

ESG and Financial Performance in Banking Sector: The Moderating Role of Institutional Ownership (2023-2024)

Dina Lutfianti*, & Muhammad Ali Ma'sum

Faculty of Economics and Business, Stikubank University, Semarang

Corresponding Author: dinalutfianti0005@mhs.unisbank.ac.id

Abstract

This study examines the effect of Environmental, Social, and Governance (ESG) disclosure on financial performance and investigates the moderating role of institutional ownership within the framework of legitimacy theory. The sample consists of banking firms listed on the Indonesia Stock Exchange for the 2023–2024 period, and the data are analyzed using Moderated Regression Analysis (MRA). The findings reveal that ESG disclosure has a positive and significant effect on financial performance, highlighting the role of sustainability transparency in strengthening corporate legitimacy and enhancing economic value. Although institutional ownership does not directly influence financial performance, it is found to strengthen the positive effect of ESG disclosure on financial performance. The findings emphasize legitimacy as a key mechanism through which ESG practices translate into financial outcomes and suggest that institutional investors strengthen the impact of ESG disclosure.

Keywords: ESG, Financial Performance, Institutional Ownership, Legitimacy Theory

1. Introduction

In the era of globalization and increasingly intense business competition, sustainability issues have become a key focus in modern corporate strategies, where companies are required not only to achieve financial profitability but also to take responsibility for environmental, social, and good governance aspects (Environmental, Social, and Governance/ESG) (Durlista & Wahyudi, 2023). The ESG concept serves as an important indicator that reflects the extent to which companies integrate sustainability principles into their operations and strategic decision-making (Antonius & Ida, 2023), and it is regarded as a form of transparency and accountability that not only strengthens corporate reputation but also contributes to long-term financial value and performance. ESG encompasses three interrelated dimensions (Jeanice & Kim, 2023): the environmental dimension, which reflects a company's commitment to managing environmental impacts such as energy efficiency, carbon emission reduction, and waste management; the social dimension, which highlights corporate responsibility for the well-being of employees, communities, and customers; and the governance dimension, which reflects transparent, ethical, and shareholder-oriented management practices (Bella & Etty Murwaningsari, 2023). These three aspects collectively enhance corporate reputation, strengthen investor confidence, and affect financial performance; research by Tarihoran et al. (2025) finds that ESG significantly influences financial performance.

Financial performance is a reflection of a company's success in managing economic resources to achieve profitability and sustainable growth (Safalah & Paramita, 2024). In an increasingly complex business environment, investors and stakeholders no longer assess performance solely

through traditional financial ratios but also based on the extent to which companies adopt environmentally and socially responsible business practices. Therefore, ESG disclosure has become a strategic factor that can influence investor trust, corporate reputation, and market value (Andrefe & Kurniawati, 2024).

In recent years, sustainability issues and corporate social responsibility have gained increasing attention in Indonesia's banking sector (Fujianti et al., 2024). This aligns with greater awareness among investors and regulators regarding the importance of implementing ESG principles in business activities. The Financial Services Authority (OJK), through POJK 51/2017, has required banks to publish sustainability reports, and since 2019, sustainability reporting has become mandatory. According to the Katadata Insight Center in the Katadata Environmental, Social, and Governance Index (KESGI) 2025, 46 banks had issued sustainability reports as of June 2025. However, the depth of ESG disclosure among these banks varies considerably; several major banks provide comprehensive reporting, while many others offer limited disclosure, particularly in environmental and social dimensions. This indicates that ESG implementation in the banking sector is not yet fully consistent, making it necessary to further examine how variations in ESG disclosure levels may influence financial performance (Rohmah & Adhariani, 2022).

Based on data from the Bloomberg ESG Disclosure Score and the sustainability reports of banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024, the average ESG score of Indonesian banks remains below 50 out of 100, indicating relatively low ESG disclosure compared with other Southeast Asian countries such as Singapore and Malaysia (Bloomberg, 2024). Meanwhile, financial performance measured through indicators such as Return on Assets (ROA) and Return on Equity (ROE) shows fluctuations during the period, with a downward trend in 2020–2021 due to the impact of the COVID-19 pandemic and incomplete recovery up to 2024. Institutional ownership in the banking sector has shown an increasing trend, reaching an average of over 60%, suggesting a potential influence in controlling corporate policies and strategic direction, including ESG disclosure practices. This raises the question of whether institutional ownership strengthens or weakens the relationship between ESG disclosure and financial performance in Indonesian banks (Fujianti et al., 2024).

Banking companies possess characteristics different from other sectors, as they function as financial intermediaries that interact directly with the public and businesses. Banks are expected to integrate sustainability principles through green financing policies, financial inclusion, and strong governance practices (Era Vivianti Husada, 2021). Therefore, transparency in ESG disclosure within the banking sector serves as a critical indicator of commitment to sustainable business practices. However, during the period 2020–2024, ESG disclosure levels among IDX-listed banks remained varied, with some banks showing significant improvement, while others remained limited to symbolic disclosure without consistent implementation (Oktaviani & Mulyani, 2024). This condition raises the question of how far ESG disclosure actually affects financial performance in Indonesia's banking industry.

Additionally, institutional ownership has the potential to moderate the relationship between ESG disclosure and financial performance. Institutional ownership represents the proportion of shares held by financial institutions such as insurance companies, pension funds, and investment managers that possess monitoring ability and incentives to encourage good governance practices (Atika Somantri Dewi & Machdar, 2023). Institutional investors generally show strong concern for transparency and sustainability, which may enhance the positive impact of ESG disclosure on financial performance. Conversely, when institutional

ownership is low, incentives for implementing ESG may weaken as companies focus on short-term objectives. Research by Hidayatul Aisyah Nur Rohman et al. (2024) indicates that managerial ownership is able to moderate the relationship between ESG aspects and financial performance.

Based on the above discussion, this study is important to analyze the effect of ESG disclosure scores on financial performance, with institutional ownership as a moderating variable and liquidity as a control variable, in banking companies listed on the Indonesia Stock Exchange for the period 2020–2024. This research is expected to provide deeper insights into the role of ESG in creating sustainable financial performance and how institutional ownership strengthens this relationship.

2. Literature Review

2.1 Legitimacy theory

Legitimacy theory explains that companies strive to ensure their activities align with societal values, norms, and expectations in order to obtain and maintain social legitimacy (Suchman, 1995). In this context, ESG disclosure is viewed as an important strategy to demonstrate that companies are environmentally, socially, and governance-responsible. Through extensive and transparent disclosure, companies can reduce potential social pressure, enhance their image, and increase stakeholder trust (Deegan, 2014). Thus, ESG disclosure serves as a tool for companies to gain public support and reduce reputational risk (Cho & Patten, 2007).

In this study, legitimacy theory is used to explain that ESG disclosure can improve financial performance because stronger legitimacy enhances investor trust and supports the company's operational stability (Deegan, 2002). In addition, institutional ownership is considered capable of strengthening this relationship because institutional investors have strong monitoring capacity and tend to encourage better sustainability practices (Patten, 1992). With the pressure and oversight from institutional investors, ESG practices become not merely symbolic but more substantively implemented, thereby amplifying the positive impact of ESG disclosure on financial performance.

2.2 Financial Performance

Performance is a description of a company's ability or level of achievement in realizing its goals, objectives, vision, and mission as outlined in the company's strategic planning. Corporate performance can be viewed from various aspects, with the most fundamental being financial and non-financial aspects. Financial aspects are reflected through financial statements, while non-financial aspects include customer satisfaction, employee satisfaction, and the development of the company's business activities (Fangestu et al., 2020).

Financial performance is an indicator used to evaluate and measure a company's financial condition through its ability to generate profit (N. Sari & Wi, 2022). Stable financial performance becomes an attraction for investors to invest their capital in a company; therefore, maintaining financial stability is one of the primary goals that companies must achieve. Financial performance can be reflected through financial statements. The information disclosed in financial reports represents management's accountability to the company's owners, serves as an indicator of the company's success in achieving its objectives, and provides essential input for stakeholders in making decisions (Hidayat et al., 2022). Through financial performance, companies can more effectively understand their financial condition in each period, both in terms of asset growth and reserve expenditures. A company's financial

performance is used to measure management's ability to generate overall profit. To measure corporate performance, the following formula can be used:

$$ROA = \frac{\text{Laba Bersih}}{\text{Total Aset}}$$

Source: (Rahman, 2020)

2.3 Environmental, Social, And Governance (ESG)

The concept of Environmental, Social, and Governance (ESG) is a framework used to assess the extent to which a company manages its responsibilities related to the environment, social issues, and good corporate governance. ESG evolved from the concept of Corporate Social Responsibility (CSR), but it has a broader scope because it emphasizes the integration of sustainability factors into business strategy and decision-making (Chirsty & Sofie, 2023). According to Gustin Ningwati et al. (2022), ESG is used by investors and stakeholders to evaluate a company's non-financial performance, which may influence its future financial performance. Thus, ESG serves as an important benchmark for assessing how sustainable and responsible a company is in operating its business activities.

To measure a company's level of Environmental, Social, and Governance (ESG), researchers commonly use the ESG Disclosure Score or ESG Disclosure Index. This index reflects the extent to which a company discloses information related to environmental, social, and governance aspects in its annual report, sustainability report, or corporate social responsibility report. ESG measurement can be conducted using two approaches: using secondary data from international rating agencies such as the Bloomberg ESG Disclosure Score or Refinitiv ESG Score, or through content analysis based on reporting guidelines such as the Global Reporting Initiative (GRI) Standards (Wahyuni & Ahdim, 2025). In general, the formula for calculating the ESG disclosure index can be expressed as follows:

$$ESG \text{ Disclosure Index} = \frac{\text{Jumlah Item ESG yang Diungkapkan}}{\text{Jumlah Item ESG yang Ditetapkan}} \times 100\%$$

Source: (Wahyuni & Ahdim, 2025)

2.4 Institutional Ownership

According to D. M. Sari & Wulandari (2021), institutional ownership refers to the share ownership held by institutional parties or corporate entities, which encourages optimal monitoring of the company's managerial performance. The indicator used to measure institutional ownership is the percentage of shares owned by institutional parties relative to the total outstanding shares of the company. This means that the higher the level of institutional ownership, the stronger the external control over the company, thereby reducing agency costs and increasing firm value. Institutional investors may conduct monitoring openly through corporate governance practices or covertly by gathering information and correcting stock prices, which influences managerial decision-making (Hadiansyah et al., 2022).

Institutions are entities that have a significant interest in the investments they make, including stock investments (Widianingrum & Dillak, 2023). Therefore, institutions generally assign a specific division to manage their investment activities. Since institutions monitor their investments professionally, they should be able to control and oversee managerial actions, reducing the potential for fraudulent practices within the company. According to Rustan (2023), institutional investors can be classified into two types: passive investors and active

investors. Passive investors are less interested in being involved in managerial decision-making, whereas active investors prefer to participate in the company's decision-making processes.

The greater the proportion of shares held by institutional investors, the stronger their role within the corporate governance mechanism, thereby enhancing monitoring of company performance and improving earnings management. The institutional ownership variable is measured by the percentage obtained from the comparison between the number of shares owned by institutions and the total outstanding shares. Institutional ownership is assessed using the percentage of share ownership held by institutions relative to the total share capital outstanding (Hadiansyah et al., 2022). The measurement of institutional ownership is formulated as follows:

$$INTS = \frac{\text{Total Saham Institusi}}{\text{Total Saham Beredar}} \times 100\%$$

Source: (D. M. Sari & Wulandari, 2021)

2.5 Hypothesis Development

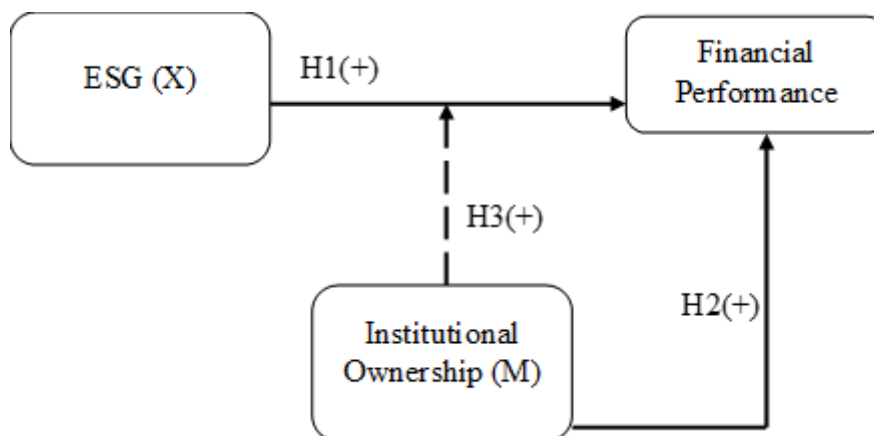


Figure 1. Conceptual Framework

The Effect of ESG Disclosure on Financial Performance

ESG disclosure (Environmental, Social, and Governance) has become an important indicator for assessing the extent to which a company considers sustainability aspects in its operational activities. ESG focuses not only on economic profit but also on the social and environmental impacts of company activities. ESG disclosure provides broader information to stakeholders about the company's commitment to sustainability and good governance. The higher the level of ESG disclosure, the greater the trust from investors, consumers, and the public toward the company. This trust can ultimately increase the company's value and financial performance (Christy & Sofie, 2023). In line with the study by Durlista & Wahyudi (2023), ESG disclosure has a positive and significant effect on financial performance. Based on the description above, the first hypothesis can be formulated as follows:

H1: ESG disclosure has a positive and significant effect on financial performance.

The Effect of Institutional Ownership on Financial Performance

Institutional ownership is one of the corporate governance mechanisms that plays an important

role in improving a company's financial performance. Institutional ownership reflects the level of external supervision conducted by financial institutions or institutional investors over management (Hadiansyah et al., 2022). According to Agency Theory (Syafis, 2022), there is a conflict of interest between managers (agents) and owners (principals), where managers tend to act in their own interest. With substantial institutional ownership, management is closely monitored, which encourages more careful decision-making, reduces agency costs, and improves efficiency and financial performance. In line with the study by Tambunan (2024), ESG disclosure is influenced by institutional ownership. Based on the description above, the second hypothesis can be formulated as follows:

H2: Institutional ownership has a positive and significant effect on ESG disclosure.

The Role of Institutional Ownership in the Effect of ESG Disclosure on Financial Performance

The role of institutional ownership in the relationship between ESG disclosure and financial performance can act as a moderator, where the level of institutional ownership affects how strongly ESG disclosure impacts company performance. Companies with a high proportion of institutional ownership tend to have strict supervision and pressure to implement ESG practices seriously, making ESG disclosure more effective in enhancing financial performance. Conversely, in companies with low institutional ownership, the effect of ESG disclosure on financial performance may be weaker due to limited external supervision (Syafis, 2022). In line with the study by Hidayatul Aisyah Nur Rohman et al. (2024), institutional ownership can moderate the effect of ESG disclosure on financial performance. Based on the description above, the third hypothesis can be formulated as follows:

H3: Institutional ownership can strengthen the effect of ESG disclosure on financial performance.

3. Research Method

3.1 Type of Research

The quantitative method was chosen because it allows the empirical testing of relationships between variables using numerical data. This study utilizes secondary data. Data analysis was carried out using statistical techniques to test the hypotheses that had been formulated. The purpose of this research is to analyze the effect of Environmental, Social, and Governance (ESG) disclosure on financial performance, as well as to examine the role of institutional ownership as a moderating variable. The objects of this study are banking companies listed on the Indonesia Stock Exchange (IDX) during the 2023–2024 period.

3.2 Types and Sources of Data

The type of data used in this research is secondary data in the form of annual reports, sustainability reports, and institutional ownership information of banking companies listed on the Indonesia Stock Exchange (IDX).

The data sources used in this study come from the Osiris database and the website idx.co.id. Data obtained from Osiris include financial performance disclosure, firm size (total assets), and ESG data obtained from sustainability reports sourced from idx.co.id, while institutional ownership information as the moderating variable is sourced from financial statements available on idx.co.id.

3.3 Population and Sample

The population in this research consists of all banking companies listed on the Indonesia Stock Exchange (IDX) during the 2023–2024 period. The sampling technique used in this study is purposive sampling. The criteria for purposive sampling are companies listed on the Indonesia Stock Exchange (IDX) during 2023–2024 and those that published annual reports (including sustainability reports) for the years 2023–2024.

3.4 Research Variables and Operational Definitions

The dependent variable in this study is financial performance, while the independent variable used is ESG (Environmental, Social, and Governance). The moderating variable is institutional ownership, which plays a role in strengthening or weakening the relationship between the independent and dependent variables (Sugiyono, 2021:144). This research also uses firm size, proxied by total assets, as a control variable.

Table 1 Operational Definition of Variables

No	Variabel	Definisi Konsep	Pengukuran
1.	Financial Performance	According to Ryan Havidhian Putra (2021), financial performance is a formal effort to evaluate the efficiency and effectiveness of a company in generating profits and managing its cash position.	$ROA = \frac{Laba Bersih}{Total Aset}$ Source: (Rahman, 2020)
2.	ESG (<i>Environmental, Social, And Governance</i>)	The concept of Environmental, Social, and Governance (ESG) is a framework used to assess the extent to which a company manages its responsibilities related to environmental, social, and good corporate governance aspects. (Chirsty & Sofie, 2023)	$ESG\ Disclosure\ Index = \frac{Jumlah\ Item\ ESG\ yang\ Diungkapkan}{Jumlah\ Item\ ESG\ yang\ Ditetapkan} \times 100\%$ Source: (Wahyuni & Ahdim, 2025)
3.	Institutional Ownership	According to D. M. Sari & Wulandari (2021), institutional ownership refers to the percentage of company shares owned by institutional entities, which enhances optimal monitoring of managerial performance.	$INTS = \frac{Total\ Saham\ Institusi}{Total\ Saham\ Beredar} \times 100\%$ Source: (D. M. Sari & Wulandari, 2021)
4.	Size	Size refers to the scale of the company, describing its capacity, resources, assets, and operational capability	$Size = Ln\ total\ aset$ Source: (Hadiansyah et al., 2022)

3.5 Data Collection Technique

The data collection technique used in this study is documentation through obtaining secondary data from Osiris and the website idx.co.id. The researcher collected information related to ESG (Environmental, Social, and Governance) disclosure, financial performance, and institutional ownership of banking companies listed on the Indonesia Stock Exchange (IDX).

3.6 Data Analysis Method

This study was analyzed using Moderated Regression Analysis (MRA). The analysis was conducted by constructing an interaction equation between the independent variable and the moderating variable to determine whether the moderation strengthens or weakens the influence of the independent variable on the dependent variable. The testing stages include classical assumption tests consisting of the normality test, multicollinearity test, and heteroskedasticity test. Furthermore, the coefficient of determination test (R^2) is carried out to measure the model's ability to explain the dependent variable, followed by the F-test to examine the model's overall feasibility, and the t-test to analyze the partial effect of each variable, including the interaction effect (ESG * Institutional Ownership) as an indicator of the presence or absence of a moderating role. The research model is as follows:

$$ROA_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 KI_{it} + \beta_3 ESG_{it} * KI_{it} + \beta_4 Total\ Asset_{it} + \varepsilon$$

4. Findings and Discussions

The descriptive statistics presented include the mean, standard deviation, minimum, and maximum. This descriptive statistics analysis is used to provide a general overview of the characteristics of the research data before further analysis is conducted. The results of the descriptive statistical analysis can be seen in the following table:

Table 2 Statistik Deskriptif

	N	Minimum	Maximum	Mean	Std. Deviation
ESG	138	,431	,655	,51396	,043746
Institutional Ownership	138	,040	1,000	,76123	,201138
Financial Performance	138	-,484	,104	,01407	,061451
Total Assets	138	6,106	23,038	15,39568	4,049981
Valid N (listwise)	138				

Source: processing Data

Based on the results of the descriptive statistical analysis of 138 observations, the ESG variable has a minimum value of 0.431 and a maximum value of 0.655, with a mean of 0.51396 and a standard deviation of 0.043746, indicating that the level of ESG disclosure among banking companies tends to fall within a moderate category with relatively small variation. The institutional ownership variable ranges from 0.040 to 1.000, with an average of 0.76123 and a standard deviation of 0.201138, illustrating that most of the shares of the companies in the sample are dominated by institutional investors. Financial performance shows a minimum value of -0.484 and a maximum value of 0.104, with a mean of 0.01407 and a standard deviation of 0.061451, indicating considerable fluctuations in company profitability, with some companies experiencing negative performance during the observation period. Meanwhile, total assets exhibit wide variation, with a minimum value of 6.106 and a maximum of 23.038, a mean of 15.39568, and a standard deviation of 4.049981, reflecting significant differences in

company size within the sample.

4.1 Normality Test

The normality test in this research was conducted using the non-parametric Kolmogorov–Smirnov statistical test. If the resulting significance value is less than 0.05, the data are considered not normally distributed, and if the significance value is greater than 0.05, the data are considered normally distributed. The results of the normality test are presented in the following table:

Table 3 Normality Test Results

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			138
Normal Parameters ^{a,b}	Mean	,0000000	
	Std. Deviation	,02848039	
Most Extreme Differences	Absolute	,109	
	Positive	,095	
	Negative	-,109	
Test Statistic			,109
Asymp. Sig. (2-tailed)			,000 ^c
Monte Carlo Sig. (2-tailed)	Sig.	,071 ^d	
	99% Confidence Interval	Lower Bound	,064
		Upper Bound	,078

Source: Processing Data

The results of the Kolmogorov–Smirnov normality test using the Monte Carlo approach show that the Monte Carlo significance value (2-tailed) is 0.071, with a 99% confidence interval ranging from 0.064 to 0.078. Since the Monte Carlo significance value is greater than 0.05, it can be concluded that the residuals in the regression model are normally distributed.

4.2 Multicollinearity Test

The multicollinearity test is a diagnostic procedure in regression analysis used to detect whether there is a high correlation among the independent variables in the model. This test is important to ensure that each independent variable contributes uniquely to the model, so that the regression estimation results become more accurate and reliable. In this study, multicollinearity was tested using the Variance Inflation Factor (VIF) and tolerance values, with the criteria that the model is considered free from multicollinearity if the VIF value is < 10 and the tolerance value is > 0.10. The following are the results of the test conducted.

Table 4 Multicollinearity Test Results

		Coefficients ^a	
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ESG	,987	1,013
	Institutional Ownership	,988	1,013
	Total Assets	,999	1,001

Source: Processing Data

Based on the results of the multicollinearity test in the Collinearity Statistics table, all independent variables in the model indicate no multicollinearity problems. This is shown by tolerance values greater than 0.10 and VIF values far below the threshold of 10. The ESG variable has a tolerance value of 0.987 and a VIF of 1.013, the institutional ownership variable has a tolerance of 0.988 and a VIF of 1.013, while the total asset variable shows a tolerance of 0.999 and a VIF of 1.001. These values indicate that there is no high correlation among the

independent variables, meaning all variables can be used in the regression model because they contribute uniquely to the dependent variable, and the model is declared free from multicollinearity.

4.3 Heteroscedasticity Test

In the heteroscedasticity test, the examination is carried out by observing the scatterplot between the predicted value of the dependent variable (ZPRED) and the studentized residuals (SRESID). Indications of heteroscedasticity can be detected from the pattern of the points in the plot. If the residual points form a certain pattern such as narrowing, widening, or wave-like formations, it indicates the presence of heteroscedasticity. Conversely, if the points spread randomly above and below the horizontal line without forming any specific pattern, then the model is considered free from heteroscedasticity. The results of the heteroscedasticity test using the graphical plot analysis are shown in the following figure:

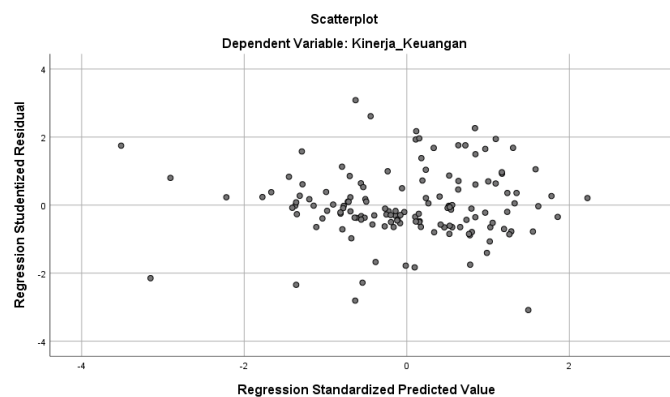


Figure 2. Results of the Heteroscedasticity Test

Source: Processing Data

Based on the figure above, the points in the scatterplot appear to be randomly dispersed and do not form any specific pattern around the zero value on the Y-axis. This indicates that the regression model used is free from heteroscedasticity, and therefore it is appropriate for use.

4.4 Coefficient of Determination Test

The coefficient of determination test is conducted to measure how well the model explains the dependent variable. The closer the R^2 value is to one, the stronger the model's ability to explain the dependent variable. The results of the determination test are presented in the following table:

Table 5. Results of the Coefficient of Determination Test

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,340 ^a	,116	,089	,028905	1,079

Source: Processing Data

Based on the table above, the coefficient of determination is 0.116 or 11.6%, which means that the independent variables included in the model, including the moderating variable, are able to explain 11.6% of the variation in the company's financial performance. In other words, only a

small portion of the changes in financial performance can be explained by ESG, institutional ownership, total assets, and the interaction between ESG and institutional ownership. Meanwhile, the remaining 88.4% is influenced by other factors outside the model that were not examined.

4.5 Hypothesis Test (t-test)

The t-test indicates the extent to which each independent variable individually affects the variation of the dependent variable. This test is conducted with a significance level of 0.05. If the significance value is less than 0.05, the hypothesis is accepted, whereas if it is greater than 0.05, the hypothesis is rejected. The results of the t-test are presented in the following table:

Table 6 t-test Results

		Unstandardized Coefficients			
Model		B	Std. Error	t	Sig.
1	(Constant)	,307	,085	3,602	,000
	ESG	,527	,161	3,279	,001
	Institutional Ownership	-,249	,107	-2,321	,022
	Total Assets	-,001	,001	-1,632	,105
	ESG*Institutional Ownership	,484	,205	2,366	,019

Source: Processing Data

The t-test results in the table above indicate that the ESG variable has a t-value of 3.279 ($p < 0.001$), indicating a positive and significant effect on financial performance. The higher the ESG disclosure, the better the company's financial performance. The Institutional Ownership variable has a t-value of -2.321 with a significance level of 0.022, indicating a negative and significant effect. This means that higher institutional ownership tends to decrease financial performance. The interaction variable (ESG $\times$ Institutional Ownership) has a t-value of 2.366 with a significance level of 0.019, indicating a significant moderating effect. Thus, institutional ownership is proven to moderate the relationship between ESG and financial performance, strengthening the effect of ESG on the company's financial performance.

4.6 F-Test

The purpose of conducting the F-test is to determine whether all independent variables collectively have an influence on the dependent variable. The results of the F-test can be seen in the following table:

Table 7 F-test Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,015	4	,004	4,353	,002 ^b
	Residual	,111	133	,001		
	Total	,126	137			

Source: Processing Data

The F-test yielded a calculated F value of 4.353 with a significance level of 0.002. Since the probability value is much smaller than 0.05, the regression model can be used to predict

financial performance. The F-test results indicate that, collectively, the independent variables have a significant effect on financial performance.

4.7. Discussions

The Effect of ESG Disclosure on Financial Performance

Based on the regression analysis, the ESG variable has a positive and significant effect on the financial performance of banking companies. The coefficient value of 0.761 with a significance of 0.001 indicates that the higher the ESG disclosure, the better the company's financial performance. This finding suggests that banks that are more active in implementing and reporting environmental, social, and governance aspects benefit financially, through increased investor confidence, operational efficiency, and better risk management.

ESG (Environmental, Social, and Governance) disclosure serves as an important indicator of a company's commitment to sustainability. According to Legitimacy Theory, companies strive to obtain and maintain legitimacy from society by demonstrating that their activities align with social values, norms, and expectations. ESG disclosure is one strategic mechanism to build such positive perceptions. By reporting on environmental, social, and governance aspects, companies aim to show accountability for operational impacts and adherence to sustainability principles. The higher the level of ESG disclosure, the stronger the legitimacy gained by the company in the eyes of stakeholders, thereby increasing investor, consumer, and public trust. This enhanced legitimacy can ultimately strengthen the company's value and improve financial performance (Chirsty & Sofie, 2023). In line with this, research by Durlista & Wahyudi (2023) shows that ESG disclosure has a positive and significant effect on financial performance.

The Effect of Institutional Ownership on Financial Performance

The analysis results indicate that institutional ownership does not have a positive and significant effect on financial performance, with a t-value of -2.321 and a significance of 0.022. This suggests that the higher the proportion of shares owned by institutional investors, the more likely the company's financial performance declines. This situation may occur if institutional investors have a short-term orientation or are not actively involved in corporate governance oversight. It also indicates that the dominance of institutional ownership may create pressure on management to meet certain targets, which negatively affects short-term profitability. Therefore, this study shows that institutional ownership has a negative and significant effect on the financial performance of banking companies.

Institutional ownership is one mechanism of corporate governance that plays an important role in improving a company's financial performance. It reflects the level of external monitoring conducted by financial institutions or institutional investors over management (Hadiansyah et al., 2022). According to Agency Theory (Syafis, 2022), conflicts of interest exist between managers (agents) and owners (principals), as managers tend to act in their own interest. With substantial institutional ownership, management is closely monitored, leading to more cautious decision-making, which can reduce agency costs and improve the company's efficiency and financial performance.

Moderating Effect of Institutional Ownership on the Relationship Between ESG and Financial Performance

The interaction test ($ESG \times Institutional\ Ownership$) shows a t-value of 2.366 with a significance of 0.019, indicating a significant effect. This finding shows that institutional

ownership acts as a moderating variable that strengthens the relationship between ESG disclosure and financial performance. In other words, as institutional ownership increases, the effect of ESG on financial performance becomes stronger. This may occur because institutional investors who are responsive to sustainable investing practices can encourage companies to improve the quality of ESG disclosures (Chirsty & Sofie, 2023). As a result, companies that better manage ESG aspects can enhance operational efficiency, reputation, and market acceptance, positively impacting profitability.

The role of institutional ownership in the relationship between ESG disclosure and financial performance can be seen as moderating, where the level of institutional ownership influences how strongly ESG disclosure affects company performance. Companies with a high proportion of institutional ownership tend to have strict monitoring and pressure to implement ESG practices seriously, making ESG disclosure more effective in improving financial performance. Conversely, in companies with low institutional ownership, the impact of ESG disclosure on financial performance may be weaker due to limited external monitoring (Syafis, 2022). This is consistent with the findings of Hidayatul Aisyah Nur Rohman et al. (2024), which show that institutional ownership can moderate the effect of ESG disclosure on financial performance.

5. Conclusion

Based on the results of the study, it can be concluded that ESG disclosure scores have a positive and significant effect on the financial performance of banking companies, indicating that the higher the level of sustainability disclosure, the better the profitability achieved. In contrast, institutional ownership does not have a positive and significant effect on financial performance. However, institutional ownership has been proven to significantly moderate the relationship between ESG and financial performance, where higher institutional ownership strengthens the positive effect of ESG on company performance. This indicates that institutional investors play a crucial role in promoting the effectiveness of ESG implementation and disclosure, thereby optimally enhancing the financial performance of banking companies listed on the Indonesia Stock Exchange during the 2023–2024 period.

References

- Andrefe, A. C., & Kurniawati, E. P. (2024). Pengaruh Kinerja Lingkungan Terhadap Kinerja Keuangan Dengan Reputasi Perusahaan Sebagai Pemoderasi. *Among Makarti*, 17(1), 1. <https://doi.org/10.52353/ama.v17i1.586>
- Antonius, F., & Ida, I. (2023). Pengaruh Environmental, Social, Governance (ESG) dan Intellectual Capital terhadap Kinerja Perusahaan. *Jurnal EKOBIS: Ekonomi, Bisnis, Dan Manajemen*, 13(2), 126–138.
- Atika Somantri Dewi, & Machdar, N. M. (2023). Pengaruh Kebijakan Dividen, Keputusan Investasi, dan Risiko Pasar terhadap Nilai Perusahaan yang Dimoderasi Return Saham. *Jurnal Rimba : Riset Ilmu Manajemen Bisnis Dan Akuntansi*, 2(1), 64–76. <https://doi.org/10.61132/rimba.v2i1.541>
- Bella, B. O. S., & Ety Murwaningsari. (2023). Pengaruh Pengungkapan Esg Dan Investasi Lingkungan Terhadap Kinerja Perusahaan Dengan Inisiatif Hijau Sebagai Variabel Moderasi. *Jurnal Ekonomi Trisakti*, 3(2), 3125–3134. <https://doi.org/10.25105/jet.v3i2.17896>
- Bloomberg. (2024). *Bloomberg ESG Disclosure Score Database 2020–2024*. Bloomberg L.P.

- Chirsty, E., & Sofie. (2023). Pengaruh Pengungkapan Environmental, Social, Dan Governance Terhadap Nilai Perusahaan. *Jurnal Ekonomi Trisakti*, 3(2), 3899–3908.
- Durlista, M. A., & Wahyudi, I. (2023). Pengaruh Pengungkapan Environmental, Social Dan Governance (Esg) Terhadap Kinerja Perusahaan Pada Perusahaan Sub Sektor Pertambangan Batu Bara Periode 2017-2022. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA)*, 7(3), 210–232. <https://doi.org/10.31955/mea.v7i3.3327>
- Era Vivianti Husada, S. H. (2021). Pengaruh Pengungkapan Esg Terhadap Kinerja Keuangan Perusahaan (Studi Empiris Pada Perusahaan Sektor Keuangan Yang Terdaftar Di Bei Periode 2017-2019). *Jurnal Bina Akuntansi*, 8(2), 122–144.
- Fangestu, F., Putra, Y. A., Jenny, Cindy, Liawardi, L., & Afiezan, H. A. (2020). Pengaruh Kinerja Keuangan, Tata Kelola Perusahaan Yang Baik (GCG) Dan Tanggung Jawab Sosial Perusahaan (CSR) Terhadap Nilai Perusahaan Pertambangan Yang Ada Di Bursa Efek Indonesia Pada Periode 2014-2018. *Jurnal Ilmiah MEA (Manajemen, Ekonomi, & Akuntansi)*, 4(3), 777–793.
- Fujianti, L., Nelyumna, N., Azizah, W., Astuti, S. B., Hilmiyah, N., & Qodriyah, A. L. (2024). Good Corporate Governance Dan Environmentalal, Social, Governance Disclosures Di Indonesia. *Jurnal Reviu Akuntansi Dan Keuangan*, 14(1), 19–36. <https://doi.org/10.22219/jrak.v14i1.28986>
- Gustin Ningwati, Ratna Septiyanti, & Desriani, N. (2022). Pengaruh Environment, Social and Governance Disclosure terhadap Kinerja Perusahaan. *Goodwood Akuntansi Dan Auditing Reviu*, 1(1), 67–78. <https://doi.org/10.35912/gaar.v1i1.1500>
- Hadiansyah, R., Cahyaningtyas, S. R., & Waskito, I. (2022). Pengaruh Kepemilikan dan Kepemilikan Institusional Terhadap Nilai Perusahaan. *Jurnal Risma*, 2(4), 656–670.
- Hidayat, M., Hermanto, D., & Murtiana, S. (2022). Pengaruh Debt To Equity Ratio dan Pertumbuhan Aset Terhadap Kinerja Keuangan pada Perusahaan Industri Pertahanan Indonesia. *AURELIA: Jurnal Penelitian Dan Pengabdian Masyarakat Indonesia*, 1(1), 120–126. <https://doi.org/10.57235/aurelia.v1i1.69>
- Hidayatul Aisyah Nur Rohman, Ainiyah, N., & M.Bahril Ilmidaviq. (2024). Pengaruh Environmental, Social, and Governance (ESG) terhadap Financial Performance : Peran Struktur Kepemilikan sebagai Variabel Pemoderasi. *Jurnal Ilmiah Ekonomi, Akuntansi, Dan Pajak*, 1(3), 265–280. <https://doi.org/10.61132/jieap.v1i3.425>
- Jeanice, J., & Kim, S. S. (2023). Pengaruh Penerapan ESG Terhadap Nilai Perusahaan di Indonesia. *Owner*, 7(2), 1646–1653. <https://doi.org/10.33395/owner.v7i2.1338>
- Rahman, M. A. (2020). Pengaruh Struktur Modal dan Pertumbuhan Aset Terhadap Kinerja Keuangan Perusahaan Yang Terdaftar Dalam Jakarta Islamic Index (JII). *Akurasi : Jurnal Studi Akuntansi Dan Keuangan*, 3(1), 55–68. <https://doi.org/10.29303/akurasi.v3i1.25>
- Rohmah, & Adhariani. (2022). Pengungkapan ESG dan Kinerja Keuangan pada Perusahaan di Indonesia. *Jurnal Akuntansi Dan Auditing Indonesia*, 26(1), 25–38.
- Rustan. (2023). *Struktur Kepemilikan dan Kebijakan Hutang*. Penerbit AGMA.
- Ryan Havidhian Putra, W. M. (2021). Pengaruh Struktur Modal Terhadap Kinerja Keuangan Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia Dengan Likuiditas

- Sebagai Variabel Moderasi. *Syntax Literate: Jurnal Ilmiah Indonesia*, 75(17), 399–405.
- Safalah, J., & Paramita, R. . S. (2024). Pengaruh Kinerja Keuangan dan Makroekonomi Terhadap Harga Saham Pada Perusahaan Sektor Energi. *Jurnal Ilmu Manajemen*, 12(3), 537–553.
- Sari, D. M., & Wulandari, P. P. (2021). Pengaruh Kepemilikan Institusional, Kepemilikan Manajerial, Dan Kebijakan Dividen. *Tema - Jurnal Tera Ilmu Akuntansi*, 22(1), 1–18.
- Sari, N., & Wi, P. (2022). Pengaruh Leverage, Ukuran Perusahaan, Stuktur Modal, Dan Profitabilitas Terhadap Kinerja Keuangan Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia (Bei) Periode 2018 – 2021. *Global Accounting : Jurnal Akuntansi*, 1(3), 1–8.
- Sugiyono. (2021). *Metode Penelitian Kuantitatif, Kualitatif, R & D*. CV Alfabeta.
- Syafis, K. S. (2022). Analisis Penerapan Informasi Pengungkapan Csr Beserta 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>
- Tambunan, R. (2024). Pengaruh Kepemilikan Institusional, Kepemilikan Manajerial, Kepemilikan Asing Terhadap Pengungkapan ESG. *Jurnal Akuntansi Dan Keuangan*, 13(2), 1–11.
- Tarihoran, C. V., Silaban, P., & Sitorus, S. A. C. (2025). Pengaruh Pengungkapan ESG Terhadap Kinerja Keuangan Perusahaan Perbankan di Indonesia. *Advances in Management & Financial Reporting*, 3(3), 1183–1204. <https://doi.org/10.60079/amfr.v3i3.632>
- Wahyuni, F., & Ahdim, H. S. (2025). Pengaruh Pengungkapan Environmental, Social, and Governance terhadap Kinerja Keuangan dengan Financial Slack sebagai Moderasi. *Reviu Akuntansi Dan Bisnis Indonesia*, 9(1), 204–227. <https://doi.org/10.18196/rabin.v9i1.27002>
- Widianingrum, H., & Dillak, V. J. (2023). Pengaruh Kepemilikan Institusional , Kebijakan Hutang , Pertumbuhan Perusahaan dan Cash Holding Terhadap Nilai Perusahaan pada Perusahaan Makanan dan. *Jurnal Ekombis Review*, 11(1), 41–52.

Copyright

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>)

