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Environmental, Social, Governance Report, and Materiality Analysis Effect on Financial and Market Performance

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Abstract

Environmental, Social, and Governance (ESG) Reports and materiality analysis are increasingly becoming a primary focus in socially and environmentally responsible corporate practices. These two elements play an important role in building financial and market performance. This research investigates the influence of ESG Reports and materiality analysis on company financial and market performance. This research method uses secondary data from a number of companies in various industries listed in IDX during the 2017-2021 period. Based on the purposive sampling technique, the sample was 23 companies, so the data processed was 115 data. Regression analysis and other statistical techniques measure the relationship between ESG variables and a company's financial results. The research results prove that elements of social and governance ESG negatively affect financial performance. Materiality analysis has a positive effect on market performance. These findings provide a strong basis for companies to pay more attention to ESG, especially on the social and governance factors and materiality analysis as strategic tools in risk management and improving financial and market performance. In addition, this research also provides valuable information for investors and other stakeholders increasingly paying attention to ESG aspects in their investment decision-making. Some suggestions were made for future research on ESG reports and sustainability.

***Keywords:** environmental, ESG reports, financial performance, governance, market performance, materiality, social.*

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INTRODUCTION

Company performance information, namely financial and market performance, is very important for various stakeholders, including shareholders, investors, creditors, company management, and regulators. Company performance information is important because it provides an in-depth

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understanding of the condition and prospects of a company and influences various stakeholders in decision-making. Investors and shareholders use market performance information, such as share prices and PER, to assess company value and make investment decisions (Lee & Isa, 2020). They also examine a company's financial performance, including net income and dividends, to measure potential investment returns. Company owners and management use financial performance information to measure their profitability and operational efficiency, as well as to plan growth and expansion. Creditors, such as banks and lenders, need financial performance information to assess a company's ability to pay debts. This information can influence decisions about whether the company will obtain additional financing (Li et al., 2021).

Financial performance information is used for, first, short and long-term financial planning, including budgeting, capital planning, and cash management. Second, financial and market performance are often used to evaluate company management performance. It helps shareholders and other stakeholders to assess whether the company's management is performing well or requires change. Third, companies are required by law and regulations to report financial information openly and transparently. This information ensures company compliance with applicable regulations. In addition, market performance information can indicate the health of the broader economy. Share price movements in the stock market often reflect economic sentiment and expectations. Finally, financial and market performance information is used by companies in making business decisions, including strategic planning, investments, and acquisitions. It helps assess a company's risk and resilience to changing market conditions, which is important in risk management. In other words, financial and market performance information is an important tool in evaluation and decision-making at various levels (Lee & Isa, 2020; Putri et al., 2022). They provide insight into a company's health, asset value, and growth opportunities and help ensure transparency, accountability, and sustainability in business activities.

In an era of business increasingly focused on sustainability and transparency, Environmental, Social, and Governance (ESG) reports and Corporate Social Responsibility (CSR) reports have become critical tools in helping companies measure, report, and understand their company's Environmental, social, and governance impacts (Calabrese et al., 2015, 2017; Rudiatun & Suryaningrum, 2023). ESG reports provide a powerful framework for monitoring and measuring sustainability practices. Although ESG reports have become the industry standard for communicating sustainability and social responsibility practices, research on their impact on financial performance remains inadequate (Utami, 2019). Therefore, the novelty of this research lies in the interdisciplinary approach used to combine ESG and materiality factors in the analysis of the company's financial and market performance. ESG concepts combined with materiality practices, often used as a framework in ESG reports, are used to understand how the emphasis on issues considered material in ESG reports impacts a company's market value and financial performance.

Additionally, a research gap that needs to be filled is the lack of comprehensive and integrated research that investigates the relationship between ESG reports, materiality, financial performance, and market value (Betti et al., 2018; Li et al., 2021). Most previous research has often looked at these issues separately. Therefore, in this article, we try to fill this gap by involving various factors and dimensions to provide a deeper understanding of the relationship between ESG reporting, materiality, and company results. By conducting a more comprehensive and in-depth analysis of how ESG reports and materiality impact financial performance and market value, hopefully, this article will provide better guidance for companies, investors, and stakeholders in sustainable decision-making. In an increasingly sustainability-oriented business environment, a better understanding of these factors is becoming increasingly important in achieving long-term business goals (Beske et al., 2020).

Researchers have used theories such as stakeholder theory, share-value theory, legitimacy theory, and resource-based value theory in relation with ESG reports. According to Whelan et al. (2021), who conducted a literature study on ESG reports and financial performance for six years (2015-2020), showed that 75% of researchers used stakeholder theory (Khairunnisa & Widiastuty, 2023; Putri et al., 2022), and the rest spread out using share-value theory, legitimacy theory, and resource-based value theory (Betti et al., 2018; Inawati & Rahmawati, 2023; Sardianou et al., 2021). Therefore, this research focuses on stakeholder theory to comprehensively explain the relationship between variables. Stakeholder theory states that companies have a social responsibility towards all parties interested in the company's activities, such as employees, consumers, suppliers, communities, and the environment. By meeting the expectations and interests of stakeholders, companies can improve their market performance by increasing loyalty, productivity, quality, innovation, and reputation.

Stakeholder theory offers a holistic approach that recognizes the importance of considering a company's stakeholders, including shareholders, employees, consumers, suppliers, society, and others (Garcia et al., 2019; Lee & Isa, 2020). This reflects the complexity of the company's relationships with various parties, which can be influenced by the company's business practices and sustainability. Stakeholder theory highlights the importance of meeting the interests of all stakeholders to achieve sustainable long-term growth and performance (Beske et al., 2020). This fits with a sustainability focus, where a company's long-term performance is seen as a more important goal than short-term profits. In addition, stakeholder theory includes economic, social welfare, environmental, and governance considerations, which correspond to elements in ESG. Stakeholder theory reflects the economic, social, environmental, and governance impacts of companies on employees, communities, and consumers, which are increasingly considered important by investors and shareholders.

The first element in an ESG report is the environment. The government has a role in regulating companies in environmental matters. Strong environmental reporting and compliance with environmental regulations can reduce legal risks and fines that may be imposed on a company (Inawati & Rahmawati, 2023). Transparent environmental reporting and sustainable practices can help maintain good relations with local communities, avoid protests, and support positive relationships. Complying with environmental regulations and adopting sustainable practices can reduce legal and operational risks (Durlista & Wahyudi, 2023). Energy efficiency, waste reduction, and good resource management can also reduce operational costs and increase efficiency, which in turn can increase profit margins. Within the framework of stakeholder theory, companies are expected to consider the interests and environmental impacts of various stakeholders, which include government, society, investors, and consumers (Lee & Isa, 2020). Sustainable practices in environmental reporting can reduce risks, create opportunities, and build strong relationships with stakeholders, which can ultimately contribute to better financial performance and better market performance. Therefore, the first hypotheses are:

H1a: The environmental element of ESG reports affects financial performance

H1b: The environmental element of ESG reports affects market performance

The second element in the ESG report is social. Social stakeholders include employees, consumers, and local communities. Satisfied employees tend to be more productive and contribute positively to company performance. Consumers who support brands with good social responsibility can increase sales. Social responsibility can also create strong relationships with consumers and create greater sales opportunities. Good relationships with consumers and local communities can improve brand image and support share prices (Durlista & Wahyudi, 2023). Durlista & Wahyudi (2023) found that social disclosure positively impacts market performance. Additionally, institutional investors concerned with social issues can put pressure on companies to adhere to higher standards of social responsibility. Within the framework of stakeholder theory, companies are expected to consider their social impact on various stakeholders, including employees, consumers, investors, and local communities (Khairunnisa & Widiastuty, 2023; Lee & Isa, 2020). Good social practices and social responsibility can minimize risks, create opportunities, and build strong relationships with stakeholders, which can ultimately contribute to better financial performance and better market performance. Therefore, the second hypotheses are:

H2a: The social element of ESG reports affects financial performance

H2b: The social element of ESG reports affects market performance

The third element in an ESG report is governance. Governance elements include corporate management practices, ownership structure, oversight committees, and ethical decision-making. Governance refers to the processes and structures used to manage, supervise, and control an organization or entity. It includes frameworks, policies, and practices that ensure that the organization operates efficiently, transparently, accountability, and in accordance with applicable laws and regulations (Ramadhan & Suryaningrum, 2020). Shareholders are key stakeholders in ESG governance issues. They want good and transparent governance to minimize risk, ensure accountability, and maintain company integrity. In this case, good governance in ESG reports can influence shareholder perceptions and support for the company (Durlista & Wahyudi, 2023). Investors looking for companies with strong governance and ethical practices in decision-making can choose companies that have a good ESG record in terms of governance. This can build investor confidence, support better valuation, and encourage investment. Within the framework of stakeholder theory, companies are expected to consider the impact of their governance on various stakeholders, including shareholders, investors, and communities (Khairunnisa & Widiastuty, 2023; Lee & Isa, 2020). Good governance practices and ethics in decision-making can minimize risks, create opportunities, and build strong relationships with stakeholders, which can ultimately contribute to better financial performance and better market performance. Therefore, the second hypotheses are:

H2a: The governance element of ESG reports affects financial performance
H2b: The governance element of ESG reports affects market performance

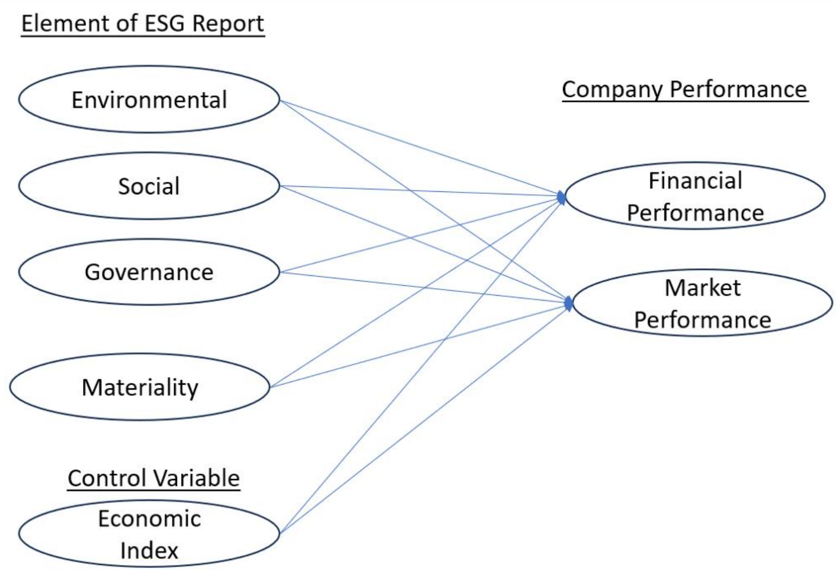

Figure 1. Research Model

Materiality analysis helps companies identify the financial issues that are considered most relevant and significant to shareholders (Setiadi, 2019; S. Setiadi & Sibarani, 2019). By understanding shareholder priorities, companies can prepare financial reports that meet their expectations, which can influence shareholder perceptions and support for the company. Materiality analysis helps companies identify issues that have a significant impact on their financial performance (Annafi & Yudowati, 2021; Bellantuono et al., 2018; Shafer, 2003). By focusing on material issues, companies can allocate resources more efficiently and avoid wasting resources on less relevant issues.

Investors seeking financial information relevant to business risks and opportunities can rely on financial reports that comply with materiality analysis. Reports that reflect material issues can build investor confidence, support better judgment, and encourage investment. Within the framework of stakeholder theory, materiality analysis in financial reports serves as a tool for identifying and prioritizing the issues that are most important to various stakeholders (Calabrese et al., 2017; Putri et al., 2022). By meeting expectations and understanding material issues, companies can minimize risks, create opportunities, and build strong relationships with stakeholders, which can ultimately contribute to better financial performance and better market performance. Therefore, the fourth hypotheses are:

H4a: Materiality analysis of financial reports affects financial performance

H4b: Materiality analysis of financial reports affects market performance

Figure 1 shows the relationship between elements of ESG reports and materiality analysis as the independent variables, with financial and market performance as dependent variables. Control variable is Economic Index. The decision to use this control variable is based on the research period of 2017-2021, which in this period there is before and during pandemic.

RESEARCH METHOD

Population and Sample

The population of this research is all manufacturing companies listed on the Indonesia Stock Exchange (BEI) in the 2017-2021 period. The companies comprise three sectors, namely the basic and chemical industry sector, with 80 companies; the miscellaneous industry sector, with 52 companies; and the consumer goods sector, with 61 companies. The total population in this study was 193 companies. The sampling technique in this research used purposive sampling. The number of samples that met the criteria whose data corresponded to the variables studied for five periods (2017-2021) was 23 companies. Thus, researchers used 23 financial reports, and 115 data were processed by SPSS.

Operational and Variable Measurement

The independent variables are the ESG index (environmental index, social index, governance index) and materiality. The dependent variables are financial performance, measured by return on assets (ROA), and market performance, measured by earnings per share (EPS). This study uses one control variable of the economic index. The research period is from 2017 to 2021 when there have been significant changes in economic conditions due to the Covid-19 pandemic. Controlling economic variables can eliminate comparable factors that could impact overall company performance (Das, 2022). This helps in understanding the specific impact of an ESG report on a company's performance rather than its attribution to overall economic conditions. Table 1 shows the measurement for variables.

Regression Model and Hypothesis Testing

This study focuses on stakeholder theory that explains the positive relation between ESG performance and company performance.

Table 1. Variables Measurement

Variables	Measurement
Independent Variables	
✓ Environmental Index (Yilmaz, 2021)	$Env = \frac{Total\ item\ of\ environmental\ disclosure}{Number\ of\ item\ environmental\ disclosure}$
✓ Social Index (Yilmaz, 2021)	$Soc = \frac{Total\ item\ of\ social\ disclosure}{Number\ of\ item\ social\ disclosure}$
✓ Governance Disclosure (Akben-Selcuk & Altiok-Yilmaz, 2014)	$Gov = Number\ audit\ committe$
✓ Materiality (Annafi & Yudowati, 2021; Shafer, 2003)	Income percentage ≥ 25%, dummy 1 = material, 0 = non-material
Dependent Variables	
✓ Financial Performance (Yilmaz, 2021)	$ROA = \frac{Return}{Assets}$
✓ Market Performance (Ilahiyah, 2021)	$EPS = \frac{Earnings}{Share}$
Control Variable	
Economic Index (Utami, 2019)	$Eco = \frac{Total\ item\ economic\ disclosure}{Number\ of\ item\ economic\ disclosure}$

Source: Prior research as stated in the table.

Using the panel data set, four regression models were developed to explain the hypotheses.
Model 1: $ROA = \beta_0 + \beta_1 Env_{it} + \beta_2 Soc_{it} + \beta_3 Gov_{it} + \beta_4 Mat_{it} + \beta_5 Eco_{it} + \varepsilon$ ………………. (1)
Model 2: $EPS = \beta_0 + \beta_1 Env_{it} + \beta_2 Soc_{it} + \beta_3 Gov_{it} + \beta_4 Mat_{it} + \beta_5 Eco_{it} + \varepsilon$ ……………….. (2)

The test to examine the model is F-test and the determinant score – R^2. The hypotheses are tested with the p-value ≤ 0.05.

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Table 2 shows the descriptive statistics for the independent, dependent, and control variables. Most of the standard deviation are less than the variables' mean except for market performance with the std. deviation 4.8055 > mean 2.9981. This indicates that the market performance data are not good since it spread father than its mean. The other variables, environmental, social, governance, materiality, and financial performance are good since they spread around the mean.

Table 2. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Environmental	115	1.00	32.00	22.5391	6.79304
Social	115	5.00	33.00	19.7478	6.52773
Governance	115	3.00	5.00	4.0087	0.36263
Materiality	115	0.00	1.00	0.4948	0.43790
Financial Performance	115	0.0028	0.7091	0.118532	0.1034282
Market Performance	115	0.7041	35.4003	2.998137	4.8054999
Economic	115	1.00	16.00	7.6696	2.73291
Valid N (listwise)	115				

Source: Data processed SPSS (2023)

Table 3. Partial Correlation – Financial Performance

Control Variables			Environmental	Social	Governance	Materiality	ROA
Economic	Environmental	Correlation	1.000	0.422	0.067	0.119	-0.194
		Significance (2-tailed)		0.000	0.478	0.207	**0.038**
		df	0	112	112	112	112
	Social	Correlation	0.422	1.000	-0.046	0.039	-0.244
		Significance (2-tailed)	0.000		0.626	0.677	**0.009**
		df	112	0	112	112	112
	Governance	Correlation	0.067	-0.046	1.000	0.017	-0.186
		Significance (2-tailed)	0.478	0.626		0.862	**0.047**
		df	112	112	0	112	112
	Materiality	Correlation	0.119	0.039	0.017	1.000	-0.099
		Significance (2-tailed)	0.207	0.677	0.862		0.294
		df	112	112	112	0	112
	ROA	Correlation	-0.194	-0.244	-0.186	-0.099	1.000
		Significance (2-tailed)	**0.038**	**0.009**	**0.047**	0.294	
		df	112	112	112	112	0

Source: Data processed SPSS (2023)

Partial Correlation

Since there are two regression model, the partial correlation for financial and market performance are showed in Table 3 and Table 4. Based on Table 3, with the economic index as control variable, the element of ESG reports is related to the financial performance (ROA) with the significance p-value less than 0.05 of 0.038, 0.009, and 0.047 for environmental, social, and governance, respectively. The relationship is negative with the correlation value of -0.194, -0.244, and -0.186, which indicates that the association is low. The other independent variable of materiality is not correlate with the financial performance (the p-value is 0.294 > 0.05)

Based on Table 4, with the economic index as control variable, the element of ESG reports is not related to the market performance (EPS) with the significance p-value more than 0.05 of 0.050, 0.516, and 0.570 for environmental, social, and governance, respectively. The relationship is negative -0.184 for environmental and -0.054 for governance, positive 0.061 for social element, which indicates that the association is low. However, materiality is significant with p-value 0.002 < 0,05 and correlation value of 0.288. The relationship between materiality is relatively low 28.8%.

Table 4. Partial Correlation – Market Performance

Control Variables			Environmental	Social	Governance	Materiality	EPS
Economic	Environmental	Correlation	1.000	0.422	0.067	0.119	-0.184
		Significance (2-tailed)		0.000	0.478	0.207	0.050
		df	0	112	112	112	112
	Social	Correlation	0.422	1.000	-0.046	0.039	0.061
		Significance (2-tailed)	0.000		0.626	0.677	0.516
		df	112	0	112	112	112
	Governance	Correlation	0.067	-0.046	1.000	0.017	-0.054
		Significance (2-tailed)	0.478	0.626		0.862	0.570
		df	112	112	0	112	112
	Materiality	Correlation	0.119	0.039	0.017	1.000	0.288
		Significance (2-tailed)	0.207	0.677	0.862		**0.002**
		df	112	112	112	0	112
	EPS	Correlation	-0.184	0.061	-0.054	0.288	1.000
		Significance (2-tailed)	0.050	0.516	0.570	**0.002**	
		df	112	112	112	112	0

Source: Data processed SPSS (2023)

Regression Model and Hypothesis Test

Before testing for regression model and hypothesis testing, normality and classic assumption test was conducted. The results show that data are normal and no indication for autocorrelation, heteroskedasticity, and multicollinearity.

Table 5. Goodness of Fit Model-1 Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.018	5	0.004	3.112	**.012**[b]
	Residual	0.123	109	0.001		
	Total	0.140	114			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Materiality, Social, Governance, Environmental, Economic

Source: Data processed SPSS (2023)

The results of the goodness of fit test on the regression model-1 with a p-value of 0.012 in Table 5 show that the regression model has a good goodness of fit, because the p-value is smaller than the significance level of 0.05. This means that the regression model can explain the variations in the observed data well and there is no significant difference between the values expected by the model and the values that actually occur in the data.

Table 6. Goodness of Fit Model-2 Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	462.870	5	92.574	4.651	**.001**[b]
	Residual	2169.713	109	19.906		
	Total	2632.583	114			

a. Dependent Variable: Market Performance

b. Predictors: (Constant), Materiality, Social, Governance, Environmental, Economic

Source: Data processed SPSS (2023)

The results of the goodness of fit test on the regression model-2 with a p-value of 0.001 in Table 6 show that the regression model has a good goodness of fit, because the p-value is smaller than the significance level of 0.05. This means that the regression model can explain the variations in the observed data well and there is no significant difference between the values expected by the model and the values that actually occur in the data.

Table 7. R-square Test Model-1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.353[a]	0.125	0.085	0.03358

a. Predictors: (Constant), Materiality, Social, Governance, Environmental, Economic

b. Dependent Variable: Financial Performance

Source: Data processed SPSS (2023)

R-squared (R^2) and adjusted R-squared (adjusted R^2) are statistics used in regression analysis to measure the extent to which the regression model fits the data. The R-squared and adjusted R-squared values range from 0 to 1, and the higher the value, the better the model fits the data.

Based on Table 7, the R-squared of 0.125 indicates that around 12.5% of the variability in the dependent variable can be explained by the independent variables in the model. This means that most of the variability remains unexplained by the model. adjusted R-squared of 0.085 indicates that approximately 8.5% of the variability in the dependent variable can be explained by the independent variables in the model, after considering the complexity of the model.

Table 8. R-square Test Model-2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.419[a]	0.176	0.138	4.46157

a. Predictors: (Constant), Materiality, Social, Governance, Environmental, Economic
b. Dependent Variable: Market Performance

Source: Data processed SPSS (2023)

Based on Table 8, the R-squared of 0.176 indicates that around 17.6% of the variability in the dependent variable can be explained by the independent variables in the model. This means that most of the variability remains unexplained by the model. adjusted R-squared of 0.138 indicates that approximately 13.8% of the variability in the dependent variable can be explained by the independent variables in the model, after considering the complexity of the model.

Table 9. Hypothesis Test Model-1

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	0.228	0.038		5.968	0.000
	Environmental	0.000	0.001	-0.087	-0.808	0.421
	Social	-0.002	0.001	-0.282	-2.158	**0.033**
	Governance	-0.018	0.009	-0.190	-2.089	**0.039**
	Materiality	-0.005	0.006	-0.077	-0.855	0.394
	Economic	0.001	0.002	0.060	0.508	0.613

a. Dependent Variable: Financial Performance

Source: Data processed SPSS (2023)

Model-1 of the regression equation is as follows:
ROA = 0.228 + 0.000 Env – 0.002 Soc – 0.018 Gov – 0.005 Mat + 0.001 Eco ……………. (3)

Based on Table 9, the significant p-value < 0.05 is for social dan governance element of ESG reports with p-value of 0.033 and 0.039, respectively. Meanwhile, the other variables are not significant with p-value of 0.421 (environmental), 0.394 (materiality), and 0.613 (economic).

Therefore, H2a and H3a are accepted, and H1a and H4a are rejected. The coefficient β for both variables social and governance are negative. It means that if the social and governance index increase, then financial performance will decrease, and vice versa.

Table 10. Hypothesis Test Model-2

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	6.975	5.082		1.373	0.173
	Environmental	-0.208	0.070	-0.310	-2.975	**0.004**
	Social	0.164	0.093	0.223	1.753	0.082
	Governance	-0.417	1.170	-0.031	-0.357	0.722
	Materiality	3.031	0.848	0.314	3.574	**0.001**
	Economic	-0.283	0.203	-0.161	-1.395	0.166
a. Dependent Variable: Market Performance						

Source: Data processed SPSS (2023)

Model-2 of the regression equation is as follows:
PER = 6.975 – 0.208 Env + 0.164 Soc – 0.417 Gov + 3.031 Mat – 0.283 Eco ……………. (4)

Based on Table 10, the significant p-value < 0.05 is for environmental element of ESG reports and materiality with p-value of 0.004 and 0.001, respectively. Meanwhile, the other variables are not significant with p-value of 0.082 (social), 0.722 (governance), and 0.166 (economic). Therefore, H1b and H4b are accepted, and H2b and H3b are rejected. The coefficient β for environmental is negative. It means that if the environmental index increase, then financial performance will decrease, and vice versa. On the other hand, the coefficient β for materiality is positive. It means that if the materiality increase, then financial performance will increase too, and vice versa.

Discussion

The influence of environmental element of ESG reports on the financial and market performance

Based on the results of financial performance (model-1) and market performance (model-2), environmental element of ESG report cannot influence the financial performance and market performance. This finding supports research by Qodary & Tambun (2021). However, this result cannot supports the research by Durlista & Wahyudi (2023) and Inawati & Rahmawati (2023) that found a positive influence of environmental factors on company performance.

Based on model-1 and model-2, environmental factors in the ESG report have no impact on the company's financial performance. Based on stakeholder or agency theory, environmental factor can create positive or negative impact on company performance (Lee & Isa, 2020). On the positive side impact, Investments in green innovation, energy efficiency, renewable resources and environmental risk management can generate long-term cost savings, increase operational efficiency, meet consumer expectations and increase brand value.

On the contrary, the negative impact might happen when companies often have to comply with strict environmental regulations, such as emissions control, waste management, and other obligations (Jeanice & Kim, 2023). This compliance can require significant investments in technology and adequate infrastructure, which can initially increase a company's operational costs. Environmental crises, such as oil leaks, pollution, or natural disasters, can result in high recovery costs, legal sanctions, and reduced financial performance and ultimately decreased stakeholder confidence.

The influence of social element of ESG reports on the financial and market performance

Based on the results of financial performance (model-1), social element of ESG report negatively influence the financial performance. On the other hand, in model-2, social factors cannot influence market performance. This finding supports research by Qodary & Tambun (2021) and Khairunnisa & Widiastuty (2023). However, this result cannot supports the research by Inawati & Rahmawati (2023) and Durlista & Wahyudi (2023) that found a positive influence of social factors on company performance.

Based on stakeholder theory, social disclosure in the ESG reports should affects company performance, whether it is financial or market performance (Utami, 2019). However, this study found that social factors negatively influence financial performance but cannot influence. There are several situations where social factors in an ESG report can have a negative impact on a company's financial performance. Social issues that affect society and consumers, such as protests or boycotts, can negatively impact a company's sales and brand image. Employees who are dissatisfied with health and safety issues in the workplace, such as work accidents, can experience decreased productivity, absenteeism, or even acts of sabotage that can be detrimental to the company.

The influence of governance element of ESG reports on the financial and market performance

Based on the results of financial performance (model-1), governance element of ESG report negatively influence the financial performance. On the other hand, in model-2, governance factors cannot influence market performance. This finding supports research by Qodary & Tambun (2021) and Husada & Handayani (2021). However, this result cannot supports the research by Inawati & Rahmawati (2023) and Durlista & Wahyudi (2023), that found a positive influence of governance factors on company performance.

There are several situations where corporate governance issues in an ESG report can have a negative impact on a company's financial performance. Based on stakeholder theory, instability in company management, especially frequent leadership changes, can disrupt continuity and consistency in company strategy. This can result in uncertainty and operational disruptions that impact financial performance. Companies with poor governance may not properly disclose relevant information and provide sufficient accountability to stakeholders. This can damage investor confidence and affect stock performance. Companies with governance problems can often face conflicts of interest among shareholders, the board of directors, and management. Such conflicts can hinder efficient decision making and disrupt company effectiveness.

The influence of materiality of financial reports on the financial and market performance

Based on the results of financial performance (model-1), materiality analysis of financial report cannot influence the financial performance. This result supports Nurdiana & Khusnah (2023) that found materiality cannot influence financial statement fraud. However, according to market performance (model-2), materiality analysis positively influences market performance. This result (model-2) support the research result from Calabrese et al., (2017).

Through materiality analysis, companies can identify issues that need to be disclosed in their ESG reports. This increases the transparency and accountability of companies regarding their sustainable practices and social impact. Thus, materiality analysis is an important tool in sustainability management and corporate social responsibility. This helps companies to prioritize their efforts, meet stakeholder expectations, and contribute to sustainable business development in the long term. Based on stakeholder theory, investors seeking financial information relevant to business risks and opportunities can rely on financial reports that comply with materiality analysis. Therefore, reports that reflect material issues can build investor confidence, support better judgment, and encourage investment.

The comparison findings between financial and market performance

Based on the results of financial performance (model-1), social and governance element of ESG report can influence the financial performance negatively. This result is surprising since the relationship should be positive, when social and governance index increased than the financial performance will increase too. The difference in the direction to influence financial performance must be related to the low prediction of the model-1 with only made approximately 8.5% of the variability in the dependent variable can be explained by the independent variables in the model. Based on the results of market performance (model-2), all elements of ESG report cannot affect market performance. However, on both model, economic index as control variable cannot influence the financial and market performance.

For materiality analysis results, model-1 cannot prove the influence of materiality analysis on financial performance. On the contrary, in model-2, materiality analysis positively influences market performance. Materiality analysis in Environmental, Social, and Governance (ESG) reports is very important because it provides a strong framework for prioritizing the most relevant and significant issues in the context of sustainability and corporate social responsibility.

ESG Reports can be seen as a further development in the CSR framework. CSR and ESG Reports are two interrelated concepts in the context of corporate social and environmental responsibility (Calabrese et al., 2015, 2017). CSR is a more general concept and refers to the practices and policies adopted by companies to fulfil their social and environmental responsibilities. CSR covers a wide range of initiatives such as charitable contributions, environmental sustainability, community support, human rights, and ethical actions in business (Bellantuono et al., 2018; Hardiyanti & Suryaningrum, 2023). ESG, on the other hand, is a more structured and comprehensive approach to assessing a company's performance in three key domains: environmental, social, and governance.

This study findings show that companies that invest in a comprehensive ESG Report and conduct targeted materiality analysis tend to experience better financial results and can build a positive image in the market. Based on stakeholder theory, materiality analysis provides a strong indication that ESG is not only a social responsibility, but also a significant strategic factor in achieving sustainable financial performance (Li et al., 2021). They help companies to be more structured and measured in their approach to social and environmental responsibility, as well as providing stakeholders with more detailed and useful information. ESG Reports and materiality analysis have significant potential in shaping the future of sustainable and high-performing businesses.

CONCLUSION

This research has examined the influence of ESG reports and materiality analysis on the financial performance and market performance of companies listed in IDX 2017-2021 period. The research results show that social dan governance element of ESG reports have a negative influence on financial performance. While materiality positively influences market performance. This means that companies that implement ESG practices, especially social and governance factors, and carry out materiality analysis will perform better than companies that do not.

This research provides theoretical and practical implications for academics, practitioners and regulators. Theoretically, this research develops literature on the relationship between ESG, materiality and company performance. Practically, this research provides input for companies to improve their performance by improving the quality of ESG reports and materiality analysis.

This research also provides suggestions for regulators to encourage companies to report ESG practices and materiality analysis in a transparent and accountable manner. The results of this research provide a clearer picture of the importance of ESG Reports and materiality analysis in shaping a company's financial performance and market performance. In an increasingly connected and sustainable world, companies that prioritize strong ESG practices and careful materiality analysis are likely to face greater opportunities to achieve long-term sustainability.

This research has several limitations, such as the use of secondary data, limited samples, and simple analysis methods. Therefore, future research can use primary data, larger samples, and more complex analysis methods to test the same or different hypotheses. Additionally, the materiality analysis in financial report may not a good proxy for materiality analysis on ESG reports. Thus, future research may also consider another proxy for materiality analysis of ESG reports that based on the Sustainable Development Goals (SDGs). Another perspective of sustainability might make an integrated analysis from CSR and ESG reports. Although CSR reports and ESG reports have differences in focus and scope, they often go hand in hand. CSR reports can be part of a broader

ESG report, contributing important data and information about a company's efforts to support social responsibility. Companies committed to ESG reporting often include information about their CSR as an aspect of their ESG report. Thus, the two complement each other to provide a complete picture of the company's performance and commitment in terms of social responsibility, sustainability and good governance.

Abbreviation List

ESG: Economic, Social, Governance; CSR: Corporate Social Responsibility; IDX: Indonesian Stock Exchange; SDGs: Sustainable Development Goals; EPS: Earnings per Share.

Author's Contribution

AI and TR conceptualized, drafted the manuscript, and final article draft. EY and NN data curation, data analyzed.

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