

# ESG Score Impact on Financial Performance

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## Abstract

In line with the United Nations (UN) sustainable development agenda, corporate sustainability is an important driver for the long-term viability of companies. This study aims to provide an empirical analysis of the impact of sustainability practices on company performance in the Indonesian context using aggregated and disaggregated environmental, social, and governance (ESG). The research sample consists of 40 public companies in Indonesia that have consistently reported ESG scores from 2017 to 2021. Static panel regression was used to analyze data on annual frequency. At the aggregate level, the results show a positive relationship between sustainability (ESG) and the company's financial performance, such as return on equity (ROE). In disaggregation, the results showed a significant positive relationship between S scores (ROE and TQ) and G scores with TQ. Theoretically, sustainable finance and stakeholder engagement drive profitable growth in return on equity, which improves company performance. Policymakers, regulators, and governments must improve regulatory frameworks to ensure good ESG transparency in enhancing corporate value.

**Keywords:** Environmental, Social, Governance, ESG score, Financial performance, ROA, Tobins q

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## 1. INTRODUCTION

Sustainable development goals are a model Nobel and comprehensive development is idealized by the World Commission on Environment and Development, which defines it as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (WCED, 1987, p. 41). The concept of 'needs' frames the vital needs of poverty as a primary concern and addresses the needs of present and future generations while considering environmental impacts.

Sustainable development is described through a triple bottom line consisting of three parameters built into the structural concept of economic, social, and environmental aspects (Schoenmaker & Schramade, 2019; Elkington, 1997). Environmental aspects highlight involvement in business practices without over-exploiting natural resources for future generations (Schoenmaker, 2017; Arowoshegbe & Emmanuel, 2016). The social aspect refers to sustainable business practices that provide fair compensation to labor, human resources, and society (Nikolaou et al., 2019; Schoenmaker, 2017; Arowoshegbe & Emmanuel, 2016). The economic aspect emphasizes the influence of an organization's sustainable business practices on the economic system (Elkington, 1997). The social aspect refers to sustainable business practices that provide fair compensation to labor, human resources, and society (Nikolaou et al., 2019; Schoenmaker, 2017; Arowoshegbe & Emmanuel, 2016). The economic aspect emphasizes the influence of an organization's sustainable business practices on the economic system (Elkington, 1997). The social aspect refers to sustainable business practices that provide fair compensation to labor, human resources, and society (Nikolaou et al., 2019; Schoenmaker, 2017; Arowoshegbe & Emmanuel, 2016). The economic aspect emphasizes the influence of an organization's sustainable business practices on the economic system (Elkington, 1997).

In line with the ideology of sustainability, corporate sustainability practices that reflect a commitment to improving environmental (E), social (S), and governance (G) factors are becoming very widespread as a means of assessing long-term value (Tamimi & Sebastianelli, 2017). Stakeholders and investors are concerned about the company's ESG activity because it can affect the company's profitability in the long term (Atan et al., 2017).

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Based on the Institute of Chartered Accountants in England and Wales (2015), environmental science developments and the drastic impact of the financial crisis have reinforced the importance of sustainability in today's business and society. To support the sustainability agenda, sustainable corporate finance must be further developed to address ESG risks in the company's operational and financial performance.

Not only that, the Minister of Finance of the Republic of Indonesia, Sri Mulyani, believes that the Environment, Social, and Governance (ESG) framework and guidelines are an opening for investors in Indonesia, and this principle is also expected to help develop the Archipelago's Capital City. On the sidelines of the 2022 G20 Summit, the ESG framework and guidelines were ratified with the hope that they will become a reference for investment in Indonesia's business life in the future.

The global corporate sustainability report database shows ([www.corporateregister.com](http://www.corporateregister.com)) an increasing trend from 10469 (2016) to 14568 (2020). In Indonesia, company participation in sustainability practices has also grown from 86 (2016) to 110 (2020). Despite such a positive trend, statistics still need to be higher, namely, only 13.92% of 706 companies listed on the Indonesia Stock Exchange in 2020. The global growth of corporate sustainability practices in developing countries is proliferating and gaining momentum in the Association of Nations countries. A Southeast Asian nation (ASEAN) with regulations and laws based on integrating elements of sustainability into corporate practices (Global Reporting Initiative, 2020). However, sustainable development finance practices remain neglected in theory, policy, and practice in Indonesian financial markets and companies because individuals, firms, and market practices are guided by modern financial theory that is only concerned with maximizing wealth (Mohammad & Wassiuzzaman, 2021; Ismai et al., 2020; Schoenmaker, 2017; Stampe & McCarron, 2015). Some empirical evidence has shown some gaps, which will be discussed in this research. First, several studies have been conducted globally with contradictory findings ranging from positive (Bhaskaran et al., 2021; Chouaibi & Chouaibi, 2020; Albitar et al., 2019; Zhao et al., 2018; Aboud & Diab, 2018) to negative (Bodhanwala & Bodhanwala, 2021; Buallay et al., 2020) to mixed (Buallay, 2019; Garg, 2015) even insignificant (Buallay, 2021; Atan et al., 2017). Despite these findings, evidence from a developing country like Indonesia still needs to be sufficiently explored to explain how ideology remains inconclusive.

The abovementioned gaps are still relevant in current company practices and deserve further investigation. This research advances the investigation of the impact of corporate sustainability practices in the following ways. Previous evidence in the Indonesian context uses content analysis methods in measuring sustainability practice variables. In a recent study, the ESG score was used, but the individual dimensions (E, S, and G) were ignored, and no studies in the Indonesian context used economic proxies. Empirically, this study includes all sustainability proxies (ESG, E, S, and G), eliminating using the content analysis method up to 2020. Economic control variables (inflation, banking developments, and stock market developments) that indicate the situation of a country are also included in this research. The results will significantly affect the country's shareholders, investors, and managers. From a theoretical perspective, the incorporation of sustainable finance theory explains the relationship between the three main components of sustainability (E, S, and G) and company performance, which theoretically cannot be explained by stakeholder theory alone, which has been popularly used today. Collectively, this research will contribute to advancing theory, policy, and practice that will be of value to academia and company performance, which theoretically cannot be explained by stakeholder theory alone, which has been popularly used today. Collectively, this research will contribute to advancing theory, policy, and practice, which will be of value to academia. S and G and company performance, which theoretically cannot be explained by stakeholder theory alone, which has been popularly used today. Collectively, this research will contribute to advancing theory, policy, and practice, which will be of value to academia.

## **2. LITERATURE REVIEWS**

Freeman (1984) further adds that striving to maximize stakeholder wealth will ultimately lead to shareholder maximization. Stakeholders refer to any individual or group affected by organizational goals, such as investors, employees, customers, government, suppliers, and other related parties who play an essential role in a company (Arowoshegbe & Emmanuel, 2016). Investing in sustainability requires more resources than investing to maximize profits, which enables maximizing the company's value, at least in the long term. The most influential stakeholders that can affect the company's operations are customers, employees, communities, suppliers, and shareholders. If resources are invested sustainably by allocating non-financial activities, it will create long-term value for the company. Investing in sustainability can reduce cash flow in the short term, but in the long term, it will lead to hoarding cash and increasing funds while minimizing risk. Freeman (1984) explains that considering the needs of stakeholders will not only add value to stakeholders but also to the company. Investing in sustainability can reduce cash flow in the short term, but in the long term, it will lead to hoarding cash and increasing funds while minimizing risk. Freeman (1984) explains that considering the needs of stakeholders will

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The general perspective of sustainable finance includes the three main components of sustainability: economic, environmental, and social (EES) (Ziolo et al., 2018). However, most companies use ESG to measure corporate sustainability disclosure in corporate financial practices. In the Theory of Sustainable Finance, ESG information is related to company valuation and performance through three channels. First, cash flow channels are where sustainability practices encourage companies to become more competitive, positively associated with profitability. Second, the idiosyncratic risk channel shows that better risk management will reduce the company's risk. Third, the assessment channel indicates sustainable companies have lower systematic risk and higher valuation (Giese et al., 2019). Evolution focuses on shareholder value to stakeholders by incorporating the Triple Bottom Line (TBL) approach of planet, profit, and people. Investors are currently concerned about the risks involved in the impact of ESG on firm performance, which indicates the need to include these elements in investment decisions (Weber et al., 2010). In the long run, transparency of non-financial information of companies is an integral part of advancing towards sustainable development, whereas traditional financial theory is too narrow to incorporate elements into decision-making as long as it promotes better cash flow to achieve their ultimate goals

The Financial Services Authority Regulation Number 51, regarding the implementation of sustainable finance for issuers, public companies, and financial institutions, is the Indonesian government regulation that oversees the implementation of sustainable finance for corporations. This regulation aims to promote inclusive and sustainable development that maintains economic stability while fostering a national economy that places a premium on social, environmental, and financial harmony. Organizations may disclose their operations voluntarily if their leadership determines that such disclosures benefit the local community where they conduct business (Soenarno & Natalia, 2021).

Scholars argue that sustainable practices must positively impact the sustainability of a company's financial economy. Economic sustainability performance reflects the company's long-term profitability and financial sustainability as measured in terms of long-term operational effectiveness, efficiency, productivity, revenue, return on investment, and market value (Rezaee, 2016). To consider a broader measure of financial performance, this study uses different operational financial performance, namely, accounting measures and financial and economic size. Various studies have been conducted over the last few years to examine the relationship between sustainability and a company's financial performance, but the results are often inconclusive, contradictory, and inconsistent (Mohammad & Wassiuzzaman, 2021; Buallayet et al., 2020; Ismail et al., 2020; Muhammad, 2020; Albitar et al., 2019; Atan et al., 2017; Aggarwal, 2013). The measurement of company performance is classified into three main categories. They are operational, financial, and market performance (Buallay et al., 2021). Researchers from previous studies use several types of variables in measuring company financial performance, such as ROA, ROE, ROIC, Tobin Q, EPS, NPM, and GPM (Bataet et al., 2021; Bodhanwala & Bodhanwala, 2021; Chuoaiibi & Chuoaiibi, 2021; Ruan & Liu, 2021; López-Toro et al., 2021; Yilmaz, 2021; Rahi et al., 2021; Buallay, 2021; Bansal et al., 2021).

Several studies have demonstrated the relationship between sustainability and the financial performance of companies from various countries. Some find a positive relationship between sustainability and financial performance (Ahmad et al., 2021; Bhaskaran et al., 2021; López-Toro et al., 2021; Yilmaz, 2021; Bansal et al.,

2021; Rahman & Alsayegh, 2021; Mohammad & Wasiuzzaman, 2021; Qoyum et al., 2021; Chouaibi & Chouaibi, 2020; Mohamad, 2020; Ismai et al., 2020; Albitar et al., 2019; Buallay, 2019; Zhao et al., 2018; Aboud & Diab, 2018; Bodhanwala & Bodhanwala, 2018). Buallay (2019) argues that environmental factors majorly impact EU banks' financial and market profitability. Ahmad et al. (2021) stated that the intrinsic value of a stock could be well predicted by having good ESG performance because it can reduce information asymmetry between investors and companies. López-Toro et al. (2021) argue that it is crucial for companies to focus not only on ESG integration but also on public information related to sustainable actions because it has a significant influence on the company's market value. Yilmaz (2021) implies that sustainable companies with lower leverage levels will have better financial performance. Bansal et al. (2021) show that corporate social investment in ESG activities attracts market participants such as investors, promoting greater benefits for the company's operational efficiency. Yilmaz (2021) implies that sustainable companies with lower leverage levels will have better financial performance. Bansal et al. (2021) show that corporate social investment in ESG activities attracts market participants such as investors, promoting greater benefits for the company's operational efficiency. Yilmaz (2021) implies that sustainable companies with lower leverage levels will have better financial performance. Bansal et al. (2021) show that corporate social investment in ESG activities attracts market participants such as investors, promoting greater benefits for the company's operational efficiency.

Several studies show that sustainability has a negative impact on company performance (Bodhanwala & Bodhanwala, 2021; Ruan & Liu, 2021; Buallay et al., 2020). Bodhanwala and Bodhanwala (2021) argue that the negative impact may be due to investors undervaluing the ESG rating or the costs of compliance outweigh the benefits. ESG compliance requires large implementation costs, affecting future cash flows and financial performance. Ruan & Liu (2021) show that companies can develop into a serious cost burden due to ESG investment, which will inevitably lead to a decline in company performance over time due to investors' low level of protection. Buallay et al. (2020) stated that several studies have mixed results on the relationship between ESG and business performance. Buallay (2019), who analyzed 1,462 registered companies from 80 different countries, concluded that a positive relationship exists between ESG and company performance in the manufacturing sector and is negative in the banking sector. Garg (2015) studied the impact of sustainability on the performance of Indian companies. This study found a positive relationship in the long term and a negative relationship in the short term. Shakil et al. (2019) researched ESG and the financial performance of developing country banks in Malaysia. It was found that there are mixed results where environmental and social aspects have a positive relationship with company performance while governance is not significant. Similarly, several other studies have found mixed results in global markets (Rodríguez-Fernández et al., 2019; Gunarsih & Ismawati, 2018; Sahut & Pasquini-Descomps, 2015).

Several other studies have found no or insignificant relationship between ESG and company performance (Buallay, 2021; Junius et al., 2020; Atan et al., 2017). Possible explanations could be missing data for some variables and misspecification of the research model (Buallay, 2019). Furthermore, the main explanation for why ESG has no impact on earnings from asset management is due to the public perspective of sustainable development goals, where they are seen as non-value added, new and undeveloped factors that will not affect purchasing decisions (Junius et al., 2020; Atan et al., 2017).

In the context of Indonesian research, evidence can be found in Yawika & Handayani (2019), Safriani & Utomo (2020), and Zahroh & Hersugondo (2021), which prove that ESG disclosure has a positive impact on the financial performance of companies in Indonesia. Various performance proxies are used, but most researchers use return on assets (Yawika & Handayani, 2019; Zahroh & Hersugondo, 2021). The researchers used return on assets, return on equity, and Tobin's Q as performance proxies (Safriani & Utomo, 2020). The use of ESG aggregate scores was found in Safriani and Utomo's research (2020), and the use of individual ESG dimension scores can be found in the research presented by Yawika & Handayani (2019) and Zahroh and Hersugondo (2021).

This study adds the ideology of sustainable finance as a complementary theory that links the implications of sustainable corporate finance practices with company performance. Safriani & Utomo (2020) and Zahroh & Hersugondo (2021) prove that ESG disclosure has a positive impact on the financial performance of companies in Indonesia. Safriani & Utomo (2020) and Zahroh & Hersugondo (2021) prove that ESG disclosure has a positive impact on the financial performance of companies in Indonesia.

H1: The ESG score affects the company's financial performance.

Ladyve et al. (2020) also found a positive and significant relationship between environmental performance and company financial performance. If environmental performance is good, it can influence financial performance, which will increase, and vice versa. Environmental performance information is important for companies to know

stakeholders in order to avoid demands from the community and stakeholders, which will affect the company's financial performance and sustainability.

H2: The environmental score (E) affects the company's financial performance.

Velte's (2019) research results found that successful CSR involvement will lead to increased financial performance with positive and significant results. Therefore, companies will build and maintain corporate social relations by implementing Corporate Social Responsibility (CSR) in the social sector and as a form of responsibility to develop the surrounding environment and gain legitimacy so that the company survives.

H3: Social scores (S) affect the company's financial performance.

The results of good corporate governance show the commitment of company management to carry out evaluations and improvements in line with increasing the company's financial performance (Mumtazah & Purwanto, 2020). In line with this, research conducted by Sitanggang & Ratmono (2019) found that corporate governance has a positive effect on the company's financial performance, meaning that the company implements better corporate governance, the better the company's financial performance will be. The indicator used is the size of the audit committee.

H4: Governance score (G) affects the company's financial performance.

### 3. METHODS

In this study, the variables used consisted of four independent variables, three dependent variables, four company control variables, and three economic control variables. The dependent variable is the company's financial performance, measured using the ROA, ROE, and Tobin's Q ratio. The company's control variables are company size, leverage, income, and liquidity. In addition, Alshehi et al. (2018) also suggested control for the economic control variables in this study, namely the annual inflation rate, banking developments, and stock market developments.

The independent variable consists of sustainability proxies represented by ESG scores. The individual sustainability dimensions (E, S, and G) are also used as independent variables to measure the relationship with the company's financial performance. The final ESG score based on the three pillars reflects the company's overall ESG performance. This study used company size, leverage, income, and liquidity as control variables. In addition, Alshehi et al. (2018) also suggested control for the economic control variables in this study, so this study included annual inflation rate, banking developments, and stock market developments for control variables.

For this research, secondary data is sourced from the financial and sustainability reports of each company listed on the Indonesia Stock Exchange (IDX) during 2017-2021. Data can be seen from the IDX website ([www.idx.co.id](http://www.idx.co.id)), each company's website, and ESG Intelligence (<https://app.esgi.ai/>). Data consists of all companies from all sectors in Indonesia listed on the IDX from 2017-2021, totaling 766 companies for all population. The sample used in this research was selected based on several criteria:

1. Listed consecutively on the Indonesian Stock Exchange during the 2017-2021 period.
2. The company released audited financial reports and annual reports ending December 31 for the 2017-2021 period, which can be accessed via the IDX page or company page.
3. The company has complete data regarding ESG, E, S, and G scores for the 2017-2021 period, which can be accessed via ESG Intelligence. (<https://app.esgi.ai/>)

Based on these criteria, 40 companies were used as samples in this research for 5 years (2017-2021). The years 2017 to 2021 were chosen because very few companies disclosed their ESG scores before then, and some data could not be found in the database used in this study. This study uses two estimate models. The first model is intended to test corporate sustainability practices (ESG) on corporate financial performance (ROA, ROE, and TQ) along with controlling for corporate factors (EPS, LIQ, SIZE, and LEV) and economic factors (INF, BKD, and SMD). Three equation models are tested:

$$\begin{aligned} ROA_{it} &= \beta_0 + \beta_1 ESG_{it} + \beta_2 EPS_{it} + \beta_3 LIQ_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 INF_{it} + \beta_7 BKD_{it} \\ &\quad + \beta_8 SMD_{it} + \varepsilon_{it} \\ ROE_{it} &= \beta_0 + \beta_1 ESG_{it} + \beta_2 EPS_{it} + \beta_3 LIQ_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 INF_{it} + \beta_7 BKD_{it} \\ &\quad + \beta_8 SMD_{it} + \varepsilon_{it} \\ TQ_{it} &= \beta_0 + \beta_1 ESG_{it} + \beta_2 EPS_{it} + \beta_3 LIQ_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 INF_{it} + \beta_7 BKD_{it} \\ &\quad + \beta_8 SMD_{it} + \varepsilon_{it} \end{aligned}$$

The second model aims to assess the individual variables ESG scores consisting of E, S, and G on the company's financial performance (ROA, ROE, and TQ) along with controlling for company factors and similar economic factors as mentioned above. The three regression equations that will be tested in this model are as follows:

$$ROA_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 S_{it} + \beta_3 G_{it} + \beta_4 ESG_{it} + \beta_5 EPS_{it} + \beta_6 LIQ_{it} + \beta_7 SIZE_{it} + \beta_8 LEV_{it} + \beta_9 INF_{it} + \beta_{10} BKD_{it} + \beta_{11} SMD_{it} + \varepsilon_{it}$$

$$ROE_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 S_{it} + \beta_3 G_{it} + \beta_4 ESG_{it} + \beta_5 EPS_{it} + \beta_6 LIQ_{it} + \beta_7 SIZE_{it} + \beta_8 LEV_{it} + \beta_9 INF_{it} + \beta_{10} BKD_{it} + \beta_{11} SMD_{it} + \varepsilon_{it}$$

$$TQ_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 S_{it} + \beta_3 G_{it} + \beta_4 ESG_{it} + \beta_5 EPS_{it} + \beta_6 LIQ_{it} + \beta_7 SIZE_{it} + \beta_8 LEV_{it} + \beta_9 INF_{it} + \beta_{10} BKD_{it} + \beta_{11} SMD_{it} + \varepsilon_{it}$$

#### 4. RESULT

After determining the most appropriate panel data regression model using three statistical tests, it can be decided that in this study, the panel data regression model used is the Random Effect Model. This research is divided into two models, the aggregate model and the disaggregated model, as previously discussed. Therefore, the panel data regression analysis will be divided into two parts.

##### 4.1 Aggregate Model

The tables in this section present the Random Effect Model regression analysis results for equations 1, 2, and 3 between the ESG score and the company's financial performance (ROA, ROE, and TQ).

Table 1 Regression Results for Aggregate Models

Variable	ROA		ROE		Tobin's Q	
	Beta	t-value	Beta	t-value	Beta	t-value
C	0.184647	0.9828	-1.8828	-3.3737	6.9125	1.6225
ESG Score	-0.017794	-0.8069	-0.0210	-0.2434	0.2221	0.6585
EPS	0.000147	6.3044***	0.0003	3.2115***	0.0012	3.1914***
Liquidity	0.006631	1.2874	-0.0412	-2.4334**	0.1020	1.1650
Size	-0.011857	-2.1601**	0.0337	2.2734**	-0.1768	-1.3542
Leverage	-0.004323	-2.4571**	-0.0611	-10.21***	0.0168	0.5756
Inf	1.534695	1.9779**	8.6862	2.7801***	1.5061	0.1279
BKD	0.665635	2.0586**	2.7340	2.0922**	-2.8040	-0.5721
SMD	-0.081742	-0.3824	-0.0034	-0.0039	0.9387	0.2910
R-square	0.314919		0.359074		0.082931	
Adj R-square	0.286225		0.332229		0.044519	
F-test	10.97492		13.37580		2.159014	
Prob(F-Stat)	0.000000		0.000000		0.032350	
Durbin-Watson	1.496628		1.457957		0.687537	

\*\*\* significant 1%

\*\* significant 5%

\* significant 10%

Based on the table of the results of the Random Effect Model regression test above, it can be seen that the probability value of the ESG score on ROA is 0.4208, the ESG score on ROE is 0.8080, and the ESG score on Tobin's Q is 0.5110, which is greater of a predetermined significance value of 0.05. Thus, the independent variable ESG has no relationship with the dependent variable ROA, ROE, and Tobin's Q.

##### 4.2 Disaggregate Model

The tables provided in this section present the Random Effect Model regression analysis results for equations 4, 5, and 6 between E, S, and G scores and company financial performance (ROA, ROE, and TQ).

Table 2 Regression Results for Disaggregate Models

Variable	ROA		ROE		Tobin's Q	
	Beta	t-value	Beta	t-value	Beta	t-value
<i>C</i>	0.1766	0.9229	-1.7879	-3.1139	6.7388	1.5352
<i>E Score</i>	0.0031	0.2033	0.0064	0.1063	-0.0723	-0.3087
<i>S Score</i>	0.0144	0.7988	0.0940	1.3279	0.2015	0.7306
<i>G Score</i>	0.0036	0.4022	-0.0178	-0.4953	0.1093	0.7974
<b>EPS</b>	0.0001	6.1397***	0.0003	3.1599***	0.0012	3.1839***
<b>Liquidity</b>	0.0067	1.2891	-0.0419	-2.4235**	0.1077	1.2124
<b>Size</b>	-0.0130	-2.3322**	0.0305	1.9829**	-0.1780	-1.3249
<b>Leverage</b>	-0.0040	-2.2119**	-0.0601	-9.790***	0.0185	0.6219
<b>Inf</b>	1.8283	2.3260**	9.3927	2.9435***	2.8476	0.2395
<b>BKD</b>	0.6653	1.9637**	2.3448	1.7008*	-2.5598	-0.5005
<b>SMD</b>	-0.0590	-0.2715	0.1146	0.1285	1.1595	0.3549
<b>R-square</b>	0.317179		0.365540		0.086337	
<b>Adj R-square</b>	0.281051		0.331971		0.037995	
<b>F-test</b>	8.779275		10.88913		1.785959	
<b>Prob(F-Stat)</b>	0.000000		0.000000		0.065532	
<b>Durbin-Watson</b>	1.494813		1.445986		0.688857	

\*\*\* significant 1%  
\*\* significant 5%  
\* significant 10%

Based on the table of the results of the Random Effect Model regression test above, it can be seen that the probability scores of E, S, and G for ROA are 0.8391, 0.4254, and 0.6880, respectively. Furthermore, the probability scores of E, S, and G on ROE are 0.9155, 0.1858, and 0.6210, respectively. Finally, the probability scores of E, S, and G against Tobin's Q are 0.7579, 0.4659, and 0.4262, respectively. All probability values that have been included from the results of the Random Effect Model analysis are greater than the predetermined significance value, which is equal to 0.05. Thus, the independent variables score E, S, and G have no relationship with the dependent variables ROA, ROE, and Tobin's Q.

## 5. CONCLUSION

Based on the results of the analysis in this study, this research can produce answers to the formulation of the problems that have been determined in the previous section. ESG scores have no effect on the financial performance of companies in Indonesia. Even though ESG disclosure is proof that the company has made efforts to carry out sustainable practices, the costs and time spent on carrying out ESG activities themselves are still insignificant compared to other things carried out by companies that directly generate returns on the assets owned by the company. Environmental score (E) has no effect on the financial performance of companies in Indonesia. The costs incurred to meet the criteria for this E score are still relatively small compared to the company's share price in Indonesia. Thus, the costs incurred are insignificant because they do not generate returns impacting the company.

Social Score (S) has no effect on the financial performance of companies in Indonesia. Like the E score, the costs incurred to meet the S score criteria do not generate large returns for the company, so they are considered insignificant in supporting its financial performance. The governance score (G) has no effect on the financial performance of companies in Indonesia. This could happen because investors believe that the time and money invested in governance activities do not directly increase the company's income or profits. Thus, this is also not significant to the financial performance of companies in Indonesia.

The writer realizes that this research still has some limitations. Therefore, there are several suggestions that can be considered so that further research can obtain better results. Future research can focus on certain industrial sectors to produce specific research results regarding companies in certain industrial sectors. Future research can reduce or replace the control variables used to obtain a more comprehensive picture of all the variables used in the research. Future research can retrieve ESG data through websites such as Bloomberg because these sites provide ESG data for free, which is data on an international scale.

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