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Analysis of the Effect of Environmental, Social, and Governance (ESG) Disclosures on Capital Structure with Company Performance as an Intervening Variable (Empirical Study on Companies Listed in Sri-Kehati Index Stocks for the 2017-2019 Period)

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ABSTRACT: *This study examines the effect of environmental, social, and corporate governance disclosure on capital structure with company performance as an intervening variable in companies listed in the Sri-Kehati Index for 2017 – 2019. This study uses secondary data, namely on companies members of the Sri-Kehati index that disclose Bloomberg's environmental, social, and governance (ESG) scores. The data used in this study with a total research sample of 54 was determined by the purposive sampling method. This study indicates that environment and governance affect company performance while social has no impact on company performance. For indirect testing, the results show that environmental, social, and governance disclosure do not affect capital structure through company performance as an intervening variable. Environmental, social, and governance do not affect capital structure.*

Keywords: *Environmental, Social and Governance, Company Performance, Capital Structure.*

INTRODUCTION

Environmental, social and governance issues have received particular attention in recent times. As companies grow and develop in each country, it causes environmental damage, becoming a severe problem. One of the causes of environmental damage is the use of resources that are not carried out in a way that is not suitable for profit. Companies that carry out production activities can also cause environmental pollution that impacts social conflicts. Then what is very worrying is social issues such as gender discrimination and product responsibility.

The ESG disclosure score can measure companies' voluntary disclosure regarding their environmental, social, and governance (ESG) information. ESG information is of great concern because of the potential long-term impact on

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stakeholders, and investments, which are not only limited to shareholders. A company's ESG score reports its performance toward sustainable development goals.

The company focuses on the financial aspect and must also cover the social and environmental elements to remain in business in the long term. This paradigm produces a triple bottom line approach.

ESG refers to the three factors of measuring sustainable business and deciding to invest in a particular business. The three factors are environmental, social, and governance (ESG) criteria. The environmental standards consider how the company performs as a guardian of nature. Social measures examine how a company manages relationships with employees, suppliers, customers, and the communities it operates. At the same time, governance is related to corporate leadership, executive salaries, audits, internal controls, and shareholder rights.

It was also recently explained on the CNBC Indonesia page that the Indonesia Stock Exchange officially launched the IDX ESG Leaders Index. This ESG index is an index that measures the price performance of stocks that have an excellent ESG rating and are not involved in significant controversy, and have transaction liquidity and good financial performance.

Many companies are starting to be sensitive to ESG. It can be seen in the announcement of the award for the company that has the best ESG in 2020. For example, PT Bumi Resources Tbk (BUMI) received an award as the best company with an A+ score in sustainability reporting, including Environmental, Social, and Governance. Bank BNI Syariah, which has won three ESG Awards 2020 awards, quoted from the Berita Satu Media Group. Then several other companies received ESG awards, namely the company that won 14 ESG Awards 2020 awards, namely PT Bank Rakyat Indonesia (Persero) Tbk, which was named the company with the best ESG disclosure by the issuer of the banking sector. At the 2020 Awards event, Bank BJB was also one of the Environmental, Social, and Governance (ESG) award winners.

ESG implementation can be seen in the Sri-Kehati Index. This index was formed referring to the concept of sustainable and responsible investment. It not only focuses on how to get a profit but also on being accountable without ignoring economic considerations. As explained in Kontan.co.id in 2018, the Sri-Kehati Index's performance was higher than the JCI. Reporting from CNBC Indonesia, the Sri-Kehati index was the most popular in 2019.

Contrary to the data presented above, environmental issues are also in the spotlight for the community. There are several cases in Indonesia of companies violating their environmental responsibilities. As reported on the BBC website, it was revealed that a South Korean company intentionally burned land for oil palm expansion. An investigation carried out by Forensic Architecture and Greenpeace by the BBC found evidence that Korindo intentionally burned land to clear its oil palm plantations during the 2011-2016 period. Furthermore, Liputan6 reported that 288 companies destroyed 4.5 million hectares of peat ecosystems in Indonesia in six provinces. One of them is the province of Riau.

At the ESG 2020 award, the infrastructure sector received a mention in environmental, social, and best governance openness. Contrary to the news reported on the bbc.com page in 2019 regarding several cases from one of the companies engaged in the infrastructure sector, namely PT Garuda Indonesia, which temporarily suspended several directors regarding the alleged case of smuggling Harley Davidson motorcycles and Brompton bicycles. Before this smuggling case, PT Garuda Indonesia was involved in several other cases, namely the uproar in financial reports, concurrent positions of the Garuda Director, and fines against the Australian court. This case can be related to problems in managing the company.

Capital structure is related to the proportion of funding used by the company. The optimal capital structure is used to increase the value of the company. This structure generally requires a lower debt ratio than the ratio to maximize the expected Earning Per Share (EPS) (Brightam and Houston 2011). Companies with good governance and quality can also increase motivation to take actions that profit the company by minimizing the cost of capital.

Several factors affect the capital structure. One of them is the level of company profitability. Several studies support the influence of company performance on capital structure, as done by Dewi & Sudiartha (2017), which states that profitability has a significant positive effect on capital structure. The higher the profit obtained, the lower the need for external funds (debt) and the lower the capital structure (Kusumaningtyas, 2012). This claim aligns with research that profitability hurts capital structure (Pertiwi & Artini, 2014).

Research on ESG practice and the cost of debt studied by Eliwa et al. (2019) found that lending institutions value ESG performance and disclosure more and integrate ESG information in their credit decisions. Companies with more robust ESG performance have a lower cost of debt, and ESG disclosure has the same impact on the cost of debt. Furthermore, Agustami & Yunanda (2014) research found that voluntary disclosure had no adverse effect on the cost of debt.

Most experts have investigated the effect of ESG disclosure on company performance. These studies have had mixed results Agustami & Yunanda (2014) tested the impact of ESG on financial performance, showing a negative relationship. Different research results (Melinda & Wardhani, 2020) found that ESG positively affected firm value. Like research by Alareeni and Hamdan (2020), ESG disclosure positively impacts company performance measures. Alareeni and Hamdan (2020) find that ESG disclosure does not affect company performance.

The data and previous research show that there is a role for ESG that directly affects the company's performance, and it affects the capital structure. Previous research only looked at the effect of ESG on company performance and capital structure. The study says that lending companies value ESG performance and disclosure more. In this research, there is a possibility that the ESG effect will affect the capital structure, which is mediated by the company's performance. Based on the research gap phenomenon that occurred in previous studies, the researchers are interested in researching the capital structure, which uses environmental, social, and governance indicators on capital structure. The difference and uniqueness of this research are that the researcher adds the company's performance variable as an intervening variable between the independent and dependent variables.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy theory states that management can influence the general public's perception of the company. Efforts to manage legitimacy can be carried out in various forms. Companies can start by changing their activities to align with people's social perceptions to influence people's perceptions and assessments of the company.

Trade-off theory

Stakeholder theory states that the company is not an entity that only operates for its own sake but must also benefit all its stakeholders. Stakeholders are defined as stakeholders, namely parties or groups with interest, either directly or indirectly, in the existence or activities of the company, and therefore these groups influence and are influenced by the company (Alareeni & Hamdan, 2020).

Signaling Theory

Signaling theory explains how companies should give positive signs to external parties. According to Connelly et al. (2011), signaling theory discusses information asymmetry between company management and other parties. This information is referred to as a signal. The purpose of the signaling concept is to ensure that stakeholders are aware of the company's superiority over increased commitment to non-financial issues (Reuer et al., 2012).

Company Financial Performance

The company's performance describes its results or achievements over a certain period, which is influenced by its operational activities by utilizing its resources to realize the goals, objectives, mission, and vision of the company previously set.

Capital Structure

Capital structure is a mix or proportion of the company's long-term permanent funding represented by debt, preferred stock, and common stock equity.

Environmental, Social, Governance (ESG) Disclosure

ESG is a company standard in its investment practice which consists of three concepts or criteria: Environmental, Social, and Governance (ESG).

a. Environmental Criteria

   The environmental criteria in the ESG also discuss a company's energy use, waste, pollution, conservation of natural resources, and behavior towards flora and fauna. Placing environmental criteria in the company's risk management will minimize the potential risks that arise from these environmental criteria. This criterion can also be used to evaluate a company on how the related corporate entity operates.

b. Social Criteria

   The social criteria in the ESG look more at the relationship of a company externally. Communities, communities, suppliers, buyers, media, and other entities with direct or indirect relationships must be considered through the ESG social criteria. Similar to the environmental standards, if the social criteria can be addressed and managed correctly, this will return to a company's financial performance and sustainability.

c. Governance Criteria

   The criteria for governance or corporate governance focus on how a company has a good and sustainable management process on its internal side. A company that has a management system that is not transparent, violates the law and has ethical rights will undoubtedly be a negative value in its business and investment practices.

The influence of the environment on the company's performance

Paying attention to the environment is essential for a company in carrying out operational activities. Companies that pay attention to the environment will create good values that will support the company's sustainability. Reuer et al. (2012) research show that environmental performance positively influences company performance. In line with the Legitimacy theory and stakeholder theory, the company will gain the community's trust if it is sensitive to its environment, increasing company sales and improving its performance.

Social Influence on company performance

Companies that pay attention to their social responsibility will improve their financial performance. It impacts the company's profits and company performance. Not only focusing on getting a profit but the company is expected to contribute to the community and the surrounding environment to gain trust and support from outside parties for the company and the confidence of all company stakeholders (Cantino et al., 2017).

The influence of governance on company performance

Good Corporate Governance is one of the critical aspects of increasing economic efficiency, which includes a series of relationships between company management, board of directors, shareholders, and stakeholders. A high level of corporate governance will increase company compliance in improving company performance.

Effect of Environmental on Capital Structure

Companies use environmental practices to send strong signals to outside parties, such as lending institutions. Lending institutions prioritize companies to integrate environmental information into the evaluation process. Most likely, the aim is to evaluate the risks associated with environmental issues related to the company borrowing funds.

Social Influence on Capital Structure

The company's survival is primarily determined by the company's relationship with the community and the surrounding environment. Companies that pay attention to and care about their social responsibility will create a good public image of the company. The company's sales will increase and the costs incurred are low so that the use of debt is low.

The Effect of Governance on Capital Structure

Governance and capital structure are two components that form the basis of a company's economic stability. Therefore, the company must have competent people to make the right policies within the company. If governance and capital structure are well maintained, it will eliminate inadequate controls that exist in the company, bad culture, and even failure that leads to bankruptcy.

The Influence of Company Performance on Capital Structure

The company's management decision in choosing the capital structure for the company will affect the company's performance. This influence arises because the company relies on its capital and debt as a source of funding to carry out its operations.

The Effect of Environmental on Capital Structure through Company Performance

Based on the Legitimacy theory, companies can influence people's perceptions of the company. Companies that have good environmental disclosures will affect the company's performance. High environmental exposure indicates that the performance of a company is also increasing. If the company gets the support and trust of the community, then the sales of a company also increase, so that company profits and company performance also increase.

Social Influence on Capital Structure through Company Performance

Social responsibility is one of the things that the company must consider. Companies that pay attention to their social responsibility will improve their financial performance. If the disclosure of a company's social responsibility (CSR) is not good, it will cause the company's performance. CSR disclosure will increase the capital structure; where companies with low performance, the possibility of using the cost of debt is high.

The Effect of Governance on Capital Structure through Company Performance

Governance and capital structure are two components that form the basis of a company's economic stability. A company that manages the company well, then the performance a company will also run well. If corporate governance is high, the increase in company compliance in improving company performance will also be higher.

METHOD

This research was conducted on companies members of the Sri-Kehati index listed on the IDX during the observation year, namely 2017-2019. This research data was obtained through the internet site: www.idx.co.id.

The population in this study is companies that are members of the Sri-Kehati Index on the Indonesia Stock Exchange from 2017-to 2019. The total population consists of 25 companies. Sampling in this study uses the purposive sampling method.

The criteria used to select the sample of this study are as follows:

1. Companies listed in the Sri-Kehati Index in 2017-2019.
2. Companies that are not consistently listed in the Sri-Kehati Index for 2017-2019.

From 2017-2019 there were as many as 25 companies each year. By the results of the sample selection above, the number of samples obtained is 19 companies.

Operational Definition Variable

a. Capital Structure

   The capital structure is the mix or proportion of the company's long-term permanent funding, indicated by debt, equity, preferred stock, and common stock. This study uses the Debt Equity Ratio (DER).

b. Company performance

   Company performance is a description of the results or achievements of the company over some time, including the company's operational activities by utilizing its resources to realize the goals, objectives, mission, and vision of the company that has been set. Previously, in this study, researchers used ROA and ROE measuring instruments.

c. Environmental Performance

   Environmental performance is a measurable result of a company creating a good environment. According to Syafrullah and Muharam (2017), the types of measures of environmental performance indicators are generally divided into two groups, namely lagging indicators and leading indicators. The measurement of environmental performance in this study uses the Environmental Disclosure Score.

d. Social Performance

   Social performance is the company's activities in carrying out social responsibility and carrying out the company's operational activities (Almeyda & Darmansya, 2019). In this study, social performance is measured through the company's Social Disclosure Score.

e. Governance

   In this study, governance is measured using the Governance Disclosure Score, which is calculated based on the company's use of accurate and transparent accounting methods and the involvement of stakeholders in voting on important issues.

Data analysis method

The data collected based on the research sample will then be processed using a data processing application, namely PLS. This research was conducted using statistical tests to test hypotheses consisting of measurement model tests, coefficient of determination (R^2) tests, Path analysis, and Bootstrapping tests.

RESULTS AND DISCUSSION

Descriptive statistics

Table 1. Average of Each Variable

	Code	2017	2018	2019	Average
1.	*Environmental*	21.74	24.34	24.78	23.62
2.	*Social*	37.37	40.24	40.78	39.46
3.	*Governance*	59.92	61.93	65.58	62.47
4.	ROA	7.23	7.47	5.92	6.87
5.	ROE	21.53	17.61	17.61	18.91
6.	DER	56.49	65.09	78.17	66.58

Source: Data Processed, 2021

Testing the Measurement Model (Outer Model)

a. Convergent Validity Test

Table 2. Value of Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
Environmental	*1,000*
Social	*1,000*
Governance	*1,000*
Company performance	*0.955*
Capital Structure	*1,000*

Source: Data Processed, 2021

Convergent validity testing can be used with the value of the outer loading or loading factor. An indicator is declared to meet convergent validity in a suitable category if the external loading value is > 0.70. The measure of concurrent validity used in this study is the Average Variance Extracted (AVE) value.

Based on table 5.2 above, the AVE value for all constructs or variables can be seen. The AVE value of environmental, social, governance, and capital structure is 1,000. The AVE value of the company's performance is 0.955. Thus, the AVE value is above 0.5, so the model proposed in this study is considered good.

b. Discriminant Validity Test

Discriminant validity ensures that each construct or latent variable's concept differs from other variables.

Table 3. Value of Discriminant Validity (Cross Loading) Indicator

	Environmental	*Social*	*Governance*	Company performance	Structure Capital
Environmental	**1,000**	0.218	0.098	0.254	-0.167
Social	0.218	**1,000**	-0.096	-0.056	0.007
Governance	0.098	-0.096	**1,000**	-0.295	0.131
ROA	0.252	0.010	-0.311	**0.979**	-0.240
ROE	0.245	-0.126	-0.263	**0.975**	-0.119
DER	-0.167	0.007	0.131	-0.186	**1,000**

Source: Data Processed, 2021

Based on table 3, the cross-loading estimation results show that the correlation value of the construct with its indicators is greater than the correlation value with other constructs. These results can be concluded that all constructs or latent variables already have good discriminant validity.

c. Reliability Test

A construct is said to be reliable if the Cronbach's Alpha value must be > 0.70 and the Composite Reliability value must be > 0.70.

Table 4. Cronbach's Alpha and Composite Reliability Values

	Cronbach's Alpha
Environmental	*1,000*
Social	*1,000*
Governance	*1,000*
Company performance	*0.953*
Capital Structure	*1,000*

Source: Data Processed, 2021

The output results above show the value of Cronbach's Alpha variable Environmental, Social, Governance, and Capital Structure or DER obtained a value of 1,000. At the same time, the company's performance of 0.953 can be concluded that the variable is consistent in measuring the construct because it has a value > 0.70.

Structural Model Testing (Inner Model)

Table 5. Value of Coefficient of Determination

	R Square	*R Square Adjusted*
Company performance	0.192	0.146
Capital Structure	0.063	-0.009

Source: Data Processed, 2021

In structure 1, with the dependent variable of company performance, the coefficient of determination is 0.192 or 19.2%. Then in structure 2 with the capital structure variable, the coefficient of determination is 0.063 or 6.3%. This figure means that the percentage of environmental, social, and governance influence on the capital structure is 6.3%. In addition to looking at the R-square value, the PLS model is also evaluated by looking at the predictive Q-square relevance for the constructive model. Q2 predictive relevance serves to validate the predictive ability of the model.

$Q^2 = 1 - (1 - {R_1}^2)(1 - {R_2}^2)$

$Q^2 = 1 - (1 - 0{,}192)(1 - 0{,}063)$

$Q^2 = 1 - (0{,}808)(0{,}937)$

$Q^2 = 0{,}243$

The results of the Q-Square calculation in this study are 0.243, which means that 24.3% of the independent and intervening variables are feasible to explain the dependent variable, namely company performance.

Evaluation of the Goodness of Fit model is performed to purify and refine the validity or construct reliability test (Ghozali, 2016). The goodness of Fit is used to validate the overall model. This GoF value in the SmartPLS application can be seen from the NFI (Normed Fit Index) matter.

Table 6. NFI (Normed Fit Index) value

	Saturated Model	*Estimated Model*
SRMR	0.031	0.031
d_ULS	0.020	0.020
d_G	0.078	0.078
Chi-Square	29,488	29,488
NFI	0.775	0.775

Source: SmartPLS 3.00 (Data Processed, 2021)

Based on table 6, the GoF value seen from the NFI above obtained a value of 0.755; it is considered to have a large GoF. So it can be said that this research is valid and has good performance.

Table 5.7 Direct Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (|O/STDEV|)	P Values	Hypothesis

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (|O/STDEV|)	P Values	Hypothesis
Environmental→KP	0.323	0.296	0.130	2.483	0.013	Accepted
Social→KP	-0.159	-0.147	0.149	1.064	0.288	Rejected
Governance→KP	-0.342	-0.305	0.171	1997	0.046	Accepted
Environmental→SM	-0.162	-0.169	0.122	1.323	0.186	Rejected
Social →SM	0.048	0.039	0.146	0.329	0.742	Rejected
Governance →SM	0.120	0.113	0.107	1.122	0.263	Rejected
KP→SM	-0.107	-0.143	0.148	0.722	0.471	Rejected

Source: SmartPLS 3.00 (Data Processed, 2021)

Table 5. 8 Indirect Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics O/STDEV|)	P Values	Hypothesis
E→KP→SM	-0.034	-0.030	0.042	0.818	0.414	Rejected
S→KP→SM	0.017	0.017	0.037	0.456	0.648	Rejected
G→KP→SM	0.037	0.036	0.048	0.768	0.443	Rejected

Source: SmartPLS 3.00 (Data Processed, 2021)

Hypothesis Testing Results

Hypothesis testing is done using path analysis or the model made. The SEM technique can simultaneously test complex structural models so that the path analysis results can be seen in one regression analysis. The basics used in testing the hypothesis are the values contained in the output path coefficients to test the structural model. The t-statistic value compared to the t-table determined in this study was 1.96 and was 0.05 (two-tailed).

Effect of Environmental performance on Company Performance

Based on the study results, the environmental performance influences the company's performance was 2.483 with a p-value of 0.013, which means a p-value <0.05. This figure means that environmental performance significantly affects performance because the probability value does not exceed the profitability level of 0.05. It can be concluded that the environment influences the company's performance, so the hypothesis is accepted.

This study finds that environmental disclosure significantly affects company performance and has a positive direction. This result happens because companies with good environmental exposure can create added value for the company. Companies that care and pay attention to the surrounding environment do not harm the company. On the contrary, bringing good things such as getting support from the community can further increase the company's profits and cover the company's profitability and the costs incurred for the environment.

Social Influence on Company Performance

Based on the research results, the p-value is 0.288, which means the p-value > 0.05. This figure means that society has no significant effect on company performance because the probability value exceeds the 0.05 level of profitability. It can be concluded that social has no impact on the company's performance, but the hypothesis is rejected.

This study shows that society has a negative direction on company performance. This result can be caused by an increase in the price of products produced by the company due to the emergence of additional costs for carrying out corporate social responsibility. Other fees cause product prices to increase, so consumers who do not accept these increases will reduce their consumption. This result will lead to a decrease in the company's income, impacting the company's performance. Companies with good social performance can reduce the company risk and improve the company's financial performance and market performance.

Effect of Governance on Company Performance

Based on the research results, the p-value is 0.046, which means the p-value <0.05. This figure means that governance significantly affects company performance because the probability value exceeds the 0.05 level of profitability. It can be concluded that governance does not affect company performance, so the hypothesis is accepted.

Implementation of good corporate governance practices in a company can improve company performance. The research aligns with signaling theory, where companies with good governance and positive signals to external parties will get positive feedback, impacting company performance.

Effect of Environmental on Capital Structure

Based on the study results, the effect of Environmental on Capital Structure is 1.323 with a p-value of 0.186, which means a p-value > 0.05. This figure means that the environment does not significantly affect the capital structure because the probability value does not exceed the profitability level of 0.05. With these results, it can be concluded that the environment does not affect the capital structure, so the hypothesis is rejected.

This study shows a negative direction, which means that the greater the disclosure of environmental performance, the smaller the capital structure. This research does not align with signaling theory which states that companies that give positive signals to external parties will also receive positive feedback. Companies with high use of debt can be interpreted as a negative signal for investors.

Social Influence on Capital Structure

Based on the study results, the social influence on capital structure is 0.048 with a p-value of 0.748, which means a p-value > 0.05. This figure means that society has no significant effect on the capital structure because the probability value does not exceed the profitability level of 0.05. So it can be concluded that social has no impact on capital structure, so the hypothesis is rejected.

Social disclosure of a company needs to be considered to get a positive response from the community towards the company. Suppose the company does not pay attention to its social responsibility. In that case, it will cause a conflict which results in the company spending enormous costs so that the company's profit decreases and the use of debt levels increase so that the company's capital structure increases. This study shows a positive direction which means that the greater the social disclosure, the greater the capital structure.

Effect of Governance on Capital Structure

Based on the study results, the influence of governance on capital structure is 1.122 with a p-value of 0.263, which means a p-value > 0.05. This figure means that GCG has no significant effect on the capital structure because the probability value does not exceed the level of profitability of 0.05. With these results, it can be concluded that governance does not affect the capital structure hypothesis is rejected.

This study found that governance does not affect capital structure. This result is because there is no guarantee that companies with high governance scores are free from the risk of default, and the aspects used to measure the implementation of governance are still varied. This result makes companies and users (creditors) confused about the results. This research does not align with the signaling theory that companies with good governance can give positive signals to external parties, making the company get positive feedback.

Effect of Company Performance on Capital Structure

Based on the study results, the effect of company performance on capital structure is 0.722 with a p-value of 0.471, which means a p-value > 0.05. This figure means that the company's performance does not significantly affect the capital structure because the probability value exceeds the 0.05 level of profitability. It can be concluded that the company's performance does not affect the capital structure, so the hypothesis is rejected.

The study reveals that the company's performance negatively affects the capital structure. This result means that the higher the level of profitability, the lower the company's capital structure. This result shows that large companies have the flexibility to access the capital market to obtain external funds. Companies that have high profits will use relatively low debt.

The Effect of Environmental on Capital Structure through Company Performance

Based on the study results, the effect of environmental mediating company performance on capital structure is 0.818 with a p-value of 0.414, which means a p-value > 0.05. This figure means that there is no effect of the company's performance in mediating the environment on the capital structure because the probability value does not exceed the profitability level of 0.05. With these results, it can be concluded that the company's performance does not play a role in mediating the environment on capital structure, so the hypothesis is rejected.

Based on the indirect test, it was found that the environment affected the capital structure. When mediated by company performance, environmental does not have an insignificant effect on the capital structure of Sri-Kehati index companies.

This result occurs because the company's financial performance is not good and decreases, which impacts the use of debt costs so that the company's capital structure is high. Where environmental disclosure is terrible and causes the company's performance to decline, this will impact the capital structure.

If the company does not care about the surrounding environment, it causes conflict. It then incurs high costs, driving a company's profits to decline and directly lowering its value where its performance deteriorates, leading to high company debt levels.

Previous research examined the relationship between ESG and capital structure. However, few show how this process occurs conducted ESG research on capital structure (Cantino et al., 2017). The results show that the relationship between

ESG sustainability and debt financing is still ambiguous, and there is no clear definition.

Social Influence on Capital Structure through Company Performance

Based on the study results, the effect of social mediating company performance on capital structure is 0.456 with a p-value of 0.648, which means a p-value > 0.05. This figure means that there is no effect of the company's performance in social meditating on the capital structure because the probability value does not exceed the profitability level of 0.05. It can be concluded that the company's performance does not play a mediating social role in the capital structure hypothesis is rejected.

When the company does not have a good relationship with the community and social disclosure is low, this will cause the company's performance to decline, then cause conflict and then incur high costs, causing a company's profits to fall and directly reduce the value of a company where the company's performance deteriorates which ultimately lead to high levels of debt of a company.

The Effect of Governance on Capital Structure through Company Performance

Based on the study results, corporate performance mediating governance on capital structure is 0.768 with a p-value of 0.443, which means a p-value > 0.05. This number means that there is no effect of the company's performance in mediating governance on the capital structure because the probability value does not exceed the profitability level of 0.05. With these results, it can be concluded that the company's performance does not play a role in mediating governance on the capital structure hypothesis is rejected.

Signaling theory explains that companies' reporting is to inform analysts and investors about the company's value. The purpose of the signaling concept is to ensure that stakeholders are aware of the company's superiority over increased commitment to non-financial issues (Reuer et al., 2012).

CONCLUSION

Based on the study results, it can be concluded that the environment influences the company's performance. Social performance does not affect company performance. Governance performance affects the company's performance. Environmental is not proven to affect capital structure. Social performance does not affect capital structure. Governance is not proven to affect capital structure. The company's performance is not proven to affect the capital structure. Environmental performance does not affect the capital structure through the company's performance.

Social performance does not affect the modal system through the company's performance. Governance does not affect the modal structure through the company's performance.

This research still has limitations and shortcomings. Therefore, the author will give some suggestions to further researchers, including for investors and potential investors of companies listed on the IDX to be more careful in implementing and paying attention to the disclosure of ESG aspects. Further researchers can increase the number of samples by adding a range of periods or years of research to find better and generalizable results. Other researchers can expand the sample source for a more comprehensive index such as the JCI and develop objectivity by analyzing groups of at least three people. It is suggested that further research can add indicators or use other hands to project the variables used in this study.

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