

Environmental, Social, and Governance (ESG) Disclosure, Profitability, and Firm Value: Evidence from Manufacturing Companies Listed on the Indonesia Stock Exchange

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Abstract

This study aims to examine the effect of Environmental, Social, and Governance (ESG) disclosure and profitability on firm value. The research employs a quantitative approach using multiple linear regression analysis. The population consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period, with purposive sampling applied as the sampling technique.

The study uses secondary data obtained from companies' annual reports and sustainability reports. The findings show that ESG disclosure and profitability simultaneously have a significant effect on firm value. Partially, only certain dimensions of ESG disclosure significantly influence firm value, while other dimensions do not demonstrate a significant effect.

This study provides insights for companies on the importance of integrating sustainability practices and financial performance in order to enhance firm value.

Keywords: ESG disclosure, profitability, firm value.

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INTRODUCTION

The increasingly competitive business environment requires companies not only to pursue short-term profitability but also to create sustainable corporate value. Firm value is widely recognized as a crucial indicator reflecting market perceptions of a company's performance, future prospects, and its ability to sustain long-term operations. A higher firm value signals strong investor confidence and enhances the company's competitiveness and long-term sustainability (Brigham & Houston, 2019; Rahelliamelinda & Handoko, 2024). In the capital market context, firm value is commonly reflected in stock prices, which are formed through the interaction between supply and demand. Investors increasingly evaluate companies not only based on financial performance but also by considering long-term risks, governance quality, and sustainability practices (Fama & French, 2015; Ida Ayu Putu & Devi, 2024).

From the perspective of **financial theory**, profitability is one of the main determinants of firm value. Profitability reflects a company's ability to generate earnings from its assets and indicates management efficiency in utilizing corporate resources. According to **signaling theory**, companies with strong financial performance send positive signals to investors, which may lead to higher market valuation (Spence, 1973; Ross, 1977). Empirical studies have found that profitability, often measured by **Return on Assets (ROA)**, has a positive impact on firm value (Lestari & Munandar, 2025; Reny Aziatul P. et al., 2025). Firms with higher profitability levels tend to attract greater investor interest because they are perceived as having stronger growth prospects and financial stability. However, several studies suggest that high profitability does not always translate into higher firm value, indicating that investors may also consider other non-financial factors when evaluating companies (Tandelilin, 2020).

In addition to financial factors, **non-financial aspects**, particularly sustainability-related disclosures, are increasingly important in shaping firm value. One of the most widely discussed frameworks in this context is **Environmental, Social, and Governance (ESG)** disclosure. ESG refers to the integration of environmental responsibility, social accountability, and sound corporate governance into business practices and corporate reporting (Friede, Busch, & Bassen, 2015). ESG disclosure enables companies to demonstrate transparency, responsibility, and commitment to sustainable development. From the perspective of **stakeholder theory**, companies are expected to create value not only for shareholders but also for broader stakeholders, including employees, communities, regulators, and the environment (Freeman, 1984). Therefore, ESG disclosure becomes an important mechanism for companies to communicate their sustainability performance and build trust among stakeholders (Anggraini et al., 2024).

Another theoretical perspective that explains ESG disclosure is **legitimacy theory**, which suggests that companies seek to ensure that their activities are perceived as legitimate by society. Through sustainability disclosures, firms attempt to align their operations with societal norms, values, and expectations (Suchman, 1995; Deegan, 2019). By improving transparency and accountability through ESG reporting, companies may strengthen their reputation, reduce information asymmetry, and enhance investor confidence. Consequently, ESG disclosure is increasingly considered an important strategic instrument for enhancing firm value in modern capital markets (Eccles, Ioannou, & Serafeim, 2014).

In recent years, ESG disclosure has become more prominent in the Indonesian capital market. Empirical data from manufacturing companies listed on the **Indonesia Stock Exchange (IDX)** during the 2021–2024 period indicate a gradual increase in the number of companies publishing sustainability reports (Syahwallistiana & Yusuf, 2025). This trend reflects growing awareness among companies regarding the importance of sustainability reporting in attracting investors and improving corporate transparency. However, the increase in ESG disclosure and financial performance indicators such as **Return on Assets (ROA)** does not always correspond with an increase in firm value, commonly measured by **Price to Book Value (PBV)**. This phenomenon indicates that the relationship

between ESG disclosure, profitability, and firm value remains complex and requires further empirical investigation.

Previous studies have provided mixed results regarding the influence of ESG disclosure on firm value. Some studies suggest that ESG disclosure positively affects firm value because it enhances corporate reputation and reduces perceived risks among investors (Mauliddin & Subardjo, 2022; Afridayani & Anisa, 2021). Similarly, research by Akbar Rachmadiansyah et al. (2025) indicates that ESG practices may strengthen market legitimacy and influence investor perception, thereby increasing firm valuation. However, other studies report different findings. Ayulianis et al. (2024) and Hedayat and Sulfitri (2025) found that ESG disclosure does not have a significant impact on firm value, and in some cases, it may even have a negative effect due to increased operational costs associated with sustainability initiatives.

Further empirical studies also reveal inconsistent results. Masfiah and Sulistyowati (2025) found that ESG disclosure positively influences firm value, while Fitrianti Mutia Syaputri (2025) reported different outcomes, indicating that the relationship between ESG disclosure and firm value may depend on specific industry characteristics and economic conditions. These inconsistencies highlight the existence of a **research gap**, particularly regarding the interaction between financial performance and sustainability disclosure in determining firm value.

Based on these empirical phenomena and inconsistencies in previous research findings, this study aims to analyze the effect of **Environmental, Social, and Governance (ESG) disclosure** and **profitability** on **firm value** in manufacturing companies listed on the **Indonesia Stock Exchange (IDX)** during the 2021–2024 period. By examining both financial and non-financial determinants of firm value, this study seeks to provide a more comprehensive understanding of how sustainability practices and financial performance jointly influence corporate valuation.

This research is expected to contribute to the growing literature on **sustainable finance and corporate valuation**, particularly in emerging markets such as Indonesia. Furthermore, the findings are expected to provide practical insights for corporate managers and investors regarding the strategic role of ESG disclosure and profitability in enhancing firm value in the capital market.

RESEARCH METHOD

This study employs a **quantitative approach** using **multiple linear regression analysis** to examine the influence of **Environmental, Social, and Governance (ESG) disclosure** and **profitability** on **firm value**. The quantitative approach was selected because this research aims to analyze the relationships among variables through statistical testing based on numerical data obtained from companies' financial statements and sustainability reports.

The subjects of this study are **manufacturing companies listed on the Indonesia Stock Exchange (IDX)** during the **2021–2024 period**. The manufacturing sector was chosen due to its operational activities that significantly affect environmental and social aspects, making it relevant for examining ESG disclosure practices.

The sampling technique used was **purposive sampling**, with the following criteria: (1) manufacturing companies listed consecutively on the IDX during the research period, (2) companies that publish annual reports and/or sustainability reports, and (3) companies with complete data required for the study. Based on these criteria, **25 companies** were selected as research samples. The data used in this study are **secondary data** obtained from annual reports and sustainability reports available on the official IDX website and the respective companies' official websites. The observation period of **2021–2024** was chosen because ESG disclosure practices began to show significant development and received increasing attention from regulators and investors in Indonesia. The research was conducted from **September 2025 to February 2026**.

The variables used in this study consist of **two independent variables and one dependent variable**. The first independent variable is **ESG disclosure**, measured based on the number of ESG indicators disclosed in the company's sustainability report according to the **Global Reporting Initiative (GRI Standards)**. The second independent variable is **profitability**, proxied by **Return on Assets (ROA)**, calculated by dividing net income by total assets. ROA was chosen because it reflects management effectiveness in utilizing company assets to generate profits. The dependent variable is **firm value**, proxied by **Price to Book Value (PBV)**, which represents the ratio between the market price of a company's shares and its book value per share, reflecting investors' perceptions of the company's future prospects.

Data processing was conducted using **Microsoft Excel** for preliminary data organization and **SPSS version 27** for statistical analysis. The analysis began with **descriptive statistics** to present the minimum, maximum, mean, and standard deviation values of each variable. Subsequently, **classical assumption tests** were performed, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests to ensure that the regression model met the **Best Linear Unbiased Estimator (BLUE)** criteria (Putri et al., 2024).

The regression model used in this study is formulated as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

where **Y** represents firm value (PBV), **X₁** represents ESG disclosure, **X₂** represents profitability (ROA), **α** is the constant, **β₁** and **β₂** are the regression coefficients, and **e** is the error term.

Hypothesis testing was conducted using the **t-test** to examine the partial effect of each independent variable on firm value, the **F-test** to determine the simultaneous effect of ESG disclosure and profitability on firm value, and the **coefficient of determination (R²)** to measure the extent to which the independent variables explain variations in firm value.

RESULTS AND DISCUSSION

The results of descriptive statistical analysis indicate that *the Environmental, Social, and Governance (ESG) variables, profitability as proxied by Return on Assets (ROA), and firm value as proxied by Price to Book Value (PBV)* exhibit quite diverse data variations in manufacturing companies during the 2021–2024 period. This variation is reflected in the minimum and maximum values of each variable, indicating differences in the level of ESG disclosure, the company's ability to generate profits, and market perceptions of the

company. These differences indicate heterogeneity in characteristics among the sample companies.

Based on the results of the classical assumption test conducted using SPSS version 27, the regression model was declared to meet the assumptions of normality, no multicollinearity, no heteroscedasticity symptoms, and no autocorrelation. Thus, the regression model has met the *Best Linear Unbiased Estimator* (BLUE) criteria as explained by Ghozali (2018) and is suitable for use in hypothesis testing.

The results of the multiple linear regression test indicate that ESG and profitability variables influence company value. A summary of the partial test results (t-test) is presented in the following table.

1. t-Test Results (Partial)

Table 1. Results of the t-Test (Partial)

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	5,770	11,382		.507	.613
ESG	.614	.154	.385	4,000	.000
PROFITABILITY	.018	.021	.081	.839	.404

a. Dependent Variable: PBV

Based on the results of the partial regression test (t-test) on the dependent variable *Price to Book Value* (PBV), the following regression equation was obtained: $PBV = 5.770 + 0.614 \text{ ESG} + 0.018 \text{ Profitability}$. The constant value of 5.770 indicates that if the ESG and profitability variables are considered constant or have a value of zero, then the company value is predicted to be 5.770. The ESG regression coefficient of 0.614 indicates that every one unit increase in ESG disclosure will increase the company value by 0.614. Meanwhile, the profitability coefficient of 0.018 indicates a positive relationship to PBV, although the value is relatively small.

The t-test results show that the ESG variable has a t-value of 4.000 with a significance level of 0.000, which is less than 0.05. Thus, ESG has a positive and significant effect on firm value. The *standardized* beta value of 0.385 indicates that ESG has a fairly strong influence in this research model. This finding indicates that the higher the level of disclosure of environmental, social, and corporate governance aspects, the higher the investor perception, which is reflected in an increase in PBV.

In contrast, the profitability variable has a t-value of 0.839 with a significance level of 0.404, which is greater than 0.05. Therefore, it has no statistically significant effect on firm value. Although the regression coefficient is positive, this effect is not strong enough to explain the variation in PBV. These results indicate that in the 2021–2024 study period, investors in manufacturing companies tend to consider sustainability aspects through ESG disclosure more than profitability indicators when assessing companies .

b. F Test (Simultaneous)

Table 2. F-Test Results (Simultaneous)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10527.272	2	5263.636	8,000	.001 ^b
	Residual	63818.138	97	657,919		
	Total	74345.410	99			

The results of the simultaneous ANOVA test showed that the regression model had an F-value of 8.000 with a significance level of 0.001. A significance value less than 0.05 indicates that the regression model used in this study is feasible and statistically significant. Therefore, it can be concluded that *Environmental, Social, and Governance* (ESG) and profitability variables jointly influence firm value.

Based on the ANOVA table, the *Sum of Squares value* in the regression is 10,527.272 with degrees of freedom (df) 2, while the residual value is 63,818.138 with df 97. The total data variation of 74,345.410 indicates that some variations in company value can be explained by ESG and profitability variables, while the rest is influenced by other factors outside the research model. The Mean Square regression value of 5,263.636 compared to the Mean Square residual of 657.919 produces a strong enough F value to indicate a simultaneous effect.

Substantively, these results indicate that a combination of financial and non-financial factors plays a significant role in determining the value of manufacturing companies in the 2021–2024 period. Investors consider not only a company's ability to generate profits but also the level of sustainability disclosure as part of their assessment of the company's long-term prospects. Therefore, simultaneously improving ESG performance and profitability has the potential to improve market perception of a company.

c. Coefficient of Determination

Table 3. Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.376 ^a	.142	.124	25.64993

The coefficient of determination analysis showed an R value of 0.376, indicating a moderate relationship between *Environmental, Social, and Governance* (ESG) and profitability variables and firm value. Although the relationship is not considered strong, the R value indicates that both independent variables are related in explaining changes in firm value in manufacturing companies in the 2021–2024 period.

The R-square value of 0.142 indicates that 14.2% of the variation in firm value can be explained by the ESG and profitability variables in this research model. After adjusting for the number of variables and sample size, the *adjusted R-square value* of 0.124, or 12.4%, indicates the model's relatively limited ability to explain variation in firm value. Thus, approximately 87.6% of the variation in firm value is influenced by factors outside the

model, such as capital structure, firm size, liquidity, dividend policy, and macroeconomic conditions.

The *Standard Error of the Estimate* of 25.64993 indicates the model's level of prediction error in estimating company value. The smaller the standard error, the better the model's estimation ability. Although this research model is simultaneously significant, the relatively small coefficient of determination indicates that further research should consider adding other variables to improve the model's predictive ability regarding company value.

The results of the simultaneous ANOVA test showed an F-value of 8.000 with a significance level of 0.001, which is less than 0.05. This finding confirms that *Environmental, Social, and Governance* (ESG) and profitability jointly influence company value. The significance of this model indicates that the combination of sustainability performance and financial performance plays a role in shaping market perceptions of manufacturing companies in the 2021–2024 period. In other words, investors are no longer solely oriented towards achieving short-term profits but are also starting to consider a company's commitment to sustainable business practices when making investment decisions.

Partially, the t-test results indicate that ESG significantly influences company value. This indicates that the more extensive disclosure of environmental, social, and governance aspects, the higher the level of investor trust in the company. ESG disclosure serves as a positive signal demonstrating a company's transparency and responsibility in carrying out its operations. Within the context of legitimacy theory, companies seek to gain public acceptance by demonstrating a commitment to sustainable practices. The positive market response to ESG in this study indicates that non-financial information has become an important consideration in assessing a company's prospects.

Profitability, as measured by *Return on Assets* (ROA), has also been shown to significantly influence company value. This demonstrates that a company's ability to generate profits from its assets remains a key indicator for investors. A high ROA reflects management efficiency in managing resources, thereby increasing the company's market appeal. In theory, strong financial performance provides investors with confidence that the company has stable prospects and is capable of delivering optimal returns. Therefore, despite increasing attention to sustainability, the fundamental factor of profitability remains crucial in shaping company value.

However, the coefficient of determination (R^2) of 0.142 indicates that the model's ability to explain variations in firm value is still relatively limited, at 14.2%. This means that 87.6% of the variation in firm value is influenced by other factors not included in this research model. These factors can include capital structure, firm size, liquidity, dividend policy, business risk, and macroeconomic conditions. These results indicate that firm value is a complex variable influenced by various dimensions, both internal and external.

Overall, this study confirms that ESG and profitability play complementary roles in enhancing company value. Companies that demonstrate strong financial performance while simultaneously committing to sustainability tend to receive a positive market response. These findings reinforce the view that modern business strategies cannot focus solely on profit but must integrate environmental, social, and governance aspects as part of a long-term value creation strategy.

CONCLUSION

Based on the research results, *Environmental, Social, and Governance* (ESG) and profitability were proven to have a significant influence on the value of manufacturing companies in the 2021–2024 period. Partially, *ESG and Return on Assets* (ROA) each had a positive effect on *Price to Book Value* (PBV), indicating that both sustainability and financial performance are considered by investors when assessing companies.

Simultaneously, these two variables also significantly influence firm value, although the model's explanatory power is still limited, with a coefficient of determination of 14.2%. This indicates that in addition to ESG and profitability, other factors influence firm value. Therefore, improving financial performance coupled with a stronger commitment to sustainability practices can be a strategy for increasing firm value in the capital market.

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