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Revisiting the Relationship Between Financial Performance, ESG, and Firm Value: Evidence from Indonesian Non-Financial Listed Firms

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Abstract

Environmental, social, and governance (ESG) performance has received growing attention from investors, regulators, and corporate managers as sustainability considerations become increasingly integrated into business decision-making. However, evidence regarding the relationship between ESG performance and firm value remains inconclusive, particularly in emerging markets. Moreover, previous studies have typically examined financial performance and ESG performance separately or focused exclusively on either aggregate ESG scores or individual ESG dimensions, limiting a comprehensive understanding of their relative importance in explaining firm value. This study investigates the influence of profitability, liquidity, solvency, firm growth, aggregate ESG performance, and the environmental, social, and governance dimensions on the firm value of Indonesian non-financial listed companies. Using panel data from 69 firms listed on the Indonesia Stock Exchange during 2022–2024, comprising 207 firm-year observations, the study employs a Random Effect Model with robust standard errors. Firm value is measured using the natural logarithm of share price (LnMV), while ESG data are obtained from Refinitiv. The results indicate that sales growth, as a proxy for firm growth, is the only variable positively and significantly associated with firm value. In contrast, profitability, liquidity, solvency, aggregate ESG performance, and the individual ESG dimensions do not exhibit statistically significant relationships with firm value. These findings suggest that investors place greater emphasis on firms' growth prospects than on conventional financial indicators or ESG-related information when valuing Indonesian non-financial firms. The study contributes to the literature by providing recent evidence from an emerging-market context and by simultaneously evaluating financial performance, aggregate ESG performance, and individual ESG dimensions within a unified empirical framework.

KEYWORDS

esg; financial performance; firm value; sustainability reporting.

Introduction

Recently, environmental, social, and governance (ESG) performance has become an increasingly important consideration in corporate evaluation and investment decision-making. While companies have traditionally focused on maximizing shareholder wealth, growing concerns regarding environmental sustainability, social responsibility, and corporate governance have expanded stakeholders' expectations of business performance. Consequently, ESG has evolved from a voluntary corporate initiative into a strategic factor that influences investor confidence, corporate reputation, and long-term value creation (Eccles et al., 2014; Friede et al., 2015).

The growing importance of sustainability-related information has encouraged regulators worldwide to strengthen sustainability disclosure requirements. Indonesia has reflected this development by adopting PSPK 1 and PSPK 2, which align with IFRS S1 and IFRS S2. However, these standards are discussed in this study solely as part of the evolving regulatory environment surrounding sustainability reporting. Because the observation period covers 2022–2024, prior to their implementation, the standards are not incorporated into the empirical model and should not be interpreted as factors directly influencing firm value during the sample period. Instead, they provide contextual motivation for examining the relevance of ESG performance in the Indonesian capital market.

In the framework of the capital market, a company's principal purpose is to augment corporate value, as evidenced by stock prices and investor perceptions of the company's future potential. Firm value, as stated by (Brigham & Houston, 2021), represents shareholder welfare attained through optimal corporate financial decisions. Consequently, determining the elements that affect business value has emerged as a significant concern in accounting and finance research.

The relationship between financial performance, ESG performance, and firm value can be explained through several complementary theoretical perspectives. Signaling theory (Spence, 1973) provides the primary foundation for understanding the role of financial performance and firm growth in influencing firm value. According to this theory, profitability, liquidity, solvency, and sales growth convey information regarding a firm's financial condition and future prospects, thereby reducing information asymmetry and influencing investor decisions. Firms with stronger financial performance and growth opportunities are therefore expected to receive higher market valuations.

In contrast, stakeholder theory (Freeman, 1984) and legitimacy theory (Dowling & Pfeffer, 1975; Suchman, 1995) provide the theoretical basis for the ESG-related hypotheses. Stakeholder theory argues that firms create long-term value by addressing the interests and expectations of various stakeholder groups, while legitimacy theory suggests that organizations seek societal acceptance by aligning their activities with prevailing social norms and expectations. Consequently, stronger ESG performance may enhance corporate reputation, stakeholder support, and firm value. Furthermore, agency theory explains the governance dimension of ESG by emphasizing the role of governance mechanisms in reducing agency conflicts, improving managerial accountability, and protecting shareholder interests. Together, these theoretical perspectives provide the conceptual foundation for examining the determinants of firm value among Indonesian non-financial listed firms.

Prior research investigating business value has primarily concentrated on financial performance metrics as the principal factors. Profitability is one of the most commonly utilized metrics to evaluate a company's capacity to create profits. Enhanced profitability signifies efficient resource management and is anticipated to bolster investor trust and corporate worth. Research conducted by (Dewi & Abundanti, 2019) and (Dinarjito, 2024b, 2024a) indicates that profitability has a beneficial impact on organizational value. The findings indicate that investors typically allocate greater valuations to companies that can provide sustainable earnings.

Nonetheless, other research has yielded divergent results. (Bhimantara & Dinarjito, 2021; Handini & Susilo, 2025; Ramdhonah et al., 2019) indicated that profitability does not have a substantial impact on corporate value. (Astadewi & Suaryana, 2025) shown that enhanced profitability does not inherently result in elevated firm value, as investors also take into account risk concerns and long-term business outlooks. The contradictory findings suggest that the correlation between profitability and business value is still unresolved.

Liquidity is a crucial metric for assessing a company's capacity to fulfill short-term liabilities. Elevated liquidity indicates operational stability and diminished default risk. Research conducted by (Santi & Sudarsi, 2024) indicates that liquidity has a beneficial impact on organizational value. (Utami & Welas, 2019) contended that excessive liquidity may signify unproductive idle assets, leading to an inconsequential link between liquidity and business value.

Solvency or leverage is frequently utilized to evaluate a company's capital structure. According to trade-off theory, the use of debt can enhance corporate worth via tax advantages, while excessive leverage may elevate financial risk. (Suwardika & Mustanda, 2017) discovered that leverage favorably influences firm value, but (Ramdhonah et al., 2019) indicated negative consequences due to elevated debt levels heightening bankruptcy risk and diminishing investor trust.

Besides profitability, liquidity, and solvency, business expansion is often considered a significant factor influencing firm value. Firm growth signifies a company's capacity to broaden its business operations, augment revenues, and capitalize on market opportunities. Sales growth specifically indicates the efficacy of business expansion strategies and the company's capacity to stimulate rising demand for its products and services. Signaling theory posits that elevated sales growth communicates favorable insights into future profits potential and long-term firm viability, thereby bolstering investor confidence and augmenting market valuation. Thus, companies demonstrating superior growth performance are typically anticipated to possess more company value.

From the perspective of signaling theory (Spence, 1973), sales growth provides positive signals regarding a firm's future performance and growth opportunities. Investors may interpret higher sales growth as evidence of strong competitive positioning, effective market strategies, and greater future profitability. Consequently, firms exhibiting stronger sales growth are more likely to receive favorable market valuations. This finding is consistent with prior studies, which suggest that sales growth has a positive and significant effect on firm value (Khoeriyah, 2020; Kurniawati & Anggraini, 2023). This result is inconsistent with the findings of (Emanuel & Rasyid, 2019), which revealed that sales growth negatively and significantly affects firm value.

In addition to financial considerations, ESG has become increasingly acknowledged as a significant factor influencing corporate value. (Friede et al., 2015), via a meta-analysis of over 2,000 empirical studies, determined that the majority of research indicates a favorable correlation between ESG and financial performance. According to (Fatemi et al., 2018), ESG disclosure elevates business value by enhancing corporate reputation and mitigating information risk. Research conducted by (Atan et al., 2018; Eccles et al., 2014; Gillan et al., 2021) indicates that organizations with robust ESG implementation typically demonstrate enhanced market success relative to those with inferior ESG performance.

In Indonesia, research pertaining to ESG has also proliferated. Numerous researchers have determined that ESG positively influences business value, as investors are progressively factoring sustainability considerations into their investment choices (Sabatini & A. Utama, 2024; Srivastava & Anand, 2023; Triwacananingrum et al., 2024; Zhang & Azman, 2023). (Xaviera & Rahman, 2023) shown that ESG enhances market evaluations of organizations' long-term prospects. Nevertheless, the results continue to be incongruous. (Nollet et al., 2016) discovered that the correlation between ESG and firm value is non-linear and not consistently positive. According to (Velte, 2017), only the governance factor has a major impact on business performance, whilst the environmental and social dimensions exhibit weaker effects. Research conducted by (Cahyani Pangestuti et al., 2026; Dinarjito, 2025; Sumarno et al., 2023) indicates that ESG does not significantly influence business value, since its implementation is predominantly symbolic and does not adequately represent substantive sustainability performance.

This study aims to investigate the impact of financial performance and ESG performance on company value in Indonesian non-financial enterprises. This study diverges from the prevailing literature in multiple ways. It concurrently integrates profitability, liquidity, solvency, and business growth alongside both overall ESG performance and specific ESG aspects into a unified empirical model, facilitating a direct comparison between financial and sustainability-related factors influencing firm value. Secondly, the study utilizes Refinitiv ESG ratings, which offer standardized and globally comparable indicators of ESG performance that are somewhat underutilized in Indonesia. The analysis concentrates on non-financial enterprises from 2022 to 2024, a period marked by heightened regulatory and market scrutiny of sustainability reporting due to the implementation of IFRS S1 and IFRS S2. Consequently, the study offers contemporary information about the combined impact of financial and ESG-related aspects on business value within an emerging market context.

Nevertheless, the utilization of composite ESG metrics is not devoid of constraints, as it may obfuscate the unique impact of each ESG dimension on corporate value. In practice, the environmental, social, and governance dimensions possess distinct traits, implementation expenses, and economic implications. Of these characteristics, governance is often considered the most impactful due to its direct correlation with transparency, monitoring efficacy, accountability, and the caliber of corporate decision-making processes. (Velte, 2017) found that governance is the ESG component most closely linked to business financial performance. Likewise, (Dinarjito, 2025) discovered that governance performance had a beneficial impact on business value. Similar findings were published by (Aydoğmuş et al., 2022; Malau, 2024; Melinda & Wardhani, 2020), all of whom highlighted the significance of governance quality in influencing investor confidence and market valuation.

Environmental performance has become progressively significant in evaluating a company's responsible and sustainable operations. Companies engaged in environmental issues or ecological harm sometimes encounter reputational pressure, public censure, and possible financial repercussions, which can diminish investor trust. As global environmental awareness increases, investors are increasingly focused on how corporations address environmental risks and sustainability challenges. Thus, companies exhibiting robust environmental performance are typically anticipated to cultivate increased public trust and draw investment, thereby augmenting business value. This assertion is corroborated by previous research undertaken by (Arifah, 2024; Melinda & Wardhani, 2020; Yu & Xiao, 2022; Zhang & Azman, 2023), which identified a favorable correlation between environmental performance and business value.

Nonetheless, empirical evidence concerning environmental performance remains ambiguous. (Nollet et al., 2016) contended that the correlation between environmental performance and financial performance is typically non-linear, as environmental initiatives frequently necessitate significant long-term investments prior to yielding economic advantages. Similarly, (Dinarjito, 2025) discovered that environmental performance does not greatly influence corporate value. This outcome may suggest that investors continue to view environmental initiatives as costly endeavors that do not provide immediate benefits to profitability or market performance. Comparable findings were also documented by by (Rinsman & Prasetyo, 2020; Shapiro et al., 2018; Soedjatmiko et al., 2021).

The social dimension is intricately connected to business reputation and stakeholder relations. Organizations exhibiting robust social performance are typically regarded as more adept at sustaining favorable relationships with employees, consumers, local communities, and other stakeholders. Such ties can enhance corporate reputation, consumer loyalty, and public trust, so ultimately augmenting firm worth. Empirical evidence from (Aydoğmuş et al., 2022; Dinarjito, 2025; Melinda & Wardhani, 2020; Srivastava & Anand, 2023) substantiates the assertion that social performance positively influences business value.

Previous research presents conflicting results about the correlation between ESG performance and firm value, especially in terms of the relevance of overall ESG scores versus specific ESG characteristics to investors. Aggregate ESG ratings offer a general evaluation of business sustainability performance; however, analyzing the environmental, social, and governance elements individually may yield more profound insights into the unique sustainability concerns affecting market valuation. Nevertheless, the current evidence remains ambiguous.

Despite the growing scholarly interest in ESG performance and corporate value, the current research landscape has not achieved consensus on the economic ramifications of sustainability-related initiatives. Empirical evidence is fragmented, especially in emerging countries where sustainable practices and disclosure regulations are still developing. A considerable amount of existing work has analyzed financial success and ESG performance as distinct factors affecting firm value, complicating the evaluation of their relative significance in shaping investor perceptions. Moreover, research typically emphasizes either comprehensive ESG ratings or specific ESG aspects, whereas evidence assessing both methodologies concurrently is scarce.

A further constraint pertains to the Indonesian context. Despite the increasing momentum of ESG adoption in recent years, empirical research employing internationally recognized ESG databases are still rather limited. As a result, there is a restricted comprehension of how sustainability-related information correlates with conventional financial metrics in elucidating market valuation among Indonesian publicly traded companies. This study investigates the impact of profitability, liquidity, leverage, company growth, overall ESG performance, and specific ESG dimensions on firm value to solve these gaps. The study offers a more thorough evaluation of the elements linked to market valuation by combining financial indicators and sustainability metrics within a unified empirical framework. The findings enhance the ESG literature by providing contemporary evidence from an emerging-market context and assessing whether traditional financial data and sustainability-related disclosures are perceived differently by investors.

Hypothesis/es Development

The Effect of Profitability on Firm Value

Profitability denotes a company's capacity to produce income from its assets and activities. Signaling theory posits that profitable organizations emit favorable signals about future cash flows and growth potential, hence diminishing information asymmetry between managers and investors (Spence, 1973). Increased profitability signifies effective resource allocation and the ability to generate shareholder wealth. Empirical research typically indicates a positive correlation between profitability and company value, implying that investors assign greater valuations to companies with sustainable profits performance (Dewi & Abundanti, 2019; Dinarjito, 2024b, 2024a). Consequently, the subsequent hypothesis is posited:

H1: Profitability positively affects firm value.

The Effect of Liquidity on Firm Value

Liquidity indicates a company's capacity to fulfill its short-term liabilities and sustain operational stability. Companies

with sufficient liquidity are typically regarded as having a reduced risk of financial distress, thereby bolstering investor confidence and market price. While excessive liquidity may suggest inefficient asset utilization, adequate liquidity is a crucial indicator of financial flexibility and stability. Previous research indicates that companies with robust liquidity balances typically attain greater company value (Putra & Lestari, 2016; Santi & Sudarsi, 2024; Supriyatna & Akbar, 2025). Therefore, the following hypothesis is proposed:
H2: Liquidity positively affects firm value.

The Effect of Solvency on Firm Value

The correlation between solvency and corporate value can be elucidated through trade-off theory, which posits that debt financing offers tax benefits while concurrently heightening financial risk. An optimal capital structure allows organizations to leverage advantages while sustaining acceptable risk levels. Investors might view reasonable leverage as an indication of managerial assurance and growth prospects, while excessive debt could heighten apprehensions about financial instability. Thus, solvency is anticipated to affect business value. From the perspective of signaling theory, the use of debt might be perceived positively when it indicates management's assurance in future commercial opportunities. Empirical research conducted by (Adha et al., 2026; Carolin & Susilawati, 2024; Supriyatna & Akbar, 2025; Suwardika & Mustanda, 2017) indicates that leverage has a considerable impact on business value. In light of the above discourse, the subsequent hypothesis is put forth:
H3: Solvency positively affects firm value.

The Effect of Firm Growth on Firm Value

Firm expansion signifies a company's capacity to enhance its operations and produce escalating income over time. Increased sales growth signifies enhanced market acceptance, effective business expansion, and augmented future earnings potential. Signaling theory posits that growth-related information acts as a favorable signal, diminishing uncertainty about future performance and bolstering investor confidence.

Companies exhibiting robust sales growth are typically anticipated to produce elevated future cash flows and enhance shareholder value. Consequently, investors may attribute elevated prices to companies exhibiting sustained growth performance. Empirical research have demonstrated that sales growth positively influences firm value, since it signifies promising business possibilities and expansion chances (Khoeriyah, 2020; Kurniawati & Anggraini, 2023). Therefore, the following hypothesis is proposed:
H4: Firm growth positively affects firm value.

The Effect of Aggregate ESG Performance on Firm Value

Stakeholder theory argues that firms create long-term value by addressing the interests of various stakeholder groups rather than focusing solely on shareholders (**Freeman, 1984**). ESG practices demonstrate corporate commitment to environmental responsibility, social welfare, and sound governance, which may strengthen stakeholder trust and reduce non-financial risks. Firms with superior ESG performance are therefore expected to achieve higher market valuation. Prior studies generally support a positive relationship between ESG performance and firm value (Mokhtar et al., 2024; Sabatini & A. Utama, 2024; Srivastava & Anand, 2023). Therefore, the following hypothesis is proposed:
H5: Aggregate ESG performance positively affects firm value.

The Effect of Environmental Performance on Firm Value

Legitimacy theory posits that organizations endeavor to match their operations with social expectations to preserve legitimacy and public endorsement. Environmental performance signifies a company's dedication to addressing environmental concerns and sustainability issues. Robust environmental performance can mitigate reputational risk, elevate stakeholder perceptions, and augment corporate value. Numerous studies indicate a favorable correlation between environmental performance and corporate value (Arifah, 2024; Yu & Xiao, 2022; Zhang & Azman, 2023). Therefore, the following hypothesis is proposed:
H6: Environmental performance positively affects firm value.

The Effect of Social Performance on Firm Value

Social performance denotes a company's capacity to sustain positive connections with employees, customers, suppliers, and local communities. Stakeholder theory posits that robust stakeholder connections enhance reputation, customer loyalty, and organizational legitimacy, hence facilitating value creation. Empirical research indicates that companies with exceptional social performance are more prone to attain elevated market valuation (Aydoğmuş et al., 2022; Melinda & Wardhani, 2020; Sari & Sutopo, 2023; Srivastava & Anand, 2023). Therefore, the following hypothesis is proposed:
H7: Social performance positively affects firm value.

The Effect of Governance Performance on Firm Value

Agency theory suggests that effective governance mechanisms reduce agency conflicts between managers and shareholders by improving monitoring, transparency, and accountability. Strong governance practices enhance investor confidence and reduce information asymmetry, thereby increasing firm value. Among ESG dimensions, governance is often identified as the most influential factor affecting market valuation (Arifah, 2024; Aydoğmuş et al., 2022; Malau, 2024). Therefore, the following hypothesis is proposed:
H8: Governance performance positively affects firm value.

Methods

This study analyzes the impact of financial performance and ESG performance on the value of non-financial firms. Financial performance is indicated by four metrics: profitability, liquidity, solvency, and firm growth, whereas ESG performance is assessed using both composite ESG scores and distinct ESG aspects, which include environmental, social, and governance performance.

This study utilizes a quantitative methodology, leveraging secondary data sourced predominantly from the Refinitiv database, along with information gathered from the Indonesia Stock Exchange (IDX) and corporate yearly financial

Table 1. Selection Criteria of Sample

No	Criteria	Number of Companies
1	Non-financial companies listed on the Indonesia Stock Exchange (IDX)	809
2	Less: Companies without complete ESG scores in the LSEG/Refinitiv Workspace database	(735)
3	Less: Companies that were delisted or included in the special monitoring list	(3)
4	Less: Companies with incomplete data	(2)
	Final sample of companies	69
	Total Data observed during 2022-2024	207

statements. The research subjects are non-financial corporations listed on the Indonesia Stock Exchange from 2022 to 2024. The sampling process employed multiple criteria, including companies that were actively listed over the observation period, supplied comprehensive data necessary for the study, and were not classified under special monitoring status. According to these criteria, 69 companies were chosen, yielding 207 firm-year observations. The detail of selection can be seen in Table 1.

Companies with incomplete financial information or unavailable ESG data during the observation period were excluded from the sample. The study did not perform data imputation because missing ESG information may indicate the absence of ESG assessment or disclosure. Therefore, only firms with complete financial and ESG data for the entire 2022–2024 period were retained, resulting in a balanced panel dataset consisting of 69 firms and 207 firm-year observations.

This study employs profitability, liquidity, solvency, firm growth, overall ESG performance, environmental performance, social performance, and governance performance as independent variables. Concurrently, firm value functions as the dependent variable. The operational definitions and measurement proxies for the variables are encapsulated in Table 2. Firm value is measured using stock price as a market-based proxy (Widyowati & Rani, 2022). This approach supported (Collins et al., 1987), who argue that stock prices contain relevant information regarding a firm's performance and underlying value. From an investor perspective, firm value reflects the market's overall assessment of a company's current performance and future prospects. Stock prices incorporate investors' expectations regarding future cash flows, growth opportunities, and risk, thereby serving as a reflection of firm value (Puspitaningtyas, 2017). Consequently, a higher stock price indicates a greater market valuation and enhanced shareholder wealth, which are commonly interpreted as signals of higher firm value (Brigham & Ehrhardt, 2005).

To examine the effect of financial performance and ESG performance on firm value, this study employs panel data regression analysis. Two regression models are estimated. The first model examines the effect of aggregate ESG performance on firm value, while the second model investigates the effects of individual ESG dimensions:

Model 1

$$MV_{it} = \beta_0 + \beta_1 PRF_{it} + \beta_2 LEV_{it} + \beta_3 LQ_{it} + \beta_4 SG_{it} + \beta_5 ESG_{it} + \beta_6 SIZE_{it} + \mu i + \varepsilon it$$

Model 2

$$MV_{it} = \beta_0 + \beta_1 PRF_{it} + \beta_2 LEV_{it} + \beta_3 LQ_{it} + \beta_4 SG_{it} + \beta_5 ENV_{it} + \beta_6 SOC_{it} + \beta_7 GOV_{it} + \beta_8 SIZE_{it} + \mu i + \varepsilon it$$

Notes of symbols:
MV = Firm value
PRF = Profitability (ROA)
LEV = Solvency (DER)
LQ = Liquidity (Current Ratio)
SG = Firm growth (Sales Growth)
ESG = Aggregate ESG score
ENV = Environmental performance score
SOC = Social performance score
GOV = Governance performance score
SIZE = Firm size (natural logarithm of total assets)
μi = Firm-specific random effect
εit = Idiosyncratic error term

This study's conceptual framework delineates the relationship between the independent variables, profitability, liquidity, solvency, firm growth, overall ESG performance, environmental performance, social performance, and governance performance and the dependent variable, firm value. This study formulated and tested eight hypotheses. Figure 1 shows the relationship between the variables tested.

Table 2. Summary of Variables and Measurements

Variable Type	Variable	Abbreviation	Measurement Proxy
Dependent Variable	Firm Value	MV	Natural logarithm of share price
Independent Variable	Profitability	PRF	Return on Assets (ROA)
	Liquidity	LQ	Current Ratio
	Solvency	LEV	Debt-to-Equity Ratio
	Firm Growth	SG	Sales Growth
	Aggregate ESG Performance	ESG	ESG Score
	Environmental Performance	ENV	Environmental Score
	Social Performance	SOC	Social Score
	Governance Performance	GOV	Governance Score
Control Variable	Company Size	SIZE	Natural logarithm of Total Asset

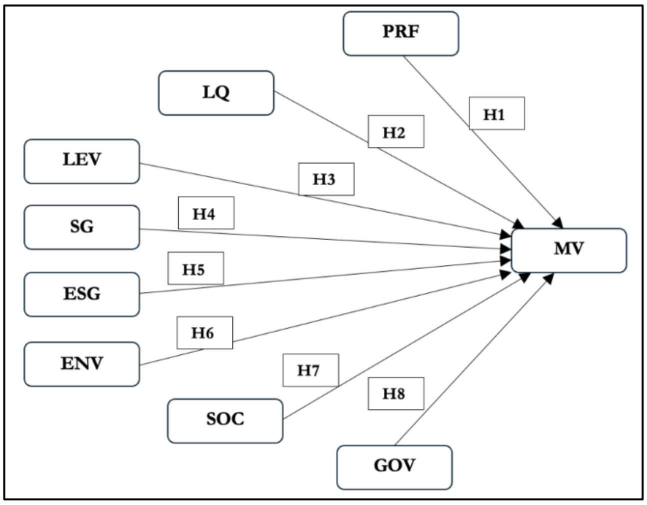

Figure 1. Research Framework

Result and Discussion

Table 3 presents the descriptive statistics for all variables included in the analysis. Firm value (LnMV), measured as the natural logarithm of share price, exhibits a mean value of 7.199, with a minimum of 3.258 and a maximum of 10.572. The standard deviation of 1.458 indicates a moderate degree of variation in market valuation across the sampled firms. These figures suggest that the sample encompasses companies with diverse market characteristics and valuation levels. The logarithmic transformation of share price was applied to reduce skewness and mitigate the influence of extreme values, thereby improving the suitability of the data for regression analysis. The average profitability, measured by Return on Assets (ROA), was 6.2%, while the highest ROA recorded was 58.3%. The average ESG score was 52.58, with the maximum score reaching 89.14. These findings indicate that, on average, non-financial companies listed on the Indonesia Stock Exchange exhibit relatively good ESG performance, as their scores fall within the “Good ESG Performance” category (50–75 range).

However, when ESG dimensions are examined individually, environmental and governance performance scores remain below 50 on average, indicating only satisfactory performance levels. In contrast, the social dimension achieved an average score within the 50–75 range, suggesting relatively better social performance. Furthermore, the average company size reached approximately IDR 59 billion, while the average debt-to-equity ratio (DER) was 1.94. Liquidity conditions were also relatively strong, as reflected by an average current ratio above one. In terms of firm growth, the average sales growth reached approximately 15%, indicating relatively positive operational growth among the sampled firms. The relatively large standard deviations observed for ESG-related variables, leverage, and firm size indicate considerable heterogeneity in both sustainability practices and financial characteristics across firms. Such variation is beneficial for empirical analysis, as it provides sufficient cross-sectional differences to examine the relationship between financial performance, ESG performance, and firm value.

Prior to estimating the regression models, panel data specification tests were performed to ascertain the best suitable estimate strategy among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The selection process utilized the Chow test, Breusch–Pagan Lagrange Multiplier (LM) test, and Hausman test.

For both Model 1 and Model 2, the Chow test produced probability values below 0,05, indicating that the Fixed Effect Model was preferred to the Common Effect Model. Similarly, the LM test yielded probability values below 0,05, suggesting that the Random Effect Model was more appropriate than the Common Effect Model. To determine the final model, the Hausman test was subsequently performed. The results showed probability values of 0,4068 for Model 1 and 0,9997 for Model 2, both exceeding the 5 percent significance level. Therefore, the null hypothesis that the Random Effect Model provides consistent estimates could not be rejected. Based on these findings, the Random Effect Model (REM) was selected as the most appropriate estimation approach for both models.

The selection of REM implies that firm-specific effects are assumed to be randomly distributed and uncorrelated with the explanatory variables. This approach is particularly suitable for the present study because the sample consists of a relatively large number of firms observed over a short period, namely 69 non-financial companies during 2022–2024. Table 4 and Table 5 shows the result of specification model test.

Several diagnostic tests were performed before estimating the regression models. Multicollinearity was assessed using the Variance Inflation Factor (VIF). The results indicate that all VIF values were substantially below the threshold value of 10, with mean VIF values of 1,06 for Model 1 and 1,30 for Model 2. These findings suggest that multicollinearity is not a concern and that the explanatory variables do not exhibit strong linear relationships with one another. Heteroskedasticity was examined using the Modified Wald test. The results revealed chi-square statistics of 33,166.22 for Model 1 and 137,788.85 for Model 2, both significant at the 5 percent level. These findings indicate the presence of heteroskedasticity across firms.

Serial correlation was tested using the Wooldridge test for panel data. The results showed F-statistics of 61,548 for Model 1 and 63,638 for Model 2, with probability values below 0,05. Therefore, the null hypothesis of no first-order autocorrelation was rejected, indicating the existence of serial correlation within panels. Furthermore, cross-sectional dependence was assessed using Pesaran’s Cross-sectional Dependence (CD) test. The test produced a statistic of 12,360 with a probability

Table 3. Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
LnMV	207	7,199	1,457	3,2580	10,5719
PRF	207	0,062	0,155	(1,673)	0,583
ESG	207	52,583	15,795	18,420	89,148
ENV	207	48,515	21,233	7,500	92,507
SOC	207	57,169	17,021	20,845	97,046
GOV	207	49,097	20,927	6,746	91,804
LnSIZE	207	31,134	1,1968	26,21603	33,7899
LEV	207	1,940	13,355	(20,949)	190,307
LQ	207	2,681	3,388	0,182	28,131
SG	207	0,150	0,416	(0,739)	2,961

Table 4. Model Specification Test Results Model 1

Test	Statistic	p-value	Decision Rule	Model 1 Decision
Chow Test	F = 52,90	0,0000	p < 0,05 → FEM preferred over CEM	FEM
Breusch-Pagan LM Test	Chi² = 140,27	0,0000	p < 0,05 → REM preferred over CEM	REM
Hausman Test	Chi² = 6,15	0,4068	p > 0,05 → REM preferred over FEM	REM
Selected Model				Random Effect Model

Table 5. Model Specification Test Results Model 2

Test	Statistic	p-value	Decision Rule	Model 2 Decision
Chow Test	F = 46,66	0,000	p < 0,05 → FEM preferred over CEM	FEM
Breusch-Pagan LM Test	Chi² = 128,87	0,000	p < 0,05 → REM preferred over CEM	REM
Hausman Test	Chi² = 0.59	0,997	p > 0,05 → REM preferred over FEM	REM
Selected Model				Random Effect Model

value below 0,01, suggesting the existence of cross-sectional dependence among firms. This finding is reasonable because firms listed on the Indonesia Stock Exchange operate under similar macroeconomic conditions and may be simultaneously affected by market-wide shocks. Table 6 shows result of Diagnostic test.

Given the presence of heteroskedasticity, serial correlation, and cross-sectional dependence, the Random Effect Model was estimated using robust standard errors clustered at the firm level. This estimation approach was adopted to obtain more reliable standard error estimates and statistical inference in the presence of these diagnostic-test violations. The regression results obtained from this estimation procedure are reported in Table 7.

The regression results presented in Table 7 indicate that both models are jointly statistically significant, as evidenced by Wald chi-square statistics of 36.65 and 43.84, respectively, with p-values below 0.01. These findings suggest that the explanatory variables collectively contribute to explaining variations in firm value. The coefficient of determination (R^2 Overall) is 24.41 percent for Model 1 and 26.77 percent for Model 2, indicating that the independent variables explain approximately one-quarter of the variation in firm value. Specifically, Model 1 includes profitability, aggregate ESG performance, firm size, leverage, liquidity, and sales growth, whereas Model 2 replaces aggregate ESG performance with the environmental, social, and governance dimensions. Although the explanatory power of both models is relatively modest, this result is consistent with prior studies on firm value and ESG, where market valuation is influenced by a wide range of firm-specific and external factors beyond those incorporated in the regression models.

The relatively low explanatory power suggests that firm value may also be affected by other firm-specific, industry-specific, and macroeconomic determinants that were not explicitly included in the present study. Examples include ownership structure, institutional ownership, board characteristics, dividend policy, earnings quality, corporate reputation, competitive positioning, industry dynamics, investor sentiment, interest rates, inflation, and broader economic conditions. Therefore, the reported R-squared values should be interpreted as reflecting the multifaceted nature of firm valuation rather than as evidence of model inadequacy.

These findings suggest that the explanatory variables included in each model collectively contribute to explaining variations in firm value. Therefore, both Model 1 and Model 2 are considered statistically valid and appropriate for hypothesis testing. The significant Wald statistics further indicate that the combination of financial performance indicators and ESG-related variables provides meaningful information in explaining differences in firm value among Indonesian non-financial companies.

The findings demonstrate that profitability does not substantially influence business value in either model. The ROA coefficient is positive yet statistically insignificant. This discovery indicates that investors might not depend exclusively on accounting profitability for corporate valuation. Investors may instead evaluate prospective growth opportunities, market potential, and other strategic elements that existing profitability metrics do not fully encompass.

The overall ESG performance does not substantially influence corporate value. Despite the negative coefficient, its probability value above traditional significance thresholds. This study indicates that the market has not yet completely integrated ESG performance into corporate valuation choices. One potential cause is that the implementation of ESG among Indonesian enterprises is notably varied, leading investors to view ESG operations as compliance-related costs rather than as avenues for long-term value development.

Likewise, the environmental, social, and governance factors do not independently affect corporate value. The findings suggest that investors may not differentiate between ESG characteristics when evaluating firm valuation or may view the economic advantages of ESG initiatives as manifesting just in the long term. The findings align with research indicating that sustainability initiatives typically necessitate significant initial expenditures and may not promptly result in increased market valuations.

Leverage and liquidity do not shown substantial impacts on business value. The minimal impact of leverage indicates that investors can view debt utilization as a standard aspect of business financing choices rather than a factor influencing market valuation. Similarly, liquidity does not seem to affect investor opinions, as the majority of sampled enterprises uphold sufficient short-term financial conditions.

Table 6. Diagnostic Test

Diagnostic Test	Model 1	Model 2	Conclusion
Mean VIF	1,06	1,30	No multicollinearity
Modified Wald Test	33166.22	137788.85	Heteroskedasticity detected
Wooldridge Test	61.548	63.638	Serial correlation detected
Pesaran CD Test	12.360	12.360	Cross-sectional dependence detected

Table 7. Panel Regression Results

Variable	Model 1		Model 2	
	Coefficient	Probability	Coefficient	Probability
PRF	0,2653711	0,342	0,2959493	0,311
ESG	-0,0015368	0,731		
LnSize	0,5278624	0,000***	0,5404489	0,000***
LEV	-0,0003643	0,761	-0,0003556	0,767
LQ	0,0022057	0,907	-0,0043133	0,813
SG	0,1165535	0,014**	0,1089878	0,0327**
ENV			0,0013485	0,619
SOC			-0,0039246	0,354
GOV			0,0006736	0,812
Wald chi2	36,65		43,84	
Prob > chi2	0,0000***		0,0000***	
R-squared Within	0,0901		0,0800	
R-squared Between	0,2482		0,2729	
R-squared Overall	0,2441		0,2677	

Notes: *p<0,1; **p<0,05; ***p<0,01

Conversely, sales growth (SG) demonstrates a positive and statistically significant impact on firm value in both models. This research indicates that investors significantly prioritize enterprises' growth potential in their value decisions. Elevated sales growth signifies rising market demand, robust firm expansion prospects, and augmented potential for future cash flows, all of which may elevate market worth. The outcome aligns with signaling theory, which asserts that growth-related information acts as a favorable indicator of a firm's future success and long-term potential. Thus, companies exhibiting robust revenue growth are more prone to garner positive evaluations from investors, resulting in increased firm worth.

The size of a corporation positively and significantly impacts its worth. Large corporations typically have superior resources, enhanced market positions, improved access to finance markets, and more diverse company operations. As a result, investors view larger enterprises as less hazardous and more adept at producing sustainable future profits, resulting in elevated market prices.

The Effect of Profitability on Firm Value

The empirical findings demonstrate that profitability, represented by Return on Assets (ROA), does not significantly influence firm value. From a theoretical standpoint, profitability is widely acknowledged as a critical metric assessed by investors when appraising a company's future potential. According to signaling theory, elevated profitability should indicate a company's capacity to produce earnings and future cash flows. Firms exhibiting superior profitability are typically anticipated to possess enhanced growth potential, thereby enticing investors and augmenting corporate value.

Nonetheless, the results of this study indicate that profitability has not substantially impacted firm value among non-financial enterprises in Indonesia. This outcome suggests that investors may no longer depend exclusively on profit-generating potential when making investment choices. Investors are likely to evaluate broader factors including growth prospects, corporate stability, industry conditions, macroeconomic uncertainties, and sustainability concerns.

The average ROA identified in this study is 6,2%, accompanied by a large standard deviation of 15,5%. This condition indicates significant variations in profitability among the sample enterprises. Certain corporations reported negative ROA values as low as -167,3%, signifying substantial financial losses. Significant fluctuations in profitability diminish the capacity of earnings information to reliably elucidate alterations in business value.

The results align with the research of (Bhimantara & Dinarjito, 2021; Handini & Susilo, 2025; Ramdhonah et al., 2019), which similarly concluded that profitability does not significantly influence firm value. The results suggest that investors do not consistently react favorably to reported profits, especially when earnings are viewed as unsustainable or unable to represent long-term corporate potential.

Conversely, the results contradict earlier research conducted by (Dewi & Abundanti, 2019; Isnia & Amanah, 2019; Putra & Lestari, 2016; Supriyatna & Akbar, 2025), all of which indicated a positive correlation between profitability and company value. The variability in these data indicates that the impact of profitability on firm value may be contingent upon business attributes, market conditions, and the duration of observation.

The Effect of Liquidity on Firm Value

The findings indicate that liquidity does not substantially influence corporate value. Signaling theory posits that elevated liquidity levels convey a favorable indication of a company's capacity to fulfill its short-term liabilities. Companies with robust liquidity are typically perceived as having diminished bankruptcy risk, so bolstering investor confidence.

Nonetheless, the results suggest that liquidity has not emerged as a principal consideration for investors in assessing corporate value. Investors may view overly high liquidity as a sign that present assets are not being effectively employed to create profits. A high current ratio does not inherently indicate proficient company management.

The mean current ratio in this study is 2,681, indicating that the sampled companies generally have sufficient short-term financial capacity. The substantial standard deviation of 3,388 signifies significant variability in liquidity levels among enterprises. This variation may undermine the reliability of liquidity information in elucidating fluctuations in business value.

The results align with the findings of (Utami & Welas, 2019), who also determined that liquidity did not significantly affect firm value. Nevertheless, the findings contrast with those of (Putra & Lestari, 2016; Santi & Sudarsi, 2024; Supriyatna & Akbar, 2025) who indicated a positive correlation between liquidity and company value. The conflicting findings suggest that liquidity is not consistently regarded as a significant factor in corporate value, particularly among non-financial enterprises, where investors prioritize growth potential and long-term value generation.

The Effect of Solvency on Firm Value

The empirical results show that solvency, measured using the Debt-to-Equity Ratio (DER), does not significantly affect firm value. This result is consistent with research from (Susilawati, 2025) and (Zaman & Ady, 2024). This finding suggests that the capital structure decisions of Indonesian non-financial firms may not be consistently incorporated into market valuation. Investors may recognize that debt can generate both benefits and risks. On one hand, debt can provide additional resources for expansion and growth; on the other hand, excessive debt may increase financial risk. Consequently, the net effect of leverage on firm value may vary across firms and industries, leading to the insignificant relationship observed in this study.

Trade-off theory suggests that debt financing may increase firm value through tax shield benefits. However, excessive leverage may simultaneously increase bankruptcy risk and agency costs, which could negatively affect firm value. The findings indicate that investors do not directly use leverage levels as the primary basis for evaluating firms. This may occur because debt financing is perceived as a normal component of corporate funding strategies, particularly in non-financial sectors that require substantial capital for operational activities and business expansion.

Furthermore, the average DER in this study is 1,94, accompanied by a very high standard deviation of 13,355. Such large variation reflects substantial differences in capital structures across firms. Several firms even recorded extremely high leverage ratios, reaching 190 times equity, while others reported negative leverage values. These extreme variations may explain why leverage fails to consistently explain firm value.

The findings differ from those reported by (Adha et al., 2026; Carolin & Susilawati, 2024; Supriyatna & Akbar, 2025; Suwardika & Mustanda, 2017), who found that leverage positively affects firm value. Meanwhile, (Ramdhonah et al., 2019) and (Waruwu & Palupiningtyas, 2025) documented a negative relationship between leverage and firm value. These inconsistent findings indicate that the impact of leverage depends heavily on investor perceptions regarding financial risk and management effectiveness in utilizing debt to support corporate growth.

The Effect of Firm Growth on Firm Value

The empirical findings indicate that sales growth is the sole variable demonstrating a statistically significant positive correlation with company value. This research indicates that investors assign significant value to growth-related information when evaluating organizational potential. Companies exhibiting robust sales growth are typically regarded as possessing enhanced expansion prospects, elevated market demand, and an increased ability to earn future revenues. Consequently, growth performance seems to be essential in influencing market expectations and valuations.

The discovery aligns with signaling theory, which posits that growth indicators convey significant insights about a firm's future prospects. Persistent sales growth may indicate effective business strategies, competitive advantage, and the capacity to seize market possibilities. Within Indonesian non-financial enterprises, investors appear to react more robustly to anticipated future growth than to present accounting performance metrics. The importance of sales growth, alongside the little impact of profitability, liquidity, and debt, suggests that market participants may emphasize future development potential rather than short-term financial conditions when assessing firm worth.

The results align with those documented by (Putra & Lestari, 2016) and (Santi & Sudarsi, 2024), as well as other earlier investigations into company growth, all of which established that sales growth favorably influences firm value (Faizah & Putri Pertiwi, 2025; Kurniawati & Anggraini, 2023). The data suggest that investors in the Indonesian capital market prioritize growth potential over traditional financial metrics like profitability and liquidity.

The Effect of Aggregate ESG Performance on Firm Value

The findings indicate that overall ESG performance does not substantially influence firm value. Despite the growing acknowledgment of ESG performance as a critical component of corporate sustainability, the findings indicate that its impact may not be adequately manifested in the market valuations of Indonesian non-financial enterprises from 2022 to 2024. This outcome should not be construed as proof that ESG performance is inconsequential to investors or corporate value. Multiple potential reasons may elucidate the negligible association. Multiple competing hypotheses may elucidate the observed outcome.

Initially, the implementation of ESG necessitates considerable investments in environmental management, employee welfare initiatives, governance frameworks, and sustainability reporting methodologies. These expenditures may incur immediate expenses, while their economic advantages will manifest only over an extended period. Consequently, the three-year observation time may be inadequate to fully capture the long-term value generated by ESG initiatives.

Secondly, variations in the quality of ESG disclosures may influence investors' interpretations of ESG information. While Refinitiv ESG ratings offer standardized assessments of sustainability performance, discrepancies in reporting procedures, transparency, and the reliability of sustainability disclosures may affect the degree to which ESG information is integrated into market valuations. Third, the link may be influenced by reverse causality. Companies with superior financial resources and elevated market valuations may possess a better capacity to invest in ESG activities and sustainability reporting, complicating the determination of whether ESG performance affects firm value or if firm value facilitates more ESG investment.

The Indonesian capital market continues to be an emerging country where ESG investing is still evolving. In contrast to more developed economies, investors may prioritize financial performance, growth prospects, and short-term profitability over sustainability metrics when making investment decisions. The sample comprises enterprises from several non-financial industries, each exhibiting distinct environmental exposures, stakeholder demands, regulatory obligations, and strategies for implementing ESG. This sectoral variability may diminish the overall correlation between ESG performance and firm value when all industries are collectively examined.

The potential for omitted-variable bias cannot be dismissed. Firm value may also be affected by factors such as ownership structure, institutional ownership, board characteristics, corporate strategy, industry dynamics, and macroeconomic conditions that are not explicitly incorporated in the current model. The findings should be understood as indicating that this study does not provide adequate empirical support for a direct correlation between aggregate ESG performance and firm value within the analyzed sample and timeframe, rather than suggesting that ESG performance is insignificant to investors or corporate valuation in a broader context.

Within the framework of legitimacy theory, firms implement ESG practices to attain social legitimacy and fulfill stakeholder expectations. Nonetheless, investors may perceive that investments in environmental, social, and governance activities have failed to yield measurable improvements in financial performance. The market may not fully recognize the economic benefits of ESG, particularly in the short term.

The statistics indicate that ESG implementation in Indonesia remains in its early stages, resulting in sustainability disclosures that do not fully instill investor trust. ESG disclosures may be perceived as mere symbolic compliance or greenwashing rather than genuine indicators of significant sustainability accomplishments. Although the average ESG score of 52.58 classifies it as demonstrating “good ESG performance,” the environmental and governance dimensions recorded average scores below 50, indicating that the quality of ESG implementation is very limited. Such conditions may cultivate investor skepticism regarding ESG's ability to enhance business value.

The results align with (Nollet et al., 2016), who contended that the correlation between ESG and business value is not invariably favorable. Likewise, (Cahyani Pangestuti et al., 2026; Dinarjito, 2025) and (Sumarno et al., 2023) discovered that ESG does not substantially augment business value, as the implementation of ESG in Indonesia often remains symbolic and fails to adequately demonstrate genuine sustainable performance.

Conversely, the results contradict earlier research by (Mokhtar et al., 2024; Sabatini & A. Utama, 2024; Srivastava & Anand, 2023; Zhang & Azman, 2023), all of which reported beneficial impacts of ESG on firm value. The divergent findings indicate that the efficacy of ESG in enhancing corporate value is significantly influenced by market maturity, the quality of sustainability disclosures, and investor views of ESG-related economic advantages.

Moreover, signaling theory posits that ESG disclosure should act as a favorable indicator of a company's capacity to handle sustainability risks and ensure long-term business viability. Nonetheless, the adoption of IFRS S1, IFRS S2, PSPK 1, and PSPK 2 has not substantially affected investor behavior, given these standards have not been completely enacted in Indonesia throughout the observation period.

The Effect of Environmental Performance on Firm Value

The empirical findings reveal that environmental performance does not significantly influence firm value. The findings of this study align with those of (Rinsman & Prasetyo, 2020; Shapiro et al., 2018; Soedjatmiko et al., 2021), indicating that environmental performance has failed to enhance market confidence in environmental management as a consequence of the company's operations. The results align with (Velte, 2017), who determined that the environmental dimension does not substantially affect company performance. Investors may continue to view environmental programs as expensive endeavors that may not yield quick financial returns.

The results indicate that investors have not yet prioritized environmental performance in their assessment of companies. A potential explanation is that environmental investments typically yield long-term benefits, while capital market investors often prioritize short-term gains.

The average environmental score of 48,51 signifies that the environmental performance of Indonesian non-financial enterprises is categorized as adequate under the ESG framework. This indicates that environmental initiatives and sustainability practices are still somewhat restricted and have not been executed well.

An alternative explanation pertains to the ongoing environmental concerns associated with corporations in Indonesia. Instances of environmental degradation resulting from corporate activity may diminish investor trust and undermine the significance of environmental performance in assessing firm value.

The Effect of Social Performance on Firm Value

The findings indicate that social performance does not substantially influence firm value. Stakeholder theory posits that addressing social concerns enhances customer loyalty, employee productivity, and corporate reputation. Nevertheless, the results suggest that investors have not significantly prioritized social performance in their assessment of corporate value. The findings of this study align with those of (Atan et al., 2018; Roudhotun Ni'mah & Rohmawati Kusumaningtias, 2025; Tirta Wangi & Aziz, 2024), which indicated that social performance did not significantly influence business value. Corporate social initiatives often serve as mere symbolism and lack alignment with the company's aims and objectives.

A potential explanation is that the economic advantages obtained from social programs are challenging to quantify directly in financial terms. Consequently, investors may favor indicators that yield more immediate economic ramifications for the organization. Despite the average social score of 57.16, reflecting commendable performance, social initiatives may be perceived as administrative or compliance-focused rather than as strategic endeavors that can yield sustained competitive advantage. The findings indicate that ESG performance does not significantly influence company value, as its implementation is predominantly symbolic and does not adequately reflect substantive sustainability performance (Cahyani Pangestuti et al., 2026; Dinarjito, 2025; Sumarno et al., 2023).

The Effect of Governance Performance on Firm Value

The results demonstrate that governance performance does not substantially influence firm value. From a theoretical standpoint, robust corporate governance should mitigate agency conflicts, improve transparency, and bolster investor trust. Nonetheless, the data indicate that investors have not yet considered governance performance a significant factor in determining business value within Indonesian non-financial firms.

This condition may be ascribed to the belief that corporate governance processes in Indonesia are predominantly compliance-driven and procedural, rather than authentically indicative of effective corporate management excellence. Investors may view effective governance procedures solely as obligatory regulatory compliance rather than as beneficial organizational characteristics. The results contrast with those of (Velte, 2017), who identified governance as the ESG pillar exerting the most significant impact on business performance. This contrast indicates that the efficacy of governance procedures in augmenting business value is contingent upon the quality of execution and the maturity level of a nation's capital market.

Furthermore, the negligible impact of governance performance may also indicate other corporate governance deficiencies that have led to instances of corruption and environmental disputes. Effective governance ought to diminish knowledge asymmetry between management and investors (Kanagaretnam et al., 2007). Nonetheless, the negligible findings suggest that investors may still lack complete confidence in the quality of corporate governance when making investment decisions. This viewpoint is also seen in the comparatively low governance performance score, which averages below 50.

Conclusion

This study examines the relationship between financial performance, ESG performance, and firm value among non-financial companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Using panel data from 69 firms (207 firm-year observations) and employing a Random Effect Model with robust standard errors, the study evaluates whether profitability, liquidity, leverage, sales growth, aggregate ESG performance, and the environmental, social, and governance dimensions are associated with firm value.

The empirical results indicate that sales growth is the only variable positively and significantly associated with firm value, thereby supporting H4. This finding suggests that investors place greater emphasis on growth prospects and future business opportunities when assessing corporate value. Firms exhibiting stronger revenue growth tend to receive higher market valuations, as sales growth may signal expanding market demand, business development opportunities, and stronger future cash-flow potential. In contrast, profitability (H1), liquidity (H2), and leverage (H3) are not significantly associated with firm value, indicating that these hypotheses are not supported by the data.

The findings further reveal that aggregate ESG performance (H5), environmental performance (H6), social performance (H7), and governance performance (H8) are not significantly associated with firm value. These results suggest that ESG-related information was not consistently reflected in market valuation among the sampled firms during the observation period. However, the insignificant ESG coefficients should not be interpreted as evidence that ESG performance lacks economic relevance. Rather, they may reflect the relatively early stage of ESG integration, differences in disclosure quality, industry-specific characteristics, and varying levels of investor attention to sustainability-related information.

From a theoretical perspective, the findings provide stronger support for signaling theory than for stakeholder and legitimacy theories. The positive association between sales growth and firm value is consistent with the notion that investors respond favorably to information that signals future growth opportunities. Conversely, the absence of significant associations between ESG performance and firm value suggests that the value relevance of sustainability-related information may depend on contextual factors such as market maturity, disclosure credibility, regulatory development, and investor awareness.

This study contributes to the literature by providing evidence from Indonesian non-financial listed firms and by simultaneously examining financial performance, aggregate ESG performance, and individual ESG dimensions within a unified empirical framework using Refinitiv ESG data. Nevertheless, the findings should be interpreted within the context of the study, which is limited to Indonesian non-financial firms covered by Refinitiv during the 2022–2024 period. Therefore, the results should not be generalized to other industries, countries, ESG databases, or time periods without further empirical verification.

From a practical perspective, the findings suggest that managers should focus not only on the quantity of ESG disclosures but also on improving their quality, credibility, and integration into business strategy. For regulators and standard setters, the results highlight the importance of enhancing the consistency, comparability, and reliability of sustainability reporting to improve the usefulness of ESG information for investment decision-making.

This study is subject to several limitations. First, firm value is measured using the natural logarithm of share price, which may not fully capture all aspects of market valuation. Second, the observation period is limited to 2022–2024 and therefore does not capture the potential effects of the implementation of PSPK 1 and PSPK 2 in Indonesia. Third, the study focuses exclusively on firms covered by Refinitiv ESG ratings, which may limit generalizability. Future research may employ alternative firm-value proxies such as Tobin's Q or Price-to-Book Value, incorporate lagged ESG variables, include industry fixed effects, address potential endogeneity issues, compare different ESG rating providers, or investigate mediating and moderating variables such as disclosure quality, governance quality, and investor awareness to further explore the relationship between ESG performance and firm value. Future studies may also examine whether the adoption of these standards alters the relationship between ESG performance and firm value.

Author contributions

Author 1 contributed to the conceptualization of the study, research design, data collection, data analysis, methodology development, interpretation of findings, and preparation of the original manuscript draft. Author 2 was responsible for supervision, theoretical development, validation of the research process, and critical review of the manuscript. Author 3 contributed to manuscript editing, language refinement, data verification, and final approval of the manuscript prior to submission and publication.

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