



Maximizing ESG practices on firm performance evidence from 45 mining companies listed on IDX

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ABSTRACT

The purpose of this research is to examine the impact of environmental, social, and governance (ESG) disclosures on corporate performance, utilizing control variables such as financial leverage and total assets. This study's variables include the dependent variable (operational and financial performance), the independent variable (ESG disclosure), and the control variable (financial leverage). This study uses quantitative research methods. This study's population consists of mining businesses listed on the IDX. Purposive sampling was used to collect data. The sample collected using the purposive sampling approach consisted of 45 mining enterprises. Multiple regression analysis was employed in this investigation, which was conducted using SPSS version 25 software. According to the findings of this study, ESG disclosure has a positive and significant impact on operational and financial performance.

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INTRODUCTION

Since the global economy is already integrated through trade and investment, the issue of what information corporations must disclose to stakeholders is critical (Buallay, 2019). In its evolution, financial statement disclosure is now judged insufficient to address the information demands of the company's stakeholders; this has become a worry for the company's management as a form of care and service to stakeholders. A effective stakeholder management plan must result in improved environmental, social, and governance performance, and it may also be tied to future financial performance (Velte, 2017).

A collection of regulations that control the interaction between shareholders, firm management, creditors or investors, the government, employees, and other stakeholders who are bound by their rights and duties is referred to as good corporate governance. Many studies have been conducted to examine the influence of excellent corporate governance on a company's capacity, but in recent years, a new trend has evolved in which investors may consider environmental, social, and corporate governance issues utilizing environmental, social, and governance (ESG) ratings. The ESG score can assist investors in making capital market transactions (Murthi et al., 2021).

The reasons for ESG actions are not represented in the company's financial statements neither the benefits nor the costs are typically shown in the income statement, nor is the accumulated value or write-down on the balance sheet. Companies are under increasing pressure to 'do good' to do more for themselves than just make money but despite decades of academic interest, significant gaps remain in understanding how ESG is understood, what motivates its business, who benefits, what form the benefits will take, and in which direction.

Considering ESG is the most significant factor influencing a firm's financial success, several experts have undertaken study on ESG disclosure, based on earlier research on ESG disclosure in financial statements on corporate performance: The degree of ESG performance is favorably associated to economic success; thus, maintaining the linkage between ESGs and economic performance is critical in a diversified and complex firm with environmental and financial performance (Ferrero-ferrero et al., 2016). According to the findings of Dhista Adi Prabowo (2014) and Alareeni & Hamdan (2020), environmental performance is negatively related to a company's financial performance. This could be because companies involved in social responsibility incur higher financial costs and have lower operational and financial performance. The conclusion from various studies acquired is that the degree of ESG on financial performance yields varied findings from each existing research, which might be due to the disclosure of ESG practices on the company's financial performance being impacted by the company's financial level.

ESG is preferable over 'corporate social responsibility' (CSR) since it expressly states its concerns (environmental, social and governance). Aguinis (2010) defines CSR as context-specific organizational activities and policies that take into consideration stakeholders' expectations and the triple bottom line of economic, social, and environmental performance.

Previous research has investigated the effects of environmental, social, and corporate governance policies on firm performance in various of industries. The purpose of this study is to investigate the influence of ESG on the performance of enterprises in the mining sector in Indonesia. The research is confined to a single year and does not illustrate the company's growth. and is likewise restricted to a single developing nation.

Therefore as outcome, the company seeks to disclose comprehensive information about the company, specifically by disclosing ESG information, with the goal of the company being perceived as having a positive value in the eyes of stakeholders in carrying out each of its business activities, in order to obtain support from stakeholders. Stakeholders in the firm can join as users of the company's goods or as financial supporters when this is part of the type of assistance given. The firm will be able to raise its working capital and enhance its operations as a result of the financial assistance offered, which will have an influence on raising the profit on sales of the company's products. As a result, ROA will rise in tandem with the company's profit (Al-Zoubi, 2017). The hypothesis is as follows based on this description *H1: ESG practices improve the company's operational performance (ROA). ESG and Firm's Performance*

There is substantial and transparent evidence on the impact of ESG management and sustainable business investment from the many research evaluated. According to Prashar (2021), eco-efficient organizations have a better market value than enterprises without an environmental strategy. This study supports previous studies by Hamrouni et al (2019) and Shakil et al (2019) that found an influence of environmental disclosure on increasing firm performance and sustainability. Widiyanti et al (2019) discovered that CSR had a substantial positive link with corporate success in their research. According to Dornier et al (2012), strategy is all actions that exist within the purview of the firm. The art of leveraging organizational abilities and resources (including human resources) to achieve goals through effective connections with the environment under the most favorable conditions is known as strategy.

As said by resource-based theory, organizations with better ESG can acquire a competitive edge (Albitar et al., 2020; Hamrouni et al., 2019; Yu et al., 2018). Furthermore, resource-based theory demonstrates a beneficial association between ESG and firm performance. This means that investing

in ESG may assist businesses in developing new internal resources while also generating external advantages through the company's reputation (Branco & Rodrigues, 2006).

Moreover, the majority of prior research has employed stakeholder theory to explain the favorable association between ESG and company performance (Aboud & Diab, 2019; Brooks & Oikonomou, 2018; Yoon et al., 2018).

Although ESG disclosure has an impact on a company's sustainability, it turns out that there are still benefits and drawbacks to this. Gimeno-Gilles et al (2016), sustainable investing has no meaningful influence on portfolio results. This study is backed up by Haryono & Iskandar (2015), which claims that corporate social performance has no influence on company value. Many variables contribute to this paradox as a moderating element in the link between ESG and firm sustainability. According to Saeidi et al (2015), the link between CSR and the company's financial success is totally mediated by other factors such as reputation and competitive advantage. Based on this description, the hypothesis is as follows: *H2: ESG practice has a positive effect on the company's financial performance (ROE)*

RESEARCH METHOD

This study's population consists of non-financial enterprises that have been listed on the Indonesia Stock Exchange (IDX). Non-financial firms utilized in this study are those in the mining industry. Purposive sampling was used as a research tool in sampling. Purposive sampling is a data collecting approach that takes specific factors into account (Tongco, 2007). There are 45 mining businesses as sample items based on the results of the sampling. This study is based on secondary data. Secondary data, often known as desk research, is a research strategy that makes use of previously obtained data. This is quantitative research, which is the process of gathering and analyzing numerical data (Adedoyin, 2020). The multiple regression approach was utilized in this study, conducted using SPSS statistical software version 25.

RESULTS AND DISCUSSIONS

In this study, the dependent variable is the company's performance, which is classified into two types: operational performance, which is proxied by the level of Return on Assets (ROA), and financial performance, which is proxied by the level of Return on Equity (ROE). Return on Assets is calculated by dividing net income by the total amount of assets owned by the firm. Divide net income by shareholder equity to calculate return on equity. The independent variable is ESG disclosure, which is measured using a score. According to Yu et al (2018), the ESG disclosure score covers three factors, namely environmental disclosure, social disclosure, and governance disclosure, in a single number size ranging from 0 to 3. In this study, the control variable is financial leverage, which can be calculated by dividing total liabilities with total assets.

Table 1. Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ESG_Score	45	.00	3.00	1.4889	1.03621
ROA	45	.00	1.12	.0960	.16903
ROE	45	.00	6.14	.4017	.99630
Leverage	45	.09	1.33	.5521	.31068
Valid N (listwise)	45				

The total average ROA was 0.0960, with a score of 0 being the lowest and a value of 1.12 being the maximum. The total average ROE was 0.4017, ranging from 0 to 6.14. As a result, ROE has a higher average than ROA. The average ESG disclosure score ranges from 0 to 3, with a score of 1.4889 being the highest. Because ESG reporting is primarily discretionary, there are no standards

forcing corporations to submit information at a specific level. Moreover, because the mean number of variables is less than the standard deviation, all data have a wide range of data distribution

Table 2. ROA and ROE correlation

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
ESG_Score	9.639	44	.000	1.48889	1.1776	1.8002
ROA	3.808	44	.000	.09596	.0452	.1467
ROE	2.705	44	.010	.40169	.1024	.7010
Leverage	11.922	44	.000	.55213	.4588	.6455

According to the statistics in the table above, ROE has a correlation of 0.010, but ROA has a correlation of 0.000. ROA has a greater significance value than ROE, but both are less than 0.050, indicating that ESG practices extend to have a major impact on the company's financial performance.

Table 3. Company operational performance (ROA)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.133	.032		4.116	.000
ESG_Score	-.027	.011	.164	-2.342	.024
ROE	.163	.013	.959	12.177	.000
Leverage	-.114	.044	-.209	-2.610	.013

a. Dependent Variable: ROA

The regression analysis in this study showed a probability value of 0.024 and a coefficient of 0.164. The probability value is less than the 0.05 criterion of significance. This clearly shows that ESG disclosure has a positive and significant impact on the operational performance of the company (Return on Assets). As a result, hypothesis 1 is accepted in this investigation.

This study's findings back with prior studies from (Buallay, 2019) and (Velte, 2017), which found that ESG disclosure had a beneficial influence on Return on Assets. These findings suggest that the better the company's ESG disclosure score, the higher the rate of return on its assets will be. This is because stakeholders are interested in the firm's long-term plan, and improved ESG reporting will lead to higher corporate performance as a result of increased stakeholder trust, which leads to better non-financial aspects.

Table 4. Company financial performance (ROE)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.750	.173		-4.323	.000
ESG_Score	.134	.063	.140	2.138	.039
Leverage	.887	.215	.276	4.123	.000
ROA	4.812	.395	.816	12.177	.000

b. Dependent Variable: ROE

The regression analysis in this study showed a probability value of 0.039 and a coefficient of 0.140. The probability value is less than the 0.05 criterion of significance. This proves that ESG disclosure has a positive and significant impact on the financial performance of the company (Return on Equity). As a result, hypothesis 2 is accepted in this study.

A disclosure of non-financial information, such as an ESG disclosure, which provides information on environmental, social, and corporate governance, can be viewed as part of the

company's efforts to meet the demands of stakeholders and to achieve harmony of values and norms prevalent in society, so that these stakeholders can provide support and trust for all company business activities that will increase company profits that result from increasing sales of firm products and services that have been approved by all stakeholders, as well as through invested cash that can expand the company's working operations (Albitar et al., 2020).

The findings of this study are consistent with the findings of Buallay (2019) research, which shows that ESG disclosure has a positive impact on the level of return on capital, where ESG disclosure can reduce the level of business risk that may occur due to practices related to the surrounding social environment by the company will attract attention. stakeholders because they believe the firm has a high level of sustainability, allowing them to acquire support from the company's stakeholders through stock participation and the consumption of company products and services.

CONCLUSION

Multiple linear regression was adopted to establish the influence of the dependent variable and the independent variable in this study. In this study, the dependent variable is company performance, which combines operational performance, which is proxied by the Return on Assets value, and financial performance, which is proxied by the Return on Equity value. While ESG disclosure is the independent variable in this study. According to empirical findings, there is a considerable association between integrated ESG elements and corporate operational performance (i.e. ROA) as well as financial performance (i.e. ROE). A substantial association means that organizations with greater ESG policies outperform their competitors. In this study only focused on one index, and this index has a limited sample so that the results of this study are limited. It is hoped that future researchers will be able to research with a larger sample size and cover more industries so that differences between industries can be seen when applying this ESG.

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