JOURNAL OF APPLIED MANAGERIAL ACCOUNTING
Vol. {8}, No. {1}, {2024}, {28-46}
ISSN: {2548-9917} (online version)

Article History
Received {March, 2024}
Accepted {March, 2024}

THE INTERPLAY BETWEEN ESG DISCLOSURE AND FINANCIAL PROFITABILITY

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ABSTRACT

This study seeks to elucidate the correlation between the enactment of environmental, social, and governance (ESG) pillars and financial profitability. A total of 275 samples were amassed from 55 corporations listed on the Indonesia Stock Exchange, chosen via the purposive sampling technique. The ESG scoring data employed in this investigation was evaluated following the criteria set forth by Thomson Reuters Eikon. To examine the nexus between profitability and the ESG pillars, this research utilized the panel data regression methodology. The theoretical framework guiding hypothesis formulation was the resource-based view theory. The findings of this inquiry reveal that the environment, social, and governance variables exert a significant positive impact on corporate profitability. The implications of these findings suggest that this research could act as a pivotal consideration for corporations to integrate non-financial performance indicators within their operational strategies. Furthermore, the outcomes of this study provide investors with a metric to gauge the potential and efficiency of companies in achieving optimal profitability.

Keywords: *Environment; Social; Governance; Profitability; Resource-based View.*

ABSTRAK

Penelitian ini bertujuan untuk mengetahui hubungan antara penerapan pilar *environment*, *social*, dan *governance* terhadap profitabilitas finansial. Jumlah total sampel penelitian adalah sebanyak 275 sampel dari 55 perusahaan terdaftar di Bursa Efek Indonesia yang dipilih berdasarkan metode *purposive sampling*. Data scoring ESG yang menjadi data pada penelitian ini dinilai berdasarkan panduan yang diterbitkan oleh Thomson Reuters Eikon. Penelitian ini menggunakan metode regresi data panel dalam menganalisis keterkaitan antara profitabilitas dengan pilar *environment*, *social*, serta *governance*. Teori yang digunakan sebagai pedoman dalam pengembangan hipotesis adalah teori *resource-based view*. Hasil penelitian ini menunjukkan bahwa seluruh variabel yaitu *environment*, *social*, dan *governance* berpengaruh positif dan signifikan terhadap profitabilitas perusahaan. Implikasi dari hasil penelitian ini adalah riset ini diharapkan dapat menjadi bahan pertimbangan bagi perusahaan untuk memperhatikan faktor kinerja non keuangan dalam operasional perusahaan. Selain itu, pihak investor dapat menggunakan hasil penelitian ini untuk mengetahui kelayakan dan kemampuan perusahaan dalam menghasilkan keuntungan yang optimal.

Kata Kunci: Lingkungan; Sosial; Tata Kelola; Profitabilitas; *Resource-based View*.

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1 INTRODUCTION

The COVID-19 pandemic is a phenomenon that affects all lines, not only disrupting public health, but also harming corporate financial markets (Babu et al., 2022). Many companies in the world, especially in Indonesia, have experienced performance disruptions because they have not been able to fully minimize existing risks (Ekaputra et al., 2023). As reported by Hrf and Agt (2020), a number of mining companies in Indonesia such as PT Vale Indonesia Tbk and PT Aneka Tambang Tbk recorded considerable losses because they had to cover the financial burden that arose. In a study conducted by Li et al. (2022), the application of Environmental, Social, and Governance (ESG) can act as an impression and risk management tool so that the risks that occur when conditions are volatile such as COVID-19 can be minimized. Even before the pandemic, non-financial indicators such as a company's business, social and environmental governance practices were increasingly important, not only to policymakers and the general public, but also to investors (Garcia et al., 2017).

The implementation of ESG in Indonesia is not running optimally because there are still many companies that have not been able to achieve sustainable profits or disclose their sustainability to the public (Kartika et al., 2023). As a member of the United Nations, all companies in Indonesia must achieve target 12.6 of the Sustainable Development Goal, which is to adopt sustainable values and submit sustainability reports to the public no later than 2030 (Johan & Toti, 2022). The Indonesian government through the Indonesia Stock Exchange (IDX) has issued a stock index called SRI-KEHATI, which is one of the indexes for companies that meet the criteria for Sustainable Responsible Investment (Johan & Toti, 2022). Therefore, on December 08, 2020, the IDX re-announced 30 stocks that have implemented ESG principles (Tamara & Budiman, 2022). In addition to seeking profit, companies must pay attention to the impacts arising from their operational activities, namely social impacts (Social) and impacts on the surrounding environment (Environment) (Ningwati et al., 2022). With ESG practices, it is expected that the company has a long term value so that it can maintain its business (Matos, 2020).

The three dimensions of sustainability are measured by different business performance indicators, namely Operational Performance through the Return on Assets (ROA) indicator, Financial Performance through the Return on Equity (ROE) indicator, and Market Performance through the Tobin's Q (TQ) indicator (Buallay, 2019). ROA and ROE are widely used by companies to make decisions, utilized by internal and external stakeholders to measure company performance, and used as a tool to make investment decisions for investors (Oprean-Stan et al., 2020). Furthermore, ROE is the tool most often used by investors in making decisions and is often referred to as a measure of profitability by shareholders (Karyatun, 2022).

The results of this study are expected to be a consideration for companies to pay more attention to the disclosure and application of ESG and as a means for investors to determine the feasibility and ability of the company to generate profits. In addition, this research should be utilized as a literature review in the scientific field of accounting, especially knowledge related to the profitability of a business entity. There are significant differences when compared to previous studies. This study uses a sample of non-financial company data with a fairly large range, namely in the interval 2017-2021. With a sample size of 275, namely 55 companies listed on the IDX, the results of this study are able to describe the condition of corporate sustainability in Indonesia. In

contrast to other studies, this study has a novelty in the form of comprehensive development in measuring the influence of the Environment, Social, and Governance pillars based on the Refinitiv framework on company profitability represented by the ROE indicator. This study adopts a theory that is still rarely used in previous studies, namely Resource-based View Theory. This theory is used as a guideline in preparing the research hypothesis. The model control in this study uses a rigid variable control structure. Therefore, the regression results and data analysis obtained are expected to be more reliable and robust.

Many of the previous studies only focused on one ESG pillar. In fact, ESG issues are interconnected issues and if you only look at ESG from one dimension, it can cause a problem (Galbreath, 2013). Therefore, this research not only focuses on one ESG pillar, but also involves the three pillars of ESG as independent variable X. The study aims to analyze the relationship between the variables on ESG and corporate profitability. The study is supported by eight control variables that describe the real financial condition of the company, namely Total Asset Turnover, Asset Growth, Firm Leverage, Book to Market Ratio, Cash Turnover, Firm Age, Account Receivable Turnover, and Firm Sectors.

2 LITERATURE REVIEW

Several previous researchers have found a link between the disclosure of ESG aspects and company performance. Bhaskaran et al. (2020) in their research on 4887 companies in 51 countries around the world stated that there is a positive relationship between the implementation of ESG with company value (Tobin's Q) and company performance (ROE and ROA). The study, which specifically uses the Environment, Social, Governance, and ESG Combined Score pillars from Refinitiv, states that in institutional ownership, the Governance pillar has a higher dominance on investment. The same thing was also revealed by Nguyen et al. (2022) through their research on 57 non-financial companies listed on the S&P 500 for the 2019-2020 period. Based on data using Morgan Stanley Capital International (MSCI) indicators, it is known that ESG is positively related and significantly affects ROA, ROE, and Tobin's Q. Using 176 research samples of non-financial companies listed on the IDX in 2015-2018, Safriani and Utomo (2020) concluded that there is a positive and significant influence between ESG disclosure and Corporate Financial Performance (Return on Equity).

Likewise with the research results submitted by Al Amosh et al. (2022). Through their research on Levant countries in 2012-2019, it is known that the disclosure of Environmental and Social pillars has a positive effect on financial performance. However, the results of research on Governance Disclosure are quite different from the results of the research above. The study, which used The Thomson Reuters Eikon indicators, concluded that there was no influence between governance disclosure on market performance and financial performance. In research conducted by Johan and Toti (2022) on seven companies included in the SRI-KEHATI Index in 2015-2020, Environment disclosure has a significant negative effect on company profitability. Social disclosure has a positive insignificant effect on profitability. While Governance Disclosure has a significant positive effect on increasing the profitability of sample companies.

In the Resource-based View Theory, it is assumed that companies can compete with other business organizations to generate competitive advantages based on their ability to manage resources (Karyani & Perdiansyah, 2022). Companies can utilize tangible resources or tangible assets in the form of financial reserves and other physical assets such as factories, equipment, and raw material stocks (Thukral et al., 2019). Companies can also

emphasize the importance of creating and utilizing intangible assets such as skills, knowledge, and organizational culture (Vrontis et al., 2021). However, not all of these corporate resources have a significant role in creating a competitive advantage (Adnan et al., 2018). These resources must meet the "VRIN" criteria, namely (1) Valuable; resources are considered valuable if they provide strategic value to the company (2) Rare; resources must be difficult to find among existing and potential competitors (3) Imperfect Imitability; activities to imitate or imitate resources are impossible, and (4) Non-sustainability; these resources will not be replaced by other alternative resources (Chigara, 2021).

Resource-based View Theory explains that ESG performance as a resource can increase company output, make financial performance better, and reduce the possibility of accidents to the environment such as pollution phenomena (Zhou et al., 2022). These conditions demonstrate the company's capability and ability to run an environmentally friendly company. Based on the above statement, the first hypothesis in this study is that there is a positive and significant influence between Environmental disclosure on Return on Equity (ROE). On the other hand, a company that is able to maximize the existence of its workforce has a high value in the eyes of investors. The second hypothesis is that there is a positive and significant influence between Social disclosure on Return on Equity (ROE). Koroleva et al. (2020) in their research revealed that with strong support from the Governance pillar, Russian companies oriented towards ESG principles showed superior performance compared to other companies. Thus, the third hypothesis in this study is that there is a positive and significant influence between Governance disclosure on Return on Equity (ROE).

3 RESEARCH METHOD

This research uses the positivism paradigm. According to Ardani and Qadri (2022), the positivism paradigm is a research perspective based on rules and procedures. This research is a quantitative study based on secondary data. With quantitative methods, the research involves statistics to investigate secondary data. The types of statistics involved are descriptive statistics (description of the distribution and relationship between variables) and inferential statistics (Judithe, 2018). Variables are very important in quantitative methods because they must be classified and measured properly (Apuke, 2017).

The study used data from 55 non-financial companies listed on the Indonesia Stock Exchange (IDX) since January 01, 2017 with a total sample of 275 (55 companies x five years). Scoring or assessment of ESG pillars using guidelines published by Refinitiv or Thomson Reuters Eikon. The sampling method uses purposive sampling technique so that the selection of information is in accordance with the required criteria. These criteria include (1) non-financial companies listed on the IDX as of December 31, 2021 (2) non-financial companies listed on the IDX for the 2017-2021 period (3) non-financial companies for the 2017-2021 period that have at least one year of historical ESG scoring data. ESG scoring data is obtained from the official Refinitiv page which can be accessed via the link https://www.refinitiv.com. If the ESG score is not available on the page, researchers conduct content analysis of the sustainability report, annual report and/or financial statement of the sample company. The sample selection results are shown in Table 1 below. The database containing Refinitiv scores has been widely used in various academic publications (Reber et al., 2022). For 630 companies in the world, Refinitiv has categorized ESG assessment indicators into 10 general categories.

Table 1. Sampling Results

No	Description	Number
1	Non-financial companies listed on the IDX as of December 31, 2021	719
2	Non-financial companies listed on the IDX for the 2017-2021 period	(264)
3	Non-financial companies for the 2017-2021 period that have at least one year of historical ESG scoring data on the official Revinitiv website	(400)
4	Number of non-financial companies that can be used in research	55
5	Number of years of observation	5
	Total sample	275

Table 2. Detailed ESG Pillars

Pillar	Category	Theme	Number of Indicators
Environment	Emission	Exhaust emissions, refuse production, biological diversity, and ecological governance frameworks	18
	Inovation	Product innovation, green revenues, research and development, and capital expenditures	18
	Resource Use	Water, energy, sustainable packaging, and environmental supply chain	25
Social	Community	Equally important to all industry groups, hence a median weight of five is assigned to all	20
	Human Rights	Human rights	9
	Product Responsibility	Responsible marketing, product quality, and data privacy	13
	Workforce	Diversity and inclusion, career development and training, working conditions, and health and safety	48
Governance	CSR Strategy	CSR strategy, ESG reporting, and transparency	34
	Management	Structure (independence, diversity, committees) and compensation	16
	Shareholders	Shareholder rights and takeover defenses	27

The combination of the 10 categories will result in the Environment, Social, and Governance pillar score. To get a representative ESG scoring, this study only uses indicators with boolean data type. The boolean data is converted into numerical form. If the indicator is True, then the indicator is given a value of 1. Conversely, if the ESG implementation indicator is False, then the value of the indicator is 0. The details of each ESG pillar can be seen in Table 2.

The framework is a conceptual model of how a theory relates to various factors that have been identified and considered as important (Sugiyono, 2018). This study uses Return on Equity (ROE) as the dependent variable Y. ROE or profitability ratio shows the level of return received by company voters whose funds are invested by selling shares (Oprean-Stan et al., 2020). To reflect the current situation in the field, researchers only involve two categories in each pillar. The Environment pillar is represented by the Resource and Innovation categories, the Social pillar is represented by the Workforce and Community categories, and the Governance pillar is represented by the Management and Shareholders categories. This selection of categories for each pillar updates the number of independent variables used. The research is supported by X variables in the form of RSO (Resource), INV (Innovation), WOF (Workforce), CMU (Community), MGE (Management), and SHO (Shareholders). The conceptual model in this study can be seen in Figure 1.

The study used multiple linear regression tests. The panel data regression equation model in this study is as follows:

$$ROE_{it} = \alpha + \beta_1 RSO_{it} + \beta_2 INV_{it} + \beta_3 WOF_{it} + \beta_4 CMU_{it} + \beta_5 MGE_{it} + \beta_6 SHO_{it} + \beta_7 TAT_{it} + \beta_8 AGW_{it} + \beta_9 LEV_{it} + \beta_{10} BMV_{it} + \beta_{11} CTO_{it} + \beta_{12} AGE_{it} + \beta_{13} ART_{it} + \beta_{14} IND_{it} + \varepsilon_{it}$$

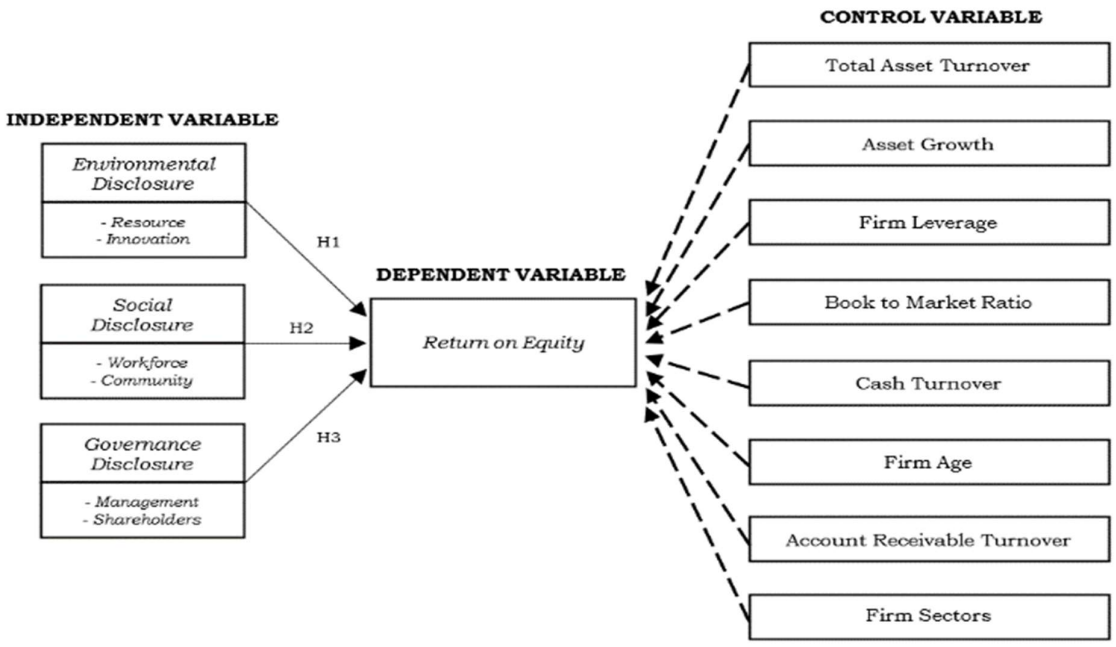

Figure 1. Theoretical Framework

Where, ROE_{it} is the Return on Equity (ROE) of company i in year t; α is the intercept or constant value; β is the regression coefficient of the dependent, independent, and control variables; RSO is the disclosure score of Environment pillar of Resource category; INV is the disclosure score of Environment pillar of Innovation category; WOF is the disclosure score of Social pillar of Workforce category; CMU is the disclosure score of Social pillar of Community category; MGE is Management category Governance pillar disclosure score; SHO is Shareholders category Governance pillar disclosure score; TAT is Total Asset Turnover; AGW is Asset Growth; LEV is Financial Leverage; BMV is Book to Market Ratio; CTO is Cash Turnover; AGE is Firm Age; ART is Account Receivable Turnover; IND is Firm Sector; i is sample company; t is period or year; ε is residual.

This study uses 15 types of variables, namely one dependent variable, six independent variables, and eight control variables. To control the influence of the independent variables on the dependent variable, the study involves eight control variables, one of which is the firm sector variable. The definition and measurement of research variables can be seen in Table 3.

Table 3. Operational Definition of Variables

Variable	Proxy	Description	Formula
Dependent Variable (Y)			
Return on Equity	ROE	Return on Equity (ROE) is a measure of profitability based on the company's ability to generate profits at a certain level of share capital (Triyani et al., 2020).	$\frac{Net\ Income}{Shareholder\ Equity}$
Independent Variable (X)			
Environment Disclosure	RSO	ESG disclosure on the Environment pillar is based on guidelines published by Thomson Reuters involving three categories and ten themes.	$\frac{Total\ RSO\ Indicator\ with\ value\ 1}{Total\ of\ all\ RSO\ Indicators}$
	INV		$\frac{Total\ INV\ Indicator\ with\ value\ 1}{Total\ of\ all\ INV\ Indicators}$
Social Disclosure	WOF	ESG disclosure on the social pillar is based on guidelines published by Thomson Reuters involving four categories and nine themes.	$\frac{Total\ WFO\ Indicator\ with\ value\ 1}{Total\ of\ all\ WFO\ Indicators}$
	CMU		$\frac{Total\ CMU\ Indicator\ with\ value\ 1}{Total\ of\ all\ CMU\ Indicators}$
Governance Disclosure	MGE	ESG disclosure on the Governance pillar is based on guidelines published by Thomson Reuters involving three categories and six themes.	$\frac{Total\ MGE\ Indicator\ with\ value\ 1}{Total\ of\ all\ MGE\ Indicators}$
	SHO		$\frac{Total\ SHO\ Indicator\ with\ value\ 1}{Total\ of\ all\ SHO\ Indicators}$
Control Variable			
Total Asset Turnover	TAT	Total asset turnover shows the effectiveness of working capital, the relationship between working capital and sales, and the amount of sales obtained by a business against working capital (Supardi et al., 2016).	$\frac{Net\ Sales}{Total\ Assets}$

Variable	Proxy	Description	Formula
Asset Growth	AGW	Asset Growth can be measured by calculating the company's current assets minus last year's assets and then dividing by last year's assets. (As'ari & Yaya, 2020).	$\frac{Asset\ Year\ t - (Asset\ Year\ t-1)}{Asset\ Year\ t-1}$
Financial Leverage	LEV	Leverage is used by companies to finance their operations. Companies with a high level of leverage have a tendency to violate credit agreements, so they can use sustainability reports to obtain loans from stakeholders (Maryana & Carolina, 2021).	$\frac{Total\ Liabilities}{Total\ Assets}$
Book to Market Ratio	BMV	Book to market ratio is a ratio used to measure company performance through market prices. The higher the Book to Market ratio, the lower the market values the company's shares. (Justina, 2017).	$\frac{Book\ value\ of\ equity}{Market\ value\ of\ Equity}$
Cash Turnover	CTO	Cash turnover is used to measure the level of cash availability in making bill payments and sales-related costs (Kasmir, 2012). The higher the cash turnover, the more efficient the use of cash (Riyanto, 2010).	$\frac{Sales}{Average\ Cash}$
Firm Age	AGE	Firm Age or Age of the Company is written in years, calculated since the company was established or when the business started running (Abdi et al., 2022).	$Ln\ (Age)$
Account Receivable Turnover	ART	Accounts receivable turnover is used to measure how long it takes to collect receivables during one period (Kasmir, 2012). The faster the turnaround period, the faster the company will benefit from credit sales (Riyanto, 2010).	$\frac{Net\ Credit\ Sales}{Average\ Account\ Receivable}$
Firm Sector	IND	Variable that states the type or sector of the company	1–Energy 2–Basic Materials 3–Industrials 4–Consumer Non-Cyclical 5–Consumer Cyclical 6–Healthcare 7–Financials, 8–Property and Real Estate 9–Technology 10–Infrastructure, 11–Transportation & Logistics

To get the right approach in data processing, researchers test the regression model estimation. Three types of estimates in panel data regression models include the Common Effect Model (CEM), Random Effect Model (REM), and Fixed Effect Model (FEM) (Amaliah et al., 2020). Widarjono (2007) states that the Common Effect Model (CEM) is a simple regression estimation technique that does not care about time factors and individual dimensional differences. The Random Effect Model (REM) is a regression model estimation technique that assumes that there are differences in intercepts between individuals. Ghozali (2022) states that assuming a constant slope coefficient in each company, the Fixed Effect Model (FEM) involves the individuality of the cross-sectional unit by making the intercept (average value on variable Y) vary for each company. In order to determine the quality of regression in accordance with the provisions, the data used must go through classical assumption testing. The conditions that must be met in the classical assumption test are Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test.

Normality test is a test that aims to determine the condition of the regression model created, whether the data derived from the independent variable and the dependent variable are normally distributed or not (Sunyoto, 2016). Testing can use the Kolmogorov-Smirnov Test of Normality. If the significance number (SIG) is less than 0.05, then the data is not normally distributed.

Multicollinearity test is a type of test used to analyze multiple regression on independent variable X which is more than one, where the independent variable will be tested for its closeness to other independent variables (Sunyoto, 2016). Data testing through the multicollinearity test is done by taking the Variance Inflation Factor (VIF) value. Multicollinearity-free data has a tolerance value of 1, while the VIF limit is at 10. If the tolerance value is less than 0.10 or VIF is less than 10, then there is multicollinearity in the regression.

Heteroscedasticity test is conducted to determine whether there is no similarity in the variance of the residuals of an observation to another observation in a regression model (Sunyoto, 2016). If the significance value is greater than 0.05, then there is no heteroscedasticity in the data. Conversely, if the significance value is less than 0.05, then heteroscedasticity occurs in the data.

Autocorrelation test is a classic assumption test to determine the linear correlation between current period confounding errors and the previous period (Sunyoto, 2016). If there is autocorrelation in a regression model, the data is inefficient because the estimation becomes biased and does not have a minimum variance. This test is done with the Wooldridge Test. If Prob F is less than 0.05, then autocorrelation occurs.

To test the hypothesis, this study uses two types of statistical tests, namely the F Statistical Test (Simultaneous Test) and the T Statistical Test (Partial Test). The F Statistical Test was conducted to determine the simultaneous influence of all independent variables formulated on the dependent variable (A. Lind et al., 2007). The F test is done by comparing the significance level α against the probability (sig F). If the probability (sig F) is greater than α (0.05), then there is a significant influence between the independent variable and the dependent variable. In the F test, the coefficient of determination (R2) plays a role in providing information on the feasibility of a regression model. The range of the coefficient of determination values is from 0 to 1. If the coefficient of determination is closer to 1, the regression model used is increasingly able to explain the dependent variable.

The T statistical test is conducted to test the effect of each independent variable on the dependent variable (A. Lind et al., 2007). If the significance value in this test is less than 0.05, which means rejecting H0, then the independent variable has an influence on the dependent variable. Conversely, if the significance value is greater than 0.05, which means failing to reject H0, then there is no influence between the independent variable and the dependent variable.

4 RESULTS AND DISCUSSION

The results of processing the research variables are presented in the form of mean value, standard deviation, minimum value, and maximum value. Each variable has a diverse average value. Meanwhile, in general, the standard deviation value of the independent variables is smaller than the average value. This value indicates a relatively low level of variability in the data. This can indicate consistency and accuracy in data presentation. The results of statistical data processing are outlined in Table 4.

Based on Table 4, the ROE variable has an average of 0.1131 with a minimum value derived from ACST in 2020 of -4.1356 and a maximum value obtained from UNVR in 2020 of 1.4509. The independent variables RSO and INV have an average of 0.3125 and 0.0489, a standard deviation of 0.2218 and 0.0721, a maximum value of 0.8333 and 0.3600, and a minimum value of 0.0000. While the WOF and CMU variables representing the social pillar respectively have an average of 0.4853 and 0.4392, a standard deviation of 0.1689 and 0.1910, a maximum value of 0.8500 and 0.7692, and a minimum value of 0.0000. Respectively, the independent variables MGE and SHO which represent the Governance pillar have a mean of 0.4196 and 0.4325, a standard deviation of 0.1480 and 0.2150, a maximum value of 0.7059 and 0.9375, and a minimum value of 0.0000.

For the eight control variables, data processing has been carried out and obtained quite diverse results. The first control variable, TAT, describes the company's asset turnover, with details of the average of 0.7498, standard deviation of 0.5939, minimum value of 0.0100, and maximum value of 3.9544.

Table 4. Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
ROE	275.0000	0.1131	0.4793	-4.1356	1.4509
RSO	275.0000	0.3125	0.2218	0.0000	0.8333
INV	275.0000	0.0489	0.0721	0.0000	0.3600
WOF	275.0000	0.4853	0.1689	0.0000	0.8500
CMU	275.0000	0.4392	0.1910	0.0000	0.7692
MGE	275.0000	0.4196	0.1480	0.0000	0.7059
SHO	275.0000	0.4325	0.2150	0.0000	0.9375
TAT	275.0000	0.7498	0.5939	0.0000	3.9544
AGW	275.0000	0.1141	0.2120	-0.7075	1.6761
LEV	275.0000	0.8529	1.0985	0.0000	6.6433
BMV	275.0000	0.0471	0.1653	-1.6734	0.5000
CTO	275.0000	15.2457	21.8571	0.2704	203.5991
AGE	275.0000	23.3818	9.1270	7.0000	34.0000
ART	275.0000	12.2699	16.4487	0.0012	129.7000
IND	275.0000	5.2727	3.3443	1.0000	11.0000

The negative minimum value on the AGW control variable indicates that there has been a decrease or negative growth in the company's assets of -0.7075. With a maximum value of the LEV control variable of 6.6433, it can be seen that there are companies with a significant level of use of borrowed funds greater than their own capital to make payments on interest and debt obligations. The minimum value of the BMV control variable of -1.6734 means that there are companies with a market value below their book value. The CTO control variable shows that the average level of corporate cash turnover is 15.2457. This means that the company efficiently performs cash turnover 15.2457 times during the period. Through the AGE control variable, it can be seen that the highest company age is 34 years and the smallest company age is 7 years. The prominent difference is seen in the minimum and maximum values of the ART control variable. The highest receivables turnover rate in this study is 129.7000 and the lowest rate is 0.0012. The higher the receivables turnover rate, the faster the company collects its receivables from customers.

In testing the hypothesis, this study uses regression analysis with three types of panel data models. The results of selecting the most effective regression model are shown in Table 5. The Chow test is the first test to determine the best model between CEM and FEM. With a probability value of 0.0001 or smaller than 0.05, the model chosen is the Fixed Effect Model. The Hausman test as the second test was conducted to determine the best model between REM and FEM.

The probability value greater than α, which is 0.0633, means that the model used is the Random Effect Model. While the Lagrange Multiplier (LM) Test as the third test was conducted to determine the best model between CEM and REM. The probability value of the Lagrange Multiplier Test which is smaller than 0.05 means that the model used is the Random Effect Model. From all these tests, it can be concluded that the Random Effect Model (REM) is the most effective model for estimating the accuracy of panel data regression. The estimation method used in this study is Ordinary Least Square (OLS), where testing of classical assumptions must meet several tests, namely Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test.

The significance number of the Kolmogorov-Smirnov Test of Normality test which is less than 0.05 indicates that the research data is not normally distributed. However, because the amount of data observed is quite large, it can use the Central Limit Theorem (CLT) assumption. Kwak and Kim (2017) mention that if the number of samples is large (more than 30), then the average of the samples will be normally distributed. None of the values of the independent variable X exceeds the tolerance value of 0.10 so it can be concluded that the data in this study is data free from multicollinearity. Through the autocorrelation test, a probability value of 0.8241 is obtained so it can be concluded that there is no linear correlation between the research data and the confounding error of the current period and the previous period.

Table 5. Model Selection

Test Type	Probability	Type Analysis Model		
		CEM	FEM	REM
Chow Test	0.0001		v	
Hausman Test	0.0633			v
Lagrange Multiplier Test	0.0000			v

Table 6. Regression Results

Determinants	Coef.	Std. Err.	P>z
RSO	-0.3687	0.1366	0.0035
INV	1.6118	0.3091	0.0000
WOF	0.3219	0.1908	0.0460
CMU	0.2707	0.1546	0.0400
MGE	-0.3452	0.2040	0.0455
SHO	0.1917	0.1188	0.0535
TAT	0.1694	0.0374	0.0000
AGW	0.1332	0.0857	0.0600
LEV	-0.0362	0.0185	0.0255
BMV	2.0104	0.1101	0.0009
CTO	-0.0002	0.0009	0.4180
AGE	-0.0003	0.0023	0.4455
ART	0.0015	0.0011	0.0805
IND	0.0111	0.0063	0.0380

Each independent variable of this study is represented by two categories in each ESG pillar. The Environment pillar is represented by the Resource and Innovation categories, the social pillar is represented by the Workforce and Community categories, and the Governance pillar is represented by the Management and Shareholders categories. The regression results on panel data using the Random Effect Model are shown in Table 6.

Referring to table 6, the P-value of the independent variables RSO and INV are 0.0035 and 0.0000, respectively. Both P-values are less than 1, which means that the independent variables RSO and INV have a positive influence on the dependent variable ROE. Based on this, **the first hypothesis** which states that the Environment pillar has a positive and significant effect on company profitability **can be accepted**.

The independent variables WOF and CMU have a P-value of 0.0460 and 0.0400. The value that is between the range of 0 to 1 means that there is a positive influence between the WOF and CMU variables and the dependent variable ROE. The coefficient of the WOF variable of 0.3219 means that if the value of the WOF variable increases by one unit, the value of the dependent variable ROE will increase by 0.3219 as well.

If the CMU variable increases by one unit, the value of the dependent variable ROE will also increase by 0.2707. In accordance with the above statement, **the second hypothesis** which states that the social pillar has a positive and significant effect on company profitability **can be accepted**. Meanwhile, the Governance pillar represented by the MGE and SHO variables has a P-value of 0.0455 and 0.0535. Both have a small P-value of 1 so it can be concluded that **the third hypothesis** which states that the Governance pillar has a positive and significant effect on profitability **can be accepted.**

The results of the first hypothesis test between the independent variable environment and the dependent variable Return on Equity show **a positive and significant relationship**. In accordance with the Environmental concept in Resource-based View Theory, this result can be interpreted into several meanings, namely the achievement of the company's strategy to minimize environmental impacts and the company's success in implementing innovations to the environment. Research conducted by Ronda-Pupo and Guerras-Martin (2012) concluded that companies can bridge the

gap between the goals to be achieved and the way to achieve them through the application of appropriate strategies and tactics. Meanwhile, innovation in Environment will create its own value for customers (Jalonen, 2011) and become a source of competitive advantage for companies to compete in the global market (Laosirihongthong et al., 2014). This is in accordance with the results of research conducted by Triyani et al. (2020) on 32 public companies in Indonesia for the period 2012-2016 where a positive relationship was found between ESG disclosure of the Environment pillar and company performance, namely Return on Equity. Ong et al. (2014) in their research on 78 companies listed on the Malaysia Stock Exchange also stated the same thing, namely the discovery of a positive correlation between the efficient use of natural resources and the company's financial performance (ROA and ROE).

The results of this study indicate that the more massive the implementation of the environment pillar in a company, the higher the profitability that will be obtained by the company. This phenomenon can be seen from the strong commitment of world companies in adopting the Green Company principle. Companies that wisely use resources such as energy, water, and raw materials have a great opportunity to attract the attention of investors. The company is considered capable of increasing production efficiency, reducing production costs, and increasing profit margins. In addition, investors will also be interested in companies that successfully manage scarce and valuable resources because this success reflects the company's level of compliance with applicable regulations. Broadly speaking, investors tend to choose companies that are able to minimize risks, are not dependent on certain suppliers, and do not lose money when operational instability occurs. Therefore, in its journey, the company needs innovation so that the business can survive and make a profit. One of the innovations that can be applied is the utilization of technology in achieving the efficiency of the production process. The company's competitive advantage in terms of technology utilization will be difficult to imitate by other companies. Not only does it require a large investment, its procurement requires special expertise which not all companies can have. The company's success in utilizing this technology reflects the company's adaptability to environmental issues. Investors will be attracted to this kind of company because the business entity can have a strong trademark and be able to generate long-term profits.

The results of the second hypothesis test between the independent variable social on the dependent variable Return on Equity show **a positive and significant relationship**. According to Resource-based View Theory, Social means humans who in an economic context act as labor or as a leader (Freeman et al., 2021). RBV treats humans as a tool to achieve competitive advantage and superior performance. Companies that succeed in providing security and comfort will create satisfaction at work. Companies that pay attention to Social Disclosure not only get internal benefits, but can also get external benefits, or both (Branco & Rodrigues, 2006). Sandberg et al. (2022) in their research on food industry companies in Europe for the 2017-2020 period found that there was a positive and significant relationship between all ESG activities, including the relevance between social activities and profitability. This opinion is also in line with research conducted by Hussain et al. (2018) on 44 companies from 12 different industries in the United States from 2007-2011, where Environmental and Social Performance consistently have a positive and significant relationship with all financial performance measurements, including measurements on Return on Equity.

This research shows that the higher the values of the independent variables representing the social pillar, the greater the

profitability of a company. Investors tend to prefer companies that implement a comprehensive workforce. Building a strong workforce requires investment in training, development and the creation of a positive work environment. The company's success in creating an inclusive and collaborative work culture reflects the company's good faith in fulfilling its responsibilities to stakeholders. With a skilled, knowledgeable and committed workforce, companies can improve efficiency in operations. Collaboration between diverse employees can lead to innovative ideas, solutions and changes. Therefore, as a valuable asset, competent and qualified human resources must be maintained. The company's failure to retain employees can be one of the considerations for investors because the costs incurred are quite high. Meanwhile, community involvement in the implementation of the Social pillar has a major influence on investor decisions. The support of the surrounding community is considered as something valuable because the company gets easy access to resources and has a great opportunity to expand. Companies that are actively involved in the community gain access to potential customers in the market. The company's ability to develop products according to market needs reflects its understanding of the needs and values of the local community. Through this strong foundation, investors become more confident to invest their capital in companies that they believe are capable of providing sustainable returns.

The results of the third hypothesis test show that there is **a positive and significant relationship** between the independent variable governance and the dependent variable Return on Equity. According to the Resource-based View Theory, corporate governance must focus on internal mechanisms based on value, rarity, imitability, and substitutability (Sabourin, 2020). This mechanism involves the ability to identify, develop, and protect resources so as to create uniqueness among other companies. Therefore, the role of governance must effectively maximize these capabilities and resources (Sabourin, 2020). Companies must support diversity in Board Management and maximize the involvement of shareholders. It is intended that the company can increase stakeholder confidence in creating long term value. Like the test results above, Koroleva et al. (2020) in their research on 30 companies from seven different sectors found that Russian companies with policies based on Good Governance have good performance indicators. In line with these results, Naeem et al. (2022) in their research on 383 companies from developing countries and countries with emerging economies found that there is a positive and significant correlation between ROE and Governance Performance. The better and more effective the implementation of Governance, the higher the company's ROE.

This study concluded that the higher the values of the independent variables representing the governance pillar, the greater the profitability of a company. The company assumes that corporate governance is a tool to achieve its goals. Management involvement in the governance pillar is a valuable resource because it plays an important role in decision making, risk management, and strategy implementation to improve company performance. Investors and other stakeholders tend to choose companies that are transparent and accountable as stated in their financial statements. Investors will be happier if the company is able to identify, measure, and manage risks appropriately so as to avoid market uncertainty and changes in the business environment. Of course, to fulfill the wishes of investors above, effective and accountable management is needed. Effective management will be able to maintain integrity, optimize the use of resources, and create a good organizational structure. In addition, investors will also be interested in companies that involve shareholders in their business processes as a reflection that the company pays attention

to stakeholders. It is important for companies to establish a good relationship with shareholders because the relationship between the two will increase reputation and trust in the community. The company's success in involving shareholders in both strategic management and capital investment will increase the chances of investors choosing the company.

5 CONCLUSION

This study concludes that there is a positive and significant relationship between the implementation of the environmental pillar and company profitability. Business entities that disclose environmental performance tend to get a positive response so that their image in the community increases. Meanwhile, companies that implement the social pillar and disclose their performance will gain internal, external, or both benefits. What is meant by internal benefits is the growth of employees' sense of belonging. This condition will increase productivity at work so that the company's goal of obtaining profits can be achieved. As for the external benefit, it is the company's advantage to find capable employee candidates and the right investor candidates. The third conclusion of this study is the finding of a positive and significant relationship between the implementation of the governance pillar and company profitability. Companies with good governance will provide a sense of security for investors and potential future investors. Their company's ability to mitigate risks will lead it to its main goal, which is long-term profit maximization.

With the publication of this research, the literature on factors affecting the sustainability of a business entity can be sharpened. This research has the novelty of involving all ESG pillars, namely the Environment, Social, and Governance pillars in its aim to find a relationship to the profitability of a company. Theoretically, this research contributes to broaden the understanding of how ESG aspects affect a company's financial performance. In addition, this study has a practical contribution to provide information for investors and practitioners in considering ESG factors when making an investment decision. The lack of research involving ESG and Return on Equity is the first advantage of this research. In addition, the use of Resource-based View Theory for hypothesis development is the second advantage of this study when compared to other studies. ESG scoring data uses indicator bases published by The Thomson Reuters Eikon or Refinitiv which are quite rarely used in similar studies. Therefore, it can be stated that the data in this study is transparent, objective, accurate, and up-to-date.

This study still has various limitations that can be taken into consideration for further research. The study only uses company data in the 2017-2021 timeframe. In the future, the number of research samples can be increased in order to produce a comprehensive picture of the financial condition of non-financial companies in Indonesia. In addition, the study only used eight control variables. Future research is expected to involve more control variables because the more control variables, the more likely the research results will avoid bias. Finally, this study did not involve all indicators on each ESG pillar, be it the Environment, Social, or Governance pillars. The study only used two indicators from three indicators on the environment pillar, two indicators from four indicators on the social pillar, and two indicators from three indicators on the governance pillar. Future research is expected to involve all indicators on the ESG pillars so that the results obtained become more reliable.

6 ACKNOWLEDGEMENT

The researchers would like to thank the reviewers and editors for their comments and suggestions that helped improve the manuscript.

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