JURNAL ILMIAH MAHASISWA EKONOMI, BISNIS DAN MANAJEMEN
Vol. 1 No. 1 Tahun 2025 | 78-92
ISSN 2621-4407

MEDIATING ROLE OF FINANCIAL PERFORMANCE IN THE ESG AND VALUE RELATIONSHIP

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Abstract: *This research aims to examine the influence of ESG performance on firm value, with financial performance as a mediating variable. In this study, the independent variable used is ESG performance, the dependent variable used is firm value proxied by Tobins`q, and the mediating variable used is financial performance wich a profitability ratios (ROA and ROE). This research employed a sample of 49 companies included in the IDX ESG Leaders Index during the 2020-2023 period. This study employed panel data regression analysis to examine the connection between variables and the mediating effect and Sobel test to strengthen the mediating effect assess the mediating variable. The findings obtained from this study are ESG performance has no effects on firm value, ESG performance has no effects on ROA, ROA affects firm value, ESG performance has no effects on ROE, ROE affects firm value, and financial performance cannot mediate the correlation between ESG performance and firm value.*

Keywords: ESG Performance; Financial Performance; Firm Value.

Abstrak: Penelitian ini bertujuan untuk menguji pengaruh kinerja ESG terhadap nilai perusahaan, dengan kinerja keuangan sebagai variabel mediasi. Dalam penelitian ini, variabel independen yang digunakan adalah kinerja ESG, variabel dependen yang digunakan adalah nilai perusahaan yang diproksikan dengan Tobins`q, dan variabel mediasi yang digunakan adalah kinerja keuangan yang berupa rasio profitabilitas (ROA dan ROE). Penelitian ini menggunakan sampel sebanyak 49 perusahaan yang termasuk dalam IDX ESG Leaders Index selama periode 2020-2023. Penelitian ini menggunakan analisis regresi data panel untuk menguji hubungan antar variabel dan efek mediasi serta uji Sobel untuk memperkuat efek mediasi menilai variabel mediasi. Temuan yang diperoleh dari penelitian ini adalah kinerja ESG tidak berpengaruh terhadap nilai perusahaan, kinerja ESG tidak berpengaruh terhadap ROA, ROA berpengaruh terhadap nilai perusahaan, kinerja ESG tidak berpengaruh terhadap ROE, ROE berpengaruh terhadap nilai perusahaan, dan kinerja keuangan tidak dapat memediasi korelasi antara kinerja ESG dan nilai perusahaan.

***Kata Kunci**: Kinerja ESG; Kinerja Keuangan; Nilai Perusahaan.*

INTRODUCTION

Regulation set by the Financial Services Authority No. 51/POJK. 03/2017, which oversee the execution of sustainable finance for financial service providers, issuers, and publicly traded companies, were released by the Financial Services Authority in its role as a regulator. As specified in Article 10 of these regulations, financial service providers, issuers, and public companies must create sustainability reports, starting from 2019. Sustainability reports have become an important component for companies, as they should be capable of clarifying the company's results and effects on those involved (Hidayat, 2023).

Sustainability-based reporting and an integrated reporting framework known as Environmental, Social and Governance (ESG) aims to expand the scope of corporate reporting by including non-financial factors and mostly voluntary information (Igbinovia & Agbadua, 2023). ESG performance is increasingly being used these days to help companies meet ever-increasing environmental and social responsibility standards (Bifulco et al., 2023).

This is because ESG is seen as a means to improve financial performance and firm value. Where, companies that strictly follow ESG rules, in particular, typically have lower failure rates, lower stakeholder disputes and lower risk of default. (Wu et al., 2022). Thus, when a firm discloses ESG (environmental, social, and governance) aspects, it is able to make a positive contribution to increasing the firm value, especially from the stakeholders perspective (Xaviera & Rahman, 2023).

To promote sustainable investing, the Indonesia Stock Exchange (IDX) introduced a new index called IDX ESG Leaders in 2020, which is caused by increasing ESG awareness among issuers and investors in the capital market (OJK, 2021). It is an index that evaluates the performance of equity prices recognized as leaders in ESG rankings, in the absence of substantial disputes, selected from those that demonstrate high trading liquidity and strong financial performance. Where the ESG assessment is carried out by the Sustainalytics assessment body (IDXESGL, 2021).

Previous empirical findings on the correlation between ESG performance and firm value has shown an inconsistent relationship. Based on previous study conducted by Zhou et al (2022), Aydoğmuş et al (2022), Rahelliamelinda & Handoko (2024), and Delvina & Hidayah (2023) showed that there is an influence of the correlation between ESG performance and firm value, this indicates ESG performance can increase firm value. Study conducted by Igbinovia & Agbadua (2023), Putra & Budastra (2024) and Xaviera & Rahman (2023) shows results that are contrary to some previous studies, where the findings of the study show that there ESG performance has no effect on firm value.

Previous research has found mixed results between ESG performance and firm value. In practice, various indirect variables can have an impact on the correlation. This means that other variables can mediate the connection between ESG and firm value. Therefore, in this research, financial performance is a variable that acts as an intermediary in the correlation between ESG performance and firm value.

According to Putra & Budastra (2024), Financial performance serves as a mediator that plays a crucial part in executing ESG to enhance firm value. This is because financial performance can be a translator of how ESG practices can contribute to increasing firm value, where companies with a good ESG score will establish better relationships with customers and ultimately increase profitability.

Based on this background, this research is important to conduct because there are still inconsistent findings in previous studies regarding the effect of ESG performance on firm value. The main difference of this study compared to previous studies lies in the use

of ROA and ROE indicators to measure financial performance as a mediating variable, as well as the application of the Sobel test to strengthen empirical evidence regarding the mediating role of financial performance in the correlation between ESG performance and firm value. This study also focus on companies incorporated in the IDX ESG Leaders index.

Therefore, this study aims to exmine the effect of ESG performance on firm value with financial performance as a mediating variable. Financial performance is proxied using profitability indicators, namely Return on Assets (ROA) and Return on Equity (ROE). This study also includes control variables such as firm size, leverage, TAT, firm age, and GDP per capita.

RESEARCH METHODS

Sample selection and data sources

This research utilises a quantitative approach through a panel data model, relying on secondary data that includes annual financial statements and ESG scores of corporations. This research uses data sourced from the Indonesia Stock Exchange and economic data accessed through the official portal of the World Bank Group. The panel data utilised in this study are unbalanced, as not all companies possess a same number of observations during the study period. The population of this research are firms that are featured as ESG Leaders on the IDX. The samples obtained in this study used the purposive sampling technique. The criteria for sample selection in this study are:

1. Companies listed in IDX ESG Leaders for the period 2020 – 2023.
2. Companies in IDX ESG Leaders that have complete financial data during the research period.

A total of 49 companies that fulfilled the criteria were selected as the sample for this study. The applied analytical technique is panel data analysis, incorporating the mediating effects and the Sobel test to examine the impact of the mediating variable. The regression model used in this study is:

Model I

$$TBQ_{it} = \alpha_0 + \beta_1 ESG_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 TAT_{it} + \beta_5 FA_{it} + \beta_6 GDP_{it} + \varepsilon_{1it}$$

Model II

$$ROA_{it} = \alpha_0 + \beta_1 ESG_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 TAT_{it} + \beta_5 FA_{it} + \beta_6 GDP_{it} + \varepsilon_{1it}$$

Model III

$$TBQ_{it} = \alpha_0 + \beta_1 ESG_{it} + + \beta_2 ROA_{it} + \beta_3 Size_{it} + \beta_4 Lev_{it} + \beta_5 TAT_{it} + \beta_6 FA_{it} + \beta_7 GDP_{it} + \beta_8 GDP_{it} + \varepsilon_{3it}$$

Model IV

$$ROE_{it} = \alpha_0 + \beta_1 ESG_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 TAT_{it} + \beta_5 FA_{it} + \beta_6 GDP_{it} + \varepsilon_{4it}$$

Model V

$$TBQ_{it} = \alpha_0 + \beta_1 ESG_{it} + + \beta_2 ROE_{it} + \beta_3 Size_{it} + \beta_4 Lev_{it} + \beta_5 TAT_{it} + \beta_6 FA_{it} + \beta_7 GDP_{it} + \beta_8 GDP_{it} + \varepsilon_{5it}$$

Where:
TBQ_{it} : The firm value in the company (i) in period (t).
ROAit : Return on Asset in the company (i) in period (t).
ROE_{it} : Return on Equity in the company (i) in period (t).
ESG_{it} : ESG performance in the company (i) in period (t).
$Size_{it}$: Firm size in the company (i) in period (t).
Lev_{it} : Leverage in the company (i) in period (t).
TAT_{it} : Total asset turnover in the company (i) in period (t).
FA_{it} : Firm age in the company (i) in period (t).
GDP_{it} : GDP per capita in the company (i) in period (t)
α_0 : Constant.
$\beta_1 - \beta_8$: Regression coefficient.
ε_{it} : Error term in the company (i) period (t)

Variable Operational Definition
Dependent Variables: Firm Value

This research uses the value of companies proxied with Tobin's q. According to Wibowo et al (2021), Tobin's Q is a metric used as a tool to examine a company's performance, especially regarding its valuation and asset management. The formula used in measuring Tobin's Q is:

$$\text{Tobins`q} = \frac{Market\ Value\ of\ Equity + Total\ Debt}{Total\ Assets}$$

Independent Variables: ESG Performance

To evaluate ESG performance, this research utilizes ESG score ratings sourced from the Indonesia Stock Exchange's official site. For the ESG evaluation, the Indonesia Stock Exchange partners with Morningstar Sustainalytics, in which case Morningstar Sustainalytics is an institution that assesses ESG scores while the IDX only displays the findings of assessments that have been carried out by Sustainalytics. The evaluation of ESG scores is categorized into five distinct groups, namely negligible with a risk score of 0-10, low with a risk score of 10-20, medium with a risk score of 20-30, high with a risk score of 30-40, and the last severe with a risk score of > 40.

Mediating Variables
ROA (Return on Asset)

ROA is defined as a firm's ability to utilize its assets to generate profits (Ramdhonah et al., 2019). Ross et al (2020) formulated ROA (Return on Asset) by dividing net income or earning after tax by total assets or can be formulated as follows:

$$\text{ROA} = \frac{Net\ Income}{Total\ Assets}$$

ROE (Return on Equity)

ROE is a financial metric that indicates the earnings generated for shareholders over a period of one year. The formula used in Return on Equity (ROE) is to divide net income or earning after tax by total equity or can be formulated as follows (Ross et al., 2020):

$$\text{ROE} = \frac{Net\ Income}{Total\ Equity}$$

Control Variables

Firm Size

Firm size can be measured by various metrics such as revenue, stock market value, number of employees, total capital, and total assets (Nurwulandari & Wibowo, 2021). The size of the company is formulated with:

Size = ln(total asset)

Leverage

This study uses the Debt to asset ratio used to calculate Leverage. DAR is a measure used to assess the correlation between debt and assets (Yustrianthe & Mahmudah, 2021). The formula used to calculate DAR:

$$\text{DAR} = \frac{Total\ Debt}{Total\ Assets}$$

TAT (Total Asset Turnover)

TAT is a financial ratio used to measure a company's efficiency (Ross et al., 2020). The formula used to calculate the TAT:

$$\text{TAT} = \frac{Sales}{Total\ Assets}$$

Firm Age

Murti et al (2024) assert that age is a significant determinant in business operations as it can influence firm valuation. The formula used to calculate FA:

FA = Research Year - Year of the Company Listed on the IDX.

GDP Per Capita

GDP per capita is a macroeconomic factor defined as a financial measurement that shows an estimate of economic output that can be attributed to the community by functioning as a measure of a country's wealth (Saaba & Yunita, 2022). In this study, the data obtained to measure the level of GDP per capita is using GDP per capita growth (annual %) obtained from the official website of the World Bank Group.

RESULTS AND DISCUSSION

Descriptive statistic

Table 1 Descriptive Statistic

	Mean	Max	Min	Std. Dev.
ESG	22.41	29.74	11.31	4.90
TBQ	1.90	14.42	0.34	2.02
ROA	0.05	0.35	-1.67	0.17
ROE	0.16	2.38	-2.53	0.41
Size	31.43	35.32	28.44	1.70
Leve	0.51	0.90	0.00	0.25
TAT	0.64	4.47	0.04	0.76
FA	18.90	41.00	1.00	9.42
GDP	0.02	0.05	-0.03	0.03

Source of data processing: Eviews 12

According to the findings from the descriptive statistical analysis presented in Table 1, it is evident that the dependent variable (Tobins' q) has an mean value of 1. 90, with the maximum value being 14.42 and the minimum value at 0.34, with a std. deviation of 2.02. The independent variable (ESG performance) shows an mean of 22.41, with its

maximum value reaching 29.74 and its minimum at 11.31, while the std. deviation for this variable is 4.90. The initial mediating variable is ROA, which has a mean of 0.05, a maximum of 0.35, a minimum of -1.67, and with a std. deviation of 0.17. The subsequent mediating variable is ROE, exhibiting a mean of 0.16, a maximum of 2.38, a minimum of -2.53, and with a std. deviation of 0.41.

Firm size is considered a control variable within this analysis. The data indicates that the mean firm size is 31.43, with a maximum of 35.32 and a minimum of 28.44, with a std. deviation of 1.70. The leverage variable served as a control variable in this study. The table indicates an average leverage value of 0.51, a maximum of 0.90, a minimum of 0.00, and with a std. deviation of 0.25.

Additionally, the TAT has a mean value of 0.64, a maximum value of 4.47, and a minimum value of 0.04, with a std. deviation of 0.768585. firm age is the subsequent control variable, with a mean value of 18.90, a maximum value of 41.00, a minimum value of 1.00, and with a std. deviation of 9.42. The final control variable included in this study was GDP per capita. The data in the table indicates that the mean value of GDP is 0.02, with a maximum value of 0.05 and a minimum value of -0.03, and with a std. deviation value of 0.03.

Correlation analysis

Ghozali & Ratmono (2017), define the multicollinearity test as an assessment of the substantial correlation among the independent variables in the regression model. This study employs a criterion to mitigate the risk of multicollinearity, stipulating that the correlation coefficient between independent variables must remain below 0.80. Exceeding this correlation threshold may signify a multicollinearity issue inside the regression model. Below are the findings of the correlation analysis in this study:

Table 2 Correlation Analysis of the Correlation Between ESG Performance and Firm Value with ROA As a Mediating Variable

	ESG	ROE	Size	Lev	TAT	FA	GDP
ESG	1						
ROE	-0.08	1					
Size	0.44	-0.17	1				
Leve	0.20	0.02	0.48	1			
TAT	-0.44	0.25	-0.41	0.03	1		
FA	0.22	0.27	0.21	0.25	0.11	1	
GDP	0.15	-0.03	0.02	-0.00	0.03	-0.01	1

Source of data processing: Eviews 12

According to Table 2, the regression model that analyze the influence of ESG performance and firm value with ROA as a mediating variable has a correlation coefficient value of less than 0.80. These findings demonstrate that this regression model does not have a multicollinearity issue.

Table 3 Correlation Analysis of the Correlation Between ESG Performance and Firm Value with ROE As a Mediating Variable

	ESG	ROE	Size	Lev	TAT	FA	GDP
ESG	1						
ROE	-0.10	1					
Size	0.44	-0.13	1				
Leve	0.20	0.26	0.48	1			
TAT	-0.44	0.31	-0.41	0.03	1		
FA	0.22	0.42	0.21	0.25	0.11	1	
GDP	-0.15	0.03	0.02	-0.00	0.03	-0.01	1

Source of data processing: Eviews 12

The regression model's correlation coefficient value is less than 0.80 for the correlation between ESG performance and firm value, with ROE serving as a mediating

variable as shown in Table 3. These findings demonstrate that this regression model does not have a multicollinearity issue.

The findings of the regression analysis of the correlation between ESG performance and firm value with financial performance as a mediating variable.

Table 4 Regression Result of the correlation Between ESG Performance and Firm Value with ROA As a Mediating Variable

Variable	Model 1 TBQ	Model 2 ROA	Model 3 TBQ
c	5.457 (5.613) [0.333]	0.534 (0.354) [0.134]	-20.790 (18.946) [0.277]
ESG	-0.010 (0.039) [0.810]	-0.000 (0.004) [0.935]	-0.057 (0.045) [0.210]
ROA	-	-	14.892 (2.841) [0.000]***
Size	-0.137 (0.187) [0.466]	-0.019 (0.012) [0.111]	0.822 (0.631) [0.198]
Lev	0.677 (0.997) [0.498]	0.023 (0.074) [0.751]	2.500 (1.491) [0.099]*
TAT	0.734 (0.354) [0.041]**	0.029 (0.024) [0.225]	-0.403 (0.533) [0.452]
FA	0.015 (0.026) [0.555]	0.005 (0.002) [0.003]***	-0.184 (0.126) [0.150]
GDP	-8.105 (2.700) [0.003]***	-0.150 (0.511) [0.769]	-5.572 (3.965) [0.165]
R-squared	0.141	0.146	0.954
Adjusted R-squared	0.096	0.101	0.915
S.E. of regression	0.693	0.165	0.590
F-statistic	3.097	3.225	24.252
Prob (F-statistic)	0.008	0.006	0.000
Regression Model	REM	CEM	FEM

Note: The value in () is Std. Error and [] is a probability value (* significant at a significance level of 10%, ** significant at a significance level of 5%, and *** significant at a significance level of 1%). Source of data processing: Eviews 12

The effect of ESG performance on firm value

Based on the findings of the regression analysis on the correlation between ESG performance on firm value and ROA as a mediating variable on the Table 4. the initial model demonstrates the impact of ESG performance on business value it has a prob value of 0.810 > 0.10, which means that ESG performance has no effect the firm value. Thus the H_1 that ESG performance effects firm value is rejected. The findings of this study are suspected to be because ESG is still seen as a cost (company expense). Companies that invest in it are considered not to use the funds for more productive purposes, thus adversely effectsing the company's wealth and shareholder returns. Consequently, ESG does not substantially enhance the company's market position, nor does it effects the company's worth. (Xaviera & Rahman, 2023).

The findings of this research align with the studies of Junius et al (2020), Igbinovia & Agbadua (2023), Xaviera & Rahman (2023), and Putra & Budastra, (2024) which showed that there was no effects between ESG performance and firm value. However,

this study is inversely proportional to the findings of Aydoğmuş et al (2022) which show that there is an effects between ESG performance and firm value.

The effect of ESG performance on firm value

In the second model in Table 2, ESG performance also does not influence ROE, because it has a prob value. by 0.935 > 0.10. Thus the H_2 that ESG performance effects ROA is rejected. These findings suggest that even if companies disclose their sustainability activities, they are not directly associated with the profitability of assets under management. This is due to the public view that sustainability does not directly increase a company's value or influence consumers' purchasing decisions for services or products (Junius et al., 2020).

The findings of this research align with the studies of Junius et al (2020) and Shobhwani & Lodha (2023) which indicated that there is has no effect between ESG performance and ROA. Nevertheless, the outcomes of this research are inversely correlated with the findings of Aydoğmuş et al (2022) which show that there is an effects between ESG performance and ROA.

The effect of ROA on firm value

The third model examines the concurrent impact of ESG and ROA performance on firm value. According to the test results presented in Table 4, ESG performance effects firm value, however ROA does effects on firm value with the value of prob. 0.000 < 0.10. Thus the H_3 which states that ROA effects the firm value is accepted. The findings of this finding show that increasing Return on Asset (ROA) will significantly increase the return on investment so that shareholder confidence in continuing their investment can increase. (Kristi & Yanto, 2020). The findings of this research align with the studies of Asni & Agustia (2022) and Hasanah et al (2023) which indicated that there is effects between ROA and firm value. Nevertheless, the outcomes of this study are inversely correlated with the findings of Putra & Sunarto (2021) which show that there is has no effect between ROA and firm value.

The findings shown in Table 4 indicate that ROA does not act as an intermediary in the correlation between ESG performance and firm value, as ESG does not impact either firm value or ROA, only ROA influences firm value. The findings indicate that ESG performance directly has no effects firm value, and ROA cannot be a mediator in this relationship.

Table 5 Regression Result of the Correlation Between ESG Performance and Firm Value with ROE As a Mediating Variable

Variable	Model 1 TBQ	Model 4 ROE	Model 5 TBQ
c	5.457 (5.613) [0.333]	1.843 (1.084) [0.092]	3.700 (5.284) [0.485]
ESG	-0.010 (0.039) [0.810]	0.004 (0.008) [0.575]	-0.013 (0.037) [0.728]
ROE	-	-	1.011 (0.430) [0.020]**
Size	-0.137 (0.187) [0.466]	-0.076 (0.036) [0.038]**	-0.064 (0.177) [0.719]
Lev	0.677	0.351	0.283

Variable	Model 1 TBQ	Model 4 ROE	Model 5 TBQ
	(0.997)	(0.193)	(0.952)
	[0.498]	[0.071]*	[0.767]
	0.734	0.096	0.640
TAT	(0.354)	(0.068)	(0.337)
	[0.041]**	[0.163]	[0.060]*
	0.015	0.018	-0.001
FA	(0.026)	(0.005)	(0.025)
	[0.555]	[0.001]***	[0.957]
	-8.105	0.219	-8.256
GDP	(2.700)	(0.521)	(2.618)
	[0.003]***	[0.675]	[0.002]***
R-squared	0.141	0.180	0.180
Adjusted R-squared	0.096	0.136	0.129
S.E. of regression	0.693	0.146	0.694
F-statistic	3.097	4.128	3.516
Prob (F-statistic)	0.008	0.001	0.002
Regression Model	REM	REM	REM

Note: The value in () is Std. Error and [] is a probability value (* significant at a significance level of 10%, ** significant at a significance level of 5%, and *** significant at a significance level of 1%). Source of data processing: Eviews 12

The effect of ESG performance on ROE

Table 5 is utilised to evaluate the impact of ESG performance on firm value, with ROE serving as a mediating variable. The fourth model assesses the influence of ESG performance on ROE. Findings from the statistical analysis reveal a significant probability value indicating an association between ESG performance and ROE. The value of 0.575 > 0.10, indicates that there has no effect between ESG performance and ROE. Thus the H_4 which states that ESG performance effects ROE is rejected. The findings of this research align with prior findings about the impact of ESG performance on ROA, suggesting that companies with extensive sustainability information do not exhibit superior financial success compared to those with little sustainability information (Atan et al., 2018). This indicates that the accessibility and transparency of sustainability information have not markedly distinguished a company's financial performance.

The findings of this research align with the studies of Atan et al (2018), Junius et al (2020) and Shahrun et al (2023) which stated that there has no effects between ESG performance and ROE. Nevertheless, the outcomes of this study are inversely correlated with the findings of Alareeni & Hamdan (2020), which show that there is an effects between ESG performance and ROE.

The effect of ROE on firm value

The fifth model on the Table 5, simultaneously examines the correlation between ESG performance and ROE to firm value. In this model, it was found that ESG performance has no effects on firm value and only ROE has effects on firm value, this is evidenced by the value of prob. ROE on firm value is 0.020 < 0.10 thus the H_5 which states that ROE effects the firm value is accepted. According to the findings, a higher ROE demonstrates that the management of the company is capable of making efficient use of its capital. ROE evaluates the ratio of net income to equity of common stock. A higher ROE signifies a greater rate of return on investment, while a lower ROE indicates a lower rate of return. Therefore, a higher ROE value can provide a good signal to investors (Virolita & Yuliana, 2020).

The findings of this research align with the studies of Virolita & Yuliana (2020), Listyawati & Kristiana (2021), and Asni & Agustia (2022) which which confirms the effects of ROE on firm value. However, the findings of this study are inversely proportional to the result of Wulandari et al (2021) which show that there has no effect

between ROE and firm value. These results indicate that, similar to ROA, ROE does not mediate the correlation between ESG performance and company value. This is due to the fact that ESG does not impact firm value or ROE, but only ROE effects firm value.

Sobel Test Results

In this study, the Sobel test was used to strengthen the analysis with a mediating effect. The Sobel test tests whether the mediator significantly reduces the influence of independent variables on dependent variables, with significant test statistics supporting total or partial mediating (Abu Bader & Jones, 2021). The formula used for the sobel test in this study is:

$$Z = \frac{a \times b}{\sqrt{b^2 \times S_a^2 + a^2 \times S_b^2}}$$

Where,

Z : Z Value

a :The regression coefficient of the influence of independent variables on the mediating variable.

b : The regression coefficient of the effect of the mediating variable on the dependent variable.

S_a : Standard Error a.

S_b : Standard Error b

Based on the calculation of the Sobel test, it was obtained:

Table 6 Sobel Test Result

	Z	t-table	Sig.
ESG → ROA → FV	-0.082	2.013	5%
ESG → ROE → FV	0.547	2.013	5%

Source of data processing by researchers

According to Table 6, the Sobel test results indicate that the Z value of -0.082 for the impact of ESG performance on firm value, with ROA as a mediating variable, is less than the t-table value of 2.013 at a 5% significant level. This indicates that ROA cannot serve as a mediator in the correlation between ESG performance on firm value. The impact of ESG performance on firm value, with ROE serving as a mediating variable, yields a Z value of 0.547, which is less than the t-table value of 2.013 at a 5% significant level. These findings reveal that ROE fails to act as a mediator in the correlation between ESG performance on firm value.

The Sobel test results corroborate the regression analysis findings, demonstrating that ROA and ROE does not mediate the correlation between ESG performance and firm value. In summary, ESG performance does directly not effects company value, nor does financial performance serve as a mediating component in this relationship. So it rejected H_6, which stated that financial performance can mediate the correlation between ESG performance on firm value.

Financial performance measured using profitability ratios (ROA and ROE) is unable to mediate the correlation between ESG performance and firm value can be caused because ESG performance has not directly increased the company's profitability, this is because ESG is sometimes considered an additional expense that can burden the company's finances, thus harming shareholders' wealth in the short term. The findings of this research align with the studies of Zhou et al (2022) which stated that financial performance with profitability ratio cannot mediate the correlation between ESG performance and firm value. Nevertheless, the outcomes of this research are inversely correlated with the findings of Putra & Budastra (2024) which show that financial performance with profitability ratio can mediate the correlation between ESG performance and firm value.

CONCLUSION

Based on the hypothesis tests carried out by the researcher, it is possible to conclude that the impact of ESG performance has no effect firm value, ESG performance has no effect ROA, ROA effects firm value, ESG performance has no effect ROE, ROE effects firm value, and directly ESG performance has no effect firm value and financial performance ROA and ROE cannot mediate that relationship. The researcher realize that this study still has limitations. Therefore, for future research, the researchers suggest using another proxy for firm value, expanding the population and research sample not only to companies listed on the IDX ESG Leaders, extending the research period, and also using another proxy for mediating variable.

DAFTAR PUSTAKA

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