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Do sustainable development goals and carbon emission disclosures have an impact on financial performance?

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Abstract

This study aims to examine the impact of Sustainable Development Goals (SDGs) disclosure and carbon emission disclosure on financial performance in Indonesia. The sample consists of 55 companies listed in the Jakarta Islamic Index (JII) with a total of 256 firm-year observations during the 2020–2024. This study employs panel data regression using the Fixed Effect Model (FEM). The results show that SDGs disclosure has a negative effect on financial performance. However, carbon emission disclosure has no significant effect on financial performance. These findings suggest that SDGs may increase sustainability related expenditures, thereby exerting pressure on firm's financial performance. This study contribute to the sustainability and accounting literature by employing a pretax income to average equity to mitigate the influence of sectoral differences in tax rates.These findings are expected to serve as a reference for companies, governments, and regulators in formulating policies that support business sustainability.

Keywords: Carbon Emissions, JII, SDGs, Profitability, Sharia

INTRODUCTION

Financial performance is a representation of a company's performance in running its business operations. Through financial performance the strengths and weaknesses of a company can be seen by various parties. Firdaus et al., (2024) explain that financial performance is a key indicator of the success of a business process. Therefore, good financial performance is the main objective of a company and is an important factor in promoting business sustainability (Dahiyat et al., 2021).

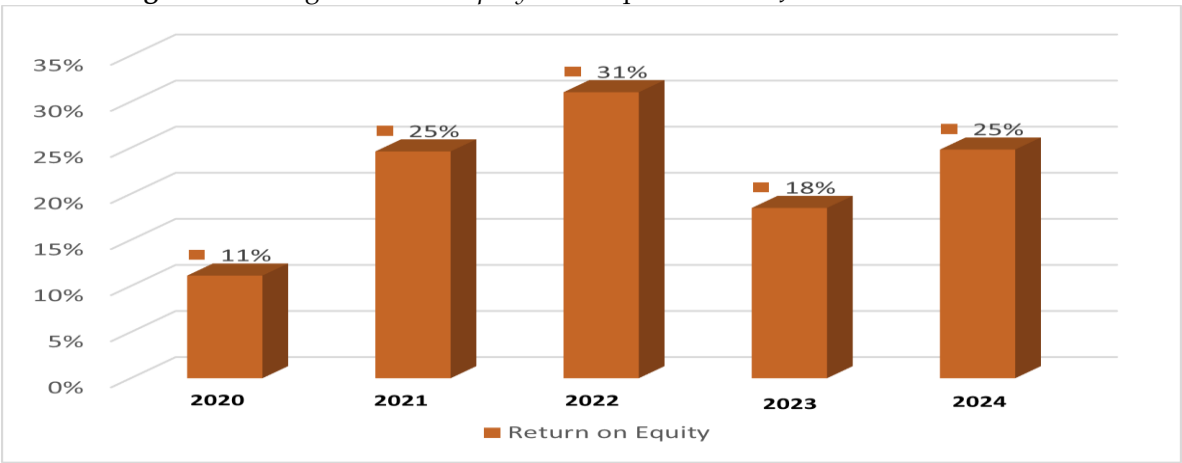
According to Nikhil & Deene (2023),good financial performance can be reflected in high profitability. Profitability is an important aspect in evaluating a company's financial performance (Rashid, 2021). That is why a company's ability to generate profits can indicate its financial performance (Sofieka & Munir, 2024). Financial performance is commonly measured using many ratios (Vintila & Nenu, 2015). One of them is Return on Equity (ROE), which has been extensively tested for its resilience (Nyahuna & Doorasamy, 2023;Komang & Nuryani, 2022;Lu et al., 2021). ROE measures the level of profit a company earns based on its capital (Meiryani et al., 2023).ROE can also be used as a basis for assessing the effectiveness of management's performance in managing existing capital (Dewi Ari, 2025).

In practice, companies do not always achieve ideal financial performance, even those included in the highly liquid index such as the Jakarta Islamic Index (JII). JII is an Islamic stock index comprising of 30 with the highest market capitalization, and its constituents are evaluated twice a year (Meliandawati, 2023). Companies included in this index must be free from transactions and business activities that violate the principles of sharia-based, have no interest-based debt exceeding 45% of total assets, and have interest-based income compared to business income of less than 5% (OJK RI, 2025).

In terms of financial performance, Baining et al. (2024) found that companies listed on the JII exhibited fluctuating performance trends during the 2018-2022 period. In line with this, a study by

Malahayati & Fitri, (2025) shows that in 2023 there were companies in the JII that had fairly low ROE values, such as ANTAM at 0.67% and MDKA at 0.13%. These values are certainly far from the industry average for ROE of 40% (Kasmir, 2018). Sholahuddin & Muhammad, (2024) further found that only 9 out of 30 JII companies had good financial performance quality and potential. The following figure 1 shows the average financial performance of companies in the JII for the period 2020-2024.

Figure 1. Average *Return on Equity* of Companies in the JII for the 2020-2024



Source: Annual financial reports, 2025 (processed)

Figure 1 shows that there was a decline in the financial performance of companies listed on the Jakarta Islamic Index (JII) during the 2020-2024 period. The decrease began in 2023, when the average ROE value was 18% lower than in 2022, or a decrease of 13%. Compared to 2021, the 2023 average ROE was also lower, decrease by 7%. Furthermore, the 2024 average returned to the same level recorded in 2021 or two years earlier. Based on industry standards (Kasmir, 2018)the average ROE of JII companies during this period remains relatively low. The decline in the financial performance of companies in the JII also occurred in the previous period, as explained in a study by Pratama & Kadarningsih, (2022) which found that the decline was quite significant at 34.7% throughout the period. This condition indicates that there is a phenomenon of decline in the financial performance of companies in the JII.

Fluctuations in financial performance can be caused by various factors. Beretta et al., (2024) shows that an increase in financial performance can be driven by more detailed sustainability disclosure, particularly SDGs reporting. Apart from being a form of regulatory compliance, the disclosure of SDGs, which is not merely symbolic, is used as a signal that the company has transparency and credibility, which can increase the trust of stakeholders in the company (Galeazzo et al., 2024).

Other research results by Al Lawati & Hussainey, (2022) found similar results, namely that reporting on the adoption of SDGs in companies can improve reputation while demonstrating business feasibility and increasing company survival. A study conducted by Edwin & Nordin, (2024) in Indonesia also showed relevant results, namely that SDG reports published by companies can be a means of gaining the sympathy of stakeholders in order to strengthen cooperation with companies in achieving business sustainability. Therefore, SDG reporting is seen as having a positive effect on improving a company's financial performance.

In contrast Ramos et al., (2022) explain that maximum financial success cannot be based on the scope of the SDGs reported by companies. Another reason found by Lehenchuk et al., (2023) is that the implementation of sustainability practices is still ineffective and the quality of SDG reports is still low making it difficult to achieve improved financial performance. Arifianti & Widianingsih, (2023) also found that management that is not yet focused on reporting sustainability performance results in suboptimal SDG report quality, which impacts suboptimal financial performance.

Another factor that can improve financial performance is disclosure related to carbon emissions from business processes. Nyahuna & Doorasamy, (2023) found a significant positive impact between carbon emission disclosure and management performance, capital performance, and company profit performance. This is supported by the results of a study by Emmanuel et al., (2023),which found that stakeholders appreciate the transparency of companies in reporting the environmental impact of their business processes, thereby supporting improved financial performance.

In line with this, an increase in ROA from the carbon emission disclosure process was also found by (Kurniawan et al., 2024; Rahmawati, 2020),who stated that company involvement in sustainability practices and disclosure as a form of responsibility provides a positive view in the market so that stakeholders can help companies achieve their desired financial performance.

However, findings by (Yuliandhari & Ramadhanty, 2024;Rahmatania et al., 2024) show different results, namely that carbon emission disclosure has a negative effect on financial performance. This condition occurs because carbon emission disclosure can incur additional costs in its measurement, so that instead of an increase in financial performance, the company's profits actually decrease.

This is reinforced by the study by Ramadhan et al., (2023) which explains that there is no influence between the intensity of carbon emission disclosure and financial performance. These results are related to the conditions or types of business industries, as explained in the study by Lu et al., (2021),which found that industries with high emission and carbon risks cannot boost their financial performance through emission reporting carried out in the current and subsequent periods. To emphasize this point, a study by Putri & Murtanto, (2023) states that companies do not achieve financial performance because not all companies that report carbon emissions have good carbon performance.

The inconsistency of previous studies regarding the SDGs and carbon emission disclosure on financial performance and the emerging downward trend in the financial performance of companies on the JII, highlights the need for further investigation. Therefore, this study aims to examine and explain how SDGs and carbon emission disclosures are associated with financial performance in Indonesia during the 2020-2024 period. This study adopts the Jakarta Islamic Index (JII) as the object of study, refers to the study conducted by Al Lawati & Hussainey, (2022) who suggest that companies in the non-financial sector have adequate opportunities for study (Al Lawati & Hussainey, 2022).This is in line with the distribution of JII companies, which consist of various business sectors. To create novelty, this study adopts pretax income against average equity in measuring financial performance, a metric that has been relatively rarely employed in prior empirical research.

Furthermore, research on environmental disclosure is increasing, but research on the effect of SDGs and carbon emission disclosure on financial performance, especially in the context of companies included in the sharia index, is still limited. Therefore, this research provides an adequate reference for future research. In addition, this study can provide practical guidance for understanding the position of SDGs and carbon emissions disclosure in corporate business strategies to achieve economic, social, and environmental sustainability.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review

Signaling Theory

Spence (1973) in Johan et al., (2024)explains that signaling theory arises from the existence of information asymmetry, requiring companies to send signals. These signals can be positive or negative indications that serve as important clues for those who need them (Hussain et al., 2023;López-Santamaría et al., 2021; Asrorudin et al., 2024).In addition, Zhou et al., (2024) add that information must be conveyed by companies in a complete and clear manner in order to be credible signals. These positive signals then increase trust and attract the attention of stakeholders to the company's commitment to increasing business value and sustainability (Dewi & Pinem, 2023).

Financial Performance

Financial performance is a means of measuring a company's success in managing its available resources (Machdar, 2017; Ichsan et al., 2021). Management's ability to allocate costs and resources efficiently is crucial to supporting the company in achieving maximum performance (Hand ayani et al., 2020;Matar & Eneizan, 2018). Furthermore, financial performance is defined as a company's ability to generate profits from its business processes (Sunardi et al., 2020).Ultimately, financial performance describes the financial condition of a company, whether there is a decline or an increase, which is an achievement during the current period (Faisal et al., 2017;Putri & Munfaqiroh, 2020).

Return on Equity (ROE)

ROE is a financial performance indicator that describes a company's prospects in the future (Kusuma et al., 2021).This is because ROE or return on equity can show how much profit a company can get from the results of capital management activities (Shaikh et al., 2022).(Meiryani et al., 2023)explain that ROE refers to all profits obtained from the amount of capital provided by shareholders. In line with this, Sabrina & Fauzan, (2024) explain that ROE is an important benchmark for investors and companies in calculating the rate of return on their equity capital. A high ROE indicates that a company has excellent financial performance and has a positive impact on the company's sustainability in the future (Wairisal, 2024;Meiryani et al., 2023).

The Concept of Sustainable Development Goals (SDGs)

Sustainable Development Goals (SDGs) are a global ambition to achieve sustainable development without compromising the welfare of future generations, both socially and environmentally (Fleming et al., 2017;Stafford-Smith et al., 2017). The concrete steps of the SDGs are manifested in 17 specific goals that are critically interrelated to measure the implementation and contribution of each party to the goals to be achieved (Wicaksono, 2023;Griggs et al., 2014).The success of achieving the SDGs depends on the role of all parties, where the government, through the OJK, has a crucial role by issuing Regulation Number 51./POJK.03/2017 regarding sustainable finance for financial service institutions, issuers, and public companies in encouraging all elements of society, including companies, to adopt the SDGs in their business strategies (Halisçelik & Soytas, 2019).Farida (2019) explains that collaboration between the government and all parties can strengthen the achievement of SDGs.

The Concept of Carbon Emissions Disclosure

Carbon emissions disclosure is an annual disclosure through sustainability reports, which are a means of information provided by companies regarding the impact of climate change from their business processes (Kelvin et al., 2009;Saraswati, 2020;Pratama, 2021).Carbon emissions disclosure can include environmental disclosure, news about greenhouse gas (GHG) emissions, and the company's potential in a good environmental management strategy (Pitrakkos & Maroun, 2019;Sukmawati & Henny, 2024). Disclosed emissions information is a form of responsibility that shows that companies care about the surrounding environment (Widiyani & Meidawati, 2023).For companies with high emission risks, disclosure is very important because it can minimize threats from regulators, so that in turn, disclosure can be good news for investors. (Liu et al., 2023)

Hypothesis Development

SDGs Disclosure on Financial Performance

SDGs disclosure is a multidimensional disclosure that covers social, economic, environmental, governance, and legal aspects (Wicaksono, 2023).Such disclosure provides information and a signal that the company has strategies and contributions in managing the impact of its business activities. This is in line with signaling theory, which states that companies send positive signals to the public to minimize misinformation (Hussain et al., 2023).The existence of SDGs disclosure also shows that companies have responsible governance, are transparent in their operational activities, and are

committed to the principles of sustainability. This will further enhance the company's reputation and financial performance.

A previous study conducted by Al Lawati & Hussainey (2022) highlighted the significant positive impact of SDG adoption disclosure on a company's return on equity. This is reinforced by studies from Edwin & Nordin, 2024; Pham et al., 2021;which found that sustainability disclosure, especially SDG levels, can help companies improve their financial performance. A study by Beretta et al., (2024) explains that the improvement in financial performance experienced by companies is the result of detailed SDG disclosure or reporting, which signals that the company has high credibility and builds stakeholder trust in the company, which in turn helps improve the company's financial performance.

However, Ramos et al. (2022),found different results from SDG coverage reporting where financial performance could not achieve its maximum performance through such reporting. The underlying reason,Arifianti & Widianingsih, (2023), as revealed by is that management that is not yet focused on sustainability efforts has an impact on the low quality of reporting, especially on aspects that are the responsibility of the company. Lehenchuk et al., (2023) explain that sustainability practices and the suboptimal quality of sustainability reporting prevent companies from achieving their financial performance goals. Therefore, the implementation of sustainability practices and reporting needs to be carried out comprehensively to achieve the desired improvement in financial performance (Galeazzo et al., 2024).Based on the above description, the following hypothesis can be proposed.
H1: SDGs disclosure has a positive effect on ROE

Carbon Emissions Disclosure on Financial Performance

Carbon emissions disclosure is environmental disclosure carried out by companies that includes at least the amount and intensity of emissions as well as strategies and achievements in reducing emissions (Pitrakkos & Maroun, 2019). From the perspective of Signaling Theory, this disclosure provides a positive signal that the company has resilience in facing environmental risks that will lead to regulatory threats from its operational activities. The demand s related to emission reduction strategies also encourage companies to innovate, and often these innovations help companies improve the effectiveness of their operational activities.

The relationship between emissions disclosure and financial performance has been previously studied by Nyahuna & Doorasamy, (2023),who found a strong influence between carbon emissions disclosure and financial performance. Not only that, Emmanuel et al., (2023), explained in their study that broader environmental disclosure in this case carbon emissions, can contribute to improved financial performance through an increase in the company's reputation in the eyes of stakeholders. In line with this, studies exploring financial performance, such as Kurniawan et al., 2024;Putri & Murtanto, 2023),show that environmental practices and environmental disclosure of a company's operational activities help companies increase their return on assets.

Ramadhan et al., (2023), namelyfound different results that companies that intensively disclose their carbon emissions do not always achieve maximum financial performance. This opposite effect may be due to differences in industry type, as found by Lu et al., (2021),who found that companies with high emission risks still cannot improve their financial performance even though they have disclosed their emissions. Research by Yuliand hari & Ramadhanty (2024) andRahmatania et al., (2024)also showed the same results, namely that carbon emission disclosure actually causes a decline in company financial performance. This could be due to the costs incurred as a result of the emission measurements carried out by the company. Based on the above description, the following sub-hypothesis can be proposed.
H2: Carbon emissions disclosure has a positive effect on ROE

Framework

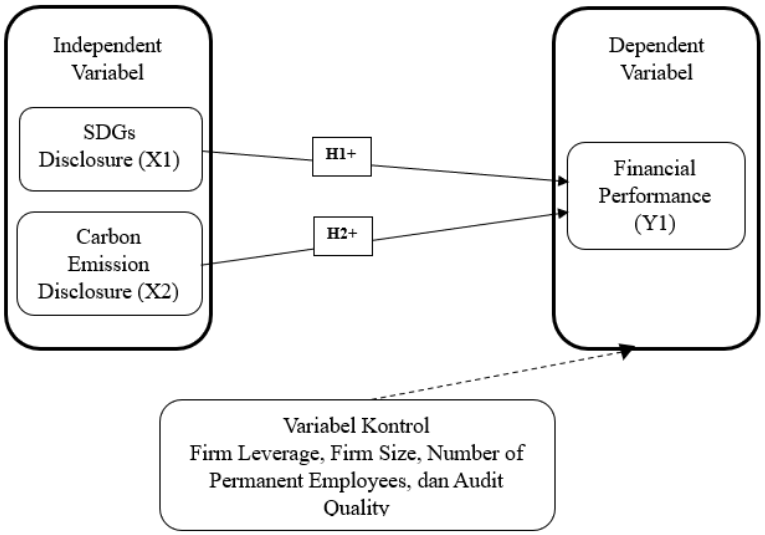


Figure 2. Conceptual Framework
Source: Author, 2025

METHODS

Data and Sample

This study uses a quantitative approach to empirically examine the effect of SDGs disclosure and carbon emissions on the financial performance of companies in the JII during the period 2020-2024. The period was determined based on the availability of constituent data or company evaluation data included in the JII released by the Indonesia Stock Exchange. The data in this study is an unbalanced panel derived from secondary data obtained through content analysis techniques in companies' annual reports and sustainability reports. Joseph et al., (2016) explain that the content analysis approach is a very appropriate technique to use in studies on disclosure. This makes this technique widely used and still relevant today, especially in disclosure studies (Ameraldo et al., 2025; Yusuf, 2025).

Purposive sampling was used to determine the sample for this study. Therefore, there were several sample criteria, including 1) companies included in the Jakarta Islamic Index (JII) for the 2020-2024 period; 2) companies that did not publish sustainability reports for the 2020-2024 period. The purposive sampling process can be seen in the table below.

Table 1. Sample Selection Process

No.	Criteria	2020	2021	2022	2023	2024
1.	Companies listed on the JII during the 2020-2024 period	30	30	30	30	30
2.	Companies that did not publish sustainability reports during the 2020-2024 period	(16)	(2)	-	-	-
	Final sample size	14	28	30	30	30
	Total Observations	256 observation data				

Source: Author, 2025

After going through the sample selection process, 55 companies were obtained that met the requirements as research samples. The following is a list of companies and their grouping based on their business sector.

Table 2. List of Sample Firms

No	Code	Company Name	Business Sector
1	ANTM	Aneka Tambang Tbk	Basic Materials
2	BRPT	Barito Pacific Tbk	Basic Materials
3	INCO	Vale Indonesia Tbk	Basic Materials

No	Code	Company Name	Business Sector
4	INTP	Indocement Tunggal Prakarsa Tbk	Basic Materials
5	TPIA	Chand ra Asri Pacific Tbk	Basic Materials
6	MDKA	Merdeka Copper Gold Tbk	Basic Materials
7	SMGR	Indonesian Cement Tbk	Basic Materials
8	INKP	Indah Kiat Pulp & Paper Tbk	Basic Materials
9	TKIM	Tjiwi Kimia Tbk	Basic Materials
10	TINS	Timah Tbk	Basic Materials
11	BRMS	Bumi Resources Minerals Tbk	Basic Materials
12	AMMN	Amman Mineral International Tbk	Basic Materials
13	MBMA	Merdeka Battery Materials Tbk	Basic Materials
14	ASII	Astra International Tbk	Consumer Cyclicals
15	CPIN	Charoen Pokphand Indonesia Tbk	Consumer Cyclicals
16	JPFA	Japfa Comfeed Indonesia Tbk	Consumer Cyclicals
17	LPPF	Matahari Department Store Tbk	Consumer Cyclicals
18	MNCN	Media Nusantara Citra Tbk	Consumer Cyclicals
19	SCMA	Surya Citra Media Tbk	Consumer Cyclicals
20	ACES	Ace Hardware Indonesia Tbk	Consumer Cyclicals
21	MAPI	Mitra Adiperkasa Tbk	Consumer Cyclicals
22	ICBP	Indofood CBP Sukses Makmur Tbk	Consumer Non-Cyclicals
23	INDF	Indofood Sukses Makmur Tbk	Consumer Non-Cyclicals
24	KLBF	Kalbe Farma Tbk	Consumer Non-Cyclicals
25	UNVR	Unilever Indonesia Tbk	Consumer Non-Cyclicals
26	SIDO	Sido Muncul Herbal Medicine and Pharmaceutical Industry Tbk	Consumer Non-Cyclicals
27	ADRO	Adaro Energy Indonesia Tbk	Energy
28	AKRA	AKR Corporindo Tbk	Energy
29	ITMG	Indo Tambangraya Megah Tbk	Energy
30	PTBA	Bukit Asam Tbk	Energy
31	HRUM	Harum Energy Tbk	Energy
32	ESSA	Surya Esa Perkasa Tbk	Energy
33	INDY	Indika Energy Tbk	Energy
34	ADMR	Adaro Minerals Indonesia Tbk	Energy
35	MEDC	Medco Energi Internasional Tbk	Energy
36	PGEO	Pertamina Geothermal Energy Tbk	Energy
37	BTPS	Bank BTPN Syariah Tbk	Financial
38	BRIS	Bank Syariah Indonesia Tbk	Financial
39	KAEF	Kimia Farma Tbk	Health Care
40	MIKA	Mitra Keluarga Karyasehat Tbk	Health Care
41	HEAL	Medikaloka Hermina Tbk	Health Care
42	JSMR	Jasa Marga Tbk	Industrials
43	PTPP	Housing Development Tbk	Industrials
44	UNTR	United Tractors Tbk	Industrials
45	WIKA	Wijaya Karya Tbk	Industrials
46	EXCL	XL Axiata Tbk	Infrastructure
47	PGAS	State Gas Company Tbk	Infrastructure
48	TLKM	Telkom Indonesia Tbk	Infrastructure
49	MTEL	Dayamitra Telekomunikasi (Mitratel) Tbk	Infrastructure
50	BSDE	Bumi Serpong Damai Tbk	Property & Real Estate
51	CTRA	Ciputra Development Tbk	Property & Real Estate
52	PWON	Pakuwon Jati Tbk	Property & Real Estate
53	BUKA	Bukalapak.com Tbk	Technology
54	EMTK	Elang Mahkota Teknologi Tbk	Technology
55	GOTO	GoTo Gojek Tokopedia Tbk	Technology

Dependent Variable

In this study, the dependent variable used is the company's financial performance through ROE. In measuring ROE, this study uses profit before tax against average equity (Al Lawati & Hussainey, 2022). This refers to studies conducted by Cocis et al., (2021) and Nina & Socol,

(2020),which explain that differences in tax rates across business sectors mean that the existence of taxes is feared to produce different results in the analysis output.

Independent Variables

As an independent variable, SDGs disclosure is used to measure the level of disclosure and reporting of the 17 SDGs in corporate sustainability reports (Al Lawati & Hussainey, 2022). This measurement is carried out by giving a value of 1 for each goal that appears, and 0 otherwise. Thus, a maximum value of 17 will be obtained for companies that fully report all SDG goals (Beretta et al., 2024).In determining the measurement score, the following formula is used.

$$SDGs = \frac{Number\ of\ SDGs\ Disclosed\ by\ firm}{Total\ of\ 17\ SDGs}$$

In addition, another independent variable used in this study is carbon emission disclosure to assess the disclosure of related to business carbon emissions that have an environmental impact, such as accelerating climate change (Kelvin et al., 2009). The measurement of carbon emission disclosure is carried out by referring to the Carbon Disclosure Project (CDP) index, which has been used in previous studies to assess carbon disclosure (Choi et al., 2013;Lu et al., 2021;Wahyuningrum et al., 2024;Mukhibad et al., 2024;Apriansyah et al., 2025;). In measuring carbon emission disclosure, the CDP has 18 indicators, where a value of 1 is given for each CDP indicator disclosed by the company, and a value of 0 if there is none. Therefore, the maximum value obtained is 18. To determine the score obtained, the following formula is used.

$$CED = \frac{Number\ of\ CDP\ Disclosed\ by\ firm}{Total\ of\ 18\ CDP}$$

Thus, the score range that will be obtained for SDGs and carbon emission disclosure will range from 0, which means that no items are disclosed, to a maximum of 1, which means that all items are disclosed (Gutiérrez-Ponce & Wibowo, 2023; Adnyana et al., 2024; Wahyuningrum et al., 2025).

Control Variables

Referring to previous studies (Al Lawati & Hussainey, 2022;Nyahuna & Doorasamy, 2023), this study uses several control variables such as leverage, which is measured by total liabilities to total assets, as used by (Siddique et al., 2021). The number of employees is one of the control variables because it has been proven to be related to financial performance. In addition, company size is measured by the logarithm of total company assets, following (Hashmi et al., 2020). Audit quality in this study is measured using a dummy variable, where a value of 1 is given if the company is audited by a BIG4 public accounting firm, but 0 if not (Ashari & Krismiaji, 2020).

Table 3. Measurement of Variables

Variable	Symbol	Variable Measurement	Source
Dependent Variable – Financial Performance			
Return on Equity	ROE	Income before taxes divided by average annual equity	Annual report
Independent Variable			
SDGs Disclosure	SDGs	Measures to assess the emergence of the 17 SDGs	Sustainability reports
Carbon Emissions Disclosure	CED	Measures to assess the emergence of 18 CDP indicators	Sustainability report
Control Variables			
Leverage	LEV	Total debt divided by total assets	Annual report
Number of Permanent Employees	LOGSize	Natural logarithm of the number of permanent employees per year	Annual report
Company Size	LOGAset	Natural logarithm of total assets	Annual report
External Auditor	BIG4	A dummy variable that takes a value of 1 when the financial statements are audited by one of the four auditing firms, namely PwC, Deloitte, EY, and KPMG, and 0 otherwise	Annual report

In this study, multiple regression analysis was used to test the influence between variables in all research hypotheses. To obtain the best model, testing stages were carried out, including the Chow test, Hausman test, and Lagrange multiplier test. After obtaining the best model, classical assumption testing was carried out involving multicollinearity and heteroscedasticity tests to ensure the validity of the estimation results in the Common Effect Model (CEM) and Fixed Effect Model (FEM) as recommended (Napitupulu et al., 2021). Data analysis was performed using Eviews 13. To perform the estimation process, the following multiple regression formula was constructed.

$$ROE = \alpha + \beta 1\ SDGs + \beta 2\ CED + \beta 3\ LEV + \beta 4\ LOGSize + \beta 5\ LOGAset + \beta 5\ BIG4 + \in \quad (2)$$

In the above formula; Financial Performance (ROE) refers to the level of company profitability against average equity; SDGs refers to the measure of SDGs disclosure contained in the company's sustainability report; CED refers to the measure of carbon emission disclosed by the company; LEV refers to the company's leverage; LOGSize refers to the number of permanent employees; LOGAset refers to the size of the company, and BIG4 refers to the independent external auditors who audit the financial statements.

Results

Descriptive Statistics

Table 3 presents the results of descriptive statistical analysis, where the minimum and maximum ROE values are -1.14 and 5.68. Meanwhile, the mean value is 0.23, which means that the average company has an ROE of 23%. In addition, from the independent variable side, SDGs disclosure obtained an average value of 0.66 with a minimum value of 0.00 and a maximum of 1.00. It can be explained that the average SDGs disclosure carried out by companies is still at the 66% level. On the other hand, carbon emission disclosure has a minimum value of 0.00 and a maximum of 1.00, with an average of 0.56, which means that on average, companies only disclose emissions at a level of 56%.

Table 4. Descriptive Statistics

	ROE	SDGs	CED	LEV	LOG Size	LOG Assets	BIG4
Mean	0.23	0.66	0.56	0.44	3.48	13.53	0.73
Median	0.14	0.65	0.56	0.41	3.52	13.59	1.00
Maximum	5.68	1.00	1.00	7.71	5.18	14.67	1.00
Minimum	-1.14	0.00	0.00	0.03	0.00	9.47	0.00
Std. Dev.	0.50	0.25	0.21	0.50	0.84	0.73	0.44
Obsv.	256	256	256	256	256	256	256

Source: Eviews 13, 2025 (processed data)

Determination of Panel Data Regression Model

The regression model selection process refers to Napitupulu et al., (2021), which involves three statistical tests, where the Chow test is used to select a model by comparing the CEM model with the FEM model. If the (Prob.) value for Cross-section F is >0.05, then CEM is selected, but if the value is <0.05, then FEM is selected. Meanwhile, for the Hausman test, the selection of the best model involves the FEM and REM models, where when the (Prob.) value for Cross-section rand om shows >0.05, REM is selected, but if the value that appears is <0.05, FEM is selected. For the LM test, model selection is carried out by comparing the CEM and REM models, where if the Breusch-Pagan P value is <0.05, then REM is selected, but if the opposite is true, then CEM is selected ( ). From the three test results, the most consistent model selected in each test is then determined and will be the best model for regression analysis.

Table 5. Process of Selecting the Panel Data Regression Model

No	Test	Equation 1		
		Result	Sig,	Model
1	Chow	0.000	<0.05	FEM
2	Hausman	0.026	<0.05	FEM
3	LM	-		

Source: Eviews 13, 2025 (processed data)

Table 4 above shows the results of the model selection process, where the significance values of the Chow test and Hausman test show the same level, namely <0.05, so that for both tests, the FEM model is selected. Therefore,Jauhari et al. (2019), according to the LM test as a follow-up step is not necessary because the two previous tests already refer to FEM as the selected model and will be the best model in the regression process.

Classical Assumption Test

Multicollinearity Test

Multicollinearity testing was conducted to examine the correlation or intercorrelation of all variables except the dependent variable, referring to (Al Lawati & Hussainey, 2022). According to Napitupulu et al. (2021),the existence of correlations between variables can reduce the significance of the predictor variables. Correlation occurs when the correlation coefficient value is >0.85, while a value of <0.85 indicates that the variables are free from perfect multicollinearity.

In general, the correlation value in this study's variables is <0.85, which means that there is no correlation or intercorrelation in all test variables, making all regression models free from multicollinearity problems. For clearer results, see the table below.

Table 6. Multicollinearity Test

	SDGs	CED	LEV	LOGSize	LOGAset	BIG4
SDGs	1.0000	0.3311	0.0760	-0.0208	0.0673	0.1015
CED	0.3311	1.0000	0.0300	0.2163	0.2119	0.1682
LEV	0.0760	0.0300	1.0000	0.0279	-0.0992	-0.0899
LOGSize	-0.0208	0.2163	0.0279	1.0000	0.1792	0.1550
LOGAset	0.0673	0.2119	-0.0992	0.1792	1.0000	0.0189
BIG4	0.1015	0.1682	-0.0899	0.1550	0.0189	1.0000

Source: Eviews 13, 2025 (processed data)

Heteroscedasticity Test

Heteroscedasticity testing was performed on the FEM model to ensure that the residual values of the model had constant variance (Sukanda, 2018). This test was performed using the Gletser method as an alternative with the criteria that if the Prob. value was >0.05, it meant that the model did not have heteroscedasticity problems, but if the Prob. <0.05 indicates that the model has residual variance that is not constant, causing heteroscedasticity issues and rendering the estimation results useless (Wahyuningrum et al., 2020).

Table 7. Heteroscedasticity **Test**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.3414	1.7696	0.7580	0.4493
SDGs	-0.1111	0.0597	-1.8612	0.0642
CED	0.0874	0.0817	1.0697	0.2861
LEV	-0.0385	0.0309	-1.2457	0.2144
LOGSize	-0.0565	0.1336	-0.4233	0.6725
LOGAsset	-0.0741	0.1465	-0.5060	0.6134
BIG4	0.0157	0.0952	0.1645	0.8695

Source: Eviews 13, 2025 (processed data)

In Table 6, it can be seen that the probability values for all independent variables and control variables are above 0.05. Only the SDGs variable has the smallest Prob. value of 0.0642, and this value is still above the criterion for a model to have a heteroscedasticity problem, which is <0.05. Therefore, it can be concluded that the FEM model in this study is free from heteroscedasticity problems.

Panel Data Regression Analysis

The results of the FEM model regression analysis show that SDGs disclosure has a significant negative effect on ROE, as can be seen from the coefficient value of -0.2914 and the p-value of 0.0113.

This means that every one point increase in SDGs disclosure causes a 0.29 point or 29% decrease in ROE. Meanwhile, from the control variables, it can be seen that LOGSize has a significant negative effect on ROE at the 5% level (Coefficient -0.5080; p-value 0.0477).

Table 8. Regression analysis results in the Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.8332	3.3779	-0.5427	0.5879
SDGs	-0.2914	0.1140	-2.5566	0.0113
CED	0.2541	0.1560	1.6293	0.1049
LEV	-0.0274	0.0590	-0.4650	0.6425
LOGSize	-0.5080	0.2550	-1.9922	0.0477
LOGAsset	0.2864	0.2796	1.0243	0.3069
BIG4	0.0306	0.1817	0.1686	0.8663
R-squared			0.7699	
Adjusted R-squared			0.6990	
F-statistic			10.8719	
Prob(F-statistic)			0.0000	

Source: Eviews 13, 2025 (processed data)

In addition, the R-squared value of 0.7699 indicates that 76.99% of the variation in the dependent variable can be explained by the independent variables in the model. Then, the Adjusted R-squared value of 0.6990 or 69.90% indicates that the model still has a proportion in explaining the variation in the dependent variable even though there has been an adjustment to the number of variables and observations. In addition, the Prob(F-statistic) value of 0.0000 shows that simultaneously, the independent variables have a significant effect on the dependent variable.

Discussion

The Effect of SDGs Disclosure on Financial Performance

The regression analysis results show that SDGs disclosure has a negative effect on ROE at a significance level of 5% (Coefficient-0.2914; p-value 0.0113). Through these findings, hypothesis (H1+) which states that SDGs disclosure there is a positive effect on ROE is rejected. This result is in line with the research (Ahmad & Buniamin, 2021;Curea et al., (2025)which states that SDGs disclosure actually has a negative effect or, in other words, causes a decline in company financial performance. (Priyono et al., 2025)supports these results, explaining that the decline in financial performance is due to the high costs of implementing SDGs programs.

This may be attributed to the high costs of implementing SDGs programs at this time can put pressure on company profits (Wardan & Rizki, 2024). The study by Saha et al. (2024)explains that the costs or expenditures in SDGs programs can take the form of developing access to education and health, gender equality and opportunities, procurement and infrastructure development in marginalized areas, and investment in renewable resources. The current costs incurred will put pressure on company profits and cause a decline in company financial performance (Duque-Grisales & Aguilera-Caracuel, 2021).

In theoretical studies, these research results are not in line with signaling theory, which states that SDGs disclosure should be carried out by companies to gain support from stakeholders in order to achieve improved financial performance. Lehenchuk et al. (2023),highlight that the quality of SDG disclosure is still not optimalmaking stakeholders unsure about the company's commitment. However, Elansari et al. (2024)found that the implementation of SDGs has a strong influence on improving the image and reputation of companies, which in the long term can help companies achieve maximum financial performance. In addition, Lie et al. (2025)revealed that SDGs programs directly related to the community, such as reforestation programs in operational areas, the provision of education and training for communities, and programs aimed at improving the standard of living of the community, can improve the company's relationship with the community, which in turn can help the company achieve increased profitability.

The Effect of Carbon Emission Disclosure on Financial Performance

The results of the analysis for the second hypothesis show that carbon emissions disclosure has no effect on ROE (Coefficient 0.2541; p-value 0.1049). Therefore, hypothesis (H2), which states that carbon emissions disclosure has a positive effect on ROE, is rejected. The results of this study are in line with (Özşahin Koç & Deran, 2024;Dharma et al., 2024), which found that carbon emissions disclosure has no effect on improving a company's financial performance. Therefore, maximizing financial performance is not solely achieved through intensive carbon emissions disclosure by companies (Ramadhan et al., 2023).

There are several factors that cause carbon emissions disclosure to have no effect on improving financial performance. A study conducted by Lu et al. (2021)found that high-carbon-risk industries cannot achieve maximum performance solely through carbon emissions disclosure intensity. This study reveals that the lack of influence of carbon emissions disclosure on financial performance occurs both in the current period and in the future. This is also explained by (Fuadi et al., 2025)that in Indonesia, there is a phenomenon where high company profitability cannot be interpreted as high sustainability disclosure. This is because companies prioritize short-term financial performance. Meanwhile, according to (Dewi, 2025),carbon emissions disclosure does not affect financial performance due to factors such as macroeconomic impacts occurring during the period.

CONCLUSION

Based on the results of this study, it can be concluded that SDGs disclosure has a significant negative effect on ROE. On the other hand, carbon emission disclosure does not affect financial performance through ROE. These results indicate that in the short term, SDGs disclosure may reduce financial performance. However in the long term it can serve as a new business strategy that help firms achieve financial performance. These findings are expected to be the basis for companies, governments, and regulators in making policies that support the achievement of business sustainability in economic, social, and environmental aspects. However, this study has limitations, namely the limited number of years covered in the study. Therefore, it is hoped that further research can develop a longer time period and develop market indicators in addition to financial performance indicators.

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Appendices

Table 9. 17 Sustainable Development Goals (SDGs)

1. Goal		Description
Social Development Pillar		
Goal 1	No Poverty	End poverty in all its forms.
Goal 2	Zero Hunger	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
Goal 3	Good Health and Well-being	Ensuring healthy lives and promoting well-being for all people of all ages.
Goal 4	Quality Education	Ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all.
Goal 5	Gender Equality	Achieve gender equality and empower all women and girls.
Economic Development Pillars		
Goal 7	Affordable and Clean Energy	Ensure access to affordable, reliable, sustainable, and modern energy for all.
Goal 8	Decent Work and Economic Growth	Promote inclusive and sustainable economic growth, productive and full employment, and decent work for all.
Goal 9	Industry, Innovation, and Infrastructure	Building resilient infrastructure, promoting inclusive and sustainable industrialization, and fostering innovation.
Goal 10	Reducing Inequalities	Reducing intra- and inter-country inequalities.
Goal 17	Partnerships for Achieving the Goals	Strengthening implementation advice and revitalizing global partnerships for sustainable development.
Environmental Development Pillar		
Goal 6	Clean Water and Sanitation	Ensure availability and sustainable management of clean water and sanitation for all.
Goal 11	Sustainable Cities and Communities	Make cities and human settlements inclusive, safe, resilient, and sustainable.
Goal 12	Responsible Consumption and Production	Ensuring sustainable consumption and production patterns.
Goal 13	Climate Action	Taking urgent action to combat climate change and its impacts.
Goal 14	Ocean Ecosystems	Conserve and sustainably use the oceans, seas, and marine resources for sustainable development.
Goal 15	Terrestrial Ecosystems	Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
Legal Development Pillar		
Goal 16	Peace, Justice, and Strong Institutions	Strengthen inclusive and peaceful societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels.

Source: (Wicaksono, 2023)

Table 10. 18 *Carbon Disclosure Project* (CDP) Indicators

Category	Item	Description
Climate change: risks and opportunities	CC-1	Assessment/description of climate change and actions taken to manage these risks. Risks (specific and general regulations) associated with climate change.
	CC-2	Assessment/description of current (and future) financial and business implications and opportunities arising from climate change.
Greenhouse Gas (GHG) Emissions	GHG-1	Description of the methodology used to calculate greenhouse gases (e.g., GRK protocol or ISO).
	GHG-2	The existence of external verification of GHG emissions quantities by whom and on what basis
	GHG-3	Total greenhouse gas emissions (metric tons) generated
	GHG-4	Disclosure of scope 1 and 2, or 3 direct emissions.
	GHG-5	Disclosure of GHG emissions based on their origin or source (e.g., coal, electricity, etc.)
	GHG-6	Disclosure of GHG emissions based on facility or segment level.
	GHG-7	Comparison of GHG emissions with previous years.
Energy Consumption (EC)	EC-1	Amount of energy consumed (e.g., terajoules or peta-joules).
	EC-2	Quantification of energy used from renewable resources.
	EC-3	Disclosure by type, facility, or segment.
Greenhouse Gas Reduction and Cost (RC/Reduction and cost)	RC-1	Details of plans or strategies to reduce GHG emissions.
	RC-2	Specifications of the target level and year for reducing greenhouse gas emissions.
	RC-3	GHG emission reductions and costs or savings (costs of shaving) achieved to date as a result of the carbon emission reduction plan.
	RC-4	Future emission costs required in capital expenditure planning.
Carbon Emissions Accountability	AEC-1	An indication that the board of directors (or other executive body) has responsibility for actions related to climate change.
	AEC-2	Description of the mechanism by which the board (or other executive body) reviews the company's progress on climate change.

Source: (Choi et al., 2013)