

EXPLORING THE INFLUENCE OF ESG AND PROSPERITY DISCLOSURE SCORE ON FINANCIAL PERFORMANCE

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ABSTRACT

Almost all companies are starting to pay attention to the impact of environment, social, and governance (ESG) & and prosperity disclosure. This research aims to analyze empirical evidence of the Exploring the Financial Performance from ESG And Prosperity Disclosure Score. The research was conducted using causality design, while the samples of 84 companies listed on the IDX-IC (Indonesian Stock Exchange) for the 2019 – 2021 period were selected using certain criteria. Data analysis was carried out with balanced panel data regression. The results show that aggregate ESG & prosperity disclosure impaired the increasing returns on company assets. Individually, environmental and prosperity disclosure did not affect financial performance, while social and governance disclosures affect financial performance. The ESG and prosperity disclosures can undermine financial performance, in part because a focus on ESG initiatives can divert management's attention from short-term financial goals to long-term sustainability goals. This causes management to prioritize goals aligned with sustainability and social responsibility over short-term financial gains. In this study, financial performance is measured using ROA. This ratio has a weakness in its use, namely that it does not take into account differences in the company's capital structure, and depreciated fixed assets can affect ROA, providing a less accurate picture of actual financial performance.

Keywords: ESG, prosperity disclosure, financial performance

1. INTRODUCTION

It is challenging to achieve efficient investment levels; thus, management must strive to obtain short-term profits. Another important goal is activities related to sustainability focusing on the long-term objectives that can lead companies to create added value (Zumente & Bistрова, 2021). Therefore, the green spirit is prioritized because more detailed information about the company's social and environmental aspects can enhance transparency and build trust between the company and other stakeholders. This information can influence investor evaluations, access to finance, and loan costs (Zamir et al., 2020).

Environment, social, and governance (ESG)-related information is crucial to influence financial performance, because its disclosure reflects the company's reputation, provides clarity in value relevance, which can reduce the cost of capital and can boost financial access, strengthens its in-

tensity with stakeholders and the company's quality of management (Amel-Zadeh & Serafeim, 2018; Fatemi et al., 2018; Fatemi et al., 2018; Cheng et al., 2013; Wei & Yang, 2024).

ESG disclosure is a concrete form for companies to respond to social and environmental issues. Based on the World Economic Forum (WEF), the ESG is broken down into 4 pillars with the addition of 'prosperity', so it is called ESG and prosperity disclosure (WEF, 2020). ESG and prosperity disclosure refers to measuring the impact of sustainability and ethics in investment decision making (Bahar, 2023). In Indonesia, the Indonesian Stock Exchange continues to be committed to encouraging long-term sustainable investment and improving ESG practices in the Indonesian capital market by collaborating with ESG assessment institutions to carry out ESG assessments on companies listed on the IDX (idx.co.id). In recent years, ESG disclosures have attracted the attention of business people around the world due to the increasing demand for ESG information by stakeholders (Rabaya & Saleh, 2022). Furthermore, a survey conducted by KPMG (2017) regarding sustainability reports (ESG) shows that there has been a significant increase in 49 countries in terms of disclosure of corporate responsibility. Reflecting on this fact, the demand for ESG in Indonesia will continue to grow. This can be seen by the decision of the Indonesian Stock Exchange (IDX) to become member of the Sustainable Stock Exchange (SSE) Initiative in 2019 (SSE Initiative, 2024). SSE Initiative (2024) states that in 2030, large companies are required to disclose ESG in their annual reports.

Several previous literatures linked better ESG practices with various factors, such as being associated with superior financial performance (Al-Hiyari et al., 2022; Hichri & Ltifi, 2021), company image (Hammami & Zadeh, 2020; Murè et al., 2021), long-term company performance (Eccles et al., 2014). Meanwhile, corporate sustainability is an alternative to traditional models of growth and profit maximization that only benefit shareholders (Alsayeghet al., 2023). In this research, revealing ESG & prosperity is not only in terms of the company's willingness to fulfill what must be disclosed but also in terms of the extent to which the company can disclose its social activities to the public. In this way, it will be clear how much managers have understood in presenting this information to provide added value to showcase company performance, especially in economic, social, governance, and prosperity activities.

Despite the huge amount of attention paid to ESG disclosure, there remains a debate as to how ESG disclosure positively impacts company value, given the inconsistent results of previous studies. Some of the studies reported that ESG disclosure can increase company value (Abdi et al., 2022; Aboud & Diab, 2019; Bardos et al., 2020; Chauhan & Kumar, 2018; Cho, 2022; Feng & Wu, 2023; Li et al., 2018; Melinda & Wardhani, 2020; Suttipun & Yordudom, 2022; Thahira & Mita, 2021; Zumente & Bistrova, 2021; Senturk & Baghirov, 2023). On the other hand, several studies found contrasting empirical evidence (Behl et al., 2022; Duque-Grisales & Aguilera-Caracuel, 2021; Sadiq et al., 2020). Those studies revealed that ESG disclosure has a negative impact on firm value. Investors consider that ESG disclosure is an investment that leads to waste as it is used by management to increase value for their own interest rather than for shareholders (Möller et al., 2015). In addition, some studies reported that there is no significant relationship between ESG and firm value (Atan et al., 2018; Haryono & Iskandar, 2015; Servaes & Tamayo, 2013). It is believed that firm value is built with other alternatives rather than ESG disclosure. Companies disclosing ESG aspects, minimally or optimally, cannot show a reaction to their market value.

Based on the results of data processing, only around 40.16% of the total non-financial companies listed on IDX-IC shares (Indonesian stock exchange) published sustainability reports (2021). This means that there were still many companies that had not been able to commit to responding to the importance of the social and environmental activities disclosure.

The ability of a business to turn a profit while leveraging its capital, assets, and sales is defined as

profitability (SSE Initiative, 2024). This ability is used for influencing investors' opinions of the business and its prospects for growth in the future (SSE Initiative, 2024). Because profitability gives an overview of the profits that a company can generate by using its assets, capital, and sales activities, it is an indicator that must be carefully considered and examined by the company in order to maintain business continuity (Xinhua, 2024). The more profitable a company is, the more interested investors will be in making investments, raising the company's worth (SSE Initiative, 2024). In this study, return on assets (ROA) is used as a proxy for profitability (SSE Initiative, 2024). The ability of the business to use its assets to produce profits for the business is referred to as ROA (Xinhua, 2024; Mastilo et al., 2024). In another means, return on assets (ROA) is a determine of how well a company uses its resources to turn a profit is referred to as profitability (Xinhua, 2024). The degree to which the management of the business is successful in realizing the maximum profits for the business is a good indicator of good financial performance (Xinhua, 2024). The profit that can be produced could be higher or as expected if the management is able to operate the business effectively and lower expenses to be smaller or more efficient while maintaining operational activities (SSE Initiative, 2024; Xinhua, 2024; Topić – Pavković, 2024). The amount acquired, no matter how little, will impact the company's worth (SSE Initiative, 2024).

Environment, social responsibility, and corporate governance are the main topics of environmental, social, and governance (ESG) performance, an assessment tool and concept for investments. It evaluates a company's environment, social responsibility, and the corporate governance, performance in detail. By giving stakeholders more non-financial data, it helps them evaluate the advantages and disadvantages of investments and make a clearer determination of the firm's investment worth (T.-T. Li et al., 2021). Global non-ESG equity funds saw cumulative outflows of \$700 billion through February 2021, compared to cumulative inflows of \$450 billion for ESG equity funds, according to MSCI's 2021 Global Institutional Investor Survey (MSCI, 2021). The primary forces behind global equity inflows are now ESG investment themes and strategies, and companies that perform well in this area are the top destinations for inflows (Akbar & Setiana, 2024). It demonstrates how crucial it is now to know a company's ESG performance in order to draw in customers and potentially alter investors' investment plans. When a company's good ESG performance data is gathered, understood, and assessed by the market, more creditors or investors might become aware of it and decide to invest in it. As a result, positive ESG performance data attracts capital to the company, boosting its internal cash reserves and financing capacity and, ultimately, its financial flexibility. As a result, there is some relationship between ESG performance and financial flexibility (Marota, 2024).

Numerous previous literatures discussed ESG, but not specifically broken it down into four pillars, stating that ESG disclosure had a positive effect on financial performance (Almeyda & Darmansya, 2019; Triyani et al., 2020); Giannopoulos et al. (2022) found that ESG disclosure had no effect on financial performance; while Atan et al. (2016) found that information disclosed today might not hold value for the firm in the following year or the years after that. This study explains that ESG (Environmental, Social and Governance) has a relationship with financial performance. The contribution of the study can be summarized with empirical and comprehensive contributions. The financial performance-based measures used in this study are the market value and earnings per share of the company compared to other studies that use return on equity, return on assets, and Tobin's Q (Akbar & Setiana, 2024; Aydoğmuş et al., 2022; Rohendi et al., 2024; Tahmid et al., 2022).

Several studies have discovered that ESG and FP have a positive relationship (Brogi & Lagasio, 2019; Long et al., 2020). The higher the level of ESG, the higher the FP (Tarmuji et al., 2016). According to Albuquerque et al. (2012) ESG is a strategic product offered to clients by

a firm which generates more positive revenues. Sharfman and Fernando (2008) agree to this stating that a firm's ratings on indicators like ESG offer a clear image of how it manages the risks it confronts. Participation in sustainability initiatives strengthens a firm's ethnic identity, resulting in increased stakeholder satisfaction and improved financial performance (Okafor et al., 2021a, 2021b). Thus, it is generally assumed that fair implementation of ESG standards does not always imply lower returns and performance (Hill, 2020). Another stream of research has discovered a negative relationship between ESG and FP (Buallay, 2019; Duque-Grisales & Aguilera-Caracuel, 2021). High ESG practices may have a negative impact on FP. As a firm's sole objective is to create shareholder wealth, any other goal that diverts the firm's attention from that goal will reduce its effectiveness (Freedman & Wasley, 1990). Literature has yet to produce a definitive, completely consistent conclusion regarding the ESG-FP relationship, but the vast majority of the research performed so far has found a favorable relation between the two (Friede et al., 2015).

The Research Gap, shows that improperly or inconsistently implemented ESG can add costs or even harm a company. For example, if a company makes major changes to meet environmental standards without careful planning, the costs may outweigh the benefits (Liu et al., 2023) Social, and Governance (ESG). In addition, If companies disclose wealth information only for reputational purposes without providing concrete or measurable information, then these disclosures may not have a real impact on the perceptions of investors or other stakeholders, which in turn may limit their impact on the company's financial performance (Liakh & Spigarelli, 2020).

This study uses ROA as a proxy for financial performance. Regarding non-financial performance, an effective stakeholder management strategy should lead to improved environmental, social, governance, and prosperity disclosure and may also be related to future financial performance. Companies can achieve better financial performance due to increased stakeholder trust, which leads to improved (non) financial conditions (Velte, 2017). Stakeholder theory assumes that satisfying the interests of various coalition partners associated with the company (stakeholders) through a joint venture network will ultimately determine the success of products and services (Freeman, 1984). This theory also states that stakeholders view ESG performance as an important indicator in supporting the company (Seker & Sengür, 2021). A few multi-country studies support the positive relation between ESG scores and firm financial performance as well. Xie et al. (2019) focus on the relationship between specific ESG initiatives and financial performance of worldwide large sample of firms and find that majority of ESG initiatives have a positive association with financial performance. Bhaskaran et al. (2020) reviews the impact of ESG on financial performance of 4887 firms from 2014 to 2018 using firm value (Tobin's Q) and operational performance (ROE and ROA) as dependent variables. They indicate that firms with high performance on environment, governance, and social pillars tend to create more value in the market. Similarly, De Lucia et al. (2020) investigates a sample of 1038 public companies of 22 European countries from 2018 to 2019 and they find a positive association between ESG variables and the financial performance (ROE and ROA). Using 1042 companies from emerging countries from 2010 to 2019, Naeem et al. (2022) investigate the effects of ESG performance on financial performance. They document that both individual and combined ESG scores have positive and significant association with firm value (Tobin's Q) and profitability (ROA).

Therefore, this study was conducted to determine the relationship between Exploring The Financial Performance with its influence of ESG And Prosperity Disclosure Score On. The research approach was carried out with ESG (Environmental, Social and Governance), and financial performance was proxied by Return on Asset. The results of this study can provide useful information for investors and stakeholders to assess whether companies that pay attention to ESG principles have better or worse financial performance compared to companies that pay

less attention to these aspects. This is important for making wiser investment decisions and directing resource allocation to companies that have long-term added value. In many previous studies, the relationship between ESG and financial performance has not been entirely clear, and there are often differences in findings, both in different industry contexts or countries. This study makes an important contribution by further exploring how the three ESG pillars directly affect a company's profitability and financial performance through more measurable performance measurements such as ROA. Disclosure of prosperity related to ESG aspects can strengthen the understanding of how transparency and disclosure of ESG information can affect investor perceptions of companies and, in turn, their financial performance. Companies can use the findings from this study to improve their management strategies, with more emphasis on ESG factors. If this study shows that better management of environmental, social, and governance aspects can improve financial performance, companies will be motivated to invest more in stronger ESG programs.

2. LITERATURE REVIEW

The scope of ESG disclosure includes issues related to a company's activities in terms of the environment, social relations, and corporate governance (Rohendi et al., 2024). ESG disclosure is important because (1) investors will pay attention to ESG aspects if something is considered problematic within the company and is usually under pressure and (2) ESG disclosure can partially protect against a decline in shareholder value if something goes wrong (Möller et al., 2015). Previous literature examining ESG disclosure used several theories such as stakeholder theory, signaling theory, agency theory, institutional theory, and governance theory. However, this study employs two theories: signaling theory and resource theory.

Signaling theory. Signaling theory is a theory related to information asymmetry in terms of business reporting activities (Yekini & Jallow, 2012). This information asymmetry is a state in which a company knows more of its condition and quality compared to investors and other stakeholders. It can be minimized by the company providing this information repeatedly because companies also operate in an environment that tends to be dynamic (Janney & Folta, 2006).

Resource-based view theory. The resource-based view (RBV) states that a company should have resources that are valuable, rare, and difficult to replace. These resources can be in the forms of expertise, organizational processes, attributes, information, and knowledge (Barney, 1991). As explained by Fahy (2000), there are three sub-groups related to resources, namely, tangible assets, intangible assets, and capabilities. The last of the three refers to the skills of the company in terms of, among other things, organizational culture, teamwork, and interaction skills. RBV theory views that ESG disclosure can be a corporate resource that can create a competitive advantage (C. E. Armstrong & Shimizu, 2007).

The stakeholder theory starts from the assumption that firms would not only consider short-term profits but also the long-term goals of stakeholders (Freeman, 1984). It argues that when it comes to making capital structure decisions firms would consider the preference of stakeholders other than shareholders and bondholders (Titman, 1984).

According to the stakeholder theory, ESG disclosure is required because currently stakeholders not only demand transparency regarding financial activities in annual reports but also request companies to contribute more to their accountability by addressing social and environmental performance issues (Manita et al., 2018). Apart from that, the legitimacy theory states that companies that make social disclosures will feel that their existence and activities have gained status in the community or environment around where they operate. Thus, companies strive to ensure that their activities are considered legitimate by external parties (Eliwa et al., 2021).

Sharfman and Fernando (2008) agree to this stating that a firm's ratings on indicators like ESG offer a clear image of how it manages the risks it confronts. Participation in sustainability initiatives strengthens a firm's ethnic identity, resulting in increased stakeholder satisfaction and improved financial performance (**Okafor et al., 2021**). Thus, it is generally assumed that fair implementation of ESG standards does not always imply lower returns and performance (**Hill, 2020**). Another stream of research has discovered a negative relationship between ESG and FP (**Buallay, 2019; Duque-Grisales & Aguilera-Caracuel, 2021**). High ESG practices may have a negative impact on FP. As a firm's sole objective is to create shareholder wealth, any other goal that diverts the firm's attention from that goal will reduce its effectiveness (**Freedman & Wasley, 1990**). Literature has yet to produce a definitive, completely consistent conclusion regarding the ESG-FP relationship, but the vast majority of the research performed so far has found a favorable relation between the two (**Friede et al., 2015**). Moreover, a high ESG score can increase the financial performance of the firm without increasing its value or reducing its cost of capital. However, the literature review has not ruled out the absence of a relationship or the existence of a negative effect of the ESG score on the value and financial performance of the firm. **Wasiuzzaman et al. (2023)** show that the impact of ESG disclosure on a firm's financial performance is significantly negative. Similarly, **Fahad and Busru (2021)** argue that the disclosure of environmental and social scores has a negative effect on the profitability and the value of 386 companies listed in the BSE 500 Indian index for ten years from 2007 to 2016. However, **Atan et al. (2018)** show that, in the case of Malaysian firms that there is no significant relationship between individual and combined ESG factors and firm profitability (ROE) as well as firm value (Tobin's Q). Furthermore, **Gibson Brandon et al. (2021)** find that stock returns are positively related to ESG disagreement, suggesting a risk premium for firms with higher ESG disagreement. In addition, using a set of over 4000 firms from 58 countries during 2002–2011, **Aouadi and Marsat (2018)** surprisingly show that ESG controversies are associated with higher firm value.

Investor reactions to corporate ESG data are linked to the quality of information, indicating that investors are more attentive to ESG information as its disclosure becomes more transparent (**Krüger, 2015**). Moreover, ESG disclosure enhances transparency regarding a company's ESG practices, motivating managers, investors, and stakeholders to make more informed decisions and evaluations (**Zhao et al., 2018**). Integrating ESG into business performance appears to be a superior strategy for safeguarding against business downturns, notably in periods of social or economic turmoil (**Whelan et al., 2020**). The good corporate ESG performance can reduce financing costs, minimize the degree of information asymmetry, and alleviate the financing constraints faced by enterprises. The ESG investment takes one to two years for declining operating costs and enhancing ROA. Accordingly, ESG has a positive impact on financial performance (**Alareeni & Hamdan, 2020; Esposito et al., 2024; Tang, 2022; Velte, 2017**). These analyses support the first hypothesis for the ESG variable.

In this study, the company's business performance is measured through return on assets (ROA) as one of the best measures for a company's financial performance (**Hagel et al., 2010**). The stakeholder theory proposes that a company's strong ESG performance can foster a favorable reputation, establish a stable growth environment, and consequently enhance the company's overall value (**Freeman, 1984; Zahid et al., 2023**). Improving a company's ESG performance leads to its greater public perception and potentially bolstering its attractiveness as an employer and facilitating the recruitment and retention of talented individuals. This underscores the notion that sustainable practices contribute to the accumulation of moral capital among stakeholder groups, fostering loyalty through a favorable appraisal of a company's ESG endeavors (**X. Yang et al., 2023**).

Orlitzky (2001) explored the question of whether firm size confounds the relationship between

corporate social performance and firm financial performance. His analysis was based on a meta-analysis of 41 empirical studies. He concluded that firm size is not the third factor in the relationship between firm social performance and its financial performance. Firm size has a direct impact on corporate social performance and financial performance. Again, [Orlitzky et al.\(2003\)](#) sustained the role of the moderating variables (for example, firm size) in the relationship between corporate social and financial performance with a meta-analysis of 52 studies, 18 of which published in 1990 or later. They documented a positive relationship between the corporate social and financial performances of firms in most cases and found that the average correlation coefficient of these studies was 0.15. They put together the moderating variables and attached significant importance to the indirect role of these variables in explaining this relationship. The specification of this relationship is based on moderating variables.

Many studies used firm size simply as a control variable ([Hillman & Keim, 2001](#); [McWilliams & Siegel, 2001](#); [Waddock & Graves, 1997](#)). However, the effect of firm size is more than as a control variable in the relationship between corporate social performance and financial performance. Furthermore, the effect of firm size is also very complex. There are few studies which show the separate effect of size on financial performance as well as social performance ([Graves & Waddock, 1994](#); [Ullmann, 1985](#)). Previous research Explained how firm size has a positive impact on social performance ([Block et al., 2024](#)). Large US firms attract public attention and face more pressure from stakeholders to discharge their social responsibilities. Further research explained that large firms have more financial resources to spend on the demands of stakeholders.

3. METHOD

The data analysis used was balanced panel data regression. The sample comprised 84 non-financial companies listed on IDX-IC shares for 2019 – 2021. Non-financial companies form the real sector of the economy that focuses on activities that produce real goods or services, in contrast to financial companies that focus more on money circulation and financing. The data analysis used in this study uses the ordinary least squares (OLS) method with a fixed effect model (FEM), as an alternative to the eviews application. Tobin's Q is the ratio of market value of a firm to its intrinsic value. In other words, the market value of the firm is divided by the replacement cost of its assets. It helps to determine whether a company is overpriced or underpriced. Analysts and market professionals prefer to use Return on Assets (ROA). ROA is one of the financial ratios used to measure a company's ability to generate profits from its total assets. This ratio provides an overview of the efficiency of the company's use of assets in generating profits. ROA is very useful for investors and policy makers to assess how well a company manages its assets to generate maximum profits. It shows how successfully the firm uses its resources to generate profit. Higher ROA is desirable and indicates the efficiency of the firm in managing its balance sheet. The research model can be explained:

Model 1

$$FP_{i,t} = \beta_0 + \beta_1 ESGP_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 TOBINS_{i,t} + \varepsilon_{i,t} \quad (1)$$

Model 2

$$FP_{i,t} = \beta_0 + \beta_1 ENVD_{i,t} + \beta_2 SOCIALD_{i,t} + \beta_3 GOVD_{i,t} + \beta_4 PROSD_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 TOBINS_{i,t} + \varepsilon_{i,t} \quad (2)$$

According to the ([Juniati & Abadi, 2017](#)), the ESG and prosperity pillars in individual disclosure scores are measured using content analysis with measurements from a score of 0 (zero) to 8 (eight).

Table 1. Qualitative Scoring Index

Value	Description
0	Not disclosed
1	Qualitative only
2	Qualitative and financial
3	Qualitative and non-financial
4	Qualitative and diagram (table/chart)
5	Qualitative, financial and non-financial
6	Qualitative, financial and diagram (table/chart)
7	Qualitative and non-financial and diagrams (tables/charts)
8	Qualitative, financial, non-financial and diagrams (tables/charts)

Source: ESG in Indonesia: Access to Finance 2023

Based on the results of the disclosure checklist using the scoring guideline above, the next step is to calculate the scoring value using the index formula.

4. RESULTS

Table 2. Descriptive Statistical Analysis

	FP	ESGP	ENVD	SOCIALD	GOVD	PROSD	SIZE	TOBINS
Mean	0.0685	0.7099	0.4180	0.3012	0.2454	0.3391	30.3659	1.7331
Maximum	0.5677	0.9231	0.7857	0.5750	0.5228	0.6667	33.5372	16.263
Minimum	-0.5978	0.4359	0.0000	0.1000	0.0910	0.0208	26.8813	0.1321
Std. Dev.	0.1215	0.0936	0.1824	0.0797	0.0706	0.1125	1.3862	2.0723
Observations	252	252	252	252	252	252	252	252

Source: processed data, EViews version 10, 2024

Descriptive Analysis result showed on Table 3, financial performance (FP), which is measured by return on assets (ROA), has a maximum value of 0.5677. The profit ratio obtained on total assets is 56.77%, which shows the amount of profit that can be generated from each existing asset. It means that each asset value of IDR 1 can produces a profit of 56.77%. The minimum value is -0.5978. It can be interpreted that several company investment activities experience losses or do not gain the expected results. It can be seen from the negative value on the minimum value, which indicates that the investment does not earn sufficient profits to cover investment costs. Alternatively, there are problems in its implementation. The average FP value generates a positive number, which indicates that the average sample companies gained profits on their assets. The maximum ESGP value is 0.7099, which means that the highest index of the ESG and prosperity disclosure variable is 0.7099. This condition reflects the company's commitment to high transparency regarding ESGP information. Meanwhile, the minimum value is 0.4359, indicating that several items in terms of planet, people, governance, and prosperity are often not disclosed. A low ESGP index value indicates that the level of disclosure is very low in terms of information conveyed regarding ESGP factors. The average values of environmental, social, governance, and prosperity disclosure are 0.4180, 0.3012, 0.2454, and 0.3391, respectively. Of the four pillars, environmental disclosure has the highest average value, indicating that the disclosure is higher at a score of 4 which shows that it is the highest of the other 3 pillars. The item is most frequently expressed as the amount of energy/water consumption.

Table 3. Heterosdasticity Test

	Model 1: Aggregate ESG & Prosperity Disclosure Score	Model 2: Individual ESG & Prosperity Disclosure Score
	Prob.	Prob.
C	0.6752	0.4993
ESGP	0.6046	
ENVD		0.0870
SOCIALD		0.9644
GOVD		0.3478
PROSD		0.5576
SIZE	0.7382	0.5054
TOBINS	0.6809	0.6294

Source: processed data, eviews version 10, 2024

Table 4. Multicollinearity Test

	ESGP	ENVD	SOCIALD	GOVD	PROSD	SIZE	TOBINS
ESG	1.00						
ENVD	0.63	1.00					
SOCIALD	0.64	0.45	1.00				
GOVD	0.62	0.33	0.53	1.00			
PROSD	0.57	0.34	0.48	0.38	1.00		
SIZE	0.41	0.38	0.31	0.18	0.34	1.00	
TOBINS	-0.05	-0.11	-0.13	0.01	-0.09	-0.07	1.00

Source: processed data, eviews version 10, 2024

In this study, the ordinary least squares (OLS) method with a fixed effect model (FEM) was used as the research model. Based on the research results table, Model 1 in aggregate meets the requirements of the classical assumption test for multicollinearity, but it does not meet the requirements for the heteroscedasticity test. Thus, it then uses the FGLS model with coef. covariance method uses “period SUR (PCSE)” as a model. Based on Table 4 and Table 5, Table 4 shows that the relationship between the same variables shows a value of 1, which is a higher value compared to the relationship between different variables. So based on this, the results of the statistical analysis of this study are free from multicollinearity. Model 2 meets the requirements for both multicollinearity and heteroscedasticity tests (Glejser test).

Table 5. Test Result of Aggregate

	Aggregate ESG & Prosperity Disclosure Score (Model 1)	Individual ESG & Prosperity Disclosure Score (Model 2)
C	-3.4935	-4.5528
	0.0261**	
ESGP	(-0.0721)	
		0.5918
ENV		(0.0720)
		0.0062*
SOCIALD		(-1.1495)
		0.0197**
GOV		(0.9547)
		0.3005
PROSD		(0.2347)
	0.0000*	0.0001*
SIZE	(0.1179)	(0.1500)
	0.0003*	0.0087*
TOBINS	(0.0111)	(0.0193)
	0.9058	0.6214
Adj. Square	-3.4935	-4.5528

Source: processed data, eviews version 10, 2024

Based on Table 6, in aggregate, it shows that ESGP has a negative correlation of -0.0721 and a probability of $0.02611 < 0.05$. It can be interpreted that ESG & prosperity disclosure has a negative effect on financial performance. Furthermore, partially, ENV has a positive coefficient value of 0.0720 and a probability of $0.5918 > 0.1$. It can be interpreted that environmental disclosure does not affect financial performance. SOCIALD has a coefficient value of -1.1495 and a probability of $0.0062 < 0.01$, which can be inferred that social disclosure has a significant negative effect on financial performance. GOV has a positive coefficient value of 0.9547 and a probability of $0.0197 < 0.05$, which can be interpreted that governance disclosure has a significant positive effect on financial performance. PROSD has a coefficient of 0.2347 and a probability of $0.3005 > 0.1$, which indicates that prosperity disclosure does not affect financial performance. The SIZE control variable has a positive correlation (0.1500) and a probability of $0.0001 < 0.01$; TOBINS has a positive correlation (0.0193) and a probability of $0.0087 < 0.01$.

Based on the research results, it shows that, **First**, ESG & prosperity disclosure in aggregate has a negative effect on financial performance. Based on the results of the study, it shows that in aggregate, ESG & prosperity disclosure affects the company's financial performance. This finding is in accordance with the findings of [Giannopoulos et al. \(2022\)](#), contrary to the research of which found that in aggregate, ESG disclosure does not affect the company's performance ([Almeyda & Darmansya, 2019](#); [Atan et al., 2016](#); and [Triyani et al., 2020](#)). Previous research so far still uses three pillars, namely environmental, social, and governance (ESG).

Adopting and complying with ESG standards often requires large investments in new technology, training, and business processes. Poor investment in these activities can reduce the company's short-term profits ([Almeyda & Darmansya, 2019](#); [Porter & Linde, 1995](#); [Puška et al., 2023](#)). The focus of these activities can also divert management's attention from short-term financial goals to long-term sustainability ([Laskar & Maji, 2016](#)), which may not immediately increase profits ([Eccles et al., 2014](#)). Poor or inadequate ESG disclosure can trigger negative

reactions from investors, lowering stock prices and company value. When companies fail to meet ESG promises or engage in greenwashing, this can damage their reputation and reduce investor confidence, which ultimately has a negative impact on financial performance (Cormier & Magnan, 2015; Eccles et al., 2014).

Although these ESG practices show potential long-term benefits, such as risk reduction and reputation enhancement (as described in legitimacy theory), investments in environmentally friendly practices or social programs may not provide immediate financial benefits in the short term and are difficult to measure accurately. However, they are still important for long-term reputation and relationships (Zumente & Bistrova, 2021; Freeman, 1984).

Many factors can influence the implementation of ESG & prosperity disclosure. We argue that managers do not fully realize or understand the implications of the ESG & prosperity information disclosure. The underlying reason is due to the limitations in managerial education and understanding of the importance of ESGP factors and their impact on business performance. The other hindering factors in the implementation are leadership or company attitudes, culture and managers' perceptions (Chan, 2021). As an example, the research of Al-Hiyari, et al. (2022) found that culturally diversified boards reduce monitoring effectiveness and thus undermine the achievability of ESG performance on firm.

Second, environmental disclosure has no direct effect on financial performance. This finding is in line with the research results of Nor et al. (2016). This disclosure covers several aspects, such as resource depletion, greenhouse gas (GHG) emissions, pollution, waste as well as natural losses. Some environmental impacts, such as increased energy efficiency or reduced waste, may take time to be reflected in a company's financial performance. Initial investments in green technology or changes to production processes may not immediately result in significant savings. In this case, the impact on financial performance becomes impactful over a longer period. Based on research findings, disclosure of several environmental items is still low. As a specific example, from the analysis results, it is found that the value of information, such as energy/water consumption is higher and more frequent than carbon footprint information, even though reducing carbon footprints is crucial to reduce global warming (Chan, 2021) and it is stated in the Paris Climate Agreement. Companies focus more on disclosing energy savings, rather than accurately measuring their carbon footprint due to inadequate personal understanding. Therefore, they are unable to develop and implement more comprehensive programs to reduce their carbon footprint (Armstrong et al., 2020). The lack of environmental expertise and difficulties in balancing service quality with environmental performance are significant obstacles toward green companies (Yusof & Jamaludin, 2014). Thus, based on these shortcomings, environmental information items cannot yet be a priority for consideration in making decisions on asset investment. In Kruse (2022), it is said that managers who invest tend to ignore information that is difficult to incorporate into financial statistics and therefore do not include ESG criteria in financial figures.

Third, social disclosure has a negative effect on financial performance. This finding contradicts the findings of previous researchers where CSR as a proxy for social disclosure had a positive effect on company performance as proxied by ROA (Yang et al., 2019). We argue that meeting high standards in terms of human rights, public relations, and human resource management can require additional costs for companies. For example, implementing policies and programs that support human rights or improve employee well-being may require investments in training, supervision, or infrastructure that may reduce the efficiency of the investment in the short term.

Fourth, governance disclosure has a positive effect on financial performance. This finding is in line with the research results conducted by Alareeni and Hamdan (2020) that CG disclosure increased asset efficiency (ROA). In order to improve FP in the best interests of investors and

other interested parties, low agency costs and the ability for businesses to operate as a going concern are all made possible by strong CG (Fama & Jensen, 1983). Companies that adopt good CG mechanisms will provide more useful information to investors and other users of financial reports to reduce information asymmetry and help companies improve their operations (Alareeni & Hamdan, 2020). This disclosure score includes corporate governance, such as board presence and gender ratio. We argue that strong corporate governance, including effective risk management and policies that support a balanced gender ratio, can help strengthen a company's business resilience. Business resilience can reduce operational and reputational risks that may arise from bad decisions or internal conflicts. Ultimately, it results in increased firm performance. More broadly, good governance can increase investor confidence. Investors tend to have more confidence in companies with strong governance practices and commitment to sustainability values.

Fifth, disclosure of prosperity does not affect financial performance. We argue that the impact of prosperity scores, such as environmentally friendly products or political and social contributions, is sometimes difficult to predict or depends on external factors, such as regulatory changes or shifting market trends. This uncertainty can reduce the direct impact of prosperity disclosure on achieving profits. Limitations in education and managerial understanding of the importance of ESGP factors and their impact on business performance are obstacles to the effectiveness of non-financial information in managerial decision making. Evaluating business strategies requires skills and experience, especially in social activities (Pucheta-Martínez et al., 2018). Based on the research findings, the score on the product strategy item as part of the prosperity aspect has a low score. The sub-item is in the form of a disclosure of R&D costs. It is very possible, considering that R&D costs are often considered very strategic business information. Companies tend to be unwilling to provide too much detailed information, especially those which could be advantageous to competitors. Information leaks to competitors can provide competitive advantages for competitors, such as imitating technology, product improvements, or other findings (Baruffaldi et al., 2023). Not all R&D projects result in successful innovation since there are numerous influencing factors, such as environment, the use of technology, and organization (Balachandra & Friar, 1997). So, it is possible that if detailed disclosure regarding R&D costs is carried out, it is feared that it will highlight unsuccessful projects. It could directly undermine a company's image in the eyes of investors and other stakeholders. This finding is contrary to what was stated by Wang and Sarkis (2017) that companies must pay attention to factors, one of which as the most crucial aspect is employee's welfare, including physical and mental wellbeing because these aspects can influence company's performance.

5. CONCLUSION

The study examines the impact of environmental, social, governance, and prosperity disclosures on financial performance. Findings reveal that environmental and prosperity disclosures have no effect on financial performance, while social disclosure decreases it, and governance management can enhance it. ESG and social prosperity disclosures weaken financial performance, specifically in terms of returns on assets. Optimal ESG disclosure can boost investor confidence and trading activity. However, excessive social disclosure may not necessarily harm the company. Social legitimacy is crucial as it reflects how well a company is accepted by society, and failure to adhere to societal norms can impede a company's survival and growth.

Our research contributes to the understanding for companies and managers that, in any account, companies must respond strategically to socio-environmental changes to develop and maintain legitimacy. In addition, companies must remain focused on transparency and responsibility in managing and disclosing social and environmental aspects, increasing their engagement with

stakeholders regarding relevant social and environmental issues. Engagement with stakeholders, companies, managers, and investors can manage the negative impact of social disclosure and the ineffectiveness of wealth disclosure on financial performance. Ultimately, the companies are able to create long-term, sustainable value for all stakeholders. This research is limited to IDX-IC (Indonesian Stock Exchange) with quantitative methods. Future research is suggested to be able to expand its research objects with qualitative mixed methods so that future research results show real results both in quantitative data and qualitative in-depth observations. In this study, financial performance is measured using ROA. This ratio has a weakness in its use, namely that it does not take into account differences in the company's capital structure, and depreciated fixed assets can affect ROA, providing a less accurate picture of actual financial performance. Therefore, if the analysis focuses on returns for shareholders and equity profitability, especially for companies with complex capital structures, future research is recommended to use Return on Equity (ROE). Because Return on Equity (ROE) is one of the financial ratios used to measure a company's ability to generate profits from capital provided by shareholders. ROE shows how effective a company is in generating profits using equity or capital owned by its shareholders. so that further research results obtain more complex information

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