Jurnal Ekonomi, Manajemen, dan Bisnis
2026, Vol. 4, No. 3, pp. 1326-1336
E-ISSN: 3031-7150

Analysis of Environmental, Social, and Governance Disclosure Effects on Net Profit Margin and Price to Earnings Ratio in Indonesian Banking

Nelly Venyningtias Basuki[1]✉, Rusdi Hidayat Nugroho[2]
(1,2) Department of Business Administration, Universitas Pembangunan Nasional "Veteran" Jawa Timur, Surabaya, Indonesia

Abstract: This study examines how Environmental, Social, and Governance (ESG) Disclosure shapes two distinct performance outcomes among Indonesian banks — internal profitability, captured through Net Profit Margin (NPM), and external market valuation, captured through Price Earning Ratio (PER) — for the 2019–2025 window on the Indonesia Stock Exchange (IDX). A purposive sample of 25 listed banks was tracked across seven years, producing 175 firm-year observations that were tested with covariance-based Structural Equation Modeling (CB-SEM) in AMOS. Both the measurement and structural models met the required validity, reliability, and fit thresholds. All six proposed paths (H1–H6) were supported: each ESG pillar exerted a positive, statistically significant influence on NPM and PER alike. Among the three, Environmental disclosure carried the strongest pull on market valuation, whereas Social and Governance contributed more evenly across both outcomes. Taken together, the results lend empirical weight to Stakeholder, Legitimacy, Agency, and Signaling Theory as complementary lenses for understanding how sustainability reporting translates into corporate performance within an emerging-market banking context, and they point to practical steps regulators and bank managers can take to turn ESG disclosure into a lever for stronger profitability and investor appeal.

Article history:
Received: 12 August 2026
Revised: 27 August 2026
Accepted: 11 September 2026
Published: 17 September 2026

Keyword:
ESG, Profitability, Market, NPM, PER

How to cite: Basuki, N, V., & Nugroho, R. H. (2026). Analysis of Environmental, Social, and Governance Disclosure Effects on Net Profit Margin and Price to Earnings Ratio in Indonesian Banking. *Jurnal Ekonomi, Manajemen, dan Bisnis*, *4*(3), 1326–1336. https://doi.org/10.70716/emis.v4i3.817

INTRODUCTION

Corporate performance benchmarks worldwide have moved well beyond conventional profit metrics, broadening into the Environmental, Social, and Governance (ESG) agenda. Within banking specifically, ESG reporting doubles as a risk-management lever and a shaper of the market perceptions that feed back into profitability and share appeal. Cutting emissions, tightening energy use, and managing waste responsibly have become central to offsetting the environmental strain that comes with heavy industrial and resource activity (Wahdan Arum Inawati & Rahmawati, 2023). A parallel pattern emerged in Arisanty Razak & Hasan (2025) study of IDX-listed, state-owned banks, where ESG disclosure was shown to lift company performance year over year.

When applied thoroughly, ESG practices tend to build investor trust and open the door to durable competitive advantage (Nurahman et al., 2024). Banks in particular occupy a strategic position for linking financial objectives to the Sustainable Development Goals (SDGs) (Wanta & Herawati, 2021). Indonesia has formalized this expectation through the Financial Services Authority's POJK No. 51/POJK.03/2017 on Sustainable Finance, rolled out in two phases — Phase I (2015–2019) to build institutional capacity, and Phase II (2021–2025) to establish a fuller sustainable-finance ecosystem (Otoritas Jasa Keuangan, 2021)

Even so, sustainable finance in Indonesia continues to run into real structural friction. Progress is slowed by patchy ESG literacy, constrained corporate capacity, and steep implementation costs

✉ *Corresponding author:* ***nellyvenyningtias@gmail.com***

(Sultan et al., 2024) a combination that puts firms in a bind, since profit maximization still sits at the core of most business objectives. Sound financial performance remains non-negotiable because it signals how well a firm manages its resources, meaning financial discipline has to hold steady before stakeholder interests and strategic goals can be reconciled (Ferli et al., 2025)

ESG metrics now function as a core yardstick for judging operational quality and containing negative externalities in the pursuit of sustainable growth (Vefiadytria & Rosyadi, 2025). Under this broader view of firm value, valuation is no longer a single financial number but a composite of financial stability, social capital, and environmental resilience. Within capital markets, share prices stand in for investor expectations, and the signal sent by robust profits and steady dividends is what typically drives valuation upward (Sari et al., 2025).

Even though ESG Disclosure is widely accepted as a driver of firm value, the empirical record remains mixed. Several studies find that ESG transparency signals lower information asymmetry and lifts market valuation, while others argue the opposite — that the expense of implementing ESG can erode capital efficiency and squeeze short-term profits, particularly in emerging economies (Ferli et al., 2025). This split in the evidence points to a research gap: how sustainability principles actually play out inside a banking sector defined by tight regulation and concentrated risk.

The contribution of this study lies in testing all three ESG dimensions — Environmental, Social, and Governance — against two separate performance outcomes, internal financial performance (NPM) and external market valuation (PER), within one covariance-based Structural Equation Modeling (CB-SEM) framework covering Indonesian banks from 2019 to 2025. This dual-outcome setup makes it possible to see whether the three ESG pillars move financial and market performance in the same direction or pull them apart — a question prior banking-sector studies have largely left unanswered. Accordingly, this study sets out to analyze how Environmental, Social, and Governance Disclosure affects the Profitability Ratio (NPM) and Market Ratio (PER) of banks listed on the IDX between 2019 and 2025.

Stakeholder theory holds that a firm cannot pursue its own interests in isolation; it owes a positive contribution to everyone it touches. The theory frames stakeholders as any internal or external party that shapes, or is shaped by, the organization's policies and day-to-day operations, whether that influence is direct or indirect (Syafis, 2022). Kaptein (2025) extends this view, arguing that stakeholders are owed fair, ethical treatment and that meeting their social expectations is what earns a company acceptability and credibility in the public eye.

Legitimacy theory treats a firm's existence as contingent on staying aligned with the norms, values, and expectations of the wider social system it operates in. Seen this way, legitimacy becomes a governance strategy centered on societal and governmental interests, and it is also what pushes firms toward greater transparency in environmental reporting. When corporate conduct drifts away from societal values, a legitimacy gap opens up — one that can damage reputation, threaten the firm's survival, and deepen ecological harms such as pollution and emissions (Hayati Harahap & Nahwa Zainab Marpaung, 2023). Akhter et al. (2023) echo this, describing environmental disclosure as a way companies honor their social contract with society in order to remain accepted and viable in a shifting business landscape.

Agency theory frames the bond between owners and managers as a contract between a principal (the shareholder) and an agent (the manager) — a relationship prone to conflicting interests and unequal access to information (Al-Faryan, 2024). Under this lens, governance mechanisms such as board oversight, an independent audit committee, and remuneration policy work as monitoring and incentive tools that keep managerial behavior aligned with shareholder interests and curb moral hazard. Disclosing these mechanisms is therefore expected to trim agency costs, build investor trust, and ultimately support both operational efficiency and market valuation. This study leans on Agency Theory as the main theoretical anchor for the effect of Governance Disclosure on NPM and PER, working alongside Stakeholder, Legitimacy, and Signaling Theory referenced in the abstract and in the

governance-dimension discussion.

Signaling theory describes a deliberate management move to publish information about a firm's future prospects and its progress toward shareholder expectations. Such disclosures give outside investors a tool for gauging a company's track record and staying power when weighing investment decisions. The stronger and clearer the signal, the more it shapes market perception and, in turn, the firm's overall economic value (Desi Puspita Sari, 2023).

ESG Disclosure is the structured reporting of a firm's Environmental, Social, and Governance practices, typically measured against internationally recognized frameworks such as the Global Reporting Initiative (GRI). For banks, it serves two purposes at once: satisfying sustainable-finance regulation and signaling to stakeholders and investors how resilient and forward-looking the bank's risk management really is.

A profitability ratio gauges how well a company converts its activities into earnings over a given period, essentially a report card on managerial effectiveness in turning operations, sales, and investment into added value. Strong profitability signals that management is squeezing efficient use out of assets and capital while keeping costs in line with output (Nenobais et al., 2022). This study proxies profitability through Net Profit Margin (NPM).

A market ratio ties a firm's stock price to the fundamentals disclosed in its financial statements, capturing how the market collectively perceives, trusts, and anticipates the firm's future growth. Investors lean on it to judge whether a stock is fairly priced, overvalued, or undervalued, and it also reveals how much financial information the market has already absorbed (Nenobais et al., 2022). Here, the market ratio is proxied through Price Earning Ratio (PER).

Based on the theoretical framework above and consistent with prior findings on ESG disclosure in the banking sector, the following hypotheses are formulated:

H1: Environmental Disclosure has a significant positive effect on Profitability Ratio (NPM).
H2: Social Disclosure has a significant positive effect on Profitability Ratio (NPM).
H3: Governance Disclosure has a significant positive effect on Profitability Ratio (NPM).
H4: Environmental Disclosure has a significant positive effect on Market Ratio (PER).
H5: Social Disclosure has a significant positive effect on Market Ratio (PER).
H6: Governance Disclosure has a significant positive effect on Market Ratio (PER).

RESEARCH METHOD

Research Design

This study employed a quantitative explanatory research design to examine the effects of Environmental, Social, and Governance Disclosure on the profitability and market valuation of banking companies. The study used secondary panel data consisting of repeated annual observations of banks listed on the Indonesia Stock Exchange (IDX) from 2019 to 2025. The relationships among the research constructs were examined using covariance-based Structural Equation Modeling (CB-SEM).

Population and Sample

The population comprised all banking companies listed on the Indonesia Stock Exchange. The sample was selected using purposive sampling based on two inclusion criteria: (1) the bank was listed on the Indonesia Stock Exchange during the observation period and (2) the bank consistently published both annual reports and sustainability reports from 2019 to 2025. Based on these criteria, 25 banks were included in the final sample. Each bank was observed for seven consecutive years, resulting in 175 firm-year observations (25 banks × 7 years).

Because each bank contributed repeated annual observations, the dataset had a clustered structure in which firm-year observations were nested within banks. Observations belonging to the same bank may therefore be correlated across years and cannot be assumed to be completely

independent. Ignoring this within-bank dependence could lead to underestimated standard errors and overly optimistic statistical significance.

To address this issue, the CB-SEM model was estimated using cluster-robust standard errors, with bank identity specified as the clustering variable. This procedure retained all 175 firm-year observations while adjusting the standard errors, test statistics, confidence intervals, and p-values for potential within-bank correlation. The 25 banks were treated as independent clusters, whereas annual observations within the same bank were permitted to be correlated.

Data Source and Collection Technique

This study used quantitative secondary data obtained from the financial statements, annual reports, and sustainability reports of the sampled banks for the financial years ending 31 December 2019 through 31 December 2025. The data were collected using documentation techniques from the official websites of the respective banks and the IDX disclosure platform. These sources were selected to ensure that the data were credible, publicly accessible, and traceable.

Variable Measurement — ESG Disclosure

ESG Disclosure was measured through content analysis based on the Global Reporting Initiative standards. The Environmental dimension was measured using relevant disclosures from the GRI 300 series, the Social dimension using disclosures from the GRI 400 series, and the Governance dimension using relevant items from GRI 2. Each ESG dimension was represented by three reflective sub-indicators formed by grouping related disclosure items, as presented in Table 1.

Table 1. Grouping of ESG Sub-Indicators (ENVD1–3, SOCD1–3, GOVD1–3)

Dimension	Sub-indicator	GRI items covered
Environmental (ENVD1)	Resources & Energy	GRI 301, 302, 303
Environmental (ENVD2)	Ecosystem & Emissions	GRI 304, 305
Environmental (ENVD3)	Waste & Compliance	GRI 306, 307, 308
Social (SOCD1)	Labor Practices	GRI 401, 402, 403, 404
Social (SOCD2)	Human Rights & Equality	GRI 405–412
Social (SOCD3)	Community & Consumers	GRI 413–419
Governance (GOVD1)	Organizational Structure	GRI 2 — organization & reporting practice; activities & workers
Governance (GOVD2)	Governance Mechanism	GRI 2 — governance
Governance (GOVD3)	Strategy & Policy	GRI 2 — strategy, policy, and practices

Each sub-indicator's ESG score is the share of a company's disclosed items out of the total items called for under the matching GRI standard, expressed as a percentage:

$$ESGj = (\text{Sum of company's disclosure items} / \text{Total of GRI's disclosure items}) \times 100\%$$

Variable Measurement — Net Profit Margin (NPM)

Net Profit Margin (NPM) captures how efficiently a firm turns revenue into bottom-line profit, calculated as after-tax net profit divided by total operating revenue (Putri Diana Lase et al., 2022):

$$NPM = (\text{Net Profit After Tax} / \text{Sales}) \times 100\%$$

Variable Measurement — Price Earning Ratio (PER)

Price Earning Ratio (PER) shows how much capital an investor must commit to claim one rupiah of a company's earnings (Kasmir, 2019):

$$PER = \text{Market Price per Share} / \text{Earnings per Share (EPS)}$$

Data Analysis Technique

The data were analyzed using covariance-based Structural Equation Modeling (CB-SEM) in IBM SPSS AMOS version 29 following a two-stage procedure. First, Confirmatory Factor Analysis (CFA) was conducted to evaluate the measurement model. Indicator validity was assessed using standardized factor loadings, convergent validity using Average Variance Extracted (AVE), and construct reliability using Composite Reliability (CR).

Second, the structural model was estimated to examine the six hypothesized relationships between the three exogenous latent constructs—Environmental, Social, and Governance Disclosure—and the two endogenous observed variables, Net Profit Margin (NPM) and Price Earnings Ratio (PER). Environmental, Social, and Governance Disclosure were specified as three separate first-order latent constructs, each measured by three reflective indicators.

Before model estimation, univariate and multivariate normality were assessed using the critical ratios of skewness and kurtosis. Multivariate outliers were examined using the Mahalanobis D^2 statistic. Overall model fit was evaluated using absolute, incremental, and parsimonious fit indices, including Chi-square, degrees of freedom, probability, CMIN/DF, GFI, AGFI, RMSEA, NFI, RFI, IFI, TLI, CFI, PNFI, PCFI, PCLOSE, and the Hoelter index.

The dataset comprised 175 firm-year observations from 25 banks observed over seven years. Because the observations were repeatedly collected from the same banks, annual observations within each bank may be correlated across years. Standard CB-SEM estimation in AMOS treats firm-year observations as individual cases and does not explicitly adjust the standard errors for potential within-bank dependence. Therefore, the reported standard errors, critical ratios, and significance levels should be interpreted cautiously, as disregarding within-bank correlation may result in underestimated standard errors and overly optimistic statistical significance. This issue is acknowledged as a methodological limitation of the present study.

RESULTS AND DISCUSSION

Measurement Model / Confirmatory Factor Analysis

The measurement-model test puts every indicator under the Environment, Social, and Governance constructs above the 0.600 Standardized Factor Loading threshold (Table 1), with values spanning 0.791 to 0.903 — clearing all nine indicators as valid and fit for use in the model.

Table 2. Outer Loading Test Results

No	Construct	Indicator	Standardized Factor Loading	Criteria	Note
1	Environment	ENVD1	0.850	> 0.600	Valid
2	Environment	ENVD2	0.873	> 0.600	Valid
3	Environment	ENVD3	0.791	> 0.600	Valid
4	Social	SOCD1	0.903	> 0.600	Valid
5	Social	SOCD2	0.847	> 0.600	Valid
6	Social	SOCD3	0.818	> 0.600	Valid
7	Governance	GOVD1	0.805	> 0.600	Valid
8	Governance	GOVD2	0.829	> 0.600	Valid
9	Governance	GOVD3	0.864	> 0.600	Valid

Normality checks put every variable's skewness and kurtosis critical ratio (C.R.) within the ±2.58 band, including a multivariate C.R. of −0.599 — confirming the data are normally distributed both variable-by-variable and jointly, and therefore fit for SEM. Convergent validity (Average Variance

Extracted) and construct reliability (Composite Reliability) results back this up further: every construct clears 0.500 on AVE (Table 2) and 0.700 on Composite Reliability (Table 3), meaning each one accounts for over half its indicators' variance while holding strong internal consistency.

Table 3. Average Variance Extracted Test Results

No	Construct	AVE	Cut-off	Note
1	Environment	0.703	> 0.500	Fulfilled
2	Social	0.734	> 0.500	Fulfilled
3	Governance	0.694	> 0.500	Fulfilled

Table 4. Composite Reliability Test Results

No	Construct	Composite Reliability	Cut-off	Note
1	Environment	0.877	> 0.700	Fulfilled
2	Social	0.892	> 0.700	Fulfilled
3	Governance	0.872	> 0.700	Fulfilled

Structural Model and Goodness of Fit

Running the structural model through the full battery of Goodness of Fit indices (Table 4) confirms every criterion is satisfied: probability (0.749) and CMIN/DF (0.836) sit comfortably within range, the absolute indices (GFI = 0.968; AGFI = 0.943; RMSEA = 0.000) and incremental indices (NFI, RFI, IFI, TLI, CFI, all ≥ 0.90) all land in the fit category, and the parsimony indices (PNFI, PCFI) plus the Hoelter index clear their thresholds too. The model is therefore fit and ready for hypothesis testing.

Table 5. Goodness of Fit Test Results

Index	Cut-off	Result	Note
Chi-square	Expected to be small	30.914	Good
Degrees of freedom	df>0	37	Fit
robability	≥ 0.05	0.749	Fit
CMIN/DF	≤ 2.00	0.836	Fit
GFI	≥ 0.90	0.968	Fit
AGFI	≥ 0.90	0.943	Fit
RMSEA	≤ 0.08	0.000	Fit
NFI	≥ 0.90	0.976	Fit
RFI	≥ 0.90	0.965	Fit
IFI	≥ 0.90	1.005	Fit
TLI	≥ 0.90	1.007	Fit
CFI	≥ 0.90	1.000	Fit
PNFI	≥ 0.50	0.657	Fit
PCFI	≥ 0.50	0.673	Fit
PCLOSE	≥ 0.05	0.984	Fit
Hoelter 0.05	≥ 200	294	Fit
Hoelter 0.01	≥ 200	338	Fit

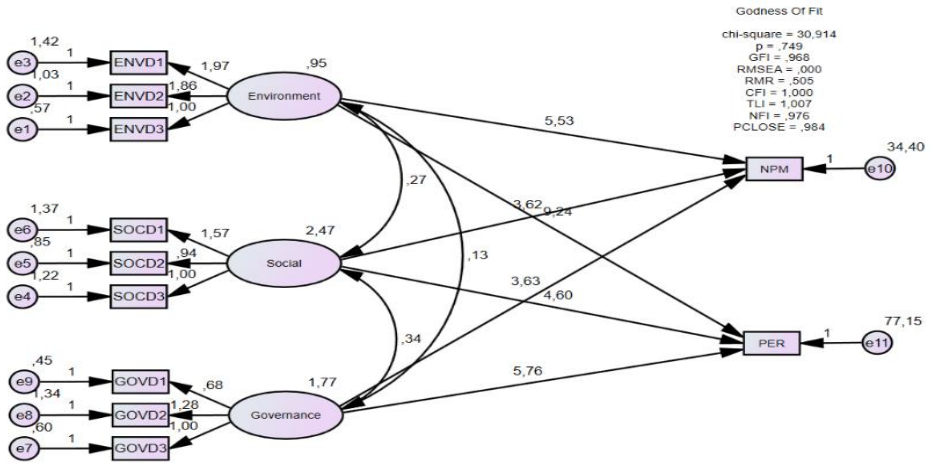

Figure 1. Structural Model of the Effect of Environmental, Social, and Governance Disclosure on NPM and PER (Three First-Order Constructs)

Hypothesis Testing

The direct-effects test (Table 5) confirms that Environmental, Social, and Governance Disclosure each push NPM and PER upward significantly, with every path clearing C.R. > 1.96 and p < 0.001 — support for accepting all six hypotheses (H1–H6).

Table 6. Direct Hypothesis Test Results

Hyp.	Relationship	Unstandardized Estimate (B)	C.R.	P	Direction	Decision
H1	Environment → NPM	5.532	8.484	***	Positive	Accepted
H2	Social → NPM	3.623	8.957	***	Positive	Accepted
H3	Governance → NPM	3.625	8.114	***	Positive	Accepted
H4	Environment → PER	9.243	9.122	***	Positive	Accepted
H5	Social → PER	4.602	7.982	***	Positive	Accepted
H6	Governance → PER	5.763	8.643	***	Positive	Accepted

The model's explanatory power is substantial: R^2 reaches 0.761 for NPM and 0.762 for PER, meaning the predictors account for more than three-quarters of the movement in both outcomes.

Effect of Environmental Disclosure on Financial Performance and Market Valuation

The findings indicate that Environmental Disclosure is positively associated with both profitability and market valuation. From the perspective of Stakeholder Theory, transparent environmental reporting demonstrates that banks recognize the expectations of customers, investors, regulators, and the wider community regarding responsible financing and sustainable operations. Environmental disclosure may also reflect operational initiatives such as energy-efficient branches, digital banking services, paperless transactions, waste reduction, and the integration of environmental risk into credit assessment. These practices can support cost efficiency and reduce exposure to environmental and regulatory risks, thereby contributing to stronger profitability.

From the perspective of Signaling Theory, detailed environmental disclosure provides investors with information about a bank's preparedness for the transition toward a low-carbon economy. Banks that transparently report their environmental policies, green-financing portfolios, financed emissions, and climate-related risk-management practices may be perceived as better prepared for regulatory changes and long-term sustainability risks. This positive signal can strengthen investor confidence and

support market valuation. The finding is consistent with Vefiadytria and Rosyadi (2025), Dwi Asrianingtyas et al. (2025), and Juanda et al. (2025), who emphasize the relevance of environmental transparency and sustainability-reporting quality in strengthening stakeholder confidence.

For bank management, environmental disclosure should not be treated merely as a reporting obligation. Large banks can strengthen disclosure by measuring financed emissions, expanding green lending, conducting climate-risk assessments, and obtaining external assurance for sustainability information. Small and medium-sized banks, which may face more limited financial and technical resources, can adopt a phased approach by initially concentrating on material indicators such as energy consumption, paper use, waste management, environmentally sensitive lending, and the proportion of financing allocated to sustainable activities. This approach can improve disclosure quality without imposing excessive implementation costs.

Effect of Social Disclosure on Financial Performance and Market Valuation

Social Disclosure is also positively associated with profitability and market valuation. This relationship is consistent with Legitimacy Theory because banks depend heavily on public confidence and social acceptance. Disclosing employee welfare, financial-inclusion initiatives, consumer protection, community development, service accessibility, and complaint-resolution mechanisms demonstrates that a bank is responding to the interests of its stakeholders. Such practices may strengthen customer loyalty, broaden access to financial services, and protect the bank from reputational risks that could disrupt its financial performance.

In terms of market valuation, social disclosure can help investors evaluate risks that are not fully reflected in conventional financial statements. Information concerning employee development, data protection, customer complaints, responsible lending, and community engagement may indicate the bank's capacity to maintain stable relationships with customers and other stakeholders. In the banking industry, where trust is a central business asset, credible social disclosure can function as a reputational safeguard and reduce investors' perceptions of non-financial risk.

The result is consistent with Bayuaji et al. (2025), who reported that ESG-related disclosure was relevant to corporate performance in the banking sector. However, it differs from Dwi Asrianingtyas et al. (2025), who found that the social dimension did not significantly affect firm value in the ASEAN food-product sector. This difference suggests that the influence of Social Disclosure may depend on industry characteristics. Compared with product-based industries, banking activities rely more directly on customer confidence, financial inclusion, service quality, and the protection of customer information.

For bank management, the findings underline the importance of reporting measurable social outcomes rather than merely listing corporate social responsibility activities. Banks should disclose indicators such as the number of previously underserved customers gaining access to financial services, the resolution rate of customer complaints, employee training outcomes, consumer data-protection measures, and the effects of community-development programs. For small and medium-sized banks, social initiatives should be aligned with their local market position, for example through financing for micro, small, and medium enterprises, financial-literacy programs, and improved access to digital financial services.

Effect of Governance Disclosure on Financial Performance and Market Valuation

Governance Disclosure is positively associated with both profitability and market valuation. This finding supports Agency Theory, which explains that transparent governance mechanisms can reduce information asymmetry and strengthen the monitoring of managerial decisions. Disclosure of board responsibilities, audit-committee independence, risk-management systems, remuneration policies, and internal controls enables shareholders to assess whether management acts consistently with the interests of owners and other stakeholders.

Governance disclosure also functions as a market signal. Transparent information about oversight mechanisms, regulatory compliance, ethical standards, and risk management can strengthen investors' confidence in the security and accountability of a bank's operations. This is particularly important in banking because weaknesses in governance can affect not only shareholders but also depositors and the broader financial system. The finding is consistent with Bonani Prastika et al. (2025), who demonstrated the relevance of corporate governance to corporate performance and value.

Bank management should therefore integrate ESG responsibilities into formal governance structures. Practical actions include assigning clear ESG oversight responsibilities to the board, including ESG risks in internal-audit programs, linking management evaluation to measurable sustainability targets, and ensuring consistency between sustainability reports and financial reports. Small and medium-sized banks do not necessarily need to establish a separate ESG committee; ESG oversight can initially be incorporated into existing risk-management or audit committees, provided that responsibilities, targets, and reporting procedures are clearly defined.

Integrated Managerial and Policy Implications

Taken together, the findings suggest that the three ESG pillars provide complementary information about banking performance. Environmental Disclosure communicates preparedness for environmental and transition risks, Social Disclosure reflects the quality of relationships with employees, customers, and communities, and Governance Disclosure demonstrates the effectiveness of oversight and accountability mechanisms. Therefore, banks should avoid treating ESG disclosure as a collection of unrelated reporting items. ESG information should be integrated into lending policies, risk management, strategic planning, performance evaluation, and investor communication.

For the Financial Services Authority (OJK), the findings highlight the importance of improving the consistency and comparability of sustainability disclosures across banks. OJK could develop more detailed sector-specific reporting guidance, standardized quantitative indicators, and proportionate disclosure requirements based on bank size and operational complexity. Technical assistance and phased implementation would be particularly important for small and medium-sized banks that may lack specialized ESG personnel and information systems. OJK could also encourage external assurance and stronger alignment between sustainability reporting, risk-management disclosures, and financial reporting.

CONCLUSION

Drawing on the CB-SEM analysis of 25 IDX-listed banks over 2019–2025 (175 firm-year observations), Environmental Disclosure emerges as a positive, significant driver of both NPM (H1) and PER (H4) — with the PER path carrying the largest unstandardized estimate in the model — while Social Disclosure does the same for NPM (H2) and PER (H5), and Governance Disclosure for NPM (H3) and PER (H6). The model fits the data well and explains a large share of the variance (R^2 NPM = 0.761; R^2 PER = 0.762), supporting acceptance of all six hypotheses (H1–H6). These results make the case that ESG disclosure is more than a compliance checkbox — it is a strategy that genuinely lifts bank profitability and market valuation in Indonesia.

The results lend combined support to Stakeholder, Legitimacy, Agency, and Signaling Theory as complementary explanations for how sustainability disclosure feeds into corporate performance in emerging-market banking, and they show that Environmental, Social, and Governance Disclosure can each be modeled as separate first-order constructs, every one of them independently and consistently linked to stronger financial and market outcomes.

Bank managers would do well to treat ESG spending as a long-term strategic investment rather than a cost center, particularly by publishing stand-alone sustainability reports to build external

credibility. Green lending, selective credit allocation, and continued investment in secure digital channels can help offset the upfront cost of sustainability compliance, especially at smaller-capital banks. Investors and market participants, meanwhile, should look beyond conventional financial ratios and factor in ESG disclosure scores — tracking constituents of the IDX ESG Leaders index, for instance — as an extra due-diligence check on an issuer's resilience to non-financial risk.

This study covers only 25 IDX-listed banks over 2019–2025 and leans on secondary, GRI-based disclosure scores, so the conclusions may not carry over to unlisted banks or other financial sub-sectors. Future work could widen the model with financial control variables beyond firm size — the Capital Adequacy Ratio or operating cost-efficiency ratios, for instance — to isolate the net effect of ESG disclosure more precisely. Pairing this structural, quantitative approach with mixed methods, such as in-depth interviews with bank management, could also help explain why certain disclosure indicators remain less transparent within specific banking sub-groups.

REFERENCES

Akhter, F., Hossain, M. R., Elrehail, H., Rehman, S. U., & Almansour, B. (2023). Environmental disclosures and corporate attributes, from the lens of legitimacy theory: A longitudinal analysis on a developing country. *European Journal of Management and Business Economics*, *32*(3), 342–369. https://doi.org/10.1108/EJMBE-01-2021-0008

Al-Faryan, M. A. S. (2024). Agency theory, corporate governance and corruption: An integrative literature review approach. *Cogent Social Sciences*, *10*(1), Article 2337893. https://doi.org/10.1080/23311886.2024.2337893

Arisanty Razak, L., & Hasan, A. (2025). Pengaruh Environmental, Social and Governance terhadap kinerja perusahaan: Studi empiris pada perusahaan perbankan BUMN yang terdaftar di Bursa Efek Indonesia tahun 2019–2023. *Jurnal [Nama Jurnal Tidak Lengkap]*, *6*(7). https://www.idx.co.id

Bayuaji, K., Ukhriyawati, C. F., & Putra, R. E. (2025). Analysis of the impact of Environmental, Social, & Governance (ESG) disclosure and profitability on firm value (Study on banking sector companies listed on the IDX from 2017–2021). *Eduvest – Journal of Universal Studies*, *5*(3), 2907–2920. http://eduvest.greenvest.co.id

Bonani Prastika, R., Hidayat Nugroho, R., Prabowo, B., & Respati Kusumasari, I. (2025). The effect of good corporate governance on corporate social responsibility and company value with profitability as an intervening variable: An empirical study on consumer goods sector companies listed on the Indonesia Stock Exchange for the 2019–2023 period. *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)*, *8*(3), 11170–11185.

Desi Puspita Sari, F. L. D., L. E. W. N. F. (2023). *Implementasi teori agensi, efisiensi pasar, teori sinyal dan teori kontrak dalam pelaporan akuntansi pada PT Eskimo Wieraperdana* [Sumber tidak lengkap].

Dwi Asrianingtyas, P., Rahayu, S., Wulansari, C., & Mahardhika Surabaya, S. (2025). Pengaruh Environmental Social dan Governance Disclosure terhadap nilai perusahaan pada perusahaan food product di ASEAN periode 2022–2023. *Jurnal [Nama Jurnal Tidak Lengkap]*, *6*(3).

Ferli, O., Ibrahim, I. F., Pranaja, Y., & Simanjuntak, F. S. (2025). Does ESG disclosure or size which matters to profitability? Case of banking companies listed on the Indonesian capital market. *Jurnal [Nama Jurnal Tidak Lengkap]*, *9*, 917–926.

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). *Multivariate data analysis* (8th ed.). Cengage Learning.

Hayati Harahap, R. H. H., & Nahwa Zainab Marpaung. (2023). Analisis teori legitimasi pada konflik rekognisi penguasaan tanah adat antara PT Asam Jawa dengan komunitas terdampak. *Jurnal Kajian Agraria dan Kedaulatan Pangan (JKAKP)*, *2*(1), 13–22. https://doi.org/10.32734/jkakp.v2i1.13262

Juanda, A., Setyawan, S., & Naseer, M. S. (2025). Sustainability reporting (ESG) quality: A comparative study between manufacturing and banking companies. *IKONOMIKA: Jurnal Ekonomi dan Bisnis Islam*, *10*(1). https://ejournal.radenintan.ac.id/index.php/ikonomika

Kaptein, M. (2025). Stakeholder ethics: Defining the ethical responsibilities of stakeholders to and for companies. *Business and Society Review*, *130*(2), 209–232. https://doi.org/10.1111/basr.70010

Kasmir. (2019). *Analisis laporan keuangan*. Rajawali Pers.

Lase, P. D., Telaumbanua, A., & Harefa, A. R. (2022). Analisis kinerja keuangan dengan pendekatan rasio profitabilitas. *Jurnal Akuntansi, Manajemen dan Ekonomi (Jamane)*, *1*(2), 254–260.

Nenobais, A. H., Sia Niha, S., & Manafe, H. A. (2022). Pengaruh Return on Asset (ROA), Return on Equity (ROE), Net Profit Margin (NPM) dan Earning Per Share (EPS) terhadap harga saham (Suatu kajian studi literatur manajemen keuangan perusahaan). *Jurnal Ekonomi Manajemen Sistem Informasi*, *4*(1). https://doi.org/10.31933/jemsi.v4i1

Nurahman, D., Majid, M. A., & Hersugondo, H. (2024). ESG disclosure's positive impact on financial performance in Indonesia's growth. *Research Horizon*, *4*(6), 25–34.

Otoritas Jasa Keuangan. (2021). *The future of finance*. OJK

Sari, D. E., Suranto, S., Mustofa, R. H., Asila, N. F., Fadhilah, R., Laksmi, A. C. P., & Abdillah, R. A. (2025). Inovasi teknologi sebagai moderator corporate social responsibility, eco-efficiency dan kinerja keuangan perusahaan manufaktur di Indonesia. *Reviu Akuntansi dan Bisnis Indonesia*, *9*(2), 298–318. https://doi.org/10.18196/rabin.v9i2.26796

Sultan, S. A. M., Ahmad, W. M. W., Bacha, O. I., & Ramlee, R. (2024). Impact of corporate social performance on financial performance: Evidence from Islamic banks, conventional banks, and social banks. *ISRA International Journal of Islamic Finance*, *16*(2), 109–130. https://doi.org/10.55188/ijif.v16i2.697

Syafis, K. S. (2022). Analisis penerapan informasi pengungkapan CSR dan faktor-faktor yang mempengaruhinya berdasarkan teori agency, legitimasi, stakeholder, dan teori kontrak sosial. *Jurnal Akuntansi dan Keuangan*, *27*(2), 113–119. https://doi.org/10.23960/jak.v27i2.576

Vefiadytria, E. A., & Rosyadi, I. (2025). Pengaruh Environmental, Social, dan Governance disclosure terhadap financial performance perusahaan. *Jurnal Bisnis Mahasiswa*, *5*(1), 318–327. https://doi.org/10.60036/jbm.v5i1.369

Wahdan Arum Inawati, & Rahmawati, R. (2023). Dampak Environmental, Social, dan Governance (ESG) terhadap kinerja keuangan. *Jurnal Akademi Akuntansi*, *6*(2), 225–241. https://doi.org/10.22219/jaa.v6i2.26674

Wanta, D., & Herawati, V. (2021). Sustainable finance disclosure on banking sector in Indonesia: The relationship ESG with company performance and institutional ownership. *Journal of Research in Business and Management*, *9*.