

The Influence of Environmental Social Governance (ESG) on Financial Performance with Audit Quality as a Moderation In Listed Health Sector Companies On the IDX in 2021-2023

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ABSTRACT

Objective: This study aims to analyze the influence of Environmental, Social, and Governance (ESG) implementation on the financial performance of health sector companies listed on the Indonesia Stock Exchange in the 2021-2023 period, with audit quality as a moderating variable. This study measures financial performance using ROA, EVA, and Tobin's Q indicators to provide empirical evidence of the role of ESG in improving corporate sustainability and financial value. **Methods:** This study uses a quantitative approach with secondary data from the financial and sustainability reports of 13 healthcare sector companies selected through purposive sampling. Data analysis was conducted with regression and moderation tests, while ESG disclosure was measured based on GRI standards. **Results:** The results show that the implementation of ESG has a positive and significant effect on ROA, EVA, and Tobin's Q. In addition, audit quality, especially by Big Four auditors, strengthens the relationship between ESG and financial performance through increased transparency and credibility. Companies with good ESG disclosures tend to attract investors, enhance reputation, and achieve long-term profitability and sustainability. **Novelty:** This study contributes to the literature by integrating audit quality as a moderating factor and focusing on the healthcare sector, which remains under-researched in the context of ESG in Indonesia. The findings emphasize the importance of ESG as a key strategy for sustainable growth and stakeholder trust building.

INTRODUCTION

Current global issues include sustainable development efforts enshrined in the 2015-2030 Sustainable Development Goals, as well as climate change concerns at the core of the Paris Agreement on Climate Change (PACC) for the period 2015-2030. Over the past five years, the main focus has been on social inequality and environmental degradation. Indonesia has endorsed this global agreement through Law No. 16/2016 on PACC as well as Presidential Regulation No. 59/2017 on the Implementation of Achieving the Sustainable Development Goals. Business sustainability is one of the crucial aspects in supporting the achievement of the Sustainable Development Goals. This concept refers to business practices that seek to avoid negative impacts on the environment, communities and society as a whole [1]. Companies committed to sustainability integrate environmental and social responsibility principles into their business decisions and strategies.

Investors today are increasingly paying attention to environmental and social issues in making investment decisions. This concern arises because many companies ignore the social and environmental impacts of their activities, which can threaten the survival of human life and the environment in the future [2]. Environmental and social

issues have become a hot global conversation around the world today [3]. Environmental and social sustainability continues to be discussed globally by various groups, including governments, and culminates in the 2022 meeting of the G20 member countries which also discusses the issue of sustainability. At present, the attention of governments around the world, investors and the public to environmental and social sustainability issues is very significant, because these issues will become the foundation for the survival of human life and the environment in the future.

The disclosure of the company's financial statements is currently considered insufficient to meet the information needs of stakeholders and investors. Therefore, management needs to implement strategies that not only focus on financial , but also include environmental, social, and good corporate governance performance, as these can affect future financial performance aspects. . Performance evaluation is an important step to ensure company operations run efficiently, achieve profitability, and support long-term growth. Thus, financial performance is not only an indicator of business success, but also the basis for strategic planning and sustainable decision-making [4], [5].

Financial performance measurement is an important aspect of a company's operations, as it forms the basis for designing a compensation system that can influence managerial decisions. Typically, financial performance evaluation involves analyzing financial statements such as profitability ratios. However, methods that focus solely on financial statements have the disadvantage of ignoring the cost of capital, making it difficult to determine whether the company is actually creating value. In addition, performance evaluation also serves as a tool for assessing the success of a business and serves as a basis for consideration in decision-making and strategic planning in the future[6]. Two commonly used financial performance evaluation tools are Return On Assets (ROA) and Economic Value Added (EVA) which assist companies in assessing their profitability.

Applying the EVA concept within the company will direct the company's attention to efforts to create added value, making EVA superior to other calculation methods. advantage of Another EVA is its ability to be used without the need for comparative data. Return on Asset (ROA) is a metric that assesses the extent to which a company is able to generate profits. The relationship between the level of profit and the level of information disclosure is a form of social response that supports the continuity of company operations. It aims to build investor confidence in the stability and efficiency of the company's operations, a higher ROA indicates that the issuer is more effective in managing assets to generate profits, thereby increasing the attractiveness for investors to invest [7]. Although Indonesia has made some efforts, the 2019 National ESG survey states that the contribution of companies in implementing ESG practices is still limited. Disclosure of ESG topics often overlooks the important role of governance that should support such disclosures. Strong corporate governance has a significant role in improving profitability [8].

Several previous studies have explored the impact of Environmental, Social, and Governance (ESG) performance on corporate financial performance. Although the results

of these studies vary, each researcher provides a unique explanation to explain the differences in the results found [9], [10] concluded that environmental performance has a positive and significant on the company's financial performance. Previous research on the impact of performance impact ESG on corporate financial performance conducted by [11] shows that ESG performance a has positive and significant effect on corporate financial performance. However, different results were observed in a study conducted by [12] which showed that Environmental, Social, and Governance (ESG) performance has a negative and significant impact on financial performance. Based on the previous description, variations in results were found in previous studies, creating gaps that need to be further identified through this study.

Reporting from the website <https://ilmate.kemenperin.go.id/> of the Ministry of Industry, Indonesian the Indonesian government is focusing on developing the pharmaceutical and medical device industries to strengthen global competitiveness, in line with the Making Indonesia 4.0 roadmapRIPIN 2015-2035 , the Job Creation Law, and the P3DN program. Indonesia is targeted to become a manufacturing hub for these two industries, with the market value of medical devices growing rapidly from USD3.5 billion in 2021 to a projected USD6.5 billion in 2026. To achieve this target, the government is providing incentives to encourage investment in the research and development sector, so as to produce innovative products that improve healthcare services. This policy not only aims to boost economic growth, but also improve access to healthcare and the welfare of the Indonesian people through strengthening the pharmaceutical and medical device industries.

Previous research has examined the effect of ESG disclosure on corporate financial performance, but the results obtained are still varied and inconsistent. Therefore, the author is interested in conducting further research by combining various variables, year periods, and different industrial sectors. The selection of the health sector in this study is driven by the rapid development of companies in the sector, which requires companies to report their activities transparently through accurate financial reports.

Theory Stakeholders

Stakeholder theory is a strategic issue related to how companies manage relationships with stakeholders [13] . In this case the company is expected to provide attention and benefits to stakeholders, because they can influence or be influenced by policies implemented in the company's business activities. Stakeholders include not only shareholders, but also other parties involved.

According to stakeholder theory, the concept of ESG disclosure emerges as a new idea that can be widely applied in various sectors. This concept is also useful for stakeholders to assess the extent to which the company is engaged in carrying out activities that are in line with their expectations [14].

ESG Disclosure

Companies that apply ESG principles do not only focus on profits, but also prioritize environmental, social and corporate governance values. ESG is an important benchmark for companies in investment activities, including ESG aspects. The

implementation of ESG in company operations has proven to have a positive impact on profitability, as it encourages healthy competition in managing the environment more optimally. This effort not only increases investor confidence, but also meets the expectations of stakeholders by integrating financial and environmental sustainability aspects holistically, [15] In addition, the implementation of ESG aims to reduce risk and create more sustainable investments by considering environmental, social, and governance factors in business decision making [16].

Measurement of ESG disclosure can be identified through the application of the GRI Standard. Standards developed by the Global Reporting Initiative (GRI), launched from the website www.globalreporting.org The GRI Standard is a global guideline that is considered the best practice for publicly disclosing the environmental, social and economic impacts of an entity. Through sustainability reporting that follows the GRI Standards, information is provided on how the organization's contribution affects sustainable development, both positively and negatively.

Financial Performance

Financial performance is an analysis used to evaluate the extent to which a company has complied with financial rules correctly and appropriately. This includes the preparation of financial statements in accordance with applicable standards and regulations, such as SAK (Financial Accounting Standards) or GAAP (Generally Accepted Accounting Principles), as well as other regulations [2]. This financial performance reflects the positive growth of the company during a certain period. Performance measurement aims to obtain information about the efficient use of capital, which can later guide management in making the best decisions for the company [17].

According to [18], financial performance can be analyzed through financial ratios. There are five dimensions of financial ratios that are often used to assess the company's financial performance, namely the dimensions of asset management, profitability, leverage, liquidity, and market dimensions. Thus, it can be concluded that company performance includes achievements obtained during a certain period based on predetermined criteria. In the context of this research, financial aspects are assessed through ROA, EVA and Tobin's Q.

The following is a description of the framework in this study, as shown in Figure 1.

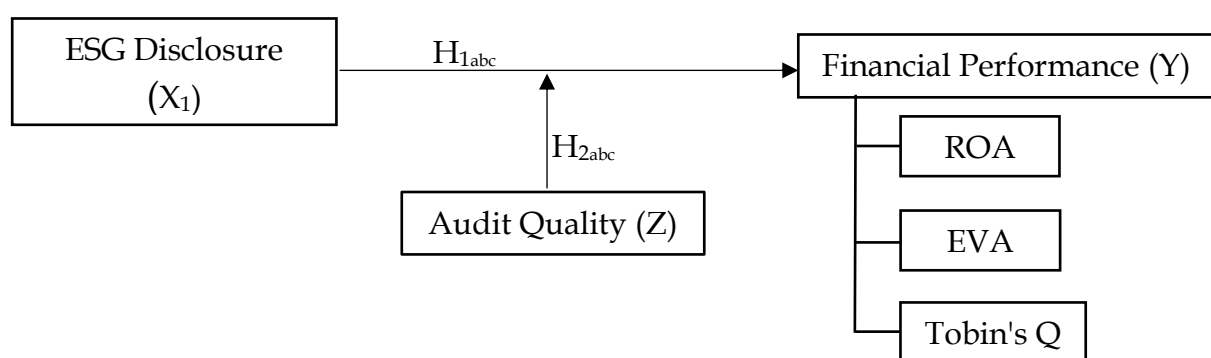


Figure 1. Thinking framework.

The Effect of ESG Disclosure on Financial Performance

Disclosure of information non-financial, such as ESG, aims to meet stakeholder needs and is expected to improve company performance. The sustainability measures taken by the company attract the attention of stakeholders, which in turn can create demand and drive greater growth [12], To meet stakeholder expectations, companies need to provide financial and data *non-financial* that is accessible to investors, and effectively implement ESG principles. In addition, ESG disclosure can build public trust, reduce risk, and increase confidence in the company's products, as well as support funding that can increase production and sales. This in turn has the potential to increase the company's profitability [19]. By disclosing environmental, social, and good governance practices, companies can provide favorable indications to investors while presenting information that describes the company's condition in a transparent manner.

This proves the relationship between ESG disclosure and financial performance, as reinforced by research [21], [4], [22] showing ESG disclosure affects financial performance as measured using the ROA ratio. In line with [22] also provides the same research results that ESG disclosure has a positive impact on financial performance. disclosure of More transparent ESG information can improve the solvency and financial performance of the company. When the company's profit increases from operational activities, this will also increase ROA. This can further contribute to the improvement of the company's financial performance, which indirectly impacts the EVA value. This finding is in line with research conducted by [23] , concluding that companies that successfully implement ESG effectively are able to convince shareholders, thus having the opportunity to achieve better financial performance. Therefore, the integration of the impact of ESG with the EVA method in measuring firm value is a must. The continuing impact of increased sales volume will trigger a market response to the signals provided by the company. This is [24] reinforced by several studies showing that the company's ESG score has a positive relationship with EVA. The implementation of good ESG practices can increase the company's economic added value by increasing competitiveness, encouraging efficiency, and strengthening the company's reputation [26], [27].

Tobin's Q is an indicator that reflects the value of a business while serving as a measure of company performance. By disclosing financial and information non-financial, the company shows its contribution in increasing the value of its business. Research [27] indicates that higher ESG scores are positively correlated with an increase in Tobin's Q value. This occurs due to increased investor confidence and lower risk perception towards companies that implement sustainable practices. In addition, a number of studies [29], [30] also support this finding, showing that a good ESG score has a positive relationship with Tobin's Q, which indicates that the market gives high appreciation to companies with good ESG practices, thus reflected in an increase in firm value.

H1_a: ESG disclosure has a positive influence on ROA

H1_b: ESG disclosure has a positive influence on EVA

H1_c: ESG disclosure has a positive influence on Tobin's Q

The Effect of Audit Quality Moderating ESG on Financial Performance

The quality of information produced by companies tends to be better if audited by auditors from the big-four compared to audit institutions non-big-four [30]. The use of big-four auditor services is often seen as an indication of the company's commitment to the preparation of quality financial statements. In terms of good governance, oversight mechanisms play a crucial role in reducing information asymmetry, thereby increasing transparency. This transparency allows investors to more easily assess investment risk, thereby supporting decision-making to purchase company shares. Investors generally respond positively to financial reports audited by reputable auditors [31]. Such reports are considered free from material misstatement and accurately reflect the company's condition.

Big-four public accounting firms are seen as more qualified because they are supported by staff who have more diverse and superior expertise, knowledge and abilities compared to non-big-four public accounting firms. Various studies have been conducted on the relationship between ESG and financial performance, including the role of audit quality as a moderating factor. One relevant study is research by [32], which reveals that audit quality can strengthen the relationship between ESG and financial performance success. In line with this research [33] indicates that companies with superior ESG performance are more likely to obtain an unmodified audit opinion, as they have a lower risk of material error. This suggests that good ESG implementation can increase information transparency and reduce operational risk, thereby strengthening stakeholder trust, including auditors from the KAP big-four.

H2a: Audit quality moderates the positive influence of ESG on ROA.

H2b: Audit quality moderates the positive influence of ESG on EVA.

H2c: Audit quality moderates the positive influence of ESG on Tobin's Q.

RESEARCH METHOD

This study uses a quantitative approach by utilizing secondary data in the form of financial reports and sustainability reports from health sector companies listed on the Indonesia Stock Exchange for the period 2021 to 2023. Data analysis using simple regression (Eviews 13), as many as 33 companies health sector that have been listed until 2023 divided into two sub-sectors, namely Healthcare Equipment & Providers and Pharmaceuticals & Healthcare Research. Furthermore, this research uses purposive sampling technique, which is a method of determining the sample based on certain considerations and predetermined criteria.

Table 1. Sample determination criteria.

Description	Total
Health sector companies listed on IDX 2021-2023	33
Companies that are not consistently listed on the IDX for the 2021-2023 period	(10)

Companies that do not consistently publish <i>Sustainability Report</i> 2021-2023	(10)
Companies meet the sample criteria	13
Total observation data (x 3 years)	39

Source: Data processed, 2024

The independent variable in this study is ESG disclosure proxied by the GRI 2021 standard score and measured using the dummy method. While the dependent variable is financial performance proxied by ROA, EVA, and Tobin's Q, which is measured using ratios. The moderating variable in this study is the audit quality of companies that use external auditors from the Big Four, as measured by the dummy method. The measuring instruments for these variables can be seen in Table 2.

Table 2. Variable measurement metrics.

No.	Variable Name	Measurement
1.	ESG Disclosure [34]	$ESGDI = \frac{N}{K} \times 100\%$
2.	ROA [35]	$ROA = \frac{Net\ Income}{Total\ Assets} \times 100\%$
3.	EVA [36]	$EVA = NOPAT - Capital\ Charges$
4.	Tobin's Q [37]	$Tobin's\ Q = \frac{Market\ Value\ of\ Equity + Total\ Liabilities}{Book\ Value\ of\ Assets}$
5.	Audit Quality (Dummy Method)	The dummy method is used by giving a score of 2 if the audit is conducted by a big-four KAP, and a score of 1 if it is conducted by a non-big-four KAP.

Source: Data from various sources

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis aims to describe the distribution or distribution pattern of each variable in this study, namely ESG as an independent variable, as well as ROA, EVA, and Tobin's Q as dependent variables. The results of this analysis are presented in Table 3 below.

Table 3. Descriptive test.

	Minimum	Maximum	Mean	Std. Dev
ESG	0,31	1,00	0,77	0,180
ROA	-5,28	17,69	6,51	5,508
EVA	527,63	527,63	964,00	358,865
Tobin's Q	1,21	1,21	2,40	0,770

Source: Data processed, 2024

Based on Table 3, as the dependent variable, ESG disclosure has a data distribution with the lowest value of 0.31 and the highest of 1.00, with an average of 0.77 and a standard deviation of 0.180. For ROA as an independent variable, the data distribution shows a minimum value of -5.28 and a maximum of 17.69, with an average of 6.51 and a standard deviation of 5.508. Meanwhile, the distribution of EVA data as an independent variable has identical minimum and maximum values, namely 527.63, with an average of 964.00 and a standard deviation of 358.865. Tobin's Q as an independent variable data distribution shows a minimum value of 1.21, a maximum value of 1.21 with an average of a 2.40 and standard deviation of 0.770.

Model Selection Test

Before conducting hypothesis testing in data analysis, it is very important to conduct a model selection test first. This test aims to determine the most appropriate regression model with the data used, so that the analysis results obtained can be trusted. The following are the model test results presented in the Table 4 below.

Table 4. Model selection test.

No.	Model	Chow Test	Hausmann Test	Lagrange Test	Model selected
1	ESG-> ROA	0.000	0.001	-	FEM
2	ESG-> EVA	0.000	0.071	0.000	REM
3	ESG->Tobin's Q	0.000	0.079	0.000	REM

Source: Data processed, 2024

Based on the results of the model selection test, it is known that the Random Effect Model (REM) is the model that best suits the data used, so there is no need to test classical assumptions. This is because REM already assumes that the independent variable does not have a direct relationship with the model error, so the validity of the model is maintained without the need to conduct additional testing of classical assumptions.

Hypothesis Test

The Effect of ESG Disclosure on Financial Performance

The following are the results of hypothesis testing regarding the influence of ESG on financial performance, as measured using ROA, EVA, and Tobin's Q in table 5:

Table 5. Hypothesis test of ESG on financial performance.

Independent Variable	Model 1 (ROA)			Model 2 (EVA)			Model 3 (Tobin's Q)		
	Coeffient	t-statistic	Prob	Coeffient	t-statistic	Prob	Coeffient	t-statistic	Prob
c	-1,594	0,55983	4,032	1,058	9,418	0,000	0,468	1,554	0,129
ESG	10,569	2,862	0,008	0,000	2,822	0,008	2,423	6,812	0,000
R-squared	0,926			0,169			0,543		
Adjusted R2	0,888			0,146			0,531		

F-statistic	24,236	7,506	43,937
Prob	0,000	0,009	0,000

Source: Data processed, 2024

Based on Table 5 above, there is a result of the prob value of ESG on ROA of 0.008. This shows that ESG has a positive and significant influence on ROA. Therefore, it can be concluded that H1_a in this research is proven. This means that ESG can affect the level of ROA of a company. This means that good ESG implementation can increase the efficiency of the company's asset management, resulting in higher ROA. Thus, ESG not only supports business sustainability but also strengthens the financial performance of the company. This can happen because ESG implementation helps improve corporate reputation, attract investors, expand access to financing, and reduce operational risks. Furthermore, companies that consistently integrate ESG principles into their business strategies tend to be able to create long-term added value. This not only impacts financial performance such as ROA, but also provides greater trust from stakeholders. This finding confirms that good ESG implementation is a strategic step to increase profitability while supporting the sustainability of the company in the future. This result supports the research [22], which also provides the same research results that ESG disclosure has a positive impact on financial performance.

Based on the table above, the probability value of ESG on EVA is 0.008. These results indicate that ESG has a positive and significant influence on EVA. Thus, hypothesis H1_b in this study is proven. This means that the higher the ESG value, the higher the EVA value of a company. Companies with better ESG disclosure values are able to increase EVA value. The higher the EVA value of a company, the better its financial performance. Therefore, it can be concluded that companies with better ESG values will have better financial performance, as measured by EVA value. This result supports research [23], which states that companies that successfully implement ESG effectively are able to convince shareholders, so they have the opportunity to achieve more optimal financial performance. This finding is also in line with research, [26, 27] which states that ESG has a positive influence on EVA.

Based on the table above, ESG implementation is proven to have a positive and significant influence on Tobin's Q, with a probability value of 0.000. This indicates that companies that successfully implement ESG principles tend to be more attractive to investors. Good ESG practices can improve the company's reputation, reduce operational risk, and provide a stronger perception of stability, which ultimately contributes to an increase in the company's market value. With the proof of hypothesis H1_c, it can be concluded that companies that implement ESG well not only support business sustainability, but also provide added value for shareholders. This result supports the research, practices [29], [30] which shows a positive relationship between ESG scores and Tobin's Q. This indicates that the market rewards companies for their ESG. This indicates that the market gives greater rewards to companies with good ESG practices, which is reflected in an increase in firm value.

The Effect of Audit Quality Moderating ESG on Financial Performance

In addition to testing the direct relationship between ESG and financial performance, researchers also tested audit quality as a moderator on the influence of ESG on financial performance, following the test results in Table 6:

Table 6. Hypothesis test of ESG on financial performance.

Independent Variable	Model 4 (ROA)			Model 5 (EVA)			Model 6 (Tobin's Q)		
	Coefficient	t-statistic	Prob	Coefficient	t-statistic	Prob	Coefficient	t-statistic	Prob
c	-2,719	-0,785	0,440	1.246	7,998	0,000	0,953	2,984	0,005
ESG x AQ	8,486	2,673	0,013	-259,9	-2,451	0,019	1,263	5,151	0,000
R-squared	0,924			0,136			0,404		
Adjusted R2	0,885			0,112			0,388		
F-statistic	23,413			5,815			25,058		
Prob	0,000			0,021			0,000		

Source: Data processed

Based on Table 6, the results show that Audit Quality (AQ) moderates the influence of ESG on ROA, EVA, and Tobin's Q, with probability values of 0.013, 0.019, and 0.000, respectively. This finding proves that ESG has a positive and significant influence on these three financial performance indicators. Thus, hypotheses H2_a, H2_b, and H2_c in this study are proven. Audit quality plays an important role in strengthening the influence of ESG on corporate financial performance, especially through increasing trust and credibility in the eyes of stakeholders. Companies that successfully implement ESG practices well, accompanied by high audit quality, tend to show more optimal financial performance. Good audit quality, especially when conducted by reputable KAPs such as the Big-four, contributes to increased accountability, transparency and reliability of financial statements. This not only strengthens the link between ESG and financial performance, but also gives investors, regulators and other stakeholders confidence in the integrity of the company's financial statements. As a result, companies are able to attract more market attention, reduce operational risks, and create significant competitive advantages.

The positive effect is reflected in the increase in ROA, EVA, and Tobin's Q. An increase in ROA indicates the company's ability to maximize the efficient use of assets to generate profits. The increase in EVA reflects that the company not only generates profits, but also creates added value for shareholders after taking into account the cost of capital. Meanwhile, the increase in Tobin's Q indicates that the market provides a higher valuation of the company, reflecting investor confidence in the company's growth potential and sustainability in the long term.

Previous research supports this finding [31] states that investors respond positively to financial statements audited by reputable auditors. Research by [32], also found that audit quality can strengthen the relationship between ESG and a company's

financial success [33] adds that companies with superior ESG performance are more likely to receive an unmodified audit opinion due to the low risk of material errors. Thus, the combination of effective ESG implementation and high audit quality not only improves financial performance, but also strengthens the company's position in the market and increases overall stakeholder confidence.

CONCLUSION

Fundamental Findings: This study proves that the implementation of Environmental, Social, and Governance (ESG) has a positive influence and significant on the financial performance of health sector companies listed on the Indonesia Stock Exchange. Through the analysis of Return on Assets (ROA), Economic Value Added (EVA), and Tobin's Q, it is found that ESG is not only able to improve the efficiency of corporate asset management, but also strengthen reputation, attract investor confidence, and open wider access to financing. These findings suggest that ESG is a strategic element capable of driving business sustainability and creating long-term added value for stakeholders. Thus, ESG implementation not only supports corporate profitability, but also contributes to the balance between environmental, social, and economic sustainability. **Implications:** The implications of this study emphasize the importance of ESG integration in corporate business strategy. By increasing transparency and accountability, companies can strengthen their position in the competitive global market while meeting the information needs of stakeholders. In addition, better ESG disclosure can help companies reduce business risks and support sustainable long-term financing. **Limitations:** However, this study has some limitations. The scope of the study only covers healthcare sector companies in Indonesia during the period 2021-2023, so the results may not be fully generalizable to other sectors or different time periods. In addition, the use of the 2021 GRI Standards to measure ESG may not have covered all relevant sustainability dimensions. **Future Research:** For future research, it is recommended to expand the sector coverage and period of analysis to produce more comprehensive findings. In addition, exploration of mediating or moderating variables, such as organizational culture and technology, may provide deeper insights into the mechanism of the relationship between ESG and firm performance. Research can also focus on the impact of ESG on non-financial performance, such as customer loyalty or social impact, to provide a broader perspective on the benefits of ESG implementation.

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