

THE EFFECT OF ESG DISCLOSURE AND INTERNAL CONTROL DISCLOSURE ON FINANCIAL PERFORMANCE

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Abstrak

Tujuan studi ini adalah agar dapat meneliti bagaimana pengungkapan ESG dan internal control disclosure memengaruhi kinerja keuangan. Teknik kuantitatif yang digunakan adalah SPSS Versi 24 dan analisis regresi linier. Populasi penelitian ini yaitu laporan keuangan, laporan keberlanjutan, dan laporan tahunan perusahaan properti & real estate yang terdaftar dalam BEI periode 2021–2024. Dalam mengambil sampel dilaksanakan secara purposif untuk mengumpulkan sampel sebanyak 68 laporan perusahaan. Analisis data memperlihatkan bahwa meskipun internal control disclosure tidak mempunyai pengaruh terhadap kinerja keuangan, pengungkapan ESG mempunyai pengaruh pada kinerja perusahaan. Beberapa faktor lain yang mungkin memengaruhi kinerja keuangan sebaiknya diikutsertakan di studi selanjutnya.

Kata Kunci: *Pengungkapan ESG, Internal Control Disclosure, Kinerja Keuangan*

Abstract

The purpose of this research is to examine how ESG disclosure and internal control disclosure affect financial performance. The quantitative techniques used were SPSS Version 24 and linear regression analysis. The study population was the financial statements, sustainability reports, and annual reports of property & real estate companies listed on the IDX for the 2021–2024 period. Purposive sampling was used to collect a sample of 68 company reports. Data analysis indicates that although internal control disclosure does not affect financial performance, ESG disclosure does. Other factors that may influence financial performance should be included in future research.

Keywords: *ESG Disclosure, Internal Control Disclosure, Financial Performance*

A. INTRODUCTION

One measure of business health is financial performance, which is useful for measuring a company's progress, opportunities, and potential for improvement (Le Thi Kim *et al.*, 2021). Financial performance information is an important factor for users of financial statements because financial information (profit) represents how successful a company is in running its operations and whether the company is valuable or not (Safriani & Utomo, 2020). PT Cowell Development Tbk is an example of a company that went bankrupt due to neglecting its financial performance. Over three consecutive years, PT Cowell Development incurred losses and faced negative financial conditions due to the COVID-19 pandemic, which led to a decline in buying and selling activities in the property sector (Setyaningsih, 2021). The company's liabilities increased disproportionately to its assets, and net sales dropped by 30.67% compared to the previous year. Inefficient governance made it difficult for management to address existing issues. Due to the global economic slowdown and the decline in the real estate sector, PT Cowell Development Tbk was delisted from the Indonesia Stock Exchange (IDX) for failing to meet its financial reporting obligations. Poor financial performance can jeopardize business sustainability as well as investor and shareholder confidence (Ciptaning, 2020).

A crucial indicator of a business's well-being is its financial standing, which is essential for assessing a firm's advancement, prospects, and areas needing enhancement (Le Thi Kim *et al.*, 2021). For those who use financial statements, details about financial achievements are crucial because this data (earnings) demonstrates a company's operational efficiency and overall value (Safriani & Utomo, 2020). An example of a company that declared bankruptcy as a result of disregarding its financial results is PT Cowell Development Tbk. PT Cowell Development experienced losses for three years straight and had poor financial circumstances as a result of the COVID-19 pandemic, which caused a fall in property sector purchase and sale activities (Setyaningsih, 2021). The

company's debts grew out of proportion to its assets, and net sales fell by 30.67% from the prior year. Due to ineffective management, it was challenging for management to handle current challenges. PT Cowell Development Tbk was removed from the Indonesia Stock Exchange (IDX) due to its failure to fulfill its financial reporting obligations as a result of the global economic downturn and the real estate sector's decline. According to Ciptaning (2020), a company's long-term viability, as well as the confidence of investors and shareholders, may be at risk due to subpar financial results.

1. Agency Theory

Jensen & Meckling (1976) posit that agency theory elucidates the agreed-upon dynamic involving agents and those they represent, a relationship marked by uneven information access and diverging priorities. Disparities in what managers want and what those they represent want leads to information being held unevenly and differing interests causing conflict. Even though those represented can only access limited details shared by managers, the agents have access to inside information and upcoming possibilities for the organization. As agents, companies prioritize immediate profits, like boosting earnings and cutting expenses, which benefits management. As those represented, investors aim for growth in the value of their investments over time by putting in place sustainable environmental and social governance practices, as well as disclosing internal controls. Differing interests can cause disputes when firms hesitate to put money into environmental, social, and governance initiatives or transparent internal practices, viewing them as financially restrictive. To tackle this problem, we need ways to govern corporations that match long-term goals, keep a close eye on what goes on inside the organization, and be open about environmental, social, and governance information, as well as internal controls.

2. ESG Disclosure

Companies with Environmental, Social, and Governance (ESG) aspects represents an initiative aimed at opening up new avenues for investors who place a high value on ecological concerns (Peng & Isa, 2020). Investment choices will be made by investors only after carefully considering how ESG is put into practice. There is a stronger effect on a business's results when there are more ESG disclosures (Qurniasih *et al.*, 2025). Through improved transparency and a greater sense of social responsibility, as well as lower agency costs and proof of management's dedication to these values, ESG disclosures are beneficial (Adi & Hersugondo, 2022). The studies of Sitorus *et al.* (2024) and Burki *et al.* (2024), indicate that ESG disclosure influences financial outcomes due to the fact that consistently putting ESG into practice and making it known are vital tactics for promoting corporate sustainability and financial prosperity. However, Setiawati & Hidayat (2023) research indicates that ESG disclosure has no bearing on financial success because it is seen as a duty to comply, which has no impact on a company's financial results. NASDAQ (2019) offers a framework for assessing ESG disclosure.

H1: There is a correlation between ESG disclosure and financial performance

3. Internal Control Disclosure

For the purpose of guaranteeing the reliability of data, adherence to rules, and streamlined business processes, the management team, the board overseeing operations, and the personnel can reveal the company's internal control mechanisms (Weli *et al.*, 2020). As posited by agency theory, making internal controls known can lead to enhanced data accuracy, lower expenses related to the agency, and diminished disparities in information between representatives and leaders (Musah *et al.*, 2022). According to a piece of research conducted by Weli *et al.* (2023), a well-functioning control setup has the potential to positively impact how well an organization handles

and arranges its sustainability efforts. Stakeholders who depend on accounting reports will be furnished with dependable data to inform their choices. Thus, making a company's internal controls visible may foster more confidence among stakeholders, subsequently impacting its financial outcomes. The research by Musah *et al.* (2022) indicates that making internal controls known has bearing on financial achievements. In contrast, a study by Rakhmayani & Utami (2022) suggests that unveiling internal controls is regarded negatively by stakeholders. This might stem from the fact that revealing internal controls is often confined to fulfilling regulatory obligations and making voluntary disclosures, which is especially true in emerging economies and is damaging to companies. In this study, the degree of internal control disclosure was evaluated through the utilization of the five core elements recognized by COSO (2013) the control environment, risk evaluation, control actions, communication and information channels, alongside monitoring practices.

H2: There is a correlation between internal control disclosure and financial performance

B. METHOD

The population of this study consisted of 92 real estate and property companies listed consecutively on the Indonesia Stock Exchange (IDX) during the period 2021–2024. Of these, 6 companies were excluded due to website errors, and 18 companies were excluded because they did not publish annual reports, financial statements, or sustainability reports on the IDX during the observation period. Based on these criteria, a total of 68 companies were selected as the research sample using purposive sampling.

This study employed time series data over four years of observation (2021–2024). Accordingly, a total of 272 firm-year observations were obtained. However, after conducting an outlier test, 123 data points were removed, resulting in 149 final observations used in this study.

C. RESULTS AND DISCUSSIONS

1. Statistic descriptive test

Table 1 Descriptive Statistic Test Results

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
ESG Disclosure	149	0,167	0,600	0,38481	0,112658
Internal Control Disclosure	149	0,08	0,80	0,3715	0,10307
Financial Performance	149	-0,05442	0,08351	0,0150647	0,03066430
Valid N (listwise)	149				

Source: Data processed using SPSS 24

Table 2, concerning the ESG Disclosure variable (X1), presents an average figure of 0.38481, with the uppermost figure reaching 0.600 and the lowermost figure at 0.167. A standard deviation figure of 0.112658 signifies a fair amount of diversity among different organizations concerning their ESG disclosure practices. Despite the general trend, we can observe variations in the degree of disclosure from company to company.

The Internal Control Disclosure variable (Z) reveals an average of 0.3715, with the lowest figure registered at 0.08 and the highest figure hitting 0.80. A standard deviation of 0.10307 suggests that there is notable heterogeneity in the degree to which companies disclose information about their internal controls; this implies that not all organizations are uniform in revealing details about their internal control mechanisms.

The Financial Performance variable (Y) exhibits an average of 0.0150647, with the smallest figure being -0.05442 and the largest figure recorded at 0.08351. A standard deviation of 0.03066430 indicates that the financial results of the companies included in the sample differ noticeably, potentially highlighting differences in the effectiveness

of management, approaches to business, and handling of resources implemented by each respective company.

2. Classical Assumption Test

a. Normality Test

Table 2 Normality Test Results

One Sample K-S Test		
		Unstandardized Residual
N		149
Normal Parameters ^{a,b}	Mean	0,0000000
	Std. Deviation	0,02946554
	Most Extreme Differences	
	Absolute	0,070
	Positive	0,070
	Negative	-0,043
Test Statistic		0,070
Asymp. Sig. (2-tailed)		0,069 ^c
a. Tes distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: Data processed using SPSS 24

Asymp Sig. (2-tailed) is shown in Table 3 to be 0.069, which exceeds 0.05. Thus, we can conclude that the residual values, or data, within this research exhibit a normal distribution.

b. Multicollinearity Test

Table 3 Multicollinearity Test Results

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ESG Disclosure	0,950	1,052
	Internal Control Disclosure	0,950	1,052

a. Dependent Variable: Financial Performance

Source: Data processed using SPSS 24

The table presents the multicollinearity examination outcomes for both X variables, displaying tolerance metrics exceeding 0.10 and VIF metrics below 10. Ultimately, this research's regression model demonstrates an absence of multicollinearity concerns.

c. Autocorrelation Test

Table 4 Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,277 ^a	0,077	0,064	0,02966667	1,210

a. Predictors: (Constant), Internal Control Disclosure, ESG Disclosure
b. Dependend Variabel: Financial Performance

Source: Data processed using SPSS 24

Table 5 illustrates that the outcomes from the autocorrelation assessment can utilize the Durbin-Watson test, yielding a value of 1.210. The upper limit (DU) registers at 1.7595. The lower limit (DL) is recorded as 1.7051. Considering the

Durbin-Watson findings, the condition $D < 4 - DU$ calculates to 2.2405. Consequently, these findings suggest the absence of autocorrelation.

d. Heteroscedasticity Test

Table 5 Heteroscedasticity Test Results

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9,829	0,905		-10,854	0,000
	ESG Disclosure	0,700	1,792	0,033	0,391	0,696
	Internal Control Disclosure	3,286	1,959	0,141	1,678	0,095

a. Dependent Variable: LN RES2

Source: Data processed using SPSS 24

Based on the data presented in the preceding table, the Park test results regarding heteroscedasticity reveal that each of the research variables exhibits a significance level surpassing 0.05. This implies that the absence of heteroscedasticity is observed across all of the research variables under consideration.

3. Multiple Linear Regression Analysis Test

Table 6 Multiple Linear Regression Analysis Test Result

Coefficients ^a				
Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	-0,019	0,011	
	ESG Disclosure	0,068	0,022	0,250
	Internal Control Disclosure	0,022	0,024	0,076

a. Dependent Variable: Financial Performance

Source: Data processed using SPSS 24

Table 7 shows the results of the equations from this analysis.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

$$Y = -0,019 + 0,068 \text{ ESG disclosure} + 0,022 \text{ internal control disclosure}$$

4. Hypothesis Test

a. Coefficient of Determination (R²) Test

**Table 7 Results of the Coefficient of
Determination (R²) Test**

Model Summary ^b				
Model	R	R Square	Adjusted R ²	Std. Error of the Estimate
1	0,277 ^a	0,077	0,064	0,02966667
a. Predictors: (Constant), Internal Control Disclosure, ESG Disclosure				
b. Dependen Variabel: Financial Performance				

Source: Data processed using SPSS 24

Table 8 reveals an R² test outcome of 0.064, signifying a concurrent impact of 6.4%. This illustrates the degree of effect that ESG disclosure and internal control disclosure factors exert on financial outcomes. Conversely, the remaining 94.6% is affected by elements external to the parameters of this research.

b. F test

Table 8 F test result

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,011	2	0,005	6.061	0,003 ^b
	Residual	0,128	146	0,001		
	Total	0,139	148			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), Internal Control Disclosure, ESG Disclosure						

Source: Data processed using SPSS 24

Table 9 indicates that the significance level derived from the ANOVA test is 0.003, which is less than 0.05. To summarize, the concurrent impact of ESG disclosure and internal control disclosure, acting as independent variables, substantially influences financial performance, the dependent variable.

c. t test

Table 9 t test result

Coefficients ^a			
Model		t	Sig.
1	(Constant)	-1,736	0,085
	ESG Disclosure	3,066	0,003
	Internal Control Disclosure	0,926	0,356
a. Dependent Variable: Financial Performance			

Source: Data processed using SPSS 24

Based on the t-test results presented in Table 10, the significance level for ESG disclosure is 0.003, which is below the threshold of 0.05. This indicates that disclosing ESG information influences financial performance, confirming the validity of Hypothesis 1. Improved financial results are seen in companies that prioritize ESG disclosure due to the increased confidence placed

in them by investors and relevant parties. These observations are consistent with agency theory, which posits that disclosing ESG data can lessen the likelihood of conflicts by making information more equally available to both stakeholders and management. Research from Sitorus *et al.* (2024), Burki *et al.* (2024) and Adi & Hersugondo (2022) suggests a correlation between financial success and ESG disclosure. Disclosing ESG data is a way for companies to demonstrate their dedication to sustainability and effective governance, ultimately affecting their financial results, competitive position, and how efficiently they operate.

Based on the t-test outcomes presented in Table 10, the significance level for internal control disclosure stands at 0.356, exceeding the 0.05 threshold. This suggests that publicizing internal control mechanisms does not have a substantial impact on financial results, leading to the rejection of hypothesis H2. This implies that while internal control plays a critical role in ensuring smooth operations, revealing such information has not been effectively leveraged to boost the company's efficiency and earnings. This observation lines up with the research conducted by Rakhmayani & Utami (2022) and Yuwono *et al.* (2024), which concluded that revealing internal control details is viewed unfavorably by investors. This is because internal control disclosure often amounts to nothing more than adhering to official requirements, thus failing to offer any extra benefit to investors. Investors' skepticism regarding the reliability of the internal controls that are disclosed can shape investment choices and, in the end, affect the company's financial standing. This scenario could potentially diminish profitability and impede the company's ability to expand in the future.

D. CONCLUSIONS

The study's findings indicate a relationship between disclosing ESG information and how well a company does financially; increased financial gains are seen in firms that are more upfront about their ESG efforts. This demonstrates how a commitment to being sustainable and responsible can boost a company's standing in the market and make investors trust it more. However, there is no

connection between disclosing internal control practices and financial success, which suggests that businesses have not used internal controls to improve their financial standing.

E. SUGGESTIONS

Other factors that may affect financial performance, such as ownership structure and leverage, need to be included in future studies. Future research is also expected to expand the scope of variables and use longer observation periods in order to obtain more comprehensive results. In addition, employing different analytical methods or comparing across sectors may provide deeper insights into the relationship between company characteristics and financial performance. These improvements will strengthen the robustness of future findings and provide broader implications for both academics and practitioners.

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