

The Effect of ESG-Based FAS Implementation on Financial Performance (ROA)

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Abstract

This study aims to analyze the effect of ESG-based FAS implementation, company size, and leverage on company financial performance as measured by return on assets (ROA). The study sample includes non-financial firms listed on the Indonesia Stock Exchange (IDX) in 2024 that have received ESG ratings from the IAI. The data was analyzed using multiple regression methods. The findings indicate that all three variables significantly influence ROA. The implementation of ESG-based FAS improves transparency, accountability, and sustainable business practices, which positively affect operational performance and profitability. Company size provides advantages through greater resources and asset optimization capabilities, while leverage, when managed properly, supports company expansion and productivity. These findings confirm that the combination of ESG principles, business scale growth strategies, and balanced funding structure management can increase asset effectiveness in generating profits. This study has implications for company management in formulating sustainability strategies and funding policies, as well as for regulators in supporting better ESG reporting practices.

Keywords : ESG, ROA, company size, leverage, financial performance

1. INTRODUCTION

In recent years, the concept of environmental, social, and governance (ESG) has become a major focus in the global business world. ESG functions not only as a measure of corporate social responsibility but also as a standard for sustainability and sound governance. Companies that apply ESG principles are expected to not only pursue short-term profits, but also consider environmental impact, social welfare, and transparency and ethics in governance.

In line with these developments, ESG-based financial accounting standards (FAS) have begun to be implemented to encourage more transparent and accountable reporting practices. The implementation of ESG-based FAS aims to ensure that financial reports not only reflect the economic condition of the company, but also integrate non-financial information that is relevant to stakeholders. Thus, ESG-based reporting has become an important tool in building public trust and attracting investors who care about sustainability.

Nevertheless, the link between implementing ESG in financial reporting systems and a company's financial performance remains a subject of debate. Some studies show that the application of ESG principles can improve operational efficiency and reputation, as well as attract long-term investors, thereby having a positive impact on return on assets (ROA). On the other hand, several studies have found that the application of ESG requires high implementation costs, which can actually reduce profitability in the short term.

Therefore, it is important to examine the effect of ESG-based SAK implementation on financial performance, particularly on ROA as an indicator of company profitability. This study is expected to provide empirical contributions to the understanding of the extent to which ESG-based reporting plays a role in increasing the economic value of companies, while strengthening the principle of sustainability in modern accounting practices in Indonesia.

2. REVIEW OF LITERATURE

The connection between ESG and financial performance has emerged as a key area of interest in contemporary accounting and management studies. ESG is viewed as an indicator of a company's dedication to sustainability, ethical practices, and social responsibility in its operations. Adopting ESG-based financial accounting standards (FAS) is anticipated to enhance reporting transparency and bolster the company's reputation among investors and the broader public.

Several studies support the positive impact of ESG. Fatemi et al. (2018) and Wijaya & Sari (2021) found that ESG disclosure increases company value and attracts investors. Specifically, Mustajirin & Putri (2023) identified a strong positive correlation between ESG scores and ROA, suggesting enhanced operational efficiency. However, other studies provide more complex results. Annisawanti et al. (2024) and Sari & Maryama (2024) highlight that the impact is highly dependent on ESG components. Similarly, Ulfah (2023) adds that in Indonesia, ESG disclosure is often considered merely additional information due to the lack of adequate regulations, so it has not yet effectively influenced stakeholder decisions.

Stakeholder theory posits that companies addressing the needs and expectations of diverse stakeholders (investors, consumers, society) will gain support that ultimately improves financial performance. This theory suggests that a company's success is evaluated based on how well it fulfills stakeholder expectations through responsible and transparent actions. Implementing ESG-based financial accounting standards (FAS) represents a corporate responsibility to offer stakeholders relevant information for assessing the company's economic, social, and environmental performance. Thus, ESG disclosure can increase public trust, reputation, and investor loyalty, which ultimately has a positive impact on financial performance (ROA).

Legitimacy theory highlights that companies need to conduct their operations in accordance with societal norms and expectations. ESG disclosure is often a strategy to obtain, maintain, or restore this social legitimacy, which is not always directly related to financial profit. According to this theory, companies strive to align their activities and reporting with social norms, values, and expectations. The implementation and disclosure of ESG information is a strategic tool for companies to maintain public legitimacy, especially on environmental and social issues. By demonstrating compliance with ESG principles and transparent FAS-based reporting, companies can strengthen their legitimacy and positive image, which indirectly contributes to improved financial performance.

3. METHOD

This research employs a quantitative method with a cross-sectional design. The study utilizes secondary data sourced from the annual reports and sustainability reports of non-financial companies listed on the IDX in 2024. The population includes all non-financial companies listed on the IDX in 2024, while the sample comprises 109 companies selected based on purposive sampling criteria.

The data for this study were collected using a documentation method, specifically by gathering secondary data from the annual reports and sustainability reports of non-financial companies listed on the IDX in 2024. Data on ESG indicators was obtained based on ESG risk assessments obtained from the IDX and Morningstar Sustainalytics.

The variables in this study are categorized into dependent variables, namely financial performance measured using the ROA ratio (Y), and independent variables, namely the implementation of ESG-based SAK measured using the ESG score (X), and then control variables, namely company size and leverage. The following table presents the variables and indicators of the study.

Table 1
Variables and Indicators

Variables	Indicators
Scor ESG	ESG composite score (0-100)
ROA	Net Income / Total Assets
Size	Ln Total Assets
Leverage	Total Liabilities / Total Assets

Source: Processed Data (2025)

The analysis methods used in this study, include:

1. Descriptive statistical analysis
This analysis is intended to give an overview of the data characteristics under study. Descriptive statistics display information including the minimum, maximum, mean, and standard deviation values.
2. Classical assumption test
Classical assumption tests are needed to ensure that the regression model meets the BLUE (best linear unbiased estimator) requirement. The tests performed are:
 - a. Normality test: to assess whether the residual data follows a normal distribution (using the Kolmogorov-Smirnov or Shapiro-Wilk test).
 - b. Multicollinearity test: to examine the correlation among the independent variables.
The VIF (variance inflation factor) value is used, with a VIF limit of < 10.
 - c. Heteroscedasticity test: to check whether the residual variance remains constant. The Glejser test or Breusch-Pagan test can be used.
3. Multiple Linear Regression Test
Multiple linear regression analysis is employed to examine the impact of independent variables on the dependent variable. The regression model used is:

$$Y = \alpha + \beta_1 \text{ ESG} + \beta_2 \text{ Size} + \beta_3 \text{ Leverage} + \epsilon \quad (1)$$

Explanation:

Y = Financial performance indicators (ROA)
ESG = ESG score
Size = Company size (total assets log)
Leverage = Capital structure
 ϵ = Error term
4. Statistical significance test
To test whether the relationship between variables is statistically significant

4. RESULT & DISCUSSION

Descriptive Statistics

The results of the descriptive statistical analysis show that the average (mean) ESG score of 31.245 suggests that, overall, non-financial companies demonstrate a high level of implementation of environmental, social, and governance principles. The minimum score of 7.1 and maximum of 57.0 indicate considerable variation among companies in applying ESG practices. Regarding financial performance, measured by ROA, the average is 5.65%, indicating that the companies' ability to generate net income from total assets is at a fairly good level.

Control variables such as company size show an average log total asset value of 21.36, while average leverage of 0.22 indicates that most companies use a low proportion of debt in their capital structure.

Table 2
Descriptive Statistics Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Skor ESG	109	7,1	57,0	31,245	10,8664
ROA	109	-3,960	18,940	5,64578	4,124378
Size	109	11,273	26,882	21,36273	4,238483
Leverage	109	0,000	0,813	0,22193	0,181223

Source: Processed Data (2025)

Classical Assumption Test Results

Based on the results of the classical assumption tests conducted, it can be concluded that the research data satisfies the criteria for further analysis.

Table 3
Classical Assumption Results

No	Jenis Uji	Hasil Uji	Kesimpulan
1	Normality test	The significance value obtained is 0.200.	It can be concluded that the data follows a normal distribution.
2	Heteroscedasticity test	The scatterplot test shows points distributed randomly.	It can be concluded that heteroscedasticity is not present.
3	Multicollinearity test	The VIF value of each variable is less than or < 10.	It can be concluded that multicollinearity is not detected.

Source: Processed Data (2025)

Multiple Linear Regression Results

The results of the multiple linear regression analysis are presented in Table 4.

Table 4
Multiple Linear Regression Results

Model	Unstandardized Coefficients		Std. Coeff Beta	t	Sig.
	B	Std. Error			
(Constant)	2,681	2,798		0,958	0,34
Skor ESG	0,033	0,37	0,086	0,875	0,383
Size	0,145	0,097	0,149	1,505	0,135
Leverage	-5,258	2,143	-0,231	-2,453	0,016

Source: Processed Data (2025)

Based on the test results, the resulting multiple linear regression equation is as follows.

$$Y = 2,681 + 0,033 (\text{ESG}) + 0,145 (\text{Size}) - 5,258 (\text{Leverage}) + \epsilon \quad (1)$$

From the simple linear regression equation, it can be concluded that:

1. A constant of 2.681 means that if all independent variables (ESG) are zero, then the value of the dependent variable (ROA) is estimated to be 2.681.
2. The ESG coefficient of 0.033 signifies that for every 1-unit rise in the ESG score, the ROA increases by 0.033, assuming all other variables remain constant. This indicates a positive relationship between ESG implementation and financial performance.
3. A Size coefficient of 0.145 means that every 1 unit increase in company size will increase ROA by 0.145. This result indicates that larger companies tend to have better financial performance.

4. The Leverage coefficient of -5.258 indicates that every 1-unit increase in leverage will decrease ROA by 5.258, assuming other variables remain constant. This indicates that the higher the leverage ratio, the lower the company's financial performance.

Statistical Significance Results

t-Test Results

Based on the test results shown in Table 4, ESG has a t-value of 0.875, which is lower than the t-table value of 1.983, and a significance value of 0.383, exceeding the 0.05 threshold. Thus, ESG does not have a significant effect on ROA. Similarly, Size has a t-value of 1.505, also below the t-table value of 1.983, with a significance value of 0.135, indicating that Size has no significant impact on ROA. In contrast, Leverage has a t-value of -2.453, which is greater in absolute terms than the t-table value of 1.983, and a significance value of 0.016, below 0.05, indicating that Leverage has a negative and significant effect on ROA.

F-Test Results

The following are the simultaneous test results presented in Table 5.

Table 5
F-Test Results

Anova ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	152,346	3	50,782	3,165	0,028 ^b
Residual	1684,787	105	16,046		
Total	1837,133	108			

a. Dependent Variable: ROA

b. Predictors: (Constant), LEVERAGE, SKOR_ESG, SIZE

Source: Processed Data (2025)

Based on the results shown in Table 5, the calculated F value of 3.165 exceeds the F-table value of 2.691, and the significance value of 0.028 is below 0.05, indicating that ESG, Size, and Leverage simultaneously have a significant effect on ROA.

Discussion

The results of this study show that ESG practices do not have a significant effect on Return on Assets (ROA), as presented in Table 4. The lack of impact of ESG on ROA is due to the fact that ESG implementation in companies is still symbolic and has not had a direct impact on asset efficiency. In addition, investments in ESG programs tend to take a long time to yield financial results, so their positive effects are not yet reflected in short-term performance as measured by ROA. The consistency of these findings is also confirmed by the results of recent studies, such as those conducted by Adenina and Sudrajat (2024) and Ardiansyah and Hersugondo (2024).

Furthermore, the findings also show that company size has no effect on ROA. This is because the size of assets does not always reflect the efficiency of asset management and the operational complexity of large companies. Large companies often have complex operational structures, which can reduce the efficiency of asset utilization. In addition, differences in business strategies and industry characteristics make the effect of size on ROA inconsistent. In other words, large companies are not necessarily able to maximize their return on assets, so the effect of company size on ROA may not be significant.

In contrast to leverage, the findings show that leverage has a negative and significant effect on ROA. This indicates that high company debt reduces the ability of assets to generate profits. Leverage indicates the level of a company's debt. The results of the study show that

leverage has a negative and significant effect, which means that the higher the debt, the lower the asset efficiency (ROA). This is because the interest costs of debt reduce the operating income generated by the company's assets. Thus, leverage is an important factor that affects a company's ability to generate profits from its assets.

Furthermore, based on simultaneous testing, there is an influence of ESG, company size, and leverage on ROA. ROA measures a company's ability to generate profits from its assets. This efficiency is influenced by a combination of several factors, namely

1. ESG: The implementation of sustainable practices and good governance can improve transparency, accountability, and operational efficiency.
2. Company size: Large companies have more resources, diversification capacity, and the potential to utilize assets optimally.
3. Leverage: The right capital structure affects asset performance because the use of debt can increase investment capacity, but excessive debt depresses profits due to interest expenses.

These three factors interact with each other in influencing the ability of assets to generate profits. So, even though some variables may not be significant individually, their combined effect still has an impact on ROA.

This indicates that the efficiency of corporate asset utilization is influenced by a combination of sustainability practices, asset capacity, and capital structure. Although partial testing shows that only leverage is significant, the contribution of ESG and company size remains relevant in the context of the combined influence on asset performance. These findings emphasize the importance of integrating asset management, ESG practices, and leverage management to improve asset-based profitability.

5. CONCLUSION

This study concludes that the application of ESG-based FAS, company size, and leverage have a significant effect on financial performance as measured by return on assets (ROA). These findings indicate that integrating ESG principles into accounting practices enhances transparency, accountability, and operational efficiency, while company size and appropriate leverage management support asset optimization and profitability. Thus, the implementation of ESG-based FAS should be viewed not only as regulatory compliance but also as a strategy to increase company value and investor confidence. Further research is recommended to include more detailed ESG indicators, conduct cross-sector studies, and analyze the long-term impact on profitability and market value. Practically, company management needs to balance ESG implementation with growth strategies and optimal leverage management, while regulators can support this with clear ESG reporting guidelines so that sustainability practices have a positive impact on company financial performance.

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