

The effect of ESG performance on firm value: financial performance as a mediating variable

Dzulhijah Alkayyis Rayis, Ahmad Juanda*, Agung Prasetyo Nugroho Wicaksono

Department of Accounting, Faculty of Economics and Business, Universitas Muhammadiyah Malang, Malang, Indonesia

*Corresponding Author email: juanda@umm.ac.id

ARTICLE INFO

Article history:

Received 2025-09-01

Accepted 2025-12-01

Published 2025-12-10

Keywords:

ESG Performance, Financial Performance, Firm Value, Return on Assets, Tobin's Q

DOI:

<https://doi.org/10.20885/jaai.vol29.iss2.art8>

ABSTRACT

This study investigates the influence of Environmental, Social, and Governance (ESG) performance on firm value, utilizing financial performance as a mediating variable. This study aims to fill a gap in the literature by examining the indirect effect of financial performance on the link between ESG and firm value, utilizing a sample of 24 non-financial businesses listed on the Indonesia Stock Exchange (IDX) from 2017 to 2024. A quantitative methodology was utilized, employing panel data regression analysis via the Fixed Effects Model (FEM) to examine the data, supplemented by tests for heteroskedasticity, endogeneity, and the Sobel and Hayes Model 4 to reinforce the findings. This study's innovation resides in employing financial performance as a mediator, offering fresh perspectives on how ESG activities might indirectly augment firm value via enhanced financial performance. The findings demonstrate that ESG performance significantly enhances firm value, but financial performance does not directly affect firm value in the majority of models. Financial performance serves a crucial mediating function in enhancing the connection between ESG performance and firm value. It is advised that organizations amalgamate sustainability initiatives with proficient financial management to augment long-term firm value. A subsequent study will investigate additional variables, including governance characteristics, and increase the sample size to corroborate these findings across diverse industries.

Introduction

A company's financial performance has a significant role in raising its firm value (Kartika & Utami, 2019; Yang & Jang, 2020). The company's operational efficiency, risk management skills, and ability to produce income sustainably are all shown by stable performance. In addition to giving stakeholders trust, this kind of financial stability forges a solid basis for several sustainability activities, including Environmental, Social, and Governance (ESG) performance (Strine et al., 2020; Choi et al., 2024; Dathe et al., 2024). Effective ESG performance implementation is a key determinant of a company's capacity to draw in investors in a global economy that is paying more attention to sustainability issues (Dan et al., 2022; Ahmad et al., 2023; Raut et al., 2023; Aich et al., 2021). This is because investors are becoming more conscious of environmentally sustainable and socially responsible corporate operations (Kölbl et al., 2019; Aksoy et al., 2022; Bradford et al., 2017). As a result, steady financial performance not only keeps the business operating steadily but also plays a crucial role in securing long-term investment that raises the company's worth on the global market (Agustian et al., 2023).

It is thought that effective ESG implementation enhances a company's reputation, draws in new investors, and generates long-term value (Park & Jang, 2021; Meng et al., 2023). According to several studies, businesses that emphasize sustainable investing principles and have the best ESG performance practices are more appealing to international investors (Lo & Lin, 2023; Wang et al., 2024). ESG performance is linked to boosting public trust and making businesses more competitive in the marketplace, in addition to enhancing reputation. On the other side, businesses need substantial financial backing to execute ESG initiatives successfully (Norman et al., 2022; Kotsantonis et al., 2016; Baid & Jayaraman, 2022). Stability in financial performance is crucial for allocating enough capital to support these sustainability projects. (Al-Busaidi & Nabi, 2019; Nomeda & Rima, 2016). Put another way, businesses with strong financial results are often better equipped to deploy funds for ESG performance initiatives in a way that maximizes their influence on firm value.

This is in line with stakeholder theory, which explains the relationship between firm value and financial performance. According to this idea, a company's success is based on its capacity to satisfy the demands and expectations of many stakeholders, such as the government, society, and the environment, in addition to its financial returns (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024). Good ESG implementation reflects a company's commitment to social responsibility and sustainability, thereby enhancing public trust and corporate reputation (Al-Faisal et al., 2020; Patil et al., 2021). In this context, good financial performance provides the basis for funding such practices, ensuring that companies focus not only on short-term profits but also on sustainable growth. Furthermore, financial stability enables companies to consistently support programs that positively impact society and the environment, thereby strengthening relationships with stakeholders (Sroufe & Gopalakrishna-Remani, 2019).

From previous studies that indicate the relationship between ESG performance and firm value, some results show positive, some show negative (Yoon et al., 2018; Bui et al., 2024; Chairani & Siregar, 2021; Rohendi et al., 2024; Lo & Lin, 2023; Morri et al., 2024; Cheng et al., 2023; Faradila & Effendi, 2023; Bouamra et al., 2023; Wang et al., 2024; Tan et al., 2024; Jang, 2024; Xu & Zhu, 2024; Chen et al., 2024). These differences in results are sometimes caused by variations in the ESG performance indicators used, as well as methodological variables in the research. In addition, most studies focus more on the direct relationship between ESG performance and firm value without considering the role of financial performance, which can provide a more comprehensive picture of the relationship (Noh et al., 2024; Aydoğmuş et al., 2022; Cheng et al., 2023; Aprilina et al., 2025). This fact points to a gap in previous research, particularly in the area of how financial performance can strengthen the impact of ESG performance in increasing firm value, so that financial performance has the potential to become a mediating variable that connects the relationship between ESG performance and company value. Furthermore, there is still little research conducted in Indonesia that specifically discusses the mediating role of financial performance in the relationship between ESG performance and company value in non-financial companies during the period 2017-2024.

By using financial performance as a mediating variable, this study attempts to investigate the impact of ESG performance adoption on firm value in light of the research gap. By taking into account the company's financial health as a factor that might reinforce the link between ESG performance and firm value, this research aims to provide a fresh viewpoint. It is anticipated that this research will provide comprehensive empirical evidence on the role of financial performance as a mediator in raising firm value by using panel data of Indonesia Stock Exchange (IDX) businesses that have adopted ESG performance between 2017 and 2024. This research will examine the ideas put forward and aid in management decision-making about sustainable investment using panel regression analysis. Therefore, it is anticipated that this research will not only close the gap in the literature but also provide organizations with strategic advice for improving financial performance and ESG performance practices in order to sustainably boost firm value.

Literature Review

Stakeholder Theory

The stakeholder theory states that, in addition to financial profits, a company's performance is determined by its ability to meet the needs and expectations of various stakeholders, including the government, society, and the environment (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024). Therefore, to ensure its long-term sustainability, a company must maintain relationships with its stakeholders.

This theory emphasizes that to meet stakeholder expectations in the context of financial accounting, companies must implement ethical business practices and provide transparent information (Wardani et al., 2025; Sroufe & Gopalakrishna-Remani, 2019). According to (Al-Faisal et al., 2020; Patil et al., 2021) one way a company can improve its reputation, investor confidence, and operational stability is by implementing ESG (Environmental, Social, and Governance).

ESG Performance and Firm Value

Stakeholder theory holds that a company's long-term performance is impacted by the welfare of its workers, the community, and the environment, in addition to the interests of its shareholders (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024). According to this notion, businesses that prioritize the well-being of their workers, the community, and the environment will have an easier time succeeding in the long run. Stakeholder support and a favorable perception of business operations may boost a company's reputation and loyalty, which can raise its worth.

Prior research indicates that the adoption of ESG can improve a company's reputation, competitiveness, and market stability (De Luca et al., 2020; Qureshi et al., 2021; Chen et al., 2023). Moreover, several studies demonstrate that effectively executed ESG enhances firm value by fostering investor confidence and bolstering

market legitimacy (Yoon et al., 2018; Chairani & Siregar, 2021; Rohendi et al., 2024; Velte, 2017). However, even though numerous studies demonstrate the beneficial effects of ESG on firm value, other research indicates that these effects are not always significant, particularly in developing nations where investors place a higher priority on short-term profitability than sustainability considerations (Duque-Grisales & Aguilera-Caracuel, 2019; Aydoğmuş et al., 2022). Based on these findings, this study proposes the following hypothesis.

H₁: ESG performance has a positive impact on firm value.

ESG Performance and Financial Performance

Environmental, Social, and Governance (ESG) initiatives can affect corporate valuation and enhance financial performance. Organisations using sustainable policies often mitigate legal concerns, save operational expenses, enhance energy efficiency, and fortify connections with investors and consumers (Yoon et al., 2018; Cheng et al., 2023). These factors positively influence profitability, as seen by financial performance metrics such as ROA, ROE, and profit margins. Prior research indicates that ESG may enhance a company's financial performance by delivering substantial additional value in both the short and long term (Chairani & Siregar, 2021; Qureshi et al., 2021). Consequently, it is anticipated that proficient ESG implementation would positively influence a company's financial success.

While ESG may yield long-term advantages, certain studies indicate that the adoption of ESG practices can incur supplementary costs for organisations, potentially resulting in a transient decrease in financial performance, primarily due to the substantial investments needed for eco-friendly technologies and other sustainability efforts (Nayyar et al., 2023; Font & Lynes, 2018). The correlation between ESG and financial success is not consistently linear; in many instances, the initial expenses associated with adopting ESG practices may impede short-term financial performance enhancements. This study posits the following hypothesis based on these observations.

H₂: ESG performance has a positive impact on financial performance.

Financial Performance and Firm Value

The financial performance significantly influences a company's valuation. Organizations exhibiting strong financial performance can execute sustainable business plans and enhance resource management efficiency. Robust financial performance mitigates conflicts of interest between management and shareholders, therefore enhancing investor confidence in the company's prospects (Al-Busaidi & Nabi, 2019; Kalyar et al., 2019). Prior research has demonstrated that financial success positively enhances firm value, since organizations exhibiting strong profitability are more appealing to investors (Yoon et al., 2018; Chairani & Siregar, 2021). This suggests that robust financial performance may significantly enhance a company's appeal to investors and, thus, elevate its value.

Nevertheless, several studies indicate that superior financial performance does not inherently enhance firm value if the market views the company as possessing inadequate governance or reputational risk (Mishra & Kapil, 2017). In summary, while strong financial performance can enhance a firm's appeal, variables such as reputation and corporate governance significantly influence market evaluations of firm value. The correlation between financial success and firm value is not invariably straightforward and is contingent upon the market's view of additional factors, including corporate governance and reputation. This study posits the following hypothesis based on these observations.

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

Mediating Role of Financial Performance

In the context of stakeholder theory, financial performance may serve as a mediating variable in the association between ESG and firm value. Organizations exhibiting robust financial performance have an enhanced capability to execute ESG principles successfully and showcase managerial proficiency in resource allocation. This scenario enhances investor trust in the firm's capacity to maintain sustainable operations while preserving profitability, thereby elevating firm value (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024). Consequently, this study posits the subsequent hypothesis.

Within the framework of stakeholder theory, financial performance may act as an intermediary variable in the correlation between ESG and firm value. Organizations exhibiting robust financial performance are more capable of effectively implementing ESG principles and showcasing executive proficiency in resource allocation. This also demonstrates management proficiency in overseeing sustainable operations while maintaining profitability, a crucial factor in increasing the company's appeal to investors (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024).

Robust financial performance enhances investor trust in the company's capacity to retain operating viability while preserving long-term profitability. This indicates that financial success serves not just as a measure of financial

health but also as a catalyst for the adoption of ESG practices inside firms. Consequently, the effective implementation of ESG may impact firm value, with robust financial performance serving as a mediator that enhances the effect of ESG on firm value (Yoon et al., 2018; Chairani & Siregar, 2021; Rohendi et al., 2024; Velte, 2017). This analysis leads to the formulation of the following hypothesis

H₄: Financial performance plays a positive role in mediating the relationship between ESG performance and firm value.

Research Method

This research is a quantitative study that uses panel data from non-financial companies listed on the Indonesia Stock Exchange (IDX) during the period 2017 to 2023. As shown on Table 1, the study includes 817 non-financial companies with a total population of 5,719, with sample selection carried out through purposive sampling techniques based on certain criteria, namely: the company is consistently listed on the IDX during the observation period, does not experience delisting or prolonged suspension, and has complete and publicly accessible annual reports and sustainability reports.

Table 1. Research sample data list

Information	Total
Non-financial sector companies listed on the IDX	817 Companies
Companies that do not meet the criteria	793 Companies
Companies used as research samples	24 Companies
Research year	7 Year
Number of research sample data	168 data

Source: Processed by Authors (2025)

Based on these criteria, 24 companies were selected with a total sample size of 168 research samples. The data source used is secondary data obtained from the official IDX website and each company's website and sustainability reports that contain information on ESG (Environmental, Social, and Governance) performance practices. The data collection technique was carried out through documentation of the company's financial statements and annual sustainability reports during the 2017-2023 period.

The research variables consist of ESG performance as the independent variable, financial performance measured by Return on Assets (ROA), using the formula as shown on Table 2.

Table 2 measurement of variables

Description	Formula	Citation
Financial Performance	$ROA = \frac{Net\ Profit}{Total\ Assets}$	(Maulana & Suhartati, 2022)
Firm Value	$Tobin's\ Q = \frac{Stock\ market\ value + Total\ book\ value\ of\ debt}{Total\ Assets}$	(Arief, 2020)

Source: Processed by Authors (2025)

In addition, revenue growth is used as the control variable. The operationalization of variables is conducted through three regression models, which measure the direct and indirect effects of ESG performance on firm value through financial performance.

The data were analyzed using panel data regression with the Fixed Effect Model (FEM) approach. The FEM approach was chosen based on the results of the Chow and Hausman tests, where the results show that the FEM model is the most appropriate model to use (probability <0.05), because it can capture the individual characteristics of each company in the sample. This study also uses the Heckman, endogeneity, Sobel, and Hayes models. 4. The regression model used in this study consists of three main equations according to Hayes' model no 4, namely:

1. $ROA = \alpha_1 + ESG + \sum \beta_2 \text{Growth Revenue} + e$
2. $Tobin's\ Q = \alpha_1 + ROA + \sum \beta_2 \text{Growth Revenue} + e$
3. $Tobin's\ Q = \alpha_1 + ESG + \sum \beta_2 \text{Growth Revenue} + e$

With ROA serving as a mediating variable, these three models are intended to evaluate the direct and indirect effects of ESG performance on firm value. This method seeks to assess how much ESG performance contributes to boosting firm value using metrics related to financial performance. Has comprehensive and openly available annual reports and sustainability reports, is not delisted or suspended for an extended length of time, and is listed on the IDX during the observation period.

Results and Discussion

Result

Table 3. Descriptive Statistics

	Min	Max	Average	Std. Deviasi
Firm Value	12.820	26.380	22.415	3.821
ESG	0.760	5.530	2.852	0.249
Financial Performance	-0.359	1.283	0.138	0.213
Growth Revenue	-0.345	1.034	0.110	0.251

Source: Processed by Authors (2025)

Table 3 shows that the Firm Value, assessed by Tobin's Q in the sample, is favorable, suggesting that the sampled organizations exhibit efficiency, as the standard deviation values for Firm Value, ESG, and Financial Performance variables are less than the mean value of 22.415. The use of ESG in the sample firms is favorable, as the average value exceeds the standard deviation of 24.9%. The Financial Performance averages 13.8%, indicating that the sample is classified as good; a better Financial Performance correlates with increased profitability for the organization.

Table 4. Paerwise Correlation

	Firm Value	ESG	Financial Performance	Growth Revenue
Firm Value	1.000			
ESG	-0.182**	1.000		
Financial Performance	-0.233***	0.166**	1.000	
Growth Revenue	-0.184**	0.035	0.699***	1.000

Note: *** significance at 0.01 level; ** significance at 0.05 level; *significance at 0.1 level

Source: Processed by Authors (2025)

The findings of the Pairwise association test shown in Table 4 demonstrate a substantial negative association with firm value. ESG has a negative correlation of -0.182 with firm value at a significance level of 5%, suggesting that an increase in a company's ESG rating corresponds to a decrease in its overall worth. Conversely, financial performance exhibits a negative correlation with firm value of 0.233 at a significance level of 1%, while revenue growth demonstrates a negative correlation with firm value of 0.184 at a significance level of 5%, indicating that financial performance and revenue growth do not consistently correspond with firm value.

Moreover, Financial Performance exhibits a positive correlation with ESG at the 5% significance level, indicating that organizations adopting ESG practices often have favorable financial outcomes. Conversely, Growth Revenue exhibits no correlation with ESG, indicating that ESG is not a determinant of revenue augmentation. In contrast, Financial Performance and Growth Revenue are positively correlated at the 1% significance level, suggesting that robust financial performance can impact company growth.

The analytical findings from the Chow Test, Hausman Test, and Lagrange Multiplier Test, as shown in Tables 5, 6, and 7, demonstrate that the fixed effect model (FEM) is more suitable than the random effect model (REM) and common effect model (CEM) in this study. The Hausman Test and Lagrange Test findings reveal probability values (prob) below 0.05, suggesting that the FEM model is a better appropriate for elucidating the relationship between variables in this investigation.

The findings of the multiple linear regression in Table 5 indicate a positive and substantial correlation between firm value, as assessed by Tobin's Q, and ESG. The Fixed Effect Model (FEM) test findings indicated an ESG coefficient value of 0.224, with a significance level of 1%. The results demonstrate that ESG performance significantly influences firm profitability, hence enhancing the total value of the organization.

Table 5. Analysis Results of ESG to Firm Value

	CEM	FEM	REM			
Constanta	24.003(0.727)***	24.341(0.712)***	21.776(0.089)***	21.798(0.795)***	22.345(0.636)***	22.314(0.617)***
ESG	-0.557(0.233)**	-0.553(0.226)**	0.224(0.030)***	0.226(0.027)***	0.2221(0.030)***	0.224(0.270)***
Control Variable:						
Growth Revenue		-2.524(1.073)**		0.252(0.073)***		0.248(0.074)***
F Score	5.69**	5.69***	54.69***	38.88***	52.8***	74.12***
Adj R Square	0.027	0.056	0.287	0.095	0.287	0.267
Chow Test	0***					
Hausman Test	-0.64***					
Lagrange Test	493.29					

Note: *** significance at 0.01 level; ** significance at 0.05 level; *significance at 0.1 level

Source: Processed by Authors (2025)

Table 6. Analysis Results of Financial Performance and ESG

Financial Performance	CEM	FEM		REM	
Constanta	0.532(0.021)***	0.486(0.020)**	0.150(0.021)***	0.126(0.019)***	0.1140.024)***
ESG	0.220(0.007)***	0.219(0.007)***	-0.120(0.007)*	-0.003(0.007)	-0.003(0.007)
Control Variable:					
Growth Revenue		0.429(0.031)**		0.093(0.018)***	0.091(0.018)***
F Score	11.22***	6.61***	2.81**	14.77***	24.79***
Adj R Square	0.058	0.063	0.057	0.075	0.020
Chow Test	0***				
Hausman Test	7.28***				
Lagrange Test	24.04				

Note: *** significance at 0.01 level; ** significance at 0.05 level; *significance at 0.1 level

Source: Processed by Authors (2025)

Table 7. Analysis Results of Firm Value and Financial Performance

Firm Value	CEM	FEM		REM	
Constanta	22.848(0.429)***	23.083(0.427)***	22.488(0.054)***	22.537(0.050)***	23.020(0.637)***
Financial Performance	-3.729(2.690)	-2.805(0.634)	-0.630(0.453)	-0.814(0.427)*	-0.656(0.422)
Control Variable:					
Growth Revenue		-2.487(1.094)**		0.256(0.098)**	0.254(0.099)*
F Score	1.92	3.46**	2.22	3.8	2.24
Adj R Square	0.011	0.029	0.016	0.054	0.016
Chow Test	0.000***				
Hausman Test	-0.2***				
Lagrange Test	444.25				

Note: *** significance at 0.01 level; ** significance at 0.05 level; *significance at 0.1 level

Source: Processed by Authors (2025)

The analytical results in the second model, shown in Table 6, indicate that Financial Performance does not significantly influence ESG performance when employing the Fixed Effect Model (FEM). In the Common Effect Model (CEM), ROA demonstrates a positive and substantial impact on ESG, with a coefficient of 0.220 at a 1% significance level. This conclusion suggests that the impact of ESG on firm profitability is only significantly observed in the pooled model, which fails to consider heterogeneity among firms. Consequently, variations in estimation techniques significantly influence the interpretation of the link between ESG and firm financial performance.

Additionally, the third model illustrated in Table 7 involved an examination of the correlation between firm value, as assessed by Tobin's Q ratio, and financial performance, evaluated by Financial Performance metrics. The study results demonstrate that Financial Performance adversely and significantly impacts firm value in the Fixed Effect Model (FEM), with a coefficient of -0.814 and a significance level of 10%. This discovery suggests that corporate profitability affects firm value.

The income growth control variable exhibits a positive and large impact on firm value in the Fixed Effect Model (FEM). This discovery suggests that the expansion of corporate income enhances firm value. The F Score variable consistently has a large positive impact across nearly all estimation methods employed. This suggests that the quality of financial statements, as indicated by the F Score, significantly impacts firm value, aligning with research that asserts dependable financial information bolsters investor trust.

According to the three preceding analyses, it can be stated that profitability, as assessed by Financial Performance, does not significantly mediate the link between ESG performance and firm value. The little direct impact of Financial Performance on firm value is seen in the majority of the estimating methods.

Table 8. Analysis Results of the Sobel Test

Variable	Coefficient
Coefficient 1	0.126
Coefficient 2	22.537
Standard Error 1	0.020
Standard Error 2	0.050
Sobel Test	6.439

Source: Processed by Authors (2025)

The Sobel Test findings in Table 8 demonstrate statistical significance with a value of 6.439, showing that Financial Performance continues to serve as an indirect mediator in the link between ESG and firm value. Consequently, while the direct influence is variable, the significance of Financial Performance as a mediator is statistically pertinent for inclusion in the analytical model.

Table 9. Heckman Two-Stage Least Squares

Variable	First Stage ESG	Second Stage Firm Value (FEM)
Board Meeting	-0.065(0.871)	
ESG		0.226(0.267)***
Growth Revenue	-0.631(1.623)	0.252(0.073)***
Constanta	23.216(2.389)***	21.798(0.079)***
Year FE	Yes	Yes
Industry FE	No	No
Wald Chi	9.86**	9.86**
N	168	168

Note: *** significance at 0.01 level; ** significance at 0.05 level; *significance at 0.1 level

Source: Processed by Authors (2025)

The findings of the Heckman Two Stage Least Squares test presented in Table 9 demonstrate that the Board Meeting instrument exerts no significant influence on ESG, evidenced by a coefficient of -0.065 and a standard error of 0.871, indicating that board meetings are not a suitable variable for elucidating the variation in ESG. Moreover, employing the firm value variable through the FEM technique reveals a substantial correlation between ESG and firm value, with a coefficient of 0.226 at the 1% significance level, suggesting that ESG is a potent variable in elucidating the fluctuations in firm value.

The control variable, Growth Revenue, demonstrates a substantial positive impact on Firm Value, with a coefficient of 0.252 and a standard error of 0.267 at a 1% significance level. This model accounts for the influence of the year in managing temporal variations but excludes industry influences from the study. The constant has a significance level of 1% for the variable, indicating that the firm's value possesses a robust baseline. The Chi-square score demonstrates significance at the 5% level with a coefficient of 9.86, signifying that the model is effective in yielding accurate estimations.

Table 10. Endogeneity Test

Variable	Stage Regression
Board Meeting	-0.000(0.009)
Cons	23.099(0.887)***
Control Variable	-0.586(0.513)
Industry Effect	Yes
Year Effect	Yes
R ²	0.055
N	168

Note: *** significance at 0.01 level; ** significance at 0.05 level; *significance at 0.1 level

Source: Processed by Authors (2025)

The Two-Step GMM Endogeneity test presented in Table 10 indicates that the frequency of board meetings has no influence on the dependent variable, evidenced by a coefficient of -0.000 and a standard error of 0.009. This outcome is substantiated by a minimal value of 0.0055, signifying that board meetings are not pertinent to the dependent variable.

Table 11. Hayes Model no 4 (Mediation Testing)

ROA	Coefficient
Constant	0.122 (0.083)
ESG	0.021 (0.009)**
Growth revenue	0.545 (0.045)***

Note: *** significance at 0.01 level; ** significance at 0.05 level; *significance at 0.1 level

Source: Processed by Authors (2025)

Table 11 analyzes the impact of ESG factors and revenue growth on ROA, showing that ESG has a positive coefficient of 0.021 at a significance level of 5%, indicating a positive correlation between better ESG performance and financial performance, as indicated by ROA. This suggests that organizations that are adept at implementing ESG principles generally demonstrate better financial success. The revenue growth variable has a coefficient of 0.545, which is highly significant at the 1% statistical level, indicating that company revenue growth influences

financial performance. The constant in this model has a coefficient of 0.122; however, this coefficient is not significant, indicating that other factors outside those analyzed also influence financial success.

Discussion

ESG performance and firm value

The test findings in this study indicate a negative link between ESG performance and firm value in some models, while other models have a favorable influence. The regression findings utilizing the Fixed Effect model indicate that ESG performance significantly influences firm value; however, certain studies reveal a tendency for this effect to be negative. Prior research, including investigations by (Qureshi et al., 2021), corroborates these findings, indicating that firms implementing robust ESG policies generally witness enhancements in reputation and investor appeal, hence augmenting corporate value. This study also identified results that contradict these findings, as indicated by (Duque-Grisales & Aguilera-Caracuel, 2019), who discovered that in emerging markets, investors frequently prioritize short-term profits over sustainability considerations, potentially elucidating the negative correlation between ESG and company value in specific models.

These findings align with stakeholder theory, which posits that a company's performance relies not just on shareholder interests but also on the well-being of employees, society, and the environment. In this context, strong ESG performance signifies a company's dedication to social responsibility and sustainability, therefore bolstering its reputation and augmenting public trust (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024). Nonetheless, the adverse outcomes in certain models indicate that in markets emphasizing short-term gains, ESG performance may not be fully recognized by investors, who seek immediate profitability. Consequently, while ESG performance has the potential to enhance corporate value over the long term, organizations have hurdles in persuading investors of the enduring advantages of sustainability.

ESG performance and financial performance

This study's results indicate that ESG performance positively influences financial success, specifically as assessed by Return on Assets (ROA). This corroborates the conclusions of other research, like (Chairani & Siregar, 2021; Qureshi et al., 2021), indicating that the adoption of ESG may enhance a company's financial performance via operational efficiency and improved risk management. This study indicates that, in the near term, organizations newly adopting ESG may see a temporary decrease in financial performance due to substantial initial expenditures, as evidenced by (Nayyar et al., 2023; Font & Lynes, 2018). Consequently, although the long-term advantages of ESG implementation are evident, its short-term effects may fluctuate based on a company's preparedness to execute ESG principles effectively.

Within the stakeholder theory framework, these findings indicate that organizations that proficiently execute ESG practices benefit not just shareholders but also other stakeholders, including employees, the community, and the environment. Effective ESG practices may save operational expenses via resource efficiency, enhance customer relations, and mitigate legal and reputational issues (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024). This study highlights the need for proficient management in overseeing the initial expenditure necessary for ESG implementation to ensure a favorable long-term impact on financial performance. The correlation between ESG performance and financial performance demonstrates the interplay between sustainability and financial success, which are mutually reinforcing under the stakeholder theory paradigm.

Financial Performance and Firm Value

The analysis results demonstrate that financial performance positively influences firm value, with measurements such as ROA and Tobin's Q demonstrating a substantial correlation. Prior research, like that of (Yoon et al., 2018; Chairani & Siregar, 2021), corroborates that firms exhibiting strong financial performance are more appealing to investors, hence enhancing business value. The analysis results indicate that, in certain models, financial performance is inversely correlated with company value, suggesting that additional factors, such as the quality of corporate governance and company reputation, also influence market assessments of company value. (Mishra & Kapil, 2017) demonstrate that while robust financial performance is crucial, elements such as effective governance and risk management may also affect the market's evaluation of a company's worth.

Within the framework of stakeholder theory, the correlation between financial performance and corporate value indicates that organizations proficient in managing their financial performance may cultivate stakeholder trust, thus enhancing corporate value (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024). This study demonstrates that while strong financial performance enhances business value, variables such as corporate governance and effective reputation management significantly impact market evaluations of firm value. Consequently, firms must guarantee that, while sustaining financial performance, they also focus on governance and reputation to enhance the entire corporate value.

Mediating Role of Financial Performance

The Sobel test findings in this study demonstrate that financial success serves as a key mediating variable in the association between ESG performance and corporate value. This study establishes that enterprises exhibiting strong financial performance are more capable of allocating resources to ESG activities, thereby enhancing company value. This conclusion aligns with the research conducted by (Chairani & Siregar, 2021), which demonstrates that robust financial performance might enhance the correlation between ESG and corporate value. Nonetheless, while this mediating effect is substantial, the direct influence of ESG on business value is not consistently observed across models, indicating that additional variables may affect this relationship.

Within the stakeholder theory framework (Jung, 2024; Aydoğmuş et al., 2022; Garrido-Ruso et al., 2024; Jang, 2024) These findings indicate that financial performance functions not just as an indicator of a company's fiscal well-being but also as a catalyst facilitating the enhancement of ESG practices. Consequently, firms with enhanced financial stability may more readily devote resources to sustainable ESG implementation, thereby potentially augmenting corporate value. These findings substantiate the perspective in stakeholder theory that a company's enduring success is contingent not just upon financial gains, but also on its contributions to the welfare of a wider array of stakeholders, encompassing society and the environment.

Conclusion

According to the study's findings, implementing environmental, social, and governance (ESG) performance has been shown to increase a company's worth. These results also demonstrate that this association is somewhat mediated by financial performance. As a result, good ESG policies enhance stakeholder views while also bolstering the company's financial resilience, which eventually raises firm value.

This study contains a number of limitations that should be taken into account despite its empirical contribution. The results' generalizability may be impacted by the very small sample size and brief observation duration. Furthermore, the study methodology was unable to capture the dynamism of ESG's impact on firm value over a longer time horizon since it did not employ a long-term longitudinal strategy. Additionally, other elements that may improve both the theoretical and empirical models—such as workforce size and board gender diversity—are not included in the analytical model.

In order to fully capture changes in ESG behavior, it is advised that future studies employ a larger sample size and a longer observation time. To further our comprehension of the processes underlying the link between ESG performance, financial success, and business value, future study might potentially include additional factors as mediating or moderating variables, especially governance and firm characteristics.

References

Agustian, K., Mubarok, E. S., Zen, A., Wiwin, W., & Malik, A. J. (2023). The impact of digital transformation on business models and competitive advantage. *Technology and Society Perspectives (TACIT)*, 1(2), 79–93. <https://doi.org/10.61100/tacit.v1i2.55>

Ahmad, H., Yaqub, M. & Lee, S.H. (2023). Environmental-, social-, and governance-related factors for business investment and sustainability: a scientometric review of global trends. *Environment, Development and Sustainability*. <https://doi.org/10.1007/s10668-023-02921-x>

Aich, S., Thakur, A., Nanda, D., Tripathy, S., & Kim, H.-C. (2021). Factors affecting ESG towards impact on investment: A structural approach. *Sustainability*, 13(19), 10868. <https://doi.org/10.3390/su131910868>

Aksoy, L., Buoye, A., Fader, P., & Henseler, J. (2022). Environmental, social and governance (ESG) metrics do not serve services customers: A missing link between sustainability metrics and customer perceptions. *Journal of Service Management*, 33(4), 553–575. <https://doi.org/10.1108/josm-11-2021-0428>

Al-Busaidi, M., & Nabi, H. (2019). *The role of financial management in promoting sustainable business practices and development*. SSRN. <https://doi.org/10.2139/ssrn.3472404>

Al-Faisal, M., Rashidah, A. R., & Saeid, H. (2020). Corporate economic, environmental, and social sustainability performance transformation through ESG disclosure. *Sustainability*, 12(9), Article 3910. <https://doi.org/10.3390/su12093910>

Aprilina, V., Lestari, T., Mulyasari, W., & Indiana, I. (2025). Media exposure as a moderator in the ESG-firm value relationship. *Financial and Credit Activity Problems of Theory and Practice*, 2(61), 597–608. <https://doi.org/10.55643/fcaptp.2.61.2025.4699>

Arief, H. (2020). Pengaruh ROA, DER, dan Tobin's Q-ratio terhadap harga saham pada industri pertambangan migas di Bursa Efek Indonesia. *Jurnal Ilmiah Manajemen Bisnis*, 6(2), 123–132. <https://doi.org/10.22441/jimb.v6i2.8199>

Aydoğmuş, M., Gülay, G., & Ergun, K. (2022). Impact of ESG performance on firm value and profitability. *Borsa İstanbul Review*, 22(S2), S119–S127. <https://doi.org/10.1016/j.bir.2022.11.006>

Baid, V., Jayaraman, V. (2022). Amplifying and promoting the "S" in ESG investing: The case for social responsibility in supply chain financing. *Managerial Finance*, 48(9/10), 1410–1433. <https://doi.org/10.1108/mf-12-2021-0588>

Bouamra, S., Sonmez, F. D., & Tournus, P. S. (2023). ESG controversies and firm value: Moderating role of board gender diversity and board independence. *IEEE Transactions on Engineering Management*, 71, 4505–4518. <https://doi.org/10.1109/tem.2023.3236667>

Bradford, M., Earp, J. B., & Williams, P. F. (2017). Understanding sustainability for socially responsible investing and reporting. *Journal of Capital Markets Studies*, 1(1), 10–35. <https://doi.org/10.1108/jcms-10-2017-005>

Bui, T. T. L., Tran, T. L. A., & Hoang, T. (2024). ESG disclosure and financial performance: Empirical study of Vietnamese commercial banks. *Banks and Bank Systems*, 19(1), 208–220. [https://doi.org/10.21511/bbs.19\(1\).2024.18](https://doi.org/10.21511/bbs.19(1).2024.18)

Chairani, C., & Siregar, S. V. (2021). The effect of enterprise risk management on financial performance and firm value: The role of environmental, social and governance performance. *Meditari Accountancy Research*, 29(3), 647–670. <https://doi.org/10.1108/medar-09-2019-0549>

Chen, S., Song, Y., & Gao, P. (2023). Environmental, social, and governance (ESG) performance and financial outcomes: Analyzing the impact of ESG on financial performance. *Journal of Environmental Management*, 345, Article 118829. <https://doi.org/10.1016/j.jenvman.2023.118829>

Chen, Z., Sugiyama, K., Tasaka, K., Kito, T., & Yasuda, Y. (2024). Impact of environmental, social and governance initiatives on firm value: Analysis using AI-based ESG scores for Japanese listed firms. *Research in International Business and Finance*, 70, Article 102303. <https://doi.org/10.1016/j.ribaf.2024.102303>

Cheng, R., Kim, H., & Ryu, D. (2023). ESG performance and firm value in the Chinese market. *Investment Analysts Journal*, 53(1), 1–15. <https://doi.org/10.1080/10293523.2023.2218124>

Choi, S. Y., Ryu, D., & You, W. (2024). ESG activities and financial stability: The case of Korean financial firms. *Borsa İstanbul Review*, 24(5), 945–951. <https://doi.org/10.1016/j.bir.2024.05.007>

Dan, D., Drozd, D., & Davies, A. (2022). Global drivers for ESG performance: A body of knowledge review. *Sustainability*, 14(4), 2322. <https://doi.org/10.3390/su14042322>

Dathe, T., Helmold, M., Dathe, R., & Dathe, I. (2024). *Implementing Environmental, Social and Governance (ESG) Principles for Sustainable Businesses. Responsible Leadership and Sustainable Management*. Springer. <https://doi.org/10.1007/978-3-031-52734-0>

De Luca, C., Pecoraro, P., & Brouthers, K. (2020). Does good ESG lead to better financial performance by firms? Machine learning and logistic regression models of public enterprises in Europe. *Sustainability*, 12(13), Article 5317. <https://doi.org/10.3390/su12135317>

Duque-Grisales, E., & Aguilera-Caracuel, J. (2019). Environmental, social, and governance (ESG) scores and financial performance of multilatinas: Moderating effects of international diversification and financial slack. *Journal of Business Ethics*, 157(3), 837–857. <https://doi.org/10.1007/s10551-019-04177-w>

Faradila, S., & Effendi, K. A. (2023). Analysis of financial performance and macroeconomic on firm value. *Jurnal Manajeme*, 27(2), 276–296. <https://doi.org/10.24912/jm.v27i2.1255>

Font, X., & Lynes, J. (2018). Corporate social responsibility in tourism and hospitality. *Journal of Sustainable Tourism*, 26(7), 1027–1042. <https://doi.org/10.1080/09669582.2018.1488856>

Garrido-Ruso, M., Otero-González, L., López-Penabad, M.-C., & Durán Santomil, P. (2024). Does ESG implementation influence performance and risk in SMEs? *Corporate Social Responsibility and Environmental Management*, 31(5), 4420–4433. <https://doi.org/10.1002/csr.2783>

Jang, Y. (2024). Distinctive impacts of ESG pillars on corporate financial performance: A random forest analysis of Korean listed firms. *Finance Research Letters*, 70, Article 106395. <https://doi.org/10.1016/j.frl.2024.106395>

Jung, H. (2024). The moderating effect of board characteristics in the relationship between ESG and corporate financial performance. *Studies in Business and Economics*, 19(2), 110–119. <https://doi.org/10.2478/sbe-2024-0028>

Kalyar, M. N., Shoukat, A., & Shafique, I. (2019). Enhancing firms' environmental performance and financial performance through green supply chain management practices and institutional pressures. *Sustainability Accounting, Management and Policy Journal*, 11(2), 451–476. <https://doi.org/10.1108/sampj-02-2019-0047>

Kartika, S., & Utami, W. (2019). Effect of corporate governance mechanisms on financial performance and firm value with green accounting disclosure as moderating variables. *Research Journal of Finance and Accounting*, 10(24), 150–158. <https://doi.org/10.7176/rjfa/10-24-16>

Kölbl, J. F., Heeb, F., Paetzold, F., & Busch, T. (2019). Can sustainable investing save the world? Reviewing the mechanisms of investor impact. *Organization & Environment*, 33(4), 554–574. <https://doi.org/10.1177/1086026620919202>

Kotsantonis, S., Pinney, C., & Serafeim, G. (2016). ESG integration in investment management: Myths and realities. *Journal of Applied Corporate Finance*, 28(2), 10–16. <https://doi.org/10.1111/jacf.12169>

Lo, H.-W., & Lin, S.-W. (2023). Identifying ESG investment key indicators and selecting investment trust companies by using a Z-fuzzy-based decision-making model. *Socio-Economic Planning Sciences*, 90, Article 101759. <https://doi.org/10.1016/j.seps.2023.101759>

Maulana, J., & Suhartati, S. (2022). Pengaruh return on asset (ROA) dan ukuran perusahaan terhadap financial distress pada perusahaan sub sektor kimia yang terdaftar di Bursa Efek Indonesia. *Land Journal*, 3(1), 102–113. <https://doi.org/10.47491/landjournal.v3i1.1764>

Meng, T., Yahya, M. H. D. H., Ashhari, Z. M., & Yu, D. (2023). ESG performance, investor attention, and company reputation: Threshold model analysis based on panel data from listed companies in China. *Helijon*, 9(10), Article e20974. <https://doi.org/10.1016/j.helijon.2023.e20974>

Mishra, R., & Kapil, S. (2017). Effect of ownership structure and board structure on firm value: evidence from India. *Corporate Governance*, 17(4), 700–726. <https://doi.org/10.1108/cg-03-2016-0059>

Morri, G., Yang, F., & Colantoni, F. (2024). Green investments, green returns: Exploring the link between ESG factors and financial performance in real estate. *Journal of Property Investment & Finance*, 42(5), 435–452. <https://doi.org/10.1108/jpif-09-2023-0084>

Nayyar, R., Purnima, R. M., & Akshat Aditya, R. (2023). Impact of ESG on firm value: A conceptual review of the literature. *Journal of Social and Economic Development*, 26, 185–213. <https://doi.org/10.1007/s40847-023-00267-8>

Noh, H., Bilgin, M., & Doojin, R. (2024). Firm value, ownership structure, and strategic approaches to ESG activities. *Eurasian Business Review*, 14, 727–753. <https://doi.org/10.1007/s40821-024-00252-z>

Nomeda, D., & Rima, T. (2016). Sustainability-oriented financial resource allocation in a project portfolio through multi-criteria decision-making. *Sustainability*, 8(5), Article 485. <https://doi.org/10.3390/su8050485>

Norman, T. S., Ganesh, V., Kenneth, A. F., & Mark, K. (2022). Making the invisible visible: Overcoming barriers to ESG performance with an ESG mindset. *Business Horizons*, 66(1), 39–50. <https://doi.org/10.1016/j.bushor.2022.07.003>

Park, S. R., & Jang, J. Y. (2021). The impact of ESG management on investment decision: Institutional investors' perceptions of country-specific ESG criteria. *International Journal of Financial Studies*, 9(3), Article 48. <https://doi.org/10.3390/ijfs9030048>

Patil, R. A., Ghisellini, P., & Ramakrishna, S. (2021). Towards sustainable business strategies for a circular economy: Environmental, social and governance (ESG) performance and evaluation. In S. S. Muthu (Ed.), *An introduction to circular economy* (pp. 527–554). Springer. https://doi.org/10.1007/978-981-15-8510-4_26

Qureshi, M. A., Akbar, M., Akbar, A., & Poulova, P. (2021). Do ESG endeavors assist firms in achieving superior financial performance? A case of 100 best corporate citizens. *SAGE Open*, 11(2). <https://doi.org/10.1177/21582440211021598>

Raut, R. K., Shastri, N., Mishra, A. K., & Tiwari, A. K. (2023). Investor's values and investment decision towards ESG stocks. *Review of Accounting and Finance*, 22(4), 449–465. <https://doi.org/10.1108/raf-12-2022-0353>

Rohendi, H., Ghozali, I., & Ratmono, D. (2024). Environmental, social, and governance (ESG) disclosure and firm value: The role of competitive advantage as a mediator. *Cogent Business & Management*, 11(1), Article 2297446. <https://doi.org/10.1080/23311975.2023.2297446>

Sroufe, R., & Gopalakrishna-Remani, V. (2019). Management, social sustainability, reputation, and financial performance relationships: An empirical examination of U.S. firms. *Organization & Environment*, 32(3), 325–352. <https://doi.org/10.1177/1086026618756611>

Strine, L. E., Kovvali, M. S., & Reilly, D. S. (2020). Caremark and ESG: A practical approach to implementing an integrated, efficient, and effective governance strategy. *Delaware Journal of Corporate Law*, 45(2), 299–350. <https://heinonline.org/HOL/P?h=hein.journals/dec45&i=313>

Tan, W., Cai, Y., Luo, H., Zhou, M., & Shen, M. (2024). ESG, technological innovation and firm value: Evidence from China. *International Review of Financial Analysis*, 96, Article 103546. <https://doi.org/10.1016/j.irfa.2024.103546>

Velte, P. (2017). Does ESG performance have an impact on financial performance? Evidence from Germany. *Journal of Global Responsibility*, 8(2), 169–178. <https://doi.org/10.1108/jgr-11-2016-0029>

Wang, N., Pan, H., Feng, Y., & Du, S. (2024). How do ESG practices create value for businesses? Research review and prospects. *Sustainability Accounting, Management and Policy Journal*, 15(5), 1155–1177. <https://doi.org/10.1108/SAMPJ-12-2021-0515>

Wardani, I. A., Juanda, A., & Wicaksono, A. P. N. (2025). Structural ownership and ESG disclosure: Unveiling their impact on corporate financial performance. *Journal of Accounting and Investment*, 26(1), 1–15. <https://doi.org/10.18196/jai.v26i1.22869>

Xu, Y., & Zhu, N. (2024). The effect of environmental, social, and governance (ESG) performance on corporate financial performance in China: Based on the perspective of innovation and financial constraints. *Sustainability*, 16(8), Article 3329. <https://doi.org/10.3390/su16083329>

Yang, S. J., & Jang, S. (2020). How does corporate sustainability increase financial performance for small- and medium-sized fashion companies: Roles of organizational values and business model innovation. *Sustainability*, 12(24), Article 10322. <https://doi.org/10.3390/su122410322>

Yoon, B., Lee, J. H., & Byun, R. (2018). Does ESG performance enhance firm value? Evidence from Korea. *Sustainability*, 10(10), Article 3635. <https://doi.org/10.3390/su10103635>