:: IJEBD ::
(International Journal of Entrepreneurship and Business Development)
Volume 07 Number 02 March 2024

ISSN : 2597-4785 (ONLINE)
ISSN : 2597-4750 (PRINTED)

The Effect of Enviromental Score, Social Score and Governance Score Toward Financial Performance

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ABSTRACT

Purpose: This research aims to analyze the influence of Enviromental Score, Social Score and Governance Score on the Financial Performance in non Financial companies listed on the Indonesia Stock Exchange for the period 2019-2021

Design/methodology/approach: The sampling method used is purposive sampling method. Data analysis using SPSS 24.0 test tool by descriptive statistics, classic assumption test, multiple linear regression test and hypothesis test

Findings: The results showed that Enviromental Score, Social Score and Governance Score not significant to financial performance which measured with stock performance there are PER (Price Earning Ratio) and DPR (Devidend Payout Ratio). These considerations are expected to have a good information about Enviromental Score, Social Score and Governance Score to investor that has no effect to stock performance for.

Research limitations/implications: The limitation of this study is that there are many companies that have not fully implemented the ESG (Environmental, Social and Governance) report as a whole so that there is a lot of reduced data that has previously been selected as a research sample.

Practical implications: can be used by company management policies in determining what strategy to use in increasing ESG (Environmental, Social and Governance) scores and financial performance. And indirectly, an increase in ESG (Environmental, Social and Governance) and financial performance scores can increase the attractiveness of potential investors and investors so that companies can grow more rapidly and survive with a better level of health.

Originality/value: originality

Paper type: Research paper

Keywords: *Enviromental Score, Social Score, Governance Score, Financial Performance*

Received : November 4th
Revised : February 18th
Published : March 31th

I. INTRODUCTION

The company has implemented sustainable financial products or a sustainability strategy in which there is an ESG (Environmental, Social and Governance) report which is the principles and standards of business and corporate management required by companies within the scope of the Company to maintain the stability of the Company. What is expected by the Company is that the implementation of sustainable finance can remain stable and planned. The strategy used by the company in obtaining a high ESG (Environmental, Social and Governance) score is to pay attention to environmental, social and governance conditions in order to maintain a balance in the application of ESG (Environmental, Social and Governance), one of which is implemented in financing policies as well as guidelines and financing procedures that explain specific provisions including the Company will not financing loans to prospective customers whose business can damage the surrounding environment and for prospective customers who have businesses on an industrial scale must attach an Environmental Impact Analysis (AMDAL) document.

ISSN : 2597-4785 (ONLINE)
ISSN : 2597-4750 (PRINTED)

ESG as a sustainability strategy provides a discourse that the higher the ESG (Environmental, Social and Governance) score obtained, the indication that many of the Company's activities related to ESG have been achieved. Based on Menicucci and Paoulucci (2022) finding that ESG (Environmental, Social and Governance) has a negative impact on operational and market performance in the Corporate sector indicates that Italian banks have not fully embraced strong sustainability. Gholami., et al (2022) found that ESG (Environmental, Social and Governance) has a positive effect on financial performance, George., et al (2022) stated that there is a strong relationship between ESG and financial performance. Jootae., et al (2022) stated that stating that ESG (Environmental, Social and Governance) affects financial performance. Research from Liu., et al (2022) states that there is a relationship between ESG and financial performance, Abdi., et al (2022) finds ESG (Environmental, Social and Governance) affects financial efficiency. Chen and Xie (2022) found that ESG (Environmental, Social and Governance) has a positive effect on financial performance..Yuen., et al (2022) found that ESG has a negative effect on profitability, because activities in ESG (Environmental, Social and Governance) cost money and reduce profitability. Buallay., et al (2020) found that ESG (Environmental, Social and Governance) has an effect on financial performance. The higher the company's ESG (Environmental, Social and Governance) score, the better the positive signal received by investors and potential investors so that it will improve the financial performance obtained by the company. And the composition of the board of directors is expected to strengthen the relationship between ESG (Environmental, Social and Governance) and financial performance. This argument is supported by stakeholder theory put forward by Freeman and Reed (1983), revealing that stakeholders are individuals or groups that can influence or be influenced by the company as a result of the activities carried out. The activities contained in the company's sustainability report can illustrate that the company has implemented provisions from Bank Indonesia that companies must provide benefits to the surroundings and not only focus on economic issues but in the environmental, social and governance spheres.

This research is motivated by the existence of a research gap related to the influence of ESG (Environmental, Social and Governance) on financial performance. The purpose of this study is to contribute to the literature related to measuring ESG by using each score in the company and to provide useful insights for practitioners and company policy makers regarding the provisions of the company's sustainability report which includes ESG (Environmental, Social and Governance) coverage and measurements for company financial performance. using proxies from the variable PER (Price Earning Ratio) and the DPR (Dividend Payout Ratio).

II. METHODS

A. Signaling Theory

Signaling theory is an action taken by company management that provides clues to investors about how management views the company's prospects (Brigham and Houston, 2019: 500). Signaling Theory in this study is used as a foundation in explaining whether scores on ESG results, namely Environmental Score, Social Score and Governance Score, can provide apositive signal to investors and potential investors to invest their shares in the company. The Company's sustainability strategy as outlined in the ESG (Environmental, Social and Governance) score can serve as a benchmark for investors and potential investors to invest and for the Company to improve the financial performance obtained.

B. Financial Performance PER (Price Earning Ratio)

Company performance is proxied by ratios related to stock performance, namely the PER (Price Earning Ratio) and DPR (Dividend Payout Ratio) variables.

C. ESG (Enviromental, Social and Governance)

ESG (Environmental, Social and Governance) measurements use scores from ESG (Environmental, Social and Governance), researchers use data taken from CESGS (Center for Environmental, Social, and Governance Studies) and the score results show that the higher the score, the more activities carried out by the Company as a strategy in increasing values in the Company's ongoing activities so that it has an impact on increasing investor confidence in the Company and can indirectly improve the financial performance obtained..

D. Enviromental Score, Social Score and Governance Score affect Financial Performance

Signaling theory is an action taken by company management that provides clues to investors about how management views the company's prospects (Brigham and Houston, 2019: 500). ESG measurements use scores from ESG (Environmental, Social and Governance), researchers use data taken from CESGS (Center for Environmental, Social, and Governance Studies) and the score results show that the higher the score, the more activities carried out by the Company as a strategy to increase value. -a value that is in the Company's ongoing

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A high environmental score indicates that the company's concern for the environment is very high and this can improve the performance of the company's shares and can attract investors and potential investors. A high Social Score shows the company's concern in the social field is very high and of course this can improve stock performance. A high Governance Score indicates that the company has implemented good governance based on existing Stock performance proxied by the two ratios, namely PER (Price Earning Ratio) and DPR (Dividend Payout Ratio), this is in accordance with the signal theory used because with this theory sustainable reports that can improve stock performance can give a positive signal to investors to add investment funds for companies or potential investors who will investegulations. The relationship between Environmental Score, Social Score and Governance Score influences PER (Price Earning Ratio) and DPR (Dividend Payout Ratio), and Governance Score is high, the value of the company's financial performance is also high.

E. Research and Methodology

The following is the framework used in this study:

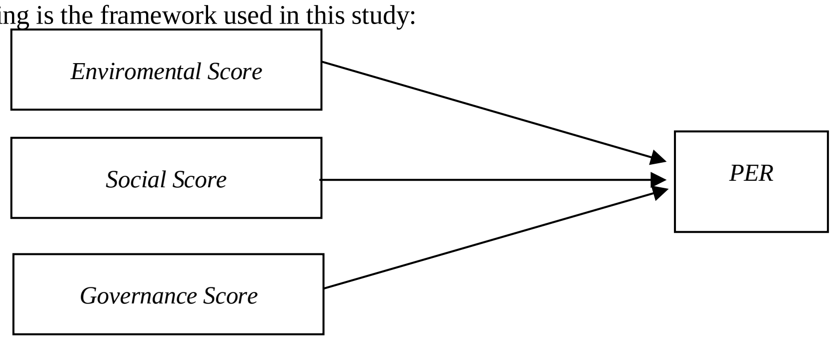

Figure 1. Research Framework

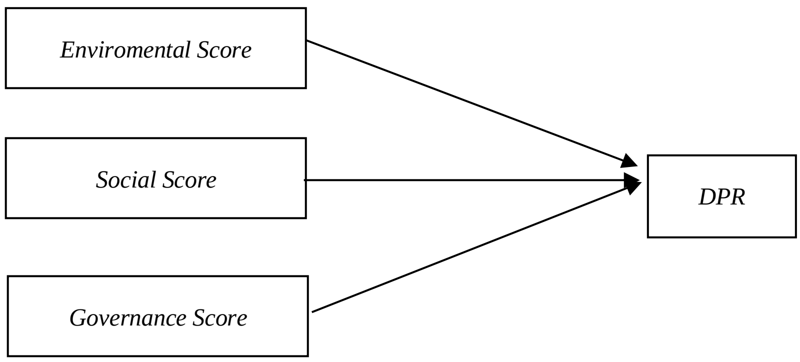

Figure 2. Research Framework

The hypotheses used in this study are as follows:

H1 : Enviromental Score effect to PER (Price Earning Ratio).
H2 : Social Score effect to PER (Price Earning Ratio).

ISSN : 2597-4785 (ONLINE)
ISSN : 2597-4750 (PRINTED)

H3 : Governance Score effect to PER (Price Earning Ratio).
H4 : Enviromental Score effect to DPR (Devidend Payout Ratio).
H5 : Social Score effect to DPR (Devidend Payout Ratio).
H6 : Governance Score effect to DPR (Devidend Payout Ratio).

F. Population and Sample

This study uses data from 244 non-financial company financial report data per year which will be used for this research and the time period is from 2019 to 2021 and are companies that have not carried out mergers, acquisitions and restructuring during the current research period. Where in the use of Environmental Score, Social Score and Governance Score are 2019 and 2020 while for PER (Price Earning Ratio) and DPR (Devidend Payout Ratio) variables are 2020 and 2021 because the Environmental Score, Social Score and Governance Score data are data to predict the condition of company performance from the stock side. Using data from the financial statements of non-financial companies in Indonesia that are still active and have not experienced acquisitions, mergers or liquidations. In total there are currently 244 for four year that will be used for this research and the time period is from 2019 to 2021. This research uses secondary data and is a quantitative study. As for some of the characteristics of this quantitative design include research explanations in the form of detailed and descriptive descriptions, explanations of the relationships between variables used in research, the existence of research objectives and the existence of analytical hypotheses formed, the use of one statistical tool and the interpretation of the results of the analysis used as well as comparisons with several previous studies (Ghozali, 2018: 9). Secondary data is using information that has been collected by other people, and examples of several secondary data sources include books, journals, government publications, census data, abstracts, statistics, media, and annual reports from companies (Ghozali, 2018: 94).

III. RESULTS AND DISCUSSION

A. Results

Table 1. Descriptive Statistics

	N	*Range*	*Minimum*	*Maximum*	*Mean*		*Std. Deviation*
					Statistic	*Std. Error*	
Env.Score	*244*	*1.00*	*.00*	*1.00*	*.4747*	*.01431*	*.22351*
Social.Score	*244*	*1.00*	*.00*	*1.00*	*.5496*	*.01377*	*.21516*
Govern.Score	*244*	*1.00*	*.00*	*1.00*	*.5267*	*.02292*	*.35804*
Per (Price Earning Ratio)	*244*	*968.99*	*-219.34*	*749.66*	*32.5606*	*6.89822*	*107.31107*
Dpr (Devidend Payout Ratio)	*244*	*4121.95*	*.00*	*4121.95*	*63.4683*	*31.53686*	*492.62156*

Based on table 1 descriptive analysis for a minimum value of Environment Score of 0.00 and a maximum value of 1.00, this means that all companies included in the research sample have a score of 1 which means they have implemented sustainable activities in the field of environment, descriptive for a minimum value of Social Score of 0.00 and a minimum value of 0.00 a maximum of 1.00, this means that all companies included in the research sample have a score of 1 which means they have implemented sustainable activities in the Social field, descriptive for a minimum Governance Score of 0.00 and a maximum value of 1.00, this means that all companies included in the research sample have score 1 which means that it has implemented sustainable activities in the field of Governance. This indicates that all companies have carried out activities that support sustainability reports and show that the company is committed to complying with the rules set by the Financial Services Authority. As for the PER (Price Earning Ratio) value, it is known that the minimum value is -219.34 and the maximum value is 749.66, and the DPR (Devidend Payout Ratio), it is known that the minimum value is 0.00 and the maximum

ISSN : 2597-4785 (ONLINE)
ISSN : 2597-4750 (PRINTED)

is 4121.95. A negative PER (Price Earning Ratio) value indicates that there are companies that experience losses so that there is no dividend distribution and is indicated by the DPR (Devidend Payout Ratio) value of 0.00. In this case the distribution of dividends depends on the company achieving profit or loss. The higher the profit, the higher for distribution of DPR (Devidend Payout Ratio). In general, the financial performance condition of the companies in the research sample has good performance and can provide opportunities for potential investors to invest and investors to increase their investment so that the objectives of both companies and investors are achieved, namely good financial performance will provide high dividend.

1. Regression Analysis

Table 2. PER (Price Earning Ratio) as Dependend Variable

		Unstandardized Coefficients		*Standardized Coefficients*		
Model		*B*	*Std. Error*	*Beta*	*t*	*Sig.*
1	*(Constant)*	*37.932*	*20.881*		*1.817*	*.071*
	Env.Score	*-14.831*	*37.814*	*-.031*	*-.392*	*.695*
	Social.Score	*3.027*	*39.273*	*.006*	*.077*	*.939*
	Govern.Score	*.038*	*19.825*	*.000*	*.002*	*.998*

a. Dependent Variable: PER (Price Earning Ratio)

Table 3. DPR (Devidend Payout Ratio) as Dependend Variable

		Unstandardized Coefficients		*Standardized Coefficients*		
Model		*B*	*Std. Error*	*Beta*	*t*	*Sig.*
1	*(Constant)*	*148.308*	*94.836*		*1.564*	*.119*
	Env.Score	*-165.605*	*172.223*	*-.075*	*-.962*	*.337*
	Social.Score	*-117.047*	*178.969*	*-.051*	*-.654*	*.514*
	Govern.Score	*110.315*	*90.327*	*.080*	*1.221*	*.223*

a. Dependent Variable: DPR (Devidend Payout Ratio)

B. Discussion

1. Environmental Score has an effect on Financial Performance

Based on Menicucci and Paolucci (2022) found that ESG (Environmental, Social and Governance) had a negative impact on operational and market performance in the corporate sector. Gholami., et al (2022) found that ESG (Environmental, Social and Governance) has a positive effect on financial performance, Giannopoulus., et al (2022) stated that there is a strong relationship between ESG (Environmental, Social and Governance) and financial performance. Kim., et al (2022) state that ESG (Environmental, Social and Governance) affects financial performance. Social Score has an effect on Financial Performance Research from Liu., et al (2022) states that there is a relationship between ESG (Environmental, Social and Governance) and financial performance, Abdi., et al (2022) found ESG (Environmental, Social and Governance) affects financial efficiency. Chen and Xie (2022)

ISSN : 2597-4785 (ONLINE)
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found that ESG (Environmental, Social and Governance) has a positive effect on financial performance. Buallay., et al (2020) found that ESG (Environmental, Social and Governance) has an effect on financial performance.

Based on table 2, a significant value was found from the Environmental Score to PER (Price Earning Ratio) of 0.695, which means that Environmental Score has no effect on financial PER (Price Earning Ratio). Based on table 3 it is also found that the Environmental Score against the DPR (Devidend Payout Ratio) is 0.337, which means that the Environmental Score has no effect on DPR (Devidend Payout Ratio). This indicates that the high or low Environmental Score has no effect on financial PER (Price Earning Ratio) and DPR (Devidend Payout Ratio) is influenced by factors other than Environmental Score. And the application of the Environmental Score is still quite new so that it has not been fully implemented by companies and has not found its effect on increasing or decreasing company. Based on this explanation, the first hypothesis and the fourth hypothesis are not accepted. There is no effect of the environmental score on the financial performance of non-financial companies, possibly because the activities carried out related to the environment have not been able to contribute to the environment around the company. In this case it is better for companies to contribute more than before and maintain the quality of activities related to enviromental so that they can improve financial performance in the future.

2. Social Score has an effect on Financial Performance

Based on Menicucci and Paolucci (2022) found that ESG (Environmental, Social and Governance) had a negative impact on operational and market performance in the corporate sector. Gholami., et al (2022) found that ESG (Environmental, Social and Governance) has a positive effect on financial performance, Giannopoulus., et al (2022) stated that there is a strong relationship between ESG (Environmental, Social and Governance) and financial performance. Kim., et al (2022) state that ESG (Environmental, Social and Governance) affects financial performance. Social Score has an effect on Financial Performance Research from Liu., et al (2022) states that there is a relationship between ESG (Environmental, Social and Governance) and financial performance, Abdi., et al (2022) found ESG (Environmental, Social and Governance) affects financial efficiency. Chen and Xie (2022) found that ESG (Environmental, Social and Governance) has a positive effect on financial performance. Buallay., et al (2020) found that ESG (Environmental, Social and Governance) has an effect on financial performance.

Based on table 2, a significant value was found from the Social Score to PER (Price Earning Ratio) of 0.939, which means that Social Score has no effect on financial PER (Price Earning Ratio). Based on table 3 it is also found that the Social Score against the DPR (Devidend Payout Ratio) is 0.514, which means that the Social Score has no effect on DPR (Devidend Payout Ratio). This indicates that the high or low Social Score has no effect on financial PER (Price Earning Ratio) and DPR (Devidend Payout Ratio) is influenced by factors other than Social Score. And the application of the Social Score is still quite new so that it has not been fully implemented by companies and has not found its effect on increasing or decreasing company. Based on this explanation, the second hypothesis and the fifth hypothesis are not accepted. There is no effect of the influence of the social score on the financial performance of non-financial companies is probably due to the activities carried out related to social activities that have not been able to contribute to the environmental conditions around the company. In this case it is better for companies to contribute more than before and maintain the quality of activities related to social so that they can improve financial performance in the future.

3. Governance Score has an effect on Financial Performance

Based on Menicucci and Paolucci (2022) found that ESG (Environmental, Social and Governance) had a negative impact on operational and market performance in the corporate sector. Gholami., et al (2022) found that ESG (Environmental, Social and Governance) has a positive effect on financial performance, Giannopoulus., et al (2022) stated that there is a strong relationship between ESG (Environmental, Social and Governance) and financial performance. Kim., et al (2022) state that ESG (Environmental, Social and Governance) affects financial performance. Social Score has an effect on Financial Performance Research from Liu., et al (2022) states that there is a relationship between ESG (Environmental, Social and Governance) and financial performance, Abdi., et al (2022) found ESG (Environmental, Social and Governance) affects financial efficiency. Chen and Xie (2022) found that ESG (Environmental, Social and Governance) has a positive effect on financial performance. Buallay., et al (2020) found that ESG (Environmental, Social and Governance) has an effect on financial performance.

Based on table 2, a significant value was found from the Goverannce Score to PER (Price Earning Ratio) of 0.998, which means that Goverannce Score has no effect on financial PER (Price Earning Ratio). Based on table 3 it is also found that the Goverannce Score against the DPR (Devidend Payout Ratio) is 0.223 which means that the Goverannce Score has no effect on DPR (Devidend Payout Ratio). This indicates that the high or low Goverannce Score has no effect on financial PER (Price Earning Ratio) and DPR (Devidend Payout Ratio) is influenced by factors other than Goverannce Score. And the application of the Social Score is still quite new so that it has not been fully implemented by companies and has not found its effect on increasing or decreasing company. Based on this explanation, the third hypothesis and the sixth hypothesis are not accepted. There is no effect of the influence of the governance score on the financial performance of non-financial companies is

ISSN : 2597-4785 (ONLINE)
ISSN : 2597-4750 (PRINTED)

probably due to the activities carried out related to governance that have not been able to contribute to the environmental conditions around the company. In this case it is better for companies to contribute more than before and maintain the quality of activities related to governance so that they can improve financial performance in the future.

IV. CONCLUSION

A high environmental score indicates that the company's concern for the environment is very high and this can improve the PER (Price Earning Ratio) performance of the company's shares and can attract investors and potential investors. High Social Score Research from Liu., et al (2022) states that there is a relationship between ESG (Environmental, Social and Governance) and financial PER (Price Earning Ratio), Abdi., et al (2022) found ESG (Environmental, Social and Governance) affects financial efficiency. Chen and Xie (2022) found that ESG (Environmental, Social and Governance) has a positive effect on financial PER (Price Earning Ratio). Buallay., et al (2020) found that ESG (Environmental, Social and Governance) has an effect on financial PER (Price Earning Ratio). shows the company's concern in the social field is very high and of course this can improve stock PER (Price Earning Ratio). A high Governance Score indicates that the company has implemented good governance based on existing regulations. The higher the company's ESG (Environmental, Social and Governance) score, the better the positive signal received by investors and potential investors so that it will improve the financial PER (Price Earning Ratio) obtained by the company. And the composition of the board of directors is expected to strengthen the relationship between ESG and financial PER (Price Earning Ratio). This argument is supported by stakeholder theory put forward by Freeman and Reed (1983), revealing that stakeholders are individuals or groups that can influence or be influenced by the company as a result of the activities carried out. The activities contained in the company's sustainability report can illustrate that the company has implemented provisions from Bank Indonesia that companies must provide benefits to the surroundings and not only focus on economic issues but in the environmental, social and governance spheres. In this case based on descriptive analysis the distribution of dividends depends on the company achieving profit or loss. The higher the profit, the higher for distribution of DPR (Devidend Payout Ratio). In general, the financial performance condition of the companies in the research sample has good performance and can provide opportunities for potential investors to invest and investors to increase their investment so that the objectives of both companies and investors are achieved, namely good financial performance will provide high dividend. Based on this explanation, the first hypothesis to the sixth hypothesis is not accepted

Based on the results of research using the SPSS statistical tool with a benchmark value of 5%, it was found that the Environmental Score, Social Score and Governance Score had no effect on financial performance PER (Price Earning Ratio) as proxied by PER (Price Earning Ratio) and DPR (Dividend Payout Ratio). This indicates that the high or low scores of ESG (Environmental, Social and Governance) cannot improve financial performance PER (Price Earning Ratio) related to shares and dividend payout. The implications of this research can be used as a benchmark by companies that are in the non-financial sphere to be able to see that stock and dividend can be influenced by any factors other than the implementation of ESG implementation. The limitation of this study is that there are many companies that have not fully implemented the ESG (Environmental, Social and Governance) report as a whole so that there is a lot of reduced data that has previously been selected as a research sample.

Financial performance in this study is not influenced by conditions or activities carried out in the ESG (Environmental, Social and Governance) category and for further research can add other variables that can function as moderating variables and mediating variables. So that it is possible that the results of further research can contribute to a better literature review because it includes variables other than the independent variables and can be used by company management policies in determining what strategy to use in increasing ESG (Environmental, Social and Governance) scores and financial performance. And indirectly, an increase in ESG (Environmental, Social and Governance) and financial performance scores can increase the attractiveness of potential investors and investors so that companies can grow more rapidly and survive with a better level of health.

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