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## MODERATION OF PROFITABILITY ON ENVIRONMENTAL, SOCIAL, GOVERNANCE ON COMPANY VALUE IN THE COAL MINING SECTOR

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### Abstract

The key factor that investors need to consider before investing their capital is the assessment of the company's value. The purpose of this study is to analyze the moderating role of profitability on the influence of environmental, social, governance (ESG) on firm value. The analysis in the research uses quantitative analysis and the type of data is explanatory research with time series and cross section data from 2019-2023 using the moderated regression method with SPSS software. The research results state that there is a positive and significant effect of environmental, social, governance (ESG) on firm value, and the results of the profitability moderation analysis state that profitability has a significant effect on the effect of environmental, social, governance (ESG) on firm value, but has a negative moderation direction. These empirical results indicate that although ESG generally has a positive impact on firm value through increased stakeholder trust and social legitimacy, the presence of profitability as a moderating variable can weaken this effect. The implication of this finding is that coal mining companies need to increase ESG practices as it is proven to increase firm value by building market trust and good reputation. However, although profitability (ROA) strengthens the relationship between ESG and firm value, high profitability can reduce the focus on ESG. Therefore, companies need to maintain stability between profitability and ESG commitment, strengthen disclosure transparency, and utilize ESG practices as a competitive advantage to maintain social legitimacy and competitiveness in the global market.

**Keywords:** Company Value, Environmental, Social, Governance, Profitability, Coal Mining

## INTRODUCTION

The maximization of firm value, which is the ultimate goal, can be achieved through the implementation of financial management functions, including decisions related to financing, investment, and dividend distribution (Amaliyah & Herwiyanti, 2020). Companies listed on the Indonesia Stock Exchange (IDX) naturally strive to make their share prices attractive and promising for investors (Noviani et al., 2022). Every company listed on the stock tries to prove to investors that the company is a viable investment option. Therefore, efficient financial management plays a vital role in ensuring the sustainability and development of the company (Amelia et al., 2022).

According to a report from [Kontan.co.id](http://Kontan.co.id)-Jakarta, the mining sector index experienced negative growth of 12.83%. Several factors contributed to this decline. Liza Camelia Suryanata from Henan Putihrai Sekuritas explained that the poor performance of the mining sector index was closely related to coal prices that remained low throughout 2019, caused by a supply surplus in the global coal market. In addition, analysis from Nugroho Rahmat Fitriyanto from Artha Sekuritas highlighted that the mining sector index was further depressed by coal companies facing a significant decline in coal prices throughout 2019, which negatively impacted selling prices and profit margins ([Investasi.kontan.co.id](http://Investasi.kontan.co.id), 2020). Another phenomenon reported by [industri.kontan.co.id](http://industri.kontan.co.id) (2024) states that 2023 was a challenging year for companies in the mining sector in Indonesia. Various internal and external factors have impacted the value and financial performance of the company. Several mining companies experienced a sharp decline in their net profit. For example, PT Bukit Asam Tbk (PTBA) reported a 51.7% decline in net profit, reaching IDR 6.3 trillion, while PT Timah Tbk (TINS) recorded a loss of IDR 487 billion. Similarly, PT Aneka Tambang Tbk (ANTM) experienced a 19.45% decline in net profit. This decline was caused by weakening export market demand and declining commodity prices.

Based on the above phenomenon, a company should be formed with the main purpose of making a profit. Profit-oriented companies focus on efforts to increase the overall value of the business. (Tewuh & Murni, 2020), To increase the value of the company, the application of Environmental, Social, and Governance factors or ESG aspects is required. Integrating ESG principles effectively can enhance a company's reputation, attract investors, and reduce business risks. For Stobierski, (2021), sustainability investment involves assessing environmental, social and governance (ESG) aspects before allocating capital to a company or project. Addressing these three dimensions is believed to have a positive impact on social and environmental outcomes while generating better financial returns. The application of ESG practices in investment has now gained global attention. A survey conducted by RBC (2018) shows that 72% of participants from the United States, Canada, Europe and Asia consider ESG criteria in their investment decisions. In response to this global sustainability trend, Indonesia has issued the Sustainable Finance Roadmap Phase II from the Financial Services Authority (OJK). This strategic initiative aims to prioritize the integration of ESG aspects in all development activities, with a focus on establishing a holistic sustainable finance ecosystem (Ghazali & Zulmaita, 2020).

Companies that engage in ESG practices and disclose their ESG performance are seen as more clear and accountable, thereby enhancing their reputation and building trust among stakeholders (Aydoğmuş et al., 2022). An increase in demand for a company's stock will

naturally lead to an increase in its value. In recent years, listed companies have increasingly focused on ESG (Environmental, Social, and Governance) disclosures, with the aim of engaging stakeholders, meeting investor expectations, enhancing reputation, and dealing with the challenges posed by crises and competition. The relationship between ESG performance and firm value and profit has been widely examined in academic and business research. According to Ghazali & Zulmaita, (2020), ESG can add value in several ways, mainly by providing strong benefits that allow companies to enter new markets and develop existing markets, thereby increasing profitability. Attractive returns for investors often attract additional interest from other parties, which in turn helps increase the value of the company (Mispiyanti & Wicaksono, 2020).

In addition to being an ESG amplifying factor, profitability can be a moderating factor, this is because large companies generally have more stable financial health. This stability attracts investors to buy shares of these companies, which in turn drives up their share prices on the stock market. Investors tend to have high expectations of large companies, often anticipating dividend payments. Along with the increased demand for shares, this causes an increase in the market price of these shares (Ernayani et al., 2023)

The purpose of the research is to analyze the effect of Environmental, Social, and Governance (ESG) disclosure on firm value, with moderation of profitability, in coal mining companies listed on the Indonesia Stock Exchange. In the context of mining industry challenges, such as declining commodity prices and market demand, the application of ESG principles has become increasingly important to enhance reputation and attract investors. This study also explores the moderation of profitability on ESG linkages and firm value. This research is processed using SPSS 26.0 with a sample of 10 companies with a research year span of 5 years from 2019-2023. By applying a quantitative approach and using secondary data from the company's annual report, this study is expected to provide insight into how ESG integration and financial performance can contribute to increasing firm value in the mining sector. In conclusion, the integration of effective ESG practices and the achievement of balanced profitability can increase firm value in the coal mining sector. Companies are advised to continue to improve transparency in ESG reporting and manage financial performance sustainably to attract investor interest and maintain social legitimacy.

## REVIEW OF LITERATURE

### Stakeholder Theory

Stakeholder theory emphasizes that a company is not just an entity that exists to fulfill its personal interests; instead, the company must create value for its stakeholders, which include shareholders, creditors, consumers, suppliers, government, society, analysts, and others. Therefore, the existence of the company is greatly influenced by the support of these stakeholders (Ghozali & Chariri, 2017). Stakeholders can be categorized into two groups: Primary Stakeholders and Secondary Stakeholders. Primary Stakeholders include investors, employees, consumers, and suppliers, whose presence is crucial to the continuity of the company. On the other hand, Secondary Stakeholders, such as the government and society, can influence or be affected by the company, but they are not directly involved in the company's operations (Matangkin et al., 2018). Bashatweh, (2018), distinguishes between two branches of stakeholder theory: the ethical branch and the managerial branch. The ethical

branch argues that every stakeholder deserves fair treatment from the organization, regardless of their different levels of influence. On the other hand, the managerial branch argues that the significance of a stakeholder to the company determines the level of effort the company should invest in managing the relationship (Aini, 2020).

This study uses stakeholder theory, which states that the existence of a company requires the support of stakeholders. A company needs to maintain a good relationship with stakeholders through paying attention to their interests and providing relevant information, especially to those who hold power or have significant influence on the organization.

### **Legitimacy Theory**

Legitimacy theory is widely recognized and frequently referred to in the field of social and environmental accounting (Yunan, 2023). Badjuri et al., (2021) Iso highlighted that this theory has been applied to accounting research to deepen understanding of social and environmental responsibility disclosures (Safira & Widajantie, 2021). According to legitimacy theory, an institution must engage in activities and demonstrate performance that is considered acceptable to society. This theory explains that companies disclose their social responsibility efforts to gain legitimacy from the communities in which they operate (Nurmila & Sisdiyanto, 2024). Achieving this legitimacy helps companies avoid negative consequences and strengthen their value. Basically, legitimacy theory states that companies have a responsibility to adapt to the needs of society and the surrounding environment (Khalimatussa'diah et al., 2025). his alignment involves conducting business operations in line with prevailing social norms and values, as well as meeting community needs to support the well-being and sustainable survival of the environment in their operational areas (Holly et al., 2023). Among the various forms of adaptation, the most common is through the implementation of ESG programs

### **Signaling Theory**

Signaling theory explains how investors receive positive and negative information about the future prospects or development of a company (Susanto & Suryani, 2024). According to this theory, investment decisions serve as signals that positively influence the growth of a company, thereby affecting its value and share price (Laksono & Rahayu, 2024). These investments send favorable signals to investors and creditors, indicating the potential for future expansion. Due to information asymmetry, investors tend to protect themselves by giving a lower evaluation of the company (Salsabilla & Rahmawati, 2021), resulting in depressed stock prices, even though stock prices serve as an indicator of firm value. Conversely, management aims to increase the value of the company, so it tries to minimize information asymmetry. One effective approach is to provide clear signals to entities outside the company, such as the availability of clear and reliable financial information, which can reduce uncertainty about business prospects (Thamrin et al., 2022). Reduced information asymmetry increases investor confidence, thus having a positive impact on firm value.

### **Firm Value**

The value of a company reflects the amount of price that potential buyers are willing to pay if the company is sold. This value reflects the market value of the company's outstanding debt obligations and equity securities (Murniati & Ingra, 2023). This value serves as an indicator of the company's success in increasing its share price, thereby increasing shareholder welfare. An increase in stock prices generally leads to an increase in company valuation (Kristianti & Setianingsih, 2022). The value of the company basically

describes the price that the buyer wants to pay for the company. When a company lists its shares publicly, its value is influenced by investor perceptions (Murniati & Ingra, 2023). Firm value serves as a reference for potential investors to evaluate the company's future performance, which is closely related to stock price movements. The continuous increase in stock prices provides benefits to investors through greater returns (Aldi et al., 2020).

The Price to Book Value (PBV) ratio is used to assess the value of the company by comparing the stock price in the market to the book value owned by the company. As stated by Wira et al., (2022) a well-managed company is expected if the company has a PBV ratio of at least 1 or more, this indicates that its shares are valued higher than its book value. However, if the PBV is less than 1, it means that the stock market value is lower than its book value Windianti & Susetyo, (2021) note that a PBV ratio that is at a low level may indicate a decline in the quality and financial performance of the company. The following is the formula for calculating Price to Book Value (PBV):

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

### **Profitability**

Profit ratio is a financial measurement tool used to assess the extent to which the company is able to generate profits during a certain period, as well as assess the effectiveness of management in carrying out its operational activities (Darmawan, 2020). Raharjo, (2021) defines profitability as the company's ability to create profits from sales activities, which is generally seen from the amount of profit margin (Hery, 2018). According to Nofitasari, (2021), states that the profitability ratio provides great benefits for various interested parties. This ratio is not only important for the company, but also relevant for external parties.

To measure profitability, the Return on Assets (ROA) proxy is used. Return on Investment or also known as Return on Total Assets is a ratio that describes the rate of return on all assets utilized by the company. ROA is also seen as an indicator of management effectiveness in managing its investment resources. The ROA formula is as follows:

$$ROA = \frac{\text{Earning After Interest and Tax}}{\text{Total Assets}} \times 100\%$$

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

Environmental, Social, and Governance (ESG) is a set of corporate operational criteria covering three main dimensions: environmental, social, and governance aspects, which are used to assess sustainability (Tjun et al., 2024). In addition, investors generally consider ESG as a non-financial indicator to identify potential risks and opportunities that may affect a company's ongoing growth. Each of these dimensions includes specific factors. Sustainability practices through ESG (Environment, Social, Governance) disclosure have been shown to provide significant benefits to companies and stakeholders (Arayssi et al., 2020). Increased transparency in ESG reports allows companies to be more responsive to the needs of social and environmental aspects, which then contributes to increasing investor attractiveness in the market (Alsayegh et al., 2020). Saputro & Gusni, (2025) mentioned that companies that have a high ESG score generally show superior financial performance, including a higher price-to-earnings ratio, which attracts investor interest. In addition, good ESG disclosure can strengthen financial stability and reduce systemic risk, especially in the

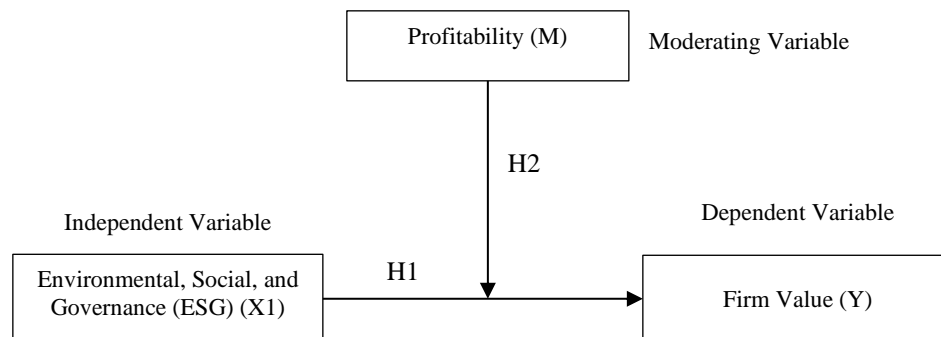
context of economic uncertainty as seen during the covid-19 pandemic (Adams & Abhayawansa, 2022)

The World Economic Forum's (WEF) ESG measurement provides indicators and information aligned with the four key pillars - Governance, Planet, People and Prosperity - that businesses and society consider important. The approach aims to simplify and standardize the non-financial reporting ecosystem. This report refers to frameworks such as GRI, CDP, Several international organizations that play a role in the development of sustainability reporting standards include the Climate Disclosure Standards Board (CDSB), the International Integrated Reporting Council (IIRC), and the Sustainability Accounting Standards Board (SASB). In Indonesia, sustainability reporting has been regulated through Financial Services Authority Regulation No. 51/POJK.03/2017 which requires the application of sustainable finance principles for financial services institutions, issuers, and public companies. To measure ESG disclosure, the GRI standard can be used, which is a reporting framework developed by the Global Reporting Initiative (GRI) to convey the company's economic, environmental and social impacts to the public based on recognized international standards. (Global Reporting Initiative, 2016)

Assessment of ESG disclosure is done by comparing the number of indicators disclosed by the company with the total number of indicators in the GRI module for certain ESG aspects, using the dummy variable method where each disclosed indicator is given a value of 1, and those that are not are given a value of 0.

$$ESG_j = \frac{\text{Sum of company's disclosure item}}{\text{Total of GRI's disclosure standard item}} \times 100\%$$

### Hypotheses



#### H1: ESG performance has a positive effect on firm value

Companies that have good ESG performance usually gain access to capital at a lower cost as many institutional investors and pension funds now consider ESG factors in their investment decisions. Employee satisfaction and retention also tend to be higher in companies that implement strong ESG practices, productivity and innovation can be enhanced. Overall, excellent ESG performance serves as a strong competitive advantage, making these companies more attractive to customers and business partners. Empirical studies show that companies with higher ESG ratings generally experience better financial results in the long run, meaning that improved ESG performance can substantially increase firm value

## H2: Profitability positively moderates the relationship between ESG performance and firm value

Companies that are active on ESG practices and transparently disclose their ESG performance are considered more accountable, thus strengthening reputation and stakeholder trust (Aydoğmuş et al., 2022). The high profitability of the company, then, promises its future prospects. This builds investor confidence in the potential returns, which in turn increases the attractiveness of the company's shares and drives higher demand for its shares. With increased demand for shares, the value of the company also increases.

### RESEARCH METHOD

This Study Uses A Quantitative Method With An Explanatory Type To Examine The Effect Of Esg And Profitability On Firm Value In Energy Companies, Especially The Coal Mining Sub-Sector, Listed On The Indonesia Stock Exchange During The 2019-2023 Period.

This Research Utilizes Secondary Data From Financial Reports And Company Annual Reports Downloaded From The Official Website Of The Indonesia Stock Exchange, Then Analyzed Using The Moderated Regression Analysis (Mra) Method Through The SPSS Version 26 Application.

The Research Population Included 33 Companies, But Based On Purposive Sampling Criteria That Considered Data Completeness, 10 Companies Were Obtained As Research Samples.

The Variables Studied Include Esg As The Independent Variable, Firm Value (Price To Book Value) As The Dependent Variable, And Profitability (Return On Assets) As The Moderating Variable.

Data Analysis Using The Classic Assumption Test, Descriptive Analysis, And Hypothesis Testing With The T Test, F Test, And Adjusted R<sup>2</sup> Is Carried Out To Ensure The Validity And Reliability Of The Regression Model Used. On The Other Hand, It Also Uses Moderated Regression Analysis (MRA) To Test The Moderation Of Profitability (Return On Assets).

### RESULTS AND DISCUSSION

#### Descriptive Statistical Analysis

**Table 1. Descriptive Analysis**

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	50	8.67	32.33	21.9999	5.72182
PBV	50	-3.10	4.03	1.2531	1.25810
ESG	50	.00	.70	.1601	.15726
Valid N (listwise)	50				

Data source: Processed primary data (2025)

Based on table.1 descriptive statistics, it can be seen that the number of valid data for each variable is 50 samples. The Return on Assets (ROA) variable has a minimum score of 8.67 and a maximum of 32.33 with an average (mean) of 21.9999 and a standard deviation of 5.72182, which shows that the average ROA value of companies in the sample is quite high with moderate variation. For the Price to Book Value (PBV) variable, the minimum value is recorded at -3.10 and a maximum of 4.03, with a mean of 1.2531 and a standard deviation of 1.25810, illustrating that there is considerable variation in market value relative to the company's book value, including negative values that indicate some companies may experience market value depreciation. On the other hand, the Environmental, Social, and Governance (ESG) variable, the minimum value is 0.00 and the maximum is 0.70 with an average of 0.1601 and a standard deviation of 0.15726, showing that the application of ESG aspects in companies in the sample is still relatively low and has a fairly consistent distribution of data. Overall, this description provides an overview of the characteristics and distribution of data on the three main variables in this study.

**Classical Assumption Test**

**Normality Test**

**Table 2. Normality Test**

<b>One-Sample Kolmogorov-Smirnov Test</b>		
		<b>Unstandardized Residual</b>
N		50
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	1.05016974
Most Extreme Differences	Absolute	.074
	Positive	.074
	Negative	-.065
Test Statistic		.074
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

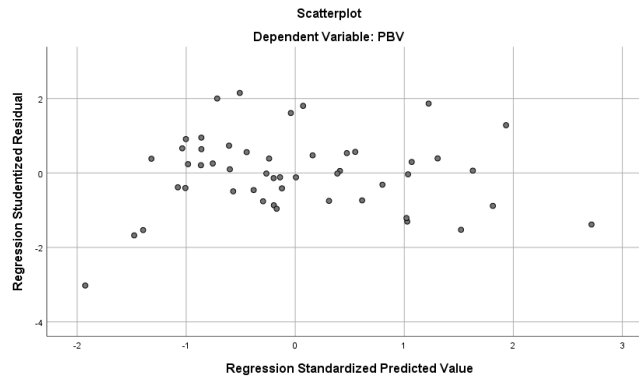
- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

Sumber: Data primer diolah, (2025)

The normality test shows a significance value of 0.200 in the One-Sample Kolmogorov-Smirnov Test table, which means that the research data is normally distributed because the value exceeds the 0.05 limit.

**Heteroscedasticity Test**

**Figure 1. Heteroscedasticity**



Data source: Processed primary data (2025)

In the heteroscedasticity test, the points are evenly distributed above and below zero on the Y axis without a consistent pattern, which means that the data used in this study does not show heteroscedasticity.

**Multicollinearity Test**

**Table 3. Normality Test**

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ESG	.656	1.525
	ROA	.656	1.525

The tolerance value  $\geq 0.10$  and  $VIF \leq 10$  for each variable in the coefficients table indicate that this simple linear regression model does not have multicollinearity problems.

**Autocorrelation Test**

The autocorrelation test shows a Durbin-Watson (DW) value of 1.769, which lies between the lower limit (DU) of 1.6283 and the upper limit (4-DU) of 2.3717. Since the DW value exceeds DU and is less than 4-DU, the model meets the criteria of no autocorrelation. hence, the simple linear regression model in the research does not show any autocorrelation

**Model Fit Test**

**F Test**

**Table 4. F Test**

Model	F	Sig.
1 Regression	10.227	.000 <sup>b</sup>
Residual		
Total		

Data source: Processed primary data (2025)

The calculated F value in the effect test is 10.227 with a significance of 0.000, indicating that the F value is greater than the critical F ( $10.227 > 2.79$ ) and the significance is smaller than 0.05. Based on this, the regression model used is valid and passes the F test.

**Determination Coefficient Test**

**Table 5. Determination Coefficient Test**

Model	R Square	Adjusted R Square
1	.231	.215
2	.401	.362

Data source: Processed primary data (2025)

In model 1, the Adjusted R Square value of 0.215 shows that the Environmental, Social, and Governance (ESG) variable explains 21.5% of the variation in the Company Value variable. In other words, ESG explains 21.5% of changes in Firm Value, while the remaining 78.5% is affected by other aspects outside the variables examined in this study.

In model 2, the Adjusted R Square value is 0.362, indicating that the combined effect of Environmental, Social, and Governance (ESG) variables, profitability, and their interaction (ESG\_profitability) explains 36.2% of the variation in the variable, namely firm value. The remaining 63.2% is caused by other variables outside the scope of the research model.

In conclusion, profitability can moderate the effect of ESG on PBV. Included in Quasi Moderation because M to Y is significant. Profitability can moderate positively or can increase the influence can be seen from the results of Adjusted R Square before moderation has an Adjusted R Square of 21.5% and after moderation by profitability has an influence of 36.2%. So that profitability is able to increase the influence of the ESG relationship on PBV by 14.7%.

**t Test**

**Table 6. t Test**

Model	Variable	Standardized Coefficients	t	Sig.
1	(Constant)		2.819	.007
	ESG	.481	3.797	.000
2	(Constant)		-2.702	.010
	ESG	2.355	3.062	.004
	ROA	.609	3.509	.001
	ESG ROA	-2.264	-2.736	.009

Data source: Processed primary data (2025)

In the first model, the partial t test results show that the ESG variable has a significance value of 0.000 which is below the  $\alpha$  limit of 0.05 and t count of 3.797 which exceeds t critical 2.010, which means that ESG has a significant positive effect on firm value. The second model shows that Environmental, Social, and Governance (ESG) on Firm Value is moderated by Profitability. The t test shows a significance value of 0.009 and t count -2.736 (absolute value > 2.010), which means there is a significant moderating effect between ESG and ROA on firm value with a negative direction of influence. Thus, ESG and ROA individually and their interaction have an important role in influencing firm value

**Hypothesis Test**

**Table 7. Hypothesis Value**

Hypothesis	Variable Impact	T Statistics	Sig
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<b>H1</b>	ESG -> Company Value	3.797	<b>0,000</b>
<b>H2</b>	Moderated Profitability -> ESG -> Company Value	-2.736	<b>0,009</b>

Source: Primary data processed (2025)

**H1: The Effect of ESG on Company Value**

Regarding Firm Value, the partial t test results show that the Environmental, Social, and Governance (ESG) variable has a significance value of 0.000 which is lower than the significance level of 0.05, and t count of 3.797 which is greater than t table 2.010, it can be concluded that ESG significantly and positively affects firm value through optimal performance and openness in ESG disclosure. According to Akmal & Indri, (2020), investors tend to be more interested in companies with a positive image in society, because this contributes to increased consumer loyalty to the company's products. In addition, Bank Indonesia Regulation No. 7/2/PBI/2005, which facilitates easier access to credit for companies that meet environmental management standards, is a driving factor that encourages investors to invest in companies in disclosing environmental aspects accountably, which also supports the growth of company value Dorothy & Endri, (2024). Companies with good ESG performance tend to enjoy a stronger reputation among consumers, investors and the general public. This positive reputation can increase customer loyalty and attract investors who care about sustainability issues. In addition, companies that focus on ESG are usually better at recognizing and anticipating risks related to environmental, social, and governance factors, which can reduce the likelihood of adverse events such as lawsuits, regulatory fines, or environmental disasters. Operational efficiency may also improve through ESG initiatives such as energy efficiency and waste reduction, which in turn can increase long-term profitability. These findings are supported by signaling, stakeholder, and legitimacy theories that explain how ESG disclosures strengthen investor confidence and corporate social legitimacy. In addition, companies that demonstrate strong ESG performance generally gain a more positive reputation, improve operational efficiency, and more easily access funding sources. These factors contribute to increased corporate value and sustainability. This finding is in line with the results of research conducted by Aydoğmuş et al., (2022), Delvina et al., (2023) and Zhou et al., (2022) which revealed a significant positive relationship between ESG and firm value.

**H2: The Effect of ESG on Firm Value Moderated by Firm Profitability**

The statistical test results show that profitability (ROA) moderates the relationship between ESG and firm value significantly in a negative direction, although the moderation hypothesis is rejected because the effect is in the opposite direction. From the signaling theory perspective, high profitability may reduce the company's focus on ESG, thus weakening the positive signal of ESG to the market. However, stakeholder and legitimacy theories explain that ESG remains important to foster trust and improve the company's reputation among stakeholders. The role of profitability (Return on Assets) in moderating the relationship between Environmental, Social, and Governance (ESG) and firm value that shows a negative direction is a complex topic and requires analysis through several main theories. First, from a signaling theory perspective, ESG disclosure is considered a positive signal to the market regarding a firm's commitment to sustainable practices and social

responsibility. However, when profitability is at a high level, such signals may experience a negative moderating impact. This is due to market perceptions that may infer that companies with high profitability are more likely to reduce resource allocation to ESG aspects, which results in a decrease in the effectiveness of such signals. Research by Ali et al., (2025) shows that a focus on high profitability can reduce commitment to sustainability, which further weakens the positive impact of ESG on firm value. Companies that are active in ESG practices and transparently disclose their ESG performance are considered more accountable, thus strengthening reputation and stakeholder trust (Aydoğmuş et al., 2022). Therefore, the higher a company's profitability level, the greater its positive prospects in the future. This gives investors' confidence in the potential return on their investment, which in turn increases the attractiveness of the company's shares and leads to increased demand for shares. With increased demand for shares, the value of the company also increases. The Adjusted R<sup>2</sup> value shows that profitability increases the strength of ESG's influence on firm value from 21.5% to 36.2%, confirming the importance of balance between financial performance and ESG for sustainable value growth. Research by Rahelliamelinda & Handoko, (2024) supports this finding by stating that companies with high profitability tend to prioritize short-term profits so that the impact of ESG on firm value becomes relatively weaker.

## CONCLUSION

The ESG, profitability (ROA), and enterprise value (PBV) variables in the sample companies show diverse characteristics; ROA has a high average value with moderate variation, PBV shows considerable variation including negative values, while ESG implementation is still relatively low and consistent among the sample companies. The results of the analysis reveal that ESG has a positive and significant effect on firm value, indicating that the disclosure and implementation of ESG practices can increase market confidence, corporate reputation, and social legitimacy, thereby increasing firm value. Profitability (ROA) moderates the relationship between ESG and firm value significantly with a negative direction, indicating that at high profitability levels, the positive influence of ESG on firm value tends to weaken. However, overall profitability also strengthens the relationship between ESG and firm value, confirming the importance of a balance between financial performance and ESG commitment in promoting sustainable growth in firm value. The implication of these findings confirms that companies need to balance between achieving profitability and strengthening ESG practices to maintain investor and stakeholder confidence while strengthening their competitive position and enlarging firm value in a sustainable manner.

This research has some limitations, such as only relying on data from 50 companies in one industry sector, which may limit the generalizability of the findings to other sectors or companies with different characteristics. In addition, the relatively low average ESG score indicates that ESG measurement or reporting in Indonesia is not yet fully optimized and consistent, which may affect the validity of the results. This research also uses secondary data with a quantitative approach, so it does not explore qualitative aspects such as stakeholder perceptions or management motivation in ESG implementation. Finally, the moderating variable of profitability is only measured using ROA so that the potential of other financial variables has not been analyzed.

Based on these results and limitations, it is suggested that future researchers are expected to reach more industrial sectors in sample selection for a larger number of companies so that the results are more representative and generalizable. It is also necessary to develop more comprehensive and valid ESG measurements, including with a qualitative approach to explore the perceptions and motivations of companies in ESG reporting. The addition of other moderating or mediating variables such as company size, leverage, or corporate culture is highly recommended to enrich the understanding of the mechanism of ESG influence on firm value. For practitioners, it is recommended to balance the focus between achieving profitability and strengthening ESG practices so that company value can increase sustainably and gain wider trust from stakeholders.

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