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Assessing the Impact of ESG Performance on Financial Distress: Evidence from the Indonesian Capital Market

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Abstract

Introduction/Main Objectives: This study examines the relationship between environmental, social, and governance (ESG) performance and financial distress in the Indonesian capital market. ESG has gained prominence following increased regulatory attention to sustainability disclosures, making it essential to understand its role in supporting firm stability in emerging markets.

Background Problems: The study addresses the question of whether higher ESG performance reduces financial distress among Indonesian listed firms.

Research Methods: The analysis uses panel data of listed companies from 2020 to 2023 and employs a linear regression framework to evaluate the effect of ESG scores and their individual pillars on financial distress, measured by the Altman Z-score.

Finding/Results: The results show that higher ESG performance is associated with lower financial distress, with the governance pillar exerting the strongest influence in reducing firm-level risk.

Conclusion: The study concludes that ESG engagement contributes positively to firm stability in Indonesia. These findings highlight the importance of strengthening governance-driven sustainability practices for managers and regulators seeking to enhance financial resilience in emerging markets.

Keywords: ESG performance, financial distress, linearity test, Indonesia