
ESG Disclosure Quality, Company Characteristics and Financial Performance: The Role of External Assurance

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ABSTRACT

This study aims to examine the effect of environmental, social, and governance (ESG) disclosures, financial ratios, and external assurance on financial performance. Specifically, environmental disclosure, social disclosure, governance disclosure, quick ratio, debt-to-equity ratio, and external assurance are analyzed as determinants of financial performance. Using quantitative methods, this study employs secondary data obtained from companies listed on the stock exchange, with regression analysis applied to test the proposed hypotheses.

The results reveal that environmental, social, and governance disclosures have a positive and significant effect on financial performance, indicating that firms with higher transparency in sustainability practices tend to achieve better financial outcomes. External assurance is also found to significantly enhance financial performance, suggesting that credibility and reliability of sustainability reporting play an important role in influencing stakeholders' trust and investment decisions. In contrast, the quick ratio and debt-to-equity ratio do not show a significant effect on financial performance, implying that traditional financial indicators may not be the primary drivers of firm performance in the context of sustainability-oriented business environments. These findings highlight the growing importance of ESG disclosure and assurance mechanisms in improving firm performance, while also suggesting a shift from conventional financial metrics toward more holistic and sustainability-driven evaluation approaches. This study contributes to the literature by providing empirical evidence on the strategic role of ESG practices and external assurance in enhancing financial performance.

KEYWORDS: *Company characteristic, financial performance, external assurance, quality of ESG disclosure*

1. BACKGROUND

The development of sustainability issues has changed the way companies are perceived and assessed by stakeholders. Companies are no longer only required to achieve optimal financial performance, but are also expected to be able to manage environmental and social impacts, as well as implement good corporate governance. In this context, *Environmental, Social, and Governance* (ESG) is the main framework used to assess the commitment and quality of a company's sustainability practices (Eccles, Ioannou, & Serafeim, 2014). As investors and regulators pay increasing attention to ESG issues, ESG disclosure practices are becoming increasingly important. However, the main concern is not just the presence or absence of ESG disclosures, but the quality of those disclosures. Quality ESG disclosure is characterized by comprehensive, consistent, relevant, and verifiable information, thereby reducing information asymmetry between management and stakeholders (Healy & Palepu, 2001). From a signaling and stakeholder theory perspective, the quality of ESG disclosure can signal a company's credibility in managing non-financial risks and creating long-term value (Spence, 1973; Freeman, 1984). Nonetheless, ESG disclosure practices between companies show highly variable levels of quality. This variation is inseparable from differences in **company characteristics**, such as company size, ownership structure, leverage level, profitability, company age, and industry sector. Large companies with high public exposure tend to have a greater incentive to disclose ESG information in a more quality manner to maintain the company's legitimacy and reputation (Deegan, 2002). In contrast, companies with limited resources may face obstacles in compiling comprehensive ESG reports. On the other hand, the relationship between the quality of ESG disclosure and *financial performance* still shows inconsistent results in the empirical literature. A number of studies have found that quality ESG disclosure has a positive effect on financial performance through improved reputation, operational efficiency, and better access to funding (Friede, Busch, & Bassen, 2015; Wang, Li, & Sarkis, 2020). However, other studies have shown that ESG disclosure does not have a significant effect or even negatively impact financial performance, especially in the short term, due to the high cost of ESG implementation and reporting (Buallay, 2019; Nollet, Philis, & Mitrokostas, 2016).

The research gap arises from several important aspects. First, most previous research still focused on **the level of ESG disclosure**, not on **the quality of ESG disclosure**, so it did not fully reflect the substance of the ESG information submitted by the company. Second, the results of research related to the relationship between ESG and financial performance still show inconsistencies, which indicates the need for additional explanatory variables. Third, the role of **company characteristics** is often only treated as a control variable, even though these characteristics have the potential to significantly affect the relationship between the quality of ESG disclosure and *financial performance*. In addition, research in the context of developing countries, especially the capital market in Indonesia, is still relatively limited compared to developed countries.

Based on these conditions, this study is relevant to examine more deeply the influence of **the quality of ESG disclosure** on **financial performance** by considering **company characteristics** as a determining factor. This research is expected to make a theoretical contribution in enriching the ESG literature by emphasizing the quality aspect of disclosure, as well as providing practical implications for company management, investors, and regulators in formulating sustainability policies that are not only compliance-oriented, but also long-term value creation.

Theoretical Framework

Signal Theory: In the early 1970s, in the context of labor economics, signal theory was first introduced by Michael Spence in a book entitled "*Job Market Signalling*". In the book, Spence explained that the existence of the owner of the information providing a signal aims to provide relevant information so that it can be used by the receiving party. Furthermore, the recipient will adjust himself to the existence of the information. The theory shows how job candidates use education as a signal to show their qualities to job owners. In this case, education is a signal that can reduce the asymmetry of information between job seekers and employers who in essence do not fully know the skills and abilities of their prospective workers (Anugerah et al., 2023).

According to (Aditama, 2022), signal theory is a sign or information derived from the management policy regarding the company's prospects that is beneficial to investors in the hope that the signal can be considered for their investment. The easier it is to obtain signals, the faster it will be studied by stakeholders. The information provided by the company also helps investors regarding accuracy in terms of analysis and realism. This encourages companies to filter information about sustainability reports to meet the needs of their customers. *stakeholder*.

Legitimacy Theory: This theory explains how an organization acquires, maintains and restores the value of legitimacy in front of stakeholders. Where the concept of legitimacy refers to the assumption or general perception of the existence of an organization's actions whether it is in accordance with the socially constructed value system, norms, beliefs and definitions. An article written by Dowling and Pfeffer in 1975 "Organizational Legitimacy: Social Values and Organizational Behavior" states that legitimacy is the status given to an organization when its actions are in line with societal norms and values. In the end, if an organization wants to maintain its survival, it must obtain and maintain this status. Legitimacy theory emphasizes that companies in carrying out their business operations must be in accordance with the rules and norms that apply in that environment. Companies are increasingly aware that their survival depends on the company's relationship with the community. In order to maintain its survival, companies need to seek legal or legitimate recognition from consumers, the public, the government, *stakeholder* and investors. Failure to obtain this recognition can have serious consequences for the existence of the company or organization (Hadinata, 2019). Therefore, it is important for companies to meet expectations and maintain trust as a form of approval received by the public. **Stakeholder Theory:** This theory first appeared in 1984, which was initiated by R. Edward Freeman. He explains that *stakeholder* is a group or individual that influences the achievement of organizational goals. This theory states that a company is not only an entity that prioritizes its own interests, but must be able to meet the needs of *stakeholder* that are considered beneficial to the company. *Stakeholder* also strengthen the company's relationship with external parties which can increase superior competitiveness (Indriyani & Yuliandhari, 2020).

Gray, et al (1994) explained that companies need support from the *stakeholder* for the survival of the company. The support is obtained when the company discloses information regarding both financial and non-financial reporting, which *stakeholder* requires transparency on the business activities that the company has carried out. This attention and support is expected to be able to maintain good relations with the *stakeholder*, with the form of capital participation that can affect the company's operations through support for the use of products, which ultimately increases the company's profits and has an impact on financial performance (Safriani & Utomo, 2020).

Environmental, Social and Governance (ESG) ESG as a sustainable investment concept began to develop in the early 2000s. Launched by the United Nations in 2015, the SDGs serve as a global guide to achieving sustainability by 2030, influencing the overall ESG agenda. **Environmental, Social and Governance (ESG)** are the three main factors used to measure the sustainability and ethical impact of an investment in a company. ESG is a benchmark for investors who want to assess a company's non-financial performance. It can be concluded that the importance of ESG in modern business strategies, both in Indonesia and internationally, highlights that integrating ESG is not only ethical but also provides economic value.

According to (Ningwati et al., 2022), ESG is a company's strategy that has a potential in carrying out its business by considering the environmental, social and governance aspects of the company with the aim of obtaining value/*Value* company for the long term. The implementation of good ESG practices has a positive effect on the financial performance of companies in Indonesia. Companies that pay attention to environmental, social, and governance issues tend to have a better reputation and attract more investors (Rahayu & Lestari, 2021). According to (Khan et al, 2020) companies with high ESG scores tend to be more resilient to market risks and economic crises.

Financial Performance

Financial performance is an indicator of a company in achieving the expected goals in a certain period. If the company succeeds in its achievements, it will have a positive effect on its financial performance. The existence of financial performance measurement, aims to obtain information about the use of funds that can help make it easier for a manager to make a decision (Husada & Handayani, 2021). According to Munawir (2012), the purpose of financial performance is to determine the level of profitability, liquidity, and solvency of the company.

Through financial performance, the quality of a company can be assessed. Good financial performance reflects the optimal performance of the company in utilizing its resources, which means that the company is able to maintain management so that it has an impact on the growth and sustainability of the company (Putra et al., 2021). In addition, financial performance also affects the company's existence in maintaining its market position. Therefore, there is a need for a proper analysis to find out the condition of the company's performance.

Hypothesis Development: The Influence of Environmental Performance on the Company's Financial Performance

The policy on environmental performance implemented by the company has a positive impact on financial performance (Khairiyani et al., 2019). The researcher explained that companies that have good environmental performance in creating an environmentally friendly product are an added value in the eyes of the public. This is in line with the theory of legitimacy, which is that good environmental performance can increase more trust from the community and stakeholders (Suchman, 1995). Products that have added value affect the selling value of the product itself, so that it can increase the company's profit. This research was strengthened by previous researchers, who were researched by (Ladyve et al., 2020) which found a positive relationship regarding environmental performance and the company's financial performance. The same thing was also expressed by (Zainab & Burhany, 2020) said that information about environmental performance reflects that the company can grow in the long term and sustainably. This is because the company has full responsibility for its environment to avoid the cost of covering considerable environmental damage. Based on the description above, the following hypothesis is formulated:

H1: Environmental performance has a positive effect on financial performance

The Influence of Social Performance on the Company's Financial Performance

Social performance is where a company carries out an activity other than operational activities that aim to fulfill its social responsibility (Kristiani & Werastuti, 2020). One form of corporate social responsibility is to convince the *stakeholders* that the operations carried out by the company are in accordance with the rules and norms that apply to the local environment or where the company is located. This is in line with the theory of legitimacy, that companies need to meet social expectations in order to maintain legitimacy in the eyes of the public. *stakeholder*. Companies with a good position affect the company's future opportunities so that it increases in wealth which has an impact on financial performance. This research is in line with the findings of previous researchers (Maghfiroh & Fidiana, 2023) that examined the influence of social performance on the company's financial performance. The results of his research show that there is a positive and significant influence of social performance on financial performance. Based on the description above, the following hypothesis is formulated:

H2: Social performance has a positive effect on financial performance

The Effect of Governance Performance on the Company's Financial Performance

A company that has a good governance structure reflects that the form of policy implemented by the company is also good. This is due to the various rules that are applied that make a company run smoothly in carrying out its activities. The benefit of the company implementing good governance is that the company can increase efficiency related to its operational performance so that it can meet the expectations and satisfaction of the *stakeholder*, as well as investors. This hypothesis is in line with the theory *stakeholders*, stating that the company needs support from the *stakeholder*, until when *stakeholders* Satisfied with the decision of corporate governance policy, it will have a positive effect on financial performance in a sustainable manner (Zahroh & Hersugondo, 2021). The results of this study are in agreement with the research conducted by (Sitanggang & Ratmono, 2019), which states that corporate governance has a positive

influence on financial performance. The research was measured by several indicators, such as audit quality, proportion of independent commissioners, audit committees, and audit meeting activities. Based on the description above, the following hypothesis is formulated:

H3: Governance performance has a positive effect on financial performance

The Effect of Liquidity on the Company's Financial Performance

According to the theory *stakeholder*, the company is seen as an entity that must be able to meet the needs of its stakeholders. One of the important aspects to note *stakeholder* is the liquidity of the company. Liquidity reflects a company's ability to meet short-term debt according to its maturity. The high level of liquidity, illustrates that the company is in a healthy financial condition. This is because high liquidity shows that the company has current assets that are easy to disburse at any time (Aryaningsih et al., 2022). When a company is able to maintain and maintain its liquidity level, the trust of investors and *stakeholder* will increase. This support and trust is in the form of investment, capital, consumer loyalty, and so on, which can increase operational efficiency and strengthen market position, thereby having an impact on improving financial performance. This research was strengthened by previous researchers, namely (December, 2020) which reveals that the company's liquidity has a positive effect on the company's financial performance. Based on the description above, the following hypothesis is formulated:

H4: Liquidity ratio has a positive effect on financial performance

The Effect of *Leverage* on a Company's Financial Performance

Based on signal theory, it explains that companies are active in providing signals to the market to provide information about the company's internal situation, such as financial performance and risk levels. In this context, the *leverage* is one of the signals received by investors, *stakeholder*, and other external parties. According to (Anandamaya & Hermanto, 2023), *leverage* is the structure of the company's debt presented with the existence of a ratio *Debt to Equity Ratio* (DER), to find out the amount of debt of a company in financing the company's operational activities. Level *leverage* A high is often interpreted as a negative signal by the market. This is because the higher the level *leverage*, the larger the company relies on external financing, which results in the risk of default in debt repayment. In line with research conducted by (Amalia only, 2021) explained that the company's high debt has a major effect on the decline in profit, because the funds must be diverted to pay the debt along with the interest expenses, which in the end decreases financial performance. Thus, it can be concluded that the *leverage* High prices damage the market's perception of future prospects, thus negatively affecting the company's financial performance. Based on the description above, the following hypothesis is formulated:

H5: *Leverage* has a negative effect on financial performance

The Influence of *External Assurance* on the Company's Financial Performance

The company's non-financial statements, such as sustainability reports, ESG reports, and corporate social responsibility reports, require independent audits or additional verification from third parties with the aim of reducing information asymmetry between the company and its stakeholders. This is done to ensure that the report is properly disclosed in accordance with what is in the company, free from material errors, accurate and reliable. Companies can use *External Assurance* as their report verification process. Through *External Assurance*, companies can provide a strong signal to report users. This is in line with signal theory, which focuses on how companies convey information correctly, accurately, and clearly. The existence of *External Assurance* convinces the market of credible and transparent company reports, thereby creating a positive image and reputation in the eyes of the public of the company's financial prospects, which in turn improves the company's financial performance. This research is in line with research conducted by (Akisik & Gal, 2020) revealed that with *External Assurance* it shows better financial performance. Based on the description above, the following hypothesis is formulated:

H6: *External Assurance* has a positive effect on financial performance

Research Method

This is classified as explanatory research with a quantitative approach to analyze the relationship between the variables studied. The population in this research involves energy companies listed on the Indonesia Stock Exchange from 2020 to 2024, amounting to 70 companies. The study employs secondary data from annual financial reports for 2021–2024, accessible from the official IDX website, www.idx.co.id. We used purposive sampling method in which the researcher selects samples that identify specific criteria specified by the researcher to choose homogeneous samples. The criteratory sampling method are: 1. Energy companies that annually publish annual reports and ESG reports 2. Companies that do not take corporate action 3. Companies that are actively traded.

Result and Discussion

Descriptive Statistical Analysis

Table 2. Results of Descriptive Statistical Analysis

	FRICITION (Y)	Environmental (X1)	Social (X2)	Government (X3)	Quick Ratio (X4)	Debt to Equity (X5)	External Assurance (X6)
Mean	31,12306	15,51667	15,51777	24,26420	1,561653	2,258696	0,826087
Median	12,80000	18,73000	14,99000	25,57000	1,110000	2,620000	1,000000
Maximum	139,8000	32,26000	29,97000	33,30000	8,950000	5,960000	1,000000
Minimum	1,300000	0,00000	0,830000	2,970000	0,010000	-9,340000	0,0000000
Std. Deviation	25,66188	9,975191	9,473361	9,772320	1,431594	1,747395	0,381832
Observations	70	70	70	70	70	70	70

Source: Processed Output from Eviews 12

Panel Data Regression Analysis

Table 3. Results of Panel Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,994107	11,17542	0,088955	0,9296
Environmental	1,500059	0,298707	5,021839	0,0000
Social	-1,146563	0,443048	-2,587895	0,0134
Government	-0,030875	0,332877	-0,092752	0,9266
Quick Ratio	-2,432579	1,800136	-1,351330	0,1842
Debt to Equity	-0,044547	0,907794	-0,049072	0,9611
External Assurance	24,46265	10,46039	2,338599	0,0244
YEAR	4,180005	0,000119	-0,351015	0,0269

Source: Eviews 12 Output

Panel Data Regression Model Estimation: Standard Effect Model (CEM)

Table 4. Results of Estimation of Panel Data Regression with the Common Effect Model (CEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5,778854	14,88862	0,388139	0,6992
Environmental	0,715102	0,800444	0,893383	0,0351
Social	0,091941	0,846361	0,108630	0,0091
Government	0,440016	0,553556	-0,794891	0,0297
Quick Ratio	0,605711	2,542193	-0,23826	0,8125
Debt to Equity	3,090589	2,256481	1,369650	0,1757
External Assurance	12,52551	10,29830	1,216269	0,2285

Source: Eviews 12 Output

Fixed Effect Model (FEM)

Table 5. Results of Estimation of Panel Data Regression with the Fixed Effect Model (FEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5,778854	7,371270	0,783970	0,5152
Environmental	0,715102	0,088862	8,047367	0,0151
Social	0,091941	0,068407	1,344027	0,0111
Government	0,440016	0,217945	-2,018935	0,1810
Quick Ratio	0,605711	0,680712	-0,889820	0,4674
Debt to Equity	3,090589	1,194480	2,587393	0,0025
External Assurance	12,52551	3,077217	4,070401	0,0454

Source: Eviews 12 Output

Random Effect Model (REM)

Table 6. Results of Estimation of Panel Data Regression with the Random Effect Model (REM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11,03012	0,930644	-11,85214	0,0070
Environmental	1,630655	0,527936	3,088732	0,0208
Social	1,614614	0,390976	-4,129704	0,0053
Government	0,327986	0,216609	1,514182	0,00192
Quick Ratio	-3,199712	1,631473	-1,961241	0,1889
Debt to Equity	0,059178	1,088904	0,054346	0,9618
External Assurance	35,51355	7,586179	4,681348	0,0427

Source: Eviews 12 Output

Panel Data Regression Model Selection

Chow Test

Table 7. Chow Test Results

Effect Test	Statistics	d.f.	Prob.
Cross-section F	4,055964	(22,40)	0,0001
Cross-section Chi-square	80,917931	22	0,0000

Source: Eviews 12 Output

From the above Chow test result, the probability value of Chi-Square obtained is $0,0000 < 0,05$, then FEM is appropriate to be used in this study.

Hausman Test

Table 8. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11,853501	6	0,0653

Source: Eviews 12 Output

From the result of the Hausman test above, the probability value of Chi-Square obtained is $0,0653 > 0,05$, which means REM is appropriate to be used in this study.

Lagrange Multiplier Test

Table 9. Lagrange Multiplier Test Results

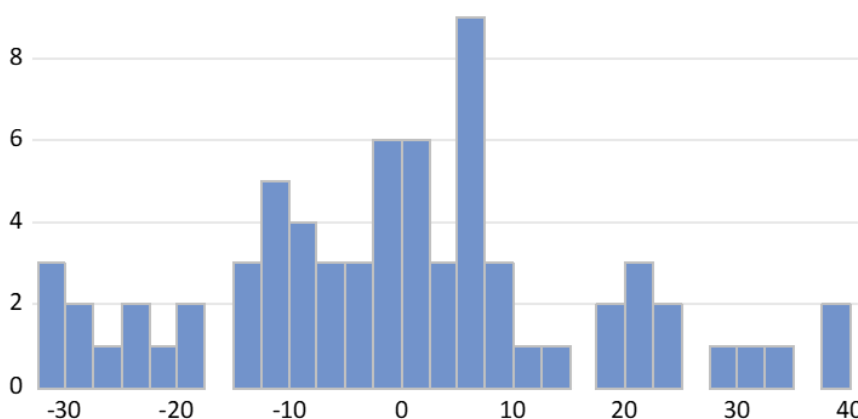
	Cross-section	Time	Both
Breuch-Pagan	0,0013	0,2225	0,0006
Honda	0,0007	0,8888	0,0802
King-Wu	0,0007	0,8888	0,5959
Standardized-Honda	0,0002	0,8403	0,9886
Standardized-King Wu	0,0002	0,8403	0,99677
Gourieroux, et al	-	-	0,0021
External Assurance	35,51355	7,586179	4,681348

From the result of the Hausman test above, the probability value of breuch-pagan obtained is $0,006 < 0,05$, which means REM is appropriate to be used in this study.

Classical Assumption Test

Normality Test

10



Series: Standardized Residuals	
Sample	2019 2023
Observations	70
Mean	-2.03e-16
Median	0.217235
Maximum	39.31902
Minimum	-31.48673
Std. Dev.	16.83454
Skewness	0.223489
Kurtosis	2.840354
Jarque-Bera	0.657054
Probability	0.719983

Source: Eviews 12 Output

Figure 1. Normality Test Results

The above image shows the probability of 0,719983, greater than α ($0,719983 > 0,05$). This proves that the data follows a normal distribution and that the normality test has been passed.

Multicollinearity Test

Table 10. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	16,22755	1,914424	ON
Enviromental	0,092925	0,101008	0,3611
Social	0,444792	0,178631	0,3611
Government	0,002165	0,104953	0,3611
Quick Ratio	0,892893	0,736542	0,3611
Debt to Equity	1,692274	0,354561	0,3611
External Assurance	7,605753	1,608421	0,3611

Source: Eviews 12 Output

Having this result, both variables ESG disclosure, quick ratio, debt to equity ratio and external assurance have the same VIF value, 0,3611. Thus, $0,3611 < 10$ suggests no multicollinearity this study's independent variables.

Heteroskedasticity Test

Table 11. Heteroskedasticity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	20,42884	2,270351	8,998097
Enviromental	0,172128	0,242201	0,710684
Social	0,023141	0,241187	0,095947
Government	0,506361	0,233381	2,169676
Quick Ratio	2,482228	0,468172	5,301963
Debt to Equity	0,798433	0,326319	2,446791
External Assurance	19,98501	4,559459	4,383198

Source: Eviews 12 Output

From the result of the heteroscedasticity test using the Glejser test, the value obtained for the environmental, social, government, quick ratio, debt to equity, and external assurance both values are above 0,05, the variables are free from heteroscedasticity.

Linear Regression Test

Regressing Enviromental (X1) against the ROCE (Y)

Table 12. Regression Test Results of X1 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10,63472	1,625307	6,543210	0,0000
Environmental	0,248078	0,048864	5,076927	0,0000

Source: Eviews 12 Output

Based on the simultaneous test the conclusion is that enviromental has impacts the ROCE.

Regressing Social (X2) against the ROCE (Y)

Table 13. Regression Test Results of X2 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7,878865	1,663575	4,736106	0,0000
Social	0,253647	0,050014	5,071489	0,0000

Source: Eviews 12 Output

Based on the simultaneous test the conclusion is that social has impacts the ROCE.

Regressing Government (X3) against the ROCE (Y)

Table 14. Regression Test Results of X3 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	14,75844	1,764252	8,365265	0,0000
Government	0,297468	0,053041	5,608263	0,0000

Source: Eviews 12 Output

Based on the simultaneous test the conclusion is that government has impacts the ROCE.

Regressing Quick Ratio (X4) against the ROCE (Y)

Table 15. Regression Test Results of X4 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1,666182	0,209122	7,967494	0,0000
Quick Ratio	-0,011301	0,006287	-1,797499	0,0782

Source: Eviews 12 Output

Based on the simultaneous test the conclusion is that quick ratio has no impacts the ROCE.

Regressing Debt to Equity (X5) against the ROCE (Y)

Table 16. Regression Test Results of X5 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,778215	0,312231	2,492431	0,0160
Debt to Equity	-0,001756	0,009308	-0,188694	0,8511

Source: Eviews 12 Output

Based on the simultaneous test the conclusion is that debt to equity has no impacts the ROCE.

Regressing External Assurance (X6) against the ROCE (Y)

Table 17. Regression Test Results of X6 on Y

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0,714517	0,024580	29,06871	0,0000
External Assurance	0,004451	0,000905	4,919489	0,0000

Source: Eviews 12 Output

Based on the simultaneous test the conclusion is that external assurance has impacts the ROCE.

Hypothesis Testing

F-statistic test

Table 18. F-statistic Test Results

<i>Weighted Statistic</i>			
<i>R-squared</i>	0,769653	<i>Mean dependent var</i>	34,57008
<i>Adjusted R-squared</i>	0,608410	<i>S.D. dependent var</i>	37,83390
<i>S.E. of regression</i>	20,81114	<i>Sum squared resid</i>	17324,15
<i>F-statistic</i>	4,773254	<i>Durbin-Watson stat</i>	2,562397
<i>Prob(F-statistic)</i>	0,000004		
<i>Unweighted Statistics</i>			
<i>R-squared</i>	0,701766	<i>Mean dependent var</i>	25,66188
<i>Sum squared resid</i>	19644,06	<i>Durbin-Watson stat</i>	2,394103

Source: Eviews 12 Output

Based on the data above, from a probability perspective, it is known that the value is $0,000004 < 0,05$, which means that environmental, social, government, quick ratio, debt to equity, and external assurance have a significant simultaneous impact on the ROCE.

T-statistic test

Table 19. T-statistic Test Results

<i>Variable</i>	<i>Coefficient</i>	<i>Std. Error</i>	<i>t-Statistic</i>	<i>Prob.</i>
C	-9,893503	2,150118	-2,82906	0,0000
Environmental	6,559390	2,974575	2,205152	0,0479
Social	0,402237	0,120929	3,326232	0,0093
Government	0,557641	0,239873	6,709541	0,0338
Quick ratio	0,950644	1,463274	4,23579	0,4779
Debt to Equity	0,969643	1,433926	4,45569	0,5888
External Assurance	0,644645	1,560711	4,305669	0,0000

Source: Eviews 12 Output

Based on the data above, from a probability perspective, the probability for environmental, social, government, quick ratio, debt to equity, and external assurance value under $< 0,05$.

Coefficient of Determination (R2) Test

Table 20. Coefficient of Determination (R2) Test Results

<i>R-squared</i>	0,769653	<i>Mean dependent var</i>	34,57008
<i>Adjusted R-squared</i>	0,608410	<i>S.D. dependent var</i>	37,83390
<i>S.E. of regression</i>	20,81114	<i>Sum squared resid</i>	17324,15
<i>F-statistic</i>	4,773254	<i>Durbin-Watson stat</i>	2,562397
<i>Prob(F-statistic)</i>	0,000004		
<i>Unweighted Statistics</i>			
<i>R-squared</i>	0,701766	<i>Mean dependent var</i>	25,66188
<i>Sum squared resid</i>	19644,06	<i>Durbin-Watson stat</i>	2,394103

Source: Eviews 12 Output

Based on the data above, variables by 0,60 or 60%, while other variables explain the remaining 40%.

Discussion

The results of this study provide a rich foundation for understanding how both sustainability-related disclosures and traditional financial indicators shape financial performance. At a general level, the findings reinforce the argument that non-financial information—particularly environmental, social, and governance (ESG) disclosures—has become increasingly relevant in explaining firm performance in modern capital markets. The positive relationship between environmental disclosure and financial performance suggests that firms engaging in transparent environmental reporting are better positioned to create long-term value. This can be interpreted through the lens of legitimacy theory, where companies disclose environmental activities to align with societal expectations and maintain their legitimacy. By doing so, firms may experience improved stakeholder support, which ultimately translates into enhanced financial outcomes.

More specifically, environmental disclosure serves as a signal of proactive risk management. Companies that openly report their environmental impacts demonstrate awareness and responsiveness to environmental risks, such as regulatory changes and climate-related disruptions. As noted by Clark et al. (2015), firms with strong sustainability practices tend to exhibit better operational performance and reduced risk exposure, both of which contribute positively to financial performance.

In addition, environmental transparency may reduce information asymmetry between firms and investors. When investors have access to high-quality environmental information, they are better able to assess firm risk and future cash flows. This reduction in uncertainty can lead to a lower cost of capital and improved firm valuation, which is ultimately reflected in financial performance (Dhaliwal et al., 2011).

The significant effect of social disclosure on financial performance further highlights the importance of stakeholder engagement. Social disclosure reflects how firms manage relationships with employees, customers, communities, and other stakeholders. Companies that prioritize social responsibility are more likely to build trust and loyalty, which can enhance both revenue generation and operational efficiency.

From a stakeholder theory perspective, social disclosure is a mechanism through which firms communicate their commitment to creating shared value. This can lead to improved employee morale, lower turnover rates, and increased productivity, all of which have direct financial implications. Empirical evidence by Friede et al. (2015) supports the notion that socially responsible firms tend to outperform their peers financially.

Moreover, social initiatives can strengthen brand reputation and customer loyalty. In increasingly competitive markets, reputation serves as a critical intangible asset. Firms that actively disclose their social contributions are more likely to attract socially conscious consumers, thereby increasing sales and profitability.

The governance disclosure findings also reveal a strong and positive relationship with financial performance. Governance mechanisms are essential in mitigating agency problems between managers and shareholders. Transparent governance disclosure signals that a firm has robust internal controls, effective oversight, and ethical management practices.

This aligns with the findings of Gompers et al. (2003), who argue that firms with stronger governance structures tend to have higher firm valuations. Effective governance enhances decision-making quality, reduces the likelihood of managerial opportunism, and improves resource allocation, all of which contribute to superior financial performance.

Furthermore, governance disclosure enhances investor confidence. Investors are more likely to invest in firms that demonstrate accountability and transparency in their governance practices. This increased investor trust can lead to greater access to capital and improved market performance.

Taken together, the positive effects of environmental, social, and governance disclosures indicate that ESG reporting is not merely a compliance exercise but a strategic tool for enhancing financial performance. These findings support the growing consensus in the literature that sustainability and profitability are not mutually exclusive but rather complementary.

In contrast, the findings related to the quick ratio reveal that liquidity does not have a significant impact on financial performance. This suggests that short-term financial flexibility may not be a key driver of profitability in the observed firms. While liquidity is essential for meeting short-term obligations, it does not necessarily translate into higher returns.

One possible explanation is that firms with excessively high liquidity may not be utilizing their resources efficiently. Idle assets, such as cash and cash equivalents, do not generate returns and may indicate suboptimal investment strategies. As highlighted by Brigham and Ehrhardt (2017), firms must strike a balance between liquidity and profitability.

Additionally, the lack of significance may indicate that firms operate within an optimal liquidity range, where variations in the quick ratio do not materially affect performance. In such cases, other factors, such as operational efficiency and strategic investments, may play a more dominant role in determining financial outcomes. Similarly, the debt-to-equity ratio does not show a significant relationship with financial performance. This finding suggests that leverage decisions may not directly influence profitability within the sample. It is possible that firms have already reached an optimal capital structure, consistent with the trade-off theory.

According to Modigliani and Miller (1958), under certain conditions, capital structure is irrelevant to firm value. While real-world frictions exist, this study's findings imply that variations in leverage may not be sufficiently large or impactful to affect financial performance significantly.

Another explanation is that the impact of leverage may be context-dependent. Factors such as industry characteristics, economic conditions, and firm-specific risk profiles can influence the relationship between debt and performance. Margaritis and Psillaki (2010) suggest that the effect of leverage on performance varies across firms and may not always be significant.

In contrast to the insignificant financial ratios, external assurance shows a positive and significant effect on financial performance. This highlights the importance of credibility in sustainability reporting. External assurance provides an independent verification of disclosed information, enhancing its reliability. From a signaling theory perspective, firms that obtain external assurance send a strong signal to the market about the quality and credibility of their disclosures. This can reduce skepticism among investors and improve their confidence in the firm's reported performance. Moreover, external assurance helps mitigate concerns about greenwashing. In the absence of assurance, stakeholders may question the accuracy of sustainability disclosures. By engaging third-party assurance providers, firms demonstrate their commitment to transparency and accountability (Simnett et al., 2009).

The positive impact of external assurance also suggests that the market values not only the quantity but also the quality of ESG disclosures. This underscores the importance of moving beyond mere disclosure towards ensuring the credibility and integrity of reported information.

Overall, the findings of this study contribute to the growing body of literature emphasizing the strategic importance of ESG practices. Firms that effectively integrate sustainability into their business strategies and communicate these efforts transparently are more likely to achieve superior financial performance.

At the same time, the limited role of traditional financial ratios such as liquidity and leverage suggests that financial performance is increasingly influenced by intangible factors. This shift reflects broader changes in the business environment, where stakeholders place greater emphasis on sustainability, transparency, and ethical conduct. In conclusion, this study highlights the need for firms to adopt a holistic approach to performance management. By combining strong ESG practices with credible reporting mechanisms, firms can enhance their competitiveness and create long-term value for stakeholders.

Conclusion

This study provides empirical evidence on the relationship between quality of ESG disclosures, company characteristic, external assurance, and financial performance. The findings demonstrate that environmental, social, and governance disclosures play a significant role in enhancing financial performance. This indicates that companies that are more transparent and accountable in disclosing their sustainability practices tend to gain greater trust from stakeholders, which ultimately contributes to improved financial outcomes.

In addition, external assurance is proven to have a significant positive effect on financial performance. This result emphasizes the importance of credibility in sustainability reporting, where third-party verification enhances the reliability of disclosed information and reduces information asymmetry. As a result, investors and other stakeholders are more confident in making economic decisions, which positively impacts firm performance.

On the other hand, the quick ratio does not have a significant effect on financial performance. This suggests that short-term liquidity is not a major determinant of profitability in this context, and firms may prioritize efficient resource allocation over maintaining high liquidity levels. Similarly, the debt-to-equity ratio is also found to have no significant effect, indicating that variations in capital structure do not necessarily influence financial performance within the observed sample.

Overall, this study concludes that non-financial factors, particularly ESG disclosures and the credibility of reporting through external assurance, are more influential in determining financial performance compared to traditional financial ratios. These findings imply that companies should focus on improving the quality and transparency of their sustainability practices as part of their long-term strategic objectives.

Despite its contributions, this study has limitations, particularly in terms of sample scope and variable selection. Future research is recommended to include broader samples, additional variables such as corporate governance mechanisms or market-based performance measures, and to explore the role of mediating or moderating variables in greater depth.

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