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ESG Disclosure Model and Financial Performance: The Mediating Role of Leader Exemplarity in Sustainable Organizations

Anggi Pratiwi Sitorus, Saparuddin Siregar, Saparuddin Siregar, Nurlaila

State Islamic University of North Sumatera

email: anggisitorus1@gmail.com

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ABSTRACT

The purpose of this research is to investigate how implementing Environmental, Social, and Governance (ESG) in a planned, measured, and sustainable manner might improve the performance of the OJK in Indonesia. A quantitative technique is used in this associative research. The quantitative approach focuses on the numerical measurement of study variables and data analysis using static processes and systematic modelling to investigate parts, phenomena, and relationships. From the beginning to the end, this quantitative research method is specific and well-planned. In environmental, social and governance (ESG) performance was found to be positively correlated with financial success among companies included in the Jakarta Islamic Index Indonesia (JII). Although the leadership quality of companies listed on JII is positively correlated with environmental and social performance, this quality is not significantly correlated with governance performance. The presence of the leadership variable as a variable that moderates ESG disclosure on enhancing firm financial performance as evaluated by the capped free float index or the weight of company shares listed on the Jakarta Islamic Index is novel in this study.

INTRODUCTION

Today's corporate competition is fiercer due to globalization. This causes environmental degradation and societal injustice. Companies aim for maximum profit, but they often use resources and society uncontrollably, which harms the environment and human lives, especially in the places where they operate. Production uses natural resources, therefore consumption and the environment are linked. Thus, resource and waste management must balance human demands and environmental sustainability. Thus, companies must establish strategies and practice corporate ethics that help the environment (Financial Services Authority, 2020). Businesses affect the environment, society, government, and more. Thus, organizations must adapt to their surroundings. Business ethics drives environmental initiatives. Environmental, social, and corporate governance responsibilities benefits society (Lubis & Tarigan, 2002).Companies need CSR to preserve community support and confidence. The Triple Bottom Line—profit, social, and environment—underpins CSR. Law no. 40 of 2007 Article 74 also promotes CSR in Indonesia. Indonesian companies who publish sustainability reports are intended to improve investor relations, consumer loyalty, and company profitability. Sustainability leaders must also meet environmental, social, and financial requirements (R. Haniffa & Hudaib, 2002). An activity or business must make money, be socially acceptable, and safeguard the environment. Companies can include social and economic factors in sustainability reports to demonstrate social and environmental responsibility to stakeholders. Only 9% of Indonesia Stock Exchange companies submit sustainability reports, despite the trend. Sustainability reports should improve investor relations, customer loyalty, and firm performance. Public trust in sustainability report disclosure rose to 51%, with Indonesia having the highest rating at 81% (Sustainability Stock Exchange, 2015). ESG performance can preserve a company's worldwide stock market performance. However, the Indonesia Stock Exchange does not have formal criteria or demand ESG reporting for listing. Sustainable capital market leadership demands methods that meet environmental, social, and financial standards. Environmental harm and climate change are risks of business. Sustainability leadership is business and environmental continuity. Sustainability leadership abilities are needed to define the organization's vision and objective and strategically implement it to achieve competitive advantage with a focus on environmental protection and healthy living. Environmental, Social, and Governance (ESG) information transparency requires systematic education and continuing marketing. (Eccles, 2011). Investors now include ESG (Environmental, Social, and Governance) elements in firm performance. High ESG scores have been linked to higher performance and profitability. ESG/SRI companies have higher and more sustainable returns on investment, and a good environment increases corporate value. Business practices are becoming more environmentally conscious and socially beneficial. However, Indonesia's Islamic ESG measurement and study are still lacking. Barraq Mellina Zahroh and Hersugondo studied the Indonesia Stock Exchange's ESG Performance and Financial Performance with the CEO as the Moderating Variable in Manufacturing Companies in 2019. Social and governance performance improves financial performance, while environmental performance does not. The CEO cannot mitigate the financial impact of environmental and social performance. In 2020, Indarawati Tarmuji, Rohanita Maelah, Habibah, and Tarmuji studied how ESG practices affect Malaysian and Singaporean economies. Results reveal that ESG responsibility is tied to company performance and sustainability. It can foster a socially responsible workplace. Murniati Mukhlisin examined the implementation of Islamic maqasid in Islamic financial reporting requirements in 2020. Norashikin Ismail, Mohamad Azwan Md Isa, Nor Hadaliza Abd. Rahman, and Nurul Farhana Mazlan studied Sustainability Performance with ESG in Malaysian public firms in 2020. Sustainability performance (ESG) weakly and significantly correlates with financial success (ROA). Thus, this study will evaluate how Environmental Social and Governance (ESG) implementation plan, measure, and sustain might improve Indonesia's FSI. Thus, "Moderation of Leaders in the ESG Disclosure Model for Improving Company Financial Performance" was researched. This study introduces new issue statements and objectives for measuring financial performance using Environmental, Social, and Governance (ESG) in an Islamic context. Problem statement: JII corporation financial performance

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and environmental performance, JII corporation financial performance and social performance, JII corporation financial performance and governance performance, Moderating leaders in Jakarta Islamic Index Indonesia (JII) companies' environmental performance on financial performance, Moderating leaders in Jakarta Islamic Index Indonesia (JII) companies' social performance on financial performance, How governance performance affects financial success by moderating executives in Jakarta Islamic Index Indonesia (JII) enterprises

THEORETICAL REVIEW

Legitimacy Theory

The idea of legitimacy, first proposed by Dowling and Pfeffer in 1976, has since grown in significance within the field of accounting studies concerned with the disclosure of social and environmental responsibilities. Having society's approval as a foundation for business decisions is crucial for the company's long-term success. Because of the rising complexity and rapid change in today's world, this idea is more relevant than ever (Ardianto & Machfudz, 2011).

Stakeholder Theory

Organizational responsibility and disclosure of information regarding their environmental, social, and intellectual performance are emphasized, as are the various stakeholder groups that an organization serves. Companies need the backing of their stakeholders in order to exist and live up to the actual expectations or recognition of those stakeholders (Augustine, 2014), therefore social and environmental responsibility are everyone's business. This idea also shows that firms' success depends on their being responsible to and helpful to their stakeholders, rather than only looking out for their own interests. Stakeholder theory generates value for stakeholders because they are invested in the company's continued success (Ardianto & Machfudz, 2011). This is why environmental reporting is so crucial to a company's relationships with its various constituencies.

Agency Theory

The concept of principals and agents in businesses is explained by agency theory, which was proposed by Jensen and Mackling in 1976 (Umar, 2008). Management, property owners, creditors, and governments all need to sign contracts. The theory's stated goal is the maximization of shareholder returns by ensuring that management prioritizes these interests. Owners will have more faith in the company's financial management if there is clear separation of interests between ownership and management. Shareholders can gain confidence in management's performance as an agent of the firm through several forms of monitoring, including auditing (Umar, 2008).

Sustainability Theory

Meadows proposed the "Theory of Sustainability" in 1972, emphasizing the significance of societal responses to environmental and economic issues. Currently, the concept of sustainability is being developed and implemented in the context of corporate sustainability, which includes business and investment strategies to improve business practices and maintain a balance between current and future stakeholder requirements (Gray et al., 1987).

Upper Echelons Theory

Hambrick and Mason's 1984 "Upper Echelons Theory" asserts that the performance of a company is determined by the decisions made by its top executives. Several studies have in the past substituted executive personal characteristics such as age, ethnicity, experience, education, and functional background for observation. These personal characteristics are believed to be capable of shaping the perceptions of top executives regarding their comprehension of social, economic, and environmental issues, as well as influencing how they approach these issues (Haniffa, 2012).

1. Corporate Social Responsibility

Currently, companies are not only responsible for obtaining financial performance, but also for social responsibility (Cahaya, 2017).This conforms to Government Regulation Number 47 of 2012 of the Republic of Indonesia on the Social and Environmental Responsibility of Limited Liability Companies. Corporate Social Responsibility (CSR) is a form of corporate social responsibility that encompasses internal responsibility to shareholders and employees to increase the company's profitability and progress, as well as external responsibilities such as paying taxes, creating jobs, improving the welfare and capabilities of the community, and preserving the environment for future generations..

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3. Islamic Social Reporting

According to the Islamic perspective, CSR entails the value of taqwa, which explains the roles and responsibilities of humans and caliphs in every situation (Dusuki, 2008). People with taqwa realize that it is their responsibility to manage and develop the world in accordance with sharia principles and values, because sharia encompasses all aspects of life and cannot be separated from the fundamental beliefs, values, and goals of Islam (S. Ziauddin, 2003). Therefore, every sharia-compliant organization must adopt five fundamental values in order to conduct out its daily CSR activities, which can help improve the quality of human life in this world and the next. Anything that guarantees the protection of these five is interesting and desired by the public (Chapra, 2000).

ISR, or Islamic Social Reporting, is a framework for reporting on corporate social responsibility founded on sharia principles, with a primary emphasis on spiritual aspects. The ISR concept is based on CSR with an Islamic sharia orientation, and it was developed by numerous researchers. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has established CSR standard items as part of ISR. The social disclosure index for Islamic entities (ISR) includes disclosure of matters relating to Islamic principles, such as transactions free from usury, speculation, and gharar, as well as disclosure of zakat, sharia compliance status, social aspects such as sadaqah, waqaf, qardul hasan, and disclosure of worship in the corporate environment (Sulistyawati & Indah, 2017).

4. Environmental, Social, and Governance (ESG)

a. Definition of ESG

Currently, there is no standard definition for ESG. However, it is possible to explain that ESG is comprised of three significant factors: environmental, social, and governance. Environmental factors refer to the company's relationship with the physical environment, social factors to the company's social impact on society, and governance factors to the company's overall management. ESG measurement encompasses all aspects of company performance that are not reflected in financial statements, such as reputation, quality, culture, strategy, and other significant assets in a global economy dependent on knowledge.

More non-financial data on environmental, social, and corporate governance will be incorporated into ESG indicators. This enables the evaluation of the company's risk management capabilities (Galbreath, 2013). Environmental, social, and governance (ESG) implementation can become a standard in investment practices where companies integrate and implement policies in accordance with ESG principles. Energy consumption, waste, pollution, conservation of natural resources, and treatment of flora and fauna are environmental criteria. The social criterion discusses the company's relationship with external parties such as communities, suppliers, community organizations, buyers, and other legal entities with which the company has a relationship. While the governance criteria address the company's effective and sustainable internal administration (Basssen & Kovacs, 2008

b. ESG Disclosure

Integrating environmental, social, and governance principles into company policies is how ESG disclosure is accomplished. This is standard corporate investment procedure in accordance with environmental, social, and governance principles. Environmental standards address issues such as

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energy consumption, waste, pollution, preservation of natural resources, and impact management on flora and fauna (Husada & Handayani, 2021)..

c. Environment

Responsibility for the environment includes an evaluation of how the company maintains and enhances environmental sustainability. This demonstrates the company's performance in creating a healthy environment, which is one manifestation of its concern for the planet. Disclosure of environmental performance reveals how the company is managed in terms of the environment (Kristiani & Werastuti, 2020).

d. Social

According to social theory, businesses, as members of society, must maintain and create harmony, equilibrium, and harmony with the surrounding environment. The corporate social contract, which is based on the agreement of each party, is essential for attaining equality and equilibrium (Ardianto & Machudz, 2011).

e. Governance

Governance in the context of GCG is known as corporate governance, which is the company's internal control structure for managing risk and increasing shareholder investment value over time. The Malaysian Finance Committee on Corporate Governance (GCCG) defines corporate governance as the processes and structures used to coordinate and manage company and corporate activities in order to increase business growth and corporate accountability. Management functions include planning, organizing, leading, motivating, and controlling. Corporate governance incorporates both internal and external components (Jeremias T.Keban, 2008).

5. Islamic Corporate Governance

Islamic Corporate Governance is a firm control system that uses the notion of decision making based on Islamic social scientific epistemology that is based on Allah's monotheistic (Endraswati, 2018) to achieve company goals while taking into account the interests and rights of all stakeholders. Meanwhile, Good Corporate Governance is the philosophy that governs the organization in order to achieve a balance of power and authority by holding shareholders and other stakeholders accountable. The principles of corporate governance from an Islamic perspective, also known as Islamic Corporate Governance, are based on monotheistic values such as the principle of fairness. ICG aspires to direct economic agents, the legal system, and corporate governance in accordance with moral and social ideals founded on Sharia law in order to create the welfare of people and society as a whole. Implementing Islamic Corporate Governance can assist businesses in being more professional and responsible in building the country, as well as anticipating financial and reputation threats. ICG implementation as a whole is also vital in developing a healthy and robust sharia banking industry, as well as in preserving stakeholders' interests and boosting the company's efficacy and efficiency.

6. Maqasid Al Sharia

Maslahah, in general, is an endeavour to uphold the goals of syari'ah and achieve advantages while rejecting harmful consequences. The main purpose of all acts, according to Al Ghazali, is to ensure safety in the hereafter and success in this world. This refers to the notion of fallah, which is an endeavour to attain Islamic law goals based on Maqasid Al-Syari'ah (Islamic law Purpose) (Rodi Syafrizal, 2019). In Islam, benefit is described as anything linked to subsistence, livelihood fulfillment, and attainment necessitated by human emotional and intellectual capabilities. Maslahah is composed of five basic principles: religious preservation, soul preservation, mind preservation, lineage preservation, and property preservation. If these five principles are correctly realized and maintained, human benefit can be obtained. Al-Syatibi categorizes benefits into three categories: daruriyyah (basic or main needs), hajjiyyat (secondary needs), and tahsiniyah (tastier needs).

7. Sharia Enterprise Theory

It is believed that the Sharia Enterprise theory can accommodate the spiritual and moral values of Islam, which reflect Islamic business objectives. This theory focuses not only on profits, but also on stakeholder interests. (Syafrizal et al., 2022) The resources managed by the company are viewed as a divine mandate, so the company is liable for managing them properly. The

Sharia Enterprise Theory considers not only the interests of individuals (shareholders), but also the interests of Allah, humans, and nature, with Allah being the most important stakeholder. This theory is consistent with the transparent nature of the company's business in its management and corporate social responsibility in enhancing the welfare of the community in the vicinity of the company's operational areas (Syafrizal et al., 2022).

8. Company Financial Performance

Financial performance evaluation helps companies determine profitability. Economic analysis of financial statements determines management performance indicators over time. Financial performance can be used to evaluate a company's condition and performance (Helfert, 2001).ROA, ROE, and NPM are used to evaluate financial performance. ROA assesses a company's ability to profit from all its assets, while ROE gauges equity earnings. NPM evaluates operational cost management efficiency. Company management efficiency increases with NPM (Tampubolon, 2005).

9. Islamic Environment, Social and Governance (IESG)

IESG, or Islamic Environmental, Social, and Governance, is a system devised by academics for measuring financial performance. As an indicator of a company's social performance, IESG is utilized. The IESG concept is comprised of five major themes: financing and investment, products and services, personnel, society, and the environment. As an indicator, each theme has its own subtheme based on the research object employed. As usury and speculation are forbidden in Islam, companies must provide information about sources of financing and investment that do not involve usury or speculation (Cahaya, 2017). Companies are expected to disclose all products and services that fall under the category of haram, such as alcoholic beverages, swine, arms transactions, gambling, and entertainment. Concerning the theme of employees, companies must treat their employees fairly by providing information about wages, nature of work, working hours, annual leave, health, welfare, religious policies such as prayer times and places, education and training support for employees, equal opportunities, and a conducive work environment (Sakdah, 2015).

10. Jakarta Islamic Index

On 3 July 2000, PT Bursa Efek Indonesia and PT Danareksa Investment Management launched the Jakarta Islamic Index (JII). This stock index was created to monitor the performance of stocks that comply with Islamic sharia principles and to develop the sharia capital market. In this context, "sharia" refers to the absence of elements that are considered haraam such as alcohol, gambling, production with haraam materials, pornography, financial services, and conventional insurance. JII consists of 30 stocks selected based on Islamic sharia criteria determined by Capital Market Supervisory Agency and Financial Institutions (Bapepam-LK) and the National Sharia Council. To be included in the category of sharia shares, these shares must meet criteria such as not carrying out business activities that are considered illegitimate, not carrying out fraudulent trading, and not exceeding certain financial ratios. The process of selecting shares to be included in JII is based on the List of Sharia Securities (DES) issued by Bapepam-LK, market capitalization for the past year, and level of liquidity. Evaluation and replacement of shares in JII is carried out every six months.

11. Theoretical Framework

The theoretical framework in this study is as follows:

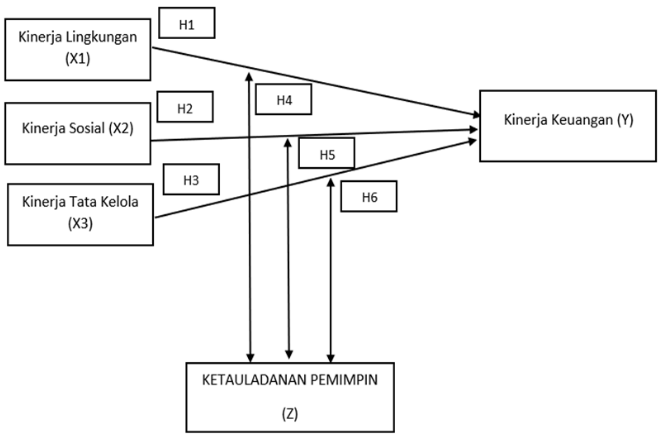

Figure 1. Theoretical Framework

ESG disclosure gives companies social and stakeholder validity. ESG disclosures are not properly documented according to sharia, so academics established a more complicated and comprehensive measuring model, Islamic Environmental, Social, and Governance. This

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concept measures social and governance ESG through outstanding leadership. The researcher wants to know how the leader's example affects ESG disclosure and the company's financial performance. Thus, disclosures should improve the company's image. Positive ESG disclosures may boost asset return. ESG performance boosts ROA linearly. Stakeholder and legitimacy theories require corporations to benefit all stakeholders, not just profit. However, enterprises must follow Islamic societal standards and principles. Worship and muamalah are regulated by Islam. Islam is based on aqidah, worship, and morals.

12. Research Hypothesis

Based on the research results mentioned above, the hypothesis that can be formulated in this study is as follows:

H1: There is an effect of environmental performance on financial performance of companies listed on the Jakarta Islamic Index Indonesia (JII).
H2: There is an effect of social performance on financial performance in companies listed on the Jakarta Islamic Index Indonesia (JII).
H3: There is an effect of governance performance on financial performance of companies listed on the Jakarta Islamic Index Indonesia (JII).
H4: There is an effect of environmental performance on financial performance which is moderated by Leaders' Example of companies listed on the Jakarta Islamic Index Indonesia (JII).
H5: There is an effect of social performance on financial performance which is moderated by the Leader's Example of companies listed on the Jakarta Islamic Index Indonesia (JII).
H6: There is an effect of Governance performance on financial performance which is moderated by Leaders' Example of companies listed on the Jakarta Islamic Index Indonesia (JII).

METHODS

Data Analysis Technique

A quantitative technique was applied in this associative investigation. Theory is placed at the beginning of a research plan (deductive) to examine a theory in this technique. The researcher first defines the theory, then develops a hypothesis containing the variables to be measured and collects data to test the theory. The quantitative approach focuses on the numerical measurement of research variables and data analysis using static processes and systematic modeling to investigate parts, phenomena, and their relationships (Salim and Syahrum, 2012). This quantitative research method is distinct and well-planned from the start to the end (Rahmani, 2016). The data used is panel data type, which consists of time series data and cross section data, which includes several objects and several times. Multiple regression was used to reveal the functional relationship between the independent and dependent variables, and data analysis was performed using Eviews v.10 software. Parameters in the cross section data regression analysis were estimated using the OLS method. Panel data regression test was conducted to identify the relationship between the independent variables, environmental performance, social performance, and governance, with the dependent variable financial performance, which is moderated by the example of the leader.The test used is the Moderated Regression Analysis (MRA) or interaction test, in which the regression equation contains an element of interaction (multiplication of two or more independent variables).

This study uses the MRA test to evaluate the extent of the interaction between environmental performance, social performance, and governance variables on the dependent variable of financial performance through the moderation of the leader's example. A purposive sampling technique was used in this study to select a sample from a population of 30 companies registered on the Jakarta Islamic Index during 2017-2021. The criteria used in selecting the sample included companies having to be registered with the Jakarta Islamic Index for six periods from 2018-2021, using the Rupiah currency, and issuing annual reports for the last three years. For this study, the data used came from campus documentation studies and previous research, such as annual reports of companies listed on the Jakarta Islamic Index for the last four years, as well as journals relevant to the topics discussed. In panel data analysis using the regression model, there are three approach options, the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). In this study, the FEM approach was used which involved the use of dummy variables to capture differences in intercepts between companies that might occur due to differences in work culture, managerial, and intensity. The FEM approach also assumes that the regression coefficients remain stable between firms and over time. To determine the most appropriate model, the Chow Test and Hausman Test can be carried out.

Data Analysis Stages

a. Chow Test

Chow test, which is used to determine a more precise model between the Common Effect Model (CEM) or the Fixed Effect Model (FEM). If the F and Chi-Square probability values are greater than alpha (α) = 5%, then the appropriate model is CEM, whereas if the F and Chi-Square probability values are smaller than alpha (α) = 5%, then the appropriate model is FEMs.

b. Hausman Test

The Hausman test is used to choose between FEM or Random Effect Model (REM) which is more appropriate for panel data. If the Hausman statistical value is greater than the Chi-Square critical value, then the right model is FEM, whereas if the Hausman statistical value is less than the Chi-Square critical value, then the right model is REM. The Hausman test is based on the idea that Least Squares Dummy Variables (LSDV) in FEM and Generalized Least Squares (GLS) in REM are efficient while Ordinary Least Squares (OLS) in CEM are not efficient.

c. Classic Assumption Test

Classical assumption test also needs to be done to ensure the validity of the relationship in the regression analysis. This test aims to ensure that the multiple regression model meets the assumptions of normality of the data and is free from classical statistical assumptions such as multicollinearity, autocorrelation and heteroscedasticity. By ensuring that the regression model meets the classical assumptions, it can be ensured that the results of the regression analysis carried out have a high level of confidence. In the regression analysis, there are several basic assumptions that required:

1) Multicollinearity Test

The multicollinearity test aims to test the existence of a correlation between independent variables in the regression model. If there is a correlation between the independent variables, then there is a multicollinearity problem. To detect the existence of multicollinearity in the regression model, it can be done by looking at the Centered Variance Inflation Factor (VIF). Centered VIF values greater than 10 indicate the presence of multicollinearity in the regression model.

2) Heteroscedasticity Test

The heteroscedasticity test aims to test for differences in the residual variance of observations between one another in the regression model. A good regression model is homoscedasticity. To detect the existence of heteroscedasticity, it can be seen in the probability value of each variable. If the probability value is less than 0.05, there is heteroscedasticity in the regression model.

3) Hypothesis Test

a) Partial Test (t test)

Hypothesis testing is done through the t test, which aims to test the regression coefficients partially. Before determining the accuracy of the partial hypothesis, it must first know the value of the t table. If the calculated t value is less than the t table value, then the null hypothesis (H0) is accepted and the alternative hypothesis (Ha) is rejected, which means that the independent variable has no significant effect on the dependent variable. However, if the calculated t value is greater than the t table value, then H0 is rejected and Ha is accepted, which means that the independent variable has a significant influence on the dependent variable. In addition, testing can be done by looking at the probability value at the significance level used. If the probability value is less than 0.05,then the hypothesis is tested and the independent variables have a significant effect on the dependent variable, but if the probability value is greater than 0.05, then the hypothesis is not tested and the independent variables have no significant effect on the dependent variable.

b) Simultaneous Test (Test F)

The F test is used to test the effect of the independent variables together on the dependent variable. Before starting the test, the value of Ftable must be known by using the formula Ftable = nk, withcertain a (0.05). There are two conditions that must be met in this test. First, if F count is less than F table, then the null hypothesis (H0) is accepted and the alternative hypothesis (Ha) is rejected,

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which means that the independent variable has no simultaneous effect on the dependent variable. Second, if F count is greater than F table, then H0 is rejected and Ha is accepted, which means that the independent variables simultaneously affect the dependent variable. In addition, the significance of F at the level of α used (usually 5%) can also be analyzed. If the significance value of F is less than 0.05, then the hypothesis is tested and the independent variables simultaneously have a significant effect on the dependent variable. However, if the significance value of F is greater than 0.05,then the untested hypothesis and the independent variables simultaneously have no significant effect on the dependent variable.

c) Coefficient of Determination (R-Square)

The determining coefficient is used to measure how well the model can explain the variation of the dependent variable. If the determinant coefficient value is low, then the model has limitations in explaining the variation of the dependent variable. Conversely, if the value is close to one, then the independent variable can provide almost perfect information to predict the dependent variable.

RESULTS AND DISCUSSION

Data Analysis

a. Determination of the Regression Approach Model

After collecting annual report data from 24 companies in the sample using Eviews software and panel data processing techniques from 2018 to 2021, a panel data regression test was performed to test the relationship between the independent variables, Environmental Performance, Social Performance, and Governance Performance, to the dependent variable of Financial Performance with Moderation of the Leader's Example. There are three types of approaches in panel data regression, the common effect model (pooled least squares), fixed effect model, and random effect model, each of which has advantages and disadvantages. In addition, two types of tests, the Chow Test and the Hausman Test, are also used to choose the right approach model.

Table 1. Chow Test Results

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

Effects Test	Statistic	d.f.	Prob.
Cross-section F	12.148621	(23,93)	0.0000
Cross-section Chi-square	166.490179	23	0.0000

Based on Table 1, the probability value of the cross section on the Chow Test is 0.0000, which means the probability value is <0.05. In addition, with an F statistic value of 23.93 > F table (2.700), H0 is accepted and H1 is rejected, so the fixed effect model is selected based on the results of the Chow test.

After the Chow test, the Hausman test was carried out to choose between the fixed effect model and the random effect model. The following are the results of the Hausman Test:

Table 2. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.959249	3	0.1748

The results of the Hausman test in Table 2 show that the probability value of a random cross section is 0.1748, which means the probability value is > 0.05. Therefore, H0 is rejected and H1 is accepted, and the random effect model is selected based on the results of the Hausman test. Thus, it can be concluded that the most appropriate approach model for this study is the random effect model after the Chow Test and Hausman Test were carried out. As for the selection of the approach model, it must meet the correct assumptions and statistical data processing requirements, so that the results can be statistically justified.

1) Normality Test

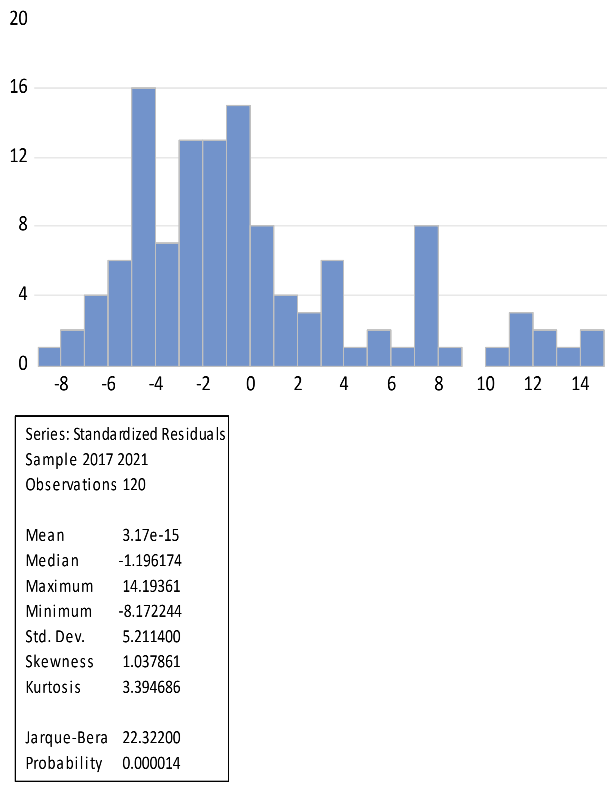

Figure 2. Residual Normality Test

In the residual normality test, the Jarque-Bera value was 23.32200 with a p-value of 0.000014. A small p-value indicates that the residuals are not normally distributed, so the alternative hypothesis (H1) is accepted.

2) Multicollinearity Test

Table 3. Multicollinearity Test Results

	Y	X1	X2	X3
Y	1	0.25106492...	0.09948585...	0.06387411...
X1	0.25106492...	1	-0.2241052...	0.00676222...
X2	0.09948585...	-0.2241052...	1	-0.0965677...
X3	0.06387411...	0.00676222...	-0.0965677...	1

Multicollinearity test was conducted to check whether there is a significant correlation between the independent variables in the regression model. The multicollinearity test results in Table 3 show that there is no correlation value that exceeds 0.90 between the independent variables, so it can be concluded that there is no multicollinearity in the regression model.

b. Descriptive Analysis

In the results of the descriptive analysis for the variables Environmental Performance, Social Performance, and Governance Performance, the following information is obtained:

Table 4. Descriptive Analysis

	Y	X1	X2	X3
Mean	6.009583	18.06817	7.986833	0.958333
Median	4.680000	19.05000	7.230000	1.000000
Maximum	22.90000	24.00000	20.00000	1.000000
Minimum	0.100000	4.450000	0.170000	0.000000
Std. Dev.	5.361681	3.782827	3.445803	0.200664
Skewness	1.333415	-1.198514	0.715116	-4.587317
Kurtosis	4.282886	4.125597	3.821658	22.04348
Jarque-Bera	43.78891	35.06355	13.60343	2234.140
Probability	0.000000	0.000000	0.001112	0.000000
Sum	721.1500	2168.180	958.4200	115.0000
Sum Sq. Dev.	3420.967	1702.863	1412.953	4.791667
Observations	120	120	120	120

Source : The Data Results (2023)

In Table 4, the information obtained from the descriptive analysis for the variables Environmental Performance, Social Performance, and Governance Performance are as follows:

1) For Variable Y or Financial Performance, the average value is 6.0095 and the median value is 4.6800. The range of observed values is from 0.10 to 22.9, with a standard deviation of 5.361. It can be concluded that overall, companies taken from the Jakarta Islamic Index were able to achieve the highest financial performance of 22.9 and the lowest 0.01.
2) For X1 or Environmental Performance Variable, the average value is 18.068 and the median value is 19.050. The range of observed values is from 4.4500 to 24.000, with a standard deviation of 3.7828. This means that, overall, the companies taken from the Jakarta Islamic Index were able to achieve the highest environmental performance of 24,000 and the lowest of 4,4500.
3) For the variable X2 or social performance, the mean value is 7.9868 and the median value is 7.2300. The range of observed values is from 0.7100 to 20.000, with a standard deviation of 3.4458. This means that, as a whole, companies taken from the Jakarta Islamic Index are able to contribute to social performance with the

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highest score of 20.000 and the lowest 0.7100.

4) For Variable X3 or Governance Performance, the average value is 0.9583 and the median value is 1.000. The range of observed values is from 0 to 1, with a standard deviation of 0.2006. This means that as a whole, companies taken from the Jakarta Islamic Index are able to achieve governance performance with the highest score of 1 and the lowest 0.

c. Regression Model Before Moderation

Multiple linear regression analysis was performed to examine the effect of three independent variables, Environmental Performance, Social Performance, and Governance Performance, on the dependent variable Financial Performance as measured using a metric.

Table 5. Results of Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic
C	-3.275836	2.809200	-1.166110
X1	0.311108	0.140528	2.213843
X2	0.487603	0.167859	2.904842
X3	-0.240139	1.434788	-0.167369

Table 5 shows the results of this analysis, where the constant coefficient value of Financial Performance is -3.276, indicating that in regression, financial performance has no potential and is very low against the other three variables. The variables of Environmental Performance and Social Performance have a significant positive effect on Financial Performance of 31.11% and 48.76% respectively, while the Governance Performance variable has not had a significant positive effect on Financial Performance of 24.01%.

d. Moderation Models

Table 6. Moderation Results

Furthermore, the panel data analysis in Table 6 shows that"The regression equation for this study is Y = -2.2676 + 0.003804 β1+ 0.006279 β2 - 0.000147 β3 + e, where the probability value (p) for the variables Environmental Performance, Social Performance, and Governance Performance respectively are 0.0914, 0.0067, and 0.8913 respectively. These results indicate that the moderation of the leadership's example in the Governance Performance variable results in the value of governance performance becoming less significant and having a limited effect on financial performance.

e. Hypothesis Test

1) The Effect Between Environmental Performance (X1) Companies Listed On The Jakarta Islamic Index and Financial Performance

Table 7. T-test Results Correlation X to Y

Dependent Variable: Y
Method: Panel Least Squares
Date: 11/21/22 Time: 14:53
Sample: 2017 2021
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.139061	1.631479	1.924059	0.0568
X1	0.167124	0.090699	1.842622	0.0679

R-squared	0.027969	Mean dependent var	6.009583
Adjusted R-squared	0.019731	S.D. dependent var	5.361681
S.E. of regression	5.308522	Akaike info criterion	6.193030
Sum squared resid	3325.288	Schwarz criterion	6.239488
Log likelihood	-369.5818	Hannan-Quinn criter.	6.211897
F-statistic	3.395255	Durbin-Watson stat	0.494527
Prob(F-statistic)	0.067894		

Source : The Data Results (2023)

In this analysis, the null hypothesis (H0) states that there is no effect between the Environmental Performance (X1) of companies listed on the Jakarta Islamic Index and Financial Performance, while the alternative hypothesis (Ha) states that there is a positive and significant The effect between the two.

To test this hypothesis, the t table value obtained through the nk-1 formula is used, where k is the number of independent variables and n is the number of respondents, in this case k = 3 and n = 120, so that a t table value is obtained 1.65810.

The results of the analysis in table 7 show that the probability value of the X1 variable is 0.0679, which is greater than the alpha level of 0.05. In addition, the calculated t value is 1.842, greater than the t table value of 1.65810. Furthermore, the regression coefficient for the Environmental Performance variable is +3.139, which indicates that every increase of one unit of Environmental Performance can increase Financial Performance by 3.139%. Thus, it can be concluded that H0 is rejected and Ha is accepted, which means that there is a positive and significant The effect between the

Environmental Performance variables of companies listed on the Jakarta Islamic Index on Financial Performance.

2) The Effect Between The Social Performance (X2) of Companies Listed On The Jakarta Islamic Index and Financial Performance

Table 8. Correlation t Test Results of X2 to Y

Dependent Variable: Y
Method: Panel Least Squares
Date: 11/21/22 Time: 14:55
Sample: 2017 2021
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.773219	1.238989	3.852511	0.0002
X2	0.154800	0.142531	1.086081	0.2797

R-squared	0.009897	Mean dependent var	6.009583
Adjusted R-squared	0.001507	S.D. dependent var	5.361681
S.E. of regression	5.357640	Akaike info criterion	6.211451
Sum squared resid	3387.108	Schwarz criterion	6.257909
Log likelihood	-370.6870	Hannan-Quinn criter.	6.230317
F-statistic	1.179572	Durbin-Watson stat	0.494272
Prob(F-statistic)	0.279657		

Source : The Data Results (2023)

In this study, H0 stated that there was no effect between the Social Performance (X2) of companies listed on the Jakarta Islamic Index and Financial Performance, while Ha stated that there was a positive and significant The effect between the two variables.

To test this hypothesis, the value of t table is used which is calculated by the formula n - k - 1, where n is the number of respondents and k is the number of independent variables or X. In this case, the number of independent variables is 3 and the number of respondents is 120, so obtained t table value of 1.65810. The results of the analysis show that the calculated t value is 1.086, which is obtained from the comparison between the data in table 8 and the t table. In addition, the probability value of variable X2 in table 8 is 0.2797, which is greater than the significance level of 0.05. The regression coefficient for the Social Performance variable is 4.7732, which indicates that every increase of one unit of Social Performance can increase Financial Performance by 4.7732%. Based on the results of this analysis, it can be concluded that H0 is rejected and Ha is accepted,which means there is a significant influence between the Social Performance of companies listed on the Jakarta Islamic Index and Financial Performance.

3) The Effect Between Governance Performance (X3) of Companies Listed On The Jakarta Islamic Index and Financial Performance

Table 9. T-test Results Correlation X3 to Y

Dependent Variable: Y
Method: Panel Least Squares
Date: 11/21/22 Time: 14:57
Sample: 2017 2021
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.792500	2.684161	1.412918	0.1603
X3	2.293534	2.730047	0.840108	0.4025

R-squared	0.005946	Mean dependent var	6.009583
Adjusted R-squared	-0.002479	S.D. dependent var	5.361681
S.E. of regression	5.368322	Akaike info criterion	6.215434
Sum squared resid	3400.627	Schwarz criterion	6.261892
Log likelihood	-370.9260	Hannan-Quinn criter.	6.234301
F-statistic	0.705781	Durbin-Watson stat	0.548837
Prob(F-statistic)	0.402547		

Source : The Data Results (2023)

In testing this hypothesis, it is assumed that there is no effect between the performance of corporate governance listed on the Jakarta Islamic Index (X3) and financial performance (H0), but the alternative hypothesis states that there is a positive and significant effect between the two variables (Ha).

Based on the calculation results, it was found that the calculated t value was 0.8401, while the t table value was 1.65810. The probability of variable X3 is also found to be greater than 0.05, which is equal to 0.4025. Therefore, it can be concluded that the null hypothesis is rejected and the alternative hypothesis is accepted, indicating that there is a positive and significant relationship between corporate governance performance and financial performance. The regression coefficient for variable X3 is +2.2935, meaning that every one unit increase in governance performance can increase financial performance by +2.2935%.

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4) The Effect of Leadership Example Moderation (Z) and Environmental Performance (X1) On Financial Performance (Y) In Companies Listed On The Jakarta Islamic Index

Table 10. Moderation Results Z to X1 Against Y

Dependent Variable: Y
Method: Panel Least Squares
Date: 11/21/22 Time: 14:54
Sample: 2017 2021
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.203040	1.622487	1.974155	0.0507
X1	-1.057228	0.797206	-1.326165	0.1874
X1Z	0.017207	0.011132	1.545722	0.1249

R-squared	0.047421	Mean dependent var	6.009583
Adjusted R-squared	0.031138	S.D. dependent var	5.361681
S.E. of regression	5.277545	Akaike info criterion	6.189482
Sum squared resid	3258.741	Schwarz criterion	6.259169
Log likelihood	-368.3689	Hannan-Quinn criter.	6.217782
F-statistic	2.912242	Durbin-Watson stat	0.451398
Prob(F-statistic)	0.058305		

Source : The Data Results (2023)

According to the information presented in table 10, the probability value of the moderating variable Z with respect to the dependent variables x1 to Y is 0.1249, which is more than 0.05. This shows that there is no significant association between the moderating variable and the variable that is being moderated. However, the regression coefficient for the environmental performance variable is equal to +0.0172, which indicates that there is a positive effect of environmental performance on financial performance in companies listed on the Jakarta Islamic Index. This is something that can be explained by the leadership's moderation because environmental performance is positively correlated with financial performance. Therefore, the alternative hypothesis is accepted, which indicates that there is a positive and significant moderating influence of Environmental Performance by Leadership on Financial Performance in firms that are listed on the Jakarta Islamic Index. This conclusion follows from the rejection of the null hypothesis and the acceptance of the alternative hypothesis.

5) The Effect of Leadership Moderation (Z) and Social Performance (X2) On Financial Performance (Y) In Companies Listed On The Jakarta Islamic Index

Table 11. Moderation Results Z to X2 Against Y

Dependent Variable: Y
Method: Panel Least Squares
Date: 11/21/22 Time: 14:56
Sample: 2017 2021
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	4.346590	1.174758	3.699988	0.0003
X2	-0.611544	0.237203	-2.578151	0.0112
X2Z	0.000656	0.000167	3.923106	0.0001

R-squared	0.124999	Mean dependent var	6.009583
Adjusted R-squared	0.110042	S.D. dependent var	5.361681
S.E. of regression	5.058080	Akaike info criterion	6.104533
Sum squared resid	2993.349	Schwarz criterion	6.174221
Log likelihood	-363.2720	Hannan-Quinn criter.	6.132834
F-statistic	8.357093	Durbin-Watson stat	0.454242
Prob(F-statistic)	0.000405		

Source : The Data Results (2023)

In order to test this hypothesis, it is assumed that H0 does not have a moderating influence between leadership and environmental performance (X1) on financial performance (y) in firms that are listed on the Jakarta Islamic Index, whereas Ha implies that there is a moderating effect. This is done so that we can test whether or not H0 does have a moderating effect. It is possible to draw the conclusion that there is not a significant association between the moderating variable and the dependent variable since the probability value of the moderating variable Z with x1 to Y in table 10 yields a value of 0.1249, which is bigger than alpha (0.05), as a result of which it is possible to draw that conclusion. The regression coefficient for the variable Environmental Performance is +0.0172, which indicates that there is a positive influence of Environmental Performance on Financial Performance in companies listed on the Jakarta Islamic Index. This can be explained by the moderation of the leadership. However, the correlation between Environmental Performance and Financial Performance is negative. As a result, the null hypothesis, H0, is found to be false, and the alternative hypothesis, Ha, is found to be true. This indicates that there is a positive and significant moderating influence on Environmental Performance by Exemplary Leadership on Financial Performance in companies that are listed on the Jakarta Islamic Index.

6) The Effect of Leaders' Moderation (Z) and Governance Performance (X3) on Financial Performance (Y) in Companies Listed on The Jakarta Islamic Index

Table 12. Moderation Results Z to X3 Against Y

Dependent Variable: Y
Method: Panel Least Squares
Date: 11/21/22 Time: 14:58
Sample: 2017 2021
Periods included: 5
Cross-sections included: 24
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.792500	2.589596	1.464514	0.1457
X3	-0.766539	2.809834	-0.272806	0.7855
X3Z	0.000309	9.88E-05	3.126564	0.0022

R-squared	0.082595	Mean dependent var	6.009583
Adjusted R-squared	0.066913	S.D. dependent var	5.361681
S.E. of regression	5.179192	Akaike info criterion	6.151857
Sum squared resid	3138.412	Schwarz criterion	6.221545
Log likelihood	-366.1114	Hannan-Quinn criter.	6.180158
F-statistic	5.266834	Durbin-Watson stat	0.479423
Prob(F-statistic)	0.006454		

Source : The Data Results (2023

Discussion

After analyzing the data using Eviews software version 10, the following conclusions can be drawn from the research results:

a. The Effect of Environmental Performance on Financial Performance in Companies listed on the Jakarta Islamic Index

The value of the probability variable X1 is shown to be 0.0679, which is more than 0.05 in table 7. In addition, the difference between the t count and the t table is 1.842, which is greater than 1.661. The environmental performance variable has a regression coefficient of +3.139, which suggests that an increase in environmental performance can lead to an increase in financial performance of 3.139% for every one unit of environmental performance that is improved. As a result, one might draw the conclusion that Hypothesis 0 (H0) is not supported but Hypothesis 1 (Ha) is, which indicates that there is a positive and substantial The correlation between a company's environmental performance and its financial performance, as measured by the Jakarta Islamic Index.

b. The Effect of Social Performance on Financial Performance in Companies listed on the Jakarta Islamic Index

Table 8 shows that the value of the variable X2 has a probability of 0.2797 > 0.05, and that the difference between the t count and the t table is 1.086 1.658. In addition, a boost of one unit in Social Performance is associated with a rise of 4.7732 percentage points in Financial Performance (as measured by the regression coefficient for the Social Performance variable). The effect between Social Performance and Financial Performance in companies included in the Jakarta Islamic Index is thus recognized, while H0 is thus rejected.

c. The Effect of Governance Performance on Financial Performance in Companies Listed on the Jakarta Islamic Index

The effect between governance performance and financial performance is favorable and statistically significant in Jakarta Islamic Index companies. Table 9's X3 probability value is 0.4025 > 0.05, and the regression coefficient of the Governance Performance variable is +2.2935, therefore this is the case. Therefore, it is reasonable to draw the conclusion that corporate governance plays a significant role in the growth of the organization by helping to disseminate the values of equity, responsibility, and openness..

d. The Effect Between Exemplary Leadership Moderation (Z) and Environmental Performance (X1) on Financial Performance (Y) in Companies Listed on the Jakarta Islamic Index

Exemplary leadership, defined as "encouraging work," "providing advice," "motivating capacity building," "approaching work rules and procedures," and "providing important directions in managing the environment," has been shown to improve environmental performance and financial performance in companies included in the Jakarta Islamic Index. The regression coefficient of the Environmental Performance variable is +0.0172, and the probability value of the Moderation variable Z with X1 to Y in table 10 is 0.1249 > 0.05, therefore these two numbers together indicate that this is the case. This study provides new evidence that a leader's example can be used as a moderating element to significantly boost an organization's environmental and financial performance. Companies' environmental performance is critical to their bottom lines because it boosts their credibility in the eyes of customers and potential investors.

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e. The Effect of Leaders' Moderation (Z) and Social Performance (X2) on Financial Performance (Y) in Companies Listed on the Jakarta Islamic Index

Table 11 shows the correlation between leader moderation (Z) and social performance (X2) and financial performance (Y) for Jakarta Islamic Index firms. Statistical analyses, however, reveal that the relationship between Moderating Environmental Performance with Leaders' Leadership and Financial Performance (X1) is not a good one. This demonstrates that a company's financial success cannot be directly attributed to the actions of its top executives. According to the Global Reporting Initiative (GRI), public reporting on a company's social performance can serve as a platform for the organization's legitimacy in the eyes of society because it demonstrates accountability and transparency to stakeholders. Good corporate governance (X3) has been proven in previous research to act as a moderator, mitigating the positive effects of other variables. The correlation between social and economic success. Disclosure of employment, human rights, society, and product accountability are all part of the GRI's "social dimension.".

f. The Effect of Leaders' Moderation (Z) and Governance Performance (X3) on Financial Performance (Y) in Companies Listed on the Jakarta Islamic Index.

Table 12 shows that there is a 0.00220.05 chance that the Moderation variable Z has x3 equal to Y. In this situation, the moderating influence of leadership example and governance performance on financial performance is explained by the Governance Performance variable's +0.0003 regression coefficient. Therefore, we accept the null hypothesis, which states that there is no positive and significant influence of governance performance moderation and Exemplary Leadership on financial performance (X1) in companies included in the Jakarta Islamic Index, and reject the alternative hypothesis, which states that there is such an effect. According to this research, following a leader's example is not particularly effective. These findings are consistent with Rifqi Kurniarsa's prior work examining the moderating role of family control in the relationship between corporate governance and firm success. The research indicated that the audit committee has a positive and substantial effect on ROA but a small negative effect on Tobin's Q, whereas the board of commissioners, which represents corporate governance, has a positive and significant effect on both metrics. One model shows that family control cannot moderate the positive effect of governance on company performance, while seven other models show that family control either weakens or strengthens the positive effect of governance on company performance.

g. The Simultaneous Effect Between Environmental Performance, Social Performance, And Governance Performance With Financial Performance

According to the available data, the probability of the statistical F value is 0.000086 0.05. Comparing the calculated F value to the F table, 7.8054 > 2.68, leads to the conclusion that H0 is rejected and Ha is accepted. Consequently, it can be concluded that there is a concurrent The impact of environmental performance, social performance, and governance performance on the financial performance of an organization. This finding is consistent with previous research, such as that conducted by Barraq Mellina Zahroh and Hersugondo, which demonstrated that environmental performance has no significant effect on financial performance, whereas social performance and governance performance have a positive and statistically significant effect on financial performance. In addition, M. Lubis and R. Rokhim's research indicates that the application of ESG to company performance can provide substantial benefits and have an impact on sustainable economic development in Indonesia based on ISE data for 52 companies from 2015 to 2019. However, the CEO's authority cannot mitigate the impact of environmental and social performance on the company's financial performance.

h. Components of Research Economic Phenomena

Researchers have conducted a study examining the effect of Jakarta Islamic Index-listed companies on Financial Performance. In this study, not only did the researchers conduct a quantitative analysis of the available data, but they also considered Islamic economic phenomena that occurred between 2016 and 2019. The results of quantitative analysis are supported by Islamic economic phenomena, such as the establishment of the National Islamic Economics and Finance

Committee in 2016. As an institution established to strengthen the Islamic economic and financial ecosystem, KNEKS has provided significant benefits to companies listed on the Jakarta Islamic Index in terms of systematized synchronization, coordination, and regulation pertaining to Islamic economics and finance. This study provides a more in-depth description of the Islamic economy in Indonesia from 2016 to 2019, focusing on the role of companies listed on the Jakarta Islamic Index in enhancing Indonesia's financial performance. The Jakarta Islamic Index was created to increase investor confidence in investing in sharia-based equities and to provide investors with benefits for implementing Islamic sharia principles in stock exchange investing. This index is also anticipated to promote the transparency and accountability of sharia-based stocks in Indonesia and serve as a guide for investors who wish to invest in accordance with sharia principles, allowing them to do so without concern of their funds becoming entangled with usury funds..

CONCLUSIONS

After evaluating the previous chapter's discussion, the findings of this study conclude the following: Environmental performance and financial success are positively and significantly related with companies included on the Jakarta Islamic Index Indonesia (JII). In companies included on the Jakarta Islamic Index Indonesia (JII), there is a positive and significant association between social performance and financial performance. The governance performance of companies listed on the Jakarta Islamic Index Indonesia (JII) has a favorable and significant association with financial performance. Environmental sustainability has a positive and significant impact on financial success, as demonstrated by companies featured on the Jakarta Islamic Index Indonesia (JII). There is no positive and significant impact of social performance on financial performance in companies listed on the Jakarta Islamic Index Indonesia (JII). There is no positive or substantial effect of governance performance on financial performance of companies listed on the Jakarta Islamic Index Indonesia (JII). Several proposals should be considered based on the conclusions above, including: To achieve the intended return, investors must assess the company's financial position as well as the application of environmental, social, and governance policies. To boost supervision and increase stock returns, corporations must align environmental, social, and governance implementation with the company's management model and take into account the characteristics of the board of directors and independent officers. Future research should look at corporate governance factors from a qualitative standpoint and track changes in the application of corporate governance principles, financial performance, and firm stock performance through time.

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