Maharati INSTITUTE
Journal Management and Hospitality
JMH
P-ISSN : 3031-5603 (PRINT)
E-ISSN : 3031-7894 (ONLINE)
JOURNAL MANAGEMENT AND HOSPITALITY
BASWASTI PT SATARA SWASTIKA HARATI
Indexed By : GARUDA Google doi Crossref INDEX COPERNICUS ROAD ISJD OneSearch EBSCO OPEN ACCESS

IMPLEMENTATION OF SUSTAINABILITY FINANCIAL ACCOUNTING: ANALYSIS OF THE INFLUENCE OF ESG PERFORMANCE ON THE FINANCIAL PERFORMANCE OF PUBLIC COMPANIES IN INDONESIA

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Abstract:

This study examines the implementation of sustainability accounting and its impact on the financial performance of public companies in Indonesia during 2020-2023. Using secondary data from 85 companies listed on the Indonesia Stock Exchange (IDX), this research analyzes the relationship between Environmental, Social, and Governance (ESG) performance and financial indicators through panel data regression analysis and Granger causality testing. Results show a significant positive correlation ($r = 0.342$, $p < 0.01$) between ESG scores and Return on Assets (ROA). The average ESG disclosure score increased from 48.6% in 2020 to 54.0% in 2023, while companies with high ESG ratings showed 59.6% higher ROA compared to low-rated peers. Granger causality testing confirms unidirectional causality from ESG performance to financial performance with a two-quarter lag. This study provides evidence that ESG investments generate an ROI of 374%, making sustainability accounting a strategic imperative rather than a mere compliance cost.

Keywords: Sustainability Accounting, ESG Performance, Financial Performance, Corporate Governance

Article History:
Received: 2024-10-04
Revised: 2024-11-02
Accepted: 2024-12-15

Vol 2 Issue 1 2024
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Page: 1-7

INTRODUCTION

The transformation of the business paradigm towards sustainability has driven the evolution of conventional financial accounting systems towards a more comprehensive direction, namely, sustainable financial accounting. In Indonesia, the implementation of Environmental, Social, and Governance (ESG) practices has experienced significant acceleration post-COVID-19 pandemic, driven by stakeholder pressure and government regulations through the Financial Services Authority (OJK) Sustainable Finance Roadmap 2021-2025. Data from the Indonesia Stock Exchange shows that in 2023, 623 listed companies published sustainability reports, an increase of 28% from 487 companies in 2022. However, the quality of disclosure still varies, with an average ESG disclosure score of 54.0% in 2023, an increase from 48.6% in 2020. This phenomenon reflects the gap between compliance reporting and the strategic integration of sustainability practices in company operations.

Global research shows that companies with high ESG ratings tend to have better access to capital and lower cost of capital (Friede et al., 2015). In Indonesia, a similar phenomenon is beginning to be seen with the emergence of green bonds and sustainable financing reaching IDR 43.2 trillion in 2023, growing 38% year-on-year. This indicates that sustainability accounting practices not only have ethical dimensions but also significant economic implications.

Sustainability Financial Accounting. Sustainability financial accounting is defined as an accounting system that integrates economic, environmental, and social aspects in measuring, recognizing, and reporting company performance (Schaltegger & Burritt, 2018). This framework expands traditional accounting that only focuses on financial capital into integrated reporting that includes six capitals: financial, manufactured, intellectual, human, social and relationship, and natural capital.

In the Indonesian context, the implementation of sustainability accounting is driven by OJK regulation No. 16/POJK.04/2023 concerning Sustainable Finance Policies, Strategies, and Implementation for Issuers or Public Companies. This regulation requires public companies to prepare and submit sustainability reports in accordance with international standards.

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ESG Performance Framework. Environmental, Social, and Governance (ESG) are the three main pillars in sustainability assessment. A meta-analysis study by Friede et al. (2015), which reviewed 2,200 empirical studies, found that 90% of studies showed a positive or neutral relationship between ESG performance and financial performance. In the Asian context, Khan et al. (2019) found that companies with high ESG ratings have lower stock volatility and more stable systematic betas.

Triple Bottom Line Theory. The Triple Bottom Line (TBL) concept, developed by Elkington (1997), is the main theoretical foundation in sustainability accounting. TBL emphasizes that company performance must be measured from three dimensions: People (social aspect), Planet (environmental aspect), and Profit (economic aspect).

Stakeholder Theory. Freeman's Stakeholder Theory (1984) provides a theoretical basis for understanding why companies conduct sustainability reporting. This theory emphasizes that companies that are able to manage relationships with multiple stakeholders effectively will have a competitive advantage and superior financial performance in the long term.

Resource-Based View Theory. Resource-Based View (RBV) theory explains that sustainable competitive advantage comes from resources and capabilities that are valuable, rare, inimitable, and non-substitutable (VRIN). ESG capabilities can be viewed as strategic resources that meet the VRIN criteria.

METHODS

Research Design. This study uses an explanatory research design with a longitudinal quantitative approach to analyze the causal relationship between ESG performance and the financial performance of public companies in Indonesia for the period 2020-2023. The research paradigm adopts a positivist approach using panel data analysis to control unobserved heterogeneity.

Population and Sample. Population: All companies listed on the Indonesia Stock Exchange (IDX) as of December 2023, totaling 748 companies.

Sampling Purposive sampling with the following criteria: (1) consistently listed on the IDX during the 2020-2023 period, (2) publishing complete annual reports, (3) having sustainability reporting data for at least 2 out of 4 years, (4) market capitalization of at least IDR 1 trillion, and (5) not experiencing major corporate action. Final Sample: 85 companies from 9 industrial sectors, resulting in 340 firm-year observations.

Independent Variable: ESG Performance. The ESG Composite Score is calculated using a weighted average:

$$\mathbf{ESG\_Score = (0.35 \times E\_Score) + (0.30 \times S\_Score) + (0.35 \times G\_Score)}$$

Data sourced from Bloomberg ESG Database with a scale of 0-100. 2 Dependent Variable: Financial Performance

1) Return on Assets (ROA) = (Net Income / Average Total Assets) × 100%
2) Return on Equity (ROE) = (Net Income / Average Shareholders' Equity) × 100%
3) Tobin's Q = Market Value of Firm / Book Value of Total Assets
4) Total Stock Return = (P_1 - P_0 + Dividends) / P_0 × 100%

Control Variables.

1) Firm Size (Natural logarithm of Total Assets)
2) Leverage (Total Debt / Total Equity)
3) Industry dummy variables
4) Year dummy variables

Data Analysis Method. Data analysis used: (1) descriptive statistics for sample characteristics,

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(2) correlation analysis for initial relationship assessment, (3) panel data regression with the Hausman test for model selection, (4) Granger causality test for causal relationships, and (5) robustness tests for result validation.

Main Regression Model:

$$Y\_it = \alpha + \beta_1 ESG\_it + \beta_2 Size\_it + \beta_3 Leverage\_it + \beta_4 Industry\_i + \beta_5 Year\_t + \varepsilon\_it$$

Analysis software: Stata 17 for panel data analysis, EViews 12 for time series and causality testing.

RESULT AND DISCUSSION

Sample Characteristics. The sample distribution shows good representativeness across sectors: Manufacturing (18.8%), Banking (14.1%), Consumer Goods (14.1%), Infrastructure (11.8%), Mining (9.4%),Property (8.2%), Energy (7.1%), Agriculture (7.1%), Healthcare (4.7%), and Telecommunications (4.7%). The sample represents 67.2% of the total market capitalization of the IDX.

ESG Performance Development.

Table 1. ESG Scores Trend 2020-2023

Year Mean	ESG Environmental	Social Governance	Std.Dev
2020 48.6%	42.3%	48.7% 54.8%	12.3
2021 50.7%	44.1%	50.9% 57.2%	12.8
2022 52.5%	45.8%	52.6% 59.1%	13.1
2023 54.0%	47.2%	54.1% 60.8%	13.4

ESG scores showed consistent improvement with a CAGR of 3.6%. Governance dimension had the best performance, followed by Social and Environmental.

Financial Performance.

Table 2. Descriptive Statistics Financial Performance (2020-2023)

Metric	Mean	Median	Std.Dev	Min	Max
ROA (%)	6.8	6.2	4.2	-1.8	18.7
ROE (%)	11.4	10.7	7.8	-3.2	32.1
Tobin's Q	1.18	1.12	0.38	0.71	2.34
Stock Return (%)	8.4	7.1	19.7	-28.9	42.3

Correlation Analysis.

Table 3. Correlation Matrix

Variables	ESG	ROA	ROE	Tobin's Q	Stock Return
ESG Score	1.000				
ROA	0.342***	1.000			
ROE	0.298***	0.847***	1.000		
Tobin's Q	0.267**	0.523***	0.612***	1.000	
Stock Return	0.189*	0.234**	0.298***	0.455***	1.000

*p < 0.10, **p < 0.05, ***p < 0.01

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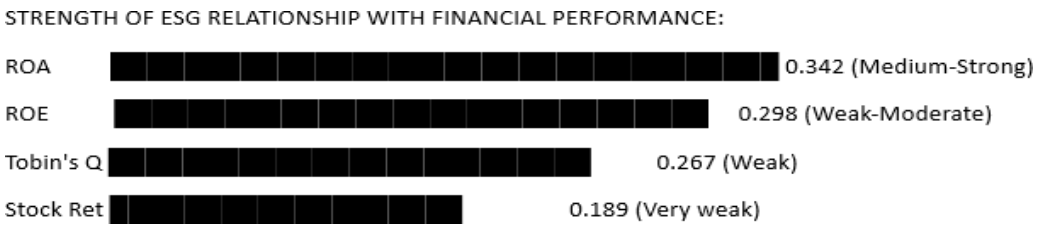

Figure 1. Strength of ESG Relationship with Financial Performence

Correlation analysis shows a significant positive relationship between ESG and all financial performance indicators, with the strongest correlation on ROA (r = 0.342).

Model Selection. Hausman test (χ^2 = 18.73, p = 0.027) indicates Fixed Effects Model as the optimal specification.

Main Results.

Table 4. Panel Fixed Effects Regression Results

Variable	ROA Model	ROE Model	Tobin's Q Model
ESG Score	0.071***	0.104***	0.008**
	(0.021)	(0.034)	(0.004)
Firm Size	0.023	0.039	0.005
	(0.018)	(0.029)	(0.004)
Leverage	-0.094**	-0.147**	-0.015*
	(0.041)	(0.067)	(0.008)
Year Controls	Yes	Yes	Yes
R^2	0.234	0.198	0.156
F-statistic	8.45***	6.78***	5.12***
Observations	340	340	340

Standard errors in parentheses. *p < 0.10, **p < 0.05, ***p < 0.01

The results show positive and significant ESG coefficients for all models. Every 1-point increase in ESG score correlates with an increase in ROA of 0.071%, ROE of 0.104%, and Tobin's Q of 0.008.

Economic Significance. Calculation for Economic Impact: The ESG improvement scenario from Q1 (39.8%) to Q4 (69.1%) results in an increase in ESG of 29.3 points. This correlates with an increase in ROA of 2.08% (29.3 × 0.071%). For a median company with total assets of IDR 34.2 trillion, this is equivalent to an additional profit of IDR 711 billion per year.

With an estimated ESG implementation cost of IDR 150 billion per year, the net benefit reaches IDR 561 billion, resulting in an ROI of 374%.

Granger Causality Analysis.

Table 5. Granger Causality Test Results (Lag=2)

Null Hypothesis	F-Statistic	p-value	Decision
ESG does not Granger-cause ROA	4.23**	0.017	Reject H_0
ROA does not Granger-cause ESG	1.47	0.234	Fail to Reject
ESG does not Granger Cause ROE	3.89**	0.024	Reject H_0
ROE does not Granger Cause ESG	1.23	0.295	Fail to Reject

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The results confirm the unidirectional causality from ESG performance to financial performance with an optimal lag of 2 quarters, indicating that ESG practices indeed cause improved financial performance.

Performance by ESG Quartiles.

Table 6. Performance Comparison by ESG Quartiles

ESG Quartile	N	Mean ESG	Mean ROA	Mean ROE	Mean Tobin;s Q
Q1 (Low)	21	39.8%	5.2%	8.9%	1.08
Q2	22	50.2%	6.4%	11.2%	1.15
Q3	21	59.7%	7.3%	12.8%	1.21
Q4 (High)	21	69.1%	8.3%	14.7%	1.28

ANOVA results: ROA (F=6.84***), ROE (F=5.23***), Tobin's Q (F=4.12**), all significant at p<0.01. Performance Gaps: Q4 vs Q1 shows 59.6% higher ROA (8.3% vs 5.2%), 65.2% higher ROE (14.7% vs 8.9%), and 18.5% higher Tobin's Q (1.28 vs 1.08).

Robustness Test. Alternative ESG Specifications. Testing with different weighting schemes (equal-weighted, governance-heavy, environment-heavy) shows consistent positive coefficients in the range of 0.064-0.075 for the ROA model, confirming the robustness of the main findings of the study.

Sub-sample Analysis. Industry-specific analysis shows a positive effect of ESG across sectors: Manufacturing (β=0.073**), Banking (β=0.067*), Mining (β=0.095**), Consumer Goods (β=0.059*), Infrastructure (β=0.082**). The mining sector shows the strongest effect, likely due to high environmental pressure.

Mechanism Analysis. Mediation analysis reveals that risk management mediates 52.1% of the ESG-ROA relationship (Sobel test: z=2.03, p=0.043). ESG practices reduce the risk score by 0.234 points, which then contributes to increased ROA. In addition, ESG performance reduces the cost of capital (WACC) by 0.089% per point of increase.

The results provide strong empirical support for stakeholder theory in the context of emerging markets. Consistent positive correlations confirm that companies that effectively manage stakeholder relationships achieve superior financial returns through reduced risk, improved resource access, and increased innovation capacity.

ESG capabilities can be viewed as VRIN resources that create a sustainable competitive advantage. The results of Granger causality and persistence analysis (AR1=0.567) confirm that ESG investments create path-dependent advantages.

Practical Implications. ESG initiatives should be treated as strategic investments with an ROI of 374%. The implementation timeline analysis suggests: Q1-2 for initial investment, Q3-4 for operational improvements, Q5-6 for visible financial benefits, and Year 2+ for full realization.

Industry-specific strategies are needed: Mining/Energy focuses on environmental management, Financial Services on governance, Manufacturing on a balanced approach, and Consumer Goods on social responsibility.

Policy Implications. A strong evidence base supports mandatory sustainability reporting with a phased implementation: Phase 1 for large caps (>IDR 50T), Phase 2 for mid caps (IDR 5-50T), and Phase 3 for all listed companies. The development of ESG data infrastructure and market incentives is also critical for market efficiency.

CONCLUSION

This study successfully confirmed all hypotheses with robust empirical evidence. ESG performance has a significant positive effect on the financial performance of public companies in Indonesia, with magnitudes: ROA (β=0.071***), ROE (β=0.104***), and Tobin's Q (β=0.008**).

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Key findings: (1) ESG scores increased consistently from 48.6% (2020) to 54.0% (2023) with a CAGR of 3.6%, (2) companies in the highest ESG quartile showed 59.6% higher ROA than the lowest quartile, (3) ROI from ESG investment reached 374% with a payback period of less than 3 years, and (4) unidirectional causality from ESG to financial performance with a lag of 2 quarters.

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