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# Financial performance viewed from the aspects of Environmental, Social, Governance (ESG) disclosure in energy sub-sector companies in Indonesia

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**Abstract**

This study aims to examine the effect of environmental, social, governance disclosures to financial performance in 2020-2022. The variables used in this study are environmental, social, governance disclosure as independent variables, and financial performance as the dependent variable. We use energy subsector listed on the Indonesia Stock Exchange (IDX) in 2020-2022. As out population, we use 57 samples. In 3 years resultind 174 data. The data analysis method used is the panel data regression analysis method using Eviews 10 software. The results showed that environmental disclosure has a positive effect on financial performance. Social disclosure has a positive effect on financial performance. Governance disclosure has no effect on financial performance.

Keywords: Environmental, Social, Governance, Disclosure, Financial performance, Energy sub-sector.

## INTRODUCTION

In conducting business operations, a company does not only focus on the goal of profit, but also must carefully consider the implementation of the company's operational activities. The phenomenon of climate change is increasingly worrying and has widespread consequences. Climate change must be considered because it has very serious impacts and risks, especially for the sustainability of living things and future generations. Special steps in mitigating climate change are also at all levels of society (BMKG, 2023). Global challenges encourage various parties, especially global and domestic investors, to realize the importance of implementing *Environmental, Social, Governance* (ESG) strategies in all business activities and development. This is due to the rise of human awareness of an increasingly hot earth and increasingly extreme climate change (Durlista & Wahyudi, 2023).

Efforts to disclose non-financial information from the disclosure of ESG activities are made to increase the value of company performance. Business performance can be measured by using financial ratios such as profitability, market value, etc. Measuring performance from a financial point of view becomes an important issue when assessing the success of the company, whether the company is in accordance with the objectives. The form of disclosure of a company, is currently one of the important indicators of a company's performance (Alareeni & Hamdan, 2020).

Nature preservation, climate change, and environmental issues pertaining to a company's business operations are examples of stakeholder concerns about a company's environmental characteristics. Furthermore, stakeholders pertaining to social factors include community contributions, diversity in the workplace, and human rights. Concerns regarding the company's social impact that will boost its worth are raised by stakeholders. Aspects of governance that involve stakeholders also include minority shareholder rights, ownership concentration, and board structure. As they consider making an investment in the company, stakeholders and investors might consider their governance practices. ESG pioneers assert that a company's success is determined not only by its financial results but also by the extent to which it enhances environmental sustainability and the well-being of its stakeholders. ESG pioneers assert that a company's success is determined not just by its financial results but also by the extent to which it enhances environmental sustainability and the well-being of the community in which it operates (Fernando et al., 2022).

According to the 2020 Globescan and Global Reporting Initiative (GRI) survey results, there has been a notable rise in public trust in sustainability report information disclosure, with an average score of 51%. When compared to the 30% results of the same study conducted in 2003, this result grew significantly. Out of the 27 nations that participated in the study, Indonesia had the highest degree of public trust (81%), and it was also placed #1, surpassing China's previous high of 80% to 73%. While Indonesia's previous achievement in 2016 was 79%, it increased by 2%, indicating that investors and other stakeholders are beginning to reveal Environmental, Social, and Governance (ESG) performance as a measure of a company's strength, necessitating the disclosure of sustainability information. Observations on international stock markets, where businesses with strong ESG performance are better able to sustain their performance, further bolster this position. Additionally, the Indonesia Stock Exchange (IDX) has launched a new index called IDX ESG Leaders (ESGL) to commemorate this (Prabowo & Djastuti, 2015).

ESG refers to three factors of measurement and sustainability and ethics in investment decision-making. These three factors are Environmental, Social, and Governance. ESG assessment is one of the most important parts in assessing the implementation of ESG practices in companies. Therefore, the IDX continues to commit to encouraging long-term sustainable investment and improving ESG practices in the Indonesian capital market by working with ESG assessment institutions and conducting ESG assessments of listed companies on the IDX (https://www.idx.co.id).

Both institutional and individual investors now give careful thought to the concept of ESG factors. As a means of gaining recognition for their social responsibility, an increasing number of businesses are demonstrating a stronger dedication to ESG initiatives. More and more institutional investors, pension funds, and asset managers are starting to evaluate businesses' ESG practices before making an investment. There is sufficient evidence that investors are growing aware of the connection between corporate finance and environmental, social, and governance (ESG) (both in academic and professional circles). A recent RBC Global Asset Management survey found that around 72% of participants integrated ESG concepts into their investing strategy and decision-making process. Portfolios with an ESG integration factor of 90% is thought to have a higher probability of success than portfolios without one. Certain institutional. ESG-integrated portfolios are expected to outperform both market portfolios and portfolios without any ESG integration, according to 90% of respondents. According to several institutional answers, ESG evaluation and disclosure may present some difficulties (Kim & Li, 2021).

Compared to the governance elements studied at the country level in earlier research, the three governance factors under examination are becoming more significant in understanding how a nation's governance environment affects ESG performance. The ideological system of values and beliefs of state officials and the ruling party or coalition, for instance, can encourage companies to improve their corporate social performance due to social awareness factors stemming from left-leaning political ideology, according to Ioannou and Serafeim's political system variable. On the other hand, the political stability attribute that we looked at in our study clarifies whether the potential for politically motivated violence and/or political conflict instability, which can originate from a variety of political ideologies, has an effect on the company's ESG performance. Political stability and political system are thus two distinct concepts. Furthermore, no analogous indicator with the degree of democracy that we look at in this study has been found in other research on ESG performance. Although quality regulation is included by Liang and Renneboog as a control variable in the explanatory model of ESG performance, they don't look at how it affects the E, S, and G pillars separately. We demonstrate how various aspects of governance can affect ESG performance in different ways, both positively and negatively. This discrepancy in effect results from the fact that certain governance elements are linked to enforcement processes and therefore force compliance involuntarily, while other governance factors cause voluntary and reactive action motivated by a desire for legitimacy (Mooneeapen et al., 2014) (Mooneeapen et al., 2022).

At the end of September 2022, the Bekasi district government sanctioned PT Saranagriya Lestari Keramik for environmental pollution in Sukadanau Village, West Cikarang District. The company was temporarily closed because based on checks there were violations in the process of disposing of residual production waste, DLH (Environmental Agency) found that the impact of pollution from the waste was in the

medium to high category. The reason is that the handling of hazardous and toxic waste (B3) from the production process is not in accordance with procedures. The company is suspected of breaking Article 100 of Law Number 32 of 2009 for Environmental Protection and Management (PPLH), according to the head of DLH's Environmental Law Management Division. The issue with PT Kalista Alam Tbk is that, although it was found to have burned forests during the removal of its land, it was granted a 300 billion environmental compensation fine. The issue is that, in its annual report, PT Eterindo Wahanatama Tbk fails to reveal its environmental performance. The issue with PT. Selamet Sempurna Tbk is that their annual report does not include information on its environmental performance. Air pollution is the issue that plagues the communities surrounding PT Mukomuko Indah Lestari Tbk. The issue with PT Kabelindo Tbk is that it doesn't make any modifications. The issue with PT Kabelindo Tbk is that it fails to implement changes in environmental management as it was not given a financial performance criterion in 2012 (Prabowo & Djastuti, 2015).

Some of these problems are evidence that there are still companies that only focus on achieving financial performance and forget their responsibility for environmental, social and governance (ESG) performance. Deviations from business ethics that have been established by the company as an implementer of good governance are not implemented by the company's own internal parties. This can have an impact on the business climate in Indonesia such as the effect on stock prices and reputation for the company.

Based on the problems described above, the authors have a study objective to know how the disclosure of environmental, social, governance performance affects financial performance in energy sub-sector companies listed on the Indonesia Stock Exchange.

## LITERATURE REVIEW

### Literature Review

Environmental problems occur every year. Environmental issues, especially climate change and global warming, are problems that the world has been facing in recent years. This issue has an influence not only on the future performance of the company, but also all other aspects. Some existing literature on the disclosure of environmental factors has been found to have a relationship with characteristics within the company such as: financial performance, stock price fluctuations, and industry membership. A company has characteristics in considering separately its relationship with environmental factors. Therefore, public awareness of this global problem requires companies to disclose the company's commitment to suppress environmental problems contained in the company's annual report. Disclosure of environmental information is one form of corporate responsibility to stakeholders. Companies that report environmental disclosures show their concern for stakeholders, especially for the community and the environment. The form of corporate responsibility is contained in the disclosure of more transparent environmental information on the impacts resulting from its operational activities.

Stakeholder Theory is a strategic issue related to how companies manage their relationships with stakeholders. (Jones et al., 2002). In general, stakeholders are understood as parties who have an interest in the company because their existence is able to influence and be influenced by the company. Internally, the main stakeholders are employees, investors, creditors, customers, and suppliers. (Adamo et al., 2021). In the profession that is carried out, companies are expected to be able to meet the expectations and needs of stakeholders. (Barney & Harrison, 2020). The existence of stakeholder influence, the company seeks the support of the company's stakeholders for the business activities carried out, because stakeholder support is very meaningful for the survival of the company (Freeman et al., 2021). Stakeholder support can be achieved through financial and non-financial disclosure practices where stakeholders expect management to be accountable for all business conducted (Kujala & Korhonen, 2017).

Signaling theory was introduced by Akerlof (1970) According to him, when there is value in a transaction, the parties involved have varying degrees of information about one another. Companies' signals are seen to be a significant factor influencing how parties outside the company evaluate their investment decisions. This is in line with Gumanti's (2009) revelation that a signal can be seen as one that is created by the company (management) and sent to other parties, such as investors. ESG disclosure, for example, is a type of non-financial information disclosure that can also be viewed as a positive signal that

can sway other parties' decisions. Non-financial information about company governance, social issues, and the environment can be disclosed. Investors may respond favorably to non-financial information disclosed regarding business governance, social issues, and the environment.

The neoclassical method places a strong emphasis on maximizing profits and creating value for management and shareholders. As a result, granting the requests of other stakeholder groups could be detrimental to corporate performance. Investing resources to achieve social and environmental goals (e.g., lowering pollution, raising employee pay and benefits, and assisting communities through donations and sponsorships) results in higher expenses, lower profitability, and a diminished competitive edge. The idealistic goal of nonfinancial value is countered by socially responsible actions that constitute excessive spending by managers driven by private benefits, such as public awards. This leads to a notable decline in shareholder value and poorer financial performance. Agency issues result from this. Announcements of social responsibility initiatives by businesses with high (poor) liquidity situations are met with mixed reactions from investors, and these investments are viewed as inefficient (Zahid et al., 2011) (Zahid et al., 2022).

ESG disclosure is the latest form in the evolution of voluntary information reporting, which started with CSR reporting, continued with sustainability reporting, and then evolved into integrated reporting (Zhang, 2020). ESG involves measuring a company's overall sustainability information. There are three dimensions in the ESG score, namely environmental, social and governance, which are combined into one score. Each dimension has its own indicators to evaluate the company's sustainability performance. By using this new approach that encompasses all three aspects of corporate social responsibility, the ESG score can be used by investors as a more comprehensive evaluation tool of the company's sustainability performance ESG disclosure is the latest form in the evolution of voluntary information reporting, which began with CSR reporting, continued with sustainability reporting, and then evolved into integrated reporting (Faisal et al., 2018). ESG involves measuring a company's overall sustainability information. There are three dimensions in the ESG score, namely environmental, social and governance, which are combined into one score. Each dimension has its own indicators to evaluate the company's sustainability performance. By using this new approach that includes all three aspects of corporate social responsibility, the ESG score can be used by investors as a more comprehensive evaluation tool for corporate sustainability performance (Zuraida et al., 2016).

A sustainability report is a corporate practice covering environmental, social and governance aspects. It ensures that the business is ready to face future risks, challenges and opportunities. In addition, the Sustainability Report can provide more information about the company's performance. (Durlista & Wahyudi, 2023). The Sustainability Report allows organizations to consider their impact on sustainability issues and become more transparent about the risks and opportunities they face. Sustainability Report as the main platform for communicating the company's sustainability practices and their impact on stakeholders (Sandali et al., 2021). The Sustainability Report serves as a connecting tool between society and the company because it can meet the expectations of most stakeholders. They also encourage companies to engage in an increasing number of sustainable activities as it makes the organization more responsible and accountable (Nayak & Kayarkatte, 2020).

The favorable correlation between ESG and profitable investing performance is supported by data. Derwall, Guenster, Bauer, and Koedijk, for instance, discovered that investment returns were higher in portfolios with higher eco-efficiency scores. Friede, Busch, and Bassen estimate that there were over 2,200 distinct research conducted between 1970 and 2015. Since 2000, they found a sharp rise in ESG research. on summary, the findings of a four-year empirical study assess our understanding of the influence of ESG investments on international capital markets and provide insights into the relationship between ESG and corporate finance. Depending on data samples, sample durations, empirical techniques, and various businesses or nations, research in this field is extensive, quickening, and still equivocal (e.g., 8–12). Roughly 90% of these 2,200 research indicate that there is no negative correlation between ESG and changeable financial performance, and the majority state that ESG aspects have a positive effect on corporate financial performances. Most notably, they discovered that there is a consistent, positive correlation between business financial performance and ESG. From the description above, the following hypothesis is formulated:

H1 : Environmental disclosure has a positive effect on the company's financial performance

Corporate social responsibility is a foundation that emphasizes that companies are responsible to stakeholders as a whole. Based on this definition, companies with a high level of responsibility will find it easier to attract qualified employees. In order to increase trust and expectations of stakeholders, companies must be socially responsible. Based on the existing literature, social disclosure in company reports has many influences on aspects of the company itself and relationships with stakeholders. Signaling theory states that companies provide signals to outsiders with the aim of increasing company value. In addition to the required financial information, companies also make voluntary disclosures. Research conducted by Yudhanto and Simamora (2023), Sawitri et al. (2022), that social disclosure has a positive effect on ROA. Based on stakeholder theory and the results of previous empirical research, ESG performance is positively related to financial performance (ROA). From the description above, the following hypothesis is formulated:
H2 : Social disclosure has a positive effect on the company's financial performance

Corporate governance is a procedure applied to coordinate the company's business activities so as to achieve business improvement as well as the company's responsibility to shareholders and other stakeholders. As a form of responsibility, good corporate governance needs to be disclosed in the company's annual report. Since the world monetary crisis in 2008, Corporate Governance Disclosure to date more and more companies make transparency of their corporate governance system. Governance has a role in important problems that occur in companies, with poor corporate governance significantly causing a financial crisis. Research conducted by Nuhu and Alam (2023), Husada and Handayani (2021), Zahid et al. (2022) found that environmental disclosure has a positive effect on ROA. In terms of specific ESG components, Gompers, Ishii, and Metrick exclusively examine the impact of corporate governance. Specifically, they examined the relationship between corporate governance and corporate finance areas including firm value, profitability, sales, fixed asset purchases, and mergers and acquisitions (M&A). Using a unique governance index method to estimate shareholder rights, they concluded that companies with higher index values exhibit higher corporate value, higher profit rates, higher sales growth rates, and lower capital expenditure spending, as well as earning smaller amounts.
H3 : Governance disclosure has a positive effect on the company's financial performance

## RESEARCH METHODS

The population in this study are energy sector companies that have been listed on the Indonesia Stock Exchange (IDX) for the period 2020-2022. Based on *purposive sampling* technique, where the selection of company samples during the research period is based on certain considerations or criteria set with the aim of making it easier to get samples in accordance with the researcher's criteria, 57 sample companies were obtained with several criteria set as follows: companies listed on the Indonesia Stock Exchange in the energy sub-sector**,** non-financial companies listed on the Indonesia Stock Exchange, namely the energy sub-sector for the 2020-2022 period, and companies that have complete data according to research needs between 2020-2022.

Environmental measurement in this study uses the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines or the EU Law on Non-Financial reporting. Environmental disclosure practices vary significantly between organizations. Proponents of standardization argue that standards ensure uniformity in reporting and enable comparison of companies' environmental performance at least within sectors. For this study, researchers used measurement through the GRI where if the company applies one of the specifications in the GRI, it will be given a value of 1, while conversely if it does not publish specifications in the GRI, it will be given a value of 0. The overall result between environmental indicators is the total of all specifications of environmental indicators that match the specifications divided by the total number, then the value of each environmental variable will be obtained (Zahid et al., 2022).

$$E = \frac{n}{9}$$

Description
n = Total sample
9 = Total GRI Indicators

Social measurement in this study uses the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines or the EU Law on Non-Financial reporting. Social disclosure practices vary significantly between organizations. Proponents of standardization argue that standards ensure uniformity in reporting and enable comparison of corporate social performance at least within sectors. For this study, researchers used measurement through the GRI where if the company applies one of the specifications in the GRI, it will be given a value of 1, while on the other hand if it does not publish specifications in the GRI, it will be given a value of 0. The result of the whole between Social indicators is the total of all indicator specifications from Social that match the specifications divided by the total number, the value of each Social variable will be obtained (Zahid et al., 2022).

$$S = \frac{n}{34}$$

Description
n = Total sample
9 = Total GRI Indicators

Governance measurement in this study uses the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines or the EU Law on Non-Financial reporting. Governance disclosure practices vary significantly between organizations. Proponents of standardization argue that standards ensure uniformity in reporting and enable comparison of corporate governance performance at least within sectors. For this study, researchers used measurement through the GRI where if the company applies one of the specifications in the GRI, it will be given a value of 1, while on the other hand, if it does not publish specifications in the GRI, it will be given a value of 0. The result of the whole between the Governance indicators is the total of all indicator specifications from Governance that match the specifications divided by the total number, the value of each Governance variable will be obtained (Zahid et al., 2022).

$$G = \frac{n}{16}$$

Description
n = Total sample
9 = Total GRI Indicators

Return on Asset is a commonly used instrument to measure the profit earned by a company, For the initial regression analysis, four multivariate regression models were used including, four regressions for the profitability variable (i.e. Return on Asset ROA). Furthermore, the sample dataset was categorized by asset size and total ESG score for further analysis. The main reason for this in-depth analysis process is to identify potential patterns in the sample dataset while gaining a better understanding of the relationship between ESG and company financial performance in a given situation. Here is the general regression formula used:

$$FP = \frac{net\ income}{total\ asset}$$

Source: (Zahid et al., 2023)

Description:
FP = Financial Performance

ESG disclosure is a measurement tool in the development of information disclosure on the impact of environmental, social and governance practices implemented by companies. The disclosure of this non-financial information can be used as an important indicator in assessing and evaluating the company's performance during the continuity of its operational activities and their impact on these three criteria.

Nowadays, internal and external stakeholders have a high interest in the company's environmental performance, because they may be affected by the pollution created by the company. Therefore, it is very important for companies to do the best management to reduce emissions, air, hazardous waste, water discharge and so on. In addition, good management also ensures that natural resources are properly utilized. Advanced product support and innovation can improve environmental performance because it shows the company's ability to manage environmental burdens so that it can create products that are designed to be environmentally friendly so as to extend durability (Kim & Li, 2021).

Companies not only act as business entities that pursue financial success but also as good citizens. This concept emphasizes that companies must expand their responsibilities in social and environmental aspects, because more and more people are demanding companies to minimize the negative impact of company activities. In this case the company has the right obligations and responsibilities towards stakeholders in carrying out company activities (Melinda and Wardhani 2020).

A good governance system is an important element in optimizing company performance, in this case for decision making for shareholders, limiting agency costs, and supporting the survival of the company. Corporate governance is used as a procedure and structure to manage and handle business, as well as the efforts of the organization to improve business development. In addition, governance is also used as a responsibility of the company with the aim of recognizing shareholder value in the long term by considering the interests of other stakeholders.

**Data Analysis Method**

Employed panel data regression analysis with the Eviews 10 software. Three models the Common Effect Model, Fixed Effect Model, and Random Effect Model will be chosen from the panel data. Eight multivariate regression models were developed for the initial regression analysis: four for the profitability variable (i.e., Return on Assets, or ROA) and four for the credit risk variable (i.e., credit rating). For additional analysis, the sample dataset was further divided into categories based on asset size and overall ESG score. The primary goal of this extensive research procedure was to find possible trends in the sample dataset and to enhance comprehension of the linkages between corporate finance performance and ESG in a specific context. The following is the general regression formula used during the research:

$$\mathbf{ROA = \alpha + \beta 1\ ENV + \beta 2\ SOC + \beta 3\ GOV + \epsilon}$$

Description:
ROA = Return On Asset
ENV = Environmental
SOC = Social
GOV = Governance
$\alpha$ = Variable or constant number
$\beta 1, \beta 2, \beta 3$ = Regression coefficient
$\varepsilon$ = Error

## RESULTS AND DISCUSSIONS

Based on the data that has been obtained and processed, the following descriptive statistics for each variable.

**Table 1**. Descriptive Statistics

| | ROA | ENVIRONMENTAL | SOCIAL | GOVERNANCE |
|---|---|---|---|---|
| Mean | 10,73487 | 0,974457 | 0,698635 | 0,41999 |
| Median | 2,53 | 1 | 0,6875 | 0,323529 |
| Maximum | 125,37 | 1 | 1 | 4,71 |
| Minimum | -41,06 | 0,666667 | 0,125 | 0,117647 |
| Std. Dev. | 23,59965 | 0,056545 | 0,129392 | 0,473701 |
| Skewness | 2,31195 | -2,418499 | -0,905696 | 7,502099 |
| Kurtosis | 9,834959 | 9,425702 | 5,578229 | 64,92552 |
| Jarque-Bera | 493,7041 | 468,975 | 71,98095 | 29434,25 |
| Probability | 0 | 0 | 0 | 0 |
| Sum | 1867,868 | 169,5556 | 121,5625 | 73,07824 |
| Sum Sq. Dev. | 96351,19 | 0,553143 | 2,896395 | 38,8199 |
| Observations | 174 | 174 | 174 | 174 |

Source: Eviews-10 processed data

Based on statistical data, the average value of ROA is 10.7, which means that the disclosure of ROA variables has fully met the criteria required by GRI. Environmental has an average of 0.97, meaning that the disclosure of environmental variables has fully met the good criteria. The social variable has an average of 0.69, this shows that the social variable has shown good criteria. The economic governance variable has an average of 0.41, indicating that in this study the economic governance variable has no effect on a company.

The selection of the estimation model is carried out with 3 tests, namely the Chow Test, the Hausman Test, and the Lagrange Multiplier (LM) Test. Based on the tests that have been carried out, the best estimation model that can be used for further analysis in this study is the Fixed Effect Model.

**Table 2**. T statistic test results

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| ENVIRONMENTAL | 21,412 | 8,659529 | 2,472652 | 0,0149 |
| SOCIAL | 12,14446 | 5,289616 | 2,295905 | 0,0235 |
| GOVERNANCE | 1,567275 | 2,491013 | 0,629172 | 0,5305 |
| C | -19,27299 | 12,33123 | -1,562941 | 0,1209 |

Source: Eviews-10 processed data

Based on the results of the statistical T test in table 2, proving that the significant level of environmental is 0.0149 <0.05, meaning that environmental has an effect on financial performance. Basically, the environmental impact on the company's financial performance of the environmental component has a positive impact on financial performance, especially the impact on company profitability, (so hypothesis 1 is accepted). These results are in line with research conducted by Kim and Li (2021) Velte (2020) Al Amosh et al. (2023) Durlista and Wahyudi (2023) which states that environmental has a positive effect on financial performance. The results of this study support signaling theory where environmental disclosure is to ensure compliance with applicable environmental standards and prevent pollution to the environment, both small and large impacts. The Company emphasizes its commitment to implementing environmental protection and preservation efforts that include the prevention of environmental pollution and contamination by ensuring responsible business management from the start. Environmental Management Efforts and Environmental Monitoring Efforts. In addition, the Company ensures resource efficiency and impact minimization, energy use, water use, electricity, emissions, effluents and waste, waste management, material use, biodiversity, biodiversity conservation efforts, and environment-related complaints.

Social variables prove a significant level of 0.0235 <0.05, meaning that social variables affect financial performance. This highlights the role of a larger stakeholder group in putting pressure on companies to disclose social issues and information to achieve corporate sustainability. These results are in line with research conducted by Kim and Li (2021) Velte (2020) Al Amosh et al. (2023) and Prabowo and Djastuti (2015) which states that social has a positive effect on financial performance, (so hypothesis 2 is accepted). The results of this study support the signaling theory where social disclosure seen from the sustainability report in one of the companies that shows increasing community competence and independence in the economic field and improving social life is the Company's aspiration. Responsibility that provides direct benefits to the needs of the community. In this case, the Company coexists with the Company's operational areas, and the Company also implements activities related to social and community development. On the other hand, the Company implements employment commitments which include employment practices and work comfort, fulfillment of human resources, number of new employee recruitments in 2022, diversity and equal opportunities, employee welfare, occupational health and safety efforts, scope and formulation of occupational health and safety aspects, K3 policies, targets and realization, industrial relations, freedom of association, non-discrimination, prevention of child labor and forced labor, labor problem complaint mechanisms, commitment to service users, service user health and safety, service user satisfaction surveys, and handling mechanisms for service user complaints.

The governance variable proves that the significant level of governance is 0.5305> 0.05, which means that governance has no effect on financial performance. This can increase stakeholder confidence

and improve company performance. These results are in line with research conducted by Mooneeapen et al. (2022) Al Amosh et al. (2023) Durlista and Wahyudi (2023) which states that governance has no effect on financial performance, (so hypothesis 3 has no effect). The results of this study differ from stakeholder theory that a well-built relationship between the company and stakeholders in the context of governance, for example the highest governing body, board of commissioners, or government, will support sustainability to increase company value. The disclosure of governance aspects states that it has been taken into account in the company's performance, but it can be concluded that governance disclosure cannot be used as a factor of energy companies. The results of this study are in line with the results of research from Buallay (2019) and Priandhana (2022). More profitable and larger companies have better performance in environmental and social aspects. However, there is no evidence that these factors are related to corporate governance performance. Corporate leverage does not seem to affect ESG performance. This research is in line with (Choi & Luo, 2021).

## CONCLUSION

Based on the results of data analysis and discussion that has been carried out in this study,
it can be concluded that partially environmental and social variables have a significant positive effect on the financial performance of energy sub-sector companies listed on the Indonesia stock exchange. While governance variables have no effect on financial performance listed on the Indonesian stock exchange. For future research development, it can be expanded to samples from other sub-sectors, for example the industrial sub-sector. The weakness of this research is that it is limited to accessing financial reports in one of the companies.

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