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The Influence of Environmental Social Governance (ESG), Profitability, and Capital Structure on Firm Value in IDX ESG Leaders (2020-2023)

Ranisa Nur Safitri[1], Veronika Santi Paramita[2]
[12]Universitas Jenderal Achmad Yani, Indonesia
Correspondent: veronika.santi@lecture.unjani.ac.id[1]

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ABSTRACT: This research examines the firm value on the IDX ESG Leaders index, launched in 2020, and reflects businesses prioritizing ESG principles in their operations. The launch of the index comes amid global economic challenges due to the COVID-19 pandemic, making it relevant to explore how companies can maintain value in volatile markets. The value of IDX ESG Leaders companies declined during 2020-2023. The factors causing the drop in valuation for IDX ESG Leader are allegedly ESG, profitability, and capital structure. With increasing attention to sustainability and social responsibility, ESG is becoming essential in investment decisions. A quantitative strategy based on descriptive causality analysis is used in this study. The data utilized in this study is panel data sourced from secondary materials. The research focuses on companies listed on the IDX ESG Leaders index from 2020 to 2023, encompassing 49 companies. A purposive sampling technique was employed to select a sample of 13 companies. Data analysis was conducted using panel data regression. The findings indicate that ESG has a negative impact on firm value, while profitability positively influences firm value. Additionally, capital structure does not significantly affect firm value. Collectively, ESG, profitability, and capital structure do influence firm value. The study concludes that companies should reconsider their strategies in managing ESG, profitability, and capital structure to enhance their value in the eyes of investors, particularly in an increasingly competitive market.

Keywords: ESG, Profitability, Capital Structure, Firm Value, IDX ESG Leaders.

INTRODUCTION

Companies must pay attention to profit aspects, aspirations, and social responsibility in increasingly fierce business competition. Company's main focus on prioritizing profits is increasing company value and the welfare of owners or shareholders (Adityadarma & Ramli, 2024). This research analyzes the influence of Environmental Social Governance (ESG), profitability, and capital structure on the value of listed companies in the IDX ESG Leader for 2020–2023. Despite rapid economic growth, many companies have experienced difficulties due to the COVID-19 pandemic, which has impacted their financial performance and asset management (Schwab & Malleret, 2020).

In addition, the pandemic has triggered an increase in plastic waste due to the use of personal protective equipment and online shopping, making environmental awareness even more important for investors. Therefore, the COVID-19 pandemic has had a major impact on the Indonesian capital market, including IDX ESG Leaders, with the PSBB policy causing the industrial sector to halt and the JCI to decline, ultimately increasing investor caution amid economic uncertainty. The following is data from the Oceanographic Research Center and the LIPI Population Research Center, which published a study on the impact of Large-Scale Social Restrictions (PSBB) and Work From Home (WFH) on plastic waste in the Greater Jakarta area. The study was conducted through an online survey in 2020:

Figure 1. Survey Data During the Covid-19 Pandemic

Figure 1 shows the increase in online shopping and the use of delivery services, contributing to the increase in plastic waste. The majority of Greater Jakarta residents surveyed experienced an increase in online shopping frequency from 1-5 times to 1-10 times per month. The survey also found that 96% of online shopping packages are wrapped in thick plastic and bubble wrap. The surge in plastic waste from online shopping (supported by Jabodetabek survey data) can damage the company's reputation. Therefore, companies must invest in eco-friendly packaging innovations and recycling programs to mitigate the negative impact on the company's value.

Firm value reflects an investor's assessment of its manager's ability to manage assets, typically measured through the stock price. A mount in the firm value and an increase in the stock price indicate better shareholder welfare and increased market confidence in the company's performance and prospects. In the context of investment, Tobin's Q ratio can be used to analyze company performance, where companies with high Tobin's Q tend to attract the attention of investors' because they have good growth potential (Indrarini, 2019; Jamaludin, 2024). Here is a chart depicting the growth of the stock price:

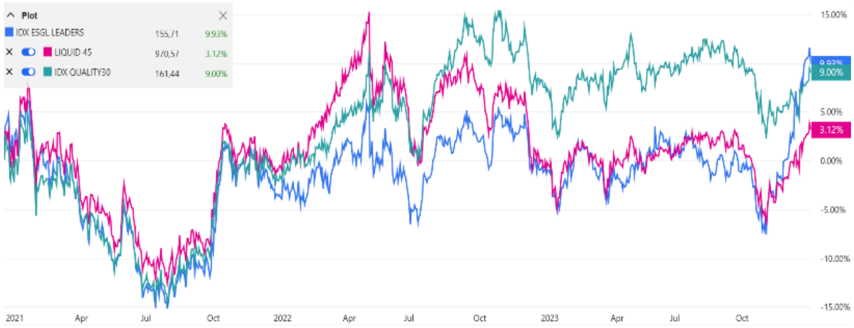


Figure 2. Comparison of Stock Price Growth

The graph presented shows the movement of several stock indices related to ESG issues in Indonesia. Figure 2 indicates that IDX ESG Leaders perform better and are more stable than the LQ45 and IDXQ30 indices, which have experienced more significant fluctuations. IDX ESG Leader recorded the highest movement of 9.93%, followed by IDXQ30 at 9% and LQ45 at 3.12%. These findings suggest that focusing on ESG practices can provide a competitive advantage in the stock market. Despite the increase in stock price growth, firm value, as measured using Tobin's Q, actually decreased from 2020 to 2023. The following is a graph depicting the average value of a company based on Tobin's Q:

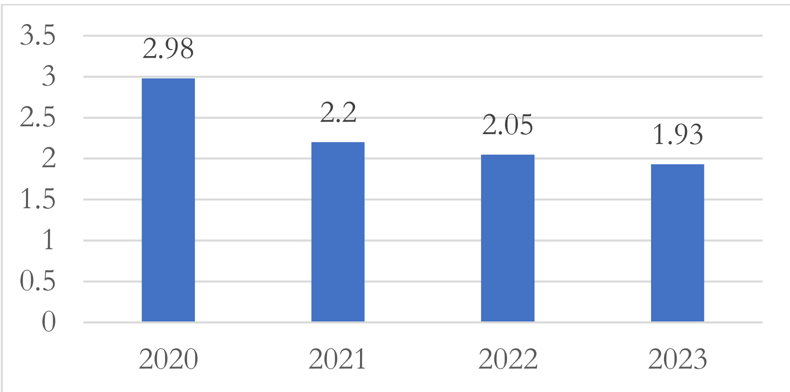


Figure 3. Average Firm Value

Based on Figure 3 above, the value of companies measured by Tobin's Q has decreased from 2020 to 2023. The average Tobin's Q decreased from 2.98 in 2020 to 1.93 in 2023, with significant declines occurring in 2021 and 2022. This is due to a lack of trust in the company's capacity to handle assets and increase their value, which can hinder investment and affect its overall financial performance. Research by Jatmiko & Dwi (2020) shows that the decline in the value of Tobin's Q has an essential impact on the perception of investors who tend to be more cautious in investing in companies whose value is declining.

In this study, the firm value is influenced by several factors, including ESG, profitability, and capital structure. Companies that consistently apply ESG principles have a better reputation among investors and customers. This shows that companies prioritizing ESG aspects can increase trust and interest in their products or services. Investors are now starting to include ESG aspects in investment analysis and decision-making, especially as many companies are disclosing their ESG efforts to gain stakeholder buy-in, which can increase the firm value (Mauliddin & Subardjo, 2024). In this study, the company's sustainability report was proxied based on the 2016 and 2021 Global Reporting Initiative (GRI), considering that investors tend to consider ESG aspects before providing funds or making investments. Therefore, companies listed on the IDX ESG Leaders are expected to provide a positive social impact on the environment and generate better returns (Kartika et al., 2023). Research by Diota Prameswari Vijaya (2023) supports this by showing that companies with high ESG practices often demonstrate better financial performance than companies that do not prioritize ESG considerations. These findings show that investors are increasingly aware of the importance of social responsibility in making investment decisions. This is confirmed by studies that have been carried out by Hikmah & Daljono (2023), Nasution et al., (2024), and Mauliddin & Subardjo (2024), which states that ESG disclosure provides a positive impact on firm value. On the other hand, research conducted by Angir & Weli (2024) and Paramitha & Devi (2024) indicates that ESG disclosures have a negative impact on firm value, leading to a decline in investor confidence. Meanwhile, other research conducted by Wulandari & Istiqomah (2024), Negara et al. (2024), Sumarnoa et al. (2023), Wangi & Aziz (2023), and Kartika et al. (2023) shows that ESG disclosure does not affect the firm's value.

In this study, the second variable that can affect the value of a company is profitability. As Shania S & Hanaantijo (2023) explained, the profitability ratio shows how well a company can generate profits from investments, assets, and sales. Profitability is proxied through Return On Assets, which, according to Sutrisno (2017), represents the effectiveness of a business in generating profits by utilizing all the assets it owns. The selection of this variable is based on the fact that profitability is one of the main measures of business performance. Using this ratio, an organization can evaluate whether it has used its assets effectively. The company's positive influence will be more substantial if it can generate profits, as supported by research by Paramita & Ali (2023). This is also supported by research by Putri & Wijayanto (2018), which shows that an increase in the average asset value from year to year can increase profitability and efficiency in using a company's assets. Other research was also conducted by Dewi et al., (2024), Negara et al., (2024), Wardoyo & Fauziah (2024), Alifian & Susilo (2024), Mauliddin & Subardjo (2024), Shania & Hanaantijo (2023), Wangi & Aziz (2023), and Santoso & Junaeni (2022) who stated that profitability has a positive effect on firm value. Meanwhile, research conducted by Petronila & Aprilianti (2024) shows that profitability has a negative impact on firm value. They state that high profits do not necessarily mean a high firm value.

Capital structure, which measures a company's capacity to increase shareholder welfare through the balancing of debt and equity, is the third variable examined in this study. According to Sutrisno (2017), the capital structure incorporates both debt and own capital as sources of finance. It is proxied by the Debt to Equity Ratio, which calculates the proportion of debt to own capital. The selection of this variable is essential because the DER shows how much the company is financed by debt compared to its capital. The higher this ratio, the smaller the proportion of own capital compared to debt. Investors need to assess the company's financial risk so that the debt does not exceed its capital and the burden remains not too high (Sutrisno, 2017). Modigliani and Miller (1963) stated that an optimal capital structure significantly influences a firm value, especially regarding bankruptcy costs and taxes. Proper use of debt can provide tax benefits and increase return on equity for shareholders. Thus, companies that manage debt well can reduce the tax burden, increase the firm value, and find a balance between debt and equity to maximize the company's overall value. Results from research by Wulandari & Istiqomah (2024), Suhendar & Paramita (2024), and Dayanty & Setyowati (2020) corroborate this idea that capital structure reduces value. According to studies conducted by Apriliawati & Nazar (2022) and Santoso & Junaeni (2022), capital structure has no impact on the value of a corporation.

The study's overarching goal is to fill gaps in our theoretical knowledge by shedding light on the interplay between ESG, profitability, and capital structure as they pertain to firm value. In addition, this research is also expected to be a source of information for future researchers who want to develop knowledge or conduct similar studies with different objects and periods. For companies, focusing on sustainability can drive product and service innovation, create added value for customers, and reduce negative environmental impacts. Finally, investors can leverage the findings of this research to make better investment decisions, understanding that companies with high ESG disclosures tend to have better profitability.

Stakeholder Theory

Stakeholder theory departs from the assumption that value is an integral part of the entire business activity process. It does not only focus on achieving profits but also on social and environmental responsibility to create sustainable value for all parties involved. The company's stakeholders are made up of various groups that contribute to the company's operations, including customers, employees, suppliers, political parties, local communities, media, financial institutions, and governments (Freeman et al., 2001; Mauliddin & Subardjo, 2024; Wangi & Aziz, 2023). This approach aligns with good financial management practices, where transparency and accountability are essential for building trust and mutually beneficial relationships (Hörisch et al., 2020).

Trade-Off Theory

Trade-off theory is an approach in financial management that discusses the relationship between the use of debt and equity in a company's capital structure. This theory explains how companies determine the proportion of debt and equity to balance costs and benefits. The essence of this theory is to consider the advantages and risks associated with using debt, especially regarding the bankruptcy costs that the company may face (Modigliani & Miller, 1963; Lamba & Atahau, 2022).

Firm Value

Firm value is crucial for the company because market stock prices and earnings, taken together, represent investors' expectations for the firm's future. Moreover, stock prices are influenced by the capital market's demand and supply dynamics, which paint a complete picture of how investors evaluate a company's potential for long-term value growth (Harmono, 2017; Suhendar & Paramita, 2024; Gunawan et al., 2024; Utami & Paramita, 2024; Jatmiko & Dwi, 2020). Several tools are available for assessing a company's performance, including MBV, PBV, PER, and Tobin's Q. An essential metric for evaluating the efficacy of an organization's asset management is Tobin's Q, utilized as a valuation metric in this research. Based on the assets possessed by the company, Tobin's Q gives an overview of the firm's worth and represents investment prospects (Sudiyatno & Puspitasari, 2010). Based on the work of Kartika et al. (2023), this is Tobin's Q formula:

$$\text{Tobin's Q} = \frac{(MVE + Debt)}{TA}$$

Tobin's Q measures a company's asset management performance, aiming to generate shareholder value. If Tobin's Q is larger than 1, a corporation's market worth exceeds the cost to replace its assets, suggesting a promising future and a desirable investment opportunity. On the other hand, if it's less than 1, it can mean that the market thinks the firm is cheap. As a result, Tobin's Q has established itself as a crucial instrument for assessing investment opportunities and business excellence.

Environmental Social Governance

ESG is a corporate standard for investment practices that align and execute corporate strategies with environmental, social, and governance considerations (Radyati dkk., 2023; Wulandari & Istiqomah, 2024). The Global Reporting Initiative (GRI) plays a role in providing international sustainability reporting regulations and is used in this study to assess the quality of non-financial reports and help companies achieve measurable sustainability goals. Thus, the implementation of ESG not only increases corporate transparency and accountability but also contributes to sustainability and long-term value. The Global Reporting Initiative is a measuring tool for assessing the quality of non-financial reports (Sebrina et al., 2023). In measuring ESG variables, companies are assigned a score based on the openness of a particular item, with values added using a predetermined formula as follows (Angir & Weli, 2024):

$$\text{ESG Disclosure} = \frac{\text{ESG Disclosure Item Value}}{\text{Total Maximum Disclosure}}$$

The application of ESG practices is in line with the stakeholder theory developed by Freeman, R. E. (2001), which emphasizes that the company is responsible not only to shareholders but also to various stakeholders, including employees, customers, society, and the environment to achieve optimal results for all parties involved. By paying attention to ESG aspects, companies can build strong relationships with stakeholders, which not only improves the company's reputation but also attracts more investors, thus increasing the company's overall value (Jatmiko & Dwi, 2020). Therefore, companies that successfully manage stakeholder relationships through good ESG practices tend to have higher corporate values (Mauliddin & Subardjo, 2024). Both Nur Hikmah & Daljono (2023) and Mauliddin & Subardjo (2024) found that ESG disclosure increases the value of a company. Based on this explanation, the hypothesis proposed is:

H1: Environmental Social Governance positively affects Firm Value.

Profitability

This ratio is a method to evaluate a company's ability to generate profits from its operational activities (Hery, 2016). According to Sutrisno (2017), this ratio has several indicators, including Gross Profit Margin, NPM, ROA, ROE, ROI, and EPS. In this study, the profitability ratio is represented by ROA, which is one of the main ways to assess how effectively a company uses its assets to generate profits. According to Sutrisno (2017) and Wulandari & Paramita (2017), a greater return on assets (ROA) indicates that a corporation is good at making money out of all its assets. One significant metric for evaluating a company's profitability is ROA. This capability has an effect on both the present value and the future earnings predictions of the organization. The following is the formula for Return on Assets according to Hery (2016):

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}} \text{ X } 100\%$$

Increases in accessible cash and more consistent cash flow are characteristics of companies with a high return on assets rate. The capacity to pay dividends is directly proportional to the level of profit a firm generates. Hence, a high ROA indicates that. The rise in the market value of the company is directly affected by this. Companies with a high ROA ratio are a positive signal for investors, who prefer investing their capital in companies with strong financial performance. In addition, the high ROA ratio also increases investors' confidence in the company's future growth potential (Sitepu et al., 2017). Research by Shania & Hanaantijo (2023) and Negara et al. (2024) shows that ROA positively affects a firm's value. Based on this explanation, the hypothesis proposed is:

H2: Return on assets positively affects firm value.

Capital Structure

Balancing foreign and own capital is usually called capital structure (Sutrisno, 2017). This study uses the DER measurement tool in the context of the solvency ratio. This solvency ratio measures the extent to which a company's assets are financed by debt. The DER compares debt to capital and assesses how much the company is funded by debt compared to its capital (Hery, 2016). This ratio determines each rupiah of its capital used as debt collateral, and a high ratio can indicate greater financial risk. DER is a comparison between a company's debt and its capital. It shows how much a company relies on debt to finance its operations and growth. The following is the DER formula referring to Sutrisno (2017):

$$\text{DER} = \frac{\text{Total Debt}}{\text{Equity}} \text{ x } 100\%$$

In line with the trade-off theory developed by Modigliani & Miller (1963), companies must balance the benefits of using debt and costs incurred, such as bankruptcy risk and agency costs. Companies with high debt values often experience a decrease in firm value because high debt can reduce investor confidence and increase capital costs (Sutrisno, 2017). While debt can be used to fund growth, poor debt management can lead to a company's overall value decline. When the DER increases, it signals that the company is taking more financial risks that investors don't like. Consequently, investors choose businesses with lower DER, as it suggests a stronger capacity to handle debt and more potential for development in the long run. It has been demonstrated in studies by Annisa Wulandari & Istiqomah (2024) and Negara et al. (2024) that DER reduces the value of a company. From this, we get the following hypothesis:

H3: DER has a negative effect on Firm Value.

METHOD

Using panel data types to discover trends, patterns, and causative links, this study employs a quantitative technique using descriptive and causal research to examine the connection between ESG, profitability, and capital structure to firm value with the help of Eviews 13 software (Sugiyono, 2024). The data regression panel was chosen because of its ability to analyze data from many companies over a given period, providing more accurate predictions of the company's value by considering variations between companies and trends over time. Stakeholders may make more informed decisions with more objective and trustworthy outcomes when this approach is utilized to evaluate statistical hypotheses. The main focus of this study is to analyze the influence of ESG, profitability, and capital structure on the value of companies listed in the IDX ESG Leaders during the 2020-2023 period. The population in this study includes 49 companies listed on the IDX ESG Leaders in 2020-2023. After determining the population, the researcher selects the sample using the purposive sampling technique, a non-probability sampling technique in which the sample is selected based on specific criteria set by the researcher so that not all members of the population have the same chance of being selected. The following are the details of the criteria for sampling:

Table 1. Research Sampling Criteria

No	Sample Criteria	Number of Companies
1.	Companies listed on IDX ESG Leaders.	49
2.	Companies that are consecutively listed on the IDX ESG Leaders for the 2020-2023 period.	18
3.	Companies listed on IDX ESG Leaders by publishing their financial statements and *sustainability reports* in full for the 2020-2023 period.	13
Number of Research Samples (population x study period) (13 x 4 years)		52

RESULT AND DISCUSSION

Descriptive Statistical Analysis

Table 2. Descriptive Analysis Results

	Q	ESG	ROA	DER
Mean	2.291346	0.430385	0.075385	0.860577

Median	1.380000	0.400000	0.050000	0.060000
Maximum	14.41000	0.870000	0.350000	5.050000
Minimum	0.520000	0.190000	0.010000	0.020000
Std. Dev.	2.683538	0.163611	0.076963	1.512019
Observations	52	52	52	52

Source: Data processing results with Eviews 13, 2024

This is what we learn from the descriptive statistical analysis (Table 2):

First, descriptive analysis revealed that 52 data points were observed for every variable analyzed. Using Tobin's Q (Y) as a proxy, we find that the median value for the firm value variable is 1.38, and the mean value is 2.29. The lowest possible score is 0.52, while the highest possible value is 14.41. The standard deviation is 2.68.

For the ESG variable, the median is 0.4 and the mean is 0.43. The highest value reached by Bank Negara Indonesia Tbk (BBNI) was 0.87 in 2023, while the lowest was 0.19 in 2020. When looking at the ESG variable, the standard deviation is 0.16.

In the profitability variable, it is known that the mean value is 0.08. The median is 0.05, with a maximum value of 0.35 obtained by Sarana Menara Nusantara Tbk (TOWR) in 2020 and a minimum value of 0.01 from Jasa Marga Tbk (JSMR) in 2021. The standard deviation of profitability is 0.08.

Furthermore, the capital structure variable has a mean value of 0.86 and a median of 0.06. The maximum value of 5.05 was achieved by Bank Central Asia Tbk (BBCA) in 2021, while the minimum value was 0.2 from Bumi Serpong Damai Tbk (BSDE) in 2023, with a standard deviation of 1.51.

Panel Data Regression Model Selection Test

Three approaches, the CEM, FEM, and REM, were used to model using the panel data regression technique. The Chow and Hausman tests were conducted to determine the most appropriate method for this study.

Chow Test

Table 3. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.181592	(12, 36)	0.0035
Cross-section Chi-square	37.594101	12	0.0002

Source: Data processing results with Eviews 13, 2024

The results of the Chow test provide a Cross Section Chi-Square probability value of 0.0002, as shown in Table 3. We may reject H0 and accept Ha because the result is less than 0.05 (prob < 0.05). It follows that a FEM is the selected estimating model. The Hausman test must then be administered.

Hausman Test

Table 4. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	15.768783	3	0.0013

Source: Data processing results with Eviews 13, 2024

The probability of a chi-square is 0.0013, as seen in Table 4 of the findings of the Hausman test. H0 was rejected and accepted Ha because the result was less than 0.05 (prob < 0.05). FEM is the best approach to use because the Chow and Hausman tests use a fixed-effects model.

Classical Assumption Test

According to Basuki & Prawoto (2015), panel data regression necessitates the application of the multicollinearity and heteroscedasticity tests rather than the traditional assumption checks in the OLS technique. Because FEM was selected as the model, a traditional assumption test for heteroscedasticity and multicollinearity must be performed (Napitupulu, 2021).

Multicollinearity Test

Table 5. Multicollinearity

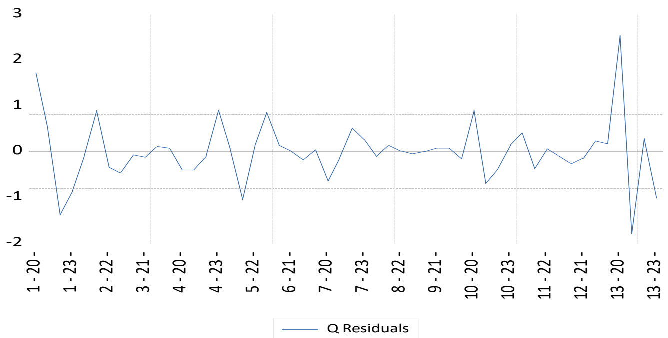
	ESG	ROA	DER
ESG	1.000000	0.123782	0.103316
ROA	0.123782	1.000000	0.410882
DER	0.103316	0.410882	1.000000

Source: Data processing results with Eviews 13, 2024

X1 and X2 have correlation coefficients are 0.123782 < 0.8, X1 and X3 are 0.103316 < 0.8, X2 and X3 are 0.410882 < 0.8. Therefore, it has either passed the multicollinearity test or does not exhibit multicollinearity (Basuki & Prawoto, 2015).

Heteroscedasticity Test

Table 6. Heteroscedasticity



Source: Data processing results with Eviews 13, 2024

The residual graph shows that the values do not exceed the limit (500 and -500), which indicates that the residual variance remains stable. Therefore, no signs of heteroscedasticity have been identified, or it can be concluded that the heteroscedasticity test has been successfully passed. (Napitupulu et al., 2021).

Panel Data Regression

Table 7. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.092738	0.796428	2.627654	0.0126
X1_ESG	-2.074594	0.874748	-2.371648	0.0116
X2_ROA	13.65996	4.294327	3.180932	0.0015
X3_DER	0.071731	0.816969	0.087801	0.4653

Source: Data processing results with Eviews 13, 2024

Here is the equation for the panel data regression model, as shown in Table 7:

Y_Q = 2, 09273841702 - 2, 07459362444*ESG + 13, 6599618714*ROA + 0, 0717308847882*DER

Without ESG, ROA, and DER, the Q variable will rise by 209%, according to the constant value 2.09.

With a coefficient of -2.07 for the ESG variable, we may deduce that a 1% increase in this variable will cause a 207% drop in Q, all other variables being held constant.

Third, the ROA variable has a coefficient of 13.66, which suggests that a 1% increase in ROA will cause a 1% rise to Q, all other variables being equal.

The coefficient value for the variable DER is 0.07. With all other factors held equal, a 1% increase in the DER variable will result in a 1% rise in Q.

Hypothesis Test

Partial Test (t-Test)

According to Basuki & Prawoto (2015), the t-test is usually known as the partial test, and it is used to measure how much the influence of independent variables individually affects dependent variables. In this study, hypothesis testing uses a one-way test, the results are as follows:

Table 8. Test Results t

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.092738	0.796428	2.627654	0.0126
X1_ESG	-2.074594	0.874748	-2.371648	0.0116

X2_ROA	13.65996	4.294327	3.180932	0.0015
X3_DER	0.071731	0.816969	0.087801	0.4653

Source: Data processing results with Eviews 13, 2024

The following outcomes are shown by Table 8:

The Influence of Environmental Social Governance

The coefficient value is negative, which is -2.074594, and the prob is 0.0116 < 0.05. Ha is rejected, and H0 is accepted, meaning that Environmental Social Governance has a negative effect on the firm value in companies listed on IDX ESG Leaders.

The Influence of Profitability

The coefficient value is positive, which is 13.65996, and the prob is 0.0015 < 0.05, so Ha is accepted, and H0 is rejected, meaning that profitability positively affects the firm value in the company listed on the IDX ESG Leaders.

The Influence of Capital Structure

The coefficient value is positive, which is 0.071731, and the prob is 0.4653 > 0.05, so Ha is rejected, and H0 is accepted, meaning that the capital structure variable does not affect the firm value of companies listed on IDX ESG Leaders.

Simultaneous Test (Test f)

Table 9. Test Results f

F-statistic	34.76417
Prob(F-statistic)	0.000000

Source: Data processing results with Eviews 13, 2024

Based on the f-test results in Table 9, an F-Statistic value of 34.76 was obtained with a Prob value. (F-statistic) is 0.000 (<0.05). Thus, it can be concluded that the independent variables have a joint influence on the dependent variable.

Determination Coefficient

Table 10. Determination Coefficient Test Results

Adjusted R-squared	0.908514

Source: Data processing results with Eviews 13, 2024

One technique to test a model's ability to apply fluctuations in dependent variables is by looking at the determination coefficient (r^2) (Ghozali, 2018). The study used an adjusted R squared to estimate the coefficient of determination, and there are more than two independent variables. Based on the corrected R-squared value of 0.908 shown in Table 9 above, we can deduce that independent factors have a 91% simultaneous impact on dependent variables.

The Effect of ESG on Firm Value

Environmental Social Governance has a negative effect on the firm value. The results of this study do not follow the first hypothesis, which states that environmental social governance positively affects the value of companies listed on the IDX ESG Leaders list for 2020-2023. These findings show that the increase in ESG scores achieved by companies correlates with the decline in corporate value as measured through Tobin's Q. This decline can be explained by the questionable market perception of the ESG efforts undertaken by companies, especially when these initiatives are not supported by adequate financial performance. Investors tend to believe that even though companies seek to increase social and environmental responsibility, their value remains depressed if comparable financial results do not accompany it. Therefore, it is essential for companies to not only focus on improving ESG scores but also ensure that the initiative is aligned with a strong financial strategy. This aims to increase investor confidence and support the overall growth of the firm value. This is confirmed by studies that have been carried out by Angir & Weli (2024) and Paramitha & Devi (2024), which show that ESG has a negative impact on firm value, leading to a decrease in investor confidence.

The Effect of Profitability on Firm Value

Profitability positively affects the firm value in companies listed on the IDX ESG Leaders for 2020-2023. These findings suggest that higher profitability contributes to increased investor confidence, which can increase the value of the company's shares. When a company can profit from its assets, investors respond by positively assessing the firm value. Therefore, company management needs to focus on improving financial performance and efficient use of assets, as this can increase profitability and potentially increase the company's attractiveness in the eyes of investors. Consistent improvement in profitability performance will create positive signals in the market, encourage investors to invest further and support the growth of the firm's value in the long term. This is confirmed by studies that have been carried out by Dewi et., (2024), Negara et al., (2024), Wardoyo & Fauziah (2024), Alifian & Susilo (2024), Mauliddin & Subardjo (2024), Shania & Hanaantijo (2023), Wangi & Aziz (2023), and Santoso & Junaeni (2022) which stated that profitability has a positive effect on firm value.

The Effect of Capital Structure on Firm Value

The capital structure does not affect the firm value in companies listed on the IDX ESG Leaders for 2020-2023. The results of this study are not based on the third hypothesis. These findings suggest that capital structure, which measures the ratio between debt and equity, may not be considered an essential factor by investors in determining a firm value. One possible explanation is that the company has managed to manage its debt effectively, so the risks associated with using debt do not affect the market's perception of the firm value. When investors see that a company can manage its debt obligations without increasing its excessive financial burden, they may focus more on other relevant factors, such as operational performance and profitability. In addition, it can also show that investors pay more attention to other fundamental aspects, such as revenue growth and operational efficiency, rather than just capital structure. Therefore, the company must continue improving its financial and operational performance and maintain transparent communication regarding debt management strategies with investors. Thus, even though the capital structure does not influence this context, companies still need to consider debt management as part of an overall strategy to increase their market value in the future. This is confirmed by studies by Shania & Hanaantijo (2023) and Apriliawati dan Nazar (2022). It is not in line with the results of research by Wulandari & Istiqomah (2024), Suhendar & Paramita (2024), and Dayanty & Setyowati (2020), which states that a high capital structure can reduce the value of a company.

CONCLUSION

The study found that Environmental Social Governance negatively influences a firm values, contrary to the initial hypothesis that states otherwise. These findings suggest that the increase in ESG disclosure can be attributed to a decline in the value of companies measured through Tobin's Q, possibly due to market perceptions that doubt the effectiveness of ESG initiatives without adequate financial performance support. On the other hand, profitability influences the firm value positively. According to the second accepted hypothesis, higher profitability increases investor confidence and raises the value of the company's shares. Therefore, management should focus on improving financial performance and efficient use of assets to create positive signals in the market and attract more investments. Meanwhile, the capital structure shows no influence on the firm value, so the third hypothesis is rejected, suggesting that the comparison between debt and equity may not be considered important by investors. Companies that manage their debt well can reduce debt-related risks in the market's view. However, ESG, profitability, and capital structure simultaneously affect a company's value.

To maximize the value of companies, the industry needs to prioritize long-term profitability through innovation and efficiency. ESG implementation should be strategic and measurable, focusing on relevant initiatives that generate tangible benefits and avoid greenwashing practices. Honest communication about business strategy and financial performance, including how ESG supports long-term goals, is essential for building investor confidence. Periodic evaluations of the capital structure remain important to ensure optimal funding, although it is not a major determinant of a company's value.

The suggestion for further research is to explore external factors that influence the relationship between ROA and Tobin's Q, such as macroeconomic conditions, regulatory changes, and market sentiment. Additionally, comparisons between sectors within an industry are recommended to identify possible patterns. In addition, for further research, long-term panel data that includes control variables for significant events is recommended. In addition, testing mediating variables, such as revenue growth or operational efficiency, can enrich understanding of the relationships being studied.

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