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IS IT CORPORATE GOVERNANCE, INDUSTRY, AND PROFITABILITY MATTER ON ESG PERFORMANCE? EVIDENCE FROM INDONESIAN COMPANIES

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ABSTRACT

This study aims to test and provide empirical evidence regarding the influence of corporate governance (percentage of independent commissioners), industry, and profitability (ROA and retention ratio) on environmental, social, and governance (ESG) performance. This study also uses two control variables: company size and company age. The objects of this study are companies listed on the Indonesia Stock Exchange (IDX) that have complete ESG scores from the Thomson Reuters Eikon database for 2011-2020. The sample companies are 25 companies selected based on the purposive sampling method. Hypothesis testing was carried out using panel data regression analysis with the STATA 14.0 program. The results of the study show that the industry variable, profitability (retention ratio), has a negative and significant effect on ESG performance. For corporate governance variables (independent commissioners), profitability (ROA) has no effect on ESG performance. This study adds value to the existing literature because it provides an overview of the impact of the factors used on ESG performance in companies in Indonesia.

Keywords: *Environmental, Social, and Governance (ESG); Corporate Governance; Industry; Profitability; Return on Asset; Retention Ratio*

INTRODUCTION

National and global phenomena regarding illegal actions and destruction of the environment make today's business people or companies unable to just pay attention to profit anymore. The awareness of world business people to carry out and implement production activities to maintain sustainability and be environmentally friendly, as well as to have a positive impact on social activities, continues to increase. Elkington's (1997) research looks at the situation where businesses in many industries are increasingly faced with challenges that come from the environment and society. Instead of only focusing on short-term goals, stakeholders expect companies to be able to carry out and fulfill economic, environmental, and social value creation (Hockerts & Wüstenhagen, 2010). Investors and shareholders generally form investment portfolios by considering the combination of risk and return levels (Yuliani & Achsani, 2018). In addition, investors usually make investment decisions after studying the company's financial statements, company performance, company portfolio, reviews, and news spread in the media (Mahastanti, 2011). Religious people's perspectives and beliefs about investing in companies that follow Sharia principles have recently evolved as a decision to invest. In addition, investments that have been encountered and are growing rapidly today are investments that pay attention to the non-financial aspects of a company, such as companies that are aware of and care about the environment, social issues, and the use of renewable resources. With the awareness to start paying attention to environmental issues and social responsibility, investors and stakeholders are now starting to pay attention and want to know where companies invest money and how they run their businesses (Atan et al., 2018). This is

referred to as "green investment" in the investment world. As stated in the mandate of the Law on Investment Related to the Environment, Article 16 Letter D, investments made should have a responsibility to preserve the environment. In addition, Article 2 of Presidential Decree No. 16 of 2012 stipulates that the direction of investment policy must be environmentally sound (Rachman, 2018).

Green investment is often said to be an investment that is based on the theme of ESG, or socially responsible investment. ESG has been widely discussed and supported at various world-class conferences, such as the Conference of the Parties (COP), which is a forum for discussing climate change. This COP negotiates to decide on legally binding limits on greenhouse gas emissions that can be generated for each country. The COP held in Kyoto, Japan, in 1997 gave birth to the Kyoto Protocol, which operationalizes the UN Framework Convention on Climate Change by obliging industrialized countries and economies in transition to limit and reduce greenhouse gas emissions according to individual targets set. This mechanism of the Kyoto Protocol encourages the reduction of greenhouse gases starting from the most cost-effective places, for example, developing countries. It doesn't matter where emissions are reduced; as long as they leave the atmosphere, this will stimulate green investment. In addition, there was also a COP held in Paris, France, in 2015, which gave birth to the Paris Agreement, which discussed international agreements on climate change that included mitigation, adaptation, and finance. This agreement requires each country to determine, plan, and notify its contribution on a regular basis. Some time ago, the COP 26 held in Glasgow, Scotland, became an important opportunity for the world to realize the rules to reach the Kyoto Protocol, which was adopted in 1997, and the Paris Agreement, which was adopted in 2015. As a global climate change emergency that has threatened many lives in recent decades. Rising temperatures are causing massive damage to the earth and bringing many natural disasters. To limit this spike, the world needs to halve its greenhouse gas emissions in the next eight years. It was a big task for the leaders to follow up on COP 26 with an ambitious plan to phase out coal use in order to achieve zero emissions. Various alternatives have been created and developed, such as efforts to use renewable resources to reduce emissions, such as the creation of electric cars, the use of solar panels, and others. As expectations and the direction of government policies both nationally and globally regarding green investment. How should institutional and individual investors define and select companies to which their funds will be allocated to support environmental sustainability? For institutional investors, there are basically two levels at which they can make green investment decisions. First, strategic decisions taken by the board of directors or trustee, investment committee, or CIO regarding types of ESG (environmental, social, and governance), SRI (socially responsible investment), and green investment policies Second, implementation decisions are taken by internal or external fund managers and "green" analysts. For example, the selection of assets, benchmarks, funds, and others (Inderst et al., 2012).

In recent years, a new trend has emerged and is increasing in the world of investors: considering environmental, social, and corporate governance factors in measuring the financial performance of a company (Putra & Adrianto, 2019). Many previous studies have been conducted in which the authors have looked at using ESG scores to measure a company's financial performance. Especially for companies that are categorized as "green" companies. Research conducted by (Alareeni & Hamdan, 2020; Atan et al., 2018; Brogi & Lagasio, 2019;

Velte, 2017) shows a positive impact between ESG and the company's financial performance. The ESG itself is a combination of the environmental, social, and governance components. ESG is a set of operational standards that refer to these three components in measuring the sustainability and impact of an investment in a company. As for the results of the ESG, it is called the ESG score. The ESG score is a tool used to measure the sustainability of a company (Gunawan & Priska, 2016). The ESG component is regarded as a factor for investors to consider when selecting and managing portfolios in order to achieve long-term investment success (GSIA, 2020) both now and in the future, and is the main factor that influences the size of a company's ESG score. Based on the Principles for Responsible Investment (PRI) 2021 annual report, the percentage of asset owners who include ESG issues in their selection, appointment, and monitoring practices for both listed equity, fixed income, private equity, and so on in total increased from 71% in 2020 to 82% in 2021 (TKIM, 2018).

In Indonesia, as many as 144 companies have implemented ESG principles, which are directly proportional to the demands of global investors (Al Faruq et al., 2021). However, there are only a few companies that meet the criteria that are combined into two indices that measure company performance based on the ESG theme, namely the SRI-KEHATI Index and the ESG Leader Index. The SRI-KEHATI index is an index that measures the performance of 25 listed companies that have good performance in encouraging sustainable business and have awareness in implementing environmental, social, and good corporate governance, called Sustainable and Responsible Investment (SRI). SRI is an investment concept that combines the ESG concept and attracts the trust of investors and the public to look at green investments. Meanwhile, the ESG Leader Index is an index that measures the performance of 30 listed companies that have good ESG ratings and are difficult to get involved in significant controversy (IDX Stock Index Handbook v1.2, 2021). There are various industrial sectors in these two indices, including the banking, real estate, and property, energy, telecommunications, manufacturing, services, mining, and consumption sectors. More than 50% of financial sector companies fill out the SRI-KEHATI index. As for the ESG Leader index, the largest proportion is occupied by companies in the financial sector with 29.1% and the infrastructure sector with 25.1%. From the various existing sectors, it is necessary to know how each sector or industry produces ESG.

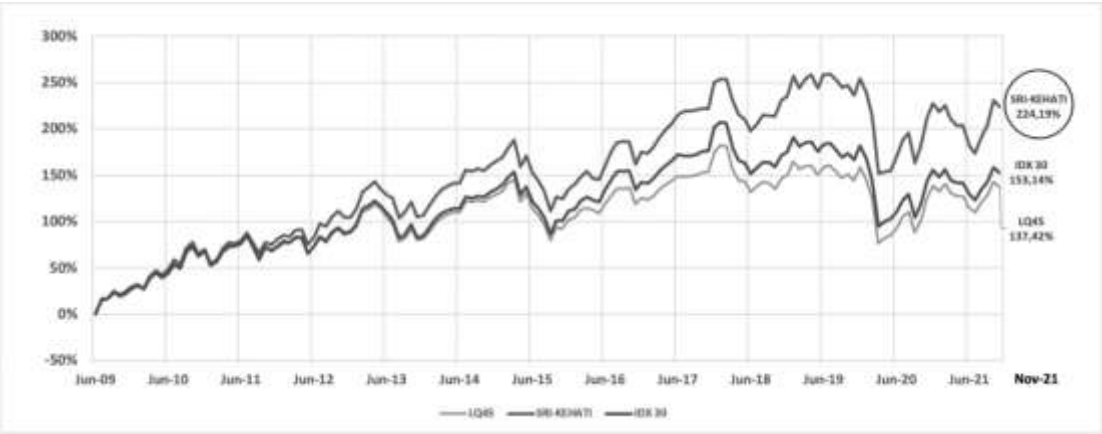

Figure 1. SRI-KEHATI, LQ-45, and IDX30 Index Performance
(Source: Index Sri-kehati – KEHATI)

The performance capability of a company listed on the Indonesia Stock Exchange can be seen from the extent to which the index in which the company is incorporated can increase. The SRI-KEHATI index has an index with better performance above LQ45 and IDX30, which can be seen in Figure 1 as an index that is themed and focuses on sustainability and ESG. With superior performance, the companies in it certainly have a system that encourages them to provide good performance; this system is called corporate governance. Corporate governance focuses on structures and mechanisms that will ensure proper corporate management. Doidge et al. (2004) wrote that, based on the OECD approach of 1999, the way of implementing corporate governance in each country is different (Putra & Adrianto, 2019). Research by (Doni et al., 2019; Putra & Adrianto, 2019) found a significant relationship. The implementation of good corporate governance has an impact on trust in the company and creates a tendency for investors to choose companies labeled SRI with SRI-KEHATI (Putra & Adrianto, 2020).

The pillars of corporate governance can be reflected in majority shareholders, independent commissioners and directors, women on boards, the board size, duration, and turnover (Putra & Adrianto, 2020). The application of the principles of good corporate governance in the company will contain the above pillars, such as the existence of an independent commissioner as an outside party who is appointed based on the decision of the General Meeting of Shareholders (GMS) and an independent director who acts as a counterweight to other affiliated directors and accommodation stakeholders. interests, including those of the majority, minority, and public. In addition, the availability or establishment of a CSR committee or team as the prime mover or special division to implement and oversee CSR programs for companies is important. This is in order to achieve good corporate management in accordance with the principles of corporate governance and also as a form of implementation of Law No. 40 of 2007 concerning limited liability companies, especially in social responsibility in the environment around the company.

Research by Birindelli et al (2018) examines the pillars of corporate governance, such as women on boards, independent board members, the board size, the number of board meetings, and the impact of CSR committees on ESG performance. Stuebs & Sun (2015) the research found a positive relationship between corporate governance and CSR. Where companies have good corporate governance, it will direct the company to obtain good CSR performance as well as increase the confidence of individual investors to invest. Elmaghrabi (2021) the researchers found that companies with CSR committee boards have better CSR performance and strategy and lower controversy when compared to companies that do not have a CSR committee. As a result, investors have higher expectations of companies that have good governance and are supported by a CSR committee. Velte (2016) research regarding women in the management structure has a positive effect on ESG performance. Gender diversity has a minimal impact in overcoming a critical period of at least three women, so the absence of women on the management board makes a difference in ESG performance. In addition, research also shows the positive influence of the existence of a CSR committee and the size of the management board on ESG performance. Where implementing a CSR committee and the size of the management board contribute positively to sustainability management practices.

In addition to corporate governance, industry differences also need to be considered, whether or not they affect ESG itself, such as companies that are categorized as manufacturing industries, which are more directly related to environmental conditions by using raw materials

originating from nature to produce finished goods and also by using equipment that uses resources such as electricity. The use of these resources will have a direct impact on environmental conditions, such as environmental problems that are currently increasing. For example, the use of coal can increase emissions, which have an effect on high temperature rises, and factory waste, which can pollute water, air, and soil. Of course, it will produce a different ESG value than the service industry. Gunawan & Priska (2016) research shows that there are companies in the telecommunications sector that have an influential ESG and some that do not. Research by Susanto & Joshua (2019) states that the type of industry has a positive effect on disclosure of corporate social responsibility. This disclosure of social responsibility will later become one of the sources of the ESG score. Where the manufacturing industry carries out activities related to the health and safety of both employees and the environment and social The service industry is an industry that provides services and tends not to look like banking; apart from that, there are also transportation services that use processed natural resources, but various innovations and developments have been made to overcome the excessive use of resources and switch to renewable resources.

In addition to differences in industry governance scores, the author is also interested in studying how the level of profitability of a company compares against ESG. Profitability describes the company's ability to generate any income from its assets and existing capital. Research Atan et al (2018) found an insignificant relationship between profitability as measured by ROE and ESG, both individually and in combination. Meanwhile, Brogi & Lagasio (2019), the research found a positive relationship between ESG and profitability. The profitability of a company can be analyzed using return on assets (ROA) and return on equity (ROE), as well as the size of the profit that the company maintains to support or expand the company's activities. to study further the ESG scores, which are a measuring tool generally used by individual and institutional investors in green investing. This supports the objectives of the investment made by investors, both to preserve the environment and, of course, to obtain benefits from the investment. Companies that earn large levels of net profit tend to decide on large retained earnings, which are used as fuel for funding sources for the company's activities and growth. So that companies can do many things related to increasing CSR and concern for the environment, which can produce better ESG values, Therefore, the authors consider corporate governance, industry, and profitability as factors that have an effect on the ESG score produced by the company outside of the ESG components themselves.

Based on the explanation above, the researcher intends to examine the effect of corporate governance, industry, and profitability on environmental, social, and governance (ESG) performance in listed companies on the Indonesian Stock Exchange (IDX) during the period of 2011–2020.

METHOD

This study aims to conduct an organized, systematic, data-based, critical, objective, and scientific investigation and test of the hypotheses proposed as the subject matter (Sekaran, 2016). Based on the objectives and data collection that will be carried out by researchers to find answers to the hypotheses proposed, This research is categorized as quantitative research because it uses data in the form of numbers that are already available and statistical calculations to test the existing hypotheses. The research was conducted aiming to determine the

relationship between the independent variable and the dependent variable on the specified study object. This study investigates the impact of corporate governance, industry, and profitability on the resulting ESG score. The data used in this study is categorized as secondary data, which is already available on the website concerned, namely Thomson Reuters Eikon and annual report.

The population for this study are companies listed on the Indonesia Stock Exchange (IDX). However, not all companies listed in these six countries can be used as samples in this study. Therefore, this research used a purposive sampling technique to collect its sample. This method is a research sampling technique that is non-random and has special criteria. There are several criteria for the research's sample, namely companies listed on the Indonesia Stock Exchange for the 2011-2020 period; complete ESG data on Thomson Reuters Eikon for the 2011-2020 period; and issuing financial reports for the 2011-2020 period. Based on these criteria and conditions, the sample used in this study was 250 observations from 25 companies with an interval of 10 years.

The panel regression analysis was used in this study. Panel data regression analysis is a type of analysis used to analyze the combination of cross-sectional and time-series data. According to Basuki & Prawoto (2015), there are three methods for estimating the regression model with panel data: the common effect model (CEM), the fixed effect model (FEM), and the random effect model (REM). To select the best model that can be used in this study, there are also three tests for estimating the panel data regression, namely the Chow test, the Hausman test, and the Lagrange multiplier test. Finally, the best model chosen in the preceding step will be used to test hypotheses. Based on the results of the test, the Fixed Effect Model (FEM) was chosen as the best model for testing hypotheses with the t-test, F-test, and R2 test. The panel regression equation for this study is as follows:

$$\mathbf{ESGS_{i,t}} = \boldsymbol{\alpha_{i,t}} + \boldsymbol{\beta_1 GOV_{i,t}} + \boldsymbol{\beta_2 IND_{i,t}} + \boldsymbol{\beta_3 ROA_{i,t}} + \boldsymbol{\beta_3 RETR_{i,t}} + \boldsymbol{\beta_4 SIZE_{i,t}} + \boldsymbol{\beta_5 AGE} + \boldsymbol{\varepsilon_{i,t}} \quad (1)$$

ESGS = Environmental, social, and governance (ESG) performance
GOV = Corporate governance
IND = Industry
ROA = Return on Asset (Profitability
RETR = Retention ratio (Profitability)
SIZE = Firm size
AGE = Firm age
α = Constanta
β1-β5 = Coefficient of Regression
i,t = Firm i In year t

This research consists of 6 variables, which are divided into 1 dependent variable, 3 independent variables, and 2 control variables. The dependent variable of this study is environmental, social, and governance (ESG) performance, which is measured using the environmental, social, and governance (ESG) score obtained from Thomson Reuters Eikon. The three independent variables are corporate governance measured using the percentage of

total independent commissioners in a company, industry measured using a dummy to describe the industry. Where number 1 categorizes manufacturing companies. Where the number 0 categorizes non-manufacturing (services) companies, and profitability measured using ROA (is calculated by dividing net profit after tax by total assets) and retention ratio (is calculated by dividing retained earning and net profit). This study also has two control variables to clarify and make the results constant, which are firm size, firm age. Table 1 explains all the definitions and measurements of research variables.

Table 1. Operational Definition and Measurement of Variables

Variables	Types	Description	Source
ESG performance (ESGS)	Dependent	Environmnetal, social, and governance (ESG) score obtained from Thomson Reuters Eikon	Thomson Reuters Eikon
Corporate governance (GOV)	Independent	The percentage of independent commissioners	Annual report
Industry (IND)	Independent	Dummy variable equals to 1 if manufacture and mining companies, 0 otherwise	Company websites
Profitability (ROA)	Independent	Net profit after tax divided by total assets	Annual report
Profitability (RETR)		Retained earning divided by net profit	Annual report
Firm Size (SIZE)	Control	The natural logarithm of total assets	Annual report
Firm Age (AGE)	Control	Log n (observation year – year of establishment)	Company websites

Data Analysis

As the sampling criteria, this study used a sample of companies listed on Indonesian Stock Exchange during the period of 2011 and 2020. The company sample must have complete information about the variables used in this study, such as the environmental, social, and governance (ESG) score, corporate governance and any additional financial information. Based on the company sample used in this study, descriptions of each variable for all samples were obtained as follows:

Table 2. Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
ESGS	250	52,09617	19,62407	7,442548	88,2761
GOV	250	0,4268041	0,1314358	0,0000	0,833333
IND	250	0,68	0,4674119	0	1
ROA	250	0,0842492	0,1051352	-0,6438723	0,4666014
RETR	250	0,5488831	0,4149647	-1,248694	1,72041
SIZE	250	18,65262	3,976573	11,54301	31,06425

AGE	250	3,687211	0,4655273	1,94591	4,465908

Data source: Data processed by researchers by using STATA 14

Table 2 shows that this study consists of 6 variables, which are divided into 1 dependent variable, 3 independent variables, and 2 control variables. The dependent variable in this study is the environmental, social, and governance (ESG) performance described by the environmental, social, and governance (ESG) score obtained from Thomson Reuters Eikon, which has an average value of 52.09617 with a minimum value of 7,4425 and a maximum value of 88,2761. The independent variables in this study are first, corporate governance (GOV), which is measured by the percentage of independent commissioners, and this variable has an average value of 0,4268 with a minimum value of zero and a maximum value of 0,8333. The second independent variable is industry (IND), which is measured by a dummy variable equals to 1 if manufacture and mining companies, 0 otherwise, and this variable has an average value of 0,68 with a minimum value of zero and a maximum value of one. The last independent variable is profitability (ROA), described by the net profit after tax divided by total assets, which has an average value of 0,0842, a minimum value of -0,6439, and a maximum value of 0,4666, and also profitability using retention ratio (RETR), which is measured by retained earning divided by net profit, which has an average value of 0,5489, a minimum value of -1,2387, and a maximum value of 1,72041.

Table 3. Correlation Coefficient

	ESGS	GOV	IND	ROA	RETR	SIZE	AGE
ESGS	1,0000						
GOV	0,1736	1,0000					
IND	-0,2034	-0,3345	1,0000				
ROA	0,0832	0,3258	0,3272	1,0000			
RETR	-0,1408	-0,1340	-0,2278	-0,3124	1,0000		
SIZE	0,0688	0,0090	0,0210	-0,1600	0,1665	1,0000	
AGE	0,0750	0,2652	0,0101	0,1045	0,0074	0,2720	1,0000

Data source: Data processed by researchers by using STATA 14

According to Table 3, the first independent variable shows a positive relationship between GOV and ESGS with a value of 0.1736. The second independent variable shows a negative relationship between IND and ESGS, with a value of -0.2034. ROA has a positive relationship with ESGS, with a value of 0.0832, and RETR has negative relationship with ESGS. Then, all the control variables used in this study also showed a positive relationship with ESG performance. For this result, it is necessary to know more about this through subsequent tests as well as to determine the significant value for each variable.

Table 4. Panel Regression Model (Fixed Effect Model)

ESGS	Coef.	Std. Err.	t	P > | t |	[95% coef. Interval]	
GOV	0,8787	11,31005	0,08	0,938	-21,40377	23,1613
IND	-11,4127	3,1369	-3,64	0,000	-17,5929	-5,2326
ROA	6,0560	14,7264	0,41	0,681	-22,9573	35,0692
RETR	-11,7794	3,1492	-3,74	0,000	-17,9839	-5,5749

SIZE	0,4874	0,3146	1,55	0,123	-0,1325	1,1072
AGE	4,1630	2,7713	1,50	0,134	-1,2968	9,6229
_cons	40,9964	10,4481	3,92	0,000	20,4121	61,5808
Overall (R-sq)	0,0964					
Prob > F	0,0000					

Data source: Data processed by researchers by using STATA 14

Table 4 shows that after selecting a model using the Chow test and Hausman test, the selected panel regression model is the fixed effect model. So, we can see the effect of each independent variable and control variable on the dependent variable used in this study. In table 4, the obtained P value > | t | of the GOV variable is 0.938, which means the value is not significant because 0.938 > 0.05, so it can be concluded that the independent commissioners variable has a insignificant influence on environmental, social, and governance (ESG) performance, either partially or individually. The P value > | t | of the IND variable in this study is 0.000, which means the value is significant because 0.000 < 0.05, so it can be concluded that the industry variable has a significant influence on ESG performance, either partially or individually. Furthermore, the ROA variable has a P value > | t | of 0.681, which means the value is insignificant because 0.681 > 0.05, so it can be concluded that the profitability variable was measured by ROA has a insignificant influence on ESG performance, either partially or individually. Meanwhile, the RETR variable has a P value > | t | of 0.000, so it can be concluded that the profitability was measured by retention ratio has a significant effect on ESG performance.

The control variable in this study has a P value > | z | from the SIZE control variable of 0.123, which means the value is not significant because 0.123 > 0.05, so it can be concluded that the firm size control variable partially or individually has an insignificant effect on ESG performance. While the second control variable has a P value > | t | from the control variable AGE of 0.134, indicating that the value is insignificant because 0.134 > 0.05, it is possible to conclude that the firm age control variable has a insignificant effect on ESG performance, either partially or individually. Table 4 also shows that in the simultaneous test, the value of prob > F is 0,0000, where the value is smaller than 0,05. So, it can be concluded that the independent and control variables have a significant influence on the dependent variable. The effect is equal to 9,64 percent.

Table 5. Robustness Test of Panel Regression Model (Fixed Effect Model)

ESGS	Coef.	Robust Std. Err.	t	P > | t |	[95% coef. Interval]	
GOV	0,8787	10,1455	0,09	0,933	-22,0719	23,8294
IND	-11,4127	2,4226	-4,71	0,001	-16,8930	-5,9325
ROA	6,0560	11,5382	0,52	0,612	-20,0452	32,1572
RETR	-11,7794	2,3784	-4,95	0,001	-17,1597	-6,3991
SIZE	0,4874	0,2298	2,12	0,063	-0,0324	1,0072
AGE	4,1630	1,0375	4,01	0,003	1,8161	6,5099
_cons	40,9964	3,6715	11,17	0,000	32,6910	49,30188

Overall (R-sq)	0,0964
Prob > F	0,0000

Data source: Data processed by researchers by using STATA 14

In order to test the rationality of the model setting and the robustness of result, another set of independent variables was selected for empirical analysis. Table 5 reports the regression results of variables used in this study. So, we can see the effect of each independent and control variables on dependent variable. GOV variable, which is measured by the percentage of independent commissioners has a insignificant influence on environmental, social, and governance (ESG) performance. IND variable, which is measured by a dummy variable has a significant effect on ESG performance. Profitability variables, which is measured by ROA has a insignificant effect on ESG performance. Meanwhile, profitability measured by RETR has a significant effect on ESG performance. In addition, control variables in this study, firm size has an insignificant effect on ESG performance and firm age has a significant effect on ESG performance.

RESULTS AND DISCUSSION

The Effect of Corporate Governance and Environmental, Social, and Governance (ESG) Performance

The coefficient seen in the Corporate Governance (GOV) variable, which in this study was measured by the percentage of the total independent commissioners in a company, was used as a value of 0.8787 with a significance of 0.938. The significance of this variable compared to the expected significance of 0.05, indicating that the independent commissioner's corporate governance has no significant effect on its dependent variable, the ESG Scores from Thomson Reuters Eikon data for the 2011-2020 period, so the first hypothesis was rejected.

This explains that when there is an increase in corporate governance through an independent commissioner, it will not affect the ESG scores that are produced by the company. However, this can also be seen from the average number of independent commissioners, which is only 0.4268, or 42.68%, while the number of directors is higher. In addition, in Indonesia, which adheres to the Continental European System, where the commissioners and directors are both located or elected and are responsible to the shareholders, the supervision functions of the commissioners and directors, such as the dotted lines, do not really affect the company's activities specifically related to social responsibility and the environment, and companies remain under the control of shareholders. supported by agency theory, where shareholders have control over agents. Research on Putra & Adrianto (2020) The majority of shareholders can control the corporate governance system so that it does not run optimally. And also, as the results of the study (Baraibar-Diez & Odriozola, 2019; Birindelli et al., 2018) revealed, the company's activities related to social and the environment have been carried out and supervised by the CSR Committee or Team formed by the company, so this has more leverage than an independent commissioner in producing or increasing company ESG Scores.

The Effect of Industry on Environmental, Social, and Governance (ESG) Performance

In the previous table, the coefficient for the industry variable (IND) shows a figure of -11,4127 with a significant value of 0. When viewed from the significance of the Industry variable that uses dummy variables, where the number 1 categorizes manufacturing companies and also includes mining while the number 0 categorizes non-manufacturing companies or services, it has a smaller significance value than the expected significance of 0.05, where 0,000 (0.000 < 0.05). So it can be concluded that there is a negative and significant relationship between the type of industry and ESG scores. The negative coefficient suggests that when many companies in the category of manufacturing and mining companies tend to have low ESG scores, the difference is significant with non-manufacturing companies. When manufacturing companies, including mining companies, engage in natural resource processing activities that have a direct impact on the environment and society, the chances of the company's ESG Scores value decreasing increase. Therefore, the second hypothesis in this study was accepted.

Types of industries that are categorized as having companies that directly affect the environment and society, such as manufacturing and mining companies that use and explore natural resources, are most likely to have a negative impact on the environment and society, especially in the area around the company's operating activities. If this results in negative consequences, it may have an impact on the company's negative image. Research does not support stakeholder theory, where the business or operational activities of the company should be able to attract and please the parties concerned, especially the community. The results of this study are supported by research (Garcia et al., 2017). Companies or industries that are sensitive or vulnerable will have a negative and significant impact on environmental scores in particular. ESG Scores produced by the company depend on the type of industry carried out; this can be seen from the average ESG Score produced by the company in this study of 52.09. This has passed half of 100, but it cannot be said to be maximized because non-manufacturing companies in the study already have average ESG Scores above 50 compared to manufacturing and mining companies.

The Effect of Profitability on Environmental, Social, and Governance (ESG) Performance

This study found that variable profitability measured by Return on Assets (ROA) was not significant in terms of influencing ESG scores, as can be seen from the significance of the expected significance of 0.681 > 0.05. The ROA coefficient was found to be 6,0560. The existence of an insignificant relationship between ROA and ESG Scores is in line with the research of Cahya (2011), Luthfia (2012), and Nataerylova (2013) in (Rivandi et al., 2017). This is thought to be due to differences in operational activities dominated by manufacturing companies, which are not as concerned with or as difficult to protect the environment and society as non-manufacturing companies or services. This can also be seen from the average ROA in the company in this study, which is 0.0842 or 8.42%, which is not optimal for encouraging an increase in CSR disclosure. Research conducted by Bătae et al (2021) found a positive relationship between ESG and ROA. Where companies that have higher ROAs can reduce emissions and waste to increase ESG scores.

In addition, for the probability measured by a significant Retr in influencing ESG scores, this can be seen from the significant significance value of the expected significance of 0.000 0.05. The Retr coefficient is found to be -11,7794. The existence of a significant relationship between Retr and ESG Scores indicates that the size or small percentage of earnings held by the company can affect the value of the ESG Scores produced by the company. In this case, the study shows its effect, which is negative and significant. This means that the greater the profit arrested by the company compared to the total net profit generated by the company, the lower the company's ESG score will be. In contrast, the higher the value of ESG scores, the lower the profit arrested by the company. Rivandi et al (2017) discovered that finding a smaller portion of the company's profits will encourage increased CSR disclosure. This is because most companies have policies to use a portion of profit in the implementation of CSR activities so that it does not interfere with funding company operating activities and have an impact on the profit gained and the company's cash entry into becomes less, while the number of CSR disclosures increases with the earlier allocation of the profit. Hadi (2011) inside According to Wulandari & Zulhaimi (2017), the company as an entity that gained large profits from resource utilization, while people who bear the negative consequences both directly and indirectly, such as the impact of pollution and decreased levels of public health.

Retained earnings are profits that are reinvested back into the company as a source of internal funds used for company activities and growth (Sri et al., 2015). The higher profit is retained in the company, where one of its functions is to finance the company's operations or the need for new project expansion, which will have a negative impact on the company's ESG score due to new project operations that require natural resources or new environments where the activities carried out tend to have a negative impact on the environment when they utilize or explore natural resources. In addition, research by Wulandari & Zulhaimi (, 2017) said the company must provide some of its profits for social and environmental programs, but because there is no regulation that regulates the amount of CSR from profits, this is only voluntary. But in reality, it does not always affect the reflection obtained by the company on social and environmental activities, due to the low awareness of the company towards the environment and the community. This was mentioned by Sari & Hermuningsih (2021), where retained earnings did not have a significant effect on investment because retained earnings governance was not used properly so retained earnings were not used to increase investment. Especially for investments that support business developments that maintain the environment and social.

Whereas this result contradicts the findings of Irwansyah et al., (2018), Ismai et al., (2020), Khairani & Rivandi, (2019) higher profitability produced by the company can encourage companies to voluntarily apply and disclose CSR regardless of their size. Only economic benefits are necessary to support stakeholder theory, where companies must be able to attract and please all interested parties. In this study, the number of retained earnings generated by the company in the study is classified as low, with an average of 0.5488 or 54.88% of this value if the author sees from the financial statements issued by the company. Then the third and fourth hypotheses are rejected.

CONCLUSION

The research was conducted to examine the factors that the authors reviewed based on previous research, namely the Corporate Governance variable, which used an indicator of the

percentage of independent commissioners in a company, the type of industry variable, which used a dummy variable where the writer classified the company into two classifications, where 1 for manufacturing companies including mining and 0 for companies engaged in other activities and the Profitability variable in this case uses two indicators namely Return on Assets (ROA) and Retention Ratio to the company's ESG scores issued by Thomson Reuters Eikon with the control variables namely company size and age companies in companies listed on the Indonesia Stock Exchange (IDX) for the 2011-2020 period. Based on the data analysis above, we can see that the industry variable, profitability (retention ratio), has a negative and significant effect on ESG performance. For corporate governance variables (independent commissioners), profitability (ROA) has no effect on ESG performance. So this paper adds value to the existing literature as it provides an overview of the impact of corporate governance, industry, and profitability on ESG performance.

The limitations of this study are The companies used by the researcher are only a small part of the number of companies listed on the Indonesia Stock Exchange because only a small proportion of these have complete ESG scores in the Thomson Reuters Eikon database. The influence of corporate governance through independent commissioners, type of industry, profitability through return on assets (ROA) and retention ratio, company size, and company age in this study resulted in a small value of 0.0964, or 9.64%. This study uses only one characteristic in the corporate governance variable out of the many characteristics that exist or are related to corporate governance in a company.

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