



The Financial Performace of ESG (Environmental, Social and Governance) Star Listed Companies in Indonesia

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Abstract: This study aims to decrypt the financial performance of companies in Star Listed Companies in Indonesia consisting of 8 companies by 2024. Companies that apply ESG principles can improve company performance, because they have innovative and creative resources in carrying out company activities. This research is expected to increase the urgency of companies in Indonesia in paying attention to ESG aspects in their business operations, because it sees that many Indonesian companies are still implementing ESG in order to be attractive to stakeholders and potential investors. Companies must also pay attention to intellectual capital in order to improve company performance to be efficient and effective.



Introduction

ESG (Environmental, Social, and Governance) is a concept that integrates environmental, social, and governance factors in investment and company management. ESG is a standard used to measure a company's performance in managing risks and opportunities caused by non-financial factors. ESG is a concept that is widely used throughout the world, including in Indonesia. Companies in Indonesia have started the process of integrating ESG in their business management (Sibarani, 2023).

Indonesia has companies that have low ESG scores, with an average of 50.84% and ESG disclosures of 42.05%. Previous studies have found a positive relationship between ESG and a company's financial performance, which shows that positive ESG scores have an effect on a company's financial performance (Rahmaniati & Ekawati, 2024). Companies in Indonesia have different ESG behavior from international companies. Studies show that companies in Indonesia have low ESG scores, which are around 50%, which is lower than the average ESG scores in the international market (Rahmaniati & Ekawati, 2024). However, there are also companies in Indonesia that have high ESG scores, around 88% (Rahmaniati & Ekawati, 2024).

Indonesia has ESG regulations that are different from other countries, such as Financial Services Authority Regulation No. 51/POJK.03/0217 and Carbon Exchange regulation (Jovita, 2023). Low ESG scores in Indonesia can be caused by factors such as lack of resources and shareholder reaction (Nareswari et al., 2023). Studies show that ESG performance has a positive influence on a company's financial performance, such as ROE and DER regulation (Jovita, 2023). Companies in Indonesia have different financial performance than international companies, which can be due to factors such as ESG behavior, regulation, and resources. However, it can be concluded that companies in Indonesia are building ESG development and have shown improvement every year (Rahmaniati & Ekawati, 2024).

ESG is an investment approach that includes environmental, social, and governance aspects in investment evaluation. (Li et al., 2021). ESG implementation can help companies in Indonesia to improve financial performance and reduce costs, as well as strengthen social and ethical behavior. However, companies in Indonesia still have low ESG behavior, which can be caused by factors such as lack of resources and shareholder reactions (Nareswari et al., 2023). ESG implementation can strengthen a company's commitment to *Sustainable Development Goals* (SDGs) defined by *Organisation for Economic Co-operation and Development* (PwC Indonesia, 2023). ESG implementation can strengthen trust between companies and investors and other stakeholders (Grant Thornton, 2023).

The influence of ESG (Environmental, Social, and Governance) on a company's financial performance is a very important topic in the world of finance and business. Long-term environmental, social, and sustainable governance (ESG) goals are becoming more priority than short-term goals to maximize profits (Zhao et al., 2018). From an investor's point of view, the integration of ESG factors into the company's overall strategy and operations, reducing the company's risk needs to be done (Sassen et al., 2016). ESG is very important because it can affect a company's financial performance and profitability (Zhao et al., 2018).

More and more studies show that ESG has a positive effect on a company's financial performance. The effect of ESG on financial performance can be seen through the perspective of economic performance, risk, and company value. ESG disclosure has a significant incentive effect on a company's financial performance with several stress tests (Chen & Xie, 2022).

The influence of ESG is very strong especially for companies with higher Corporate Social Responsibility (CSR) involvement (Hoang et al., 2023). The impact is also felt on companies that have ESG investors, high media attention, and high agency fees (Chen & Xie, 2022). This allows investors to identify the investment opportunities that have the most impact on sustainable development (Hoang et al., 2023). ESG investors exert a major moderating effect on the relationship between ESG disclosure and financial performance relationships (Chen & Xie, 2022).

Agency Theory

Agency theory is a theory that regulates and overcomes problems in the relationship between business owners (principal) and managers (agents) (Khandelwal et al., 2023). This theory provides direction on how to address agency issues that arise as a result of conflicts of interest between owners and managers (Jensen and Meckling, 1976). Agency theory is an old theory in corporate finance and management, but it is still indispensable because agency issues still exist and play an important role in overcoming emerging conflicts of interest (Jensen and Meckling, 1976). This theory is often used in research related to finance, corporate management, and the study of conflicts of interest.

ESG (Environmental, Social and Governance)

ESG (Environmental, Social, and Governance) is a concept that provides high standards for companies that want to develop sustainable and responsible businesses (Li et al., 2021). ESG is a sustainable and responsible concept, which helps companies and investors to reduce adverse impacts on the environment and society. ESG is an investment approach that includes environmental, social, and governance aspects in investment evaluation. ESG helps investors to reduce risk, increase investment value, and reduce adverse impacts on the environment and society. ESG investment dimensions, including aspects of risk management, added value for society, and governance (Boffo & Patalano, 2020).

Legality is an important consideration in corporate social responsibility disclosure to disclose social responsibility information and also emphasizes the role of regulatory agencies (Braam et al., 2016). ESG-related activities are crucial for corporate risk-taking, corporate performance, and even healthy development (Ruan & Liu, 2021). However, companies systematically reveal an incomplete picture of how their decisions and activities affect the environment (Braam et al., 2016).

The company's ESG report will be interpreted by the Investor to determine the value and risk of the company and select companies that have investment potential (Zhao et al., 2018). Thus, the company will also focus on improving ESG through the insistence of its investors (Zhao et al., 2018). The implementation of ESG performance is expected to have an impact on better performance results, especially those that are very important, namely on company sustainability (Nareswari et al., 2023).

Financial Performance

The concept of financial performance is multifaceted and can be influenced by a variety of factors, including the size of the organization, industry, and geographic location (Lar Lindbergh, 2003). Improving financial performance is a key goal for many organizations, it is closely related to customer response and operations management (Enad & Gerinda, 2022). Studies on companies' financial performance during the COVID-19 pandemic found that the impact of subjective and objective financial knowledge and economic insecurity on financial management behavior is mediated by financial well-being. This highlights the importance of considering the wider economic context in which an organisation operates when assessing its financial performance (Lam et al., 2023).

Financial performance is a complex concept and has many aspects that are critical to the success and sustainability of any organization. This is influenced by a variety of factors, including customer response, operations management, and the broader economic context. By understanding these factors and how they affect financial performance, organizations can develop strategies to improve financial performance and achieve goals (Enad & Gerinda, 2022) (Lam et al., 2023).

ESG Star Listed Companies

ESG Star Listed Companies is a company that excels in the field and is recognized for its commitment to sustainable practices. ESG Star Listed Companies in Indonesia have demonstrated their dedication to ESG principles. Companies such as BRI, AKR, BCA, BNI, Unilever Indonesia, and others have shown a strong focus on sustainability, responsible business practices, and compliance with global standards such as the UN SDGs Reporting Standards, SUSBA, MSCI, SASB, and GRI. These companies have implemented policies that monitor various aspects such as Health & Safety, Human Rights, Environment, Energy Use, impacts on Climate Change, Business Ethics, and Integrity to ensure sustainable operations (BEI, 2021).

Research Method

This research uses a quantitative approach by utilizing quantitative data to analyze the financial performance of listed ESG star companies in Indonesia. This research is conducted by examining financial data over a certain period to assess trends and changes in performance.

The research sample was taken in its entirety by identifying listed ESG star companies in Indonesia from official sources such as the ESG Capital Market website. The financial performance indicator in this study is *the Return on Assets (ROA) of ESG Star Listed Companies* in the first quarter of 2024. ESG scores for selected companies are drawn from Morningstar Sustainalytics to assess environmental, social and governance practices. Data analysis is carried out by descriptive statistical analysis to analyze the relationship between ESG scores and financial performance indicators.

Result and Discussion

Star Listed Companies' ESG in Indonesia is a significant indicator of their commitment to environmental, social, and governance practices. *ESG Star Listed Companies* is a prestigious recognition that highlights companies that have demonstrated a strong commitment to sustainability and responsible business practices.

Table 1. Value of ESG Star Listed Companies in Indonesia

No	Companies	ESG Score	Industry Group	Last Full Update
1	PT. AKR Corporindo Tbk	23.8	Medium Risk	29 September 2023
2	PT. Bank Central Asia Tbk	22.7	Medium Risk	23 October 2023
3	PT. Bank Mandiri (Persero) Tbk	28.2	Medium Risk	7 Maret 2023
4	PT. Bank Negara Indonesia (Persero) Tbk	21.4	Medium Risk	26 September 2023
5	PT. Bank Rakyat Indonesia (Persero) Tbk	18.7	Low Risk	3 Oktober 2022
6	PT. Bumi Serpong Damai Tbk	14.8	Low Risk	31 October 2023
7	PT. Semen Indonesia (Persero) Tbk	22.3	Medium Risk	21 Februari 2024
8	PT. Unilever Indonesia Tbk	18.8	Low Risk	1 November 2022
	Average Score	21.3	Medium Risk	

Source: <https://www.sustainalytics.com/esg-rating> (April 29, 2024)

Table 1 contains information on the ESG Value of ESG Star Listed Companies in Indonesia based on the latest update as a whole. The last update as a whole is a date that shows that the company has gone through an overall assessment on an annual basis. The lower the ESG value, the lower the Company's risk. The average company is classified as medium risk with an average ESG Score of 21.3. The highest ESG Score is 28.2 at PT. Bank Mandiri (Persero) Tbk while the lowest is 18.8 at PT. Unilever Indonesia Tbk.

Table 2. ROA of ESG Star Listed Companies in Indonesia

No	Companies	ROA		Increase/ Decrease
		2022	2023	
1	PT. AKR Corporindo Tbk	174,86%	139,11%	-35,75%
2	PT. Bank Central Asia Tbk	5,49%	6,21%	0,71%
3	PT. Bank Mandiri (Persero) Tbk	5,64%	6,10%	0,46%
4	PT. Bank Negara Indonesia (Persero) Tbk	5,31%	5,66%	0,35%
5	PT. Bank Rakyat Indonesia (Persero) Tbk	8,14%	9,11%	0,97%
6	PT. Bumi Serpong Damai Tbk	15,75%	17,27%	1,52%
7	PT. Semen Indonesia (Persero) Tbk	43,85%	47,24%	3,39%
8	PT. Unilever Indonesia Tbk	225,02%	231,70%	6,69%
	Average	60,51%	57,80	-2,71%

1. PT. AKR Corporindo Tbk

PT. AKR Corporindo Tbk is a company engaged in Trading and Distribution of Fuel and Basic Chemicals. The company received an ESG rating of 23.8 and is classified as medium risk in 2023. However, financial performance measured using the ROA value decreased from 2022 to 2023 by 35.75%. This decrease in performance indicates that PT. AKR Corporindo Tbk is the only company that has decreased financial performance among other ESG Star Listed Companies in 2023. However, in general, financial performance seen from ROA is still very

good. In 2023, the company has an ROA value of 139.11%. This means that every 1 rupiah of the Company's asset value is able to generate profits of 139.11 times.

2. PT. Bank Central Asia Tbk

PT. Bank Central Asia Tbk is a company engaged in the Banking Services business. In 2023, the company has an ESG value of 22.7 and is classified as medium risk. Financial performance increased by 0.71% in 2023 compared to the previous year. The Company's ROA value in 2023 is 6.21%, which means that every 1 rupiah of assets owned by the Company is able to generate 6.21 times profit. previously.

3. PT. Bank Mandiri (Persero) Tbk

PT. Bank Mandiri (Persero) Tbk is a company engaged in the Banking Services business. In general, financial performance assessed using the company's ROA and ESG is good. The company's ESG value of 28.2, which is fully assessed in 2023, is classified as medium risk. The ESG score is the highest among other ESG Star Listed Companies. The increase in ROA value in 2023 is 0.46%. The company has an ROA value of 6.10% in 2023 which means that every 1 rupiah of asset value owned by the company is able to generate 6.1 times profit.

4. PT. Bank Negara Indonesia (Persero) Tbk

PT. Bank Negara Indonesia Tbk is a company engaged in the Banking Services business. Based on ESG scores, companies are classified as companies with a medium risk category with a value of 21.4. PT. Bank Negara Indonesia is the company that has the lowest ROA and increase compared to other ESG Star Listed Companies. The company has an ROA of 5.66% in 2023 and only increased from the previous year of 0.35%. Every 1 rupiah of asset value owned by the company is still able to generate profits of 5.66 times.

5. PT. Bank Rakyat Indonesia (Persero) Tbk

PT. Bank Rakyat Indonesia (Persero) Tbk is a company engaged in the Banking Services business. The company has an ESG score with a fully rated assessment update of 18.7 which means it is classified as low risk. The company also experienced an increase in ROA value in 2023, which was 0.97% from the previous year. The company's ROA value of 9.11% in 2023 shows that the company is still able to generate profits with the ability to 9.11 times the value of 1 rupiah of assets owned by the company.

6. PT. Bumi Serpong Damai Tbk

PT. Bumi Serpong Damai Tbk is a company engaged in the Real Estate business. The company has an ESG score of 14.8 and belongs to the low risk category. The company has an ROA value of 17.27%, an increase of 1.52% compared to the previous year in 2023. Every 1 rupiah of asset value owned by the company in 2023 is able to generate profits of 17.27 times. Thus, the company's financial performance as seen from ROA is still very good.

7. PT. Semen Indonesia (Persero) Tbk

PT. Semen Indonesia (Persero) Tbk is a company engaged in the business of Cement Producers. The company has an ESG score of 22.3 and is included in the category of companies with the middle category. The ESG value is the lowest compared to other ESG Star Listed Companies. The company's financial performance is also relatively good as seen from the company's ROA in 2023, which is 47.24% and increases by 3.39% from the previous year. This

means that every 1 rupiah of assets owned by the company in 2023 is able to generate 47.24 times the profit.

8. PT. Unilever Indonesia Tbk

PT. Unilever Indonesia Tbk is a company engaged in the business of Primary Consumer Goods. The ESG score owned by the company is 18.8 and is included in the low risk category. In 2023, the company has an ROA value of 231.7%, which is the highest among other ESG Star Listed Companies with an increase of 6.69% from the previous year. The company's financial performance is considered very good as seen from ROA which means that every 1 rupiah of asset value owned by the company is able to generate profits of 231.7 times. This ROA value is the highest among other ESG Star Listed Companies.

Conclusion

ESG Star Listed Companies in Indonesia consist of 8 companies that generally have good ESG values and financial performance. Most of the companies are engaged in banking services a total of 4 companies, namely PT. Bank Central Asia Tbk, PT Bank Mandiri (Persero) Tbk, PT. Bank Negara Indonesia (Persero) Tbk and PT. Bank Rakyat Indonesia Persero Tbk. The average company listed in ESG Star Listed Companies has an ESG value of 21.3% which is classified as medium risk and the average ROA in 2023 is 57.80% with an increase of 2.71% from the previous year. PT. AKR Corporindo Tbk is the only company that experienced a decrease in ROA from the previous year among companies listed in ESG Star Listed Companies. The highest ESG Score is 28.2 at PT. Bank Mandiri (Persero) Tbk while the lowest is 18.8 at PT. Unilever Indonesia Tbk. The higher the company's ESG value, the higher the risk. The company with the lowest ESG value which means it has the lowest risk is PT. Unilever Tbk with an ESG value of 18.8. PT Unilever Indonesia Tbk is the company with the best financial performance and the highest increase in ROA from the previous year among ESG Star Listed Companies. This research is limited to descriptive statistics to describe the value of ESG and financial performance seen through ROA. Further research is suggested to expand the object of research to find a correlation between the presence or absence of ESG with the company's financial performance.

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