

SUSTAINABILITY AND FIRM PERFORMANCE: EMPIRICAL STUDY ON IDX ESG LEADERS

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Abstract

This study aims to assess the relationship between sustainability disclosure and firm performance among companies listed on the Indonesia Stock Exchange (IDX) ESG Leaders Index during the years 2020 to 2022. The study sample included 54 observations from 18 companies listed on the IDX ESG Leaders Index between 2020 and 2022. Data were gathered from sustainability reports, annual reports, and publicly accessible capital market data. Analysis was conducted using multiple linear regression in Stata IC 15. The link between sustainability disclosure and financial performance is as follows: social factors positively impact financial performance, measured by ROA, while environmental and economic factors have a negative influence. Governance factors, however, do not significantly impact firm performance. Additionally, the link between financial factors and financial performance is as follows: size negatively influence performance, while age and leverage positively impact it. The study's scope is limited to ESG Leaders, comprising only 18 companies, and investigates a three-year period from 2020 to 2022. Therefore, the observations are constrained by this limited sample size and timeframe. The significance of this research lies in its focus on IDX ESG Leaders Companies, and the nuanced examination of the relationships between sustainability factors and financial performance. By exploring these links in a distinctive setting and presenting findings that contrast with broader trends, the study contributes valuable insights for policymakers.

Keywords: Firm Performance, Sustainability, Environmental, Social and Governance factors, ESG Leaders.

INTRODUCTION

Globally, companies are placing greater emphasis on sustainability issues and recognizing the importance of sustainable practices for long-term business success ([Haryono, Iskandar, Paminto, & Ulfah, 2016](#)). Sustainable practices reflect a company's commitment to conducting business responsibly by considering the environmental, social, and economic impacts of their activities, in line with the Sustainable Development Goals (SDGs) set by the United Nations (UN), companies that implement sustainable practices generally report their sustainability activities in sustainability reports, which we refer to in this context as sustainability disclosures. Investors are increasingly factoring in ESG criteria when making investment decisions as a risk assessment tool ([Almeyda & Darmansya, 2019](#)), driven by the recognition that sustainable companies are better positioned for long-term success ([Oncioiu et al., 2020](#)). This has led to a significant increase in sustainable investments globally ([Matos, Barros, & Sarmiento, 2020](#)), including in Indonesia. By the end of 2021, the total value of funds managed based on Environment, Social, and Governance (ESG) criteria in Indonesia reached Rp 3.5 trillion ([Malik, 2022](#)). This shift in investment preferences underscores the importance of sustainable practices in long-term business success and reflects a commitment to responsible business practices, in line with global trends in environmental and social responsibility.

The capital market also plays a role in supporting sustainable business, including in Indonesia. In December 2020, the Indonesia Stock Exchange introduced the ESG Leaders Index, which consists of 30 companies that are significant in environmental, social, and governance issues. The ESG (Environmental, Social, and Governance) Index is used to measure the performance of companies in sustainable practices, including environmental, social, and governance aspects. Companies included in this index are evaluated based on various ESG factors, such as environmental policies, employee treatment, and transparency in decision-making. The ESG Index helps investors and other stakeholders identify companies that practice high social and environmental responsibility in their operations. On December 20, 2021, IDX, in collaboration with the KEHATI Foundation, launched the ESG Sector

Leaders IDX KEHATI Index as a complement to the SRI-KEHATI Index, which was previously launched in 2009. The ESG Sector Leaders IDX KEHATI Index offers broad market exposure and diversification by selecting representative companies in each industry with the best ESG scores. Stocks with above-average ESG scores are chosen to represent their respective industries and are grouped based on the IDX Industry Classification ([IDX, 2024](#)). The ESG approach has become a focus for many companies in Indonesia, driven by the belief that failing to address these issues can negatively impact social trust, financial performance, and the overall sustainability of the company ([Arvidsson & Dumay, 2022](#); [Eccles, Ioannou, & Serafeim, 2014](#)). Inclusion in one of these indices, therefore, serves as a benchmark for companies in the Indonesian market that implement best practices in sustainability.

With the growing interest of investors in sustainable companies, research examining the relationship between sustainability practices and company performance has garnered significant attention in recent years, particularly since 2010 ([Popescu, Pentescu, & Shivarov, 2023](#)). This review explores the literature on the relationship between sustainability and company performance. Previous research has highlighted various impacts of sustainability practices on company performance. [Aggarwal \(2013\)](#) reviewed prior studies and identified numerous research efforts examining this relationship. He concluded that most studies provide evidence of a positive and significant relationship between sustainability disclosure and financial performance due to various advantages and benefits such as increased demand for the company's products and higher stock prices. This aligns with the comprehensive review of prior studies on this topic, encompassing 231 papers by [Magon, Thomé, Ferrer, and Scavarda \(2018\)](#) and 2,000 published papers by [Friede, Busch, and Bassen \(2015\)](#), which both studies concludes that the vast majority of studies report positive findings regarding the relationship. This is also consistent findings of [KPMG \(2024\)](#), which analysed the potential impact of 60 sustainability metrics on gross profit margins (GPM) by conducting econometric analysis on over 2,500 businesses across 18 industries and more than 60 countries. They found that 21 sustainability indicators showed a significant relationship with GPM.

On the other hand, [Almeyda and Darmansya \(2019\)](#) suggest that there are mixed results in the overall relationship between sustainability practices and company performance in previous studies, including in their own research. Furthermore, [Goyal, Rahman, and Kazmi \(2013\)](#), in their review of prior studies, concluded that most research examining the relationship between sustainability performance and company performance has been conducted in developed countries. The results also vary depending on different cultural and economic contexts, and there is no universally accepted direction for this relationship. They also suggested the need for further empirical research on corporate sustainability performance and company performance in developing countries. [Loan, Anh, and Hoang \(2024\)](#) also contends that empirical research examining the correlation between ESG disclosure and financial performance is inconclusive and constrained in developing economies.

Additionally, it is often found that each component of sustainability measures, such as E.S.G., has different impacts on company performance. For example, [Almeyda and Darmansya \(2019\)](#) reported a significant positive relationship between ESG disclosure and companies' performance measures, Return on Assets (ROA) and return on Capital (ROC), but only a significant positive relationship between the Environmental factor and ROC, while there was no significant relationship between the Social and Governance factors and financial performance. [Loan et al. \(2024\)](#) also found that Environmental (E) and Governance (G) factors have the greatest influence on Return on Equity (ROE). However, they noted that Social disclosures did not show a significant impact on financial performance. These varying results highlight the complexity of the relationship between sustainability and financial performance and emphasize the importance of a deep understanding of how various ESG factors interact. This review underscores the importance of continued research to further explore this relationship, especially in the context of emerging markets like Indonesia.

This present study aims to examine the relationship between sustainability disclosures and financial performance in companies listed on the IDX ESG Leaders. The lack of literature investigating the impact of sustainability practices on company performance in the recently released ESG Leaders index provides the backdrop for this study. This research offers empirical evidence and insights that can guide policymakers and future researchers, both in academic literature and practical business strategies, within the continuously evolving global ESG landscape. The uniqueness of this study lies in its comprehensive exploration of sustainability disclosure components, specifically the environmental, social, governance, and economic factors of Indonesian companies listed on the IDX ESG Leaders index. This research investigates how these sustainability practices affect financial performance and fills a gap in the existing literature by focusing on an emerging market like Indonesia. Further research is essential not only to contribute to the ongoing debate but also to provide additional insights into the relationship between sustainability and firm performance. This study addresses this gap by examining IDX ESG Leaders companies, focusing on unique challenges and benefits within Indonesia's diverse regulatory environment

and geographical variations that impact local environmental policies and economic conditions. We analyse company size across small, medium, and large enterprises, exploring recent performance metrics to uncover sustained benefits of sustainability initiatives over a new time horizon. Additionally, we broaden the scope by evaluating various financial performance metrics, including ROI, ROE, and EPS, to capture diverse financial outcomes. This research offers a fresh perspective on the sustainability-firm performance link, offering valuable insights and practical considerations for firms aiming to enhance their sustainability efforts. In this study we use. The structure of this paper unfolds as follows: the next section covers the literature review and hypothesis development, followed by the research methodology, results and discussion, and concluding with the final section.

LITERATURE REVIEW

In this study, our approach begins by examining the overarching relationship between aggregate sustainability disclosures and firm financial performance. We then proceed to dissect individual components of sustainability factors to establish their specific links with company performance. This dual approach allows us to construct hypotheses concerning the individual relationships between sustainability components and performance outcomes. By delving into these nuanced connections, we aim to provide a comprehensive understanding that contributes to the evolving discourse on sustainability's impact on corporate financial performance. The relationship between corporate sustainability performance (CSP) and firm performance has been extensively studied in the literature, leading to a nuanced understanding of how sustainable practices impact financial and non-financial performance. Many studies have found a positive relationship between CSP and firm financial performance. These studies argue that sustainable practices can lead to cost savings, improved efficiency ([Abdi, Li, & Càmarà-Turull, 2022](#); [Magon et al., 2018](#); [Xie, Nozawa, Yagi, Fujii, & Managi, 2019](#)), and better risk management which ultimately enhance profitability and firm value ([Almeyda & Darmansya, 2019](#)). For example, [Xu and Liu \(2023\)](#) found significant positive associations between ESG practices and corporate profitability among Chinese manufacturing firms, highlighting the economic benefits of sustainability initiatives.

Furthermore, sustainability activities influence performance through various mechanisms. Studies suggest that effective sustainability practices mitigate environmental and social risks, thereby reducing potential costs ([Dincer, Keskin, & Dincer, 2023](#); [Eccles et al., 2014](#); [KPMG, 2024](#)). Other studies suggest Market Differentiation as another mechanism: Sustainable practices can distinguish a firm from its competitors, appealing to customers who prioritize corporate responsibility and thereby boosting sales ([Chusniyah, Pambudi, Zahra, & Itisham, 2023](#)). Moreover, integrating sustainability into business models enhances operational efficiency by reducing waste and energy consumption, thereby providing competitive advantages ([Abdi et al., 2022](#); [Azmi, Hassan, Houston, & Karim, 2021](#); [Magon et al., 2018](#); [Siregar, Mita, Amarullah, & Mahmud, 2024](#)), provide a competitive advantage ([Almeyda & Darmansya, 2019](#); [KPMG, 2024](#)). In addition, studies also suggest that ESG disclosure improves transparency, mitigates information asymmetry ([N. O. D. Ellili & Nobanee, 2023](#); [Loan et al., 2024](#)) and enhances investment efficiency ([Azmi et al., 2021](#); [Nejla Ould Daou Ellili, 2022](#)).

[Mufti Rachmat \(2024\)](#) argues that the beneficial outcomes of sustainability reporting include increased transparency, improved reputation, proactive risk management, adherence to regulations, operational efficiencies, innovation, enhanced employee morale, and sustained success. However, the intricate nature of this connection emphasizes the importance of evaluating a range of factors beyond just ESG practices to thoroughly grasp and predict financial performance within this industry. For similar reasons, [Oncioiu et al. \(2020\)](#) suggest that corporate social responsibility practices, although non-financial, are financially significant, particularly when considering other financial factors. They conclude that integrating corporate social reporting indicators into financial performance reporting converts sustainability into measurable value for stakeholders.

Other studies have also demonstrated a positive relationship between sustainability disclosure and financial performance ([Alodat, Salleh, Hashim, & Sulong, 2024](#); [Amran, Abbasi, Foroughi, & Tanggamani, 2024](#); [Buallay, 2019](#); [Dincer et al., 2023](#); [Loan et al., 2024](#); [Siregar et al., 2024](#); [Yilmaz, 2021](#)). However, while literature generally supports the positive impact of corporate sustainability on financial performance, the relationship can be complex and contingent on various factors. For example, ([Buallay, 2019](#)) highlights mixed impacts of different ESG components on financial metrics, suggesting that environmental disclosures may vary in their influence depending on regional contexts. Similarly, studies by [Nor, Bahari, Adnan, Kamal, and Ali \(2016\)](#) in Malaysia and [Wasara and Ganda \(2019\)](#) on the Johannesburg Stock Exchange reveal mixed outcomes of environmental disclosures on financial performance across different regions. These findings underscore the variability in how sustainability practices translate into financial outcomes based on geographical and industry contexts. [Bodhanwala and Bodhanwala \(2022\)](#) investigate firms in the travel and tourism industry (TTI) across various geographies using Asset 4 of Thomson

Reuters data and also found mixed results across ESG components. Furthermore, [Rahi, Akter, and Johansson \(2021\)](#) found that there was an inverse correlation between ESG practices and financial performance metrics such as return on invested capital, return on equity, and earnings per share. Conversely, they observed a positive association between governance practices and return on assets. Similarly, [Jha and Rangarajan \(2020\)](#) conducted research on Indian companies and argued that these firms do not experience the financial advantages from their investments in sustainability efforts.

Research also emphasizes the role of industry-specific factors, firm size, resource availability, and cultural norms in shaping the effectiveness of sustainability practices ([Popescu et al., 2023](#)). While non-financial benefits like improved employee satisfaction and brand reputation are evident, challenges remain in measuring direct financial impacts, particularly in emerging economies. In conclusion, while existing literature highlights the generally positive link between corporate sustainability performance and firm financial performance, understanding this relationship requires nuanced exploration across diverse contexts and measures. Ongoing research is crucial to refine our understanding of how sustainability practices contribute to firm success, advocating for a strategic and integrated approach to sustainability that fosters long-term organizational resilience and societal impact. This study contributes to this endeavour by examining the relationship between sustainability disclosure components (environmental, social, and governance) and economic factors, specifically measured by Return on Assets (ROA).

This study explores four critical sustainability factors namely: environmental, social, governance and economic factors. Prior studies have employed various theories to predict the relationship between sustainability and firm performance ([N. O. D. Ellili & Nobanee, 2023](#)). Among these are Agency Theory ([Aggarwal, 2013](#); [Haryono et al., 2016](#)), Legitimacy Theory ([Aggarwal, 2013](#); [Xu & Liu, 2023](#)), Signalling Theory ([Girón, Kazemikhasragh, Cicchiello, & Panetti, 2021](#)), Stakeholder Theory ([Aggarwal, 2013](#)), Institutional Theory, and Resource-Based View (RBV). In this review, we adopt Legitimacy Theory as the underlying framework. Legitimacy Theory posits that firms adopt sustainability practices to establish credibility with stakeholders and society. By aligning with societal norms through transparent sustainability disclosures, firms can bolster their reputation and, consequently, improve financial performance ([Lu & Taylor, 2018](#)). According to this theory, disclosing ESG (Environmental, Social, and Governance) practices and economic contributions (EC) is expected to positively influence financial outcomes. As companies disclose their sustainability efforts, they enhance their legitimacy, making their products and services more accepted by the public. This acceptance can lead to increased profitability and overall financial performance. Moreover, by demonstrating commitment to sustainable practices, firms may mitigate scrutiny and build stronger relationships with stakeholders, thereby reducing litigation risks and improving operational efficiency, ultimately contributing to greater profitability. Thus, this theory predicts a positive relationship between sustainability practices, as measured by ESG disclosures and economic contributions, and financial performance.

Environmental sustainability involves practices aimed at reducing a company's ecological footprint, such as minimizing greenhouse gas emissions, optimizing waste management, and improving resource efficiency. Firms that embrace robust environmental practices often achieve cost savings, bolster brand loyalty, and ensure better compliance with regulations, thereby positively impacting financial performance ([Clark, Feiner, & Viehs, 2015](#)). However, the initial costs associated with implementing environmental initiatives can pose challenges to short-term profitability ([Duque-Grisales & Aguilera-Caracuel, 2021](#)). Studies have consistently demonstrated a positive relationship between sustainability disclosure and financial performance ([Almeyda & Darmansya, 2019](#); [Buallay, 2019](#); [Loan et al., 2024](#); [Makhdalena, Zulvina, Zulvina, Amelia, & Wicaksono, 2023](#); [Yilmaz, 2021](#)). Nevertheless, studies on the impact of environmental disclosure in Malaysia show mixed results ([Nor et al., 2016](#)), with some indicating negative effects ([Lu & Taylor, 2018](#)) and others finding no significant relationship ([Qiu, Shaukat, & Tharyan, 2016](#)). Despite these variations, the overall influence of sustainability disclosure on financial performance remains predominantly positive. Therefore, we propose our first hypothesis: H1: Environmental disclosure is positively associated with financial performance.

Social sustainability focuses on how companies manage relationships with key stakeholders, including employees, suppliers, customers, and communities. Strong social practices, such as fair labour policies, active community engagement, and high customer satisfaction, enhance employee productivity, increase customer loyalty, and bolster corporate reputation ([Amran et al., 2024](#)). Empirical evidence consistently links robust social sustainability practices to superior financial performance due to the positive outcomes derived from these stakeholder relationships ([Khanchel, Lassoued, & Baccar, 2023](#); [Makhdalena et al., 2023](#); [Qiu et al., 2016](#); [Wasara & Ganda, 2019](#); [Yilmaz, 2021](#)). However, studies reveal mixed results regarding the relationship between sustainability disclosure and financial performance, with some indicating a negative impact ([Buallay, 2019](#)) and others finding no significant relationship ([Almeyda & Darmansya, 2019](#); [Loan et al., 2024](#)). Despite variations in findings on the

relationship between social disclosure and financial performance, the overall impact tends to be predominantly positive. Therefore, we propose our second hypothesis: H2: Social disclosure is positively associated with financial performance. Effective governance practices encompass transparent decision-making processes, strong board oversight, and accountability to stakeholders. These frameworks are crucial in reducing agency costs, improving decision quality, and fostering investor trust. Studies consistently show that companies with effective governance structures often exhibit improved financial performance by minimizing risks and optimizing operational (Khanchel et al., 2023; Loan et al., 2024; Makhdalena et al., 2023; Yilmaz, 2021). However, some studies have shown a negative relationship (Buallay, 2019) or found no significant association between sustainability disclosure and financial performance (Almeyda & Darmansya, 2019). While research findings vary on the impact of sustainability disclosure on financial performance, a majority of studies suggest a positive influence. Therefore, we propose our third hypothesis: H3: Governance disclosure is associated with improved financial performance. Economic sustainability entails strategies aimed at ensuring a company's long-term financial health while balancing environmental and social responsibilities. Integrating economic sustainability into business models can lead to cost efficiencies, foster innovation, and open up new markets (Magon et al., 2018). However, the relationship between economic sustainability and financial performance is intricate, influenced by external factors such as market dynamics and regulatory environments. Research into this relationship remains limited. Drawing on general disclosure theory and legitimacy theory, which suggest that any form of disclosure enhances transparency and is positively perceived by investors (Qiu et al., 2016), we propose our fourth hypothesis: H4: Economic disclosure is positively impact financial performance. Based on the relationships proposed in the literature review and hypothesis development, they can be depicted as follows:

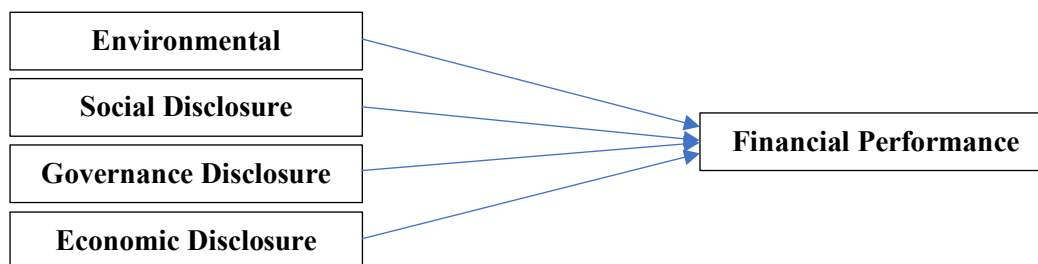


Figure 1. Relationships between Sustainability Disclosures and Financial Performance

We also incorporate several financial metrics as control variables that are commonly associated with firm financial performance: size, age, leverage, and dividend yield. Since these variables serve as controls, we do not individually delve into the literature regarding their relationship with financial performance in this study. However, except for leverage, we anticipate a positive relationship.

METHOD

The study sample was obtained following these steps. We began with an initial sample of 30 companies listed under the IDX ESG Leaders index at the start of our study, covering the period from 2020 to 2022. During this period, the index underwent biannual reviews by IDX, resulting in some companies being added or removed. Ultimately, only 19 companies remained consistently listed in the index throughout the entire study duration. Of these 19 companies, one was excluded due to the lack of a sustainability report. Consequently, our final sample consisted of 18 companies, which were deemed suitable for analysis, resulting in a total of 54 firm-year observations. The data for this research is sourced from the financial and sustainability reports of companies listed on the Indonesia Stock Exchange (IDX) under the IDX ESG Leaders Index for the period 2020-2022. Sustainability reports are accessible via www.globalreporting.org and the companies' official websites, while financial and annual reports are available at www.idx.co.id. This method ensures the use of reliable and publicly available data. Data collection involved content analysis of sustainability reports guided by the Global Reporting Initiative (GRI) Standards. The GRI Standards consist environmental, social, governance, and economic dimensions, comprising a total of 55 categories and 99 indicators. The environmental dimension includes 8 categories with 30 indicators, the social dimension has 19 categories with 34 indicators, the governance dimension comprises 22 categories with 22 indicators, and the economic dimension contains 6 categories with 13 indicators.

This research examines four independent variables: Environment (X1), Social (X2), Governance (X3), and Economic (X4), with financial performance (Y), proxied by Return on Assets (ROA), as the dependent variable. To test the hypotheses, a multiple linear regression model is employed to predict the dependent variable based on the independent variables. The measurements of variables are provided in Table 1. Data analysis, a crucial step post-collection, converts the gathered data into meaningful information to draw conclusions. The analysis is conducted using the statistical software Stata IC 15, ensuring the reliability and validity of the results.

Table 1. Measurement of Variable

Variable	Denote	Measurement	Scale
Performance	ROA	Return on Assets	Ratio
Environmental Disclosure	E	GRI Standard 2016: 30 indicators	Dummy
Social Disclosure	S	GRI Standard 2016: 34 indicators	Dummy
Governance Disclosure	G	GRI Standard 2016: 22 indicators	Dummy
Economic Disclosure	ECO	GRI Standard 2016: 13 indicators	Dummy
Size	Size	Total Assets (Log)	Ratio
Age	Age	The years listed	Ratio
Leverage	Lev	Debt to Total Assets	Ratio
Dividend Yield	DY	Dividend Yield	Ratio

RESULTS AND DISCUSSION

Table 2. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ENV	54	0.0333	0.8333	0.3043	0.17471
SOC	54	0.0588	0.6764	0.3214	0.13993
GOV	54	0.0000	1.0000	0.2752	0.26452
ECO	54	0.0769	0.9230	0.4586	0.21600
SIZE	54	29.5430	35.2281	31.7735	1.60147
AGE	54	10.0000	42.0000	21.5000	8.48695
LEV	54	0.1120	0.86887	0.5609	0.21940
DY	54	0.0000	7.96013	2.1459	2.31609
ROA	54	0.0039	0.34885	0.0742	0.07326

Data processed using Stata IC 15 (2024)

Based on the descriptive statistics for the variables ENV, SOC, GOV, ECO, SIZE, AGE, LEV, DY, and ROA from a sample of 54 observations, we can derive several insights. Environmental Score (ENV) has the minimum value for the environmental score is 0.0333, and the maximum value is 0.8333, indicating a wide range in environmental performance among the firms in the sample. The average score is 0.3043, with a standard deviation of 0.17471. This suggests that, on average, firms have a moderate environmental performance, but there is substantial variability, indicating that some firms are performing much better or worse than others in terms of environmental practices. Social Score (SOC) has the social score ranges from a minimum of 0.0588 to a maximum of 0.6764, with an average score of 0.3214 and a standard deviation of 0.13993. This indicates that firms generally have moderate social performance, with less variability compared to the environmental scores, suggesting a more consistent level of social responsibility across the firms.

Governance Score (GOV) has the governance score has the widest range, from 0.0000 to 1.0000, with a mean of 0.2752 and a standard deviation of 0.26452. This wide range and high standard deviation suggest significant disparities in governance practices among firms, with some firms exhibiting excellent governance and others performing very poorly. Economic Performance (ECO) has the economic performance score ranges from 0.0769 to 0.9230, with a mean of 0.4586 and a standard deviation of 0.21600. This indicates that, on average, firms have moderate to good economic performance, with considerable variability, showing that some firms are economically strong while others are weaker.

Firm Size (SIZE), measured in terms of the natural logarithm of total assets, ranges from 29.5430 to 35.2281, with an average value of 31.7735 and a standard deviation of 1.60147. This relatively low standard deviation suggests that the firms in the sample are somewhat similar in size. Firm Age (AGE) has the age of the firms range from 10 to 42 years, with an average age of 21.5 years and a standard deviation of 8.48695. This indicates a mix of both relatively young and more established firms in the sample, with substantial variability in age. Leverage (LEV) or the extent to which firms use debt financing, ranges from 0.1120 to 0.86887, with a mean of 0.5609 and a standard deviation of 0.21940. This suggests that firms generally have a moderate level of leverage, with some firms being highly leveraged while others are less so. Dividend Yield (DY) ranges from 0.0000 to 7.96013, with a mean of 2.1459 and a high standard deviation of 2.31609. This indicates a wide range of dividend policies, with some firms paying high dividends while others pay none at all.

Return on Assets (ROA) ranges from 0.0039 to 0.34885, with a mean of 0.0742 and a standard deviation of 0.07326. This indicates that, on average, firms have a modest return on assets, with some firms being highly profitable and others less so. In summary, the descriptive statistics reveal a diverse sample of firms with varying performances across environmental, social, governance, and economic dimensions. The data shows moderate averages but substantial variability in most variables, indicating that while some firms are excelling, others have significant room for improvement.

We performed four classical assumption tests prior to conducting the regression analysis. These assessments encompassed tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. Although the detailed outcomes are omitted for conciseness, the results of these individual tests affirm that the assumptions necessary for the regression analysis, including adherence to the BLUE (Best Linear Unbiased Estimator) criteria, have been met. To make a decision on accepting or rejecting the proposed hypotheses, statistical testing is performed. The data analysis is conducted using multiple linear regression, aiming to examine the influence of environmental, social, governance, and economic disclosures on financial performance in companies included in the IDX ESG Leaders index, processed using Stata IC 15 statistical software. Multiple linear regression analysis yielded the results as presented in Table 2 below:

Table 3. Results of Multiple Linear Regression

Variable	Financial Performance			
	B	Std. Error	t	Sig.
ENV	-0.1315	0.036	-3.57	0.001
SOC	0.1965	0.046	4.22	0.000
GOV	0.0004	0.020	0.02	0.982
ECO	-0.6672	0.253	-2.64	0.011
SIZE	-0.0303	0.005	-5.62	0.000
AGE	0.004	0.009	4.81	0.000
LEV	0.1207	0.045	2.65	0.011
DY	0.0070	0.003	2.38	0.022
(Constant)	-0.8682	0.146	-5.94	0.000
	F-statistic (8,45)	=	11.53	
	Prob > F	=	0.0000	
	Root MSE	=	0.04018	
	R-squared	=	0.7447	
	Adjusted R-squared	=	69.93	
	Mean VIF	=	1.51	
	Obs	=	54	

Data processed using Stata IC 15 (2024)

Based on Table 3, the results of the multiple linear regression analysis to predict the Return on Assets (ROA) indicate the following:

The model used several independent variables: ENV (Environmental Score), SOC (Social Score), GOV (Governance Score), ECO (Economic Performance), SIZE (Firm Size), AGE (Firm Age), LEV (Leverage), and DY

(Dividend Yield) with 54 observations. The overall model is statistically significant with an F-statistic of 11.53 and a p-value of 0.0000, indicating that the model provides a good fit to the data. The R-squared value is 0.7447, suggesting that approximately 74.47% of the variability in ROA is explained by the independent variables in the model. The Root Mean Squared Error (RMSE) is 0.04018, indicating the average distance between the observed and predicted values of ROA. Thus, the equation for the model can be expressed as follows:

$$\text{ROA} = -0.8682 + -0.1315\text{ENV} + 0.1965\text{SOC} + 0.0004\text{GOV} + -0.6672\text{ECO} + -0.0303\text{SIZE} + 0.004\text{AGE} + 0.1207\text{LEV} + -0.070\text{DY} + e$$

Table 4. Summary of Hypothesis Testing Results

Hypotesis	Proposed Relationship	Decision
H1	The disclosure of environmental factor has a negative and significant impact on financial performance.	Rejected
H2	The disclosure of social factor has a positive and significant impact on on financial performance.	Accepted
H3	The disclosure of corporate governance factor has a positive but significant impact on on financial performance.	Rejected
H4	The disclosure of economic factor has a positive and significant impact on on financial performance.	Rejected

a. The Effect of Environmental Disclosure on Financial Performance

The analysis of environmental disclosure's influence on financial performance reveals that it does not significantly affect overall outcomes. Drawing from legitimacy theory, companies can enhance transparency and address ineffective regulatory systems by voluntarily disclosing additional non-financial information, thereby demonstrating their commitment to elevating corporate standards and enhancing their reputation (Xu & Liu, 2023). However, this study uncovers a negative relationship between environmental disclosure and financial performance, suggesting that investors and stakeholders do not prioritize environmental considerations in their investment decisions.

During the Covid-19 pandemic in 2020, companies shifted their focus towards maximizing profits, while investors placed greater emphasis on financial stability. Consequently, environmental factors had minimal impact on overall performance. This study's findings are consistent with a range of literature, with some studies like Lu and Taylor (2018) indicating adverse effects and others such as Qiu et al. (2016) finding no significant correlation between environmental disclosure and financial performance. The research underscores that environmental management initiatives may lead to increased costs, potentially influencing investor returns. In light of this research, companies can improve environmental performance through strategic resource allocation, reducing fuel, energy, and water consumption. Innovating eco-friendly solutions and reducing emissions can demonstrate cost-saving and environmental benefits. Additionally, adopting environmentally friendly processes and products can help companies explore new market opportunities.

b. The Effect of Social Disclosure on Financial Performance

The findings from hypothesis testing reveal a significant and positive relationship between social disclosure and financial performance. Specifically, the disclosure of social factors positively affects Return on Assets (ROA), a key measurement of financial performance. This finding is consistent with research conducted by Khanchel et al. (2023); Makhdalena et al. (2023); Qiu et al. (2016); Wasara and Ganda (2019); Yilmaz (2021), all of whom have documented a substantial positive impact of social disclosure on financial metrics. In contrast, Buallay (2019) and others such as Almeyda and Darmansya (2019); (Loan et al., 2024) have found no significant relationship between CSR activities and financial performance.

These findings underscore the predictive power of legitimacy theory, which suggests that companies can enhance their corporate reputation and potentially improve financial metrics by engaging in positive social initiatives. This aligns with the notion that socially responsible practices can signal commitment to stakeholders, thereby influencing financial performance positively in certain contexts. This study contributes valuable insights into the complex relationship between social disclosure and financial performance. While social factors can enhance certain aspects

of financial performance positively, their overall impact on financial outcomes is nuanced and influenced by various contextual factors.

c. The influence of Governance Information Disclosure on Financial performance

The regression analysis reveals that governance disclosure has a positive but non-significant impact on financial performance, as assessed by metrics such as return on assets (ROA). Legitimacy theory suggests that companies disclose governance practices to enhance their standing and trustworthiness among stakeholders and society at large. This transparency aims to bolster organizational performance and sustainability efforts. However, contrary to theoretical expectations, this study's findings indicate that levels of governance disclosure do not significantly enhance financial performance, particularly as reflected in ROA metrics. This suggests that companies may not be fully reaping the anticipated benefits of robust governance practices, possibly due to inadequate implementation or ineffective communication of these initiatives to stakeholders.

These findings align with previous research that found mixed results: while studies like [Khanchel et al. \(2023\)](#); [Loan et al. \(2024\)](#); [Makhdalena et al. \(2023\)](#); [Yilmaz \(2021\)](#) reported positive relationships, others such as [Almeyda and Darmansya \(2019\)](#) found no discernible impact, and [Buallay \(2019\)](#) observed a negative relationship. Nonetheless, it remains imperative for companies to uphold best governance practices. Strengthening governance disclosure, alongside robust risk management strategies, empowers firms to navigate challenges effectively, including those posed by the Covid-19 pandemic. By proactively identifying and mitigating risks, organizations can strategically respond to pandemic-related disruptions and ensure equitable treatment of shareholders. Good governance involves incorporating economic, social, and environmental factors into decision-making processes to promote transparency and cultivate trust with stakeholders.

d. The effect of Economic Disclosure on Financial performance

The hypothesis testing results indicate that economic disclosure has a negative and significant effect on financial performance. From a legitimacy theory perspective, disclosure is expected to improve the company's reputation and legitimacy among stakeholders and the broader society. This transparency is intended to build trust and confidence, thereby potentially bolstering organizational performance and sustainability efforts. The impact on market value can arise from several factors. Economically sustainable disclosure facilitates effective communication between the company and its stakeholders, helping to mitigate principal-agent issues often addressed in agency theory. However, in this case, these frameworks seem ineffective, possibly because Indonesian companies have not yet fully realized the benefits of good corporate governance practices.

Considering the limited prior research exploring this relationship, these results are not surprising. However, referring to disclosure strategy, additional information to stakeholders should ideally enhance the company's reputation for transparency. These findings are not consistent with research by [Magon et al. \(2018\)](#) who observed that integrating economic sustainability into business models can lead to cost efficiencies, foster innovation, and open up new markets. Their research suggests a positive link between economically sustainable disclosure and financial performance. Legitimacy theory posits that such disclosures are crucial for demonstrating a company's commitment to ethical and responsible business practices, which can enhance long-term shareholder value. This perspective underscores the importance of economic disclosure not only for compliance but also for strategic communication and stakeholder engagement.

CONCLUSION

This study examined the relationship between sustainability practices and firm performance among companies listed on the Indonesian Stock Exchange (IDX) ESG Leaders Index from 2020 to 2022. Using a sample of 55 observations from 14 companies, data was collected from sustainability reports, annual reports, and publicly available capital market data, and analysed using multiple linear regression with Stata IC 15. The findings indicate that social factors positively impact financial performance, as measured by Return on Assets (ROA), while environmental and economic factors have a negative influence. Governance factors do not significantly impact firm performance. Additionally, firm size negatively affects performance, whereas age, leverage, and dividend yield positively influence it.

This study makes a significant contribution by providing a detailed and contextualized analysis of the relationships between sustainability factors and financial performance within IDX ESG Leaders companies. It offers valuable insights for policymakers and corporate leaders, emphasizing the complex dynamics between sustainability initiatives and financial outcomes. These findings enrich the ongoing discourse on sustainability and firm

performance, underscoring the importance of integrating sustainability considerations into corporate strategies to enhance overall firm performance. This study is limited to companies included in the IDX ESG Leaders Index during the period from 2020 to 2022, resulting in a restricted number of observations. Future research could enhance generalizability by selecting different indices, such as the manufacturing sector index, thereby increasing the number of observations. The data collection method, content analysis, is time-consuming, which constrained the scope of this research. For future studies, utilizing comprehensive databases like Thomson Reuters' Asset4, which provides global company data, is advisable. This would allow for a larger number of observations across various countries, leading to broader and more representative outcomes.

Additionally, this study covers the period during the COVID-19 pandemic, a time when companies were significantly affected by volatile conditions. As a result, company performance may have been influenced by sluggish market conditions and high uncertainty. Future research should ideally avoid crisis periods to ensure that the results reflect normal company conditions. In conclusion, this study highlights the need for future research to explore diverse indices, leverage comprehensive databases, and cover broader timeframes. These steps would provide more robust and universally applicable conclusions. We extend our heartfelt gratitude to all who contributed to the completion of this study. Special thanks to Muhammad Ihsan, our second author, who conducted data collection and data mining during his tenure as a student at USK. His dedication and meticulous work in gathering and organizing the data from various reports have been instrumental to the success of this research. We are deeply appreciative of his efforts and commitment to this project.

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