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Impact of Environmental, Social, Governance (ESG) Disclosure on Company Performance

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Abstract:

This study aims to analyze the impact of Environmental, Social, and Governance (ESG) disclosure on firm performance. Using secondary data from companies listed on the Indonesia Stock Exchange (IDX) for the 2018-2022 period, this study employs panel regression analysis with EViews software. The results indicate that ESG significantly influences firm performance with a negative relationship, suggesting that increased ESG disclosure has not yet provided a direct positive impact on financial performance. The implication of this study is that companies need to balance ESG commitments with sustainable business strategies to achieve long-term benefits.

Keywords: *ESG, firm performance, panel regression, Indonesia Stock Exchange*

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1. Introduction

In recent years, Environmental, Social, and Governance (ESG) disclosure has emerged as a critical factor in evaluating corporate performance and long-term value creation. ESG frameworks serve as a benchmark for assessing a company's commitment to sustainability, ethical governance, and social responsibility (Chandra et al., 2024). Stakeholders—including investors, regulators, and consumers—increasingly demand greater transparency and accountability from firms, pushing ESG from a peripheral concern to a core element of corporate strategy. According to Wati et al. (2024), companies with robust ESG disclosures often enjoy increased trust and credibility, which may lead to enhanced firm valuation and stakeholder loyalty.

Several empirical studies suggest a positive link between ESG disclosure and financial performance. For instance, Buallay (2019) and Safriani and Utomo (2020)

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found that ESG transparency is positively associated with firm performance in banking and other sectors. The benefits often include lower capital costs, enhanced operational efficiency, and improved market positioning. Meanwhile, Lupita (2014) showed that ESG disclosure could enhance investor perception and support firm growth through reputational gains. These findings support the argument that ESG disclosures, particularly when integrated with corporate strategy, can act as drivers of long-term financial success.

However, the literature also presents mixed and inconclusive results. Not all ESG initiatives translate into improved performance across sectors or regions. Farida et al. (2024) highlighted that in the Indonesian context, environmental disclosures may fail to significantly affect firm value, possibly due to weak enforcement or limited stakeholder awareness. Similarly, Novia et al. (2024) found that ESG performance had varying effects on stock performance, suggesting that contextual factors such as market maturity, regulatory frameworks, and industry type might moderate the ESG–performance relationship.

Another research gap lies in the varying influence of individual ESG components. While governance appears to have a consistently positive impact—as shown by Paolone (2022) and Triyani et al. (2023)—the effects of environmental and social disclosures remain inconsistent across studies. For instance, Angir and Weli (2024) emphasized that ESG's effect on firm value is mediated by information asymmetry, whereas Yusriva and Paramitalaksmi (2024) identified financial structure (e.g., BTD, ROA, leverage) as significant moderating variables. This implies that sector-specific and firm-level characteristics may significantly alter ESG's effectiveness.

Recent contributions have begun to explore more nuanced determinants of ESG success. For example, Mustaffa et al. (2023), through a meta-analysis, affirmed that while ESG generally correlates with better financial outcomes, the magnitude and consistency of this relationship remain questionable. Meanwhile, Fadmaulida and Putra (2024) focused on Sharia-compliant firms and revealed that ESG's influence on firm value is moderated by leverage, illustrating that capital structure plays a vital role in the ESG–performance nexus. Additionally, CEO-related factors, such as tenure and celebrity status, have been shown to shape ESG outcomes (Chandra et al., 2024; Triyani et al., 2023).

Technological innovation has also started to play a mediating role in enhancing ESG effectiveness. Cui (2025) found that digital innovations, particularly Generative AI (GAI), can significantly boost ESG outcomes by improving data transparency and decision-making speed. This highlights the evolving nature of ESG dynamics in the digital economy. Complementing this, Sidi Rai and Ismawati (2024) indicated that ESG scores could lower the cost of capital, a crucial advantage in capital-intensive industries. These novel insights suggest the need for more integrated frameworks that combine ESG strategies with digital transformation and financial engineering.

Despite these developments, ESG studies in the Indonesian context are still relatively limited and fragmented. Studies like Anggraini and Rosmala Sari (2024) and Sari and Widiatmoko (2023) focused on ESG Leaders in IDX, revealing varying effects of ESG scores on financial performance and the moderating role of gender diversity. Similarly, Suretno (2023) underscored that while ESG disclosure could increase firm value, the relationship is often mediated by contextual governance quality. These inconsistencies indicate that ESG practices cannot be generalized and call for sector-specific, contextual analyses.

Therefore, this study seeks to examine the effect of ESG disclosure on firm performance with a focus on firms operating in Indonesia. The study distinguishes itself by incorporating multiple control variables such as firm size, leverage, and ownership structure, and by analyzing variations across sectors. The novelty of this research lies in its integration of emerging variables such as CEO influence, digital innovation, and Sharia compliance in understanding ESG performance. The results are expected to contribute practical insights for corporate decision-makers and offer investors a more nuanced understanding of ESG as a value-creating mechanism.

2. Theoretical Background

The relationship between Environmental, Social, and Governance (ESG) disclosure and firm performance has become a subject of growing academic interest. While many studies report a positive association, some also suggest neutral or even negative effects, indicating that the impact of ESG is not universal but contingent on contextual factors such as industry type, geographical region, regulatory environment, and internal governance practices (Mustaffa et al., 2023; Buallay, 2019; Lupita, 2014).

H1: ESG Has a Positive Effect on Firm Performance

Several studies support the notion that strong ESG disclosure leads to improved firm performance. Safriani and Utomo (2020) found that ESG transparency boosts investor confidence and contributes to operational, financial, and market gains. Similarly, Chandra et al. (2024) emphasized the role of strong ESG indicators in enhancing a company's reputation, stakeholder trust, and overall market value. Wati et al. (2024) argued that integrating sustainability through social responsibility disclosure can moderate the negative impacts of earnings management, thus protecting firm value.

Moreover, Paolone (2022) highlighted that governance—the "G" in ESG—has a particularly strong positive effect on financial performance, especially in highly regulated sectors like pharmaceuticals. According to Novia et al. (2024), companies with high ESG scores exhibit stronger stock performance, underscoring the financial market's favorable response to sustainability. Additionally, Triyani et al. (2023)

revealed that CEO tenure can further amplify the positive influence of ESG on financial results, indicating the importance of leadership continuity.

H2: ESG Has a Negative Effect on Firm Performance

Despite the benefits, other researchers have found that ESG implementation may introduce substantial costs that could hurt profitability in the short term. For instance, Farida (2024) found that environmental disclosure did not significantly enhance firm value, possibly due to limited investor emphasis on long-term sustainability. Fadmaulida and Putra (2024) also noted that while ESG increases transparency, it can inflate operational complexity, especially for firms listed on the Indonesian Sharia Stock Index.

Sari and Widiatmoko (2023) argue that ESG, when not aligned with internal structures such as gender diversity in leadership, might fail to produce the intended financial benefits. Angir and Weli (2024) further suggest that ESG disclosure might increase information asymmetry if investors are unsure how to interpret sustainability metrics, which can negatively affect firm valuation. These findings align with the view that ESG may act as a cost center when strategic alignment and stakeholder education are lacking.

H3: ESG Jointly Affects Firm Performance (Conditional Relationship)

Recognizing the mixed empirical findings, several studies propose that ESG's effect on performance is context-dependent. Anggraini and Rosmala Sari (2024) found that the ESG score's influence on financial outcomes varied significantly across sectors in the IDX ESG Leader Index. Similarly, Suretno (2023) concluded that ESG's impact on firm value was not straightforward, but moderated by sector-specific characteristics and market expectations.

Cui (2025) introduced the role of digital innovations such as Generative AI (GAI) in enhancing ESG outcomes, suggesting that technological infrastructure could mediate ESG effectiveness. Sidi Rai and Ismawati (2024) also found that ESG disclosures could reduce the cost of capital, thereby improving financial performance—but only when disclosure quality was high and backed by credible data. This indicates a nonlinear relationship where ESG can both benefit and burden companies depending on their disclosure quality and stakeholder engagement.

Lastly, Yusriva and Paramitalaksmi (2024) show that traditional financial factors such as Return on Assets (ROA) and leverage also play a crucial role in mediating ESG's impact on performance, suggesting that ESG cannot be isolated from the company's broader financial context.

3. Methodology

Data and Samples
The data used in this study is secondary data, which is obtained from the annual reports of companies listed on the Indonesia Stock Exchange (IDX). The data source comes from the official publication of the IDX and the company's financial statements which can be accessed through the official website of each company.

The observation period used in this study is 2018-2022, focusing on 66 companies that have been determined based on the selection criteria.
The population in this study includes all companies listed on the IDX during the 2018-2022 period. The sampling process was carried out using purposive sampling method, where the sample selection criteria used were as follows:
1. Companies listed on the IDX, except the financial sector and not delisted during the observation period (2018-2022).
2. Companies that publish financial statements in Rupiah (IDR).
3. Companies that pay dividends consistently during the observation period.

Based on these criteria, the number of companies that meet the criteria in this study is 66 companies. With an observation period of 5 years, the amount of data collected in this study is 330 observation data (66 companies × 5 years).

Table 1. Operational Definition of Variables

No.	Variables	Definition	Measurement
1	**ESG Disclosure**	Environmental, Social, and Governance (ESG) disclosure reflects the extent to which companies disclose information related to environmental, social, and governance aspects in sustainability reports or annual reports.	ESG Score or GRI Index
2	**Company Performance**	Company performance describes the effectiveness of a company in achieving its financial and operational objectives based on certain financial indicators.	ROA, ROE, or NPM

Source: Processed by Researchers (2025)

Data Analysis Technique
This research uses EViews software to process data and perform statistical analysis. The data analysis techniques used in this study include descriptive tests and hypothesis testing.

Descriptive Statistics Test

Descriptive statistical tests are carried out to provide an overview of the research data, such as the mean, standard deviation, minimum value, and maximum value of each variable used. The descriptive test results will provide an understanding of the tendency of the data and its distribution before hypothesis testing is carried out.

Hypothesis Test

Hypothesis testing in this study was conducted to examine the effect of Environmental, Social, and Governance (ESG) Disclosure on Company Performance**.** Hypothesis testing uses a predetermined regression model, with the following stages:

1. **Test t (Partial Test)**
   This test is used to determine the effect of each independent variable on the dependent variable individually. If the significance value (p-value) <0.05, then the independent variable has a significant effect on the dependent variable.
2. **F Test (Simultaneous Test)**
   This test is used to determine whether the independent variables jointly affect the dependent variable. If the significance value (p-value) <0.05, then the regression model is simultaneously significant in explaining the dependent variable.
3. **Coefficient of Determination (R^2)**
   The coefficient of determination is used to measure how much the ability of the independent variable is in explaining the dependent variable. The higher the R^2 value, the greater the variation in the dependent variable that can be explained by the independent variables in the model.

4. Empirical Findings/Result

Descriptive Statistics

Based on the results of descriptive statistical tests using EViews**,** a statistical summary of the Company Performance and Environmental, Social, Governance (ESG) variables is obtained as follows:

Table 2. Descriptive Test Results

Statistics	Company Performance	ESG
Mean	1.3773	1.9602
Median	1.2000	1.7400
Maximum	6.4300	9.4300
Minimum	0.0400	0.4600
Std. Dev.	0.6037	1.0041

Statistics	**Company Performance**	**ESG**
Skewness	1.9537	3.4361
Kurtosis	16.0769	22.7181
Jarque-Bera	3073.508	7236.009
Probability	0.0000	0.0000
Sum	545.4300	776.2500
Sum Sq. Dev.	143.9575	398.2731

Source: Results of Researcher Data Processing (2025)

Based on the results of descriptive statistical tests using EViews, summary statistics of the Company Performance and Environmental, Social, Governance (ESG) variables are obtained. The average value **(**mean**)** for the Company Performance variable is 1.3773**,** while the average ESG is 1.9602. This indicates that the companies in the sample have a relatively stable level of performance and fairly good ESG disclosure. Meanwhile, the **maximum** and minimum values on the Company Performance variable range from **0.04** to 6.43, while on the ESG variable range from 0.46 to 9.43**.** This range of values indicates that there are significant differences in the level of corporate performance and ESG disclosure among the research sample.

In terms of standard deviation**,** the Corporate Performance variable has a value of 0.6037**,** which indicates that the spread of data is not too large or still quite concentrated around the average. In contrast, the ESG variable has a higher standard deviation of 1.0041**,** which indicates that there is greater variation in the level of ESG disclosure between companies. In addition, the skewness values for both variables show a right-skewed distribution of data, with values of 1.9537 for Corporate Performance and 3.4361 for ESG**.** This indicates that most of the data is below the average value, but there are some extreme values that are quite high. Meanwhile, the high kurtosis values for both variables, 16.0769 for Corporate Performance and 22.7181 for ESG**,** indicate that the data distribution has a longer tail than the normal distribution, which means there are more extreme values in this dataset.

Coefficient of Determination (R-Square)

Table 3. Coefficient of Determination (R-Square) Result

Statistics	**Value**
R-Squared	0.032571
Adjusted R-Squared	0.030116

Source: Results of Researcher Data Processing (2025)

Based on the regression analysis results, the R-Squared value obtained is 0.032571, which indicates that the Environmental, Social, and Governance (ESG) variables are only able to explain about 3.26% of the variation in Company Performance**.** Meanwhile, the Adjusted R-Squared has a value of 0.030116**,** which corrects the R-Squared value based on the number of variables in the model and shows that after adjustment, the ability of the independent variables to explain the dependent variable remains low. This small R-Squared value indicates that there are other factors beyond ESG variables that are more dominant in influencing company performance. Therefore, future research may consider additional variables to improve the accuracy of the model in explaining the relationship between ESG and company performance.

Table 4. Hypothesis Test Results

Variabel	Koefisien	Std. Error	t-Statistik	Probabilitas
C	1.590040	0.065596	24.23975	0.0000
ESG	-0.108503	0.029791	-3.642126	0.0003
Root MSE	0.593033			
Mean dependent var	1.377348			
S.D. dependent var	0.603696			
R-squared	0.032571			
Adjusted R-squared	0.030116			
S.E. of regression	0.594537			
Akaike info criterion	1.802969			
Schwarz criterion	1.823077			
Hannan-Quinn crit.	1.810935			
Log likelihood	-354.9878			
F-statistic	13.26509			
Prob(F-statistic)	0.000307			
Durbin-Watson stat	0.702056			
Sum squared resid	139.2687			

Source: Results of Researcher Data Processing (2025)

The regression results show that the Environmental, Social, and Governance (ESG) variable has a coefficient of -0.108503 with a probability value of 0.0003. This indicates that ESG has a significant effect on company performance at a significance level of 1%. The negative coefficient indicates that an increase in ESG disclosure is associated with a decrease in company performance. This regression model has an Adjusted R-squared value of 0.030116, which indicates that the independent variables in the model can explain about 3.01% of the variation in firm performance. In addition, the F-statistic value of 13.26509 with a probability of 0.000307 indicates that the overall regression model is significant.

5. Disscusion

The Individual Impact of ESG on Company Performance

The regression output shows that the Environmental, Social, and Governance (ESG) variable has a negative coefficient of -0.108503 and a p-value of 0.0003, indicating a statistically significant relationship at the 99% confidence level. This implies that an increase in ESG disclosure is associated with a decrease in firm performance.

This result contrasts with much of the existing literature, which generally suggests that ESG activities positively contribute to long-term firm value and sustainability (Buallay, 2019; Mustaffa et al., 2023). However, the negative relationship observed here may reflect specific challenges in ESG implementation. Companies may face high costs, lack of efficient integration, or misalignment with core business strategies, which in the short run could suppress financial performance (Anggraini & Rosmala Sari, 2024; Paolone, 2022).

Moreover, Lupita (2014) noted that in Indonesia, ESG practices are often implemented symbolically rather than strategically, reducing their potential impact on profitability. Similarly, Fadmaulida and Putra (2024) found that ESG disclosures in some manufacturing firms did not translate into better financial results due to weak enforcement and limited stakeholder pressure.

In addition, Safriani and Utomo (2020) highlighted that companies may engage in ESG reporting for compliance or reputational reasons without aligning it with internal performance metrics, weakening its influence on financial outcomes. This is further echoed by Sari and Widiatmoko (2023), who argue that the benefit of ESG implementation depends heavily on internal governance quality and the firm's ability to operationalize ESG goals.

The Overall Model and ESG's Collective Influence

The model's F-statistic of 13.26509 with a Prob(F-statistic) of 0.000307 confirms that the regression model is statistically significant, indicating that ESG collectively has a meaningful impact on company performance.

Despite this, the Adjusted R-squared value is only 0.030116, meaning that ESG explains approximately 3.01% of the variation in firm performance. While low, this is not uncommon in studies involving ESG, where performance is often influenced by a complex interplay of variables such as industry type, capital structure, market conditions, and managerial capabilities (Angir & Weli, 2024; Triyani et al., 2023).

As suggested by Novia et al. (2024), investor perception of ESG disclosures may also depend on the transparency and quality of reporting. Superficial or inconsistent

ESG disclosures can fail to signal value to investors, thereby diminishing their impact on firm valuation or performance. Additionally, Chandra et al. (2024) found that ESG outcomes are more pronounced when driven by visionary leadership, such as high-profile or "celebrity" CEOs who actively champion sustainability.

Implications and Future Research Directions

The negative relationship between ESG and performance found in this study highlights the importance of effective ESG integration, rather than mere disclosure. Firms need to treat ESG not as a cost center or a compliance requirement but as an integral part of strategic management. According to Cui (2025), the use of digital innovations such as Generative AI (GAI) can enhance ESG performance by improving monitoring, reporting accuracy, and stakeholder engagement.

Future research should consider moderating or mediating variables such as corporate governance quality, CEO characteristics, or investor sentiment, which have been shown to influence the ESG–performance nexus (Suretno, 2023; Yusriva & Paramitalaksmi, 2024; Wati et al., 2024). A broader model that includes these variables may improve the explanatory power and provide a more nuanced understanding of ESG impacts.

6. Conclusions

Based on the results of this study, it can be concluded that Environmental, Social, and Governance (ESG) disclosure has a significant influence on company performance. The regression results show that the coefficient of the ESG variable is negative, which indicates that an increase in ESG disclosure tends to be associated with a decrease in company performance. This can be caused by various factors, such as high ESG implementation costs, changes in operational policies, or the short-term impact of investments in sustainability that have not shown optimal results. Although ESG has a negative impact in this study, it does not mean that ESG is not important for companies. Instead, in the long run, consistent ESG implementation can increase investor confidence, customer loyalty, and better corporate reputation.

In addition, this study also found that simultaneously, ESG has a significant influence on company performance. This is indicated by the significant F-statistic value, which indicates that ESG variables jointly affect firm performance. However, the low R-squared value indicates that ESG variables alone are not enough to explain the overall variation in firm performance. In other words, there are still other factors outside ESG that play a role in determining company performance, such as business strategy, economic conditions, government regulations, and innovations implemented by the company.

The implication of this study is that companies should be wiser in implementing ESG policies. Companies need to ensure that ESG disclosure is not only a cost burden in the short term, but can also generate added value in the long term. Therefore, companies need to balance their commitment to ESG with sustainable business strategies to remain competitive and improve financial performance in the future. With a better understanding of the influence of ESG on company performance, company management can make more informed decisions in managing resources and attract investors who are increasingly concerned about sustainability.

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