INTERNATIONAL STUDENTS' CONFERENCE ON ACCOUNTING & BUSINESS
FORKOMMSA
Magister Sains Akuntansi
Universitas Jenderal Soedirman

THE EFFECT OF ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) DISCLOSURE ON COMPANY PERFORMANCE

Nabilah Nurdiati[1*], Dewi Susilowati[2], Hijroh Rokhayati[3]
[1*]Universitas Jenderal Soedirman, nabilah.nurdiati@mhs.unsoed.ac.id
[2]Universitas Jenderal Soedirman, dewi.susilowati@unsoed.ac.id
[3]Universitas Jenderal Soedirman, hijroh.rokhayati@unsoed.ac.id

Abstract

This study discusses ESG disclosure on company performance. This study aimed to see the effect of ESG disclosure on company performances, namely ROA, ROE, Tobin's Q, and Sales Growth. This study uses a population of all basic material and industrial sector companies from the IDX-IC category. Then a purposive sampling method was used: companies that published annual and sustainability reports in 2019-2020 to obtain a sample of 70 and 140 research observations. The ESG disclosure variable in this study uses observations in 2019 and 2020, while the company's performance variables use the time lag method in 2020 and 2021. This research method uses secondary data sources. And uses data collection methods through literature and documentation. In addition, researchers also use content analysis methods to measure ESG values and collect data through annual reports and sustainability reports. This study uses the panel data method using common, fixed, and random effect models, then uses the classic assumption test method, panel data regression analysis, regression model testing, and hypothesis testing. The result of this study is that ESG disclosure does not affect company performance ROA, ROE, and Sales Growth. However, ESG disclosure affects Tobin's Q. The implication in this study is that the effect of ESG disclosure on company operational performance can benefit several parties, such as stakeholders and regulators or the government. It can be concluded that ESG disclosure will have a long-term impact on the company, while financial information is a short-term measurement of company performance.

Keywords: ESG Disclosure, Return on Asset, Return on Equity, Tobin's Q, Sales Growth

INTRODUCTION

Sustainability development first appeared in 1987 by The World Commission on Environment and Development (WCED) and this concept continues to be developed today. At that time, sustainable development aims to meet the needs of the present without reducing future needs. In Indonesia, this concept has also been contained in Article 1, paragraph (3) of the Republic of Indonesia Law. No. 32 of 2009 regarding environmental protection and management. The outline in the article explains that sustainable development is an essential solution in carrying out financial and non-financial aspects as a development effort or strategy for future generations.

Efforts to refine the concept of a company that is sustainable and following the era of society 5.0 were realized 7 years ago, to be precise, on September 25 2015, at a gathering of

193 countries at the UN Headquarters. These countries expressed their concerns related to environmental problems that companies often neglect. Until finally agreed on a document regarding the sustainable development agenda that can change the world in 2030. This document has spawned a new concept of sustainable development, the concept is called Environmental, Social, Governance (ESG). This concept was born as a complement to the previous concept, Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) (Sentosa et al., 2021).

The reasons for replacing CSR with ESG include that ESG can specifically assess how a business can run well, increase the value of investments made by investors, and serve as a standard for sustainability improvement. Based on the regulations implemented in Indonesia, we can draw a common thread that implementing and applying the ESG concept is very important for companies because companies that use the ESG concept well are expected to increase company investment.

According to Global Reporting Initiative (GRI), in 2019, at least 93% of the ESG concept implemented in the company succeeded in increasing its revenue. In 2018, based on the Allianz report, 79% of Americans chose to invest in companies that pay attention to environmental, social and governance aspects, 74% said companies had increased corporate income by implementing the ESG system, and 69% made a positive contribution to aspects of corporate governance. However, the benefits of implementing ESG do not always make ESG implementation run smoothly. Moreover, the implementation of ESG requires competent resources.

The implementation of ESG in Indonesia has yet to run optimally. The article is based on the Indonesia Business Council of Sustainable Development (IBCSD) survey. In 2021 Indonesia was ranked 36th in the world. This result wasn't good if we compare it to other ASEAN countries. For example, the Philippines ranked 30th, and Malaysia ranked 22nd. And even Thailand, with fantastic results, is ranked 9th globally. Problems with applying ESG often occur in large companies, such as corporations that go public in Indonesia. The first issue occurred with PT Pertamina. It was busy becoming a media discussion when it became a company registered as a watch list company that threatened to be removed from ESG assessment. The index is called JPMorgan, an index created related to socially and environmentally responsible investments. The incident of an oil refinery fire in West Java was one of the reasons for the decrease in the score obtained by PT Pertamina.

Based on the data obtained from forest digest, in 2022 that conduct research with Transformation for Justice. The research was conducted in Congo, Indonesia, and Brazil. This financial data was collected from the Bloomberg, Refinitiv, Trade Finance Analytics, IJ Global indices, company reports, company publications, media reports, and investment analysis from 2013-2020. The results obtained were more than 300 companies used as research objects and only 230 companies with identifiable financing. Meanwhile, based on data from the Indonesian Sustainable Finance Reform Review (2019), some of Indonesia's five largest banks contributed funds to companies whose activities can put forests at risk. The five banks are BCA, BNI, Mandiri, BRI and MayBank.

The provision of financial assistance by the BANK to companies that are still vulnerable to environmental preservation often occurs in manufacturing companies. In practice, the manufacturing industry is closely related to goods management. This of course requires production machines to manage it. Several risks can arise when handling goods in the

manufacturing industry. The most obvious example is the occurrence of industrial waste pollution. Pollution of industrial wastewater can have a negative effect on public health. Another risk is noise pollution, water pollution, and air pollution.

In response, the score assessment of ESG disclosure is an important measurement tool to determine how well the company has implemented the ESG system. The ESG score also greatly facilitates stakeholders in assessing company performance. One figure from England named John Elkington in 1998 created a CSR assessment concept called Triple Bottom Line (TBL). The idea consists of an assessment of three components including: 1) People, namely the company must pay attention to the interests of the community around the company as a successful aspect of CSR; 2) Planet, companies must pay attention to environmental aspects by not polluting waste; 3) Profit, create profits by using resources.

Unfortunately, the implementation of the TBL concept still needs to be revised. This criticism arises because the measurement context requires it to be more relevant to the economic dimensions that statistical figures should represent. The next problem is that this concept needs to be standardized. The last is the problem with Global Reporting Initiative (GRI), which serves as a guide in evaluating the TBL concept. This is because GRI still needs to have a conceptual definition of sustainability so that the TBL concept integrated with the GRI has a decrease in the quality of its disclosure.

ESG disclosures can be assessed using several indices conducted by world-ranking agencies. Among them was Bloomberg, which evaluated the ESG score from 0 to 100 points, then CSRHub used four aspects of the assessment: community, employees, environment, and governance. Each of these aspects is given a rating point of 0 to 100. The Thomson Reuters index also has three pillars of assessment: environmental, social, and governance.

This study will discuss ESG disclosure's effect on company performance, namely Return on Assets (ROA), Return on Equity (ROE), Tobin's Q, and Sales Growth. This study will also use control variables, namely firm size and leverage. ROA and ROE are ratios that belong to the type of profitability ratios. This ratio can measure a company's ability to generate income occasionally. ROA is a ratio that can measure the use and management of a company's assets. If the value of the ROA generated is higher, the profit generated will increase. Meanwhile, ROE is a ratio measurement to calculate the company's net profit after tax with the company's capital. ROE describes the company's ability to gain profits through company capital. The higher the value of ROE indicates the company can provide income for shareholders. It differs from the company's value measuring instrument, namely Tobin's Q. Tobin's Q is a measurement to determine the extent to which investors assess the company. Meanwhile, Sales Growth is an important measurement to identify a company's competitiveness.

This study uses three theories, namely signaling theory, legitimacy theory, and stakeholder theory. The theory that aligns with the principles of ESG disclosure of ROA is the stakeholder theory which explains the company's responsibility regarding the profits earned. The effect of ESG disclosure on Return on Equity (ROE) is supported by legitimacy theory. This theory explains that companies should be able to run their business according to values and norms to gain legitimacy from society. The effect of ESG disclosure on firm value aligns with the signaling theory. If a company can give a positive signal regarding ESG disclosure, it will get a positive response from investors and other stakeholders, which is also related to stakeholder theory. And finally, the effect of ESG disclosure on sales growth aligns with signaling theory.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signaling Theory

Signaling theory departs from Arkelof (1970) research regarding asymmetric information. Signaling theory can measure the effect of ESG disclosure on company performance. The relationship between signaling theory and research variables is the disclosure of information in the annual and sustainability report as a corporate information signal. An excellent annual and sustainability report acts as a signal that the company's operations are running well. This can be a positive signal if the company can disclose non-financial information from environmental, social, and governance aspects in making investment decisions.

Legitimacy Theory

The second theory is about legitimacy theory. The theory initially coined by Dowling and Pfeffer (1975) explains that companies and society must be able to avoid threats by implementing appropriate values and norms. In this theory there is a term called legitimacy gap or differences in values and norms between society and companies. The application of legitimacy theory in this study is how this theory can be in line with the disclosure of non-financial information presented by companies to gain public legitimacy. The legitimacy provided by the community will later be in line with the support and trust of stakeholders.

Stakeholder Theory

In line with the two theories above, stakeholder theory exists as a theoretical concept which does not only focus on shareholders as a priority party but, company must pay attention to the interests of other parties. Stakeholder theory explains that various parties influence and are influenced so that companies can carry out operational activities not only for internal interests but should be able to contribute and be responsible to external parties. The development of sustainability and ESG reports was born from the idea of stakeholder theory which R. Edward Freeman first coined in 1984 (Velte, 2017). This theory explains that companies should not only focus on one entity, such as shareholders, but there are other stakeholders, such as the board of directors, senior managers, employees, creditors, and suppliers, which needs to be fulfilled.

ESG Disclosure

Environmental, social, governance (ESG) is a measurement of disclosure that refers to non- financial data that serves as a tool for measuring and evaluating social responsibility within companies (Buniamin et al., 2015). This study uses ESG disclosure categories on CSRHub, the reason for using these criteria is because they can describe the company's non-financial performance through specific indicators, namely environmental, social, employee, and corporate governance. Disclosure of the ESG is very important because it is an explanation of the strategy to increase corporate accountability regarding its success in communicating with stakeholders, namely shareholders, employee, clients, and society (Weber, 2014).

Return on Asset (ROA)

Return on Asset is a measurement of the profitability ratio that measures the company's profits and assets (Masood and Ashraf, 2012). This measurement determines how efficiently the

company uses assets to increase profits, this measurement can determine the condition of the company's financial health (Buallay et al., 2020). ROA can be a measuring tool for a company's operational performance in a certain period. The company is stated to get more profit from each of its assets if the value of ROA increases over time.

Return on Equity (ROE)

Return on Equity is the ratio of the company's net profit to its shareholders' equity or the value of its minus its liabilities. This measures how effectively the company utilizes the capital generated by selling shares (Buallay, 2019). If ROA examines how well a company manages its assets to create profits, ROE examines how well it controls the money shareholders invest in generating profits.

Tobin's Q

This study's firm value measurement is proxied by using Tobin's Q. This ratio is often used in the financial literature as a proxy for future investment opportunities. The q ratio is defined as the company's market value divided by the replacement cost of the company's assets. However, the replacement cost can be proxied by the value of the company's assets. With this ratio researchers can more easily determine whether a particular business, industry or market is valued overvalued or undervalued.

Sales Growth

Sales growth is the increase or decrease in sales from year to year. Sales growth can indicate consumer demand for the company's products. Companies that experience sales growth mean that the company's products are accepted by the market and successfully compete well. Sales growth can indicate a company's competitiveness (Ameer and Othman, 2012).

Firm Size

Firm size describes the size seen from the assets owned. This size is measured using total assets, log size, and share value (Nawangsari and Iswajuni, 2019). Firm size in this study acts as a control variable. Firm size can also measure money circulation and market capitalization because the bigger the company's assets and capital, the higher the market capitalization and money circulation will be (Fenty and Sri, 2020).

Leverage

The company's ability to pay long-term and short-term debt can be measured using analysis leverage (Fenty and Sri, 2020). This ratio will later measure corporate debt financing. If the company can use debt to generate returns from shareholders, this is also related to the debt and equity ratio to finance the company's assets. Role leverage in this study is to see whether companies with high debt levels can disclose ESG maximally.

Hypothesis Formulation

Operational performance as represented by ROA is an important parameter for companies in measuring the magnitude of the influence of ESG that has been applied to the profit level from the use of company assets. ROA can be a measuring tool for a company's operational performance in a certain period. The company is stated to get more profit from each

of its assets if the value of ROA increases over time. Conversely, if ROA decreases, the company has made a bad investment. Although using ROA can measure a company's health efficiency, ROA is influenced by various factors, such as market conditions and fluctuations in asset costs. ROA is best used with other measures, such as ROE, to get a complete picture of a company's financial health.

Based on the legitimacy theory, companies will try to build relationships with the environment, social and politics in which the company operates. Not only from environmental and social aspects, if the company can implement good governance, it is also expected to obtain good operational and financial performance, which will impact increasing share prices and increasing company value (Wardoyo and Agustini, 2017). This is in line with signaling theory where disclosure of good corporate governance will positively affect stakeholders.

Buallay (2019) research explains that sustainable development activities are expected to attract more demand for products and services that will drive company growth and reduce business risk. Another study that proves a positive relationship between ESG performance and operational performance was conducted by (Safriani and Utomo, 2020). Therefore, based on the explanation above, the researcher can formulate a hypothesis, namely:

H_1: ESG disclosure has a positive effect on ROA

Return on Equity (ROE) measures the company's financial performance. ROE is a measure of company profitability that estimates how efficiently a company generates profits. The higher the ROE value, the more efficiently the company's management generates income and growth from its equity financing. Return on Equity is the ratio of the company's net profit to the Equity of its shareholders or the value of the company's assets minus its liabilities. This measures how effectively the company utilizes the capital generated by selling shares. If ROA examines how well a company manages its assets to create profits, ROE examines how well it works the money invested by shareholders to make a profit. Investors use ROE to understand the efficiency of their investment in public companies.

Therefore, this relationship aligns with the concepts of legitimacy theory and stakeholder theory. The company seeks to build conformity with social values and accepted norms of actors in social groups. This suitability is the company's image to continue the business activities. Companies can only survive if stakeholders believe the operational activities align with their expectations. ESG disclosure is then considered a tool for companies to show their social awareness in behaving according to stakeholder expectations (Baldini et al., 2018).

Previous research conducted by Buallay (2019) showed that ESG disclosure influence on ROE. In line with the results of this study, research conducted by Safriani and Utomo (2020) also obtained the same results. Therefore, based on the explanation above, the researcher can formulate a hypothesis, namely:

H_2: ESG disclosure has a positive effect on ROE

Tobin's Q is a measurement that estimates whether a business is undervalued or overvalued in terms of the market value relationship with the company's debt and assets (the company's book value). It can also show how attractive the company is to investors in terms of market value, intrinsic value of assets, and the Q ratio. Based on the signaling theory that focused on the fundamental role in business transactions. According to this theory, managers can reduce asymmetric information by disclosing non-financial information to stakeholders.

In research conducted by El Ghoul et al., (2017) and Li and Liu (2018) show that non-financial disclosures, namely ESG, have an influence on firm value. In connection with the results

of these studies Cecilia et al., (2015) explained that the company's sales volume will be a positive signal and produce a good market reaction which will have an impact on increasing sales volume and income so that the company's value will be higher. Therefore, based on the explanation above, the researcher can formulate a hypothesis, namely:

H_3: ESG disclosure has a positive effect on Tobin's Q

Sales growth is a measure of changes in revenue over a certain period. That is by comparing the income between two fiscal periods that show a business's positive or negative growth rate. Sales growth can indicate consumer demand for the company's products. Sales growth signals investors that the company's performance and prospects will be profitable. This relates to the signaling theory, which encourages companies to provide information about their financial position to internal parties.

High sales growth indicates that the company has a competitive advantage that can increase its opportunities to expand its business (Yazdanfar and Öhman, 2015). Based on research conducted by Nyame-Asiamah and Ghulam (2020), the results were obtained that environmental disclosure significantly affects the company's sales growth. A good strategy for disclosing non- financial information will result in maximum sales growth. Therefore, based on the explanation above, the researcher can formulate a hypothesis, namely:

H_4: ESG disclosure has a positive effect on Sales Growth

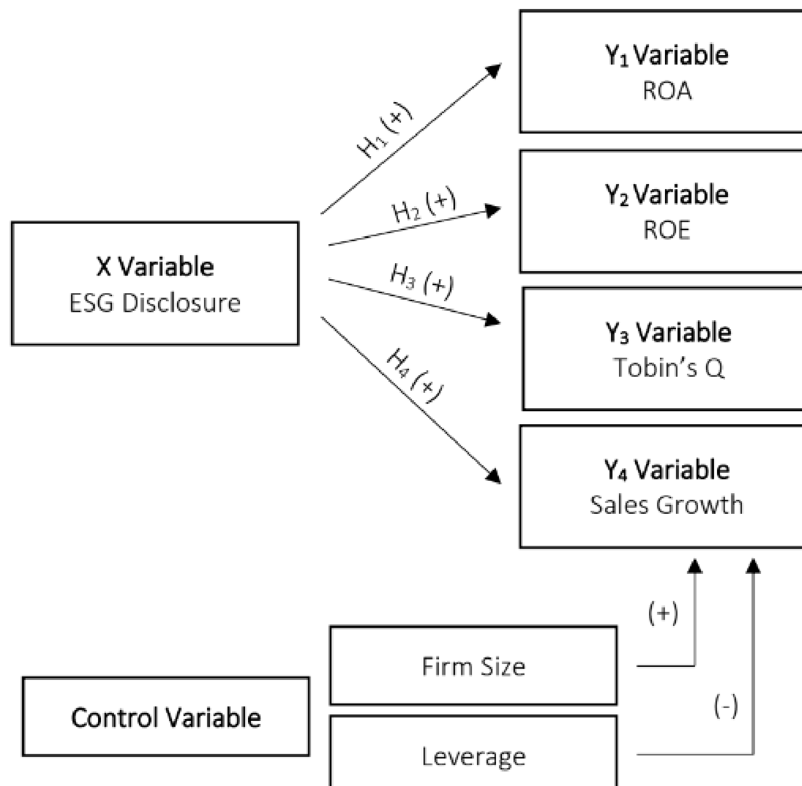

Figure 1. Research Model

RESEARCH METHOD

Population and Research Sample

The population in this study are companies listed on the Indonesia Stock Exchange in the industrials and basic materials sector. The year of observation in measuring ESG disclosure in this study is 2019-2020 due to using the time lag to determine the effect of ESG disclosure on company performance in the following year. Whereas for the year of observation the company's performance variable was measured in 2020 and 2021. It is assumed that the ESG disclosures disclosed in 2019 and 2020 will affect the company's performance in 2020 and 2021. The total population is 150 companies, so the sample was obtained from the population. There are 70 companies, namely 45 basic material companies and 25 industrial companies. And from these results received 140 research observations. Category selection of the sample using the purposive sampling method. This method is a non-probability sample design using certain criteria or specific targets (Sekaran and Bougie, 2016, p. 395). The criteria used as the basis for taking research samples include: (a) Basic materials and industrials sector those listed on the IDX in 2020-2021; (b) Basic materials and industrials sector which did not publish annual and sustainability reports in 2019-2020; (c) Basic materials and industrials sector which consistently disclosing ESG of at least 7 criteria in 2019-2020; (d) Basic materials and industrials sector which inconsistently generate positive net profit in 2020-2021; (e) Basic materials and industrials sector which have been IPO in 2020-2021.

Conceptual and Operational Definitions of Variables

ESG disclosure is a measurement that refers to non-financial value, which functions to carry out social responsibility within the company (Buniamin et al., 2015). ESG disclosure in this study adheres to the index implemented by CSRHub. There are four main criteria in the index: environmental disclosure, social disclosure, employee disclosure, and corporate governance disclosure. Each of these criteria consists of three sub-criteria, so 12 sub-criteria are obtained which will be the basis for the assessment. Based on research was done previously by Buallay et al., (2020) explained that a good ESG disclosure can reveal more than 50% of the sub-criteria it has, so in this study will select companies that disclose at least 7 sub-criteria.

Disclosure of ESG in this study will be processed by using the method of content analysis through information disclosed in the company's sustainability report in 2019 and 2020. This is used as a time lag because of ESG disclosures disclosed in the previous year. The impact of its implementation will only be felt in the following year. ESG disclosure is measured by dividing the company's total disclosures by all sub-total disclosures based on the CSRHub index.

Return on Asset (ROA) is a measurement of profitability ratios to determine company profits with assets owned (Masood and Ashraf, 2012). ROA measurements can determine how efficient a company is in increasing profits and knowing the company's financial health (Buallay, 2019).

Return on Equity (ROE) can determine how effectively a company uses capital to sell shares (Buallay, 2019). Shareholders often use ROE to understand the efficiency of their investment in public companies. This research will use the company's positive net profit in the year of observation to produce a positive ROE value.

Tobin's Q as the third observation variable indicates opportunities to know company investment in the future. Previous research conducted by Velte (2017) and Buallay (2019) has analyzed related to the effect of ESG disclosure on firm value, namely Tobin's Q.

Sales Growth is a measurement that can describe the increase or decrease in sales from year to year. Sales growth can indicate a company's competitiveness (Ameer and Othman,

2012). Sales growth will be important for the company to predict the profit received by the company.

Firm size can describe the size of the company seen from the assets owned. In addition, Firm size is also able to measure money circulation and market capitalization (Fenty and Sri, 2020).

Leverage is the company's ability to pay the company's long and short term debt (Toti and Johan, 2022). This ratio will later measure corporate debt financing. If the company can use debt to generate returns from shareholders, this is also related to the return on assets generated by the company.

The operationalization of the variables used in this study is presented in table 1, as follows: Table 1. Variable Operationalization

Table 1. Variable Operationalization

No.	Variable	Indicator
1.	ESG Disclosure	$\frac{\text{Disclosure Value}}{\text{Total Maximum Disclosure}}$
2.	ROA	$\frac{\sigma\text{ (Net Profit) jt}}{\text{(Total Asset) jt}}$
3.	ROE	$\frac{\sigma\text{ (Net Profit) jt}}{\text{(Total Equity) jt}}$
4.	TOBIN'S Q	$\frac{\text{(Market Value Equity) jt} + \text{(Total Liability) jt}}{\text{(Asset Book Value) jt}}$
5.	Sales Growth	$\frac{\text{(Sales) t1} - \text{(Sales) t0}}{\text{(Sales) t0}}$
6.	Firm Size	Ln (Total Asset) jt
7.	*Leverage*	$\frac{\sigma\text{ (Total Liability) jt}}{\text{(Total Equity) jt}}$

RESULTS AND DISCUSSION

Descriptive statistics are data processing using tests, such as frequency, average, and standard deviation, which provide descriptive information about a data set (Sekaran and Bougie, 2016, p. 391). The results of the descriptive statistical test serve to see the analysis of the data distribution, which is explained through a comparison of the standard deviation value with the average value. The standard deviation value is smaller than the average, the standard deviation is a value that describes the distribution of sample data. If the standard deviation value obtained is less than the average, the value obtained is more accurate with the average or sample distribution being homogeneous.

Table 2. Descriptive Statistical Test Results

	ROA	ROE	TOBIN'S Q	SALES GROWTH	ESG	SIZE	DER
Average	0,0420	0,0643	0,9798	0,2421	0,9735	28,941	0,8470
Maximum	0,1208	0,1549	1,5523	0,7739	1,0000	33,537	2,1941
Minimum	0,0063	0,0084	0,5219	0,0200	0,7500	25,079	0,1730
Standard Dev.	0,0244	0,0282	0,1967	0,1522	0,0638	1,7381	0,4107

This study used three classic assumption tests: normality test, heteroscedasticity test, and multicollinearity test.

Table 3. Tobin's Q Normality Test Results

Probability	0,327353

Based on the result above, the probability value obtained is 0,327353, which means from the results the H_0 is accepted and the sample is normally distributed because the probability value is ≥ 0,05.

Table 4. Multicollinearity Test Results

	ESG	SIZE	DER
ESG	1,000000	0,233590	0,195533
SIZE	0,233590	1,000000	0,098293
DER	0,195533	0,098293	1,000000

The result above shows that all ESG values, Firm size, and leverage have a correlation value of independent variables / <0,9. Therefore, this study avoided multicollinearity indication.

Table 5. Heteroscedasticity Test Results

Variable	Probability
ROA	0,6809
ROE	0,3493
Sales Growth	0,9482

Based on the results of the heteroscedasticity test performed on the ROA, ROE, and Sales Growth the value of probabilities are 0,6809, 0,3493, and 0,9482 or ≥ 0,05. This means that with these results this study is free from indication of heteroscedasticity.

This study also uses panel data regression analysis. The selection of the panel data model in this study was carried out by testing three models: common effect model, fixed effect model, and random effect model. The results of testing this panel data model have tested each of the four dependent variables, namely ROA, ROE, Tobin's Q and sales growth.

Table 6. Regression of ROA Panel Data

Variable	FEM	
	Coef.	Prob.
C	-1,649532	0,0056
ESG	0,063966	0,0961
SIZE	0,055587	0,0086
DER	0,024254	0,0183

Model 1 ROAit = -1,649532 + 0,063966ESGit + 0,055587SIZEit + 0,024254DERit

Table 7. Regression of ROE Panel Data

Variable	FEM	
	Coef.	Prob.
C	-1,892075	0,0103
ESG	0,054879	0,2491
SIZE	0,064774	0,0136
DER	0,033568	0,0091

Model 2 ROEit = -1,892075 + 0,054879ESGit + 0,064774SIZEit + 0,033568DERit

Table 8. Regression of Tobin's Q Panel Data

Variable	REM	
	Coef.	Prob.
C	0,242242	0,5320
ESG	0,387682	0,0329
SIZE	0,009167	0,4810
DER	0,112054	0,0044

Model 3 Tobin's Qit = 0,242242 + 0,387682ESGit + 0,009167SIZEit + 0,112054DERit

Table 9. Regression of Sales Growth Panel Data

Variable	FEM	
	Coef.	Prob.
C	-12,86611	0,0141
ESG	0,255316	0,4499
SIZE	0,434863	0,0197
DER	0,323886	0,0005

Model 4 Sales Growthit = -12,86611 + 0,255316ESGit + 0,434863SIZEit + 0,323886DERit

The F test is a test that can evaluate the model's fit and can be used to compare the suitability of different linear models. The F test value in this study was obtained from the Prob(F-statistic) value in the best model for each selected variable.

Table 10. Model Fit Test Result

Variable	Prob(F-statistic)
ROA	0,000000
ROE	0,000000
Tobin's Q	0,001092
Sales Growth	0,005840

The value of Prob(F-statistic) from ROA and ROE variable is 0,000000, meanwhile the result of Tobin's Q variable is 0,001092, and the last one is from sales growth variable the result is 0,005840. The resulting probability value F ≤ 0,05 means that the resulting independent variable has a significant effect on the dependent variable.

Coefficient test is a test conducted to determine the ability of the model to explain variation in the dependent variable. The coefficient of determination has values that range between 0 and 1 ($0 < x < 1$).

Table 11. Coefficient of Determination Test Results

Variable	Adjusted R-Squared
ROA	0,656711
ROE	0,602188
Tobin's Q	0,091520
Sales Growth	0,305677

The Adjusted R-squared value on the ROA is 0,656711. This means the influence of variables (X) to variable (Y) is 65,67%, while other factors influence 34,33%. The Adjusted R-squared value on the ROE is 0,602188. This means the influence of variables (X) to variable (Y) is 61,22%, while other factors influence 38,78%. The Adjusted R-squared value on the Tobin's Q variable is 0,091520. This means that the effect of variable (X) on variable (Y) is 9,2%, while other factors influence 90,8%. The Adjusted R-squared value on the Tobin's Q variable is 0,305677. This means that the effect of variable (X) on variable (Y) is 30,57%, while other factors influence 69,43%.

Hypothesis test or t test is a test conducted to determine the effect of the independent variable partially on the dependent variable

Table 12. Hypothesis Test Results (t)

	Hypothesis	Coef.	Prob.	Decision
Ha_1	ESG Disclosure has positive effect on ROA	0,063966	0,0961	Rejected
Ha_2	ESG Disclosure has positive effect on ROE	0,054879	0,2491	Rejected
Ha_3	ESG Disclosure has positive effect on Tobin's Q	0,387682	0,0329	Accepted
Ha_4	ESG Disclosure has positive effect on Sales Growth	0,255316	0,4499	Rejected

The Effect of ESG Disclosure on ROA

Based on the results obtained in table 12, it can be concluded that ESG disclosure has no significant effect on ROA. These results are obtained from the probability value of the best research model that has been selected, namely fixed effect model. The results of this study are in line with previous research conducted by Ghazali and Zulmaita (2020), Junius et al., (2020), Husada and Handayani (2021), and Priandhana (2022). The samples used in this research are industrials and basic materials. The results of the ESG disclosures that have been obtained from the data tabulation show that the majority of the companies sampled have disclosed the maximum ESG. The years used as analysis in this study are 2020 and 2021, at this time global conditions were being hit by the Covid-19 pandemic, which caused several non-financial companies to be unable to generate maximum net profit (Toti and Johan, 2022). Some companies only produce ROA value of 0,01, as with Aneka Gas Industri Tbk and Duta Pertiwi Nusantara Tbk. Both companies have low ROA values, but in 2020 and 2021 have fully disclosed the ESG criteria. Meanwhile, the Indal Aluminum Industry Tbk company in 2020 has a ROA value

of 0,09 while the ESG disclosure value is not full (0,92). The small ROA value of the sample companies causes the average value of the company's ROA only to be around 0,042013.

The Effect of ESG Disclosure on ROE

Based on the results obtained in table 12, it can be concluded that ESG disclosure has no significant effect on the ROE. The results of this study are in line with previous research conducted by Ghazali and Zulmaita (2020), Junius et al., (2020), and Husada and Handayani (2021). In line with the results of the research on the first hypothesis, the results of the research on the second hypothesis also have no significant effect on the company's financial performance variable which is proxied by ROE. The problems in the second hypothesis are also the same because the company cannot generate maximum net profit during a pandemic. In addition, the company has increased in terms of equity or capital due to additional long-term debt. This study's result differs from the legitimacy theory of Dowling and Pfeffer (1975) and the theory of stakeholders R. Edward Freeman (1984). Both theories explain that ESG disclosure is considered a tool for companies to show their social awareness by stakeholder expectations. However, unfortunately from the research that has been done, the average value of ROE is only 0,064396. Some companies have ROE values that tend to be low compared to the previous year, such as Aneka Gas Industri Tbk, Citatah Tbk, Duta Pertiwi Nusantara Tbk, and Sinergi Inti Plastindo Tbk. These three companies produce low ROE values because the company's net profit has decreased.

The Effect of ESG Disclosure on Tobin's Q

Based on the results obtained in table 12, it can be concluded that ESG disclosure has a significant effect on Tobin's Q. The results of this study align with previous research conducted by (Buallay, 2019). At the time of the Covid-19 pandemic, several companies that were sampled in the study had stock prices that tended to be stable. Several of these companies have also experienced an increase in their share prices in 2021 such as Colorpak Indonesia Tbk, Ifishdeco Tbk, Saraswanti Anugerah Makmur Tbk, Solusi Bangun Indonesia Tbk, Suparma Tbk, and Tembaga Mulia Semanan Tbk. Some of these companies experienced an increase in share prices of more than 50% compared to 2020. This is also in line with the average obtained, namely 0,979883. So, the value of the companies used as samples in this study is excellent. The better Tobin's Q value can show how attractive the company is to investors in terms of market value, intrinsic value of assets, and Q ratio. The results of this study are in line with Arkelof's signal theory (1970), based on this theory explaining that a company's sales volume which has increased from the previous year will be a positive signal and produce a good market reaction which will have an impact on increasing sales volume and income so that the company's value will increase.

The Effect of ESG Disclosure on Sales Growth

Based on the results obtained in table 12, ESG disclosure has no significant effect on the value of sales growth. This study's results align with previous research conducted by (Husada and Handayani, 2021). The results of this research are because sales growth in 2020 has decreased quite a lot compared to the previous year before the pandemic hit. This causes sales growth in the 2020 period to have a small value. As happened with Aneka Gas Industri Tbk, Duta Pertiwi Nusantara Tbk, Surya Esa Perkasa Tbk. The results of this study contradict the signaling

theory of Arkelof (1970), signaling relates to sales growth, funding decisions and investment decisions.

When a company experiences an increase in sales growth, the financial manager makes a funding decision that will target investment decisions and this is a positive signal that investors can use to make investment decisions in a company, this signal can increase investment so that it will affect the value of the company. High sales growth indicates that the company has a competitive advantage that can increase its opportunities to expand its business (Buallay, 2019). If the company can generate high profits, it can carry out social activities, including social responsibility, and disclose them in annual reports (Wibowo et al., 2022). This is because disclosure of non-financial aspects, namely good ESG, can provide a competitive advantage for companies (Arofah, 2022).

CONCLUSION

The results of the research and discussion that have been carried out regarding ESG disclosure on company performance can be concluded as follows: (1) ESG disclosure does not have a positive effect on ROA, in the application of disclosure, non-financial information is not enough to be able to increase company profits, especially during a pandemic; (2) ESG disclosure does not have a positive effect on ROE, the company could not produce a maximum net profit during the pandemic. In terms of equity, the company experienced an increase because it received additional term debt long; (3) ESG disclosure has a positive effect on Tobin's Q, the better Tobin's Q value can show how to attract the company to investors; (4) ESG disclosure has no positive effect on sales growth, ESG disclosures cause the costs incurred by the company are increasing, which causes the company's profitability has decreased.

The implications of this research are as follows: (1) Regarding ESG disclosure on the ROA variable, these results may have implications that ESG disclosure on company operational performance can be beneficial to several parties such as stakeholders and regulators or the government; (2) Based on the results of ESG disclosure that have a negative effect on ROE. Providing implications for stakeholders such as investors, shareholders, creditors and debtors to increase their knowledge about corporate sustainability reports and their importance in business to make better investment choices; (3) The results of research on disclosure of ESG have a significant positive effect on Tobin's Q. The results of this study can provide implications such as companies that have disclosed maximum ESG but can still produce stable stock prices; (4) The results of research on ESG disclosure have no effect on sales growth. Several companies disclose sustainability reports as a signaling mechanism to gain a good reputation and to gain legitimacy from stakeholders by integrating a focus on social and environmental issues into their business operations and interactions with stakeholders.

Suggestions for further research are that further research should add other categories of companies, such as energy companies, because they are related to the category of environmental disclosure. Another alternative for further research is examining similar corporate sectors such as consumer cyclical and non-cyclical. Concerning, in this study the researcher only focused on discussing ESG disclosure in the 2020 and 2021 observation years. Both of these years they have occurred when the Covid-19 pandemic hit the industrial world. Suggestions for further research are to examine ESG disclosures in post-pandemic companies by looking at how different these disclosures affect the company's financial performance. This

study uses the calculation of the value of ESG disclosure using the content analysis method. Suggestions for further research are to use the ESG disclosure score presented by several platforms such as Bloomberg, CSRHub, Revinitif, etc.

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