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Analysis Of The Impact Of Esg (Environmental, Social, Governance) On Company Financial Performance In Indonesia Post-Green Taxonomy Implementation

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Abstract

This study aims to analyze the impact of ESG (Environmental, Social, and Governance) dimensions on the financial performance of companies in Indonesia following the implementation of the Green Taxonomy by the Financial Services Authority (OJK). ESG is an important indicator in assessing the sustainability and responsibility of a company, while financial performance is measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. The approach used is explanatory quantitative with secondary data obtained from sustainability reports and annual financial statements of non-financial public companies listed on the Indonesia Stock Exchange (IDX) during the post-implementation period of the Green Taxonomy. The analysis technique used is panel data regression with Fixed Effect or Random Effect models, accompanied by classical assumption tests and significance tests. The research results show that the three aspects of ESG simultaneously and partially have a significant impact on the company's financial performance. These findings reinforce the importance of adopting ESG as part of long-term business strategies and demonstrate the strategic role of the Green Taxonomy in promoting sustainability integration in Indonesia's corporate sector.

Keywords: ESG, Financial Performance, Green Taxonomy

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INTRODUCTION

In recent decades, sustainability issues have become a major focus in global business practices. The business world is now required not only to focus on profit but also to pay attention to social and environmental impacts. The concept of sustainability encompasses a balance between interconnected economic, social, and environmental aspects. Companies that can run sustainable businesses are believed to be more resilient in facing long-term crises. This has become important amid the increasing awareness of consumers and investors regarding environmental impacts (Ramadhan & Widiastuty, 2023). Therefore, sustainability has now become an integral part of modern corporate strategy.

Environmental, Social, and Governance (ESG) are the main indicators in assessing a company's sustainability and responsibility. ESG has been widely used by global investors as a measure in responsible investment decision-making. In

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developed countries, ESG reporting has become standard and is even mandated by regulators. Rating agencies such as MSCI and Sustainalytics have developed structured ESG assessment systems (Setiawati & Hidayat, 2023). This encourages companies to not only focus on financial aspects but also consider the long-term impact of their business practices. Over time, ESG has proven to be correlated with the stability and long-term value of the company.

In Indonesia, awareness of the importance of ESG continues to increase, although its implementation still varies across sectors. The Indonesia Stock Exchange (IDX) encourages companies to publish sustainability reports as part of transparent business practices. The Financial Services Authority (OJK) also plays an active role in formulating policies related to sustainable finance. However, challenges still arise in the form of limited understanding, lack of data, and the lack of uniformity in ESG reporting standards (Fajar & Effriyanti, 2024). However, more and more companies are beginning to realize the importance of ESG integration to enhance competitiveness. This shows that ESG is no longer just an option, but a strategic necessity in the national business world.

As part of the national strategy towards sustainable development, the OJK launched the Indonesian Green Taxonomy in 2022. Green Taxonomy is a classification system for economic activities that supports environmental protection efforts and the transition to green energy. This regulation aims to provide direction and guidelines for the financial and industrial sectors in implementing sustainability principles. With the existence of the Green Taxonomy, companies are expected to more concretely integrate environmental aspects into their policies and operations (Ernawati et al., 2024). This taxonomy also serves as the foundation for the development of green financial products such as green bonds and green financing. This step marks Indonesia's commitment to following the global direction towards a green economy.

A question that often arises in the business world is whether the implementation of ESG can improve a company's financial performance. Some studies show that companies with high ESG scores tend to have lower risks and better access to funding. Well-managed ESG can also strengthen reputation, enhance customer loyalty, and attract long-term oriented investors. On the contrary, companies that neglect ESG often face pressure from society, regulations, and the capital market (Abrari, 2023). In this context, ESG is not only a risk management tool but also a source of competitive advantage. Therefore, it is important to thoroughly examine the relationship between ESG and financial performance in Indonesia.

The implementation of the Green Taxonomy has brought significant changes in the approach of companies towards sustainability. Many companies are starting to adjust their policies to align with the established classification. These adjustments include portfolio shifts, restructuring of production processes, and more detailed ESG reporting. Moreover, financial institutions are beginning to require compliance with ESG aspects in credit and investment provision (Nugrahani et al., 2024). Thus, ESG not only has a reputational impact but also has tangible financial consequences. This

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change opens up space for empirical analysis of the impact of ESG post-implementation of the Green Taxonomy.

Although ESG has been extensively researched at the global level, studies focusing on Indonesia, particularly in the post-Green Taxonomy context, are still relatively limited. Many previous studies have not explicitly linked the implementation of green policies with the financial performance of companies. In addition, the ESG data of companies in Indonesia is still not optimally standardized. This creates both challenges and opportunities for further research (Assyarofi & Ifada, 2023). With that background, it is important to explore how ESG affects the profitability, market value, and efficiency of Indonesian companies. This research is expected to fill that gap and contribute to policy development.

This research aims to analyze the impact of ESG aspects on the financial performance of companies in Indonesia following the implementation of the Green Taxonomy by the OJK. Using a quantitative approach, the study will evaluate the relationship between ESG scores and performance indicators such as ROA, ROE, and Tobin's Q. The research will also observe how the market responds to the sustainability commitments demonstrated by the companies. The main focus is on companies listed on the Indonesia Stock Exchange that have published sustainability reports. The results of this study are expected to serve as a reference for investors, regulators, and business practitioners. Thus, this research has strategic value in promoting ESG integration in the national corporate sector.

RESEARCH METHOD

This research uses an explanatory quantitative approach aimed at statistically explaining the causal relationship between independent and dependent variables. This approach was chosen because it can objectively and measurably test the influence of ESG (Environmental, Social, Governance) scores on the financial performance of companies. The population in this study consists of all non-financial public companies listed on the Indonesia Stock Exchange (IDX) that have consistently published sustainability reports during the observation period. The data collection technique used is documentation, specifically by accessing the sustainability reports and annual financial statements of the companies available on the official IDX website as well as the respective company websites. The independent variable in this study is the ESG score, which consists of three dimensions: environmental (E), social (S), and governance (G). Meanwhile, the dependent variable is financial performance measured by the indicators Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q, as used in various previous studies (Friede et al., 2015; Khan et al., 2016).

Data analysis was conducted using the panel data regression method, both the Fixed Effect Model and the Random Effect Model, to capture the dynamics of cross-sectional and time-series data. The selection of the most appropriate model will be determined through the Hausman test. Before the hypothesis testing is conducted, a

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series of classical assumption tests will be carried out, including multicollinearity, heteroscedasticity, and autocorrelation tests, to ensure the validity of the estimation results. Panel regression is chosen because it offers advantages in handling individual company variability as well as changes over a specific period (Gujarati, 2002). Data processing will be carried out using statistical software such as STATA or EViews. The results of this analysis are expected to provide strong empirical evidence regarding the impact of ESG on the financial performance of companies in Indonesia in the context of the post-implementation of the Green Taxonomy.

RESULT AND DISCUSSION

The Influence of Environmental Aspects on Financial Performance

Environmental aspects are one of the main pillars in the Environmental, Social, and Governance (ESG) framework. In the context of companies, attention to the environment reflects a commitment to sustainable business practices. The scope of this aspect includes carbon emissions, energy efficiency, water conservation, waste management, and biodiversity protection. The increasing pressure from regulators and the public is pushing companies to improve the environmental impact of their business activities. Investors are also starting to make environmental performance an important indicator in portfolio evaluation (Nurdiniah et al., 2024). Therefore, this aspect has become a strategic focus in the assessment of corporate sustainability.

Reducing carbon emissions is an important indicator of a company's environmental performance. Many industrial sectors generate significant emissions that impact climate change and environmental degradation. Companies that actively measure, report, and reduce their emissions demonstrate accountability towards sustainability (Wahyu & Rokhim, 2023). On the other hand, companies that neglect this aspect are at risk of regulatory penalties and pressure from stakeholders. In the framework of Indonesia's Green Taxonomy, carbon emissions are one of the main criteria for classifying green economic activities. This strengthens the incentive for companies to reduce emissions and adopt environmentally friendly technologies.

Energy efficiency has become one of the main strategies for companies to improve environmental performance while also reducing operational costs. The use of energy-efficient technology can reduce electricity and fuel consumption, which ultimately lowers the company's financial burden (Samara, 2022). Additionally, companies that are efficient in energy use tend to be more resilient to fluctuations in global energy prices. This efficiency also serves as an indicator of the company's innovation and productivity. The Green Taxonomy encourages transformation towards efficiency and renewable energy. This places energy efficiency as an important factor in enhancing long-term profitability (Elatroush, 2023).

Effective industrial waste management contributes to the creation of social and economic value. Waste that is not managed properly can pollute the environment, cause social conflicts, and lead to legal sanctions. On the other hand, companies that

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implement the 3R principles (Reduce, Reuse, Recycle) can reduce environmental risks and even create new business opportunities. In many studies, efficient waste management is associated with increased reputation and consumer loyalty. Companies can also reduce waste disposal costs with circular economy strategies (Su & Gao, 2023). Therefore, waste management is not only a technical aspect but also a long-term strategic investment.

Several studies show a positive relationship between environmental performance and corporate profitability. Companies that implement environmentally friendly practices tend to have higher operational efficiency and lower risk costs. Additionally, they are preferred by institutional investors and environmentally conscious consumers. Environmental performance can also enhance access to green financing, such as green bonds and ESG-based loans (Gartia et al., 2024). In the long term, sustainable companies demonstrate better financial stability. Thus, investing in environmental initiatives can yield tangible economic benefits.

Various global empirical studies have confirmed the significant impact of environmental aspects on company value. For example, a study by Clark, Feiner, and Viehs (2015) found that companies with high environmental performance exhibit more stable stock returns (Chen et al., 2023). Another study by Eccles, Ioannou, and Serafeim (2014) showed that companies that strategically integrate sustainability achieve superior financial and market performance. These results indicate that environmental responsibility can be a source of competitive advantage. Investors are now more selective and avoid companies that are considered to have high environmental risks. This makes environmental aspects an important factor in financial decision-making.

After the launch of the Green Taxonomy by the OJK, companies in Indonesia have started to adjust their sustainability strategies. This taxonomy sets clearer criteria for economic activities deemed environmentally friendly. Companies that meet these criteria are more likely to receive incentives, green funding, and market support. In the energy, manufacturing, and infrastructure sectors, emission reduction and energy efficiency initiatives are becoming more targeted (Safitri et al., 2024). Furthermore, ESG reporting is becoming more refined with more quantitative environmental indicators. This opens up opportunities to measure the impact of environmental aspects on financial performance more accurately.

In order to understand the extent to which environmental aspects affect financial performance, a systematic quantitative approach is required. The use of panel data regression allows researchers to examine the relationship between environmental scores and financial indicators such as ROA, ROE, and Tobin’s Q. ESG data reported in the company's sustainability reports becomes the primary source in this analysis. Thus, the research results can provide an empirical picture of the economic value of environmental responsibility. These findings can serve as a basis for decision-making for investors, regulators, and company management. This evaluation also supports sustainable development goals in the national business sector.

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The Influence of Social Aspects on Financial Performance

The social aspect of ESG reflects how companies interact and are accountable to stakeholders beyond financial matters. This includes attention to employees, local communities, consumers, and the fulfillment of human rights. The social dimension of ESG indicates the extent to which a company upholds work ethics, equality, and diversity within its work environment. Good social practices can create an inclusive workplace and enhance productivity (Safitri et al., 2024). Additionally, socially responsible companies are also better able to build harmonious relationships with the surrounding community. Thus, social aspects play an important role in supporting the sustainability and long-term performance of the company (Joshi & Joshi, 2024).

The relationship between the company and employees becomes one of the key indicators in social assessment. Fair treatment, a decent compensation system, job safety guarantees, and career development opportunities create a positive work climate. Employees who feel valued tend to have high loyalty and optimal productivity. This directly contributes to operational efficiency and the achievement of business goals (Liu et al., 2022). In addition, companies with a healthy work culture are able to attract and retain the best talent. Therefore, investing in employee well-being is not only a moral responsibility but also a smart business strategy.

Corporate social responsibility (CSR) is an integral part of the social dimension of ESG. Through CSR, companies demonstrate concern for the community and the surrounding social environment. Programs such as education, health, economic empowerment, and disaster relief enhance the company's positive image. Good acceptance from the local community will create social stability and minimize potential conflicts (Feng et al., 2022). In the long term, CSR can build strong social relationships and support the continuity of the company's operations. A good social reputation also influences consumer interest and business partners.

Modern companies are expected to uphold and enforce human rights not only within their internal environment but also throughout their supply chain. Violations such as labor exploitation, discrimination, or forced labor can damage reputation and cause legal and financial losses (M'mata & Weda, 2022). Therefore, companies need to ensure that their suppliers comply with the established social standards. Transparency and social audits become important tools for assessing compliance in the supply chain. In the digital era, issues of human rights violations spread quickly and can decrease a company's market value. Social integrity across the entire business network becomes a determining factor for long-term success.

The social reputation of a company plays an important role in influencing consumer loyalty. Consumers today are increasingly aware of ethical values and sustainability in the production and distribution processes. They tend to choose products and services from companies that practice social responsibility. A positive reputation can be a competitive differentiator in a competitive market. Moreover, consumer loyalty directly impacts the company's revenue and financial stability

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(Buhary & Nasir, 2024). Therefore, social reputation is not only a moral asset but also a significant source of economic value.

Various empirical studies show that the social aspects of ESG contribute to the improvement of a company's financial performance. For example, research by Edmans (2011) shows that companies considered "great places to work" provide higher stock returns compared to other companies. Other studies link social initiatives with increased market value, profit margins, and long-term growth (Sudirman et al., 2024). This shows that investment in human relationships, both internal and external, yields tangible financial impacts. With the increasing attention of investors towards social issues, companies are demanded to be more transparent and accountable in their social reporting. Therefore, the social dimension needs to be treated equally to the financial dimension in corporate management.

The implementation of the Green Taxonomy by the OJK, although more focused on environmental aspects, also has implications for the company's social standards. This taxonomy emphasizes that green economic activities must not cause social harm (do no significant harm). Therefore, companies that want to be classified as green must prove that they practice fair and inclusive social practices (Aliamutu et al., 2023). This includes the fulfillment of workers' rights, protection of affected communities, and community participation in decision-making. With these criteria in place, the company's social standards are increasingly being taken into account by stakeholders. Therefore, the social aspect becomes an inseparable part of the post-Green Taxonomy sustainability evaluation.

In the context of long-term sustainability, companies need to design social strategies that are integrated with business objectives. This includes employee involvement in decision-making, the development of CSR programs based on local needs, and the comprehensive implementation of human rights principles. A well-designed strategy will strengthen the company's social relationship with its surrounding environment (Zeftawy, 2024). This creates social support that impacts operational smoothness and market loyalty. When a company successfully maintains social stability, external risks can be mitigated and financial performance becomes more consistent. Thus, social strategies are not merely about compliance, but also a strategic investment in financial sustainability.

The Influence of Governance Aspects on Financial Performance

The governance aspect in ESG focuses on the systems and structures that regulate the direction and oversight of the company. Good corporate governance includes transparency, accountability, business ethics, and compliance with laws and regulations. Strong governance becomes the foundation for building trust among investors and other stakeholders. In practice, this includes the establishment of an independent, balanced, and effectively functioning board of commissioners and directors. Governance also ensures decision-making that considers risks, shareholder

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interests, and social responsibility. Therefore, this aspect becomes a crucial element in creating sustainable company performance (Fibriyanti, 2022).

Transparency is a key indicator of sound governance. Companies that are open in presenting financial reports, ESG disclosures, and other material information tend to gain higher market trust. A high level of transparency can reduce information asymmetry between management and investors. This helps the market assess the company's risks and potential more accurately (Ahmad et al., 2023). In addition, transparency encourages management accountability in managing the company's resources. Therefore, information transparency becomes one of the main drivers of increasing the company's value.

The structure of the board of commissioners and directors plays an important role in ensuring the quality of oversight and strategic decision-making. A board consisting of independent members has a greater potential to perform oversight functions objectively. The number of members, professional backgrounds, and diversity within the board also influence the effectiveness of governance. A good structure can reduce conflicts of interest, accelerate crisis response, and enhance the company's competitiveness (Agustin et al., 2024). In the context of ESG, the board must also understand and direct the company's sustainability agenda. Thus, a healthy board structure supports the achievement of both financial and non-financial goals in a balanced manner.

Business ethics and commitment to anti-corruption principles are an integral part of corporate governance. Corruption practices and ethical deviations can destroy reputation and cause significant financial losses (Mohammed*, 2024). Therefore, companies need to have clear ethical policies and a whistleblowing reporting system. Ethics training programs for employees and leaders are also necessary to create a culture of integrity. The implementation of high ethical standards has proven to increase investor trust and reduce legal risks. Strong ethics become the pillar of stability and financial growth for the company.

Effective governance is not only focused on short-term oversight but also on creating long-term value for all stakeholders. Companies that integrate sustainability principles into governance will be better able to manage environmental, social, and market risks. In the long term, good governance contributes to innovation, business resilience, and operational efficiency (Kamila & Wulandari, 2024). Moreover, adaptive governance also facilitates companies in facing regulatory changes and industry dynamics. Institutional investors often use governance as a key indicator in investment selection. Therefore, high-quality governance is a strategic asset for the company.

Empirical research shows that strong corporate governance is positively correlated with financial performance (Oktavianus, 2024). A study by Gompers, Ishii, and Metrick (2003) found that companies with good governance have higher stock returns and greater valuations. Additionally, governance has also been proven to reduce capital costs and improve internal efficiency. Strict oversight helps prevent asset misuse and detrimental investment decisions. This shows that governance is not

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merely a formality, but a determining factor for financial success. Therefore, strengthening governance has become a priority agenda in many global and domestic corporations.

After the implementation of the Green Taxonomy by the OJK, there has been increased pressure on companies to strengthen governance practices that support sustainability. This taxonomy encourages companies to incorporate ESG considerations into their strategies and decision-making processes. Corporate governance is now required to be more proactive in setting environmental and social policies. The board of directors also needs to have a sufficient understanding of climate and sustainability risks (Silalahi et al., 2024). This encourages a shift from traditional governance to a more holistic and ESG risk-based model. Thus, green regulations bring structural changes to corporate governance practices in Indonesia.

In the future, companies that can synergize good governance with a sustainability agenda will have a sustainable competitive advantage. Governance will become the main instrument in aligning the interests of shareholders with social and environmental responsibilities. Integrated and auditable ESG reporting systems will become increasingly important as benchmarks for accountable governance. With strong governance, companies can better manage risks, attract investors, and strengthen their market position. This combination will ultimately be reflected in the improvement of sustainable financial performance. Therefore, strengthening governance aspects is a strategic step towards inclusive long-term growth.

CONCLUSION

The application of Environmental, Social, and Governance (ESG) principles has generally proven to have a significant impact on the financial performance of companies. Each dimension of ESG contributes differently yet complements each other in creating corporate value. The Environmental aspect contributes through operational efficiency and environmental risk reduction; the Social aspect strengthens reputation, customer loyalty, and workforce productivity; while the Governance aspect provides assurance of transparent and accountable governance. These three components collectively enhance investor confidence, reduce capital costs, and drive sustainable long-term growth. Therefore, ESG not only serves as an indicator of sustainability but also as a strategic tool to strengthen financial performance.

Since the implementation of the Green Taxonomy by the OJK, the adoption of ESG in Indonesia has strengthened both in terms of regulation and corporate awareness. This taxonomy serves as a guideline that encourages companies to classify their economic activities according to measurable sustainability principles. The implications of this regulation not only encourage the improvement of responsible environmental practices but also demand increasingly stringent social and institutional governance. These changes encourage companies not only to comply but also to make ESG a part of their core business strategy. Thus, the Green Taxonomy plays a crucial role as an important accelerator in enhancing ESG integration and driving sustainable financial performance in Indonesia.

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