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The role of internationalisation in moderating the impact of ESG disclosure on financial performance

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Abstract

This study aims to determine the influence of environmental responsibility, social responsibility, and governance practice disclosures on the financial performance of non-financial companies listed on the Indonesia Stock Exchange from 2012 to 2021. It employs moderated regression analysis and sub-group regression to explain the relationships between the variables. The results suggest a surprising finding that the indicators of environmental responsibility and governance disclosure practices lead to a decline in corporate

Keywords

- CSR
- ESG
- corporate governance
- financial performance

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financial performance, while the social responsibility indicator does not significantly affect corporate financial performance. Expenditures resulting from ESG practices can be perceived as a misuse of corporate resources, a missed opportunity, or, alternatively, as an overinvestment. However, the decline in performance due to environmental responsibility disclosure and governance practices can be mitigated by companies that engage in internationalisation. To sustain environmental, social, and governance activities over the long term, managers are required to deliver consistently increasing and higher financial performance.

JEL codes: M14, O16, Q56.

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Introduction

Considerations regarding environmental, social and governance (ESG) practices are becoming increasingly important in modern business discussions. Companies are increasingly aware of the importance of disclosing ESG data amidst rising public expectations about responsible and sustainable business conduct (Finger & Rosenboim, 2022; Fu & Li, 2023). The relationship between ESG practices and corporate financial performance has gained significant attention worldwide, including in Indonesia. Implementing ESG practices is associated with enhanced financial flexibility (Zhang & Liu, 2022), sustainability (de Souza Barbosa et al., 2023), and overall business performance (Zhan, 2023), especially during challenging times, such as the COVID-19 pandemic (Mulyono, 2023).

Theoretical discussions about ESG practices often revolve around stakeholder theory, as proposed by Freeman (1984). This management theory emphasises the importance of considering the interests of all relevant stakeholders in the organisational decision-making process, highlighting the creation of value for stakeholders beyond just shareholders. Stakeholder theory suggests that effective ESG disclosure can have a positive influence on a company's financial performance by reducing information asymmetry and meeting stakeholder requirements (Pulino et al., 2022). Companies that prioritise stakeholder interests through transparent ESG practices and disclosures are better positioned to enhance stakeholder satisfaction and achieve superior financial performance (Wasiuzzaman et al., 2023). ESG disclosure not only increases transparency and reduces information asymmetry but also fosters investor trust in the company's long-term prospects, resulting in better risk management, increased efficiency, and reduced costs (Pulino et al., 2022).

Several previous studies have highlighted the benefits of ESG practices and disclosures on firm value, cost of capital, and even operational and financial performance (Lubis & Rokhim, 2021; Mohammad & Wasiuzzaman, 2021; Pulino et al., 2022; Ratajczak & Mikołajewicz, 2021; Rohendi et al., 2024; Veeravel et al., 2024). However, these studies have paid less attention to examining the impact of internationalisation on the relationship between ESG disclosures and the financial performance of companies, particularly in emerging financial markets. Internationalisation enables companies to achieve greater economies of scale by meeting foreign market demands (Grünig & Morschett, 2016). Producing at higher volumes can reduce the cost per unit, allowing companies to remain competitive despite incurring additional costs to meet ESG standards.

In accordance with the findings of Plastun et al. (2020), European countries have emerged as global leaders in ESG disclosure. This leadership is primarily due to stringent government regulations and active participation from local stock exchanges. The consistent implementation of ESG practices across European countries has resulted in extremely positive outcomes. The year 2020 represented a pivotal moment in the global adoption of ESG practices. Since then, the issuance of green bonds in Europe has surpassed that in America and Asia, reaching $160 million compared to $60.8 million and $32.7 million, respectively (Marsh, 2020). Furthermore, the ASEAN sustainability report published by the ASEAN CSR Network in 2020 highlighted Indonesia's lowest ranking in corporate sustainability disclosure compared to Singapore, Malaysia, the Philippines, and Thailand (ASEAN CSR Network, 2020). Nonetheless, all ASEAN countries have seen an increase in ESG disclosure from 2018 to 2020. These figures underline the critical role of ESG implementation and disclosure in business operations in both developed and emerging markets, particularly for non-financial companies listed on the Indonesia Stock Exchange (IDX). This has significant implications for financial managers and investors, making it a pertinent subject for academic investigation. ESG disclosure has become a primary means for companies to communicate their ESG management practices and related risks to investors. This disclosure can influence a company's market value and financial performance (Grishunin et al., 2022).

This study presents two significant contributions. Firstly, it enriches the existing literature by expanding the limited research on the correlation between ESG disclosure and corporate financial performance, a topic that is very rarely examined in emerging markets (Lubis & Rokhim, 2021). This is achieved by analysing disclosure across a broader spectrum, encompassing all non-financial sector companies in Indonesia. It contrasts with Zahroh and Hersugondo (2021), who explored the relationship between ESG performance and corporate financial performance among Indonesian manufacturing industries, and

Husnah (2023), who focused on the Indonesian mining sector. Secondly, the present study provides evidence of the influence of internationalisation on the relationship between ESG disclosure and corporate financial performance, following studies by Chen & Xie (2022), which utilised ESG investors, and Elmghaamez et al. (2023), which used board standing committees as moderators. This research also addresses a gap in the existing literature by offering new insights into corporate financial performance based on return on assets and net profit margin using new data from the Indonesia Stock Exchange (IDX) database. It considers ESG dimensions (environmental, social, and corporate governance) separately and analyses the impact of companies' international market expansion policies.

The study aims to examine the impact of ESG dimension disclosures—environmental, social, corporate governance issues—and internationalisation in the form of exports on various corporate financial performance metrics, specifically return on assets and net profit margin. Thus, it can enhance academic discussion and managerial practice. Tentatively, it can be assumed that greater involvement in all ESG disclosure dimensions and market expansion internationally leads to higher corporate financial performance, irrespective of the specific type. In this study, a moderated regression model is employed to explore the relationship between various aspects of ESG disclosures and different types of corporate financial performance. This study was conducted in Indonesia, a developing country with significant potential for economic growth accompanied by suboptimal ESG implementation. Additionally, Indonesia faces the obligation to implement sustainable development goals (SDGs) that have been in effect globally for several years. The background of abundant natural resources, human resources, and geographical advantages positions Indonesia as the largest economy in South East Asia and the tenth largest in terms of purchasing power parity (World Bank, 2023), providing a strong rationale for this research. The research sample includes 580 to 596 companies (depending on specification) obtained from the IDX database from 2012–2021.

This paper follows a conventional structure. Section 1 contains a literature review, Section 2 explains the research design and sample composition, while Section 3 presents the results of the empirical analysis. The final section concludes the paper.

1. Literature review and hypothesis development

The latest trends indicate a significant shift among companies, as they are not only maximising profits but also considering environmental, social, and governance (ESG) impacts in their operations. Although ESG disclosure is widely recognised as an important measure of corporate sustainability, standardisation of such disclosures has yet to be achieved (Khan, 2022). ESG disclosure can reduce information asymmetry and enhance investor confidence in the long-term prospects of a company, leading to better risk management, increased efficiency, and cost reduction (Pulino et al., 2022), ultimately having a positive impact on financial performance and market value (Grishunin et al., 2022). ESG disclosure also provides valuable insights into how companies manage environmental, social, and governance risks (Buallay, 2019). By proactively addressing these risks, companies can mitigate potential negative impacts on financial performance, thereby avoiding adverse incidents, regulatory sanctions, and reputational damage. Moreover, the implementation of sustainable practices, as revealed in ESG reports, can drive operational efficiency and stimulate innovation (Lian et al., 2023).

A substantial amount of research has been conducted to investigate the relationship between ESG and corporate financial performance, yet it shows conflicting results. In a meta-analysis conducted by Huang (2021), a positive and significant relationship between ESG and corporate performance was found, consistent with theoretical arguments. Other empirical findings by Alareeni and Hamdan (2020), Bahadori et al. (2021), Chijoke-Mgbame et al. (2019), Jaisinghani and Sekhon (2022), Laskar and Maji (2016), and Platonova et al. (2018) confirm a positive relationship between ESG disclosure and corporate financial performance. However, particularly in developing countries, the implementation of ESG standards tends to be minimal, and ESG disclosure might have a negative impact on corporate reputation and financial performance. Additionally, ESG practices and disclosures involve risks and costs, especially in the short term, and these expenditures can affect corporate financial performance (Alareeni & Hamdan, 2020). Fahad and Busru (2021), Sekhon and Kathuria (2019), and Wasiuzzaman et al. (2023) report a negative correlation between ESG disclosure and financial performance. Oware & Mallikarjunappa (2022) assert that increased ESG disclosure can reduce financial performance due to higher corporate costs. Saygili et al. (2022) argue that environmental disclosure has a negative impact on corporate financial performance. Based on a literature review analysis by Khan (2022), it is noted that studies reporting a negative relationship between ESG and financial performance originate from an Asian context, whereas studies conducted in the EU and US report a positive impact.

Although the long-term benefits of ESG practices can enhance financial performance through improved reputation, investor trust, and risk management, there are costs and challenges that may produce short-term financial burdens, particularly in the context of developing countries. Therefore, companies need to strategically balance their ESG practices to optimise financial performance. Based on these discussions, the main hypotheses of the study were determined as follows:

H1a. Greater disclosure of environmental ESG decreases the financial performance.
H1b. Greater disclosure of social ESG decreases the financial performance.
H1c. Greater disclosure of governance ESG decreases the financial performance.

Export activities represent a form of internationalisation frequently undertaken by companies in Indonesia. The most common factor driving internationalisation is the need to find new customers to generate additional turnover and contribution margins (Grünig & Morschett, 2016; Moghaddam et al., 2014). The second driver of internationalisation is the need to achieve cost savings (Grünig & Morschett, 2016; Guillén & García-Canal, 2009). By opening new markets, fixed costs can be spread over more products. In this context, economies of scale will emerge. The fourth reason for going international is to diversify their operational risk (Gaur & Kumar, 2010; Grünig & Morschett, 2016). By serving a number of different geographical markets, companies can sometimes offset a decline in demand in one region.

The increase in the degree of internationalisation impacts the expansion of economic benefits through market-seeking strategies, the exploitation of economies of scale, and the leveraging of learning experiences (Contractor, 2012). Therefore, these benefits of internationalisation are expected to result in better performance. A study by Manotas and Gonzalez-Perez (2020) shows strong evidence that internationalisation positively impacts the likelihood of better performance, thus enhancing the competitiveness of small and medium enterprises (SMEs). Through internationalisation, companies can achieve greater economies of scale by meeting foreign market demands (Grünig & Morschett, 2016). Production in higher volumes can reduce per-unit costs, enabling companies to remain competitive even if they incur additional costs to meet ESG standards. To the best of our knowledge, this is the first study to collaborate on corporate internationalisation policies with the relationship between ESG disclosure and financial performance, particularly in the largest economy in South East Asia. Based on these discussions, the hypotheses of the study were determined as follows:

H2a. Internationalisation moderates the impact of environmental ESG disclosure on financial performance.
H2b. Internationalisation moderates the impact of social ESG disclosure on financial performance.
H2c. Internationalisation moderates the impact of governance ESG disclosure on financial performance.

2. Data and methodology

2.1. Population and sample

This research focuses on non-financial companies in the manufacturing, mining, trade, and services industries listed on the Indonesian stock market, the largest economy in South East Asia. The study employed an empirical testing approach and spans a 10-year period from 2012 to 2021. The operational activities of non-financial companies often involve physical assets and processes related to the environment and society. For instance, a manufacturing company needs to manage its supply chain, production processes, and waste disposal, all of which have ESG impacts. In contrast, financial companies primarily deal with financial transactions and services, which are less directly related to physical environmental impacts. Therefore, this study of non-financial companies provides a better foundation for this research. The initial population was 662 companies, but due to the unavailability of annual reports and financial records, as well as a lack of ESG data, the final sample was reduced to 580 until 596 companies (depending on specification), which was adjusted to achieve the normality assumption in each equation.

2.2. Dependent variables

Return on assets (ROA) and net profit margin (NPM) were derived from the company's annual report (see Table 1). These variables strictly reflect components of the company's financial performance. Return on assets was calculated by dividing post-tax profit by total assets (Buallay et al., 2020). Meanwhile, net profit margin was estimated by dividing net post-tax profit by total sales or total net revenue (Handoyo & Anas, 2024; Saygili et al., 2022). The use of two dependent variables serves as an effort to enhance the robustness of the testing.

2.3. Independent variables

ESG disclosures were obtained from annual reports, sustainability reports, CSR reports, and corporate websites. ESG is a multidimensional index based on the disclosure of environmental, social, and governance aspects, and the impact of one dimension, which sometimes can overshadow the opposing impact of another dimension. In such instance, it would be beneficial if separate data are available (Buallay et al., 2021). Therefore, this study considered three separate sub-ESG scores: environmental disclosure (ENVD), social disclosure (SOCD), and corporate governance disclosure (GOVD). This classification made it possible to assess which dimension of the ESG score exerted the greatest impact on a company's financial performance. Saygili et al. (2022) divided ESG disclosure indicators into 21 items with a total of 112 sub-items, each determined by assigning a score of 1 for companies that implement each ESG item and sub-item, and 0 otherwise (see Appendix). Environmental responsibility disclosure used 1 item (EDS) with 15 sub-items, social responsibility disclosure used 5 items (SP, SPM, HRP, RCS, ERSR) with 22 sub-items, and governance disclosure used 15 items (ESR, SIR, GAR, VR, MR, DR, TS, CW, AR, BDF, BDA, BDS, BDM, BDC, BDR) with 75 sub-items. Then, each ESG disclosure indicator, ENVD, SOCD, and GOVD, was summed and divided by the respective number of sub-items (Saygili et al., 2022).

2.4. Moderating variable

Internationalisation (INT) was derived from the company's annual report and financial records. Internationalisation was chosen as the moderating variable affecting the relationship between ESG disclosure and company performance on the basis that internationalisation enables companies to achieve greater economies of scale by meeting the demands of foreign markets (Grünig & Morschett, 2016). Producing in higher volumes can reduce the cost per unit, allowing companies to remain competitive despite incurring additional costs to meet ESG standards. Internationalisation is a dummy variable with a value of 1 for companies that export and 0 otherwise.

2.5. Control variables

Control variables were selected based on a literature review and were consistent with recent research (Alareeni & Hamdan, 2020; Habib & Mourad, 2024; Wasiuzzaman et al., 2023). The current ratio (CR) was measured by dividing current assets by current liabilities, the total asset turnover (TATO) was measured by dividing net sales by the average of total assets at the beginning and end of the year, while the debt-to-equity ratio (DER) was measured by dividing total debt by total equity, and firm size (SIZE) was measured using the natural logarithm of total assets.

Table 1. Variable measurement

Variables	Symbol	Measurement
Dependent variables: • return on asset • net profit margin	 ROA NPM	 • dividing post-tax profit by total assets • dividing net post-tax profit by total sales or total net revenue
Independent variables: • environmental disclosure • social disclosure • governance disclosure	 ENVD SOCD GOVD	 • see Appendix • see Appendix • see Appendix
Moderating variable: internationalisation	 INT	 dummy variable with a value of 1 for companies that export and 0 otherwise
Control variables: • current ratio • total asset turnover • debt-to-equity ratio • firm size	 CR TATO DER SIZE	 • dividing current assets by current liabilities • dividing net sales by the average of total assets at the beginning and end of the year • dividing total debt by total equity • the natural logarithm of total assets

Source: own work.

2.6. Empirical model

This study used recent research by Kristaung & Riorini (2020), and Soesetio, Anggraeni, et al. (2023), which employed two moderation regression methods, namely moderated regression analysis and sub-group moderation analysis. The selection of these two moderation regression methods served as an effort towards a robust test. The use of these two analytical tools and different proxies for the same variable was expected to strengthen the results and conclusions regarding the relationships between variables.

Equations 1, 2, and 3 represent the regression equations using the moderated regression analysis method, which allows for testing the independent influence of the moderating variable as well as the interaction between the independent variable and the moderating variable. Therefore, this method can determine whether the moderating variable can directly influence the dependent variable, as well as how the combination of the independent and moderating variables affects the dependent variable. This method comprises three stages: (1) the regression equation of the independent and control variables on the dependent variable, (2) the regression equation of the independent, moderator, and control variables on the dependent variable, and (3) the regression equation of the independent, moderator, interaction, and control variables on the dependent variable. The equations presented use ROA as the dependent variable, while analogous models were estimated for NPM.

$$ROA_{i,t} = \alpha_{i,t} + \beta_1 ENVD_{i,t} + \beta_2 SOCD_{i,t} + \beta_3 GOVD_{i,t} + \beta_4 CR_{i,t} + \\ + \beta_5 TATO_{i,t} + \beta_6 DER_{i,t} + \beta_7 SIZE_{i,t} + \varepsilon_{i,t} \tag{1}$$

$$ROA_{i,t} = \alpha_{i,t} + \beta_1 ENVD_{i,t} + \beta_2 SOCD_{i,t} + \beta_3 GOVD_{i,t} + \beta_4 CR_{i,t} + \\ + \beta_5 TATO_{i,t} + \beta_6 DER_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 INT_{i,t} + \varepsilon_{i,t} \tag{2}$$

$$ROA_{i,t} = \alpha_{i,t} + \beta_1 ENVD_{i,t} + \beta_2 SOCD_{i,t} + \beta_3 GOVD_{i,t} + \beta_4 CR_{i,t} + \\ + \beta_5 TATO_{i,t} + \beta_6 DER_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 INT_{i,t} + \\ + \beta_9 ENVDxINT_{i,t} + \beta_{10} SOCDxINT_{i,t} + \beta_{11} GOVDxINT_{i,t} + \varepsilon_{i,t} \tag{3}$$

The equations (4) and (5) show the regression equations using the subgroup moderation analysis method, which was used to test whether the effect of the independent variable on the dependent variable differs between subgroups within the sample. In this study, the subgroups were based on whether the company expanded its market share internationally during the study period. This method used the Chow test to determine whether a variable acts as a moderator. The Chow test was employed to ascertain whether a variable acts as a moderator, utilising the method of subgroup regression (Ghozali, 2016; Hair Jr. et al., 2014). Equation 6 shows the Chow test formula used, where $RSSr$ = restricted residual sum of squares for total observations; $RSSur$ = the sum or restricted residual sum of squares for equation (4) and (5); k = total independent variables for equation (4) and (5); $n1$ = total observations for equation (4); $n2$ = total observations for equation (5). The value of F has a well-known Snedecor's F distribution.

$$ROAexport_{i,t} = \alpha_{i,t} + \beta_1 ENVDexport_{i,t} + \beta_2 SOCDexport_{i,t} + \\ + \beta_3 GOVDexport_{i,t} + \varepsilon_{i,t} \tag{4}$$

$$ROAnon\,export_{i,t} = \alpha_{i,t} + \beta_1 ENVDnon\,export_{i,t} + \\ + \beta_2 SOCDnon\,export_{i,t} + \beta_3 GOVDnon\,export_{i,t} + \varepsilon_{i,t} \tag{5}$$

$$F = \frac{\left(\dfrac{RSSr - RSSur}{k}\right)}{\left(\dfrac{RSSur}{n1 + n2 - 2k}\right)} \tag{6}$$

Subsequently, to determine the best regression method for each model in order to obtain valid and reliable estimation results in regression analysis, Chow and Hausman tests were conducted. The Chow test was used to determine the better model between the common effect (CE) model and the fixed effect (FE) model in panel data models. If the p-value was smaller than the significance level α, then H1 was accepted and H0 was rejected, indicating that the chosen model was the fixed effect (FE) model. The Hausman test was used to determine the better model between the random effect (RE) model and the fixed effect (FE) model in panel data models. If the p-value was smaller than the significance level α, then H1 was accepted and H0 was rejected, indicating that the chosen model was the fixed effect (FE) model. In this study, the best regression method identified is the fixed effect model.

3. Empirical results

According to Table 2, the average environmental responsibility disclosure rate (ENVD) is only 44.35%, indicating that these companies implement and/or disclose only 44.35% of their environmental responsibilities. It appears that non-financial companies in Indonesia do not place much importance on disclosing their environmental responsibilities. However, social responsibility (SOCD) and governance (GOVD) disclosures are considered important for these companies. The average social responsibility disclosure rate is 85.49%, and governance is 92.03%. This indicates that these companies have implemented and/or disclosed 85.49% of their social responsibilities and 92.03%

Table 2. Descriptive statistics

Variable	Mean	Std dev.	Min	Max
ROA	0.0376	0.3846	–9.1900	8.8900
NPM	–0.0075	0.6728	–9.9139	6.9022
ENVD	0.4435	0.2948	0.0000	1.0000
SOCD	0.8549	0.0331	0.3950	0.9100
GOVD	0.9203	0.0285	0.7187	0.9724
CR	1.9393	1.6666	0.0007	9.8800
TATO	0.8246	0.8445	0.0000	9.7660
DER	1.1386	1.5464	–8.9879	9.8744
SIZE	28.5240	1.6714	23.0822	34.2260
INT	0.5248	0.4994	0	1

Source: own work.

of their governance. Non-financial companies in Indonesia face challenges regarding their performance. Although more than 50% of these companies are involved in internationalisation/export activities, the average Return on Assets (ROA) is 0.0376, and the average net profit margin (NPM) is –0.0075. On average, these companies' current assets are almost double their current liabilities, as the average current ratio (CR) is 1.9393. The average total asset turnover (TATO) is 0.8246, and the average debt-to-equity ratio (DER) is 1.1386, indicating moderate leverage. The average size of these companies is 28.5240, which is relatively large.

Table 3 and 4 demonstrate that environmental responsibility disclosure (ENVD) significantly affects return on assets (ROA) and net profit margin (NPM). These results indicate that when companies disclose more information about environmental responsibility, their performance declines. This finding supports previous research by Lubis and Rokhim (2021), which shows a negative correlation between environmental responsibility disclosure and company financial performance. It also aligns with the study by Buallay et al. (2021), who identify a significant negative relationship between ESG and financial performance in both developing and developed countries. Khan (2022) mentions that research reporting a negative relationship between ESG and financial performance originates from the Asian context, whereas studies based in the European Union (EU) and the United States (US) report a positive impact. Additionally, this study indicates that internationalisation weakens the negative impact of ENVD on ROA & NPM. This suggests that as companies become more involved in internationalisation and disclose information about environmental responsibility, the negative impact of ESG disclosure is reduced.

Disclosure of social responsibility (SOCD) has been found to have no significant impact on financial performance, ROA, and NPM. The level of disclosure of information pertaining to social responsibility does not have a bearing on the financial performance of a company. This result is consistent with the findings of Buallay et al. (2020), who found that social responsibility does not have a significant impact on financial performance. Furthermore, internationalisation does not moderate the influence of SOCD on ROA and NPM. The disclosure of social responsibility does not guarantee that it will strengthen or weaken its impact on the company's financial performance, regardless of whether the company has an international orientation. In many cases, the implementation of CSR remains within the local context of the home country and is not detected by foreign entities.

Disclosure of governance (GOVD) has a negative impact on ROA and NPM. Similarly, corporate governance disclosure can lead to a decline in a company's financial performance, akin to environmental responsibility. The initial costs associated with these changes can negatively impact short-term financial performance (Alareeni & Hamdan, 2020), although they are expected to enhance the company's long-term stability and reputation. However, these

Table 3. Moderated regression analysis results of ROA

Variables	ROA								
	(1)			(2)			(3)		
ENVD	–0.021*** (0.006)			–0.021*** (0.006)			–0.032*** (0.007)		
ENVDxINT							0.020** (0.010)		
SOCD		–0.034 (0.081)			–0.034 (0.081)			–0.083 (0.104)	
SOCDxINT								0.126 (0.169)	
GOVD			–0.466*** (0.109)			–0.466*** (0.109)			–0.392*** (0.135)
GOVDxINT									–0.162 (0.225)
INT				0.012*** (0.002)	0.012*** (0.002)	0.013*** (0.002)	0.001 (0.006)	–0.096 (0.145)	0.163 (0.208)

CR	0.005***	0.005***	0.006***	0.005***	0.005***	0.006***	0.005***	0.005***	0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
TATO	0.026***	0.024***	0.024***	0.026***	0.024***	0.024***	0.027***	0.024***	0.024***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
DER	–0.005***	–0.005***	–0.005***	–0.005***	–0.005***	–0.005***	–0.005***	–0.005***	–0.005***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
SIZE	0.001	–0.004	–0.003	0.001	–0.004	–0.003	0.002	–0.004	–0.003
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Constant	–0.026	0.153	0.532***	–0.033	0.146	0.525***	–0.032	0.188	0.457***
	(0.091)	(0.109)	(0.123)	(0.092)	(0.110)	(0.123)	(0.092)	(0.124)	(0.145)
Observations	3,712	3,721	3,713	3,712	3,721	3,713	3,712	3,721	3,713
R-squared	0.095	0.080	0.096	0.095	0.080	0.096	0.098	0.080	0.096
N	592	594	596	592	594	596	592	594	596

Note: Numbers (1), (2), (3) show the equations of each moderated regression analysis method in Section 2.6. The models are estimated as fixed effects panel regression with robust standard errors that are shown in parentheses. Statistical significance levels denoted by **, and *** represent 0.05, and 0.01 levels, respectively. ENVD – environmental responsibility disclosures; SOCD – social responsibility disclosures; GOVD – governance disclosures. ROA is the dependent variable. N denotes the number of companies.

Source: own work.

Table 4. Moderated regression analysis results of NPM

Variables	NPM								
	(1)			(2)			(3)		
ENVD	–0.049*** (0.013)			–0.049*** (0.013)			–0.087*** (0.021)		
ENVDxINT							0.065*** (0.025)		
SOCD		0.160 (0.139)			0.160 (0.139)			0.091 (0.136)	
SOCDxINT								0.170 (0.296)	
GOVD			–0.648*** (0.240)			–0.649*** (0.241)			–0.559* (0.330)
GOVDxINT									–0.182 (0.480)
INT				0.051*** (0.013)	0.052*** (0.011)	0.055*** (0.011)	0.014 (0.021)	–0.095 (0.255)	0.221 (0.439)

CR	0.013*** (0.003)	0.014*** (0.003)	0.013*** (0.003)	0.013*** (0.003)	0.014*** (0.003)	0.013*** (0.003)	0.013*** (0.003)	0.014*** (0.003)	0.013*** (0.003)
TATO	0.025*** (0.007)	0.024*** (0.007)	0.022*** (0.008)	0.025*** (0.007)	0.024*** (0.007)	0.022*** (0.008)	0.026*** (0.007)	0.024*** (0.007)	0.022*** (0.008)
DER	–0.004 (0.003)	–0.003 (0.003)	–0.004 (0.003)	–0.004 (0.003)	–0.003 (0.003)	–0.004 (0.003)	–0.003 (0.003)	–0.003 (0.003)	–0.004 (0.003)
SIZE	0.009 (0.007)	–0.003 (0.006)	–0.000 (0.006)	0.009 (0.007)	–0.003 (0.006)	–0.000 (0.006)	0.010 (0.007)	–0.003 (0.006)	–0.000 (0.006)
Constant	–0.230 (0.195)	–0.046 (0.202)	0.613** (0.280)	–0.259 (0.196)	–0.076 (0.202)	0.582** (0.280)	–0.249 (0.192)	–0.016 (0.206)	0.501 (0.349)
Observations	3,584	3,582	3,598	3,584	3,582	3,598	3,584	3,582	3,598
R-squared	0.046	0.037	0.039	0.046	0.037	0.039	0.052	0.037	0.039
N	580	582	581	580	582	581	580	582	581

Note: Numbers (1), (2), (3) show the equations of each moderated regression analysis method in Section 2.6. The models are estimated as fixed effects panel regression with robust standard errors that are shown in parentheses. Statistical significance levels denoted by *, **, and *** represent 0.1, 0.05, and 0.01 levels, respectively. ENVD – environmental responsibility disclosures; SOCD – social responsibility disclosures; GOVD – governance disclosures. NPM is the dependent variable. N denotes the number of companies.

Source: own work.

results contradict previous studies that present ESG ratings as a quantitative tool to measure stakeholder satisfaction and a source of competitive advantage in terms of lower capital costs (Ratajczak & Mikołajewicz, 2021) and higher financial performance (Velte, 2017). In the moderation analysis, this study notes that internationalisation does not moderate the effect of GOVD on ROA and NPM. These results indicate that internationally oriented companies do not guarantee that governance disclosure practices will strengthen or weaken their impact on financial performance.

The current ratio (CR) has a beneficial effect on companies, as it positively impacts ROA and NPM. An increase in a company's liquidity will lead to an improvement in the company's financial performance. These results support the ideas put forward by Farhan et al. (2019) and Sudirman et al. (2020) that the current ratio can positively influence a company's financial performance. Additionally, total asset turnover (TATO) significantly impacts the establishment of a company's financial performance. Higher asset turnover indicates that a company is effectively using its assets to generate sales (Soesetio, Rudiningtyas, et al., 2023). These findings confirm previous research by Grozdić et al. (2020) and Le Thi Kim et al. (2021), who report a favourable relationship between asset turnover and business performance.

A negative correlation has been identified between DER and a company's financial performance, as measured by ROA. The statistically significant negative coefficient for the DER at the 0.01 level when the dependent variable is ROA is consistent with the findings of Teoh (2021), indicating that the DER ratio can negatively affect a company's financial performance. Company size (SIZE) does not have a significant impact on either ROA or NPM. These results are in line with those of Meiryani et al. (2020). This implies that while larger companies may have greater assets, this does not automatically translate into higher returns for shareholders.

Tables 5 and 6 corroborate the results of evaluating the role of internationalisation (INT) in the relationship between ESG disclosure and corporate financial performance by separating the sample using dummy variables. Based on the coefficient values, the environmental responsibility disclosure in export-oriented companies (–0.016; –0.021) shows smaller values compared to non-export-oriented companies (–0.037; –0.090). These results indicate that the negative impact of environmental responsibility disclosure on corporate financial performance can be more effectively mitigated in export-oriented companies. Social responsibility disclosure consistently shows no significant impact on corporate financial performance, whether in export-oriented or non-export-oriented companies.

Conversely, the coefficient for governance disclosure in export-oriented companies (–0.736; –0.990) is higher compared to non-export-oriented companies (–0.483; –0.670). This implies that the negative impact of governance disclosure on corporate financial performance can be more effectively mit-

Table 5. Sub-regression of ROA by internationalisation

Variables	ROA					
	(1)	(2)	(1)	(2)	(1)	(2)
ENVD	–0.016* (0.008)	–0.037*** (0.007)				
SOCD			0.011 (0.167)	–0.079 (0.055)		
GOVD					–0.736*** (0.203)	–0.483*** (0.162)
Constant	0.042*** (0.004)	0.041*** (0.003)	0.025 (0.143)	0.094** (0.047)	0.711*** (0.186)	0.471*** (0.149)
Observations	1,957	1,755	1,956	1,765	1,956	1,757
R-squared	0.006	0.032	0.000	0.000	0.022	0.013
N	295	298	296	299	296	301
Chow test	18.454		16.933		17.042	

Note: (1) export firms group, (2) non-export firms group. The models are estimated as fixed effects panel regression with robust standard errors that are shown in parentheses. Statistical significance levels denoted by *, **, and *** represent 0.1, 0.05, and 0.01 levels, respectively. ENVD – environmental responsibility disclosures; SOCD – social responsibility disclosures; GOVD – governance disclosures. NPM is dependent variable. N denotes the number of companies.

Source: own work.

Table 6. Sub-regression of NPM by internationalisation

Variables	NPM					
	(1)	(2)	(1)	(2)	(1)	(2)
ENVD	–0.021* (0.015)	–0.090*** (0.021)				
SOCD			0.060 (0.242)	0.081 (0.090)		
GOVD					–0.990*** (0.373)	–0.670* (0.367)
Constant	0.062*** (0.007)	0.092*** (0.008)	0.001 (0.208)	–0.012 (0.076)	0.963*** (0.343)	0.672** (0.337)
Observations	1,999	1,585	2,000	1,582	2,006	1,592
R-squared	0.003	0.035	0.000	0.000	0.012	0.004
N	295	287	295	289	294	289
Chow test	5.613		5.852		0.989	

Note: (1) export firms group, (2) non-export firms group. The models are estimated as fixed effects panel regression with robust standard errors that are shown in parentheses. Statistical significance levels denoted by *, **, and *** represent 0.1, 0.05, and 0.01 levels, respectively. ENVD – environmental responsibility disclosures; SOCD – social responsibility disclosures; GOVD – governance disclosures. NPM is dependent variable. N denotes the number of companies.

Source: own work.

igated in non-export-oriented companies. Overall, based on the results of the Chow test with separate samples, with values of 18.454; 16.933; 17.042; 5.613; 5.852; 0.989 (critical value equal to 3.8), internationalisation occurred to moderate ENVD, SOCD on corporate financial performance. In the case of GOVD, that result applies only to net profit margin.

Conclusions

This research aims to examine the impact of ESG disclosure on financial performance, focusing on the moderating effect of internationalisation in non-financial companies in the largest economies in South East Asia. The findings reveal intriguing insights. Firstly, environmental responsibility disclosure tends to burden corporate profits significantly. Such disclosure often requires a commitment to implementing environmentally friendly practices and technologies (Park et al., 2017), leading to increased costs and a longer return on investment, as companies invest in newer, cleaner technologies, waste reduction measures, or sustainable resources. In the short term, these costs can negatively impact a company's financial performance (Alareeni & Hamdan, 2020). However, it is expected that these policies will be maintained, considering that in the long run, ESG disclosure practices may provide a higher level of business continuity assurance through the achievement of optimal corporate financial performance in accordance with the demands of global climate change requirements.

Secondly, comprehensive governance disclosure has a negative impact on a company's financial performance. Extensive governance disclosure can reveal weaknesses or challenges in the company's governance structure. Improving governance practices often requires the implementation of new policies, procedures, and technologies, which incurs significant costs that ultimately impact the company's profits. Although effective governance disclosure can enhance investor confidence, decision-making, and long-term sustainability, companies with poor governance can trigger negative investor reactions, thereby affecting stock prices or the company's overall financial performance. While improving governance practices is expected to enhance stability and reputation in the long run, the initial costs associated with these changes can impact short-term performance (Alareeni & Hamdan, 2020). Overall, this study is in opposition to stakeholder theory, which suggests that corporate responsibility practices may not always improve relationships with stakeholders, at least not in the short term, although over a longer duration they may align with stakeholder interests.

In developing countries, ESG regulations are not yet mandatory, because the regulations do not fully support companies that implement ESG, especially in the short term. However, the impact of ESG implementation in developing countries can be mitigated through international market expansion (internationalisation) into countries that more dominantly implement ESG (EU & US), as well as into those that do not. In addition to the market expansion effect, exchange rates also play an important role in mitigating the negative impact of ESG disclosure practices. International expansion enables businesses to enter new markets, reaching a larger customer base (Mutascu & Murgea, 2020), which is particularly beneficial when the domestic market is saturated or growth potential is limited. Operating in multiple countries can help reduce risks associated with economic downturns in specific regions. Diversifying income sources across various markets can contribute to more stable and predictable financial performance. Internationalisation can lead to economies of scale by enabling businesses to expand their production and distribution capabilities, allowing them to meet the demands of a larger and more diverse customer base. Increased production volume often reduces the average cost per unit, thereby improving overall financial performance for export-oriented companies. Therefore, although ESG practices and disclosures negatively impact corporate financial performance, internationalisation has a greater ability to mitigate this impact compared to companies that focus solely on domestic operations.

This study is expected to provide companies with insights regarding the preparation and anticipation of readiness for the implementation of ESG in operational activities. The application of ESG often involves adopting new policies, procedures, and technologies. The initial costs associated with these changes may impact short-term financial performance, although they are expected to enhance long-term stability and reputation. This research has several limitations, particularly in data collection, as not all companies have comprehensive sustainability reports and other detailed reports for each year in the study period. Furthermore, the use of financial performance is limited to the short term, suggesting that the results cannot assess the impact of ESG disclosure on financial performance in the long term. It is anticipated that future research will be developed into a more comprehensive research project by expanding the ESG matrix, the scope of companies, the research period, and the use of long-term financial performance metrics.

Appendix

ESG items and sub-items used in their measurement

Disclosures	Variable Type
ENVIRONMENTAL DISCLOSURES	
EDS – Environmental Disclosure Score **(number of sub-items mentioned in disclosures divided by 15)** EDS1 Reused and recycled materials EDS2 Energy consumption and reductions EDS3 Water recycled and reused EDS4 Protection of biodiversity EDS5 Greenhouse gas (GHG) emissions intensity EDS6 Reductions of GHG emissions EDS7 Emissions of ozone-depleting and other hazardous air pollutants EDS8 Effluents and waste EDS9 Recycled products EDS10 Recycled packaging products EDS11 Compliance with environmental regulations EDS12 Environmental impacts of transporting products EDS13 Environmental protection expenditures and investments EDS14 Supplier environmental assessment EDS15 Environmental grievance mechanisms	continuous between 0 and 1
SOCIAL DISCLOSURES	
SP – Stakeholder Policy **(number of sub-items mentioned in disclosures divided by 5)** SP1 The protection of the rights of stakeholders. SP2 Compensation is offered in cases of violation of the stakeholder rights. SP3 Stakeholder policies that are released on the company's website. SP4 Mechanisms where stakeholders inform the CG or audit committee in ethical breaches. SP5 Policy on conflict of interest among stakeholders.	continuous between 0 and 1
SPM – Stakeholder Participation in Management **(number of sub-items mentioned in disclosures divided by 2)** SPM1 Supporting the participation of stakeholders, primarily employees, in management. SPM2 Stakeholders express their opinions on the significant decisions affecting them.	continuous between 0 and 1
HRP – Human Resources Policy **(number of sub-items mentioned in disclosures divided by 8)** HRP1 Employment policies and career plans that provide equal opportunities. HRP2 Existence of written employment criteria. HRP3 Fairness in staff training programs and meetings. HRP4 Events in which employees or their representatives express their opinions on decisions.	continuous between 0 and 1

Disclosures	Variable Type
HRP5 Description of job, performance, and award criteria. HRP6 Measures to prevent discrimination. HRP7 The rights of association and collective bargaining. HRP8 Health and safety measures are taken in the working environment.	continuous between 0 and 1
RCS – Relations with Customers and Suppliers **(number of sub-items mentioned in disclosures divided by 5)** RCS1 Customer satisfaction with the sale and marketing of goods and services. RCS2 Customer purchases are handled quickly and efficiently. RCS3 Quality standards for goods, services, and guarantees provided. RCS4 A specific quality guarantee is provided. RCS5 Confidentiality of trade secrets of customers and suppliers.	continuous between 0 and 1
ERSR – Ethical Rules and Social Responsibility **(number of sub-items mentioned in disclosures divided by 2)** ERSR1 Ethical rules are released on the official website to the public. ERSR2 Social responsibility and compliance with regulations and ethical rules.	continuous between 0 and 1
GOVERNANCE DISCLOSURES	
ESR – Exercise of Shareholder Rights **(number of sub-items mentioned in disclosures divided by 2)** ESR1 Investor relations department. ESR2 Update reports and disclosures on the corporate website.	continuous between 0 and 1
SIR – Shareholder's Information Right **(number of sub-items mentioned in disclosures divided by 1)** SIR1 Shareholder's right to request information and special audits.	binary
GAR – General Assembly Right **(number of sub-items mentioned in disclosures divided by 11)** GAR1 The GA information shall be provided on the website three weeks before the meeting. GAR2 Submission of each proposal under a separate title on the agenda of the general assembly. GAR3 Shareholders' participation in the GA shall be subject to minimum costs. GAR4 Performance of the chairman in the GA. GAR5 Shareholders are given fair opportunities to express their views and to raise questions. GAR6 Related party transactions are included on the GA agenda. GAR7 The list of insiders is released on the GA agenda. GAR8 The presence of the BoD, the officers responsible for the financial statements and the auditors. GAR9 Issues related to corporate transactions on the GA agenda. GAR10 Approval of the donation and contribution policy in the general assembly. GAR11 The openness of GA to the public including to stakeholders and the media.	continuous between 0 and 1

Disclosures	Variable Type
VR – Voting Rights **(Number of sub-items mentioned in disclosures divided by 3)** VR1 A chance to exercise the right of shareholders to vote, including cross-border voting. VR2 Avoidance of voting privileges. VR3 Avoidance of the right to vote resulting from cross-ownership.	continuous between 0 and 1
MR – Minority Rights **(number of sub-items mentioned in disclosures divided by 2)** MR1 Maximum diligence paid in the exercise of minority rights. MR2 Scope of minority rights for shareholders holding less than one-twentieth of the capital.	continuous between 0 and 1
DR – Dividend Rights **(number of sub-items mentioned in disclosures divided by 4)** DR1 Consistent dividend payout strategy presented at the GA and published on the website. DR2 Forward-looking information related to the distribution of dividends. DR3 Reason for not paying dividends and information on the use of the dividends. DR4 A balanced dividend distribution policy is followed.	continuous between 0 and 1
TS – Transfer of Shares **(number of sub-items mentioned in disclosures divided by 1)** TS1 Free transfer of shares.	binary
CW – Corporate Website **(number of sub-items mentioned in disclosures divided by 4)** CW1 Release of the relevant legislation and information CW2 Shareholding structure, names, number, and share ratio of the corporation. CW3 Notifications of financial statements and disclosures in at least Indonesian and English. CW4 Information in other foreign languages has the same content as the Indonesian version.	continuous between 0 and 1
AR – Annual Report **(number of sub-items mentioned in disclosures divided by 2)** AR1 A detailed annual report issued by the BoD. AR2 Detailed information on corporate governance is included in the annual report.	continuous between 0 and 1
BDF – Board of Directors' Functions **(number of sub-items mentioned in disclosures divided by 2)** BDF1 Strategic decisions and rational risk management publicly disclosed by the BoD BDF2 Strategic objectives, identified by BoD, and the performance audit of the management.	continuous between 0 and 1

Disclosures	Variable Type
BDA – Board of Directors Activities **(number of sub-items mentioned in disclosures divided by 8)** BDA1 Transparency, accountability, and responsibility of BoD operations. BDA2 The duties and authorities of the members of the board are announced in the annual report. BDA3 The internal control system. BDA4 Annual review and disclosure of the efficiency of the internal control system by BoD. BDA5 Separation of the board chairman and chief executive/general manager. BDA6 Disclosure of the duality of CEO. BDA7 The BoD's communication activities between the corporation and the shareholders. BDA8 Insurance above 25% of the capital for damage caused by BoD.	continuous between 0 and 1
BDS – Board of Directors Structure **(number of sub-items mentioned in disclosures divided by 10)** BDS1 Minimum number of five members on the BoD BDS2 The majority of members are non-executive members. BDS3 Existence of independent members among non-executive members. BDS4 Minimum one-third of the board consists of independent members of the board. BDS5 The term of office of the independent members shall be up to three years. BDS6 Independent members meet the legal criteria. BDS7 Evaluation of the applicants for independent membership by the nomination committee. BDS8 Notification of independence revokes. BDS9 The number of female members is more than 25%. BDS10 At least one of the independent members responsible for the audit has financial expertise.	continuous between 0 and 1
BDM – Board of Directors Meetings **(number of sub-items mentioned in disclosures divided by 7)** BDM1 Attendance and declaration of opinions of members at the BoD meetings. BDM2 Agenda of the BoD meeting. BDM3 Written opinions of members who were unable to attend the BoD meetings. BDM4 Each member on the board has one right to vote. BDM5 The written proceedings of the meeting are available online. BDM6 Attendance of non-executive members. BDM7 Disclosure of information on the other duties of the members of the BoD on the GA agenda.	continuous between 0 and 1

Disclosures	Variable Type
BDC – Board of Directors Committees **(number of sub-items mentioned in disclosures divided by 13)** BDC1 Construction of legal committees of the BoD. BDC2 Disclosures of duties, working principles, and members of committees. BDC3 Disclosures relating to the structure of the committees. BDC4 The chief executive / general manager shall have no duties in the committees. BDC5 The members of the board do not have duties in more than one committee. BDC6 Resources provided by the BoD to support committees in carrying out their duties. BDC7 Disclosures of consultancy services are set out in the annual report. BDC8 Written records of committees. BDC9 The audit committee shall follow the legal criteria. BDC10 The corporate governance committee shall comply with the legal criteria. BDC11 The nomination committee shall follow the legal criteria. BDC12 The committee of early detection of risk shall follow the legal criteria. BDC13 The remuneration committee shall follow the legal criteria.	continuous between 0 and 1
BDR – Board of Directors' Remuneration **(number of sub-items mentioned in disclosures divided by 5)** BDR1 Performance evaluation of the BoD. BDR2 Principles on the remuneration of members of the BoD and executives. BDR3 Remuneration of independent members of the BoD which ensures their independence. BDR4 Loans and credits should not be provided to members of the BoD or executives. BDR5 The remuneration of board members and executives shall be disclosed individually in annual reports.	continuous between 0 and 1

Sources: based on (Capital Markets Board of Türkiye, 2014; Saygili et al., 2022).

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