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THE INFLUENCE OF ESG PERFORMANCE, ASSET PRODUCTIVITY, FINANCIAL RISK, AND MARKET VALUATION ON FINANCIAL PERFORMANCE

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Abstract

This study investigates the impact of Sustainability (ESG Score), Asset Productivity (TATO), Financial Risk (DER), and Market Valuation (PBV) on Financial Performance (ROA). The study subjects were 20 dual-listed companies listed on ISSI and ESG Sector Leaders (IDX-KEHATI) (60 observations, 2022–2024). Using panel data regression analysis, the results show that TATO and PBV have a significant positive effect on ROA, highlighting the importance of operational efficiency and market prospects in improving profitability. Conversely, DER and ESG have a significant negative effect on ROA. The negative influence of ESG implies a trade-off between short-term compliance costs, which depress net income. Conclusively, operational fundamentals (TATO and PBV) are the most dominant determinants of financial performance (ROA). These findings have implications for the formulation of future Sharia-ESG Index criteria, recommending a high TATO filter, positive PBV, and low DER to select issuers with superior bottom-line and sustainable performance.

Keywords: Environmental, Social, and Governance; Total Asset Turnover; Debt to Equity Ratio; Price to Book Value; Return on Assets

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INTRODUCTION

Financial performance is a fundamental indicator of corporate success in Indonesia's capital market. In recent years, investors have faced increasing challenges, including declining profit margins, rising production costs, commodity price volatility, and uncertainty in corporate profitability. These conditions were evident among several Indonesia Stock Exchange (IDX) issuers during 2022–2023, where asset growth was not consistently followed by improvements in net income, particularly in the consumer, property, and infrastructure sectors (Puspadini, 2023). This phenomenon indicates inefficiencies in asset utilization and operational performance. The tightening monetary policy environment further intensified these pressures. Bank Indonesia raised its benchmark interest rate throughout 2022–2024 to maintain macroeconomic stability, which increased interest expenses for firms, especially those relying heavily on debt financing (Bank Indonesia, 2024). Under these conditions, Return on Assets (ROA) becomes a critical measure of profitability, as it reflects a firm's ability to generate earnings from its total assets. Accordingly, ROA is employed as the primary dependent variable in this study.

ROA is influenced by both asset efficiency and capital structure. Asset efficiency is commonly measured using Total Asset Turnover (TATO), which reflects how effectively firms utilize assets to generate sales (Sihaan, 2019). However, asset-intensive industries in Indonesia, such as property and infrastructure, have experienced declining TATO due to unproductive assets and delayed project realization, leading to weaker profitability. In addition, market valuation, as reflected by Price to Book Value (PBV), plays an important role in shaping investor perceptions. Within the Islamic capital market, PBV serves not only as an indicator of market expectations but also as a measure of fair valuation based on real assets and prudential principles.

Capital structure also plays a significant role in determining firm profitability. The rise in interest rates during the 2022–2024 period increased financial pressure on firms with high Debt-to-Equity Ratios (DER), thereby reducing net income and Return on Assets (ROA). From an Islamic finance perspective, excessive leverage contradicts prudential and risk-sharing principles, as it heightens financial vulnerability and deviates from the ethical foundations of Sharia-compliant financing. Empirical variations in DER among Sharia-compliant firms therefore underscore the importance of examining its effect on profitability (Sihaan, 2019). Beyond conventional financial factors, the Indonesian capital market has increasingly incorporated Environmental, Social,

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and Governance (ESG) principles. The adoption of ESG practices has accelerated substantially, as reflected in the sharp increase in sustainability reporting, which rose from 842 reports representing 90% of listed companies in 2022 to 882 reports covering 94% of companies in 2023. Investor enthusiasm for sustainable investment is further evidenced by the expansion of ESG-based financial instruments, with ESG-oriented passive funds reaching 20 products and total Assets Under Management (AUM) amounting to IDR 24 trillion, alongside 22 issuances of green bonds and green sukuk recorded in 2024 (Pipit Ika Ramadhani, 2025). Despite this rapid development, ESG implementation often requires substantial initial investment, which may exert short-term pressure on profitability and continues to generate debate regarding its direct impact on ROA.

To address this issue within the context of Islamic finance and sustainability, this study focuses on firms located at the intersection of two key indices in the Indonesian capital market, namely the Indonesia Sharia Stock Index (ISSI) and the IDX ESG Sector Leader KEHATI Index. The sample is restricted to companies that consistently remained listed in both indices throughout the 2022–2024 period. The selection of this intersection is methodologically justified, as the Indonesia Stock Exchange has not yet established a single index that fully integrates Sharia compliance with comprehensive Environmental, Social, and Governance (ESG) dimensions. Consequently, the intersection between ISSI and the IDX ESG Sector Leader KEHATI Index represents the most appropriate proxy for identifying firms that simultaneously adhere to Islamic financial principles and demonstrate superior sustainability performance within their respective sectors (Indonesia Stock Exchange, 2025). Accordingly, this study aims to analyze the effects of ESG performance, Total Asset Turnover (TATO), Price to Book Value (PBV), and Debt to Equity Ratio (DER) on Return on Assets (ROA) among firms consistently included in both indices during the 2022–2024 period.

LITERATURE REVIEW

Return On Assets (ROA)

Return on Assets (ROA) is a fundamental profitability ratio used to evaluate a firm's financial performance by measuring the return generated from total assets employed. ROA reflects management effectiveness in utilizing overall investment resources, where higher values indicate more efficient and productive asset management and stronger profitability relative to industry benchmarks (Kasmir, 2019). Calculated as net income after tax divided by total assets, ROA demonstrates a firm's ability to generate earnings from each unit of asset owned. From an Islamic finance perspective, ROA also represents a firm's capability to

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generate halal and sustainable profits through productive asset utilization in compliance with Sharia principles, emphasizing asset management that avoids riba, excessive speculation, and non-compliant practices (Sidik & Musthofa, 2023).

$$ROA = \frac{Net\ Income\ After\ Tax}{Total\ Assets}\ x\ 100\%$$

Environmental, Social and Governance (ESG)

Environmental, Social, and Governance (ESG) is a non-financial assessment framework formally introduced in the *Who Cares Wins* report (2004) released by the UN Global Compact, which aims to evaluate corporate sustainability performance and long-term risk management through environmental (E), social (S), and governance (G) dimensions. The ESG concept is theoretically grounded in Stakeholder Theory, which emphasizes that corporate success depends on managing relationships with all stakeholders, not solely shareholders, as reflected in regulatory requirements such as Indonesia's POJK No. 51/2017. However, ESG implementation involves a clear trade-off, as substantial investments required to improve environmental and social compliance—rooted in Agency Theory conflicts—may increase operational costs, reduce net income, and consequently exert downward pressure on traditional profitability indicators such as Return on Assets (ROA). From an Islamic finance perspective, ESG strongly aligns with the principles of *maqashid al-shariah*, particularly in preserving wealth (*hifdz al-mal*), ensuring environmental sustainability (*hifdz al-bi'ah*), and promoting social justice and trustworthy governance. The adoption of ESG by firms listed in Sharia-compliant indices such as the Indonesia Sharia Stock Index (ISSI) and sustainability-oriented indices like the IDX ESG Sector Leader KEHATI serves as a positive signal to Islamic investors that firms are not only profit-oriented but also ethically and socially responsible (Adawiah et al., 2018).

Total Assets Turnover (TATO)

Total Asset Turnover (TATO) is a key efficiency ratio used to measure a firm's asset productivity, indicating how effectively total assets are utilized to generate sales or revenue. According to Van Horne and Wachowicz (2005), TATO is calculated by dividing net sales by average total assets:

$$TATO = \frac{Net\ Sales}{Average\ Total\ Assets}$$

Tato serves as an indicator of management's ability to employ total asset investments efficiently. Interpreted in times, a higher TATO value reflects greater

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operational efficiency, showing that management is able to generate higher sales from each unit of asset, whereas a lower TATO indicates idle assets or operational inefficiencies that may weaken profitability and Return on Assets (ROA). From an Islamic finance perspective, TATO represents the efficiency of managing real and productive assets in line with the principles of al-kharaj bi al-dhaman and al-ghunmu bil-ghurmi, where profits must be derived from tangible business activities rather than speculative practices. Accordingly, for Sharia-compliant firms listed in indices such as the Indonesia Sharia Stock Index (ISSI) and Jakarta Islamic Index (JII), asset turnover becomes a crucial indicator of operational performance and business sustainability (Destiani & Hendriyani, 2021).

Price to Book Value (PBV)

Price to Book Value (PBV) is a fundamental valuation ratio used to compare a company's market value with the book value of its net assets, reflecting how the market prices a firm's equity relative to its historical accounting value. According to Brigham (2007), PBV indicates the extent to which investors believe management has successfully created value from the assets under its control. PBV is calculated by dividing the market price per share by the book value per share.

$$PBV = \frac{Market\ Price\ per\ Share}{Book\ Value\ per\ Share}$$

Where a higher PBV suggests positive market expectations regarding a firm's future performance, while a lower PBV may indicate that the stock is undervalued. In the context of Islamic finance, PBV carries broader implications than in conventional markets, as it not only reflects profit expectations but also Sharia compliance, financial stability, and lower speculative risk due to restrictions on interest-based debt. Consequently, PBV serves as an important indicator for Islamic investors in assessing whether a stock's market price fairly represents its intrinsic value (*fair value*) for Sharia-compliant firms (Wahyu et al., 2022).

Debt to Equity Ration (DER)

Debt to Equity Ratio (DER) is a fundamental solvency and leverage ratio in financial analysis, used to measure the proportion of a company's total assets financed by debt relative to shareholders' equity. According to Kasmir (2019), DER is a ratio applied to assess the level of corporate debt in relation to equity, indicating how much debt is supported by each unit of own capital. This ratio reflects the extent to which shareholders' equity serves as a guarantee for corporate liabilities and is calculated by dividing total debt by total equity.

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

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A higher DER indicates greater reliance on debt financing, which may increase financial risk, whereas a lower DER suggests a more conservative capital structure. In Sharia-compliant firms, the Debt to Equity Ratio (DER) primarily functions as a risk control mechanism rather than as a tool for enhancing profitability. Although DER is an important ratio for assessing a firm's financial health and risk exposure—where a DER below 1 or 100% is generally considered financially sound—Sharia regulations do not impose a specific DER threshold for stocks included in the Indonesia Sharia Stock Index (ISSI). Instead, the emphasis lies on limiting the proportion of interest-based debt that generates non-halal income, rather than on the overall debt-to-equity ratio itself (IDX Islamic, 2025).

Research Hypotheses

H1 : Environmental, Social, and Governance performance has a significant partial effect on Return on Assets.

H2 : Total Asset Turnover has a significant partial effect on Return on Assets.

H3 : Debt to Equity Ratio has a significant partial effect on Return on Assets.

H4 : Price to Book Value has a significant partial effect on Return on Assets.

H5 : Environmental, Social, and Governance (ESG) performance, Total Asset Turnover, Debt to Equity Ratio, and Price to Book Value simultaneously have a significant effect on Return on Assets.

RESEARCH METHOD

This study adopts a quantitative approach with an associative–causal research design to examine the effects of sustainability performance (ESG Score), asset productivity (Total Asset Turnover/TATO), financial risk (Debt to Equity Ratio/DER), and market valuation (Price to Book Value/PBV) on financial performance measured by Return on Assets (ROA) (Sugiyono, 2013). The study utilizes secondary data obtained from annual financial statements, sustainability reports, ISSI publications, and the IDX ESG Sector Leader KEHATI index over the 2022–2024 period, with data processing conducted in 2025. The research object comprises companies simultaneously listed in the Indonesia Sharia Stock Index (ISSI) and the IDX ESG Sector Leader KEHATI index. Using purposive sampling, 20 firms that consistently appeared in both indices during 2022–2024 were selected, resulting in 60 panel observations (20 firms × 3 years). These firms were chosen as they represent Sharia-compliant companies with demonstrated commitments to sustainability practices. Data analysis was conducted using multiple linear regression with SPSS version 26, preceded by classical assumption tests—including normality, multicollinearity, heteroscedasticity, and

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autocorrelation tests—to ensure the robustness and validity of the regression model.

RESULTS AND DISCUSSION

Descriptive Statistics

Tabel 1
Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	60	.33	14.95	6.8382	3.30303
ESG	60	19	81	53.60	13.801
TATO	60	.16	2.60	.7645	.58007
PBV	60	.32	4.41	1.4363	.82111
DER	60	.04	.69	.4103	.16063

Based on descriptive statistics from 60 observations, Return on Assets (ROA) ranges from 0.33 to 14.95, with a mean of 6.84 and a standard deviation of 3.30, indicating substantial variability in firm profitability. The Environmental, Social, and Governance (ESG) score varies between 19 and 81, with an average of 53.60 and a standard deviation of 13.80, reflecting significant differences in sustainability practices among firms included in the ISSI and IDX ESG Sector Leader KEHATI indices. Total Asset Turnover (TATO) ranges from 0.16 to 2.60, with a mean of 0.76 and a standard deviation of 0.58, suggesting heterogeneous efficiency in asset utilization. Price to Book Value (PBV) shows values between 0.32 and 4.41, with an average of 1.44 and a standard deviation of 0.82, indicating varying market perceptions of firm value and growth prospects. Finally, the Debt to Equity Ratio (DER) ranges from 0.04 to 0.69, with a mean of 0.41 and a standard deviation of 0.16, highlighting diversity in capital structures. Overall, the dispersion across all variables suggests considerable heterogeneity in both financial and sustainability characteristics among the sampled firms.

Normality Test

Table 2.
Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	2.23610030
Most Extreme Differences	Absolute	.092

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	Positive	.065
	Negative	-.092
Test Statistic		.092
Asymp. Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Based on the Kolmogorov–Smirnov normality test applied to the unstandardized residuals, a significance value of 0.200 was obtained, which exceeds the 0.05 significance level. This result indicates no significant difference between the residual distribution and a normal distribution, confirming that the residuals are normally distributed. Therefore, the normality assumption is satisfied, and the regression model is appropriate for further analysis.

Multikolinearity Test

Tabel 3
Multicolinearity Test

Variable	Tolerance	VIF
ESG	.875	1.143
TATO	.968	1.034
PBV	.967	1.034
DER	.873	1.146

The multicollinearity test results indicate that all independent variables exhibit tolerance values above the minimum threshold of 0.10 and Variance Inflation Factor (VIF) values well below the critical value of 10. Specifically, ESG shows a tolerance value of 0.875 with a VIF of 1.143, TATO has a tolerance of 0.968 with a VIF of 1.034, PBV records a tolerance of 0.967 with a VIF of 1.034, and DER presents a tolerance of 0.873 with a VIF of 1.146. These results confirm the absence of high correlations among the independent variables, indicating that the regression model is free from multicollinearity issues and that all independent variables can be simultaneously included without causing estimation distortion or coefficient bias.

Heteroskedasticity Test

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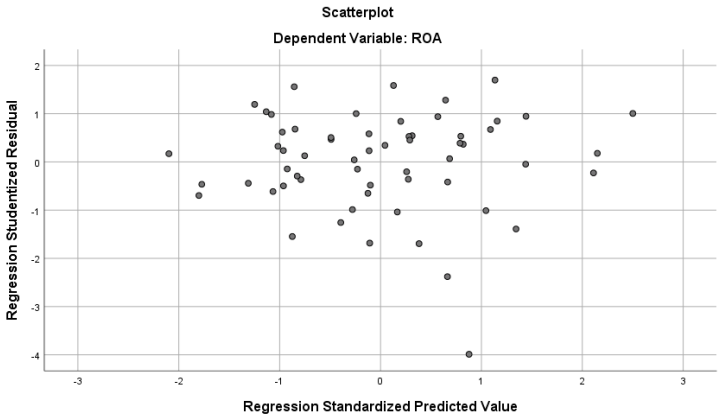

Figure 1
Heteroskedasticity Test

Based on the heteroskedasticity test using a scatterplot between the Regression Standardized Predicted Values and Regression Studentized Residuals, the residual points are randomly distributed around the zero horizontal line without forming any specific pattern, such as waves, cones, or systematic structures. This random and symmetrical dispersion above and below zero indicates that the residual variance remains constant across different levels of predicted values. Therefore, the regression model does not exhibit heteroskedasticity, confirming that the homoskedasticity assumption is satisfied and the model is suitable for further regression analysis.

Multiple Linear Regression Analysis

Table 4
Multiple Linear Regression Analysis

Variable	B	Std. Error
Constant	12.508	1.813
ESG	-.073	.023
TATO	2.338	.528
PBV	.983	.373
DER	-12.044	2.009

The multiple linear regression analysis produces the following equation:

ROA = 12,508 – 0,073(ESG) + 2,338(TATO) + 0,983(PBV) – 12,044(DER)

The constant value of 12.508 indicates a baseline level of profitability influenced by factors outside the model. ESG exhibits a negative coefficient, suggesting that higher sustainability scores tend to reduce ROA in the short term due to increased implementation costs, consistent with the sustainability trade-off theory. In contrast, TATO has a positive effect on ROA, highlighting the critical role of asset utilization efficiency in enhancing profitability, in line with

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operational efficiency theory. PBV also shows a positive relationship with ROA, indicating that higher market valuation serves as a positive signal of firm prospects and quality, as explained by signaling theory. Conversely, DER demonstrates the largest negative impact on ROA, confirming that higher leverage significantly suppresses profitability due to increased interest burdens and financial risk, consistent with trade-off theory and pecking order theory. Overall, the results suggest that asset efficiency and market valuation enhance financial performance, while leverage and short-term sustainability costs exert downward pressure on profitability.

T-Test

Table 5
T-Test

Variable	t	Sig
Constant	6.900	.000
ESG	-3.136	.003
TATO	4.424	.000
PBV	2.632	.011
DER	-5.995	.000

The partial (t-test) results indicate that all independent variables have a statistically significant effect on Return on Assets (ROA). ESG exhibits a negative and significant effect on ROA ($t = –3.136$; $p = 0.003$), suggesting that higher sustainability scores tend to reduce short-term profitability due to the substantial costs associated with ESG implementation, consistent with the sustainability trade-off concept. TATO shows a positive and significant effect on ROA ($t = 4.424$; $p < 0.001$), confirming that greater asset utilization efficiency enhances firm profitability in line with operational efficiency theory. PBV also demonstrates a positive and significant relationship with ROA ($t = 2.632$; $p = 0.011$), indicating that higher market valuation serves as a positive signal of firm prospects and performance, as explained by signaling theory. Conversely, DER has a negative and highly significant effect on ROA ($t = –5.995$; $p < 0.001$), implying that higher leverage increases financial risk and interest burdens, thereby suppressing profitability, consistent with trade-off theory and pecking order theory. Accordingly, all research hypotheses are supported.

Anova Test

Table 6
Anova Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	348.680	4	87.170	16.252	.000[b]

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	Residual	295.009	55	5.364		
	Total	643.689	59			
a. Dependent Variable: ROA						
b. Predictors: (Constant), DER, TATO, PBV, ESG						

The Analysis of Variance (ANOVA) results indicate that the regression model is statistically significant. The F-statistic value of 16.252 with a significance level of 0.000, which is below the 0.05 threshold, confirms that the model is valid overall. This finding implies that Debt to Equity Ratio (DER), Total Asset Turnover (TATO), Price to Book Value (PBV), and Environmental, Social, and Governance (ESG) scores simultaneously have a significant effect on Return on Assets (ROA) among firms consistently listed in the ISSI and IDX ESG Sector Leader KEHATI indices during the 2022–2024 period. Furthermore, the Mean Square Regression value of 87.170, which substantially exceeds the Mean Square Residual value of 5.364, indicates that the variation in ROA explained by the model is considerably greater than the unexplained variation, confirming that the regression model has strong explanatory power and is fit for further analysis.

Coefficient of Determination Analysis

Table 7
Coefficient of Determination Analysis

Model	R	R Square	Adjusted R Square
1	.736[a]	.542	.508
a. Predictors: (Constant), DER, TATO, PBV, ESG			
b. Dependent Variable: ROA			

The coefficient of determination analysis indicates a correlation coefficient (R) value of 0.736, reflecting a strong linear relationship between the independent variables—Debt to Equity Ratio (DER), Total Asset Turnover (TATO), Price to Book Value (PBV), and Environmental, Social, and Governance (ESG)—and the dependent variable Return on Assets (ROA) among firms consistently listed in the ISSI and IDX ESG Sector Leader KEHATI indices during the 2022–2024 period. The R-squared (R^2) value of 0.542 suggests that the regression model explains 54.2% of the variation in ROA, while the remaining 45.8% is attributable to other factors outside the model, including macroeconomic conditions, industry competition, internal governance quality, investment policies, and external risk factors not examined in this study.

The Effect of Environmental, Social, and Governance (ESG) on Return on Assets (ROA)

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The empirical results indicate that Environmental, Social, and Governance (ESG) has a significant negative effect on Return on Assets (ROA), with a t-value of –3.136 and a significance level of 0.003, thereby supporting H1. This finding suggests that higher sustainability performance tends to reduce firms' short-term profitability. The result can be theoretically explained by the sustainability trade-off concept rooted in Agency Theory, where ESG initiatives—particularly environmental and social investments such as green technology adoption, certification costs, and employee welfare improvements—require substantial operational expenditures that directly reduce net income and, consequently, ROA. This trade-off is especially evident in the Indonesian context following the implementation of POJK No. 51/2017, where ESG compliance costs often outweigh immediate financial benefits (Mutia, 2025). Although the average ESG score of 53.60 confirms that the sampled firms qualify as ESG Sector Leaders, the wide score range (19–81) and high standard deviation (13.80) reveal significant disparities in ESG implementation. This evidence is consistent with Mutiara Jovietha et al. (2024), who report a negative and significant relationship between ESG and profitability, and is further supported by Gharchia and Mindosa (2023), who find that social and governance dimensions of ESG do not yet translate into improved profitability, particularly in emerging markets with uneven ESG disclosure and implementation quality.

The Effect of Total Asset Turnover (TATO) on Return on Assets (ROA)

The statistical analysis indicates that Total Asset Turnover (TATO) has a positive and significant effect on Return on Assets (ROA), with a t-value of 4.424 and a significance level of 0.000, thereby supporting H2. This finding confirms that firms with higher efficiency in utilizing both current and fixed assets to generate revenue tend to achieve higher profitability. The average TATO value of 0.76 suggests that the sampled firms generate IDR 0.76 in sales for every IDR 1 of assets, indicating moderate to low asset efficiency and reflecting the dominance of capital-intensive industries within the sample. The substantial heterogeneity in TATO, as evidenced by a wide range (0.16–2.60) and a relatively high standard deviation (0.58), highlights significant disparities in operational efficiency across firms, which plays a crucial role in explaining variations in ROA within the DuPont analysis framework. This result is consistent with Operational Efficiency Theory, which emphasizes that optimizing asset utilization, accelerating inventory and receivables turnover, and minimizing idle assets are key drivers of profitability (Rahmawati et al., 2025). The findings are further supported by Santoso et al. (2025) and Wardana and Suleiman (2024), who document that

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higher TATO enhances asset turnover speed, leading to increased sales and improved firm profitability.

The Effect of Price to Book Value (PBV) on Return on Assets (ROA)

The results indicate that Price to Book Value (PBV) has a positive and significant effect on Return on Assets (ROA), with a t-value of 2.632 and a significance level of 0.011, thereby supporting H3. This finding suggests that firms with higher market values relative to their book values tend to generate higher profitability from their assets. The average PBV of 1.44 (PBV > 1) reflects positive investor perceptions regarding firm growth prospects and characterizes the sampled firms as growth stocks. However, the relatively high standard deviation (0.82) and wide PBV range (0.32–4.41) indicate substantial heterogeneity in market valuation, implying divergent investor expectations across firms. From a theoretical perspective, this result can be explained by Signaling Theory, whereby strong financial performance, particularly higher ROA, acts as a positive signal that is capitalized by the market through rising stock prices, leading to higher PBV (Qotimah & Kalangi, 2023). This relationship is reciprocal, as supported by Anjelita et al. (2025), who argue that ROA and PBV mutually reinforce each other in enhancing firm value and financial performance, indicating that higher market valuation not only reflects investor confidence but also contributes to improved profitability.

The Effect of Debt to Equity Ratio (DER) on Return on Assets (ROA)

The regression results indicate that Debt to Equity Ratio (DER) has a significant negative effect on Return on Assets (ROA), with a t-value of –5.995 and a significance level of 0.000, thereby supporting H4. This finding confirms that higher leverage leads to lower asset-based profitability. The average DER of 0.41 (41%), with a maximum of only 0.69, suggests that the sampled firms adopt a highly conservative capital structure and rely predominantly on equity financing, which aligns with prudential principles in the Islamic capital market. The relatively low standard deviation (0.16) indicates homogeneous leverage practices among ESG Sector Leader firms, reflecting a tendency to avoid excessive debt in order to minimize interest burdens and financial risk. This result is consistent with trade-off theory and pecking order theory, which posit that excessive leverage increases interest expenses and cash flow pressure, thereby reducing profitability. The findings are further supported by Anisa and Febyansyah (2024) as well as Jessica and Hermawan (2024), who document that higher corporate debt levels are associated with declining profitability due to the dominance of interest-related financing costs.

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The Simultaneous Effect of Environmental, Social, and Governance (ESG), Total Asset Turnover (TATO), Price to Book Value (PBV), and Debt to Equity Ratio (DER) on Return on Assets (ROA)

The ANOVA results indicate that the regression model is statistically significant, with an F-value of 16.252 and a significance level of 0.000 (< 0.05), thereby supporting H5. This finding confirms that ESG, TATO, PBV, and DER jointly have a significant effect on Return on Assets (ROA) among firms listed in the ISSI and IDX ESG Sector Leader KEHATI during the 2022–2024 period. The results suggest that corporate profitability is jointly shaped by asset efficiency, capital structure, market valuation, and sustainability performance, with ESG acting as a complementary factor that supports financial stability and long-term performance.

CONCLUSION

Based on the partial test results, this study finds that Environmental, Social, and Governance (ESG) performance has a significant negative effect on Return on Assets (ROA), indicating that sustainability implementation may exert short-term pressure on profitability due to relatively high initial implementation and compliance costs. In contrast, Total Asset Turnover (TATO) and Price to Book Value (PBV) exhibit significant positive effects on ROA, confirming that asset utilization efficiency and favorable market valuation play a crucial role in enhancing firm profitability. Meanwhile, the Debt to Equity Ratio (DER) shows a significant negative effect on ROA, suggesting that excessive leverage increases financial risk and weakens profitability. Simultaneously, ESG, TATO, PBV, and DER jointly have a significant effect on ROA among firms listed in the Indonesia Sharia Stock Index (ISSI) and the IDX ESG Sector Leader KEHATI Index during the 2022–2024 period. These findings indicate that the profitability of Sharia-compliant and sustainable firms is determined by the interaction between sustainability performance, operational efficiency, market perception, and capital structure. Accordingly, future formulations of a Sharia–ESG index should incorporate additional financial screening criteria, particularly high asset turnover (TATO), positive market valuation (PBV), and low leverage (DER), to identify firms that are not only compliant with Islamic and ESG principles but also operationally efficient and financially resilient. Thus, the integration of Sharia and ESG principles must be accompanied by optimal asset efficiency and prudent leverage management to ensure that sustainability objectives are achieved without compromising financial performance.

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