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THE STRATEGIC ROLE OF ESG: HOW EVIRONMENTAL PERFORMANCE, CSR AND GCG AFFECT FINANCIAL OUTCOMES

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A B S T R A K

Penelitian ini bertujuan untuk menganalisis pengaruh kinerja lingkungan, tanggung jawab sosial perusahaan (CSR), dan tata kelola perusahaan yang baik (GCG) terhadap kinerja keuangan pada perusahaan sektor basic material di Indonesia. Studi ini dilatarbelakangi oleh hasil penelitian sebelumnya yang menunjukkan ketidakkonsistenan serta meningkatnya urgensi isu keberlanjutan dalam praktik bisnis. Metode penelitian yang digunakan adalah kuantitatif dengan pendekatan kausal, menggunakan data sekunder dari 30 perusahaan yang tercatat di Bursa Efek Indonesia (BEI) selama periode 2021–2023. Pemilihan sampel dilakukan secara *purposive* dengan mempertimbangkan peringkat PROPER, ketersediaan laporan tahunan dan keberlanjutan, serta kepemilikan institusional. Analisis dilakukan dengan regresi linier berganda. Penelitian ini menemukan bahwa Performa lingkungan belum berdampak signifikan terhadap kinerja keuangannya. Namun, CSR dan kepemilikan institusional (sebagai indikator GCG) memiliki pengaruh positif yang signifikan terhadap *Return on Assets* (ROA). Temuan ini menegaskan bahwa perusahaan yang menerapkan tanggung jawab sosial dan tata kelola yang baik cenderung menunjukkan kinerja keuangan yang lebih baik

A B S T R A C T

This study rigorously examines the extent to which environmental performance, Corporate Social Responsibility (CSR), and Good Corporate Governance (GCG) influence financial performance within Indonesia's basic materials sector. Prompted by the escalating global emphasis on sustainability and the inconsistency of prior empirical findings, this research adopts a quantitative, causal approach, drawing upon secondary data from 30 firms listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023. The sample was selected through purposive sampling, with considerations including environmental performance ratings (PROPER), the availability of annual and sustainability disclosures, and institutional ownership as a proxy for governance quality. Employing multiple linear regression analysis, the results demonstrate that environmental performance does not exert a statistically significant effect on financial performance. In contrast, both CSR practices and institutional ownership exhibit a positive and statistically significant influence on Return on Assets (ROA). These findings underscore the greater financial relevance of social and governance factors relative to environmental indicators. The study enriches the ESG-financial performance literature by highlighting the strategic importance of CSR and governance mechanisms in enhancing corporate value, offering salient implications for practitioners and policymakers committed to sustainable and transparent business conduct.

Introduction

Indonesia is recognized as one of the fastest-growing economies in Southeast Asia, supported by structural reforms and comparative advantages. As a member of the G-20, Indonesia continues to attract significant global investor interest (Indonesia-Investment, 2022). With its large market and natural resource potential, the country presents promising investment opportunities, particularly within the framework of emerging markets. In this context, a company's financial performance becomes a key factor in investment decisions, reflecting its ability to manage resources effectively and sustain future growth (Fardiaza, 2021; Fauziyah & Husaini, 2017).

Financial performance is commonly assessed using financial ratios that reflect various aspects of efficiency, productivity, and profitability. One widely used metric is Return on Assets (ROA), which indicates how efficiently a company utilizes its assets to generate profit (Ramlawati Ramlawati *et al*., 2022; Yendrawati & Kinanti, 2024).

Among the various industrial sectors, the basic materials sector plays a critical role in supplying raw materials for other industries, including manufacturing, construction, and infrastructure. This sector includes mining, chemicals, cement, and metals, and is considered one of the most strategic and attractive for long-term investment. However, despite its importance, stock prices in this sector tend to fluctuate significantly, often influenced by the financial performance of the companies involved. These fluctuations underscore the need to better understand the factors that shape financial outcomes.

At the same time, sustainability concerns have become increasingly prominent. Many companies continue to prioritize short-term profits, often neglecting their social and environmental responsibilities. Hastawati & Sarsiti (2016), argue that this profit-driven orientation can lead to poor environmental management practices. A notable example is the corruption case involving PT Timah in 2023, which resulted in estimated environmental damage worth IDR 271 trillion, affecting over 170,000 hectares of land (Victoria, 2024). This case illustrates the broader implications of environmental misconduct not only for state losses but also for the public's right to a clean and sustainable environment.

To address these challenges, Kementerian Lingkungan Hidup dan Kehutanan Republik Indonesia (2023), evaluates corporate environmental performance using the PROPER rating system. However, existing assessments indicate that many companies still perform below expectations in this area (Zainab & Burhany, 2020). Environmental performance, therefore, remains a pressing issue in corporate accountability.

In addition to environmental concerns, corporate governance has also emerged as a crucial determinant of financial health. With the implementation of Good Corporate Governance (GCG), companies are expected to strengthen managerial oversight, promote effective decision-making, prevent opportunistic behavior that deviates from organizational goals, and reduce information asymmetry between executives and stakeholders (Stefany & Wijaya, 2018). Good Corporate Governance (GCG), particularly through mechanisms such as institutional ownership, is designed to promote transparency, accountability, and strategic oversight (Deswara *et al*., 2021; Kaihatu, 2006). The relevance of GCG has grown since the Asian Financial Crisis of 1997, which exposed systemic weaknesses in corporate management and regulation. Today, strong governance practices are seen as essential to maintaining investor trust and ensuring organizational efficiency (Buaillaiy *et al*., 2017; Oana Pintea et al., 2021).

Despite the growing emphasis on sustainability and governance, previous research on the determinants of financial performance has produced mixed results. For example, Meiyana & Aisyah (2019), found no significant relationship between environmental performance and financial performance, while Rahayudi & Apriwandi (2023), reported a positive association. These inconsistencies suggest the need for further investigation.

Given this background, the present study aims to re-examine the impact of environmental performance on financial outcomes. To enrich the analysis, the research also incorporates Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) as additional explanatory variables. Focusing on the basic materials sector during the 2021–2023 period, this study seeks to provide deeper insights into how sustainability-related factors influence firm profitability in one of Indonesia's most strategic industries.

Literature Review

Stakeholder Theory

The stakeholder theory posits that a company's continuity is not solely determined by capital owners but also by a wide range of stakeholders who have vested interests in the organization, both internal and external. These stakeholders encompass investors, employees, consumers, local communities, governmental bodies, and even the natural environment in which the company operates. Consequently, corporations are expected to disclose information beyond traditional financial reports, including data related to the social and environmental impacts of their operations. Ghozali (2020), underscores the significance of fostering harmonious relationships with stakeholders, as their involvement plays a crucial role in ensuring the sustainability of the business.

Financial Performance

Financial performance of a company indicates how well the company manages its resources and generates profits. One way to assess this is by using profitability ratios, such as Return on Assets (ROA), which measures how effectively a business generates profit from all its assets (Hamidi, 2019). Profitability is an important metric for evaluating a company's competitiveness in a highly competitive business environment (Asjuwita & Agustin, 2020).

Environmental Performance

Environmental performance reflects a company's efforts to minimize the negative impacts of its operational activities on the natural environment. In Indonesia, this performance is commonly assessed through the PROPER (Program for Environmental Performance Rating), a system developed by the Ministry of Environment and Forestry (Angelina & Nursasi, 2021). According to Uy & Hendrawati (2020), companies with low PROPER ratings are often found to have violated environmental management standards, such as improper hazardous waste disposal or the absence of environmental restoration efforts. These findings suggest that the PROPER rating is not merely symbolic, but serves as a credible reflection of a company's actual compliance with environmental regulations. Consequently, in the context of this study, PROPER is regarded as a reliable benchmark for evaluating corporate environmental performance.

The main objective of the PROPER program is to encourage businesses to adopt responsible and sustainable environmental management practices. As such, environmental performance serves as a key indicator of a company's commitment to preserving nature in the face of its business operations. The evaluation process, conducted through the PROPER rating system, has become a recognized standard for measuring how well companies comply with environmental regulations (Ministry of Environment and Forestry, 2020).

According to Lako (2018), Flammer (2012), Meseguer-Sánchez *et al.* (2021), strong environmental performance demonstrates a company's concrete efforts to reduce the ecological impact of its production processes. In an era where sustainability issues are gaining increasing attention, contributing to environmental preservation is not only an ethical obligation but also a strategic move to enhance corporate reputation. Companies that actively prioritize environmental stewardship tend to earn greater public trust and support from stakeholders, which in turn can positively influence their financial performance. The results of the study are used as the basis for formulating the following hypothesis:

H_1: Environmental performance positively and significantly influences financial performance.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) reflects a company's commitment to contributing to sustainable development by balancing economic, social, and environmental aspects. It emphasizes that a company's focus should not be solely on profit-making but also on maintaining positive relationships with the community and the surrounding environment (Husada & Handayani, 2021; L. N. Wati *et al.*, 2019). Through CSR initiatives, companies are expected to create shared value for all stakeholders involved.

CSR is typically measured using the Global Reporting Initiative (GRI) Index, which calculates the proportion of disclosed CSR indicators in a company's sustainability report relative to the total indicators recommended by GRI (Global Reporting Initiative (GRI), 2013). By implementing CSR programs, companies demonstrate their concern for social and environmental issues in their operational areas. These programs serve not only to fulfill moral obligations but also carry strategic implications for the company's reputation and customer loyalty (Ananda *et al.*, 2023; Kuswanto, 2019).

Companies that actively engage in CSR activities often earn greater trust from the public, which in turn enhances their image and competitive advantage. According to Viona Adikasiwi *et al.* (2024), Firdausi Nuzula & Worokinasih (2025), companies with a positive reputation have a higher chance of surviving competition and achieving long-term profitability. Therefore, good CSR disclosure is not merely a matter of compliance but also a strategic investment aimed at improving financial performance. The statement serves as the basis for formulating the following hypothesis:

H_2: Corporate Social Responsibility (CSR) positively and significantly influences Financial Performance.

Good Corporate Governance

According to the World Bank (2017), Good Corporate Governance (GCG) is a system of rules and mechanisms designed to ensure that companies are managed efficiently, transparently, and accountably. The primary goal of GCG is to create long-term value for shareholders and society as a whole. It also governs the structure of relationships between management, the board of commissioners, and shareholders in making strategic decisions and overseeing internal controls (Dianawati & Fuadati, 2016). By implementing GCG, companies can reduce the risk of mismanagement and prevent the misuse of assets.

One important aspect of GCG is institutional ownership, which refers to shares held by institutional entities such as banks, pension funds, and insurance companies. These institutions play a critical role in strengthening oversight over management. Compared to individual investors, institutions typically have more resources and expertise to enforce stricter controls, which can encourage better company performance (Subagyo & Bastian, 2017; J. W. Wati & Nuringsih, 2020).

The foundations of good corporate governance enhance transparency, accountability, and stakeholder trust. Setiawan & Setiadi (2020), Engkus *et al.* (2024), note that effective implementation of GCG can promote operational efficiency and improve overall company performance. Within this framework, institutional ownership serves as a key element in monitoring management activities.

Institutions holding substantial shares often have the capacity to closely monitor and guide company policies, ensuring compliance and sustainability remain priorities. This effective oversight is expected to minimize operational risks, strengthen management structures, and ultimately lead to more stable and optimal financial performance. Drawing from the results, the following hypothesis is proposed:

H_3: Institutional Ownership positively and significantly influences Financial Performance.

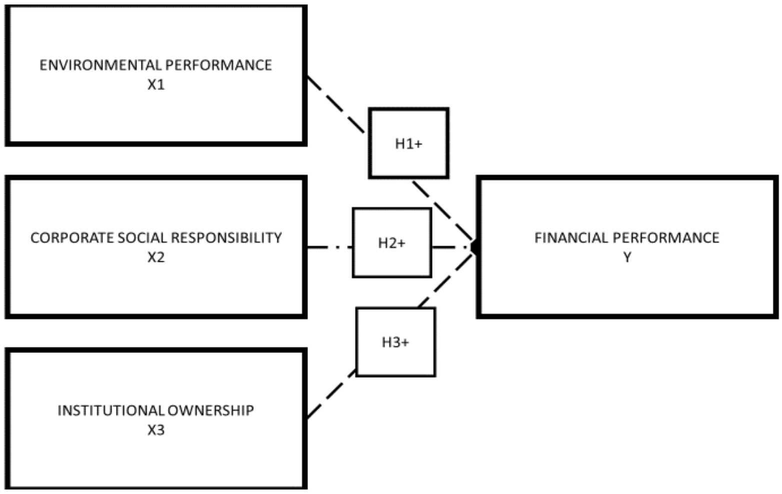

Figure 1. Conceptual Framework
Source: Processed by Researchers (2025)

Method

To investigate the impact of environmental performance, CSR, and GCG on financial performance, this study adopts a quantitative approach with a causal research design. Using secondary data, the study conducts multiple linear regression analysis to empirically assess the relationships among the variables. The research population includes all companies in the basic materials sector listed on the Indonesia Stock Exchange (IDX) between 2021 and 2023, totaling 112 firms. A purposive sampling technique is used, selecting companies based on specific criteria aligned with the research objectives.

The sample selection criteria are as follows: (1) companies must have been consistently listed in the basic materials sector throughout 2021–2023; (2) they must be included in the PROPER environmental performance rating issued by the Ministry of Environment and Forestry; (3) they must have complete annual and sustainability reports; and (4) they must have institutional ownership. Based on these requirements, a total of 30 companies were selected as the final sample.

To analyze the data, the study utilizes SPSS (Statistical Package for the Social Sciences), a software widely used for quantitative research.

Tabel 1.Variable and Measurement

Variable	Indicator	Measurement	Scale
Environmental Performance	PROPER Rating	Coded based on the Ministry of Environment and Forestry (KLHK):Gold = 5, Green = 4, Blue = 3, Red = 2, Black = 1	Ordinal
Institutional Ownership	% of Institutional Ownership	(Number of Institutional Shares / Total Shares Outstanding) × 100%	Ratio
Corporate Social Responsibility (CSR)	GRI-G4 Disclosure Index	$CSR_{ij} = (\sum X_{ij}) / N_j$, where $X_{ij} = 1$ if item *j* is disclosed by company *i*, and N_j is the total number of applicable items based on GRI standards	Ratio
Financial Performance	Return on Assets (ROA)	ROA = (Net Income / Total Assets) × 100%	Ratio

Source: Processed by Researchers (2025)

Results and Discussions

Results

Descriptive Statistics Test

The purpose of descriptive statistical analysis is to provide a concise illustration of the characteristics of the research data selected as samples. The results can be seen as follows:

Tabel 2. Descriptive Statistics Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
KINERJA LINGKUNGAN	30	3	4	3.10	.305
KI	30	.02	.92	.4792	.27637
CSR	30	1.47	9.10	4.3248	1.91915
KinerjaKeuangan	30	-.08	.10	.0338	.04446
Valid N (listwise)	30				

Source: Data Processed Using SPSS (2025)

According to the descriptive statistical results from 30 companies sampled, environmental performance scores ranged from a minimum of 3 to a maximum of 4, with a mean of 3.10 and a standard deviation of 0.305. This suggests that the majority of companies exhibit relatively strong environmental performance with little variation between them.

For institutional ownership, values ranged from 0.02 to 0.92, averaging 0.4792 with a standard deviation of 0.27637. This means that, on average, nearly half of the companies' shares are owned by institutions, though some companies have very low or very high institutional ownership.Regarding Corporate Social Responsibility (CSR), scores varied widely from 1.47 to 9.10, with an average of 4.32 and a standard deviation of 1.92, showing considerable diversity in CSR disclosure across companies. Analysis of financial performance through ROA showed values from -0.08 to 0.10, averaging 0.0338 with a standard deviation of 0.0445. Overall, the companies generally show positive financial performance, although a few experienced losses. All 30 data points analyzed were valid and used in this study.

Normality Test

Table 3. Normality Test Results
Kolmogorov-Smirnov

			KL	CSR	KINERJA LINGKUNGAN	Unstandartdized Residual
N			30	30	30	30
Normal Parameters[a,b]	Mean		.4792	4.3248	3.10	.0000000
	Std. Deviation		.27637	1.91915	.305	.03240277
Most Extreme Differences	Absolute		.124	.138	.528	.146
	Positive		.124	.138	.528	.089
	Negative		-.104	-.070	-.372	-.146
Test Statistic			.124	.138	.528	.146
Asymp. Sig. (2-talied)[c]			.200[d]	.152	<.001	.101
Monte Carlo Sig. (2-talied)[e]	Sig.		.273	.152	<.001	.099
	99% Confidence Interval	Lower Bound	.261	.142	.000	.092
		Upper Bound	.284	.161	.000	.107

Source: Data Processed Using SPSS (2025)

Using the Kolmogorov-Smirnov (K-S) method for the normality test, the significance level was found to be 0.101. Since this value is greater than 0.05, it can be concluded that the data follow a normal distribution.

Multicollinearity Test

Before examining whether a correlation exists among the independent variables in the regression model, a multicollinearity test is conducted. Ideally, there should be no correlation between the independent variables in the regression model:

Table 4. Multicollinearity test result
Coefficient[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.195	.081		-2.418	.023		
	KINERJA LINGKUNGAN	.044	.024	.301	1.857	.075	.776	1.289
	KI	.005	.024	.343	2.344	.027	.956	1.046
	CSR	.015	.004	.660	4.139	<.001	.805	1.243

a. Dependent Variable: KinerjaKeuangan

Source: Data Processed Using SPSS (2025)

According to the multicollinearity test results presented above, the Tolerance values for Environmental Performance, Institutional Ownership, and CSR stand at 0.776, 0.956, and 0.805, respectively. Meanwhile, the Variance Inflation Factor (VIF) values for these variables are 1.289, 1.046, and 1.243. The regression model meets the assumption of no multicollinearity; therefore, the analysis results can be interpreted credibly without interference from correlated independent variables, as indicated by all Tolerance values exceeding 0.1 and all VIF values below 10, showing that there is no multicollinearity problem in this study.

Heteroscedasticity Test

Heteroscedasticity testing in this study was conducted using a scatterplot, assisted by SPSS (2025):

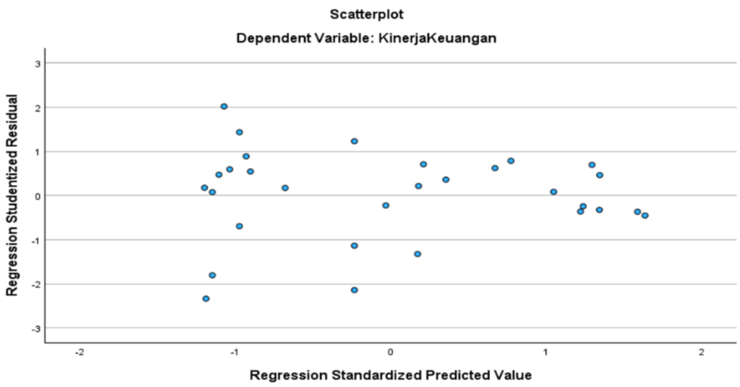

Figure 2. Heteroscedasticity test result
Source: Data Processed Using SPSS (2025)

The table from the heteroscedasticity test shows that the data points are spread evenly and irregularly around the horizontal axis (zero line) without displaying any specific pattern such as a funnel shape or systematic distribution. The irregular distribution observed indicates that the residual variance in the regression model is constant, or homoscedastic. It can also be said that there is no indication of heteroscedasticity in the model. One of the key conditions of the classical linear regression assumptions is the absence of heteroscedasticity. it can be concluded that the model meets the assumption, thereby allowing for more in-depth analysis and making the regression coefficient estimates reliable.

Autocorrelation Test

Table 5. Autocorrelation result test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.685[a]	.469	.408	.03422	1.651

a. Predictors: (Constant), CSR, KI, KINERJA LINGKUNGAN
b. Dependent Variable: KinerjaKeuangan

Source: Data Processed Using SPSS (2025)

There is no indication of autocorrelation in this regression model, as shown in Table 5, which displays a Durbin-Watson value of 1.651. This value falls within the commonly accepted range, between 1.5 and 2.5. This is an important condition of classical linear regression, as the presence of autocorrelation can lead to biased and unreliable results. Therefore, the Durbin-Watson value of 1.651 suggests that the residuals in this study are sufficiently independent, allowing for more accurate and valid regression analysis.

$$1.6499 < 1.651 < 2.3501$$

Furthermore, the DW value of 1.651 falls within the range defined by the upper bound (1.6499) and 4 minus this upper bound (2.3501). In other words, the value satisfies the condition 1.6499 < 1.651 < 2.3501. This finding verifies that the residuals of the regression model show no signs of autocorrelation. Therefore, this model can be used for further analysis without concerns about bias that may be caused by autocorrelation.

Coefficient of Determination Result Test

Table 6. coefficient of determination result test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.685[a]	.469	.408	.03422

a. Predictors: (Constant), CSR, KI, KINERJA LINGKUNGAN
b. Dependent Variable: KinerjaKeuangan

Source: Data Processed Using SPSS (2025)

The coefficient of determination (R square) obtained from the table is 0.469, which means that the independent variables CSR, Institutional Ownership, and Environmental Performance are able to explain 46.9% of the variation in financial performance. In other words, nearly half of the changes in financial performance can be attributed to these three variables. Other factors not covered in this research model account for 53.1%. Although the number of variables and sample size have been taken into account, this model still demonstrates a fairly strong ability to explain financial performance, as indicated by the Adjusted R Square value of 0.408. These results suggest that the regression model used is robust and reliable in describing the relationships among the variables studied.

Partial t-test

Table 7. Partial t-test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.195	.081		-2.418	.023
	KINERJA LINGKUNGAN	.044	.024	.301	1.857	.075
	KI	.005	.024	.343	2.344	.027
	CSR	.015	.004	.660	4.139	<.001

a. Dependent Variable: KinerjaKeuangan

Source: Data Processed Using SPSS (2025)

The Environmental Performance variable has a t-value of 1.857 and a significance level of 0.075 based on the test results shown in the table. the environmental performance fails to hace a demonstrates statistical relevance effect on financial performance because, the value is smaller than the critical t-value of 2.05553. Although the relationship is positive, its contribution to improving financial performance is not strong enough to be considered significant.

Meanwhile, the Institutional Ownership (IO) variable shows a t-value of 2.344 and a significance level of 0.027. Therefore, it can be inferred that Institutional Ownership has a meaningful positive impact on Financial Performance. This suggests that higher institutional ownership tends to be associated with better financial outcomes for the company.

The Corporate Social Responsibility (CSR) variable demonstrates the strongest result, with a t-value of 4.139 and a significance level less than 0.001. Because the t-value is well above the critical threshold, CSR has a very significant impact on Financial Performance. This implies that companies with more active CSR practices tend to build a better corporate image, which enhances public trust and ultimately leads to improved profitability. In summary, among the three independent variables tested, only Environmental Performance does not have a significant effect on financial performance. Institutional Ownership and CSR, on the other hand, show significant positive influences, with CSR emerging as the most dominant factor.

F-Test (Simultaneous)

Table 8. Results of the F-Test (Simultaneous)

Model	f	Sig.
Regression	7.650	$<0.001^b$

Source: Data Processed Using SPSS (2025)

To determine whether all independent variables simultaneously have a significant effect on financial performance, an F-test was conducted for evaluation. Based on Table 8, the ANOVA test yielded an F-value of 7.650 with a significance level of less than 0.001. When compared to the F-table value of 2.98 at a 5% significance level (α = 0.05) with degrees of freedom df1 = 3 and df2 = 26, the calculated F-value is greater than the critical value, and the significance is well below 0.05.

It is concluded that the regression model, which consists of the independent variables (CSR, institutional ownership, and environmental performance) and the dependent variable (financial performance), tested simultaneously, has a significant impact on the company's financial performance. This indicates that these three variables together effectively explain the variations in the dependent variable.

Discussions

The influence of Environmental Performance on Financial Performance.

The results of the analysis show that environmental performance, as measured by the PROPER rating, does not have a significant impact on financial performance. This finding is consistent with previous studies conducted by Safinatunnayah *et al.* (2024), Christiani & Rahmadhani (2024), Fadillah *et al.* (2024), Gayatri *et al.* (2024), Meiyana & Aisyah (2019), Lu & Taylor (2018), which reported similar outcomes.

Although environmental performance is widely regarded as a key element of corporate sustainability, its lack of significant financial influence in this study warrants critical reflection. Interpreted through the lens of Stakeholder Theory which emphasizes that a firm's success depends on its ability to meet the expectations of diverse stakeholders this result suggests that environmental initiatives may not yet be fully recognized or valued by financial stakeholders such as investors and customers.

It is possible that these initiatives have not been effectively communicated or translated into market-based advantages, such as increased investor confidence, customer loyalty, or cost efficiencies. Moreover, in sectors like basic materials where economic and operational performance is often prioritized, environmental outcomes may be viewed as secondary or long-term goals rather than immediate drivers of profitability.

Importantly, the absence of a statistically significant relationship does not imply that environmental performance is irrelevant. On the contrary, it underscores the need for companies to better integrate environmental strategies with business models in a way that generates measurable economic value. It also highlights the importance of enhancing stakeholder awareness and engagement regarding the financial implications of environmental responsibility. Thus, the findings remain relevant by illustrating a gap between environmental efforts and financial outcomes one that could inform future corporate strategies and regulatory policies aimed at bridging this disconnect.

Impact of CSR on Financial Performance.

The analysis reveals that Corporate Social Responsibility (CSR) has a significant positive effect on financial performance. This finding is consistent with prior research by Haryanti *et al.* (2025), Putu *et al.* (2025), Lestari & Zulkifli (2023), Sholikha *et al.* (2019), Fachri Ramadhan *et al.* (2025), and Tusiyati (2019), all of which underscore the critical role of CSR in enhancing corporate financial outcomes. These results suggest that companies engaging in social and environmental initiatives not only fulfill ethical obligations but also strengthen stakeholder trust, enhance corporate reputation, and support long-term profitability.

This evidence supports the stakeholder theory, which posits that a company's long-term success is closely tied to how effectively it addresses the needs and expectations of its key stakeholders including communities, governments, investors, customers, and the environment. In the basic materials sector encompassing industries such as mining, chemicals, cement, and metals companies often have a significant environmental and social footprint. Due to their direct reliance on natural resources and proximity to local communities, CSR initiatives become particularly crucial. When companies in these sectors implement programs such as environmental restoration, mine reclamation, community development, or infrastructure improvements, they not only deliver social value but also create economic benefits.

Viewed through the lens of stakeholder theory, the positive association between CSR and financial performance is logical: by addressing the interests of multiple stakeholders, companies cultivate broader social legitimacy, which in turn enhances competitive advantage and financial returns. Therefore, in environmentally and socially sensitive sectors like basic materials, CSR should not be seen merely as a compliance obligation, but rather as a strategic tool that directly contributes to improved financial performance.

The Effect of Good Corporate Governance on Financial Performance.

The analysis indicates that good corporate governance, as proxied by institutional ownership, has a positive effect on financial performance. This result is consistent with previous studies by Petta & Tarigan (2017), Rahardjo & Wuryani (2021), and Gillan & Starks (2007), and it reinforces the stakeholder theory, which emphasizes the importance of aligning corporate actions with the interests of various stakeholders.

Institutional ownership functions as an effective governance mechanism. Institutional investors generally possess long-term investment horizons, substantial resources, and the expertise required to monitor managerial performance. Their active participation enhances transparency, strengthens accountability, and encourages strategic decision-making that supports sustainable business practices.

From a stakeholder theory perspective, strong governance facilitated by institutional ownership fosters trust among external stakeholders, including investors, business partners, and customers. This trust contributes to organizational stability and, ultimately, enhances financial performance.

Conclusion

This study concludes that Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG), as measured by institutional ownership, significantly enhance the financial performance of firms in the basic materials sector during the 2021-2023 period. These findings affirm the relevance of stakeholder theory in explaining how socially and institutionally responsive companies are better positioned to deliver economic value.

The absence of a significant relationship between environmental performance and financial outcomes suggests that environmental efforts may not yet be fully integrated into stakeholder assessments of firm value, particularly in the short term. Practical implications of these findings highlight the importance for companies to strengthen CSR programs and improve governance structures especially through active institutional investor engagement to drive financial performance. For regulators, the results underscore the need to develop incentive frameworks and disclosure standards that encourage firms to integrate environmental performance more directly into their core business strategies. Future research should explore broader sectors and longer timeframes to assess the evolving influence of ESG factors on financial outcomes, particularly as stakeholder expectations and regulatory landscapes continue to shift.

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