

THE MEDIATING ROLE OF FINANCIAL PERFORMANCE IN THE RELATIONSHIP BETWEEN ESG AND FIRM VALUE



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Abstract

Firm value is the condition of the firm that explains investors' views on the manager's performance in managing the firm. This research examines the mediating role of financial performance on the relationship between ESG and firm value. The population was taken from manufacturing companies listed on the Indonesia Stock Exchange (BEI) during 2020 - 2022. By using purposive sampling techniques, 111 observations were obtained. The data analysis technique used was multiple linear regression with STATA 15 software. The analysis results show that ESG has an insignificant negative effect on firm value, ESG has a significant positive effect on financial performance, and financial performance has a significant positive effect on firm value. However, financial performance does not mediate the relationship between ESG and firm value. Future research can expand the research object to other industries or replace financial performance proxies. Besides, the government is expected to encourage companies to implement and disclose ESG in annual reports, and investors can consider ESG information in their investment decisions.

Keywords: Environmental, Social, Governance (ESG), Firm Value, Financial Performance

INTRODUCTION

Companies have both long-term and short-term objectives in carrying out their activities. The short-term objective of a company is to obtain optimal profits within its existing capabilities, while the long-term objective is to maximize firm value. Firm value can illustrate a company's condition; basically, if firm value increases, it indicates an improvement in the company's worth (Ayu et al., 2023). It is very important for potential investors to use firm value as a reference when making investment decisions. Firm value represents an achievement because an increase in firm value will also enhance the prosperity of the owners. Therefore, investors are motivated to invest in companies with high firm value. Firm value can be reflected in stock prices.

The mining sector has made a significant contribution to Indonesia's economic growth. Its contribution amounted to 6.44% in 2020, increased to 8.98% in 2021, and rose again to 12.22% in 2022 (Kontan, 2022). However, the stock prices of several companies in the mining sector experienced fluctuations. PT Krakatau Steel Tbk (KRAS) also experienced a decline in stock prices during 2020–2022, with prices falling to IDR 428 per share in 2020 and IDR 412 per share in 2021, before declining again to IDR 326 per share in 2022. Low demand and supply conditions were cited as reasons for the decline in KRAS's stock price by 24.6%. In addition, PT Indal Aluminium Industry Tbk also experienced fluctuations during the 2020–2022 period. Its stock price was IDR 334 per share in 2020, decreased to IDR 292 in 2021, and further declined to IDR 264 in 2022.

In recent years, the issue of Environmental, Social, and Governance (ESG) has become increasingly important. ESG practices can help businesses operate more efficiently, making them a business strategy to maximize profits and attract investors. ESG is one of the factors that can influence firm value. Moreover, ESG enables investors and other stakeholders to better understand a company's social responsibility aspects and to select companies in which to invest (Zheng et al., 2022).

According to Jeanice and Kim (2023) and Delvina and Hidayah (2023), ESG has a positive effect on firm value. Companies with better ESG disclosure tend to have higher firm value. This is consistent with the findings of Melinda and Wardhani (2020), who stated that ESG has a positive impact on firm value. In contrast, research conducted by Arofah and Khomsiyah (2023) found that ESG has a negative effect on firm value. When ESG performance declines from year to year, the public may gradually perceive that the company's social responsibility is inadequate, thereby harming firm value.

The results of studies examining the effect of ESG on firm value have been inconsistent, which is suspected to be due to the presence of other variables that mediate the relationship between ESG and firm value. According to Arofah and Khomsiyah (2023), ESG has a positive effect on financial performance. An increase in firm value can be achieved through improved financial performance. Higher profitability leads to better return payments to shareholders. Based on this explanation, ESG can influence financial performance, and financial performance can affect firm value. Therefore, it can be concluded that financial performance is predicted to be a mediating variable in the relationship between ESG and firm value.

This study is expected to contribute to the development of research models examining the effect of ESG on firm value by incorporating financial performance as a mediating

variable. In addition, this study measures ESG using the ESG disclosure score obtained from the Bloomberg terminal. This differs from the study by Jeanice and Kim (2023), which used an ESG index. Bloomberg provides real-time and accurate data that reflect current conditions; therefore, its validity is beyond doubt.

LITERATURE REVIEW

Stakeholder Theory

According to Zaneta et al. (2023), stakeholders are individuals or groups that may be affected by the operations of a particular company. Companies continuously strive to build positive relationships with stakeholders in various ways in order to maintain their trust in the long term. Stakeholder theory is a strategic issue related to how companies manage relationships with stakeholders, where companies are required to pay attention to and provide benefits to stakeholders because their existence can influence, and be influenced by, the policies adopted by the company in its business activities. ESG represents a dialogue between companies and stakeholders through the disclosure of environmental and social responsibility. This is why ESG is very important and needs to be implemented by companies, as it is not only an obligation to be fulfilled but also an added value that can attract public attention and enhance corporate image (Nyakurukwa & Seetharam, 2023).

Signaling Theory

According to Spence (1970), signaling theory explains that senders (information providers) give signals to receivers in the form of information that describes the condition of a business. Management seeks to provide signals to investors through the disclosure of certain information. These signals may take the form of any information considered important by management, such as financial performance, ESG, or other relevant disclosures. The signals received by investors will influence their assessment of the company. If the information conveyed is perceived as positive, it will receive a positive response, leading investors to react favorably. This can increase stock prices and firm value. Conversely, negative signals can cause stock prices to decline. ESG can serve as good news. Positive sentiment shown by investors indicates that the company will be able to retain investors through increased stock transactions. The disclosure of financial performance can also serve as a signal to investors. If financial performance is attractive, investors will respond positively, resulting in an increase in stock prices (Gz & Lisiantara, 2022).

Firm Value

Firm value is a condition that reflects new investors' perceptions of managerial performance in managing and controlling the company (Al Amosh & Khatib, 2022). Achieving high firm value is the objective of every company, because good firm value encourages potential investors to purchase the company's shares. Higher firm value is also associated with greater investor prosperity (Al Amosh & Khatib, 2022).

Environmental, Social, and Governance (ESG)

According to Jeanice and Kim (2023), ESG disclosure in Indonesia has a continuous influence on environmental, social, and governance considerations in decision-making. ESG has advantages and long-term effects for shareholders when making investment decisions and plays a role in corporate decision-making. Companies that implement ESG properly aim to achieve corporate objectives. ESG disclosure refers to targeted and realistic analysis.

Financial Performance

Financial performance is a measure of a company's success over a certain period. Corporate financial performance is very important because it serves as a key indicator of business health and sustainability. Information on financial performance is also essential as a basis for management in making strategic decisions. Good financial performance can increase the confidence of investors and other stakeholders. Investors tend to be more interested in investing in companies that demonstrate strong financial performance, as this reflects higher profit potential and lower risk.

Hypothesis Development and Research Framework

The Effect of Environmental, Social, and Governance (ESG) on Firm Value

ESG represents corporate responsibility related to environmental, social, and governance aspects. Businesses that adopt ESG practices are those that care about environmental, social, and governance issues. As a result, companies that implement ESG practices are able to evaluate their business more effectively and enhance overall firm value. According to stakeholder theory, ESG is a dialogue between businesses and stakeholders to understand the social environment. Consequently, ESG becomes a very important and mandatory practice for businesses, as it also helps improve corporate reputation in the eyes of the public. ESG disclosure provides several benefits for companies. ESG integration enables companies to gain competitive advantages and improve operational efficiency and reputation. Furthermore, efficient resource utilization, strong relationships with shareholders, and better governance can result in higher corporate market value (Prabawati & Rahmawati, 2022).

H1: Environmental, Social, and Governance (ESG) has a positive effect on firm value.

The Effect of Environmental, Social, and Governance (ESG) on Financial Performance

According to stakeholder theory, ESG represents interactions between a company and its stakeholders in assessing the social environment. Therefore, ESG is a crucial and mandatory practice for businesses, as stakeholder contributions can lead to improvements in corporate financial performance. ESG can also serve as a tool for companies to gain appreciation from stakeholders. This can reduce business risk thresholds and generate positive responses related to product usage and capital utilization, which in turn influence production and sales thresholds (Nur Safriani & Cahyo Utomo, 2020).

H2: Environmental, Social, and Governance (ESG) has a positive effect on financial performance.

The Effect of Financial Performance on Firm Value

Signaling theory explains the relationship between financial performance and business value. Information provided to investors is often interpreted as either good or bad news. Signaling theory provides insight into how signals are used by signal senders to convey information and receive feedback from signal receivers. The purpose of signaling is to deliver relevant information to external parties so that they can revise their assessment of the company. Therefore, to influence corporate valuation, the information provided must be highly informative. Firm value may deviate from its position if the company provides positive feedback regarding its value (Purwanto, 2023).

If a company's profit increases, this information can be considered positive because it indicates that the business is performing well. Conversely, if profits decline or financial conditions worsen, this will be perceived as a negative signal.

H3: Financial performance has a positive effect on firm value.

Research Framework

Based on the theoretical review and hypothesis development, the research framework of this study is as follows:

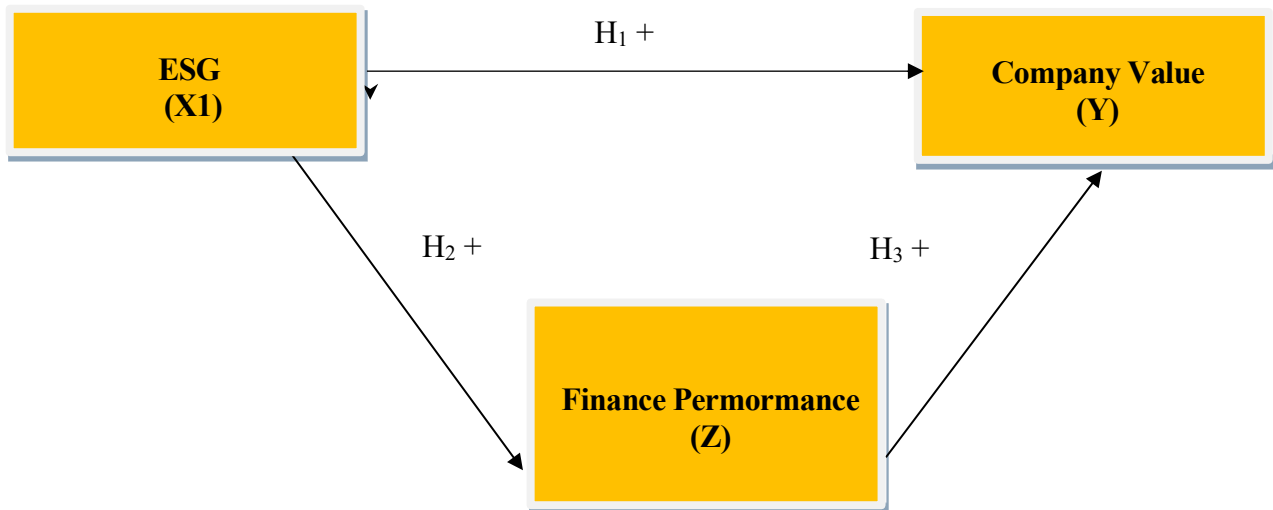


Figure 1.
Research Framework

RESEARCH METHOD

Population and Sample

This population consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for several years, consisting of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for several years from 2020 to 2022. The sample selection method used was purposive sampling, a sampling technique based on specific considerations (Sugiyono, 2018). The criteria used were as follows: (1) the company did not experience losses during the 2020-2022 period, and (3) the company presented complete data that was accessible through the official Indonesia Stock Exchange website and the company's official website. Based on these criteria, a sample of 111 firm-years was obtained.

Research Variable Measurement

The dependent variable in this study is firm value, measured by the Tobin's Q ratio = $(MVE + Debt) / Total Assets$. The independent variable used in this study is Environmental, Social, and Governance (ESG), measured by the Bloomberg score. The mediating variable in this study is Financial Performance, measured by the Return on Assets (ROA) ratio.

Research Design

This study used multiple linear regression and the Sobel test with STATA 15. The first stage was a descriptive statistical test aimed at describing the data based on the results obtained from each measurement indicator variable. Next, classical assumption tests were

used to ensure the regression coefficients were unbiased, consistent, and accurately estimated. These tests included (1) normality, (2) multicollinearity, (3) heteroscedasticity, and (4) autocorrelation. Furthermore, model fit and hypothesis tests were conducted to determine whether the existing hypotheses were accepted or rejected (Ghozali, 2018). The regression equation in this study is as follows:

$$Y1 = \alpha + \beta1X + e$$

$$Y2 = \alpha + \beta1X + \beta2Y1 + e$$

Notes:

Y1 = Financial Performance, Y2 = Firm Value

X = Environmental Social Governance (ESG)

α = Constant

$\beta1, \beta2$ = Regression Coefficients

e = Error

RESULT AND DISCUSSION

Descriptive Statistical Test

Descriptive statistical analysis aims to assess the quality of research data, which is described using numbers or values found in the minimum, maximum, median, mean, and standard deviation values of the data obtained. Descriptive statistical analysis will provide an overview of the research variables. The following are the results of the descriptive statistical test:

Table 1.
Results of the Descriptive Statistical Test

	N	ESG	Company Value	Finance Performance
Minimum	111	9,26	0,0002	0,0427
Maximum	111	53,10	0,1508	17,6058
Mean	111	31,81	0,0425	2,3680
Median	111	30,50	0,0335	1,2970
Standard Deviation	111	10,57	0,0346	2,9604

Source: Secondary Data Processed in STATA Version 15

Based on the descriptive statistics in Table 1, there are 111 research samples, which can be explained as follows: The ESG variable has a minimum value of 9.26% and a maximum of 53.10%. The mean value of 31.81 indicates that the average ESG disclosure of the 111 research samples is 3181% of the total ESG disclosure indicators. The standard deviation value of 10.57, which is smaller than the mean, indicates that the ESG variable data is evenly distributed. This indicates that the companies have disclosed. The mean value of 31.81% is slightly higher than the median value of 30.50%.

The financial performance variable has a minimum value of 0.02% and a maximum value of 15.08%. The mean value of 236.8% with a standard deviation of 296.04% indicates that there is a deviation in financial performance. The sample companies had a median financial performance value of 129.70%, lower than the average value of 236.80%. This indicates that the sample has a relatively high financial performance on average.

The firm value variable has a minimum value of 0.0002 and a maximum value of 0.1508. The mean value of 0.0425 and median value of 0.0346 indicate that the sample companies have a relatively high firm value and a fairly wide spread of data, as the mean value (2.3680) is smaller than the standard deviation (2.9604).

Research Results

Classical Assumption Test Results

Classical assumption testing is a statistical requirement required for Ordinary Least Squares (OLS)-based multiple linear regression analysis. Classical assumption testing is used to determine model accuracy, including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation.

Normality Test Results

A normality test is conducted to determine whether the independent and dependent variables, or both, in a regression model have a normal distribution. Data normality can be tested using the Jarque-Berra test, which states that if the Prob value is greater than chi2 and above 0.05, the data are normally distributed (Sihombing, 2022). The results of the normality test are as follows:

Table 2.
Normality Test Results for Model 1 and Model 2

Model and Variable	Observation	Prob>chi2
Model 1:		
ESG	111	0.1471
Company Value	111	0.2276
Model 2:		
ESG	111	0,1471
Company Value	111	0,2276
Finance Performance	111	0,6623

Source: Secondary Data Processed in STATA Version 15

Based on Table 2, the results of the normality test for Model 1 using the Jarque-Berra test indicate that the prob>chi2 value for the ESG variable is $0.1471 > 0.05$. Meanwhile, the prob>chi2 value for the financial performance variable is $0.2276 > 0.05$, indicating that the data in Model 1 is normally distributed. Meanwhile, Model 2 using the Jarque-Berra test shows a prob>chi2 value for the ESG variable of $0.1471 > 0.05$, and a prob>chi2 value for the firm value of $0.2276 > 0.05$. The prob>chi2 value for financial performance is $0.6623 > 0.05$, indicating that the data is normally distributed.

Multicollinearity Test Results

The multicollinearity test aims to determine whether a correlation exists between independent variables in the regression model. This test is performed by examining the tolerance value and the VIF value. If the tolerance value is >0.1 and the VIF value is <10 , it indicates that multicollinearity does not occur (Ghozali, 2018). The multicollinearity test results were only performed on Model 2, as Model 1 only uses one independent variable. The results of the multicollinearity test for Model 2 can be seen in the table below:

Table 3.
Results of the Multicollinearity Test for Model 2

Variable	VIF	1/VIF
ESG	1,01	0.994352
Finance Performance	1.01	0,004352

Source: Secondary Data Processed in STATA Version 15

Based on Table 3 above, ESG and financial performance have a VIF value of $1.01 < 10$ and a tolerance value of $0.994352 > 0.10$, thus concluding that there is no multicollinearity.

Heteroscedasticity Test Results

The heteroscedasticity test analyzes whether the error variance is constant (homoscedastic) or variable (heteroscedastic). This heteroscedasticity test examines whether there is inequality in the variance of residuals from one observation to another. This study uses the Breusch-Pagan test to test for the presence of heteroscedasticity (Sihombing, 2022). Below are the results of the heteroscedasticity test for model 1 using the Breusch-Pagan test:

Table 4.
Heteroscedasticity Test Results

Model	Prob>chi2
Model 1	0,2863
Model 2	0,2894

Source: Secondary Data Processed in STATA Version 15

According to Table 4, model 1 has a prob>chi2 value in the heteroscedasticity test of $0.2863 > 0.05$, while model 2 has a prob>chi2 value of $0.2894 > 0.05$. These results indicate that models 1 and 2 tested do not exhibit heteroscedasticity, and this study is considered suitable for further analysis.

Autocorrelation Test Results

This autocorrelation test is used to determine whether there is a correlation between the nuisance error in period t and the nuisance error in period t-1 (previously). If a correlation occurs, it is considered an autocorrelation problem. Autocorrelation arises because consecutive observations over time are related to each other. The presence or absence of autocorrelation symptoms can be determined by calculating the Durbin-Watson value, which is considered harmless if the DW value lies between -2 and +2 (Ghozali, 2018). The following are the results of the autocorrelation test:

Table 5.
Autocorrelation Test Results

Model	DW
Model 1	1,306487
Model 2	1,445183

Source: Secondary Data Processed in STATA Version 15

Based on Table 5, the results of the Autocorrelation Test for Model 1 show that the Durbin Watson value obtained is 1.306487, and for Model 2, it is 1.445183. Since the Durbin

Watson (DW) value is between -2 and +2, it can be concluded that there is no autocorrelation between Models 1 and 2.

Regression Test

**Table 6.
 Regression Test Results**

Hypothesis	Constant	Coefficient	Significance	Result
Model 1	-0.0635203			
H1: ESG has a positive effect on Firm Value		-0.1231964	0.085	Rejected
Model 2	-0.205498			
H2: ESG has a positive effect on Financial Performance		0.467648	0.000	Accepted
H3: Financial Performance has a positive effect on Firm Value		0.8980791	0.000	Accepted

Based on Table 6, Model 1 has the following equation: $NP = -0.0635203 - 0.1231964 \text{ ESG} + e$

Meanwhile, the equation for Model 2 is:

$$NP = -0.205498 + 0.467648 \text{ ESG} + 0.8980791 \text{ KK} + e$$

Notes:

NP: Company value

ESG: Environmental, Social, and Governance

KK: Financial performance

The results of the hypothesis test can be explained as follows:

The Effect of Environmental, Social Governance (ESG) on Company Value

Based on the t-test results, the regression coefficient is -0.1231964, with a significance value of 0.085, greater than 0.05. ESG has a negative but insignificant effect on company value, therefore the hypothesis is rejected.

The Effect of Environmental, Social Governance (ESG) on Financial Performance

The t-test results show a regression coefficient of 0.467648 and a significance value of 0.000. ESG has a significant positive effect on financial performance, concluding that the hypothesis is accepted.

The Effect of Financial Performance on Firm Value

The results of the study indicate a regression coefficient of 0.8980791 with a significance value of 0.000. These results indicate that financial performance has a significant positive effect on firm value, thus the hypothesis is accepted.

Model Feasibility Test Results

F Test

The F test is used to determine whether the independent variables simultaneously have a significant effect on the dependent variable. The results of the F test are shown in Table 7.

**Table 7.
 F Test Results (Simultaneous Significance Test)**

Model	F	Signification
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Model 1	162,21	0,0000
Model 2	51,33	0,0000

Source: Secondary Data Processed in STATA Version 15

Table 7: Models 1 and 2 show a significance value of 0.000, which is less than 0.05. This result indicates that both independent variables in models 1 and 2 simultaneously influence the dependent variable, thus the model is considered appropriate.

Coefficient of Determination Test

Measuring the ability of independent variables to explain variation in the dependent variable is the purpose of the coefficient of determination (R2) test. The coefficient of determination value ranges from 0 to 1. The results of the coefficient of determination test are as follows:

Table 8.
Results of the Coefficient of Determination Test (R2 Test)

Model	R- Squared
Model 1	0,5981
Model 2	0,4873

Source: Secondary Data Processed in STATA Version 15

Table 8 shows that Model 1 has a coefficient of determination of 0.5981, or 59.81%. This indicates that 59.81% of Financial Performance can be explained by ESG. The remaining 40.19% is explained by other variables not yet examined in this study. In Model 2, the coefficient of determination is 0.4873, or 48.73%. This indicates that 48.73% of Firm Value can be explained by ESG and Financial Performance. The remaining 51.27% is explained by other variables outside the model.

Sobel Test Results

This study includes a mediating/intervening variable, namely Financial Performance. The Sobel test is used to determine whether financial performance mediates the effect of ESG on firm value.

The following are the results of the Sobel test:

Table 9.
Sobel Test Results

$$Z = \frac{ab}{\sqrt{b^2SEa^2 + a^2SEb^2}}$$

$$Z = \frac{0,467846 \times -0,8980791}{\sqrt{0,8980791^2 \times 0,0367339^2 + 0,467846^2 \times 0,1170333^2}} = -6,572839$$

Source: Secondary Data Processed in STATA Version 15

a = Path of the independent variable to the intervening variable

b = Path of the intervening variable to the dependent variable

SE = Standard error

Values:

a = 0.467846

b = 0.8980791

SEa = 0.0367339

SEb = 0.1170333

Based on Table 9, the Sobel test shows a value of -6.572839, which is less than the critical ratio of 1.96. Therefore, it can be concluded that financial performance cannot mediate the influence of ESG variables on firm value.

Discussion

Based on the test results regarding the mediating effect of financial performance on the relationship between ESG and firm value, the following discussion is provided:

The Effect of Environmental Social Governance (ESG) on Firm Value

The results of this study indicate that ESG has a negative, insignificant effect on firm value, thus rejecting the first hypothesis of this study. Considering the average ESG disclosure of 31%, this indicates that the level of ESG disclosure in the sample companies is inadequate. A low ESG score that does not improve year after year will increasingly lead the public to perceive that the company's social responsibility is not good and does not impact the company's value. Consequently, investors will not consider ESG disclosure in their investment decisions.

These results are inconsistent with signaling theory, which argues that ESG disclosure should serve as a positive signal to stakeholders, especially investors. Good implementation of social and environmental responsibility will create a positive and environmentally friendly company image from an investor perspective. These results align with research by Paramitha & Devi (2024), which found that ESG does not have a positive effect on firm value. However, the results of this study do not align with those of Delvina & Hidayah (2023) who stated that the better ESG, the better the company's value. Investors positively assess companies' ESG efforts, considering ESG factors in investment analysis.

The Effect of Environmental Social Governance (ESG) on Financial Performance

The results of this study indicate that ESG has a significant positive effect on financial performance, thus accepting the second hypothesis of this study. Based on stakeholder theory, companies will disclose information to gain stakeholder support. ESG disclosure by organizations is a move that goes beyond conventional practices, not only to increase profits but also to provide added value to stakeholders by being more responsible with environmental factors. ESG disclosure creates a positive image for the company, thereby creating customer loyalty, which impacts financial performance. These results align with research conducted by Yulianti (2024) and Nur Safriani & Cahyo Utomo (2020), which states that ESG has a positive effect on financial performance.

However, this research does not align with research conducted by Putri & Mayangsari (2024); Gustin N. (2022), and Afany & Wahyudi (2023), which states that Environmental Social Governance (ESG) has no positive effect on financial performance.

The Effect of Financial Performance on Company Value

The results of this study indicate that financial performance has a significant positive effect on company value, thus the third hypothesis is accepted. Higher financial performance increases company value. This can be explained by the fact that companies with high profitability have high investor confidence due to their ability to generate profits. This aligns with signaling theory, where strong profitability serves as a positive signal to investors, leading to changes in a company's stock price on the stock exchange.

Company profitability can provide prosperity to shareholders and stakeholders. Stable profits provide investors with optimism to decide to invest in the company.

These results align with research conducted by Kunradus Kampo et al. (2024), which states that financial performance has a positive effect on company value. However, this study disagrees with research conducted by Handayani et al. (2023); Ekawati & Yuniati (2020); and Suyanto & Bilang (2023), which states that financial performance does not have a positive effect on company value.

The Mediating Effect of Financial Performance on the Relationship between Environmental Social Governance (ESG) and Firm Value

The Sobel test results show that the mediating effect of financial performance on the relationship between ESG and firm value is -6.572839 , <1.96 . These results conclude that financial performance does not mediate the relationship between ESG and firm value. This study failed to prove that ESG can influence firm value, due to the low average ESG value of the sample companies. Furthermore, while financial performance can be an important indicator of a company's health, it does not always function as an effective mediator between ESG performance and firm value. Uncertainty in ESG disclosure, differences in market characteristics, and limitations in measuring financial performance contribute to this phenomenon. Therefore, it is important for companies to disclose ESG and communicate the positive impacts of ESG practices more effectively to stakeholders to enhance their understanding and response to firm value.

CONCLUSION

This study aimed to determine how environmental social governance (ESG) can increase company value through financial performance, mediated by environmental social governance (ESG) in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020-2022 period. Based on the research results and discussion, the following conclusions can be drawn: (1) ESG has a negative, insignificant effect on company value, therefore, the hypothesis is rejected. This indicates that investors are less responsive to the low level of ESG disclosure in manufacturing companies in Indonesia.

(2) ESG has a significant, positive effect on financial performance, therefore, the hypothesis is accepted. ESG disclosure creates a positive image for the company, which fosters customer loyalty, thus positively impacting financial performance. (3) Financial performance has a significant, positive effect on company value, therefore, the hypothesis is accepted. Higher profitability leads to better returns to shareholders and a better company reputation among investors and stakeholders, which can increase company value. (4) Financial performance does not mediate the relationship between ESG and company value. This may be due to limited ESG disclosure, market characteristics, and limitations in financial performance measurement.

Research Limitations

Based on the research conducted, there are several limitations to this study, as follows: (1) limited ESG disclosure in manufacturing companies; (2) financial performance, proposed as a mediating variable with ROA as the indicator, is not capable of acting as a mediating variable.

Implications

Based on the research findings and limitations, the following implications can be provided for relevant parties:

For academics, based on the limitations of this study, the researcher suggests several points for further research. First, using the population and sample in other sectors prone to environmental problems, such as the energy sector, agriculture, transportation, or technology. This research is needed to determine whether industries prone to environmental pollution are committed to implementing and disclosing ESG. Second, the addition of control variables is necessary to help improve the causal interpretation of the coefficient estimates. Third, financial performance indicators other than ROA or company value indicators other than Tobin's Q can be used.

For companies, researchers recommend that companies whose operations are directly related to the environment and social environment implement ESG in the future, as this can benefit companies by enhancing their reputation and improving their image.

For the government, given the low level of ESG disclosure among manufacturing companies, it is recommended that the government implement regulations requiring all companies to report on ESG implementation annually. The government needs to encourage companies to implement ESG more effectively for the benefit of stakeholders. Furthermore, ESG should be continuously evaluated annually and awarded to companies that implement ESG.

Investors are expected to reconsider companies implementing ESG. Companies that have implemented ESG have proven to have good financial performance, making them a viable investment option. In addition to generating profits, investors also contribute to supporting sustainable development through the implementation of ESG in their companies.

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