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The Role of Environmental, Social and Governance Engagement in Enhancing Corporate Financial Performance

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A R T I C L E I N F O

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A B S T R A C T

Unlike most previous similar studies based in Europe and the USA, this study was conducted in a developing country, namely Indonesia. The objective of this study was to identify, analyze, and test the strength of the relationship between Environmental, Social, and Governance Disclosure (ESG) and the financial performance of corporations listed on the Indonesia Stock Exchange (IDX) during 2018–2024, with a total observation of 147 companies. The secondary data source for this study came from Bloomberg. Furthermore, eViews 13 was used to obtain statistical descriptions and also to analyze and test all hypotheses based on panel data regression analysis methods. The research results indicate and can be concluded that corporations with better ESG performance will also have better financial performance (ROI) and market performance (Tobin's Q). Furthermore, the research analysis indicates and demonstrates that in financial markets, creditors pay attention to and consider ESG when determining credit decisions (cost of debt). This research is relevant to the emerging issue of corporate sustainability. The results are also important for managers in prioritizing resources for allocating ESG activities, the outcomes of which determine corporate performance.

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INTRODUCTION

The development of issues related to modern corporate sustainability has focused and centered on the viability and sustainability of corporate financial systems (Maji and Lohia, 2023). The viability and sustainability of financial systems in various companies face a number of pressures that are visible and reflected in the increasingly intense and dynamic financial market conditions and significantly influence the achievement of corporate success. Companies cannot simply focus on short-term profits but are also required to consider environmental, social, and governance pressures that impact and influence long-term profits (Khandelwal et al., 2023). Concern for the environment, social, and governance drives the transformation of companies into environmentally and socially responsible entities (Alshehhi et al., 2018), known as sustainable business practices. This concern is further reflected in the increasing number of companies disclosing Environmental, Social, and Governance (ESG). In the case of Indonesia, Yani et al. (2024) stated that there was an increase in the practice of companies publishing sustainability reports, from 58 companies in 2018 to 94 companies in 2019 and 154 companies in 2020. Thus, the percentage of companies publishing sustainability reports to the number of companies listed on the Indonesia Stock Exchange increased from 10% in 2018 to 22% in 2020.

The increasing attention and concern for ESG is also evident in policy developments in Indonesia. The Financial Services Authority (OJK) has issued POJK No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. This regulation stipulates, among other things, the obligation to implement sustainable finance principles and submit sustainability reports for Financial Services Institutions, Issuers, and Public Companies. The OJK also prioritizes the implementation of environmental, social, and governance aspects in developing a sustainable finance ecosystem in Indonesia. In its Phase II Sustainable Finance Roadmap, the OJK emphasizes the importance of transforming business activities by addressing environmental, social, and governance aspects. This demonstrates that ESG is no longer merely a voluntary issue related only to corporate image, but has become an integral part of the development of sustainable finance governance and systems in Indonesia.

Regulations related to ESG are certainly perceived, understood, and implemented according to the capacity and capabilities of each company, resulting in diverse levels of ESG disclosure. Research by Jafar et al. (2024) found and showed that the average ESG disclosure is only around 36% of the total average ESG disclosure indicators. In fact, disclosure levels vary significantly across industries, with the highest value of around 89% in the Basic Materials industry and the lowest value of around 5% in the Consumer Cyclicals industry. The study also noted that there are still public companies in Indonesia that have not made adequate ESG disclosures despite the existence of regulations regarding sustainability. The findings of this phenomenon are important to encourage and guide further research to better understand why, what, and how companies listed on the IDX implement ESG practices and disclosures.

Theoretically, ESG disclosure has three distinct impacts on a company: reducing agency costs, reducing the information gap, and improving and enhancing a company's reputation (Houqe et al., 2020). Previous research has shown that ESG disclosure can enhance corporate reputation and performance, as well as lower the cost of capital (Carnini Pulino et al., 2020). This study expands on previous research by exploring the relationship between ESG disclosure and company performance using different corporate performance metrics, namely return on assets, Tobin's Q, and cost of debt. In addition to expanding financial and market performance metrics, this study contributes to a comprehensive way of measuring ESG disclosure, including its individual dimensions: environmental, social, and governance disclosure. The results of this study can supplement and strengthen similar research, enabling corporations to further optimize their capital structure, strengthen their non-financial disclosure systems, implement more effective and efficient governance systems, and anticipate and reduce their cost of capital. For public policy makers and government officials, the results of this study can make them better understand how policies should be analyzed and decided that have an impact on corporate performance.

Theoretical Study and Hypothesis Development

This second subsection examines various theoretical aspects that form the basis for the analysis and development of various hypotheses. Furthermore, various variables are discussed and analyzed from a theoretical perspective. In general, this study utilizes two primary and fundamental theories that form the basis for the analysis and determination of various hypotheses: agency theory and stakeholder theory. Furthermore, the factors discussed, analyzed, and established for various hypotheses will be examined in depth. These factors include ESG, corporate profitability, firm value, and cost of debt.

Agency and Stakeholder Theory

Referring to previous literature related to the exploration and investigation of ESG disclosure, it can be stated that the relevant theories that serve as the basis for explaining and testing the relationship between ESG disclosure and corporate performance are two theories classified as neoclassical corporate management and finance theories: agency theory and stakeholder theory. Based on stakeholder theory, it can be assumed and stated that corporations are committed to continuously involving all parties (stakeholders) to contribute to creating and increasing corporate business value. This pressure and contribution from all parties is one of the main and primary reasons for corporations to implement and carry out sustainable activities (Iyer et al., 2019, Xu et al., 2022). Stakeholder theory understands that corporations have a responsibility not only to focus on short-term profits, but also to consider and make business decisions that benefit various parties who are part of the stakeholders, both internal corporate interests (consumers and employees) and external interests (suppliers, creditors, government, and others). To ensure this, one crucial activity is demonstrating these sustainable activities by disclosing

ESG information about the corporation's implementation. Through ESG disclosure, corporations can significantly reduce business uncertainty, increase corporate transparency, and effectively reassure all stakeholders that their interests are being met.Thus, all parties are bound to share responsibility for the continuity and sustainability of corporate business (Hamrouni et al., 2019).

Referring to agency theory (Jensen, 1986; Jensen and Meckling, 1976), it can be understood and stated that capital owners provide funds to businesspeople in the hope of obtaining a return and/or a rational interest on the capital provided. This theory assumes and confirms that there is an information asymmetry between businesspeople and capital providers that "benefits" the businesspeople in prioritizing the fulfillment of their interests, especially the interests of the businesspeople themselves. In situations and conditions like this, capital providers have very limited access to information in determining potential business risks that are still acceptable and are highly dependent on publicly available information, which also depends on the intentions of the businesspeople (information providers) (Al Barrak et al., 2023). One solution in such situations is the existence of ESG activities and disclosures, which are part of the overall disclosure of corporate information that can be expected to reduce information asymmetry and also mitigate agency costs arising from the separation of ownership and control (Carnini Pulino et al., 2022). From this framework, it can be concluded that ESG disclosure is an important type of disclosure that provides a monitoring tool and reduces agency costs by providing information to all stakeholders, particularly external parties (Hamrouni et al., 2019). Therefore, it can be stated and concluded that better ESG practices and disclosures will mitigate information asymmetry, which in turn will result in a lower cost of debt (Atan et al., 2014).

ESG and Corporate Profitability

In the United Nations Sustainable Development Goals (UN SDGs), which are expected to be achieved by 2030, there are 17 SDGs, namely no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation, and infrastructure, reduced inequality, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace, justice, and strong institutions, and partnerships for the goals. In order for these 17 goals to be achieved, the UN SDGs identify, analyze, and provide a holistic framework directed at challenges and solutions related to the environment, society, and economy. This holistic framework, once implemented and reported, takes the form of continuous reporting that has been adopted globally, including reports regulated under the Global Reporting Initiative (GRI), Integrated Reporting (IR), and the Sustainability Accounting Standards Board (SASB). These regulations provide guidelines for businesses in measuring, monitoring, and disclosing performance, referring to ESG aspects or areas.

Over the past few years, extensive research has been conducted on the relationship between ESG disclosure and corporate financial performance. Malik

and Kashiramka (2024) identified and demonstrated that ESG disclosure, both overall and in its individual dimensions, has a positive and significant relationship with profitability (ROA). Similar positive results were corroborated by Bamel et al. (2025), who confirmed that ESG disclosure is positively associated with improved corporate performance.

This positive aspect is supported by stakeholder theory, which states that investing in ESG can enhance a company's market reputation (Ademi and Klungseth, 2022). This, in turn, will increase demand for the company's products, thus positively impacting the company's financial performance. Furthermore, it can be stated that ESG disclosure aligns with the expectations of various interest groups (stakeholders), including government interests. Therefore, based on stakeholder theory and supported by these empirical findings, it can be proposed and stated that extensive ESG disclosure can build harmonious relationships with various stakeholder groups, ultimately stimulating company profitability. Based on this explanation, the first hypothesis identified and formulated is as follows:

H1: ESG Disclosure has a positive effect on company performance.

ESG and Cost of Debt

Many companies worldwide engage in ESG disclosure to gain advantages or preferential treatment in financial markets (Cheng et al., 2014). Research by Eliwa et al. (2021) shows that businesses in European Union countries can benefit from improved ESG performance and transparency because lenders will charge lower costs of capital.

In agency theory perspectives can be understood that creditors' limited access to internal corporate information naturally and inevitably creates a situation known as information asymmetry. Comprehensive ESG disclosure serves as a transparency tool to reduce this gap, allowing creditors to accurately assess a company's risk and ability to fulfill its obligations. Adequate ESG disclosure strengthens creditor trust, improves reputation and credit ratings, and reduces risk perception, ultimately lowering the cost of debt. Therefore, broader ESG disclosure is expected to reduce the information gap, minimize agency costs, and strengthen creditor satisfaction, thereby achieving more efficient financing rates. Furthermore, within the context of stakeholder theory, ESG disclosure can be understood as a proactive activity to strengthen the corporation's alliance with all its stakeholders, including lenders. This strong relationship can result in debt obtaining at a more favorable cost of capital for corporations that engage in better ESG activities and disclosures. Based on this argument, the third hypothesis identified and formulated in this study is as follows.

H2: ESG disclosure has a negative effect on the cost of debt.

ESG and Corporate Value

In Stakeholder Theory, fulfilling stakeholder expectations through ESG disclosure can create competitive advantage, strengthen reputation, and increase capital market confidence, ultimately leading to a positive perception of a company's prospects. Research conducted by Al Amosh et al. (2023) and Bamel et al. (2025) confirms that fulfilling stakeholder interests through ESG can strengthen company value. However, there are inconsistent findings, such as

Nguyen's (2026) study, which found a negative relationship among companies in the Vietnam Sustainability Index, and Zhang et al.'s (2026) study, which showed that the relationship is dynamic depending on the company's ESG performance. These differences in findings indicate that the influence of ESG disclosure on market value remains relevant for further examination.

Based on the theoretical foundation and literature from previous research, broader ESG disclosure is expected to reduce the information gap, increase transparency, and strengthen a company's reputation among investors. Therefore, the third hypothesis proposed is:

H3: ESG Disclosure has a positive effect on company value (Tobin's Q).

LITERATURE REVIEW

Theoretical Framework of Thought

Based on the identification, analysis, and formulation of the various hypotheses above, it can be concluded and stated that Environmental, Social, and Governance Disclosure (ESGD) is an independent variable that is argued and concluded to influence company performance, Cost of Debt, and company value which is the dependent variable. These various hypotheses can then be expressed and stated in a theoretical framework. In this theoretical framework, in addition to showing an overview of the various hypotheses, it also describes various control variables in the form of size, liquidity, leverage, and interest coverage ratio (ICR) which also influence the three dependent variables. The simple basic reason for using these control variables is that based on previous studies, these various control variables are significant and almost certainly influence the three dependent variables. Thus, it can be stated that the inclusion and use of control variables in this study will improve the analysis of the internal validity of the study.

The theoretical basis in the theoretical framework overview is based on two possible theories: stakeholder theory and agency theory. Based on stakeholder theory, it can be understood and stated that companies with high levels of ESG disclosure tend to receive greater support from stakeholders because they are perceived as more transparent, responsible, and sustainability-oriented. This support can enhance the company's reputation, strengthen investor and creditor confidence, and improve company performance and value. Thus, ESG disclosure is expected to influence company performance and value.

Meanwhile, from an agency theory perspective, ESG disclosure helps reduce information asymmetry between management and external parties. Transparency through ESG disclosure can increase investor and creditor confidence in the company. Therefore, ESG disclosure is expected to impact the cost of debt.

Based on the analysis of the development of the hypothesis and the theoretical basis of the research that has been described above, the theoretical framework of thought can be described and stated as follows:

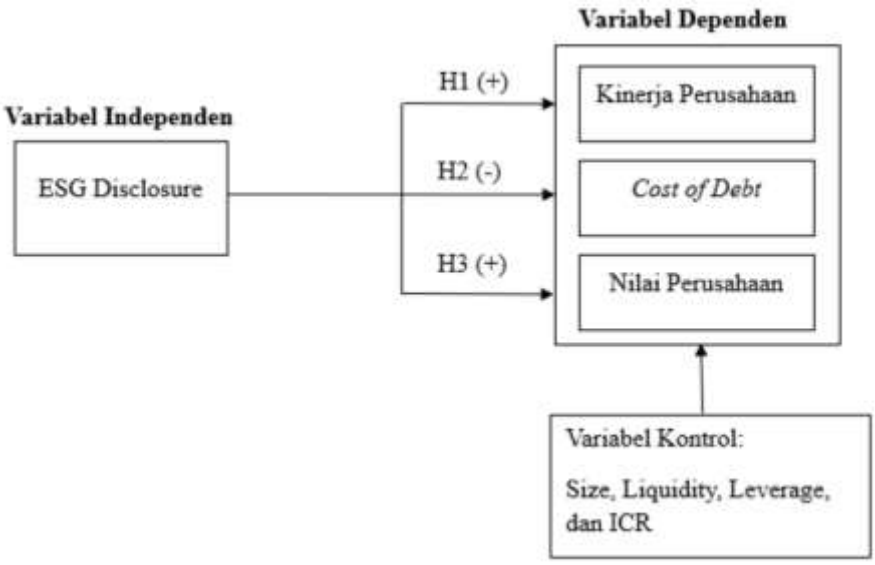


Figure 1. Theoretical Framework

METHODOLOGY

This section outlines the methods and approaches used to identify, analyze, and test the various hypotheses and implications of this study. These methods include population and sample determination, data types and sources, data collection, and variable definitions and measurements. The research methods were designed and structured to ensure that hypotheses could be tested systematically and relevantly, in accordance with the research objectives.

Research Population and Sample

The population in this study is all companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2024 period, except for the financial sector. This exclusion was made because financial companies (banks, insurance companies, financial institutions) have capital structure, regulatory, and financial reporting characteristics that are fundamentally different from those in the non-financial sector (Fama & French, 1992). These fundamental differences will lead to analysis bias and the validity of hypothesis testing if the financial sector is analyzed simultaneously with other types of companies.

Sampling in this study uses a purposive sampling method, namely sample selection based on certain criteria relevant to the research objectives (Sekaran & Bougie, 2016). These criteria include (1) The company is listed on the Indonesia Stock Exchange (IDX) during the 2018–2024 research period and has not experienced delisting during that period, (2) The company is not a company from the financial sector (banking, insurance, securities, multifinance, and the like), (3) The company has ESG Disclosure Score data available on Bloomberg Terminal during the research period, and (4) The company has complete financial report data and can be accessed through Bloomberg Terminal for all required research variables.

Data Types and Sources

This study uses quantitative secondary data, meaning data already available and published by third parties and not collected directly by the researcher. The primary data source is Bloomberg Terminal. All research data, including ESG Disclosure Score data, company financial statements, and market capitalization data, will be used for testing in this study.

Research Variables

Dependent Variable

The dependent variables in this study consist of three dependent variables: Return on Assets (ROA), Cost of Debt (COD), and Tobin's Q. ROA is a proxy for profitability measurement that is then used for analysis and knowledge regarding the influence of ESG disclosure on company performance. ROA is measured or determined by establishing a profitability ratio that describes the company's measurement and ability to generate profits based on all assets owned by the company. Furthermore, ROA also illustrates how effectively the company manages its assets to generate profits. The higher the ROA value, the better the company's ability to generate profits from its assets. Conversely, a low ROA value indicates that the company has not maximized its asset utilization to generate profits.

The second dependent variable in this study is COD, which represents or indicates the costs a company must bear for using funds derived from debt or loans. COD reflects the rate of return required by creditors for the risk of lending to the company (Pittman and Fortin, 2004). Companies with higher information risk and credit risk tend to face higher debt costs because creditors require a higher rate of return to compensate for this risk. The COD variable is measured by dividing total interest expense by average debt. This proxy reflects the effective interest rate a company pays to creditors and is widely used as a measure of credit risk perception by creditors.

The third dependent variable is the company's market value, which represents investors' perceptions of the company's performance and prospects, typically expressed through stock prices (Hirdinis, 2019). Tobin's Q is used as a proxy for company value in this study because it emphasizes market-based valuation and represents a company's long-term performance. Furthermore, Tobin's Q is considered capable of capturing the impact of a company's sustainability activities on company value and is relatively insensitive to differences in accounting policies, allowing for comparisons between companies across industries (Nekhili et al., 2017; Friske et al., 2023).

The interpretation of Tobin's Q includes the following three things. Tobin's $Q > 1$, means and shows that the company's market value is greater than the value of its assets. This condition indicates that investors have positive expectations about the company's future prospects. Meanwhile, Tobin's $Q = 1$, indicates that the company's market value is equal to the value of the company's assets, and third, Tobin's $Q < 1$, indicates that the company's market value is lower than the value of its assets. This can indicate that the market assesses the company as having less growth prospects.

Independent Variables

The determining or influencing variable for the dependent variable, referred to as the independent variable in this study, is ESG disclosure. The independent variable used in this study functions to predict, anticipate, and explain whether there is an influence or change on the dependent variable. This ESG disclosure variable is measured and sourced from the Bloomberg ESG Disclosure Score database, a composite score that measures the extent to which a company discloses information related to its environmental, social, and corporate governance performance. This score ranges from 0 to 100, with a higher score indicating a more comprehensive level of ESG information disclosure.

Variable Control

This study uses several control variables with the aim of increasing the validity of the analysis of the influence of ESG Disclosure on the dependent variables, which in this study are ROA, COD, and Tobin's Q. These various control variables include (1) Company Size (SIZE), (2) Leverage (3) Liquidity and (4) Interest Coverage Ratio (ICR).

Company size is measured using the natural logarithm of total assets (Ln Total Assets). Larger companies generally have better access to capital markets, greater risk diversification, and greater ability to cover ESG disclosure costs. Leverage is measured by dividing total debt by total assets (Debt Ratio). Leverage reflects the extent to which a company uses debt financing. A high level of leverage can be interpreted as an indication of a high level of financial risk and negatively impacts company performance and value, while also increasing COD. The liquidity control variable is measured using the Current Ratio, which is the ratio of current assets to current liabilities. Good liquidity reflects a company's ability to meet short-term obligations, thus positively influencing creditor risk perceptions. The final control variable, the Interest Coverage Ratio (ICR), is measured to determine the company's ability to meet interest payments on its debt. This ratio indicates the extent to which a company's operating profit is able to cover interest expenses during a given period. A higher ICR indicates a company's better ability to pay interest expenses, thus lowering the risk of default. This condition can increase creditor confidence in the company and enable the company to obtain funding at a lower cost of debt. In this study, the Interest Coverage Ratio (ICR) is measured by comparing the company's operating profit to its interest expense.

Data Analysis Methods

In this subsection, matters relating to data analysis in the form of descriptive statistics and panel data regression analysis are elaborated as described below.

RESULTS

This subsection describes and explains several things, including the description of the research object and data analysis, consisting of descriptive statistics and regression model analysis. Each is explained and elaborated below.
Description of Research Object

In this study, the objects of study were non-financial companies listed on the Indonesia Stock Exchange between 2018 and 2024 with complete data. The

data source for this study was Bloomberg. A total of 897 non-financial companies listed on the Indonesia Stock Exchange between 2018 and 2024 were selected. A total of 876 companies were excluded from observation and analysis due to incomplete ESG data. Therefore, the total research sample consisted of 21 companies with a total of 147 sample obervations, selected using purposive sampling.

Data Analysis and Hypothesis Testing

Based on eViews 13 software, the research data was processed, analyzed, and used as a basis for identifying and determining whether various valid hypotheses were confirmed by formulating hypotheses. The processing, analysis, identification, and determination of whether various hypotheses were supported or not are outlined below

Descriptive Statistics

Descriptive statistics provide information containing the average (mean), maximum (maximum), minimum (minimum), and standard deviation values of each research variable. In this study, these variables include ROA, CODebt, and Tobin's Q, namely ESG Disclosure, Size, Leverage, Liquidity, and ICR. Descriptive statistics for each of these variables are presented in Table 4.1 as follows:

Table 1. Descriptive Statistics

	N	Minimum	Maximal	Mean	St. Deviation
ROA	147	-21.0647	21.7132	5.068801	5.092457
COD	147	-1.1032	4.1837	1.3687	0.3461
Tobin’s Q	147	0.2691	54.0916	19.5737	3.4714
ESG Score	147	14.6356	71.1239	37.0173	10.2473
Size	147	18.7848	29.1959	16.0965	1.9326
Liquidity	147	0.1934	5.9738	1.6132	0.8917
Levarage	147	0.6121	80.1731	24.2732	15.9427
ICR	147	-4.825452	1,196.392	301.8752	112.3972

Source: Processed Secondary Data, 2026

Seen from table 1. above the minimum value of ROA which is the dependent variable is -21.0647%, and the maximum value is 21.7132%. The existence of a negative minimum value indicates that in the sample observation there are companies that experience losses in running their business. The average value of the observation data of 5.068801% indicates that overall the companies in the sample are able to generate profits of around 5.068801% of their assets. Meanwhile, the standard deviation is greater than the average of 5.092457% 4.99, indicating that ROA has a fairly high level of variation between companies and between observation periods compared to its average value. Another dependent variable, namely COD, has a minimum value of -1.1032, while the maximum value is 4.1837 with an average value of 5.068801 and a standard deviation of 0.3641. This standard deviation is smaller than the average value, which means that the COD level between companies in the sample has a relatively lower

variation compared to the average value. The Tobin's Q variable, which is also the dependent variable, has a minimum value of 0.2691, a maximum of 54.0916, and an average value of 19.5737, while the standard deviation is 03.4114.

Regarding the dependent variable, the ESG Score has a minimum value of 14.6356, a maximum value of 71.1239, with an average value of 37.0173 and a standard deviation of 10.2473. The large range between the minimum and maximum values indicates differences in the level of ESG disclosure between companies. This difference can illustrate that each company has a different level of attention and openness in conveying information regarding activities and policies related to the environment, social, and corporate governance. The standard deviation of this ESG variable is 10.2473, which means that the level of ESG disclosure of companies in the sample is not concentrated at a certain level, but rather there are companies with relatively low scores and companies with relatively high scores.

The description of the size control variable transformed into natural logarithms shows a minimum value of 18.7848, a maximum value of 29.1959, a mean value of 16.0965, and a standard deviation of 1.9326. These values indicate, among other things, that the size of the companies in the research sample is relatively less diverse compared to several other variables. This is evident from the relatively small standard deviation value compared to the mean value, so that the company sizes between observations tend to be in a relatively close range. The liquidity control variable has a minimum value of 0.1934, a maximum of 5.9738, a mean value of 1.6132 with a standard deviation value of 0.8917. This average value indicates that the companies in the sample have a level of ability to pay their short-term debt of 1.6132 times. Thus, on average, companies have larger current assets compared to their current liabilities. However, the range of minimum and maximum values indicates differences in companies' ability to meet their short-term obligations. The minimum value of the leverage variable is 0.6121, the maximum is 80.1731, the average is 24.2732, and the standard deviation is 15.9427. These values indicate that the leverage levels of the companies in the sample vary considerably. The significant difference between the minimum and maximum values indicates that some companies have relatively low levels of debt usage and others have much higher levels of leverage. This is also reflected in the standard deviation value, which indicates significant variation in leverage between observations. The final control variable, ICR, has a minimum value of -4.825452, a maximum value of 1,196.392, a mean value of 301.8752, and a standard deviation of 112.3972. A negative minimum value indicates that a company has a poor ability to cover interest expenses in a given period. Conversely, a very high maximum value indicates a company with a much greater ability to pay interest expenses.

Panel Data Regression Analysis

Referring to the regression models depicted in the three regression equations 1 to 3, the following presents the data processing results. Referring to the first equation model, the data processing results are elaborated in Table 2 below.

Table 2. Results of Panel Data Regression Test of ROA Model (Equation 1)

Variable	Coefficient	t-Statistic	p.value
C	-11.64132	-1.241457	0.2163
ESG	0.031531	4.128537	0.0132
SIZE	-0.713423	3.085423	0.0843
LEV	-0.075462	-2.97635	0.0092
LIQ	0.974093	3.083861	0.0742
ICR	0.023165	2.829639	0.07521

Source: Processed Secondary Data, 2026

The results of the panel data regression test as above, in Table 2, can be identified, analyzed, and stated as follows. The estimation results show that the regression coefficient of the ESG Disclosure variable is 0.031531 with a positive direction, which can be interpreted as meaning that any increase in ESG activities reflected in the disclosure report will affect the increase in ROA. This effect can be declared significant, indicated by a p-value of 0.0132, which is smaller than 0.10.

Regarding the control variables, the research results depicted in Table 2 above can be concluded that the variable of company size has a negative effect (-0.713423), which can be interpreted as meaning that the larger the company, the lower its ability to generate profits compared to smaller companies. For the control variable of leverage, the regression coefficient value shows a negative value (-0.075462), indicating a negative relationship between company risk and the ability to generate profits. This means that any increase in company risk indicated by its leverage value will have a negative effect on the decline in ROA. The next control variable, namely liquidity, has an estimated regression coefficient of 0.974093 with a positive direction. This means that the better the company's liquidity, the better its ability to achieve its financial performance. The final control variable, ICR, the estimated coefficient shows a figure of 0.023165 with a positive direction. The meaning of this figure is an indication of the company's ability to achieve its financial performance in the form of profit including interest payments will be higher, compared to the ability of smaller companies to earn profits including interest payments.

Meanwhile, referring to the COD regression model, namely the second equation, the results of data processing can be displayed in table 3 as follows.

Table 3. Results of Panel Data Regression Test of COD Model (Equation 2)

Variable	Coefficient	t-Statistic	p.value
C	0.411522	2.755485	0.0117
ESG	-0.084112	-2.603265	0.0511
SIZE	-0.014312	-2.977021	0.0619

LEV	-0.068219	-1.337170	0.0762
LIQ	0.013194	3.563229	0.5223
ICR	0.000255	2.823749	0.0502

Source: Processed Secondary Data, 2026

Based on Table 3 above, the panel data regression test results can be identified, analyzed, and stated as follows. The estimation in the table shows a negative regression coefficient of 0.084112 for the ESG Disclosure variable, indicating that an increase in ESG activities as reflected in the disclosure report is associated with a decrease in COD. This significant relationship is indicated by a p-value of 0.0511, which is less than 0.10.

Regarding the control variables, the research indicators as presented in Table 3 above show that the company size variable (SIZE) has a negative effect (-0.014312), meaning that larger companies are less likely to generate profits compared to smaller companies. Regarding the leverage control variable, the regression coefficient is negative (-0.068219), which can be interpreted as indicating a negative relationship between company risk and profit-generating ability. Further interpretation is that any increase in company risk, as reflected in its leverage value, will negatively impact ROA. The next control variable, liquidity, has a regression coefficient of 0.013194, which is positive. This means that the better a company's liquidity, the better its ability to achieve financial performance. The fourth control variable, the regression coefficient, shows a figure of 0.000255, which is positive. This figure indicates that the company's ability to achieve financial performance in the form of higher profits, including interest payments, compared to the ability of smaller companies to generate profits including interest payments.

Referring to the final model, the Tobin's Q Regression Model, the equations for the three data processing results are as follows in table 4.4.

Table 4. Results of Panel Data Regression Test of Tobin's Q Model (Equation 3)

Variable	Coefficient	t-Statistic	p.value
C	12.42963	2.679867	0.0144
ESG	0.029837	4.093217	0.0282
SIZE	-0.631528	-2.713273	0.0160
LEV	-0.513601	-2.863268	0.0347
LIQ	0.130816	3.264752	0.0184
ICR	0.091278	2.542781	0.0612

Source: Processed Secondary Data, 2026

Table illustrates the panel data regression indicator values, which can then be used for identification, analysis, and a statement. The estimation results indicate a positive regression coefficient of 0.029837 for the ESG Disclosure variable, indicating that an increase in ESG activities stated in the disclosure report will correlate with an increase in the Company's performance (Tobin's Q). This correlation is significant, indicated by a p-value of 0.0282, less than 0.10.

The results of the study related to the control variables, illustrated in table 4. above, show that the company's ability to generate profits is negatively influenced (-0.631528) significantly by company size (SIZE). This means that company size plays a role in the company's profit acquisition. The leverage control variable has a negative regression coefficient (-0.513601), meaning there is a negative relationship between company risk and the ability to generate profits. This means that any increase in company risk indicated by its leverage value will negatively affect the decline in the company's financial performance, Tobin's Q. The next control variable, namely liquidity, has an estimated regression coefficient of 0.130816 with a positive direction. This means that the more liquid the company, the higher its ability to achieve its financial performance. The final control variable, ICR, the estimated coefficient results show a figure of 0.091278 with a positive direction. The meaning of this figure is that the higher the company's profit in which interest costs have been included, the higher its ability to achieve its financial performance, Tobin's Q.

Interpretation of Results

ESG Disclosure and Company Performance

This study can be interpreted as having a positive and significant impact on ROA. The findings indicate that increased ESG disclosure has a significant impact on company performance, as measured by ROA. This result is consistent with the hypothesis based on stakeholder theory. Theoretically, it is estimated that increased transparency through ESG disclosure can strengthen positive relationships with stakeholders, thereby benefiting the company in conducting its business. These results align with Hansen and Xie (2025), who found that ESG significantly impacts ROA. Hansen and Xie (2025) also demonstrated that both ESG as a whole and its individual dimensions significantly impact financial performance. These findings indicate that the benefits of ESG, as explained by stakeholder theory, are directly reflected in company profitability. ESG disclosure can improve transparency and relationships with stakeholders, but these benefits can also increase company profits.

ESG Disclosure and Cost of Debt

The results of the second hypothesis test show that ESG Disclosure has a negative coefficient (-0.084112) and has a significant effect on the Cost of Debt with a probability value of 0.0511, which means it is consistent and in accordance with hypothesis 2. Theoretically, based on agency theory, it can be logically assumed that ESG disclosure can reduce information asymmetry between companies and creditors, thereby reducing uncertainty and risk perceived by creditors. Thus, theoretically, ESG Disclosure is expected to reduce the Cost of Debt.

The research results, which show a significant negative effect, are in accordance with, and consistent with, the research conducted by Firas and Kuncoro (2026), which examined non-financial companies in Indonesia for the 2018–2021 period, finding that ESG disclosure has a significant negative relationship with the cost of debt. Similarly, the findings of Yolanda et al. (2026)

indicate that ESG disclosure has a significant negative relationship with the cost of debt.

Furthermore, it can be stated that the direction of the influence of ESG disclosure on COD is negative, which aligns with the assumptions based on agency theory. This negative influence implies that creditors consider a company's activities in terms of its concern for ESG. Therefore, based on the results of this study, it can be interpreted that increasing ESG activities can reduce the cost of debt. However, ESG information is not necessarily the primary factor in determining the cost of debt. Creditors can more closely consider financial factors and credit risk that are directly related to a company's ability to meet its obligations.

ESG Disclosure and Firm Value (Tobin's Q)

Referring to the Tobin's Q regression model, the test results show that ESG Disclosure has a coefficient of 0.029837 with a probability value of 0.0282, which means that ESG Disclosure has a significant positive effect on Tobin's Q. This finding indicates that increasing ESG disclosure has a significant effect on company value. Thus, it can be interpreted and understood that hypothesis 3 which states that ESG Disclosure has a positive effect on company value (Tobin's Q) is supported by the results of the hypothesis test. This result is fully in accordance with Stakeholder Theory. Based on Stakeholder Theory, ESG disclosure can increase the trust and reputation of a company which ultimately has the potential to increase company value. However, the results of this study indicate that these benefits are reflected and indicated significantly in market valuations.

This finding is in line with Nguyen's (2026) research which found that ESG Disclosure has a positive effect on Tobin's Q. The consistency and suitability of the results of this study indicate that the market responds positively to ESG disclosure. Higher ESG disclosure can be directly perceived as an increase in company value, especially if the benefits of ESG are directly visible and perceived by the market which then plays a role in obtaining company performance through the company's economic prospects.

Implications, Conclusions, Limitations and Suggestions of the Research

Referring to the discussion of research gaps, the analysis and development of hypotheses based on specific theories, and the testing of various hypotheses based on specific research methods, two important aspects can be explained and elaborated: research implications and conclusions based on the research results. Each section is explained, analyzed, and elaborated as

CONCLUSIONS AND RECOMMENDATIONS

The test results show that ESG disclosure has a positive relationship with ROA. Therefore, it is understandable and believed that ESG disclosure plays a role in increasing a company's ability to generate profits from its assets. The next test result can be concluded that ESG disclosure has a negative relationship with Cost of Debt, which means that the company's ESG activity program is perceived favorably by creditors, which is a consideration in credit decisions. The negative

relationship between ESG and cost of debt indicates that an increase in ESG disclosure activity programs tends to decrease Cost of Debt. The third test result related to Tobin's Q shows that ESG disclosure has a significant negative effect. Company value is influenced by ESG activities and disclosure, in addition to various other factors, such as the company's fundamental condition, profitability, growth prospects, company risk, market conditions, and macroeconomic factors.

Research Limitations

This study has several limitations, including its focus solely on the use of aggregate ESG scores, despite the possibility that some ESG aspects may be important for creditors to perceive and consider when making credit decisions. This study also did not consider COVID-19 as an external factor potentially influencing the relationship between ESG disclosure and the dependent variable. The 2018–2024 study period encompasses the COVID-19 pandemic, specifically 2020–2022, which was characterized by different economic and market conditions compared to the pre- and post-pandemic periods. These conditions have the potential to impact a company's financial performance, funding costs, and market perception of the company.

Suggestion

Based on the conclusions and limitations of this study, we recommend that future similar research consider other factors based on different theoretical developments. Another important suggestion is that more detailed elaboration of ESG aspects or dimensions would allow for more accurate and robust identification, analysis, and conclusions about the impact of ESG programs on corporate financial performance.

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