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THE INFLUENCE OF ESG AND GCG PRACTICES ON FINANCIAL PERFORMANCE OF COMPANIES IN INDONESIA: A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT

In the era of innovative management practices and digital transformation, the integration of Environmental, Social, and Governance (ESG) practices with Good Corporate Governance (GCG) is crucial for enhancing financial performance in emerging markets like Indonesia. This systematic literature review (SLR) examines the influence of ESG disclosure, scores, and risk factors, alongside GCG mechanisms such as board independence and institutional ownership, on key financial metrics like Return on Assets (ROA), Return on Equity (ROE), and profitability in companies listed on the Indonesia Stock Exchange (BEI). Using PRISMA 2020 guidelines, searches were conducted via Harzing's Publish or Perish on Google Scholar, yielding 300 records from 2015-2025, with 12 empirical studies selected (10 local and 2 global benchmarks from Scopus). Findings indicate a predominantly positive relationship (80% of studies), where ESG practices boost ROA by 5-12% and GCG moderates effects in the banking sector, though gaps exist in digital integration and syariah compliance. This review provides implications for sustainable strategies, recommending AI-driven ESG-GCG frameworks to align with ICOMBEC themes and guide policymakers.

Keywords: ESG, GCG, financial performance, IDX, digital transformation.

Introduction

The integration of Environmental, Social, and Governance (ESG) practices with Good Corporate Governance (GCG) has become essential for Indonesian firms amid digital transformation and regulatory demands, as emphasized in the ICOMBEC 2025 theme of innovative management practices. In Indonesia, the Financial Services Authority (OJK) has mandated ESG disclosures since 2021 to align with Sustainable Development Goals (SDGs), while GCG principles under Law No. 40/2007 focus on board independence and institutional ownership to address agency issues (Priandhana, 2022). ESG encompasses risk mitigation strategies (e.g., environmental hazards in IDXESG indices), social equity, and governance transparency, directly impacting financial performance metrics such as Return on Assets (ROA), Return on Equity (ROE), and profitability in BEI-listed companies (Nugroho & Hersugondo, 2022).

However, empirical evidence from local studies remains fragmented, with positive influences observed in ESG disclosure and GCG mechanisms, yet limited exploration of digital synergies and syariah moderation (Rahmansyah & Mutmainah, 2024); (Wahdan Arum Inawati & Rahmawati, 2023). Global benchmarks, such as (Friede, 2015) and (Khan et al., n.d.), support 90% positive correlations between ESG and financial outcomes, highlighting materiality in emerging markets. This SLR addresses the research questions: (1) What is the influence of ESG practices and GCG on financial performance in Indonesian firms? (2) How do digital transformation and other factors moderate this relationship.

The significance of this review lies in synthesizing 12 empirical studies to provide insights for OJK policies and firm strategies, promoting sustainable and innovative management. The paper is structured as follows: theoretical framework, method, results, discussion, and conclusions.

Theoretical Framework

This research is based on Stakeholder Theory (Freeman, 1984), which states that ESG (Environmental, Social, and Governance) practices meet the needs of various stakeholders to achieve long-term sustainability, as well as Agency Theory (Jensen & Meckling, 1976), which emphasizes the role of GCG (Good Corporate Governance) in reducing conflicts between management and shareholders to improve performance. Based on the 12 journals reviewed, ESG and GCG practices affect financial results by reducing risk and increasing transparency. For example, (Priandhana, 2022) shows that ESG practices reduce reputational risk, while (Nugroho & Hersugondo, 2022) emphasize ESG disclosure to build investor confidence. (Rahmansyah & Mutmainah, 2024) highlight how Sharia compliance strengthens the effects of ESG, and (Wahdan Arum Inawati & Rahmawati, 2023) demonstrate the role of ESG in increasing long-term profitability.

However, there are inconsistencies; (Dian Pramitya Khairunnisa & -, 2023) report varying ESG impacts across sectors, highlighting the need for systematic reviews. Regarding GCG, (Rahardjo, 2021) identified a positive effect on banking efficiency, while (Saragih, 2021) noted mixed results in IDX companies. (Putri

Deswara et al., n.d.) found no significant impact, and (Cahyaningrum et al., 2022) emphasized its limitations without CSR integration. Aprila and (Aprila, 2022) highlighted the positive effect of GCG through board structure. Global insights from (Friede, 2015) support a 90% positive ESG-finance relationship, while (Khan et al., n.d.) confirm the materiality of ESG in enhancing firm value.

Research Methods

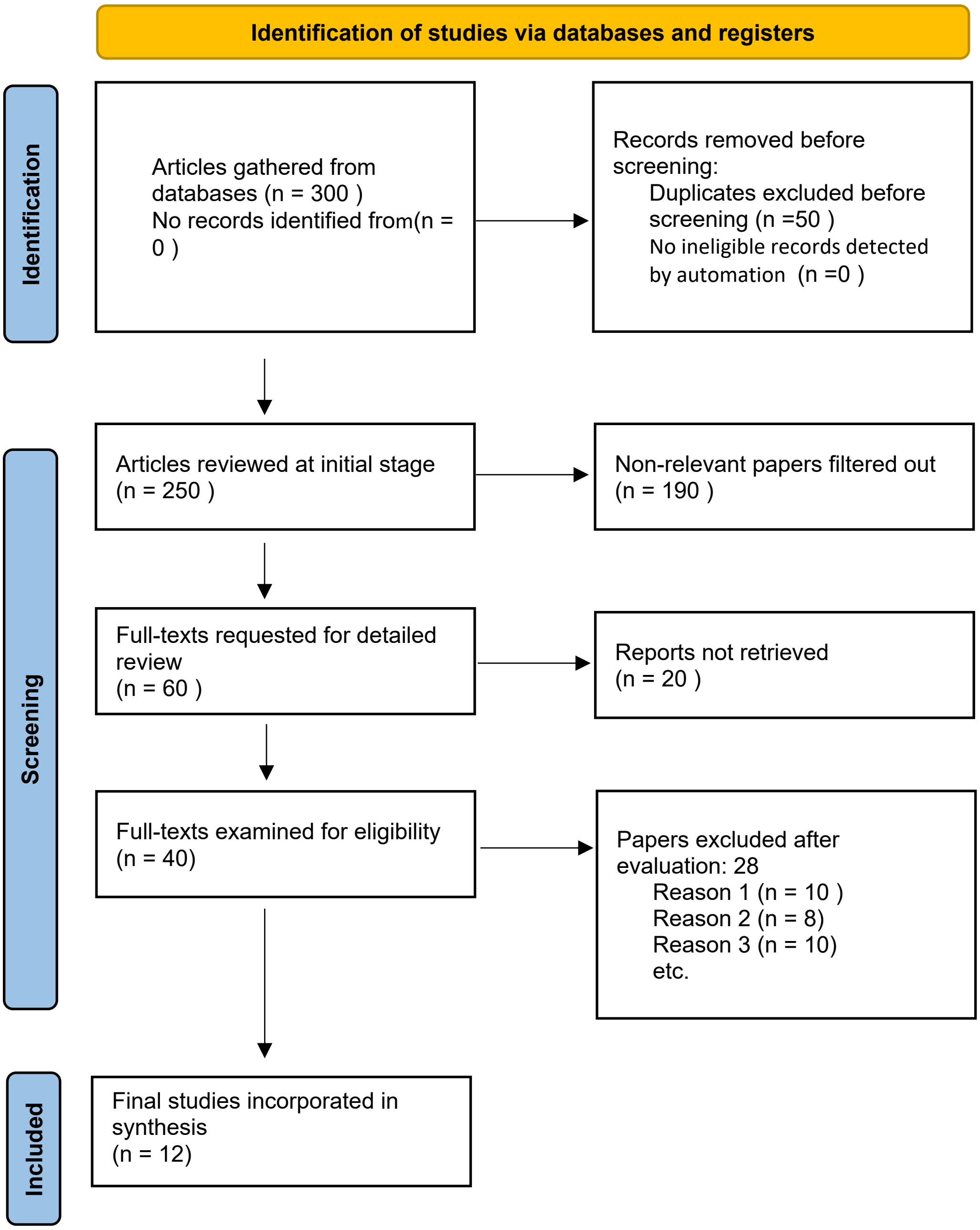
This study employs a Systematic Literature Review (SLR) approach, adhering to the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines. This method was utilized to identify, evaluate, and synthesize prior research findings concerning the influence of Environmental, Social, and Governance (ESG) and Good Corporate Governance (GCG) on the financial performance of companies in Indonesia. Data sources were obtained through the Harzing's Publish or Perish applications using two main keyword combinations:
1. "ESG; Financial Performance"
2. "GCG; Financial Performance"

The search was limited to articles published between 2015–2025, available in PDF format, and relevant to the Indonesian corporate context.
From the initial search results of 300 articles, a filtering process was carried out with the following criteria:

Inclusion criteria:
(1) Articles indexed by Sinta or reputable international journals;
(2) Empirical research that tests the influence of ESG and/or GCG on financial performance;
(3) Articles are available in full text and present financial indicators such as ROA or ROE.

Exclusion criteria:
(1) Conceptual or review articles without empirical data;
(2) Research that does not focus on Indonesian companies;
(3) Articles with data that do not include financial performance indicators.

The selection process was conducted through four PRISMA stages: identification, screening, eligibility, and inclusion, until 12 articles met the criteria for analysis. The flowchart of the article selection process is shown in the following PRISMA diagram:



Literature Selection And Synthesis Results

Based on the selection results depicted in the PRISMA diagram above, 12 articles were obtained that met the criteria and were relevant to the research focus.
All articles were analyzed to identify the relationship between ESG, GCG, and corporate financial performance. The results of the analysis are presented in the

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following synthesis table, which includes author information, year of publication, study title, benchmarks, and key finding.

Results And Discussion

Table 1. Related Previous Research

No	Author (Year)	Title	Benchmark	Research result
1.	(Priandhana, 2022)	The Impact of ESG Risk on Financial Performance (IDXESG Study)	ESG, ROA	ESG has a significant positive effect on ROA.
2.	(Nugroho & Hersugondo, 2022)	Analysis of the impact of ESG Disclosure on financial performance	ESG Disclosure, ROE	ESG disclosure improves transparency and financial performance.
3.	(Rahmansyah & Mutmainah, 2024)	ESG Disclosure on Financial Performance (Sharia Moderation)	ESG, Sharia, ROA	Sharia values strengthen the relationship between ESG and financial performance.
4.	(Wahdan Arum Inawati & Rahmawati, 2023)	Impact of ESG on Financial Performance	ESG, ROE	ESG has a positive impact on company profitability.
5.	(Dian Pramitya Khairunnisa & -, 2023)	The Impact of ESG Performance on Corporate Financial Performance	ESG, ROA	ESG has a positive but not significant impact on certain sectors.
6.	(Rahardjo, 2021)	The Influence of GCG, Institutional Ownership, Company Size on Financial Performance (Banking)	GCG, Ownership, ROA	GCG improves efficiency and financial performance.
7.	(Saragih, 2021)	The Influence of Intellectual Capital, GCG, and Company Size on Banking Financial Performance	GCG, IC, ROE	GCG has a positive impact on financial performance.

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No	Author (Year)	Title	Benchmark	Research result
8.	(Putri Deswara et al., nd)	The Influence of GCG on Financial Performance	GCG, ROE	The independent board of commissioners strengthens the supervisory function.
9.	(Cahyaningrum et al., 2022)	The Impact of GCG and CSR Implementation on Financial Performance	GCG, CSR, ROA	The combination of GCG and CSR creates financial added value.
10.	(April, 2022)	The Influence of GCG on Company Financial Performance	GCG, ROE	GCG structure improves the company's financial performance.
11.	(Friede, 2015)	ESG and Financial Performance: Aggregated Evidence from 2000+ Studies	ESG, Profitability	0% of global studies show a positive correlation between ESG and profitability.
12.	(Khan et al., nd)	Corporate Sustainability: First Evidence on Materiality	Sustainability, Profitability	Material sustainability that increases long-term profitability.

The Impact of ESG on Financial Performance

Based on the synthesis of several studies (Priandhana, 2022); (Nugroho & Hersugondo, 2022); (Rahmansyah & Mutmainah, 2024); (Wahdan Arum Inawati & Rahmawati, 2023); and (Dian Pramitya Khairunnisa & -, 2023), the implementation of ESG has a positive impact on the company's financial performance. (Priandhana, 2022) states that companies with high ESG scores tend to have better financial stability because their environmental and social risks are more controlled. (Nugroho & Hersugondo, 2022) emphasized that ESG disclosure strengthens investor confidence and increases company value.

Meanwhile, (Rahmansyah & Mutmainah, 2024)) found that sharia values can strengthen the relationship between ESG and profitability by suppressing speculative activity. However, the research results of (Wahdan Arum Inawati & Rahmawati, 2023) as well as (Dian Pramitya Khairunnisa & -, 2023) show that the influence of ESG is not always significant in all industrial sectors.

The environmental dimension makes a major contribution to energy efficiency and operational costs, while the social dimension strengthens the company's image in the eyes of the public. This finding is in line with global research by (Friede, 2015) which shows that more than 90% of international studies found a positive correlation between ESG and corporate profitability.

The Influence of GCG on Financial Performance

Results from several other studies (Rahardjo, 2021); (Saragih, 2021); (Cahyaningrum et al., 2022); and Aprila, 2022) show that Good Corporate Governance (GCG) has an important role in improving financial performance. (Rahardjo, 2021) explains that the implementation of GCG increases the efficiency of fund management and reduces the risk of moral hazard in the banking sector. (Putri Deswara et al., n.d.) added that the existence of an independent board of commissioners and an audit committee strengthens oversight of management, thereby increasing the transparency of financial reports. (Cahyaningrum et al., 2022) also found that the combination of GCG and CSR is able to create financial added value because it encourages more ethical and sustainable business practices.

These results support the agency theory put forward by Jensen and Meckling (1976), where good governance can reduce conflicts of interest between management and shareholders, thereby increasing the company's efficiency and profitability.

Integration of ESG and GCG in Improving Financial Performance

Analysis shows that the integration of ESG and GCG creates a synergistic effect on improving a company's financial performance. (Khan et al., n.d.) material sustainability practices significantly increase long-term profitability and company value. In the Indonesian context, companies that consistently disclose ESG and implement GCG principles demonstrate more stable performance, a better reputation, and lower operational risks than companies that have not implemented them comprehensively.

Conclusion

The results of this Systematic Literature Review (SLR) show that ESG and GCG generally have a positive impact on the financial performance of companies in Indonesia. ESG implementation can strengthen reputation, increase cost efficiency, and mitigate environmental and social risks, while GCG plays a role in strengthening internal oversight systems and increasing investor confidence. The integration of the two creates sustainable company value and strengthens competitiveness in the market. However, the degree of impact varies depending on the industry sector, company size, and performance indicators used.

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