



ESG Disclosure and Firm Value Dynamics through Financial Performance



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ARTICLE INFO

Article history:

Received: 2026-02-18

Revised: 2026-03-16

Accepted: 2026-03-25

Published: 2026-04-10

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Keywords:

ESG Disclosure; Firm Value; Profitability; Leverage; Manufacturing Firms

JEL Classification:

G32; G34; M14; Q56; L60

ABSTRACT

Purpose—This study examines how environmental, social, and Governance (ESG) disclosure affects firm value. It also assesses the moderating roles of profitability and leverage in the relationship between ESG disclosure and firm value.

Design/methodology/approach—This study adopts a quantitative explanatory approach. The sample comprises 61 manufacturing firms listed on the Indonesia Stock Exchange from 2021 to 2023, yielding 183 firm-year observations selected through purposive sampling. ESG disclosure is measured using Bloomberg ESG scores. Firm value is proxied by price-to-book value, profitability by return on assets, and leverage by the debt-to-equity ratio. Data are analyzed using Partial Least Squares Structural Equation Modeling in SmartPLS.

Findings—ESG disclosure has a positive and significant effect on firm value. Profitability strengthens the relationship between ESG disclosure and firm value, suggesting that financially stronger firms provide more credible ESG signals to investors. Leverage also moderates the ESG disclosure-firm value relationship, though its effect is weaker than that of profitability.

Originality/value—This research contributes to ESG and corporate finance literature by examining how profitability and leverage serve as moderating factors in the relationship between ESG disclosure and firm value. It emphasizes that the significance of ESG disclosure for firm value is influenced by financial performance and capital structure.

Implications—The results indicate that companies should boost their ESG transparency, ensure robust profitability, and optimize leverage to increase market valuation.

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1. Introduction

Firm value remains a critical focus in corporate finance, as it reflects market expectations of a company's future growth, risks, and capacity to generate sustainable shareholder returns. Nowadays, investors evaluate firm value not only through financial metrics but also by considering broader factors like governance quality, environmental responsibility, and social accountability. In this setting, the Price-to-Book Value (PBV) often serves as a useful market-based indicator, reflecting how investors compare a company's market valuation to its book value and underlying potential. Generally, a higher PBV indicates stronger investor confidence, while a declining PBV could raise concerns about a company's resilience, growth prospects, or the credibility of its information (Fatemi et al., 2018; Li et al., 2018; Yoon et al., 2018).

According to Figure 1, the average PBV of manufacturing firms shows a decreasing trend over the observed period. The PBV dropped from 2.60 in 2021 to 2.15 in 2022 and further to 1.98 in 2023. This pattern suggests that market valuation did

not steadily improve during the post-pandemic recovery. The decline implies that investors might consider factors beyond traditional financial metrics when evaluating firm value. In this context, ESG disclosure is important because it provides additional insights into sustainability practices, governance quality, risk management, and long-term resilience.

The importance of Environmental, Social, and Governance (ESG) disclosure has increased significantly as capital markets increasingly incorporate sustainability information into investment decisions. ESG disclosures provide non-financial data that help investors assess how companies manage environmental risks, social obligations, governance structures, and long-term sustainability strategies. Research indicates that ESG disclosure can boost firm value by reducing information gaps, enhancing transparency, building corporate reputation, and decreasing perceived risks among investors and stakeholders (Brooks and Oikonomou, 2018; Fatemi et al., 2018; Khamisu and Paluri, 2024; Li et al., 2018).

The rising focus on ESG is linked to global changes in

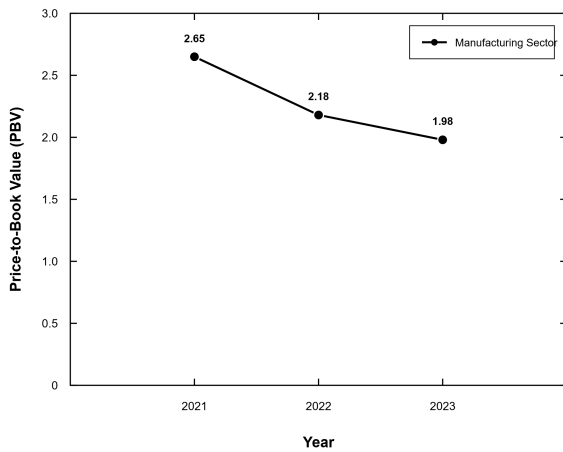


Fig. 1. Average PBV Trend of Manufacturing Firms, 2021–2023

corporate reporting and sustainable finance. Companies are increasingly required to disclose sustainability-related information as stakeholders seek more accountability for environmental impact, social contributions, and governance. ESG disclosure serves not just as compliance but also as a strategic tool to shape investor perceptions and market valuation. Data from various markets indicate that firms with stronger ESG practices generally enjoy higher market value, better financial results, and increased stakeholder trust (Aydoğmuş et al., 2022; Eccles et al., 2014; Giannopoulos et al., 2022; Velte, 2017).

From a signaling theory perspective, ESG disclosure acts as a positive signal from management to external stakeholders. When companies share ESG information consistently and transparently, they demonstrate managerial competence, risk awareness, and a commitment to sustainable, long-term value. This type of disclosure helps lower information gaps between managers and investors, especially when investors cannot fully assess the company's internal state. This view aligns with the wider signaling literature, which suggests that firms use credible information sharing to shape market perceptions and decrease uncertainty (Connelly et al., 2011; Spence, 1973).

Legitimacy theory forms a solid basis for understanding ESG disclosure. Companies function within a wider social context and are expected to align their actions with societal norms, environmental standards, and institutional pressures. By disclosing ESG information, firms show that their activities meet stakeholder expectations and societal values. This is particularly important for companies in industries with high environmental and social impacts, where maintaining legitimacy is crucial for keeping public trust, gaining regulatory approval, and ensuring long-term sustainability (Deegan, 2019; Dowling and Pfeffer, 1975; Suchman, 1995).

The manufacturing industry provides an important context for analyzing ESG disclosure, as manufacturing companies are closely connected to resource use, waste production, labor practices, supply chain oversight, and environmental risks. These factors highlight the importance of ESG disclosure for investors assessing whether companies can effectively manage sustainability-related challenges while sustaining financial results. Research shows that ESG practices tend to be more significant in sectors with higher environmental impact, because stakeholders exert greater pressure on these companies to act

responsibly and transparently (Garcia et al., 2017; Lee et al., 2025; Tarmuji et al., 2016).

The relationship between ESG disclosure and a company's value may differ depending on its financial health. Profitability is crucial because profitable firms generally have better resources to support sustainability initiatives, improve disclosure quality, and pursue long-term ESG objectives. When such firms release ESG information, investors tend to view these disclosures as more credible, given the company's strong financial standing. Previous research shows that profitability can enhance the significance of ESG disclosures by increasing the trustworthiness of sustainability signals and boosting market confidence (Balsalobre-Lorente et al., 2025; Ting et al., 2020; Wu et al., 2022).

Leverage may influence how ESG disclosure affects firm value. Companies with higher debt levels are subject to increased scrutiny from creditors and face greater pressure to show effective risk management. ESG disclosure can assist leveraged firms in alleviating concerns about both financial and non-financial risks by demonstrating transparency, accountability, and responsible governance. Conversely, excessive leverage may restrict managerial flexibility and limit investments in sustainability initiatives. As a result, leverage can either enhance or diminish the relevance of ESG disclosure to firm value, depending on how investors interpret the firm's financing structure and sustainability efforts (Aboud et al., 2019; Adu, 2022; Barros et al., 2013; Bilal et al., 2024; Eliwa et al., 2021; Gerged et al., 2025).

While previous research has extensively examined ESG disclosure and its influence on firm value, several gaps remain. First, many studies focus on the direct relationship between ESG and firm value, but fewer explore how internal financial conditions impact this link. Second, profitability and leverage are often treated as control variables rather than moderating factors, despite their potential to shape investor reactions to ESG disclosures. Finally, insights into manufacturing firms in emerging markets are particularly important because these firms typically face higher information asymmetry, weaker institutional support, and stricter financing constraints than firms in developed economies (Drempetic et al., 2020; Malik and Kashiramka, 2025; Mohammad and Wasiuzzaman, 2021).

This study enhances the existing literature by examining ESG disclosure as an indicator related to firm value, while also considering profitability and leverage as moderating factors. It expands the discussion beyond the simple relationship between ESG and firm value, providing a deeper insight into how financial performance and capital structure influence the market valuation of sustainability disclosures. The findings aim to guide managers, investors, creditors, and policymakers in understanding the importance of ESG transparency in increasing firm value, especially when it is complemented by solid profitability and an effective financing structure.

The remainder of this paper is organized as follows. Section 2 presents the theoretical foundations, related literature, and hypothesis development. Section 3 describes the research design, sample selection, data sources, variable measurement, and analytical method. Section 4 reports the empirical findings and discussion. Finally, Section 5 presents the conclusions, implications, limitations, and future research directions.

2. Literature Review

2.1 Theoretical Foundations

This research is based on signaling theory, which explains how companies communicate credible information to external parties to minimize information gaps. In capital markets, managers typically hold more knowledge than investors about corporate strategy, risk management, and future outlooks. ESG disclosure can serve as a positive signal by demonstrating the company's commitment to transparency, sustainability, good governance, and long-term value. When ESG information is shared regularly, investors may see the firm as having higher managerial quality and less uncertainty, thereby boosting market confidence and the company's value (Spence, 1973; Connelly et al., 2011; Fatemi et al., 2018).

Legitimacy theory underpins the link between ESG disclosure and firm value by highlighting that companies operate within a broader social system and must align their activities with societal expectations. Firms disclose environmental, social, and governance data to show their operations adhere to stakeholder norms, regulatory standards, and societal values. This is especially important for companies with significant environmental and social impacts, as ESG reporting helps sustain public trust, address legitimacy concerns, and enhance corporate reputation (Dowling and Pfeffer, 1975; Suchman, 1995; Deegan, 2019).

Signaling theory and legitimacy theory together offer a comprehensive explanation of how ESG disclosure might impact firm value and how financial factors, such as profitability and leverage, influence this link. Profitability boosts the credibility of ESG disclosures because financially strong firms are better positioned to fund sustainability projects. Meanwhile, leverage enhances stakeholder oversight and may prompt firms to use ESG disclosures to communicate risks and maintain legitimacy. Therefore, ESG disclosure serves as both a market signal and a legitimacy strategy, affecting investor perceptions and firm valuation (Eccles et al., 2014; Li et al., 2018; Malik and Kashiramka, 2025).

2.2 ESG Disclosure and Firm Value

ESG disclosure indicates how much companies communicate their environmental, social, and governance data to stakeholders. It serves as a measure of transparency in handling sustainability risks, social obligations, and governance practices. In capital markets, ESG disclosure is increasingly recognized as valuable non-financial information because it helps investors evaluate long-term resilience, management effectiveness, and risks beyond traditional financial metrics. Companies with more comprehensive ESG disclosures are likely to be viewed more favorably by the market, as investors gain a broader view of the company's sustainability efforts and future outlooks (Brooks and Oikonomou, 2018; Khamisu and Paluri, 2024; Li et al., 2018).

From a signaling theory perspective, ESG disclosure acts as a positive indicator that diminishes information asymmetry between management and investors. When companies transparently share ESG data, they demonstrate their dedication to responsible practices, sound governance, and long-term value creation. This signal can boost investor confidence, enhance corporate reputation, and increase market valuation. Existing research indicates that ESG disclosure and performance are

positively linked to firm value, as sustainability information helps shape investor perceptions and reduces uncertainty about future corporate outcomes (Aydoğmuş et al., 2022; Fatemi et al., 2018; Yoon et al., 2018).

According to legitimacy theory, ESG disclosures help firms gain and preserve social acceptance from stakeholders. When companies share ESG information, they demonstrate that they meet social, environmental, and regulatory standards, especially in sectors with notable environmental and social effects. This perceived legitimacy can boost stakeholder trust and improve the company's reputation, ultimately increasing its value. Empirical studies support this view, indicating that ESG disclosure enhances firm value by promoting transparency, fostering better stakeholder relationships, and boosting market confidence (Eccles et al., 2014; Li et al., 2018; Siew, 2017).

Therefore, firms with higher ESG disclosures are anticipated to have greater firm value because ESG information offers investors reliable signals about sustainability commitment, risk management, and governance quality. In this study, firm value is measured using the Price to Book Value (PBV), which indicates the market's evaluation of a company's prospects relative to its book value. Consequently, the first hypothesis is as follows:

H1: ESG disclosure positively affects firm value.

2.3 Moderating Role of Profitability in the Relationship between ESG Disclosure and Firm Value

Profitability indicates a company's ability to generate earnings from its assets and operations. In ESG disclosure, profitability matters because financially robust firms typically have more resources to pursue sustainability initiatives, enhance reporting quality, and sustain long-term ESG goals. When a profitable company shares ESG information, investors often see these disclosures as more trustworthy, since they are backed by genuine financial strength rather than mere symbolism. Research shows that profitability is strongly linked to firm value and can enhance the market significance of sustainability data (Balsalobre-Lorente et al., 2025; Giannopoulos et al., 2022; Velte, 2017).

From the perspective of signaling theory, profitability can enhance the message conveyed by ESG disclosure. ESG data reflects a company's dedication to responsible and sustainable practices, while profitability shows the company's capacity to support these commitments with sufficient financial resources. As a result, a combination of transparent ESG disclosure and high profitability can send a more powerful positive signal to investors. This duo can lower uncertainty, boost investor confidence, and raise market valuation, as investors see the firm as both financially stable and committed to sustainability (Connelly et al., 2011; Fatemi et al., 2018; Wu et al., 2022).

Empirical research indicates that the significance of ESG disclosure to firm value may hinge on financial performance. More profitable firms are better equipped to absorb ESG costs and leverage sustainability efforts for strategic gains, such as enhanced reputation, increased stakeholder trust, and easier access to capital. Consequently, profitability likely amplifies the positive link between ESG disclosure and firm value. Therefore, the second hypothesis is stated as follows:

H2: Profitability moderates the relationship between ESG disclosure and firm value.

2.4 Moderating Role of Leverage in the Relationship between ESG Disclosure and Firm Value

Leverage indicates how much a company depends on debt to support its assets and operations. In corporate finance, it is linked to risk, creditor oversight, and decisions about the capital structure. Companies with higher leverage often face increased pressure from creditors and investors to show financial discipline, effective risk management, and transparency. In this context, ESG disclosure becomes more relevant as it offers insights into how firms handle non-financial risks, governance standards, and commitments to long-term sustainability (Eliwa et al., 2021; Gerged et al., 2025; Malik and Kashiramka, 2025).

From a legitimacy theory viewpoint, companies with higher debt might face increased stakeholder scrutiny, as heavy debt use can heighten perceived financial risks. ESG disclosure can help firms uphold legitimacy by showing their ongoing commitment to responsible practices, even under financial stress. Transparent ESG communication may lower negative perceptions from stakeholders, boost creditor confidence, and enhance investor trust. Research shows that ESG disclosure matters to lenders and capital providers because it can reduce information gaps and lead to more positive risk evaluations (Barros et al., 2013; Malik and Kashiramka, 2025; Suchman, 1995).

Leverage might influence how ESG disclosure impacts firm value. When companies with higher leverage disclose ESG information, investors may see it as a way to mitigate risk and view it as a sign of good governance. However, high leverage can also restrict managerial flexibility and limit resources for sustainability efforts. Thus, understanding leverage's moderating role is crucial, as it reveals whether the capital structure enhances or diminishes the importance of ESG disclosure for firm value. Therefore, the third hypothesis is proposed as follows:

H3: Leverage moderates the relationship between ESG disclosure and firm value.

2.5 Conceptual Framework

This study's conceptual framework outlines the relationships among ESG disclosure, firm value, profitability, and leverage. ESG disclosure serves as the independent variable, reflecting the degree of corporate transparency in communicating environmental, social, and governance information to stakeholders. Firm value is the dependent variable, measured by Price-to-Book Value, which captures market perceptions of a company's prospects relative to its book value. Profitability and leverage are included as moderating variables because financial performance and capital structure can influence how investors interpret ESG disclosure in relation to firm value (Fatemi et al., 2018; Li et al., 2018).

Figure 2 shows that ESG disclosure likely directly boosts firm value because sharing sustainability information reduces information asymmetry, improves transparency, and builds investor trust. Profitability may also strengthen this link, as firms with higher earnings capacity are better equipped to support sustainability initiatives and deliver credible ESG signals to the market. Moreover, leverage can affect this relationship since higher debt levels might increase stakeholder scrutiny, making ESG disclosure more vital for risk management, legitimacy, and safeguarding investor confidence (Barros et al., 2013; Connelly

Table 1. Sample Selection Criteria

No.	Sample Selection Criteria	Number
1	Manufacturing firms listed on the Indonesia Stock Exchange during 2021–2023	–
2	Firms with complete financial statement data during 2021–2023	–
3	Firms with ESG disclosure data available in Bloomberg during 2021–2023	–
4	Firms meeting all purposive sampling criteria	61
5	Total observation period	3 years
6	Total firm-year observations	183

et al., 2011; Suchman, 1995).

3. Research Methodology

3.1 Research Design

This study uses a quantitative explanatory research design to explore the relationships between ESG disclosure, profitability, leverage, and firm value. The quantitative approach is suitable because it tests predefined hypotheses through numerical data and statistical analysis. Meanwhile, the explanatory design evaluates whether ESG disclosure impacts firm value and if profitability and leverage influence this relationship. ESG disclosure functions as the independent variable, firm value as the dependent variable, and profitability and leverage as moderating variables. The study covers the period from 2021 to 2023, reflecting the post-pandemic recovery phase when sustainability disclosure and investor focus on ESG issues gained increasing significance in capital markets. The empirical model is analyzed via Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS, a method well-suited for examining complex relationships involving direct and moderating effects among variables. This approach aligns with prior ESG research that investigates the relevance of ESG disclosure, financial performance, and capital structure in explaining corporate market valuation (Fatemi et al., 2018; Li et al., 2018; Malik and Kashiramka, 2025).

3.2 Population and Sample

The study's population includes manufacturing firms listed on the Indonesia Stock Exchange from 2021 to 2023. These firms are chosen because the sector is closely linked to ESG issues, including environmental responsibility, resource use, labor practices, production methods, and governance standards. Purposive sampling was used to select firms that meet specific data availability criteria: being listed during the study period, providing complete financial data from 2021 to 2023, and having ESG disclosure data in the Bloomberg database. This process resulted in 61 manufacturing firms being included in the final sample. Over three years, this yields 183 firm-year observations. This sampling method aligns with previous ESG research that analyzed firm-level sustainability and financial data to examine the relationships among ESG disclosures, financial performance, capital structure, and firm value (Atan et al., 2018; Dremptic et al., 2020; Giannopoulos et al., 2022; Gunawan et al., 2023).

3.3 Data Sources and Collection

This study draws on secondary data from corporate financial reports, the Indonesia Stock Exchange, and the Bloomberg database. Financial statement data are used to assess firm

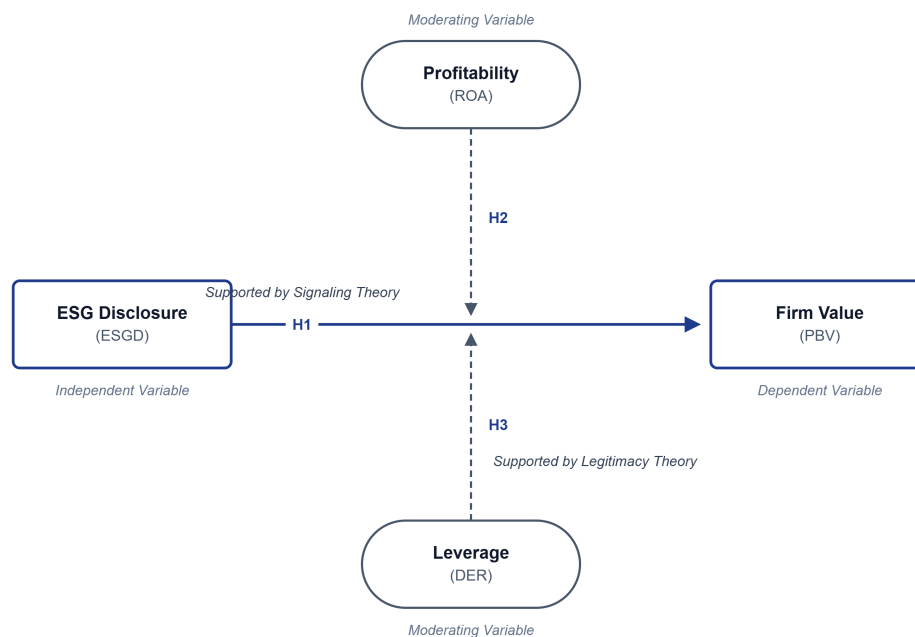


Fig. 2. Conceptual Framework

value, profitability, and leverage, while ESG disclosure data are sourced from Bloomberg ESG scores to ensure consistent and comparable ESG information across firms and years. The data collection involved identifying manufacturing firms listed on the Indonesia Stock Exchange from 2021 to 2023, screening for data availability, and compiling the relevant variables for each firm-year observation. The final dataset includes ESG disclosure, Price-to-Book Value, Return on Assets, and Debt-to-Equity Ratio. These data were analyzed using SmartPLS to evaluate the structural model through descriptive statistics, the coefficient of determination, predictive relevance, model fit, effect size, and hypothesis testing based on path coefficients, t-statistics, and p-values. The use of Bloomberg ESG data and firm-level financial information aligns with previous research examining ESG disclosure, financial performance, capital structure, and firm value using standardized market and accounting datasets (Giannopoulos et al., 2022; Li et al., 2018; Malik and Kashiramka, 2025; Mohammad and Wasiuzzaman, 2021).

3.4 Operational Definition of Variables

This study focuses on four key variables: ESG disclosure, firm value, profitability, and leverage. ESG disclosure is the independent variable, indicating how much firms share environmental, social, and governance information with stakeholders. Firm value, the dependent variable, is measured by Price to Book Value (PBV), which shows market valuation relative to the company's book value. Profitability and leverage are moderating variables, assessed through Return on Assets (ROA) and Debt to Equity Ratio (DER). Additionally, two interaction terms are created to analyze how profitability and leverage influence the link between ESG disclosure and firm value. As shown in Table 2, all variables are measured using ratio-scale indicators, ensuring comparability across firms and years. These measures align with previous research that uses

ESG scores, PBV, ROA, and DER to explore relationships among sustainability disclosure, financial performance, capital structure, and firm value (Fatemi et al., 2018; Giannopoulos et al., 2022; Malik and Kashiramka, 2025).

3.5 Data Analysis Technique

The data analysis employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS software. PLS-SEM was chosen because it effectively examines complex relationships, including both direct and moderating effects among variables, especially in predictive models and studies with smaller sample sizes. The analysis involved several steps: starting with descriptive statistics to characterize the variables, then evaluating the structural model through R-square, Q-square, Normed Fit Index, and f-square, followed by hypothesis testing with path coefficients, t-statistics, and p-values obtained from bootstrapping. A hypothesis is supported if the t-statistic exceeds 1.96 and the p-value is below 0.05. This method aligns with prior ESG and corporate finance research on sustainability disclosure, financial performance, capital structure, and firm value using multivariate structural models (Giannopoulos et al., 2022; Malik and Kashiramka, 2025). The research model is outlined as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_1 Z_1 + \beta_3 X_1 Z_2 + \varepsilon \quad (1)$$

where:

Y = Firm Value

α = Constant

β = Regression coefficient

X_1 = ESG Disclosure

Z_1 = Profitability

Z_2 = Leverage

$X_1 Z_1$ = Interaction between ESG Disclosure and Profitability

$X_1 Z_2$ = Interaction between ESG Disclosure and Leverage

Table 2. Operational Definition of Variables

Variable	Symbol	Operational Definition	Measurement	Scale
ESG Disclosure	ESGD	The extent to which a firm reports environmental, social, and governance information as part of its sustainability and transparency practices.	ESG Score or ESG Disclosure Index obtained from Bloomberg	Ratio
Firm Value	PBV	Market assessment of a firm's value relative to its book value of equity.	$PBV = \text{Market Price per Share} / \text{Book Value per Share}$	Ratio
Profitability	ROA	The firm's ability to generate net income from the total assets employed in its operations.	$ROA = \text{Net Income} / \text{Total Assets} \times 100\%$	Ratio
Leverage	DER	The proportion of debt financing used by the firm relative to shareholders' equity.	$DER = \text{Total Debt} / \text{Total Equity}$	Ratio
ESG Disclosure \times Profitability	ESGD \times ROA	The interaction term is used to assess whether profitability moderates the relationship between ESG disclosure and firm value.	ESGD \times ROA	Ratio
ESG Disclosure \times Leverage	ESGD \times DER	The interaction term is used to assess whether leverage moderates the relationship between ESG disclosure and firm value.	ESGD \times DER	Ratio

Table 3. Descriptive Statistics of Research Variables

Variable	Mean	Median	Min.	Max.	SD
ESGD	48.5530	50.3770	17.6740	76.2600	11.7870
ROA	6.3980	5.7380	-19.0980	34.5900	7.3990
DER	0.5920	0.4110	0.0020	4.1100	0.6910
PBV	2.5900	1.1170	0.2330	44.8570	5.2820

ε = Error term

4. Results and Discussion

4.1 Descriptive Statistical Analysis

Descriptive statistics were conducted to provide a preliminary overview of the distribution and variability of the research variables before assessing the structural model. As shown in Table 3, ESG disclosure has an average of 48.5530 and a median of 50.3770, with a range of 17.6740 to 76.2600. This suggests that, on average, firms exhibit a moderate level of ESG disclosure, although the broad range and standard deviation of 11.7870 reflect notable differences in ESG transparency among firms. Profitability, measured by ROA, has a mean of 6.3980 and a median of 5.7380, indicating that most firms earned positive returns during the period, despite some firms experiencing losses, as indicated by the minimum value of -19.0980. The maximum value of 34.5900 points to significant variability in profitability. Leverage, as assessed via DER, has a mean of 0.5920 and a median of 0.4110, suggesting that most firms relied more on equity than on debt. However, with a maximum DER of 4.1100, some firms had high debt levels. Firm value, indicated by PBV, has a mean of 2.5900 and a median of 1.1170, with a range from 0.2330 to 44.8570. The high standard deviation of 5.2820 indicates a wide spread in market valuation, suggesting that investors highly valued some firms over others based on financial results, sustainability disclosure, and market expectations.

4.2 Structural Model Evaluation

The structural model evaluation was carried out to determine how well the proposed research model explains and predicts outcomes. During this process, SmartPLS was used to analyze the relationships between ESG disclosure, firm value, profitability, and leverage. The assessment emphasized key indicators such as the coefficient of determination, predictive relevance, overall model fit, effect size, and the significance

Table 4. Coefficient of Determination

Variable	R-square	Adjusted R-square
PBV	0.4820	0.4670

of paths. These metrics help establish whether the model is statistically suitable for explaining firm value and if the data support the hypothesized direct and moderating relationships.

Figure 3 displays the results of the SmartPLS structural model. It shows that firm value, measured by PBV, has an R-square of 0.482. This means ESG disclosure, along with the moderating roles of profitability and leverage, explains 48.2% of the variation in firm value. The figure also highlights the significance levels for the structural paths, indicating a significant direct effect of ESG disclosure on firm value. Additionally, the interaction effects with profitability and leverage are statistically significant. These findings provide preliminary evidence that ESG disclosure enhances firm value, with this relationship being influenced by firms' profitability and leverage.

The coefficient of determination was evaluated using the R-square value to measure the explanatory power of the structural model. As shown in Table 4, the R-square for firm value is 0.4820, with an adjusted R-square of 0.4670. These figures indicate that ESG disclosure, profitability, leverage, and the interaction effects between ESG disclosure and moderating variables account for 48.2% of the variation in firm value. This level of explanatory power is considered adequate, given that firm value is a market-based variable influenced by both internal corporate factors and external market conditions. The adjusted R-square of 0.4670 also suggests that the model remains stable after accounting for the number of predictors. The remaining 51.8000% of the variation in firm value may be attributed to other factors outside the model, such as firm size, growth opportunities, dividend policy, ownership structure, macroeconomic conditions, investor sentiment, and industry-specific traits. Overall, the R-square indicates that the proposed model has enough explanatory power to analyze how ESG disclosure, profitability, and leverage influence firm value.

Predictive relevance was evaluated using the Q-square value to determine if the structural model can predict the endogenous variable. In PLS-SEM, a Q-square greater than zero signifies the model's predictive relevance, indicating it can explain relationships among variables and forecast the dependent

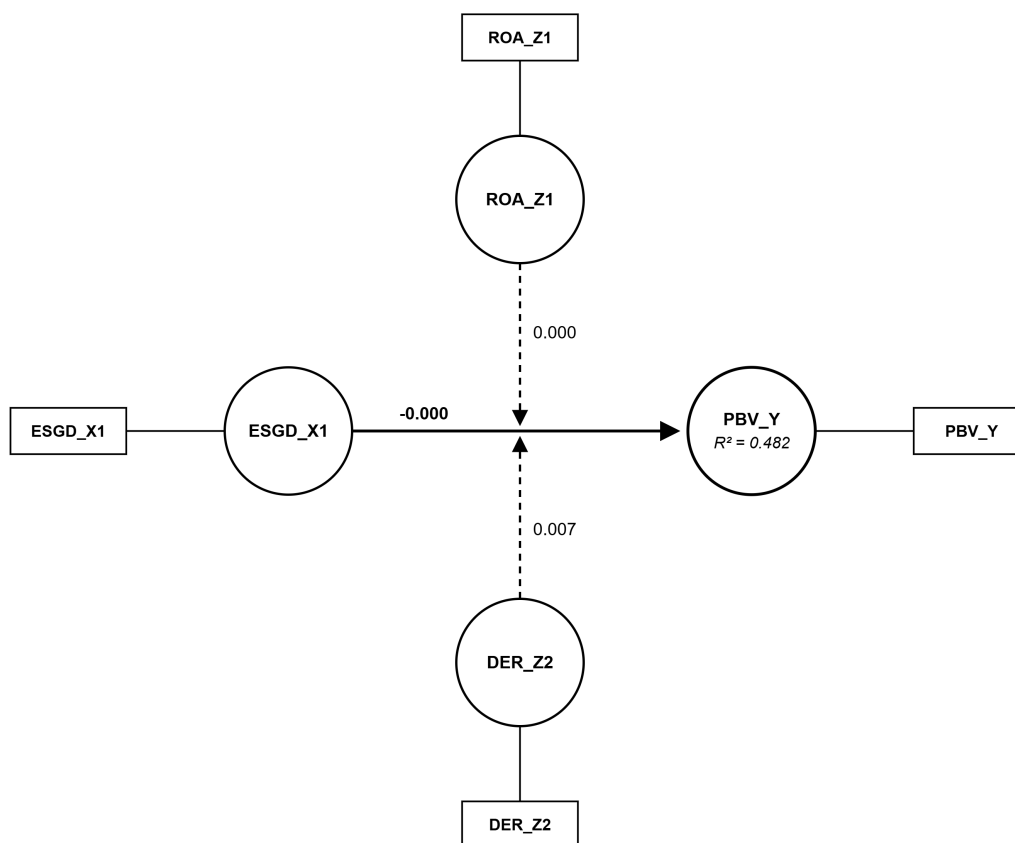


Fig. 3. SmartPLS Structural Model Results

Table 5. Predictive Relevance

Variable	Q-square Predict
PBV	0.3530

construct. As shown in Table 5, the Q-square for firm value is 0.3530. Since this exceeds zero, the model shows sufficient predictive relevance for PBV. This suggests that ESG disclosure, profitability, leverage, and their interactions offer meaningful predictive insights into firm value for the sampled manufacturing firms. The Q-square value also affirms the model's adequacy, demonstrating that the included variables are relevant for predicting market-based firm valuation. Consequently, the structural model is suitable for further hypothesis testing and analysis.

Model fit was assessed using the Normed Fit Index (NFI) to determine the overall adequacy of the structural model. NFI measures how well the proposed model aligns with the observed data, with higher values indicating a better fit. As shown in Table 6, the NFI is 0.7760, suggesting the model has an acceptable fit for further analysis. This outcome implies that the model structure is sufficiently appropriate for explaining the relationships among ESG disclosure, profitability, leverage, and firm value. Although the NFI does not indicate a perfect fit, it supports the model's adequacy in capturing the primary structural relationships examined in this study. Consequently, the model is suitable for evaluating the direct impact of ESG disclosure on firm value, as well as the moderating effects of profitability and leverage.

Table 6. Model Fit Indices

Model Fit Index	Value
Normed Fit Index	0.7760

Table 7. Effect Size

Relationship	f-square	Interpretation
ESGD → PBV	0.1640	Moderate effect
ROA × ESGD → PBV	0.4090	Strong effect
DER × ESGD → PBV	0.0660	Small effect

Effect size was measured using the f-square value to assess how much each predictor influences the endogenous variable. This value reflects the strength of each independent variable or interaction term in contributing to firm value. In this study, effect size helps evaluate the impact of ESG disclosure and the moderating roles of profitability and leverage on firm value. As shown in Table 7, ESG disclosure has an f-square of 0.1640, indicating a moderate effect on firm value. The interaction between profitability and ESG disclosure has an f-square of 0.4090, showing a strong moderating effect. Conversely, the interaction between leverage and ESG disclosure has an f-square of 0.0660, indicating a small but significant moderating effect. These findings demonstrate that profitability most strongly enhances the relationship between ESG disclosure and firm value.

Table 8. Direct and Moderating Effects

Hypothesis	Relationship	Original Sample	T-statistic	P-value	Decision
H1	ESGD \rightarrow PBV	0.3180	4.8790	0.0000	Supported
H2	ROA \times ESGD \rightarrow PBV	0.5270	3.8900	0.0000	Supported
H3	DER \times ESGD \rightarrow PBV	0.3400	2.6870	0.0070	Supported

4.3 Hypothesis Testing

Hypothesis testing assessed the direct impact of ESG disclosure on firm value, as well as the moderating roles of profitability and leverage. The process relied on bootstrapping results from SmartPLS, focusing on path coefficients, t-statistics, and p-values. A hypothesis is supported if the t-statistic exceeds 1.96 and the p-value is below 0.05. As shown in Table 8, ESG disclosure significantly and positively influences firm value. The path coefficient is 0.3180, with a t-statistic of 4.8790 and a p-value of 0.0000. These findings demonstrate that greater ESG disclosure is associated with higher firm value, supporting H1. This implies that ESG disclosures offer important non-financial insights that can boost investor confidence and enhance market valuation.

Table 8 also demonstrates that profitability significantly moderates the link between ESG disclosure and firm value. The interaction term between ROA and ESG disclosure has a coefficient of 0.5270, a t-statistic of 3.8900, and a p-value of 0.0000. These findings suggest that higher profitability amplifies the positive impact of ESG disclosure on firm value. Therefore, H2 is supported. This indicates that ESG disclosure becomes more relevant to value when firms are more profitable. Additionally, Table 8 reveals that leverage also significantly moderates the relationship between ESG disclosure and firm value. The interaction of DER with ESG disclosure has a coefficient of 0.3400, a t-statistic of 2.6870, and a p-value of 0.0070. Since the t-statistic exceeds 1.96 and the p-value is below 0.05, H3 is confirmed. This shows that leverage moderates the effect of ESG disclosure on firm value, though its effect appears weaker than that of profitability.

4.4 Discussion

Empirical evidence shows that ESG disclosure positively and significantly impacts firm value, as indicated by PBV. This implies that manufacturing companies with higher ESG disclosure levels tend to receive more favorable market valuations from investors. According to signaling theory, ESG disclosure offers credible non-financial information about corporate transparency, sustainability efforts, governance standards, and long-term risk management. When firms provide more detailed ESG information, investors may see them as more responsible and better equipped to handle future environmental, social, and governance challenges. This aligns with previous research demonstrating that ESG disclosure and performance enhance firm value by reducing information gaps, boosting investor confidence, and improving corporate reputation (Spence, 1973; Connelly et al., 2011; Fatemi et al., 2018; Li et al., 2018).

The positive link between ESG disclosure and firm value further confirms that capital markets are increasingly valuing sustainability-related data in investment decisions. Investors now rely not only on traditional accounting metrics but also on non-financial information that indicates a company's resilience and long-term strategy. Consequently, ESG disclosure can serve

as a tool to enhance value by helping stakeholders evaluate a firm's ability to manage environmental responsibilities, social expectations, and governance risks. This finding aligns with previous research showing that companies with robust ESG practices tend to enjoy better market perception and higher valuation because ESG information increases transparency and reduces uncertainty about future performance (Aydođmuş et al., 2022; Brooks and Oikonomou, 2018; Yoon et al., 2018; Khamisu and Paluri, 2024).

This finding is particularly relevant for manufacturing firms because this sector is closely associated with resource consumption, emissions, waste generation, labor practices, supply-chain governance, and operational risks. Manufacturing firms are often exposed to stronger public scrutiny because their activities can directly affect environmental quality and community welfare. From the perspective of legitimacy theory, companies disclose ESG information to demonstrate that their operations are consistent with societal expectations and institutional norms. Therefore, stronger ESG disclosure can help manufacturing firms maintain social acceptance, reduce reputational risk, and strengthen market credibility. This supports the argument that ESG disclosure acts both as a reporting tool and as a strategic legitimacy mechanism that can contribute to higher firm value (Dowling and Pfeffer, 1975; Suchman, 1995; Deegan, 2019; Siew, 2017).

The second finding reveals that profitability plays a significant moderating role in the link between ESG disclosure and firm value. The positive interaction coefficient between ROA and ESG disclosure suggests that higher profitability amplifies the impact of ESG disclosure on firm value. This indicates that ESG disclosures have a greater influence on firm value when companies are more profitable. Profitable firms are better equipped with resources to support sustainability initiatives, enhance ESG reporting quality, and uphold long-term stakeholder commitments. Consequently, investors tend to view ESG disclosures from profitable firms as more credible and less superficial. These results align with previous research indicating that profitability strengthens the connection between ESG practices and firm value by enhancing the credibility of sustainability signals (Velte, 2017; Giannopoulos et al., 2022; Balsalobre-Lorente et al., 2025).

In signaling theory, profitability enhances ESG disclosure by indicating that a company's sustainability commitments are backed by genuine financial strength. A profitable firm can cover ESG expenses, invest in environmental and social projects, improve governance systems, and maintain disclosure quality without harming its operational results. Consequently, high ESG disclosure combined with strong profitability offers a more credible signal to investors. Market participants may see this combination as proof that the firm is both committed to sustainability and financially capable of maintaining those commitments. Therefore, profitability strengthens the credibility of ESG disclosure and increases its value relevance in capital market assessment (Fatemi et al.,

2018; Mohammad and Wasiuzzaman, 2021; Giannopoulos et al., 2022; Ting et al., 2020).

The third finding confirms that leverage also moderates the relationship between ESG disclosure and firm value. The significant positive interaction between DER and ESG disclosure shows that leverage affects how ESG disclosure impacts firm value. Firms with higher leverage tend to face more oversight from creditors and investors because debt heightens financial risk and repayment obligations. In such cases, ESG disclosure can help firms demonstrate transparency, risk management capability, and responsible governance to external stakeholders. This supports the idea that ESG disclosure is important not only for equity investors but also for creditors and capital providers who evaluate firm risk and long-term sustainability (Eliwa et al., 2021; Gerged et al., 2025; Malik and Kashiramka, 2025).

From the perspective of legitimacy theory, leveraged firms might use ESG disclosures to sustain stakeholder trust under increased financial pressure. When firms depend more on debt, stakeholders become more concerned about business continuity, financial flexibility, and risk management. ESG disclosures can help alleviate these concerns by demonstrating the firm's dedication to responsible practices and transparent governance. However, the influence of leverage is weaker compared to profitability, suggesting that capital structure acts as a moderating factor but is less influential than financial performance. This implies that while leverage can heighten the importance of ESG disclosures as a risk communication tool, excessive debt may still restrict the firm's ability to pursue sustainability initiatives effectively (Suchman, 1995; Adu, 2022; Malik and Kashiramka, 2025).

Overall, the findings show that ESG disclosure is a key tool for increasing firm value, but its influence depends on the company's financial condition. Profitability is the most significant moderator because it enhances the credibility of ESG reporting and indicates that sustainability efforts are backed by sufficient financial resources. Leverage also significantly affects the relationship by drawing stakeholder attention to risk management and transparency, although its effect is relatively weaker. These findings expand previous ESG research by highlighting that the link between ESG disclosure and firm value is not purely direct, but also affected by financial performance and capital structure. This evidence enriches the ongoing debate on sustainability reporting, corporate finance, and value creation, particularly for firms in emerging markets (Eccles et al., 2014; Dremptic et al., 2020; Siew, 2017; Malik and Kashiramka, 2025).

5. Conclusion

This study investigates how ESG disclosure affects firm value and how profitability and leverage moderate this relationship. Focusing on manufacturing firms listed on the Indonesia Stock Exchange from 2021 to 2023, findings reveal that ESG disclosure significantly and positively influences firm value. This indicates that investors consider ESG disclosures important, as they reflect transparency, a commitment to sustainability, solid governance, and effective long-term risk management. Additionally, profitability strengthens the connection between ESG disclosure and firm value, as more profitable firms are better positioned to promote ESG initiatives and communicate credible sustainability information. Leverage also impacts this relationship, although its effect is less significant than

profitability. It suggests that ESG reporting can help communicate risk for highly leveraged firms, yet maintaining financial flexibility remains essential for sustainability. Overall, the study shows that ESG disclosure adds value to a firm when supported by strong financial results and an appropriate capital structure.

Theoretical Implications

This study contributes to the ESG and corporate finance literature by deepening the understanding of how ESG disclosure affects firm value. The findings support signaling theory, showing that ESG disclosure serves as a credible signal that reduces information asymmetry and strengthens investor confidence. The positive effect of ESG disclosure on firm value indicates that sustainability information is relevant to capital market valuation. This study further endorses legitimacy theory by demonstrating that ESG disclosure helps firms preserve stakeholder trust and market acceptance, especially in industries with significant environmental and social impacts. Additionally, by including profitability and leverage as moderating factors, the research shows that the importance of ESG disclosure for firm value varies with a company's financial health.

Practical Implications

For corporate managers, the findings highlight that ESG disclosure should be viewed as a strategic tool for creating value rather than just a reporting requirement. Enhancing the quality, consistency, and transparency of ESG information can boost investor confidence. Managers also need to ensure that ESG efforts are supported by strong financial performance so that sustainability disclosures are seen as credible by the market. For investors and creditors, the findings suggest that ESG disclosure can serve as an additional factor in assessing firm value, managing risks, and understanding long-term business prospects. For policymakers and regulators, this research emphasizes the importance of promoting better ESG reporting practices, particularly among manufacturing firms, to enhance transparency, market confidence, and sustainable corporate growth.

Research Limitations

This study has several limitations. First, it only considers manufacturing companies listed on the Indonesia Stock Exchange, which could limit how applicable the findings are to other sectors with different traits and ESG-related exposures. Second, the data from 2021 to 2023 might not capture the full long-term effects of ESG disclosure on company value. Third, ESG scores from Bloomberg are used as the main measure of ESG disclosure; even though these scores are standardized, inconsistencies could arise due to differences among rating agencies and reporting standards. Lastly, the study focuses solely on profitability and leverage as moderating factors, while other firm-specific and external variables may also influence the link between ESG disclosure and company value.

Future Research Directions

Future research could broaden the sample by including firms from additional sectors or conducting cross-country analyses to enhance the generalizability of the findings. Extending the observation period is also advisable to better understand the long-term relationship between ESG disclosure and firm

value, particularly as ESG regulations and investor awareness evolve. Additionally, future studies might compare ESG data from various rating providers or analyze the distinct impacts of environmental, social, and governance factors. Incorporating other moderating or mediating variables—such as firm size, ownership structure, financial constraints, governance quality, green innovation, or cost of capital—could further deepen the understanding of how ESG disclosure influences firm value.

Declarations

CRedit authorship contribution statement

Rizky Amelia: Conceptualization, Methodology, Investigation, Data collection, Data curation, Formal analysis, Software, Visualization, Writing—original draft.

Diana Puspitasari: Supervision, Validation, Methodological refinement, Theoretical framework development, Writing—review & editing.

Amalia Nur Chasanah: Literature review, Data interpretation, Research design refinement, Critical revision, Writing—review & editing.

Dian Prawitasari: Statistical analysis support, Data verification, Financial variable interpretation, Visualization, Writing—review & editing.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have influenced the work reported in this paper. The authors also confirm that there are no professional, institutional, or personal relationships that may be perceived as affecting the objectivity, integrity, or interpretation of the research findings.

Funding

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. All research activities, including data collection, data processing, analysis, and manuscript preparation, were carried out independently by the authors.

Data availability statement

The data that support the findings of this study are available from the corresponding author upon reasonable request. The data were obtained from publicly accessible corporate financial reports, the Indonesia Stock Exchange, and Bloomberg ESG data. Access to some ESG data may be subject to database subscription restrictions and institutional data-use policies.

Ethics statement

This study uses secondary data obtained from corporate financial reports, the Indonesia Stock Exchange, and Bloomberg ESG data for manufacturing firms listed in Indonesia. The research does not involve direct interaction with human participants and does not collect sensitive personal information. All data were analyzed in accordance with academic integrity, responsible data handling, transparency, and objective analysis principles.

Informed consent statement

This study relies exclusively on secondary data and does not involve human participants, interviews, experiments, or survey responses. Therefore, informed consent was not required. The data used in this study were collected from publicly available reports and recognized financial and ESG databases.

Use of generative AI and AI-assisted technologies

During the preparation of this manuscript, the authors may have used AI-assisted tools to support language refinement, grammar checking, formatting consistency, and improvements in readability. All intellectual content, conceptual development, data interpretation, analysis, and final conclusions were reviewed, verified, and approved by the authors. The authors take full responsibility for the accuracy, integrity, and originality of the final manuscript.

Acknowledgements

The authors express sincere gratitude to the Faculty of Economics and Business, Universitas Dian Nuswantoro, Indonesia, for providing academic support during the completion of this study. Appreciation is also extended to the Indonesia Stock Exchange and the Bloomberg database for providing financial and ESG-related information that supported the empirical analysis of this research.



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