The Impact of Environmental, Social, and Governance (ESG) Disclosure on Company Performance: Evidence and Perspectives from the Basic Materials Sector

Introduction

In recent years, the integration of environmental, social, and governance (ESG) principles into corporate strategy has become a focal point of discussion among academics, practitioners, and regulators. As global stakeholders increasingly demand responsible and sustainable corporate practices, the question of whether ESG initiatives are beneficial to a company's performance has taken on critical importance. This essay examines the impact of ESG on corporate financial performance, evaluates various perspectives from current research, and discusses what approach companies should adopt toward ESG. To elucidate these issues, the essay draws on empirical evidence, particularly from the study by Sabrina et al. (2025) on the basic materials industry in Indonesia, and illustrates the analysis with reference to two companies within the sector: PT Lotte Chemical Titan Tbk and PT Semen Indonesia Tbk.

Theoretical Perspectives and Literature Review

The relationship between ESG practices and corporate performance has been explored through multiple theoretical lenses. Stakeholder theory, as articulated by Freeman (1984) and further developed by Jones et al. (2018), posits that organizations attentive to the interests of a broad array of stakeholders—including investors, employees, customers, and the wider community—are more likely to secure legitimacy, trust, and long-term success. According to this perspective, ESG disclosure serves not only as a compliance exercise but as a strategic tool to build and sustain stakeholder relationships, reduce conflict, and enhance corporate reputation (Harrison et al., 2019; Gray et al., 1996).

Conversely, some scholars have cautioned that the costs associated with ESG implementation may outweigh short-term financial benefits, particularly for smaller firms or in industries where the market does not adequately reward sustainable practices (Saygili et al., 2022; Chancharat & Kumpamool, 2022). These scholars argue that while ESG may enhance reputation and manage risk, its impact on profitability is contingent upon a range of external and internal factors, such as industry characteristics, regulatory environments, and firm-specific resources.

Notwithstanding these divergent views, a growing body of empirical literature increasingly supports a positive association between ESG performance and firm value (Naeem et al., 2022; Buallay, 2019; Veeravel et al., 2024). Many studies now contend that ESG initiatives can serve as a source of competitive advantage, operational efficiency, and improved access to capital, especially as institutional investors and regulators place greater emphasis on sustainability (BlackRock, 2021; Governance & Accountability Institute, 2021).

Empirical Evidence: The Basic Materials Sector in Indonesia

Sabrina et al. (2025) provide a focused empirical analysis of the effect of ESG disclosure on the financial performance of companies in the basic materials sector listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. Employing a sample of 102 companies and using Tobin's Q as a proxy for market-based financial performance, the study finds a statistically significant positive relationship between the extent of ESG disclosure and company performance. Specifically, the results indicate that an increase in ESG disclosure is associated with an improvement in a firm's market value, supporting the hypothesis that ESG is beneficial to financial outcomes.

The study's findings are consistent with stakeholder theory and reinforce the notion that transparent ESG practices can enhance investor confidence, attract capital, and foster greater market trust. Moreover, the results align with global trends, where companies with robust ESG credentials increasingly outperform their peers in attracting investment and maintaining resilience in volatile markets (Alareeni & Hamdan, 2020; Aydoğmuş et al., 2022).

Industry Illustration: ESG in Practice

To illustrate the practical implications of ESG for corporate performance, two companies from the Indonesian basic materials sector—PT Lotte Chemical Titan Tbk and PT Semen Indonesia Tbk—are examined as case studies within the context of Sabrina et al.'s (2025) analysis.

PT Lotte Chemical Titan Tbk emerged as the company with the highest ESG disclosure score in the sector, attaining a value of 2.91 out of a possible maximum based on the Global Reporting Initiative (GRI) framework. Notably, this company also achieved a high Tobin's Q ratio of 3.84, indicating that its market value was almost four times the value of its assets. This strong market performance may reasonably be attributed, at least in part, to the company's proactive ESG strategies, which likely fostered stakeholder trust, reduced operational risk, and attracted investment. The alignment between high ESG disclosure and superior market valuation in this case provides compelling support for the argument that ESG initiatives, when effectively implemented and communicated, can yield tangible financial benefits.

Conversely, PT Semen Indonesia Tbk, while recognized as the only basic materials company included in the ESG Star Listed Companies on the IDX and lauded for its ESG leadership in Southeast Asia, faced persistent financial challenges during the study period. Despite experiencing declines in revenue and profitability from 2021 to 2024, the company continued to invest in and report on ESG initiatives, earning accolades for its sustainability efforts. This case suggests that while ESG can enhance reputation and stakeholder relations, its effect on financial performance may be moderated by sectoral, macroeconomic, or firm-specific factors. Nevertheless, its inclusion in ESG indices and recognition in sustainability ratings may help buffer the company against market shocks and position it favorably for long-term recovery and growth.

These two companies exemplify the nuanced relationship between ESG and performance: while high ESG disclosure is generally associated with better market outcomes, the direction and magnitude of its impact can vary based on contextual variables. Such complexity underscores the need for companies to adopt a strategic, context-sensitive approach to ESG implementation rather than a one-size-fits-all model.

Recommended Approach to ESG for Companies

Given the evidence, it is prudent for companies to adopt a proactive and integrated approach to ESG. Rather than treating ESG as a peripheral or compliance-driven activity, firms should embed sustainability considerations into their core business strategies, decision-making processes, and stakeholder engagement efforts. This involves:

1. **Comprehensive ESG Reporting:** Companies should adhere to recognized frameworks such as the GRI Standards, ensuring transparency and comparability of ESG disclosures across environmental, social, and governance dimensions. Comprehensive reporting not only signals commitment to stakeholders but also facilitates benchmarking and continuous improvement.

2. **Strategic Alignment:** ESG initiatives should be aligned with corporate objectives and tailored to address material risks and opportunities relevant to the company's industry and stakeholder base. This includes integrating ESG metrics into performance management systems and linking executive compensation to sustainability outcomes.

3. **Stakeholder Engagement:** Companies should actively engage with a broad spectrum of stakeholders—including investors, employees, regulators, and local communities—to identify sustainability priorities and foster collaborative problem-solving. Effective stakeholder engagement can enhance legitimacy, reduce reputational risk, and catalyze innovation.

4. **Continuous Evaluation and Adaptation:** Firms must regularly review and adapt their ESG strategies in response to evolving regulatory requirements, market expectations, and technological advances. A culture of learning and adaptation is essential to maintaining relevance and competitive advantage in a rapidly changing business environment.

Critical Evaluation and Synthesis

While the preponderance of evidence suggests that ESG is beneficial to company performance, it is important to acknowledge the diversity of findings in the literature. For instance, Saygili et al. (2022) and Bako Donatus et al. (2023) highlight instances where ESG investments may yield negative or neutral effects on short-term profitability, particularly in capital-intensive or highly regulated sectors. Conversely, research by Wu et al. (2024) and Veeravel et al. (2024) finds that

ESG disclosure is positively correlated with long-term firm value, operational efficiency, and risk mitigation.

The complexity of these findings signals that the business case for ESG is neither automatic nor universal; it is contingent upon how ESG is integrated into strategy, the credibility of disclosures, and the responsiveness to stakeholder expectations. Furthermore, regulatory environments, access to resources, and industry characteristics play a mediating role in shaping ESG outcomes.

Conclusion

In summary, the evidence synthesized from multiple perspectives and grounded in empirical research strongly supports the conclusion that ESG disclosure is, in general, beneficial to company performance. As demonstrated in the basic materials sector in Indonesia, companies that actively engage in ESG reporting and sustainability practices tend to enjoy higher market valuations and enhanced stakeholder trust. Nevertheless, the relationship between ESG and performance is multifaceted and context-dependent, requiring companies to adopt a strategic, tailored, and adaptive approach to ESG implementation. By doing so, firms can not only meet stakeholder expectations and regulatory requirements but also position themselves for sustained competitiveness and value creation in an increasingly sustainability-conscious world.

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