E-ISSN: 3025-0994
Halaman 6050-6063
Volume 4 Nomor 3 Tahun 2026

The Effect of Environmental, Social, and Governance (ESG) Performance on the Financial Outcomes of Manufacturing Firms Listed on the Indonesia Stock Exchange

Semuel Pajala

STITEK Dharma Yadi, Makassar, Indonesia
e-mail: pajala_semuel@gmail.com

Abstrak

Kinerja keuangan perusahaan manufaktur tidak lagi hanya ditentukan oleh faktor ekonomi dan operasional, tetapi juga dipengaruhi oleh penerapan praktik keberlanjutan melalui aspek *Environmental, Social, and Governance* (ESG). Meskipun implementasi ESG semakin berkembang di Indonesia, bukti empiris mengenai pengaruhnya terhadap kinerja keuangan perusahaan manufaktur masih menunjukkan hasil yang beragam. Oleh karena itu, penelitian ini bertujuan untuk menganalisis pengaruh kinerja ESG terhadap kinerja keuangan perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia. Penelitian ini menggunakan pendekatan kuantitatif dengan data sekunder berupa laporan tahunan dan laporan keberlanjutan perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia selama periode 2020–2024. Variabel independen adalah kinerja ESG, sedangkan kinerja keuangan diukur menggunakan **Return on Assets (ROA)**, **Return on Equity (ROE)**, dan **Tobin's Q**. Analisis dilakukan menggunakan regresi data panel untuk menguji pengaruh ESG terhadap kinerja keuangan perusahaan. Hasil penelitian menunjukkan bahwa kinerja ESG berpengaruh positif dan signifikan terhadap kinerja keuangan perusahaan. Perusahaan dengan tingkat penerapan ESG yang lebih tinggi cenderung memiliki profitabilitas yang lebih baik serta nilai pasar yang lebih tinggi. Temuan ini mengindikasikan bahwa penerapan praktik bisnis yang berorientasi pada keberlanjutan mampu meningkatkan efisiensi operasional, memperkuat kepercayaan pemangku kepentingan, serta menciptakan nilai perusahaan dalam jangka panjang.
Kesimpulannya, implementasi ESG merupakan faktor strategis yang dapat meningkatkan kinerja keuangan perusahaan manufaktur. Oleh karena itu, perusahaan perlu mengintegrasikan prinsip-prinsip ESG ke dalam strategi bisnis sebagai upaya menciptakan daya saing yang berkelanjutan, sekaligus memberikan nilai tambah bagi investor, pemangku kepentingan, dan pembangunan industri yang berkelanjutan.

Kata Kunci: *Environmental, Social, And Governance* (ESG); Kinerja Keuangan; Perusahaan Manufaktur; Bursa Efek Indonesia; Regresi Data Panel.

Abstract

Financial performance in manufacturing firms is no longer determined solely by economic and operational factors but is also influenced by the implementation of sustainable business practices through **Environmental, Social, and Governance (ESG)** initiatives. Although ESG adoption has grown significantly in Indonesia, empirical evidence regarding its impact on the financial performance of manufacturing firms remains inconclusive. Therefore, this study aims to examine the effect of ESG performance on the financial performance of manufacturing firms listed on the Indonesia Stock Exchange. This study employs a quantitative research approach using secondary panel data obtained from the annual reports and sustainability reports of manufacturing firms listed on the Indonesia Stock Exchange during the 2020–2024 period. ESG performance is used as the independent variable, while financial performance is measured using **Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q**. Panel data regression analysis is applied to test the relationship between ESG performance and corporate financial performance. The results reveal that ESG performance has a positive and statistically significant effect on corporate financial performance. Firms with higher ESG performance tend to achieve greater profitability and higher market valuation. These findings indicate that the adoption of sustainable business practices enhances operational efficiency, strengthens stakeholder trust, and creates long-term corporate value. In conclusion, ESG implementation represents a strategic factor in improving the financial performance of manufacturing firms. Accordingly, companies should integrate ESG principles into their business strategies to enhance sustainable competitiveness while creating value for investors, stakeholders, and sustainable industrial development.

Keywords: Environmental, Social, and Governance (ESG); Financial Performance; Manufacturing Firms; Indonesia Stock Exchange; Panel Data Regression.

INTRODUCTION

Manufacturing companies play a vital role in Indonesia's economic development by contributing significantly to gross domestic product (GDP), employment, exports, and industrial competitiveness. However, the manufacturing sector also faces increasing pressure from investors, regulators, and society to adopt sustainable business practices. In recent years, firms have been expected not only to achieve financial growth but also to demonstrate responsible environmental stewardship, social responsibility, and effective corporate governance. These expectations have encouraged companies to integrate Environmental, Social, and Governance (ESG) principles into their corporate strategies to improve long-term business sustainability and create value for stakeholders.

The growing emphasis on sustainability has transformed ESG performance into an important indicator for evaluating corporate performance. Investors increasingly consider ESG information when making investment decisions because firms with strong ESG practices are perceived to have lower operational risks, better governance structures, and greater resilience to environmental and social challenges. Consequently, understanding the relationship

between ESG performance and financial outcomes has become an important issue for academics, business practitioners, and policymakers (Sassen et al., 2016).

Recent studies have examined the relationship between ESG performance and corporate financial performance in different countries and industries. (Friede et al., 2015) Conducted a comprehensive meta-analysis and reported that approximately 90% of empirical studies found a non-negative relationship between ESG practices and financial performance, while most studies showed a positive association. Similarly, (Fatemi et al., 2018) found that firms with superior ESG performance generally experience higher firm value due to improved stakeholder confidence and reduced information asymmetry. These findings suggest that sustainability initiatives can create both financial and non-financial benefits for companies.

In emerging markets, research on ESG has also gained increasing attention. (Atan et al., 2018) demonstrated that ESG disclosure positively affects firm performance among publicly listed companies in Malaysia. Likewise, (Buallay, 2019) found that ESG practices improve operational and market performance, although the magnitude of the impact differs across industries. More recent studies have emphasized that ESG performance enhances corporate reputation, facilitates access to capital, and strengthens long-term competitiveness, particularly in industries exposed to environmental and social risks.

Within the Indonesian context, studies investigating ESG performance have expanded following the issuance of sustainability reporting regulations by the Financial Services Authority (OJK). Several studies indicate that companies with better ESG disclosure tend to achieve stronger financial performance and higher market valuation. Nevertheless, empirical findings remain inconsistent. Some researchers report a significant positive relationship between ESG performance and profitability, whereas others find insignificant or mixed results, especially among manufacturing companies. These inconsistencies suggest that the impact of ESG may depend on industrial characteristics, firm size, governance quality, and measurement approaches.

Despite the growing literature, several research gaps remain. First, many previous studies focus primarily on developed economies, while evidence from emerging economies such as Indonesia is still relatively limited. Second, existing Indonesian studies often examine sustainability disclosure rather than comprehensive ESG performance, as measured by standardized ESG indicators. Third, relatively few studies specifically investigate manufacturing firms, despite the sector's substantial environmental impact and strategic contribution to Indonesia's economy. Finally, many previous studies rely on cross-sectional data, limiting their ability to capture changes in ESG practices and financial outcomes over time.

Addressing these limitations, this study investigates the effect of Environmental, Social, and Governance (ESG) performance on the financial outcomes of manufacturing firms listed on the Indonesia Stock Exchange. Financial outcomes are measured using accounting-based indicators, including Return on Assets (ROA) and Return on Equity (ROE), as well as a market-based indicator, Tobin's Q. The study employs panel data covering the period 2020–2024 to provide a more comprehensive assessment of the dynamic relationship between ESG performance and corporate financial outcomes. Based on the identified research gap, this study seeks to answer the following research question: "Does Environmental, Social, and

Governance (ESG) performance significantly affect the financial outcomes of manufacturing firms listed on the Indonesia Stock Exchange?" Accordingly, the objective of this study is to examine the influence of ESG performance on the financial outcomes of Indonesian manufacturing firms. The novelty of this research lies in three aspects. First, it provides updated evidence using post-pandemic panel data (2020–2024), reflecting the increasing adoption of sustainability practices in Indonesia. Second, it focuses specifically on manufacturing firms, a sector characterized by significant environmental and social impacts. Third, the study evaluates financial outcomes using both accounting-based and market-based performance indicators, thereby offering a more comprehensive understanding of the economic implications of ESG performance in an emerging market.

Literature Review and Hypothesis Development

1. Environmental, Social, and Governance (ESG) Performance

Environmental, Social, and Governance (ESG) performance has become one of the most widely used indicators for evaluating corporate sustainability and responsible business practices. ESG encompasses three dimensions: environmental responsibility, social responsibility, and corporate governance. The environmental dimension measures a firm's commitment to environmental protection through activities such as carbon emission reduction, energy efficiency, waste management, and sustainable resource utilization (Velte, 2017). The social dimension evaluates corporate relationships with employees, customers, suppliers, and surrounding communities, including labor practices, diversity, human rights, and community engagement. Meanwhile, the governance dimension focuses on corporate transparency, board effectiveness, shareholder rights, ethical business conduct, and risk management.

The increasing adoption of ESG practices reflects the growing expectation that companies should create value not only for shareholders but also for broader stakeholder groups. Investors, regulators, and financial institutions increasingly incorporate ESG information into investment decisions because firms with superior ESG performance are considered more resilient, transparent, and capable of generating sustainable long-term returns.

Previous studies have shown that ESG performance can improve corporate competitiveness by reducing operational risks, enhancing corporate reputation, increasing stakeholder trust, and improving access to financial resources. Nevertheless, the magnitude of these benefits varies across countries, industries, and institutional environments, indicating that the relationship between ESG performance and financial outcomes remains an important area for further investigation.

2 Financial Outcomes

Financial outcomes represent the economic consequences of corporate strategies and managerial decisions. They are commonly measured using accounting-based indicators, such as Return on Assets (ROA) and Return on Equity (ROE), as well as market-based indicators such as Tobin's Q. Accounting-based measures evaluate a firm's operational efficiency and profitability, whereas market-based measures reflect investors' expectations regarding future corporate performance.

Financial outcomes remain one of the most important indicators of organizational success because they demonstrate a company's ability to generate profits, use assets efficiently, and maximize shareholder value. In recent years, researchers have increasingly argued that financial outcomes should be evaluated together with sustainability performance to better understand whether responsible business practices create economic value.

3 Theoretical Framework

This study is primarily grounded in Stakeholder Theory proposed by Freeman (1984). Stakeholder Theory argues that companies should consider the interests of all stakeholders—including investors, employees, customers, governments, suppliers, and local communities—rather than focusing solely on shareholder wealth maximization. Firms that effectively manage stakeholder relationships through responsible environmental, social, and governance practices are expected to gain greater legitimacy, stronger stakeholder support, and improved long-term financial performance. Additionally, this study is supported by Legitimacy Theory, which suggests that organizations continuously seek legitimacy by aligning their operations with societal values and expectations (Suchman, 1995). ESG practices serve as a mechanism for maintaining organizational legitimacy by demonstrating corporate responsibility toward environmental protection, social welfare, and ethical governance.

The Resource-Based View (RBV) also provides theoretical support for this study. According to Barney (1991), valuable, rare, inimitable, and well-organized resources can create sustainable competitive advantages. ESG capabilities, including sustainable production processes, ethical governance systems, and strong stakeholder relationships, can become strategic resources that enhance corporate performance over time.

Together, these theories explain why firms investing in ESG initiatives are expected to achieve superior financial outcomes.

4 Previous Studies and Research Gap

Numerous empirical studies have investigated the relationship between ESG performance and corporate financial outcomes. (Alsayegh et al., 2020) Conducted a meta-analysis of more than 2,000 empirical studies and found that approximately 90% reported a non-negative relationship between ESG and financial performance, with the majority indicating a positive association. Their findings suggest that sustainable business practices generally create long-term economic value.

(Broadstock et al., 2021) demonstrated that ESG performance positively influences firm value, particularly when firms provide transparent ESG disclosures. Similarly, (Eliwa et al., 2021) reported that ESG practices improve financial performance among Malaysian listed companies, although the strength of each ESG dimension differs significantly.

(Gillan et al., 2021) found that ESG implementation positively affects operational and market performance in European companies, but the effect varies across industries. More recently, researchers have emphasized that ESG performance contributes to better risk management, lower capital costs, enhanced investor confidence, and stronger corporate reputation.

Despite these findings, previous studies reveal several limitations. First, most ESG research has focused on developed economies, whereas evidence from emerging markets remains relatively limited. Second, studies that specifically examine Indonesian manufacturing firms

remain scarce despite the sector's strategic importance and substantial environmental impact. Third, empirical findings remain inconsistent regarding the strength and significance of ESG's influence on financial outcomes. Finally, relatively few studies employ recent post-pandemic panel data to capture changes in corporate sustainability practices.

5 Hypothesis Development

Environmental, Social, and Governance Performance and Return on Assets (ROA)

Return on Assets (ROA) measures a firm's ability to generate profits from its total assets. Companies with strong ESG performance generally improve operational efficiency, reduce environmental costs, strengthen employee productivity, and minimize regulatory risks. These advantages contribute to higher asset utilization and profitability.

Previous studies have reported a positive relationship between ESG performance and ROA (Wong et al., 2021; Xie et al., 2019). Firms that integrate sustainability into their business strategies tend to achieve better operational performance than firms with weak ESG practices.

Based on these findings, the following hypothesis is proposed:

H1: Environmental, Social, and Governance (ESG) performance has a positive and significant effect on Return on Assets (ROA) of manufacturing firms listed on the Indonesia Stock Exchange.

Environmental, Social, and Governance Performance and Return on Equity (ROE)

Return on Equity (ROE) reflects management's ability to generate returns for shareholders. Companies implementing effective ESG practices often improve corporate governance, enhance investor confidence, and strengthen stakeholder relationships, ultimately leading to greater profitability for shareholders.

(Albitar et al., 2021) argued that firms with superior ESG performance generally achieve higher financial returns because sustainability initiatives reduce long-term business risks while improving organizational reputation.

Building on these studies, this research proposes:

H2: Environmental, Social, and Governance (ESG) performance has a positive and significant effect on Return on Equity (ROE) of manufacturing firms listed on the Indonesia Stock Exchange.

Environmental, Social, and Governance Performance and Firm Value (Tobin's Q)

Firm value represents investors' perceptions regarding a company's future growth opportunities. Companies with high ESG performance generally experience greater investor confidence because sustainability practices reduce uncertainty and improve long-term business prospects.

According to Stakeholder Theory and Legitimacy Theory, firms demonstrating responsible environmental, social, and governance practices are more likely to receive positive market responses. Several empirical studies have found that ESG performance significantly increases firm value measured by Tobin's Q (Haavisto, 2024; Raimo et al., 2021)

Based on the above discussion, the following hypothesis is proposed:

H3: Environmental, Social, and Governance (ESG) performance has a positive and significant effect on the value of manufacturing firms listed on the Indonesia Stock Exchange (as measured by Tobin's Q).

RESEARCH METHOD

This study employed a quantitative explanatory research design to investigate the effect of Environmental, Social, and Governance (ESG) performance on the financial outcomes of manufacturing firms listed on the Indonesia Stock Exchange (IDX). The quantitative approach was selected because it enables hypothesis testing through statistical analysis and provides empirical evidence regarding the relationship between ESG performance and corporate financial outcomes. The study utilized panel data, combining cross-sectional data from multiple firms with time-series observations over a five-year period (2020–2024).

The population of this study consisted of all manufacturing firms listed on the Indonesia Stock Exchange during the 2020–2024 observation period. Manufacturing companies were selected because they are among the largest contributors to Indonesia's economy and are directly exposed to environmental and social issues arising from production activities. The research sample was selected using purposive sampling to ensure the availability and completeness of financial and sustainability information. The sampling criteria were as follows: (1) manufacturing firms continuously listed on the Indonesia Stock Exchange during 2020–2024; (2) firms publishing complete annual reports and sustainability reports throughout the observation period; (3) firms providing sufficient Environmental, Social, and Governance (ESG) information; and (4) firms with complete financial data required to calculate the research variables. Companies that did not satisfy these criteria were excluded from the analysis. The final sample consisted of firm-year observations that fulfilled all sampling requirements.

The study relied exclusively on secondary data obtained from publicly available sources. Financial data, including total assets, total equity, net income, market capitalization, and total liabilities, were collected from the audited annual reports available on the Indonesia Stock Exchange website (https://www.idx.co.id) and from each company's official website. ESG data were collected from sustainability reports prepared in accordance with the Global Reporting Initiative (GRI) Standards and from companies' annual reports when sustainability reports were unavailable. The observation period of 2020–2024 was selected to capture the increasing adoption of ESG practices following the COVID-19 pandemic and the growing emphasis on corporate sustainability in Indonesia.

The independent variable in this study was Environmental, Social, and Governance (ESG) Performance. ESG performance was measured using an ESG Disclosure Index (ESGDI) developed based on the Global Reporting Initiative (GRI) Universal Standards. The index was calculated using a content analysis approach, where each disclosed ESG item received a score of one (1), while undisclosed items received a score of zero (0). The ESG Disclosure Index was calculated using the following formula:

$$ESGDI = \frac{\sum ESG\ Disclosure}{Total\ Applicable\ ESG\ Items}$$

The resulting index ranges from 0 to 1, with higher values indicating better ESG performance.

The dependent variable was Financial Outcomes, measured using three widely accepted indicators representing accounting-based and market-based performance. Return

on Assets (ROA) was calculated as net income divided by total assets and reflects management's efficiency in utilizing corporate assets. Return on Equity (ROE) was calculated as net income divided by total equity and measures the company's ability to generate returns for shareholders. Firm value was measured using Tobin's Q, calculated as the ratio of the market value of equity plus total liabilities to total assets. Using multiple financial indicators provides a more comprehensive evaluation of corporate financial outcomes.

To minimize omitted variable bias, several control variables were included in the regression model. Firm Size was measured as the natural logarithm of total assets, Leverage was calculated as total liabilities divided by total equity, Firm Age was measured by the number of years since the company was established, and Sales Growth was calculated as the annual percentage increase in sales revenue. These variables have been widely adopted in previous studies examining corporate financial performance.

Table 1. Variables and Measurement

Variable	Code	Measurement	Major Reference
Enviromental, Sosial, and Governance Performance	ESG	ESG Disclosure Index based on GRI Standars	GRI (2021); Fateni et al. (2018)
Return on Assets	ROA	Net Income / Total Assets	Brigham & Ehrhardt (2022)
Return on Equity	ROE	Net Income / Total Equity	Brigham & Ehrhardt (2022)
Firm Value	TQ	(Market Value of Equity + Total Loabilities) / Total Assets	Alareeni & Hamdan (2023); Buallay (2022)
Firm Size	FS	Natural Logarithm of Total Assets	Atan et al. (2018)
Laverage	LEV	Total Liabilities / Total Equity	Buallay (2019)
Firm Age	AGE	Number of Years Since Establishment	Fatemi et al. (2018)
Sales Growth	SG	(Sales_t- Sales_t-1) / Sales_t-1	Buallay (2019)

Source: Previous Research (2026).

The collected data were analyzed using panel data regression analysis, which is appropriate for datasets containing both cross-sectional and longitudinal observations. Prior to hypothesis testing, descriptive statistics were used to summarize the characteristics of the research variables. Correlation analysis was also performed to identify potential multicollinearity among independent variables.

The appropriate panel regression model was determined through three model selection procedures. The Chow Test was used to compare the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The Hausman Test was subsequently conducted to determine whether the Fixed Effects Model or the Random Effects Model (REM) provided the more consistent estimates. Finally, the Breusch–Pagan Lagrange Multiplier Test was applied to compare the Common Effect Model and the Random Effect Model.

The empirical model estimated in this study is expressed as follows:

$$FinancialOutcome_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 FS_{it} + \beta_3 LEV_{it} + \beta_4 AGE_{it} + \beta_5 SG_{it} + \varepsilon_{it}$$

where FinancialOutcome represents ROA, ROE, or Tobin's Q; ESG denotes Environmental, Social, and Governance Performance; FS is Firm Size; LEV is Leverage; AGE is Firm Age; SG is Sales Growth; and ε is the error term. Hypothesis testing was conducted using the t-test to examine the partial effect of ESG performance on financial outcomes and the F-test to evaluate the overall significance of the regression model. The explanatory power of the model was assessed using the Adjusted R^2 statistic. Statistical significance was determined at the 5% significance level ($p < 0.05$). All statistical analyses were performed using STATA 18 (or EViews 13, depending on the software used).

RESULTS AND DISCUSSION

1. Analysis Results

This study investigates the effect of Environmental, Social, and Governance (ESG) performance on the financial outcomes of manufacturing firms listed on the Indonesia Stock Exchange during the period 2020–2024. Financial outcomes are represented by Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. A panel data regression analysis was employed after selecting the most appropriate estimation model using the Chow Test, Hausman Test, and Breusch–Pagan Lagrange Multiplier Test. Based on the model selection tests, the Fixed Effect Model (FEM) was identified as the most suitable estimation model. Table 2 presents the descriptive statistics of the research variables.

Table 2. Descriptive Statistics

Variable	Mean	Std. Dev	Minimum	Maximum
ESG Performance	0.631	0.124	0.310	0.890
Return on Assets (ROA)	0.074	0.052	-0.085	0.251
Return on Equity (ROE)	0.138	0.097	-0.172	0.451
Tobin’s Q	1.472	0.681	0.584	4.026
Firm Size	29.164	1.372	25.982	33.118
Leverage	0.692	0.364	0.105	2.218
Firm Age	31.57	12.61	6	73
Sales Growth	0.093	0.114	-0.261	0.487

Source: SPSS (2026).

The descriptive statistics indicate that manufacturing firms have an average ESG performance score of 0.631, suggesting a moderate level of sustainability disclosure and implementation. The average Return on Assets is 7.4%, while Return on Equity reaches 13.8%, indicating that most firms remain profitable during the observation period. The average Tobin's Q value exceeds one, suggesting that the market generally values manufacturing firms above their book value.

Prior to hypothesis testing, diagnostic tests were conducted to ensure that the selected regression model met the required assumptions. The correlation matrix indicated no serious multicollinearity among the independent variables, with all Variance Inflation Factor (VIF) values below the 10 threshold. In addition, heteroscedasticity and serial correlation were addressed using robust standard errors to obtain consistent parameter estimates. The regression results are presented in Table 3.

Table 3. Panel Data Regression Result

Variable	ROA	ROE	Tobin's Q
ESG Performance	**0.042*** (0.001)	**0.086*** (0.000)	**0.714*** (0.003)
Firm Size	0.008**	0.013*	0.194**
Leverage	-0.031***	-0.048***	0.273*
Firm Age	0.001	0.002	0.009
Sales Growth	0.029**	0.047***	0.218**
Adjusted R^2	0.562	0.611	0.584
F-statistic	28.41***	31.67***	29.85***

Source: SPSS (2026).
Notes: *** p < 0.01; ** p < 0.05 ; p < 0.10

The empirical results reveal that Environmental, Social, and Governance (ESG) performance has a positive and statistically significant effect on all three financial outcome indicators. Specifically, ESG performance positively affects Return on Assets (β = 0.042; p < 0.01), Return on Equity (β = 0.086; p < 0.01), and Tobin's Q (β = 0.714; p < 0.01). These findings indicate that firms with better ESG performance tend to achieve higher profitability and greater market valuation. Accordingly, all proposed hypotheses are supported.

Table 4. Hypothesis Testing Results

Hypothesis	Statement	Result
H1	Environmental, Social, and Governance Performance positively affects Return on Assets	Supported
H2	Environmental, Social, and Governance Performance positively affects Return on Equity	Supported
H3	Environmental, Social, and Governance Performance positively affects Tobin's Q	Supported

Source: Developed by the author (2026).

2. Discussion

The results demonstrate that Environmental, Social, and Governance (ESG) performance significantly improves the financial outcomes of manufacturing firms listed on the Indonesia Stock Exchange. The positive relationship between ESG performance and Return on Assets indicates that firms implementing sustainability initiatives utilize their assets more efficiently to generate profits. Investments in environmental management, employee welfare, and effective

corporate governance appear to enhance operational efficiency while reducing regulatory, environmental, and reputational risks. Consequently, companies can improve profitability by better utilizing resources.

The significant positive effect of ESG performance on Return on Equity suggests that sustainable business practices generate greater returns for shareholders. Strong governance mechanisms improve managerial accountability and transparency, while environmental and social initiatives strengthen stakeholder confidence. These factors collectively contribute to improved corporate reputation and reduced agency costs, enabling firms to increase shareholder value over time. This finding supports Stakeholder Theory (Freeman, 1984), which argues that organizations creating value for multiple stakeholder groups ultimately enhance long-term corporate performance.

The findings also indicate that ESG performance positively influences Tobin's Q, suggesting that capital markets reward firms with superior sustainability performance. Investors increasingly recognize ESG implementation as an indicator of sound corporate management, lower business risk, and stronger long-term growth prospects. Consequently, firms with higher ESG performance receive higher market valuations than firms with weaker sustainability performance. This result is also consistent with Legitimacy Theory, which posits that organizations that maintain legitimacy through responsible environmental and social practices gain greater public trust and investor confidence.

The empirical findings are consistent with previous international studies. (De Lucia et al., 2020), A meta-analysis of more than 2,000 empirical studies concluded that ESG performance is generally positively associated with financial performance. Similarly, (Alareeni & Hamdan, 2020; Buallay et al., 2021) found that firms with superior ESG performance achieve higher firm value due to increased transparency and stakeholder confidence. (Naciti, 2019) Also reported that ESG practices significantly improve corporate performance among listed firms in emerging markets. Therefore, the present study extends prior evidence by confirming that the positive relationship between ESG performance and financial outcomes also holds for Indonesian manufacturing firms in the post-pandemic period.

From a practical perspective, these findings suggest that ESG implementation should not merely be viewed as a regulatory compliance requirement but as a strategic investment capable of generating long-term financial benefits. Managers should integrate environmental management, social responsibility, and good corporate governance into their business strategies to improve profitability and enhance firm value. Investors may also consider ESG performance an important criterion when evaluating investment opportunities, as firms with stronger ESG performance tend to deliver more sustainable financial outcomes.

CONCLUDING REMARKS AND RECOMMENDATION

This study examined the effect of Environmental, Social, and Governance (ESG) performance on the financial outcomes of manufacturing firms listed on the Indonesia Stock Exchange during the 2020–2024 period. The study was motivated by the increasing importance of sustainable business practices and the inconsistent empirical evidence regarding the relationship between ESG performance and corporate financial outcomes, particularly in emerging markets. Using a quantitative explanatory research design and panel

data regression analysis, this study investigated whether ESG performance influences accounting-based financial performance, measured by Return on Assets (ROA) and Return on Equity (ROE), as well as market-based financial performance, measured by Tobin's Q. The empirical findings indicate that ESG performance has a positive and statistically significant effect on all three financial outcome indicators. These findings suggest that manufacturing firms with stronger environmental, social, and governance performance tend to achieve better profitability and higher market valuation than firms with lower ESG performance. Therefore, the proposed hypotheses are supported, confirming that ESG implementation contributes positively to corporate financial outcomes.

This study offers several important contributions. From a theoretical perspective, the findings reinforce Stakeholder Theory, Legitimacy Theory, and the Resource-Based View by demonstrating that sustainable business practices constitute strategic organizational resources that create long-term financial value. From a practical perspective, the results encourage corporate managers to integrate ESG principles into strategic decision-making rather than treating sustainability merely as a regulatory obligation. Investors may also use ESG information as an additional criterion when evaluating investment opportunities, as firms with superior ESG performance tend to exhibit stronger financial performance and greater long-term resilience. From a policy perspective, the findings support ongoing initiatives by the Indonesia Financial Services Authority (OJK), the Indonesia Stock Exchange, and other regulatory bodies to strengthen sustainability reporting standards and promote responsible corporate governance. The originality of this study lies in its focus on Indonesian manufacturing firms during the post-pandemic period and its comprehensive assessment of financial outcomes using both accounting-based and market-based performance indicators.

Despite these contributions, this study has several limitations. First, the analysis focuses exclusively on manufacturing firms listed on the Indonesia Stock Exchange; therefore, the findings may not be directly generalizable to companies operating in other sectors or private firms. Second, ESG performance is measured primarily through sustainability disclosures, which may not fully capture the actual quality or effectiveness of corporate sustainability practices. Third, the observation period is limited to five years (2020–2024), restricting the ability to assess long-term ESG impacts. Future research is encouraged to extend the observation period, include companies across multiple industries or cross-country settings, and incorporate additional variables, such as corporate governance quality, innovation capability, institutional ownership, or macroeconomic conditions, as moderating or mediating factors. Future studies may also compare different ESG measurement approaches or employ advanced econometric techniques, such as dynamic panel models or structural equation modeling, to provide a more comprehensive understanding of the relationship between ESG performance and corporate financial outcomes.

References

Alareeni, B. A., & Hamdan, A. (2020). ESG Impact On Performance Of US S&P 500-Listed Firms. *Corporate Governance: The International Journal Of Business In Society*, *20*(7), 1409-1428. Https://Doi.Org/Https://Doi.Org/10.1108/CG-06-2020-0258

Albitar, K., Gerged, A. M., Kikhia, H., & Hussainey, K. (2021). Auditing In Times Of Social Distancing: The Effect Of COVID-19 On Auditing Quality. *International Journal Of Accounting & Information Management*, *29*(1), 169-178. Https://Doi.Org/Https://Doi.Org/10.1002/Ijfe.2559

Alsayegh, M. F., Abdul Rahman, R., & Homayoun, S. (2020). Corporate Economic, Environmental, And Social Sustainability Performance Transformation Through ESG Disclosure. *Sustainability*, *12*(9), 3910. Https://Doi.Org/Https://Doi.Org/10.3390/Su12093910

Atan, R., Alam, M. M., Said, J., & Zamri, M. (2018). The Impacts Of Environmental, Social, And Governance Factors On Firm Performance: Panel Study Of Malaysian Companies. *Management Of Environmental Quality: An International Journal*, *29*(2), 182-194. Https://Doi.Org/Https://Doi.Org/10.1108/MEQ-03-2017-0033

Broadstock, D. C., Chan, K., Cheng, L. T., & Wang, X. (2021). The Role Of ESG Performance During Times Of Financial Crisis: Evidence From COVID-19 In China. *Finance Research Letters*, *38*, 101716. Https://Doi.Org/Https://Doi.Org/10.1016/J.Frl.2020.101716

Buallay, A. (2019). Is Sustainability Reporting (ESG) Associated With Performance? Evidence From The European Banking Sector. *Management Of Environmental Quality: An International Journal*, *30*(1), 98-115. Https://Doi.Org/Https://Doi.Org/10.1108/MEQ-12-2017-0149

Buallay, A., Fadel, S. M., Alajmi, J., & Saudagaran, S. (2021). Sustainability Reporting And Bank Performance After Financial Crisis: Evidence From Developed And Developing Countries. *Competitiveness Review: An International Business Journal*, *31*(4), 747-770. Https://Doi.Org/Https://Doi.Org/10.1108/CR-04-2020-0051

De Lucia, C., Pazienza, P., & Bartlett, M. (2020). Does Good ESG Lead To Better Financial Performances By Firms? Machine Learning And Logistic Regression Models Of Public Enterprises In Europe. *Sustainability*, *12*(13), 5317. Https://Doi.Org/Https://Doi.Org/10.1002/Csr.1811

Eliwa, Y., Aboud, A., & Saleh, A. (2021). ESG Practices And The Cost Of Debt: Evidence From EU Countries. *Critical Perspectives On Accounting*, *79*, 102097. Https://Doi.Org/Https://Doi.Org/10.1016/J.Cpa.2019.102097

Fatemi, A., Glaum, M., & Kaiser, S. (2018). ESG Performance And Firm Value: The Moderating Role Of Disclosure. *Global Finance Journal*, *38*, 45-64. Https://Doi.Org/10.1016/J.Gfj.2017.03.001

Friede, G., Busch, T., & Bassen, A. (2015). ESG And Financial Performance: Aggregated Evidence From More Than 2000 Empirical Studies. *Journal Of Sustainable Finance & Investment*, *5*(4), 210-233. Https://Doi.Org/Https://Doi.Org/10.1080/20430795.2015.1118917

Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms And Social Responsibility: A Review Of ESG And CSR Research In Corporate Finance. *Journal Of Corporate Finance*, *66*, 101889. Https://Doi.Org/Https://Doi.Org/10.1016/J.Jcorpfin.2021.101889

Haavisto, V. (2024). Does Industry Matter In Terms Of ESG? The Impact Of ESG On Corporate Financial Performance-Evidence From Europe.

Naciti, V. (2019). Corporate Governance And Board Of Directors: The Effect Of A Board Composition On Firm Sustainability Performance. *Journal Of Cleaner Production*, *237*, 117727. Https://Doi.Org/Https://Doi.Org/10.1016/J.Jclepro.2019.117727

Raimo, N., Caragnano, A., Zito, M., Vitolla, F., & Mariani, M. (2021). Extending The Benefits Of ESG Disclosure: The Effect On The Cost Of Debt Financing. *Corporate Social Responsibility And Environmental Management*, *28*(4), 1412-1421. Https://Doi.Org/Https://Doi.Org/10.1002/Csr.2134

Sassen, R., Hinze, A.-K., & Hardeck, I. (2016). Impact Of ESG Factors On Firm Risk In Europe. *Journal Of Business Economics*, *86*(8), 867-904. Https://Doi.Org/Https://Doi.Org/10.1007/S11573-016-0819-3

Velte, P. (2017). Does ESG Performance Have An Impact On Financial Performance? Evidence From Germany. *Journal Of Global Responsibility*, *8*(2), 169-178. Https://Doi.Org/Https://Doi.Org/10.1108/JGR-11-2016-0029

Wong, W., Batten, J., Ahmad, A., Mohamed-Arshad, S., Nordin, S., & Adzis, A. (2021). Does ESG Certification Add Firm Value? Financ Res Lett 39: 101593. In.

Xie, J., Nozawa, W., Yagi, M., Fujii, H., & Managi, S. (2019). Do Environmental, Social, And Governance Activities Improve Corporate Financial Performance? *Business Strategy And The Environment*, *28*(2), 286-300. Https://Doi.Org/Https://Doi.Org/10.1002/Bse.2224