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The Influence of Environment, Social and Governance (ESG) on Financial Performance: The Role of Ownership Structure as a Moderating Variable

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ESG, financial performance, ownership structure, institutional ownership

Abstract
The purpose of this study is to examine the influence of ESG on corporate financial performance, moderated by ownership structure, in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2020-2023 period. This study used secondary data in the form of annual reports and corporate sustainability reports. The study sampled 65 companies, and the analysis technique used was moderated regression analysis (MRA). The data analysis results indicate that ESG has no effect on corporate financial performance, and institutional ownership strengthens the influence of ESG on financial performance.

INTRODUCTION

Financial performance Financial performance is a representation of the company's achievements, which shows the final results of a series of operational activities that have been carried out.(Khairunnisa & Widiastuty, 2023)and is a key factor investors consider when deciding whether to invest. However, as companies develop, they are not only assessed on financial performance but also on their ability to implement ESG, namely managing environmental impact, social responsibility, and good corporate governance.(Heryana & Soeratin, 2025)This shows that companies are required to not only focus on increasing profits, but are also required to see the impacts arising from their business operations.(Safriani & Utomo, 2020).Based on the results of a survey conducted by*CFA Institute*In 2020, a survey of 2,800 respondents found that only 15% reported not considering Environmental, Social, and Governance (ESG) factors when making investment decisions. A significant percentage of respondents, specifically 85%, considered ESG factors when making investment decisions.(Ariasinta et al., 2024)

In response to the Sustainable Development Goals (SDGs), ESG is now used as an investment consideration by investors.(Khairunnisa & Widiastuty, 2023);(Sri et al., 2025). Information about a company's ESG can be found in sustainability reports, annual reports, financial statements, company websites, and other sources.(Setiani, 2023).In corporate sustainability reports, ESG practices enable the disclosure of financial and non-financial resources to achieve effective risk management and sustainable competitive advantage.(Sitepu & Utomo, 2024)However, currently not all companies report their ESG activities, so reporting is done voluntarily.(DPD Nugroho et al., 2024). Besides thatDue to the absence of written guidelines for ESG reporting in Indonesia, most companies report their sustainability reports based on the Global Reporting Initiative (GRI) guidelines. (Setiani, 2023).

Good implementation of ESG by companies will improve the company's financial performance.(Rizqi & Munari, 2023).Implementing ESG can be a short-term and long-term strategy for a company's business development. ESG can improve efficiency, build a good corporate reputation, and build investor confidence, allowing easier access to capital, customer loyalty, and reduce risk.(Ariasinta et al., 2024). Financial performance in this study was measured using financial ratios, one of which was ROA (return on investment). The results of previous studies showed inconsistent results. The research conducted by(Safriani & Utomo, 2020)And(Inawati & Rahmawati, 2023)proves that ESG has a positive influence on the company's financial performance, but research conducted by(Sri et al., 2025)And(Setiawati & Hidayat, 2023)proves that ESG does not affect the company's financial performance.

As one of the factors influencing the success of ESG implementation in a company, institutional ownership can be a factor that strengthens the influence of ESG implementation on the company's financial performance.Institutional ownership of a company will have an impact on decision making and corporate activities(Permatasari & Widianingsih, 2020). High institutional ownership encourages increased oversight and the quality of decision-making that supports social responsibility, which can have a positive impact on the company's financial performance.(Agustine & Ratmono, 2024)Based on the above background, the research problem formulation is: 1) Does ESG implementation affect financial performance?; and 2). Does institutional ownership moderate the effect of ESG implementation on financial performance?

THEORETICAL BASIS

Legitimacy Theory

Legitimacy theory explains that companies must try to ensure that their activities do not violate the norms that apply in society in order to gain legitimacy from society.(Rizqi & Munari, 2023). Legitimacy theory states that companies should not only pay attention to the rights of shareholders, but must also pay attention to the rights of the public.(Setiawati & Hidayat, 2023)The company's implementation of ESG reflects compliance with the rules, values, and expectations of society, the government, and other stakeholders. This demonstrates that the company is not solely focused on profit.

Financial performance

Financial performance reflects the level of effectiveness and efficiency of a company in utilizing resources and capital to carry out its operational activities.(Wijaya & Dwijayanti, 2023)Financial performance can be measured using profitability ratios, one of which is ROA or return on assets.The Return on Assets ratio describes the extent to which a company performs in generating profits on a certain amount of assets generated by the company.(NA Nugroho & Hersugondo, 2022).

$$\text{ROA}=\frac{Laba\ Bersih}{Total\ Aset}\ x\ 100\%$$

***Environment, Social and Governance*(ESG)**

ESG refers to how companies and investors integrate environmental, social and governance issues into their business models.(Setiani, 2023). The implementation and disclosure of ESG by companies demonstrate that companies prioritize not only shareholder welfare but also public rights, as described in legitimacy theory. ESG implementation is expected to build a good reputation for the company and increase consumer trust in the company, thereby impacting loyalty to the company itself. ESG measurement in this study uses the GRI guidelines with a scoring system of a total of 100 points, where the weighting is adjusted based on the company's sector.(Inawati & Rahmawati, 2023).

$$\text{ESG} =\frac{Total\ Pengungkapan\ Item\ ESG\ oleh\ Perusahaan}{Total\ Item\ Pengungkapan}$$

Institutional Ownership

Institutional ownership is the ownership of company shares owned by other institutions or agencies, such as banks, insurance companies, or investment companies.(Permatasari & Widianingsih, 2020).Institutional ownership is expected to be able to monitor the performance of company management in decision-making related to the implementation of ESG by the company.Institutional ownership plays a role in reducing business risks, so companies with lower risks are usually able to achieve better ESG performance; in turn, optimal ESG performance can reduce potential risks and improve the company's financial performance and strengthen the company's sustainability.(Wu et al., 2022). Institutional Ownership is measured using the formula:

$$\text{Institutional Ownership}=\frac{Jumlah\ saham\ yang\ dimiliki\ institusi}{Jumlah\ saham\ perusahaan}$$

Research Model

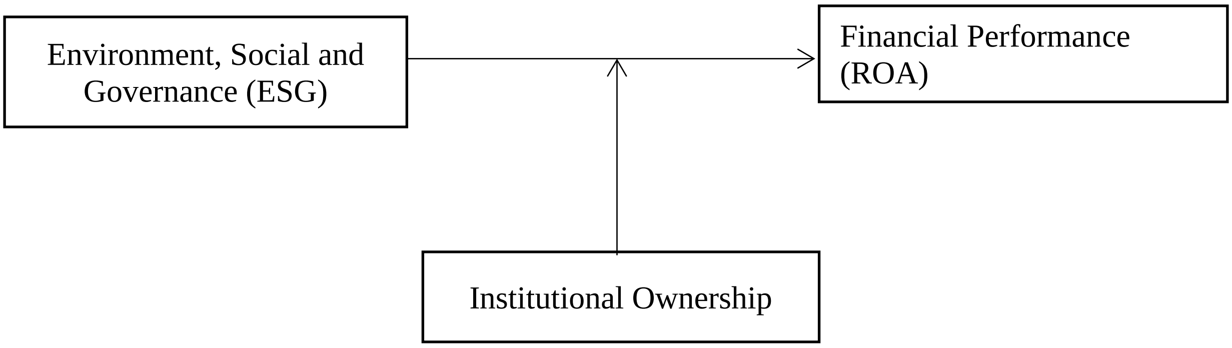

Figure 1. Research Model

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METHODS

This study uses a quantitative approach with a descriptive associative approach. The population comprised all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period. A total of 166 state-owned enterprises (SOEs) were actively listed on the IDX during the observation period. The sample was selected using a purposive sampling technique, with the following criteria:

a. Manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period.
b. Sample companies that present complete and consecutive annual report data from 2020-2023.
c. Companies that consecutively published sustainability reports using GRI standards in the 2020-2023 period.

Table 1.
Sample Criteria

NO	Criteria	Amount
1	Manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2023 period.	166
2	Companies that did not consecutively publish complete annual reports in the 2020-2023 period.	(0)
3	Companies that consecutively published sustainability reports using GRI standards in the 2020-2023 period	(146)
4	Companies used as samples	20

5	Data used as a sample for 2020-2023 (20 x 4)	80

RESULTS AND DISCUSSION

Previously, the sample size used in this study was 80. However, after conducting a normality test, it was discovered that some of the data were not normally distributed and contained outliers. Data that did not meet the assumption of normality were removed from the analysis to ensure more valid and reliable results. Consequently, the total number of data analyzed was 65.

Normality Test

The normality test is carried out with the aim of assessing whether the data distribution is normally distributed or not.Based on the results of the normality test with Kolmogorov-Smirnov, it can be concluded that the significance value of 0.80 > 0.05 for all regression models is normally distributed.

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		65
Normal Parametersa,b	Mean	.0000000
	Standard Deviation	.07070788
Most Extreme Differences	Absolute	.104
	Positive	.104
	Negative	-.065
Test Statistics		.104
Asymp. Sig. (2-tailed)		.080c

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Heteroscedasticity Test

The results of the heteroscedasticity test show that all variables have a significance value > 0.05 so it can be said that all regression models are free from heteroscedasticity.

Table 3.
Heteroscedasticity Test

Coefficientsa

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
1	(Constant)	.024	.017		1,415	.162
	X1	.016	.031	.070	.533	.596
	Z	.029	.020	U.193	1,481	.144

a. Dependent Variable: abresid

Multicollinearity Test

The results of multicollinearity on all variables show that the VIF value of all variables is 4.458 < 10 andtolerance value 0.224 > 0.10, this means that multicollinearity does not occur.

Table 4.
Multicollinearity Test

Coefficientsa,b

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	X1	-.002	.041	-.010	-.045	.964	.224	4,458
	Z	.059	.024	.550	2,461	.017	.224	4,458

a. Dependent Variable: Y
b. Linear Regression through the Origin

Autocorrelation Test

The results of the autocorrelation test with the run test conducted for all models showed that no autocorrelation occurred.

Table 5.
Autocorrelation Test

Model Summaryc,d

Model	R	R Squared	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.931a	.868	.863	.28254	1,542

a. Predictors: lag_z, lag_x1
b. For regression through the origin (the no-intercept model), R Square measures the proportion of the variability in the dependent variable about the origin explained by regression. This CANNOT be compared to R Square for models which include an intercept.
c. Dependent Variable: lag_Y
d. Linear Regression through the Origin

Moderating Regression Analysis (MRA) Test

Based on the results of the statistical test of the hypothesis, the significance value for the first hypothesis is 0.964 > 0.05, so that hypothesis 1 is rejected, while for the statistical test of the second hypothesis, it is 0.017 < 0.05, so the second hypothesis is accepted.

Table 6.

MRA Test

Coefficientsa,b

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	X1	-.002	.041	-.010	-.045	.964
	Z	.059	.024	.550	2,461	.017

a. Dependent Variable: Y
b. Linear Regression through the Origin

Discussion

The impact of ESG on financial performance

The statistical test results show no correlation between ESG and financial performance, meaning that ESG implementation and/or ESG disclosure by companies does not impact the company's financial performance (ROA). ESG implementation is a long-term strategy implemented by companies, so its impact on financial performance cannot be directly observed. Furthermore, other factors may have a greater impact on the company's ROA than ESG implementation, such as sales, raw material prices, and others. These research findings align with research conducted by(Sitepu & Utomo, 2024); (Sagita et al., 2025)And(Alamin & Nugroho, 2025)

The impact of ESG on financial performance

The results of statistical tests show that institutional ownership strengthens the influence of ESG on corporate financial performance (ROA), meaning that the second hypothesis is accepted.In keeping with their role, institutional investors serve as a stronger oversight mechanism for company management. This high level of oversight encourages management to implement ESG practices to the fullest, resulting in benefits not only in improved corporate reputation but also in operational efficiency. The findings of this study align with research conducted by(Wu et al., 2022)

CONCLUSION

This study was conducted with the aim of empirically testing a) the influence of environmental, social, and governance (ESG) on corporate financial performance (ROA) and b) the influence of ESG on financial performance moderated by institutional ownership. The results show that: first, environmental, social, and governance have no effect on corporate financial performance.

Second, institutional ownership (institutional investors) strengthens the influence of ESG on financial performance. A limitation of this study is the difficulty in obtaining data related to ESG (sustainability reports) because most companies only published their sustainability reports in 2021. Suggestions for further research include using proxies for measuring financial performance and ESG. Furthermore, other variables, or companies in other sectors, could be used.

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