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THE INFLUENCE OF ENVIRONMENTAL SOCIAL GOVERNANCE AND INTELLECTUAL CAPITAL ON THE COMPANY'S FINANCIAL PERFORMANCE

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ABSTRACT
This study aims to determine the influence of Environmental Social Governance and Inellectual Capital on Financial Performance in Financial Sector Companies listed on the Indonesia Stock Exchange. The research period carried out is the 2018-2023 period. The type of research used in this study is quantitative associative with secondary data. The determination of the sample of this study uses the purposive sampling method and based on the existing criteria, 8 company data were obtained multiplied by a period of 6 years so that the observation data of this study is 48 data and analyzed using the panel data regression technique with a fixed effect model to test the hypothesis. The hypothesis test in this study used panel data regression using Eviews version 9. The results of this study show that simultaneously Environmental Social Governance and Inellectual Capital have an effect on financial performance. The results of this study show that Environmental Social Governance has no effect on financial performance, while Inellectual Capital has an effect on financial performance.

Keywords: Environmental Social Governance, Intellectual Capital and Financial Performance.

ABSTRAK
Penelitian ini bertujuan untuk mengetahui pengaruh Environmental Social Governance dan Inellectual Capital Terhadap Kinerja Keuangan pada Perusahaan sektor Keuangan yang terdaftar di Bursa Efek Indonesia. Periode penelitian yang dilakukan yaitu Periode 2018-2023. Jenis penelitian yang diyygunakan dalam penelitian ini adalah kuantitatif asosiatif dengan data sekunder. Penentuan sampel penelitian ini menggunakan metode purposive sampling dan berdasarkan kriteria yang ada didapatkan 8 data perusahaan dikalikan dengan jangka waktu 6 tahun sehingga data observasi penelitian ini sebanyak 48 data dan di analisis menggunakan teknik regresi data panel dengan model fixed effect untuk menguji hipotesis. Pengujian hipotesis dalam penelitian ini menggunakan regresi data panel dengan menggunakan Eviews versi 9. Hasil penelitian ini menunjukkan bahwa secara simultan menunjukkan Environmental Social Governance dan Inellectual Capital secara bersama sama berpengaruh terhadap kinerja keuangan. Hasil dari penelitian ini menunjukkan bahwa Environmental Social Governance tidak berpengaruh terhadap kinerja keuangan, sedangkan Inellectual Capital berpengaruh terhadap kinerja keuangan.

***Kata Kunci**: Environmental Social Governance, Intellectual Capital dan Kinerja Keuangan.*

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1. INTRODUCTION

Companies are encouraged to maintain their productivity and demonstrate gains in their financial performance by the heightened degree of competition. Businesses must create effective strategies to be competitive in the face of this competition (Narosa, 2021). Effective corporate governance strengthens the company's capacity to handle economic factors linked to profit, social aspects that concentrate on people, and environmental aspects related to the planet (Boiral et al., 2019). This allows the business to achieve business sustainability. The analysis of the company's financial performance over a certain time period is one of the key components in determining its development. In light of the fluctuations of the business environment, optimal firm performance also permits effective resource utilisation (Faisal et al., 2018).

Numerous incidents in Indonesia show that companies are still unable to adequately fulfil their social and environmental obligations. According to the Ministry of Environment and Forestry, 462 businesses were implicated in environmental damage cases up to 2018 (Head of the Ministry of Environment and Forestry's Public Relations Bureau, 2018). Lapindo Brantas and PT Freeport Indonesia are involved in a few of them. In Papua, PT Freeport Indonesia is notorious for disposing of its commercial waste in the environment without getting consent from the government or the local community. As a consequence of these breaches, the state has lost USD 12.95 billion (News Desk, 2018). Weak environmental, social, and governance (ESG) performance is the reason for the company's disregard for how its operations effect the environment (Shakil, 2021).

Law No. 40 of 2007 about "Limited Liability Companies" and Government Regulation No. 47 of 2012 concerning "Social and Environmental Responsibility of Limited Liability Companies" are two laws that the Indonesian government has created that address social and environmental accountability. Although the rule mandates that businesses have social and environmental responsibility programmes, it offers no more thorough instructions on how to carry them out. With POJK No. 51/POJK.03/2017, the Financial Services Authority (OJK) published rules pertaining to "Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies in 2017. Through sustainable finance initiatives, this rule explicitly seeks to increase corporate sustainability. According to POJK No. 51/POJK.03/2017, businesses must use effective environmental, social, and governance (ESG) principles to enhance economic,

social, and environmental elements of their operations in order to ensure corporate sustainability.

Environmental, social, and governance (ESG) performance is one of the non-financial aspects that are included in the sustainability report. Almeyda and Darmansyah (2019) claim that the environmental component of ESG represents the business's attempts to improve the environment by abiding by relevant laws. The social component, on the other hand, has to do with how the business interacts with its stakeholders and the neighbourhood in which it operates. The integrity and moral behaviour of the business in its management system are part of the governance component.

Relationships built on trust with stakeholders are essential to giving businesses a competitive edge, and ESG is important for society as a whole as well as for policymakers (Rahi et al., 2022). According to Capital Group research, altogether, 29% of global investors now take ESG into account when making investment choices, up from 24% in 2021 (Harini, 2022). ESG considerations are increasingly a major component that both institutional and individual investors consider when making investment choices, according to Kim and Li (2021).

In order to satisfy stakeholders' demands for non-financial performance data, ESG performance disclosure is essential. Stakeholders will evaluate a company's compliance with non-financial performance disclosure procedures when it provides information about its non-financial performance (Ellili, 2022). Stakeholders and fund managers think that businesses with high ESG disclosure levels often have superior operational performance, greater returns, and less company-specific risks (Shaikh, 2021). An ESG score, which combines evaluation ratings on environmental, social, and governance factors, will be awarded to businesses who report on their ESG performance.

In addition to the growing significance of the ESG concept in the business sector, ESG is now a key factor in evaluating the financial success of a firm. ESG considerations may affect an institution, nation, or individual's financial performance or solvency in either a good or negative way, according to the European Banking Authority (2021). As a result, the academic community's interest in studying the connection between company financial success and ESG performance is growing. However, the outcomes of the study that has been done so far have been conflicting and unclear. ESG has a positive and significant impact on company performance, according to several studies by Kim and Li (2021), Hwang et al. (2021), Yoo and Managi (2022), and Xu et al. (2022). Paying attention to ESG is considered one of the significant variables because it can reduce environmental,

social, and governance risks as well as waste and unnecessary operating costs in order to develop sustainably over a long period of time. ESG has a negative and significant impact on company performance, according to another study by Qodary and Tambun (2021), Duque-Grisales & Aguilera-Caracuel (2021), and Ruan & Liu (2021). Companies with good ESG have low profits, which are primarily caused by high input costs, excessive investment, and implementing ESG in a way that is not in line with the company's goals. Businesses are increasingly understanding that possession of actual assets is not the only element that determines success, in addition to ESG considerations that attract investors. They must also focus on other areas including organisational management, innovation, information systems, and human resources. One metric used to measure and assess intangible assets is intellectual capital. Nurhayati (2017) asserts that intellectual capital is an intangible asset that is crucial to raising a company's productivity and profitability. The performance of the business may be improved by optimal intellectual capital management, which can boost operational effectiveness, productivity, and the company's ability to innovate and compete. According to a number of research, including those by Sagara & Chairunissa (2018) and Febriany (2020), intellectual capital significantly and favourably affects business performance. Effective resource management enables businesses to become more competitive and superior, which eventually boosts financial success.

These results, however, go counter to studies by Sari & Surya (2020) and Hirawati et al. (2021), which claim that intellectual capital really has a detrimental effect on business success. This is because, although being high, the VAIC's measurement of intellectual capital does not always translate into better financial success for the business. The presence of substantial human resources and strong financial reports are not always indicators of financial success. Conversely, ineffective value-added management.

2. LITERATURE REVIEW

Stakeholder theory

Stakeholder theory is a set of practices and guidelines that align with stakeholders, values, legal obligations, community and environmental respect, and the corporate community's dedication to long-term growth. On this issue, stakeholder theory is predicated on the idea that the industry's worth is obvious and irreplaceable (Sukma, 2020). This notion is crucial for discussing financial statement data with business management. Investors must be precise in generating profits if they want to utilise them as an accounting metric (Dwidjayanti & Rahmah, 2022). The corporation is now accountable to its

stakeholders as well as shareholders. Shareholders, creditors, and suppliers to the global society are examples of stakeholders. According to this notion, management is supposed to keep stakeholders informed about the company's operations, even if they decide they won't utilise the knowledge later.

Providing information about the company's operations and performance is one strategy to satisfy the demands and expectations of stakeholders. As concerns about sustainability have grown, stakeholders are starting to shift their perspectives by considering the company's non-financial performance as well, such as its governance, social, and environmental aspects. Stakeholder theory and the company's non-financial performance are connected in this research. The report's material demonstrates that the firm has complied with stakeholders' rights to learn about sustainable elements of its operations via ESG disclosures. Stakeholders may comprehend ESG implementation more thoroughly and accurately with more information openness. This knowledge may boost the company's reputation, foster more faith in it, and provide it a competitive edge (Xia, 2022). Growing public confidence in businesses also affects market response and corporate value (Suttipun and Yordudom, 2021).

Signal Theory

According to signal theory, a business should communicate with those who utilise its financial statements. This signal takes the shape of details on the actions taken by management to fulfil the owner's desires. A good indication that may influence how creditors, investors, and other interested parties see financial statement data is its integrity. Information between management and outside parties is asymmetrical according to signal theory (Halimatussa'diah & Putra, 2021). Companies are encouraged to publish their reports since the information gap provides greater insight into the company's state and potential than information gathered from other sources. Companies with higher abnormal returns employ more short-term debt to show their high quality, according to signal theory (Benlemlih, 2018). These indications will have a favourable impact on the financial accounts, increasing the company's worth (Muharramah & Hakim, 2021). The company's released financial and non-financial disclosures might provide investors clues. Holiawati and Sarah (2022). This signal may provide investors a good indication of how management sees a company's future, which will encourage them to put money into the business.

Financial Performance

Financial performance, according to Kurniasari (2022:12), is the sum of the company's financial sector accomplishments as reported in its financial statements. Tools

for analysis may be used to evaluate a company's financial performance. An assessment of the business's ability to generate profits and maintain a certain cash position, as well as its potential for growth and financial development using its available resources, are all included in financial performance. Return on assets (ROA) is the metric used in this research to measure financial success. Return on assets is a ratio that displays the yield on the quantity of assets used by the business, claims Sukma (2020). A company's ability to transform the funds spent to purchase assets into nett profit may be gauged with the use of this return on assets ratio. A greater ratio suggests that the business is managing its assets more skilfully in order to produce a higher level of nett profit. A percentage (%) is used to represent ROA. The following is the ROA formula.:

$$\text{ROA (Return On Asset)} = \frac{\text{Net Profit}}{\text{Total Assets}} \text{ X } 100\%$$

ESG

ESG is a set of factors pertaining to governance, social, and environmental standards that may affect how businesses carry out their plans and generate long-term value (Nasdaq, 2019). References from the NASDAQ ESG Reporting Guide 2.0 are used in the environmental, social, and governance (ESG) assessment. These include (1) Environmental (E), which includes GHG emissions, emissions intensity, energy usage, energy intensity, energy mix, water usage, environmental operations, climate oversight/board, climate oversight/management, and climate risk mitigation. The CEO pay ratio, gender pay ratio, employee turnover, gender diversity, temporary worker ratio, non-discriminant, accident rate, global health & safety, child & forced labour, and human rights are all included in aspect (2) Social (S). Aspect (3) Corporate Governance (G) includes dislusure practices, external assurance, supplier code of conduct, ethics and anti-corruption, data protection, ESG reporting, diversity and independence of the board, incentive compensation, collective bargaining, and external assurance (Ningwati et al., 2022). The following ESG Index indicators were employed in this research (Whitelock, 2015): The index

$$\text{ESG} = (\text{ESG Disclosure Value})/ (\text{Total Maximum Disclosure}) \times 100\%$$

Intellectual Capital

One type of capital that is crucial for businesses is intellectual capital. The knowledge, skills, and talents of employees as well as information and creativity obtained from learning and working are the intellectual capital of the company. Although not immediately visible, intellectual capital is a valuable resource for businesses. To properly manage a company's resources, intellectual capital can help businesses become more

economical and efficient in the use of other resources. The social and environmental impact of business economic operations on society at large improves with better management of resources. Asiah and Marianita, 2021). One of the most significant intangible assets a business has is its intellectual capital. The knowledge, skills, and talents of employees as well as information and creativity obtained from learning and working are the intellectual capital of the company. Saragih and Marbun (2018). The formula can be used to measure intellectual capital:

$$VAIC = VACA + VAHU + STVA$$

Frame of Mind

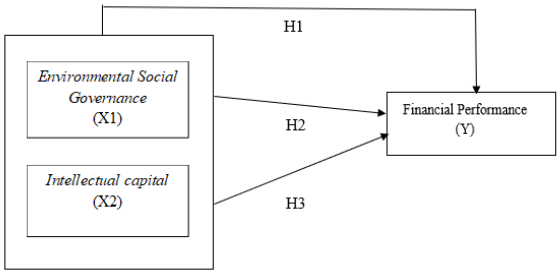


Figure 1. Frame of Mind

Hypothesis Development

H1 = It is suspected that Environmental Social Governance and intellectual capital simultaneously affect financial performance

H2 = It is suspected that Environmental Social Governance affects financial performance

H3 = It is suspected that intellectual capital affects financial performance

3. RESEARCH METHODS

Types of Research

Associative quantitative research that investigates the relationship between two or more variables will be the methodology used (Sugiyono, 2019). The associative research approach is used in this study to determine the extent to which variable X (independent)—which includes intellectual capital (X2) and social and environmental governance (X1)—partially and simultaneously affects variable Y (dependent variable), namely financial performance. Companies in the financial industry listed on the Indonesia Stock Exchange for the period 2018–2023 are the research population. Purposive sampling, which is a method for selecting samples with certain considerations or criteria, is the sampling methodology used. The following are the sample criteria:

1. Companies listed between 2018 and 2023 on the Indonesia Stock Exchange

2. Companies in the financial industry that provide comprehensive financial reports for the years 2018–2023

3. Companies in the financial industry that take part in the ESG rating evaluation

4. RESULTS OF RESEARCH AND DISCUSSION

Descriptive Statistical Test

Table 1. Descriptive Statistical Test

	MONTHS	ESG	IC
Mean	0.015997	0.004418	0.007273
Median	0.017160	0.003950	-0.001657
Maximum	0.034556	0.009300	0.466553
Minimum	0.000414	0.001417	-0.013833
Std. Dev.	0.009207	0.002423	0.067872
Skewness	0.080234	0.681370	6.656977
Kurtosis	2.131382	2.242748	45.56171
Jarque-Bera	1.560495	4.860986	3977.521
Probability	0.458293	0.087993	0.000000
Sum	0.767854	0.212047	0.349105
Sum Sq. Dev.	0.003984	0.000276	0.216512
Observations	48	48	48

Source: Data processed by the author, 2024

From the table of results of the descriptive statistical test, the following conclusions can be drawn:

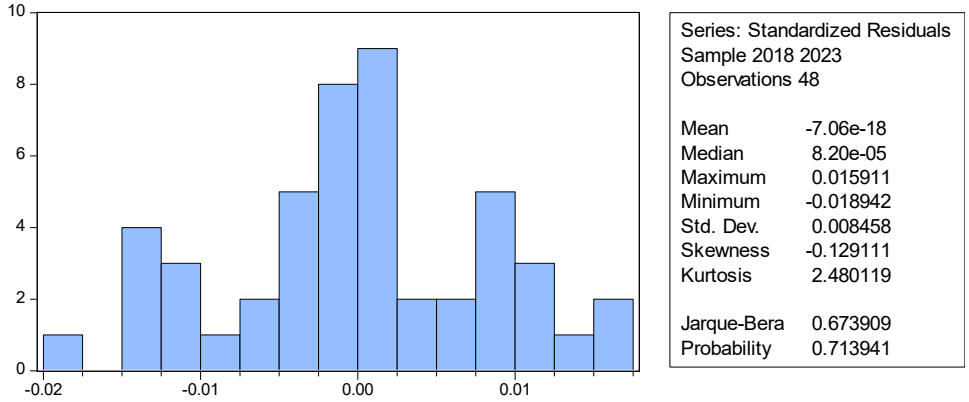
1. The average value of the financial performance variable (Y) is 0.015997. The Regional Development Bank of Java B provided the lowest value in 2020, which was 0.000414. The best financial result, however, came from Bank Central Asia in 2023 and was 0.034556. However, 0.009207 is the standard deviation. Because the data distribution is quite excellent and the standard deviation value is less than the average value, the findings are fairly good.
2. The average value (mean) of the Environmental Social Governance (X1) variable is 0.004418. The lowest figure, 0.001417, was acquired in 2018 from Bank Mandiri (persero) Tbk. Meanwhile, in 2022, Bank Rakyat Indonesia (persero Tbk) provided the greatest Environmental Social Governance score of 0.009300. Additionally, 0.002423 is the standard deviation value. Because the data distribution is quite excellent and the standard deviation value is less than the average value, the findings are fairly good.
3. The mean value of the Intellectual Capital (X2) variable is 0.007273. The lowest value, -0.013833, was acquired in 2023 from Bank CIMB Niaga Tbk. The biggest amount of intellectual capital, 0.466553, was acquired in 2022 from Bank Rakyat Indonesia (Persero). Additionally, 0.067872 is the standard deviation number.

Because the data distribution is rather excellent and the standard deviation number is lower than the average value, this displays fairly good results.

Classic Assumption Test

The classical assumption test is a test conducted to determine the feasibility of using the regression model in this study. The classical assumption test used in this study consisted of a normality test, a multicollinearity test, a heteroscedasticity test and an autocorrelation test.

Figure 1. Normality Test Results



Source: Processed by the author (2024)

Based on Figure 1, it can be seen that the Jarque-bera value is 0.673909 by showing a probability value of 0.713941> 0.05 significant of all variables, then it can be concluded that the residual in this regression model is normally distributed.

Multicollinearity Test

Table 2. Multicollinearity Test

	ESG	IC
ESG	1.000000	0.299055
IC	0.299055	1.000000

Source: Ouput Eviews Results 9, 2024

Based on Table 2 the test results show that the coefficient value of each variable is less than 0.90, then it can be concluded that the data does not have a multicollinearity problem.

Heteroscedasticity Test

Table 3. Heteroscedasticity Test

Heteroskedasticity Test: Glejser

F-statistic	1.076968	Prob. F(2,45)	0.3492
Obs*R-squared	2.192583	Prob. Chi-Square(2)	0.3341
Scaled explained SS	2.242425	Prob. Chi-Square(2)	0.3259

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.007962	0.001648	4.832169	0.0000
ESG	-0.314756	0.335411	-0.938417	0.3530
IC	-0.009532	0.011973	-0.796131	0.4301

R-squared	0.045679	Mean dependent var	0.006502
Adjusted R-squared	0.003265	S.D. dependent var	0.005325
S.E. of regression	0.005316	Akaike info criterion	-7.575618
Sum squared resid	0.001272	Schwarz criterion	-7.458668
Log likelihood	184.8148	Hannan-Quinn criter.	-7.531422
F-statistic	1.076968	Durbin-Watson stat	1.235127
Prob(F-statistic)	0.349243		

Source: Ouput Eviews Results 9, 2024

Based on Table 3. It is known that the probability value of Chi Square on Obs*R-squared is 2.192583 which has a value greater than 0.05. So it can be concluded that there are no symptoms of Heteroscedasticity.

Autocorrelation Test

Table 4. Autocorrelation Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.018537	0.001221	15.17546	0.0000
ESG	-0.603664	0.356464	-1.693477	0.0985
IC	0.017456	0.007042	2.478958	0.0177
	Effects Specification			
Cross-section fixed (dummy variables)				
	Weighted Statistics			
R-squared	0.859796	Mean dependent var		0.018634
Adjusted R-squared	0.826589	S.D. dependent var		0.012944
S.E. of regression	0.004256	Sum squared resid		0.000688
F-statistic	25.89254	Durbin-Watson stat		1.591732

Prob(F-statistic)	0.000000		
	Unweighted Statistics		
R-squared	0.826944	Mean dependent var	0.015997
Sum squared resid	0.000690	Durbin-Watson stat	1.745878

Source: Ouput Eviews Results 9, 2024

Based on Table 4, the autocorrelation test can be found to have a DW value of 1.591732**.** Based on the results of the autocorrelation test above, it can be concluded that there is no autocorrelation problem, because the DW value is in the range of -2 to +2.

Panel Data Regression Test

Table 5. Panel Data Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.018537	0.001221	15.17546	0.0000
ESG	-0.603664	0.356464	-1.693477	0.0985
IC	0.017456	0.007042	2.478958	0.0177
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.859796	Mean dependent var		0.018634
Adjusted R-squared	0.826589	S.D. dependent var		0.012944
S.E. of regression	0.004256	Sum squared resid		0.000688
F-statistic	25.89254	Durbin-Watson stat		1.591732
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.826944	Mean dependent var		0.015997
Sum squared resid	0.000690	Durbin-Watson stat		1.745878

Source: Ouput Eviews Results 9, 2024

The panel data regression equation is derived as follows using Table 5, 0.018537-0.603664+0.017456+e is the yield. The estimated output is the source of the values shown in the preceding equation. The following is based on the panel data regression equation used in this study:

1. Constant ©

The resultant constant © value is 0.018537, which may be regarded as the amount of financial performance that would occur if intellectual capital and the environmental social governance variable “were either nonexistent or equal to 0.

2. The environmental social governance regression coefficient (β)

   The regression coefficient for environmental social governance comes out to be -0.603664, meaning that for every unit of environmental social governance that is increased, the financial performance will also rise by -0.603664.

3. Regression value of intellectual capital (β)

   According to the capital structure's regression coefficient, which comes out to be 0.017456, every unit increase in intellectual capital would cause a 0.017456 drop in financial performance.

Simultaneous Test (F Test)

Table 6. F Test (Simultaneous)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.018537	0.001221	15.17546	0.0000
ESG	-0.603664	0.356464	-1.693477	0.0985
IC	0.017456	0.007042	2.478958	0.0177
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.859796	Mean dependent var		0.018634
Adjusted R-squared	0.826589	S.D. dependent var		0.012944
S.E. of regression	0.004256	Sum squared resid		0.000688
F-statistic	25.89254	Durbin-Watson stat		1.591732
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.826944	Mean dependent var		0.015997
Sum squared resid	0.000690	Durbin-Watson stat		1.745878

Source: Ouput Eviews Results 9, 2024

The statistical table at a significant level of 0.05 with the amount of data (n) = 48, the number of variables (k) = 4, the significant level of α = 0.05, df1 (the number of variables-1) = 4-1 = 3, and df 2 (n-k) or 48 – 4 = 44, reveals that the F test in this study has a Fvalue of 25.89254. This is supported by table 6. The F Test (simultaneous) results showed a Prob value (F-statistic) of 0.000000, which is below the significant threshold (0.000000 < 0.05), indicating that Fcalculates > Ftable (25.89254>2.82). This demonstrates that H1 is acknowledged, leading to the conclusion that financial performance is impacted simultaneously by environmental, social, and intellectual capital.

Partial Test (t)

Table 7. Partial Test (T Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.018537	0.001221	15.17546	0.0000
ESG	-0.603664	0.356464	-1.693477	0.0985
IC	0.017456	0.007042	2.478958	0.0177
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.859796	Mean dependent var		0.018634
Adjusted R-squared	0.826589	S.D. dependent var		0.012944
S.E. of regression	0.004256	Sum squared resid		0.000688
F-statistic	25.89254	Durbin-Watson stat		1.591732
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.826944	Mean dependent var		0.015997
Sum squared resid	0.000690	Durbin-Watson stat		1.745878

Source: Output Results Eviews 9, 2024

According to Table 7, the t test results are 1.67943. This value is derived by subtracting the number of independent variables from the number of observations, then subtracting 1 (n - k - 1) or (48 - 2 - 1) = 45, and using a significant value of 0.05 or 5%. These two (two) different calculations approaches lead to the following conclusion for the hypothesis test of dependent variables for each independent variable:

1. How Environmental Social Governance Affects Financial Results

   According to the above test results, the probability value of environmental social governance is 0.0985, where the value is greater than 0.05 (0.0985>0.05), and the t-statistic value (tcalculated) of environmental social governance is -0.603664, meaning that tcalculation is obtained < ttable (-0.603664<1.67943). It is concluded that H2 is rejected. This indicates that financial performance is unaffected by environmental social governance.

2. How Intellectual Capital Affects Financial Results

   Based on the above test results, the t-statistic value (tcalculated) of intellectual capital is 2.478958, meaning that the table's tcalculation is > (3.379363>1.67943), and the probability value of intellectual capital is 0.0177. It is concluded that H3 is accepted

when the value is less than 0.05 (0.0177< 0.05). Thus, financial performance is impacted by intellectual capital.

Coefficient Determination Test

Table 8. Determination coefficient test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.018537	0.001221	15.17546	0.0000
ESG	-0.603664	0.356464	-1.693477	0.0985
IC	0.017456	0.007042	2.478958	0.0177
Effects Specification				
Cross-section fixed (dummy variables)				
Weighted Statistics				
R-squared	0.859796	Mean dependent var		0.018634
Adjusted R-squared	0.826589	S.D. dependent var		0.012944
S.E. of regression	0.004256	Sum squared resid		0.000688
F-statistic	25.89254	Durbin-Watson stat		1.591732
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.826944	Mean dependent var		0.015997
Sum squared resid	0.000690	Durbin-Watson stat		1.745878

Source: Ouput Eviews Results 9, 2024

Based on Table 8, the Adjusted R-squared obtained as 0.770128. This indicates that the contribution of independent variables to the dependent variable of 77.01% and 22.99% is explained by other variables not studied in this study.

Discussion

The Simultaneous Influence of Environmental Social Governance and Intellectual Capital on Financial Performance

It can be concluded that Environmental Social Governance and Intellectual Capital have a covert impact on financial performance because, according to the results of the tests conducted using the F test (simultaneous), the Fcount of 25.89254 is greater than the Ftable value of 1.67943 (25.89254 >1.67943), and the probability value (F-statistic) of 0.000000 is smaller than the significant level of 0.05 (0.000000< 0.05). Intellectual capital and environmental, social, and governance (ESG) factors all have an impact on a company's financial success. A framework known as ESG evaluates how a business affects government, society, and the environment. ESG has emerged as a crucial component in

assessing a business's performance in the context of sustainability and social responsibility. Although the benefits may vary based on the particular ESG factors being examined, a number of studies demonstrate that ESG performance disclosure improves financial success. On the other hand, a company's intangible assets, such its knowledge, abilities, and inventiveness, are referred to as intellectual capital. Intellectual capital is seen as a strategic asset that may boost financial performance and competitiveness. Effective management of intellectual capital may help businesses save expenses and boost profitability, according to studies.

Two important elements that affect a company's financial success are intellectual capital and environmental, social, and governance (ESG). ESG encompasses corporate governance, social responsibility, and the environment, while intellectual capital refers to intangible assets that may boost a business's performance and competitiveness. In general, financial performance is positively impacted by both intellectual capital and ESG. Businesses that integrate ESG principles into their business plans and effectively manage their intellectual property often see improved financial outcomes. Thus, it is crucial for businesses to take these two factors into account when developing a management plan in order to boost their competitiveness and long-term viability.

The findings of Febry Antonius and Ida Ida's (2023) study, which found that Environmental Social Governance and Intellectual Capital have an impact on Financial Performance, are consistent with Purwasih's (2024) research. In addition to fulfilling corporate social duty, putting ESG strategies into practice may boost operational effectiveness and stakeholder perception. In the meanwhile, a company's competitive position in the market may be strengthened by effective IC management. Consequently, in order to achieve long-term financial sustainability, these two elements must be integrated into corporate strategy.

The Influence of Environmental Social Governance on Financial Performance

Based on the partial t-test, it was determined that the probability value of Environmental Social Governance was 0.0985, where the value was greater than 0.05 (0.0985> 0.05), and the t-statistical value (tcalcul) of Environmental Social Governance was -1.693477, meaning that the tcount was obtained < ttable (-1.693477<1.67943). As a result, it was concluded that H2 was rejected. Accordingly, financial performance is unaffected by environmental social governance.

A company's influence on environmental, social, and governance issues may be evaluated using the Environmental, Social, and Governance (ESG) framework. Still, a lot

of businesses prioritise short-term outcomes above long-term viability. ESG projects that take longer to show financial returns are thus often disregarded. Furthermore, different sectors and nations have different ESG measuring standards, which makes it difficult to determine the true effect of ESG practices on a company's financial success. Despite its increasing popularity and recognition as a crucial component of corporate sustainability, empirical data indicates that ESG may not always have a substantial impact on a company's financial success. Numerous issues, including the company's short-term focus, difficulties measuring ESG, and organisational structure limitations, may be to blame for this. In order to promote long-term sustainability, it is crucial that businesses not only concentrate on raising ESG value but also make sure that a robust management structure is in place.

This study supports the findings of a study by Ningwati, Ratna Septiyanti, and Neny Desrian (2022), which found that ESG (2022) explains why it has no impact on the financial success of the organisation. Because ESG practices are solely seen as an extension of a company's promises, this is possible. The study's findings align with those of Husada and Handyani's (2021) investigation.

The Influence of Intellectual Capital on Financial Performance

H3 was accepted based on the partial t-test, which showed that the t-statistical value (calculation) of Intellectual Capital was 2.478958, resulting in the >t-table calculation (3.379363>1.67943) and the probability value of Intellectual Capital being 0.0177, where the value was greater than 0.05 (0.0177<0.05). Thus, financial performance is impacted by intellectual capital.

The complete worth of a company's knowledge, information, expertise, and intellectual property rights is referred to as its intellectual capital. Human capital, structural capital, and customer capital are its three primary constituents. Although it is regarded as an intangible asset, intellectual capital is essential to giving businesses a competitive edge and additional value. If a company's assets are substantial on Stiawan Day (2022), it might be considered significant.

Research indicates that company financial success and intellectual capital management are positively correlated. Numerous studies show that businesses with strong intellectual capital management often see higher levels of production and profitability. Through innovation and improved operational efficiency, intellectual capital contributes to higher profitability. Businesses with top-notch human capital often do better financially. Innovation may be sparked by effective intellectual capital management, which eventually increases the business's ability to compete in the market. This covers both the creation of

new goods and the enhancement of the calibre of services. Holiawati et al". (2022) claim that a company's size may be determined by how well it manages its assets. Businesses may create a long-lasting competitive advantage by using information and knowledge to their fullest potential. The development and transformation of science itself will be crucial to a company's success, in addition to the economy's transition to a scientific-based system via the use of knowledge management (Purnomo, 2018).

According to research, businesses that manage their intellectual capital well may outperform their rivals financially. All things considered, a company's financial success is greatly impacted by its intellectual capital. Effective intellectual capital management not only boosts profitability but also enables businesses to more successfully navigate market obstacles. Therefore, in order to ensure long-term sustainability and growth, the management of the organisation should prioritise investing in the development of intellectual capital. This study supports the findings of Ulum et al. (2008), which demonstrated that intellectual capital improves a company's financial success. Businesses with strong intellectual resource management are thought to be able to generate additional value and gain a competitive edge via research, development, and innovation, which will enhance the business's financial performance. These findings demonstrate that intellectual capital has a beneficial impact on ROA and corroborate the findings of Febriany (2019); Vebriyani, Suartini, Sulistyo (2020); and Destania and Puspitasari (2021). As a consequence, if the business can effectively manage and grow its intellectual capital, ROA will rise, indicating improved financial performance and giving the business a competitive edge.

5. CONCLUSIONS AND SUGGESTIONS

Conclusion

The purpose of this research is to ascertain how intellectual capital and environmental social governance affect financial performance in financial sector firms between 2018 and 2023. The investigation yielded the following findings, which are the outcomes of the study:

1. From 2018 to 2023, the financial performance of financial sector enterprises listed on the Indonesia Stock Exchange is influenced by both intellectual capital and environmental social governance.
2. The financial performance of financial sector corporations listed on the Indonesia Stock Exchange between 2018 and 2023 is unaffected by environmental social governance.

3. From 2018 to 2023, the financial performance of financial sector enterprises listed on the Indonesia Stock Exchange is impacted by intellectual capital.

Suggestion

The author may provide the following ideas and recommendations for more research:

1. It is expected that more in-depth research will be conducted if there are factors that need to be taken into consideration, particularly in relation to financial performance. It is also advised that the next study be able to extend the research period, alter the research object in specific sectors, and add additional variables in order to maximise results. In addition, it is advised that independent variables that can affect financial performance be included, and that various proxies be used to calculate the above variables in order to obtain more accurate results.
2. Since many Indonesian firms still apply ESG practices insufficiently to attract stakeholders and prospective investors, this study is predicted to improve the urgency with which Indonesian companies pay attention to ESG issues in their business operations. In order to increase their efficiency and effectiveness, businesses must also focus on their intellectual capital.
3. It is intended that investors would be able to utilise financial ratios as a standard when determining which businesses to invest in because of their strong financial performance.

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