# CAN ENVIRONMENT, SOCIAL AND GOVERNMENT DISCLOSURE INCREASE FINANCIAL PERFORMANCE ?

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**Abstrak:** This study analyzes the effect of ESG disclosure on financial performance in mining companies listed on the Indonesia Stock Exchange. The data used in this study are secondary data, which are taken from annual reports and sustainability reporting in 2015-2020. The analytical tool used to test the hypothesis is multiple regression analysis with spss. ESG score use csrhub data. Contributions for practitioners and policy makers. Researchers suggest a special setting where the relationship between ESG activities and corporate financial performance will be positive and significant. These results are very useful for policy makers who seek to increase the active participation of companies in ESG activities. Community, Employee, Environment, Goverment and ESG variables simultaneously have a significant effect on financial performance, while partially the Community, Employee, Environment, Goverment variables have no significant effect on financial performance and the ESG variable has a positive and significant effect on financial performance.

**Kata kunci:** environment disclosure; social disclosure; government disclosure; esg disclosure; financial performance; return on asset

## INTRODUCTION

In the early 21st century a financial crisis occurred in the United States. It had a severe negative impact on the US economy until the peak of the impact of tIn the early 21st century, the financial crisis occurred in the United States. It had a severe negative impact on the US economy until the peak impact of the global financial crisis in 2008.

The global financial crisis shook international markets and caused the world economy to deteriorate, a problem that required a high level of intervention by the authorities and led to various social concerns or in America better known as ESG (Environmental Social Governance). The survival of a company can be analyzed through how the relationship is connected between the company and the community and the surrounding environment, therefore currently there is more and more attention to corporate social responsibility activities. Currently, in carrying out its business activities, companies are required not to always be concerned with the company's hectares of profit alone, but also to see the impact caused by the company's operational activities.

Currently, the world economy is interconnected through multinational trade channels, along with this time there are several issues regarding what reporting a company should disclose to investors and stakeholders is an important thing. In its sustainability, the disclosure of the company's financial statements now turns out to be insufficient to meet the information needs required by stakeholders and investors.

Based on these problems, management now needs more attention to overcome these problems. A successful corporate management strategy to establish a good relationship with the company's stakeholders should lead to environmental performance, social performance, and good corporate governance performance that may affect the company's financial performance in the future.

Information on information from Databoks, Indonesia's environmental sustainability is is classified as poor on a global scale, even on an Asia-Pacific regional scale. This was recorded in the Environmental Performance Index 2022 (EPI) report. Indonesia scored 28.2 out of 100. This score ranks Indonesia 164th out of 180 countries researched. When viewed on a regional scale, Indonesia's position is also in the lower ranks. Indonesia is ranked 22nd out of 25 Asia Pacific countries, or 8th out of 10 ASEAN countries. In this report, Indonesia scored low on all indicators, with details on ecosystem livability score 34.1, environmental health score 25.3, and climate change mitigation policy score 23.2 out of 100.

According to Article 74 of Law No. 40 of 2007 concerning Limited Liability Companies states that the Company that carries out its business activities in the field of business activities in the field of and/or related to natural resources are obliged to implement social and environmental responsibility. Meanwhile, for companies whose business activities are not related to natural resources are regulated by OJK through POJK No. 51/POJK.03/2017 regarding the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. Public Companies. The regulation was formed to increase the number of companies in implementing sustainable business.

Business activities that only focus on economic performance and increasing profits to ignore the impact of environmental damage (Cai et al, 2015), social and environmental (Carroll & Shabana, 2010) are not in line with the concept of sustainable business. Companies are recommended to carry out ESG practices becausencan increase competitive advantage so as to increase company value as well (Cakranegara & Sidjabat, 2021) besides, for stakeholders, company performance is very important (Triyani et al, 2020).

Companies that pay attention to ESG activities will improve the company's financial performance, even though the financing has increased, the company has obtained a rapidly increasing profit. Currently, people, especially investors, are very concerned about environmental issues so that they are loyal to companies that pay attention to ESG activities in the surrounding environment.

Nisa et al, (2023) and Astuti et al, (2023) found that

environmental disclosure has a positive relationship with financial performance company measured by ROA, in contrast to the findings of research conducted by Zahro & Hersugondo, (2021) and Ghazali & Zulugondo. conducted by Zahro & Hersugondo, (2021) and Ghazali & Zulmaita, (2020) which found that environmental disclosure has no effect on the company's financial performance measured by ROA. found that environmental disclosure has no influence on financial performance. Astuti et al, (2023) also found that social disclosure has a positive influence on the company's financial performance.

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research conducted by Nugroho & Hersugondo (2022) which found that social disclosure has no effect on financial performance. found that social disclosure has no influence on the company's financial performance. financial performance of the company.

Research conducted by Zahro & Hersugondo (2022) and Nisa et al (2023) found that governance disclosure has no influence on financial performance as proxied by financial performance, this is . However, it is different from the results of research conducted by Intan et al, 2023 fiber Zahro & Hersugondo (2022) which found that governance disclosure has an influence on the company's financial performance.

Hwang et al (2021), Saygili et al (2022), and Kim & Li (2021) found that environmental, social, governance performance has an influence on company financial performance. In contrast to research conducted by Husada & Handayani (2021), Priandhana (2022) and Juliandara et al, (2021) who found that environmental, social, governance performance has no impact on financial performance.of the company.

## CONCEPTUAL FRAMEWORK / RESEARCH METHODOLOGY

Stakeholder theory has the meaning of an individual or group that has an influence or affects a company's process in order to achieve the company's own goals. In stakeholder theory, there are several interrelated issues regarding how a company can manage relationships with stakeholders [Khalid, 2017]. Not only responsible to owners or investors, but also companies are responsible to all stakeholders in the company [Dwi, 2020].

Companies in carrying out their business activities must seek support from each stakeholder [Chariri, 2014]. With the development of the times, financial case scandals often occur. One of the company's efforts and in response to stakeholder pressure and the authorities, the company now sets strict regulations for disclosing environmental, social and corporate governance responsibility reports. Companies are expected to be able to explain the description of the company's practices and responsibility efforts regarding environmental, social and governance (ESG) aspects.

The company's performance is a description of the state of a company in a certain period of time which is the result of the operational activities it carries out by utilizing its resources. One of the company's efforts in disclosing company performance is by conducting ratio analysis on financial statements. A company measures financial performance, one of which is through the Return on Asset ratio.

Return on Asset ratio analysis is carried out to measure the extent to which this profitability ratio describes the company's performance in generating profits on a certain amount of assets generated by the company. By implication, a high ROA indicates that the company is successful in obtaining high profits. ROA can be formulated as follows: Return on Asset = $Laba\ Bersih\ Total\ Asset\ x$ 100%.

Environmental, Social, Governance Disclosure The term "Environmental, Social, Governance" began to appear in the United Nations Principles of Responsible Investment in corporate social responsibility reports [Allam, 2020]. Case studies show positive results that there is a significant influence

between ESG disclosure and company performance Fatemi et all, 2017]. Over time, ESG Disclosure scores have grown rapidly and are often utilized for one of the considerations in a global business consulting job. ESG Disclosure has a role to assess the practice of indicators including environmental, social, and corporate governance (CG) [Allam, 2020].

The environmental factor (ESG) or Environmental Score is an index that shows issues related to the business environment and the relationship between business and society (e.g. CO2 gas emissions, energy use, energy efficiency, waste, and emission reduction policies). . The social factor (CSR) or social disclosure is an index measured through corporate social responsibility information (e.g. fair-trade principles, gender equality, number of employees, employee turnover rate, ratio of women in the management hierarchy). The corporate governance (CG) factor is an index that reflects issues of good corporate governance (e.g. corruption, bribery, corporate governance disclosure).

Currently, the disclosure of non-financial factors such as ESG disclosure indicators by companies has the aim of providing additional information about the company's financial performance that has not been raised in the annual report data or financial statements [Allam, 2020]. The financial statements attached by companies often do not contain some information such as corporate reputation, quality, brand equity, and safety. Through the disclosure of information related to ESG disclosure, the coverage of environmental, social, and corporate governance factors can be displayed in the company's report in more detail. Overall, the information contained in ESG disclosure is very important information, especially in making management decisions of a company along with other interests.

Some previous studies reveal that there is a substantial difference in the relationship between ESG disclosure and company financial performance [Allam, 2020]. There is no influence between the relationship between ESG disclosure and the company's financial performance. After several studies, ESG disclosure has a positive relationship with the company's financial performance [Allam, 2020]. The higher the value of ESG disclosure, the higher the financial performance of the company [Abound, 2019].

The proposed hypothesis is that ESG disclosure has a positive effect on the company's financial performance. We divide the hypothesis into 5, namely environmental disclosure has a positive effect on financial performance; community disclosure has an effect on financial performance; employee disclosure has an effect on financial performance government disclosure has a positive effect on financial performance; and ESG disclosure has a positive effect on financial performance. This research aims to find out more about what ESG activities have an influence on the increase or decrease in the company's financial performance.

The data used in this study are secondary data in mining indsutry, which are taken from annual reports andsustainability reporting in 2015-2020. The analytical tool used to test the hypothesis is multiple regression analysis with spss. ESG score use csrhub data. Total data as much as 62 data.

**RESULT AND DISCUSSION**

From the test results, it can be seen that the effect of Community, Employee, Environment, Government and ESG variables on Roturn On Assets is 0.262 or 26.2%. While the net effect after the residuals are removed the Community, Employee, Environment, Goverment and ESG variables on Roturn On Assets can be seen in the Adjusted R Square of 0.203. The closeness of the relationship between the variables Community, Employee, Environment, Goverment and ESG to Roturn On Assets can be seen from the R value of 0.512.

To determine the joint or simultaneous influence of Community, Employee, Environment, Goverment and ESG variables on Roturn On Assets, the F test is used. From the test results above, it can be seen that the Sig value is obtained at 0.002 or below 0.05, which means that the Community, Employee, Environment, Government and ESG variables have a significant effect on Roturn On Assets.

To determine the partial effect of the Community, Employee, Environment, Government and ESG variables on Roturn On Assets, the t test is used. Constanta of 13.371 means that if the variables Community, Employee, Environment, Government and ESG are eliminated or equal to zero, the return on assets will increase by 13.371. The regression coefficient of the Community variable, -0.108, shows that every increase in community by one will have an impact on decreasing ROA by 0.108. The community variable has no significant effect on return on assets.

The regression coefficient of the Employee variable of -0.020 indicates that each increase in employee of 1 will be followed by a decrease in return on assets of 0.020. The employee variable has no significant effect on return on assets because it has a Sig value of 0.796 above 0.05.

The Environment variable regression coefficient of 0.025 indicates that every increase in the envirolment variable by 1, the return on assets variable increases by 0.025. The envirolment variable has no significant effect because it has a sig value of 0.742 above 0.05. The regression coefficient of the Goverment variable of -0.121 indicates that any increase in the Goverment variable by 1 will be followed by a decrease in return on assets of 0.121. The goverment variable has no significant effect on return on assets because it has a Sig value of 0.115 above 0.05.

The ESG variable has a regression coefficient value of 0.079, which means that each increase in ESG is 0.079. The ESG variable has a positive and significant effect on return on assets because it has a Sig value of 0.037.

**CONCLUSION**

Community, Employee, Environment, Government and ESG variables simultaneously have a significant effect on Return on Assets, while partially the Community, Employee, Environment, Government variables have no significant effect on ROA and the ESG variable has a positive and significant effect on ROA.

Investors only pay attention to ESG activities as a whole in determining investment decisions. Investors do not really give an assessment of the company's activities in paying attention to the surrounding environment; how the company is in the welfare of employees; how the company pays attention to the community around the company; and how the company fulfills corporate governance

disclosures. Companies must care about ESG activities because they have a positive effect on the company's financial performance.

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