

# Environmental, Social, and Governance and Firm Value: The Mediating Role of Financial Performance in Indonesia

Agung Dinarjito<sup>1\*</sup>, Puji Wibowo<sup>2</sup>

Politeknik Keuangan Negara STAN, Tangerang, Indonesia<sup>1,2</sup>

[agung.dinarjito@pknstan.ac.id](mailto:agung.dinarjito@pknstan.ac.id)<sup>1\*</sup>, [puji.wibowo@pknstan.ac.id](mailto:puji.wibowo@pknstan.ac.id)<sup>2</sup>



## Article History

Received on 15 April 2026

1<sup>st</sup> Revision on 24 April 2026

2<sup>nd</sup> Revision on 30 April 2026

3<sup>rd</sup> Revision on 03 May 2026

Accepted on 18 May 2026

## Abstract

**Purpose:** This study investigates the impact of Environmental, Social, and Governance (ESG) performance on corporate value, with financial performance acting as an intervening mechanism, in non-financial firms listed on the Indonesian Stock Exchange.

**Research Methodology:** This study employs a quantitative research design using panel data from 30 non-financial firms over the period 2020–2023. ESG data are sourced from Bloomberg, while financial data are obtained from firms' annual reports. The sample is selected using purposive sampling. Data are analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), which is suitable for prediction-oriented analysis and non-normal data distribution.

**Results:** The findings reveal that aggregate ESG performance does not have a direct effect on corporate value. However, ESG performance significantly and positively influences financial performance, which in turn has a positive effect on corporate value.

**Conclusions:** This study highlights that ESG performance enhances corporate value indirectly through financial performance, emphasizing the critical role of financial outcomes as a transmission channel of sustainability practices.

**Limitations:** The study is limited by its focus on non-financial firms within a specific emerging market context and a relatively small sample size, which may restrict the generalizability of the findings.

**Contributions:** This research extends the ESG literature by providing empirical evidence on the mediating role of financial performance in emerging markets. It offers practical implications for corporate managers to strategically integrate ESG initiatives with financial objectives and informs investors and policymakers about the indirect value relevance of ESG performance.

**Keywords:** *Corporate Value, Environmental Performance, ESG, Financial Performance, Governance Performance*

**How to Cite:** Dinarjito, A. Wibowo, P. (2026). ESG and Firm Value: The Mediating Role of Financial Performance in Indonesia. *Jurnal Akuntansi, Keuangan, dan Manajemen*, 7(3), 341-355.

## 1. Introduction

The primary objective of founding a corporation is to enhance shareholder wealth, as evidenced by the rise in the market price of outstanding shares (Titman, Keown, & Martin, 2018). To elevate share prices, the interests of investors must be considered. At present, investors consider both financial and non-financial success. As environmental consciousness grows, ESG performance has emerged as a critical factor for investors in their investing decisions. ESG performance encompasses environmental, social, and corporate governance metrics. ESG serves as a crucial metric for assessing a company's dedication to sustainable and ethical practices, which is thought to impact investor perceptions and corporate valuation.

In Indonesia, the implementation of Financial Services Authority Regulation number 51/POJK.03/2017 mandates that financial services firms provide sustainability reports to ensure transparency over their ESG performance. In the capital market, ESG performance is reflected in the IDX ESG Leaders, which evaluates issuers' adherence to ESG principles. BEI partners with Morningstar Sustainalytics to perform ESG performance evaluations for issuers. The adoption of ESG encounters numerous problems, including reporting inconsistencies, insufficient comprehension, and restricted quantitative metrics that can substantially impact corporate value. Investors' evaluation of ESG performance in decision-making is evidenced by several instances of environmental infractions that lead to a decline in share prices. BRMS shares witnessed a decrease in price in February 2025, attributed to locals' opposition stemming from concerns over probable environmental harm ([Infobanknews, 2025](#)). In 2024, RMKE was excluded from the quality30 index owing to an environmental contamination incident [RmoslSumsel \(2024\)](#), along with numerous other incidents pertaining to ESG, including the PT Timah case. These cases offer investors insight into the long-term dangers associated with corporate sustainability.

Numerous entities have investigated the correlation between ESG performance and its impact on financial performance and corporate value. Strong ESG performance is anticipated to yield cost reduction and enhance corporate productivity, hence improving long-term financial performance. This assertion is substantiated by research from various authors, indicating that optimal ESG performance is characterized by efficient corporate operations, robust management governance, and transparent performance reporting, which can enhance financial outcomes [Aydoğmuş, Gülay, and Ergun \(2022\)](#); [\(Ihsani, Nidar, & Kurniawan, 2023\)](#); [Ruan and Liu \(2021\)](#); [Şeker and Güngör \(2022\)](#); [Vishwanathan, van Oosterhout, Heugens, Duran, and van Essen \(2020\)](#) indicates that ESG performance does not significantly impact financial performance. These findings align with the studies conducted by [Setiawati and Hidayat \(2023\)](#) indicating that environmental, social, and governance performance does not significantly impact financial performance. The findings of from [Dewanti and Susila \(2024\)](#) are somewhat at odds with other research, indicating that ESG performance adversely affects financial performance.

ESG performance is also believed to influence company value. As seen in the phenomenon above, research from [Mokhtar, Kusumastuti, and Wiralestari \(2024\)](#); [Pramisti and Istiqomah \(2024\)](#); [Sabatini and A. Utama \(2024\)](#); [Srivastava and Anand \(2023\)](#); [Tang, Xiong, and Peng \(2024\)](#); [Triwacananingrum, Rahmawati, Djuminah, and Probohudono \(2024\)](#); [Zhang and Azman \(2023\)](#) produced findings that ESG will have a positive influence on corporate value. However, several other studies have produced different findings. Research from [Auladiyyah and Citradewi \(2024\)](#); [Dinarjito \(2024\)](#); [Putra and Budastra \(2024\)](#); [Tirta Wangi and Aziz \(2024\)](#) found that ESG performance does not have a significant effect on company value. Enhancing ESG performance is anticipated to facilitate the company's attainment of long-term sustainability. ESG is anticipated to impact investors' decisions to enhance corporate value and is also projected to improve financial performance. Research by [Vishwanathan et al. \(2020\)](#) underscores the potential of ESG to enhance stakeholder collaboration and augment business efficiency, hence influencing organizational performance.

[Kusumawardhani, Thenardi, and Lutwal \(2023\)](#) contend that a company's ESG performance may enhance as a result of improved financial success, thus elevating the company's value. Consequently, it is essential to investigate whether financial performance mediates the relationship between ESG performance and company value to assess the linearity of corporate policies in enhancing ESG performance, finance, and company value. Numerous studies examine the impact of ESG performance on financial performance and corporate value; yet, their findings are conflicting. Moreover, studies incorporating financial performance as an intermediary variable in the correlation between ESG performance and corporate value remain scarce, particularly in Indonesia. This research seeks to examine the impact of ESG performance, financial performance, and individual ESG indicators namely environmental, social, and corporate governance performance on company value, incorporating financial performance as an intervening variable.

This research is crucial for elucidating the impact of ESG performance on financial outcomes and corporate valuation. This research aims to examine whether financial performance mediates the

relationship between ESG performance and company value, ensuring that initiatives to enhance ESG performance align with efforts to improve financial performance and company value. The findings of this research can serve as a reference for firms in managing sustainability initiatives to enhance ESG performance, thereby aligning with the improvement of financial performance and fostering long-term value creation. This research enhances the literature on ESG, financial performance, and corporate value, particularly in Indonesia as a developing nation. This research includes background information, a literature review, research methodology, and outcomes with commentary. This research concludes with findings, constraints, and practical ramifications.

## **2. Literature Review and Hypothesis Development**

### ***2.1 Theoretical Study***

Sustainability performance can be interpreted as company performance in all dimensions and for all indicators of corporate sustainability ([Schaltegger & Wagner, 2006](#)). Indicator sustainability performance becomes a framework for helping companies and their stakeholders to assess/assess how the company's operational activities contribute without reducing/disrupting sustainable development goals (Warhurst, 2002). Sustainability performance can be seen from ESG performance coupled with economic performance in accordance with the triple bottom line ([Elkington, 1998](#)). To achieve sustainability goals, stakeholder theory is appropriate to use to discuss these problems. Stakeholder theory emphasizes that companies need to pay attention to and fulfill the interests of various parties who influence their business operations ([Freeman, 2010](#)). In this view, companies not only aim to generate profits for shareholders, but are also responsible for providing benefits to other groups such as employees, customers, suppliers, society, government, and the environment.

Companies must maintain relationships with stakeholders by accommodating their desires and needs, especially stakeholders who have power over the availability of resources used for the company's operational activities, such as the workforce, customers, and owners ([Hörisch, Schaltegger, & Freeman, 2020](#)). Stakeholder theory also shows that companies that pay attention to the needs and expectations of stakeholders tend to find it easier to maintain long-term relationships, reduce the risk of conflict, and increase trust and loyalty ([Godam, Omega, & Ochonogor, 2019](#); [Siew, 2023](#)). Companies not only have the potential to increase company value but also attract investors who support sustainability principles. In this context, company value is not only seen from financial profits alone, but also from the quality of relationships, which are important in creating company stability and sustainability.

### ***2.2 Hypothesis Development***

The stock market value is very dependent on the information received by investors and potential investors ([Titman et al., 2018](#)). Market prices are very dependent on information, so that good financial performance and ESG can influence share prices. Based on signal theory, [Spence \(1973\)](#) explains that the information conveyed by a company can influence the perceptions of external parties, especially investors. A company's ESG performance serves as a positive signal reflecting a company's commitment to responsible and sustainable business practices. When companies invest in ESG initiatives, they demonstrate seriousness about managing environmental impact, social responsibility, and good governance. ESG can increase investor confidence as reflected in the increase in share prices, where investors see the company as a more stable, ethical entity and capable of managing long-term risks.

It is hoped that good ESG performance will help improve financial performance. Good ESG performance is expected to reduce environmental costs, improve operational efficiency, increase productivity, and reduce other costs, which ultimately improve company performance. With a good ESG commitment, the company will be more stable in its operational and financial activities and based on the perspective of stakeholder theory and the concept of sustainability, ESG activities can shape the company's competitive advantage, in addition to being a source of company opportunity and innovation ([Ruan & Liu, 2021](#)).

Effective company operations, good ESG risk management governance, and transparent company performance reports can improve the company's reputation, so that effective corporate governance can

improve the company's financial performance ([Ruan & Liu, 2021](#); [Şeker & Güngör, 2022](#); [Vishwanathan et al., 2020](#)). Based on the explanation above, the hypothesis proposed in this research is:

- $H_1$ : ESG performance has a positive effect on financial performance
- $H_{1a}$ : Environmental Performance has a positive effect on Financial Performance
- $H_{1b}$ : Social Performance has a positive effect on Financial Performance
- $H_{1c}$ : Governance performance has a positive effect on Financial Performance

According to legitimacy theory, companies that demonstrate commitment to all three aspects of ESG are considered to operate in accordance with society's values and expectations, which ultimately strengthens social legitimacy. Companies that have good environmental performance (*Environmental*) demonstrate responsibility towards the environment by reducing carbon emissions, implementing efficient waste management, and sustainable use of natural resources. Research shows that good environmental performance can improve a company's reputation and strengthen support from the community, which has a positive impact on company value ([Arifah, 2024](#); [Malau, 2024](#); [Melinda & Wardhani, 2020](#); [Sari & Sutopo, 2023](#); [Srivastava & Anand, 2023](#); [Yu & Xiao, 2022](#); [Zhang & Azman, 2023](#)).

In the social dimension (*Social*), companies that invest in employee welfare, community empowerment, and other social responsibilities are considered to have good social performance. Positive social performance in the eyes of stakeholders can reduce the risk of conflict, increase employee and customer loyalty, and create harmonious relationships with the surrounding community. This is in line with research findings ([Aydoğmuş et al., 2022](#); [Melinda & Wardhani, 2020](#); [Sari & Sutopo, 2023](#); [Srivastava & Anand, 2023](#); [Yu & Xiao, 2022](#); [Zhang & Azman, 2023](#)) which show that good social performance can increase company value.

Governance dimensions (*Governance*) also play an important role in increasing company value, where the implementation of good governance includes transparency, accountability, and ethical business practices. Companies with good governance performance are seen as more trustworthy and have a lower level of risk in the eyes of investors. According to signal theory, good governance practices provide positive signals to the market and investors regarding the stability and long-term prospects of a company, which can increase investor confidence and interest in company shares ([Gillan, Koch, & Starks, 2021](#)). Ultimately, good governance can increase company value ([Arifah, 2024](#); [Aydoğmuş et al., 2022](#); [Malau, 2024](#); [Melinda & Wardhani, 2020](#); [Srivastava & Anand, 2023](#); [Zhang & Azman, 2023](#)).

In addition, aggregate ESG performance shows the integration of these three dimensions. Companies that have high aggregate ESG performance demonstrate a holistic commitment to sustainability, which provides added value in the eyes of stakeholders and strengthens the company's image as a responsible entity. Research shows that good aggregate ESG performance is significantly related to increasing company value because it reflects comprehensive sustainability practices and provides long-term competitive advantage and ultimately increases company value ([Mokhtar et al., 2024](#); [Sabatini & A. Utama, 2024](#); [Srivastava & Anand, 2023](#); [Triwacananingrum et al., 2024](#); [Zhang & Azman, 2023](#)). Based on the explanation above, the alternative hypothesis of this research is as follows:

- $H_2$ : ESG performance has a positive effect on Corporate Value
- $H_{2a}$ : Environmental Performance has a positive effect on Corporate Value
- $H_{2b}$ : Social Performance has a positive effect on Corporate Value
- $H_{2c}$ : Governance performance has a positive effect on Corporate value

Signal theory states that financial performance is the main signal used by investors in making investment decisions ([Lintner, 1956](#)). Companies with financial performance can provide positive signals for investors, which will ultimately cause share prices to rise. Company performance is always linked to financial reports. The profit and loss report describes management's work performance in managing the company's business as seen from the achievement of profits. Financial performance is a description of the financial condition of a company, which is analyzed using financial analysis tools, so

that it can be known about the good and bad financial condition of a company, which reflects work performance in a certain period (Faisal, Samben, & Pattisahusiwa, 2017). According to Titman et al. (2018) and Subramanyam (2014), financial performance can also be seen from the financial position report and cash flow report in addition to the profit and loss report. One thing that is trusted to see financial performance is ROA, which is part of the profitability ratio. Several studies related to financial performance and company value have been conducted. Mariani and Suryani (2018) found that financial performance has a positive influence on company value. Then, also found that profitability, which represents financial performance with ROA, has a positive effect on company value, and this result supports the findings of (Isniah & Amanah, 2019). Other research was also conducted by Dewi, Dewi, and Yamawati (2023) and Dinarjito (2024) with the same results that financial performance, as measured by profitability, had a significant effect on company value. From several previous studies and existing theories, the hypothesis that can be built is:

*H<sub>3</sub>*: Financial performance has a positive effect on Corporate Value

In improving ESG performance, companies will make environmentally friendly investments to reduce environmental costs, improve operating efficiency, and increase company production. Apart from that, ESG is also aimed at identifying risks that can later reduce risks that will become a burden, such as social and environmental risks, through good governance. With the benefits of ESG, burdens such as environmental burdens, social burdens, and other burdens will be reduced, and company productivity will increase, so the impact will improve company performance. ESG performance is intended for the long term so that the company remains a going concern (Sumarno, Andayani, & Prihatiningtyas, 2023). Investors consider financial performance to be the main factor in determining a company's performance. Good ESG performance can improve financial performance and even indirectly increase company value. Companies that implement ESG performance can improve financial performance, which ultimately increases company value. Research findings explain that the ESG Performance variable can influence company value and financial performance as a mediator of this influence. This is confirmed by which explains that the impact of ESG performance on company value can be influenced by its financial performance. Based on the explanation above, the hypothesis built is:

*H<sub>4</sub>*: Financial performance mediates the effect of ESG performance on corporate value

*H<sub>4a</sub>*: Financial performance mediates the effect of environmental performance on corporate value

*H<sub>4b</sub>*: Financial performance mediates the effect of social performance on corporate value

*H<sub>4c</sub>*: Financial performance mediates the effect of governance performance on corporate value

### 3. Methodology

This study adopts a quantitative approach and utilizes secondary data as the primary source of analysis. This research is used secondary data taken from Bloomberg and the company's financial reports. The population of this research is companies listed on the Indonesia Stock Exchange in 2024. Samples were taken using a purposive sampling method with the criteria set as in Table 1. The data taken is from 2020 to 2023.

Table 1. Research sample criteria

Criteria	Amount
Non-financial companies listed on the IDX	798
Minus:	
Companies that do not have a Bloomberg ESG score	-719
Companies that do not have complete data attributes	-49
Number of samples	30
Number of observation periods	4
Total data observed	120

In this research, the analysis technique uses descriptive and inferential statistics. Descriptive statistics aims to describe the concentration and distribution of data without concluding. Next, inferential

statistics were carried out using Partial Least Squares-Structural Equation Modeling (PLS-SEM) with panel data to conclude the influence of the independent variables on the dependent variable. This analysis is a multivariate statistical analysis with the aim of testing the influence of variables simultaneously, with an emphasis on prediction studies [Hair et al. \(2022\)](#) use of PLS-SEM considers the non-normal distribution of data, considering that samples come from various types of different characteristics. [Hair et al. \(2022\)](#); [Hair, Risher, Sarstedt, and Ringle \(2019\)](#) stated that one of the advantages of using PLS-SEM is that it does not require a normal data distribution. A predictive study is a research approach aimed at forecasting the value or behavior of a dependent variable based on specific independent variables. Its primary focus is not only on explaining relationships but also on how well the model can estimate outcomes in the future or across different samples ([Hair et al., 2022](#)).

Data was analyzed using PLS-SEM to help predict the influence of ESG performance and environmental, social, and corporate governance performance on company value, with financial performance as an intervening variable. Analysis uses PLS-SEM through outer model and inner model tests. The outer model test was not carried out because the variable was measured with one indicator, so it was automatically fulfilled. Inner model tests include collinearity tests, hypothesis tests, coefficient of determination tests, and F-squared tests. The variables used in this research include the dependent variable in the form of company value (MV); independent variables include ESG performance (ESG), environmental performance (ES), social performance (SS), and governance performance (GS). The intervening variable is financial performance (ROA). Table 2 describes the measurement variables used in this study.

Table 2. Summary of variables and measurement

Variables	Abbreviation	Measurement	Reference
<b>Dependent Variable</b>			
Firm Value	MV	Ln (Market value of shares)	<a href="#">(Dang, Nguyen, &amp; Tran, 2020; Dinarjito, 2024; Jaffe, Keim, &amp; Westerfield, 1989)</a>
<b>Independent Variables</b>			
ESG Score	ESG	ESG Score obtained from Bloomberg	<a href="#">(Dinarjito, 2024; Melinda &amp; Wardhani, 2020)</a>
Environmental Score	IS	Environmental Score obtained from Bloomberg	<a href="#">(Aydoğmuş et al., 2022; Jaffe et al., 1989; Wulandari, Nofryanti, &amp; Rosini, 2023)</a>
Social Score	SS	Social Score obtained from Bloomberg	<a href="#">(Pulino, Ciaburri, Magnanelli, &amp; Nasta, 2022; Rasyad, Afgani, &amp; Ali, 2024)</a>
Governance Score	GS	Governance Score obtained from Bloomberg	<a href="#">(Domanović, 2022; Giannopoulos, Kihle Fagernes, Elmarzouky, &amp; Afzal Hossain, 2022)</a>
<b>Moderator Variable</b>			
Financial Performance	ROA	Income before tax divided by total assets	<a href="#">(Melinda &amp; Wardhani, 2020; Rahman, Johari, Abdurraheem, &amp; Harjito, 2022)</a>

To answer the research objectives, the research framework can be seen in Figures 1 and 2. Model 1 is used to see the influence of ESG performance on corporate value with financial performance as an intervening variable. To describe the models in Figure 1, the following is the regression equation used:

$$ROA_{it} = \beta_0 + \beta_1 ESG_{it} + e_{it} \quad (1)$$

$$MV_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_3 ROA_{it} + e_{it} \quad (2)$$

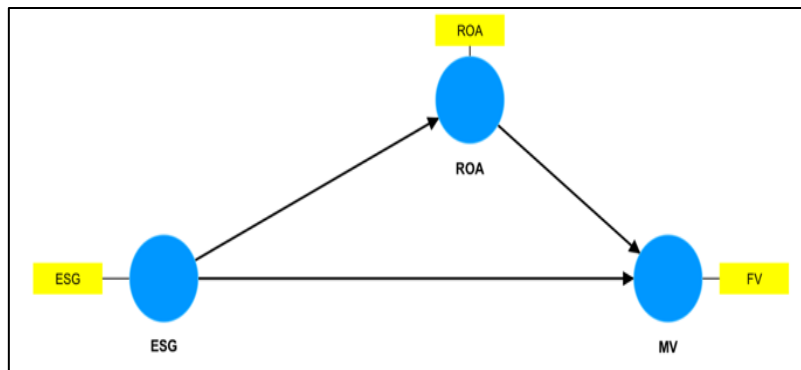


Figure 1. Model 1 Framework

Figure 1 shows the influence of each ESG performance, including environmental (ES), social (SS), and governance (GS) performance, on company value with financial performance as an intervening variable. To describe the two models, the following is the regression equation used:

$$ROA_{it} = \beta_0 + \beta_1 ES_{it} + \beta_2 SS_{it} + \beta_3 SG_{it} + e_{it} \quad (3)$$

$$MV_{it} = \beta_0 + \beta_1 ES_{it} + \beta_2 SS_{it} + \beta_3 SG_{it} + \beta_4 ROA_{it} + e_{it} \quad (4)$$

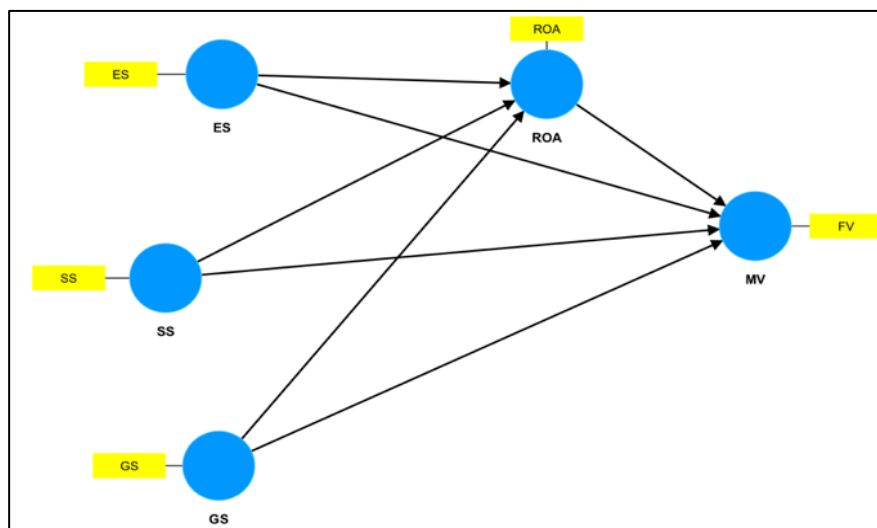


Figure 2. Model 2 Framework

Figure 2 illustrates the conceptual framework of Model 2, showing the hypothesized relationships among the key variables. The framework includes three independent variables ES, SS, and GS which are represented as blue nodes. These variables are hypothesized to influence two dependent outcomes: ROA and MV, with directed arrows indicating the proposed causal paths. ROA also appears as a mediating variable affecting MV. Each node is clearly labeled, and the arrows depict both direct and indirect relationships, providing a visual representation of how ES, SS, and GS are expected to impact Firm Value (FV) through financial performance (ROA). This model serves as the foundation for testing the structural relationships among the variables in the study.

## 4. Results and Discussions

### 4.1 Result

Table 2. Descriptive statistics

Variables	Obs	Mean	Std. Dev	Min	Max	Median
FV	120	7,845	1,229	4,682	10,621	7,729
IS	120	2,882	1,663	0,540	8,560	2,500
SS	120	3,323	1,631	0,380	6,800	3,180
GS	120	4,506	0,820	2,870	5,960	4,495
ESG	120	3,349	1,051	1,320	5,690	3,220
ROA	120	0,105	0,101	0,001	0,560	0,078

In Table 2, the FV variable is the natural logarithm of share prices, with an average value of 7.845, or if the anti-natural logarithm is IDR 2,552, with the highest market value of IDR 40,986. Then the independent variables, such as ESG, ES, SS, and GS, have medium to low average values ( $ESG < 5$ ) and high standard deviation values. This shows that the ESG performance of non-financial companies listed on the Indonesia Stock Exchange tends to still be below average or lacking in ESG measures ( $< 5$ ). An ESG score below 5 indicates that the company is still not optimal in implementing ESG principles. This indicates that, on average, companies in Indonesia are still not too focused on decision-making by emphasizing ESG factors, but not at the same level for all companies.

Investors also have not used ESG performance in making investment decisions. Companies with good ESG scores ( $> 5$ ) and some low ( $< 2.5$ ). By looking at the average ESG, ES, SS, and GS scores, it can be seen that in Indonesia, the GS score is higher than the ES and GS scores, which shows that companies in Indonesia still tend to focus on corporate governance (GS). Apart from that, in terms of company profitability, to describe financial performance, the average value is 10.5%, or net profit divided by total assets of 10.5%. The sample used shows that all companies are profitable with an ROA of 0.001. With a fairly small standard deviation, the ROA values of the sample companies are not widely spread, nor is the value gap too large.

Table 3. Results of Direct Effect Analysis Model 1

Variables	Original sample (O)	STDEV	T statistics	P-values	Hypothesis
ESG → MV	-0,018863	0,111661	0,168931	0,865858	Decline $H_2$
ESG → ROA	0,314029	0,083780	3,748239	0,000180*	Support $H_1$
ROA → MV	0,354339	0,084512	4,192777	0,000028*	Support $H_3$

\*Significant at 5%, \*\*Significant at 10%

Based on Table 3, ESG performance does not affect company value because the p-value is above 10%, so the second hypothesis is rejected. The influence of ESG on financial performance, which is represented by ROA, and the influence of financial performance on company value have a p-value of less than 5%, so that hypotheses  $H_1$  and  $H_3$  are proven to have a positive effect.

Table 4. Results of Indirect Effect Analysis Model 1

Variables	Original sample (O)	STDEV	T statistics	P values	Hypothesis
ESG → ROA → MV	0,11127	0,04528	2,45759	0,01402*	Support $H_4$

\*Significant at 5%, \*\*Significant at 10%

Then, related to the role of financial performance as a mediating variable in the influence of ESG performance on company value, it has a p-value of less than 5%, so it has a significant positive effect, and hypothesis  $H_4$  is proven as in Table 4. Table 5 shows that equation 2 has an r-square of 12.2% and equation 1 has an r-square of 9.9%. This indicates that ESG performance only explains its influence on

financial performance by 9.9%, and together with financial performance, ESG performance explains its influence by 12.2%, and the rest is influenced by other factors.

Table 5. Model Fit Model 1

	<b>R-square</b>	<b>R-square adjusted</b>
MV	0,122	0,107
ROA	0,099	0,091
	<b>F</b>	<b>P-value</b>
F-sig 1	12,909	0,000*
F-sig 2	8,1070	0,000*

\*Significant at 5%, \*\*Significant at 10%

Furthermore, in the second model, by looking at the influence of each performance value forming ESG, which includes Environmental Performance (ES), Social Performance (SS), and Governance Performance (GS) on financial performance, and together with financial performance on company value, the results can be seen in Table 6. Table 6 shows that Financial Performance has a significant and positive effect on company value, so that  $H_3$  is accepted. Then, for the influence of ES, SS, GS performance on financial performance, all of them have a positive effect at the 5% and 10% significance levels, so that  $H_{1a}$ ,  $H_{1b}$ , and  $H_{1c}$  are proven. For the influence of ES, SS, and GS performance on Firm Value (MV), only the influence of ES and SS has a significant and positive influence on firm value, so that  $H_{2a}$  and  $H_{2b}$  are proven. The effect of GS on MV has a p-value above 10%, so the  $H_{2c}$  hypothesis is rejected.

Table 6. Results of Direct Effect Analysis Model 2

<b>Variables</b>	<b>Original sample (O)</b>	<b>STDEV</b>	<b>T statistics</b>	<b>P-values</b>	<b>Hypothesis</b>
ES → MV	0,180	0,060	2,992	0,003*	Support $H_{2a}$
ES → ROA	0,125	0,089	1,409	0,079**	Support $H_{1a}$
GS → MV	0,080	0,084	0,948	0,172	Decline $H_{2c}$
GS → ROA	0,198	0,085	2,340	0,019*	Support $H_{1c}$
ROA → MV	0,350	0,082	4,276	0,000*	Support $H_3$
SS → MV	0,272	0,097	2,800	0,0049*	Support $H_{2b}$
SS → ROA	0,133	0,091	1,469	0,071**	Support $H_{1b}$

\*Significant at 5%, \*\*Significant at 10%

To prove the role of financial performance in mediating the influence of Environmental (ES), social (SS), and Governance (GS) performance on company value, it can be seen in Table 7. Financial performance is proven to be able to mediate the influence of ES and SS on company value at a significance level of 10% and is able to mediate the influence of GS on company value at a significance level of 5%, so that  $H_{4a}$ ,  $H_{4b}$ , and  $H_{4c}$  are proven.

Table 7. Results of Indirect Effect Analysis Model 2

<b>Variables</b>	<b>Original sample (O)</b>	<b>STDEV</b>	<b>T statistics</b>	<b>P-values</b>	<b>Hypothesis</b>
ES → ROA → MV	0,044	0,033	1,306	0,096**	Support $H_{4a}$
SS → ROA → MV	0,047	0,035	1,323	0,093**	Support $H_{4b}$
GS → ROA → MV	0,069	0,038	1,820	0,034*	Support $H_{4c}$

\*Significant at 5%, \*\*Significant at 10%

Table 8 shows that equation 1 in model 2 has an R-squared of 14.79%, and equation 1 has an R-squared of 9.1%. This indicates that the performance of ES, SS, and GS only explains their influence on financial

performance by 9.1%, and together with financial performance, the performance of ES, SS, and GS explains their influence by 14.479%, and the rest is influenced by other factors.

Table 8. Model Fit Model 2

	<b>R-square</b>	<b>R-square adjusted</b>
MV	0,1479	0,1291
ROA	0,091	0,076
	<b>F</b>	<b>P-value</b>
F-sig 1	3, 870	0,000*
F-sig 2	7,786	0,000*

\*Significant at 5%, \*\*Significant at 10%

#### 4.2 Discussion

Based on the data analysis above, it was found that aggregate ESG performance (ESG) has a positive and significant effect on financial performance (ROA). Then, the performance of each indicator that forms ESG, namely ES, SS, and GS, also has a positive and significant effect on ROA. These findings support research from [Khairunnisa and Widiastuty \(2023\)](#); [Ruan and Liu \(2021\)](#); [Seker and Güngör \(2022\)](#); [Vishwanathan et al. \(2020\)](#) which results in aggregate ESG performance having a significant and positive effect on financial performance. Optimal ESG shows that the company is able to increase cost efficiency and increase productivity, which will later provide added value to the company's financial performance.

These findings endorse stakeholder theory, which posits that firms must account for the interests of all parties impacted by their operational activity. Investing in ecologically sustainable assets enables organizations to mitigate environmental expenses, diminish societal impacts, and enhance production. Enhancing social performance will facilitate the company's acceptance within the community and therefore augment employee productivity. Effective governance will mitigate firm risk. Should this occur, the company will derive significant advantages from the use of ESG. According to Tables 4 and 5, aggregate ESG performance (ESG) does not influence corporate value (MV), whereas only governance performance (GS) is found to have no impact on corporate value (MV). Environmental performance (ES) and social performance (SS) exert a positive and considerable influence on business value.

Stakeholder theory explains that companies have not fully considered the interests of all stakeholders in managing their companies. Implementing environmental strategies, such as investing in environmentally friendly assets, requires high costs in the short term, but sustainability-oriented actions can have a significant impact on long-term economic benefits, thereby providing an increase in the company's financial performance in the long term [Johan and Toti \(2022\)](#); [Wang, Cheng, and Zhen \(2023\)](#) explained that adopting green technology will increase the company's operational efficiency and will reduce energy costs in the long term.

The collective ESG performance does not influence business value; it is plausible that ESG practices among Indonesian enterprises are suboptimal. The ESG score in Table 1 indicates an average value below 5, signifying subpar performance. Subpar ESG performance will prompt investors to reevaluate their investing choices. Another reason is the potential that investors in Indonesia do not yet regard ESG performance as a critical element in their investment decisions. Certain investors continue to emphasize financial success while making investing decisions. The results of this study are in line with research [Auladiyyah and Citradewi \(2024\)](#); [Putra and Budastra \(2024\)](#); [Tirta Wangi and Aziz \(2024\)](#), which found an insignificant influence of ESG on company value.

When looking at each indicator of environmental performance and social performance, the results of data analysis show that both performances have a significant and positive effect on corporate value. The significant influence of environmental performance on firm value supports the findings of ([Tang et al., 2024](#)). With the development of environmental issues, investors are starting to consider environmental

performance in making investment decisions. Even though the average environmental score is still at 5, which indicates that environmental performance is still not good, this can be a basis for investors to make investment decisions, so that it will influence the company value, which is reflected in changes in share prices.

Positive social performance in the eyes of stakeholders can reduce the risk of conflict, increase employee and customer loyalty, and create harmonious relationships with the surrounding community. This is in line with research findings [Aydoğmuş et al. \(2022\)](#); [Melinda and Wardhani \(2020\)](#); [Srivastava and Anand \(2023\)](#); [Yu and Xiao \(2022\)](#); [Zhang and Azman \(2023\)](#), which show that good social performance can increase company value. In accordance with legitimacy theory, companies will be easily accepted by the environment if they are able to pay attention to the interests of all affected parties. Research from [Mitra and Gaur \(2020\)](#) found that many companies are starting to shift their attention to social performance as opposed to environmental performance. This is because social performance has a more significant impact on good corporate governance, so that the company's value in the eyes of stakeholders becomes higher.

However, corporate governance performance in this study did not have a significant effect on company value. The insignificance of governance performance on company value can be seen from the average value of governance scores in Table 1, which shows that it is still below 5, indicating that governance performance is still not optimal. This can also be seen from several cases of governance failure, which resulted in cases of corruption or environmental damage. Good governance should be able to reduce information asymmetry ([Kanagaretnam, Lobo, & Whalen, 2007](#)). With the results not having a significant effect, it is possible that investors still do not believe in the company's governance performance in making investment decisions.

Based on tables 4 and 5, financial performance (ROA) has a positive and significant effect on company value. In accordance with signal theory, financial performance is the main signal in making investment decisions by investors. Good information will increase stock prices and vice versa. ROA, which is an indicator of profitability, describes work performance that can be seen whether the company's financial management is good or bad. The results of the research are in accordance with research [Dewi et al. \(2023\)](#); [Mariani and Suryani \(2018\)](#); [Rahman et al. \(2022\)](#), which results in the fact that financial performance will influence company value. This shows that Indonesian investors still prioritize financial performance in making investment decisions.

The next finding from this research is that financial performance (ROA) can mediate the influence of aggregate ESG performance on company value. This indicates that financial performance can become a full mediator of the relationship between ESG performance and company value. Likewise, the indicators that form ESG show that financial performance can mediate environmental, social, and corporate governance performance on company value. These results support previous research ([Putra & Budastra, 2024](#)). Based on stakeholder theory, companies must consider the interests of all parties affected by their operational activities, not just shareholders and creditors. To improve their financial performance, businesses must focus and prioritize environmental, social, and governance factors ([Wardani & Sa'adah, 2020](#)). Therefore, companies must be able to integrate policies to strengthen ESG with financial performance so that it will have a positive impact on company value. Companies must always manage impacts on society, the environment, and, of course, finances to achieve sustainable performance in accordance with the triple bottom-line concept.

This study demonstrates that financial performance can mitigate the impact of ESG performance on company value. This suggests that firms on the Indonesia Stock Exchange have successfully aligned all ESG-related policies with their financial strategies, resulting in a correlation where enhanced ESG performance leads to improved financial performance, thereby generating a favorable signal (signaling theory) for investors and augmenting the company's value. Strong ESG performance will foster environmentally sustainable innovation, enhancing cost efficiency and productivity, hence positively influencing financial performance ([Putra & Budastra, 2024](#)). Environmental performance will reduce environmental costs and impacts, social performance will reduce social costs such as labor and

community costs, and governance performance will reduce losses caused by managerial costs and fraud; this will improve financial performance in the long term. Effective corporate governance plays a crucial role in enhancing firm performance. One important mechanism is a strong audit committee, which serves as an effective oversight body to curb managerial opportunism and improve the quality of strategic decision-making, ultimately contributing to better firm performance ([Nuryadi & Aziza, 2025](#)).

## 5. Conclusions

### 5.1 Conclusion

This study aims to analyze the influence of ESG performance, which includes environmental, social, and corporate governance variables, on company value, with financial performance acting as an intermediary variable in non-financial sector firms listed on the Indonesia Stock Exchange from 2020 to 2023. The results of the data study reveal that ESG performance does not impact business value, and governance performance likewise does not affect corporate value. However, supplementary assumptions indicate that ESG performance positively impacts financial performance, financial performance positively influences business value, and financial performance may mediate the relationship between ESG performance and company value. Additional study suggests that environmental sustainability favorably impacts corporate value and financial performance. Social performance has been shown to enhance business value and financial performance, while governance performance positively influences financial performance but does not affect corporate value. The performance in environmental, social, and governance aspects indirectly affects business value via financial performance as a mediating variable.

### 5.2 Research Limitations

This research is constrained by theoretical limitations stemming from the absence of prior studies addressing the impact of each ESG shaper on the company's market value. The study sample is limited, as it exclusively examines non-financial enterprises within a specific timeframe. Consequently, the findings cannot be extrapolated. Moreover, variations in the industry of each organization may have impacted the outcomes. Consequently, future study may benefit from examining organizations across various industries and timeframes.

### 5.3 Suggestions and Directions for Future Research

This research is anticipated to yield advantages for various stakeholders, including investors, managers, communities, academics, and other entities, by enhancing information derived from the study's findings. In light of the findings from this study on ESG practices, corporations ought to publicly disclose their ESG performance to investors. The reporting and disclosure of this performance are anticipated to furnish balanced information to assist investors in their decision-making processes. Companies must synchronize ESG initiatives that can influence financial performance and corporate value. The findings of this study are anticipated to enhance investors' comprehension in making investment selections. Investors may evaluate the company's ESG performance while making investment decisions. This will incentivize corporations to pursue sustainable development initiatives.

## Author Contributions

AD, PW is solely responsible for the study, including its conception, design, data collection and analysis, manuscript preparation, discussion, and final conclusions.

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