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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) DISCLOSURE AND COMPANY PERFORMANCE: EMPIRICAL EVIDENCE IN INDONESIAN BANKING

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Abstract

This study aims to analyze the relationship between ESG disclosure and company performance with a sample of banking companies listed on the Indonesia Stock Exchange in 2010-2021. Company performance is measured using Return on Assets (ROA), Return on Equity (ROE), Tobin's Q, and Stock Return (Ri). Furthermore, ESG disclosure is measured using the Global Reporting Initiative (GRI) standard for environmental and social disclosure, while governance disclosure is assessed using the GCG score based on POJK Number 55/POJK.03/2016 concerning the implementation of Governance for Commercial Banks, and Indonesian Regulation (PBI) Number 11/33/PBI/2009 concerning the Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units. This study uses a quantitative approach with the help of the Eviews 13.0 analysis tool. The results of this study indicate that environmental, social, and governance disclosures have no effect on ROA. While governance disclosures have a negative effect on ROE, in addition to environmental and social disclosures that have no effect on ROE. On the other hand, social and governance disclosures have a positive effect on Tobin's Q, which is the opposite of environmental disclosures that have a negative effect. Meanwhile, environmental disclosures have a negative effect on stock returns, in addition to social and governance disclosures that have no effect on stock returns.

Keywords: *Disclosure, Environment, Social, Governance, Performance*

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1. INTRODUCTION

Environmental, Social, and Governance (ESG) performance is becoming increasingly relevant for banks and financial institutions. Customer/debtor and investor expectations regarding the integration of ESG factors into their lending, investment, and product portfolios are challenging for financial institutions. Moreover, intensified investor demand for sustainable products and pressure from regulatory bodies highlight the need for banks to consider ESG risks in the bank's risk management framework (Menicucci and Paolucci 2023). In addition, sustainability-driven businesses will commit to a set of goals to avoid future imbalances and to provide protection against adverse events (Lenssen et al. 2014).

The Financial Services Authority (OJK) of Indonesia as the Supervisor of the Financial Services Industry, has issued the Financial Services Authority Regulation (POJK) on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, namely POJK Number: 51/POJK.03/2017. Banks as part of Financial Institutions are expected to play a role as producers of financial value and drivers of sustainability implementation, which is one of the elements of the Sustainable Development Goals (SDGs). In this regard, the Financial Services Authority (OJK) has issued the Sustainable Finance Roadmap Phase II (2021 - 2025) to accelerate the implementation of environmental, social, and governance principles in Indonesia which focuses on creating a comprehensive sustainable finance ecosystem, by involving all relevant parties and encouraging the development of cooperation with other parties. Similarly, the bank has issued Sustainable Finance Roadmap Phase I (2015-2019) which focuses on increasing understanding, capacity building, and laying the regulatory foundation for the Financial Services Industry.

The stakeholder theory perspective suggests that groups affected by company activities other than shareholders, such as local communities, employees, customers, suppliers, and the environment affected by negative externalities of the company's business should be considered in decision-making for the company's long-term goals (Sahut and Pasquini-Descomps 2015; Ali et al. 2020). ESG is considered significant for all stakeholders, although it sometimes conflicts with managerial interests that are less supportive of ESG policy improvements and consider ESG as a threat to achieving optimal profitability (Menicucci and Paolucci 2023). Nonetheless, banks, as institutions that channel funds in the form of credit/financing, need a business model that incorporates ESG factors in the process of assessing risk and lending policies. This is something that is strategic for banks and can influence the prudential principle. Banks must be ecologically and socially responsible when channeling funds to other companies to support their business.

The link between ESG and company performance has been explored in previous studies with mixed results. Research results from Soana (2011); Matuszak and Różańska (2017); Menicucci and Paolucci (2023) and Buallay (2019) state that ESG policies have a negative impact on operational/financial and market performance in the banking sector. However, studies that have been conducted by researchers from various developed and developing countries Akdogan et al. (2020), Buallay et al. (2021), Cornett et al. (2016), Oino (2019), Shen et al. (2016), Yuen et al. (2022), Velte (2017), and Wu et al. (2017) show that there is a positive relationship related to ESG disclosure and performance in the banking sector. Other studies that have tested no significant relationship between ESG and bank financial performance Matuszak and

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Różańska (2017), and Soana (2011). Meanwhile, research by Esteban-Sanchez et al. (2017) revealed that banks with better corporate governance have better Corporate Financial Performance. Research by Cornett et al. (2016) also revealed that financial performance is positively and significantly related to corporate social responsibility (CSR).

This study aims to analyze the relationship between ESG Disclosure and Company Performance, with a sample of banking companies listed on the Indonesia Stock Exchange from 2010-2021. Company performance is measured by Return On Assets (ROA), Return On Equity (ROE), Tobin's Q (TQ), and Stock return (Ri). The researchers use ROA, ROE, Tobin's Q, and Stock Return as measures of company performance because these four metrics provide a comprehensive perspective on how ESG practices can impact probitability, efficiency, market value, and investor perceptions of the company. ESG disclosure is measured using the Global Reporting Initiative (GRI) standard for environmental and social disclosure. GRI is the most widely applied standard in many sustainability reports because it provides the most comprehensive guidelines (Dobbs and Van Staden 2016). GRI works to increase transparency and exchange of sustainability-related information (Godha and Jain 2015). GRI standards create a common language for organizations and stakeholders. Governance disclosure uses the GCG assessment score based on the Financial Services Authority Regulation (POJK) on Good Corporate Governance (GCG), namely POJK Number 55/POJK.03/2016 concerning Implementation of Governance for Commercial Banks and Bank Indonesia Regulation (PBI) Number: 11/ 33 /PBI/2009 concerning Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units. The measurement model by combining two standards, namely GRI and POJK / PBI is a novelty of this research. Thus, it is expected that the results of this study can be a reference for academics to conduct further reseacrh on ESG disclosure. Additionally, this study is expected to contribute to practititoners in the banking sector by supporting operational policies that lead to high-quality ESG disclosures, ultimately improving company performance.

Based on this background, this study aims to answer the following problem formulation: (1.1) Does Environmental Disclosure affect company performance as measured by ROA?; (1.2) Does Environmental Disclosure affect company performance as measured by ROE?; (1.3) Does Environmental Disclosure affect company performance as measured by Tobin's Q?; (1.4) Does Environmental Disclosure affect company performance as measured by Stock Return?; (2.1) Does Social Disclosure affect company performance as measured by ROA?; (2.2) Does Social Disclosure affect company performance as measured by ROE?; (2.3) Does Social Disclosure affect company performance as measured by Tobin's Q?; (2.4) Does Social Disclosure affect company performance as measured by Stock Return?; and (3.1) Does Governance Disclosure affect company performance measured by ROA?; (3.2) Does Governance Disclosure affect company performance measured by ROE?; (3.3) Does Governance Disclosure affect company performance measured by Tobin's Q?; (3.4) Does Governance Disclosure affect company performance measured by Stock Return?

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Managers can be seen as stakeholder agents who establish relationships with stakeholders to carry out corporate tasks as efficiently as possible which in turn the stakeholders are connected to the performance of the company (Hill and Jones 1992). Managers have legal obligations to the firm and moral responsibilities to the firm's stakeholders (Carroll 1991). Therefore, the main focus of stakeholder theory is how management creates value and how management responds to the relationships that exist between them and stakeholders. This is the key to the success or failure of the company (Taiwo et al. 2020).

Banks as financial institutions whose activities collect funds from the public in the form of deposits and then channel them back to the public, as well as provide other bank services (Kasmir 2014). A company is expected to provide financial and non-financial information as a dialogue between the company and stakeholders to create a positive perception from stakeholders and ensure that the company's activities can be recognized (Gunawan 2017). Non-financial information through ESG disclosure is one of the effective ways for banking companies to reduce risks that threaten business sustainability (Purnomo et al. 2023). ESG (Environmental, Social, and Governance) itself is a corporate activity related to businesses that not only focus on profit, but also uphold environmental, social, and corporate governance principles (Ningwati et al. 2022). Therefore, ESG disclosure can be seen as a company's effort to fulfill stakeholder demands to achieve harmony of values and norms prevailing in society so that stakeholders can provide support and trust in all the company's business activities which will improve company performance (Safriani and Utomo 2020). As such, banks with good performance can increase the value of shares in the secondary market and increase the amount of funds from third parties this can provide benefits for banks.

ESG engagement is a complex phenomenon, with many facets, while the acronym ESG stands for the cumulative effects of environmental, social, and governance policies, opportunities, and challenges (Chouaibi and Affes 2021). A bank must be able to socialize its environmental commitments, social responsibility initiatives, and governance quality policies to its customers and business partners (Menicucci and Paolucci 2023). Banks are directly involved in environmental safeguards both within the organization and towards their business partners and clients. Therefore, the development of a comprehensive environmental management system may lead to the adoption of environmental strategies for internal use and in favor of borrowers and other customers. Banks' environmental commitment can be examined from three perspectives (Laguir et al. 2018) environmental financing of sensible projects, reducing the risk of lending funds to environmentally unfriendly industries, and efficient use of resources within the bank itself.

The disclosure of non-financial factors such as ESG disclosure by companies has the aim of providing additional information about the company's performance that has not been presented in the annual report or financial statements. Through ESG disclosure, information related to environmental, social, and corporate governance factors can be displayed in the company's report in more detail because this information plays a role in making management decisions for a company. With ESG disclosure, it is expected to be able to become a social investment to satisfy the interests of stakeholders which will contribute to improving company performance (Safriani and Utomo 2020). In line with stakeholder theory which states that the existence of stakeholders influences the running of company performance through its

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support and trust by making overall disclosure of ESG disclosure aspects to improve company performance (Nugroho and Hersugondo 2022). Thus, ESG disclosure influences improving company performance. This is by the results of research conducted by Buallay et al. (2020), Cornett et al. (2016), Oino (2019), and Shen et al. (2016). Thus, the hypothesis in this study can be formulated as follows:

Hypothesis 1.1: environmental disclosure has a positive effect on company performance as measured by ROA

Hypothesis 1.2: environmental disclosure has a positive effect on company performance as measured by ROE

Hypothesis 1.3: environmental disclosure has a positive effect on company performance as measured by Tobin's Q

Hypothesis 1.4: environmental disclosure has a positive effect on company performance as measured by Stock Return

Hypothesis 2.1: social disclosure has a positive effect on company performance as measured by ROA

Hypothesis 2.2: social disclosure has a positive effect on company performance as measured by ROE

Hypothesis 2.3: social disclosure has a positive effect on company performance as measured by Tobin's Q

Hypothesis 2.4: social disclosure has a positive effect on company performance as measured by Stock Return

Hypothesis 3.1: governance disclosure has a positive effect on company performance as measured by ROA

Hypothesis 3.2: governance disclosure has a positive effect on company performance as measured by ROE

Hypothesis 3.3: governance disclosure has a positive effect on company performance as measured by Tobin's Q

Hypothesis 3.4: governance disclosure has a positive effect on company performance as measured by Stock Return

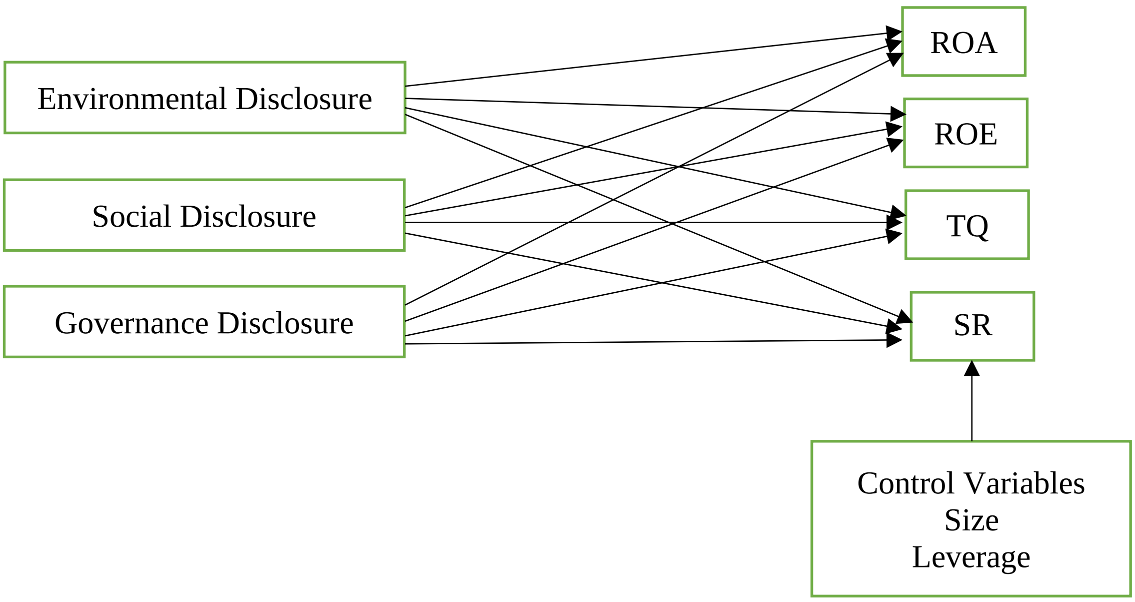

Figure 1. Conceptual Framework

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3. RESEARCH METHODS

This study uses a quantitative approach to examine the effect of ESG disclosure on company performance. The control variables used are company size (size) and leverage. The population in this study are public banking companies (listed on the Indonesia Stock Exchange) that disclose environmental, social, and governance ratings for the period 2010 - 2021. The type of data used in this study is secondary data. Research data comes from annual reports and sustainability reports of companies that have been listed on the Indonesia Stock Exchange for the period 2010-2021. The data was obtained from the official website of the Indonesia Stock Exchange (IDX) through www.idx.co.id, the official website of each banking company that became the research sample, as well as the official website of okay stocks (www.sahamok.com). The data required is the disclosure of environmental, social, and governance ratings.

The definition and measurement of each variable in this study can be described as follows.

Table 1. Operational Definition of Variables

Variables	Definition	Source
Environmental and Social Disclosure	Environmental and social disclosures that emphasize specific standards use content analysis based on items listed in the Global Reporting Initiative (GRI). If the company discloses, it is given a value of 1 and if it is not disclosed, it is given a value of 0, then the responsibility index of each company is summed up and divided by the total that should be disclosed based on GRI.	www.globalreporting.org
Governance disclosure	Disclosure of GCG items based on POJK and PBI criteria, which is reflected in the GCG rating.	Company financial statements
Company Performance	Measured using ROE, ROE, Tobin's Q, and Stock return. ROA = $\frac{Profit\ Before\ Taxes}{Average\ Total\ Assets} x\ 100\%$ ROE = $\frac{Net\ Income\ After\ Tax}{Average\ Paid{-}up\ Capital} x\ 100\%$ Tobin's Q = $\frac{MVS+Debt}{A}$ Stock return = $\frac{P_t - P_{t-1}}{P_{t-1}}$	Company financial statements
Company Size	Company size as measured by the natural logarithm of total assets. *Size* = Log Total Asset	Company financial statements
Leverage (LEV)	The ability of all assets owned by the company to pay total debt. $Lev = \frac{Total\ Liabilitas}{Total\ Asset}$	Company financial statements

The analysis technique used in this research is panel data regression analysis with the help of the Econometric Views (Eviews) version 13.0 program. Panel data analysis is an analytical method that combines time series and cross-section data to see

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the relationship or influence of the dependent and independent variables on the same observation units within a certain period. The panel data analysis using Eviews will test the best estimation model among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). After determining the best estimation model among the three models, the next stage is to conduct a classical assumption test to determine the feasibility of the regression model used in the study. Furthermore, researchers will conduct hypothesis testing of the best estimation model that has been selected to analyze and interpret the results. The equation in hypothesis testing is as follows:

$$CP_{i,t} = \beta_0 + \beta_1 E_{it} + \beta_2 S_{it} + \beta_3 G_{it} + \varepsilon jt \quad \text{(i)}$$
$$CP_{i,t} = \beta_0 + \beta_1 E_{it} + \beta_2 S_{it} + \beta_3 G_{it} + \delta_3 SIZE_{it} + \delta_4 LEV_{it} + \varepsilon jt \quad \text{(ii)}$$

Description
CP : Company Performance
E : Environment disclosure
S : Social Disclosure
G : Governance Disclosure
Size : Company Size
Lev : Leverage

Partial Test (t Test)

The t-test is used to determine how far the influence of an independent variable (independent) in explaining or explaining the dependent variable (dependent) (Ghozali 2018). If the probability value is smaller than the significant level of 0.05, it can be said that the independent variable has a significant effect on the dependent variable. Conversely, if the probability value is greater than 0.05, then the independent variable does not have a significant effect on the dependent variable (Maryadi and Susilowati 2020).

4. RESULTS AND DISCUSSION

The objects in this study are all public banking companies listed on the Indonesia Stock Exchange and disclose environmental, social, and governance ratings for the period 2010 - 2021 with a total data of 190 from a total of 45 banks in Indonesia which are the research sample. The first data analyzed in this study is the determination of the best estimation model that will be used in analyzing the classical assumption test and hypothesis testing at a later stage.

4.1 Results

4.1.1 Model Selection Testing

Based on the best estimation model testing, the results of panel data regression model selection for ESG disclosure testing as well as size and leverage as control variables on the dependent variables, namely ROA and Tobin's Q, resulted in the Fixed Effect Model (FEM). Meanwhile, testing the ESG regression model and control variables such as size and leverage on the dependent variables, namely ROE and stock return, results in the Random Effect Model (REM).

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4.1.2 Descriptive Statistics Test

Table 2. Descriptive Statistics Distribution

	Mean	Median	Max	Min	Std.Dev	Obs
ENV_SCORE	0.240875	0.176471	1.000000	0.000000	0.263357	190
SOC_SCORE	0.405105	0.350000	1.000000	0.000000	0.269353	190
GCG_SCORE	1.652632	2.000000	4.000000	0.000000	0.716671	190
SIZE	28.74979	32.03500	35.08000	0.000000	7.371121	190
LEVERAGE	0.688158	0.840000	0.940000	-0.020000	0.321483	190
ROA	0.029226	0.020000	1.190000	-0.090000	0.088199	190
ROE	0.181821	0.160000	9.150000	-0.550000	0.667737	190
TQ	1.158000	1.005000	7.290000	0.000000	0.909562	190
SR	0.112737	0.000000	5.820000	-0.800000	0.644188	190

Source: Data processed, 2023

According to Table 2, the average value of environmental disclosure (ENV_SCORE) as an independent variable for the 2010-2021 period is 0.2408. The minimum value of 0.000 occurred at PT Bank Danamon Indonesia Tbk (BDMN) and PT Bank Permata Tbk (BNLI) in 2011, PT BFI Finance Indonesia Tbk (BFIN) in 2014, and PT Bank Mega Tbk (MEGA) from 2019 to 2021. Besides that, the maximum value of environmental disclosure of 1.000 was observed in several banks, such as PT Bank Rakyat Indonesia Tbk (BBRI) in 2012; PT Bank Pembangunan Daerah Jawa Barat and Banten Tbk (BJBR) and PT Bank Pembangunan Daerah Jawa Timur Tbk (BJTM) in 2013; PT Bank Pembangunan Daerah Jawa Barat and Banten Tbk (BJBR) in 2019; PT Bank Central Asia Tbk (BBCA), PT Bank Rakyat Indonesia Tbk (BBRI), PT Bank Pembangunan Daerah Jawa Barat and Banten Tbk (BJBR), PT Bank CIMB Niaga Tbk (BNGA), along with PT Bank Tabungan Pensiunan Nasional Tbk (BTPN) in 2020; PT Bank Negara Indonesia (BBNI), PT Bank Rakyat Indonesia Tbk (BBRI), PT BFI Finance Indonesia Tbk (BFIN), PT Bank Mandiri Tbk (BMRI), and PT Bank Tabungan Pensiunan Nasional Tbk (BTPN) in 2021.

Meanwhile, the average value of social disclosure (SOC_SCORE) is 0.4051. The minimum value of this variable if 0.000, recorded at PT Bank Danamon Indonesia Tbk (BDMN) and PT Bank Permata (BNLI) in 2011. The maximum value is 1.000 recorded at PT Bank Rakyat Indonesia Tbk (BBRI) in 2017; PT Bank Pembangunan Daerah Jawa Barat and Banten Tbk (BJBR) in 2019; PT Bank Rakyat Indonesia Tbk (BBRI), PT Bank Pembangunan Daerah Jawa Barat and Banten Tbk (BJBR), PT Bank Tabungan Pensiunan Nasional Tbk (BTPN) and PT Bank Mayapada Tbk (MAYA) in 2020; as well as PT Bank Negara Indonesia (BBNI), PT Bank Rakyat Indonesia Tbk (BBRI), PT Bank Mandiri Tbk (BMRI), and PT Bank Tabungan Pensiunan Nasional Tbk (BTPN) in 2021. Subsequently, governance disclosure (GCG_SCORE) has an average value of 1.652 over the period from 2010 to 2021. Whereas, the minimum value of this variable is 0.000, observed at PT Bank Central Asia Tbk (BBCA), PT Bank Rakyat Indonesia Tbk (BBRI), PT BFI Finance Indonesia Tbk (BFIN), PT Bank Pembangunan Daerah Jawa Barat and Banten Tbk (BJBR), PT Bank Mandiri Tbk (BMRI), and PT Victoria International Tbk (BVIC) in 2011; PT Bank Central Asia Tbk (BBCA), PT BFI Finance Indonesia Tbk (BFIN), and PT Victoria International Tbk (BVIC) in 2012; PT Bank Central Asia Tbk (BBCA) and PT BFI Finance Indonesia Tbk (BFIN) in 2013; along with PT BFI Finance Indonesia Tbk (BFIN) in

2014-2015. In the meantime, PT Bank Pembangunan Daerah Banten Tbk (BEKS) had the highest governance disclosure value of 4.000 in 2020.

Aside from the independent variables, the average values of size and leverage as control variables in this study are 28.749 and 0.688. Additionally, the minimum value of size is 0.000, observed at PT BFI Finance Indonesia Tbk (BFIN) from 2010-2014, while the maximum value is 35.08 at PT Bank Central Asia Tbk (BBCA) in 2021. On the other hand, PT Bank Pembangunan Daerah Jawa Barat and Banten Tbk (BJBR) in 2017 and PT Bank Permata (BNLI) in 2021 had the lowest leverage value among other banks at -0.02. However, the maximum leverage value is 0.94, observed at PT Bank Bukopin Tbk (BBKP) in 2010, 2015, and 2017, as well as PT Bank Tabungan Negara Tbk (BBTN) in 2021.

Furthermore, the average values of the four dependent variables such as ROA, ROE, Tobin's Q (TQ), and Stock Return (SR) are 0.029, 0.181, 1.158, 0.112, respectively. Whereas, the minimum values for the ROA and ROE variables are recorded at PT QNB Indonesia Tbk (BKSW) in 2021, whit values of -0.09 for ROA and -0.55 for ROE. The maximum values for ROA and ROE are 1.19 and 9.15 , found at PT Bank Multiarta Sentosa Tbk (MASB) in 2021. Then, the minimum value of Tobin's Q is 0.000, observed at several banks such as PT BFI Finance Indonesia Tbk (BFIN) and PT Bank Pembangunan Daerah Jawa Timur Tbk (BJTM) in 2010-2011; PT BFI Finance Indonesia Tbk (BFIN) in 2012-2014; and PT Bank Syariah Indonesia Tbk (BRIS) in 2016-2017. Moreover, the maximum value is 7.29, recorded at PT BFI Finance Indonesia Tbk (BFIN) in 2017. Meanwhile, the minimum, and maximum values for the Stock Return variable are -0.80 and 5.82, recorded at PT Bank Rakyat Indonesia Tbk (BBRI) in 2016 and PT Bank Syariah Indonesia Tbk (BRIS) in 2020, respectively.

4.1.3 Classic Assumption Test

Table 3. Multicollinearity Test Results of ESG and Control Variables on ROA

Variables	X1_ENV	X2_SOC	X3_GOV	K1_SIZE	K2_LEV
X1_ENV	1.000000	0.6303	0.1908	0.1080	-0.1438
X2_SOC		1.000000	0.2644	0,0183	-0.1156
X3_GOV			1.000000	0,0874	-0.0009
K1_SIZE				1.000000	0.2579
K2_LEV					1.000000

Source: Data processed, 2023

Table 4. Multicollinearity Test Results of ESG and Control Variables on ROE

Variables	X1_ENV	X2_SOC	X3_GOV	K1_SIZE	K2_LEV
X1_ENV	1.000000	0.6303	0.1908	0.1080	-0.1438
X2_SOC		1.000000	0.2644	0,0183	-0.1156
X3_GOV			1.000000	0,0874	-0.0009
K1_SIZE				1.000000	0.2579
K2_LEV					1.000000

Source: Data processed, 2023

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Table 5. Multicollinearity Test Results of ESG and Control Variables on Tobin's Q

Variables	X1_ENV	X2_SOC	X3_GOV	K1_SIZE	K2_LEV
X1_ENV	1.000000	0.6303	0.1908	0.1080	-0.1438
X2_SOC		1.000000	0.2644	0,0183	-0.1156
X3_GOV			1.000000	0,0874	-0.0009
K1_SIZE				1.000000	0,2579
K2_LEV					1.000000

Source: Data processed, 2023

Table 6. Multicollinearity Test Results ESG and Control Variables on Stock Return

Variables	X1_ENV	X2_SOC	X3_GOV	K1_SIZE	K2_LEV
X1_ENV	1.000000	0.6303	0.1908	0.1080	-0.1438
X2_SOC		1.000000	0.2644	-0.0183	-0.1156
X3_GOV			1.000000	-0.0874	-0.0009
K1_SIZE				1.000000	0.2579
K2_LEV					1.000000

Source: Data processed, 2023

Based on the multicollinearity test results of independent variables (environment, social, governance) and control variables (size and leverage) on the dependent variables, namely ROA, ROE, Tobin's Q, and stock return, it shows that the correlation value between independent variables is smaller than 0.80. This indicates that the model does not contain multicollinearity problems or the assumption of no multicollinearity in the selected model.

Table 7. Heteroscedasticity Test Results of ESG and Control Variables on ROA

Variables	Prob	Standard
ENV	0,7684	0,05
SOC	0,8045	0,05
GOV	0,5628	0,05
SIZE	0,4055	0,05
LEVERAGE	0,0184	0,05

Source: Data processed, 2023

Table 8. Heteroscedasticity Test Results of ESG and Control Variables on Tobin's Q

Variables	Prob	Standard
ENV	0,3791	0,05
SOC	0,6185	0,05
GOV	0,0802	0,05
SIZE	0,2008	0,05
LEVERAGE	0,3301	0,05

Source: Data processed, 2023

Classical assumption testing with heteroscedasticity is carried out on panel data using the FEM (Fixed Effect Model) model. Therefore, the heteroscedasticity test is carried out on the ESG testing model and the control variables on ROA and Tobin's Q. Where, based on the results of the heteroscedasticity test of the independent variables (economic, social, governance) and the control variables (size and leverage) on company performance using the residual absences, it shows that all probability values of each variable are more than the significance value of 0.05. This means that each variable is free from heteroscedasticity.

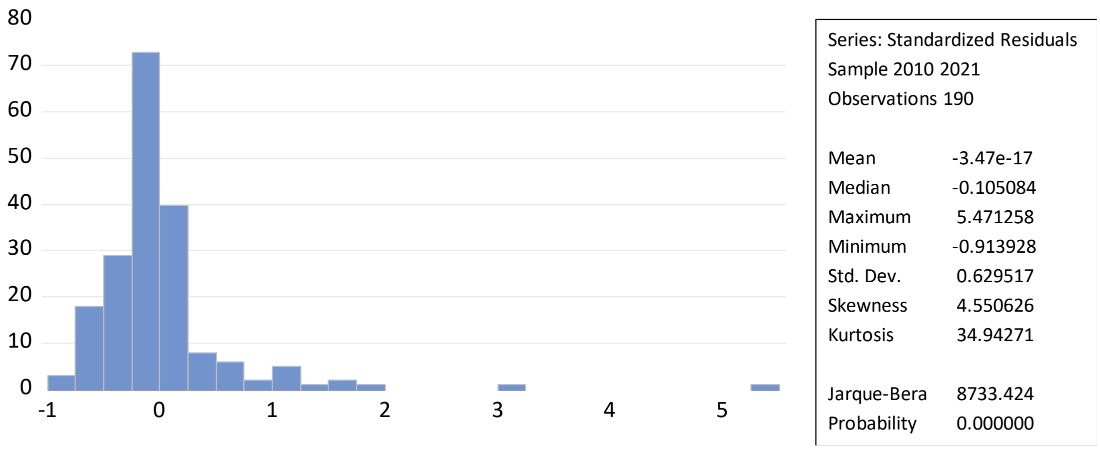

Figure 2. Normality Test Results of ESG and Control Variables on ROE
(Source: Data processed, 2023)

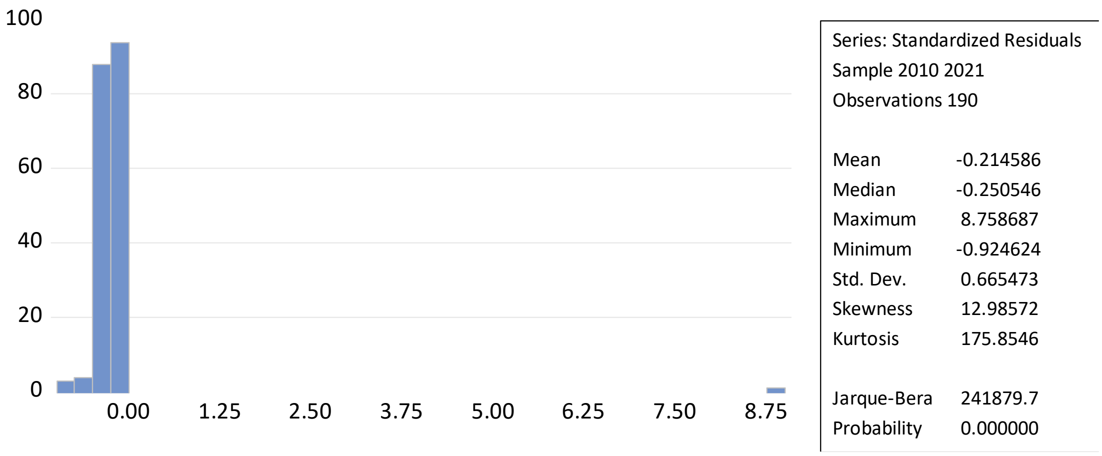

Figure 3. Normality Test Results of ESG and Control Variables on SR
(Source: Data processed, 2023)

Based on the best model testing, it is known that testing the relationship between ESG with size and leverage variables as control variables on ROE and Stock Return (SR) results in a Random Effect Model (REM). Therefore, both tests must go through the classic assumption test stage, namely the normality test.

Based on the two figures above, it can be seen that the results of the normality test on the relationship between ESG with size and leverage as control variables on the dependent variables, namely ROE and stock return, produce a probability value of 0.000, which is smaller than 0.05. Thus, the normality test results indicate that all test variables are not normally distributed. However, since the number of observations in

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both tests is 190 and exceeds the time period (T) of 10 years, the violation of the normality assumption is still acceptable (Wooldridge 2016:458).

4.1.4 Hypothesis Test

Table 9. Results of Panel Data Regression Test

Variables	ROA		ROE		TQ		SR	
	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.	Coef.	Prob.
ENV	-0.001	0.802	-0,023	0.443	-0.836	0.000	-0.525	0.028
SOC	-0.004	0.402	-0.040	0.229	1.143	0.000	0.374	0.111
GOV	-0.001	0.427	-0.054	0.000	0.301	0.000	0.046	0.506
SIZE	0.000	0.192	0.002	0.023	0.055	0.000	0.008	0.200
LEV	0.012	0.001	0.080	0.000	0.626	0.000	-0.263	0.094
Cons	0.019		0.393		-1,627		-0.059	
Adj. R Square	0.976		0.164		0.563		0.019	
Prob.(F-statistic)	0.000		0.000		0.000		0.128	

Source: Data processed, 2023

Based on Table 9 above, it can be concluded that Environmental, Social, and Governance (ESG) disclosure does not influence company performance as measured by ROA. In line with that, environmental and social disclosure variables also do not affect company performance through ROE measurement, although governance disclosure has a negative influence on ROE. Meanwhile, environmental disclosure also has a negative influence on company performance through Tobin's Q, in addition to social and governance disclosure which has a positive influence on Tobin's Q. Then, social and governance disclosure on stock return does not show any influence, whereas environmental disclosure itself has a negative influence on stock return. To support the research results, additional analyses related to the relationship between variables will be presented in the next section.

4.2 Discussion

The results of the analysis of environmental disclosure on ROA have a significance value of 0.802 which is greater than 0.05 so environmental disclosure does not influence company performance as reflected in the value of ROA. This result is not in line with stakeholder theory which states that the existence of stakeholders can influence the running of company performance through the support and trust of stakeholders. However, banking companies that have made environmental disclosures do not influence the increase or decrease in bank management performance to stakeholders. In other words, the presence or absence of this disclosure does not affect company performance. This is because the company's performance depends more on the company's price and sales volume than the disclosure of figures from the previous financial period (Asuquo et al. 2018). The findings of this study are not in line with Gholami et al. (2022), Buallay (2019), and Velte (2017) which state that ESG disclosure has a positive influence on company performance, in contrast to Yuen et al. (2022) which shows ESG disclosure has a negative effect on company performance as measured by ROA.

Besides that, the significance value of environmental disclosure on ROE is 0.443 where the value is greater than 0.05. This means that environmental disclosure does not influence company performance as measured by ROE. ROE ratio reflects the company must generate high returns on equity as much as possible to survive in the business world (Ningwati et al. 2022). However, the results of this study show that environmental disclosure does not affect ROE because it has no impact on the company's return on investment. The results of this study support Ningwati et al. (2022) which concluded that ESG does not affect ROE, while research Buallay et al. (2021) and Yuen et al. (2022) said ESG has a negative effect on ROE.

This study suggest environmental disclosure has a negative effect on company performance as reflected in Tobin's Q value, with a significance value of 0.000, and a regression coefficient of -0.836. This research is supported by Buallay et al. (2021) which states that ESG disclosure in developed countries has a negative impact on banking market performance. In addition, research by Yuen et al. (2022) suggests that activities that imply ESG can potentially reduce the level of bank profitability. This is due to the implementation of ESG standards that require banks to spend additional resources to achieve social goals and environmental targets, resulting in increased costs that can reduce financial performance (Galant and Cadez 2017). The results of this study contrast with the research of Yu et al. (2018) and Shakil et al. (2019) which state that ESG disclosure does not affect Tobin's Q. This indicates that the price of ESG disclosure does not affect Tobin's Q. This indicates that the price of the number of shares outstanding on the stock exchange or other accounts concerned is not affected by the company's economic disclosure (Sejati and Prastiwi 2015).

Subsequently, the study also found that environmental disclosure has a negative effect on company performance as reflected in stock return, where the significance value of environmental disclosure on stock return is 0.028 with a coefficient value of -0.525. The existence of environmental disclosure gives a negative response to stakeholders. This is thought to be because investors think that the activities disclosed in ESG reporting are too expensive and detrimental to their interests so they are not interested in investing which results in a decrease in demand in the market which will cause a decrease in stock prices in the market so that it has an impact on company performance. The results of this study support research from Grewal et al. (2019), Spirova (2023), and La Torre (2020). Meanwhile, a different opinion in research Esteban-Sanchez et al. (2017) and Miralles-Quirós et al. (2019) suggests that ESG disclosure has a positive effect on stock returns.

Based on Table 9, the significance value of social disclosure on ROA is 0.402 greater than 0.05, so that social disclosure has no effect on company performance measured using ROA. This result is not in line with stakeholder theory which says that the existence of stakeholders can provide support and trust through social disclosure to improve company performance. Social disclosure does not affect ROA because social disclosure is not used as a reference in decision-making. On the other hand, expenditures related to social disclosure are usually a small part of the company's total expenditure used to obtain corporate profits (Asuquo et al. 2018). Other research results from Bătae et al. (2021), Buallay (2019), Manes-Rossi et al. (2020), Menicucci and Paolucci (2023), and Yuen et al. (2022) also reveal that social disclosure has a negative influence. Meanwhile, research from Aydoğmuş et al. (2022) found a positive relationship between social disclosure and ROA.

This research shows that social disclosure does not affect ROE, which the significance value of social disclosure on ROE is 0.229 greater than 0.05. This is due to the absence of the effect of disclosure on the company's return on equity, as evidenced by the social score data. In 2016-2021, the average social score has increased, inversely proportional to the average ROE which has fluctuated. Thus, the high or low social disclosure score is not followed by an increase or decrease in ROE. The findings of this study are in line with Atan et al. (2018) who concluded that social disclosure has no effect on ROE, in contrast to Esteban-Sanchez (2017), Setyahuni and Handayani (2020), and Shakil et al. (2019) who said social disclosure has a positive effect on ROE.

In addition, the results of the regression test of social disclosure on Tobin's Q show a significance value of 0.000 smaller than 0.05 with a regression coefficient of 1.143 so that social disclosure has a positive influence on Tobin's Q. This research is in line with stakeholder theory which states that the existence of stakeholders can influence the improvement of company performance by providing support through social disclosure. The disclosure of social performance by a bank can encourage the bank's performance to be better. Stakeholders assume that the company has attention and concern for the social place where the company operates so that the company will be viewed favorably by investors and have an impact on increasing investment activities carried out by investors. The results of these findings are in line with El Khoury et al. (2023) who argue that social disclosure has a positive effect, while Buallay et al. (2020) and Safriani and Utomo (2020) reveal that social disclosure has a negative effect on Tobin's Q.

The social disclosure does not affect company performance, as reflected in stock return, is indicated by a significance value of 0.111, which is greater than 0.05. According to Yawika and Handayani (2019), social performance is not a strategy that is considered by management to improve the company's financial performance. Therefore, investors also do not consider social aspects in making decisions when investing (Aditama 2022). The results of this study are also supported by Grewal et al. (2019) which reveals that social disclosure has a negative effect on stock returns. Thus this condition reflects the better performance of a bank. The results of this study are in line with El Khoury et al. (2023) and Yuen et al. (2022).

Furthermore**,** The significance value of governance disclosure shown in Table 9 is 0.427, where the value is greater than 0.05. This means that governance disclosure does not affect ROA. This finding is not in line with the stakeholder theory which states that the existence of stakeholders can influence the improvement of company performance by providing support through the disclosure of governance disclosure. This happens because of the weak governance practices of banks in developing countries and the lack of legal and regulatory pressure from regulators so that governance disclosure does not have a significant effect on financial performance (Shakil et al. 2019). The results of this study contrast with research by Beltratti and Stulz (2012), where governance disclosure has a negative effect because good governance can be associated with a decrease in company profitability. This is due to the higher implementation costs required from the increase in profitability that occurs. In addition, the results of research by Velte (2017), Buallay (2019), Manes-Rossi et al. (2020), Yuen et al. (2022), Menicucci and Paolucci (2023) state that ESG disclosure has a positive influence on ROA.

The test result of governance disclosure on ROE has negative impact on company performance as measured by ROE. This is indicated by a significance value of 0.000 smaller than 0.05, with a coefficient value of -0.054. ESG has a negative impact that is influenced by the company's main goal which only focuses on increasing the wealth of its stakeholders, while other non-financial goals can reduce the efficiency of the company (Ningwati et al. 2022). This statement is by the research data, where in 2015-2020 the average ROE value decreased, while the GCG rating in the same year ranged from 1-3, which means that the implementation of governance is good. The results of this study are in line with Jeanice and Kim (2023), while Dincer et al. (2014), Esteban-Sanchez et al. (2017), Miras-Rodríguez et al. (2015) argue that governance disclosure has a positive effect on company performance.

In contrast, governance disclosure has a positive influence on company performance as measured by Tobin's Q. This is indicated by a significance value of 0.000, which less than 0.05, along with a coefficient value of 0.301. The results of this study are in line with stakeholder theory which says that the existence of stakeholders can influence the running of company performance through the support and trust of stakeholders by disclosing governance disclosure. The results of this study are in line with stakeholder theory which says that the existence of stakeholders can influence the running of company performance through the support and trust of stakeholders by disclosing governance disclosure. This proves that the practice of good corporate governance has not been fully implemented. The disclosure made will make the company's operations exposed, and make the company more supervised (Christofi et al. 2012) so that it affects the company's performance. The findings in this study are in line with Ghoul et al. (2017) and Li et al. (2018) that governance disclosure has a positive influence on company performance as measured by Tobin's Q. Different results were shown by Shakil et al. (2019) and (El Khoury et al. (2023) that governance disclosure does not influence company performance as measured by Tobin's Q.

However, the significance value of governance disclosure on stock return of 0.506 is greater than 0.05, meaning that governance disclosure does not influence company performance as reflected in stock return. This finding is not in line with stakeholder theory, which explains that the existence of stakeholders can influence the running of company performance through the support and trust of stakeholders by disclosing governance disclosure. All companies have disclosed governance information with relatively the same content so that investors get the same understanding of the company's governance structure (Setyahuni and Handayani 2020). This causes investors not to react when disclosures are published. This statement is by the research data, where the average stock return fluctuates during the observation period, inversely proportional to the GCG rating which ranges from 1 to 3. The results of this study are in line with Setyahuni and Handayani (2020) and Shakil et al. (2019), while Dincer et al. (2014), Miras-Rodríguez et al. (2015), Manes-Rossi et al. (2020) state that governance disclosure has a positive effect on company performance.

According to the test results of the size variable in Table 9, it can be seen that the significance value of size as a control variable on ROE is 0.023, smaller than 0.05, with a coefficient value of 0.002. Meanwhile, the significance value of size on Tobin's

Q is 0.000 which is smaller than 0.05 with a coefficient value of 0.055. Thus, it can be concluded that the size variable has a positive influence on company performance as measured using ROE and Tobin's Q. This means that the larger the size of the company, the more impact it will have on the performance of the bank. This means that the larger the size of the company will have a positive impact on the financial performance of the company itself. According to Martsila and Meiranto (2013), companies with large sizes and good corporate governance quality tend to get attention from various parties to encourage increased financial performance. The results of this study are supported by previous findings by Menicucci and Paolucci (2023), Velte (2017) and Shakil et al. (2019). Meanwhile, size does not affect company performance as measured using ROA and stock return. This means that high or low asset values cannot affect bank management performance as measured by ROA and stock return. The results of this study support research from Setyahuni and Handayani (2020). Conversely, this study is not in line with Gholami et al. (2022) which states that size has a negative effect on company performance.

This study also found that leverage, as a control variable, has a positive effect on ROA and ROE. This is indicated by a significance value of the leverage variable on ROA and ROE is 0.001 and 0.000, respectively, smaller than 0.05 with a coefficient value of 0.012 and 0.080. ROA and ROE ratios are proxies of company performance in terms of profitability, where profitability ratios are used to determine the company's ability to generate profits both from sales activities, assets, and equity. The research results that have a positive direction mean that the higher the leverage value will be followed by an increase in ROA and ROE ratios, meaning that the higher the leverage, the greater the loan capital used in generating profits. The results of this study are in line with Jain and Raithatha (2022), Laguir et al. (2018), and Gweyi and Karanja (2014), while Bătae et al. (2021), Husada and Handayani (2021), and Buallay et al. (2020), state that leverage has a negative effect on ROA and ROE.

In addition, the test results of the leverage variable on Tobin's Q have a significance value of 0.000 each smaller than 0.05 with a coefficient value of 0.626 so that leverage has a positive influence on Tobin's Q. Leverage is used to determine how much of a bank's assets are financed by debt. The results of this study are supported by Abdullah et al. (2015) which argues that leverage has a positive effect on company performance as reflected by Tobin's Q. Meanwhile, the significance value of the stock return of 0.094 is greater than 0.05, which means that leverage does not affect stock return. A high leverage value indicates that the assets owned by the bank in obtaining profits are also high, not necessarily followed by an increase in company performance, and vice versa, the lower the leverage value, the bank's performance will not necessarily decrease. This is evidenced by research data showing the highest and lowest average values of leverage in 2010 and 2017 while the highest and lowest average stock returns were in 2020 and 2015. The results of this study support research Aziz and Chariri (2023), while research from Spirova (2023) states that leverage has a negative effect and Teng et al. (2016), Acheampong et al. (2014), Abdullah et al. (2015) argue that leverage has a positive effect on company performance as reflected in Tobin's Q and stock return.

5. CONCLUSION, LIMITATION, AND SUGGESTION

The findings contribute to the literature in two ways. First, this study extends the banking accounting literature on factors affecting company performance, highlighting the influence of ESG disclosure as a predictor in influencing company performance measured through ROA, ROE, Tobin's Q, and stock return. This finding contradicts stakeholder theory, given that the theory reveals that the wider the disclosure of corporate information, the higher the support and trust of stakeholders will be, thus impacting the performance of the company itself. Through this study, it can be concluded that banking companies that disclose non-financial information such as ESG do not fully impact banking performance. This is because investors and other stakeholders still rely on banking financial information in assessing and making decisions.

This study offers practical implications**.** The results show that social and governance disclosure influence company performance through Tobin's Q. Leverage as a control variable influences ROA, ROE, and Tobin's Q, in addition to size which only affects ROA and Tobin's Q. This implies that in the future stakeholders should pay more attention to these variables that affect company performance in decision making. This study contributes to providing information to practitioners academics and policy makers with a series of actual predictors in the ESG area to improve company performance and enrich the existing literature on the effect of ESG disclosure on company performance.

This study provides insight into banking accounting practices in achieving optimal company performance, management needs to pay attention to the needs of stakeholders in terms of disclosure of financial and non-financial information to increase trust and support from stakeholders which in turn can improve company performance.

This study has two main limitations, namely the limited number of listed banks despite the observation years from 2010-2021. The second limitation is that there may be other variables that can affect company performance. Therefore, researchers suggest for future research to use sustainability reporting as an independent variable in measuring its effect on company performance. The sustainability reporting includes three aspects, namely environmental, social, and economic, where the economic aspect is not included in the ESG disclosure. In addition, researchers also suggest using other control variables, such as Non-Performing Loan (NPL), Debt to Asset (DAR), Debt to Equity (DER), and Operating Cost of Operating Income (BOPO).

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