



ESG PERFORMANCE, CAPITAL STRUCTURE, AND WORKING CAPITAL AND THEIR IMPACT ON THE PROFITABILITY OF PUBLIC COMPANIES IN INDONESIA

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Abstract:

This study aims to analyze the effect of ESG performance, capital structure, and working capital on the profitability of public companies in Indonesia. A non-probability sampling method with a purposive sampling technique was employed, resulting in 72 public companies listed on the Indonesia Stock Exchange (IDX) that had ESG risk scores on the IDX website in 2024 as samples. The quantitative, secondary, and cross-sectional data were processed using multiple linear regression analysis. Outlier and classical assumption tests were performed before regression. The classical assumption tests used on cross-sectional data include heteroscedasticity, multicollinearity, and normality. Hypothesis tests were then conducted to verify the hypotheses' validity, including the coefficient of determination test, t-test, and F-test. The findings indicate that capital structure has a significant negative effect on profitability. ESG performance and working capital have no partially significant effect on the profitability of public companies in Indonesia. Furthermore, it was found that ESG performance, capital structure, and working capital have a simultaneous effect on the profitability of public companies in Indonesia.

INTRODUCTION

The primary goal of most companies as economic actors is to maximize profits while minimizing effort. There are currently more than 850 public companies listed on the Indonesia Stock Exchange (IDX). Companies in every sector and industry continue to grow each year, both in terms of quality and quantity. Competition among companies is, of course, inevitable. Therefore, a competitive advantage is essential for companies to ensure their long-term sustainability.

There are various factors that influence a company's profitability, such as ESG performance, corporate investment strategies, the effectiveness of financial management (capital structure and working capital), external factors, productivity, and so on. The uncertainty surrounding external factors—which are difficult to control—increases the risks that threaten a company's profitability. These risks need to be assessed, measured, and addressed so that the company can manage them or turn threats into opportunities, such as through control and integration of follow-up measures into the company's sustainability strategy. This can serve as a competitive advantage, enhance corporate value, and maximize the company's profitability.

Profitability, or a company's ability to generate profits, is one of the key indicators used to assess a company's financial performance (Budiono & Dura, 2021). Changes or fluctuations in a company's profitability—whether increases or decreases—must be thoroughly understood. Analyzing these fluctuations is essential for a company to achieve sustainability. The total profit of all companies listed on the Indonesia Stock Exchange (IDX) decreased by 40.3% in 2023 and increased by 19.32% in 2024. These profit fluctuations occurred due to fluctuations in revenue and operating expenses, one of which was caused by the implementation of Minister of Finance Regulation (PMK) No. 66 of 2023 regarding provisions on income tax treatment.

Sustainable development is crucial for a company's survival amid unstable economic conditions and a competitive business market (Dura & Suharsono, 2022). One approach to achieving sustainability involves examining a company's environmental, social, and governance (ESG) factors. The environmental factor pertains to how a company's operations impact the environment, how the uncertainty of climate change affects business activities, and how the company proactively manages its surrounding environment—such as the use of natural resources, energy consumption, waste management, pollution control, and so on. Social factors pertain to how a company maintains good relationships with stakeholders, such as employee well-being, community engagement, diversity, human rights, equality, compliance with applicable regulations, and so on. Governance factors concern how a company implements guidelines for good corporate governance, such as transparency in corporate information and the independence of top management. The ESG-related matters mentioned above do not provide immediate benefits or advantages to the company, but they can have a positive impact on the company in the long term. Companies can categorize their ESG

initiatives as either costs or investments (Abdi et al., 2022; Aydoğmuş et al., 2022). Risks regarding the impact of such investments on the company then arise. Improper implementation of ESG principles can result in the company's investments failing to positively reflect in its financial performance.

The implementation of ESG in Indonesia has long been recognized and practiced through the publication of sustainability reports up until 2020. POJK, or Financial Services Authority Regulation No. 51 of 2017, governs the implementation of sustainable finance for public companies, issuers, and financial services institutions. Transparency and ESG reporting in Indonesian companies have not yet been managed efficiently and effectively. The IDX Commissioner only issued a call for ESG reporting to all issuers in 2022. There were 85 listed companies in 2024 and 190 companies in 2025 that had ESG scores. Another effort toward achieving sustainability involves implementing and maintaining sound corporate finances. Corporate financial indicators can be assessed through capital structure, working capital, and other metrics. These indicators can influence a company's profitability.

Findings regarding the impact of ESG performance on corporate profitability in several previous studies have been mixed. Most previous studies found that ESG performance has a positive and significant effect on corporate profitability (Abdi et al., 2022; Almulla et al., 2025; Aydoğmuş et al., 2022; Jung & Yoo, 2023; Makhdalena et al., 2023). Another study using ROE as a proxy found a significant and negative effect of ESG performance on corporate profitability (Al-Jalahma et al., 2020). Additionally, another study using ROA as a proxy for profitability found that ESG performance had no significant effect on corporate profitability (Al-Jalahma et al., 2020). Findings regarding the effects of capital structure and working capital on firm profitability in previous studies have also varied. Capital structure was found to have a significant effect on firm profitability (Dhinata & Krisnando, 2020) and no effect on firm profitability (Nurlela & Dimiyati, 2021). Meanwhile, working capital was found to have a positive and significant effect (Ayuningtyas & Prasetiono, 2021), as well as having no significant effect on corporate profitability (Aldubhani et al., 2022).

The diverse findings of previous studies, the phenomenon of volatile profitability, and the importance of ESG as an implementation of the triple bottom line (TBL) concept and as a corporate financial indicator in achieving sustainability are some of the factors that form the background of this study. The limited population of public companies with

ESG scores using the new calculation method—namely, the comprehensive ESG score by Morningstar Sustainalytics—along with the use of five ESG score categories and sectoral analysis, constitutes a research gap that serves as the novelty of this study. Meanwhile, no previous study has analyzed the simultaneous effects of ESG performance, capital structure, and working capital on the profitability of public companies in Indonesia. Therefore, the objective of this study is to examine and analyze the partial and simultaneous effects of ESG performance, capital structure, and working capital on the profitability of public companies in Indonesia. It is hoped that this study will provide information and empirical evidence regarding the research topic. This study is also expected to serve as a reference for corporate management, investors, and policymakers in making decisions or formulating policies related to ESG performance, capital structure, working capital, and corporate profitability.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy theory explains the importance of acceptance and recognition by stakeholders of a company's operational sustainability through adherence to binding rules, such as norms prevailing within the corporate environment, government policies, and laws (Dowling & Pfeffer, 1975; Lusmeida et al., 2023). Companies have an unwritten social contract with stakeholders to ensure that their operations do not violate applicable norms or regulations (Lusmeida et al., 2023). Responsibilities, public expectations, and intense pressure from stakeholders are some of the reasons companies voluntarily disclose information regarding their activities in reports.

Effective reporting on a company's operational activities serves as a primary communication tool from the stakeholders' perspective to enhance the company's legitimacy. High-quality reporting can demonstrate a positive relationship and support the implementation of future operational activities. However, greenwashing behavior aimed at creating a positive environmental image for the company and gaining legitimacy without the implementation of a sound environmental management system may be driven by stakeholder demands (Velte, 2023).

According to legitimacy theory, in order to gain recognition and acceptance from stakeholders, companies are responsible for ensuring and demonstrating that their operations and strategies comply with applicable regulations and norms. Companies can

demonstrate this by voluntarily disclosing information regarding their operations, strategies, ESG performance, and financials. This information is included and shared in the form of financial statements and the company's annual report. As a result, information asymmetry is reduced and the company's value increases, thereby enabling the company to become more sustainable and improve its profitability.

Stakeholder Theory

Stakeholder theory explains that a company must align with the expectations of its stakeholders (Freeman, 1984; Velte, 2023). Stakeholder theory and legitimacy theory are interrelated and complementary theoretical approaches to the information needs of stakeholders. This theory prioritizes the well-being of a company's stakeholders. These stakeholders include the public, employees, customers, communities, suppliers, the capital market, the government, and others. Companies must prioritize the well-being of stakeholders, take significant actions, and then report these actions to stakeholders. Consequently, stakeholders have the right to access information regarding how the company's activities impact the environment (Dura & Suharsono, 2022).

Established companies or businesses do not focus solely on increasing corporate profits but also consider the benefits they can provide to their stakeholders. Stakeholders require reliable reporting on activities that includes robust indicators to analyze the success of a company's sustainability transformation (Velte, 2023). Information asymmetry can be reduced, and investors' perceptions and recognition of a company's investment strategies can improve through ESG reporting or disclosure (Makhdalena et al., 2023). This theory emerged and evolved as the need to link sustainability initiatives and a company's interactions with stakeholders increased. ESG scores have emerged and evolved as a representation of the level of integration of sustainability issues within a company (Abdi et al., 2022). Stakeholders have become key drivers, and ESG has become a key metric of a company's social commitment by incorporating ESG standards into corporate financial strategies. This theory assumes that company executives can prevent information asymmetry and greenwashing behavior.

According to stakeholder theory, companies are responsible for ensuring the well-being of their stakeholders by considering the benefits the company can provide to them. Stakeholders have the right to receive information on how the company's operations impact the environment through the company's ESG reporting and performance

assessments. This can help resolve potential conflicts of interest among stakeholders, reduce information asymmetry, and enhance recognition and perception of the company's investment strategy. Consequently, the company can achieve increased profitability and sustain its position in the industry over the long term.

Trade-Off Theory

Trade-off theory explains the relationship between working capital management and corporate profitability. This theory addresses how companies manage liabilities or debt within their capital structure with the aim of balancing the benefits and costs of their use (Ayuningtyas & Prasetiono, 2021). Debt carries both benefits and risks for a company that must be managed so that the benefits obtained are commensurate with the risks faced and can be mitigated. Debt that is well-managed and utilized effectively contributes to the growth of a company's operational activities. Debt consists of principal and interest payments that the company must make. The interest on such debt can reduce the total taxes the company is required to pay. Additionally, the risk of default is directly proportional to the company's debt-to-equity ratio.

A capital structure is considered ideal or optimal when the proportions of liabilities, assets, and equity align with the company's operational needs and industry characteristics, thereby maximizing the company's value. As the proportion of debt increases, both risks and benefits will also rise. However, an excessively high debt ratio increases the risk of default and can lead to poor or unhealthy corporate finances. Conversely, an excessively low debt ratio can hinder the company's ability to expand its operations and result in lost tax benefits that could have been derived from debt expenses.

According to trade-off theory, the efficient determination and management of liabilities or debt within the capital structure, as well as working capital management, are crucial for companies. This can be seen in financial ratios that indicate a company's financial health and whether its debt management aligns with the characteristics of its industry. Sound corporate finances and appropriate liability management enable a company to operate efficiently and make investments to grow its business. Consequently, the company's profitability can increase, driven by both productivity and the investments made.

Hypothesis Development

ESG Performance and Profitability

Previous studies have found that ESG performance influences corporate profitability. ESG performance has a positive and statistically significant combined effect on corporate profitability (Almulla et al., 2025; Aydoğmuş et al., 2022; Jung & Yoo, 2023; Makhdalena et al., 2023). The implementation and reporting of ESG can be viewed as a cost that companies must bear in the short term. However, these costs can help companies achieve sustainability from the investments they have made (Abdi et al., 2022). Such sustainability can become a competitive advantage for the company, increasing corporate value and boosting the company's revenue and profits sustainably in the long term (Aydoğmuş et al., 2022). However, Al-Jalahma et al. (2020) found that ESG performance has a significant and negative impact on corporate profitability as measured by ROE. Al-Jalahma et al. (2020) also found that ESG performance does not have a significant impact on corporate profitability as measured by ROA. These contradictory findings arise because implementing and reporting on ESG entails substantial costs, forcing companies to bear increased expenses and potentially leading to a decline in corporate profitability. Based on legitimacy and stakeholders theory, the implementation and reporting of ESG performance are essential for companies to establish their legitimacy so they can continue their business operations. Furthermore, the implementation and reporting of ESG performance can also benefit stakeholders, which may yield advantages for the company's future operations, such as enhancing supplier trust, increasing employee productivity, boosting consumer confidence, and increasing corporate value, among others. Based on the above discussion, the proposed hypothesis is as follows:

H1. ESG performance has a significant impact on a company's profitability.

Capital Structure and Profitability

Capital structure was found to have a significant and positive effect on corporate profitability (Dhinata & Krisnando, 2020). However, capital structure was also found to have no significant effect on corporate profitability (Nurlela & Dimiyati, 2021). Furthermore, the Debt-to-Assets Ratio (DAR), as an indicator of capital structure, was found to have a significant and negative effect on a company's profitability (Fadilah & Fuadati, 2022). Capital structure ratios describe the proportion of a company's debt

relative to its assets or equity. The higher the ratio, the greater the risk borne or faced, so investors will expect a higher return or rate of profit—commonly referred to as “high risk, high return” (Dhinata & Krisnando, 2020). However, a higher debt proportion implies that the principal and interest payments the company must make also increase, although rising interest expenses can reduce the company’s tax burden (Nurlela & Dimiyati, 2021). Therefore, capital structure can influence a company’s profitability both positively and negatively. Based on the trade-off theory, determining an appropriate capital structure is crucial for the company’s business sustainability. A debt ratio that is too low will hinder the company’s growth, while a debt ratio that is too high will increase the risk of default (Khotimah, 2023). Companies can assess and analyze data on their own capital structure as well as that of the industry to determine an appropriate capital structure (Nurlela & Dimiyati, 2021). Based on the above discussion, the proposed hypothesis is as follows:

H2. Capital structure has a significant effect on a company’s profitability.

Working Capital and Rprofitability

Working capital was found to have a significant and positive effect on corporate profitability (Ayuningtyas & Prasetiono, 2021). However, working capital was found to have no significant effect on corporate profitability as measured by the ROA and ROE proxies (Aldubhani et al., 2022). Efficient and appropriate working capital management will improve a company’s profitability (Ayuningtyas & Prasetiono, 2021). Appropriate working capital will enable a company’s operations to grow, increase the company’s revenue, and boost the company’s profits. Working capital that is too low or too high can lead to liquidity issues for the company and may impact its profitability. Excessively low working capital will hinder the company’s operational growth, while excessively high working capital will render the company’s working capital unproductive and increase the company’s risk (Herlambang et al., 2025). Therefore, working capital can have both positive and negative effects on a company’s profitability, depending on the company’s effectiveness in managing its working capital (Aldubhani et al., 2022). Based on trade-off theory, determining appropriate working capital and implementing efficient current liability management are crucial for a company’s operations. Based on the above discussion, the proposed hypothesis is as follows:

H3. Working capital has a significant effect on a company’s profitability.

ESG Performance, Capital Structure, Working Capital, and Profitability

No previous studies have examined the simultaneous effects of ESG performance, capital structure, and working capital on corporate profitability. The application of these three factors is crucial for a company's operational sustainability. Effective ESG performance and efficient financial management (capital structure, working capital) will positively impact a company's reputation and value. This positive impact on corporate value will subsequently have a positive effect on the company's profitability. Based on legitimacy and stakeholder theory, the implementation of ESG and appropriate financial management will provide benefits for both the company and its stakeholders. The company can also maintain its legitimacy by preserving stakeholder trust. This will certainly lead to increased profitability in the future. Based on the above discussion, the proposed hypothesis is as follows:

H4. ESG performance, capital structure, and working capital have a significant simultaneous effect on corporate profitability.

RESEARCH METHODS

Research Design

A quantitative research method was used in this study because it tests hypotheses, involves numerical data, and aims to identify and analyze relationships or influences between variables. Data were obtained from companies published annual reports, financial statements, and data on the Indonesia Stock Exchange (IDX) website. ESG score data were obtained from the IDX website under the section on listed companies' ESG ratings. Data on net income, total assets, liabilities, and equity were obtained from each financial report of the research sample for the year 2024 on the IDX website. The data analyzed consists of secondary data and cross-sectional data. The data collected includes all issuers or public companies that had an ESG score on the IDX website in 2024 and reported positive net income.

Population and Sample

The study population consists of all companies listed on the Indonesia Stock Exchange (IDX). A non-probability sampling method was used, employing a purposive sampling technique. Purposive sampling determines the sample based on specific criteria that must be met. The key criteria in this study are having an ESG score on the IDX website

and reporting positive financial results. Consequently, a sample of 72 companies was obtained for further analysis. The research sampling process is described in Table 1.

Table 1
Research Sample Selection

Sample Selection Criteria	Number of Companies
Public companies listed on the IDX	954
Public companies listed on the IDX but without an ESG score on the IDX website in 2024	(869)
Public companies with an ESG score but negative sales, net income, assets, liabilities, and equity data in 2024	(4)
<i>Data outliers from SPSS</i>	(9)
Companies used as the sample	72

Source: Processed data, 2025

Operational Variables of the Study

The dependent variable in this study is corporate profitability, represented by Return on Assets (ROA), as the aim is to assess the company's capacity and potential to generate net income from its assets. ROA is calculated by dividing the company's net income by its total assets for the same year. The independent variables in this study are ESG performance, capital structure, and working capital. The ESG performance variable is proxied by the comprehensive ESG score on the IDX website. This comprehensive ESG score is calculated by the rating agency Morningstar Sustainalytics and can be grouped into five categories: severe (>40), high (30–40), medium (20–30), low (10–20), and negligible (0–10).

The capital structure variable is represented by the Total Debt to Total Assets Ratio (DAR) because it aims to measure solvency and the company's ability to use its assets to cover its debts. The DAR is calculated by dividing total liabilities by total assets held by the company in the same year. The working capital variable is proxied by the Current Ratio (CR) because it aims to measure liquidity and the ability of the company's current assets to cover its short-term debt. The CR is obtained by dividing total current assets by total current liabilities or short-term debt held by the company in the same year. The selection of proxies focuses on the company's assets because assets are considered more relevant in the context of sustainability.

Data Analysis

The data analysis method used in this study was multiple linear regression analysis using SPSS software. An outlier test was necessary because the data being analyzed were cross-sectional; therefore, the outlier test was conducted to ensure that no outliers were present that could interfere with the analysis or introduce bias into the research results. Any outliers identified required special treatment, such as excluding them from the sample. Classical assumption tests were then conducted to ensure that the regression model estimates are best, linear, unbiased, and estimators (BLUE). The classical assumption tests performed included tests for normality, heteroscedasticity, and multicollinearity. An autocorrelation test was not performed because the data being analyzed is cross-sectional; therefore, it was not necessary to re-examine the correlation among residuals at different time points. Multiple linear regression analysis was subsequently performed along with hypothesis testing, which consisted of t-tests, F-tests, and tests of the coefficient of determination. The multiple linear regression equation for this study is as follows:

$$ROA_i = \beta_0 + \beta_1 ESG_i + \beta_2 DAR_i + \beta_3 CR_i + \varepsilon_i$$

Notes:

ROA_i = Firm profitability proxied by ROA

β_0 = Constant in the regression model

β_1 = Coefficient of the ESG performance variable

ESG_i = ESG performance

β_2 = Coefficient of the capital structure variable

DAR_i = Capital structure proxied by DAR

β_3 = Coefficient of the working capital variable

CR_i = Working capital proxied by the Current Ratio (CR)

ε_i = Residual value in the regression model

RESEARCH FINDINGS

Descriptive Statistics

The descriptive statistics for each variable in this study are presented in Table 2. The ESG performance variable has an average score of 29.51, which falls into the medium category. The lowest ESG score, 7.11, falls into the negligible category, while the highest ESG score, 51.38, falls into the severe category. Most of the public companies in this

study's sample fall into the medium category, totaling 33 companies with ESG scores in the 20–30 range. Only 13 companies fall into the negligible and low categories. The distribution of ESG scores is not evenly spread and is concentrated in the medium, high, and severe categories. Thus, the majority of the sample in this study has ESG risks that are relatively moderate, high, or severe. These relatively high risks require appropriate management or mitigation, which can be achieved by avoiding, reducing, transferring, or accepting the risks.

The capital structure variable (DAR) has an average of 0.45. The lowest DAR in the research sample is 0.11, and the highest is 0.87. All DAR values obtained were no more than 1; this indicates that the total assets of all companies in this research sample are proportionally greater than total liabilities, meaning the companies' assets can cover their debts, and it can be concluded that the solvency risk of this research sample is relatively low. The working capital (CR) variable has an average of 1.92. The highest current ratio was 4.77, and the lowest was 0.21. The average current ratio (CR) was greater than 1, indicating that the proportion of current assets in the companies in the study sample was greater than their short-term liabilities, meaning that the companies' current assets can cover their short-term liabilities. It can be concluded that the companies in the study sample have relatively low liquidity risk.

The profitability variable (ROA) has an average of 5.83. The highest ROA is 18.82 and the lowest is 0.16. The overall market ROA in 2024 is 2.5. The average ROA obtained is higher than the market ROA; this value indicates that the average ability of the companies in this research sample to generate net profit from their assets is better than the industry average. However, some samples still have an ROA below the market average. This indicates that the ability of some companies in the research sample to generate net profit from their assets is less efficient.

Table 2
Descriptive Statistics

Variable	Observations	Mean	Standard Deviation	Min	Max
ESG	72	29,51	9,61	7,11	51,38
DAR	72	0,45	0,21	0,11	0,87
CR	72	1,92	1,11	0,21	4,77
ROA	72	5,83	4,25	0,16	18,82

Source: Processed Data, 2025

Description of Research Variables

The distribution of ESG scores across the five ESG risk categories and sectors is shown in Table 3. There are four sectors in the high-risk category (30–40), four in the medium-risk category (20–30), and two in the low-risk category (10–20). Based on the distribution of these sectoral average ESG scores, it can be concluded that companies in each sector face relatively moderate to high ESG risks, as 8 out of 10 sectoral average ESG scores fall into these categories. Risk mitigation is crucial, and appropriate mitigation strategies—whether through avoidance, reduction, transfer, or acceptance—must be selected.

Table 3
Distribution of ESG Scores by Sector and 5 ESG Risk Categories

Sector	Average ESG Score	ESG Risk Category
Basic Materials	33,10	High
Consumer Cyclical	19,57	Low
Consumer Non-Cyclical	34,02	High
Energy	38,21	High
Financials	26,06	Medium
Healthcare	27,00	Medium
Industrials	38,57	High
Infrastructures	23,45	Medium
Properties & Real Estate	27,55	Medium
Technology	14,17	Low

Source: Processed Data, 2025

The distribution of the DAR as a proxy for capital structure by sector is shown in Table 4. The average DAR for each sector is less than 1, ranging from 0.14 to 0.64, indicating that companies in all sectors have assets exceeding their liabilities, meaning these assets are sufficient to cover their debts or liabilities. Based on this sectoral distribution of average DAR, it can be concluded that the proportion or ratio of a company's assets to liabilities varies across sectors. The financial, infrastructure, and real estate sectors have relatively higher debt ratios compared to other sectors due to their operational characteristics and business activities.

Table 4
DAR Distribution by Sector

Sector	Average DAR
Basic Materials	0,31
Consumer Cyclical	0,34
Consumer Non-Cyclical	0,42
Energy	0,42

Financials	0,64
Healthcare	0,21
Industrials	0,42
Infrastructures	0,55
Properties & Real Estate	0,43
Technology	0,14

Source: Processed Data, 2025

The distribution of current ratios as a proxy for working capital by sector is shown in Table 5. The average current ratio for each sector is greater than 1, ranging from 1.05 to 3.83, indicating that companies in all sectors have current assets that exceed their current or short-term liabilities, meaning that these current assets are sufficient to cover their current liabilities. Based on the distribution of these average current ratios, it can be concluded that the proportion of current assets to current liabilities varies across sectors.

Table 5
Distribution of Current Ratios by Sector

Sector	Average Current Ratio
Basic Materials	2,37
Consumer Cyclicals	3,06
Consumer Non-Cyclicals	2,54
Energy	2,30
Financials	2,61
Healthcare	3,83
Industrials	1,44
Infrastructures	1,05
Properties & Real Estate	2,42
Technology	3,08

Source: Processed Data, 2025

The distribution of ROA as a proxy for profitability by sector is shown in Table 6. The market ROA is 2.5. Nine out of ten sectors—excluding the technology sector—have an average ROA above the market ROA, ranging from 2.99 to 14.77. Based on this distribution of sectoral average ROA, it can be concluded that most industries have an above-average ability to generate net profit from their assets. Furthermore, each sector's ability to generate net profit from its assets varies.

Table 6
ROA Distribution by Sector

Sector	Average ROA
Basic Materials	5,28
Consumer Cyclicals	6,85

Consumer Non-Cyclicals	9,95
Energy	9,90
Financials	2,99
Healthcare	14,77
Industrials	9,91
Infrastructures	4,28
Properties & Real Estate	3,85
Technology	1,04

Source: Processed Data, 2025

Results of the Outlier Test and Classical

An outlier test was conducted prior to the classical assumption tests, and 9 outliers were identified and subsequently excluded from the research sample. Three outliers were identified using case-by-case diagnostics, as shown in Table 7, and 6 outliers were identified using box plots, as shown in Figure 1. The classical assumption tests were then conducted after excluding these 9 outliers. Based on the results of the normality test in Table 8 with 72 research samples, the data is normally distributed because a significance value greater than 0.05, specifically 0.078, was obtained. Based on the results of the multicollinearity test in Table 9, no multicollinearity issues were found because the centered VIF values for each variable were less than 10. Based on the results of the heteroscedasticity test in Table 9, no signs of heteroscedasticity were found because the significance values obtained for each variable were greater than 0.05. Therefore, there were no issues with the classical assumption tests for the 72 research samples.

Table 7
Outlier Test Results

Casewise Diagnostics				
Case Number	Std. Residual	Profitabilitas	Predicted Value	Residual
10	3,440	21,8924	2,93898508	18,9534149
18	3,571	28,9588	9,28423715	19,6745628
81	3,483	28,5833	9,39357184	19,1897282

Source: SPSS output, reprocessed, 2025

Table 8
Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
Unstandardized Residual		
N		72
Normal Parameters ^{a,b}	Mean	0,0000000
	Std. Deviation	3,88332964
Most Extreme Differences	Absolute	0,099
	Positive	0,099
	Negative	-0,049

Test Statistic	0,099
Asymp. Sig. (2-tailed)	0,078 ^c

Source: SPSS output, reprocessed, 2025

Table 9
Multicollinearity Test Results

Model		Collinearity Tolerance	Statistics VIF
1	(Constant)		
	ESG Performance	0,946	1,057
	Capital Structure	0,550	1,819
	Working Capital	0,572	1,747

Source: SPSS output, reprocessed, 2025

Table 10
Heteroscedasticity Test Results

	Coefficients				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3,505	2,347		1,493	0,139
ESG Performance	0,059	0,044	0,149	1,352	0,180
Capital Structure	-4,012	2,601	-0,228	-1,542	0,127
Working Capital	0,101	0,281	0,052	0,359	0,721

a. Dependent Variable: Abs_RES

Source: SPSS output, reprocessed, 2025

Hypothesis Testing Results

The purpose of hypothesis testing is to verify the validity of a hypothesis through statistical data analysis. The hypothesis testing was then conducted after removing the 9 outliers that were identified, and no issues were found in the results of the classical assumption tests using the 72 research samples. These 72 samples were then subjected to hypothesis testing, which consisted of a partial significance test (t-test), a simultaneous significance test (F-test), and a coefficient of determination test.

Table 11
Results of the t-Test

Model	Coefficients				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	7,177	2,970		2,417	0,018
ESG Performance	0,037	0,050	0,084	0,735	0,465
Capital Structure	-6,684	3,068	-0,325	-2,179	0,033
Working Capital	0,314	0,561	0,082	0,559	0,578

Source: SPSS output, reprocessed, 2025

The results of the partial significance hypothesis test are shown in Table 11. The ESG performance variable has a t-value of 0.735 and a significance level of 0.465. This significance value is greater than 0.05, and the t-calculated value is smaller than the t-table value of 1.995. Therefore, the first hypothesis, which states that ESG performance has a significant effect on corporate profitability, is rejected. The capital structure variable has a significance value of 0.033 and a t-calculated value of -2.179. This significance value is less than 0.05, and the t-calculated value is greater than the critical t-value of -1.995 on the left side of the curve. Therefore, the second hypothesis, which states that capital structure significantly affects firm profitability, is accepted and has a negative effect. The working capital variable has a significance value of 0.559 and a t-calculated value of 0.559. This significance value is greater than 0.05, and the t-calculated value is smaller than the t-table value of 1.995. Thus, the third hypothesis, which states that working capital significantly affects company profitability, is rejected.

Table 12
Results of the F-Test

ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	212,933	3	70,978	4,508	0,006 ^b
Residual	1070,698	68	15,746		
Total	1283,631	71			

Source: SPSS output, reprocessed, 2025

The results of the simultaneous significance hypothesis test are shown in Table 12. The variables of ESG performance, capital structure, and working capital simultaneously have a significance value of 0.006 and a calculated F-value of 4.508. This significance value is less than 0.05, and the calculated F-value is greater than the critical F-value of 2.74. Therefore, the fourth hypothesis, which states that ESG performance, capital structure, and working capital have a significant simultaneous effect on corporate profitability, is accepted.

Table 13
Results of the Coefficient of Determination Test

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,407 ^a	0,166	0,129	3,96806681

Source: SPSS output, reprocessed, 2025

The results of the coefficient of determination test are shown in Table 13. The R-squared value obtained is 0.166, which is relatively low. Based on these results, it can be concluded that the profitability variable is explained by the ESG performance, capital structure, and working capital variables to the extent of 16.6%. There are other independent factors or variables not included in this research model that can explain 83.4% of the dependent variable.

DISCUSSION

ESG Performance Has No Significant Impact on Corporate Profitability

ESG performance was found to have no significant impact on corporate profitability based on the results of the hypothesis test in Table 11. These findings align with the study titled “ESG disclosure and firm performance: Evidence from the GCC Banking sector” by Al-Jalahma et al. (2020). That study found that ESG performance does not have a significant impact on corporate profitability, as measured by ROA. The distribution of ESG scores falls into the moderate, high, and very high categories. Meanwhile, the distribution of ROA data in this study’s sample ranged from 0.16 to 18.82. A comparison of the average ESG scores with ROA across each sector is then required as a tool for a more in-depth analysis of the obtained results. The comparison of the average ESG scores—as a proxy for the ESG performance variable—with ROA—as a proxy for the profitability variable—by sector can be seen in Table 14.

Table 14
Comparison of Average ESG Scores and ROA by Sector

Rank	Sector	Average ESG Score	Rank	Sector	Average ROA
1	Industrials	38,57	1	Healthcare	14,77
2	Energy	38,21	2	Consumer Non-Cyclicals	9,95
3	Consumer Non-Cyclicals	34,02	3	Industrials	9,91
4	Basic Materials	33,10	4	Energy	9,90
5	Properties & Real Estate	27,55	5	Consumer Cyclicals	6,85
6	Healthcare	27,00	6	Basic Materials	5,28
7	Financials	26,06	7	Infrastructures	4,28
8	Infrastructures	23,45	8	Properties & Real Estate	3,85
9	Consumer Cyclicals	19,57	9	Financials	2,99
10	Technology	14,17	10	Technology	1,04

Source: Processed Data, 2025

Based on Table 14, it appears that ESG performance is not correlated with profitability. This can be concluded from the absence of any discernible pattern in the ranking of sectors. The industrials sector has the highest average ESG score and the third-highest average ROA. The property & real estate sector has the fifth-highest average ESG score and the third-lowest average ROA. Meanwhile, the healthcare sector has the sixth-highest average ESG score and the highest average ROA.

There are several arguments that can explain why ESG performance does not affect corporate profitability. The first argument is that the distribution of ESG scores among companies in Indonesia is largely concentrated in the moderate- and high-risk categories. Meanwhile, the distribution of ROA values among companies in Indonesia varies widely, ranging from below the market ROA to several times the market ROA. The lack of variation in ESG scores and their tendency toward high scores are attributed to relatively low active participation by listed companies in Indonesia (10% in 2024 and 20% in 2025), the fact that ESG has not yet become a priority for companies in their business strategies, and that the ESG risk mitigation measures implemented are not yet efficient or appropriate. If more companies participate in ESG performance reporting and assessment, leading to a wider variation in ESG scores, it is possible that future studies will identify significant impacts.

The second argument is that regulations or policies regarding ESG reporting, assessment, and disclosure are still relatively new. Previously, listed companies were required to publish sustainability reports for a long time; then CSR evolved into ESG, and only recently have ESG scores been introduced to companies. Therefore, ESG performance reporting and assessment have not yet become a crucial matter that stakeholders expect from companies. Based on legitimacy and stakeholder theory, companies will prioritize the well-being and recognition of stakeholders. Consequently, only a portion of companies are actively participating in ESG performance reporting and assessment.

Capital Structure Has a Significant Negative Effect on Firm Profitability

Capital structure was found to have a significant negative effect on firm profitability based on the results of the hypothesis tests in Table 11. These results are consistent with the study titled "The Effect of Capital Structure and Firm Size on Profitability in Retail Companies on the IDX" by Fadilah & Fuadati (2022). That study found that capital

structure has a significant and negative effect on firm profitability. The DAR data range varies from 0.11 to 0.87. Meanwhile, the range of ROA data in this study's sample varies from 0.16 to 18.82. A comparison of the average DAR with ROA across each sector was then conducted as a tool for a more in-depth analysis of the obtained results. The comparison of the average DAR—as a proxy for the capital structure variable—with ROA—as a proxy for the profitability variable—by sector is shown in Table 15.

Table 15
Comparison of Average DAR and ROA by Sector

Rank	Sector	Average DAR	Rank	Sector	Average ROA
1	Financials	0,640	1	Healthcare	14,77
2	Infrastructures	0,550	2	Consumer Non-Cyclicals	9,95
3	Properties & Real Estate	0,430	3	Industrials	9,91
4	Energy	0,424	4	Energy	9,90
5	Industrials	0,423	5	Consumer Cyclicals	6,85
6	Consumer Non-Cyclicals	0,418	6	Basic Materials	5,28
7	Consumer Cyclicals	0,340	7	Infrastructures	4,28
8	Basic Materials	0,310	8	Properties & Real Estate	3,85
9	Healthcare	0,210	9	Financials	2,99
10	Technology	0,140	10	Technology	1,04

Source: Processed Data, 2025

Based on the comparison in Table 15, an inverse relationship or pattern between capital structure and profitability is evident. The financials sector has the highest average DAR of 0.64 and the second-lowest average ROA of 2.99. The properties & real estate sector has the third-highest average DAR of 0.43 and the third-lowest average ROA of 3.85. The consumer non-cyclicals sector has the sixth-highest average DAR of 0.418 and the second-highest average ROA of 9.95. The healthcare sector has the second-lowest average DAR of 0.21 and the highest average ROA of 14.77. Thus, it can be seen that there is a significant and negative relationship, or an inverse relationship: the lower the average DAR, the higher the ROA, and vice versa.

The argument that explains the significant negative impact of capital structure on profitability is that a high DAR indicates a higher proportion of debt in the company's capital structure, thereby increasing interest expenses. An increase in principal and interest payments will subsequently lead to a decline in the company's profitability, and

the reverse is also true. A decrease in debt principal and interest, in turn, will lead to an increase in the company's profitability. Additionally, based on the trade-off theory, financial risks related to the company's solvency can also be a reason behind the significant and negative impact of capital structure on the company's profitability. A high DAR increases financial risk and becomes a consideration for investors and creditors when making investment decisions, which can lead to a decline in the company's profitability. Conversely, a low DAR reduces solvency risk and attracts investors to invest in the company, thereby increasing the company's profitability. Therefore, capital structure has a significant negative impact on a company's profitability.

Working Capital Has No Effect on Company Profitability

Working capital was found to have no significant effect on company profitability based on the results of the hypothesis test in Table 11. These findings are consistent with the study titled "Impact of working capital management on profitability: evidence from listed companies in Qatar" by Aldubhani et al. (2022). Working capital was found to have no significant effect on company profitability, as represented by ROA. The current ratio data ranged from 0.21 to 4.77. Meanwhile, the ROA data in this study ranged from 0.16 to 18.82. A comparison of the average current ratio with ROA in each sector was then conducted to aid in the analysis of the results obtained.

Table 16
Comparison of Average Current Ratio and ROA by Sector

Rank	Sector	Average Current Ratio	Rank	Sector	Average ROA
1	Healthcare	3,83	1	Healthcare	14,77
2	Technology	3,08	2	Consumer Non-Cyclicals	9,95
3	Consumer Cyclicals	3,06	3	Industrials	9,91
4	Financials	2,61	4	Energy	9,90
5	Consumer Non-Cyclicals	2,54	5	Consumer Cyclicals	6,85
6	Properties & Real Estate	2,42	6	Basic Materials	5,28
7	Basic Materials	2,37	7	Infrastructures	4,28
8	Energy	2,30	8	Properties & Real Estate	3,85
9	Industrials	1,44	9	Financials	2,99
10	Infrastructures	1,05	10	Technology	1,04

Source: Processed Data, 2025

A comparison of the average current ratio—as a proxy for working capital—with ROA—as a proxy for profitability—by sector is presented in Table 16. Based on this comparison of averages, it appears that working capital is not related to profitability. This conclusion can be drawn from the absence of any discernible pattern in the ranking of sectors. The healthcare sector has the highest average current ratio of 3.83 and the highest average ROA of 14.77. The technology sector has the second-highest average current ratio of 3.08 and the lowest average ROA of 1.04. Meanwhile, the consumer cyclicals sector has the third-highest average current ratio of 3.06 and the fifth-highest average ROA of 6.85. Thus, no relationship or pattern is evident between these two variables when viewed from the comparison of each sector's averages.

There are several arguments that can explain why working capital does not affect a company's profitability. The first argument is that each company operates in an industry with distinct characteristics. Every industry has different requirements regarding the proportion of current assets needed to maintain business operations. According to trade-off theory, the determination of the ratio of current assets to short-term debt is adjusted to balance the risks and benefits the company faces. Some industries have higher short-term debt characteristics than others. Therefore, the high or low value of the current ratio carries benefits and risks that cannot be compared across sectors and does not affect profitability.

The second argument is that a higher proportion of current assets does not necessarily reflect efficient management of current assets. A larger amount of current assets can result from inefficient management of current assets, such as uncollectible accounts receivable and excess company cash. Inefficient management of current assets will then lead to a decline in the company's profitability, and the reverse is also true. Therefore, working capital does not significantly affect a company's profitability.

ESG Performance, Capital Structure, and Working Capital Have a Significant Impact on Corporate Profitability

ESG performance, capital structure, and working capital were found to have a significant simultaneous impact on corporate profitability based on the results of the hypothesis tests in Table 12. The variables of ESG performance, capital structure, and working capital are crucial in corporate operations and strategy formulation to achieve sustainability. Good ESG performance and efficient financial management can have a

positive impact on a company's reputation. This positive impact will also reduce corporate risk, both regarding ESG and the company's financial health. Therefore, ESG performance, capital structure, and working capital simultaneously have a significant impact on corporate profitability.

CONCLUSION

Based on the findings of the hypothesis testing, analysis, and discussion of the research results, it can be concluded that ESG performance and working capital do not have a significant partial effect on corporate profitability. Meanwhile, capital structure has a significant and negative effect on corporate profitability. ESG performance, capital structure, and working capital have a significant simultaneous effect on corporate profitability.

The implications of this study support legitimacy and stakeholder theories, namely the need for comprehensive and standardized regulations established by relevant policymakers—such as the Indonesia Stock Exchange (IDX)—so that public companies in Indonesia can actively participate in ESG reporting and assessment to gain stakeholder recognition. The findings of this study also reinforce the importance of trade-off theory in decision-making regarding the determination of the proportions of assets, liabilities, and equity. Appropriate determinations will balance the benefits gained and the risks incurred. Companies should set a low debt-to-asset ratio that aligns with their industry characteristics. The company's debt-to-asset ratio (DAR) should be below 1 and tailored to the company's operations. Additionally, company management should establish an appropriate ratio of current assets to current liabilities and implement effective and efficient management of current assets. Excessively high current assets do not always indicate a positive situation; this may occur due to inadequate management of current assets.

A limitation identified in this study is that ESG score data is relatively scarce, as it is currently available for only about 10% of all publicly listed companies on the Indonesia Stock Exchange (IDX) as of 2024. Recommendations regarding ESG reporting and assessment have been in place since 2022. However, only a portion of companies have actively participated and have ESG scores. Consequently, the study could not be conducted over a specific time period and was limited to data from a single point in time, namely 2024. Additionally, limitations regarding individual ESG aspect scores—

specifically the environmental, social, and governance aspects—were also identified in this study. These individual ESG aspect scores could serve as tools for a more in-depth analysis of the relationship between ESG performance and profitability if they were widely available. Consequently, this study cannot analyze individual ESG aspects in greater depth and is limited to analyzing the combined ESG aspect.

Recommendations for listed companies in Indonesia include actively engaging in ESG performance reporting and assessment, adopting a capital structure aligned with the company's and sector's characteristics, and implementing efficient current asset management. Recommendations for policymakers include establishing standardized policies regarding ESG performance reporting and assessment, covering both combined ESG metrics and individual ESG aspects. For future researchers interested in conducting more in-depth studies on this topic, it is advisable to use a larger research sample if available, utilize time-series data where possible, and incorporate additional independent variables that can better explain the dependent variables.

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