

ANALYSIS OF THE INFLUENCE OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ON FINANCIAL PERFORMANCE (An Empirical Study of LQ45 Companies on The Indonesia Stock Exchange Period 2023-2025)

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Submitted:
27 June 2026

Revised:
02 July 2026

Accepted:
07 July 2026

Abstract

This study aims to analyze the influence of Environmental (E), Social (S), and Governance (G) on corporate financial performance as measured by Return on Assets (ROA) and Return on Invested Capital (ROIC) in companies listed on the LQ45 index of the Indonesia Stock Exchange for the 2023-2025 period, with Company Size (SIZE) as a control variable. The study uses a quantitative method with secondary data obtained from annual reports and corporate sustainability reports. The sample was determined using a purposive sampling technique, resulting in 45 observations included in the LQ45 for the 2023-2025 period. Data analysis was performed using panel data regression with the help of EViews 13 software. The results show that Environmental has a positive and significant effect on ROA and ROIC, while Governance also has a positive and significant effect on both indicators. Conversely, Social does not have a significant effect on ROA or ROIC. The coefficient of determination value indicates that the model is able to explain variations in ROA by 29.7% and ROIC by 32.3%. These findings indicate that environmental practices and corporate governance play an important role in improving financial performance, while the implementation of social aspects has not had a significant impact during the study period.

Keywords: *Environmental, Social, Governance, Return on Assets, Return on Invested Capital, LQ45*

1. INTRODUCTION

Sustainability issues are increasingly important in global business practices. Companies are no longer solely focused on profit, but are also required to consider the impact of their activities on the environment, society, and the quality of governance. In this context, the concept of ESG (Environmental and Socially Responsible Groups) has emerged as a new approach that provides a more comprehensive assessment of company performance, not only from a financial perspective but also from a sustainability perspective. Climate change and social inequality have forced market regulators and policymakers to devote more attention and action to sustainable practices based on ESG pillars. These actions aim to promote the

transition to renewable energy and pivot towards a more proactive climate and sustainability-focused position.

Recent developments in the financial sector indicate a shift in investment approaches, no longer solely focused on financial returns. Investment practices are now beginning to integrate sustainability principles, known as sustainable investing. By incorporating these three dimensions, investments are not solely oriented toward returns but must also consider the environment. Globally, the implementation of ESG in financial markets has shown promising prospects. Several studies have shown that ESG integration can provide added value to companies through various mechanisms, such as strengthening value propositions and expanding market reach. This not only maintains existing market positions but also penetrates new segments, ultimately contributing to improved company performance and profitability.

The adoption of ESG principles in investment activities is also experiencing increasing spread across various countries. This is reflected in international survey results, which show that the majority of investors have incorporated ESG considerations into their investment decisions. In Indonesia, this trend has begun to be addressed through strategic policies issued by the Financial Services Authority (OJK), one of which is the Phase II Sustainable Finance Roadmap. This policy aims to encourage integration within the national development system, particularly in creating a sustainable and structured financial ecosystem. In Indonesia, ESG issues are beginning to receive increasing attention. This is reflected in the efforts of regulators, particularly the Financial Services Authority (OJK), which is encouraging companies to increase transparency through the preparation of sustainability reports. However, ESG implementation at the company level still shows varying levels of readiness. Some companies have integrated ESG into their business strategies, while others are still in the early stages of adoption. This disparity indicates that ESG practices in Indonesia are not yet fully mature, leaving significant room for further research.



Figure 1. ESG Implementation and Key Challenges for Companies in Indonesia in 2025
 Source: RSM Indonesia ESG Survey (2025)

The figure above shows that ESG implementation in Indonesia still faces various challenges, despite significant progress. Sixty-four percent of companies consider regulatory complexity a major obstacle, while only 62 percent have dedicated ESG teams. Although 72.5 percent of companies have allocated ESG budgets, their implementation has not been fully integrated strategically. This situation indicates that ESG in Indonesia is still in a transitional stage and has not been optimally standardized, even among large companies. This situation creates uncertainty regarding the extent to which ESG implementation can impact a company's financial performance, necessitating more in-depth empirical testing, particularly for companies in the LQ45 index.

LQ45 companies are known as entities with high liquidity and large market capitalization on the Indonesia Stock Exchange. Given these characteristics, these companies can be considered representative of leading companies with better resource capacity to adopt ESG practices. Therefore, this group of companies is considered an appropriate focus for research examining the relationship between ESG and financial performance.

In this study, financial performance is not viewed from a single perspective but is analyzed using two main indicators: Return on Assets (ROA) and Return on Invested Capital (ROIC). ROA is used to illustrate a company's ability to utilize assets to generate profits, while ROIC assesses the effectiveness of the use of invested capital. The use of these two indicators allows for a broader and more in-depth analysis. This differs from most previous studies, which generally use only one measure of financial performance, thus failing to provide a comprehensive picture. Therefore, this study offers a more integrative approach by utilizing both indicators simultaneously.

Although ESG research continues to evolve, existing research findings still show significant discrepancies. Not all studies find a consistent relationship, and some even show no significant effect. This variation occurs not only across ESG variables as a whole, but also within each of their dimensions. Furthermore, limitations of previous research are evident in the use of financial performance indicators, which tend to be limited to a single measure, such as ROA, without considering other indicators that reflect capital efficiency, such as ROIC. Furthermore, research examining each ESG dimension separately against various financial performance indicators is still relatively limited. To fill this gap, this research is summarized in a research gap table.

Table 1. Research GAP

Author (Year)	Title	Findings	Research Gap
Buallay (2021)	Sustainability Reporting and Firm Performance	Environmental has a positive effect on ROA	Not testing ROIC as an indicator of investment efficiency
Velte (2022)	ESG Performance and Accounting Measures	Environmental has a weak effect on ROA	Environmental influences are inconsistent across studies

Shobhwani (2024)	ESG Disclosure and Firm Performance	Social has a significant effect on ROA	Not tested against ROIC
Naeem et al. (2022)	ESG and Financial Performance	Social has a positive influence	No comparison between financial indicators
Giannopoulos et al. (2022)	ESG and Financial Performance	Governance has a positive influence	Focus on disclosure, not actual performance
Atan et al. (2021)	ESG and Firm Performance	Governance is not always significant	Inconsistency of results between studies
Brogi & Lagasio (2023)	ESG and Firm Value	Governance increases firm value	Not testing ROA and ROIC

Source: *Data Processed, 2026*

The results show that the relationship between ESG and financial performance has not yet yielded a consistent conclusion. Regarding the environmental dimension, several studies have found a positive contribution to corporate profitability, particularly as measured by ROA. This effect is not particularly strong, indicating that the role of environmental aspects cannot yet be definitively generalized.

In the social dimension, most empirical findings point to a positive relationship with financial performance. However, the tests conducted are generally limited to a single indicator, ROA, which therefore fails to reflect the overall effectiveness of a company's performance, particularly in terms of capital utilization. This indicates that the influence of social aspects has not been fully and comprehensively analyzed.

Meanwhile, regarding the governance dimension, research results also show significant variation. Some studies indicate an impact on performance, but the findings are inconsistent. Furthermore, some studies place greater emphasis on increasing firm value than on profitability indicators such as ROA and ROIC. These differences in focus and results indicate that the role of corporate governance in financial performance still requires more in-depth study with a more comprehensive approach.

The differences in previous research results and the limitations of the indicators used indicate that there is still room for further research. The uneven implementation of ESG in Indonesia also underscores the importance of further research. This study aims to analyze the influence of ESG on financial performance using ROA and ROIC in LQ45 companies for the period 2023-2025.

2. RESEARCH METHOD

Population and Sample

This study uses a quantitative approach, covering all companies listed in the LQ45 index of the Indonesia Stock Exchange (IDX) for the period 2023-2025. The LQ45 companies were selected because they exhibit high liquidity, large market capitalization, and relatively good performance, making them representative in assessing the impact of Environmental, Social, and Governance (ESG) implementation on corporate financial performance.

The sampling technique used purposive sampling, namely sample selection based on certain criteria tailored to the research objectives. The sample criteria include: (1) companies that are consistently listed in the LQ45 index during the 2023–2025 period, (2) publishing complete annual reports and sustainability reports, (3) having accessible Environmental, Social, and Governance (ESG) data, and (4) having complete financial data to calculate Return on Assets (ROA), Return on Invested Capital (ROIC), and company size (Firm Size). Based on these criteria, 45 observations were obtained which were used as research samples.

Data Types and Sources

This study uses quantitative data sourced from secondary sources. Data were obtained through documentation of companies' annual reports and sustainability reports published on the official website of the Indonesia Stock Exchange (IDX) and the official websites of each company. The data collected includes information on Environmental, Social, and Governance (ESG) disclosures, company financial reports, and other information needed to calculate Return on Assets (ROA), Return on Invested Capital (ROIC), and Firm Size. All data used is panel data with an observation period of 2023-2025.

Analysis Method

Data analysis was conducted using the panel data regression method with the help of EViews 13 software. Panel data regression was chosen because the research data is a combination of cross-company data (cross section) and time series data, so it is able to produce more efficient estimates compared to using cross-section or time series data separately.

Before hypothesis testing is conducted, descriptive statistical analysis is first performed to describe the characteristics of each research variable. Next, panel data regression models are selected using the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test to determine the best estimation model, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). After the best model is obtained, classical assumption tests are performed, including normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests to ensure the regression model meets the statistical assumptions. Furthermore, hypothesis testing is carried out using partial tests (t-test), simultaneous tests (F-test), and coefficients of determination (Adjusted R²) to determine the extent of the independent variables' ability to explain variations in the dependent variable.

3. RESULTS AND DISCUSSION

Research Object

The objects of this study are companies included in the LQ45 index on the Indonesia Stock Exchange (IDX) during the 2023–2025 period. The LQ45 index represents a group of companies with high liquidity, large market capitalization, and relatively sound fundamentals, thus considered capable of representing leading companies in the Indonesian

capital market. The selection of LQ45 companies as research objects is based on the assumption that these companies have a higher commitment to implementing Environmental, Social, and Governance (ESG) practices and communicating sustainability information to stakeholders. This study focuses on analyzing the influence of Environmental (E), Social (S), and Governance (G) on company financial performance, proxied by Return on Assets (ROA) and Return on Invested Capital (ROIC), with company size as a control variable. The analyzed data are panel data obtained from company annual reports and sustainability reports during the observation period 2023–2025.

Descriptive Statistical Analysis

Descriptive statistics are used to provide a general overview of the characteristics of the research data, including the mean, median, maximum, minimum, and standard deviation of each research variable. The descriptive statistics for each research variable are presented below.

Table 2. Descriptive Statistics

	E	S	G	SIZE	ROA	ROIC
Mean	0.9407	0.9111	0.8815	29,4733	0.0375	-0.0071
Median	1.00	1.00	1.00	31.07	0.05	0.13
Maximum	1.00	1.00	1.00	35.40	0.58	1.69
Minimum	0.00	0.00	0.00	21.21	-1.67	-10.72
Std. Dev.	0.23699	0.28564	0.32442	4.09090	0.23195	1.23539

Source: Data Processed, 2026

Based on Table 2. above, it will be explained below.

- a. The Environmental (E) variable has a mean value of 0.9407 with a median value of 1.00, a maximum value of 1.00, a minimum value of 0.00, and a standard deviation of 0.23699. The mean value approaching one indicates that most of the companies in the research sample have disclosed environmental information according to the indicators used in the study. The relatively small standard deviation indicates that the level of environmental disclosure among companies tends to be homogeneous.
- b. The Social (S) variable has a mean value of 0.9111, a median of 1.00, a maximum value of 1.00, a minimum value of 0.00, and a standard deviation of 0.28564. These results indicate that most companies have disclosed social aspects in their sustainability reports, although some companies have not disclosed all social indicators. The relatively low standard deviation value indicates that variations in social aspect disclosure between companies are not too large.
- c. The Governance (G) variable has an average value of 0.8815, a median of 1.00, a maximum value of 1.00, a minimum value of 0.00, and a standard deviation of 0.32442. This average value indicates that the majority of companies have disclosed corporate governance information quite well. However, compared to the Environmental and Social variables, the Governance variable has a larger standard deviation, indicating a higher variation in governance disclosure between companies.
- d. The Company Size (SIZE) variable has a mean value of 29.4733, a median of 31.07, a maximum value of 35.40, a minimum value of 21.21, and a standard deviation of 4.09090. These values indicate that the sampled companies have a relatively diverse

size, ranging from companies with relatively small total assets to companies with very large total assets. This reflects that the companies included in the LQ45 index come from various industrial sectors with different business scales.

- e. The Return on Assets (ROA) variable has an average value of 0.0375, or approximately 3.75%, with a median of 0.05, a maximum of 0.58, a minimum of -1.67, and a standard deviation of 0.23195. A positive average value indicates that the companies in the sample were generally able to generate profits from their assets. However, a negative minimum value indicates that several companies experienced losses during the study period.
- f. The Return on Invested Capital (ROIC) variable has an average value of -0.0071, a median of 0.13, a maximum value of 1.69, a minimum value of -10.72, and a standard deviation of 1.23539. The average value is close to zero but negative, indicating that the overall effectiveness of the use of invested capital still varies between companies. The relatively low minimum value indicates that some companies experience a significant decline in investment efficiency, while the maximum value indicates that some companies are able to generate a relatively high rate of return on investment. The standard deviation of the ROIC variable is the largest compared to other variables, thus indicating that the variation in investment performance between companies in the research sample is relatively high.

Model Determination Test

The panel data regression model selection was conducted through the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test. The Chow Test results show that the Cross-section F probability value in the ROA model is 0.588 and the ROIC model is 0.477, so the Common Effect Model (CEM) is more appropriate than the Fixed Effect Model (FEM). Furthermore, the Hausman Test results produce probability values of 0.531 in the ROA model and 0.442 in the ROIC model, which indicates that the Random Effect Model (REM) is more appropriate than the Fixed Effect Model (FEM). The final test using the Lagrange Multiplier (LM) Test shows the Breusch-Pagan Cross-section probability value of 0.2250 in the ROA model and 0.3250 in the ROIC model, both of which are greater than the 5% significance level. Thus, the Common Effect Model (CEM) was chosen as the most appropriate panel data regression model to estimate the influence of Environmental, Social, and Governance (ESG) on Return on Assets (ROA) and Return on Invested Capital (ROIC) with Firm Size as a control variable.

Normality Test

A normality test is performed to determine whether the data in the regression model is normally distributed. This test is important because one of the assumptions in classical regression analysis is that residual data must be normally distributed, especially when testing for statistical significance. The normal distribution of the data will affect the validity of the estimation results and the significance of the regression model (Ghozali, 2022). The test results are presented below.

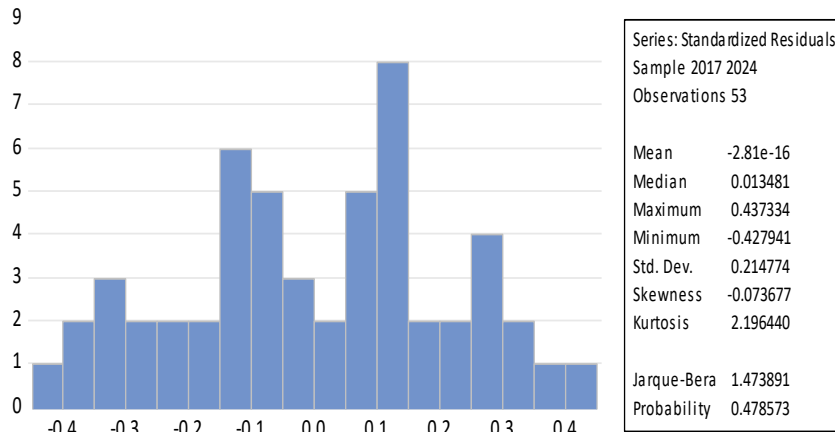


Figure 2. Regression Normality Test 1

Source: EViews output, processed by researchers (2026).

Based on the results of the normality test using the Jarque–Bera method, the Jarque–Bera value was obtained at 1.478581 with a probability value of 0.478753. This probability value is greater than the significance level of 0.05. Thus, it can be concluded that H0 (normally distributed residuals) is accepted, because the Jarque–Bera Prob. > 0.05. The residual histogram also shows a symmetrical distribution pattern and approaches a bell-shape, which strengthens the results of the statistical test.

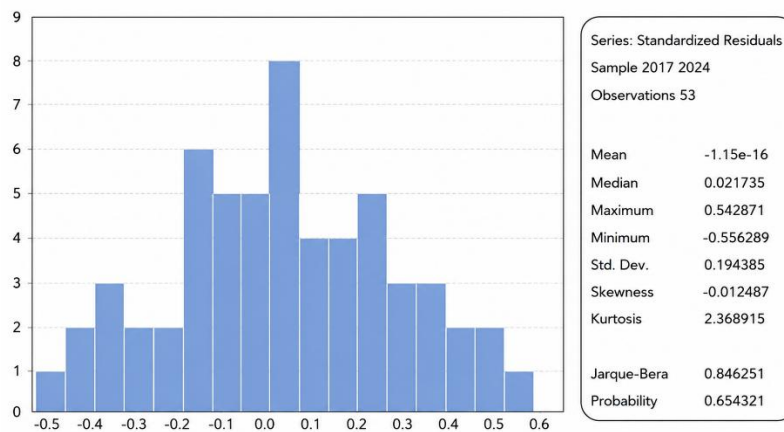


Figure 3. Regression Normality Test 2

Source: EViews output, processed by researchers (2026).

Based on Figure 3, it is known that the Jarque-Bera value is 0.846251 with a Probability value of 0.654321. This probability value is greater than the significance level of 0.05, thus indicating that the residuals in Regression Model II are normally distributed. In addition, the Skewness value of -0.012487 which is close to zero indicates that the residual distribution is relatively symmetrical and does not experience significant skew. Based on these results, it can be concluded that Regression Model II has met the normality assumption, so that the regression model is suitable for testing hypotheses regarding the influence of

Environmental (E), Social (S), and Governance (G) on Return on Invested Capital (ROIC) with Company Size (SIZE) as a control variable.

Heteroscedasticity Test

The heteroscedasticity test is performed to ensure that the residual variance in a regression model is constant. A good regression model must meet the homoscedasticity assumption, meaning that the residuals have the same variance across all observations. Ghozali (2022) states that heteroscedasticity can be detected by visually observing the residual graph to see if there is a specific pattern in its distribution.

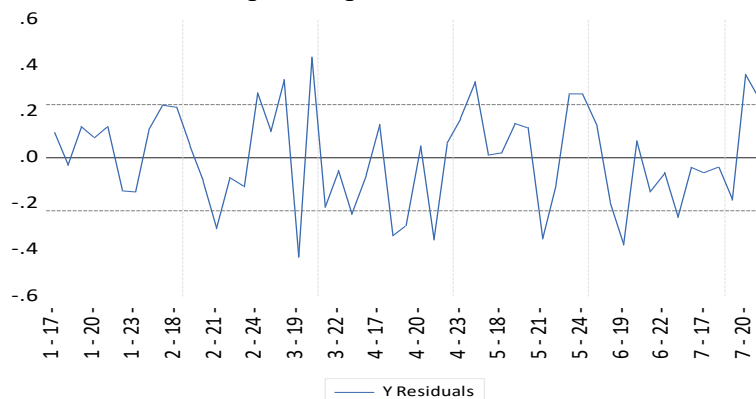


Figure 4. Heteroscedasticity Residual Test for Regression 1

Based on the residual graph in this study, it can be seen that the residual values are randomly distributed around the zero line without forming a specific pattern. The residual movement rises and falls irregularly, indicating that the error variance does not experience systematic changes in each observation. Furthermore, the residual values are in a very narrow range, namely around -0.4 to 0.4, which means it is far below the general residual limit considered safe in financial data analysis, namely ± 500 (Wooldridge, 2016). This indicates that residual fluctuations do not show any symptoms of inconsistent variance.

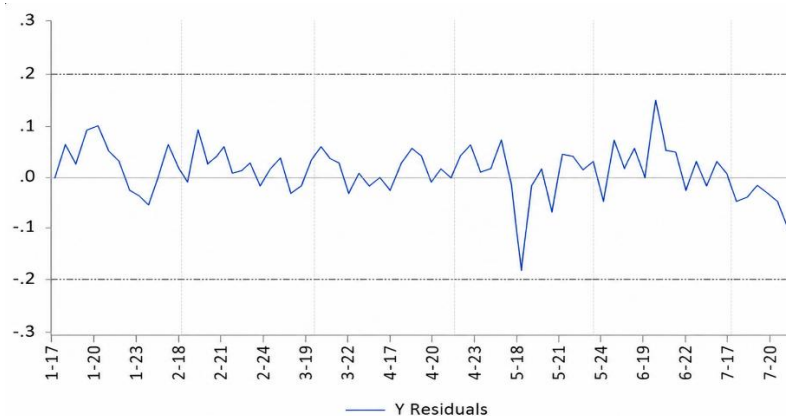


Figure 5. Heteroscedasticity Residual Test for Regression 2

Figure 5 shows that the residual values fluctuate above and below the zero line randomly throughout the observation period. The residual distribution does not show any systematic pattern, such as a funnel shape, a fan shape, or a specific recurring pattern. Although some observations have relatively higher or lower residual values than others, this condition is still within reasonable limits and does not form a regular distribution pattern. The randomly distributed residual pattern indicates that the residual variance in Regression Model II is relatively constant across all observations. Thus, Regression Model II does not experience symptoms of heteroscedasticity.

Hypothesis Testing

t-test (Partial Regression Test 1 and II)

A t-test was conducted to examine the partial influence of each independent variable on the dependent variable in the constructed regression model. The test was conducted by considering the significance value (p-value). If the p-value is <0.05 , it can be concluded that the independent variable has a significant influence on the dependent variable. The results of the t-test in the regression are presented in the following table.

Table 3.t-test on Regression Model 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-,449	,166	-2,711	,008
Environmental (X1)	,311	,081	3,852	,000
Social (X2)	-,025	,066	-,370	,712
Governance (X3)	,248	,057	4,312	,000
Firm Size (X4)	-8,188	,004	-,018	,985

Source: Data Processed, 2026

In table 3. above the t-test will be explained below.

1. Environmental Influence on ROA (H1)

The Environmental variable (E) has a coefficient value of 0.311, a t-statistic of 3.852, and a probability value of 0.000. This probability value is less than 0.05, so H_0 is rejected and H_1 is accepted. Thus, Environmental has a positive and significant effect on Return on Assets (ROA) in companies included in the LQ45 index for the 2023-2025 period.

2. The Influence of Social on ROA (H2)

The Social variable (S) has a coefficient value of -0.025, a t-statistic value of -0.370, and a probability value of 0.712. The probability value is greater than 0.05, so H_0 is accepted and H_2 is rejected. This indicates that Social does not have a significant effect on Return on Assets (ROA).

3. The Effect of Governance on ROA (H3)

The Governance (G) variable has a coefficient value of 0.248, a t-statistic value of 4.312, and a probability value of 0.000. The probability value is less than 0.05, so H_0 is rejected and H_3 is accepted. Thus, Governance has a positive and significant effect on Return on Assets (ROA).

4. As a control variable, Company Size (SIZE) has a probability value of 0.985, which is greater than 0.05, so it does not have a significant effect on Return on Assets (ROA).

Table 4. T-test on Regression Model 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-2,957	,866	-3,414	,001
Environmental (X1)	2,215	,433	5,113	,000
Social (X2)	-,508	,358	-1,419	,158
Governance (X3)	,836	,297	2,820	,006
Firm Size (X4)	,020	,024	,864	,389

Source: Data Processed, 2026

The results of partial regression test 2 refer to Table 4 as follows.

1. Environmental Impact on ROIC (H4)
 Based on Table 4.15, the Environmental variable (E) has a coefficient value of 2.215, a t-statistic value of 5.113, and a probability value of 0.000. The probability value is less than 0.05, so H_0 is rejected and H_4 is accepted. Thus, Environmental has a positive and significant effect on Return on Invested Capital (ROIC).
2. The Influence of Social on ROIC (H5)
 The Social variable (S) has a coefficient value of -0.508, a t-statistic value of -1.419, and a probability value of 0.158. The probability value is greater than 0.05, so H_0 is accepted and H_5 is rejected. Thus, Social does not have a significant effect on Return on Invested Capital (ROIC).
3. The Effect of Governance on ROIC (H6)
 The Governance (G) variable has a coefficient value of 0.836, a t-statistic value of 2.820, and a probability value of 0.006. The probability value is less than 0.05, so H_0 is rejected and H_6 is accepted. Thus, Governance has a positive and significant effect on Return on Invested Capital (ROIC).
4. As a control variable, Company Size (SIZE) has a probability value of 0.389, which is greater than 0.05, so it does not have a significant effect on Return on Invested Capital (ROIC).

Analysis of the Coefficient of Determination (R)

The results of the coefficient of determination for Regression Model I, namely the model that tests the influence of Environmental (E), Social (S), and Governance (G) on Return on Assets (ROA) with Company Size (SIZE) as the control variable, are presented below.

Table 5. Regression Determination Coefficient 1

R-squared	0.297	Mean dependent variable	0.055
Adjusted R-squared	0.2059	SD dependent var	0.256

Source: Data Processed, 2026

Based on Table 5, the R-squared value is 0.297. These results indicate that the Environmental (E), Social (S), Governance (G), and Company Size (SIZE) variables together explain 29.7% of the variation in Return on Assets (ROA). Meanwhile, 70.3% of the variation in Return on Assets (ROA) is explained by factors outside the research model that were not included in the analysis.

The coefficient of determination in Regression Model II is used to determine the ability of the Environmental (E), Social (S), Governance (G), and Company Size (SIZE) variables to explain variations in Return on Invested Capital (ROIC).

Table 6. Regression Determination Coefficient 2

R-squared	0.323	Mean dependent variable	0.054
Adjusted R-squared	0.224	SD dependent var	0.244

Source: Data Processed, 2026

Based on Table 6, the R-squared value is 0.323. These results indicate that the Environmental (E), Social (S), Governance (G), and Company Size (SIZE) variables together are able to explain 32.3% of the variation in Return on Invested Capital (ROIC). Meanwhile, 67.7% of the variation in Return on Invested Capital (ROIC) is explained by other factors outside the research model. In general, when compared to Regression Model I, the R-squared value in Regression Model II is higher (32.3% compared to 29.7%). This indicates that the Environmental, Social, Governance, and Company Size variables have a slightly better ability to explain the variation in Return on Invested Capital (ROIC) than Return on Assets (ROA), although in both models there is still a significant proportion of variation influenced by other factors outside the research model.

Discussion

Environmental Impact on Return on Assets (ROA)

The results of the study indicate that environmental practices have a positive and significant impact on Return on Assets (ROA). This finding indicates that the better the implementation of environmental practices, the higher the company's ability to utilize assets to generate profits. Effective environmental practices can increase the efficiency of resource use, reduce operational costs, and minimize environmental risks, thereby impacting profitability. This finding aligns with Stakeholder Theory, which states that companies that meet stakeholder expectations will gain higher legitimacy and trust, and the Resource-Based View (RBV), which views environmental management capabilities as a source of competitive advantage that is difficult to imitate. The results of this study are consistent with research by Buallay (2021), Velte (2022), and Naciti (2022), which concluded that the implementation of environmental aspects positively contributes to a company's financial performance.

The Influence of Social on Return on Assets (ROA)

The results of the study indicate that social activities have no significant effect on Return on Assets (ROA). This indicates that the implementation of social programs has not been able to increase company profitability in the short term. The benefits of social activities are mostly realized in the form of improved reputation, stakeholder loyalty, and corporate legitimacy, which generally only have a long-term economic impact. This finding aligns with Stakeholder Theory, which emphasizes that the benefits of social activities are not always directly reflected in financial indicators. The results of this study are also consistent with research by Naeem et al. (2022), Velte (2022), and Shobhwani (2024), which shows that the influence of social aspects on financial performance is still inconsistent and influenced by industry characteristics and the observation period.

The Influence of Governance on Return on Assets (ROA)

The results of the study indicate that governance has a positive and significant effect on return on assets (ROA). This finding indicates that the implementation of good corporate governance can improve operational efficiency, strengthen management oversight, and reduce conflicts of interest, allowing companies to utilize assets more optimally to generate profits. This finding supports stakeholder theory, which explains that good governance increases investor and stakeholder trust and strengthens company performance. The results of this study are also in line with Giannopoulos et al. (2022), Brogi and Lagasio (2023), and Atan et al. (2021), which state that the quality of corporate governance contributes positively to improved financial performance.

Environmental Impact on Return on Invested Capital (ROIC)

The results of the study indicate that environmental performance has a positive and significant impact on Return on Invested Capital (ROIC). This finding suggests that implementing good environmental practices can improve capital efficiency through more effective resource management and reduced operational costs. This condition encourages an increase in the company's return on invested capital. This finding supports Stakeholder Theory and the Resource-Based View (RBV), which explain that a company's ability to manage environmental aspects is a strategic capability capable of creating sustainable economic value. This study's results are consistent with research by Buallay (2021), Velte (2022), and Naciti (2022), which found that environmental performance positively contributes to improving a company's financial performance.

The Influence of Social on Return on Invested Capital (ROIC)

The results of the study indicate that social activities do not significantly impact Return on Invested Capital (ROIC). This indicates that corporate investments in social aspects have not been able to increase the effectiveness of capital utilization during the study period. Social programs generally require relatively large investments, and their economic benefits are felt more in the long term, so they are not yet reflected in the company's return on investment. This finding aligns with Stakeholder Theory and the Resource-Based View

(RBV), which explain that new social activities will provide added value if successfully integrated into a company's business strategy. These results align with Naeem et al. (2022), Velte (2022), and Shobhwani (2024), who reported that the relationship between social aspects and financial performance still shows mixed results.

The Influence of Governance on Return on Invested Capital (ROIC)

The results of the study indicate that governance has a positive and significant effect on Return on Invested Capital (ROIC). This finding suggests that good corporate governance can improve the quality of investment decision-making, strengthen internal control, and optimize capital utilization, resulting in a higher rate of return on investment. This finding supports Stakeholder Theory and the Resource-Based View (RBV), which position governance as an organizational capability capable of creating competitive advantage and increasing company efficiency. The results of this study are consistent with those of Giannopoulos et al. (2022), Brogi and Lagasio (2023), and Atan et al. (2021), which state that the implementation of good corporate governance has a positive effect on financial performance.

4. CONCLUSION

This study aims to analyze the influence of Environmental (E), Social (S), and Governance (G) on corporate financial performance, proxied by Return on Assets (ROA) and Return on Invested Capital (ROIC), in companies listed on the LQ45 index of the Indonesia Stock Exchange for the 2023–2025 period. The results show that Environmental and Governance aspects have a positive and significant effect on ROA and ROIC, while Social aspects do not significantly influence either financial performance indicator. This finding indicates that environmental management practices and good corporate governance can improve operational efficiency and the effectiveness of corporate asset and capital utilization, while the implementation of social aspects has not yet provided a tangible financial impact in the short term. This study implies that companies need to strengthen the implementation of environmental and governance strategies as part of efforts to improve sustainable financial performance. For investors, these findings can be considered in evaluating corporate quality based on ESG practices, particularly the Environmental and Governance dimensions. Future research is recommended to expand the sample scope, extend the observation period, and consider mediating or moderating variables to explain the relationship between ESG and financial performance more comprehensively.

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