

The Effect of ESG Performance on Firm Value with Financial Performance as Mediation in Companies Listed on IDX ESG Leaders in 2020-2023

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Abstract

The Indonesia Stock Exchange launched the ESG Leaders stock index on December 23, 2020, which contains 30 stocks that have the best ESG assessment and are not involved in controversy. Nevertheless, there has been a decline in the valuation of companies within the index as indicated by a drop in stock prices and Tobin's Q ratios. The primary aim of this study is to investigate the process of how the performance metrics related to environment, social responsibility, and corporate governance impact the value and financial performance of companies through mediation analysis. The study utilized quantitative approaches to analyze a group of businesses listed in the IDX ESG Leaders from 2020 to 2023. The sample selection involved deliberately selecting 25 companies for analysis. The researcher plans to study financial and corporate sustainability reports through panel data regression to analyze secondary data. The results indicate that ESG Performance may not directly influence the value of a company, but it could have a distinct effect on its financial performance. The impact of environmental performance on financial performance is beneficial and significant, whereas social and governance performance has a notably detrimental effect on financial performance. Moreover, a firm's value is positively influenced by financial performance, which can also act as a mediator for the impact of social and governance performance on firm value.

Keywords: ESG Performance, Financial Performance, Firm Value.

1. Introduction

Global economic growth has undergone significant hurdles and changes due to the influence of Covid-19 in recent years. Nonetheless, according to a report from the World Bank (2022), Indonesia could show positive signs of economic recovery, with a projected growth of 5.2% in that year. One of the factors of this recovery is the enhancement of the number of investors in the last three years of the national capital market. Based on a report from KSEI in 2020, there were 3.88 million Single Investor Identification (SID), an increase to 12.33 million SID in 2023. The rise in the investor base may indicate a growing fascination with investing, particularly in the stock market. One aspect that can be considered in investment decisions is company value.

Firm value has become an important focus for investors because it reflects their perception of the company's business operations and prospects. Thus, companies need to consider the elements that affect firm value, one of which is financial performance. When a company has good financial performance, this can create the perception that the business can survive in the future and attract investors. However, it is important for companies to also consider their impact on sustainability and social responsibility, including Environmental,



Social, and Governance or ESG performance, as investors now realize the importance of investing in companies that focus on these aspects.

The Indonesia Stock Exchange (IDX) supports the implementation of the ESG concept by issuing IDX ESG Leaders on December 23, 2020, which includes 30 stocks of companies with good ESG assessment, high transaction liquidity, no controversy, and healthy financial performance (CNBC, 2022). These aspects can also be used as investment considerations to respond to climate change and achieve sustainable development goals. Many companies are increasingly paying attention to these aspects in their operations because when they can manage them well, they often perform better and bring added value to the company (Harahap, 2023). However, despite the increased awareness of the importance of ESG aspects, it still has not positively impacted the firm value determined by the stock price.

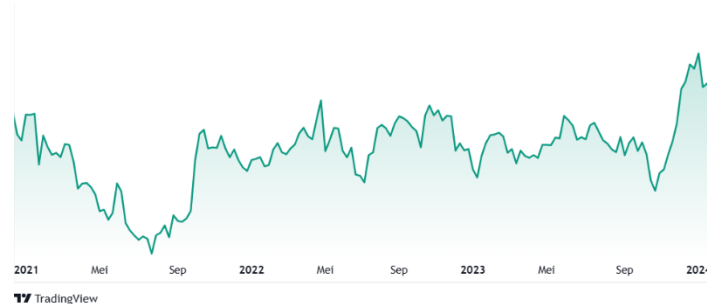


Figure 1. Growth of IDX ESG Leaders

Based on the figure 1 above, the growth rate of IDX ESG Leaders has only increased by 14.20% over the past 4 years. The increase was only felt in 2024, which means that from 2020 to 2023, the ESG aspect has not had a good impact on company value. Data indicates that there has been no rise in the firm value for companies within this index, which supports the argument provided. The following is data from the average value:

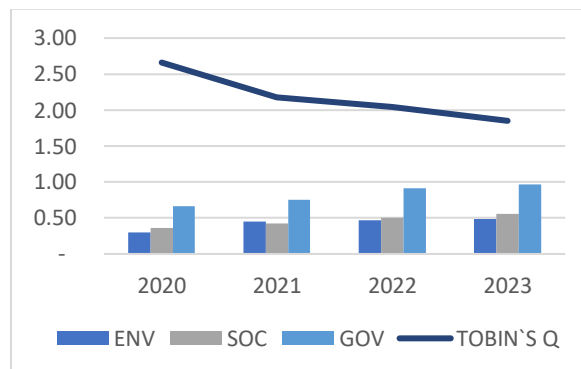


Figure 2. Mean Value of ESG Performance and Firm Value

According to the graph provided, there was an upward trend in the average Environmental, Social, and Governance values among companies listed in IDX ESG Leaders from 2020 to 2023. However, this increase negatively influenced the company value assessed by Tobin's Q and decreased during that year. This shows that ESG aspects cannot positively influence firm value in the short term.

Conversely, there is still much debate about the extent to which ESG Performance variables can impact the company's value. Research by Adrian & Hermi, (2023) shows that ESG Performance can enhance the company's value and is backed by research by Necib et al., (2024), which asserts that the larger value of ESG Performance, the greater the firm's value. Meanwhile, research by Nurman, (2023) shows different results, where the company's value

is unaffected by ESG performance. This is supported by Putra & Budastra, (2024), which demonstrates that the ESG performance variable has no bearing on a company's worth.

The varying results of different studies emphasize the need for further investigation into how ESG performance relates to financial performance and the value of a company. Therefore, the primary goal of this study is to fill the current void by investigating how the performance of ESG impacts the value of companies, focusing on those listed in the IDX ESG Leaders from 2020 to 2023. Additionally, the research will explore how financial performance plays a role as a mediator in this correlation.

2. Literature Review

2.1. ESG performance and financial performance

2.1.1. Environmental performance and financial performance

A company's environmental performance is related to its impact on the surrounding environment, including natural resource management, ecosystem impacts, and carbon emissions. When a company can manage environmental performance well, it can improve financial performance through operational efficiency and reduce costs incurred by utilizing energy resources efficiently. The company will generate higher profits because the costs incurred are small. According to the sustainable development theory by Brundtland, (1987), a company needs to increase its concern for its environment to improve financial performance. Moreover, resource-based theory by Barney, (1991) explains that effective management of environmental resources within a company can lead to improved productivity and financial performance. Pollution control and environmentally friendly business strategies can reduce production efficiency, strengthen market competitiveness, and improve future financial performance (Zhou et al., 2022). This is corroborated by the results of Minggu et al., (2023), which explain that financial performance can be enhanced by the positive impact of environmental performance. This explanation aligns with research (Inawati & Rahmawati, 2023), which shows that there is a connection between how well a company performs environmentally and its financial performance.

H1 : Environmental performance has a positive effect on financial performance.

2.1.2. Social performance and financial performance

The effectiveness of a company's interactions with stakeholders, employees, customers, and the local community determines its social standing. When a company can manage social performance well, it can increase productivity through employee satisfaction; besides that, through social aspects, the company can also build good relations with the community, contributing to its reputation and firm profitability. Because consumers will prefer products from companies that are considered socially responsible (Riandika & Wahyuni, 2022). According to sustainable development theory (Brundtland, 1987), good social performance contributes to sustainable development and provides financial benefits to the company through increased corporate reputation. In addition, according to resource-based theory, Barney, (1991) demonstrates how a corporation that handles its social performance properly may boost productivity and enhance financial success. This explains how social performance can positively affect financial performance (Antonius & Ida, 2023). This explanation is consistent with the discoveries made by Arifah, (2024), who explains that social performance has a positive effect on financial performance and can be supported by Minggu et al., (2023), which shows that the higher value of social performance can improve financial performance.

Given this explanation, it can serve as the foundation for the second hypothesis in the research, which is outlined as:

H2 : Social performance has a positive effect on financial performance.

2.1.3. Governance performance and financial performance

The company prioritizes governance performance by focusing on establishing effective internal governance protocols, which encompass transparency, accountability, and ethical business practices. When a company can manage governance performance well, transparent reports will increase investor confidence. This can reduce information asymmetry between companies and stakeholders, thereby increasing investor confidence and will be able to reduce costs (Madyan & Widuri, 2023). In addition, it allows companies to be more effective in identifying and managing their risks. By considering these aspects, companies can accurately assess the business and improve their financial performance (Marginingsih & Suparno, 2024). Sustainable development theory Brundtland, (1987) explains that governance performance contributes positively to sustainable development and provides benefits in improving financial performance. In addition, resource-based theory Barney (1991) can explain that governance performance as a resource will boost business productivity and enhance financial results for companies that manage it well. This is supported by a study (Arifah, 2024), which shows that governance performance can positively affect the IDX ESG Leaders index's firms' financial performance. The findings of Inawati & Rahmawati (2023) also show that the better the financial results of a company, the more successful its governance practices. This could provide backing for the study's third hypothesis:

H3 : Governance performance has a positive effect on financial performance.

2.2. ESG performance and firm value

2.2.1. Environmental performance and firm value

When a company handle environment aspects well, it can provide a positive perception among investors, which can increase profits because, at this time, investors prefer to invest in companies with sound environmental practices. That way, the company will quickly get access to the capital needed. It will have resources to be utilized to increase profit opportunities, ultimately increasing the firm's value (Andrefe & Kurniawati, 2024). Increasing to a specific degree, environmental performance may raise a company's worth. If it exceeds the limit, it can have the opposite effect (Pekovic et al., 2018). A study by Zhou et al. (2022) claims that a strong connection can be found between a company's market value and its performance in ESG criteria. This may be supported by Adrian & Hermi (2023), who show that good environmental performance increases the worth of a company. The fourth hypothesis of this study can be supported by the following explanation:

H4 : Environmental performance has a positive effect on firm value.

2.2.2. Social performance and firm value

From a social performance perspective, when the company can manage it well, it will increase its value through employee and customer loyalty, improve reputation, and operational productivity (Komang et al., 2024). By effectively managing social performance, companies can create substantial added value. This benefits the company, employees, customers, and society, positively supporting long-term growth and sustainability. In addition, focusing on this aspect can encourage continuous innovation and strengthen relationships with parties involved with the company. Companies prioritizing social responsibility usually have higher corporate value and better long-term prospects. (Tumba et al., 2024). This explanation aligns with the study by Arifah, (2024), which declares that social

performance positively affects the firm value of companies listed on the Indonesia Stock Exchange. This can be supported by Adrian and Hermi, (2023), who show that social performance can positively influence firms' value. This explanation suggests that it can underlie the fifth hypothesis in this research:

H5 : Social performance has a positive effect on firm value.

2.2.3. Governance performance and firm value

When a company can manage governance well, investor confidence in its performance can increase. This may raise the company's worth because investors invest in companies with good governance performance. In addition, it can increase company value by making decisions and identifying risks to protect value against potential losses. This reasoning is backed by the research of Tumba et al., (2024), which shows that governance effectiveness has the potential to enhance the worth of a company. This aligns with research conducted by Arifah, (2024), who states that governance performance can positively affect firms' value. This explanation can form the basis of this research's sixth hypothesis:

H6 : Governance performance has a positive effect on firm value.

2.3. Financial performance and firm value

Companies with sound financial performance and high profitability can reflect ability to manage their assets optimally and generate profits for shareholders. When profitability increases, Investors will want to contribute to the company. This can be caused by investor expectations of a high rate of return on investment, with increased demand for the company's stock, increasing share prices, and directly increasing firm value. This explains why financial performance can positively affect firm value, which can be supported by the signaling theory by Spence, (1973), which explains that an organization's strong financial results may suggest to potential investors what lies ahead for the company. Studies by Necib et al., (2024) can explain that financial performance positively affects firms' value. This statement is supported by Putra & Budastra (2024), which shows that better financial performance will increase the firm's value. From this description, the seventh assumption in this research can be inferred:

H7 : Financial performance has a positive effect on firm value.

2.4. ESG performance, financial performance, and firm value

Investors consider financial performance the main factor in determining a company's performance. However, good ESG performance can enhance financial performance and even indirectly increase firm value. Sumarno et al. (2023) state that ESG performance can improve the firm's value in the long run. The companies implementing ESG Performance can improve financial performance, ultimately increasing firm value. The research findings of Zhou et al., (2022) explain that variable ESG Performance can affect firm value and financial performance as a mediator of this influence. This is corroborated by Necib et al., (2024), who explain that the impact of ESG performance on a company's value can be influenced by its financial performance. This study will also examine how ESG performance and financial performance together affect a company's value. These findings will form the basis for hypotheses eight through eleven in this research.

H8 : ESG Performance and financial performance simultaneously affect firm value.

H9 : Financial performance can mediate the effect of environmental performance on firm value.

H10 : Financial performance can mediate the effect of social performance on firm value.

H11 : Financial performance can mediate the effect of governance performance on firm value.

According to prior studies and the proposed hypothesis, the research framework plan can be elucidated in the following manner:

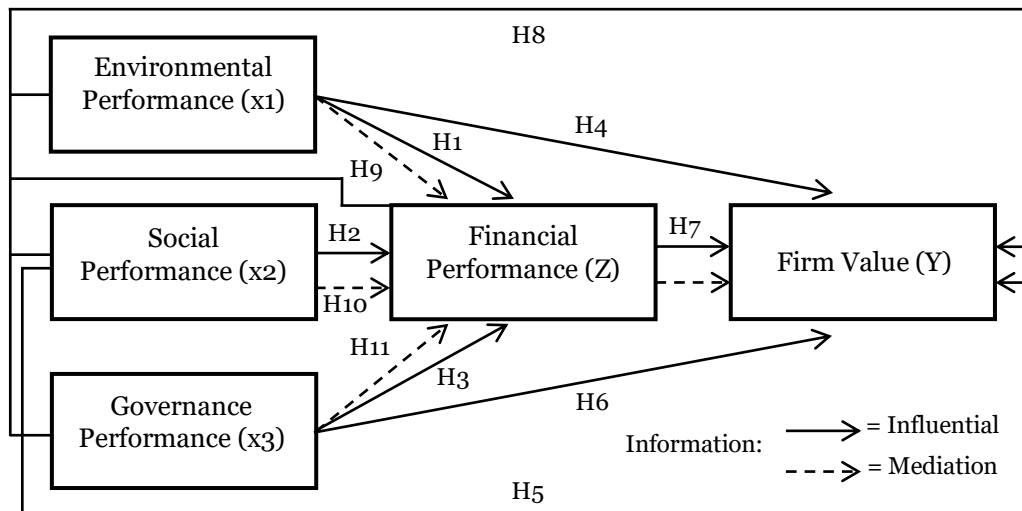


Figure 3. Research Framework

3. Methods

3.1. Research Design

Quantitative research methodology is utilized in this study, focusing on positivist principles and used to analyze particular groups or samples. Additionally, statistical analysis is performed to verify the hypotheses formulated in this research (Sugiyono, 2024). In this research, analytical methods were employed to examine the data collected from financial reports and sustainability reports of companies listed in the IDX ESG Leaders from 2020 to 2023. The sample group consisted of 46 companies, selected through purposive sampling in a nonprobability manner.

Table 1. Research Sample Criteria

No	Description	Total
1	All companies that are members of IDX ESG Leaders in 2020-2023.	46
2	Companies that published financial statements and sustainability reports during 2020-2023.	31
3	Companies that state the contents of their financial statements during 2020-2023 in rupiah.	26
4	Companies that have disclosed ESG aspects in sustainability reports based on the GRI index during 2020-2023.	25
Number of samples		25

Using the above research sample selection criteria, this research involved analyzing 100 samples obtained from 25 companies that are part of the IDX ESG Leaders index, over a period of 4 years.

3.2. Variable Design

Based on IFC (2021), ESG is a framework used to evaluate the impact of an investment or company that is not financial and is an investment decision-making aspect focusing on sustainability and social responsibility processes. In its application, ESG consists of three main

aspects, including the environmental, which is the impact caused by a company on the environment, including natural resource management, impact on ecosystems, and carbon emissions. Then, the social aspect is the company's relationship with stakeholders, employees, consumers, and the surrounding community. Then, the governance aspect can be interpreted as the company's focus on internal good governance, including transparency, accountability, and business ethics. In this study, measuring ESG Performance individually between EP, SP, and GP using the formula:

$$ESG\ Performance = \frac{Disclosure}{Indekx}$$

Description:

ESG Performance = Environmental, Social, and Governance

Disclosure = Items disclosed by the company

Index = Items that the company should disclose

Investors' assessment of a company is known as its firm value, which can reflect how investors assess its performance and prospects based on available information and reports (Brigham & Houston, 2019). There are various ways to determine the value of a company by comparing company performance measures, one of which is Tobin's Q ratio, created by James Tobin. This ratio measures the value of physical assets in relation to the expense of replacing them. Generally, if Tobin's Q ratio is above one, the market perceives the company as having more value than the cost of replacing its assets. This study uses Tobin's Q to assess a company's worth by examining how incorporating ESG factors can influence how the market or investors perceive a company's success. The equation for Tobin's Q is shown below:

$$Tobins'Q = \frac{MVE + Total\ Debt}{TA}$$

Description:

MVE = Closing stock price x number of shares outstanding

TA = Total assets

The company's financial success is due to the progress made within a certain timeframe, which can reflect the company's health level (Sutrisno, 2017). Financial performance can assess how the company can survive in the future. The financial data of the organization is accessible through the financial statements, and it can be evaluated using various ratios. One of these ratios is the return on assets, which assesses the company's efficiency in utilizing its assets and resources, including ESG to generate profits and is used to assess how well the efficiency of using its assets. The following are the indicator ratios used in measuring financial performance:

$$ROA = \frac{Total\ Debt}{Total\ Assets} \times 100\%$$

Description:

ROA = Return on Assets

3.3. Data Analysis Method

Data analysis is utilized in order to examine the hypotheses and the conclusions will be assessed based on numerical data. Below are two regression models that are part of the study.

First equation : $Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4Z$

Second equation : $Z = a + b_1X_1 + b_2X_2 + b_3X_3$

Description:

a = Constant

- b = Coefficient
- Y = Firm value
- Z = Financial performance
- X1 = Environmental Performance
- X2 = Social Performance
- X3 = Governance Performance

During the testing phase, the information will be analyzed with the help of Eviews 12 software, which will then assess the panel data regression model and examine an appropriate panel data model for each equation. The selected model will be tested for classical assumptions consisting of multicollinearity and heteroscedasticity tests. According to Shochrul et al. (2011) mentioned that there is no need to conduct a normality test if the sample size exceeds 30, as the distribution of the sampling error term is nearly normal. In addition, this study did not conduct an autocorrelation test because autocorrelation is typically found in time series data. The utilization of panel data in this research shows that examining autocorrelation in panel data may not be relevant (Basuki & Prawoto, 2017).

The classical assumption test is used to verify if the model being applied is suitable and satisfies basic classical criteria or is regarded as the Best Linear Unbiased Estimator (BLUE). After passing the classical assumption test, the data will be tested partially and simultaneously to assess the independent's capacity to influence the dependent. The research investigates the coefficient of determination in order to assess the ability of the independent variable to explain changes in the dependent variable. Furthermore, the Sobel calculator will be used to test the mediating of the hypothesis set.

4. Results and Discussion

4.1. Descriptive analysis

Table 2. Descriptive Analysis Results

	EP	SP	GP	FP	FV
Mean	0.479800	0.529300	0.808400	7.703200	2.182200
Median	0.440000	0.475000	1.000000	4.645000	1.270000
Maximum	1.000000	1.000000	1.000000	34.79000	14.41000
Minimum	0.030000	0.110000	0.090000	-4.770000	0.640000
Std. Dev.	0.245464	0.206301	0.251198	8.077247	2.294123
Observations	100	100	100	100	100

Source: Output E-views 12 (Data processed, 2025)

According to the data presented in the table, out of the 100 sample data points analyzed, we can observe that the environmental performance demonstrates an average score of 0.479, ranging from a minimum of 0.030 to a maximum of 1, with a standard deviation of 0.245. Similarly, the social performance metric yields an average value of 0.529, with a maximum of 1, a minimum of 0.110, and a standard deviation of 0.206. In regards to governance performance, the data indicates an average score of 0.808, with a maximum of 1, a minimum of 0.090, and a standard deviation of 0.251. Moving on to financial performance, the average value is 7.703, reaching a maximum of 34.790, a minimum of -4.770, and a standard deviation of 8.077. Meanwhile, the company is reported to have an average value of 2,182, with a maximum of 14,410, a minimum of 640, and a standard deviation of 2,294.

4.2. Panel data regression analysis

4.2.1. Sub-Structural 1

a) Chow test

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	32.026034	(24,72)	0.0000
Cross-section Chi-square	245.747933	24	0.0000

Source: Output E-views 12 (Data processed, 2025)

From the findings of the Chow test above, this is evident from the Cross-section F statistical value of 32.026 with df (24,72) and the Cross-section Chi-square value of 245.747 with df 24; both have a probability value of $0.000 < 0.05$ (significance level) then H_0 is rejected. This indicates that the Fixed Effect Model (FEM) is the model that was chosen.

b) Hausman Test

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section Random	0.521492	3	0.9141

Source: Output E-views 12 (Data processed, 2025)

Based on the results of the Hausman test, the Cross-section Random statistic indicates a Chi-sq value of 0.521 with 3 degrees of freedom and a probability value of 0.9141, exceeding the significance level of 0.05. This leads to the acceptance of the null hypothesis, indicating that the selected model is the Random Effect Model (REM).

c) Lagrange Multiplier Test

Table 5. Lagrange Multiplier Test Results

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	115.8786 (0.0000)	1.752614 (0.1855)	117.6312 (0.0000)

Source: Output E-views 12 (Data processed, 2025)

As per the results of the Lagrange multiplier test, the Breusch-Pagan cross-section value falls below 0.05, leading to the rejection of the null hypothesis. This suggests that the chosen model is the Random Effect Model (REM). In certain theories, it is believed that conducting classical assumption tests is unnecessary when either FEM or REM is the selected model.

4.2.2. Sub-Structural 2

a) Chow test

Table 6. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.630126	(24,71)	0.0000
Cross-section Chi-square	136.538369	24	0.0000

Source: Output E-views 12 (Data processed, 2025)

From the result of the Chow test output, this is evident from the Cross-section F statistical value of 8.630 with df (24.71) and the Cross-section Chi-square value of 136.538 with df 24; both have a probability value of 0.000 < 0.05 (significance level) then Ho is rejected. This suggests that the Fixed Effect Model (FEM) is the model that was chosen.

b) Hausman Test

Table 7. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section Random	12.232148	4	0.0157

Source: Output E-views 12 (Data processed, 2025)

Based on the results of the Hausman test, it has been concluded that the Chi-square value for the Cross-section Random statistic is 12.231, with 4 degrees of freedom and a probability value of 0.016, indicating significance at a level less than 0.05. Therefore, the null hypothesis is rejected, indicating that the Fixed Effect Model (FEM) is the appropriate model to use.

4.3. Hypothesis Test

4.3.1. Sub-Structural 1

Table 8. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.48483	2.187677	4.792677	0.0000
EP	3.411522	1.985647	1.718091	0.0445
SP	-4.548421	2.236788	-2.033461	0.0224
GP	-2.487630	1.401163	-1.775403	0.0395

Dependent variable: Financial Performance

Method: Panel EGLS (Cross-section random effects)

Source: Output E-views 12 (Data processed, 2025)

The outcomes of the multiple regression equation for sub-structure 1 are:

$$FP = 10,485 + 3,411 EP - 4,548 SP - 2,488 GP$$

Referring to the outcomes of the aforementioned equation, as is well known, the constant value is 10.485, so that if all ESG Performance variables are zero, the financial performance value is 10.485 units. The EP coefficient of 3.411 suggests that for every 1 unit increase in environmental performance, the FP value will increase by 3.411. On the other hand, the SP coefficient of -4.548 indicates that a 1 unit increase in social performance leads to a 4.548 decrease in the FP value. Similarly, the governance performance has a negative effect on the FP value, with a GP coefficient of -2.488, meaning that a 1 unit increase in governance performance leads to a 2.488 decrease in the FP value.

Hypothesis Testing Results Sub Structural 1

H1: The likelihood of environmental performance affecting financial performance is deemed statistically significant, with a probability value of 0.044 < 0.05 and a coefficient value of 3.411. This suggests a strong and positive impact of EP on financial outcomes. These findings are consistent with study findings by Arifah (2024), Inawati & Rahmawati (2023), and Minggu et al. (2023). This can support sustainable development theory, which explains

that companies need to increase their concern for the environment to improve financial performance. Additionally, according to resource-based theory, having strong environmental performance can act as a valuable asset for companies, leading to increased productivity and enhanced financial results for those who effectively oversee it.

H2: The likelihood of social performance impacting financial performance is confirmed by statistical analysis, with a coefficient value suggesting a negative correlation between the two variables. These findings do not align with the hypothesis and previous research that has been established, and numerous aspects can cause this discrepancy. Danika et al., (2022) explain that corporate social activities often require many costs that can reduce resource efficiency and short-term corporate profits. In addition, investors are more short-term oriented, so they are more concerned with current financial performance than long-term benefits (Syafrullah, 2017).

H3: Governance performance possesses a probability value of $0.0395 < 0.05$ and a coefficient value of -2.488 , so the GP results negatively and significantly affect financial performance. These results do not align with the hypothesis and previous research that has been established, and various factors can cause this discrepancy. According to a study Fadilla & Arifin, (2022), the benefits of good governance performance are often only seen in the long term, while investors tend to focus on short-term performance. In addition, strict governance can hinder companies' flexibility in making quick business opportunity decisions. This can be perceived negatively by investors who expect companies to be more aggressive in pursuing opportunities (Srivastava & Anand, 2023).

4.3.2. Sub-Structural 2

Table 9. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.411581	0.469592	3.005970	0.0037
EP	-0.839518	0.505345	-1.661277	0.5055
SP	0.616878	0.571076	1.080203	0.1418
GP	-0.453299	0.352403	-1.286310	0.1012
FP	0.157513	0.028753	5.478090	0.0000

Dependent variable: Firm value

Method: Panel Least Squares

Source: Output E-views 12 (Data processed, 2025)

The outcomes of the multiple regression equation for sub-structure 2 are:

$$FV = 1,411 - 0,839 EP + 0,617 SP - 0,453 GP + 0,157 FP$$

Referring to the outcomes of the aforementioned equation, as is well known, the constant value is 1.411, so if every independent variable is now, the Firm Value variable is worth 1.411 units. The EP coefficient is -0.839 , which means that if the environmental performance variable increases by 1 unit, the FV value will decrease by 0.839. The SP coefficient is 0.617, so if variable social performance increases by 1 unit, the firm value will increase by 0.617. The negative GP coefficient of -0.453 suggests that a one unit increase in governance performance could lead to a decrease in firm value by 0.453. On the other hand, the fact that the FP coefficient has a positive value of 0.157 suggests that an improvement in financial performance may lead to a corresponding increase in the value of the company by 0.157 units.

Hypothesis Testing Results Sub Structural 2

H4: The likelihood of environmental performance influencing firm value is low, with a probability value of 0.505. The result of EP does not seem to have a major effect on firm value as indicated by the coefficient of -0.839. This discovery aligns with earlier studies conducted by Dwipa et al., (2024); Hariyanto & Ghazali, (2024); Prabawati & Rahmawati, (2022), showing that environmental cannot affect firm value. However, the result does not match the findings from the research carried out by Adrian & Hermi, (2023); and Zhou et al., (2022), as well as the hypothesis set in the study, namely environmental performance has a positive effect on firm value.

H5: The chance of social performance affecting the value of a company is minimal, as indicated by a probability value of 0.142 that exceeds 0.05. Furthermore, the coefficient value of 0.617 reinforces the idea that social performance does not play a significant role in determining firm value. The results of this research align with previous studies carried out by Sedyasana and Wijaya (2024) and Xaviera and Rahman (2023), which state that social performance does not affect firm value. The outcome, unfortunately, contradicts the findings of the study conducted by Arifah, (2024); Minggu et al., (2023), and the hypothesis set in this study, namely that social performance positively affects firm value.

H6: The relationship between governance performance and firm value does not demonstrate a noteworthy statistical connection, given the probability value of 0.101, which exceeds 0.05. Moreover, the coefficient value of -0.453 does not support a strong correlation. These findings are consistent with prior investigations conducted by Prabawati & Rahmawati, (2022) and Romli & Abdurrohman, (2024) which explains that governance performance does not affect firm value. However, this result does not align with the research (Arifah, 2024; Tumba et al., 2024), the hypothesis that governance performance positively affects firm value.

H7: The probability of firm value being affected by financial performance is highly notable, indicated by a probability value lower than 0.05 and a coefficient value of 0.157. These results are consistent with the studies carried out by Necib et al., (2024); (Putra & Budastra, 2024). This can support signaling theory, which shows that good corporate financial performance can indicate to potential investors about the company's future investors want to invest in companies with good financial performance and high profitability.

Table 10. Simultaneous Test and Determination Results

R-squared	0.938602
Adjusted R-squared	0.914388
S.E. of regression	0.671248
Sum squared resid	31.99076
Log-likelihood	-84.90769
F-statistic	38.76374
Prob (F-statistic)	0.000000

Source: Output E-views 12 (Data processed, 2025)

H8: The F-statistic's level of significance, $0.000 < 0.05$, suggests that firm value is influenced by both ESG performance and financial performance together. The high Adjusted R-square value of 0.914 indicates that the majority of the firm value, around 91.4%, can be explained by ESG performance and financial performance, leaving only 8.6% for other variables not examined in the research.

4.4. Sobel Test

Table 11. Sobel Test Results

Variable	Sobel test-Statistic	Prob.
EP > FP > FV	1.63964074	0.05053994
SP > FP > FV	-1.90682722	0.02827148
GP > FP > FV	-1.68925409	0.04558537
Intervening variable: Financial performance		
Statistics Calculators version 4.0		

Source: danielsooper.com (Data processed, 2025)

H9: According to the Sobel test findings, the probability value of 0.0505 is higher than 0.05, indicating that financial performance does not play a mediating role in the connection between environmental performance and firm value. This research highlights that a firm's worth is not influenced by environmental performance, whether through direct or indirect means.

H10: The research from the Sobel test reveals a probability value of 0.0283, suggesting that financial performance may help offset the detrimental impact of social performance on a company's value. The study indicates that social performance does not directly influence firm value, but can instead indirectly decrease it by affecting financial performance.

H11: The results of the Sobel test suggest a strong correlation between firm value and financial performance, as the p-value of 0.045 is below the threshold of 0.05. This implies that financial performance may help offset the detrimental effects of governance performance on a firm's value. The study findings suggest that while governance performance may not have a direct influence on firm value, it can indirectly affect firm value negatively through its impact on financial performance.

5. Conclusion

The research results suggest that the performance of companies in terms of environmental, social, and governance (ESG) factors can affect their financial performance. More specifically, strong environmental performance is linked to positive outcomes, while weaker social and governance performance is associated with negative effects on financial performance. Costs may be the reason why social activities can reduce resource efficiency and profitability, investors' short-term orientation, and perceived ease of decision-making. However, other studies have shown that good social and governance performance can provide financial benefits to companies through increased reputation, operational efficiency in the long run, and customer loyalty.

It is worth noting that the value of a company is not directly influenced by its ESG performance. However, it has been proven that financial performance does have a positive impact. This supports the signaling theory, which explains that good financial performance is a positive indicator for investors. Furthermore, firm value is influenced by both ESG Performance and financial performance, with a combined contribution of 91.4%.

The connection between a company's value and its environmental practices remains unchanged by its financial success. However, strong financial performance can offset the impact of poor social and governance practices on the company's value. This finding illustrates the intricate interplay among environmental, social, and governance performance, financial performance, and overall company value. Findings that show a mismatch in the direction of

influence can be caused by the benefits of good ESG Performance, which are only felt in the long term, while in the short term, they have not been able to have a positive impact.

Companies are expected to optimize their ESG strategies to enhance financial performance, thereby increasing company value sustainably. One way to achieve this is through increased innovation in environmentally friendly practices, as strong environmental performance has been proven to positively impact financial outcomes. Additionally, focusing on operational efficiency and cost-saving initiatives, such as utilizing renewable energy or reducing waste, can further strengthen financial stability. Conducting an in-depth analysis of social and governance performance is also essential to identify areas for optimization without compromising profitability. Prioritizing financial enhancements is essential, as they have a significant impact on the value of a company. Consistently enhancing efficiency across ESG aspects is necessary, as the benefits of these efforts will be realized over the long term.

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