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The Influence of Environmental, Social, Governance and Capital Structure Performance on Financial Performance

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ABSTRACT

This study aims to analyze the influence of Enviromental, Social and Governance (ESG), and capital structure on financial performace. This type of research is quantitative research with secondary data sources. The population in this study is financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022. The sample selection method used in this study is purposive sampling wich undergoes an outlier process, so that the final sample obtained is 10 companies. The result of the study shows that silmutaneously the variables of Enviromental, Social and Governance (ESG) and capital structure have an effect on financial performance. The result show that companies had high ESG scores and low capital structures can improve their financial performance. Then partially the Enviromental, Social and Governance (ESG) variables have an influence on financial performance. The result show that companies with high ESG scores have the potential to improve the company's financial performance. Furthermore, the capital structure variable has no effect on financial performance. The result show that Bank companies with a large amount of debt cannot affect the company's financial performance.

Keywords: Capital Structure, Enviromental, Financial Performance, Governance, Social

INTRODUCTION

Financial performance is an overview about company reliability in managing a business. Within financial performance, stakeholders easily known the power of company in increase the value for shareholders or otherwise (Budita & Fidiana, 2023). Financial performance also gave a deep perspective about company in manage the financial resources include liquidity, profitability, and financial risk. One of the ways to know a company financial performance is measured by Return On Assets (ROA). To measured Return On Assets (ROA) is need an information from financial report, especially from statement of financial position.

Enviromental, social, governance (ESG) is an important concept in the world of business and finance. This was caused by an increase in awareness of importance of social responsibility and governance among the company and investors. Especially regarding rights of the employee recieved and obligations the employee had to do. According to Yazid (2019) every company will always try to improve the employee performance, with hope that the goal of company achieved. Implementing sustainability principles such as Environmental, Social, and Governance (ESG) principles is a big step for a company in developing countries. This is because there are still few companies that apply ESG sustainability principles in developing countries, especially in Indonesia. Khairunnisa & Widiastuty (2023) state that countries such as the Philippines, Indonesia, India, and Malaysia are countries that fall into the category of underdeveloped in terms of ESG reporting (with a percentage of less than 10 percent of companies). In this study ESG measured with score that was published by company that provided some information about financials, and Bloomberg became one of those companies that provided the ESG score. Bloomberg published the ESG score based on 93 disclosures items, consists of 47 disclosures of environmental, 22 disclosures of social, and 24 diclosure of governance.

Capital structure is an important aspect in company financial management. The capital structure describes the proportion of a company's finances, specifically the difference between

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capital derived from debt and its own capital. Capital structure refers to source of funds with short-term liability and long-term liability to cost the company operational and investing projects. According to Gemilang & Wiyono (2022) funding sources can be obtained from stocks, debt, and own capital. Capital structure often measured with Debt to Assets Ratio (DAR). This caused DAR shows the amount of total debt to the total assets owned by the company. This ratio also shows the percentage of funds provided by creditors to the company (Deli, 2020). DAR compare the amount of total debt with the total assets describe the company ability in generating profits from assets owned by the company.

The phenomena in this study is the manipulation of financial statements, and one of them is corruption. A survey done by Association Certified Fraud Examiners Indonesia (2020), had result that corruption is the most manipulation cases in Indonesia. Indonesia Corruption Watch (2022) support that statement based on a lot of corruption cases that revealed in Indonesia between 2016-2021. One of the corruption cases that happen was involved a bank company named Bank Rakyat Indonesia (BRI) in Madiun, East Java. The corruption cases revealed at September 2020 and done by a relations manager with the initials R.S. The corruption cases effect the Bank Return On Assets do go down and it's get worst because of Covid-19 reach it peak at 2020.

Although the impact of corruption financially received is small, this can reduce public trusts to keep funds in the bank. So the company needs to make more efforts to improve the tarnished corporate image. As evidenced in the case, Bank Rakyat Indonesia (BRI) experienced a 50% downtrend of financial performance from 2019 to 2020 with ratio from 0,024 to 0,012. This corruption case feels ironic when it occurs at large banks that have implemented ESG sustainability principles, especially Bank Rakyat Indonesia (BRI) which has been implemented for more than 5 years.

Based on the phenomena, several studies had a different result regarding the influence of environmental, social, governance and capital structure on financial performance. Altough author did not obtain the exact research with same title, there's a little research that has been done. Previous research conducted by Hersugondo (2021) discussed the relationship between environmental, social, and governance performance to financial performance, which is proxied with return on asset (ROA). The results of the study show that there is a positive influence of ESG variables on financial performance. Pradana & Laksito (2023) have similar research results with a shorter research period span of only two years. Research conducted by Gabriela & Prabowo (2024) also shows the same results with a shorter period of only one year. However, the research conducted by Wijaya & Dwijayanti (2023) has different research results, namely that environmental, social, and governance do not have an effect on financial performance, which is proxied with ROA+1.

On the variable of capital structure, there is a study conducted by Sari & Sapari (2020) that states capital structure has a negative influence on financial performance. The results of the research conducted by Permana et al., (2021) have slightly different results, namely, the capital structure has a positive influence on financial performance, which is proxied with return on assets (ROA). However, the results of a completely different study were obtained by researchers Aini & Kristanti (2020) and Susanti & Sandari (2023), namely that capital structure has no influence on financial performance. Aini & Kristanti (2020) examined the capital structure on the financial performance of IDX banking sector companies in 2016-2018. Meanwhile, Susanti & Sandari (2023) examined the capital structure on the financial performance of companies in the IDX healthcare sector in 2017-2021.

LITERATURE STUDY

Theoretical Review

Stakeholder Theory

Stakeholder theory is a concept in business management and ethics that pays attention to the various parties involved in a company. This is because the party in question has an interest in the success and sustainability of the company (Budita & Fidiana, 2023). According to Syafrullah & Muharam (2017) stakeholders include internal and external parties, namely investors, creditors,

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consumers, suppliers, the government, the community, and other parties. Company must support the needs of stakeholders, especially the stakeholders that have the power over operational activities in the hope that the company's relationship with stakeholders is well maintained.

Legitimacy Theory

Suchman is one of the experts who developed the theory of legitimacy with the concept of "legitimacy as a generalized perception". This sees legitimacy as a general perception of corporate actions or policies as a norm accepted by society (Suchman, 1995). Researcher Budita & Fidiana (2023) stated that this theory of legitimacy emphasizes companies in carrying out their activities, which need to review the alignment of norms and social values so that they can be recognized and accepted in their environment. This is very important to maintain the existence and image of a company. Therefore, the company focuses on maintaining positive legitimacy by practicing ethical and responsible business practices.

Financial Performance

Financial performance is an overview of the financial condition of a company that is analyzed with financial analysis tools so that it can be known about the good or bad financial condition of a company that reflects work performance in a certain period (Nur Amalia & Khuzaini, 2021). According to Sudiyatmoko (2018), Return On Asset (ROA) can show better measurement performance in measuring financial performance. This is supported by Khairunnisa & Widiastuty (2023) with reason that ROA performance reflects the company's accounting performance and shows the effectiveness of management in using assets to generate income. ROA measurement describes how well a company uses assets to generate profits.

Enviromental, Social, Governance (ESG)

ESG is an important concept because of increased awareness about corporate social responsibility and environmental in eyes of stakeholders and investor. According to Buallay (2019) environmental, social, and governance (ESG) performance can reduce the level of business risks that may occur due to practices related to the surrounding social environmental that carried out by the company. The disclosures will attract the attention of stakeholders because they see the company as having a good level of sustainability. The company is able to gaining support from the stakeholders through trust which is given for capital participation or the use of products and services. Based on research Pradana & Laksito (2023) ESG score that used has been calculated and provided by Bloomberg with a 93 disclosures, 47 disclosures from enviromental, 22 disclosures from social and 24 disclosures from governance. All of those disclosures been measure and turn into score ranging from 0 to 100.

Capital Structure

Capital structure is the combined source of corporate funds from inside and outside the company for forever. Capital structure is a combination of debt and equity securities consisting of financing the company's assets. The capital structure is obtained both internally and externally to carry out the company's operations that can affect the performance of a company and improve financial performance (Susanti & Ellia Sandari, 2023). According to Sagala & Nurmala (2021), a good capital structure is a structure that can effectively and efficiently improve a company's performance and increase a company's profits.

Hypothesis Development

The Effect of Enviromental, Social, Governance (ESG) and Capital Structure on Financial Performance

Environmental, social, governance, and capital structure variables can improve a company's financial performance. This is supported by the implied stakeholder theory that by implementing environmental, social, and governance, the company has a commitment to the community to provide benefits over a long period of time. The commitment that made a result in the formation of

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a relationship between the company and the community. A harmonious relationship between the company and the community will realize encouragement from the community that has an impact on the company's sustainability. Furthermore, ESG practices enhance consumer loyalty by aligning the company's values with the ethical preferences of consumers, leading to sustained customer retention. Similarly employees are more motivated and engaged when working for a company that prioritizes social responsibility, resulting in higher productivity and better performance outcomes.

According to Aini & Kristanti (2020) using funds from debt could courage a company to increase the profits. This encouragement is manifested in consumer loyalty to the company and workers who give their best efforts in doing their work for the company's goals so that they are able to optimize financial performance (Gabriela & Prabowo, 2024). In essence ESG strengthens community trust and boosts productivity, while a well-managed capital structure amplifies profitability creating a powerful foundation for sustainable financial growth. Based on the description above, the first hypothesis in this study is as follows:
H1: Allegedly Enviromental, Social, Governance (ESG) and capital structure has an effect on financial performance

The Effect of Enviromental, Social, Governance (ESG) on Financial Performance

The implementation of environmental, social, and governance can be the key to increasing company value in maintaining the company's sustainability for a long time (Hersugondo, 2021). The implementation of environmental, social, and corporate governance can be seen through a sustainability report that contains information on economic, social, environmental, and corporate governance performance. This is supported by research conducted by Pradana & Laksito (2023) which focuses on examining the influence of environmental, social, and governance on financial performance in the non-financial sector listed on the Indonesia Stock Exchange in 2019-2021. Another work by Gabriela & Prabowo (2024) has the same results, after examining the performance of environmental, social, and governance in all companies listed on the IDX in the industrial sector in 2021.

Furthermore, the adoption of ESG practices can directly impact profitability by increasing trust among consumers and investors, leading to higher loyalty and better access to capital for sustainable growth. ESG also enhances employee engagement and productivity, as socially responsible companies create a motivating work environment. This, in turn, optimizes operational efficiency and financial performance. However, the results are not always consistent across sectors, as noted by Wijaya & Dwijayanti (2023), who found that ESG disclosures had no significant effect on the financial performance of mining and manufacturing companies listed on the IDX between 2018 and 2021. Despite these mixed findings, ESG remains a crucial factor in long-term financial and operational success. Based on the description above, the second hypotses in this study is as follows:
H2: Allegedly Enviromental, Social, Governance (ESG) has an effect on financial performance

The Effect of Capital Structure on Financial Performance

Capital structure variables have an influence on financial performance. In a previous study conducted by Sari & Sapari (2020) which stated that the capital structure proxied with DAR had a negative effect on the performance of companies in the coal mining sector companies listed on the IDX in 2015-2018. Research conducted by Permana et al., (2021) supports this hypothesis, but this study examines the effect of capital structure and leverage on profitability proxied with ROA, in banking companies listed on the Indonesia Stock Exchange in 2015-2019. With the results of the research, the capital structure has a significant positive effect on profitability. This suggest that in the banking sector, effective capital structure management can enchance profitability.

Different results are shown in a study conducted by Aini & Kristanti (2020), which examined the influence of intellectual capital, LDR, DAR and TATO on profitability in banking companies listed on IDX from 2016-2018. With the results of the research, the capital structure has no effect on profitability. Research conducted by (Susanti & Sandari, 2023) also states the same thing. The difference is in the population and time of the research, namely healthcare sector

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companies listed on the Indonesia Stock Exchange in 2017-2019. These differing result highlight that the impact of capital structure on financial performance is influenced by industry-specific condisitons and the broader business environment. So company need to understand the nuances is crucial for effectively managing capital structure to optimize financial outcomes. Based on the description above, the third hypothesis in this study is as follows:
H3: Allegedly Capital Structure has an effect on financial performance

METHOD

This study uses a quantitative approach with secondary data obtained from financial statements available on the Indonesia Stock Exchange and the company's official website. The population used in this study are financial sector companies listed on the Indonesia Stock Exchange for the 2018-2022 period with a total population of 105 companies. This study used purposive sampling which is a sampling technique through certain criteria that needs to fulfil as a requirement for sample to be usable. The following criteria are used to determine the sample for this study: (1) Financial sector companies listed on the Indonesia Stock Exchange per 31 Desember 2022, (2) Financial sector companies that not listed on the Indonesia Stock Exchange in research period 2018-2022, (3) Financial sector companies listed on Indonesia Stock Exchange that disclosures ESG score in research period 2018-2022. With these criteria, as sample of 11 financial sector companies was obtained.

Research Variable

Dependent Variable

The variable called the bound variable is the variable that is being measured from the result of the independent variable analysis. In this study, the thing that is the bound variable is financial performance. Financial performance is an important consideration for financial statement users. Financial performance is considered important because financial performance provides an overview or financial condition of the company through periodic financial statements. This study measures financial performance using Return On Assets (ROA). The formula used to determine the value of ROA according to Gabriela & Prabowo (2024):

$$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Total Assets}} \text{ x } 100\%$$

Independent Variable

Independent variables are variables used in a study as an influencer to bound variables. This is due to the nature of independent variables that stand alone in a research. In this study, the independent variables studied were ESG (X1) and Capital Structure (X2).

Enviromental, Social, Governance (X1)

Environmental, social, and governance are sustainability principles used by companies. Environmental, social governance can be interpreted as a company guideline to maintain business continuity by paying attention to the three aspects of sustainability principles, namely environmental, social, and governance. The company proves the application of this sustainability principle through the disclosures of scores that exist in official information providers such as Bloomberg. In addition, the company also conducts proof through the issuance of sustainability reports through their official website. According to Budita & Fidiana (2023), the disclosures of environmental, social, and governance information from a company's perspective can encourage investors who are interested in sustainability aspects to invest in companies as investment targets. Based on research by Pradana & Laksito (2023), the information in the disclosures is in the form of environmental, social, governance (ESG) performance scores that have been calculated and provided by Bloomberg with a disclosures score ranging from 0 to 100.

In the calculation of Bloomberg's ESG performance score, it consists of a number of disclosuress with a total of 93 disclosuress. The calculation of ESG scores according to Siew et al.,

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(2016) the disclosures of each ESG principle is as follows; Environmental principles are calculated based on the value of disclosures divided by the total disclosures; Social principles are calculated based on the value of disclosures divided by the total disclosures; The principle of governance is calculated based on the value of disclosures divided by the total disclosures.

Capital Structure (X2)

Capital structure is an important aspect that managers consider to attract investors so that they are interested in investing their capital. This is because investors want to invest their capital after knowing the company's efforts to maximize its capital in obtaining profits. In this study, the Debt to Assets Ratio (DAR) is used to measure the capital structure. The formula of the capital structure ratio used is sourced from the book by Fahmi (2017) as follows.

$$\text{DAR} = \frac{\text{Total Debt}}{\text{Total Assets}}\, x\, 100\%$$

Data Analysis Techniques

Descriptive Statistics

Descriptive statistics is data processing to describe or describe data (population samples) that have been collected to make conclusions. The stages in descriptive statistics are data collection, recording, summarization, preparation and presentation of data. The data processed can be in the form of tables, graphs and diagrams. Descriptive testing includes testing of mean, median, mode, quartile, variance, and standard deviation values (Adnyana & Gebang 2021). But in this study, the researcher eliminated quartiles and variances and replaced them with a minimum. This is done to obtain more relevant research results. Therefore, descriptive statistical analysis provides a summary of the sample and population that has been processed data.

Panel Data Regression Model

There are three approaches used in the panel data regression model, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM).

Selection of Panel Data Regression Model

Selection of the data model panel is required to match the model that is suitable for use. The models considered for selection are the three models mentioned in the panel data regression analysis. The model pairs considered in this model selection are divided into three. First, the chow test that tests CEM with FEM. This test uses the probability value as a reference to determine the selected model, if prob<0.05 then the model is selected FEM and otherwise. Second, the hausman test which tests FEM with REM. This test uses a probability value of 0.05 as a reference to determine the selected model, if the prob<0.05 then the model is selected FEM and otherwise. Finally, a lagrange multiplier test that tests REM with CEM. This test uses a probability value of 0.05 as a reference to determine the selected model, if the prob<0.05 then the REM model is selected and vice versa.

Classic Assumption Test

The classical assumption test carried out in this study is 4, namely the normality test, the multicollinearity test, the heteroscedasticity test and the autocorrelation test. The reference used is sourced from Ghozali (2017) in each of the classical assumption tests carried out. In the normality test using a probability reference, if the probability in the result is above 0.05, there is no normality problem. The second test is the multicollinearity test using a reference correlation value, if the correlation value is below 0.8 then there is no autocorrelation problem. Next is the white heteroscedasticity test with a reference value of 0.05, if the probability is above 0.05, then there is no heteroscedasticity problem. Finally, the autocorrelation test uses the hypothesis that if the DW value is in the position of Du < DW < 4Du, then there is no autocorrelation problem.

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Hypotesis Testing

There are three hypothesis tests in this study, namely the determination coefficient test, simultaneous test, and partial test. Test the determination coefficient. The determination coefficient test is used to measure the ability of independent variables to dependent variables. The reference value to find out is the value of the adjusted r square on the selected model. Furthermore, it is a simultaneous test to test the influence of independent variables together on dependent variables. The reference value to determine the influence together is in the probability value of F Statistic, if the probability value is below 0.05, it can be said that there is an influence of independent variables together on the dependent variable. The last hypothesis test is a partial test, this test is carried out to measure the influence of a partial independent variable on the dependent variable. The reference value used is a value of 0.05 on the variable probability in the selected model. If the reference value is above 0.05, it can be concluded that the independent variable has a partial influence on the dependent variable.

RESULTS AND DISCUSSION

Result

Data Description

This research was conducted at financial sector companies listed on the Indonesia Stock Exchange. The data in this study comes mostly from financial statements for the needs of financial performance variables and capital structure. Meanwhile, the data for ESG variables comes from the Bloomberg website which has been processed. The author chose financial sector companies because the financial sector is important for other sectors, especially the independent ESG variable which is starting to be widely applied in Indonesia.

Based on criteria, the sample of 10 companies was obtained with a research period of five years namely 2018-2022. The sample which initially amounted to 11 companies, was forced to eliminate one company coded ARTO. Elimination was carried out on the grounds that the results of the classical assumption test namely the heteroscedasticity test, showed symptoms of heteroscedasticity in the selected regression model. Companies with the ARTO code are eliminated through checking the outlier data. Outlier data is a case of research data that has unique characteristics, with very different differences from other research data.

Descriptive Statistical Test

The data analysis process in this study uses Eviews 12, with outputs in the form of tables and images for easy understanding. The following are the results of the first study, namely a descriptive statistical test.

Table 1. Descriptive Statistical Test

	ESG	SM	KK
Mean	44.10280	0.817300	0.014840
Std. Dev.	9.687439	0.039333	0.007614
Observations	50	50	50

Source: Eviews 12 Output, 2024

Based on table 1, there are 50 observed data with each mean value in the dependent variable (KK) and independent variable (ESG & SM) being greater than the standard deviation value. This means that the data in the study has been well distributed.

Selection of Panel Data Regression Model Test

Chow Test

In this study, the results of the chow test are as follows.

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	10.073080	(9,38)	0.0000
Cross-section Chi-square	60.978470	9	0.0000

Source: Eviews 12 Output, 2024

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Based on table 2, it can be seen that the probability value is 0.000. The value is less than 0.05. So it can be concluded that FEM is better than CEM.

Hausman Test
In this study, the results of the hausman test are as follows.

Table 3. Hausman Test

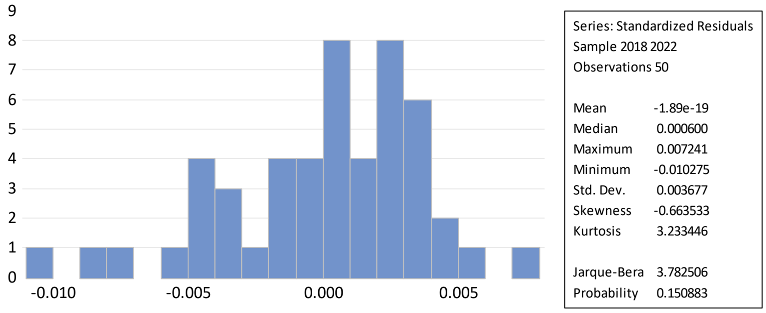
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.993309	2	0.0184

Source: Eviews 12 Output, 2024

Looking at the results of the hausman test, it can be seen that the value of probability is below the value of 0.05, which is 0.018. Therefore, FEM automatically became the selected model in this study. So it is not necessary to conduct a lagrange multiplier test. This is because FEM has been selected in the two previous test results, namely the chow test and the hausman test.

Classic assumption test
Normality Test Result
The normality test using a probability as decision maker, if the probability in the result is above 0.05, there is no normality problem. Here are the table contain results of the normality test.

Figure 1. Normality Test



Source: Eviews 12 Output, 2024

Based on the test results in figure 1, the probability in the jarque-bera is above 0.05, which is 0.150. So it can be concluded that there is no normality problem.

Multicolinearity Test Result
One of the ways to detect multicollinearity problems is through the correlation matrix test. The test uses the hypothesis that if the value of the multicollinearity test results is more than 0.8 or > 0.8, then there is a multicollinearity behavior in the data studied. On the other hand, if the value of the multicollinearity test results is below 0.8 or < 0.8, then there is no multicollinearity problem. Here are the table contain results of the multicolinearity test.

Table 4. Multicolinearity Test

	ESG	SM
ESG	1.000	0.470
SM	0.470	1.000

Source: Eviews 12 Output, 2024

Looking at the table above, it can be seen that the correlation value of the independent variable of the capital structure is below 0.8. So it can be concluded that there is no multicollinearity problem in the data.

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Heteroscedastisity Test Result

The heteroscedasticity test in this study was carried out through the white test, which focused on Orbs R Square in the results of the heteroscedasticity test. The Orbs R Square value required to qualify the test is over > 0.05. Here is table 5 containing the results of the heteroscedasticity test.

Table 5. Heteroscedastisity Test

F-statistic	1.934516	Prob. F(5,44)	0.1078
Obs*R-squared	9.010727	**Prob. Chi-Square(5)**	**0.1086**
Scaled explained SS	7.403588	Prob. Chi-Square(5)	0.1923

Source: Eviews 12 Output, 2024

Based on the results of the heteroscedasticity test above, the value of Obs R Square is above 0.05, which is with a value of 0.108. Therefore, it can be concluded that the data in the study have passed the heteroscedasticity test.

Autocorrelation Test

The autocorrelation test uses the hypothesis that if the DW value is in the position of Du < DW < 4Du, then there is no autocorrelation problem. Here is table 6 containing the results of the autocorrelation test.

Table 6. Autocorrelation Test

N	**Durbin-Watsons**	**Durbin-Upper**	**4-Durbin Upper**
50	2,276	1,628	2,371

Source: Eviews 12 Output, 2024

Based on the results of the autocorrelation test above, these values are included in the Du < DW < 4Du hypothesis. Using the value above that subtitudet in hypothesis is obtained 1.628 < 2.276 < 2.371. In the other words the DW value is between the Du value and the 4Du value. So it can be concluded that there is no autocorrelation problem.

Hypotesis Test

Coeffisien Determinant Test

Here is table 7 which contains the results of the determination coefficient test.

Table 7. Coeffisien Determinant Test (Uji R^2)

Cross section fixed (dummy variables)	
R-squared	0.766
Adjusted R-squared	0.699

Source: Eviews 12 Output, 2024

Based on table 7, the adjusted R square value is 0.699. This value means that independent variables (ESG and capital structure) have an influence on the dependent variable (financial infrastructure) by 69.9%. Then the remaining 30.1% is not part of this research model. The percentage with a value of 69.9% has meaning that the independent variable is able to explain information about the depend variable.

Simultaneous Significance Test

The following is table 8 which contains the results of simultaneous significant tests.

Table 8. Simultaneous Significance Test

Cross section fixed (dummy variables)	
F-statistic	11,361
Prob(F-statistic)	0.000

Source: Eviews 12 Output, 2024

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Based on the test results in the table above, the Prob value (F-statistics) is 0.000. The value is below the significance value of 0.05, then criteria (a) and H1 are accepted. This means that the panel data regression model used in this study is correct and the two independent variables together have an influence on the dependent variable.

Partial Significance Test

The reference value used is a value of 0.05 on the variable probability in the selected model. If the reference value is above 0.05, it can be concluded that the independent variable has a partial influence on the dependent variable. The following is table 9 which contains the results of partial significant tests.

Table 9. Partial Significance Test

Variabel	Corefficient	Std. Error	t-Statistic	Prob.
C	0.0671	0.0392	1.7117	0.0951
ESG	-0.0003	0.0001	-2.1085	0.0416
SM	-0.0438	0.0479	-0.9144	0.3662

Source: Eviews 12 Output, 2024

Based on the test results in table 9, the following is an explanation of each variable:

1. In the results of the t-test of the Environmental, Social, and Governance variables, it is known that the probability has a value of 0.0416 and a t-statistical value of -02.1085. Since the probability value is below 0.05, H2 is accepted. So it can be concluded that Environmental, Social, and Governance have an influence on financial performance.
2. In the results of the modal structure variable test, the probability value is 0.3662 and the t-statistical value is -0.9144. In contrast to the Environmental, Social, Governance (ESG) variable, the probability value of the capital structure > 0.05. Indirectly, H3 of this study was rejected. This means that the capital structure has no influence on financial performance.

Discussion

The Effect of Enviromental, Social, Governance (ESG) and Capital Structure on Financial Performance in 2018-2022.

The result based on simultaneous significance test, the independent variables namely Environmental, Social, Governance (ESG) and capital structure together, can increase the value of the dependent variable, namely financial performance in financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022. The results of the test are in accordance with the first hypothesis, namely Environmental, Social, Governance (ESG) and capital structure have a simultaneous effect on financial performance. This means that each independent variable together has a role in influencing the dependent variables of financial performance.

Based on research conducted by Hersugondo (2021), it is stated that Environmental, Social, Governance (ESG) has a significant effect on financial performance as measured by the company's ESG score issued by Bloomberg. The ESG score means that the higher the ESG score, the greater its ability to improve financial performance. This is due to the large ESG score, indicating that stakeholders can take an important role for the company. In the context of business decision-making by stakeholders such as the board of commissioners, directors and other stakeholders, the company can obtain appropriate and relevant decisions in order to improve financial performance. So that it is able to increase the trust and image of the company in the eyes of both stakeholders and shareholders. Due to the increase in both things, the company can improve its financial performance slowly but surely.

Based on research Aini & Kristanti (2020), it is stated that the Debt to Asset Ratio (DAR) has no effect on financial performance. The DAR measurement shows that the lower the DAR ratio, the higher the profitability level. Because the DAR in the study has no effect, it is indicated that banking companies have high debts and profits. On the other hand, there are banking companies that have high debt and low profits. The high debt of financial sector companies does not describe

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the risk of corporate failure, and does not cause financial performance to decline. This applies when the company is able to use debt optimally, so that the company is able to rotate funds from customers optimally.

The conclusion of the above statement is that Environmental, Social, Governance (ESG) which has a high score has the potential to increase the company's trust and image, and have an impact on financial performance. Then the company's high capital structure is proof that the company has gained trust from the public. Therefore, financial performance can be improved through the implementation of ESG by the company, so that stakeholder trust in the company, especially the public, arises. After the company gains the trust of the public, the company is able to obtain more funds from public funds. The large amount of funds that come in from the community adds to the capital structure, namely debt, so that the company has funds to increase assets in the form of loans. This is when a high ESG score and a high corporate capital structure can improve financial performance.

The Effect of Enviromental, Social, Governance (ESG) on Financial Performance in 2018-2022.

The results of the partial significance test (t-test) of Environmental, Social, Governance (ESG) variable has an influence on financial performance variables in financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022. The results of this test are in accordance with the second hypothesis, namely Environmental, Social, Governance has an influence on financial performance variables.

The results of this study are in line with Hersugondo (2021), Pradana & Laksito (2023) and Gabriela & Prabowo (2024) who stated that Environmental, Social, Governance (ESG) has an influence on financial performance. Although ESG practices are still relatively new, apparently ESG can be implemented optimally. The results of this study show that several companies in the financial sector, especially the banking subsector, have implemented sustainability principles well. This is reflected in the change in ESG scores in the sample of companies that have experienced significant improvements. Therefore, the researcher concluded that the results of the study supported the hypothesis due to changes in the normal return on asset ratio.

Stakeholder theory states that ESG is a medium of communication between companies and stakeholders. The company realizes this by publishing a sustainability report or annual report every year, and expects to improve financial performance (ROA) on the basis of the element of trust formed between stakeholders and shareholders. However, companies have to spend more money in compiling and publishing the sustainability report. All companies in the sample experienced a decline and a fairly stable increase in net profit. On the other hand, the company also experienced an increase in the company's ESG score. The decline in net profit is understandable, because the selected research period includes the year when the COVID-19 pandemic occurred. So companies need time to improve their financial performance. This shows that the magnitude of the ESG score that has increased throughout the year period has succeeded in creating the potential for improving financial performance in the future. Meanwhile, the results of this study are contrary to research conducted by Wijaya & Dwijayanti (2023) which states that ESG has no influence on financial performance.

The results of this study also show that the theory of legitimacy has been successfully proven, due to the increase in ESG scores in each research sample in the research year period. This illustrates that the company has received recognition from stakeholders and shareholders. Through different types of data, companies provide the necessary data for analysis to score publishers such as Bloomberg. So that Bloomberg as one of the issuers of ESG scores, will receive data provided by companies to be given ESG scores. In this study, the BBCA code company is the owner of the highest ESG score with a score of 58.59, and the company code BTPN is the owner of the lowest ESG score with a value of 20.84.

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The Effect of Capital Structure on Financial Performance in 2018-2022.

The results of the partial significance test (t-test) of capital structure variable has no effect on the financial performance variable. Therefore, it can be concluded that H3 was rejected, which shows that the variable capital structure has no influence on the financial performance of financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2018-2022.

The results of this study are in line with research conducted by Aini & Kristanti (2020) and Susanti & Sandari (2023) which stated that Debt to Asset Ratio (DAR) has no effect on Return On Asset (ROA). This is because companies with a high DAR ratio have a low ROA ratio. In contrast to the previous one, companies with low DAR ratios have high ROA ratios. A high DAR ratio indicates the amount of company capital that comes from public funds. So that financial sector companies have high liabilities is natural. Meanwhile, the results of this study are contrary to the research conducted by Permana et al., (2021) and Sari & Sapari (2020) which states that capital structure has an influence on profitability which is proxied with ROA.

Based on the results of the study, all samples of banking companies have a high DAR ratio. In the context of stakeholder theory and legitimacy theory, the high DAR ratio of a company is a good perception for stakeholders and investors. So that it has the potential to increase the level of stakeholder trust and have an impact on the company's stability. This can improve the company's image of the amount of funds obtained from the community. Therefore, the higher the company's assets such as savings, deposits, and current accounts, the higher the value of the company's obligations as public deposits.

CONCLUSION

This study aims to determine the influence of Environmental, Social, Governance (ESG), and capital structure on financial performance in financial sector companies listed on the Indonesia Stock Exchange (IDX) in 2018 – 2022. Based on the results of the research and the results of the tests that have been carried out, the researcher concludes several things as follows. Based on the results of research on Environmental, Social, Governance (ESG), and capital structure simultaneously affect financial performance. This means that the first hypothesis is accepted. Based on the results of research on Environmental, Social, Governance (ESG) has an influence on financial performance. Therefore, the hypothesis of these two studies is accepted. Based on the results of the research on the capital structure proxied with DAR, the results showed that the capital structure had no influence on financial performance. Therefore, the third hypothesis in this study is not accepted.

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