



The impact of ESG disclosure on firm performance: Unveiling the moderating role of financial slack

Glen Surya Pasaribu¹, Nur Cahyonowati²

¹ Department of Accounting, Diponegoro University, Semarang, Indonesia

² Associate Professor, Department of Accounting, Diponegoro University, Semarang, Indonesia

Abstract

This study aims to investigate the effect of Environmental, Social, and Governance (ESG) disclosure on firm performance. Given the inconsistent findings in previous research regarding the relationship between ESG disclosure and firm performance, this study seeks to further examine these inconsistencies by incorporating financial slack as a moderating variable. Data for this study were obtained from Bloomberg database, covering non-financial companies listed on the Indonesia Stock Exchange between 2019-2022. Sampling was conducted using purposive sampling method, resulting in a total of 258 observations. This study employs the use of Moderated Regression Analysis (MRA) using SPSS 26 software for carrying out the empirical analysis. The results demonstrate that ESG disclosures have a significant positive effect on firm performance. Financial slack has an insignificant positive impact on firm performance. Meanwhile, financial slack as a moderating variable is able to weaken the positive effect of ESG disclosures on firm performance.

Keywords: ESG disclosures, firm performance, financial slack

Introduction

In the increasingly complex and dynamic business era, it is crucial for companies to maintain optimal performance to stay relevant, competitive, and sustainable. Financial performance not only reflects the company's condition but also indicates how well it meets stakeholders' needs and expectations through disclosed information (971`1, 2020). Companies that demonstrate good performance can achieve significant and sustainable long-term profits (Taouab & Issor, 2019) [27]. Additionally, well-performing companies offer greater benefits and satisfaction to stakeholders, thus strengthening the positive relationship between the company and its stakeholders and facilitating the achievement of long-term objectives. Over time, the primary objective of companies to maximize shareholder's wealth (Friedman, 1970) [12] has shifted towards a broader consideration of stakeholders (Freeman, 1984) [11]. Concurrently, the definition of optimal performance has evolved, now emphasizing the organization's capability to utilize available resources effectively and efficiently, while ensuring that these achievements align with stakeholders' needs and expectations (Peterson *et al.* in Taouab & Issor, 2019) [27]. While companies may attempt to enhance their performance by increasing revenue or reducing cost, they have to make sure that those actions are not done via unethical practices that do not align with stakeholders' interests. There are several evidences, such as the Volkswagen emission scandal in 2015 and the nickel mining case by PT. Weda Bay Nickel in 2024 that shows even though companies may increase revenue or cut costs to enhance performance, stakeholders will not appreciate these performances if they are obtained through unethical practices and disregard for stakeholder interests. As a result, instead of gaining benefits, these companies suffered massive losses.

That being said, the argument rooted in stakeholder theory that meeting stakeholder demands, particularly through ESG disclosure, can lead to performance improvement has yet to be clearly established. Several studies have found a positive

impact of ESG disclosure on firm performance (Alareeni & Hamdan, 2020 [2]; Aydoğmuş *et al.* 2022; Velte, 2017) [5] [28], generally based on stakeholder theory. However, other researches have found a negative impact of ESG disclosure on firm performance (Duque-Grisales & Aguilera-Caracuel, 2021; Nareswari *et al.* 2023) [10, 22], highlighting the increased costs associated with ESG disclosure efforts, which create a trade-off that ultimately lowers performance. These negative findings can also be explained by agency theory, which emphasizes opportunistic managerial behavior that serves selfinterests rather than improving firm performance. Previous research still shows inconsistent results, making it unclear whether ESG disclosure has a positive, negative, or no impact on performance. These inconsistent results can be attributed to several factors, from differences in the proxies used for ESG and firm performance (Wu, in Velte, 2017) [28] to variations in the cultural and socio-historical backgrounds of the countries where the studies were conducted (Ortas *et al.* 2015) [24]. This inconsistency creates a gap in understanding how ESG disclosure translates into tangible financial benefits for companies. The failure of previous research to provide conclusive results underscores the need for further investigation on this topic. According to Lin *et al.* (2020) [19], most previous studies have focused on the direct relationship between ESG and firm performance, while the external factors that influence this relationship, specifically the context in which ESG leads to better firm performance, have been underexplored. One of the main reasons for inconsistency in research findings can be attributed to the absence of mediating and moderating variables that may impact the strength and direction of the constructs studied (Singh *et al.* 2023) [26]. In line with this, Memon *et al.* (2019) [21] argues that inconsistent findings in previous studies on the influence of the same antecedents on outcomes provide a strong rationale for testing moderators. Therefore, this study adds the moderating variable of financial slack to further elucidate the impact of ESG

disclosure on firm performance. The selection of financial slack as a moderating variable is based on the resource-based view, where financial slack is considered a resource that meets the criteria of valuable, rare, imperfectly imitable, and non-substitutable (VRIN) and have high functionality. Its presence can be used to further involved in ESG practices and disclosures, resulting in an enhance positive effect of ESG disclosure on firm performance.

This research aims to provide empirical evidence on the impact of ESG disclosure on firm performance, financial slack on firm performance, and financial slack as a moderating variable to strengthen the relationship between ESG disclosure and firm performance. The study contributes to the literature by empirically supporting stakeholder theory as foundational to the relationship between ESG disclosure and firm performance. It also expands the literature by examining financial slack as a moderating variable through the resource-based view theory. The use of both stakeholder theory which focuses on how optimum firm performance can be achieved through external factors, as well as resource-based view which emphasizes on internal factors concealed by firms to generate competitive advantage and enhance performance, is allowing a more holistic approach in exploring the impact of ESG disclosure on firm performance. This research is

also expected to enrich future studies by offering additional references, particularly in stakeholder and resource-based view theories. Additionally, it offers practical insights for companies in decision-making and sustainable operational practices, supporting their pursuit of sustainable goals. Finally, for investors and market participants, this study provides additional considerations for investment decisions and market evaluations.

The remainder of this paper is structured as follows. Section Literature Review presents the theoretical framework and the developments of hypothesis. Section Research Method discusses the research methodology and variables used. Section Results and Discussion explains the test results as well as its interpretation. Lastly, section Conclusion provides the research conclusion, address limitations, and gives suggestion for futher research on this topic.

Literature Review

This research investigates the impact of ESG disclosure on firm performance, measured using return on assets, with financial slack as a moderating variable. Additionally, this research uses both firm size and financial leverage as control variables. Figure 1 shows the theoretical framework that forms the basis for hypothesis development.

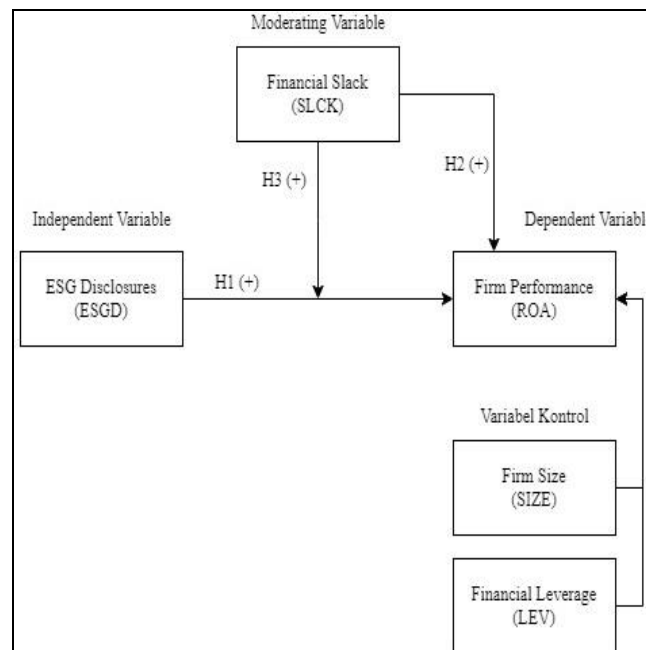


Fig 1: Theoretical Framework

Esg Disclosure on Firm Performance

Stakeholder theory emphasizes that companies should no longer focus solely on the interests of shareholders but also consider the interests of various stakeholders. The significant attention given to ESG disclosures allows companies to view them not as costs but as strategic investments. By disclosing ESG practices, companies communicate their commitment to sustainability and responsible business practices, aiming to enhance their reputation and receive positive perceptions from stakeholders. Companies with a good reputation and positive business practices are likely to gain support from stakeholders.

Stakeholders undeniably possess the power to influence companies by controlling capital and labor use, media access, and consumer behavior towards the company's products (Deegan, in Ghozali 2020) [13]. Stakeholder support can come in the form of consumers purchasing the company's products or investors providing additional funds. This financial support can increase the company's working capital and operations, ultimately leading to higher profits from product sales. When stakeholders perceive a company as transparent and trustworthy in its ESG practices, they show greater loyalty and support, resulting in improved customer retention, employee satisfaction and productivity, and investor trust. These benefits can translate into financial gains such as increased sales, reduced employee turnover

costs, lower capital costs, and enhanced brand value, ultimately contributing to better financial performance. Several studies have found a positive relationship between ESG disclosure and company performance, as represented by ROA (Alareeni & Hamdan, 2020^[2]; Aydoğmuş *et al.* 2022; Velte, 2017)^{[5], [28]}. This is because stakeholders are interested in the company's long-term plans, and improved ESG reporting leads to higher company performance due to increased stakeholder trust.

H₁: ESG Disclosure positively affects firm performance.

Financial Slack on Firm Performance

Financial slack refers to the surplus resources that a company possesses beyond what is necessary for its daily operations. From an RBV perspective, financial slack can be considered a critical strategic resource. The presence of financial slack provides the company with the flexibility needed to adapt to changes and respond to emerging opportunities. Financial slack is believed to offer a competitive advantage through the manager's role in optimizing the utilization of these surplus resources. With adequate financial reserves, a company can invest in research and development, enhance operational capabilities, and expand its market. Therefore, the RBV theory supports the view that financial slack is a valuable resource that can be leveraged to strengthen the company's competitive position and improve its performance. Several studies have found a positive relationship between financial slack and firm performance (Anita & Jessica, 2023; Javid & Saleem, 2020)^{[4], [15]}.

H₂: Financial slack positively affects firm performance.

The Role of Financial Slack in ESG Disclosure Firm Performance Relationship

Companies can implement various approaches to achieve competitive advantage, one of which is through ESG practices (Lin *et al.* 2020)^[19]. However, to implement ESG practices and disclose them effectively, companies need to incur costs. This suggests that companies with excess financial resources should have the ability to implement and disclose ESG better since these surplus resources can be redirected or allocated to ESG initiatives. In other words, financial resources are one of many factors that can influence a company's ability to invest in ESG practices, which in turn, good ESG practices and disclosures will enhance the company's performance. According to RBV, one thing that is equally important as attribute of resources is the role of managers in allocating and utilizing these resources. In a market environment where ESG is highly regarded and considered crucial by stakeholders, using financial slack to enhance a company's ESG aspects is deemed beneficial. The existence of financial slack as an excess resource is said to address various organizational issues and allow the achievement of goals beyond mere optimization (Bourgeois, 1981)^[7], such as sustainable goals like ESG. The availability of financial resources influences whether an entity can engage in ESG, as possessing adequate resources enables an entity to develop mechanisms and demonstrate to stakeholders that it has sufficient funds to support investment in ESG activities.

According to Waddock & Graves (1997)^[29], companies facing financial difficulties may not have much capacity to invest in corporate social responsibility activities, whereas financially healthy companies have resources to allocate

toward initiatives that may have a greater long-term strategic impact, such as improving the company's long-term image and relationships with communities and specific stakeholders. Financial slack allows managers to invest in and engage in socially responsible activities that ultimately result in superior company performance (Lin *et al.* 2020)^[19].

H₃: Financial slack strengthens the positive relationship between ESG Disclosures and firm performance.

Research Method

This research uses secondary data obtained from the Bloomberg database and company annual reports. The sampling technique used in this research is purposive sampling method, with the criteria being non-financial sector companies listed on the Indonesia Stock Exchange from 2019 to 2022, and having ESG disclosure scores available in the Bloomberg database. A total of 316 firm-years were obtained, which were then reduced by 58 outliers, leaving 258 firm-years as the sample.

The rationale for selecting companies in Indonesia is that Indonesia is one of the largest emerging markets in the world. Given that most previous studies have been conducted in developed countries such as Europe (Buallay, 2019)^[8], the United States (Alareeni & Hamdan, 2020)^[2], and Germany (Velte, 2017)^[28], conducting research in a developing country like Indonesia is deemed important to see if there are different patterns of stakeholder behavior in responding to ESG trends. The years 2019-2022 were chosen because this period marks a significant increase in ESG awareness in Indonesia, evidenced by the launch of the IDX ESG Leaders Index in 2020. This research focuses on non-financial companies because the non-financial sector tends to have a greater negative impact on the environment and society compared to the financial sector (Rohendi *et al.* 2024)^[25].

This study includes four types of variables: dependent variables, independent variables, moderating variables, and control variables. The explanation of these variables is summarized in Figure 2. The dependent variable in this research is firm performance, measured using return on assets (ROA). ROA is one of the most effective and widely used financial metrics to assess financial performance. It evaluates management's ability to utilize assets to generate profits for the company (Melinda & Wardhani, 2020)^[20].

The independent variable in this study is the ESG disclosure score. The ESG score provides a quantitative representation of a company's environmental, social, and governance performance, which can impact its financial performance and risk profile. The ESG score used in this research is issued by Bloomberg. Bloomberg's ESG scores assess company management's performance on financially material ESG issues, based on various global standards such as the Sustainability Accounting Standards Board (SASB) and the International Sustainability Standards Board (ISSB), and includes reviews of frameworks like the Global Reporting Initiative (GRI), CDP, TCFD, and industry-specific guidelines.

The moderating variable in this study is financial slack. A moderator can either strengthen or weaken the relationship between the independent and dependent variables. Financial slack in this research is measured as the ratio between current assets and current liabilities.

To enhance the accuracy of predictions and the reliability of the analysis interpretation, two control variables are

included in this research framework: firm size and leverage. The selection of these control variables is based on previous studies that found firm size and leverage to be essential control variables when examining the impact of ESG disclosure on firm performance (Alareeni & Hamdan, 2020; [2] Andersen & Dejoy, 2011; Junius *et al.* 2020) [3] [16]. This study uses the natural logarithm of total assets to measure firm size, while financial leverage is measured by dividing total liabilities by total assets.

Table 1: Operational Definition of Variables

No	Variables	Measurement	Authors
1	ESG Disclosures (ESGD)	Bloomberg ESG Score	(Alareeni & Hamdan, 2020; Singh <i>et al.</i> 2023) [2], [26]
2	Firm Performance (ROA)	<i>Net Income / Total Asset</i>	(Alareeni & Hamdan, 2020; Buallay, 2019; Junius <i>et al.</i> 2020) [2], [8], [16]
3	Financial Slack (SLCK)	<i>current assets / current liabilities</i>	(Duque-Grisales & Aguilera-Caracuel, 2021; Kumaria Puri, 2022) [10], [17]
4	Firm Size (SIZE)	<i>ln(Total Assets)</i>	(Kumaria Puri, 2022; Melinda & Wardhani, 2020; Velte, 2017) [17], [20], [28]
5	Financial Leverage (LEV)	<i>Total Liabilities / Total Asset</i>	(Bashatweh <i>et al.</i> 2023) [6]

Source: Compiled by Authors

This research employs the moderated regression analysis (MRA) method to carry out empirical analysis, which consists of descriptive statistical analysis, classical assumption tests, and hypothesis testing. To test the hypotheses proposed earlier, the following equation is formulated

$$ROA = \alpha + \beta_1 ESGD + \beta_2 SLCK + \beta_3 ESGD * SLCK + \beta_4 SIZE + \beta_5 LEV + \epsilon$$

Results and Discussion

The following table 2 presents the descriptive statistics for the sample of non-financial companies listed on the Indonesia Stock Exchange from 2019 to 2022. It shows the maximum, minimum, mean, and standard deviation values for each variable.

Table 2: Descriptive Statistics

	N	Min	Max	Mean	Std.Dev
ESGD	258	21.14	73.53	43.41	10.84
ROA	258	-7.91	17.28	4.75	4.33
SLCK	258	23.42	1007.43	200.42	150.83
SIZE	258	27.38	33.66	31.05	1.10
LEV	258	8.59	91.49	49.05	20.38

Source: Author’s computation using SPSS 26 (2024)

The sample size in this study is 258. The range for each variable can be calculated by subtracting the min value from the max value. The results show a range of 52.39 for ESGD,

25.19 for ROA, 984.01 for SLCK, 6.28 for SIZE, and 82.9 for LEV. This indicates that financial slack has the largest range, while company size has the smallest range. Additionally, the mean value for each variable is smaller than its standard deviation, suggesting that the data for each variable does not exhibit high variability.

Table 3: Normality Test One-Sample Kolmogorov-Smirnov

N		258
Normal Parameter	Mean	0.0000000
	Std. Deviation	3.46600208
Most Extreme Differences	Absolute	0.050
	Positive	0.050
	Negative	-0.046
Test Statistic		0.050
Asymp. Sig. (2-tailed)		0.200

Source: Author’s computation using SPSS 26 (2024)

The normality test in this research was conducted using the one-sample Kolmogorov-Smirnov test as shown in table 3. A significance value (sig.) of 0.200 was obtained. Since this value is greater than 0.05, it indicates that the data is normally distributed.

Table 4: Multicollinearity Test

Variable	Tolerance	VIF
ESGD	0.858	1.373
SLCK	0.472	2.119
ESGD*SLCK	0.922	1.084
SIZE	0.761	1.313
LEV	0.480	2.082

Source: Author’s computation using SPSS 26 (2024)

To avoid multicollinearity, which commonly arises from the interaction between two variables, data centering was performed first. Data centering is done by subtracting the mean of each variable from its respective values. In Table 4, it was found that all variables have tolerance values > 0.1 and VIF < 10. This indicates that there is no multicollinearity between the variables.

Table 5: Heteroskedasticity Test White

F-Statistic	0.827813	Prob. F	0.6727
Obs*R- Squared	15.99323	Prob. ChiSquare	0.6577
Scaled explained SS	19.57963	Prob. ChiSquare	0.4203

Source: Author’s computation using Eviews (2024)

The heteroscedasticity test was conducted using the White test. The Prob. Chi-Square value obtained was greater than 0.05, indicating that there is no heteroscedasticity in the data.

Table 6: Autocorrelation Test Durbin Watson

Model	Durbin-Watson
1	1.465

Source: Author’s computation using SPSS 26 (2024)

The autocorrelation test in this research was conducted using the Durbin-Watson test. A D-W value of 1.465 was obtained, which falls within the range of -2 to +2. This indicates that there is no autocorrelation on the data.

After meeting all the classical assumptions, hypothesis testing can be conducted which includes the F-test, the coefficient of determination (R²) test, and the t-test.

Table 7: F-Test

Model	Sum of Squares	df	F	Sig.
Regression	1738.056	5	28.373	0.000
Residual	3087.385	252		
Total	4825.441	257		

Source: Author’s computation using SPSS 26 (2024)

Referring to Table 7, the F-value is 28.373 with a significance level of 0.000. A significance value below 0.05 indicates that at least one variable in the model affects the dependent variable, leading to the conclusion that the regression model is fit.

Table 8: Coefficient of Determination (R²) Test

Model	R	R Square	Adjusted R Square	Std. error of the estimate
1	0.600	0.360	0.347	3.50022

Source: Author’s computation using SPSS 26 (2024)

Based on Table 8, the adjusted R-square value obtained is 0.347. This indicates that 34.7% of the variation in the dependent variable ROA can be explained by the variables included in the model. Meanwhile, the remaining 65.3% is explained by other variables not included in the model.

Table 9: t-Test

Model	Unstandardized Coefficient		t	Sig.
	B	Std. Error		
(Constant)	6.747	6.932	0.973	0.331
ESGD	0.064	0.022	2.925	0.004
SLCK	0.001	0.002	0.470	0.638
ESGD*SLCK	-0.0003	0.000	-1.997	0.047
SIZE	0.116	0.227	0.510	0.610
LEV	-0.114	0.015	-7.388	0.000

Source: Author’s computation using SPSS 26 (2024)

Based on the results of the t-test in Table 9, the model equation can be formulated as follows

$$ROA = 6.747 + 0.064ESGD + 0.001SLCK - 0.0003ESGD*SLCK + 0.116SIZE - 0.114LEV + \epsilon$$

It was found that ESGD has a significant positive impact on ROA with a beta coefficient of 0.064. However, SLCK was found to have no significant impact on ROA, with a coefficient of 0.001. Meanwhile, the interaction between ESGD and SLCK yielded significant results on ROA, indicating that financial slack moderates the relationship between ESG disclosure and firm performance. However, SLCK does not strengthen this relationship; instead, it weakens it, as evidenced by the negative t-value and a beta coefficient of -0.0003. Additionally, it was found that the control variable SIZE does not significantly influence firm performance, while LEV has a significant negative impact on ROA.

ESG Disclosure Positively Affects Firm Performance

From the result above, it can be concluded that the first hypotheses, which states that ESG disclosure has a positive effect on firm performance, is supported. This research supports the findings of Abdillah *et al.* (2023) [1], Alareeni & Hamdan (2020) [2], Aydoğmuş *et al.* (2022) [5], Buallay (2019) [8], and Velte (2017) [28], who also found a positive relationship between ESG disclosure and firm performance. This aligns with stakeholder theory, which emphasizes the

importance of stakeholder support for the firm. To gain this support, companies need to meet stakeholder demands. As sustainability issues become more prominent, ESG has become one of the key demands stakeholders place on companies. When companies meet or exceed these expectations, they are rewarded by the market (Aydoğmuş *et al.* 2022) [5].

Good ESG disclosure can influence consumer behavior towards the company's products and services, thereby increasing revenue and ultimately boosting profit. Companies with good ESG disclosure are also perceived as more transparent and trustworthy, which enhances customer retention, employee satisfaction and productivity, and investor confidence. These factors can lead to increased sales, higher employee productivity, and reduced employee turnover and capital costs, thereby improving the company's performance.

Conversely, these results contradict the findings of Duque-Grisales & Aguilera-Caracuel (2021) [10], who found that ESG disclosure negatively affects a company's financial performance. They argue that this outcome can be explained by the increased costs required for ESG initiatives, resulting in a trade-off that actually reduces performance. They also suggest that this result can be explained by institutional theory, where in the Multilatinas where the research was conducted, there is insufficient institutional support, making ESG disclosure less noticeable. It is possible that ESG disclosure has not received a favorable response in the Multilatinas.

These results indicate that stakeholders in Indonesia consider the information obtained through ESG disclosure as important and relevant. Disclosure in Indonesia has received a positive response from stakeholders and sufficient institutional support. By investing in good ESG practices and disclosures, companies can gain benefits that enhance profitability and performance. These results also provide justification for companies to continue improving the quality of their ESG disclosures, as it has been proven that ESG disclosure can lead to performance improvement.

Financial Slack Does Not Affect Firm Performance

The second hypotheses which states that financial slack has a positive effect on firm performance is not supported. Through the t-test, it was found that financial slack has a positive but not significant effect on firm performance. These results are consistent with the study by Odum *et al.* (2019) on companies in Nigeria during the crisis period of 2013-2014, which found that slack did not significantly affect firm performance during the crisis. Conversely, these results do not align with the findings of Anita & Jessica (2023) [4] and Javid & Saleem (2020) [15], which identified a significant positive impact of financial slack on firm performance.

The period used in this study is 2019-2022, a time when the entire world including companies in Indonesia, was facing the Covid-19 pandemic, causing financial crisis in Indonesia. While financial slack allows companies to

finance riskier investments and act more daringly to enhance performance, during a crisis, companies must contend with very high levels of uncertainty. Consequently, companies might tend to retain their slack as emergency funds rather than allocate it to performance-enhancing investments. Additionally, during the crisis, market demand also declined, coupled with reduced access to capital from bank loans or capital markets. In such conditions, financial slack might be just sufficient to maintain basic operations rather than drive growth or improved performance. This explains the non-significant impact of financial slack on firm performance.

Financial Slack Weakens the Effect of ESG Disclosure on Firm Performance

The third hypothesis in this study, which posited that financial slack strengthens the relationship between ESG disclosure and firm performance, was not empirically supported. Instead, the research found that financial slack weakens this relationship. This result can be explained by agency theory, which suggests that agents behave opportunistically and prioritize their own interests over those of the principals (Jensen & Meckling, in Ghazali, 2020) [13]. While excess resources can sometimes evolve into a performance-enhancing one, they can also lead to agency problems. This includes situations where management might use these extra resources for personal gain, such as awarding themselves excessive compensation (Jensen, in Lin *et al.* 2020) [19]. Bourgeois (1981) [7] also acknowledged that firms with slack might experience diminishing returns of scale, meaning with each increase in financial slack, there is a decrease in the rate of performance improvement, potentially to the point where performance starts to decline.

These findings differ from studies by Abdillah *et al.* (2023) [1] and Lin *et al.* (2020) [19], which found a significant positive moderating effect of financial slack on the relationship between ESG disclosure and firm performance. These studies argued that excess resources allow managers to invest in socially responsible activities, ultimately leading to better firm performance. The additional financial resources provide flexibility and enable the firm to respond effectively to dynamic environmental uncertainties and unexpected demands without disrupting normal operations. Thus, firms with high financial slack should be more involved in ESG initiatives, which would enhance their performance.

Conversely, this study supports the findings of Deb *et al.* (2017) [9], Leyva-de la Hiz *et al.* (2019) [19], and Singh *et al.* (2023) [26]. The presence of slack resources provides a safety net, facilitating suboptimal company activities. Deb *et al.* (2017) [9] argued that financial slack could lead to agency conflicts, enabling managers to engage in wasteful practices, improper fund allocation, and investment in projects that external parties would not typically support. Leyva-de la Hiz *et al.* (2019) [19] suggested that negative outcomes arise because managers in firms with higher slack may have personal preferences that increase the financial uncertainty of environmental innovations, which already face higher uncertainty compared to non-environmental innovations. They argued that additional resources might be used by managers not only for potentially positive ESG practices but also to enhance their professional reputation, resulting in managerial moral hazard.

While financial slack has the potential to improve firm performance through ESG practices, its success largely depends on how managers utilize these excess resources. Proponents of agency theory argue that managers might use surplus resources manipulatively to achieve their own goals at the expense of shareholders, who are the principals. Consequently, the use of excess resources is seen as unnecessary, and organizations with higher levels of slack are less likely to engage in performance-enhancing activities, leading to decreased organizational efficiency (Singh *et al.* 2023) [26]. This means that despite stakeholders viewing ESG disclosure as important, corporate managers in Indonesia do not yet feel the urgency to allocate excess slack to ESG disclosure. They tend to use that slack for personally beneficial activities, as explained by agency theory.

Since financial slack does not have a direct significant effect on performance but has a significant effect in moderating the relationship between ESGD and company performance, it can be concluded that financial slack is a pure moderator.

Conclusion

Various studies have been conducted on the impact of ESG disclosure on company performance, but they have yet to provide conclusive results. This may be due to the majority of studies focusing on the direct relationship between ESG and company performance, while factors that can influence this relationship are underexplored. This research attempts to explain whether ESG disclosure can enhance company performance under the existence of financial slack. The study aims to examine the relationship between ESG disclosure and company performance by adding financial slack as a moderating variable. The research was conducted on non-financial companies in Indonesia from 2019 to 2022 using the Moderated Regression Analysis (MRA) method. The results are concluded as follows.

First, it was found that Environmental, Social, and Governance (ESG) disclosure has a significant positive impact on firm performance. Companies with good ESG disclosure are seen as committed to responsible business practices, thus gaining positive views and support from stakeholders. This support includes increased consumer loyalty, employee satisfaction and productivity, and investor trust. Good ESG disclosure also influences consumer behavior towards the goods and services produced by the company, thus increasing the company's revenue. Additionally, increased investor confidence, along with the company's improved reputation, allows the company to boost working capital and operations as a result of financial assistance offered. Consequently, this leads to an increase in profits from the company's product sales. The second finding is that financial slack has an insignificant positive impact on firm performance. This is because the presence of financial slack does not automatically lead to performance improvement. Financial slack must be allocated appropriately to create performance enhancement, thus requiring the role of managers. When managers fail to allocate slack properly or choose not to allocate it for whatever reasons, performance levels will not improve. Lastly, it was found that financial slack weakens the positive impact of ESG disclosure on firm performance. This is because the presence of financial slack might facilitate inefficiency and suboptimality in carrying out company activities. Financial slack allows managers to

over-invest in ESG disclosures, which are no longer aimed at meeting stakeholder demands and improving performance but rather as a form of opportunistic behavior by managers to enhance their personal reputation. In this sense, investment in ESG disclosure becomes a form of waste and improper fund allocation. As a result, the positive impact of ESG disclosure on firm performance weakens. This study has several limitations. First, the number of non-financial companies with available ESG disclosure scores in the Bloomberg database from 2019 to 2022 is still small, at only 79 companies. Second, this research focuses on only one variable in explaining the relationship between ESG disclosure and company performance, which is financial slack. There are several recommendations for future research. First, the research sample can be expanded beyond companies in Indonesia, for example, to companies in the ASEAN region or other countries. Second, future studies can add other mediating or moderating variables, such as company reputation, governance, gender diversity, or government regulations, to further explain the impact of ESG disclosure on company performance. Lastly, future research can incorporate different types of slack, such as potential slack, to see if different types of slack produce different effects.

References

1. Abdillah P, Gunawan SRA. Does Financial Slack Moderate Effect of Environmental, Social, and Governance (ESG) on Firm Performance? *Economics and Digital Business Review*,2023;4(2):379–390.
2. Alareeni BA, Hamdan A. ESG impact on performance of US S&P 500-listed firms. *Corporate Governance: The International Journal of Business in Society*,2020;20(7):1409–1428.
3. Andersen ML, Dejoy JS. Corporate Social and Financial Performance: The Role of Size, Industry, Risk, R&D and Advertising Expenses as Control Variables. *Business and Society Review*,2011;116(2): 237-256.
4. Anita A, Jessica J. Corporate Social Responsibility dan Kinerja Perusahaan: Financial Slack sebagai Variabel Moderasi. *Owner*, 2023;7(3):2771–2784.
5. Aydoğmuş M, Gülay G, Ergun K. Impact of ESG performance on firm value and profitability. *Borsa Istanbul Review*,2022;22:119–127.
6. Bashatweh AD, Abutaber A, AlZu'bi MJ, Khader LFA, Al-Jaghbir, SA, AlZoubi IJ. Does Environmental, Social, and Governance (ESG) Disclosure Add Firm Value? Evidence from Sharia-Compliant Banks in Jordan. *Lecture Notes in Networks and Systems*,2023;487:585–595.
7. Bourgeois LJ. On the Measurement of Organizational Slack. *The Academy of Management Review*, 1981, 6(1).
8. Buallay A. Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. *Management of Environmental Quality: An International Journal*,2019;30(1):98–115.
9. Deb P, David P, O'Brien J. When is cash good or bad for firm performance? *Strategic Management Journal*,2017;38(2):436–454.
10. Duque-Grisales E, Aguilera-Caracuel J. Environmental, Social and Governance (ESG) Scores and Financial Performance of Multilatinas: Moderating Effects of Geographic International Diversification and Financial Slack. *Journal of Business Ethics*,2021;168(2):315–334.
11. Freeman RE. *Strategic Management: A Stakeholder Approach*. Pitman, Boston, 1984.
12. Friedman, M. The Social Responsibility of Business Is to Increase Its Profits. *New York Times Magazine*, 1970, 122-126.
13. Ghozali I. *25 Grand Theory, Teori Besar Ilmu Manajemen, Akuntansi dan Bisnis*. Semarang: Yoga Pratama, 2020.
14. Hada ID. Considerations Regarding the Assessment and Measurement of Financial Performance, 2020, 115–129.
15. Javid S, Saleem I. Financial Slack and Firm's Performance: Does Ownership Structure Matters? *Gaziantep University Journal of Social Sciences*, 2020.
16. Junius D, Adisurjo A, Rijanto YA, Adelina YE. The Impact of ESG Performance to Firm Performance and Market Value. *Jurnal Aplikasi Akuntansi*,2020;5(1):21–41.
17. Kumaria Puri S. ESG and Corporate Financial Performance - Evidence from New Zealand. *Rere Āwhio - The Journal of Applied Research and Practice*, 2022, 57–68.
18. Leyva-de la Hiz DI, Ferron-Vilchez V, Aragon-Correa JA. Do Firms' Slack Resources Influence the Relationship Between Focused Environmental Innovations and Financial Performance? More is Not Always Better. *Journal of Business Ethics*,2019;159(4):1215–1227.
19. Lin WL, Ho JA, Ng SI, Lee C. Does corporate social responsibility lead to improved firm performance? The hidden role of financial slack. *Social Responsibility Journal*,2020;16(7):957–982.
20. Melinda A, Wardhani R. The Effect of Environmental, Social, Governance, and Controversies on Firms' Value: Evidence from Asia. *International Symposia in Economic Theory and Econometrics*,2020;27:147–173. Emerald Publishing.
21. Memon MA, Cheah JH, Ramayah H, Ting T, Chuah F, Huei Cham T, *et al.* Moderation Analysis: Issues and Guidelines. *Journal of Applied Structural Equation Modeling*, 2019, 3(1).
22. Nareswari N, Tarczyńska-Luniewska M, Hashfi RUAI. Analysis of Environmental, Social, and Governance Performance in Indonesia: Role of ESG on Corporate Performance. *Procedia Computer Science*,2023;225:1748–1756.
23. Nwekemezie Odum A, Gloria Odum C, Onuorah Okoye G. The Impact of Financial Slack on Firm Performance in a Recessed Economy: The Nigerian Experience. *Indonesian Journal of Contemporary Accounting Research*, 2019, 1(2).
24. Ortas E, Álvarez I, Jaussaud J, Garayar A. The impact of institutional and social context on corporate environmental, social and governance performance of companies committed to voluntary corporate social responsibility initiatives. *Journal of Cleaner Production*,2015;108:673–684.
25. Rohendi H, Ghozali I, Ratmono D. Environmental, social, and governance (ESG) disclosure and firm value: the role of competitive advantage as a mediator. *Cogent Business & Management*, 2024, 11(1).

26. Singh A, Verma S, Shome S. ESG-CFP relationship: exploring the moderating role of financial slack. *International Journal of Emerging Markets*, 2023.
27. Taouab O, Issor, Z. Firm Performance: Definition and Measurement Models. *European Scientific Journal ESJ*, 2019, 15(1).
28. Velte P. Does ESG performance have an impact on financial performance? Evidence from Germany. *Journal of Global Responsibility*, 2017;8(2):169–178.
29. Waddock SA, Graves SB. The Corporate Social Performance-Financial Performance Link. *Strategic Management Journal*, 1997;18(4):303–319.