

SUSTAINABLE PERFORMANCE AND FINANCIAL METRICS: THE IMPACT OF ESG SCORES ON PROFITABILITY AND MARKET VALUATION ON THE INDONESIA STOCK EXCHANGE

KINERJA BERKELANJUTAN DAN METRIK KEUANGAN: DAMPAK SKOR ESG TERHADAP KEUNTUNGAN DAN PENILAIAN PASAR DI BURSA EFEK INDONESIA

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ABSTRACT

This research investigates how Environmental, Social, and Governance (ESG) Scores influence company profitability as measured by Earnings Per Share (EPS) with Market Valuation as measured by Price to Earnings Ratio (P/E Ratio) as a mediating variable. The study focuses on companies listed on the Indonesia Stock Exchange (IDX) in 2024 and utilizes path analysis to assess the interrelationships among the variables. The sample consists of all IDX-listed firms that report ESG Scores, selected through a total sampling approach. The findings indicate that ESG Scores significantly affect Market Valuation, suggesting that firms with higher ESG risk exposure tend to exhibit higher valuation multiples. Conversely, ESG Scores do not have a significant impact on Profitability, nor does Market Valuation influence Profitability. Furthermore, the mediation analysis reveals that Market Valuation does not mediate the relationship between ESG Scores and Profitability. This suggests that although ESG-related factors may elevate a company's market valuation, they do not necessarily translate into improved financial performance. These results highlight the need for companies to align their sustainability initiatives with core operational strategies to achieve better financial outcomes. Additionally, this study provides important insights for investors and stakeholders by emphasizing the relevance of ESG considerations in evaluating corporate valuation and profitability.

Keywords: ESG Score, Market Valuation, Profitability

ABSTRAK

Penelitian ini mengkaji bagaimana Skor Lingkungan, Sosial, dan Tata Kelola (ESG) memengaruhi keuntungan perusahaan yang diukur melalui Laba per Saham (EPS) dengan Penilaian Pasar yang diukur melalui Rasio Harga terhadap Laba (P/E Ratio) sebagai variabel perantara. Studi ini berfokus pada perusahaan yang terdaftar di Bursa Efek Indonesia (IDX) pada tahun 2024 dan menggunakan analisis jalur untuk mengevaluasi hubungan antar variabel. Sampel terdiri dari semua perusahaan yang terdaftar di IDX yang melaporkan Skor ESG, dipilih melalui pendekatan sampling total. Hasil penelitian menunjukkan bahwa Skor ESG secara signifikan mempengaruhi Nilai Pasar, menunjukkan bahwa perusahaan dengan eksposur risiko ESG yang lebih tinggi cenderung memiliki rasio valuasi yang lebih tinggi. Sebaliknya, Skor ESG tidak memiliki dampak signifikan terhadap Keuntungan, dan Nilai Pasar juga tidak mempengaruhi Keuntungan. Selain itu, analisis mediasi mengungkapkan bahwa Nilai Pasar tidak berperan sebagai variabel mediasi dalam hubungan antara Skor ESG dan Keuntungan. Hal ini menunjukkan bahwa meskipun faktor-faktor terkait ESG dapat meningkatkan penilaian pasar suatu perusahaan, hal tersebut tidak selalu terjemahkan menjadi kinerja keuangan yang lebih baik. Hasil ini menyoroti pentingnya bagi perusahaan untuk menyelaraskan inisiatif keberlanjutan mereka dengan strategi operasional inti untuk mencapai hasil keuangan yang lebih baik. Selain itu, studi ini memberikan wawasan penting bagi investor dan pemangku kepentingan dengan menekankan relevansi pertimbangan ESG dalam mengevaluasi penilaian korporat dan profitabilitas.

Kata Kunci: Skor ESG, Penilaian Pasar, Profitabilitas

INTRODUCTION

In recent years, the adoption of Environmental, Social, and Governance (ESG) principles in investment strategies has gained increasing relevance, driven

by growing global awareness of sustainability and corporate social responsibility. ESG encompasses environmental, social, and governance factors used to assess the ethical and

sustainable impact of investment decisions (Supriyanto, 2024). A key measure of a company's sustainability commitment is its ESG Score (Lhutfi et al., 2024). The *Triple Bottom Line* concept introduced by John Elkington in 1997 emphasizes that businesses should focus not only on profitability but also on social well-being and environmental preservation (Elkington, 1997). Today, companies acknowledge that long-term success is influenced not solely by financial results but also by how effectively they incorporate ESG practices, which can enhance stakeholder value (Gharchia & Mindosa, 2023). This shift is fueled by factors such as regulatory compliance, evolving consumer preferences, competitive dynamics, and the pursuit of sustainable corporate identity (Deloitte, 2023).

This aligns with the upward trend in ESG-based investments in Indonesia. According to the Financial Services Authority (OJK), ESG investment in the country experienced substantial growth in 2024, reaching IDR 8.2 trillion in managed funds with 34 ESG-oriented mutual fund products available as of June 2024. Despite this growth, there remains a lack of clarity regarding how ESG practices influence company profitability and market valuation (Sari, 2024). Moreover, a Morningstar (2024) survey revealed that 40% of investors still doubt the effectiveness of ESG analysis, with fewer than half believing that ESG integration mitigates risk or enhances long-term returns (Waluyo, 2024). In this framework, Freeman's Stakeholder Theory (1984) highlights the importance of accounting for the interests of all stakeholders, including environmental and social considerations. Companies with strong ESG Scores are seen as enhancing their reputation and attracting investors who prioritize sustainability (Nabilah & Ahmadi, 2024).

Similarly, Spence's Signaling Theory (1973) posits that strong ESG performance sends positive signals to the market, potentially boosting firm valuation.

Meanwhile, profitability measured through Earnings Per Share (EPS) is a vital indicator of a company's financial health and attractiveness to investors (Islam et al., 2014). High EPS reflects a firm's ability to generate shareholder returns, which is often associated with increased investor trust and higher market valuation (Mausuly & Prasetyowati, 2022; Jamiliana, 2023). Purnomo et al. (2024) further assert that EPS significantly mediates the relationship between ESG scores and market value.

However, empirical findings on the relationship between ESG Scores and market valuation vary. While research by Zuhrotun & Triana (2023) finds that investors do consider ESG factors, and superior ESG performance tends to elevate stock prices, Alfarizzi et al. (2023) argue that ESG Scores do not significantly impact stock prices. Studies exploring the link between ESG Scores and profitability also yield mixed outcomes. Research by Wulandari (2024), Ramadhan (2024), and Anggaraini & Sari (2024) reports that ESG Scores have a significant positive effect on profitability. Kusumawardhani et al. (2023) also emphasize that ESG initiatives enhance financial performance metrics such as ROE and EPS, which in turn improve firm value. In contrast, studies by Rompas & Ebenhaezer (2024) and Aditama (2022) conclude that ESG Scores do not have a meaningful effect on corporate profitability.

Studies exploring the relationship between profitability and market valuation have produced mixed findings. Research by Tantianty & Uzliawati

(2023), Labiba et al. (2021), and Malau et al. (2021) indicates that Earnings Per Share (EPS) has a strong and positive impact on stock prices. A higher EPS signifies strong financial performance and a company's ability to deliver returns to shareholders, making its stock more attractive to investors. Conversely, findings by Manalu & Akbar (2024), Elizabeth (2023), and Hamzah (2020) suggest otherwise, showing no significant relationship between EPS and stock prices.

The present study seeks to examine the interrelationship between ESG Score, Market Valuation, and Profitability among firms listed on the Indonesia Stock Exchange. While most prior research has focused on the direct impact of ESG Scores on financial outcomes, few have explored the potential mediating role of market valuation. This study aims to address that gap by investigating whether market valuation serves as a key conduit through which ESG performance influences profitability. By doing so, it offers a more comprehensive view of how sustainability initiatives translate into financial outcomes. Additionally, the research contributes to the growing body of literature on sustainable finance within emerging markets particularly Indonesia where empirical evidence on the financial impact of ESG factors is still limited. The findings are expected to provide new insights for investors, policymakers, and corporate leaders in assessing the strategic value of ESG in driving both profitability and market value.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signaling Theory

Signaling theory explains how individuals or organizations with superior information can send credible

signals to those with less information to minimize information asymmetry (Spence, 1973). In the financial context, a strong ESG Score may serve as a favorable signal, reflecting a company's commitment to sustainability and thus boosting investor trust and market valuation (Seputro et al., 2024).

Stakeholder Theory

Stakeholder theory emphasizes the necessity for firms to consider the interests of all stakeholders not just shareholders (Freeman, 1984). It asserts that long-term success relies on healthy relationships with key parties such as employees, customers, communities, and the environment. When firms adopt ESG-oriented strategies, they may improve their public image and customer loyalty, potentially resulting in greater profitability (Marliani et al., 2024).

Trade-Off Theory

This theory suggests that companies must evaluate the benefits of debt, like tax shields, against the possible risks of financial distress (Kraus & Litzenberger, 1973). In ESG implementation, firms must weigh the costs of adopting sustainability initiatives against their long-term advantages, including improved efficiency and minimized environmental risk (Jihan & Murwaningsari, 2023).

Value Creation Theory

Value Creation Theory posits that companies should aim to create value for all stakeholders rather than focusing solely on shareholder returns (Porter & Kramer, 2011). This value can be achieved through innovation, operational improvement, and social contribution. In the ESG context, investing in sustainability helps firms mitigate risks, strengthen stakeholder

confidence, and achieve sustained financial gains (Junanda, 2024).

Resource-Based View (RBV) Theory

RBV theory emphasizes that competitive advantage arises from the effective utilization of unique, inimitable internal resources (Barney, 1991). When applied to ESG, firms that excel in sustainability practices, green innovation, and corporate responsibility are more likely to build enduring competitive advantages (Mastarida, 2022).

Hypothesis Development

The Impact of ESG Score on Market Valuation

Firms with strong ESG ratings often benefit from enhanced reputations, reduced exposure to reputational and legal risks, and greater investor confidence (Marliani et al., 2024). These factors can lead to increased market valuation, as investors are inclined to pay more for companies that align with environmental and social values (Seputro et al., 2024).

H1: ESG Score has an effect on Market Valuation

The Impact of ESG Score on Profitability

A high ESG Score indicates a company's focus on sustainable practices, which can enhance operational performance, lower expenses, and foster customer loyalty (Fristamara, 2025). Strong ESG performance can also attract impact-oriented investors, potentially improving revenues and net income (Nabilah & Ahmadi, 2024).

H2: ESG Score has an effect on Profitability

The Impact of Market Valuation on Profitability

Market valuation reflects investors' expectations regarding a firm's future

potential. A higher valuation, as indicated by metrics like P/E ratio, can enhance a company's ability to raise capital and boost investor trust (Liao & Errico, 2023; Wang & Jiang, 2023). These advantages can empower the company to pursue growth strategies that drive profitability (Akbar & Setiana, 2024).

H3: Market Valuation has an effect on Profitability

Market Valuation as a Mediator between ESG Score and Profitability

Market valuation can act as a bridge linking ESG performance and profitability. A high ESG Score may elevate market valuation by attracting investor interest and boosting company credibility (Heryana & Soeratin, 2025). The rise in valuation can then enhance profitability by improving financing conditions and strengthening competitive positioning (Supriandi & Masela, 2023).

H4: Market Valuation mediates the relationship between ESG Score and Profitability

RESEARCH METHOD

This study employs a quantitative approach to examine the relationship between ESG Score, Market Valuation, and Profitability using a path analysis model. Data were sourced from secondary data available through the Indonesia Stock Exchange (IDX). The population consisted of 80 companies listed on the IDX that have recorded ESG Scores. A total sampling technique was applied, meaning all companies within the population were included in the sample. To enhance the accuracy of the analysis, outliers were excluded based on z-score criteria, ensuring the data followed a more normal distribution and reducing potential distortion in the results. The path analysis technique was chosen to estimate the strength and

significance of the proposed causal relationships between variables. This method allows the evaluation of both direct and indirect effects, where the

independent variable influences the dependent variable through a mediating variable. The structure of the model is depicted in Figure 1 below.

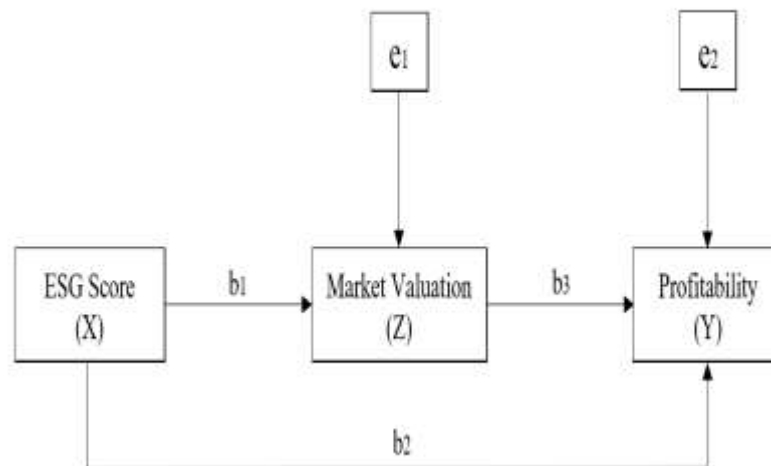


Figure 1 Path Analysis Model

Source: data processed

The path analysis model is estimated using EViews 13, as derived from the regression equation in Figure 1:
 $Z = a + b_1X$ (Sub-structure 1)

$Y = a + b_1X + b_2Z$ (Sub-structure 2)

RESULT AND ANALYSIS

Descriptive Statistical Analysis

Table 1 Results of Descriptive Statistical Analysis

Statistics	ESG Score (X)	Market Valuation (Z)	Profitability (Y)
Mean	27.20275	103.0363	13.37765
Median	26.14000	94.98000	10.38000
Maximum	54.02000	266.7100	38.45000
Minimum	7.11000	-74.66000	-10.86000
Std. Deviation	9.708974	69.38186	9.280521
Observations	51	51	51

Source: Data processed

Descriptive Statistics Analysis

The descriptive statistics indicate that the average ESG Score among the sampled companies is 27.20, with a standard deviation of 9.71. This suggests that most companies fall within the Medium Risk category, implying moderate adoption of sustainability practices. Nonetheless, ESG

implementation varies significantly, as reflected by the lowest score of 7.11 (Negligible Risk) and the highest score of 54.02 (Severe Risk). These disparities illustrate differing levels of ESG commitment and policy application across various industry sectors in Indonesia. Regarding the Market Valuation variable, assessed through the

Price-to-Earnings Ratio (P/ER), the mean value stands at 103.04 with a relatively large standard deviation of 69.38. The median value of 94.98 implies that more than half of the companies have P/ER ratios below the average, highlighting the presence of a few firms with exceptionally high valuations. The highest P/ER recorded is 266.71, suggesting strong investor confidence in certain companies, while the minimum of -74.66 indicates the existence of firms facing significant losses or negative valuations likely due to weak fundamentals or volatile market conditions.

For the Profitability variable, measured by Earnings Per Share (EPS),

the mean value is 13.38 with a standard deviation of 9.28. The median of 10.38 reveals that the majority of companies exhibit below-average profitability, with a few outliers posting exceptionally high EPS figures, thereby elevating the average. The maximum EPS observed is 38.45, reflecting robust financial performance, whereas the minimum of -10.86 indicates that some companies are incurring losses potentially affecting investor trust and lowering their market value.

Classical Assumption Testing for Sub-Structure 1

Normality Test

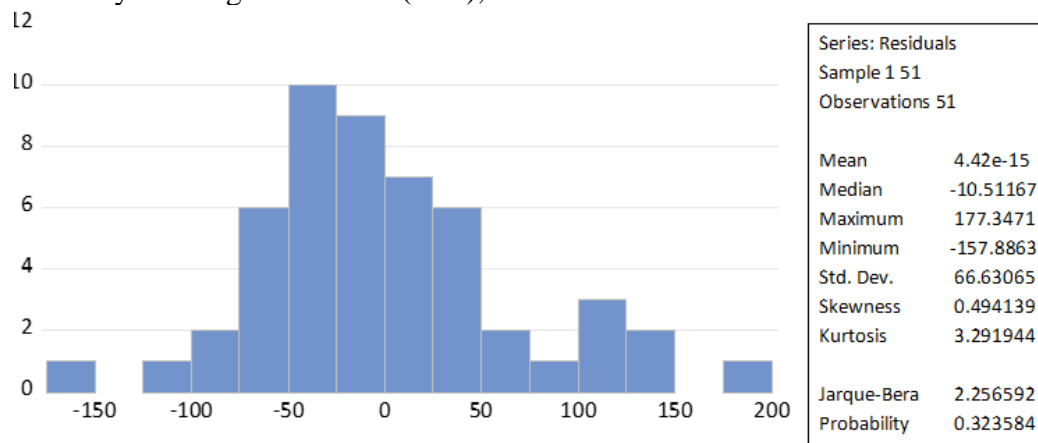


Figure 2. Normality Test Results for Sub-structure 1

Source: Processed Data

The outcome of the normality test shows a significance level of 0.323584, which is greater than the threshold value

of 0.05. This indicates that the data used in this study is normally distributed.

Heteroscedasticity Test

Table 2. Results of Heteroscedasticity Test for Sub-structure 1

Test Statistic	Value	Associated p-value
F-statistic	0.523325	Prob. F(1,49) = 0.4729
Obs*R-squared	0.538929	Prob. Chi-Square(1) = 0.4629
Scaled explained SS	0.553910	Prob. Chi-Square(1) = 0.4567

Source: Data Processed

The outcome of the heteroscedasticity test shows an Obs R-

Squared significance value of 0.4629, which is above the 0.05 threshold. This

indicates that the regression model in sub-structure 1 does not suffer from heteroscedasticity.

Classical Assumption Test for Sub-structure 2

Normality Test

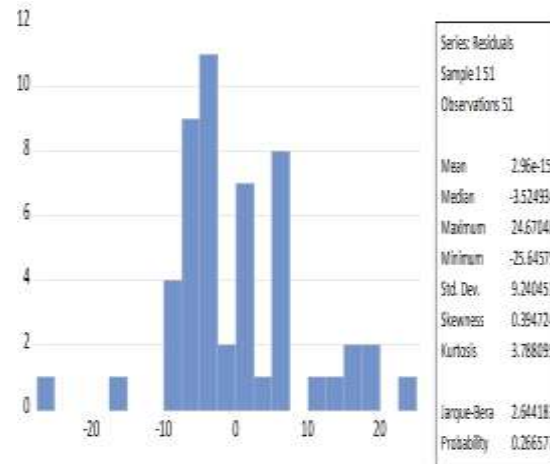


Figure 3. Normality Test Results for Sub-structure 2

Source: Processed data

The normality test results for sub-structure 2 show a probability value of 0.266577, which is greater than the 0.05

significance level. This indicates that the data is normally distributed.

Multicollinearity Test

Table 3. Results of Multicollinearity Test for Sub-structure 2

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	16.66410	9.555138	NA
X	0.020462	9.766346	1.084286
Z	0.000401	3.523402	1.084286

The multicollinearity test results show that the Variance Inflation Factor (VIF) values are below 10. This indicates that the regression model does not suffer

from multicollinearity issues. Let me know when you're ready to proceed with the heteroscedasticity test results table.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results of Sub-structure 2

Heteroskedasticity Test: Glejser	
F-statistic	2.617459
Prob. F(2,48)	0.0834
Obs*R-squared	5.015144
Prob. Chi-Square(2)	0.0815

Heteroskedasticity Test: Glejser	
Scaled explained SS	5.160423
Prob. Chi-Square(2)	0.0758
Source	\multicolumn{2}{1}{Data processed}

Source: data processed

The results of the heteroscedasticity test indicate that Obs*R-Squared is 0.0815, which exceeds the threshold of 0.05, suggesting that the model does not exhibit a heteroscedasticity problem. Regression Result of Sub-structure 1.

Table 5. Regression Results of Sub-structure 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	48.83734	28.28590	1.726561	0.0905
X	1.992407	0.980399	2.032242	0.0476

Source: Data processed

Referring to Table 5, the regression equation is expressed as:

$$Z = 48.83734 + 1.992407X$$

The constant value of 48.83734 represents the projected Market Valuation when the ESG Score is zero. The regression coefficient of 1.992407 suggests that an increase of 1 point in the ESG Score will lead to a rise in Market Valuation by 1.992407 units, assuming other factors remain unchanged.

Nonetheless, since a higher ESG Score signifies greater ESG risk, these findings imply that companies with higher ESG risk tend to have higher market valuations. This may suggest that the market has not yet fully priced in ESG risks, or that firms with high ESG Scores possess other appealing attributes for investors, such as strong profitability or promising growth potential.

Regression Result of Sub-structure 2

Table 6. Regression Results of Sub-structure 2

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.53158	4.082169	3.314801	0.0018
X	0.042393	0.143044	0.296363	0.7682
Z	-0.012686	0.020017	-0.633771	0.5292

Source: Data processed

Based on Table 6, the panel data regression model is expressed as follows:

$$Y = 13.53158 + 0.042393X - 0.012686Z$$

The constant value of 13.53158 implies that when both the ESG Score and Market Valuation are zero, the company's estimated profitability stands at 13.53158. The regression coefficient for ESG Score, which is 0.042393,

means that a 1-unit increase in ESG Score is associated with a 0.042393 rise in EPS, assuming all other variables remain unchanged. This indicates that firms with higher ESG risk levels (as reflected by higher ESG Scores) tend to exhibit greater profitability. Conversely, the regression coefficient for Market Valuation (P/ER) is -0.012686, suggesting that a 1-unit increase in P/ER

results in a 0.012686 decrease in EPS. This reveals a negative relationship between market valuation and profitability, implying that companies with higher valuations do not always exhibit higher profitability possibly due to factors like investor expectations of future performance or specific corporate investment strategies.

Sobel Test

The Sobel test is used to evaluate the strength of an indirect effect, measuring how much of the influence of the independent variable (X) on the dependent variable (Y) is mediated

$$\begin{aligned}
 t &= \frac{1.992407 \times -0.012686}{\sqrt{(-0.012686^2 \times 0.980399^2) + (1.992407^2 \times 0.020017^2)}} \\
 &= \frac{-0.0253}{\sqrt{(0.00016 \times 0.9612) + (3.9697 \times 0.0004)}} \\
 t &= \frac{-0.0253}{\sqrt{(0.00015) + (0.0016)}} \\
 t &= \frac{-0.0253}{\sqrt{0.0017}} \\
 t &= \frac{-0.0253}{0.0417} \\
 t &= -0.6069
 \end{aligned}$$

The Influence of ESG Score on Market Valuation

The regression results reveal that the probability value between ESG Score (X) and Market Valuation (Z) is 0.0476, which is below the 0.05 threshold for statistical significance. This suggests that ESG Score has a significant effect on Market Valuation. In other words, changes in ESG Score contribute to variations in the market valuation of companies listed on the Indonesia Stock Exchange (IDX).

through a third variable (Z) (Abu-Bader & Jones, 2021). The calculation follows this formula:

$$t = \frac{ab}{\sqrt{(b^2 SEa^2) + (a^2 SEb^2)}}$$

An intervening variable is deemed to have a significant mediating effect between the independent and dependent variables if the computed t-value is greater than the critical value from the t-distribution table. For this study, the t-table value is 1.67722. This applies to the pathway from X to Y through Z.

However, it is important to note that a higher ESG Score indicates a higher level of ESG-related risk. Thus, this result may imply that firms with greater ESG risks tend to have higher market valuations. Several explanations could account for this outcome. First, investors may prioritize other considerations, such as profitability or growth outlooks, which may overshadow ESG concerns in valuation assessments. Second, firms with elevated ESG Scores may operate within promising industries or possess strong

business strategies that attract investor interest, despite their higher ESG risk levels.

This finding supports the study by Alfarizzi et al. (2023), which concluded that ESG Score does not significantly impact stock market value. Nonetheless, to gain a clearer understanding of this relationship, further analysis is required that includes other relevant variables—such as ownership structure, dividend policy, and specific industry conditions. Conversely, this outcome contradicts the study by Zuhrotun & Triana (2023), which found that ESG considerations do factor into investor decision-making, with stronger ESG performance being associated with higher stock values, and declining ESG performance linked to lower market valuation.

The Influence of ESG Score on Profitability

The regression analysis shows that the probability value between ESG Score (X) and Profitability (Y) is 0.7682 far above the 0.05 significance level indicating that ESG Score does not significantly impact profitability (as measured by EPS). This means that variations in ESG Score do not directly affect the profitability of firms listed on the IDX. This result may imply that other variables, such as operational efficiency, strategic business choices, or prevailing industry conditions, play a more substantial role in shaping company profitability than ESG Score. Additionally, it may also suggest that sustainability factors are not yet fully integrated into the evaluation of financial performance by Indonesian investors and capital markets.

These findings are consistent with those of Rompas & Ebenhaezer (2024) and Aditama (2022), who also found no significant relationship between ESG Score and corporate profitability. In

financial and investment theory, the link between ESG performance and profitability is often multifaceted and can differ depending on sector, firm strategy, and regulatory frameworks concerning sustainability. Hence, further investigation is necessary to examine potential mediating or moderating variables—such as ownership structure, strategic management, and environmental policies that might influence the relationship between ESG and profitability. On the other hand, this study's findings contradict research by Wulandari (2024), Ramadhan (2024), and Anggaraini & Sari (2024), which report a significant positive effect of ESG Score on profitability. Furthermore, Kusumawardhani et al. (2023) argue that ESG practices amplify the impact of financial indicators like ROE and EPS on firm value. This suggests that companies utilize ESG initiatives to strengthen financial outcomes, thereby enhancing their overall valuation.

The Influence of Market Valuation on Profitability

The regression analysis indicates that the probability value between Market Valuation (Z) and Profitability (Y) is 0.5292, which exceeds the 0.05 significance threshold. This means that Market Valuation, measured by the P/E Ratio (P/ER), does not have a statistically significant effect on Profitability (EPS). In essence, changes in Market Valuation do not directly impact the profitability of companies listed on the Indonesia Stock Exchange (IDX).

This suggests that while market valuation may reflect investor sentiment and expectations regarding a company's future performance, other internal factors such as operational efficiency, cost structure, strategic decisions, and broader market dynamics may play a

more critical role in determining actual profitability. Furthermore, the weak relationship may also be attributed to the volatility of the Indonesian stock market, where speculative behavior often overshadows company fundamentals in influencing valuation.

These findings are consistent with studies by Manalu & Akbar (2024), Elizabeth (2023), and Hamzah (2020), which also concluded that market valuation does not significantly affect firm profitability. From the standpoint of financial theory, the connection between market valuation and profitability is typically complex and can vary depending on external influences such as macroeconomic conditions, interest rates, and market sentiment. Therefore, incorporating other variables such as capital structure, earnings growth, and dividend policy may provide more comprehensive insights into the relationship between market valuation and profitability among IDX-listed firms.

On the contrary, this result conflicts with findings by Tantianty & Uzliawati (2023), Labiba et al. (2021), and Malau et al. (2021), which suggest that Earnings Per Share (EPS) significantly and positively affects stock market value. EPS reflects a company's financial health and its ability to generate profits for shareholders, thereby influencing investor demand and share price.

The Influence of ESG Score on Profitability Through Market Valuation

The Sobel Test results show a t-statistic of -0.6069, which is higher than the critical t-table value of -1.67722. This indicates that Market Valuation does not mediate the relationship between ESG Score and Profitability. In other words, although ESG Score may influence Market Valuation, this does

not translate into a significant indirect effect on Profitability. Several factors may explain this result. First, while a high ESG Score could enhance investor perception and contribute to higher market valuation, this may not immediately result in increased profitability especially in the short term. Companies with strong ESG performance might incur additional costs, such as investing in environmentally friendly technologies, implementing social initiatives, or strengthening governance practices, which could reduce net earnings.

Second, Indonesian investors may still prioritize traditional financial metrics such as revenue growth, margins, and operational efficiency over sustainability indicators when evaluating a company's profit potential. The implication is that companies cannot rely solely on improving ESG Scores to drive profitability through better market valuation. Instead, ESG initiatives must be aligned with efficient operations and effective business strategies to generate actual financial gains. For investors, these findings suggest that an increase in market valuation driven by ESG performance does not necessarily equate to improved profitability. Hence, investment decisions should be guided by a broader set of fundamental indicators.

CONCLUSION

This study finds that the ESG Score significantly influences Market Valuation, suggesting that companies with higher ESG risks tend to receive higher valuations. This outcome may imply that investors in Indonesia have yet to fully account for ESG risks in their investment assessments. However, the ESG Score does not show a significant impact on Profitability, indicating that sustainability initiatives undertaken by

companies have not led to immediate improvements in financial performance. Additionally, the results reveal that Market Valuation does not significantly affect Profitability, meaning that a high market valuation does not necessarily correspond to increased corporate earnings. The mediation analysis further indicates that Market Valuation does not serve as a mediating variable in the relationship between ESG Score and Profitability. In other words, although ESG Score may enhance market valuation, this does not translate into higher profitability. These findings highlight the need for companies to align their sustainability efforts with other core business strategies to achieve strong financial outcomes. Moreover, the study provides useful insights for investors and stakeholders, emphasizing the importance of more thoroughly considering ESG factors when evaluating a company's market value and profitability potential.

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