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Environmental, Social and Governance (ESG) Disclosures Relationship to Corporate Performance: Philosophical Perspective

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Abstract: This research explores the disclosure of Environmental, Social and Governance (ESG) factors and their relationship with company performance. This research argues that ESG disclosure can influence a company's reputation, financial performance, analyst forecast accuracy, market valuation, and corporate decisions. By using ontological, epistemological and axiological approaches in the field of accounting, this research aims to understand the relationship between ESG disclosure and company performance. The literature review method was used to identify and evaluate relevant previous research. The findings indicate that there is a consensus in the literature regarding the positive relationship between ESG disclosure and corporate financial performance. This research also combines the ESG Rating Model and Environmental, Social and Governance indicators developed by MSCI to assess companies' ESG performance. A philosophical understanding of ESG in terms of ontology, epistemology, and axiology—which relate to the nature of reality, theories of knowledge, and values—reveals that ESG is closely related to moral, economic, and social values, as well as factual and normative knowledge. This research concludes that companies that integrate good ESG practices not only fulfill their social and environmental responsibilities but also achieve better financial performance, emphasizing the importance of ESG as a strategic consideration in business and investment decision-making and the long-term survival of companies.

Keywords: Environmental, Social, Governance, Company performance,

Introduction

ESG (Environmental, Social and Governance) disclosure plays an important role in company performance in various ways and perspectives from its stakeholders which are often related to ethics, morals and responsibility from the company to its stakeholders, both internal and external parties. Good ESG disclosure is often associated with better ESG performance as well as overall company performance. Good ESG practices can play an important role in company performance in several ways (Brooks & Oikonomou, 2018; Sugiarto et al., 2023): a). Improved Transparency and Reputation: Good ESG disclosure is often associated with better ESG performance as well as overall company performance, which can improve reputation and trust from stakeholders, b). Relationship with Financial Performance: There is a positive and statistically significant relationship between corporate social performance (CSP) and financial performance, c). Accuracy of Analyst Forecasts: ESG disclosures, particularly those relating to the environment, have been associated with increased

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accuracy in analyst forecasts of earnings, which can reduce uncertainty and possibly influence stock prices, d). Influence on Market Valuation: ESG disclosure can strengthen the relationship between ESG and market valuation, especially when the CEO's power within the company is higher, indicating that strong leadership and commitment to ESG from the executive level can increase positive perceptions from investors, e). Corporate Decisions: ESG disclosures are linked to important corporate decisions such as executive remuneration and mergers and acquisitions, indicating that good ESG practices can influence a Company's strategic decisions (Adeneye et al., 2023; Asimakopoulos et al., 2023; Qu & Zhang, 2023).

Overall, study literature has reached a consensus that there is a significant positive relationship between ESG disclosure and corporate financial performance (Asimakopoulos et al., 2023; Aydogmus et al., 2022; Chen et al., 2023; Gao et al., 2023; Giannopoulos et al., 2022; Pullin et al., 2022; Qu & Zhang, 2023; Rao et al., 2023; Tekin & Guclu, 2023; Velte, 2017). This research will focus on understanding how ethics, morals, knowledge and understanding of the relationship between ESG disclosure (Environmental, Social, Governance) and company performance will then be developed using the ontology, epistemology and axiology approaches (Burrell & Morgan, 1985). In the context of ontology, this research assumes that the relationship between ESG disclosure and company performance is a reality that can be observed and measured. The ontology approach in accounting science will ask whether ESG is a real entity that can influence company performance? In this case, ESG is considered a real aspect of a company's operations that has a direct and indirect impact on the company's financial and non-financial performance. This includes how companies interact with the environment, how they manage social relationships, and how corporate governance is implemented (Gao et al., 2023; Rao et al., 2023). This research will also take an approach based on epistemology positivism, which assumes that knowledge can be obtained through measurement and analysis of empirical data (Burrell & Morgan, 1985). This research attempts to understand the relationship between ESG disclosure and company performance in an objective and measurable way. Therefore, from an epistemological perspective, the focus is on knowledge and understanding of ESG and company performance. This relates to how ESG information is collected, analyzed and understood in the context of accounting and decision making (Pulino et al., 2022). The epistemology in this research will explore the methodology used to measure and report the impact of ESG on company performance, as well as how this knowledge can be used by investors, regulators and other stakeholders.

In addition, this research will discuss moral and ethical values in ESG disclosure, axiology can be a relevant factor. Axiology reflects ethical, moral, or value considerations in the context of research. In this case, axiology is related to ethical considerations in responsible business practices and the social and environmental impacts carried out by the Company for future sustainability. In the context of axiology, ESG disclosure (Environmental, Social, and Corporate Governance) is closely related to the values and ethical goals carried out by the Company (Brooks & Oikonomou, 2018). Meanwhile, Axiology questions what values are considered important and how these values are reflected in business practices, including in disclosing information to stakeholders (Burrell & Morgan, 1985; DeWitt, 2018; Nezhnikova & Chernyaev, 2023).

Therefore, the aim of this research is how environmental, social and corporate governance factors (Environmental, Social, and Governance), will be analyzed for harmony, suitability, compatibility, and balance in a harmonious manner using an ontological, epistemological and axiological approach. This relates to how companies integrate ESG disclosures into financial reports and how this reflects the Company's overall performance (Brooks & Oikonomou, 2018; Rao et al., 2023). ESG disclosure reflects a company's commitment to social and environmental responsibility and good corporate governance. By disclosing ESG information, a company shows its willingness to be responsible for the impact of its operations on the environment and society, as well as its commitment to ethical and transparent governance practices (Bressan, 2023; Chen et al., 2023; Li et al., 2023; Zhao et al., 2023). So that effective ESG disclosure can provide the information needed for analysis and assessment of company performance, which in turn can influence investment decisions and market perceptions of the company. Thus, harmony in ontological, epistemological and axiological analysis in accounting science will emphasize the importance of accurate and trustworthy ESG disclosure which will have a good impact on company performance.

Literature Review

Philosophical Perspective

From a philosophical perspective, the relationship between ESG (Environmental, Social, and Governance) disclosures and company performance can be examined through the lens of the philosophy of the social sciences (Halliday, 1996). Halliday suggests that the study of international relations, and by extension, the broader social

sciences, should be grounded in a thorough understanding of the philosophy of the social sciences. This grounding helps in critically analyzing methodologies and ethical considerations in research, which are crucial for understanding the impact of ESG disclosures on company performance (Burrell & Morgan, 1985; DeWitt, 2018; Nezhnikova & Chernyaev, 2023). The importance of ethical critique in the analysis of social phenomena, including corporate performance in relation to ESG disclosures, is emphasized. Halliday argues for a more rigorous ethical work in international relations, which can be applied to the study of ESG disclosures by highlighting the need for ethical considerations in corporate practices and their reporting. This approach suggests that the ethical dimension of ESG disclosures is not just about compliance or marketing, but about genuinely contributing to societal well-being (Halliday, 1996).

Furthermore, the principle of not confusing reality with wishful thinking, as mentioned by Halliday, is pertinent. This principle cautions against assuming that the mere act of disclosing ESG practices will automatically lead to improved company performance. Instead, it suggests a more nuanced relationship where the quality, authenticity, and impact of these disclosures on stakeholders play a critical role (Burrell & Morgan, 1985; DeWitt, 2018; Nezhnikova & Chernyaev, 2023). The most important background theory for this research, based on the philosophical perspective provided, is the emphasis on ethical critique and the philosophy of the social sciences. This theoretical background insists on a comprehensive and critical approach to understanding the social and ethical implications of ESG disclosures, beyond mere quantitative analysis. It highlights the need for a deep, philosophical understanding of the motives, impacts, and ethical considerations underlying ESG practices and how they relate to company performance (Smith, et al., 1996). In conclusion, from a philosophical perspective, the relationship between ESG disclosures and company performance is deeply intertwined with ethical considerations and the broader philosophical underpinnings of social science research. The critical examination of methodologies and the emphasis on ethical critique stand out as the most important background theory for understanding this relationship

Ontological, Epistemological, and Axiological

Ontological, epistemological, and axiological analyses are fundamental components of research that delve into the nature of reality, the theory of knowledge, and the study of values, respectively. These analyses are crucial in shaping the research design, methodology, and interpretation of findings (DeWitt, 2018). 1). Ontological Analysis concerns itself with the nature of reality and being. It asks questions about what exists, the nature of entities and their relationships, and how these may differ across various worldviews. For instance, an ontological analysis in the history and philosophy of science might explore the shift from the Aristotelian to the Newtonian worldview, examining how these differing ontologies underpin what is considered real or true in each paradigm. 2). Epistemological Analysis focuses on the theory of knowledge. It investigates the nature, origin, and limits of knowledge. Questions of how we know what we know, what justifies our beliefs, and the distinction between empirical facts and philosophical/conceptual facts are central to epistemological analysis. In the context of scientific research, this involves examining the scientific method, reasoning, truth, evidence, and the role of falsifiability and realism versus instrumentalism. The theory-ladenness of observation, for example, illustrates how our theoretical commitments influence our perceptions and interpretations of empirical data. 3). Axiological Analysis pertains to the study of values, including ethics, aesthetics, and value theory. In research, axiological considerations influence the choice of what is studied, how it is studied, and how findings are reported. This analysis is concerned with the values that underpin research decisions, the ethical treatment of research subjects, and the implications of research findings on societal values. While the cited sources primarily focus on ontological and epistemological issues, the importance of recognizing the role of values in scientific inquiry can be inferred. For example, the transition from the Aristotelian to the Newtonian worldview not only involved shifts in ontological and epistemological assumptions but also reflected changes in the values that guided scientific inquiry, such as the value placed on empirical evidence over philosophical speculation (DeWitt, 2018).

Environmental, Social, and Governance (ESG)

Environmental, Social, and Governance (ESG) Rating Models and indicators developed by MSCI are a framework used to assess the extent to which companies manage the risks and opportunities associated with ESG factors. This model covers various issues divided into three main pillars: environmental, social and governance. Each pillar has specific indicators that are used to assess the company's ESG performance (Sugiarto et al., 2023).



Figure 1. ESG rating model & indicator (Sugiarto et al., 2023)
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Harmony of philosophy with ontological, epistemological and axiological approaches are three different but interrelated branches of philosophy (Burrell & Morgan, 1985): a). Ontology is concerned with the nature of reality and what exists. In an ESG context, this can include questions about what exactly is meant by 'environment', 'social' and 'governance' and how these realities exist and interact in a business context; b). Epistemology is concerned with the theory of knowledge, how we know what we know. In an ESG context, this may include the methods and processes used to collect, analyze and assess ESG data; c). Axiology is concerned with values and what is considered valuable or good. In an ESG context, this can include the values underlying a company's decisions and actions related to environmental, social and governance issues.

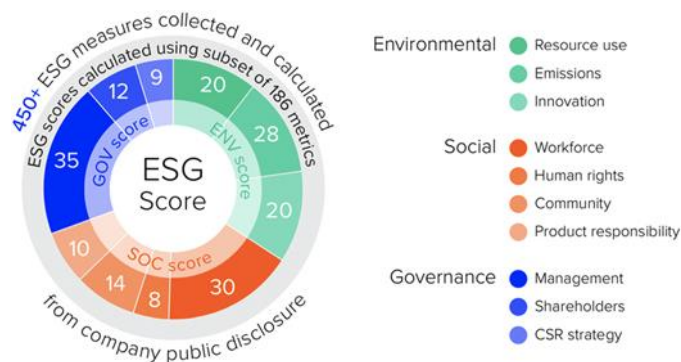


Figure 2. ESG categories (D'Amato et al., 2022)

Method

This research method uses Literature review, Research with methods literature review refers to the process of collecting, evaluating, and synthesizing previously published research results on a particular topic in the business field (Snyder, 2019). This research will emphasize the importance of implementing Literature review systematically and transparently, with clear steps starting from design, implementation, analysis, to writing review results (Snyder, 2019). Through Literature review, Researchers can identify and evaluate various studies that have been carried out previously, which help in building a more comprehensive understanding regarding ESG disclosures in relation to company performance which will be analyzed for their suitability or harmonization in philosophical science with ontological, epistemological and axiological approaches.

Researchers will search for literature relevant to the topic of ESG disclosure and company performance, including journal articles, books and other sources related to ESG and company performance, after which they will be analyzed using a philosophical science approach, namely ontology, epistemology and axiology in

accounting science. Researchers will then evaluate the quality and relevance of these studies and see their relationships and relevance to each other, as well as identify patterns, themes, and gaps in existing research. Literature reviews also allow researchers to place their research in a broader context, by comparing and contrasting findings from previous studies with the results of other studies. This helps in validating or comparing existing findings, as well as in developing arguments and connecting ESG disclosure and Company Performance into a philosophical approach.

This research reveals that there is a consensus in the literature that shows a positive relationship between ESG disclosure and company financial performance. This research uses these findings as a basis for understanding how ESG disclosures can be integrated into financial reports and how they reflect a company's overall performance. Overall, Literature review is an important method in this research because it provides a theoretical and empirical framework that supports ontological, epistemological and axiological analysis in accounting science, especially related to ESG disclosure and Company Performance. The data for this article uses articles published internationally and indexed by Scopus related to ESG and Corporate Performance. Search data from Scopus accessed on December 8, 2023 with the keywords "ESG AND to AND Corporate AND Performance" and produced 1,199 articles. However, the researcher made specifications and filters regarding the results of the articles found to be 20 articles that were most appropriate to the topic raised and most appropriate to the researcher's topic for Ontological, Epistemological and Axiological analysis.

Results and Discussion

Ontological, Epistemological and Axiological Analysis

Harmony between ESG Categories and Indicators points with Ontological, Epistemological and Axiological Analysis: 1). Ontological: as an environmental pillar (Environmental) covers issues such as climate change, resource use, and biodiversity. Social pillar (Social) covers issues such as human rights, labor, and community. Governance pillars (Governance) covers issues such as leadership structure, compensation, and shareholder rights. An ontology in an ESG context would ask about the nature of these issues and how they influence and are affected by business practices. 2). Epistemological: The MSCI ESG model uses various indicators to measure a company's ESG performance. Epistemology in this context would ask how knowledge about ESG performance is obtained, verified and interpreted. This includes the assessment methodology, data sources, and validity of the measurements used to assess a company's ESG performance. 3). Axiological: Axiology in an ESG context will ask about the values underlying a company's decisions and actions related to environmental, social and governance issues. This includes consideration of the values that drive companies to adopt ESG practices, as well as how these values are reflected in company policies and actions. Axiology also relates to how investors assess companies based on their ESG performance and how this influences investment decisions (D'Amato et al., 2022).

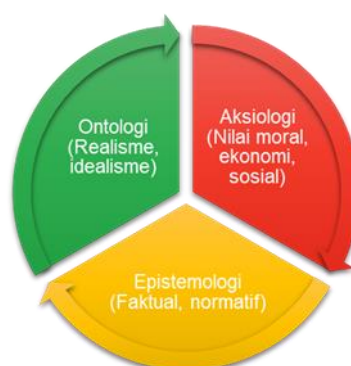


Figure 3. Harmonious philosophy of science
Harmony of philosophy of science, processed data (2023)

ESG and company performance have a close relationship (Chen et al., 2023; Li et al., 2023; Sugiarto et al., 2023). ESG can improve company performance by increasing efficiency and productivity, increasing competitiveness, and improving reputation and relationships with stakeholders. This relationship is based on moral, economic and social values, as well as factual and normative knowledge. Therefore, this is in accordance with harmony in the philosophy of science with the approaches of Axiology, Epistemology and Ontology, as explained in figure 3.

Axiological Analysis

Axiology has a role where ESG has moral value because it aims to realize sustainable development. Company performance also has moral value because it shows how the company is responsible for the environment and society (Burrell & Morgan, 1985; DeWitt, 2018; Nezhnikova & Chernyaev, 2023). So Relationship: ESG which focuses on environmental and social aspects can improve company performance by increasing efficiency and productivity. For example, companies that implement good waste management practices can save on waste disposal costs.

Epistemological Analysis

Epistemology measures various things that can be observed and measured quantitatively, such as greenhouse gas emissions, pollution levels, and work accident rates. This shows that ESG is based on factual knowledge. Company performance can also be measured quantitatively, such as net profit, revenue and market value (Burrell & Morgan, 1985; DeWitt, 2018; Nezhnikova & Chernyaev, 2023). This shows that company performance is also based on factual knowledge. Relationship: ESG, that focuses on governance aspects can improve company performance by increasing competitiveness. For example, companies that implement good governance practices are considered to have a lower risk of corruption and misuse of resources.

Ontology Analysis

Ontology explains that ESG assumes that reality exists objectively, independent of human perception. This is demonstrated by the fact that ESG measures a variety of things that can be objectively observed, such as greenhouse gas emissions and pollution levels. Company performance can also be observed objectively, such as net profit, revenue and market value (Burrell & Morgan, 1985; DeWitt, 2018; Nezhnikova & Chernyaev, 2023). This shows that company performance is also based on a realism ontology. Relationships: ESG, that focuses on environmental and social aspects can improve company performance by improving reputation and relationships with stakeholders. For example, companies that implement good labor practices are considered to have better relationships with their employees.

Final Analysis, based on *literature review* ESG and company performance have a close relationship. ESG can improve company performance by increasing efficiency and productivity, increasing competitiveness, and improving reputation and relationships with stakeholders (Burrell & Morgan, 1985; D'Amato et al., 2022; DeWitt, 2018; Suaedi, 2016; Sugiarto et al., 2023; Suseno, 2016). This relationship is based on moral, economic and social values, as well as factual and normative knowledge. The following are several specific examples of how ESG can improve company performance which is linked to the science of philosophy with the approaches of axiology, epistemology and ontology which have been carried out above. Therefore, this research concludes the harmony of the philosophy of science related to ESG and its relationship to company performance, where the ontology approach will help us understand the basic concepts and reality of ESG issues that will be applied in a company, the epistemology approach will help us understand how we know and measuring these issues, and an axiological approach will help us understand the values that underlie the actions taken by companies and investors in ESG disclosures that have been carried out. It also includes ethical considerations and corporate social responsibility in their operational activities.

Harmonious Analysis of the Philosophy of Science: ESG in relation to Company Performance

In practice, the ESG Rating Model and Indicator by MSCI will assess companies based on the indicators that have been determined for each ESG pillar. For example, within the environmental pillar, companies might be assessed based on their carbon emissions, energy use, and the environmental impact of their products. Within the social pillar, companies may be assessed based on their workforce policies, community involvement, and the social impact of their operations. Meanwhile, in the governance pillar, companies may be assessed based on their leadership structure, anti-corruption policies and shareholder rights. Therefore, Ontological, Epistemological and Axiological approaches can help us to understand the basic concepts and reality of ESG issues, epistemology will help us understand how we know and measure these issues, and axiology will help us understand values underlying the actions taken by companies and investors in the ESG context.

Research conducted by Sugiarto et al. (2023), show that ESG leverage has an influence on stock performance on the Indonesia Stock Exchange, which indicates that investors are increasingly paying attention to ESG aspects in their investment decisions. This shows that ESG-related values are increasingly recognized as an important factor in assessing company performance and investment decisions. Thus, ontological, epistemological, and axiological analyzes provide a useful framework for understanding and evaluating how companies and investors interact with ESG issues and how this affects the performance of an organization.

Axiological perspective, ESG disclosure can improve company performance in several ways (Nezhnikova & Chernyaev, 2023): a). Improve Company Reputation and Image: Good ESG disclosure can strengthen a company's reputation in the eyes of investors, consumers and the general public, which in turn can increase trust and loyalty towards the Company; b). Attracting Investment: Investors are increasingly considering ESG factors in their investment decisions. Companies that have a strong ESG track record tend to be more attractive to socially responsible investors; c). Reducing Risk: Transparent ESG disclosure can help companies identify and manage environmental and social-related risks before they escalate into larger problems, thereby reducing potential financial losses; d). Improving Financial Performance: Several studies show a positive correlation between strong ESG practices and a company's financial performance, as these practices are often related to the management and performance of the Company.

Ontological and epistemological perspectives, the relationship between ESG disclosure and company performance is related to the nature or reality of ESG and company performance. ESG disclosure reflects the company's operational realities related to environmental, social and corporate governance aspects (D'Amato et al., 2022; Sugiarto et al., 2023). In the ontology of accounting science, ESG is considered a real entity that has a direct and indirect impact on company performance. For example, sustainable environmental practices can reduce operational costs and legal risks, while good governance can increase efficiency and investor confidence. The Epistemological Perspective concerns knowledge and understanding of ESG and company performance. In this case, epistemology would explore how ESG information is collected, analyzed, and understood by companies and stakeholders (Burrell & Morgan, 1985; Chen et al., 2023; Gao et al., 2023). Transparent ESG disclosure allows stakeholders to assess how companies manage ESG aspects and their potential impact on the company's financial and non-financial performance. This knowledge is important for investors who are increasingly considering ESG factors in their investment decisions.

Conclusion

Ontological, epistemological and axiological analysis of the relationship between ESG and company performance can provide a deeper understanding of how and why ESG influences company performance: a). From an ontological perspective, ESG concerns the basic realities of how companies operate in environmental, social and governance contexts. The ESG ontology questions the nature of companies' responsibilities towards these issues and how these responsibilities are integrated in their business practices. Studies show that companies with strong ESG practices tend to have better financial performance, indicating that ESG is an integral part of the operational reality of successful companies, b). In an epistemological context, the question that arises is how we know and measure the impact of ESG on company performance. ESG models and indicators, such as those developed by MSCI, provide a framework for collecting and analyzing ESG-related data. Research has shown that ESG information transparency is positively correlated with corporate efficiency. Therefore, knowledge about ESG practices and their impact on company performance is based on systematic measurements and detailed data analysis, c). Axiology relates to the values that underlie a company's ESG-related decisions and actions. This includes values such as sustainability, social responsibility, and integrity. Companies that adopt ESG principles often do so because these values are considered important by their stakeholders, including investors.

From the perspective of the philosophy of accounting science, this relationship can be understood through ontological, epistemological, and axiological lenses (Burrell & Morgan, 1985): ESG disclosure reflects the broader reality of corporate operations, which is not only limited to the creation of economic value but also includes responsibility social and environmental. This shows that companies operating within an ESG framework have a more holistic understanding of their presence and impact in the world. Knowledge about ESG is obtained through systematic research methods, such as panel data regression and surveys, which are used to measure the impact of ESG scores on stock performance. This shows that knowledge about ESG can be measured and validated through rigorous research methodology. Such as the axiological approach where ESG disclosure reflects the values adhered to by the company, such as social responsibility, environmental

sustainability and good governance. These values guide the actions and decisions of companies and investors, who are increasingly considering ESG in their investment strategies (Sugiarto et al., 2023).

In conclusion, the harmony of the philosophy of accounting science in the context of ESG disclosure and company performance shows that companies that integrate good ESG practices not only fulfill social and environmental responsibilities but can also achieve better financial performance. This emphasizes the importance of ESG as a strategic consideration in making business and investment decisions as well as the company's survival in the future.

Scientific Ethics Declaration

The authors declare that the scientific ethical and legal responsibility of this article published in EPESS Journal belongs to the authors.

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