

ABSTRACT

This study aims to examine the effect of Environmental, Social, and Governance (ESG) disclosure on corporate financial performance in manufacturing companies listed on the Indonesia Stock Exchange. This research is grounded in stakeholder theory and legitimacy theory, which explain that ESG disclosure functions as a mechanism for companies to fulfill the interests of various stakeholders and to obtain and maintain legitimacy from society, thereby enhancing reputation, investor trust, and financial performance.

This quantitative study employs secondary data obtained from financial reports and Bloomberg data on 64 manufacturing companies listed on the Indonesia Stock Exchange during the period 2022–2024, selected using purposive sampling, resulting in 192 observations. ESG disclosure is measured using the proportion of ESG items disclosed in sustainability reports, while financial performance is measured using ROA and ROE. Data analysis is conducted using multiple linear regression, classical assumption tests, and hypothesis testing using SPSS.

The results indicate that ESG disclosure as an aggregate variable does not have a significant effect on ROA, although it shows a positive direction, nor on ROE, which shows a negative direction. This finding reflects the existence of a trade-off due to short-term implementation costs that have not yet been compensated by their economic benefits. Partially, the environmental dimension has a positive and significant effect on financial performance, leading to the rejection of H1a and H2a, indicating that higher corporate transparency in environmental information enhances the company's capability to optimize financial performance. The social dimension does not show a significant effect, leading to the rejection of H1b and H2b, suggesting that social disclosure has not yet provided a measurable contribution to financial performance. In contrast, the governance dimension is found to have a significant negative effect, resulting in the acceptance of H1c and H2c, indicating that increased governance disclosure is associated with a decline in financial performance. These inconsistent findings confirm that each ESG pillar has distinct characteristics and cost implications on corporate profitability.

Keyword: environmental, social, governance (ESG) disclosure score, financial performance, Return on Assets (ROA), and Return on Equity (ROE).