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Does ESG Disclosure or Size Which Matters to Profitability? Case of Banking Companies Listed on The Indonesian Capital Market

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ABSTRACT

This study aims to analyze the effect of Environmental, Social, and Governance (ESG) Disclosure on the financial performance of banking companies listed on the Indonesia Stock Exchange for the period 2019–2023. This study uses a quantitative approach with the panel data regression method and the Random Effect Model (REM) model, and involves 14 banking companies that meet the ESG data criteria based on GRI standards. The dependent variables used are Return on Assets (ROA) and Return on Equity (ROE), while the independent variables consist of the combined ESG score and each component E, S, and G, with company size and leverage as control variables. The results of the study show that simultaneously ESG disclosure does not have a significant effect on ROA or ROE. However, partially, only the environmental component (E) shows a positive and significant effect on ROE. In contrast, the social and governance components do not show a significant effect. In addition, company size is proven to have a positive effect on financial performance, while leverage does not have a significant effect. These findings indicate that ESG has not fully become a determining factor in the financial performance of banking in Indonesia.

Keywords: ESG, financial performance, banking, ROA, ROE

INTRODUCTION

In the last decade, sustainability issues have become a major focus in the global business world. Companies are no longer only judged by how much profit they generate, but also by how they contribute to the environment, society, and implement good governance principles. This concept is reflected in Environmental, Social, and Governance (ESG), which is an assessment framework used to assess a company's responsibility in environmental, social, and governance aspects. Attention to ESG is growing as investors, governments, and the public become more aware of the impact of business activities on environmental and social sustainability. ESG disclosure, or disclosure of ESG information, is now an important consideration in investment decision-making, risk assessment, and corporate reputation. Globally, institutions such as MSCI, Sustainalytics, and Bloomberg have provided ESG ratings to help investors assess a company's non-financial performance. The Covid-19 pandemic has become a global challenge that has affected people's activities in all aspects of life around the world. The term "coronavirus" or "covid-19" was first used in Wuhan, China, in late 2019. To deal with the threat to the national economy and the stability of the financial system, the Indonesian government issued Government Regulation in Lieu of Law No. 1 of 2020 concerning State Financial Policy and Financial System Stability to deal with the Covid-19 Pandemic. The Covid-19 pandemic has had a wide impact on various sectors, including banking. Banks play an important role in ensuring sustainable economic and financial growth in the country. As a center of financial and money growth, the banking industry plays an important role in both aspects of sustainability. They maintain disclosure of ESG practices in banking transactions and ESG practices related to credit and investment policies (Buallay et al., 2020). In Indonesia, especially in the banking sector, ESG investment has been implemented since 2009, although ESG standards are included in bank financial reports. Banks are also aware of the implementation of ESG, because they have POJK 51 of 2017, OJK Number

51/POJK.03/2017, which regulates the implementation of sustainable finance for Financial Services Institutions (LJK), Issuers, and Public Companies with the aim of encouraging the integration of environmental, social, and governance (ESG) aspects in their business.

The regulation is implemented in stages from 2019 to 2025, according to the category and size of the company's assets, and requires LJK to prepare a Sustainable Finance Action Plan (RAKB) which is reported annually to OJK and publish a Sustainability Report that includes ESG performance information. With POJK 51/2017, banks in Indonesia are now more active in conveying information about ESG. It is hoped that with this disclosure, the company's value will increase through a better reputation, investor trust, and wider access to funding sources. Therefore, the financial services sector is expected to be able to make a more significant contribution to sustainable development in Indonesia. However, empirical studies on the effect of ESG disclosure on financial performance in the Indonesian banking industry still show varying results. Several studies show that ESG disclosure has a positive effect on financial performance, while other studies state that the effect of ESG disclosure is not significant. Several studies try to highlight the differences in ESG measurement indicators used by rating agencies so that they are difficult to compare, this may be due to data related to sustainability reports that are limited, tend to be qualitative and difficult to compare, the standards used can be different, made by subjective decisions based on certain assumptions (Ferli, 2023)

These varying results indicate that further research is needed to understand the relationship between ESG disclosure and financial performance in the context of banking in Indonesia. Financial performance is an analysis that assesses how effectively a company manages its finances to obtain income or profit. Financial performance shows all company activities in managing its finances in an effective and efficient manner (Hartini & Rosadi, 2019) in (Ferli et al., 2022).

This study aims to analyze the impact of ESG disclosure on financial performance in the banking sector listed on the Indonesia Stock Exchange (IDX) in the 2019-2023 period. By considering the implementation of POJK 51/2017 and the latest developments in the banking sector, this study is expected to be able to provide an important empirical contribution in understanding the effect of ESG disclosure on financial performance.

THEORETICAL BASIS

Stakeholder Theory

Based on stakeholder theory, business activities provide benefits to stakeholders and companies (Chairiri & Ghozali, 2007). Thus, the sustainability of the company cannot be realized without the support of stakeholders. Stakeholder theory aims to help business actors strengthen their connections with stakeholders, reduce the risk of loss, and increase the value of the company. This theory explains how Environmental, Social, and Governance (ESG) performance can increase profitability and company value through stakeholder trust and satisfaction. Companies that implement good ESG practices can minimize environmental risks, strengthen social relationships, and ensure ethical and transparent corporate governance. Adopting ESG practices can also improve the company's reputation, attract more investors who care about sustainability, and strengthen customer and employee loyalty.

Environmental, Social, dan Governance (ESG)

According to (Whitelock, 2015), ESG is a company's activities in relation to the surrounding ecology, interaction with the social environment, and the company's internal control system, which are aimed at achieving company goals and meeting stakeholder needs. ESG has three factors that can be broadly explained, namely environmental, social, and governance. The relationship between the company and the environment and the surrounding community is one of the important aspects of investors' assessment of the company (Hutagalung & Hermi, 2023). Disclosure of information regarding the company's ESG performance or ESG disclosures is an instrument for assessing the impact of a business on environmental, social, and governance aspects. Although non-financial in nature, this information can indicate the quality of the company's performance and its impact on these three components (Eliwa et al., 2021).

Positive Relationship between ESG Performance and Financial Performance

Many scholars have found a positive relationship between ESG ratings and firm performance; Yoon et al. (2018) investigated the relationship between ESG ratings and market value in Korea. They revealed that CSR initiatives have a positive and significant impact on firm market value, but the impact may vary depending on the type of business. To investigate the relationship between energy market financial indicators and ESG performance, Zhao et al. (2018) studied listed energy companies in China and found that better financial performance can be influenced by better ESG performance. Research in Indonesia shows that the implementation of Environmental, Social, and Governance (ESG) is positively related to the financial performance of the company. Research by Dequelju (2025) shows that the implementation of ESG, especially environmental performance, has a significant impact on Return on Assets (ROA), while a study by Dharmawati et al. (2024) found that increasing ESG scores is positively correlated with financial performance, and decisions taken by the company also show a positive correlation. Another study by Cecilia et al. (2025) revealed that ESG performance has a significant positive impact on company profitability (ROA) and company value (Tobin's Q), which indicates that companies with good ESG performance are more attractive to investors.

Negative Relationship between ESG Performance and Financial Performance

Some academics argue that ESG investment has a negative impact on profitability. A study by Neonufa (2023) found that environmental disclosure has a negative impact on a company's financial performance. This is due to the low utilization of environmental disclosure information by investors and other stakeholders, as well as low consumer interest in environmentally friendly products, which can reduce the company's sales and profits. A study by Afifah (2024) found that ESG implementation by banking companies in Indonesia has a negative impact on short-term financial performance, although it has a positive impact in the long term. In addition, research by Lim et al. (2022) shows that disclosure of sustainability reports in terms of economics has a negative and significant effect on a company's financial performance. These findings indicate that although the implementation of ESG aims to improve corporate sustainability and social responsibility, in the short term, its implementation can incur costs and challenges that negatively affect financial performance.

Hypothesis

Based on the literature review above, considering the increasing interest of investors and the image of the company in the public eye, we expect that high performance on ESG scores can have a positive impact on the company's Financial Performance. The following hypotheses are tested:

Hypothesis 1. The effect of ESG Score on ROA and ROE (Dependent Variable)

ESG disclosure reflects the bank's commitment to environmental, social, and good governance sustainability, and can affect stakeholders' perceptions of the bank's financial stability and prospects. In the banking sector, good ESG practices have the potential to improve financial performance, as measured by Return on Assets (ROA) and Return on Equity (ROE). ESG can have a positive impact on ROA and ROE by improving operational efficiency, reducing long-term risks, and attracting investors who are more interested in companies with good governance and low risk profiles. Many academic studies and observations from market practices suggest a positive relationship between ESG and profitability. However, there are also a number of negative and mixed results in previous studies. Using the hypothesis, this Journal will try to contribute to this debate with a large, recent, and comprehensive dataset that occurs in the Indonesian Banking Sector

According to Buallay et al. (2020) better reporting disclosure will provide a higher ESQ score which will increase the company's ROA. This is in line with Velte (2017), that the three pillars of ESG, namely environmental, social, and governance, have a positive effect on ROA (Alareeni & Hamdan, 2020). Separately, the influence of ESG disclosure has a positive effect on financial performance (Sandberg et al., 2023). Shaikh (2021) investigated the effect of ESG on company performance with international evidence, and found that ESG contributed negatively. Research by Junius et al. (2020) & Research by Atan et al. (2018) stated that ESG does not affect company performance.

METODOLOGY

Sample Data

We selected 47 companies in the banking sector listed on the Indonesia Stock Exchange in the period 2019-2023. We filtered companies in the banking sector that have public ESG data according to GRI and complete which ended with a total of 14 companies, namely, BCA, Mandiri, BRI, BNI, CIMB, BTN, Danamon, OCBC, BTPN, BJB, Bank Jatim, Maybank, Bank Permata, Mega

Dependen Variable

Financial performance is the value of a company's ability to run, manage and allocate its resources (Yatiningsih & Chabachib, 2015) Financial reports as a tool to measure financial performance. Ratios are usually used to measure capital adequacy, liquidity, profitability, and profitability. Return on Asset (ROA) shows the income that can be generated by a company in a certain period of time or each period of time. If the Return on Asset (ROA) of a bank is high, it indicates that the bank as a whole has good performance, because it is considered to be run effectively and efficiently so that it allows its business to grow.

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

Return on Equity (ROE) is a financial ratio that measures a company's ability to generate net income from equity held by shareholders. This ratio is calculated by dividing net income after tax by total shareholder equity, and is expressed as a percentage. ROE provides an overview of how effectively a company uses the capital invested by shareholders to generate profits. According to Kasmir (2019), the industry standard for ROE is 40%; the higher this ratio, the better, because it shows that the company is able to provide greater returns to capital owners. Return on Equity (ROE) is a profitability ratio that measures a company's ability to generate net income after tax based on equity held by shareholders. This ratio shows the efficiency of using equity in generating profits. The higher the ROE value, the better the company's performance in utilizing capital to create profits, which in turn increases investor confidence and company value (Sutrisno, 2020). ROE is calculated by dividing net income after tax by total shareholder equity, and the result is expressed as a percentage (Rahmawati & Nugroho, 2021). Thus, ROE is an important indicator for shareholders to assess the effectiveness of management in managing invested capital (Putri et al., 2022).

$$ROE = \frac{Net\ Income}{Total\ Equity} \times 100\%$$

Independent Variable

This journal uses four independent variables, namely the ESG composite score, Environmental score, Social score, and Governance score. All ESG scores are derived from GRI. GRI is a reference used by companies in making corporate sustainability reports. Many countries and stock exchanges, including the Indonesia Stock Exchange (IDX), recommend or adopt GRI standards as guidelines for sustainability reporting. This makes it easier for companies to meet regulatory requirements and increases their appeal to ESG-focused investors.

Control Variable

We choose Size and Leverage as control variables (Shares and Watson (2015); Atan et al. (2018); Giannopoulos et al. (2022); Naeem et al. (2022).

Methodology

We use two models to investigate the research objectives of this study, one for ROE and one for ROA. Many researchers use ROE and ROA as dependent variables Giannopoulos et al. (2022); Naeem et al. (2022)among others). Many Journals use Size and Leverage as control variables, including Giannopoulos et al. (2022); Naeem et al. (2022). We use separate models for each independent variable (ESG_CS, ENV, SOC, and GOV) due to the correlation between them. We run the following eight models to estimate the results.

ROAit =β0 +β1ESG CSit +β2 log(TASST)it +β3TDTAit + εit
ROAit =β0 +β1ENVit +β2 log(TASST)it +β3TDTAit + εit
ROAit =β0 +β1SOC CSit +β2 log(TASST)it +β3TDTAit + εit
ROAit =β0 +β1GOV CSit +β2 log(TASST)it +β3TDTAit + εit

ROEit =β0 +β1ESG CSit +β2 log(TASST)it +β3TDTAit + εit
ROEit =β0 +β1ENVit +β2 log(TASST)it +β3TDTAit + εit
ROEit =β0 +β1SOC CSit +β2 log(TASST)it +β3TDTAit + εit
ROEit =β0 +β1GOV CSit +β2 log(TASST)it +β3TDTAit + εit

Where ROAit and ROEit are dependent variables, ESG CSit, ENVit, SOCit, GOVit are independent variables, log(TASST)it, TDTAit are control variables and εit is the error term for firm i in period t.

RESULTS AND DISCUSSION

This analysis focuses on the calculation of financial ratios in each company using data obtained from the company's GRI and financial reports of companies in the banking sector for the period 2019 to 2023. The availability and completeness of financial ratios from banking companies in the last five years (2019-2023) are averaged for each issuer to ensure balance in the data panel. Panel data regression analysis was performed using the Eviews 12 statistical application. This study uses three types of variables, namely dependent variables in the form of Return On Asset (ROA), Return On Equity (ROE). Independent variables consisting of Environment Disclosure (E), Social Disclosure (S), Government Disclosure (G), ESG Score and controlling variables, namely Leverage and Firm Size. These variables will be analyzed to see their effect on financial performance in the banking sector listed on the IDX during the study period.

Table 1 Results of Descriptive Statistical Analysis

Variabel	N	Mean	Maksimum	Minimum	Std. Deviation
ROA	70	0,015657	0,034492	0,000671	0,007779
ROE	70	0,109183	0,209358	0,008779	0,049470
E	70	7,557143	25	0	5,154527
S	70	10,81429	26	1	6,155692
G	70	7,885714	22	1	7,175932

ESG	70	0,532989	1	0,232560	0,224310
SIZE	70	19,62332	21,49994	18,15615	0,9653894
LEVERAGE	70	0,832127	0,889725	0,745821	0,037261

Based on the descriptive statistics in Table 1, the amount of data obtained from 14 banking companies over five years is 70 observations. The average value of Return On Asset (ROA) is 0.015657, with a maximum value of 0.034492 and a minimum of 0.000671, and a standard deviation of 0.007779. The relatively low ROA value indicates that the average banking company in the sample has limited ability to generate profits from total assets owned. Meanwhile, the Return on Equity (ROE) variable has an average value of 0.109183, with a maximum value of 0.209358 and a minimum of 0.008779, and a standard deviation of 0.049470. This indicates a variation in the efficiency of using equity to generate profits between banking companies. For the ESG Disclosure variable, which consists of three components — Environmental (E), Social (S), and Governance (G) — each has an average value of 7.557143, 10.81429, and 7.885714, respectively, with maximum values of 25, 26, and 22, respectively, and minimums of 0, 1, and 1. The standard deviations of the three components show a fairly high level of data dispersion, namely 5.154527 (E), 6.155692 (S), and 7.175932 (G). The overall ESG Disclosure score has an average of 0.532989, a maximum value of 1, a minimum value of 0.232560, and a standard deviation of 0.224310. This shows that there is quite a large variation in ESG disclosure between banking companies during the study period. As for the control variables, SIZE (firm size) has an average value of 19.62332, with a standard deviation of 0.965389, while LEVERAGE (leverage level) has an average of 0.832127 and a standard deviation of 0.037261, which indicates a relatively stable debt level between companies.

A. Panel Data Regression Model Selection

Table 2 Results of ROA Model Selection Test for Panel Data Regression

Test	Statistic	d.f.	Probabililty	Conclusion
Chow Test	Cross-section F Cross-section Chi-square	(13,50) 13	0,0000 0,0000	**FEM** (Ho rejected)
Hausman Test	Cross-section Random	6	0,3066	**REM** (Ho rejected)
Langrange Multiplier	Breusch-Pagan	Cross-Section Time Both	(0,0000) (0,3903) (0,0000)	**REM** (Ho rejected)

Based on the test results, the selected model for panel data regression is the Random Effect Model (REM), because the Hausman and Lagrange Multiplier tests do not show rejection of Ho, while the Chow test supports the Random Effect Model which also rejects Ho.

Table 3 Results of ROE Model Selection Test for Panel Data Regression

Test	Statistic	d.f.	Probabililty	Conclusion
Chow Test	Cross-section F Cross-section Chi-square	(13,50) 13	0,0000 0,0000	**FEM** (Ho rejected)
Hausman Test	Cross-section Random	6	0,2418	**REM** (Ho rejected)
Langrange Multiplier	Breusch-Pagan	Cross-Section Time Both	(0,0000) (0,8420) (0,0000)	**REM** (Ho rejected)

Based on the test results, the selected model for panel data regression is the Random Effect Model (REM), because the Hausman and Lagrange Multiplier tests do not show rejection of Ho, while the Chow test supports the Random Effect Model which also rejects Ho.

B. Correlation Between Independent Variables

Table 4 Results of Correlation Test between Independent Variables of ROA Model

	E	S	G	ESG	SIZE	LEVERAGE
E	1,000000					
S	0,706257	1,000000				
G	0,624736	0,476558	1,000000			
ESG	0,584553	0,434949	0,727420	1,000000		
SIZE	0,116967	0,015261	0,027500	0,214825	1,000000	
LEVERAGE	0,155439	-0,023772	0,031984	-0,035745	-0,240838	1,000000

Based on table 4, the regression model used for the regression model equation I does not experience multicollinearity problems because there is no correlation coefficient between variables that is greater than 0.8.

Tabel 5 Results of Correlation Test between Independent Variables of ROA Model

Variable	Coefficient	Prob.	Information
C	-0,034348	0,4818	-
E	0,000249	0,2154	There is no influence
S	-0,000160	0,2449	There is no influence
G	-0,0000211	0,8803	There is no influence
ESG	-0,004140	0,3261	There is no influence
SIZE	0,003487	0,0464	There is influence positive
LEVERAGE	-0,019459	0,5971	There is no influence
F-statistic	1,512055		
R-squared	0,125878	Adjusted R-square 0,042628	

Based on the results of multiple linear regression analysis in table 5, the following equation is obtained:

$$ROA = -0{,}034348 - 0{,}000249E_{it} - 0{,}000160S_{it} - 0{,}000211G_{it} - 0{,}004140ESG_{it} - 0{,}003487SIZE_{it} - 0{,}019459LEVERAGE_{it}$$

Based on the results of the determination coefficient test (Adjusted R-squared), a value of 0.042628 (4.26%) was obtained, indicating that the independent variables used in the study, namely ESG Score, Environment Disclosure (E), Social Disclosure (S), and Government Disclosure (G) were able to explain 4.26% influencing ROA, while the remaining 95.74% was influenced by other factors not included in this model. In addition, the F-test results showed a prob. Based on a recent study by Gutierrez-Ponce et al. (2023), it was found that ESG performance has a negative relationship with the financial performance of banks in Indonesia, as measured using Return on Assets (ROA).

Tabel 6 Results of Correlation Test between Independent Variables of ROE Model

Variabel	Coefficient	Prob.	Information
C	-0,608346	0,0619	-
E	0,0002960	0,0257	There is influence positive

Variabel	Coefficient	Prob.	Information
S	-0,001415	0,1161	There is no influence
G	-0,000574	0,5303	There is no influence
ESG	-0,015936	0,5602	There is no influence
SIZE	0,024264	0,0368	There is influence positive
LEVERAGE	0,297252	0,2220	There is no influence
F-statistic	2,276378	Adjusted R-squared	0,099901
R-squared	0,114595		

Based on the results of multiple linear regression analysis in table 6, the following equation is obtained:

$$ROE = -0{,}608346 - 0{,}0002960E_{it} - 0{,}001415S_{it} - 0{,}000574G_{it} - 0{,}015936ESG_{it} - 0{,}024264SIZE_{it} - 0{,}297252LEVERAGE_{it}$$

Based on the results of the determination coefficient test (Adjusted R-squared), a value of 0.099901 (9.99%) was obtained, indicating that the independent variables used in the study, namely ESG Score, Environment Disclosure (E), Social Disclosure (S), and Government Disclosure (G) were able to explain 9.99% influencing ROA, while the remaining 90.1% was influenced by other factors not included in this model. In addition, research by Leonardo & Ratmono (2023) shows that ESG has a significant negative influence on ROE.

Conclusion

This study was conducted to examine the extent to which Environmental, Social, and Governance (ESG) disclosure affects the financial performance of the banking sector in Indonesia. ESG is one of the important indicators in assessing a company's sustainability, especially after the enactment of POJK 51 of 2017 which requires financial services institutions to report their sustainability activities. In this context, ESG disclosure is not only seen as a reporting tool, but also as a form of social responsibility and governance that can have implications for investor perceptions and the company's financial performance.

The results of this study indicate that ESG disclosure does not have a significant effect on Return on Assets (ROA) or Return on Equity (ROE). This means that ESG disclosure as a whole has not been able to explain the variation in the financial performance of the banks that are the research samples. This could happen because many other external factors are more dominant in influencing financial performance, such as macroeconomic conditions, monetary policy, internal risk management, and the business strategies implemented by each bank.

However, when reviewed based on individual ESG components, only the environmental aspect shows a positive and significant effect on ROE. These findings indicate that banking efforts in managing environmental impacts, such as energy efficiency, waste management, and green investment, can increase shareholder and investor confidence, and strengthen the company's position in the long term. Meanwhile, the social and governance aspects did not show a significant influence, which may be due to the still low quality and quantity of disclosures on both aspects in Indonesian banking sustainability reports.

The control variable in this study, namely firm size, was shown to have a positive influence on financial performance, both ROA and ROE. This shows that the larger the company size, the greater the potential profit that can be generated, because large companies tend to have more adequate resources, wider access to funding, and a stronger market position. On the other hand, leverage or the debt to asset ratio did not have a significant effect on financial performance, indicating that the level of debt held by banks was relatively stable and was not the main determinant of their financial performance during the study period.

Overall, the results of this study show that although ESG has become a concern in reporting and regulation, its impact on the financial performance of the banking sector in Indonesia is still not significant in general. ESG is likely still viewed as a reporting obligation, rather than as a company's primary strategy in creating long-term value. Therefore, there is a need to improve the quality and integration of ESG in company management practices so that sustainability is not just a formality, but also a competitive advantage that can provide a real impact on financial performance.

This research still has limitations that may be overcome in future studies. First, it exclusively relies on Scopus-indexed, English-language journal articles that are in their final and published form within top-tier journal categories to ensure quality. However, other sources that were not included may offer valuable insights and should be considered when interpreting the findings. Second, limitations in access to journals and the ability to analyze them also affected the research process. Improved access and analytical tools could potentially lead to different research groupings or clusters. Lastly, future studies are encouraged to explore alternative strategies and methodologies to further enrich the findings in this area.

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