

ESG IMPACT ON FINANCIAL PERFORMANCE AND REPUTATION OF INDUSTRIAL COMPANIES (2020-2025)

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Abstract

This study aims to analyze the impact of Environmental, Social, and Governance (ESG) implementation on the financial performance and reputation of industrial companies in Indonesia in the 2020–2025 period, and to identify the role of digital transformation in strengthening the effectiveness of ESG implementation. ESG is positioned as a strategic factor assessed by investors, consumers, regulators, and the public, as the need for sustainable business practices and transparency increases. The study uses a quantitative approach with multiple regression analysis. ESG scores are measured compositely and per dimension (Environmental/E, Social/S, and Governance/G), with financial performance represented by Return on Equity (ROE) and Return on Assets (ROA). Control variables include company size, leverage, and growth, while digital transformation is used as a variable that strengthens ESG implementation through data collection and reporting support. The results show that ESG implementation has a positive and significant effect on financial performance, particularly on increasing ROE and ROA. Furthermore, ESG practices also improve company reputation through transparency and accountability, strengthening brand value, and mitigating reputational risk. Research also confirms that digital transformation supports more efficient and verifiable ESG implementation and reporting processes. A case study of PT Visi Prima Artha, which implemented a solar power plant, reinforces the finding that sustainability initiatives can have a dual impact, improving both financial performance and reputation.

Keywords : ESG, financial performance, corporate reputation, digital transformation, industrial companies

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INTRODUCTION

In recent decades, pressure on companies to integrate sustainability principles has increased significantly. Companies are not only faced with the challenge of achieving optimal financial performance but also must meet stakeholder demands regarding social responsibility and environmental sustainability. It is in this context that the concept of Environmental, Social, and Governance (ESG) becomes highly relevant. In an era of increasingly competitive and transparency-driven globalization, a business entity's sustainability is now assessed not only by its financial performance but also by its

commitment to environmental, social, and governance (ESG) aspects (Ahmad et al., 2024; Eccles & Klimenko, 2019; Nor et al., 2024; Tran & Nguyen, 2023).

ESG aspects have become a primary focus for investors, consumers, regulators, and the general public in assessing a company's integrity and long-term sustainability (Buallay, 2019; Choudhary et al., 2023; Eskantar et al., 2024; Shalhoob, 2025). Companies face pressure to reduce the negative impacts of their operations on the environment, such as carbon emissions, industrial waste, and excessive energy consumption (Houque et al., 2022). The implementation of environmentally friendly policies, such as the use of renewable energy sources, responsible waste management, and efficient use of resources, can positively contribute to a company's reputation and improve cost efficiency. Shan et al. (2024) emphasized that the implementation of regulations and systems that support environmental protection in production and operational processes significantly impacts company efficiency and revenue.

This study examines the impact of ESG implementation on the financial performance and reputation of industrial companies in Indonesia between 2020 and 2025. Given the global shift toward a green economy and increasing expectations from investors, consumers, and regulators, ESG has become a strategic component in determining business direction and sustainability. This article will outline how ESG implementation affects a company's Return on Equity (ROE) and Return on Assets (ROA) and increases stakeholder trust through improved reputation. This study will also discuss the role of digital transformation as a moderating variable that strengthens the effectiveness of ESG implementation.

Indonesia, as a developing country with rapid economic growth, faces complex challenges between stimulating economic growth and preserving the environment. The industrial sector, including manufacturing, chemicals, and metal processing, is a major contributor to economic growth but also has the potential to have significant environmental impacts.

ESG implementation is crucial in these sectors, particularly given regulations encouraging companies to adopt more socially and environmentally responsible business practices. For example, the Financial Services Authority (OJK) has established guidelines and regulations regarding sustainability reporting, as well as the announcement of Sustainability Disclosure Standards (SPK), which target the implementation of climate reporting by 2027. These

regulations encourage companies to systematically prepare sustainability reports, which not only fulfills legal obligations but also increases transparency and stakeholder trust.

Furthermore, empirical data shows that companies that consistently implement ESG standards achieve better financial performance, particularly related to increased ROE and ROA. For example, a study of 792 listed companies from 2019 to 2021 revealed a significant positive relationship between the composite ESG score and financial performance, with environmental (E), social (S), and governance (G) aspects each contributing positively.

Furthermore, enhancing a company's reputation through ESG implementation not only impacts investor confidence but also consumer loyalty and employee satisfaction. For example, research cited by PwC (2023) shows that 79% of institutional investors prefer companies with strong ESG performance. This paradigm shift is being accelerated by advances in digitalization, which enable faster and more accurate ESG data collection and reporting. Digital transformation provides additional benefits through increased operational efficiency, faster risk identification, and enhanced transparency in governance.

Based on this background, this study has the following objectives: 1. Analyze the influence of the ESG system on the financial performance of industrial companies. 2. The study aims to examine the correlation between ESG implementation and financial indicators such as ROE and ROA, and to examine the contribution of each ESG dimension (environmental, social, and governance) in determining financial performance. 3. Evaluate the impact of ESG implementation on a company's reputation and brand value. This study will explore how ESG initiatives increase stakeholder trust, attract investment, and strengthen a company's brand image, including analysis from a stakeholder perspective and legitimacy theory. 4. Identify the role of digital transformation in strengthening the effectiveness of ESG implementation. The study will also investigate how digitalization supports ESG implementation and reporting, thereby positively impacting operational performance and company reputation.

LITERATURE REVIEW

Basic Concepts of ESG and Its Dimensions

ESG is a corporate performance measurement framework that includes three main dimensions:

1. **Environmental:** Focuses on how companies manage their impact on the environment, such as reducing carbon emissions, efficient use of resources, waste management, and conservation efforts.
2. **Social:** Examines how a company handles its social responsibilities, including employee well-being, community involvement, and concern for human rights.
3. **Governance:** Emphasizes transparent corporate governance, effective board structures, ethical decision-making, and strong oversight mechanisms.

The ESG concept is based on stakeholder theory, which states that companies must consider the interests of all stakeholders, not just shareholders. Legitimacy theory emphasizes that companies must operate within the bounds of societal norms and values, so that failure to meet social expectations can result in significant reputational damage. Furthermore, signaling theory outlines how disclosing ESG information can signal to investors and consumers about a company's commitment to sustainability and social responsibility.

The Relationship Between ESG and Finance

Several empirical studies have shown that increasing ESG scores positively correlates with a company's financial performance. A study of 792 listed companies from 2019 to 2021 in industries with significant environmental impacts found that implementing an ESG system increased ROE and ROA significantly.

Investments in environmental management initiatives, such as reducing emissions and increasing resource efficiency, not only reduce operational costs but also generate long-term benefits through cost savings and increased competitiveness. Furthermore, social initiatives that encompass employee well-being and corporate social responsibility increase productivity, employee loyalty, and consumer trust, ultimately positively impacting financial performance.

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The governance dimension plays the most significant role, as good governance ensures transparency, risk control, and sound decision-making. Improved corporate governance structures have been shown to increase managerial efficiency and attract investor confidence, thus improving overall financial performance.

The Impact of ESG on Company Reputation and Brand Value

ESG performance is measured not only financially but also by its impact on a company's reputation. ESG factors and ESG disclosure are independent variables. ESG measurement is conducted using the GRI guidelines with a 100-point scoring system, weighted based on industry sector (Buallay, 2019; Ghazali & Zulmaita, 2020; Inawati & Rahmawati, 2023). Companies that actively implement sound ESG practices tend to receive positive perceptions from customers, employees, and investors. Studies show that companies with strong ESG performance gain greater trust, strengthen customer loyalty, and expand access to green financing.

This is in line with research results which show that an ESG approach can improve a company's image and reputation through:

1. **Increased Stakeholder Trust:** Transparent disclosure of ESG data helps build trust among investors, consumers, and employees.
2. **Improved Brand Value:** Companies committed to sustainability tend to have higher brand value, as consumers now prefer products from companies that are socially and environmentally responsible.
3. **Reputational Risk Mitigation:** Effective implementation of ESG policies helps mitigate risks related to environmental pollution, social conflict, and governance scandals that can damage a company's reputation.

The Role of Digital Transformation in ESG Implementation

Digitalization has brought significant changes to how companies implement and report their ESG performance. The integration of digital technologies such as the Internet of Things (IoT), blockchain, and artificial intelligence has enabled companies to:

1. **Identifying Risks Quickly:** Digital systems provide real-time data that helps in detecting potential environmental and social risks accurately and quickly.
2. **Improving Data Transparency:** Digital transformation supports more transparent and

verified ESG reporting, which is critical to building trust with investors and other stakeholders.

3. Operational Efficiency: The application of digital technology in ESG management enables the optimization of operational processes and cost efficiency, thus making a positive contribution to financial performance.

As a conceptual illustration, the diagram below shows the relationship between ESG dimensions, digital transformation, and a company's financial performance and reputation:

Diagram: Conceptual Framework of ESG Implementation and Its Impact

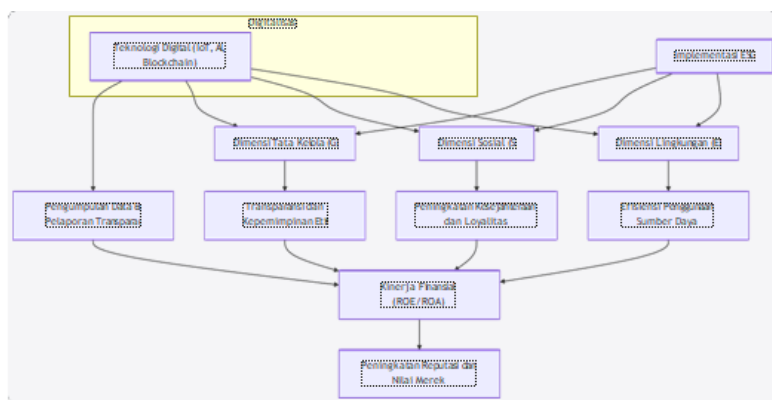


Diagram 1: Conceptual framework depicting the relationship between ESG implementation, the role of digital transformation, and its impact on a company's financial performance and reputation.

RESEARCH METHODS

This study uses a quantitative approach with multiple regression analysis to examine the relationship between ESG scores (both composite and per dimension) and corporate financial performance. The research data was obtained from the Wind database, which covers 792 listed companies from 2019 to 2021. Although the data used does not explicitly cover the years 2020 to 2025, this study develops insights by linking the empirical findings to policy developments and industry trends in Indonesia until 2025.

The sampling technique was purposive, with the criteria being companies with comprehensive sustainability reports and ESG data for three consecutive years. This

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ensures that the analysis is robust and reflects the actual conditions of industries with high environmental impacts.

The collected data was analyzed using Stata software and multiple regression methods. The regression equation used to measure the impact of ESG on financial performance is as follows:

$$\text{Performance} = \alpha + \beta_1 \times \text{ESG} + \beta_2 \times \text{Company Size} + \beta_3 \times \text{Leverage} + \beta_4 \times \text{Growth} + \beta_5 \times \text{Industry Control} + \varepsilon$$

In this model, the dependent variables include ROE and ROA, while the main independent variables are ESG scores and controls such as firm size, leverage, and growth. This analysis technique allows for the identification of significant relationships between ESG factors and firm financial performance and provides an empirical basis for verifying the research hypotheses.

This study measures the following variables:

1. Independent Variables:
Composite ESG score and scores per dimension: Environmental (E), Social (S), and Governance (G).
2. Dependent Variable:
Financial Performance is measured through Return on Equity (ROE) and Return on Assets (ROA).
3. Control Variables:
Company size, leverage, and growth rate.
4. Moderating Variables:
Digital transformation, as measured by technology adoption and ESG reporting efficiencies generated by digital solutions.

The following table summarizes the descriptive statistics of the key indicators based on the analyzed data:

Table 1 : Descriptive statistics of ESG indicators and financial performance in industrial companies

Indikator	Rata-rata	Median	Deviasi Standar	Minimum	Maksimum
Skor Lingkungan (E)	65.4	66.2	12.8	35.2	89.7
Skor Sosial (S)	60.7	61	14.1	28.5	85.4
Skor Tata Kelola (G)	70.3	71.1	11.7	42.6	91.3
Return on Equity (ROE)	8.60%	8.30%	3.20%	2.10%	15.90%
Return on Assets (ROA)	6.40%	6.20%	2.80%	1.50%	12.30%

RESULTS AND DISCUSSION

Descriptive Analysis and Key Statistics

The descriptive analysis results show that industrial companies in Indonesia that fall into the high environmental impact group have relatively high average scores for each ESG dimension, namely an Environmental score of 65.4, Social score of 60.7, and Governance score of 70.3. This data also demonstrates financial performance with an average ROE of 8.60% and ROA of 6.40%. These findings indicate that, in general, the implementation of ESG systems has begun to be integrated and provides a strong foundation for companies to achieve better financial performance targets.

Results of Regression Analysis and the Influence of ESG on ROE and ROA

The results of the multiple regression analysis revealed a significant positive relationship between ESG scores and financial performance. Specifically, each significant increase in the composite ESG score was accompanied by an increase in ROE and ROA.

Furthermore, the regression analysis per dimension shows that:

- 1 Environmental Dimension (E): Increased investment in environmental management technologies and practices increases the efficiency of resource use which in turn lowers operational costs and improves financial performance.
- 2 Social Dimension (S): Social initiatives such as enhanced wellness programs, training, and community involvement have a positive impact on productivity and customer loyalty, which directly affects profitability.

3 Governance Dimension (G): Transparent governance and strong internal control systems help increase investor confidence and managerial efficiency, thereby contributing significantly to increased ROE and ROA.

Thus, the tested regression model yielded positive coefficients and statistical significance, strengthening the hypothesis that ESG implementation generates real financial benefits.

The following is a flowchart that illustrates the relationship between ESG implementation, digital transformation, and financial performance:

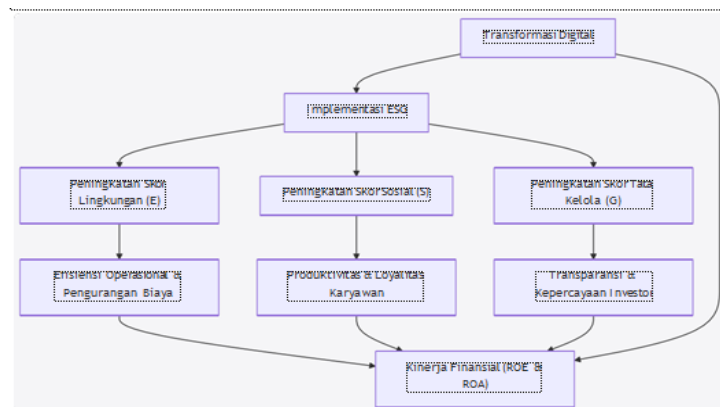


Diagram 2: Flowchart of the relationship between ESG implementation, the role of digital transformation, and its impact on company financial performance.

Case Study: ESG Implementation in Industrial Companies in Indonesia

One example of successful ESG implementation is seen in the case of PT Visi Prima Artha, a textile company in West Java. With support from SUN Energy, PT Visi Prima Artha installed a 500 kWp solar power plant (PLTS).

The results of this implementation include:

- 1 Emission Reduction: CO₂ emission reduction reaches 450 tons per year
- 2 Cost Efficiency: Electricity bill efficiency increases by up to 28%
- 3 ESG Score Improvement: Internal ESG score improvement moving from level C to level B within one year reporting period

This case study illustrates how investing in renewable energy solutions not only supports environmental sustainability but also positively impacts a company's financial performance

and reputation. This demonstrates the optimal use of ESG strategies to achieve financial goals while meeting regulatory and market expectations.

The Positive Impact of ESG on Corporate Reputation

Beyond its impact on financial performance, ESG implementation has also been shown to improve a company's overall reputation. Several key aspects that contribute to this improved reputation include:

- 1 **Transparency and Accountability:** Companies that disclose ESG data openly can build trust with investors, consumers, and employees, thereby improving the company's overall image.
- 2 **Strong Brand Image:** Studies show that companies that are successful in implementing ESG have better brand value and are more attractive to consumers, especially younger consumers who are increasingly environmentally and socially conscious.
- 3 **Investment Attractiveness:** Research reveals that companies with strong ESG performance have easier access to capital, particularly through green financing and responsible investing, which directly supports business growth and expansion.

These factors constitute a mutually supportive synergy, where increased financial performance correlates with increased reputation, creating a sustainable positive effect.

Challenges and Opportunities in the Era of Digital Transformation

While implementing ESG provides many positive benefits, companies also face a number of challenges, including:

- 1 **Data Integration Limitations:** Challenges in collecting and integrating accurate and real-time ESG data remain a major barrier, although digital advancements have helped mitigate this issue.
- 2 **Irregularity in Reporting Standards:** There are still differences in ESG reporting standards, particularly between public and private companies, which hinders broad comparisons between companies.
- 3 **Greenwashing Risk:** Some companies tend to engage in greenwashing or less substantial disclosures, thereby reducing the credibility of ESG reports and negatively

On the other hand, digital transformation offers significant opportunities to address these challenges. Implementing digital systems for collecting, verifying, and reporting ESG data allows companies to increase transparency and efficiency, thereby strengthening the positive impact of ESG implementation. Companies that invest in digital infrastructure will gain a competitive advantage through better data-driven decision-making and responsiveness to market dynamics.

CONCLUSION

This study presents empirical evidence that ESG implementation significantly impacts the financial performance and reputation of industrial companies in Indonesia. Key findings indicate that improving ESG scores, both compositely and per dimension, positively contributes to a company's ROE and ROA. Furthermore, each environmental, social, and governance dimension plays a distinct yet complementary role: investments in environmental aspects have the potential to reduce operational costs, social aspects increase loyalty and productivity, and good governance strengthens transparency and investor confidence. Furthermore, transparent ESG practices have been shown to positively impact a company's reputation, ultimately attracting investment and enhancing brand value. The study also confirms that digital transformation strengthens ESG implementation because digitalization facilitates more efficient data collection and reporting, resulting in more data-driven decision-making and increased ESG implementation effectiveness. This is further supported by a case study of PT Visi Prima Artha, which demonstrates that the implementation of solar power plants not only helps reduce environmental impacts but also improves the company's financial performance and reputation.

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