JHSS (Journal of Humanities and Social Studies)
https://journal.unpak.ac.id/index.php/jhss
Volume 07, Number 03, Page 718-722
e-ISSN: 2598-120X; p-ISSN: 2598-117X

ANALYSIS OF LEVERAGE, LIQUIDITY, AND ESG DISCLOSURE ON FINANCIAL PERFORMANCE
(A STUDY ON COMPANIES IN THE FOOD AND BEVERAGE SUB-SECTOR LISTED ON THE INDONESIA STOCK EXCHANGE IN 2017-2021)

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Article history: *received 07 August 2023; revised 16 August 2023; accepted 02 September 2023* *DOI: https://doi.org/10.33751/jhss.v7i3.8351*

Abstract. Financial performance is a report on the financial performance of a company over a specific period. This research analyzes the influence of leverage, liquidity, and ESG disclosure on the financial performance of companies in the food and beverage sub-sector in the Indonesian Stock Exchange for years 2017 through 2021. The sample selection in this study used purposive sampling technique, resulting in 15 companies with a span of 5 years, making a total of 75 samples in this study. This research employs a quantitative method, and it is a descriptive study. Used a method panel data regression. The results obtained through descriptive statistics and panel data testing using the common effect model indicate that leverage, liquidity, and ESG disclosure collectively impact financial performance. Specifically, leverage has a negative impact, liquidity has a positive impact, and ESG disclosure does not affect the financial performance of companies in the food and beverage sub-sector listed on the Indonesian Stock Exchange for yaers 2017 through 2021.

Keywords: leverage; liquidity; ESG disclosure; financial performance

I. INTRODUCTION

The Indonesian Stock Exchange (BEI) is a capital market institution in Indonesia that facilitates the buying and selling of shares of publicly listed companies. For companies, the Indonesian Stock Exchange can help them raise additional capital. In the era of revolution, the food and beverage sub-sector companies face intense competition. Companies need to survive and continuously improve their financial performance to compete with similar companies. Throughout the years, the food and beverage sub-sector has consistently played a vital role in driving national economic growth, as indicated by statistical data. Its impact has been consistently positive, encompassing various aspects such as productivity enhancement, increased investment, expanded exports, and the creation of job opportunities. Financial performance provides an overview of how a company performs financially in a specific period. It is an analysis used to assess how well a company adheres to financial regulations, such as meeting the standards and provisions in SAK or GAAP **[1]**. According to Aulia & Suzan in **[2]**, The practice of making different resource sacrifices in order to attain performance is known as financial performance. When investing in a firm, financial performance is a crucial factor that investors take into account. Therefore, every company must maintain and improve its financial performance to remain attractive to investors. A company is deemed successful if its performance goals are met. To evaluate a company's financial performance, benchmarks are needed to assess whether the financial performance meets expectations or not. Additionally, a company's financial performance can serve as an evaluation and decision-making basis for internal improvements. To maintain and improve financial performance, companies need to understand the factors that can influence it. **[3]** state According to the principle of signaling, management decisions are made that inform investors about the company's prospects. According to **[4]**, signaling theory can be used to understand the actions taken by management to convey information to investors, ultimately influencing investors' decisions regarding the company's condition. Stakeholder theory explains that stakeholders, also known as interested parties, are a group of people or individuals who directly or indirectly influence the company's goals **[5]**. This theory serves as a strategic foundation for how companies manage communication with stakeholders, requiring companies to consider and provide benefits to their stakeholders **[6]**. The presence of stakeholders can influence a company's policies, which impact its business activities.

Legitimacy is the concept of a social agreement a company and society **[7]**. According to legitimacy theory, an organization’s operational practices in its external environment have the potential to influence and shape the company’s adherence to the social norms of the community in which it operates **[8].** Legitimacy, in this context can be understood as the company’s commitment to undertaking actions that are genuinely required and align with the socially accepted norms, beliefs, and shared understandings.

According to **[1]**, financial performance analysis involves evaluating the extent to which a company has effectively and appropriately utilized financial rules and regulations. It serves as a means to assess the company's financial condition by employing financial ratio analysis, enabling an evaluation of its performance within a specific timeframe. In this study, financial performance is calculated using Return on Assets (ROA), which indicates the comparison of the net profit with total assets **[9]**. A high ROA value suggests favorable financial performance for a company Conversely, a low ROA value suggests that the company's financial performance is less favorable. A higher ROA value indicates that the company is effectively utilizing its assets to generate net profit.

Leverage is the extent to which a business used fixed-cost resources and capital, including debt, to increase its profit potential **[10]**. Essentially, leverage represents the comparison between the amount of capital owned by the company itself. The use of leverage aims to achieve greater profits than the cost of assets and their sources of funding **[11].** Leverage is measured to debt-to-equity ratio. The DER is computed by dividing the total debt by the total equity, and this information can be obtained from the company's capability to fulfill obligations, and indicated by the portion of the company's capital utilized for debt repayment. A lower value of the DER suggests a healthier financial the company.
H1: Leverage partially has a negative impact on financial performance.

The liquidity ratio is one of the key metrics used to assess a company's financial performance **[12]**. Liquidity essentially represents the availability of funds or liquid assets that a company holds, which can be utilized to fulfill its upcoming financial obligations. It sheds light on the company's financial stability and ability to meet urgent payent requirements **[13]**. A company to be in a liquid condition if it can meet its commitments on schedule. On the other hand, a corporation is said to be in an illiquid state if it is unable to fulfill its commitments on time. In this study liquidity indicator proxi the current ratio. The current ratio used to evaluate a company's capacity to pay short-term debts or commitments that are due within a year **[10]**. A higher current ratio signifies a greater ability for the company to meet its short-term obligations, indicating a more liquid position. By employing the current ratio, we can evaluate the level of safety associated with a company. The current ratio, whether deemed favorable or unfavorable, can be a factor considered by investors when deciding to invest their capital.
H2: Liquidity partially has a positive impact on financial performance.

ESG represents the activities of a company beyond solely on profit and also uphold the principles of the social issues, corporate governance and environment. ESG Disclosure provides direct and indirect benefits to companies such as improving competitive advantage, shareholder value, and operational efficiency [**14**]; and enhancing the company's reputation in the capital market **[15]**. However, **[16]** suggest that ESG disclosure can be an economic burden for companies due to increased costs. The debate surrounding ESG and company performance has evolved in recent years due to the growing emphasis placed on ESG issues by professional asset managers and investors **[17]**.

Noviarianti **[18]** describes ESG as a benchmark used in investment practices to evaluate companies. ESG stands for Environment, Social, and Governance, and it encompasses three key criteria. To assess and disclosure ESG-related information, companies can utilize the GRU Standards. The GRI Standards were created by the Global Reporting Initiative (GRI) and offer a comprehensive framework for reporting a company's economic, environmental, and social impacts. These standards are widely accepted and give businesses instructions on how to share pertinent information to the public **[19]**. In the approach to ESG disclosure, companies can use GRI 300 for environmental topics with a total of 30 disclosure indicators, GRI 400 for social topics with a total of 31 disclosure indicators, and GRI 102 for governance information with a total of 22 disclosure indicators.
H3: ESG disclosure partially has a positive impact on financial performance.

II. RESEARCH METHODS

The research a quantitative approach adopted, specifically descriptive. Used a method panel data regression. The research focuses on companies within the food and beverage sub-sector that are listed on the IDX from 2017-2021. These companies are the objects of the study. Using a sampling technique and the criteria: 1. Food and beverage companies listed on the IDX from 2017-2021 and inconsistent annual report publications. 2. Food and beverage companies that don't publish sustainability report at all. Using the above criteria, a total 75 samples are obtained with 15 companies selected for each year.

III. RESULTS AND DISCUSSION

Statistical Descriptive Analysis

Table I. Descriptive Statistical Analysis

Keterangan	DER	CR	Pengungkapan ESG	ROA
Mean	0,9740	2,7712	0,1376	0,0670
Minimum	-2,1273	0,1523	0,01204	-2,6409
Maximum	13,5512	15,8221	0,4216	0,6071
Std. Deviation	1,7665	3,0741	0,0873	0,3419
Observation	75	75	75	75

Source: Data that has been processed by researchers, 2023

Table 1 leverage variable 0.974024, which is smaller from standard deviation 1.766585, for that the data is varied. The maximum value for this variable is 13.5512 and the minimum value is -2.1273. Variable liquidity 2.771289, smaller standard deviation 3.074170, indicating that the data

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e-ISSN: 2598-120X; p-ISSN: 2598-117X

for liquidity is not clustered or varied. The maximum value for this variable is 15.82211 and the minimum value in this study is 0.152375. The ESG disclosure 0.137671, greater the standard deviation value of 0.087313, indicating that the data for ESG disclosure is not varied. Maximum value is 0.421687 and the minimum value is 0.012048. Financial performance 0.067095, which is smaller than the standard deviation 0.341935, data financial performance is not clustered or varied. The maximum value for this variable is 0.607168 and the minimum value is -2.640992.

Test Classical Assumption

a.) Multicollinearity Test

Table 2. Multicollinearity Test

	DER	CR	ESGD
DER	1.000000	-0.206447	0.196502
CR	-0.206447	1.000000	-0.167311
ESGD	0.196502	-0.167311	1.000000

Source: Output Eviews version 12, (2023)

According to table 2 multicollinearity testing findings, the value of the for leverage, liquidity, and ESG disclosure are -0.206447, 0.1956502, and -0.167311, respectively. This indicates that there is no multicollinearity as the correlation values are < 0.8.

b.) Heteroskedasticity Test Results

Table 3. Heteroskedasticity Test

F-statistic	0.0889078	Prob. F(3,71)	0.4511
Obs*R-squared	2.715488	Prob. Chi-Square(3)	0.4376
Scaled explained SS	6.219201	Prob. Chi-Square(3)	0.1014

Source: Output Eviews version 12, (2023)

Based on the outcomes of the Harvey-Godfrey method heteroscedasticity testing based on Table 3 indicate that the probability values are > 0.05, so that there is no heteroskedasticity problem in the distribution of data.

C. Hypothesis Test

The Comon Effect Model was used in the study's panel data regressions to examine how independent factors affected dependent variables.

Tabel 4. Common Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.062831	0.022595	2.780763	0.0076
DER	-0.026883	0.011674	-2.302839	0.0254
CR	0.015404	0.005839	2.637931	0.0110
ESGD	0.060874	0.066514	0.915209	0.3644

Source: Output Eviews version 12, (2023)

The test results of the Common Effect model may be used to form the panel data regression equation as follows:

ROA = 0.062831 – 0.026883 DER + 0.015404 CR + 0.060874 ESGD + e

Information:

ROA	=	Financial Performance
DER	=	Leverage
CR	=	Liquidity
ESGD	=	Environmental, Social, and Governance Disclosure
E	=	Error

a) Coefficient of Determination

Table 4 an Adjusted R-squared value of 0.293154 or 29.3154%. This indicates that leverage, liquidity, and ESG disclosure are able to explain 29.3154% company's financial performance, while the rest (100% - 29,31% = 70,69%) is accounted for by factors outside of this research model.

b) Simultaneous Test

Table 4 Prob (F-statistic) 0.000116. This result indicates that Prob (F-statistic) < 0.05, which means that leverage, liquidity, and ESG disclosure variables have a simultaneous impact on the financial performance.

c) Partial Test

Based on the information provided, the summary of the t-test results from Table 4 are:

1) The Leverage variable (DER) yielded a probability value of 0.0254, indicating that Prob < 0.05. As a result, the null hypothesis (H0) is rejected. This suggests that leverage has a negative effect on the financial performance.
2) The Liquidity variable (CR) generated a probability value of 0.0110, implying that Prob < 0.05. Consequently, H0 is rejected. This implies that liquidity has a positive impact on the financial performance.
3) The ESG Disclosure variable resulted in a probability value of 0.3644, which means that Prob > 0.05. Therefore, H0 is accepted. It can be concluded that ESG disclosure does not have a significant effect on the financial performance.

The Impact of Leverage on Financial Performance

Tabel 4 shows the coefficient value of leverage (DER) is -0.026883, indicating that a one-unit increase in DER, assuming other variables are constant, results in a decrease in financial performance (ROA) by 0.026883. Additionally, the leverage variable has a t-stattistic probability (Prob) of 0.0254, which is < 0.05. This indicates that H1 is accepted, leverage has a negative impact. The research findings suggest that higher leverage implies that a company relies more on debt financing compared to its equity. High external funding leads to increased debt and interest burdens, making it difficult for the company to alleviate its debt burden. This result is consistent with a previous study conducted by [20] which found that leverage has a negative effect on financial performance.

The Impact of Liquidity on Financial Performance

Based on table 4, the coefficient value of liquidity (CR) is 0.015404, indicating that a one-unit increase in CR, assuming other variables are constant, results in an increase in financial performance (ROA) by 0.015404. Additionally, the liquidity variable has a t-statistic probability (Prob) of 0.0110, which is < 0.05. This indicates that H2 is accepted, liquidity has a positive effect. Companies with higher liquidity indicate their ability to generate net profit and repay

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e-ISSN: 2598-120X; p-ISSN: 2598-117X

their short-term debts effectively. This suggests that companies with high liquidity tend to have good financial performance. This result is in line with a previous study by [21] which found that liquidity has a positive and significant impact on company financial performance.

The Impact of ESG Disclosure on Company Financial

Based on table 4, the coefficient value of ESG Disclosure (ESGD) is 0.060874, indicating that a one-unit increase in ESGD, assuming other variables are constant, results in an increase in financial performance (ROA) by 0.060874. Additionally, the ESGD variable has a t-statistic probability (Prob) of 0.3644, which is > 0.05. This indicates that H3 is rejected, for that ESG disclosure doesn't have a impact. And consistent with a previous study by [22] which found that ESG disclosure does not have an impact on company financial performance. The reason for this finding is that investors have not considered ESG practices and disclosure as a determining factor in investment decisions [23]. Therefore, in this research, ESG disclosure does not significantly influence. Additionally, the majority of companies in this sub-sector have not implemented adequate environmental disclosure. Out of the 75 observed data, 44 data (58.67%) had ESG disclosure below the average.

IV. CONCLUSION

The effects of leverage, liquidity, and ESG disclosure on the financial performance in the food and beverage firms listed on the Indonesian Stock Exchange from 2017 to 2021 are: 1. Leverage: Study reveals that leverage has a negative impact on financial performance. This suggests that as leverage increases, the financial performance of the examined companies decreases. It highlights the importance of managing leverage levels to maintain or improve financial performance. 2. Liquidity: The study results that liquidity has a positive impact on financial performance. This implies that higher levels of liquidity are associated with better financial performance. It emphasizes the significance of maintaining adequate liquidity to support financial stability and performance. 3. ESG Disclosure: The research results indicate that ESG disclosure doesn't have impact on the financial performance. This implies that changes in ESG disclosure practices, such as social, environmental, and governance reporting, do not have a substantial impact for financial performance. However, further investigation is recommended to explore potential ESG factors specific to the industry or region. Overall, this study contributes to our understanding of the factors influencing financial performance. It provides valuable insights for future research and offers a benchmark for researchers studying financial performance in similar contexts. Additionally, suggestions for future research include expanding the research period, modifying variables, or exploring different sectors to gain further insights into the dynamics of financial performance.

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