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THE INFLUENCE OF ENVIRONMENTAL SOCIAL GOVERNANCE (ESG) ON COMPANY VALUE WITH FINANCIAL PERFORMANCE AS A MEDIATION VARIABLE

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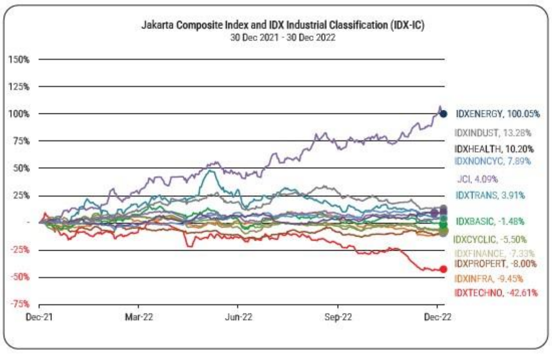
Abstrak: Penelitian ini dilakukan untuk menganalisis hubungan antara ESG terhadap nilai perusahaan dengan peran variabel kinerja keuangan sebagai mediasi di antara keduanya. Sampel pada penelitian ini merupakan sektor perusahaan energi yang terdaftar di Bursa Efek Indonesia (BEI). Dengan implementasi penerapan ESG yang baik, suatu perusahaan dapat meningkatkan kualitas, kredibilitas serta kepercayaan publik. Meningkatnya daya tari perusahaan juga menarik lebih banyak investor untuk berinvestasi, dengan begitu suatu perusahaan juga dapat meningkatkan kinerja keuangannya. Dengan demikian, kinerja keuangan yang baik menunjukkan praktik ESG yang efektif, sehingga hal ini dapat meningkatkan nilai perusahaan bagi investor. Sampel penelitian ini ialah perusahaan yang terdaftar di bursa efek Indonesia pada sektor energi yang terdiri dari 42 perusahaan dengan periode 2 tahun mulai dari 2021 hingga 2022. Alat statistik yang digunakan ialah program e-views 12 dengan pendekatan kuantitatif melalui metode yang digunakan untuk analisis regresi mediasi berganda. Diketahui bahwasanya penelitian menunjukkan bahwa ESG memengaruhi nilai perusahaan dan kinerja keuangan perusahaan. Akan tetapi, kinerja keuangan tidak mampu secara langsung meningkatkan nilai perusahaan, hal ini dibuktikan dengan variabel kinerja keuangan yang diproksi dengan ROA menunjukkan angka yang kurang optimal sehingga tidak mampu memediasi hubungan antara ESG dengan nilai perusahaan. Penelitian ini mendukung pengembangan penerapan praktik ESG pada perusahaan energi guna meningkatkan kredibilitas perusahaan yang lebih baik serta menarik lebih banyak investor kedepannya.
Kata kunci: Environmental Social Governance (ESG), Nilai Perusahaan, Kinerja Keuangan

Abstract: *This research was conducted to analyze the relationship between ESG and company value and the role of financial performance variables as mediation between the two. The sample in this research is the energy company sector listed on the Indonesia Stock Exchange (BEI). By implementing good ESG, a company can improve quality,*

credibility and public trust. Increasing a company's attractiveness also attracts more investors to invest, so that a company can also improve its financial performance. Thus, good financial performance indicates effective ESG practices, so this can increase the company's value for investors. The sample for this research is companies listed on the Indonesian stock exchange in the energy sector consisting of 42 companies with a 2 year period from 2021 to 2022. The statistical tool used is the e-views 12 program with a quantitative approach through the method used for mediation regression analysis multiple. It is known that research shows that ESG influences company value and company financial performance. However, financial performance is not able to directly increase company value, this is proven by the financial performance variable which is proxied by ROA showing less than optimal figures so that it is unable to mediate the relationship between ESG and company value. This research supports the development of the application of ESG practices in energy companies in order to improve the company's credibility and attract more investors in the future.
Keywords: Environmental Social Governance (ESG), Company Value, Financial Performance.

INTRODUCTION

The improvement in a country's economic landscape is proof of the success of a country's economic development by measuring the influence of economic activity on people's welfare. One sector that plays an essential role in society is the energy sector, as evidenced by the daily activities of humans, which always come into contact with energy, both renewable and non-renewable energy. The availability of sustainable energy is an essential factor in supporting economic growth in a country because when a country's energy supply runs out, the wheels of that country's economy will stop and fall in a short time.



Picture 1. Industrial Sector Index 2021-2022
Source: Jakarta Composite and IDX Industrial Classification data, 2023

Referring to the image above, indicated that in the last two years the energy sector has experienced growth and is one of the sectors that has experienced an increase amidst a decline in other sectors. This shows that energy sector companies are rated well among different sectors in the Jakarta Composite and IDX Industrial Classification (IDX, 2023). With good or wrong information about the company, this can influence investor sentiment, which plays a role in determining the company's valuation. In line with technological developments, public awareness of the accountability and transparency of company information is increasing. In this era, companies are required to disclose more comprehensive information by also considering non-financial information, such as corporate social responsibility and environmental practices (Melinda & Wardhani, 2020).

Company assessments are usually carried out by considering the information disclosed in sustainability reports. In Indonesia, Financial Services Authority (OJK) regulation 51 of 2017 requires financial institutions, publicly traded companies, and bond issuers to implement sustainable financial practices. This regulation has been the foundation for mandatory sustainability reporting since 2019, with the current requirements in effect until 2024 (Tirta Wangi & Aziz, 2023). One way to increase company value is by disclosing sustainability reports, companies usually use thito get signals related to a good track record and gain legitimacy from company stakeholders (Melinda & Wardhani, 2020). The implementation of sustainable financial reporting disclosures for public companies in Indonesia should improve the quality and credibility of companies in terms of public trust. In this way, a good sustainability report can increase stakeholder trust in the company through the trust given to capital participation and the use of company assets and property (Zahroh & Hersugondo, 2021).

Of course, it cannot be denied that disclosure of financial and non-financial reports in companies today has become an essential indicator for measuring and evaluating companies, regardless of whether the disclosure directly has an impact on the company's finances. Increasing income depends on the quality and credibility of the company, which will result in reciprocity in the form of stakeholder loyalty to the company (Toti & Johan, 2022).

According to Adhi & Cahyonowati (2023), one of the non-financial indicators in sustainability reports is ESG or Environmental, Social and Governance, which can be used as a framework for building a company's competitive advantage. The significantly increased implementation of ESG practices indicates competitive competition between companies. The combination of implementing these practices can improve company performance and positively influence stakeholders. One proof of a company's commitment to the environment is making good use of resource consumption and reducing pollutants from the company's operational activities (Raja et al., 2021).

One of the serious problems that will continue to develop over time is environmental degradation, the cause of which is the excessive use of resources to obtain great benefits. Beyond ecological damage, a company's production processes can lead to social conflicts with nearby communities due to waste disposal. This can negatively impact the company's reputation in the market, ultimately affecting its valuation. Research by Melinda & Wardhani (2020), Daniela et al. (2021), and Raja et al. (2021) states that aspects of the company's environment have a positive and significant influence on company value. Meanwhile, research by Ionescu et al. (2019), Adhi & Cahyonowati (2023), and Tirta Wangi & Aziz (2023) shows a significant negative correlation between a company's environmental impact on company valuation.

A decline in company value not only impacts the value of the company itself but also impacts its financial performance. This can lead to a weakening of the company's financial health, which is reflected in the financial statements. Financial performance is one of the main determining factors of company value in the eyes of investors. The better the reporting of a company's financial performance, the higher the company's value in the eyes of investors. For an investor, financial performance is an important indicator to assess the feasibility of investment and as a tool to predict the company's prospects in the future. Therefore, there is a close relationship between financial performance and company value. A decrease in company value can result in weakening financial performance, and conversely, good financial performance can increase company value (Suryaningtyas & Rohman, 2019).

Therefore, strong ESG practices can result in improved financial performance and more excellent operational stability for companies. The ESG division can also provide a more comprehensive perspective on company operations because, in financial reports, information is focused on historical data with short-term objectives. As scrutiny of the stock market intensifies, investors are demanding more information from companies beyond just financial data. This has led to a greater emphasis on Environmental, Social and Governance (ESG) factors, prompting companies to reveal more details about their sustainability practices (Caraiani et al., 2021). A higher ESG disclosure is expected to have a positive impact on improving a company's financial performance. The implementation of practices related to the environment, society, and governance is expected to help companies reduce business risks and increase their attractiveness to investors (Zahroh & Hersugondo, 2021).

Research on ESG on company value with a mediating role is still limited, even though stakeholder views on sustainability reports are increasing to support ongoing trends (Zahroh & Hersugondo, 2021). This research revisits topics that have been researched in previous research. Still, with a different focus, namely, research by Suryaningtyas & Rohman (2019) and Dika & Wirawati (2020) only raised the Good Corporate Governance or Corporate Social Responsibility variables separately without combining them into ESG indicators so that research on ESG indicators on company value will provide a more comprehensive and relevant understanding when financial performance variables are added as mediation, especially in energy companies in Indonesia because Indonesia's energy sector is essential for two main reasons. Firstly, it keeps the economy running smoothly and, secondly, provideshe energy needed to support the daily lives of people throughout the country (IDX, 2023).

THEORETICAL BASIS AND HYPOTHESIS DEVELOPMENT

Signaling Theory

The definition of signalling theory is activities during the transaction process between parties involved in it who have different levels of information from each other and have an influence on the investment decisions of external parties to the company (Safriani & Utomo, 2020). Therefore, various forms of signals given by companies must have authority, and this is so that the signals are expected to provide changes in the assessment of the company by external parties (Tirta Wangi & Aziz, 2023).

Legitimacy Theory

A company discloses sustainability reports, which are usedo build a good reputation and credibility in the eyes of stakeholders by addressing existing issues (Melinda & Wardhani, 2020). This idea emphasizes how crucial it is for businesses to be mindful of everything they do in order to adhere to social standards that are already in place in society and win the support of the local community. However, of course, it cannot be denied that there will always be differences in the values held by both companies and society. These differences are widely known as "legitimacy gap" which can influence the company's ability to continue its business activities (Safriani & Utomo, 2020).

The value of the company

Brigham and Houston (2013) argue that company value is the quality market perception of the company's potential performance through company intrinsics (Susanto & Indrabudiman, 2023). Company value is also assessed as the company's achievements through the price of outstanding shares, which correlates with the level of supply ithe capital market (Toti & Johan, 2022). For investors, Verecchia (1983) argues that the disclosure of financial and non-financial information measures a company's economic perspective. Disclosing information will have an impact on increasing company value (Melinda & Wardhani, 2020). Profitability, size, capital structure, and sustainability report disclosure are several indicators that can influence company value (Tirta Wangi & Aziz, 2023).

ESG

Environmental, Social, and Governance, which are shortened to ESG, are terms used to describe the responsibilities of a company. ESG disclosure information contained in sustainability reports is now of concern to stakeholders because this information can identify the long-term potential of the investments made. This analysis is related to measurement activities, disclosure, and company responsibility for environmental, social, and governance aspects to stakeholders (Almeyda & Darmansyah, 2019). In recent years, ESG sustainability reports have not only focused on how a company responds and handles ESG topics but also explained the company's concrete steps regarding supporting global activities and finding solutions to ESG issues rather than just managing data (Ionescu et al., 2019). In this case, the ratio used to compile ESG indicators is the Global Reporting Initiative (GRI). GRI is an international standard used to prepare sustainability reports and is one of the newest measurement approaches related to the transparency of companies' sustainable financial reports.

Financial Perfomance

When assessing a firm based on the profits it generates, financial performance is one of several variables to be taken into consideration (Putri et al., 2022). Increasing the impact of financial intermediaries—such as angel investors, venture capitalists, and creditors—who support the expansion of startups and early-stage companies is another way to characterize financial performance. In other words, it can be stated as the final result of the financial activities carried out. Financial performance can be assessed through analysis of financial reports using ratios in certain periods,hich show a picture of the level of excellence in a company's achievements (Octavina & Rita, 2021). By implementing good financial performance regularly, it indicates that the quality of the company is positive.

The Influence of ESG on Company Value

ESG is a variable that can directly influence company value because companies with good ESG performance will increase company value (Melinda & Wardhani, 2020). Companies that openly share their strong environmental, social, and governance practices (ESG) are signalling their commitment to long-term success. This transparency can give them a competitive edge, boost their value, and build trust with stakeholders (Safriani & Utomo, 2020). With this mechanism, in theory, better ESG performance will provide a positive signal about the company's value prospects so that it has the opportunity to increase the company's market valuation. The research results of Melinda & Wardhani (2020) study found strong evidence that companies with good ESG practices tend to have positive and significant value. Research Aboud & Diab (2018) and Li et al. (2018) reveal a positive correlation between ESG and company value, but this correlation does not show a significant relationship. Based on several previous studies, the conclusion from hypothesis one is as follows:
H1: ESG has a direct effect on company value.

The Influence of ESG on Financial Performance

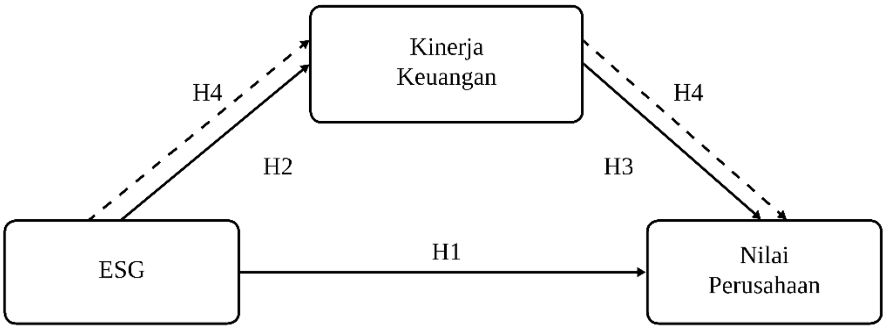
ESG disclosure is assessed as a communication variable between companies and stakeholders involved in the business (Zahroh & Hersugondo, 2021). In terms of the legitimacy theory explained above, by openly sharing their strong ESG practices, companies aim to build trust in their financial results. This transparency helps them gain legitimacy and approval from stakeholders. Triyani et al. (2020) and Zahroh & Hersugondo (2021) The results of the research data show that the relationship between ESG and financial performance has a positive effect. With the results of previous research, the hypothesis in this research is formulated as follows:
H2: ESG has a direct effect on a company's financial performance.

The Influence of Financial Performance on Company Value

Theoretically, share prices on the capital market have increased due to healthy financial performance. Simply put, a company's financial performance serves as a key indicator of its overall health. Financial solid performance strengthens a company's reputation and boosts its value, while weak financials can damage its image and decrease its worth. (Suryaningtyas & Rohman, 2019). Thus, the principles of healthy company financial performance will produce prospects for future company growth, which will then add value to the company in the market. The research results of Suryaningtyas & Rohman (2019) show that the relationship between financial performance and company value has a positive and significant influence. In their research, it was concluded that good financial performance represents good company value. In contrast, the results of research by Dika & Wirawati (2020) show a positive but not significant influence between company value and company financial performance. Based on a review of a number of previous studies, the formulation of the research hypothesis is concluded as follows:
H3: Financial performance has a direct effect on company value.

The influence of ESG on company value through financial performance

While financial reports can include ESG information, ESG factors provide a broader picture of a company's sustainability. They go beyond just financial data to assess a company's long-term well-being. Companies with good ESG performance are required to have a precise level of understanding of trends over time and ensure company consistency regularly to support the company's value reputation (Raja et al., 2021). Previous research by Suryaningtyas & Rohman (2019) and Dika & Wirawati (2020) only raised good corporate governance or social responsibility variables separately without combining them into ESG indicators. Thus, research on ESG indicators on company value will provide a more comprehensive and relevant understanding when financial performance variables are added as mediation, and this will also have a positive influence on company value regularly. Based on the results of the framework above, the formulation of the research hypothesis can be concluded as follows:
H4: ESG has an indirect effect on company value through the company's financial performance.



Picture 2. Conceptual Framework

Description ———> : Direct influence
-----> : Indirect Influence

RESEARCH METHOD

This research uses a quantitative approach to describe the relationship between variables. Specifically, it uses multiple mediation regression analysis. This technique helps us understand how ESG factors influence company value, with financial performance acting as an intermediary variable. The data used in this research is secondary data that is publicly accessible with a population of 76 energy companies listed on the Indonesia Stock Exchange from 2021 to 2022. The limited data available requires that this research was only carried out over two years. This research uses a purposive sampling method to determine the number of samples to be analyzed. This method allows researchers to select samples on specific predetermined criteria. The following is the calculation of sample data based on the criteria set out in this research:

Table 1. Sample Criteria

Criteria	Amount
Total population of energy companies listed on the Indonesian Stock Exchange for the period 2021 to 2022.	76
Energy companies registered on the IDX are presenting incomplete sustainability report data for the 2021-2022 period.	(24)
An energy company listed on the Indonesia Stock Exchange (BEI) that presents incomplete data on its financial reports for the 2021-2022 period.	(10)
Total Company	42
Total Sample (Total Companies x 2 years)	84

The data used in this research are annual financial reports and sustainability reports from 42 energy companies listed on the Indonesia Stock Exchange (BEI) for the period 2021 to 2022. The selection of companies was carried out using certain criteria, and the data was analyzed over two years.

The company value variable in this research is the dependent variable, which is proxied by the Tobin's Q ratio. Meanwhile, the independent variable in this research is ESG, which refers to the GRI index, which contains 117 indicators with five subtopics. The calculation is done by giving a score of one if the company discloses it in the sustainability report and a score of zero if it is not disclosed, then the score is calculated.

The variable that plays a mediating role in this research is financial performance, which is proxied by the ROE ratio.

Table 2. Descriptive Variable

Variable	Formula
ESG	$ESG = \frac{Disclosure\ Item\ Value}{Max\ Total\ Disclosure}$ (Tirta Wangi & Aziz, 2023)
The value of the company	$Tobin's\ Q = \frac{Total\ Market\ Value}{Total\ Asset\ Value}$ (Abdi et al., 2020)
Financial performance	$ROA = \frac{Operational\ profit}{Total\ Asset\ Value}$ (Abdi et al., 2020)

This research utilizes E-views12 software to carry out statistical analysis of the time series data that has been collected. The regression equation is defined in the form of a statistical model equation as follows:

$$Y = α + β1X + c$$
$$Y = α + β1X + β2Z + c$$

The regression method used is panel data regression. The panel data method is a development of linear regression using the Least Square Dummy Variable (LSDV) method, which is specifically designed for panel data types. Panel data has cross-section and time series characteristics, allowing for the analysis of differences between individuals in several periods in the research object. When analyzing data that tracks the same units over time, researchers can use three main panel data regression techniques, namely common effects, fixed effects, and random effects.

RESULT AND DISCUSSION

Table 3 explains the descriptive statistical results of the dependent, independent, and mediating variables in this research.

Table 3. Descriptive Statistics

	ESG	Financial performance	The value of the company
Mean	4045.571	977.5000	5.87627
Median	3590,000	679,0000	5.800001
Maximum	9573,000	6176,000	10.58007
Minimum	1538,000	-4069,000	0.000000
Std. Dev	1923,347	1736.296	2.336277
Observations	84	84	84

Descriptive statistical analysis of the data as mentioned above indicates that 84 samples were examined. This research shows the dependent variable, namely company value, has a mean of 5.87627, a standard deviation of 2.336277, descriptive statistics for the firm value are presented. The average firm value is 5.876, with a standard deviation of 2.336. The minimum value observed was 0.000, and the maximum value was 10.580. This study's independent ESG variable has a mean of 4045.571, a standard deviation of 1923.347, a minimum value of 1538.00, a maximum value of 9573.000, and so on. Considering that investors are more likely to invest in energy sector companies with high ESG score disclosures. Currently, investors are also increasingly aware of the importance of sustainability reports and social responsibility for long-term investment, and this condition shows that the energy industry is more attractive to them. Meanwhile, the financial performance variable proxied by Return on Assets has a minimum value of -4069,000 and a maximum value of 1736,296.

Table 4. Result of Chow-test, and Hausman-test

Test of type	F-Value	Chi-Sq statistics	P-Value	The Right Model
Chow-test (Cross-section F)	7.181641	0	0.0000	Fixed Effect Model
Chow-test (Cross-section Chi-square)	178.382385	0	0.0000	Fixed Effect Model
Hausman-test (random cross-section)	0	8.714239	0.0128	Fixed Effect Model

Based on the findings of the model selection test presented in table 4, a regression model data analysis was carried out. In the Chow model, This model testing was carried out to determine whether the model in this research would use the Common Effect or Fixed Effect model. In the Chow test, the resulting model is a fixed effect with an F test probability value of 0.0000, which is less than 0.05. Next, the Hausman test will be used to determine whether this research model uses fixed effects or random effects. Table 3 displays the probability of finding a Chi-Square cross section, namely 0.0128, which is smaller than 0.05, which means that the model chosen is a fixed effect. There is no need to carry out further Chow tests and Hausman tests after knowing that they both produce a fixed effects model. Thus, this research chooses the Fixed Effect regression model with the Least Square Dummy Variable (LSDV) method as the most appropriate model for analyzing statistical regression. This fixed effect model estimation technique uses dummy variables to identify and calculate differences in intercepts between variables in the study.

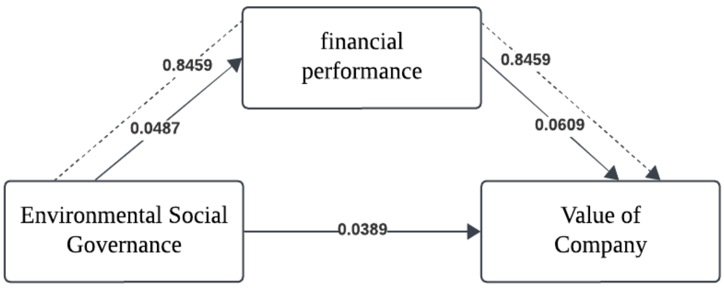
Table 5. Hypothesis Testing Results

hypothesis	t-statistic	Std. Error	significance	decision
H1 : ESG → NP	2.133671	0.000115	0.0389	ACCEPTED
H2 : ESG → KK	2.031714	0.105648	0.0487	ACCEPTED
H3: KK → NP	1.927526	0.000163	0.0609	REJECTED
H4 : ESG → NP → KK	0.194291	0.000228	0.8459	REJECTED

The first hypothesis begins by testing the idea that ESG practices are related to firm value. In this test, regression analysis was carried out to see how much influence the relationship between ESG and the corporate value of a company has. The results of the analysis findings detect that the t statistic has a value of 2.133671 and a probability of 0.0389, which is less than 0.05. The regression analysis's findings indicate that, as measured by Tobin's Q ratio, there is a substantial correlation between corporate value and ESG. This demonstrates that the first hypothesis, according to which ESG positively affects firm value, is validated. Following signaling theory, companies that transparently share strong ESG practices can enhance their sustainability, ultimately boosting company value. This can happen through increased profits, improved efficiency, greater competitiveness, and a stronger reputation among stakeholders (Safriani & Utomo, 2020). This study agrees with that conducted by Aboud & Diab (2018); Li et al (2018); Melinda & Wardhani (2020) who stated that ESG had a positive effect on company value in their research (H1 is accepted).

A second test was conducted to evaluate the second hypothesis. The results revealed a t-statistic value of 2.031714 with a probability value of less than 0.05, or 0.0487. The analysis's findings support the acceptance of the second hypothesis, which claims that ESG influences financial performance as measured by ROA. According to legitimacy theory, a company's attempt to gain legitimacy from stakeholders by showcasing its strong ESG performance is consistent with its efforts to improve the credibility of its financial performance. ESG is viewed as a communication variable between the company and the stakeholders involved in the business (Zahroh & Hersugondo, 2021). The results of this study are in line with research by Zahroh & Hersugondo (2021, in which ESG has been proven to have a positive impact on a company's financial performance (H2 is accepted).

The third test's regression analysis results show that the business value of energy companies is not influenced by the financial performance variable, which is proxied by ROA. The t-statistic value of 1.927526, where this value is greater than 0.05, is calculated with a probability value of 0.0609, as shown in Table 5. Therefore, it can be said that the third hypothesis, that is, the idea that financial performance affects firm value, is rejected based on the study's findings. The ROA ratio is a useful tool for assessing how well a business manages and uses its resources to generate profits. Nevertheless, in this study, the financial performance characteristic of ROA proxies cannot affect the value of the company. This could happen if a corporation does not maximize its asset management, which leads to low-profit margins, as indicated by the low average ROA number in Table 3. Stated otherwise, the assets of the company do not contribute significantly to growing profits, and therefore, their influence on company value is not optimal. The results of this study are in line with the research of Wulandari (2020) and Setiawati et al (2023), where the relationship between financial performance and company value has no effect (H3 is rejected).



Picture 3. Regression Results
Source: processed by researchers, 2024.

Table 5 shows that the study found that a company's financial performance, as measured by Return on Assets, does not fully explain the relationship between ESG and its overall value. The Sobel test in this study shows a value of 1.668411, which is less than 1,96. The fourth hypothesis is not proven in this study because financial success cannot mediate the relationship between ESG and company value. The lack of financial performance as a mediator between ESG and company value is partly caused by the rise in energy subsector companies listed on the Indonesia Stock Exchange (BEI) making losses. These findings indicate the need to improve the company's financial performance, especially in terms of increasing profitability, to achieve the best results. Companies that have good financial performance and high profitability will have a competitive advantage over their competitors, which will attract investors and increase company value in the long term (H4 is rejected).

CONCLUSION

This study examined energy companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2022. This analysis shows that there is a significant and positive relationship between ESG practices and company value. This aligns with the idea of signaling theory, when companies openly share their ESG efforts, it can enhance their reputation and attract investors who value strong ESG practices. Based on this research, there is a correlation between ESG and financial performance. A company's ability to improve its financial performance can be achieved by increasing investor trust and credibility through obtaining valid information regarding ESG practices. Firm value is not affected by financial success, indicating that poor profit margins from substandard asset utilization prevent financial performance from immediately increasing firm value. In this research, the relationship between ESG and company value cannot be mediated by the company's financial success, which is proxied using ROA.

Based on the research's findings, researchers can advise businesses to implement ESG well. Doing so should help them attain cost savings, improve access to capital, and operational efficiency—all of which boost a company's value and financial performance. Due to its exclusive emphasis on energy businesses registered on the Indonesia Stock Exchange, this research has certain restrictions. It is anticipated that researchers in the future will be able to work in many settings and across various industries. The two-year observation time used in this study represents a restriction. It is believed that longer observation periods will enable future researchers to get more ideal results.

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