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# THE INFLUENCE OF MACROECONOMICS AND ESG PERFORMANCE ON FINANCIAL DISTRESS IN COMPANIES LISTED IN THE SRI-KEHATI INDEX

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## Abstract

*Global and national economic conditions constantly fluctuate due to government policies, natural conditions, politics, and market sentiment. Such economic downturns can affect corporate financial stability. Companies that fail to implement appropriate strategies during these conditions are vulnerable to financial distress. Implementing Environmental, Social, and Governance (ESG) aspects can serve as a mitigating factor against the risk of financial distress caused by macroeconomic shocks. This study aims to analyze the macroeconomic effects—proxied by inflation, exchange rates, and economic growth—and ESG performance on financial distress in companies listed on the SRI-KEHATI Index during the 2020–2024 period. The sampling method employed is purposive sampling. The data analysis method used is panel data regression processed using EViews 12. The results indicate that inflation has a significant positive effect on financial distress, and ESG performance has a significant negative effect on financial distress. Meanwhile, exchange rates and economic growth have no significant effect on financial distress.*

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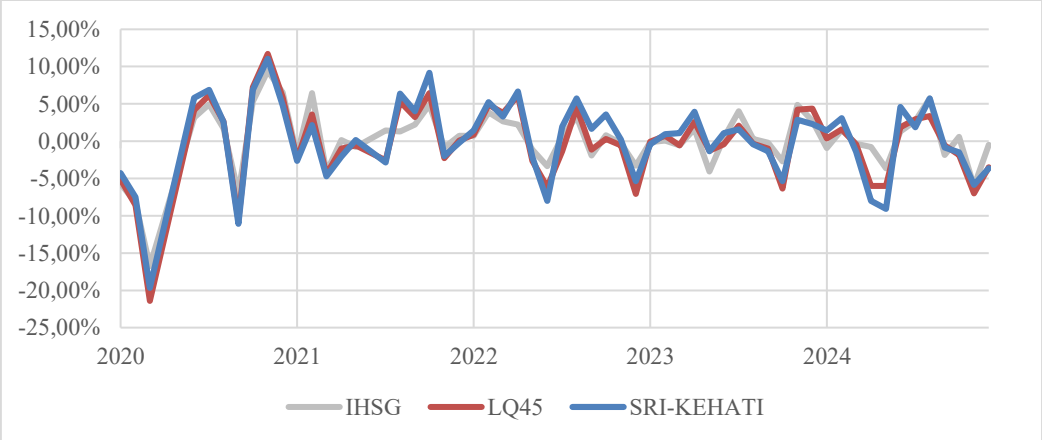
## INTRODUCTION

The global and national economies have faced various complex challenges in recent years. Several countries have experienced economic downturns due to the trade war between China and Europe, increased import tariffs, and political tensions in the Middle East and Central Asia. These conditions have also impacted the Indonesian economy, reflected in the weakening rupiah exchange rate, fluctuating inflation rates, stagnant economic growth, and rising interest rates. Despite these volatile conditions, understanding how macroeconomic shocks directly interact with a firm's internal default risk remains a critical research gap, especially for companies committed to sustainable practices.

This situation can pose risks to a company's financial stability and business continuity across various sectors. In general, macroeconomic conditions can lead to market uncertainty, cost fluctuations, and reduced profitability. Prolonged macroeconomic pressures on a company's financial condition can increase the company's risk of financial distress. Financial distress occurs when a company is unable to meet its financial obligations, leading to decreased profitability, increased liquidity pressures, and unstable cash flow (Nurjanah & Darmawan, 2024; Say, 2024). Study by Mahesh et al. (2025) shows a link between macroeconomics and the risk of financial distress, as indicated by GDP and inflation, which have been shown to influence financial distress. In addition, research by Hendrawan et al. (2022) states that exchange rates influence financial distress. This indicates that macroeconomic instability is a matter of concern for companies because it can increase the risk of financial distress.

The SRI-KEHATI Index is a stock index on the Indonesia Stock Exchange that selects issuers based on the principles of Sustainable Responsible Investment (SRI) and Environmental, Social, and Governance (ESG) factors (SRI-KEHATI, 2024). Judging from its stock performance, the SRI-KEHATI index has shown good performance since its inception. The SRI-KEHATI index's stock performance for the 2020-2024 period is presented in Picture 1.

**Picture 1.** Comparison of the Jakarta Composite Index (JCI), the LQ45 Index, and the SRI-KEHATI Index 2020-2024




*Source: processed from Investing.com (2024)*

Picture 1 shows that the SRI-KEHATI index fluctuated throughout the 2020-2024 period. In 2020, the economic downturn due to the pandemic resulted in significant

declines across all indices. Despite this, the SRI-KEHATI index showed a faster recovery than the JCI and LQ45. This indicates that the SRI-KEHATI index has good performance and prospects. This is in accordance with research by Handoko and Michaela (2021) which states that the SRI-KEHATI index has outperformed other stock indexes by an average of 10%. Furthermore, in terms of financial performance, companies listed on the SRI-KEHATI index outperform companies not listed on the SRI-KEHATI index (Kusumawati & Warastuti, 2020).

In times of economic uncertainty, such as during a pandemic, investors tend to avoid risk by choosing more stable companies. Investors are more attracted to companies that prioritize environmental sustainability and implement good corporate governance, thus deeming these companies more stable (Aich et al., 2021). In addition to gaining investor trust, implementing ESG can help companies improve their reputation, maintain competitive advantage, increase operational efficiency, and ensure long-term sustainability (Fani et al., 2025; Sousa et al., 2023).

Therefore, companies that implement ESG can maintain their financial stability despite facing pressure from macroeconomic factors. According to Alandejani and Al-Shaer (2023), macroeconomic uncertainty can encourage companies to be more active in implementing ESG aspects because it can be a strategy to mitigate financial risk and maintain company value. ESG implementation can also be a strategic step for companies to reduce the risk of financial distress amid economic uncertainty. This is in line with research by Sastroredjo and Suganda (2025) which states that ESG activities have been proven to reduce the potential for financial distress. Habib (2023) also stated that ESG performance is an important factor in reducing the possibility of bankruptcy in companies.

The implementation of ESG in companies is becoming a global and national focus. This is reflected in Financial Services Authority Regulation (POJK) No. 51 of 2017 concerning the implementation of sustainable finance for Financial Services Institutions (LJK), issuers, and public companies as a form of transparency and accountability for environmental, social, and corporate governance performance. ESG implementation in Indonesia is not limited to meeting market expectations and mitigating the risk of financial distress but is also part of a national policy that companies must implement.

In previous research, fluctuations in macroeconomic conditions will disrupt the stability of the financial system in companies (Viphindrartin, 2021). Likewise, ESG performance enables companies to be more resilient to financial pressures that arise during economic crises (Hwang et al., 2021). In addition, ESG can also maintain public trust, improve company performance, and ensure long-term corporate sustainability, thereby avoiding financial distress (Fani et al., 2025; Maulana et al., 2024).

However, several studies show that macroeconomic conditions, namely exchange rates and GDP, do not affect financial distress (Ceylan, 2021). In other studies, inflation also had no effect on financial distress due to the company's ability to manage its finances well (Pujianty & Khairunnisa, 2021). According to Ramadhan and Lestari (2025), some companies also disclose ESG in sustainability reports only as a form of greenwashing, so that ESG disclosure does not improve the company's financial stability because it fails to form a positive perception from stakeholders.

Based on the background and inconsistencies of previous research, this study focuses on companies listed in the SRI-KEHATI index because it comprises companies with strong ESG performance. ESG performance is known to be a factor that can reduce a company's risk of financial distress due to economic shocks. Therefore, the SRI-KEHATI index was chosen as the object of this study to examine the extent to which

macroeconomic factors can influence financial distress in companies with strong ESG performance and to examine the direct impact of ESG performance on financial distress.

**Signal Theory**

Signaling theory was first developed by Spence (1973). This theory explains that in conditions of information imbalance, the party with the information can send signals to other parties. Signals are actions that can be observed by other parties and are used to indicate quality or ability (Spence, 1973). Then, the signaling theory in financial markets was introduced by Stephen Ross in 1997. Ross (1997) suggests that a company's decisions regarding debt and equity can be a signal about its business prospects.

Positive company signals perceived by investors will aid in the investment decision-making process. Positive signals received by investors improve their perception of the company and drive increased demand for shares in market transactions, leading to higher share prices and ultimately increased company value (Safriani & Utomo, 2020). In the context of this research, ESG disclosure is a positive signal from a company to investors and stakeholders, demonstrating its commitment to sustainability and long-term risk management.

**Legitimacy Theory**

Companies need to pay attention to the surrounding community and environment to ensure the continuity and sustainability of the company. This is in line with legitimacy theory, which states that companies have a responsibility to carry out their activities in accordance with the principles of justice recognized by society and to respond to the interests of various stakeholders in order to gain legitimacy (recognition) for every action they take (Badjuri et al., 2021). According to Dowling and Pfeffer (1975), if there is a mismatch between the company's value system and the social values of society, it will pose a threat to the company's legitimacy, which can take the form of legal sanctions, economic pressure, or other social sanctions. To gain legitimacy, companies must be responsible for addressing social issues, such as the environment, health, and safety of employees (Roestanto et al., 2022).

**Financial Distress**

Financial distress is a decline in a company's performance that precedes more serious conditions, such as bankruptcy or liquidation. Indicators of a company experiencing financial distress include the inability to generate sufficient cash for operating expenses, investments, and long-term debt repayment, as well as increased liquidity pressure. Financial distress can be caused by internal factors, including corporate profitability, the size of the board of directors, institutional ownership, liquidity, and debt ratios. Additionally, financial distress can be caused by external factors, such as macroeconomic variables, industry pressures, market situations, legal issues, and international business involvement.

According to Richer in Michalkova et al. (2018), there are three levels of decline in a company's financial health:

a. Economic distress: The initial stage of declining financial health, reflecting problems in the company's economic or operational performance. At this stage, the company is unable to generate a return commensurate with the risks and capital invested, or the company's operational performance begins to decline significantly.
b. Financial distress: A condition where the company is unable to meet all of its financial obligations. The company may still have positive cash flow projections

for the future, but the current value of those cash flows is insufficient to cover all liabilities.

c. Liquidity distress: A condition where the company is unable to meet short-term obligations, even though the Net Present Value (NPV) of its expected future cash flows exceeds total liabilities. The company has not yet experienced business failure but is at risk of doing so if there are delays in debt repayment or if it fails to obtain necessary liquid funds.

**Macroeconomics**

Macroeconomics is a branch of economics that studies the economy as a whole, focusing on the formation and changes in aggregate economic activity over time, as well as the impact of economic policies on public welfare. The scope of macroeconomics focuses on aggregate economic phenomena and analyzes various economic problems comprehensively. Macroeconomic analysis aims to achieve economic stability, control inflation rates, and reduce unemployment through the formulation of effective policies.

Macroeconomic conditions in every country constantly fluctuate. Every country is generally faced with a number of macroeconomic challenges, including uneven economic growth, unstable economic conditions, high unemployment rates, inflationary pressures, and imbalances in the balance of trade and balance of payments. A country's economic stability can be maintained through the strategic role of fiscal and monetary policies, which consist of managing state expenditure, tax revenue, regulating the money supply, and controlling interest rates. Coordination between fiscal and monetary policies contributes to increased economic growth, the protection of public purchasing power, and the creation of price and exchange rate stability.

a. Inflation

Inflation is a condition where the prices of goods and services rise continuously over a certain period. The indicator used to measure the inflation rate is the Consumer Price Index (CPI). In Indonesia, inflation is influenced by several factors, such as increases in the money supply, government budget deficits, constraints in aggregate supply, external pressures, interest rates, and exchange rates. Low and stable inflation rates are vital to the economy because high inflation risks reducing public purchasing power, increasing economic uncertainty, weakening the rupiah exchange rate, and threatening the stability of the financial sector.

b. Exchange Rate

The exchange rate is the agreed-upon price of one currency against another between two countries or regions for current or future transactions. According to Mankiw (2023), there are two types of exchange rates: nominal exchange rates and real exchange rates. The nominal exchange rate shows the amount of currency received when exchanging one country's currency for another. Meanwhile, the real exchange rate shows the amount of currency that can be exchanged for goods and services from one country against goods and services from another.

c. Economic Growth

Economic growth is a macroeconomic indicator used to assess the economic progress of a country. Economic growth is a long-term process characterized by an increase in output per capita through increased production capacity and sustainable national income. In economic literature, growth theory has evolved from classical theory to modern economic growth theory. Classical theory, such as Adam Smith’s, emphasizes population growth as a driver.

Meanwhile, modern growth theory developed by Walt Whitman Rostow states that economic growth consists of five stages: the traditional society, the precondition for take-off, the take-off, the drive to maturity, and the age of high mass consumption. Several factors that can influence economic growth include the labor force participation rate, unemployment levels, household consumption, government expenditure, and the volume of exports.

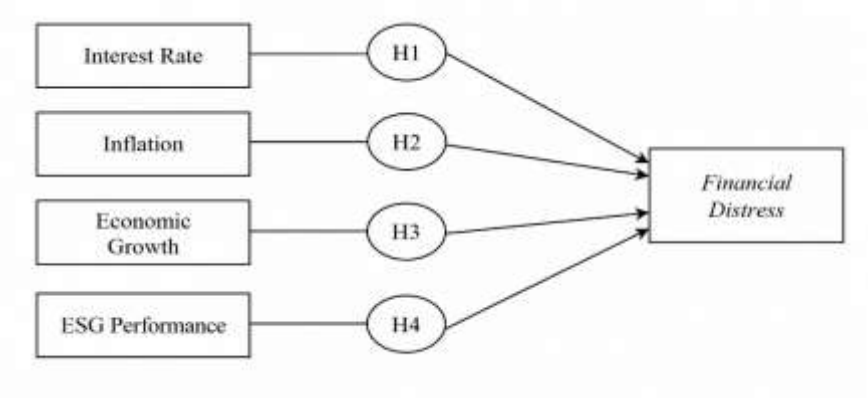
**Environmental, Social, and Governance *(ESG)***

The term ESG first appeared in a report titled "Who Cares Wins," published by the United Nations Global Compact (UNGC) in 2004, with the goal of emphasizing the importance of integrating environmental, social, and governance factors into investment decision-making processes. The environmental aspect includes various company actions to minimize negative impacts on the environment resulting from operational activities, such as energy usage control, waste and emission management, natural resource conservation, and ecosystem protection. The social aspect covers the company's role in building relationships with various parties, such as employees, local communities, legal institutions, suppliers, and consumers. Meanwhile, the governance aspect encompasses the company's internal management system, which must be transparent, responsible, and oriented toward sustainability. The goal of ESG is to build a resilient financial market, support sustainable development, improve understanding among stakeholders, and strengthen trust in financial institutions.

In line with signaling theory, ESG performance serves as a positive signal for a company that can attract new investors and signal to the public that the company is prioritizing sustainability aspects. Furthermore, companies that implement ESG benefit from increased profits, improved risk management, innovation, and a contribution to creating a sustainable society.

In accordance with these theoretical underpinnings, this study proposes four hypotheses to investigate the impact of macroeconomic variables and ESG performance on financial distress. The framework for this research is illustrated in the model shown in Picture 2.

**Picture 2**. Research Model




Based on the description of the background, literature review, and theoretical framework that has been explained, this study formulates three hypotheses as follows:

H1: Inflation has an effect on financial distress

H2: Exchange rates have an effect on financial distress

H3: Economic growth has an effect on financial distress

H4: ESG performance has an impact on financial distress.

## METHOD

This study uses a quantitative approach with panel data regression analysis processed using Eviews 12 software. The sampling method in this study is purposive sampling with the following criteria: companies consistently listed in the SRI-KEHATI index during the 2020-2024 period; non-financial companies because they have different disclosure indicators from the real sector; and companies that publish complete financial reports and sustainability reports during the 2020-2024 period. Based on the sampling criteria, there are 6 companies used as samples in this study. The list of companies selected as samples in this study is presented in Table 1.

**Table 1**. Presents the list of sample companies

| No | Kode Emiten | Perusahaan | Sektor |
|---|---|---|---|
| 1. | JSMR | Jasa Marga (Persero) Tbk. | Infrastruktur |
| 2. | KLBF | Kalbe Farma Tbk. | Farmasi & Kesehatan |
| 3. | SMGR | Semen Indonesia (Persero) Tbk. | Industri Dasar |
| 4. | TLKM | Telekomunikasi Indonesia (Persero) Tbk. | Telekomunikasi |
| 5. | UNTR | United Tractors Tbk. | Perindustrian |
| 6. | UNVR | Unilever Indonesia Tbk. | Barang Konsumen Primer |

The operational definitions of the variables used in this study are presented in Table 2. Macroeconomic conditions, including inflation, exchange rates, and economic growth, are measured using historical data obtained from the official websites of Bank Indonesia and Statistics Indonesia (BPS). ESG performance is measured using the ESG Disclosure Index (ESGDI) based on the Global Reporting Initiative (GRI) Standards, while financial distress is measured using the Grover G-Score model based on company annual financial statements.

**Table 2**. Operational Definition of Variable

| Variable | Operational Definition | Indicator / Measurement | Source |
|---|---|---|---|
| | **Dependent Variable** | | |
| **Financial Distress (Y)** | Financial distress is a condition in which a company experiences a decline in financial performance and has difficulty meeting its financial obligations before bankruptcy. It is measured using the Grover G-Score model. | WCTA = Working Capital / Total Assets<br>EBITTA = Earnings Before Interest and Taxes / Total Assets<br>NITA = Net Income / Total Assets<br><br>G ≥ 0.01 = Healthy<br>G ≤ -0.22 = Financial distress | Company Financial Statements |
| | **Independent Variable** | | |
| **Inflation (X1)** | Continuous increase in the general price level of goods and services. | Annual inflation rate based on Consumer Price Index (CPI). | Bank Indonesia; |

| Variable | Operational Definition | Indicator / Measurement | Source |
|---|---|---|---|
| **Exchange Rate (X2)** | Value of Indonesian Rupiah against the US Dollar. | Annual average middle exchange rate (IDR/USD). | Bank Indonesia |
| **Economic Growth (X3)** | Annual increase in Indonesia's Gross Domestic Product. | Annual GDP Growth Rate (%). | Badan Pusat Statistik (BPS) |
| **ESG Performance (X4)** | Environmental, Social, and Governance performance based on GRI disclosures. | ESGDI = Σ ESG items disclosed / Total GRI indicators | Companies' Sustainability Reports |

## RESULTS AND DISCUSSION

### 1. Descriptive Analysis

The study was conducted using six publicly listed companies that were consistently included in the SRI-KEHATI Index of the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Descriptive statistical analysis was performed to provide an overview of the variables examined in this study. The independent variables consist of macroeconomic conditions, including inflation, exchange rates, and economic growth, as well as ESG performance, which is measured using the ESG disclosure score based on the Global Reporting Initiative (GRI) Standards. The dependent variable is financial distress, which is measured using the Grover G-Score. Each variable is summarized using its minimum, maximum, mean, and standard deviation values, as presented in Table 3.

**Table 3**. Descriptive Statistics

| | Y | X1 | X2 | X3 | X4 |
|---|---|---|---|---|---|
| Mean | 0.688 | 0.027 | 14.97 | 3.586 | 0.468 |
| Max | 1.380 | 0.042 | 15.84 | 5.04 | 0.800 |
| Min | 0.130 | 0.015 | 14.31 | -2.17 | 0.140 |
| Std. Dev. | 0.421 | 0.010 | 0.547 | 2.927 | 0.183 |

*Source: Processed data (2025)*

a. Inflation (X1) has an average of 2.7% and is in the range of 1.5% and 4.2% which shows quite large fluctuations in the inflation value.
b. The exchange rate (X2) averaged Rp14,971 and ranged from Rp14,312 to Rp15,845, indicating fluctuations. The exchange rate also continued to increase during the 2020-2024 period.
c. GDP had an average value of 3.58, ranging between -2.17 and 5.04. This relatively wide range occurred because GDP experienced significant declines and increases.
d. ESG disclosure scores ranged between 14% and 80%, indicating significant variation in ESG disclosure levels between companies during the 2020-2024 period. This indicates significant differences in companies' ability to provide ESG disclosure, even though they are included in the SRI-KEHATI index.

### 2. Estimation Model Selection Test

The results of the Chow test show that the cross-section chi-square probability is $0.0000 < \alpha = 0.05$, so the selected model is the fixed effect model.

The Hausman test results yielded a random cross-section probability of 1.0000, with the statement "cross-section test variance invalid. Hausman statistic set to zero." This

condition is caused by a technical issue in the variance-covariance matrix calculation. Despite this condition, the test results are still considered valid because the p-value remains valid (Baltagi, 2005). The cross-section probability value F is 1.0000 > α = 0.05, so the selected model is a random effect model.

Based on the results of the model evaluation using the Chow and Hausman tests, the most appropriate estimation model for this study was the random effects model. The results of the estimation model selection test can be seen in Table 4.

**Table 4**. Model Selection Test Results

| Model Test | Probability | Result | Conclusion |
|---|---|---|---|
| Chow Test | 0.0000 | Prob. < α = 0.05 | FEM |
| Hausman Test | 1.0000 | Prob. > α = 0.05 | REM |

Source: Processed data (2025)

## 3. Classical Assumption Test

The random effect model uses the Generalized Least Square (GLS) estimation method which is designed to produce the Best Linear Unbiased Estimation (BLUE) estimator which is able to overcome the problems of autocorrelation and heteroscedasticity (Kosmaryati et al., 2019). Therefore, the classical assumption test used in this study is the multicollinearity test. The results of the multicollinearity test are presented in Table 5.

**Table 5.** Classical Assumption Test

| Variable | *Centered VIF* |
|---|---|
| C | NA |
| X1 | 1.227958 |
| X2 | 1.844620 |
| X3 | 1.378689 |
| X4 | 2.170965 |

*Source: Processed data (2025)*

Table 5 shows the results of the multicollinearity test for each independent variable in this study, which has a VIF value <10, so it can be concluded that each independent variable consisting of inflation, exchange rate, economic growth, and ESG performance does not have multicollinearity problems.

## 4. Panel Data Regression Analysis

a. Coefficient of Determination

The coefficient of determination ($R^2$) was used to measure the proportion of variation in financial distress explained by inflation, exchange rates, economic growth, and ESG performance. The explanatory power of the regression model is indicated by the R-squared value. A higher R-squared value reflects a greater ability of the model to explain the relationship between the independent variables and the dependent variable. The results of the coefficient of determination test are presented in Table 6.

**Table 6.** Coefficient of determination test results

| | |
|---|---|
| R-squared | 0.388769 |
| Adjusted R-squared | 0.290972 |
| F-statistic | 3.975269 |
| Prob(F-statistic) | 0.012458 |

*Source: Processed data (2025)*

Table 6 shows that the R-squared value is 0.388769**,** indicating that inflation, exchange rates, economic growth, and ESG performance explain 38.88% of the variation in financial distress, while the remaining 61.12% is explained by other factors outside the model.

B. Simultaneous Significance Test (F-Test)

The F-test result in Table 12 shows a probability value of 0.012458, which is lower than 0.05. This indicates that inflation, exchange rates, economic growth, and ESG performance jointly have a significant effect on financial distress.

c. Partial Significance Test (T-Test)

The partial significance test (t-test) was conducted to examine the individual effect of each independent variable on financial distress. The results are presented in Table 7**.**

**Table 7.** Partial significance test result

| Variable | Coefficient | Std. error | t-statistic | Prob. |
|---|---|---|---|---|
| C | 0.846608 | 1.124597 | 0.752810 | 0.4586 |
| X1 | 6.059885 | 2.767272 | 2.189841 | 0.0381 |
| X2 | 0.001904 | 0.081442 | 0.023380 | 0.9815 |
| X3 | 0.013857 | 0.010863 | 1.275645 | 0.2138 |
| X4 | -0.861337 | 0.354069 | -2.432681 | 0.0225 |

*Source: Processed data (2025)*

Table 7 shows that inflation has a significant positive effect on financial distress **(**p = 0.0381), while ESG performance has a significant negative effect **(**p = 0.0225**)**. In contrast, exchange rates **(**p = 0.9815**)** and economic growth **(**p = 0.2138**)** do not have a significant effect on financial distress. The estimated panel regression model is expressed as follows:

$$inancial\ distress = 0{,}846608 + 6{,}059885X_1it + 0{,}001904X_2it + 0{,}013857X_4it - 0{,}861337X_4it + eit$$

**The Effect of Inflation on Financial Distress**

The results of the study show that inflation has a significant positive effect on financial distress, as indicated by a probability value of 0.038 <α = 0.05. The results of this study are in line with research Mahesh et al. (2025) And Ceylan (2021) which states that inflation has a positive effect on financial distress.

In general, rising inflation rates result in higher prices for goods and services, which ultimately increases operating expenses for companies listed in the SRI-KEHATI Index. One impact of inflation is an increase in operating costs, such as raw materials, transportation, and wages. Furthermore, inflation can also reduce consumer purchasing power due to a decline in the value of money, which in turn impacts company sales. In line with research, Nadia et al. (2022) which explains that rising operational costs can increase selling prices and consumer purchasing power, resulting in a decline in company sales. These factors can reduce company profit margins and lower profitability. Continuously high inflation rates without a sound strategy will make it difficult for companies to meet their financial obligations. Increasing liquidity pressures and declining profitability under these conditions can lead to financial distress for companies.

**The Effect of Exchange Rates on Financial Distress**

The results of the study indicate that the exchange rate has no effect on financial distress, as indicated by a probability value of 0.981 > α = 0.05. These results are in line with research Ceylan (2021) and Erik & Musdholifah (2020) which states that the exchange rate does not affect financial distress.

Companies listed in the SRI-KEHATI Index generally possess the capability to implement hedging strategies to mitigate exchange rate risk. For example, UNVR employs derivative transactions, while UNTR maintains hedging reserves. These strategies reduce the impact of exchange rate volatility on firms' financial conditions, thereby lowering the risk of financial distress. This finding is consistent with Erik and Musdholifah (2020), who reported that hedging strategies help firms mitigate the risk of financial distress arising from exchange rate fluctuations.

**The Effect of Economic Growth on Financial Distress**

The economic growth variable has a regression coefficient of 0.013857, indicating a positive relationship with financial distress. However, the significance value (p = 0.1145) is greater than the 5% significance level (α = 0.05), leading to the rejection of H3. This result indicates that economic growth has no significant effect on financial distress. In other words, changes in economic growth are not associated with statistically significant changes in firms' financial distress. Although the regression coefficient suggests a positive relationship, the effect is not statistically significant. Therefore, economic growth cannot be considered a significant determinant of financial distress in this study.

The SRI-KEHATI Index comprises many companies from different sectors. Some companies remain stable despite changes in economic growth. This is because these sectors represent basic needs, such as primary consumer goods and healthcare. Consumers continue to need basic products and healthcare services despite changing economic conditions. Therefore, changes in economic growth do not impact financial distress in the SRI-KEHATI Index, as it comprises companies from various sectors.

**The Impact of ESG Performance on Financial Distress**

The results of the study indicate that ESG performance has a significant negative effect on financial distress, as indicated by a probability value of 0.022 <α = 0.05. These results are in line with research conducted by Sastroredjo & Suganda (2025), And Habib (2023) which states that ESG performance has a negative effect on financial distress.

This demonstrates that ESG performance has been proven to reduce the potential for financial distress in companies. Companies that optimally implement ESG aspects send a positive signal to investors and the public (Safriani & Utomo, 2020). In line with research Aich et al. (2021) which states that investors tend to choose companies that care about the environment and practice good corporate governance principles. Investors and the public will perceive companies as operating effectively in accordance with government regulations and applicable norms. This can build customer loyalty, thus maintaining stable company revenues. Furthermore, companies with good ESG performance also have sound governance systems, such as sound management systems, transparency, and sound risk management. By implementing these principles, companies are better prepared to face uncertainties and more efficient in decision-making. Research suggests that Sastroredjo & Suganda (2025) which states that companies with good ESG performance can effectively reduce the risk of financial distress due to low levels of corruption and an environment that supports the implementation of good governance.

## CONCLUSIONS AND SUGGESTIONS

Based on the analysis of the effects of macroeconomic factors and ESG performance on financial distress, the following conclusions can be drawn:

a. Inflation has a positive and significant effect on financial distress among companies listed in the SRI-KEHATI Index. Higher inflation increases the likelihood of financial distress.
b. Exchange rates have no significant effect on financial distress. Exchange rate volatility does not significantly affect the financial condition of companies listed in the SRI-KEHATI Index.
c. Economic growth, proxied by Gross Domestic Product (GDP), has no significant effect on financial distress. Changes in economic growth do not significantly alter the financial condition of companies listed in the SRI-KEHATI Index.
d. ESG performance, proxied by ESG disclosure, has a significant negative effect on financial distress. Companies with better ESG performance are less likely to experience financial distress.

Based on the findings of this study, the following recommendations are proposed for future research:

1. This study focuses on the effects of macroeconomic factors and ESG performance on financial distress. Future studies are encouraged to incorporate firm-specific variables, such as financial performance, capital structure, and financial ratios, to provide a more comprehensive understanding of the internal determinants of financial distress.
2. This study is limited to companies listed in the SRI-KEHATI Index. Future research may expand the sample to companies within specific industry sectors to better examine differences in ESG performance and their impact on financial distress.

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