profitability. Therefore, the hypothesis (H1) is formulated that the environmental dimension of sustainability reporting has a positive influence on the financial performance of companies listed in the IDX30.

H_1: The environmental dimension of Sustainability Reporting has a positive influence on Financial Performance in companies listed on the IDX30.

The Influence of Social Dimension on Financial Performance

Stakeholder theory states that managing good relationships with employees, customers, and the community can enhance reputation and financial performance. The foundation of this hypothesis is strengthened by the research of (Riandika & Wahyuni, 2022) , who found a significant relationship between social performance disclosure and improved Return on Assets (ROA). Although some studies such as *Ming et al. (2024)* and *Aydoğmuş et al. (2022)* reported a negative influence, and Setiawati & Hidayat (2023) found no influence, the hypothesis (H2) in this study still proposes that the social dimension of sustainability reporting has a positive influence on the financial performance of IDX30 companies.

H2: The social dimension of Sustainability Reporting has a positive influence on Financial Performance in companies listed on the IDX30.

The Influence of Governance Dimension on Financial Performance

The principles of Good Corporate Governance (GCG), such as transparency and accountability, are suspected to have a positive relationship with financial performance, as shown by the study of However, previous literature shows inconsistencies; *Ming et al. (2024)* and reported a negative influence, while Setiawati & Hidayat (2023) found no influence.

Nevertheless, based on GCG theory, the hypothesis (H3) is formulated that the governance dimension of sustainability reporting is predicted to have a positive influence on the financial performance of IDX30 companies.

H3: The governance dimension of Sustainability Reporting has a positive influence on Financial Performance in companies listed on the IDX30.

The Influence of DER on Financial Performance

Investment theory emphasizes capital allocation to maximize firm value, while financing policy through leverage (DER) is consistently associated with a decline in financial performance. Dominant empirical evidence indicates that high leverage has a detrimental effect on profitability, including in the fintech sector *(Papadimitri et al., 2021),* during industry recessions *(Blázquez et al., 2023),* as well as on metrics such as Return on Assets (ROA) and Return on Net Worth (RONW) *(Bansal et al., 2021).* Based on recent research, firms adopting a zero-leverage policy demonstrate improved performance through two primary mechanisms: mitigating the negative impact of corporate governance issues and significantly reducing financial risk *(Chang et al., 2025).* Furthermore, a study by *Morais et al. (2024*) reinforces these findings by stating that the benefits of a non-leverage policy are most pronounced for firms not facing financial constraints, particularly in maintaining business resilience during crisis periods. Thus, it can be concluded that the dominant findings of *Chang et al. (2025)* regarding the effectiveness of a zero-leverage policy in enhancing corporate governance and financial stability are given deeper contextualization under specific conditions, as explained by *Morais et al. (2024)*. Therefore, the research hypothesis is formulated based on the strong evidence of the adverse effects of leverage.

H4: DER has a positive influence on Financial Performance in companies listed on the IDX30.

The Influence of Firm Size on Financial Performance

Empirical evidence consistently demonstrates a positive correlation between organizational scale and financial outcomes. Larger corporations typically enjoy superior access to capital markets, enhanced operational efficiency through economies of scale, and greater investment capacity factors that collectively strengthen profitability metrics *(Sholikha et al., 2019).* This relationship is substantiated by research conducted by *Meiryani et al. (2023)* and Julietha & Natsir (2021) who documented that firms with substantial asset bases consistently achieve higher Return on Assets (ROA) and Return on Equity (ROE).

H5: Firm Size has a positive influence on Financial Performance in companies listed on the IDX30.

The Influence of Current Ratio on Financial Performance

Liquidity, measured by the current ratio, is suspected to have a positive influence on financial performance. The main argument is that companies with high liquidity are more capable of financing operations and investing in initiatives that enhance profitability. Empirical findings from *Ether et al. (2024)* and Julietha & Natsir (2021) support this by showing a positive relationship between the current ratio and ROA. Furthermore, good liquidity also enables

companies to allocate resources to ESG practices, which can indirectly improve performance *(Alshehhi et al., 2018; Amin et al., 2023).* Based on this, the hypothesis (H6) is formulated that the current ratio has a positive influence on the financial performance of companies listed in the IDX30.

H6: The Current Ratio has a positive influence on Financial Performance in companies listed on the IDX30.

The research framework in this study is developed based on several previous studies and theoretical concepts. The Environmental, Social, and Governance (ESG) dimensions comprising environmental, social, and governance variables are adopted from the concept proposed by Weber (2017) which highlights the importance of ESG practices in supporting corporate sustainability and long-term performance. Meanwhile, the financial leverage variable measured by the Debt to Equity Ratio (DER) refers to the study conducted by Fadhali & Purwanto (2024), which emphasizes the role of capital structure in influencing corporate financial performance. In addition, firm size and current ratio are also included as independent variables in this study, adopted from the research of *Meiryani et al. (2023),* as these variables reflect the scale of company operations and the firm's ability to meet its short-term obligations, which may affect financial performance.

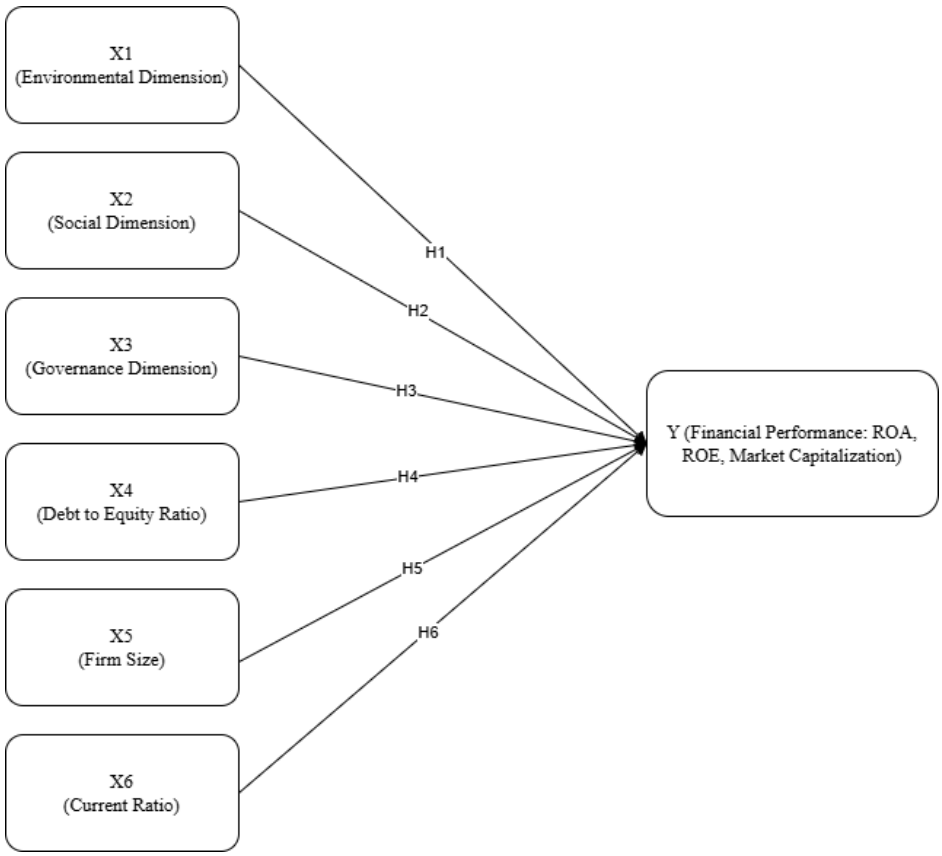

Figure 2. Research Conceptual Model

RESEARCH METHOD

This research employs a quantitative methodology with an explanatory purpose, structured around a panel data design to analyze data collected over time from multiple entities. The central objective is to investigate the causal effects of two independent variables on corporate financial performance. These variables are the extent of Sustainability Report Disclosure, encompassing Environmental, Social, and Governance (ESG) dimensions, and corporate capital structure policy, for which the Debt-to-Equity Ratio (DER) serves as a proxy

The population in this study is defined as all issuers listed on the IDX30 index. This index is a curated selection of the 30 companies with the largest market capitalization and highest liquidity in the Indonesian capital market. This specific population is deliberately chosen under the assumption that IDX30 constituents are typically characterized by established corporate reporting standards. Consequently, insights gained from this group are expected to yield findings that are representative of best practices within the Indonesian market.

Table 1. Operational Definition of Variables

Name	Definition	Measurement
Dependent Variables		
Financial Performance (ROA)	A profitability ratio that measures a company's ability to generate profit from its total assets.	$ROA = \frac{Net\ Income}{Total\ Assets}$
Financial Performance (ROE)	A profitability ratio that measures a company's ability to generate profit from shareholders' equity	$ROE = \frac{Net\ Income}{Total\ Equity}$
Market Capitalization	The total market value of all outstanding shares of a public company.	$MC = (Total\ Number\ of\ Outstanding\ Shares + Free\ Float\ Shares)\ x\ Closing\ Price$
Main Independent Variables		
Environment Sustainability report	Performance that measures the company's ability to manage environmental factors in its business operations.	$Indeks\ E = \frac{Environment\ Disclosure\ Value}{Total\ ESG\ Disclosure}$
Social Sustainability report	Performance that measures the company's ability to manage social factors in its business operations	$Indeks\ S = \frac{Social\ Disclosure\ Value}{Total\ ESG\ Disclosure}$
Governance Sustainability report	Performance that measures the company's ability to manage governance factors in its business operations.	$Indeks\ G = \frac{Governance\ Disclosure\ Value}{Total\ ESG\ Disclosure}$
Leverage Ratio (DER)	A leverage ratio measured by comparing total debt with shareholders' equity.	$DER = \frac{Total\ Debt}{Total\ Equity}$
Control Independent Variables		
Firm Size (Size)	A ratio that reflects the total value of assets owned by a company	$Size = ln\ (Total\ Assets)$
Current Ratio (CR)	A liquidity ratio that measures a company's ability to meet its short-term obligations using its current assets	$CR = \frac{Current\ Assets}{Current\ Liabilities}$

Source: Author's calculation (2025)

A purposive sampling method was used to select the final research sample from this population. The selection criteria were strict: companies had to maintain an uninterrupted listing on the IDX30 throughout the entire five-year observation period (2019-2023) and must have published complete and accessible financial reports and sustainability reports for each year within that period. The application of these filters resulted in a final sample of 14 qualifying companies. Given the five-year timeframe, this sample size provides a total of 70 firm-year observations to be analyzed as pooled data.

This study utilizes secondary data systematically sourced from published official documents, including annual reports, sustainability reports, and other thematic reports accessible via the Indonesia Stock Exchange (IDX), the Financial Services Authority (OJK), corporate websites, and credible financial databases like Bloomberg. The investigation focuses on the 2019–2023 period to capture recent trends and ensure the data's relevance within the evolving context of ESG and financial regulation. Financial performance is proxied by three dependent variables: Return on Assets (ROA), Return on Equity (ROE), and Market Capitalization (MC). The primary independent variables are the three ESG dimensions Environmental (E), Social (S), and Governance (G) measured via a composite index aligned with the ESG Sector Leaders IDX KEHATI framework, alongside corporate policy represented by the leverage ratio (DER). To isolate the effects of these core variables, firm size and the liquidity ratio (Current Ratio) are incorporated as control variables.

Methodologically, the analysis proceeds in two stages: descriptive statistics and panel data regression. The adoption of a panel data regression approach is justified by its capacity to handle data with dual dimensions cross-sectional (across firms) and time-series (over years). This methodology enables control for unobserved time-invariant heterogeneity unique to individual firms, thereby producing more efficient and unbiased parameter estimates, a benefit underscored in the econometric literature (Baltagi, 2021). The ensuing empirical model is constructed based on this framework.

$$Y_{it} = \alpha + \beta_1 X1_{it} + \beta_2 X2_{it} + \beta_3 X3_{it} + \beta_4 X4_{it} + \beta_5 X5_{it} + \beta_6 X6_{it} + \varepsilon_{it}$$

When
Y : Financial Performance
X1 : Environmental Dimension
X2 : Social Dimension
X3 : Governance Dimension
X4 : Corporate Policy (DER)
X5 : Firm Size
X6 : Current Ratio
α : Constant
ε : Error Term
i : Individual unit (company)
t : Time

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The choice between the Common Effect, Fixed Effect, and Random Effect models was informed by a battery of statistical tests—specifically, the Chow, Breusch-Pagan LM, and Hausman tests. This methodological approach, following Ghozali (2019) was adopted to guarantee that the final model specification was optimally suited to the data and statistically sound.

To ensure the reliability of the estimation results as a prerequisite for hypothesis testing, the employed regression model was first validated by testing its compliance with the classical linear regression assumptions—including residual normality, heteroscedasticity, multicollinearity (VIF), and autocorrelation (Durbin-Watson) (Baltagi, 2021). Following the model's validation, statistical hypothesis testing was conducted. A t-test was employed to measure the partial effect of each independent variable at a 5% significance level, while an F-test was used to measure the simultaneous effect of all independent variables collectively. Furthermore, the coefficient of determination (R-squared) was analyzed to determine the proportion of the variation in the dependent variable explained by the model. The entire process of econometric analysis and computation in this study was performed using EViews 13 software.

RESULT AND DISCUSSION

Result

This study employs a sample of companies listed in the IDX30 index from November 1 2023 to January 31, 2024. The index represents the 30 issuers with the highest liquidity and largest market capitalization on the Indonesia Stock Exchange. The IDX30 reflects the performance of leading blue chip stocks, which exert a significant influence on the dynamics of the national capital market. It encompasses various strategic sectors such as banking, energy, infrastructure, consumer goods, and mining, thereby providing a comprehensive overview of the Indonesian economy. The characteristics of the issuers within this index representing large, stable, and highly competitive companies make them relevant subjects for investigating the influence of sustainability reporting and capital structure on corporate financial performance.

This study's dataset was compiled from the sustainability and financial reports of a specifically chosen group of companies, covering the years 2019 through 2023. The researchers used a judgmental sampling method, selecting firms that fit certain criteria relevant to the study's aims. From this process, 14 companies were identified as suitable for inclusion. With data extracted for each of the five years, the study encompasses a total of 70 observational data points. The participating companies are fourteen prominent entities listed on the Indonesian

stock exchange, namely: ADRO, ANTM, ASII, BBCA, BBNI, BBRI, BMRI, CPIN, KLBF, PGAS, PTBA, SMGR, UNTR, and UNVR.

The research sample composition can be categorized into four main sectors, reflecting the diversity of Indonesian industries. The banking sector is represented by Bank Central Asia, Bank Negara Indonesia, Bank Rakyat Indonesia, and Bank Mandiri, which are the largest financial institutions with strategic roles in maintaining financial system stability and driving national economic growth. The energy and mining sector includes Adaro Energy Indonesia, operating in coal mining; Aneka Tambang, focused on the exploitation of nickel, gold, and other strategic minerals; Bukit Asam, a state-owned coal producer; and Perusahaan Gas Negara, responsible for the supply and distribution of natural gas as part of the national energy transition. The consumer goods sector is represented by Charoen Pokphand Indonesia, an integrated producer of animal feed and poultry products Kalbe Farma, a leading pharmaceutical company with a broad portfolio of health and nutrition products and Unilever Indonesia, a well-known manufacturer of daily consumer goods ranging from food and beverages to personal care products. Meanwhile, the industrial and construction sector consists of Astra International, a multi-sector conglomerate with businesses spanning automotive, financial services, and infrastructure. Semen Indonesia the largest cement producer that serves as the backbone of national infrastructure development and United Tractors, which operates in heavy equipment distribution, mining contracting, and the construction sector. This sectoral diversity indicates that the study encompasses companies with differing operational characteristics and business structures, all of which share a vital contribution to the Indonesian economy.

The research data, gathered from 70 observations, was profiled using descriptive statistics. The dataset is composed of several variable groups: the dependent variables (ROA, ROE, and Market Capitalization), the primary independent variables (the Environmental, Social, and Governance (ESG) dimensions along with the Debt to Equity Ratio, and the control variables (firm Size and the Current Ratio).

The profitability of the sample companies shows considerable variation, as reflected in the ROA values with a mean of 0.089 (8.9 %), indicating the companies' ability to generate net profit from their managed total assets. However, the ROA range, spanning from a minimum of -0.035 to a maximum of 0.361, reveals a substantial disparity in profitability performance among the sample firms. This condition is reinforced by a standard deviation of 0.086, which is relatively close to the mean value, implying heterogeneity in the level of asset use efficiency for generating profit among the sample companies.

Table 2. Statistic Descriptive

	ROA	ROE	MC	E	S	G	DER	CR	SIZE
Mean	0.089	0.390	4.09E+15	0.324	0.320	0.314	2.115	1.390	31.273
Median	0.057	0.153	1.50E+14	0.333	0.333	0.333	0.700	1.300	31.728
Max	0.361	11.220	7.27E+16	0.333	0.333	0.333	6.896	4.908	35.315
Min	-0.035	-0.090	7.48E+12	0.267	0.200	0.067	-0.400	0.015	22.577
Std. Dev.	0.087	1.348	1.41E+16	0.023	0.029	0.048	2.391	1.100	3.844
Observations	70	70	70	70	70	70	70	70	70

Source: Author’s calculation (2025)

Return on Equity displays a more extreme pattern with a mean of 0.390 (39 %) and a maximum value reaching 11.22, indicating the presence of firms with a return on equity far exceeding the sample average. This phenomenon results in a widely dispersed ROE distribution, as reflected in the substantial standard deviation of 1.348, signifying high heterogeneity in the companies' ability to generate returns for shareholders. The Market Capitalization variable shows a mean value of 4.09×10^{15} with a median of 1.50×10^{14}, indicating that the majority of sample firms have small to medium market capitalizations, while a number of very large-capitalization firms pull the mean upward. This extreme disparity in firm size is confirmed by the value range from a minimum of 7.48×10^{12} to a maximum of 7.27×10^{16}, with a high standard deviation of 1.41×10^{16}.

In the sustainability dimension, the three ESG components exhibit relatively homogeneous characteristics with mean values of 0.324 for Environmental, 0.320 for Social, and 0.314 for Governance, all sharing an identical median value of 0.333. The uniform maximum value of 0.333 for all three dimensions, coupled with varying minimum values of 0.267 for Environmental, 0.200 for Social, and 0.067 for Governance, indicates that sustainability disclosure practices among the sample companies are at a moderate level but have not yet reached an optimal standard. The relatively low standard deviations for all three variables 0.024 for Environmental, 0.029 for Social, and 0.048 for Governance suggest a relatively uniform consistency in ESG disclosure practices among the firms, albeit with certain variations.

The companies' capital structure, proxied by the Debt to Equity Ratio, shows a mean of 2.115 with a median of 0.7, indicating that most firms have debt burdens exceeding their equity, with significant disparity among entities. The maximum DER value of 6.896 illustrates the existence of companies with a very high reliance on debt financing, while the minimum value of -0.4 reflects firms with a conservative capital structure where equity dominates the capital composition. The substantial standard deviation of 2.391 confirms high heterogeneity in capital structure policies among the sample firms. The Current Ratio variable, as a proxy for short-term liquidity, shows a mean of 1.390 with a median of 1.3, indicating that, in aggregate, the sample companies have sufficient current assets to cover their short-term obligations. Nevertheless, the extreme value range from a minimum of 0.015 to a maximum of 4.908 reveals highly significant liquidity disparities, with some companies exhibiting very low to very high liquidity. Furthermore, firm size, measured by the natural logarithm of total assets, displays a mean of 31.273 with a median of 31.728, indicating that the majority of sample firms fall into the large company category, with a range from a minimum of 22.577 to a maximum of 35.315.

Panel data regression analysis was conducted using three different model scenarios corresponding to the dependent variables used ROA, ROE, and Market Capitalization to examine the influence of sustainability reporting practices, represented by the Environmental, Social, and Governance dimensions, and the capital structure, proxied by the Debt to Equity Ratio, on corporate financial performance. The use of three different proxies for financial performance is intended to provide a comprehensive understanding of how sustainability practices and corporate financing policies affect various aspects of performance, from the perspectives of asset efficiency, equity returns, and market valuation. In the first model with Return on Assets as the dependent variable, the model selection process was carried out through a series of statistical tests to determine the most suitable estimation model for the data characteristics.

Table 3. Panel Data Regression ROA

ROA Chow Test Results			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	39.205880	(13,50)	0.0000
Cross-section Chi-square	169.073183	13	0.0000
ROA Hausman Test Results			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	31.920233	6	0.0000

Source: Author's calculation (2025)

Table 4. Classic Assumption of ROA

ROA Normality Test	
Statistic	**Value**
Jarque-Bera	0.042272
Probability	0.9979866
ROA Multicollinearity Test	
Variabel	Centered VIF
E	1.733439
S	1.101932
G	1.862942
DER	2.521812
SIZE	1.719647
CR	2.018414
ROA Heteroscedasticity Test	
Statistics	Value	Probability
Obs*R-squared	7.958557	0.2412 (Chi-Sq. df=6)
ROA Autocorrelation Test	
Statistics	Value
Durbin-Watson stat	1.739742

Source: Author's calculation (2025)

The statistical test results definitively established the Fixed Effect Model as the most appropriate model for analyzing Return on Assets (ROA). The selection process was as follows: The Chow test yielded a probability value of 0.0000, leading to the rejection of the Common Effect Model and the selection of the Fixed Effect Model. This finding was subsequently confirmed by the Hausman test, which produced a probability value of 0.0005, also selecting the Fixed Effect Model over the Random Effect Model. In accordance with econometric literature from Baltagi, (2021[1.1] [G1.2]) and Gujarati & Porter (2012), the selection of the Fixed Effect Model eliminates the necessity to perform the Lagrange Multiplier Test. Consequently, the analysis can proceed directly to the stage of classical assumption testing.

Classical assumption tests were conducted to verify the regression model's reliability for statistical inference. The Jarque-Bera normality test yielded a probability of 0.998, confirming that the residuals are normally distributed. Furthermore, all independent variables demonstrated Variance Inflation Factor (VIF) values between 1.10 and 2.52, well below the threshold of 10, indicating the absence of significant multicollinearity. The Breusch- Pagan-Godfrey test for heteroskedasticity produced a probability value of 0.241, confirming homoscedasticity in the model. While the Durbin-Watson statistic of 1.740 fell within an inconclusive range regarding autocorrelation, the model was deemed acceptable for further analysis as it did not exhibit any

significant violations of the core classical assumptions.

The Fixed Effect Model analysis for ROA reveals that the independent variables collectively have a highly significant impact, as confirmed by the F-statistic. Individually, firm size significantly boosts ROA, whereas the Debt to Equity Ratio significantly harms it. In contrast, the Environmental, Social, and Governance dimensions, along with the Current Ratio, were found to have no statistically significant individual effect. Despite these mixed partial results, the model demonstrates an excellent fit, with an R-squared of 0.921, explaining 92.1% of the variation in ROA.

The selection of the right statistical model for analyzing Return on Equity (ROE) involved a step-by-step testing procedure. Initially, the Chow Test (p-value = 0.006) suggested that a Fixed Effects model was superior to a basic Common Effects model. However, a subsequent Hausman Test (p-value = 0.083) indicated that a Random Effects model would be a better choice than the Fixed Effects model. To finalize the selection, a Lagrange Multiplier Test was run, which produced a very high p-value of 0.985. This result showed no evidence of significant individual effects in the data, leading to the final conclusion that the simplest model, the Common Effects model, was the most appropriate for the ROE analysis.

Table 5. ROA Hypothesis Test

ROA Simultaneous Test		
Statistics	Value	
Prob(F-statistic)	0.000000	
ROA Partial Test		
Variabel	Coefficient	Prob.
E	-0.405176	0.0712
S	0.157448	0.2902
G	-0.091395	0.4468
DER	-0.036155	0.0031
SIZE	0.146312	0.0000
CR	0.019163	0.2117
ROA Determination Coefficient		
Statistics	Value	
R-squared	0.921488	

Source: Author's calculation (2025)

Table 6. Panel Data Regression ROE

Chow Test Results ROE			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.010523	(13,50)	0.0393
Cross-section Chi-square	29.435611	13	0.0057
Hausman Test ROE			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.189184	6	0.0827

Source: Author's calculation (2025)

Table 7. Classic Assumption of ROE

ROE Normality Test	
Statistics	**Value**
Jarque-Bera	9721.050
Probability	0.000000
ROE Multicollinearity Test	
Variabel	Centered VIF
E	1.733439
S	1.101932
G	1.862942
DER	2.521812
SIZE	1.719647
CR	2.018414
ROE Heteroscedasticity Test	
Statistics	Value	Probability
Obs*R-squared	7.958557	0.2412 (Chi-Sq. df = 6)
ROE Autocorrelation Test	
Statistics	Value
Durbin-Watson stat	1.914307

Source: Author's calculation (2025)

The testing of classical assumptions for the ROE model yielded different results from the ROA model. The Jarque-Bera normality test produced a probability value of 0.000, which is less than 0.05, indicating that the model's residuals are not normally distributed and that the normality assumption is violated. The multicollinearity test showed that all variables have a VIF value below 10, confirming the absence of multicollinearity issues. The Breusch-Pagan-Godfrey test for heteroscedasticity yielded a probability of 0.241, which is greater than 0.05, confirming the absence of heteroscedasticity. The Durbin-Watson test produced a statistic of 1.914, which falls within the range of $dU < DW < (4 - dU)$, specifically $1.838 < 1.914 < 2.163$, indicating the absence of autocorrelation in the model.

Table 8. ROE Hypothesis Test

ROE Simultaneous Test		
Statistics	Value	
Prob(F-statistic)	0.813438	
ROE Partial Test		
Variabel	Coefficients	Prob.
E	-1.836218	0.5092
S	1.566127	0.1146
G	0.774200	0.2307
DER	0.008809	0.6009
SIZE	-0.004895	0.6125
CR	-0.028983	0.3410
ROE Determination Coefficient		
Statistics	Value	
R-squared	0.044585	

Source: Author's calculation (2025)

Given the violation of the normality assumption and to enhance estimation efficiency under large N and small T data conditions, this study employs the Seemingly Unrelated Regression (SUR) method for the ROE model. The SUR approach, which is part of the Generalized Least Squares, was selected due to its ability to produce more efficient parameter estimates by accounting for correlations among error terms, as highlighted by Beck et al. (2005). The SUR estimation results indicate that, simultaneously, all independent variables do not have a significant effect on ROE, with the F-statistic probability of 0.813, well exceeding the 0.05 threshold. Partially, the Environmental dimension shows a negative coefficient of -1.836 with a probability of 0.509, the Social dimension shows a positive coefficient of 1.566 with a probability of 0.115, the Governance dimension shows a positive coefficient of 0.774 with a probability of 0.231, DER shows a positive coefficient of 0.009 with a probability of 0.601, Size shows a negative coefficient of -0.005 with a probability of 0.613, and the Current Ratio shows a negative coefficient of -0.029 with a probability of 0.341. All variables exhibit probability values greater than 0.05, indicating no significant effect on ROE. The R-squared value of 0.0445, or 4.445 percent, suggests that the independent variables in the model explain only a very small proportion of the variation in ROE, indicating a weak goodness of fit.

Table 9. Panel Regression of MC

Result Chow Test MC			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	71.283718	(13,50)	0.0000
Cross-section Chi-square	208.050122	13	0.0000
Result Hausman Test MC			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.907834	6	0.6891
Result LM Test MC			
Test Hypothesis	**Cross-section**	**Time**	**Both**
Breusch-Pagan	111.8665	2.498819	114.3653
	(0.0000)	(0.1139)	(0.0000)

Source: Author's calculation (2025)

Table 10. ROE Hypothesis Test

ROE Simultaneous Test		
Statistics	Value	
Prob(F-statistic)	0.764279	
ROE Partial Test		
Variable	Coefficients	Prob.
E	1.41E+16	0.5916
S	1.51E+16	0.3999
G	-1.92E+16	0.1810
DER	3.81E+14	0.7572
SIZE	1.77E+14	0.8762
CR	-5.48E+14	0.7524
ROE Determination Coefficient		
Statistics	Value	
R-squared	0.050202	

Source: Author's calculation (2025)

In the third model with Market Capitalization (MC) as the dependent variable, the Chow test yielded a probability value of 0.000, which is less than 0.05, leading to the selection of the Fixed Effect Model over the Common Effect Model. Subsequently, the Hausman test produced a probability of 0.689, which is greater than 0.05, indicating that the Random Effect Model is more appropriate than the Fixed Effect Model. The Lagrange Multiplier test was then conducted, resulting in a Breusch-Pagan probability value of 0.000, which is less than 0.05, confirming that the Random Effect Model is more suitable than the Common Effect Model for the dependent variable Market Capitalization.

The use of the Random Effect Model estimated via the Generalized Least Squares method eliminates the need to conduct classical assumption tests, as argued by Gujarati & Porter (2012), since the GLS method inherently addresses violations of classical assumptions that commonly occur in Ordinary Least Squares estimation.

The analysis using the Random Effects Model reveals two key findings regarding the influence of the selected independent variables (Environmental, Social, and Governance dimensions, Debt-to-Equity Ratio, Size, and Current Ratio) on Market Capitalization. First, a joint test of all variables (the F-test) is statistically insignificant, with a high p-value of 0.764. This means that, as a group, these variables do not have a meaningful impact on Market Capitalization.

Second, individual tests for each variable (partial tests) confirm this lack of influence. While the coefficients suggest some directional relationships for instance, the Environmental and Social scores have a positive association, and the Governance score has a negative association with Market Capitalization none of these relationships are statistically significant. The p-values for all variables are substantially higher than the conventional 0.05 threshold, indicating that these observed effects could easily be due to random chance rather than a true underlying relationship.

Furthermore, the model's explanatory power is extremely limited. The R-squared value of only 5.02% signifies that the model accounts for a mere 5% of the variation in Market Capitalization. The remaining 95% of the fluctuations are driven by other factors not included in this analysis. This very low R-squared value underscores that the model has a weak fit and is not effective in explaining or predicting Market Capitalization based on the variables provided.

Discussion

This study employs three financial performance proxies as dependent variables, namely Return on Assets (ROA), Return on Equity (ROE), and Market Capitalization (MC), to examine the influence of sustainability reporting and solvency ratios on the financial performance of companies listed on the IDX30 index. The independent variables encompass the Environmental (E), Social (S), Governance (G) dimensions, the Debt to Equity Ratio (DER), the Current Ratio (CR), and firm size. The analysis results indicate that ROA is the most appropriate and representative proxy. It consistently yielded a Fixed Effect Model (FEM) based on the Chow and Hausman Tests, met the Best Linear Unbiased Estimator (BLUE) criteria, and achieved an R^2 of 92.14% with an F-statistic probability of 0.0000. Conversely, the ROE and MC models exhibited methodological weaknesses, with R^2 values of only 4.45% and 5.02% respectively,

thus failing to adequately explain financial performance. The selection of ROA is supported by empirical testing and theoretical considerations that ROA is most relevant in reflecting a company's effectiveness in generating profits from its assets.

The Influence of the Environmental Dimension on Financial Performance.The environmental dimension was proven to have no significant effect on ROA, indicating that the commitment to disclosing environmental aspects does not affect the profitability of IDX30 companies. This result contrasts with *Pradhani et al. (2024), Hogiantoro et al. (2022)* and *Aydoğmuş et al. (2022),* who found a positive influence, but aligns with (Setiawati & Hidayat, 2023). The insignificance can be explained through the concept of symbolic corporate environmentalism, wherein environmental practices remain symbolic without substantive implementation (Bowen, 2014; *Ramlawati et al., 2022*). The costs of implementing environmental programs impose short-term financial burdens that pressure profitability *Elviani et al. (2022),* consistent with *Escobar-Pérez et al. (2025)* who state that the impact of environmentally friendly practices is highly influenced by industrial and institutional contexts. Although stakeholder theory emphasizes the importance of meeting environmental expectations, the disclosure of the environmental dimension has not been proven to provide significant added value to financial performance (Abdeladim & Yahyaoui, 2024; Kaur & Lodhia, 2018).

The Influence of the Social Dimension on Financial Performance. The social dimension had no significant influence on ROA, demonstrating that the disclosure of social activities does not affect the profitability of IDX30 companies. This finding is consistent with Sari & Andreas (2019) who stated that the primary focus of companies remains on short-term profitability. Through the lens of stakeholder theory, the economic benefits of social initiatives are long-term in nature and are not directly reflected in short-term financial indicators *(Sharma et al., 2019).* The costs of social activities can even pressure short-term profitability *(Ming et al., 2024),* aligning with Bukhori & Sopian (2017) and Ismayilov & Meo Rajput (2018) who found a negative relationship between CSR and short-term profitability. Although *Aydoğmuş et al. (2022)* and *Imbang et al. (2024)* suggest that the social dimension can have a positive impact if implemented consistently and integrated strategically, in the context of IDX30 companies, the disclosure of the social dimension has not been proven to provide a significant contribution because its benefits require long-term integration into the business strategy.

The Influence of the Governance Dimension on Financial Performance. The governance dimension had no significant effect on the ROA of IDX30 companies, aligning with (Setiawati & Hidayat, 2023). From a Good Corporate Governance (GCG) perspective, its implementation in sustainability reports remains normative and focused on regulatory compliance rather than creating added economic value; consequently, the financial benefits are not directly visible in the short term *(Safitri et al., 2025). Fajri et al. (2022)* found that the influence of board size and independent commissioners depends on the company context, while *Ming et al. (2024)* reported a negative impact due to high compliance costs. Conversely, *Aydoğmuş et al. (2022)* found that high governance quality increases profitability if applied consistently. *Ulfa et al. (2025)* stated that the influence of governance disclosure depends on firm size as a moderating variable, while *Khoiriyah et al. (2020)* affirmed that GCG mechanisms contribute to disclosure quality, but their impact on profitability varies. These results confirm that the effectiveness of GCG depends

not only on formal disclosure but also on its substantive implementation in daily operations.

The Influence of the Debt to Equity Ratio on Financial Performance. DER has a significant negative influence on ROA, indicating that the higher the proportion of debt, the lower the profitability. Increased leverage raises interest expenses, which pressures net profit (Ali & Shaik, 2022) and reflects a risky funding structure that (Alzubi & Bani-Hani, 2021). In the context of IDX30 companies, these findings emphasize that management should exercise greater caution when increasing the proportion of debt. Although debt can serve as a source of funding for expansion, the accumulation of interest expenses may, in fact, erode financial performance. This finding aligns with investment policy theory, which posits that appropriate funding decisions create firm value (Fadhali & Purwanto, 2024), as well as with *Papadimitri et al. (2021)* and *Blázquez et al. (2023)* who state that debt can enhance performance if managed properly but risks suppressing profitability. *Bansal et al. (2021)* stated that leverage is closely (Nalurita & Rijanto, 2024) emphasized that debt can be an effective instrument if managed healthily and does not exceed repayment capacity. An optimal DER reflects creditor confidence and capital efficiency, which positively impacts profitability, reinforcing that DER is a crucial instrument in the capital structure of large companies.

The Influence of Firm Size on Financial Performance. Firm size has a significant positive influence on ROA, affirming that larger size enhances the ability to generate profits from assets. Large assets reflect the capacity to invest in infrastructure, technology, and human resources, which improves operational efficiency *(Meiryani et al., 2023).* Julietha & Natsir (2021) stated that large companies have easy access to external financing, enabling investment diversification and a greater ability to face market uncertainties. *Sholikha et al. (2019)* affirmed that large companies possess greater flexibility in expansion and risk diversification. The concept of economies of scale explains that large companies utilize efficiencies in production and distribution costs, resulting in lower average costs per unit *(Odalo et al., 2016).* Shahfira & Hasanuh (2021) demonstrated that large assets allow companies to access cheaper financing, diversify business operations, and enhance bargaining power in the market. Firm size is not merely a reflection of asset wealth but also an indicator of managerial capacity and business sustainability, particularly in capital-intensive industries.

The Influence of the Current Ratio on Financial Performance.The current ratio has no significant effect on ROA, indicating that liquidity is not a primary determining factor for the profitability of IDX30 companies. This result aligns with *Ulfa et al. (2025)* in the food and beverage sector, *Sarie et al. (2023)* in the automotive industry, and Mardiati & Permatasari (2022) in the pharmaceutical sector, who reported the insignificance of the current ratio on ROA. The contrasting findings with *Ether et al. (2024)* and Julietha & Natsir (2021) can be explained by the fact that in large, well-established companies, liquidity is already optimally maintained, so variations in the current ratio do not predominantly affect profitability. Zurriah & Prayogi (2023) emphasized that an excessively high current ratio can reflect inefficient use of current assets, such as idle cash or unproductive receivables. This result supports the view that the relationship between liquidity and financial performance is not always linear, and for large companies with broad access to funding and strong capital structures, profitability is more determined by operational efficiency, firm size, and funding structure than by the current ratio.

Managerial Implication

Based on the findings and discussion of this study, several managerial implications can be identified. Companies need to integrate environmental and social responsibility into their long-term strategies. Environmental practices such as waste management, carbon emission reduction, and energy efficiency should be viewed not only as regulatory compliance but also as strategic investments that support sustainable business performance. In addition, companies should strengthen social initiatives, including community empowerment, workforce inclusion, and the protection of employee welfare. Although these initiatives may not directly increase short-term financial performance, they can enhance stakeholder trust and support long-term business sustainability.

Furthermore, the findings highlight the importance of strengthening corporate governance and financial management. The implementation of good corporate governance principles, such as transparency and accountability, can improve investor confidence and reduce the risk of corporate misconduct. At the same time, management should carefully manage capital structure and liquidity to prevent excessive financial risk and maintain stable cash flow, thereby ensuring sustainable business operations.

CONCLUSION AND SUGGESTION

Conclusion

This study examines the influence of environmental, social, and governance (ESG) dimensions, as well as the leverage ratio, on financial performance, using two control variables: firm size and the current ratio. A panel data regression analysis with three proxies for financial performance (ROA, ROE, and Market Capitalization/MC) revealed that the ROA model was the best fit, whereas the ROE and MC models showed no significant influence from any of the independent variables tested.

The findings reveal that the environmental, social, and governance dimensions do not have a significant effect on ROA, indicating that compliance with ESG practices does not directly enhance a company's asset profitability. Nevertheless, ESG disclosure remains essential for strengthening corporate reputation, building stakeholder trust, and ensuring long-term sustainability performance. Conversely, the Debt-to-Equity Ratio (DER) demonstrates a significant negative influence on ROA, proving that excessive increases in leverage suppress profitability due to high financial burdens. Firm size exhibits a significant positive influence on ROA, suggesting that a larger operational scale promotes efficiency and enhances profit-generating capacity. Meanwhile, the current ratio shows no significant effect, indicating that short-term liquidity does not influence a company's ability to generate profits from its assets.

The practical implications of this research indicate that the management of IDX30 companies needs to maintain an optimal capital structure by balancing internal and external financing to avoid profitability pressures resulting from excessive leverage, as well as to leverage company scale to drive efficiency and market expansion. For investors, the leverage level and firm size can serve as primary indicators for assessing a company's profitability and financial health. The implementation of ESG practices remains crucial for maintaining investor confidence and long-term sustainability performance, even though it does not have a direct

impact on short-term profitability.

Limitations

The study's limitations include a constrained observation period, potential reporting bias in ESG measurements that rely on corporate sustainability reports, and a sample focus on large-capitalization IDX30 companies, which limits the generalizability of the findings to small and medium-sized enterprises.

Suggestion

Future research is recommended to employ a longer observation period to capture performance dynamics under various economic conditions, combine sustainability reports with independent ESG agency ratings to minimize bias, and focus the analysis on specific sectors to yield more comprehensive and applicable findings tailored to the characteristics of industries in Indonesia.

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