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The Effect of Environmental, Social, and Governance (ESG) Disclosure on Basic Material Company Financial Performance

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Abstract− Recent research results still differ regarding the development of Environmental, Social, and Governance Disclosure (ESG). Some studies show a positive trend of ESG in recent years. On the other hand, some studies show that ESG performance has a negative influence on the financial performance of basic material sector companies. This contradiction in findings is the basis for the author to explore the effect of ESG disclosure on the financial performance of Basic Material Sector Companies listed on the Indonesia Stock Exchange (IDX) during the period 2021-2023. Out of a total of 103 companies in this sector, only 34 companies reported ESG consistently during the period. This study uses a simple linear regression analysis model with company financial performance in the form of Tobin's Q as the dependent variable and ESG value as the independent variable. The results show that ESG disclosure is proven to have a positive effect on the company's financial performance. This finding is consistent with Stakeholder theory that companies that disclose ESG tend to have better performance because these disclosures strengthen relationships with key stakeholders, such as investors, customers, and communities, which in turn increase market confidence and firm value.

Keywords: *ESG; Financial Performance; Tobin's Q; Basic Material*

INTRODUCTION

The factors that can affect the company's performance are very diverse and interrelated. Brigham et al. (2016) the factors that affect the company's financial performance can be divided into internal and external factors. Internal factors include decisions made by management, such as working capital management, investment, and funding policies. Disclosure of Environmental, Social, and Governance Performance (ESG) can also be regarded as an internal factor that can affect the company's financial performance (Naeem et al., 2022). ESG disclosure plays an important role for investors in their considerations regarding investment decisions, which serves as a means to evaluate the risks and opportunities that exist (Chalmers et al., 2021).

Environmental, Social, and Government Disclosure is a topic of increasing interest to both academics and capital market practitioners. BlackRock, one of the largest asset management companies in the world, urges companies to publish better ESG disclosures (BlackRock, 2021). More than 90% of S&P 500 companies have also started publishing sustainability reports (Governance & Accountability Institute, 2021). Large companies are often more active in implementing sustainability (can also be regarded as ESG) practices, which can also increase their market value and attract institutional investors. Research conducted by Shawat et al. (2024) shows that large companies often have greater access to financial resources and the ability to generate higher profits than small companies. This is related to investor confidence in the stability and prospects of large companies.

The development of Environmental, Social, and Governance Disclosure (ESG) has shown a positive trend in recent years (Saini et al., 2023). However, the phenomenon faced by basic material sector companies shows that ESG performance has a negative influence on the company's financial performance (Saygili et al., 2022; Chancharat & Kumpamool, 2022; Fariha et al., 2022; Alareeni & Hamdan, 2020). Based on the historical chart of the sector stock performance index listed on the IDX from 2018 to 2024, basic material sector companies showed very good performance and became the index with the highest growth among the JCI and LQ45 stock sectors (IDX, 2024). This shows significant growth with a total increase of 42.65% from July 2018 to October 2024. The following is a graph of the stock index from 2018 to 2024 (IDX.co.id, 2024):

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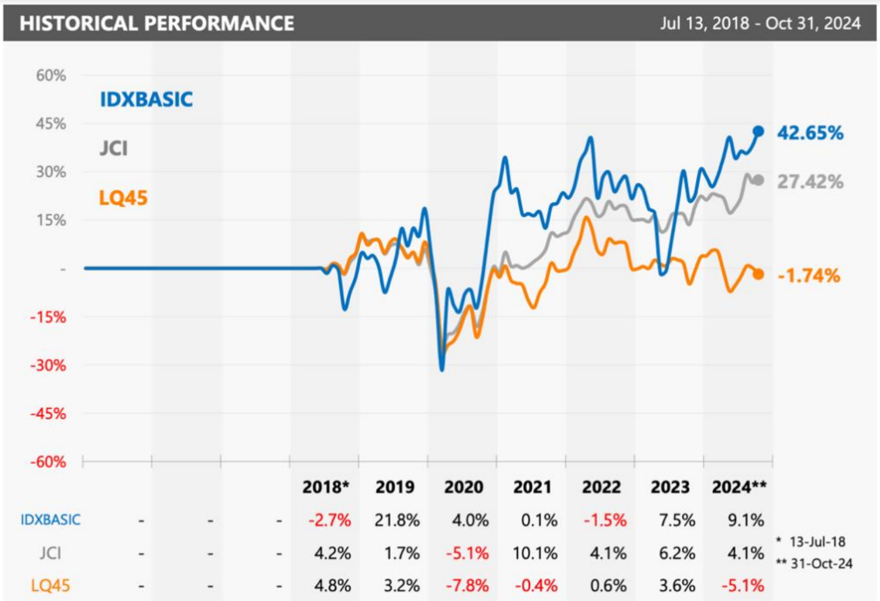

Figure 1. IDX Stock Index Chart
Source: IDX.co.id (2024)

The graph in Figure 1 illustrates that the investment performance of basic materials sector companies showed a very good performance and became the index with the highest growth among the JCI and LQ45 stock sectors (BEI, 2024). It shows significant growth with a total increase of 42.65% from July 2018 to October 2024. It was noted that in 2021, one of the Basic Material companies, PT Semen Indonesia Tbk, faced financial challenges. PT Semen Indonesia Tbk experienced a decline in financial performance as indicated by a revenue deficit in several sales segments and an increase in cost of goods sold. PT Semen Indonesia's Profitability Ratio (ROA) in 2021 decreased by 0.8% compared to ROA in 2020. In 2023, PT Semen Indonesia also experienced a decrease in profit of IDR 203,482,000,000, or 8% from the previous year (SGI, 2023). In 2024, PT Semen Indonesia also experienced a decline in financial performance as indicated by a decrease in revenue of IDR 16.4 trillion compared to the same period the previous year. This decline indicates pressure on the company's performance in several business segments that could potentially affect its competitiveness in the cement industry sector (SIG, 2024). Despite facing financial challenges every year, PT Semen Indonesia is the only Basic Material sector company included in the ESG Star Listed Companies on the IDX (ESG.IDX.co.id). Companies included in the ESG Star list (ESG List Company) are companies that excel in their fields and are recognized for their commitment to sustainable practices (IDX.co.id). In February 2024, PT Semen Indonesia Tbk also reported getting the first best ESG Rating for the building materials category in Southeast Asia by achieving the Medium Risk predicate with a score of 22.9 (SIG, 2024). Based on the description of the phenomenon regarding the effect of ESG disclosure on financial performance, it is concluded that it is still interesting to study. This is also in line with research using bibliometric analysis of ESG trends on financial performance, which is still relevant to study (Mukhtar et al., 2024; Wan et al., 2023; Jain & Tripathi, 2023; Dwibedi et al., 2024).

LITERATURE REVIEW

Stakeholder Theory

Jones et al. (2018) introduced the concept of instrumental stakeholder theory, which links stakeholder management with competitive advantage. According to them, companies that pay attention to the needs and interests of stakeholders tend to have higher customer loyalty, more committed employees, and a positive public image. This view is supported by the growing global

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demand for sustainable and socially responsible business practices, which is reflected in the widespread application of Environmental, Social, and Governance (ESG) principles among large companies (Freeman et al., 2018). This approach allows companies to build operational stability through transparency and open communication with stakeholders, which in turn can enhance the company's reputation and reduce the risk of conflict (Harrison et al., 2019).. According to stakeholder theory, investment in ESG in the form of developing quality sustainable products and engaging in social activities enhances the company's market reputation, resulting in increased demand for its products and the ability to charge higher prices compared to its competitors, which then has a positive impact on the company's financial performance (Capelle-Blancard and Petit, 2019; Behl et al., 2021).

Gray et al., (1996) stated that in addition to the fact that companies need to seek support from every stakeholder for the business activities they carry out, because this support has a very important role in maintaining the continuity of the company. In every business action they take, companies are expected to be able to meet the expectations and demands of these various stakeholders. This support can be obtained by the company through the practice of information disclosure, both financial and non-financial, because stakeholders expect company management to provide reports on all business activities carried out. Corporate information disclosure is essential to maintain good relations with stakeholders and improve the company's reputation in their eyes. ESG disclosure includes information relating to the company's position and activities, including environmental, social, and corporate governance aspects. Thus, ESG disclosure is expected to have a positive impact on the company's financial performance. This suggests that the company's commitment to sustainability issues becomes an assessment factor for stakeholders, which in turn affects their decision to contribute to or support the company. This stakeholder theory (Freeman RE, 1984) puts forward the idea that successful companies can align the interests of all stakeholders to make the company more sustainable. Companies not only focus on maximizing financial performance for the benefit of shareholders, but also for the benefit of other stakeholders (Armstrong, 2020; Kumar et al., 2020).

Financial Performance

Financial performance is an analysis conducted to see the extent to which a company has implemented financial rules properly and correctly (Fahmi, 2015). The financial performance of a company can be considered as a future indicator to assess possible changes in economic resources that can be controlled and financial performance data is required (Kasmir, 2019). Company leaders or management are very concerned about the financial statements that are analyzed, because these results can be used as a means of making further decisions in the future.

The financial statements published by the company are a reflection of the company's financial performance. This financial information serves as a means of information, a management accountability tool to business owners or stakeholders, a representation of the company's success indicators, and a consideration for decision making (Harahap, 2018). Financial performance measurement plays a very important role in managerial decision making and corporate strategic planning. According to Kaplan & Norton (1996), financial performance measurement allows managers to evaluate the effectiveness of policies that have been implemented and identify areas that require improvement.

Tobin's Q

Tobin's Q is a ratio used to measure the comparison between the company's market value and the replacement cost of physical assets owned by the company (Harjito & Martono, 2020). This ratio gives an idea of whether the market values the company more expensive or cheaper compared to the value of its physical assets. Tobin's Q is an indicator to measure the company's performance that shows management's performance in managing the company's assets. Tobin's Q

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can serve as a predictive indicator of long-term financial performance, although it does not directly measure financial performance like profitability or liquidity ratios. However, this ratio can predict whether the company will make investments that will improve its performance or whether the company is in a bad position with unfavorable prospects. Tobin's Q value is generated from the sum of the stock market value and the value of liabilities compared to total assets, so that Tobin's Q can be used to measure the company's market performance, which can be seen from the company's market value (Harjito & Martono, 2020).

Fama and French (1992) show that Tobin's Q is often used to assess financial performance because it can reflect better investment decisions made by management, which ultimately has an impact on overall company performance. A high Q value may indicate that the company uses its capital efficiently, which should improve financial performance through an increase in the company's market value. Blanchard, Rhee, and Summers (1993) state that Tobin's Q is used to assess the company's market performance, as it reflects investors' perceptions of the company's prospects. A high ratio indicates that investors believe the company will provide returns greater than the cost of its assets, which is usually associated with high profitability and efficient management. It becomes a performance parameter as it shows how the company is viewed in terms of growth potential and profitability.

Environment, Social, and Governance (ESG)

According to OECD (Organization for Economic Co-operation and Development) (2022), ESG refers to the process of considering environmental, social, and governance elements in asset allocation and risk decision-making to generate sustainable long-term financial benefits. The concept of environmental social governance, or ESG, is a general term used by a company to disclose it in its financial statements. ESG has three main pillars, namely environment, social, and governance, which are the main foundations for the implementation of companies in corporate social responsibility and sustainable business (Eccles & Krzus, 2014).

Baier et al. (2020) explain that aspects of environmental, social, and governance (ESG) are the principles of implementing corporate social responsibility and sustainable business. ESG aspects include a group of environmental, social, and governance factors that are used to evaluate company performance or impact. Some aspects of ESG include the following:

1. Environmental Aspects

The environmental aspect of the ESG framework includes several factors related to the company's impact on the natural environment. This aspect contains climate change in which the company's efforts to improve energy efficiency. In the environmental aspect, there is waste and pollution management which contains environmentally friendly waste management practices and efforts to reduce air, water and soil pollution. The environmental aspects in GRI Standard 2021 are found in GRI 300 with 24 indicators of environmental aspects.

2. Social Aspects

This social aspect includes human rights, labor standards in the supply chain, and more routine issues such as compliance with the company's health and safety. The social aspect in GRI Standard 2021 is found in GRI 400 with 15 indicators of social aspects.

3. Governance

This aspect examines the company's effective and enduring internal management procedures. Governance relates to corporate guidelines, executive compensation, audits, internal regulations, and shareholder rights. has the potential to help organizations adapt to environmental changes and even become a crucial component in a company's competitive strategy. Governance aspects in the GRI Standard 2021 are found in GRI 1, with 13 indicators of governance aspects.

Kim and Li (2021) mention the proposition that the concept of *Environmental, Social, and Governance* (ESG) embodies the multifaceted efforts of companies to fulfill obligations related to social and environmental management, as well as the integration of ethical considerations into the

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framework of effective corporate governance practices that are increasingly considered important in the contemporary business environment. ESG-related information can significantly improve the accuracy and realism of predictive analysis, thereby facilitating a more nuanced understanding of corporate performance and its implications for stakeholders. In line with this perspective, Bohan and Doimoliani (2017) assert that organizations can disclose non-financial information by implementing strong governance practices and transparently addressing sustainability issues, which include a wide array of environmental initiatives and activities that reflect the company's commitment to responsible management. As a result, proactive disclosure of such non-financial metrics not only enriches the dialogue around corporate accountability but also serves to forge stronger relationships with stakeholders who are increasingly prioritizing ethical and sustainability considerations in their evaluative processes.

Presidential Regulation No. 59 of 2017, relating to the implementation of sustainable development goals, describes the national goals for the specified timeframe of 2017 to 2019 as articulated in the RPJMN 2015-2019. It also ensures that the goals are aligned with the Sustainable Development Goals roadmap for Indonesia's Sustainable Development Goals, aimed for realization by 2030. The overarching goal of the Sustainable Development Goals is to perpetuate a sustained increase in the economic prosperity of the population. As explicitly articulated in Article 2, paragraph 2, of Executive Order 111/2022. It should be noted that while Environment, Social, and Governance (ESG) considerations are not governed by a single legislative framework, the various components related to these principles have been addressed and regulated through many separate laws and legal provisions. Article 68 of Law No. 32/2009 on Environmental Protection and Management provides an illustrative example of the environmental dimension (E) that falls within its purview, thus contributing to a broader understanding of the regulatory landscape surrounding sustainability efforts. These regulations collectively underscore the Indonesian government's commitment to integrating sustainable practices into national policymaking, thus encouraging a holistic approach to development that recognizes environmental imperatives. As a result, the relationship between these various regulations and the Sustainable Development Goals reflects an ambitious framework aimed at addressing current and future challenges faced by society. As a result, the synergy between these regulatory measures not only aims to improve living standards for current citizens but also seeks to ensure that future generations inherit a thriving and sustainable environment. Ultimately, this multifaceted approach to governance and development is critical to achieving long-term sustainability and resilience in the face of global challenges.

Environmental, *social*, and governance (ESG) assessment is considered an important aspect in today's business world that is used to evaluate the sustainability and social impact of investments in companies or businesses in the future. ESG is a comprehensive framework that regulates responsibilities related to non-financial aspects for an organization (Krishnamoorthy, 2021). ESG reflects the practices used to measure, disclose, and be responsible for all parties who have related interests (Almeyda & Darmansya, 2019). ESG involves various factors that are used to evaluate the non-financial impact of certain investments and companies. In addition, ESG also opens up diverse opportunities in the context of business and investment (Gillan et al., 2021). The benefits of ESG implementation and reporting can include the following:

1. Economic Benefits, Companies with high ESG scores are more attractive to investors as they are perceived to have lower long-term risks. In addition, the implementation of environmentally friendly practices can reduce energy and waste management costs. Some past research also shows that companies that comply with ESG standards often show better financial performance in the long run.
2. Reputational Benefits, By implementing ESG reporting, it will increase stakeholder trust. Transparent ESG reporting helps build a good reputation among customers, employees and

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communities. By meeting ESG standards, companies can reduce the risk of scandals or public criticism related to social or environmental issues.
3. Social Benefits, Sustainable social activities can create positive relationships between companies and local communities. A focus on inclusion, work-life balance, and workers' rights can also increase employee loyalty.
4. Environmental Benefits, By minimizing carbon emissions, managing waste, and using renewable energy, companies help mitigate climate change. ESG reporting ensures companies meet applicable environmental and social regulations.
5. Governance Benefits, ESG reporting will encourage companies to be more transparent and accountable for their governance practices. Good governance helps companies anticipate and manage legal and operational risks.

The Global Reporting Initiative (GRI) is one of the international organizations whose activities focus on understanding and reporting a company by developing *sustainability* disclosure standards and guidelines. *The sustainability report* is one of the media to describe economic, environmental, and social (ESG) reporting. *Sustainability reports* are stand-alone reports, although there are still implementations of *sustainability reports* that are disclosed together with the annual report of the company (Gunawan, 2010). According to the World Business Council for Sustainable Development (WBCSD, 2002), the benefits of a *sustainability report* include:
1. Develop and facilitate the implementation of better management systems in managing economic, environmental, and social impacts.
2. Directly reflects the company's ability and readiness to fulfill the wishes of shareholders for the long term.
3. Helps build shareholder interest in the long-term vision and helps demonstrate how to increase company value related to social and environmental issues.
4. Provide information to *stakeholders* (shareholders, local community members, government) and improve the company's prospects and transparency.
5. Help build a reputation as an infrastructure that promotes market value, market share, and long-term customer loyalty.
6. Reflects how the company manages its risks.
7. Provides the energy to drive leadership and performance with a spirit of competition.
8. Develops and facilitates better management systems and addresses economic, environmental, and social impacts.
9. Directly reflects the company's willingness to make long-term commitments to fulfill shareholder wishes.
10. A long-term vision that can help shareholders and help demonstrate how to increase corporate value related to social and environmental issues.

The Global Reporting Initiative (GRI) is an international organization whose activities focus on understanding and reporting a company by developing sustainability disclosure standards and guidelines. Sustainability report is one of the media to describe economic, environmental and social (ESG) reporting. Sustainability report is a stand-alone report, although there are still implementations of sustainability reports that are disclosed together with the annual report of the company (Gunawan, 2010).

Hypothesis

The concept of environmental social governance, or ESG, is a general term used by a company to disclose it in the financial statements. Financial performance is the company's ability to manage assets, debt, and capital to generate profits and maintain business continuity in the short

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and long term (Harahap, 2018). The relationship between ESG disclosure and financial performance in this study is based on stakeholder theory. Research on Systematic Literature Review conducted by Del Gesso & Lodhi (2024) proves that stakeholder theory is the first order of relevance used to underlie research on ESG in accounting studies. ESG is appropriate to address the issues raised by different stakeholders and gain their approval, as stakeholder support is critical to the survival and financial performance of the firm (Del Gesso & Lodhi, 2024). The disclosure of environmental and social strategies in an effective corporate governance system promotes the overall sustainability performance of the company (Alsayegh et al., 2020). Although there may be a possible decrease in profitability due to ESG disclosure (Yuen et al., 2022), ESG has a broad influence on the financial performance of a company, either positively (Wu et al., 2024) or negatively (Bako Donatus et al., 2023). Veeravel et al. (2024) researched companies listed on the National Stock Exchange (NSE) and proved that companies with higher ESG disclosures tend to perform better financially. Investments in ESG practices are proven to improve the company's operational efficiency, improve market position, and reduce the cost of capital, resulting in improved financial performance (Shahbaz et al., 2020).

The results of previous research conducted by Naeem et al. (2022) on companies in developing countries, Abdi et al. (2022) on aircraft companies, Buallay (2019) on non-financial companies listed in 20 countries that lead sustainability, Makhdalena et al. (2023) on companies listed on the stock exchanges of five ASEAN emerging economies, Aydoğmuş et al. (2022) on the largest public companies listed on Bloomberg, Saygili et al. (2022) on public sector companies, Rahmaniati & Ekawati (2024) on companies listed on the Indonesia Stock Exchange, Rahman et al. (2023) on the Pakistan Stock Exchange (PSX), Wu et al. (2024) on listed non-financial companies listed on the Chinese stock exchange, and Bako Donatus et al. (2023) on non-financial companies in the Nigeria Exchange Group support the findings of the effect of ESG disclosure on Financial Performance. Based on this explanation, the hypothesis developed in this study is:

H_1: ESG disclosure has a positive effect on company financial performance.

METHODOLOGY

This research was conducted using a quantitative approach. The sample was selected using purposive sampling method, which is sampling limited to a specific target group (Sekaran, 2017). Sample specifications refer to the following criteria:

1. Basic Material Sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 period.
2. Basic Material Sector companies that publish financial reports for the 2021-2023 period.
3. Basic Material Sector companies that publish Sustainability Reports following POJK 2021 in the 2021-2023 period.
4. Basic Material Sector companies that provide complete data needed in the study.

The data used is secondary data, and the type of data used is pooled data. This secondary data was obtained from the *Indonesian Stock Exchange* (IDX) for the period 2021-2023. Data analysis was carried out with a simple linear regression model to produce a regression equation in the form of:

$$\mathbf{Y = \alpha + \beta 1\ ESG + e}$$

Y = Financial Performance
α = Constant
β = Regression Coefficient
ESG = *Environmental, Social, Government*

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Data analysis is followed by research hypothesis testing, which aims to evaluate the impact of independent variables on the dependent variable. This hypothesis test includes:

1. Coefficient of Determination (Adjusted R^2)
   Measures the ability of the model to explain the independent variable. This study uses adjusted R^2 with a range of values between 0 and 1. The adjusted R^2 value close to 1 indicates a better model ability in explaining the dependent variable (Ghozali, 2016).
2. Statistical *t*-Test
   The t-statistical test in the study was used to determine the effect of independent variables individually on the dependent variable. This t-test is done by comparing the t-statistical value with the critical value according to the table. If the t-statistical value is higher, this means that the hypothesis stating that the independent variable individually affects the dependent variable is accepted. If the significance value is> 0.05, then this hypothesis is rejected. This means that the independent variable has no significant effect on the dependent variable. Conversely, if the significance value is <0.05, then the hypothesis is accepted. This means that the independent variable has a significant influence on the dependent variable (Ghozali, 2011).

Tobin's Q

Financial Performance (Y) as dependent variable is represented by Tobin's Q measured using the formula carried out by previous research (Buallay, 2019) with the formula:

$$Q = \frac{MVE+D}{\text{Total Asset}}$$

MVE = *Market Value of Equity*
D = Total Debt
TA = Total Asset

According to Mediyanti et al. (2021) the parameters for calculating the Tobin's Q value are categorized:

1. If Tobin's Q < 1, this indicates that the stock isundervalued. The company's management is ineffective in managing the company's assets, and there is low investment growth potential.
2. If Tobin's Q = 1, this indicates that the stock is average. The company's management has not made significant progress in managing assets, and there is limited potential for investment growth.
3. If Tobin's Q > 1, this indicates that the stock is overvalued. Management is successful in managing the company's assets, and there is high potential for investment growth. Thus, it can be concluded that the company is considered successful in creating value if Tobin's Q> 1, while the company is considered unsuccessful in maximizing value if Tobin's Q < 1.

Environmental, Social, and Governance (ESG)

ESG as an independent variable is measured using the Global Reporting Initiative (GRI) standard (Rahman et al., 2023). Following Rahman, Zahid, and Muhammad (2021), a score of 1 is given to companies that have a sustainability strategy and 0 otherwise, while top management commitment is also denoted by 1 for companies that have ESG in their mission and vision statements and 0 otherwise.

In the ESG disclosure method, the disclosure measurement in this study uses the GRI Standard 2021 with details:

- GRI Standard for environmental issues, which includes 27 disclosure indicators.
- GRI Standard for social issues which includes 39 disclosure indicators.
- GRI Standard for social issues which includes 30 disclosure indicators.

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The technique of calculating ESG disclosure can use the ratio between the number of company indices published and the total number of GRI module indicators in each ESG aspect. This calculation uses a dummy variable that is given a score of 1 if the item is disclosed and a score of 0 if the item is not disclosed (Riyanto & Paramansyah, 2023).

RESULT

Sampling Result

Table 1. Sampling Result

No	Sample Selection Criteria	2021	2022	2023
1	Population of *basic material* sector companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023	93	96	102
2	Companies that do not publish financial reports or *sustainability reports* consistently from 2021 to 2023	(2)	(4)	(0)
4	Samples that meet the criteria	91	92	102
5	Number of observation data (2021-2023)	285		

Based on Table 1, the research sample was obtained as many as 102 basic material sector companies and the period used as a research sample was for 3 years, so that the data used in this study amounted to 285 research data.

Descriptive Analysis

Table 2. Descriptive Analysis

No	**Variabel**	**N**	**Mean**	**Minimum**	**Maksimum**	**S.D**
1	ESG (X)	285	1,48	0,20	2,91	1,00
2	Financial Performance (Y)	285	0,54	0,01	4,07	0,56

The ESG performance variable shows a minimum value of 0.20 and a maximum value of 2.91. This shows that the number of ESG performance disclosures in the basic material sector companies sampled in this study ranges from 0.20 to 2.91, with an average value of 1.48 at a standard deviation of 1.00. The average ESG disclosure of 1.48 means that the average basic material sector company in 2021-2023 did not provide maximum ESG disclosure. This ESG Disclosure Score is calculated based on the summation of the Environmental Performance Disclosure Score of 31 disclosure items, the Social Performance Disclosure Score of 36 disclosure items, and the Governance Performance Disclosure Score of 30 disclosure items. The highest ESG disclosure occurs at PT Lotte Chemical Titan Tbk, which is 2.91 with a composition of Environmental performance disclosure of 1.00, social performance disclosure score of 0.94, and governance performance disclosure of 0.97. The high ESG disclosure score indicates that PT Lotte Chemical Titan Tbk. managed to disclose all disclosure items in category E, as well as almost all in categories S and G. The lowest ESG disclosure score occurred at PT Nusa Palapa Gemilang Tbk, which is 0.20 or 20% of the total disclosure. A low ESG score indicates that the company has higher ESG risks, which may affect its reputation and long-term performance (Sustainanalytics, 2024).

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In the dependent variable (Y) or financial performance calculated using Tobin's Q in basic material sector companies in 2021-2023, it has a minimum value of 0.01, namely at PT Optima Prima Metal Sinergi Tbk, and a maximum value of 4.07 achieved by PT Jakarta Kyoei Steel Works Tbk. The Tobin's Q value> 1 indicates that the company's shares are valued higher than their book value (overvalued), which indicates high market expectations for the company's growth potential. With an average Q value in the basic material sector companies of 0.54, it indicates that stocks in the basic material sector are valued lower than the book value of their assets. This could also be a sign that the sector requires performance improvements or strategy changes to increase market confidence. With the acquisition of an average value of Q < 1, it also indicates that the market assesses that companies in the basic material sector do not fully reflect the value of assets owned based on financial statements.

Data Analysis and Hypothesis Testing

Table 3. Regression Analysis

Variable	Coefficients
(Constant)	0.287
ESG	0.175

In terms of the simple linear regression formula, this resulted as:

$$\mathbf{Y = 0{,}28 + 0{,}17\ ESG}$$

The constant represents the value of Y (financial performance) when variable X (ESG) is zero. In this case, if ESG does not exist or is zero, then financial performance is estimated at 0.287 (according to the scale used in the study). The coefficient X of 0.175 indicates that each one-unit increase in ESG value will increase financial performance by 0.175 units, assuming other factors remain constant (ceteris paribus). This indicates a positive relationship between ESG and financial performance.

Table 4. Determinant Coefficient

Determinant Coefficient (R^2)
0,123

Based on the results of the coefficient of determination, the coefficient of determination (Adjusted R square) = 0.123, meaning that the independent variables jointly affect the independent variable by 12.3%, the rest is influenced by other variables not included in the research model.

Table 5. Individual Parameter Significance Test (*t* Test)

Variable	*t* Value	Sig
(Constant)	5,010	0.000
ESG	5,492	0.002

The ESG disclosure variable on Tobin's Q has a significant value of 0.000 or smaller than 0.05. This shows that the hypothesis can be accepted.

DISCUSSION

Based on the results of the data analysis, the effect of ESG disclosure on financial performance yielded a significant value (sig) of 0.000, which is below the threshold of 0.05, indicating a statistically significant relationship. This finding supports the hypothesis, confirming that ESG disclosure has a measurable and impactful effect on a company’s financial performance. Furthermore, the positive beta coefficient score highlights the directionality of this relationship,

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demonstrating that increased levels of ESG disclosure positively influence financial outcomes. The results of multiple linear regression analysis show that ESG disclosure has a positive effect on the financial performance of basic material sector companies in 2021-2023, with a significance level of 0.00 <0.05. The regression coefficient of 0.17 indicates that the better the ESG disclosure, the more the company's financial performance increases, as measured using the Tobin's Q ratio. ESG reflects the company's commitment to sustainability, social responsibility, and good governance, thereby enhancing its reputation and attracting investors.

From the perspective of stakeholder theory, companies are not only responsible to shareholders, but also to other stakeholders such as employees, communities, and governments. Companies that actively disclose ESG tend to gain wider support, reduce social and environmental risks, and improve operational efficiency. This is evident from PT Lotte Chemical Titan Tbk, which has the highest ESG disclosure in 2021 with a Tobin's Q score of 3.84, indicating that its market value is almost four times the value of its assets. The stakeholder theory by Freeman (1984) states that companies that are transparent in ESG will gain trust and a positive reputation from stakeholders. Jones et al. (2018) added that good stakeholder management can increase customer loyalty, employee commitment, and corporate image. The widespread application of ESG also reflects the increasing global demand for responsible and sustainable business. ESG disclosure helps companies manage social and environmental risks that can affect market performance. Clarkson (1995) states that companies that are proactive in meeting stakeholder expectations will be more efficient, reduce conflict, and have higher competitiveness. ESG is also a positive signal for the market, indicating that the company has good prospects and lower risk. Empirically, companies with high ESG scores tend to have better market performance, as seen from the increasing Tobin's Q ratio.

This finding is in line with various previous studies (Naeem et al., 2022; Abdi et al., 2022; Buallay, 2019; and others) which show that ESG disclosure has a positive impact on financial performance. Good ESG improves investor confidence, reduces operational risk, and strengthens the company's position in the capital market. In addition, companies with high ESG disclosure have a better reputation, higher customer loyalty, and stronger relationships with business partners. Overall, this study confirms that ESG is not just a social responsibility, but also a business strategy that contributes to increasing corporate value. ESG integrated in business strategy can enhance competitiveness and create long-term value for stakeholders, as reflected in higher Tobin's Q ratios.

CONCLUSION

Based on data analysis, it can be concluded that research on basic material sector companies from 2021 to 2023 shows that Environmental, Social, and Governance (ESG) disclosure is proven to affect the company's financial performance as measured by Tobin's Q and supported by stakeholder theory.

However, even though this regulation has been enacted, the level of company compliance still varies. Most companies in the basic materials sector have not fully adopted ESG disclosure practices consistently. This could be due to various factors, including a lack of understanding of the long-term benefits of ESG disclosure, limited resources, and technical challenges in preparing sustainability reports. In fact, research shows that companies that actively disclose ESG tend to have better access to capital, attract more investors, and enjoy a better reputation in the eyes of the public.

The relationship between ESG disclosure and corporate financial performance has been a widely discussed topic in the academic literature. In general, research shows that companies that

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adopt and disclose ESG well tend to have superior financial performance compared to companies that do not. One reason for this is that ESG disclosure provides a positive signal to stakeholders that the company is committed to sustainability and social responsibility. ESG disclosures can help companies in the following aspects:

1. Reducing Operational Risk: By implementing sustainability practices, companies can minimize risks associated with climate change, resource scarcity, and increasing social demands.
2. Improving Operational Efficiency: Companies that focus on sustainability tend to be more efficient in managing resources, such as energy and water, thereby reducing operational costs.
3. Improving Access to Capital: Institutional and individual investors are increasingly paying attention to ESG criteria in their investment decisions. Therefore, companies that have a good ESG score tend to have an easier time securing funding.
4. Enhances Trust and Reputation: By demonstrating responsibility towards the environment and society, companies can build a better reputation, which in turn increases customer loyalty and investor confidence.

Stakeholder theory emphasizes that the success of a company is not only determined by shareholders, but also by other stakeholders, such as employees, customers, communities, and governments. According to Freeman (1984), companies that can effectively meet the needs and expectations of stakeholders will be more successful in the long run. Clarkson (1995) adds that a proactive approach in managing relationships with stakeholders, including through ESG disclosure, can provide a significant competitive advantage. Effective ESG implementation allows companies to identify and manage issues relevant to their stakeholders. For example, disclosure of information on carbon emissions, renewable energy use, and corporate social responsibility programs can improve a company's relationships with communities and governments. In addition, transparency in corporate governance can increase investor confidence, which in turn supports the financial stability of the company.

LIMITATION AND IMPLEMENTATIONS

This research relies on ESG disclosure data from annual reports and corporate sustainability reports, annual reports and corporate sustainability reports. However, the level of consistency and completeness of data may vary between companies because not all companies in the basic materials sector have uniform ESG reporting standards. This may affect the accuracy of ESG performance measurement.

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