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The Effect of Environmental, Social, and Governance Disclosure and Financial Performance on Firm Value

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ABSTRACT

This study aims to examine the effect of Environmental, Social, and Governance (ESG) disclosure and financial performance on firm value in companies listed in the IDX ESG Leaders index during the 2020–2024 period. ESG disclosure is measured through the Environmental, Social, and Governance dimensions, while financial performance is proxied by Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER). Firm value is measured using Tobin's Q. This study employs a quantitative approach using secondary data obtained from the annual reports and sustainability reports of the sample companies. The sample was selected using a purposive sampling technique, resulting in 17 companies with 85 observations. After conducting outlier treatment using the standardized residual method, three observations were excluded, resulting in a final sample of 82 observations with an unbalanced panel data structure. The data were analyzed using panel data regression with EViews 13. The results indicate that ESG disclosure and financial performance jointly have a significant effect on firm value. Partially, the Environmental and Social dimensions, as well as the Current Ratio, have no significant effect on firm value. In contrast, the Governance dimension and the Debt-to-Equity Ratio have a significant negative effect on firm value, while Return on Assets has a significant positive effect on firm value. These findings suggest that profitability is the primary factor driving firm value, whereas corporate governance practices and high leverage levels have not been able to enhance investors' perceptions of firm value.

Keywords: ESG Disclosure, Environmental, Social, Governance, Financial Performance, Firm Value, Tobin's Q.

BACKGROUND

The dynamic development of the global economy has contributed to Indonesia's economic growth and increased corporate activities in the capital market. This condition is reflected in the rising number of companies conducting initial public offerings on the Indonesia Stock Exchange (IDX), which has intensified competition in attracting investor confidence (Santoso & Junaeni, 2022). In this context, firm value has become an important indicator representing the market's perception of a company's performance and future prospects. A high firm value indicates a company's ability to generate economic value for shareholders and enhances its attractiveness to investors (Mercyana et al., 2022; Rosyadah & Takarini, 2024). However, fluctuations in firm value on the IDX during the 2020–2024 period, including the impact of the COVID-19 pandemic and the subsequent economic recovery, suggest that firm

value is not solely determined by financial performance but is also influenced by non financial factors that shape investor perceptions.

Along with the growing emphasis on sustainable investment, investors are increasingly considering Environmental, Social, and Governance (ESG) practices as key indicators of corporate sustainability and long term risk management (Alareeni & Hamdan, 2020). In response to this trend, the Indonesia Stock Exchange launched the IDX ESG Leaders index in 2020 in collaboration with Sustainalytics to identify companies with strong ESG performance and promote sustainable investment in Indonesia. Nevertheless, empirical evidence regarding the effect of ESG disclosure on firm value remains inconsistent, with previous studies reporting positive, negative, and insignificant results. In addition, research that integrates ESG disclosure and financial performance within a single framework, particularly in the context of IDX ESG Leaders companies, is still limited. Based on this research gap, this study aims to examine the effect of ESG disclosure, comprising environmental, social, and governance dimensions as well as financial performance proxied by Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER) on firm value measured by Tobin's Q among companies listed in the IDX ESG Leaders during the 2020–2024 period.

THEORETICAL FRAMEWORK

Signaling Theory

Signaling Theory, proposed by Spence (1973), explains how companies use credible information to reduce information asymmetry between management and external stakeholders. In the corporate context, ESG disclosure serves as a potential positive signal of a firm's commitment to sustainability, transparency, and long term value creation, while financial indicators such as Return on Assets (ROA, Current Ratio (CR), and Debt to Equity Ratio (DER) provide signals regarding profitability, liquidity, and financial risk. Timely, relevant, and reliable information enables investors to better assess a company's performance and future prospects, influencing their investment decisions and market perceptions. Accordingly, stronger ESG disclosure and favorable financial performnace are generally expected to enhance investor confidence and firm value, althought the strength and direction of these signals depend on their credibility and how they are interpreted by the market (Hartati et al., 2022; Safriani & Utomo, 2020)

Firm Value

Firm value reflects investor's perception of a company's performance, future prospects, and ability to create sustainable shareholder wealth. For publicly listed firms, it is closely associated with stock prices, which incorporate market expectations regarding profitability, growth opportunities, and financial risk (Irnawati, 2021; Ningrum, 2022). Maximizing firm value therefore represents an important corporate objective because it reflects management's effectiveness in utilizing resources and creating long term value for shareholders (Berliansyah Putra et al., 2022; Mercyana et al., 2022). In this study, firm value is measured using Tobin's Q, which considers market valuation relative to the replacement cost of corporate assets and therefore provides a broader representation of investor's expectations and market perceptions of current performance and future growth opportunities.

International Journal of Current Economics & Business Ventures, 6 (1) 2026, 300-317
International Journal of Current Economics & Business Ventures
https://scholarsnetwork.org/journal/index.php/ijeb

Environmental, Social, and Governance (ESG)

1. Environmental Disclosure

Environmental disclosure refers to the communication of information related to a company's environmental policies, practices, and performance, reflecting its commitment to environmental sustainability and corporate accountability. As stakeholder expectations and environmental awareness continue to increase, companies are encouraged to disclose information regarding resource utilization, energy efficiency, greenhouse gas emissions, waste management, biodiversity, and environmental innovation through their sustainability reports. In this study, environmental disclosure is measured using the Disclosure Index based on content analysis of the company's sustainability reports. Each environmental disclosure item is assigned a score of 1 if disclosed and 0 if not disclosed, and the disclosure index is calculated using the following formula:

$$E_{Index} = \frac{\sum X_E}{N_E}$$

2. Social Disclosure

Social disclosure refers to the communication of information regarding a company's social responsibilities, policies, and performance through corporate reports, particularly sustainability reports, to demonstrate its commitment to stakeholders and sustainable development. This disclosure encompasses information related to labor practices, employee welfare, human rights, product responsibility, community engagement, and other social initiatives that contribute to long-term corporate sustainability. In this study, social disclosure is measured using the Disclosure Index based on content analysis of the company's sustainability reports. Each social disclosure item is assigned a score of 1 if disclosed and 0 if not disclosed, and the disclosure index is calculated using the following formula:

$$S_{Index} = \frac{\sum X_E}{N_E}$$

3. Governance Disclosure

Governance disclosure refers to the communication of information regarding the policies, principles, structures, and procedures that guide and monitor a company's operations to ensure accountability, transparency, and effective decision-making. Within the Environmental, Social, and Governance (ESG) framework, the governance dimension reflects the quality of corporate governance practices, including board oversight, shareholder rights, executive management, business ethics, and corporate responsibility. In this study, governance disclosure is measured using the Disclosure Index based on content analysis of the company's sustainability reports. Each governance disclosure item is assigned a score of 1 if disclosed and 0 if not disclosed, and the governance disclosure index is calculated using the following formula:

$$G_{Index} = \frac{\sum X_E}{N_E}$$

International Journal of Current Economics & Business Ventures, 6 (1) 2026, 300-317
International Journal of Current Economics & Business Ventures
https://scholarsnetwork.org/journal/index.php/ijeb

Financial Performance

1. Return on Assets (ROA)

   Return on Assets (ROA) is a profitability ratio that measures a company's ability to generate net income from its total assets, reflecting how efficiently management utilizes corporate resources to create earnings. A higher ROA indicates that the company is more effective in converting its asset base into profits, demonstrating superior operational performance and efficient asset utilization. According to Hery (2019), ROA is calculated by dividing net income by total assets, as expressed in the following formula:

$$Return\ on\ Assets\ (ROA) = \frac{Net\ Income}{Total\ Asset}$$

2. Current Ration (CR)

   Current Ratio (CR) is a liquidity ratio that measures a company's ability to meet its short-term financial obligations using its current assets. This ratio reflects the firm's short-term financial strength and indicates the margin of safety available to creditors and investors. A higher Current Ratio suggests that the company has sufficient liquid resources to settle its current liabilities as they become due, thereby reducing liquidity risk and enhancing financial stability. According to Hery (2019), the Current Ratio is calculated by dividing current assets by current liabilities, as expressed in the following formula:

$$Current\ Ratio = \frac{Current\ Asset}{Current\ Liability}$$

3. Debt to Equity Ratio (DER)

   Debt to Equity Ratio (DER) is a leverage ratio that measures the proportion of a company's total debt relative to its shareholders' equity, indicating the extent to which the company's operations are financed through debt rather than equity. This ratio reflects the firm's capital structure and financial risk, as a higher DER indicates greater reliance on external financing, while a lower DER suggests a stronger equity position and lower financial risk. According to Harahap (2018), a lower debt to equity ratio is generally considered more favorable because it demonstrates that shareholders' equity is sufficient to cover the company's obligations to external creditors, thereby providing greater financial security. In this study, the Debt-to-Equity Ratio is measured using the following formula:

$$Debt\ to\ Equity\ Ratio\ (DER) = \frac{Total\ Liability}{Total\ Equity}$$

Hypothesis Development

Environmental disclosure provides information regarding a company's resource use, emissions, and environmental initiatives, reflecting its commitment to environmental responsibility and risk management. From the perspective of Signaling Theory, such disclosure can serve as a positive signal to investors by demonstrating environmental commitment, reducing information asymmetry, and strengthening corporate credibility (Husnaini et al., 2023). Positive environmental practices may enhance as credible indicators of responsible business practices. This argument is supported by Nasution et al. (2024), who found a positive and significant relationship between environmental disclosure and firm value, while Qodary & Tambun (2021) suggest that ESG related practices can influence market perceptions and investment decisions.

H1a: Environmental Disclosure has a positive effect on firm value.

Social disclosure provides non financial information regarding a company's relationship with employees, customers, communities, and other stakeholders, reflecting its commitmnet to social responsibility and long term sustainability. From the perspective of Signaling Theory, social disclosure can serve as a positive signal by demonstrating ethical practices, stakeholder commitment, and responsible business conduct, thereby reducing perceived risk and strengthening investor confidence (Ikrima & Asrori, 2020). Effective social performance may generate long term benefits through improved reputation and stakeholder relationships, which can enhance firm value, this argument is supported by Melinda & Wardhani (2020), who found that ESG dislcosure has a significant positive effect on firm value.
H1b: Social Disclosure has a positive effect on firm value.

Governance disclosure provides information regarding corporate governance practices, CSR strategies, stakeholder engagement, transparency, accountability, and risk management. From the perspective of Signaling Theory, effective governance disclosure can serve as a positive signal of corporate quality and long term stability by reducing information asymmetry and perceived agency risks, thereby strengthening investor confidence and potentially increasing firm value (Triyani et al., 2021). This argument is supported by Desmonda & Yanti (2024), who found that governance sustainability disclosure significantly affects stock prices, indicating its potential contrubution to firm value.
H1c: Governance Disclosure has a positive effect on firm value.

High profitability is generally perceived as a favorable indicator by investors because it reflects the company's ability to generate returns and utilize its resources effectively. From the perspective of Signaling Theory, a high Return on Assets (ROA) provides a postive signal regarding management efficiency and the company's ability to generate future profits, thereby reducing information asymmetry and strengthening investor confidence. Increased investor demand may subsequently raise stock prices and enhance firm value. This argument is supported by Safitri et al. (2023) and Maryatmi & Fahamsyah (2023), who found that ROA has a significant positive effect on firm value.
H2a: Return on Assets has a positive effect on firm value.

Liquidity reflects a company's ability to manage its short term financial obligations. A higher Current Ratio (CR) generally indicates a stronger capacity to meet short term liabilities and reduce default risk, which may enhance investor confidence and firm value (Ahmad et al., 2022). From the perspective of Signaling Theory, a high CR can serve as a positive signal of financial stability and the company's ability to withstand liquidity pressures, potentially increasing investor demand and market valuation. However, excessively high liquidity may also indicate inefficient asset utilization due to idle funds. Previous studies by (gustin & Annisa (2021) and Sari et al. (2023) found that CR has a positive and significant effect on firm value
H2b: Current Ratio has a positive effect on firm value.

Debt to Equity Ratio (DER) reflects a company's capital structure and financial risk. A high DER indicates greater dependence on debt, potentially increasing financial risk and reducing investor confidence (Brigham & Houston, 2020). From the perspective of Signaling Theory, excessive leverage may serve as a negative signal regarding the company's financial stability

and future prospects, thereby reducing firm value. This finding is supported by Tambuwun et al. (2024) and Agustin & Annisa (2021).
H2c: Debt to Equity Ratio has a negative effect on firm value.

METHOD

This study employs a quantitative research approach to examine the effect of Environmental, Social, Governance (ESG) disclosure and financial performnace on firm value. The population consist of companies listed in the IDX ESG Leaders index during 2020-2024. Using purposive sampling, 17 companies were selected, resulting in 85 observations. After outlier treatment using the standardized residual method, three observations were excluded, leaving 82 observations with an unbalanced panel structure.

Secondary data were obtained from annual and sustainability reports. ESG disclosure was measured through the Environmnetal, Social, and Governance dimensions, while financial performance was proxied by Return on Assets (ROA), Current Ratio (CR), and Debt to Equity Ratio (DER). Firm value was measured using Tobin's Q. The data analyzed using panel data regression with the Fixed Effect Model (FEM). To address heteroscedasticity, White Diagonal robust standard errors were applied. Data processing was conducted using Eviews 13 and Microsoft Excel.

RESULT

Descriptive Statistical Test

According to Syarli (2021), descriptive statistics are used to present research data in a tabulated form to facilitate interpretation. Descriptive statistical analysis provides an overview of the characteristics of the research variables through the mean, median, maximum, minimum, and standard deviation values. The results of the descriptive statistical analysis are presented as follows:

	TQ	E	S	G	ROA	CR	DER
Mean	1.64048	0.32682	0.43817	0.54804	0.06463	1.94878	2.13463
Median	1.21000	0.31000	0.41500	0.58000	0.05000	1.23500	1.15500
Maximum	11.9100	0.83000	0.94000	0.97000	0.35000	8.06000	6.63000
Minimum	0.23000	0.03000	0.14000	0.05000	-0.03000	0.18000	0.09000
Std. Dev.	1.68556	0.19403	0.17818	0.29931	0.05858	2.09817	2.01614
Observations	82	82	82	82	82	82	82

Based on the results in Table, after outlier treatmnet using the standardized residual method, three observations were removed, resulting in a final sample of 82 observations and an unbalanced panel dataset. The outlier treatment was conducted to reduce the influence of extreme values and improve the reliability of the regression estimates.

The average Tobin's Q is 1,6404, indicating that the sampled firms are generally valued above their book value. Among the ESG dimensions, Governance Disclosure has the highest mean (0,5480), followed by Social Disclosure (0,4382) and Environmental Disclosure (0,3268), suggesting that companies palce greater emphasis on governance-related disclosures than on environmental and social disclosures. Regarding financial performance, the mean values of ROA, CR, and DER are 0,0646, 1,9488, and 2,1346, respectively, indicating that

International Journal of Current Economics & Business Ventures, 6 (1) 2026, 300-317
International Journal of Current Economics & Business Ventures
https://scholarsnetwork.org/journal/index.php/ijeb

most firms are profitable, maintain adequate liquidity, and rely on debt financing to varying degrees.

Overall, the descritive statistics indicate sufficient variation across the study variables, reflecting differences in ESG disclosure practices, financial performnace, and firm value among companies listed in the IDX ESG Leaders index. This variation provides an appropriate basis for subsequent panel data regression analysis.

Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	8.937995	(16,59)	0.0000
Cross-section Chi-square	100.923093	16	0.0000

The results indicate that the probability value of the Cross-section Chi-square is 0.0000, which is lower than the significance level of 0.05. According to the Chow test decision criteria, a probability value below 0.05 leads to the rejection of the null hypothesis, indicating that the Fixed Effect Model (FEM) provides a better fit than the Common Effect Model (CEM).

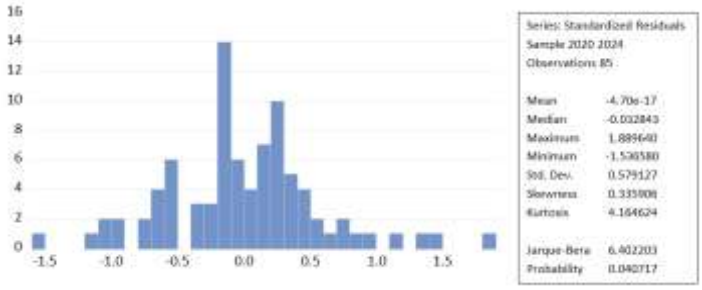
Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	50.703184	6	0.0000

As presented in Table, the Hausman test yields a probability value of 0.0000, which is below the significance level of 0.05. According to the Hausman test decision rule, a probability value lower than 0.05 indicates that the null hypothesis is rejected, suggesting that the Fixed Effect Model (FEM) is more appropriate than the Random Effect Model (REM).

Normality Test Result

The normality test was conducted to examine whether the residuals of the regression model are normally distributed. In this study, residual normality was assessed using the Jarque–Bera test. The results of the normality test are presented as follows:

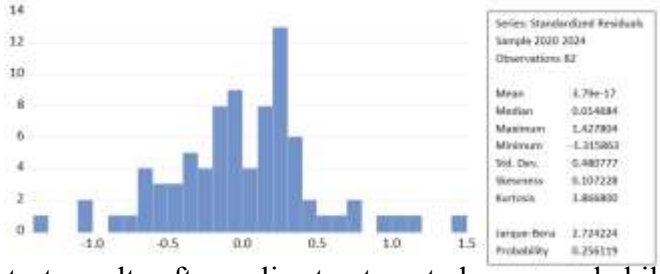


Based on the results shown in Figure, the Jarque–Bera test produces a probability value of 0.0407, which is lower than the significance level of 0.05. to address the potential influence of ectreme observations, outlier treatmnet was performed using the standardized residual method with a threshold of ±2,5. This procedure identified and removed observations with

International Journal of Current Economics & Business Ventures, 6 (1) 2026, 300-317
International Journal of Current Economics & Business Ventures
https://scholarsnetwork.org/journal/index.php/ijeb

unusually large residuals to reduce the influence of extreme values and improve the reliability of the regression estimates (Hair et al., 2019).

Following the outlier treatment, the normality test was conducted again using the adjusted dataset. The result of normality test after the removal of outliers are presented below.



The normality test results after oulier treatment show a probability value of 0,2561, which is greater than the 0,05 significance level. Therefore, the residuals are statistically normally distributed, indicating that the normality assumption is satisfied.

Multicollinearity Test Result

The multicollinearity test was conducted to determine whether a high correlation exists among the independent variables in the regression model. In this study, multicollinearity was assessed using the correlation matrix of the independent variables. According to Ghozali (2021), a regression model is considered free from multicollinearity when the correlation coefficient between independent variables is less than 0.80. The results of the multicollinearity test are presented as follows:

	E	S	G	ROA	CR	DER
E	1.0000					
S	0.5973	1.0000				
G	0.3990	0.5340	1.0000			
ROA	-0.0444	0.1410	-0.0745	1.0000		
CR	-0.0540	-0.2182	-0.2421	0.1532	1.0000	
DER	0.0425	0.1435	0.1770	-0.2101	-0.6169	1.0000

Based on the results shown in Table, all correlation coefficients among the independent variables are below the threshold value of 0.80, indicating the absence of serious multicollinearity. The highest correlation is observed between Current Ratio (CR) and Debt to Equity Ratio (DER), with a coefficient of 0,6169, while the lowest correlation is found between Environmental Disclosure and DER, with a coefficient of 0,0425. These results indicate that the regression model is free from multicollinearity issues.

Heteroscedasticity Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.1822	0.2998	0.6080	0.5455
E	-0.1054	0.3179	-0.3317	0.7412
S	0.2118	0.3350	0.6322	0.5297
G	-0.3768	0.1547	-2.4343	0.0180
ROA	1.4362	1.2943	1.1096	0.2717
CR	-0.0127	0.0550	-0.2320	0.8173

International Journal of Current Economics & Business Ventures, 6 (1) 2026, 300-317
International Journal of Current Economics & Business Ventures
https://scholarsnetwork.org/journal/index.php/ijeb

DER	0.1230	0.0860	1.4297	0.1581

The heteroscedasticity test results in Table show that the probability values of all variables are above 0,05, except for Governance (X3), which has a probability value of 0,0180. This indicates the presence of heteroscedasticity in the regression model. Although heteroscedasticity does not bias the regression coefficients, it may result in biased standard errors and unreliable statistical inference (Gujarati & Porter, 2009). Therefore, the study addresses this issue by applying White Diagonal Robust Standard Errors to the Fixed Effects Model (FEM) to obtain more reliable statistical inference.

Autocorrelation Test Result

The autocorrelation test is conducted by observing the Durbin-Watson value and comparing it with the DU value in the Durbin-Watson table. The result of the autocorrelation test are shown in the table.

Durbin Watson stat	**2.2315**
Durbin Lower Bound	**1.4883**
Durbin Upper Bound	**1.8008**

The autocorrelation test results show a Durbin Watson (DW) statistic of 2,2315. With six independent variables and 82 observations, the lower and upper bounds are 1,4883 and 1,8008, respectively. Since the DW statistic satisfies the condition DU < DW < (4-DL), or 1,8008 < 2,2315 < 2,5117, the results indicate that the regression model is free from autocorrelation.

Panel Data Regression Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.7691	0.9482	3.9748	0.0002
E	-0.7357	0.6620	-1.1112	0.2709
S	-0.1489	0.8032	-0.1854	0.8535
G	-1.0653	0.3511	-3.0336	0.0036
ROA	11.104	3.6150	3.0717	0.0032
CR	-0.0957	0.1032	-0.9271	0.3576
DER	-0.8292	0.3103	-2.6721	0.0097

Based on the regression estimation test results in the table, the panel data regression equation is as follows:

$$Tobin's\ Q_{it} = 3{,}7691 - 0{,}7357E_{it} - 0{,}1489S_{it} - 1{,}0653G_{it} + 11{,}1045ROA_{it} - 0{,}0957CR_{it} - 0{,}8292DER_{it} + e$$

The result of the panel data regression equation can be broken down into the following analysis:

1) The constant coefficient, which shows a value of 3,7691, indicates that when all independent variables are held at zero, the predicted value of Tobin's Q is 3,7691.
2) Environmental Disclosure coefficient (X1), which shows a value of -0,7357, indicates that a one unit increase in Environmental Disclosure is associated with a 0,7357 decrease in Tobin's Q, holding other variables constant.

International Journal of Current Economics & Business Ventures, 6 (1) 2026, 300-317
International Journal of Current Economics & Business Ventures
https://scholarsnetwork.org/journal/index.php/ijeb

3) Social Disclosure coefficient (X2), which shows a value of -0,1489, indicates that a one unit increase in Social Disclosure is associated with a 0,1489 decrease in Tobin's Q, holding other variables constant.
4) Governance Disclosure coefficient (X3), which shows a value of -1,0653, indicates that a one unit increase in Governance Disclosure is associated with a 1,0653 decrease in Tobin's Q, holding other variables constant.
5) Return on Assets coefficient (X4), which shows a value of 11,1045, indicates that a one unit increase in ROA is associated with a 11,1045 decrease in Tobin's Q, holding other variables constant.
6) Current Ratio coefficient (X5), which shows a value of -0,0957, indicates that a one unit increase in CR is associated with a 0,0957 decrease in Tobin's Q, holding other variables constant.
7) Debt to Equity Ratio coefficient (X6), which shows a value of -0,8292, indicates that a one unit increase in DER is associated with a 0,8292 decrease in Tobin's Q, holding other variables constant.

Result of Determination Coefficient Test

R-squared	0.9186
Adjusted R-squared	0.8883

The table shows the result of the determination coefficient test with an adjusted R-squared value of 0.8883. This indicates that the independent variable in this study has an influence of 88,83% on the dependent variable. While the other 11,17% is explained by other variables not examined in this study (Badawi et al., 2022).

F Test Results

F-statistic	30.28151
Prob(F-statistic)	0.000000

Based on the table, it can be seen that the F-Statistic Probability value is 0.0000, so that 0.0000 < 0.05 is obtained, which indicates that the model is suitable for use.

t-Test Results

t-test is conducted to determine the effect of each independent variable on the dependent variable. If the probability value is < 0.05, then X as the independent variable has a significant effect on Y as the dependent variable.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.7691	0.9482	3.9748	**0.0002**
E	-0.7357	0.6620	-1.1112	**0.2709**
S	-0.1489	0.8032	-0.1854	**0.8535**
G	-1.0653	0.3511	-3.0336	**0.0036**
ROA	11.1045	3.6150	3.0717	**0.0032**
CR	-0.0957	0.1032	-0.9271	**0.3576**
DER	-0.8292	0.3103	-2.6721	**0.0097**

Based on the t-statistic and probability values obtained in the table, the following conclusions can be drawn:

1) Variable Environmental Disclosure (X1) has a regression coefficient of -0,7357 and a probability value of 0.2709. Thus, variable X1 has a negative and insignificant effect.
2) Variable Social Disclosure (X2) has a regression coefficient of -0,1489 and a probability value of 0.8535. Thus, variable X2 has a negative and insignificant effect.
3) Variable Governance Disclosure (X3) has a regression coefficient of -1,0653 and a probability value of 0.0036. Thus, variable X3 has a negative and significant effect.
4) Variable Return on Assets (X4) has a regression coefficient of 11,1045 and a probability value of 0.0032. Thus, variable X4 has a positive and significant effect.
5) Variable Current Ratio (X5) has a regression coefficient of -0,0957 and a probability value of 0.3576. Thus, variable X5 has a negative and insignificant effect.
6) Variable Debt to Equity Ratio (X6) has a regression coefficient of -0,8292 and a probability value of 0.0097. Thus, variable X6 has a negative and significant effect.

DISCUSSION

The Effect of Environmental on Firm Value

The results indicate that environmental disclosure has no significant effect on firm value. From the perspective of Signaling Theory, environmental disclosure is expected to serve as a positive signal of a company's commitment to sustainability and its ability to manage environmental risks. However, the insignificant result suggests that such signals have not received a significant response from investors. Investors may still place greater emphasis on financial information than on environmental disclosure when assessing firm value. In addition, environmental disclosure may be perceived primarily as regulatory compliance or corporate responsibility rather than as information that directly reflects future financial performance.

This finding is consistent with (Rusmaningsih & Setiadi, 2021) and (Priyatma & Afandi, 2023), who found that environmental performance or disclosure does not significantly affect firm value because its benefits tend to emerge over the long term through improved reputation and stakeholder trust. In contrast, (Chuzairi & Sutopo, 2024) found a positive effect of sustainability disclosure on firm value in mining companies. This difference may be attributed to industry characteristics, particularly the higher environmental risks and regulatory pressures faced by environmentally sensitive industries. Therefore, the effectiveness of environmental disclosure as a signal may be context dependent, varying according to industry characteristics and investors' perceptions of the relevance of environmental information. In the context of this study, environmental disclosure has not yet provided a sufficiently strong signal to increase firm value.

The Effect of Social on Firm Value

The results indicate that social disclosure has no significant effect on firm value. Based on Signaling Theory, social disclosure is expected to serve as a positive signal of a company's commitment to employee walfare, human rights, occupational safety, community relations, and social responsibility. However, the insignificant effect suggests that this signal has not received a significant response from investors. Investors may still prioritize financial information that directly reflects a company's profitability and future economic prospects over non financial social information.

This finding is consistent with (Muslichah, 2020), (Akal et al., 2023), and (Parwata & Anggara, 2022), who found that social or CSR disclosure does not significantly affect firm value. The benefits of social disclosure may instead materialize over the long term through

improved corporate reputation, stakeholder trust, employee loyalty, and customer relationship. The insignificant result may also reflect differences in industry characteristics, observation periods, and disclosure quality. Therefore, althought companies provide positive signals through social disclosure, these signals have not been sufficiently strong or relevant to influence investors' assessments of firm value in the IDX ESG Leaders context.

The Effect of Governance on Firm Value

The results indicate that governance disclosure has a significant negative effect on firm value, contrary to the positive relationship hypothesized. From the perspective of Signaling Theory, governance disclosure is expected to provide a positive signal by reducing information asymmetry and increasing investor confidence. However, the negative effect suggests that investors may assess not only the extent of governance disclosure but also its credibility and consistency with actual corporate practices and financial performance.

This finding may reflect increasing investor skepticism toward ESG information when extensive disclosure is not accompanied by tangible improvements in corporate performance. In such circumstances, governance disclosure may be perceived as symbolic or administrative rather than as evidence of effective governance, potetially raising concerns about greenwashing. Ghitti et al. (2024) emphasize that growing attention to ESG may increase investor scrutiny of the credibility of sustainability information, while (Angir & Weli, 2024) highlight the role of information asymmetry and disclosure credibility in shaping market responses to ESG disclosure. Similarly, Hidayati (2026) suggest that Indonesian investors may prioritize financial fundamentals when ESG information is perceived as insufficiently credible.

The negative relationship is also consistent wirh Pangaribuan & Sudana (2025), but differs from Achmad & Widoretno (2025), which may be attributed to differences in industry characteristics, research periods, samples, and governance measures. Overall, he findings suggests that Governance Disclosure does not automatically function as a positive signal. Investors appear to evaluate the consistency between disclosed governance information, actual implementation, and financial outcomes. Thus, the findings provide limited support for Signaling Theory in explaining the relationship between Governance Disclosure and firm value.

The Effect of Return on Assets on Firm Value

The results show that Return on Assets (ROA) has a significant positive effect on firm value. This finding is consistent with Signaling Theory, which suggests that probability information can serve as a positive signal to investors by reducing information asymmetry. A higher ROA indicates that management is more effective in utilizing company assets to generate profits, thereby strengthening investor confidence in the company's future prospects.

The positive market response may be reflected in increased stock demand and market valuation, which ultimately enhances firm value as measured by Tobin's Q. This finding is consistent with Liong & Uluputty (2024) and Firmansyah et al. (2025), who found that ROA positively affects firm value. Overall, ROA represents an important fundamental indicator that provides a credible positive signal regarding operational efficiency profitability, and the company's ability to generate sustainable economic returns.

The Effect of Current Ratio on Firm Value

The results indicate that Current Ratio (CR) has no significant effect on firm value. From the perspective of Signaling Theory, liquidity information may provide investors with an indication of a company's ability to meet short-term obligations. However, the insignificant

results suggest that CR does not provide a sufficiently strong signal to influence investors' valuation of the firm. A high CR may reflect financial stability, but it may also indicate that current assets are not being utilized efficiently for investment or business expansion.

Therefore, investors may place greater emphasis on profitability, growth prospect, and investment opportunities rather than liquidity alone, this finding is consistent with Santika (2023), which found that CR does not significantly affect firm value. Overall, the findings suggest that liquidity information functions primarily as supporting information rather than a dominant signal in determining firm value. Thus, changes in CR are not necessarily interpreted by investors as a signal of changes in the company's future prospects or market value.

The Effect of Debt to Equity Ratio on Firm Value

The results indicate that the Debt to Equity Ratio (DER) has a significant negative effect on fitm value. From the perspective of Signaling Theory, a high DER may serve as a negative signal regarding the company's financial risk and ability to meet future debt obligations. Higher leverage increases interest and default risks, potentially reducing investor confidence and market valuation.

This finding is consistent with Rizki et al. (2025), Rafiq et al. (2024), and Mazumdar & Mara (2024), who reported that excessive leverage negatively affects firm value by increasing financial risk. In contrast, Wiharjo & Ekadjaja (2024) found a positive relationship, suggesting that debt may be perceived as a growth signal when managed productively. The negative effect found in this study indicates that investors in IDX ESG Leaders companies tend to interpret higher DER as an unfavorable signal, particularly when increase debt is not accompanied by stronger profitability or cash generating capacity. Thus, the findings support Signaling Theory by demonstrating that capital structure information can influence investor perceptions and, ultimately, firm value.

CONCLUSION

This study examines the effect of Environmental, Social, and Governance (ESG) disclosure and financial performance on firm value among companies listed in the IDX ESG Leaders Index during the 2020–2024 period. Using panel data regression with a Fixed Effect Model and White Diagonal robust standard errors, the study analyzes 82 observations from 17 companies after outlier treatment.

The findings indicate that Environmental and Social Disclosure have no significant effect on firm value, while Governance Disclosure has a significant negative effect. Regarding financial performance, Return on Assets has a significant positive effect on firm value, whereas Current Ratio has no significant effect and Debt to Equity Ratio has a significant negative effect. Overall, the results suggest that profitability plays a more prominent role in enhancing firm value, while governance disclosure and leverage require greater attention to generate favorable market responses.

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