

## RESEARCH ARTICLE

# The effect of environmental, social, governance performance on the financial performance of Indonesian with foreign ownership as moderation

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**ABSTRACT** - This study examines the impact of Environmental, Social, and Governance (ESG) performance on the financial performance of Indonesian companies, with foreign ownership as a moderating factor. Using a quantitative approach, this study analyzed data from 46 companies listed on the Indonesia Stock Exchange from 2020 to 2022 using panel data regression and processed using STATA software. The findings show that environmental performance has a significant effect on financial performance, while social performance and governance do not. Foreign ownership moderates but weakens the link between environmental performance and financial performance. Control variables such as leverage, profitability, and fixed assets also have a significant effect on financial performance. The results of this study can provide valuable insights for policymakers, investors, and corporate managers in understanding the dynamics between ESG performance, foreign ownership, and financial performance, as well as contributing to readers' knowledge and becoming a source of information and reference for companies. Further research is warranted to delve deeper into these dynamics and explore their broader implications for sustainable business practices and regulatory frameworks.

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## 1. INTRODUCTION

The global economic crisis triggered by the COVID-19 pandemic disrupted financial systems, trade, and employment worldwide, causing GDP contractions and instability across many countries. In Indonesia, the pandemic hit key sectors such as tourism, retail, and manufacturing, leading to business closures, job losses, and weakened consumer demand. The impact of this pandemic has not only had an impact on economic aspects, but also on the environmental, social, and governance (ESG) aspects of the company. Companies faced growing expectations to ensure employee welfare, environmental responsibility, and transparent governance. In the face of these conditions, companies need to understand the relationship between ESG performance and their financial health to take appropriate steps in maintaining business continuity (Putri, 2023). As a country that is not spared from the impact of the global economic crisis, Indonesia has experienced significant challenges in economic growth, rising unemployment rates, and a decline in corporate income not only during the COVID-19 pandemic, but also in its aftermath as global uncertainty continues. According to the report Ministry of Finance of the Republic of Indonesia (2020), Indonesia's gross domestic growth (GDP) fell by 5.32% in 2020. This decline caused various sectors to face serious economic challenges, with around 82.85% of companies experiencing a decline in revenue and some sectors such as tourism, transportation, property and manufacturing experiencing a significant decline in performance (Sidik, 2020; Sari & Rahman, 2021; Festiana et al., 2022).

These economic challenges have forced companies to take drastic measures, such as layoffs, business closures, and financial restructuring, to maintain their financial balance. Data from the Central Statistics Agency (2020) shows that around 29.12 million working-age people in Indonesia experienced termination of employment during the COVID-19 pandemic. In this context, the financial health of the company becomes very important to consider. In the midst of uncertain economic conditions, companies need to consider non-financial factors, such as environmental, social, and governance (ESG) performance, in planning their business strategies. Various previous studies, such as those conducted by Citterio & King (2023), Badayi et al. (2021), and Aslan et al. (2021), highlight the important role of ESG in predicting potential financial issues that companies may face. These findings provide a strong foundation for understanding that ESG factors can be significant indicators of a company's financial stability. Considering the results of research involving various countries and sectors, there is an indication that high ESG scores can reduce the risk of debt payment defaults, positively impact financial stability, and improve a company's access to financing.

The importance of foreign ownership in moderating the relationship between ESG performance and a company's financial performance is reflected in the global paradigm shift. Foreign ownership, which brings capital, managerial expertise, and oversight mechanisms, shows foreign investors' attention to ESG practices and corporate social responsibility (CSR) (Annither et al., 2020). Foreign investors, as shareholders, have an interest in maintaining the financial performance of the company, motivating the adoption of ESG practices to reduce financial risks. Foreign investment companies play a crucial role in steering companies towards sustainability, especially in reducing the risk of

financial crises Abu Qa'dan & Suwaidan (2019). By holding shares, foreign investors have a significant interest in maintaining the financial performance of the company, encouraging the adoption of ESG practices as a form of external control. Changes in global regulations, such as the Non-Financial Reporting Directive (NFRD) and Corporate Sustainability Reporting Directive (CSRD) from the European Union, motivate companies with foreign ownership to comply with high ESG reporting standards (Montenegro, 2023). Foreign investors, who usually focus on long-term and sustainability, can be considered catalysts that drive companies to integrate ESG practices into their business strategies, providing a positive boost for maintaining long-term financial performance (Montenegro, 2023). With the increasing awareness of sustainability issues, the relationship between ESG performance and a company's financial performance becomes more complex, influenced by the expectations and pressures from foreign entities that play a significant role in ensuring corporate sustainability (Putra et al., 2023).

Despite the growing interest in ESG factors and foreign investment in Indonesia, there is limited empirical research specifically examining how foreign ownership moderates the impact of ESG performance on corporate financial performance. This study seeks to fill this gap by providing empirical evidence on these dynamics and integrating the stakeholder theory as a theoretical lens, which emphasizes the importance of balancing the interests of various stakeholders—including investors, employees, and the wider community—in achieving long-term financial success. While stakeholder theory has been widely applied in developed markets, its application in the context of emerging economies like Indonesia, particularly in relation to ESG performance and foreign ownership, remains underexplored. Therefore, this study aims to investigate the influence of ESG performance on the financial performance of companies in Indonesia, with foreign ownership as a moderating variable. By understanding the complex dynamics between ESG performance, foreign ownership, and corporate financial performance, this research is expected to provide valuable insights for companies, investors, and regulators in developing sustainable business strategies amid a changing global investment paradigm.

## **2. LITERATURE REVIEW**

### **2.1 Stakeholder theory**

Stakeholder Theory, initially proposed by the Stanford Research Institute in 1963 and further developed by R. Edward Freeman, posits that a company has responsibilities beyond just its shareholders. These responsibilities extend to various parties involved in its business activities, such as employees, customers, suppliers, governments, and society (Freeman, 2010). This theory emphasizes the importance of open communication and dialogue between companies and stakeholders, advocating for transparency in economic, social, and environmental aspects to build trust and support (Tarighi et al., 2022). By considering the interests of multiple stakeholders, companies can enhance their long-term sustainability and financial performance. For example, addressing environmental concerns can lead to operational efficiencies and reduced costs, while strong social performance can improve employee morale and productivity. Effective governance practices can ensure that the interests of all stakeholders are balanced, thereby promoting sustainable growth and financial success (Deegan, 2019). The global economic crisis triggered by the COVID-19 pandemic disrupted financial systems, trade, and employment worldwide, causing GDP contractions and instability across many countries. In Indonesia, the pandemic hit key sectors such as tourism, retail, and manufacturing, leading to business closures, job losses, and weakened consumer demand. The impact of this pandemic has not only had an impact on economic aspects, but also on the environmental, social, and governance (ESG) aspects of the company. Companies faced growing expectations to ensure employee welfare, environmental responsibility, and transparent governance. In the face of these conditions, companies need to understand the relationship between ESG performance and their financial health to take appropriate steps in maintaining business continuity (Putri, 2023).

### **2.2 Signal Theory**

Signal Theory, articulated by Spence (1973), explains how information is communicated within a corporate context, particularly concerning ESG factors. Voluntary disclosures, including ESG performance information, serve as signals reflecting the company's condition. These signals indicate that the company is not experiencing financial distress, thereby building trust, increasing credibility, and providing insights into the company's financial performance. When companies voluntarily disclose ESG information, they signal their commitment to sustainable practices and financial stability. This can attract investors, enhance corporate reputation, and ultimately improve financial performance. For instance, a company that transparently reports its environmental initiatives or social responsibility programs is likely to be perceived as more reliable and forward-thinking, which can lead to increased investor interest and higher market valuation (Spence, 1973 ; Connelly et al., 2011).

### **2.3 Agency Theory**

Agency Theory addresses the contractual relationships within a company, aiming to mitigate conflicts of interest. In this theory, the company's management acts as an agent expected to maximize the profits of the owner or shareholder. However, divergent goals between the owner and the agent can lead to agency costs. In financial terms, high-risk agency decisions can negatively affect creditors, resulting in repayment difficulties and potential financial distress (Jensen & Meckling, 1976). Agency Theory highlights the potential conflicts between management and shareholders regarding ESG investments. While ESG initiatives may require upfront costs, they can lead to long-term financial benefits by reducing

risks and improving corporate reputation. Effective governance mechanisms can align the interests of management and shareholders, ensuring that ESG investments contribute to financial performance. For example, by adopting strong governance practices, companies can mitigate the risks associated with environmental and social issues, thereby protecting shareholder value and enhancing overall financial performance (Shleifer & Vishny, 1997).

## 2.4 Financial Performance

The financial performance of a company is a crucial aspect that determines its sustainability and success in a competitive market. One method used to assess financial performance and detect potential bankruptcy is the Altman Z-Score. First introduced by Edward Altman in 1968, the Altman Z-Score combines several key financial ratios to provide an early indication of financial distress risk. This model has undergone several revisions to enhance its accuracy and expand its applicability to various types of companies and industries. By utilizing five main financial ratios—the ratio of working capital to total assets, the ratio of retained earnings to total assets, the ratio of earnings before interest and taxes to total assets, the ratio of market value of equity to book value of total liabilities, and the ratio of sales to total assets—the Altman Z-Score provides a numerical assessment of a company's financial health. A high score indicates good financial condition and low risk of bankruptcy, while a low score suggests significant financial distress potential. The use of the Altman Z-Score not only aids investors and creditors in making more informed decisions but also allows company management to take preventive measures in managing financial risk (Altman, 1968; Altman et al., 1977; Tania et al., 2021).

## 2.5 Environmental, Social, Governance

### 2.5.1 The influence of environmental performance on company financial performance

Environmental aspects include various elements related to the management and impact of the company's operational activities and products on the environment, which involve the company's or government's contribution to fighting global warming, reducing emissions, and pursuing decarbonization efforts to overcome various environmental problems (Fadhilah et al., 2021). Within the ESG framework, this aspect highlights greenhouse gases, deforestation, pollution, and other issues that affect the balance of the ecosystem. The importance of using raw materials, recycling and product processing from start to finish is emphasized as companies seek to manage resources without compromising environmental conditions. Refinitiv (2022) identifies three categories in ESG Environmental assessments: resource utilization, emissions, and innovation. The development of hypotheses regarding the impact of environmental performance on financial performance is based on the understanding that sustainable business practices can result in improved financial results. Companies that actively engage in environmental initiatives often demonstrate their commitment to sustainability, enhancing their reputation and stakeholder trust, which can lead to better financial performance through increased customer loyalty, investor confidence and operational efficiency. Yuni Pramitha & Sudana (2021) research emphasizes that integrating environmental concerns into business operations can go beyond legal compliance, reflecting a company's proactive attitude towards sustainability. Additionally, as shown by Refinitiv (2022), higher ESG scores are associated with better environmental performance, thereby indicating a potential positive correlation with financial performance. Although some studies, such as those by Citterio & King (2023) show a weak direct effect of environmental scores on risk reduction, other studies such as Cohen (2023); Li et al. (2022); Aslan et al. (2021) and Boubaker et al. (2020) highlights the positive impact on financial performance. Although the findings are mixed, the proposed hypothesis states that improving environmental performance will likely improve corporate financial performance, consistent with the theory that responsible environmental practices can promote long-term financial stability and growth. Thus, the hypothesis is formulated as follows:

*H1: Environmental Performance has a Positive Influence on Company Financial Performance*

### 2.5.2 The influence of social performance on company financial performance

Corporate social responsibility and responsiveness to social issues are crucial because a company's operations can significantly impact society. Inawati & Rahmawati (2023) state that social performance includes various activities companies undertake to fulfill their social responsibilities. Companies are expected to actively address social issues, contribute positively to society, and ensure their operations do not harm broader social interests. Understanding and implementing social responsibility helps companies build positive relationships with society and achieve sustainable success. Refinitiv (2022) measures corporate social performance with an ESG social score in four categories: "workforce," which evaluates employee well-being; "human rights," which assesses adherence to human rights; "community," which highlights contributions to local communities; and "product responsibility," which evaluates product safety and social impact. Stakeholder Theory emphasizes considering the interests of various parties involved in company activities, including employees, customers, shareholders, and society (Badayi et al., 2021). Social performance includes meeting stakeholder expectations, involving them in decision-making, and ensuring employee welfare and ethical compliance. Signaling Theory suggests that companies use actions and communication to show their commitment to social responsibility through CSR programs and sustainability reports. Integrating Stakeholder and Signaling theories helps companies build strong relationships with stakeholders and achieve broader social goals. Research by Aslan et al. (2021) found that companies performing well in social aspects significantly reduce the likelihood of defaulting on debts. Other studies show that companies excelling in social issues tend to have lower financial risk (Li et al. 2022; Boubaker et al. 2020; Palmieri et al. 2023). These findings align with Cohen (2023), who found that the Z-score is negatively influenced

by social factors, indicating that addressing social issues can help companies remain stable, particularly smaller firms. Based on this information, it is assumed that corporate social performance correlates with financial conditions and may be related to financial risk. Therefore, the proposed hypothesis is:

*H2: Social Performance has a Positive Influence on Company Financial Performance*

### 2.5.3 The influence of governance performance on company financial performance

Good corporate governance performance is crucial for enhancing economic efficiency and involves relationships among company management, the board of directors, shareholders, and stakeholders. Adhering to principles of good governance can add value in the eyes of stakeholders, as it fosters a clean, transparent, and professional work environment. High governance performance improves corporate compliance with these principles, enhancing overall performance, while poor governance can detract from it (Syafurullah & Muharam, 2017). Research by Lisin et al. (2022) confirms that good corporate governance has a more significant positive impact on financial performance than other aspects like environmental and social factors. A higher governance score (G) correlates with a better Z-score, indicating better financial health and lower risk of failure (Aslan et al. 2021; Li et al. 2022; Maquieira et al. 2024). Based on this information, it is assumed that corporate governance performance correlates with financial conditions and may relate to financial risk. Therefore, the proposed hypothesis is:

*H3: Governance Performance has a Positive Influence on Company Financial Performance.*

## 2.6 Foreign Ownership

Foreign ownership occurs when a company or entity from abroad holds shares in a domestic company. Research has shown that foreign ownership can help reduce the risk of financial crises in companies (Annither et al., 2020). This is because foreign investors bring not only capital but also valuable management expertise and effective oversight, which can reduce conflicts between company management and shareholders (agency conflicts). While Suryadi & Serly (2022) found no significant effect of foreign ownership on financial distress, other studies, such as those by Annither et al. (2020) and Pardede & Syafruddin (2022), indicate that higher levels of foreign ownership are associated with a reduced likelihood of financial difficulties. However, findings on the relationship between foreign ownership and information disclosure are mixed. For instance, Alhazaimah et al. (2014) found a positive effect of foreign ownership on voluntary disclosure practices in Jordan, whereas Abu Qa'dan & Suwaidan (2019) reported a negative effect on corporate social responsibility disclosure. Studies in Guo & Zheng (2021), Saini & Singhania (2019), and Sharma et al. (2020) also reveal varied results regarding corporate social responsibility disclosure.

In light of these varied findings, the hypothesis is that foreign ownership positively influences ESG (Environmental, Social, and Governance) disclosure levels. This hypothesis aims to explore how foreign ownership moderates the relationship between ESG performance and financial performance. It is anticipated that foreign ownership will strengthen the positive impact of ESG performance on financial performance by bringing in managerial expertise and supporting sustainability practices. Therefore, the proposed hypotheses are:

*H4a: The effect of environmental performance on financial performance is moderated by foreign ownership*

*H4b: The effect of social performance on financial performance is moderated by foreign ownership*

*H4c: The effect of governance performance on financial performance is moderated by foreign ownership*

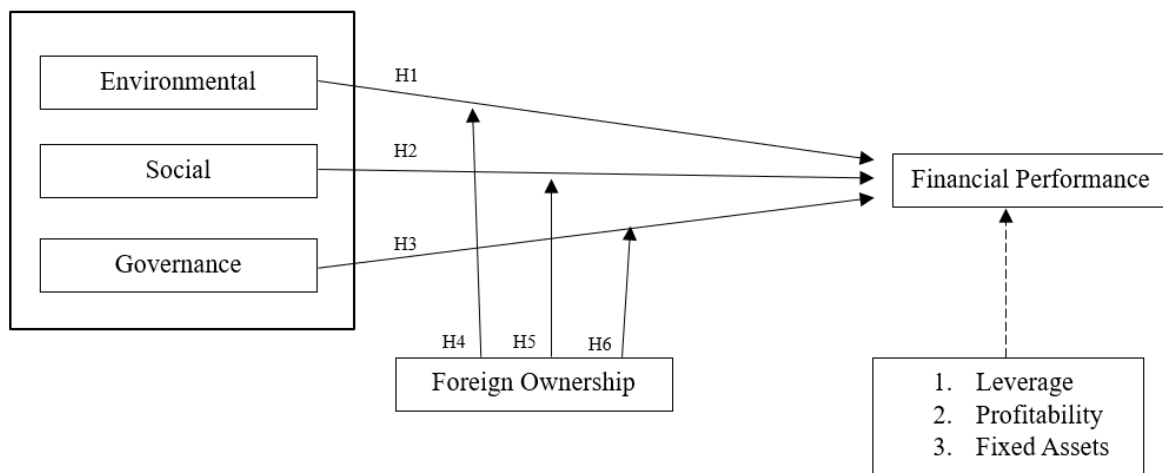


Figure 1. Research framework

### 3. METHODOLOGY

The data in this study uses secondary information sourced from electronic media in the form of financial statements for the 2020-2022 period obtained through the Indonesia Stock Exchange and accessed through the Refinitiv Eikon database. The purposive sampling method was used for sampling in this study. The sampling criteria are 1) Companies listed on the Indonesia Stock Exchange in 2020-2022 2) Companies listed on the Indonesia Stock Exchange and have an Environmental, Social, Governance (ESG) Score for 2020-2022 in the Thomson Reuters Eikon database 3) Companies listed on the Indonesia Stock Exchange and have Foreign Ownership in the KSEI database. Based on these criteria, data was obtained from 46 companies.

The variables used in this study consist of independent variables, namely environmental, social and governance performance, dependent variables, namely financial performance as measured by Altman z-score, moderation variables, namely foreign ownership, and control variables, namely leverage, profitability and fixed assets. Table 1 describes the variable measurements used.

Table 1. Variable measurement

Variable	Formula
Financial Performance	Z-Score= $6.56 (WC/TA) + 3.26 (RE/TA) + 6.72 (EBIT/TA) + 1.05 (MVE/BVTD)$
Environmental Performance (E)	Environmental pillar score
Social Performance (S)	Social pillar score
Governance Performance (G)	Governance pillar score
Foreign Ownership	Percentage of foreign ownership
Leverage	Long-term debt to total assets ratio
Profitability	Ratio of EBITDA to total assets
Fixed Assets	Ratio of fixed assets to total assets

#### 3.1 Data Analysis Techniques

In this study, Panel Data Regression Analysis was used and to see the relationship between variables in this study, the STATA 17 for windows application was used. The formula formed for this study is as follows:

$$Y = \alpha + \beta_1 E_{it} + \beta_2 S_{it} + \beta_3 G_{it} + \beta_4 LEV_{it} + \beta_5 PROF_{it} + \beta_6 FA_{it} + \varepsilon \quad (1)$$

Note: Y = Financial performance (Z-score); E = Environmental performance; S = Social performance; G = Governance performance; LEV = Leverage; PROF = Profitability; FA = Fixed assets;  $\alpha$  = Constant;  $\beta_1 - \beta_6$  = Regression Coefficient; it = Company I in the th year;  $\varepsilon$  = Term error

The analysis incorporates three estimation models: The Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). To determine the most suitable model, the Chow test (for choosing between CEM and FEM), the Hausman test (for choosing between FEM and REM), and the Lagrange Multiplier test (for choosing between CEM and REM) were used. For hypothesis testing, the T-Test assesses the significance of individual regression coefficients, where a p-value less than 0.05 indicates significance. The F-Test evaluates the overall model significance, with a p-value less than 0.05 suggesting the model is significant. The R<sup>2</sup> Test measures the proportion of variance explained by the independent variables, where a value close to zero indicates no significant relationship. Additionally, Moderation Regression Analysis (MRA) was performed with the formula:

$$Y = \alpha + b_1 X_1 + b_2 M + b_3 X_1 M + \varepsilon \quad (2)$$

In moderation analysis, moderating variables can be classified into four types based on the significance of the moderation coefficient (b2) and the interaction moderation (b3): pure, pseudo, predictor, and potential. A pure moderator occurs when b2 is not significant but b3 is significant, indicating that the moderating variable does not have a direct effect on the dependent variable but significantly alters the relationship between the independent and dependent variables. A pseudo moderator occurs when both b2 and b3 are significant, suggesting that the moderating variable has a direct effect on the dependent variable and also modifies the relationship between the independent and dependent variables. A predictor moderator occurs when only b2 is significant, indicating that the moderating variable has a direct effect on the dependent variable but does not change the relationship between the independent and dependent variables. Lastly, a potential moderator occurs when both b2 and b3 are not significant, meaning that the moderating variable neither has a direct effect on the dependent variable nor alters the relationship between the independent and dependent variables.

### 4. RESULTS AND DISCUSSION

The descriptive statistical analysis presented in Table 2 shows that the financial performance variable with an average Z-score of about 3.046354, indicating good financial condition, although the standard deviation variation was high (2.885784). The first independent variable, environmental performance, had an average environmental score of around

40.60593, with significant variation (standard deviation of about 22.3486). The second variable, social performance, has an average social score of around 56.61461, with a standard deviation of around 22.83251. The third variable, corporate governance performance, has an average governance score of around 50.51602, with significant variation (standard deviation of around 23.47542). The moderation variable, foreign ownership, had an average of about 49.32%, with significant variation (standard deviation of about 0.2321342). The first control variable, leverage, has an average of about 0.2521909, with a standard deviation of about 0.186752. The second control variable, profitability, has an average of about 0.1259828, with a standard deviation of about 0.0858616. The last control variable, fixed assets, has an average of about 0.5171303, with a standard deviation of about 0.2280019.

Table 2. Variable descriptive statistics

Variable	Obs	Mean	Std. dev.	Min	Max
Z Score	128	3.0463540	2.8857840	-2.7270660	9.7886880
E	128	40.6059300	22.3486000	0.1260504	81.2500000
S	128	56.6146100	22.8325100	10.0992300	95.8848100
G	128	50.5160200	23.4754200	2.9773330	94.0133500
FO	128	0.4932250	0.2321342	0.1034509	0.9524798
LEV	128	0.2521909	0.1867520	0.0005039	0.7437232
PROF	128	0.1259828	0.0858616	-0.0329635	0.3789925
FA	128	0.5171303	0.2280019	0.1264213	0.9613137

Source: Data processed using STATA 17 software

The regression analysis results reveal that the constant value ( $\alpha$ ) is -3.767359, indicating the company's financial performance when all independent and control variables are at zero. Among the independent variables, environmental performance (E) significantly influences financial performance, with a P-value of 0.007. In contrast, social performance (S) and governance performance (G) do not significantly affect financial performance, as their P-values exceed 0.05. Regarding the control variables, leverage (LEV) has a significant negative impact on financial performance, suggesting that higher leverage is associated with poorer financial performance. Conversely, profitability (PROF) and fixed assets (AT) positively influence financial performance, meaning that higher profitability and more fixed assets are linked to better financial performance. Overall, while environmental performance, profitability, and fixed assets have significant effects on financial performance, social and governance performance do not show a significant impact.

Table 3. T test results

ZScore	Coefficient	Std. error	t	P> t
Cons	-3,611947	2.048794	-1,76	0,082
E	0,4386956	0,1573182	2,79	0,007
S	-0,1490723	0,3614362	-0,41	0,681
G	0,0063174	0,183506	0,03	0,973
FO	0,8074575	1,279906	0,63	0,530
EFO	-0,6355128	0,2475977	-2,57	0,012
SFO	-0,4712184	1,022255	0,46	0,646
GFO	0,0295841	0,4595017	0,06	0,949
LEV	2,81111	1,174171	2,39	0,019
PROF	9,480857	1,232205	7,69	0,000
FA	-5,646198	0,5272393	-10,71	0,000

Source: Data processed using STATA 17 software

Table 4. F test result

F(10, 75) = 30.45

Prob > F = 0.0000

Source: Data processed using STATA 17 software

Based on the data from Table 4, the results of the F test (simultaneous) show that the value of Prob > F is 0.0000, which is lower than 0.05. This indicates that the regression model is acceptable, so it can be concluded that the independent variables significantly have a joint effect on the dependent variables.

Table 5. R-squared test results

R-squared	
<i>Within</i>	0.8023
<i>Between</i>	0.7769
<i>Overall</i>	0.7761

Source: Data processed using STATA 17 software

From Table 5, it can be seen that the *overall R-squared* value in this study is 0.7761, This shows that 77.61% of the variation in the dependent variable - namely the company's financial performance measured using the altman z-score - can be explained by independent variables (environmental performance, social performance, governance performance) as well as control variables (leverage, profitability and fixed assets). The rest, 22.39%, was explained by other factors outside the scope of the study. The R-squared value of this study is almost close to one, which means that the independent variable has a strong or very good relationship with the dependent variable.

Table 6. Results of t-test with moderation

ZScore	Coefficient	Std. err.	t	P> t
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Source: Data processed using STATA 17 software

The analysis shows that the interaction between foreign ownership and environmental performance significantly impacts the company's financial performance, with a P-value of 0.012 and a coefficient of -0.6355128, indicating a negative relationship. This suggests that foreign ownership acts as a pure moderator in this context. In pure moderation, the moderating variable—in this case, foreign ownership—has a significant effect on the interaction between environmental performance and financial performance but does not independently affect the financial performance itself. On the other hand, foreign ownership does not significantly influence the relationships between social performance or governance performance and financial performance, as indicated by P-values greater than 0.05. Therefore, while foreign ownership plays a significant role in moderating the impact of environmental performance on financial performance, it does not have a substantial effect on the relationships between social or governance performance and financial performance.

The findings of this study reveal several important insights into the relationship between environmental performance, social performance, governance performance, and financial performance. Firstly, the significant positive effect of environmental performance on financial performance can be attributed to effective regulatory compliance, which helps in avoiding fines and reducing legal risks, as well as to enhanced reputation and operational efficiencies. Companies that excel in environmental performance are often better at managing environmental risks and attracting stakeholders who value sustainability, which in turn boosts their financial outcomes (Cohen, 2023; Li et al., 2022). In contrast, the lack of a significant impact of social performance on financial performance highlights the complexity of this relationship. Social performance might influence financial performance indirectly or be overshadowed by other factors such as market conditions or industry-specific characteristics. Moreover, the measurement of social performance might not fully capture all aspects that affect financial results, leading to a weaker observed effect (Aslan et al., 2021; Boubaker et al., 2020).

The study also found that governance performance did not significantly impact financial performance. This could be due to external factors like fluctuating market conditions or varying quality in governance practices across companies. The benefits of strong governance might also take time to reflect in financial performance, which might not be captured in short-term analyses (Aslan et al., 2021 ; Li et al., 2022). Finally, the role of foreign ownership as a moderator reveals that it can weaken the impact of environmental performance on financial performance. This is likely due to differing managerial practices, resource allocation priorities, or strategic goals between foreign investors and the companies they invest in. Understanding these dynamics is crucial for companies to effectively manage their sustainability strategies and improve their financial performance in the context of foreign ownership (Maquieira et al., 2024).

## 5. CONCLUSIONS

The findings from this study offer valuable guidance for practitioners and stakeholders in understanding the relationships between environmental performance, social performance, governance performance, and financial performance. Firstly, companies can take concrete steps to enhance their environmental performance as a strategy to mitigate financial distress risks and boost their reputation among stakeholders. This includes investing in green technologies, adhering more strictly to environmental standards, and improving transparency in environmental performance reporting. Secondly, although social performance does not directly affect financial performance, responsible social practices remain crucial for building strong relationships with employees, customers, and the broader community. Companies can reinforce their commitment to social well-being through inclusive policies and programs that support local communities, which can, in turn, reduce reputation risks and increase customer loyalty. Thirdly, despite the lack of a significant relationship between governance performance and financial performance, it is still important to implement good governance practices to enhance transparency, accountability, and decision-making efficiency. Company management should continue to refine governance practices to mitigate potential conflicts of interest and build stakeholder trust. Lastly, in facing increasingly complex global challenges, companies can leverage the moderating potential of foreign ownership to strengthen their sustainability practices. Collaboration with foreign shareholders can provide access to global resources and perspectives that help navigate rapidly changing regulations and market conditions. By integrating these findings into their business strategies, companies can better prepare for a more sustainable future, reduce financial risks, and create long-term value for all their stakeholders.

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## CONFLICT OF INTEREST

The author(s), as noted, certify that they have NO affiliations with or involvement in any organisation or agency with any financial interest (such as honoraria; educational grants; participation in speakers' bureaus; membership, jobs, consultancies, stock ownership, or other equity interest; and expert testimony or patent-licensing arrangements), or non-financial interest (such as personal or professional relationships, affiliations, expertise or beliefs) in the subject matter or materials addressed in this manuscript.

## AUTHORS CONTRIBUTION

Ledhisya Juanza Putri (Conceptualization; Methodology; Collecting data; Writing – original draft; Visualization)

Fajri Adrianto (Formal analysis; Data curation; Writing – review & editing; Supervision)

## AVAILABILITY OF DATA AND MATERIALS

The data supporting this study's findings are available on request from the corresponding author.

## ETHICAL STATEMENT

Not applicable.

## CONFLICT OF INTEREST

The authors declare no conflicts of interest" should be included if there is no conflict of interest.

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