JURNAL RISET AKUNTANSI DAN AUDITING
Vol. 13 Number 2 (November 2026, 1-12)

Profitability, Leverage, and ESG Disclosure as Determinants of Firm Value: Evidence from Indonesia's ESGL Index

Profitabilitas, Leverage, dan Pengungkapan ESG sebagai Penentu Nilai Perusahaan: Bukti dari Indeks ESGL Indonesia

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DOI: 10.55963/3st0tr54

Abstract - This study investigates the effects of profitability, leverage, and environmental, social, and governance (ESG) disclosure on firm value among companies included in Indonesia's ESG Leaders (ESGL) Index, focusing on the energy and raw materials sectors during the 2020-2024 period. These sectors play a strategic role in the Indonesian economy while facing increasing pressure to adopt sustainable business practices. Using purposive sampling, this study obtained 110 firm-year observations. Panel data regression analysis was employed using e-views 12 to examine the relationship between the research variables. The findings reveal that profitability and leverage have a positive and significant effect on firm value, whereas ESG disclosure does not significantly influence firm value. These results indicate that investors continue to place greater emphasis on financial performance than sustainability disclosure when evaluating firms in these sectors. The novelty of this study lies in its focus on companies included in the ESGL index, which represent firms expected to demonstrate stronger sustainability practices than conventional listed companies. The findings provide practical implications for corporate managers, investors, and regulators by emphasizing the importance of balancing financial performance with credible sustainability disclosure to enhance long-term firm value.

Keywords: ESG, ESGL Index, Firm Value, Leverage, Profitability.

Abstrak *- Penelitian ini bertujuan menganalisis pengaruh profitabilitas, leverage, dan environmental, social, and governance (ESG) disclosure terhadap nilai perusahaan pada perusahaan sektor energi dan barang baku yang tergabung dalam Indonesia ESG Leaders (ESGL) Index selama periode 2020-2024. Kedua sektor tersebut memiliki peran strategis dalam perekonomian Indonesia sekaligus menghadapi tuntutan yang semakin besar untuk menerapkan praktik bisnis berkelanjutan. Penelitian menggunakan teknik purposive sampling dan menghasilkan 110 observasi perusahaan. Analisis dilakukan menggunakan regresi data panel dengan bantuan perangkat lunak e-views 12. Hasil penelitian menunjukkan bahwa profitabilitas dan leverage berpengaruh positif dan signifikan terhadap nilai perusahaan, sedangkan ESG disclosure tidak berpengaruh signifikan terhadap nilai perusahaan. Temuan ini menunjukkan bahwa investor masih lebih mempertimbangkan kinerja keuangan dibandingkan informasi keberlanjutan dalam menilai perusahaan pada kedua sektor tersebut. Kebaruan penelitian ini terletak pada fokus analisis terhadap perusahaan yang tergabung dalam ESGL index sebagai kelompok perusahaan yang diharapkan memiliki komitmen lebih tinggi terhadap praktik keberlanjutan. Penelitian ini memberikan implikasi praktis bagi manajemen perusahaan, investor, dan regulator dalam meningkatkan nilai perusahaan melalui keseimbangan antara kinerja keuangan dan pengungkapan keberlanjutan yang kredibel*.

Kata Kunci*: ESG, Indeks ESGL, Nilai Perusahaan, Leverage, Profitabilitas.*

INTRODUCTION

The increasingly competitive business environment requires companies to continuously improve their performance to maintain sustainability and maximize firm value. Firm value reflects investors' perceptions of a company's current performance and future prospects and is commonly measured through market-based indicators such as price-to-book value (PBV). A high firm value indicates that the market has confidence in the company's ability to generate future economic benefits and is often associated with better investment opportunities (Putri & Suryanto, 2022).

Firm value is influenced by various internal and external factors. Besides financial performance, investors increasingly consider environmental, social, and governance (ESG) disclosure when evaluating corporate sustainability. ESG disclosure provides information regarding a company's

commitment to environmental protection, social responsibility, and good corporate governance. In addition, profitability reflects management's ability to generate profits from available resources, while leverage describes the company's financing strategy in utilizing debt to support its operations. These three factors are considered important indicators that may influence investors' decisions and ultimately affect firm value (Handoko, 2021; Santoso & Junaeni, 2022; Putri & Puspawati, 2023).

The relevance of ESG is particularly important for companies in the energy and raw materials sectors because their business activities are closely associated with natural resource utilization and potentially significant environmental and social impacts. Companies in these sectors face greater exposure to issues such as resource extraction, energy consumption, environmental degradation, greenhouse gas emissions, and regulatory pressure related to sustainability. These characteristics make the energy and raw materials sectors an important context for examining whether ESG-related information is reflected in market valuation. The relevance of ESG information is further strengthened by the development of sustainable finance regulation in Indonesia. Otoritas Jasa Keuangan (OJK) issued POJK No. 51/POJK.03/2017 concerning the implementation of sustainable finance for financial services institutions, issuers, and public companies, which requires issuers and public companies to implement sustainable finance principles and prepare sustainability reports.

The development of ESG-oriented investment is also reflected in the IDX ESG Leaders Index. The Indonesia Stock Exchange describes the IDX ESG Leaders as an index consisting of stocks with favorable environmental, social, and governance assessments, no significant controversies, adequate trading liquidity, and good financial performance. The ESG assessment and controversy analysis underlying the index are provided by sustainalytics. Thus, companies included in the IDX ESG Leaders Index provide an appropriate setting for examining whether ESG-related information contributes to firm value, particularly when financial performance and sustainability considerations are assessed simultaneously.

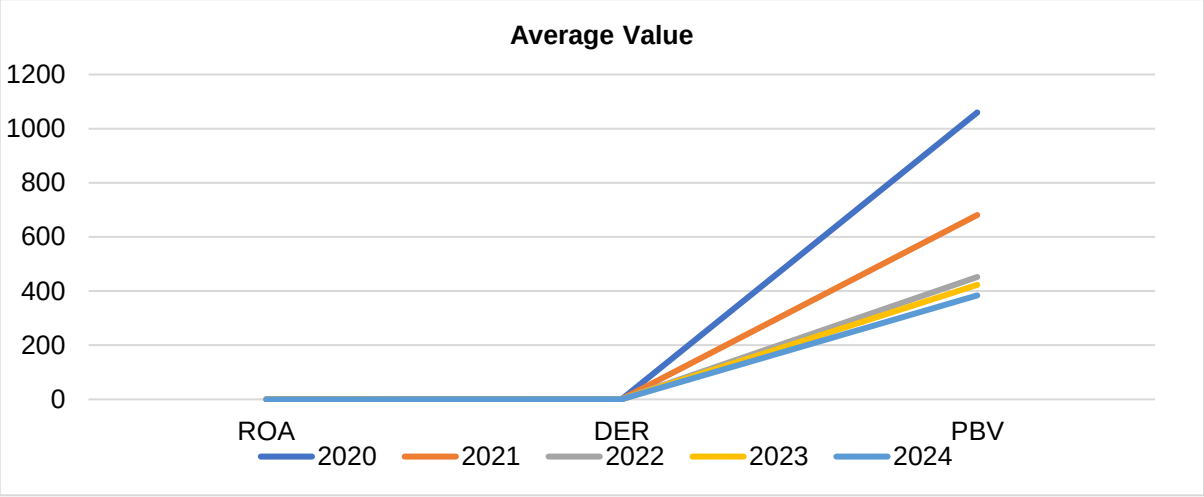


Figure 1. Average Value of ROA, DER, and Combined PBV of 22 Shares in the Energy and Raw Materials Sector Companies Listed on the ESGL Index

Source: Processed data (2025).

Figure 1 shows the movement of the average return on assets (ROA), debt-to-equity ratio (DER), and price-to-book value (PBV) of companies included in the ESGL Index during the 2020-2024 period. Although profitability generally improved during several observation periods, firm value fluctuated considerably. Likewise, changes in leverage were not consistently followed by similar movements in firm value. These trends suggest that firm value may not be explained solely by financial performance, indicating that sustainability-related factors, particularly ESG disclosure, may also influence investors' valuation decisions.

Previous empirical studies have produced inconsistent findings regarding the determinants of firm value. Friede et al. (2015) found that ESG disclosure positively affects firm value by improving corporate reputation and stakeholder confidence. In contrast, Minggu et al. (2023) reported that ESG disclosure does not always improve corporate performance, while Xaviera et al. (2023) found that certain ESG

dimensions may negatively affect firm value. Similarly, studies on profitability and leverage have also reported mixed findings. Santoso and Junaeni (2022) and Lukiman and Hapsari (2018) documented that profitability positively affects firm value, whereas the impact of leverage depends on how effectively debt is managed within the company (Rismayanti et al., 2021). Despite the growing number of studies, empirical evidence remains inconclusive, particularly among companies included in Indonesia's ESGL Index and those operating in environmentally sensitive industries. This inconsistency highlights the need for further empirical investigation.

Based on these inconsistencies, this study aims to examine the effects of profitability, leverage, and ESG disclosure on firm value in companies included in Indonesia's ESGL Index, particularly those operating in the energy and raw materials sectors during the 2020-2024 period. Unlike previous studies that generally examined broader industry classifications, this study specifically investigates companies included in Indonesia's ESGL Index within the energy and raw materials sectors. The novelty of this study lies in the integration of financial factors (profitability and leverage) with sustainability disclosure (ESG) to explain firm value within environmentally sensitive industries. This approach provides a more comprehensive understanding of firm value determinants in Indonesia's capital market.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory, introduced by Freeman (1984), explains that a company is responsible not only to its shareholders but also to all stakeholders, including employees, customers, suppliers, governments, communities, and the environment. The theory argues that companies can achieve long-term success by balancing the interests of various stakeholders rather than focusing solely on maximizing shareholders' wealth. Consequently, companies are encouraged to operate responsibly by integrating economic, social, and environmental considerations into their business strategies.

In the context of this study, stakeholder theory provides the primary theoretical foundation for explaining the relationship between environmental, social, and governance (ESG) disclosure and firm value. Companies that disclose ESG information transparently demonstrate accountability and commitment to sustainable business practices, thereby enhancing stakeholder trust, corporate reputation, and long-term firm value (Minggu et al., 2023; Putri & Puspawati, 2023).

Signaling Theory

According to Handoko (2021), signaling theory refers to actions taken by company managers to inform investors about the company's prospects. The primary objective of signaling theory is to minimize the information gap between company management and external stakeholders. This information gap can be addressed by providing reliable financial reports that provide assurance regarding the company's future prospects.

Signaling theory is a theoretical basis that explains how financial and environmental performance affect firm value. Investors typically interpret information received as positive (good news) or negative (bad news). If a company reports an increase in profits, this information is considered a positive signal because it indicates the company is in good condition. Conversely, a decrease in profits is seen as a negative signal, reflecting the company's poor condition (Mariani & Suryani, 2018).

One form of such information can be conveyed through environmental, social, and governance (ESG) reporting. Disclosure of information related to environmental, social, and governance can improve financial performance and firm value. This aligns with the principles of signaling theory. By implementing ESG as a means of conveying information to external parties, it is hoped that share prices will increase, which will ultimately impact firm value.

Trade-Off Theory

Trade-off theory explains how companies make decisions regarding their capital structure by considering benefits and risks. This theory focuses on the balance between two main factors: the tax benefits of debt interest and the bankruptcy risk associated with debt. Initially, Modigliani & Miller (1958) argued that financial structure did not affect firm value. However, Modigliani et al. (1963) updated this view by showing that debt can increase firm value through tax savings, provided the risk of financial distress is not too high. In other words, debt can reduce taxes, thereby increasing firm value. However,

if debt is used too high, the risk of bankruptcy will reduce that value. Therefore, companies must determine the optimal debt level, where the tax benefits of debt are balanced against the potential financial risks.

The Effect of Profitability on Firm Value

Profitability is often considered one of the main indicators influencing firm value because it reflects a company's ability to generate profits from its operations. Companies with high profitability tend to be more attractive to investors because they demonstrate operational efficiency and sound management of resources. Akhmadi and Januarsi (2021) found that profitability has a positive effect on firm value among firms included in the SRI-KEHATI index, indicating that strong financial performance remains an important determinant of market valuation in sustainability-oriented companies. Research by Muzayin M.H.T. & Trisnawati R. (2022) shows that profitability ratios, such as return on equity (ROE) and return on assets (ROA), have a positive influence on firm value. This is because more profitable companies typically have more stable cash flows, which enable them to consistently pay dividends to shareholders. These stable dividend payments not only increase investor confidence but also improve market perception of the company, thereby driving up share prices and overall firm value.

High profitability also provides companies with greater financial flexibility, which can be used for various strategic purposes such as investing in new projects, product innovation, or expanding into new markets. Research by Rizki Andriani & Rudianto (2019) supports this view, showing that higher profits can be used to repay debt, which in turn strengthens the company's capital structure and reduces financial risk. By reducing the debt burden, companies can increase their leverage within safe limits, taking advantage of tax savings opportunities without overly burdening the risk of bankruptcy. This condition not only improves the company's financial position but also strengthens its competitiveness in the market. Based on this description, the first hypothesis in this study is:

H_1: Profitability has a positive effect on firm value.

The Effect of Leverage on Firm Value

Leverage, or the use of debt in a company's capital structure, is generally considered to have a positive effect on firm value because it allows a company to obtain additional funds without having to release equity. Modigliani et al. (1963) suggested that the tax benefits of debt can increase firm value, as interest payments on debt reduce the company's tax burden, thereby increasing free cash flow. Pratt et al. (2023) provide recent empirical evidence that leverage can contribute positively to firm value, supporting the view that debt financing may create value when its benefits outweigh the associated financial costs. Rismayanti et al. (2021) explained that a higher debt ratio can increase firm value to an optimal level, as long as the financial risks associated with debt use are controlled.

However, debt use must be managed strategically to avoid excessive financial risk. Kresno Wibowo et al. (2021) support this view by showing that the judicious use of debt can contribute to increased firm value. Properly managed leverage can improve a company's liquidity, provide financial flexibility, and increase return on equity (ROE), which in turn increases positive investor perceptions and the company's stock price. However, if leverage is used excessively, the risk of bankruptcy and financial distress costs can increase, which will reduce the company's value. Based on this description, the second hypothesis in this study is:

H_2: Leverage has a positive effect on firm value.

The Effect of ESG Disclosure on Firm Value

ESG (environmental, social, and governance) disclosure has become an important factor influencing investors' assessments of firm value. Several studies have shown that sound ESG practices positively contribute to a company's financial performance and reputation. A meta-analysis by Friede et al. (2015) showed a positive relationship between ESG disclosure and a company's financial performance. Wong et al. (2021) further found that ESG certification is associated with higher firm value, as reflected in a significant increase in Tobin's Q among Malaysian firms. Broadstock et al. (2021) also showed that stronger ESG performance was associated with better market performance and lower financial risk during the COVID-19 crisis, suggesting that ESG information can function as a signal of resilience to investors. Abdi et al. (2022) further reported that ESG-related practices are associated with firm value and financial performance, with firm size influencing the strength of these relationships. Similarly,

Kusumawardhani et al. (2023) found that ESG-related factors are relevant in explaining the relationship between financial performance and firm value among Indonesian listed companies. Transparent disclosure of ESG practices can enhance a company's reputation in the market, attract socially responsible investors, and reduce operational, legal, and regulatory risks. Investors tend to be more attracted to companies committed to sustainability, as they are perceived as better prepared to face future environmental and social challenges. With increasing investor interest, demand for company shares also increases, thus driving up firm value.

Furthermore, research by Eccles et al. (2014) shows that companies with good ESG performance tend to have better long-term financial performance. Companies that implement ESG practices can improve operational efficiency through better resource management, reducing costs related to energy, waste, and water, and increasing customer and employee loyalty. With more efficient and sustainable management, companies not only reduce operational costs but also build a positive image, which can contribute to increased sales and profitability. Therefore, good ESG disclosure not only provides reputational benefits but also has a direct impact on increasing firm value. Based on this description, the third hypothesis in this study is:

H_3: ESG disclosure has a positive effect on firm value.

Research Framework

Based on the theoretical arguments and previous empirical findings, this study develops a research framework to examine the effects of profitability, leverage, and ESG disclosure on firm value. Profitability is measured by return on assets (ROA), leverage is measured by debt-to-equity ratio (DER), ESG disclosure is represented by the ESG score, and firm value is measured by price-to-book value (PBV). The proposed relationships are presented in figure 2.

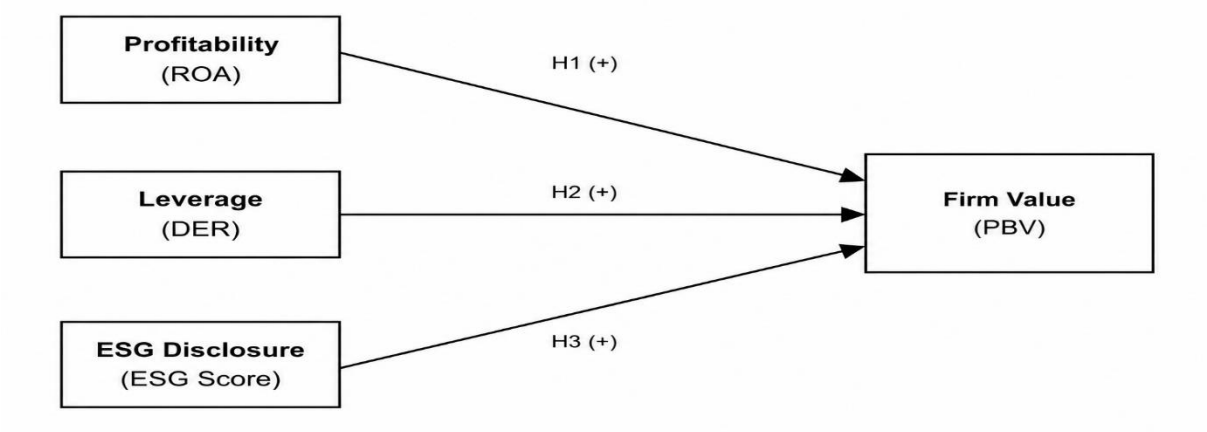


Figure 2. Research Framework

Source: Processed by the author (2025).

RESEARCH METHOD

Research Design

This study employed a quantitative research approach to examine the effects of profitability, leverage, and environmental, social, and governance (ESG) disclosure on firm value. Quantitative research was selected because it enables the analysis of relationships among variables using numerical data and statistical methods (Hardani et al., 2020). The study utilized secondary data obtained from the annual reports and financial statements of companies listed in the Indonesia ESG Leaders (ESGL) Index for the period 2020-2024.

Operational Definition of Variables

The variables used in this study consist of one dependent variable and three independent variables.

Dependent Variable

Firm value serves as the dependent variable and is measured using the price-to-book value (PBV) ratio. PBV reflects investors' perceptions of a company's market value relative to its book value and is widely used to measure firm value (Kasmir, 2018).

Independent Variables

The independent variables include profitability, leverage, and ESG disclosure. Profitability is measured using return on assets (ROA), leverage is measured using the debt-to-equity ratio (DER), and ESG disclosure is proxied by the ESG Tilt Factor derived from the ESG risk score. The ESG risk data used in the IDX ESG Leaders Index are provided by sustainalytics, while the IDX ESG Leaders methodology applies an ESG Tilt Factor based on the z-score of the ESG risk score. The ESG Tilt Factor is calculated to reflect the relative ESG position of each constituent within the index. A higher ESG tilt factor indicates a relatively better ESG position compared with other selected constituents.

Table 1. Operational Definition of Variables

Variable	Variable Definition	Measurement
Profitability	Profitability is an indicator that assesses the efficiency of a company's performance. Profitability ratios demonstrate the relationship between liquidity, asset management, and the impact of debt on business performance. This ratio is calculated using the equation between net profit and total assets (Kasmir, 2018).	$ROA = \frac{Net\ Income}{Total\ Asset}\ x\ 100\%$
Leverage	Leverage is a ratio that estimates the funds provided by creditors by using the equation between the amount of liabilities and the amount of equity (Kasmir, 2018).	$DER = \frac{Total\ Liabilities}{Total\ Equity}\ x\ 100\%$
Environmental, social, and governance disclosure	ESG Disclosure is a sustainability concept that assesses governance, social environment, and government. The ESG concept can be owned by companies listed on the IDX or not (Putri & Puspawati, 2023).	$ESG\ TF_i = \{ 1 + zi\ ,\ \}$ *if zi ≥ 0 1 1 − zi, if zi < 0*
Firm value	Firm Value is investor recognition of a company's success in relation to its share price. Firm value can be measured using the equation of share price and book value (Kasmir, 2018).	$PBV = \frac{Stock\ Price}{Book\ Per\ Value}$

Source: Processed data (2025).

Population and Sample

This study uses a purposive sampling technique, which selects companies listed on the Indonesia Stock Exchange (IDX) between 2020 and 2024. Purposive sampling is used to select samples based on objectives and criteria relevant to the research. The sample size for this study is:

1. Companies from the energy and raw materials sector listed on the Indonesia Stock Exchange (ESGL) index.
2. Companies that provide comprehensive financial statement data related to the research variables.
3. Companies that publish financial statements in Indonesian Rupiah for the period 2020 to 2024.

Table 2. Research Sample Selection

No.	Sample Criteria Details	Information
1	Companies listed in the energy and raw materials sector in the ESGL index for the period 2020-2024	24
2	ESG-indexed companies in the energy and raw materials sector did not provide complete financial reports during the study period.	(2)
3	Number of companies that meet the criteria	22
4.	Total research sample (5 years)	110

Source: Processed data (2025).

Data Analysis Technique

The data analysis technique used in this study is panel data regression, which combines cross-sectional and time-series data using double subscripts (i and t) (Sitorus & Yuliana, 2018). The analysis was performed using e-views 12 software. It began with descriptive statistical analysis to describe the characteristics of the research variables. Subsequently, the common effect model (CEM), fixed effect model (FEM), and random effect model (REM) were estimated. The chow test, hausman test, and lagrange multiplier (LM) test were then employed to determine the most appropriate panel data regression model. After selecting the best estimation model, multicollinearity and heteroscedasticity

tests were conducted to ensure the validity of the regression model. Finally, the selected model was evaluated using the coefficient of determination (adjusted R^2), f-test, and t-test to assess the explanatory power of the model and test the proposed hypotheses. Based on the research problem formulation and conceptual framework, the panel data regression model is specified as follows:

$PBVit = \alpha + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 ESG_{it} + e$…… (1)

Where:

PBV = Firm value
α = Constant
ROA = Profitability
DER = Leverage
ESG = Environmental, social, and governance disclosure
β = Regression coefficient of each independent variable
e = Error

FINDINGS AND DISCUSSION

Findings

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to provide an overview of the characteristics of the research variables, including profitability (ROA), leverage (DER), ESG disclosure (ESG Score), and firm value (PBV). The descriptive statistics consist of the minimum value, maximum value, mean, and standard deviation for each variable, as presented in table 3.

Table 3. Descriptive Statistics Results

Variable	Observation	Minimum	Maximum	Average	Std. Dev
ROA	110	0,00	3,83	0,16	0,68
DER	110	0,01	0,90	0,13	0,15
ESG	110	0,00	1,00	0,42	0,33
PBV	110	-456,00	9265,00	599,98	

Source: Processed data (2025).

Table 3 shows that profitability (ROA) has an average value of 0.16, indicating that the sample companies generated an average return of 16% on their total assets during the observation period. The leverage variable (DER) has an average value of 0.13, suggesting that most companies maintained relatively low debt levels. Meanwhile, the ESG disclosure variable has an average score of 0.42, indicating that the implementation of ESG practices among companies included in the ESGL Index remains moderate. Firm value, measured by PBV, has an average value of 599.98 with considerable variation, reflecting differences in market valuation among the sample companies.

Classical Assumption Test

Multicollinearity Test

To determine whether there is a strong or perfect correlation between the independent variables, a multicollinearity test is used. The following are the results of the multicollinearity test conducted using e-views 12 software:

Table 4. Multicollinearity Test Results

Variable	ROA	DER	ESG
ROA	1.000000	0.216523	-0.350212
DER	0.216523	1.000000	0.091620
ESG	-0.350212	0.091620	1.000000

Source: Processed data (2025).

Table 4 shows that the correlation value between the variables does not exceed 0.9, thus concluding that there is no multicollinearity between the variables in this study.

Heteroscedasticity Test

The heteroscedasticity test is useful for determining whether there is an inequality in variance between the residuals of one observation and another in the regression model. The results of the heteroscedasticity test conducted using e-views 12 software are as follows:

Table 5. Heteroscedasticity Test Results

F-statistic	1.913956	Prob. F (3,106)	0.1312
Obs*R-squared	5.710062	Prob. Chi-square (3)	0.1364
Scaled explained SS	6.891281	Prob. Chi-square (3)	0.0889

Source: Processed data (2025).

Table 5 shows the chi-square probability value for the R-squared observation row of 0.1364. This value is greater than 0.05, so it can be concluded that there is no heteroscedasticity in the regression model used in this study.

Fixed Effect Model

This is a panel data model that combines time series and cross-section data. The results of the fixed effects model are shown as follows:

Table 6. Fixed Effect Model Results

R Squared	0.888438
Adjusted R-squared	0.887667

Source: Processed data (2025).

Based on table 6, the fixed effects model in this study has an adjusted R-squared value of 0.887667, meaning that the research variables, namely profitability, leverage, and ESG disclosure, have an 88.7% influence on firm value, while the remaining 11.3% is influenced by other variables and factors.

F Test

The f test aims to test the feasibility of the model used. If the calculated t-value is greater than the t-table and the probability value is below 0.05, then the selected model is suitable for use. The following are the results of the f test:

Table 7. F Test Results

F-statistic	122.7836
Prob. (F-statistic)	0.000000

Source: Processed data (2025).

In table 7, the f-statistic value of 122.7836 is greater than the f-table value of 2.69. Therefore, the calculated f-statistic of 122.7836 > f-table value of 2.69, with a probability value of 0.000000, which is less than 0.05. It can be concluded that the selected model is suitable for use.

T-Test

To determine whether the independent variables have a partial effect on the dependent variable, a t-test is used. The probability values in the model equation for estimating the panel data model using the fixed effects model approach are as follows:

Table 8. T-Test Results

Variable	Coefficient	Std. Error	T-Statistic	Prob.
C	3.656119	0.957091	3.451773	0.0013
ROA	0.205412	0.052315	4.979835	0.0000
DER	1.802186	0.601884	2.523582	0.0127
ESG	-1.566107	4.221088	-0.320421	0.8216

Source: Processed data (2025).

The following are the results of the regression equation based on the panel data processing in the table above using the fixed effects model approach:

$PBVit = \alpha + \beta_1 ROA_{it} + \beta_2 DER_{it} + \beta_3 ESG_{it} + e$ …… (2)

$PBVit = 3.656119 + 0.205412\ ROA_{it} + 1{,}802186\ DER_{it} - 1.566107\ ESG_{it} + e$

The regression results indicate that profitability has a positive and significant effect on firm value, as indicated by a probability value of 0.0000, which is below the 0.05 significance level. This finding indicates that companies with higher profitability tend to receive higher market valuations because profitability signals the company's ability to utilize its assets efficiently and generate future economic benefits. Higher profitability may also provide greater financial flexibility to support business expansion, maintain dividend payments, and strengthen investor confidence. This finding is consistent with Santoso and Junaeni (2022) and Lukiman and Hapsari (2018), who reported a positive relationship between profitability and firm value. The result also supports signaling theory, in which strong financial performance provides positive information regarding a company's current condition and future

prospects. Therefore, even among companies included in an ESG-oriented index, conventional financial performance remains an important consideration in investors' valuation decisions.

Discussion

The results also reveal that leverage has a positive and significant effect on firm value, with a probability value of 0.0127, which is below the 0.05 significance level. This finding suggests that debt financing can enhance firm value when managed appropriately. Companies may benefit from tax advantages associated with debt while obtaining additional funds to finance business expansion and operational activities. Consequently, investors perceive well-managed leverage as an indicator of effective financial management. This result supports the findings of Rismayanti et al. (2021) and is consistent with trade-off theory, which argues that companies maximize firm value by maintaining an optimal capital structure that balances the benefits of debt financing against financial distress costs (Modigliani et al., 1963).

In contrast, ESG disclosure does not have a significant effect on firm value, as indicated by a probability value of 0.8216, which is substantially above the 0.05 significance level. This finding is consistent with Rachman et al. (2024), who found that ESG score did not have a significant effect on firm value among companies listed on the Indonesia Stock Exchange. This result differs from studies reporting a positive association between ESG disclosure and firm value. For example, Aydoğmuş et al. (2022) found that overall ESG performance has a positive and significant effect on firm value, although the effect varies across ESG dimensions. Yoo and Managi (2022) provide a possible explanation for these mixed findings by distinguishing between ESG disclosure and actual ESG actions. Their findings indicate that ESG disclosure is more relevant to profitability, whereas actual ESG actions are more strongly associated with market-based measures such as Tobin's Q. Similarly, Cheng et al. (2024) found that ESG-related information significantly increases firm value, although the effects vary across ESG dimensions. Recent evidence from Indonesian energy-sector companies has also found that ESG disclosure can positively affect firm value, although other studies have reported insignificant effects. The difference may arise from variations in sample composition, ESG measurement, observation period, and the characteristics of the companies examined. The present study focuses specifically on companies included in the ESGL Index, meaning that the sampled firms have already been selected based on ESG-related criteria. Consequently, the variation in ESG information among the sampled companies may be relatively limited, reducing the incremental information value of ESG disclosure for investors. In addition, investors may perceive ESG practices as increasingly expected rather than as a differentiating factor among companies that are already classified as ESG leaders. This condition may explain why ESG disclosure does not generate a statistically significant additional effect on firm value in this study.

From a theoretical perspective, this study contributes to the literature by demonstrating that the relevance of financial and ESG information to firm value may depend on the characteristics of the firms and the institutional context in which they operate. The positive effects of profitability and leverage provide support for signaling theory and trade-off theory, respectively, indicating that investors continue to respond to information regarding financial performance and the benefits of appropriately managed debt financing. Meanwhile, the insignificant effect of ESG disclosure provides a more nuanced perspective on stakeholder theory by suggesting that ESG disclosure does not automatically translate into higher market valuation when companies are already positioned within an ESG-oriented index. Thus, the findings indicate that stakeholder-oriented information may have different valuation consequences depending on the degree of differentiation and information relevance perceived by investors.

Overall, this study provides additional empirical evidence that financial performance remains the primary determinant of firm value among companies included in Indonesia's ESGL Index. Although ESG disclosure has become increasingly important in promoting sustainable business practices, its influence on firm value has not yet been fully reflected in investors' valuation decisions within the energy and raw materials sectors. Therefore, this study contributes to the literature by demonstrating that sustainability initiatives should be accompanied by strong financial performance to maximize firm value.

The novelty of this study lies in its specific focus on companies included in the Indonesia ESG Leaders (ESGL) Index within the energy and raw materials sectors. These sectors represent environmentally sensitive industries in which corporate activities are closely associated with environmental and social

risks. By examining companies that have already been selected as ESG-oriented firms, this study provides a more specific perspective on whether ESG disclosure offers additional explanatory value for firm value beyond conventional financial indicators. The findings therefore extend the discussion of ESG and firm value by showing that ESG disclosure may not necessarily become a significant differentiating factor among companies that are already positioned within an ESG-oriented index.

The findings also provide theoretical implications for understanding the relationship between financial information, ESG disclosure, and firm value. The positive effect of profitability supports Signaling Theory, as stronger profitability provides investors with favorable information regarding the company's financial condition and future prospects. The positive effect of leverage is consistent with Trade-off Theory, suggesting that debt financing can increase firm value when the benefits of debt financing outweigh the associated financial distress risks. Meanwhile, the insignificant effect of ESG disclosure provides a qualification to Stakeholder Theory by indicating that ESG information does not automatically result in higher firm value. In the context of ESG-oriented companies, ESG disclosure may provide limited incremental information when investors perceive sustainability practices as relatively similar across firms.

CONCLUSION

This study examined the effects of profitability, leverage, and environmental, social, and governance (ESG) disclosure on firm value among companies included in Indonesia's ESG Leaders (ESGL) Index in the energy and raw materials sectors during the 2020-2024 period. The findings indicate that profitability and leverage have a positive and significant effect on firm value, suggesting that investors continue to place considerable emphasis on companies' financial performance when making investment decisions. In contrast, ESG disclosure does not have a significant effect on firm value, indicating that sustainability disclosure alone has not yet become a primary consideration for investors in these sectors. The findings contribute to the existing literature by providing empirical evidence that financial performance remains the dominant determinant of firm value among companies included in the ESGL Index. The novelty of this study lies in its simultaneous examination of profitability, leverage, and ESG disclosure within the energy and raw materials sectors, which represent environmentally sensitive industries that have received relatively limited attention in previous studies focusing on Indonesia's ESGL Index. From a practical perspective, the findings suggest that corporate managers should not only strengthen sustainability initiatives through ESG disclosure but also maintain strong financial performance to enhance firm value. Investors may use the findings as additional information when evaluating investment opportunities, while regulators may encourage more consistent and transparent ESG implementation to improve the effectiveness of sustainability reporting in Indonesia's capital market. This study has several limitations. First, the sample was limited to companies included in the Indonesia ESG Leaders (ESGL) Index within the energy and raw materials sectors during the 2020-2024 period. Second, the study only examined three independent variables, namely profitability, leverage, and ESG disclosure, while other factors that may influence firm value were not included in the analysis. Future studies are recommended to expand the observation period, include companies from other industrial sectors or ESG indices, and incorporate additional variables such as corporate governance, ownership structure, firm size, or corporate social responsibility to provide a more comprehensive understanding of the determinants of firm value.

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