

THE IMPACT OF ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) SCORE AND SELF-ASSESSMENT GCG ON FINANCIAL PERFORMANCE WITH CREDIT RISK AS A MODERATING VARIABLE IN BANKING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE PERIOD 2019-2023

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ABSTRACT

This study aims to analyze the influence of Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) on the financial performance of banking companies listed on the Indonesia Stock Exchange, considering the role of credit risk as a moderation variable. Financial performance is measured using the Return on Assets (ROA) indicator as a representation of the company's profitability. This study uses a quantitative approach with secondary data obtained from annual reports, GCG self-assessment reports, and ESG data from Bloomberg for the period 2019 to 2023. The sample consisted of 18 banking companies selected through the purposive sampling method based on certain criteria. The analysis technique used was panel data regression with moderation, which was processed using Eviews 12 software. The results showed that GCG Self-Assessment and credit risk had a significant influence on ROA, while ESG did not show a significant influence on financial performance. In addition, credit risk has been shown to moderate the relationship between GCG and financial performance, but it does not have a moderation role in the relationship between ESG and ROA. These findings emphasize the importance of strengthening good corporate governance and effective credit risk management to drive improved banking financial performance. Although ESG has not had a significant direct impact on profitability, sustainability practices still need to be maintained to meet stakeholder demands and improve the company's reputation and competitiveness in the long term.

Keywords: Financial Performance, Environmental, Social, And Governance (ESG) Score, Self-Assessment GCG, Credit Risk

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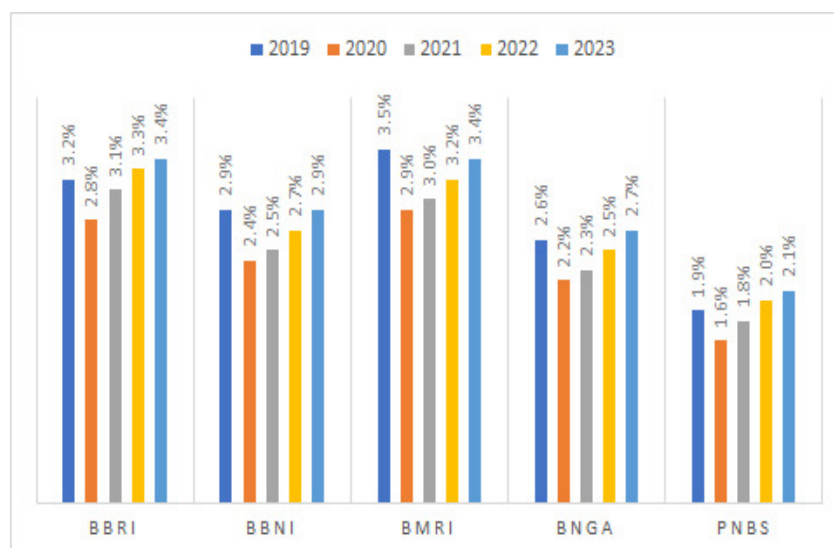
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INTRODUCTION

In this modern era, companies are not only measured by their financial performance, but also by their impact on society and the environment. Awareness of the importance of sustainability is increasing, prompting many organizations to adopt Environmental, Social, and Governance (ESG) Score and Good Corporate Governance (GCG) practices. Although these two factors are recognized to have a positive impact on financial performance, the complexity of the interaction between ESG, GCG, and credit risk as moderation variables still requires more in-depth research. Many companies are trying to improve their ESG scores and implement GCG principles, but not all of them have experienced significant improvements in financial performance (Eccles et al., 2020).

The 2019-2023 period is a challenging period for banking sector companies listed on the Indonesia Stock Exchange. Increasing attention to sustainability aspects has led to demands to improve the Environmental, Social, and Governance (ESG) Score and Good Corporate Governance (GCG) practices. Fluctuations in interest rates and monetary policies that affect credit and deposit interest rates have a direct effect on income and profitability (Miharja et al., 2023).

On the other hand, credit risk is also an important factor that can moderate the relationship between ESG Score, GCG, and banking financial performance. Therefore, an analysis of this period is interesting to be conducted to understand the influence of ESG Score and GCG Self-Assessment on financial performance moderated by credit risk in banking companies in Indonesia (Aliyani & Hadiprajitno, 2023). The following are the development conditions based on the Return On Assets of Indonesian Banking Companies in 2019-2023.



Source: www.idx.co.id

Based on the figure above, it can be concluded that there is a tendency to decline in Return on Assets (ROA) in most of the listed banks, especially in 2020 compared to 2019. The decrease in ROA was most clearly seen in Bank Negara Indonesia (BNI) with a decrease of 17.24%, followed by Bank Mandiri with a decrease of 17.14%, as well as Bank CIMB Niaga and Bank Panin which also experienced significant decreases of 15.38% and 15.79%, respectively. This decline shows the challenges faced by these banks in maintaining optimal financial performance.

Despite this, some banks such as Bank Rakyat Indonesia (BRI) managed to show recovery in the following years, with an increase in ROA in 2022 and 2023. The decline in ROA in 2020 can be influenced by various external and internal factors, including the impact of the COVID-19 pandemic which may have an impact on the operational and financial performance of these banks. In addition, other factors such as market fluctuations, monetary policy, and global economic conditions also play a role in determining the bank's financial performance.

Based on Bank Rakyat Indonesia's (BRI) financial statements as of June 2024, the Return on Asset (ROA) was recorded at 3.84%, an increase from 3.93% in the same period the previous year. Despite the decline in ROA, BRI managed to maintain solid financial performance with a growing net profit. The decrease in ROA was influenced by the increase in fund costs which was not offset by the increase in lending rates, so that the Net Interest Margin (NIM) decreased. However, the ROA and NIM are still quite high, reflecting BRI's stability and operational efficiency in managing assets and revenue. Based on the annual report of Bank Rakyat Indonesia (BRI), the Bank of Indonesia (BRI)

The State of Indonesia (BNI), Bank Mandiri, Bank CIMB Niaga, Bank Panin, and Bank Danamon are actively implementing Environmental, Social, and Governance (ESG) principles and conducting an independent assessment of Good Corporate Governance (GCG). BRI, for example, is known for its commitment to sustainability and social responsibility, and has a good ESG score, which also supports its financial performance. BNI also integrates well-structured GCG reports in its operations, which has a positive impact on financial performance. In general, the implementation of ESG and GCG in these banks contributes to better risk management, increased efficiency, and stable financial performance. Based on the financial performance reports, these banks showed a positive performance in terms of profitability, where Bank Mandiri, for example, showed a significant increase with Return on Assets (ROA) reaching 3.4% in 2023, while Bank CIMB Niaga and Bank Panin also recorded a steady increase in their ROA above 2% each.

Purpose

To give a clearer picture, here are some of the objectives of this research as follows:

- a. To find out how the ESG Score affects financial performance.
- b. To find out whether GCG Self Assessment affects financial performance.
- c. To find out how credit risk affects financial performance.
- d. To find out the ESG Score has an effect on financial performance moderated by credit risk.
- e. To find out whether GCG Self Assessment has an effect on financial performance moderated by credit risk.

Methodology

Population, Samples, and Sampling Techniques

This research is a quantitative research with a focus on analyzing the causal relationship between the variables studied. This study aims to test the hypothesis statistically using numerical data taken from the company's financial statements. The data analysis method used was a data panel with Eviews 12 software. To test the hypothesis put forward using a statistical t-test. This research was conducted on companies listed on the Indonesia Stock Exchange (IDX) in the banking sector for the period of 2019-2023. Through the www.idx.com website, the source of data in this study is secondary data obtained historically from financial statements that have been published by companies that go public listed on the Indonesia Stock Exchange (IDX). The population in this study is banking sector companies listed on the Indonesia Stock Exchange (IDX) and have been consistently active for four consecutive years, from 2019 to 2023. The focus on these companies aims to ensure that the data used can illustrate the implementation of ESG and Self-Assessment Good Corporate Governance (GCG) as well as its relevance to financial performance during a stable period. Based on data from the Indonesia Stock Exchange, the total number of banking sector companies listed in this period is 43 companies. The following is a list of banking sector companies listed on the IDX for the 2019-2023 period.

Definition of Variable Operational

a. Financial Performance (Y)

According to (Karina et al., 2023), financial performance describes the economic results that a company can achieve in a certain period of time, through various actions taken to achieve profits in an efficient and effective way. According to (Hutabarat, 2021), explaining that financial performance is an analysis carried out to evaluate the extent to which a company has carried out its financial activities by complying with the applicable rules and procedures properly and correctly. Meanwhile, according to (Akbar & Fahmi, 2020), the bank's financial performance includes the bank's financial condition in a certain period, which includes both aspects, namely the collection and distribution of funds. From the various definitions of financial performance that have been mentioned, it can be concluded that financial performance reflects the company's achievements in a period,

which describes the company's financial condition and health level through indicators such as capital adequacy, liquidity, and profitability. Financial performance measurement is generally carried out by analyzing and evaluating financial statements. The information obtained from these measurements is very important because it can influence the decision-making process by various related parties.

$$\text{Return on Aset} = \frac{\text{Net Profit}}{\text{Total Asset}}$$

b. Environmental, Social, Governance (ESG) Score (X1)

The term "Environmental, Social, Governance" (ESG) was first introduced by the United Nations Principles of Responsible Investment in a report related to corporate social responsibility. This concept serves as a framework for assessing corporate sustainability and social responsibility based on three main elements: environmental, social, and governance (Antonius & Ida, 2023). ESG is becoming increasingly important, especially in the banking sector, as the industry has a significant role to play in supporting responsible investment and managing sustainability risks (Park et al., 2022). The ESG measurement in this study uses an ESG score from Bloomberg, which is one of the commonly used methods to assess a company's ESG performance quantitatively and qualitatively. Bloomberg's ESG score includes three main elements, namely environmental, social, and governance. The environmental aspect measures how effectively a company manages its environmental impact, including carbon emission reduction, energy efficiency, and waste management. The social element includes the company's contribution to society, relations with employees, protection of human rights, and diversity. Meanwhile, the governance section evaluates corporate governance, including transparency, accountability, and management integrity in carrying out company operations.

c. Self-Assessment GCG (X2)

Through self-assessment, every individual in the company can recognize and assess various obstacles while improving their quality. Based on the GCG Guidebook of PT PP Properti Tbk (2022:3), self-assessment is an evaluation of the implementation of GCG carried out by the company's internal parties or carried out independently. According to the Indonesian Bankers Association (IBI) (2019:252), Self-assessment is an evaluation method carried out independently by a party to obtain information that is then converted into a certain score or value. According to the Circular Letter of the Financial Services Authority Number 13/SEOJK.03/2017, GCG (Good Corporate Governance) self-assessment must be carried out comprehensively and structured consisting of 3 aspects, namely Governance Structure, Governance Process and Governance Outcome.

Table 1. GCG Self-Assessment Composite Value Classification

Composite Values	Value	Peringkat
< 1.5	Excellent	I
1.5 ≤ Composite Value < 2.5	Good	II
2.5 ≤ Composite Value < 3.5	Pretty Good	III
3.5 ≤ Composite Value < 4.5	Not Good	IV
4.5 ≤ Composite Value ≤ 5	Bad	V

d. Credit Risk (Z)

According to (Andrianto & Firmansyah, 2019), the management of Islamic banks. Surabaya: Qiara Media explained that credit risk refers to the possibility that customers, debtors, or related parties fail to meet their financial obligations in accordance with the agreed agreement. Thus, it can be concluded that credit risk comes from a decline in credit quality that leads to increased risk. Based on the Financial Services Authority Regulation Number 17/POJK.04/2019 concerning the Implementation of Risk Management for Banks, credit risk is defined as a risk arising due to the value of the collateral that does not meet the specified requirements or due to an error in taking into account the possibility of default or default by the counterparty to the transaction. In general, credit risk includes the failure of other parties to fulfill their obligations to the bank, including risks related to debtor failure, credit concentration, counterparty credit risk, and settlement risk.

$$NPL = \frac{\text{Non Performing Loan}}{\text{Total Loan}}$$

METHOD

The population in this study is banking sector companies listed on the Indonesia Stock Exchange (IDX) and have been consistently active for four consecutive years, from 2019 to 2023. The focus on these companies aims to ensure that the data used can illustrate the implementation of ESG and *Self-Assessment Good Corporate Governance* (GCG) as well as its relevance to financial performance during a stable period. Based on data from the Indonesia Stock Exchange, the total number of banking sector companies listed in this period is 43 companies. This study uses the *purposive sampling* technuque, the following is a list of banking sector companies listed on the IDX for the 2019-2023 period.

Tabel 2. Purposive Sampling

No.	Criterion	Number of Companies
1	Banking Companies listed on the IDX consecutively in 2019-2023.	43
2	Companies that have not consecutively published their annual reports in the 2019-2023 period	(1)
3	Banking companies with ESG scores not available on Bloomberg in the 2019-2023 period	(24)
Number of Samples		18
Data on Banking Companies Used as Research Samples for the 2019-2023 Period		90

Sumber: Processed secondary data

RESULT AND DISCUSSION

Descriptive Statistics Test

Tabel 3. Statistics Descriptive

	ROA	ESG	SA_GCG	NPL
Mean	0.008883	28.41922	3.022222	0.029912
Median	0.011950	28.82000	3.000000	0.028000
Maximum	0.034600	53.03000	4.000000	0.106600
Minimum	-0.092300	17.49000	2.000000	0.000100
Std. Dev.	0.021774	7.431488	0.423410	0.020153
Skewness	-3.025780	1.667052	0.139222	2.128209
Kurtosis	13.00497	7.407836	5.610268	8.022196

According to the results of descriptive statistical analysis, *the minimum Return On Asset* value is -0.0923 and the maximum is 0.0346. The mean ROA value is 0.008883, the median is 0.011950, and the standard deviation is 0.021774. This shows that the ROA data has a relatively small diversity, but there are significant negative extreme values.

Based on the results of descriptive statistical analysis, ESG values range from 17.49 to 53.30. The average (mean) of ESG is 28.41922, the median value is 28.82, and the standard deviation is 7.431488. This shows that ESG values between companies vary quite widely, with a slight right-skew distribution (positive skewness = 1.667052).

Based on the results of descriptive statistical analysis, the SA_GCG value ranges from 2.00 to 4.00. The mean is 3.022222, the median is 3.00, and the standard deviation is 0.423410. This shows that the majority of companies obtain a fairly good GCG score, with relatively low data dissemination.

The results of descriptive statistical analysis show that the minimum NPL value is 0.0001 and the maximum is 0.1066. The average NPL is 0.029912, the median is 0.028000, and the standard deviation is 0.020153. The NPL data has a skewness of 2.128209 which means the distribution is tilted to the right, and a kurtosis of 8.022196 which indicates a high peak of distribution (leptokurtic), indicating the possibility of extreme values.

Selection of Panel Data Estimation Model Techniques

Table 4. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.174654	(17,69)	0.0000
Cross-section Chi-square	73.974830	17	0.0000

Based on the results of the tests that have been carried out, it is obtained that *the Fixed Effect* (FEM) model is a more appropriate approach to be used in panel data regression analysis compared to *the Common Effect Model* (CEM). This is indicated by a probability value of 0.0000, both in the F test and in the Chi-square test, which is below the significance level of 5% ($\alpha = 0.05$). Thus, there are significant differences between individual units in the model, so that the FEM approach is better able to capture these variations accurately.

Table 5. Hausman Test

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.378742	3	0.7105

Based on the test results obtained, *the Random Effect Model (REM)* is seen as the most suitable approach to be used in panel data regression analysis. This is indicated by a random cross-section probability value of 0.7105, which is above the significance threshold of 5% ($\alpha = 0.05$). Thus, it can be concluded that the differences between the observation units are random and that the REM model is feasible to use.

Tabel 6. Lagrange Multiplier

Lagrange Multiplier Tests for Random Effects

Null hypotheses: No effects

Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	33.79233 (0.0000)	1.602355 (0.2056)	35.39469 (0.0000)

Through the results of the *Lagrange Multiplier* test, a Breusch-Pagan probability value of 0.0000 was obtained, which is below the significance threshold of 0.05. These findings lead to the conclusion that the *Random Effect Model (REM)* approach is more feasible to apply in panel data regression analysis compared to the *Common Effect Model (CEM)* approach because it is able to capture variations between individuals that are not detected by CEM.

Hypothesis Testing

Tabel 7. Estimation result of Equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.053028	0.016065	3.300753	0.0014
ESG	-0.000461	0.000498	-0.925329	0.3574
SA_GCG	-0.010985	0.004465	-2.460312	0.0159
NPL	-0.311709	0.125298	-2.487745	0.0148

For the ESG variable, the t-statistical value of -0.925329 is smaller than the t-table of 1.662, and the probability value (p-value) of 0.3574 is greater than 0.05. Thus, H_0 was accepted and H_a was rejected, so ESG had no effect on *Return on Assets (ROA)* partially.

For the *GCG Self Assessment variable*, the t-statistical value of -2.460312 is greater than the t-table of 1.662, and the probability value of 0.0159 is less than 0.05. Therefore, H_0 was rejected and H_a was accepted, so it can be concluded that *GCG Self Assessment* has a partial effect on ROA.

For the *Non-Performing Loan (NPL)* variable, the t-statistical value of -2.487745 is greater than the t-table of 1.662, and the probability value of 0.0148 is smaller than 0.05. Thus, H_0 was rejected and H_a was accepted, so it can be concluded that NPLs have a partial effect on ROA.

Tabel 8. Estimation Result of Moderation Equation 1

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 03/30/25 Time: 20:44
Sample: 2019 2023
Periods included: 5
Cross-sections included: 18
Total panel (balanced) observations: 90
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.024529	0.028767	0.852663	0.3962
ESG	-0.000257	0.000963	-0.267247	0.7899
NPL	0.119518	0.881522	0.135582	0.8925
ESG_NPL	-0.013648	0.028430	-0.480034	0.6324

Based on the results of the analysis on the moderation interaction test, it was found that the interaction variable between ESG and Credit Risk (ESG $\times$ NPL) did not have a significant effect on *Return on Assets* (ROA). This is indicated by a *t-statistic* value of -0.480034 with a probability value (p-value) of 0.6324, which is greater than the significance level of 0.05. Thus, it can be concluded that the NPL moderation variable does not moderate the relationship between ESG and ROA. This means that credit risk does not strengthen or weaken the influence of ESG on a company's financial performance.

Tabel 9. Estimation Result of Moderation Equation 2

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 03/30/25 Time: 20:46
Sample: 2019 2023
Periods included: 5
Cross-sections included: 18
Total panel (balanced) observations: 90
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.112046	0.015139	7.400896	0.0000
SA_GCG	-0.048253	0.007318	-6.593673	0.0000
NPL	-3.310826	0.526950	-6.283004	0.0000
SA_NPL	1.532490	0.262367	5.841012	0.0000

The results of the interaction test in Equation 2 show that the interaction between *Self-Assessment* GCG and NPL (SA_GCG $\times$ NPL) has a significant effect on *Return on Assets* (ROA). The *t-statistic* value for SA_NPL is 5.841012 with a probability value of 0.0000, which is much smaller than 0.05. This suggests that the NPL moderation variable strengthens the relationship between SA_GCG and ROA. In other words, credit risk (NPL) is able to moderate the influence of corporate governance (GCG) on the company's financial performance.

RESULTS AND DISCUSSION

The Influence of ESG Score on Financial Performance (ROA)

The test results show the H1 hypothesis that *Environmental, Social, and Governance* (ESG) has no impact on financial performance (ROA). However, the results of the analysis show that the *t-statistic* value for ESG is -0.925329, smaller than the t-table of 1.662, and the p-value of 0.3574 which is greater than 0.05.

Thus, ESG does not have a significant effect on the company's financial performance. This means that the implementation of ESG policies and practices by companies has not made a real contribution to increasing *Return on Assets* (ROA). This can be due to various factors, such as the lack of optimal implementation of ESG in the company's core business strategy or the lack of pressure from stakeholders to implement sustainability principles across the board.

The results of this study are in line with research conducted by Bahadori et al. (2021), which showed that ESG has no effect on the financial performance of companies. This means that even if companies implement ESG policies, there is no direct impact on their financial performance. However, these results contradict the findings of Buallay (2019), which shows that ESG has a positive effect on a company's financial performance. Bualay's research indicates that the implementation of good ESG policies can improve a company's financial performance, likely because of its effect on operational efficiency and improved corporate image leading to increased revenue.

The Effect of GCG Self-Assessment on Financial Performance (ROA)

The test results show the H2 hypothesis that *Self Assessment of Good Corporate Governance* (GCG) has an effect on financial performance (ROA). The results of the analysis showed that the *t-statistical* value of -2.460312 was greater than the *t-table* value of 1.662 (in absolute value), and the *p-value* of 0.0159 was less than 0.05.

Thus, H_0 was rejected and H_a was accepted, so it can be concluded that *GCG Self Assessment* has a significant effect on ROA partially. This means that good corporate governance (GCG) practices, such as transparency, accountability, responsibility, independence, and fairness assessed through *self-assessment*, have been proven to contribute to improving the efficiency of company asset management. This shows that companies that implement GCG principles well tend to have more optimal resource management and are able to improve financial performance.

The results of this study are in line with research conducted by Latifah et al. (2024), which shows that *GCG self-assessment* has a negative effect on a company's financial performance. This can be explained by the use of composite indicators in *GCG self-assessment*, which measures overall GCG performance through various indicators combined. In this composite indicator, the lower the value obtained, the better the assessment of the application of GCG principles. In this case, a low score on *GCG self-assessment* reflects that the company has implemented better and more effective GCG practices. However, while this indicates a better implementation of GCG, it actually has a negative effect on the company's financial performance, likely because the company has to spend more to comply with stricter GCG standards.

However, these results contradict the findings of Maharani & Kirana (2024), which found that *GCG self-assessment* has no effect on a company's financial performance. Their research shows that even though companies conduct self-assessments related to the implementation of GCG, no significant impact was recorded on measurable financial performance.

The Influence of Credit Risk in Moderation between ESG Score and Financial Performance

The results of the moderation interaction test showed that the interaction variables between *Environmental, Social, and Governance* (ESG) and *Non-Performing Loans* (NPL) did not have a significant effect on financial performance (ROA). This is shown by a *t-statistic* value of -0.480034 which is smaller than the *t-table* of 1.662, and a *p-value* of 0.6324 which is greater than 0.05.

Thus, it can be concluded that the NPL variable does not moderate the relationship between ESG and ROA. This means that the credit risk faced by the company does not strengthen or weaken the influence of ESG on financial performance. In this context, the implementation of ESG does not significantly depend on the level of credit risk of a company in affecting its profitability.

The Influence of Credit Risk in Moderation between GCG Self-Assessment and Financial Performance

The results of the moderation interaction test showed that the interaction between *Self-Assessment Good Corporate Governance* (SA_GCG) and *Non-Performing Loan* (NPL) had a

significant effect on financial performance (ROA). This is shown by a *t-statistic* value of 5.841012 which is larger than the *t-table* of 1.662, and a *p-value* of 0.0000 which is much smaller than 0.05.

Thus, it can be concluded that NPLs moderate the relationship between SA_GCG and ROA significantly. This means that credit risk strengthens the influence of corporate governance on financial performance. When credit risk is high, the implementation of strong GCG becomes increasingly important to maintain the company's profitability. In this context, good corporate governance can help management in managing credit risk more effectively, so that its impact on ROA becomes stronger.

CONCLUSION

This study aims to determine the influence of ESG variables, Self Assessment GCG on Financial Performance with Credit Risk as a moderation variable in Bank companies listed on the Indonesia Stock Exchange (IDX) in 2019-2023. The sample used in this study is 18 companies. Based on the results of this study, it can be concluded that:

1. The ESG Score has no impact on financial performance. It is evidenced by a *t-statistic* value of $-0.925329 < t\text{-table of } 1.662$ with a *p-value* of $0.3574 > 0.05$.
2. GCG Self Assessment has a negative effect on financial performance. It is evidenced by a *t-statistic* value of $-2.460312 < t\text{-table of } 1.662$ with a *p-value* of $0.0159 < 0.05$.
3. Credit Risk has a negative effect on financial performance. It is evidenced by a *t-statistical* value of $-2.487745 < t\text{-table of } 1.662$ with a *p-value* of $0.0148 < 0.05$.
4. Credit risk is unable to moderate the influence of ESG on financial performance. It is evidenced by a *t-statistic* value of $-0.480034 < t\text{-table of } 1.662$ with a *p-value* of $0.6324 > 0.05$.
5. Credit risk is able to moderate the influence of GCG Self Assessment on financial performance. Evidenced by the *t-statistic* value of $5.841012 > t\text{-table } 1.662$ with a *p-value* of $0.0000 < 0.05$.

Confession

With gratitude and humility, I would like to express my deepest gratitude to all parties who have provided support, guidance, and assistance in the process of completing this thesis. The journey of compiling this thesis was not an easy thing, but thanks to prayer, support, and assistance from various parties, I was finally able to complete this final project well.

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