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The Effect of Good Corporate Governance, Environmental Social and Governance (Esg), and Firm Size on Firm Value, with Return on Assets as a Mediating Variable, in the Esg Leaders Index for 2020–2024

Muhammad Fadly[1], Ferikawita Magdalena Sembiring[2]
[12]Universitas Jenderal Achmad Yani, West Java, Indonesia
Correspondence: muhammadfadly_22p279@mn.unjani.ac.id[1]

Abstract

This study looks at how Environmental, Social, and Governance (ESG), Good Corporate Governance (GCG), and firm size affect firm value in companies listed in the ESG Leaders Index between 2020 and 2024 using Return on Assets (ROA) as a mediating variable. While ESG is represented by the ESG Risk Rating, the GCG variable uses the average of independent commissioners, audit committees, boards of directors, institutional ownership, and managerial ownership. Tobin's Q determines firm value, the natural logarithm of total assets determines firm size, and ROA determines company profitability. This study uses a quantitative methodology and secondary data from sample corporations' annual reports. Purposive sampling is the technique employed. The data is analyzed using panel data regression, the Sobel test, and partial least squares–structural equation modeling (PLS-SEM). The findings indicate that while firm size has a negative impact on ROA, GCG has a positive impact on ROA and ESG has no effect. Additionally, whereas ROA positively affects firm value, firm size, GCG, and ESG do not directly affect firm value. Mediation research indicates that ROA does not mediate the association between ESG and firm value, but it does adversely mediate the relationship between firm size and firm value and the relationship between good corporate governance and firm value. These results emphasize the importance of profitability in explaining how corporate governance, sustainability, firm attributes, and firm value are interrelated.

KEYWORDS

good corporate governance, environmental social and governance (esg), firm size, return on assets, firm value.

Introduction

A manager who can efficiently handle the company's finances and generate value for shareholders is essential in today's fiercely competitive business environment. Firm value is a critical indicator used by investors to assess a company's potential for long-term success. Firm value takes into account predictions for the company's future potential in addition to its existing financial situation.

Companies that are part of the ESG Leaders Index exhibit this behavior. The price performance of stocks with high Environmental, Social, and Governance (ESG) ratings, minimal involvement in controversies, and excellent trading liquidity and financial performance is measured by the IDX ESG Leaders Index. The ESG Leaders Index consists of 30 listed companies on the Indonesia Stock Exchange, which undergo major evaluations in April and October and minor evaluations in July and January. The criteria for selecting constituents for the ESG Leaders Index are based on ESG risks provided by Sustainalytics through an assessment of the extent to which a company's economic value

	Jan	Feb	Maret	April	Mei	Juni	Juli	Agustus	Sep	Okt	Nov	Des	Tahun
2025	0.034	-0.136	0.066	0.024	0.049	-0.086	0.017	0.061	-0.033	-0.010	-	-	-0.033
2024	0.006	-0.012	0.021	-0.016	-0.015	0.018	0.031	0.041	-0.014	-0.016	-0.057	-0.039	-0.056
2023	-0.008	0.009	-0.010	0.015	0.039	0.010	0.010	-0.014	-0.014	-0.052	0.078	0.089	0.110
2022	-0.006	0.032	0.036	0.034	-0.021	0.022	0.022	0.034	0.001	0.027	0.001	-0.055	0.031
2021	-0.033	0.017	-0.049	-0.009	-0.002	-0.023	-0.023	0.055	0.022	0.083	-0.014	-0.017	0.041

Figure 1. Ratio of Stock Price Increases and Decreases for IDX ESG Leaders, 2020–2025
Source: id.tradingview.com

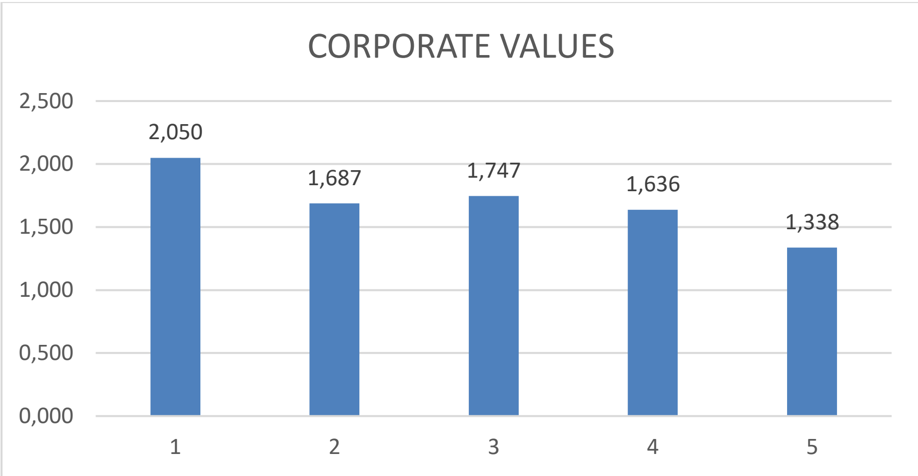
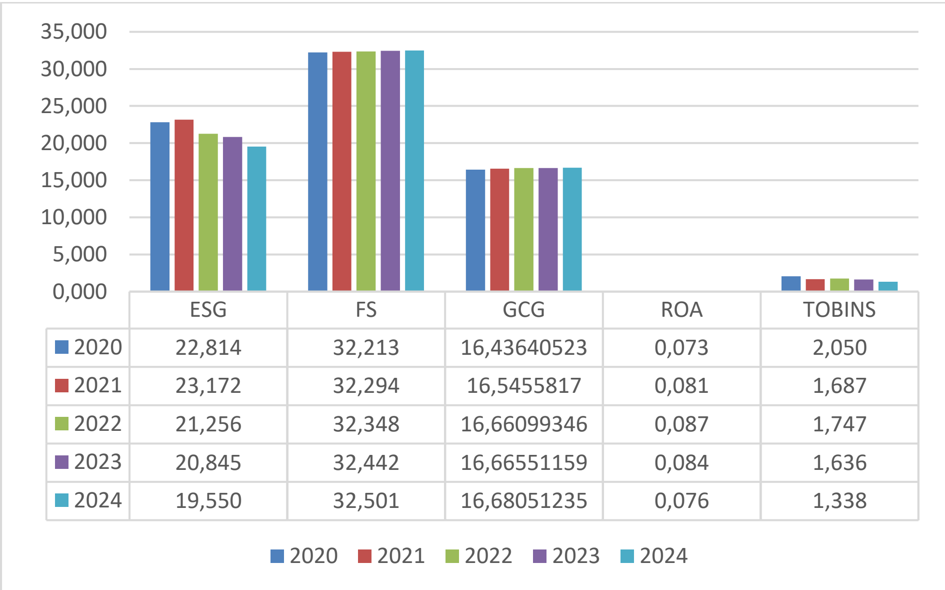


Figure 2. Enterprise Value Chart
Source: www.idx.co.id (data reprocessed in 2025)



	ESG	FS	GCG	ROA	TOBINS
2020	22,814	32,213	16,43640523	0,073	2,050
2021	23,172	32,294	16,5455817	0,081	1,687
2022	21,256	32,348	16,66099346	0,087	1,747
2023	20,845	32,442	16,66551159	0,084	1,636
2024	19,550	32,501	16,68051235	0,076	1,338

Figure 3. Average Scores for Good Corporate Governance, Environmental Social and Governance (ESG), Firm Size, Return on Assets, and Tobin's Q
Source: www.idx.co.id (data reprocessed in 2025)

is at risk of being affected by ESG factors, with scores ranging from 0 (lowest risk) to 100 (highest risk).

As can be seen in Figure 1, the annual movements of the ESG Leaders index showed an unstable trend during the 2020–2025 period. In 2020, the economy briefly contracted into negative territory as many social and business activities came to a halt. However, in the following years, the economy began to recover. However, in 2024, the average stock price of ESG Leaders companies fell again to -4.12%. These fluctuations indicate that changes in firm value cannot be explained solely by macroeconomic conditions. This phenomenon suggests that internal factors, such as Good Corporate Governance (GCG), Environmental Social and Governance (ESG), and firm size, may also influence firm value, thereby providing the basis for the proposed hypotheses (Masditok et al., 2024).

The present value of a company's future profitability—which takes into account both the profitability of its current assets and its strategic adaptation to its operating environment—determines the company's worth, according to Fang & Guo (2025).

As depicted in Figure 2, there was a decline over several periods, but the Tobin's Q ratio remained above 1 throughout. Given that the company's market value is still more than the

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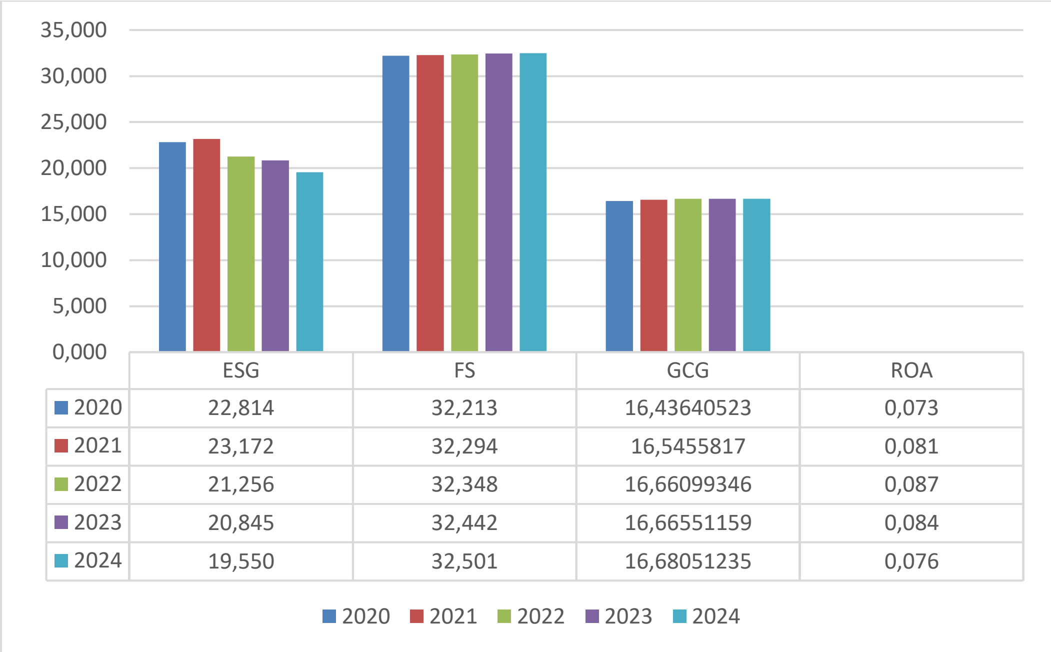

Figure 4. Average scores for Good Corporate Governance, Environmental Social and Governance (ESG), firm size, and Return on Assets
Source: www.idx.co.id (data reprocessed in 2025)

book value of its assets, investors continue to view it favorably. The decreasing trend, however, points to a drop in market trust in the company's capacity to generate value for investors.

These fluctuations indicate that the relationship between governance quality, ESG performance, firm size, and firm value remains inconclusive. Therefore, this study further examines whether GCG, ESG Risk Rating, and firm size significantly influence firm value, both directly and indirectly through Return on Assets (ROA).

Tiep Le & Nguyen (2022) state that GCG's main goal is to balance the interests of numerous stakeholders, including shareholders, the board of directors, employees, customers, suppliers, lenders, the government, and the community. GCG's implementation can reduce disputes between management and principals since it monitors management's performance and ensures that management acts in accordance with the proprietors' wishes, that is, to increase the company's value. Furthermore, according to Fang & Guo (2025), ESG is regarded as a critical criterion for firm value since it incorporates three important dimensions: environmental social, and governance. ESG is a strategic framework that enables companies to integrate economic and social values into business decision-making. ESG plays a role in helping companies reduce business risks, reduce capital costs and increase market value and competitiveness through social welfare, good governance, and environmental responsibility. Investors examine a company's total assets to assess its size and possibilities for investment. The theory underlying the correlation between a firm's size and value is that larger companies are better equipped to handle risks, provide income, and draw in investors.

According to the preceding chart, Tobin's Q dropped by 0.172 in 2022 and 2023 while strong corporate governance grew by 0.005. In line with agency theory, the degree of good corporate governance will increase a company's value. The company's decisions will be better if corporate governance is improved, which would probably increase the company's value for shareholders. The ESG risk rating dropped by 0.411 and Tobin's Q by 0.172 from 2023 and 2024. This contradicts legitimacy theory, which holds that a company's value would rise with a higher ESG risk rating because investors believe the risks involved are not very serious. Firm size grew by 0.094 in 2022–2023, but Tobin's Q fell by 0.172. The Resource-Based View paradigm, which holds that a firm's worth increases with its size, is at odds with these findings. Then, in 2020–2021, ROA increased by 0.008, while firm value decreased by 0.363. This is inconsistent with the theory that states that effectively managing and utilizing internal resources will increase firm value. The inconsistent trends shown in Figure 3 indicate that theoretical expectations are not always reflected in actual corporate performance. These inconsistencies strengthen the need to empirically examine the effects of GCG, ESG Risk Rating, and firm size on firm value through hypothesis testing.

Figure 4 above shows that *good corporate governance* in 2022 and 2023 increased by 0.005, while ROA decreased by 0.003. If *good corporate governance* increases, the decisions made by the company will improve, which is likely to boost the company's revenue. In 2023–2024, the ESG risk rating decreased by 0.411, while ROA decreased by 0.003. This is inconsistent with the legitimacy theory, which states that a better ESG risk rating will increase the profits earned by the company. In 2022–2023, firm size increased by 0.094, but ROA decreased by 0.003. The Resource-Based View argument, which holds that a company's ability to disperse revenue increases with its size, is at odds with these findings. These inconsistent movements suggest that the relationships between GCG, ESG Risk Rating, firm size, and ROA require further empirical investigation. Therefore, ROA is proposed as an intervening variable to explain whether financial performance mediates the effects of GCG, ESG Risk Rating, and firm size on firm value.

The link between GCG, ESG, company scale, and firm value has become more complex because to the COVID-19 pandemic and post-pandemic economic uncertainties. Throughout this period, businesses must maintain both their financial performance and their commitment to sustainability. The reality that advancements in corporate governance and ESG practices did not always translate into higher firm value suggests that other factors, including financial success, have an impact on the relationship between GCG, ESG, and firm size.

Empirical data regarding the impacts of *Good Corporate Governance* (GCG), Environmental Social and Governance

(ESG), and firm size on firm value remains inconclusive. While some research indicate weak or negligible connections, others report beneficial outcomes. These contradictory results point to a research gap and stress the need for more study, especially in sustainability-focused businesses such as those included in the ESG Leaders Index.

This study also uses return on assets as an mediating variable to assess if the firm's financial performance can increase or decrease the relationship between good corporate governance (GCG), environmental and social governance (ESG), and firm size on firm value. Because the firm's capacity to manage its resources, features, and policies determines its worth, the use of an mediating variable is crucial.

The majority of prior research has measured ESG using ESG disclosure or ESG performance scores, despite the fact that past studies have thoroughly investigated the relationship between Good Corporate Governance, Environmental Social and Governance, business size, and firm value. Although ESG Risk Rating offers a more thorough evaluation of a company's vulnerability to environmental social and governance issues, few studies have used it as a stand-in for ESG performance. In order to fill these gaps, this study examines the mediating function of profitability in the link between corporate governance, sustainability, firm size, and firm value using ESG Risk Rating as the ESG measurement. As a result, this study adds to the body of literature by examining the relationship between ESG Risk Rating and firm value through the mediating role of Return on Assets in ESG Leaders Index companies, as well as by offering empirical evidence on the use of ESG Risk Rating rather than ESG disclosure as a measure of sustainability performance.

Therefore, the researcher was inspired to carry out this study named because of the backdrop and events mentioned above, as well as the inconsistent research findings about sustainability reports. "THE EFFECT OF *GOOD CORPORATE GOVERNANCE*, ENVIRONMENTAL, SOCIAL, AND GOVERNANCE, AND FIRM SIZE ON FIRM VALUE WITH RETURN ON ASSETS AS A MEDIATING VARIABLE IN THE ESG LEADERS INDEX FOR 2020–2024"

Sustainability Theory

The concept of sustainable development, which emphasizes satisfying current demands without jeopardizing the capacity of future generations to satisfy their own, was created in the World Commission on Environment & Development (1987). This idea is the foundation of sustainability theory. This idea states that in order to achieve long-term sustainability, firms should balance social, economic, and environmental considerations. Thus, by increasing operational value, business reputation, and environmental efficiency, sustainability initiatives like green financing and eco-friendly investments can improve financial performance.

Agency Theory

Agency theory explains how managers (agents) and business owners (principals) interact in corporate governance. According to Sutrisno (2012), agency conflicts arise when managers tend to pursue personal interests while owners emphasize expanding the company's value. Regular application of Good Corporate Governance (GCG) can reduce these conflicts by motivating managers to behave more effectively, operate more productively, and ultimately raise firm value (Kencana et al., 2025).

Legitimacy theory

According to legitimacy theory, in order for a business to acquire and preserve public legitimacy, its operations must conform to societal norms and values. Businesses that demonstrate social and environmental responsibility are more likely to be trusted by the public, which can boost a company's worth, attract investors, and make financing easier to obtain (Sutrisno, 2012). Furthermore, according to Natalia et al. (2025), companies with strong ESG performance generally gain more social legitimacy since they are perceived as being more morally and socially responsible.

Resource-Based View (RBV)

According to the Resource-Based View (RBV) philosophy, a company's worth and performance are determined by how well it manages and uses its internal resources. Wernerfelt (1984) first proposed this thesis, which Barney (1991) expanded upon. According to Barney, a firm can gain a lasting competitive advantage if it has resources that are uncommon, precious, unique, and non-replaceable.

Firm Value

Investors' opinions of a company's future prospects and hazards are reflected in its valuation (Brigham & Houston, 2019). Investors may decide to put money into a company if its value rises. James Tobin first proposed Tobin's Q in 1969. Investors have favorable growth prospects and the market values the company's assets more than its book value if Tobin's Q is greater than one. Conversely, if the value is less than one, it means that the market thinks the company has less productive assets or poor prospects.

$$Q = \frac{MVE + D}{TA}$$

Q = Firm Value
MVE = The market value of equity is determined by multiplying the number of outstanding shares by the year-end closing stock price.
D = Book value of total debt
TA = Total assets

Good Corporate Governance

Good Corporate Governance (GCG) is a governance framework that guarantees businesses function efficiently, openly, and ethically while defending stakeholders' and stockholders' interests, according to Prastika et al. (2025). According to Laili et al. (2019), GCG lessens agency disputes between shareholders and management. Five proxies, which stand for the company's governance and oversight processes, are used in this study to quantify GCG: independent commissioners, the audit committee, the board of directors, institutional ownership, and managerial ownership. The GCG variable was constructed as a composite index by calculating the average of the standardized values of the five governance proxies: Independent Commissioners, Board of Directors, Audit Committee, Managerial Ownership, and Institutional Ownership

$$GCG = \frac{IC + BD + AC + MO + IO}{5}$$

Environmental Social Governance

A company's responsibility for environmental, social, and governance aspects is assessed using the concept of Environmental, Social, and Governance (ESG). ESG risk ratings measure the extent to which ESG factors affect a company's economic risk., according to Putri & Desyana (2025). The Indonesia Stock Exchange's Sustainalytics ESG Risk Scores are used in this study to quantify ESG. Better ESG performance is indicated by lower scores on Sustainalytics' scale, which ranges from 0 (lowest risk) to 100 (worst risk) (Ainun & Liyanto, 2025; Cecilia et al., 2024).

Firm size

Generally speaking, larger businesses have easier access to outside finance, more liquidity, and a stronger ability to control business risks (Brigham and Houston, 2019). A company's capacity to manage stakeholder relationships and foster public trust is also reflected in its size (Sembiring &

Gunawan, 2026). The total assets' natural logarithm (Ln Total Assets), a popular and reliable proxy that minimizes variations in units and nominal values while reflecting a company's scale, is employed in this study to quantify business size.

$$Firm\ size = \text{Ln Total Aset}$$

Return on Aset

The ability of a business to produce a profit from all of its assets is measured by return on assets, or ROA. It is computed by dividing total assets by net income, with a higher ROA indicating more efficient asset utilization (Rumapea & Silitonga, 2020). According to Kurniawan & Mildawati (2023), ROA reflects the return generated from all company resources regardless of financing structure. Asyik et al. (2024) further state that a high ROA signals strong future prospects and greater efficiency, making the company more attractive to investors.

$$ROA = \frac{Net\ Income}{\text{Total aset}} \times 100\%$$

The Impact of *Good Corporate Governance* on Return on Assets

Agency theory states that in order to minimize conflicts of interest between management (agents) and shareholders (principals), effective corporate governance is essential. According to Jensen and Meckling (1976), Strong supervision procedures are necessary to guarantee that management actions continue to be in line with the goals of shareholders because managers frequently act in their own self-interest. Good corporate governance affects return on assets, according to study by Kurniawan & Mildawati (2023), which is based on earlier studies. Bintara (2021) study, which claims that sound corporate governance significantly improves ROA, lends more credence to this. However, studies by Rumapea & Silitonga (2020) and Andani (2025) show that ROA is not significantly impacted by sound corporate governance.

H1: *Good corporate governance* has a positive effect on return on assets.

The Impact of Environmental, Social, and Governance (ESG) on Return on Assets

Companies that successfully handle environmental, social, and governance (ESG) challenges are more likely to win over stakeholders and preserve societal legitimacy, according to legitimacy theory. The ESG Risk Rating provided by Sustainalytics is used in this study to quantify ESG; a lower number denotes lesser ESG risk and better ESG performance. Stronger stakeholder confidence, fewer operational disruptions, lower compliance costs, and more effective resource use are all anticipated for businesses with lower ESG risk, all of which can boost profitability. Because effective ESG risk management improves operational efficiency and long-term sustainability, prior research has also shown that lower ESG risk is linked to greater financial performance (Ainun & Liyanto, 2025; Cecilia et al., 2024). Therefore, it is anticipated that ROA will be negatively impacted by ESG Risk Rating, according to Wulandari & Rosini (2023) and Sukaryono & Tasrim (2025). According to research by Aydoğmuş et al. (2022), ROA is significantly impacted by ESG.

H2: Environmental, Social, and Governance has a negative effect on Return on Assets

The Impact of Firm Size on Return on Assets

According to the Resource-Based View (RBV), valuable and effectively managed internal resources are essential to a company's competitive advantage. Big businesses have more resources that can boost innovation, economies of scale, and operational effectiveness. These assets can be used more successfully to increase Return on Assets (ROA), according to Natsir & Yusbardini (2020). This suggests that larger businesses have more potential to increase profitability through good asset management. Firm size significantly improves ROA, according to a study by Natsir & Yusbardini (2020). According to Hirdinis (2019) research, ROA is impacted by business size. In contrast, firm size significantly reduced profitability in the Laili et al. (2019) study.

H3: Firm size has a positive effect on Return on Assets

The Impact of *Good Corporate Governance* on Firm Value

By describing the primary and agent's agency relationship, agency theory explains the connection between strong corporate governance and firm value., where conflicts of interest frequently occur because of disparities in their goals. Financial reporting is more accurate, management decision-making is more open, and business policies can be justified in an ethical and professional manner when a strong governance framework is in place (Kencana et al., 2025). Previous research, such as the study by Wahidahwati & Ardini (2021), which asserts that increasing firm value is positively impacted by good corporate governance, supports this idea. However, the results of Abraar et al. (2024) demonstrate how good corporate governance has a detrimental influence on firm value. Meanwhile, the results of Rusli et al. (2020) imply that firm value is unaffected by sound corporate governance.

H4: *Good Corporate Governance* has a positive effect on Firm Value

The Impact of Environmental, Social, and Governance (ESG) on Firm value

Because they exhibit better environmental, social, and governance performance, businesses with lower ESG risk are more likely to win over stakeholders and investors, according to legitimacy theory. A lower grade indicates better ESG performance because this study uses the ESG Risk grade to quantify ESG. Improved ESG performance lowers business risk, boosts investor confidence, and improves company reputation—all of which can raise firm value. Due to their improved sustainability performance and reduced exposure to ESG-related risks, companies with lower ESG risk typically have better market valuations, according to earlier research. Consequently, it is anticipated that ESG Risk Rating will negatively impact firm value. ESG is extremely important for firm value, according to research by Fang & Guo (2025). ESG risk ratings significantly increase organizational value, according to research by Putri & Desyana (2025). research by Prabawati & Rahmawati (2022), ESG has a negative effect on organizational value.

H5: Environmental, Social, and Governance has a negative effect on firm value

The Effect of Firm Size on Firm Value

The Resource-Based View (RBV) theory explains how business size and firm value are related. If a company can effectively use and manage its valuable, rare, unique, and non-substitutable internal resources, it will have a sustained competitive edge, according to Barney (1991). Large companies have more managerial and financial resources to carry out initiatives successfully, it finally increases business worth and enhances the company's reputation and trust. (Prayogo et al., 2023). Natalia et al. (2025) investigated the connection between firm value and business scale. Furthermore, Sembiring & Gunawan (2026) analysis shows that business size has a favorable effect on firm value. A study by Prayogo et al. (2023) found that firm size influences firm value. A study by Kencana et al. (2025) found that firm size positively affects firm value.

H6: Firm size has a positive effect on firm value

The Relationship Between Return on Assets and Firm Value

According to the Resource-Based View (RBV) paradigm, businesses that can provide a high return on assets (ROA) are thought to have better resource management, including both tangible and intangible assets as well as managerial skills. Investor confidence rises as a result of this efficiency's creation of a long-lasting competitive advantage. According to Kurniawan & Mildawati (2023), ROA is a measure that shows how effectively a company uses its resources and significantly influences investor trust when assessing a company's quality. Additionally, ROA indicates to investors that the company can make effective use of its assets, which raises firm value. ROA has an impact on firm value, according to earlier research by Rumapea & Silitonga (2020). Research by Suhartini et al. (2024) and Prastika et al. (2025) also shows that ROA affects firm value. Studies by Prastika et al. (2025), Suhartini et al. (2024) also indicate that ROA influences firm value. However, Bintara (2021) study found that ROA does not influence firm value.

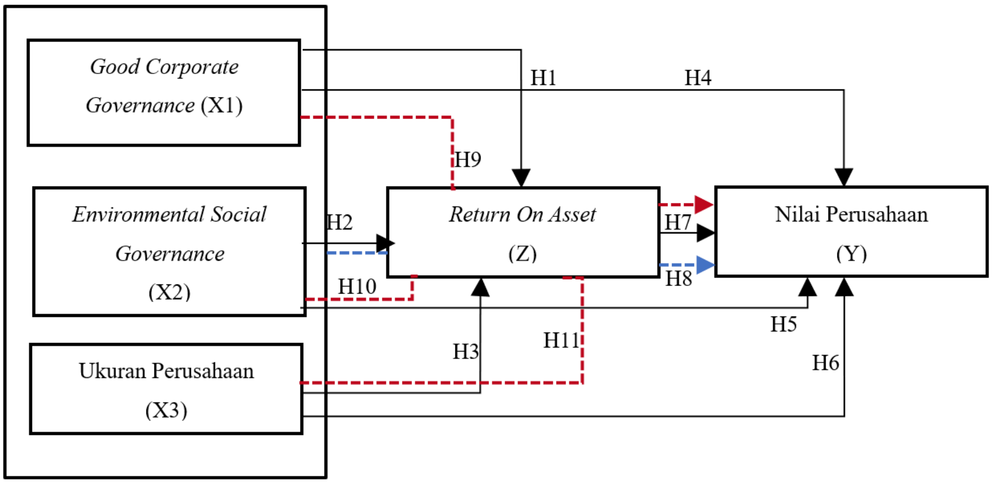

Figure 5. Conceptual Framework

H7: Return on Assets has a positive effect on firm value

Return on Assets Mediates the Effect of *Good Corporate Governance* on Firm Value

Agency Theory states that by enhancing oversight and guaranteeing that management acts in shareholders' best interests, good corporate governance lessens agency conflicts between managers and shareholders. Return on Assets (ROA) shows that improved governance increases operational effectiveness and asset utilization, which raises profitability. Increased profitability raises the firm's worth by giving investors a good signal about its financial performance and prospects. Thus, it is anticipated that ROA will act as a mediator in the relationship between company value and good corporate governance. According to Rumapea & Silitonga (2020) study, return on assets acts as a mediator between firm value and effective corporate governance. Kurniawan & Mildawati (2023) found that ROA does not function as a mediator in the relationship between excellent corporate governance and firm value.

H8: Return on Assets mediates the effect of *Good Corporate Governance* on Firm Value

Return on Assets (ROA) Mediates the Impact of Environmental, Social, and Governance Factors on Firm Value

Legitimacy Theory states that businesses that adopt Environmental, Social, and Governance (ESG) principles become more legitimate when they match stakeholder expectations with their operations. This legitimacy increases operational effectiveness, boosts stakeholder trust, and improves the company's reputation—all of which can lead to higher profitability. It is anticipated that increased profitability, as determined by Return on Assets (ROA), will boost investor confidence and eventually raise the value of the company. Thus, it is anticipated that ROA will act as a mediator in the interaction between firm value and environmental, social, and governance factors. Aydoğmuş et al. (2022) demonstrate that ESG influences ROA. Furthermore, Rumapea & Silitonga (2020) explain that ROA influences firm value.

H9: Return on Assets (ROA) acts as a mediator in the effect of *Good Corporate Governance* on Firm Value

Return on Assets Mediates the Effect of Firm Size on Firm Value

The Resource-Based View contends that companies with more resources are better able to make effective use of their assets and gain a competitive edge. Return on Assets (ROA), which indicates the company's financial stability to investors and raises firm value, shows how effective asset management increases profitability. Larger companies are therefore anticipated to indirectly increase firm value through increased profitability, demonstrating the mediation function of ROA. A study by Natsir & Yusbardini (2020) discovered that the relationship between firm value and firm size may be mediated by ROA. A study by Atiningsih & Izzaty (2021) found that ROA can also serve as a mediator between firm value and business scale.

H10: Return on Assets mediates the effect of firm size on firm value

Using return on assets as the mediating variable, as shown by the conceptual model below, the researcher intends to test the effects of firm size, environmental and social governance, and good corporate governance on firm value based on the previously mentioned theoretical framework and previous research;

Methods

This study used associative analysis and a descriptive technique as part of a quantitative research methodology. Paramita et al. (2021) state that quantitative research is carried out methodically using scientific research techniques in order to investigate correlations between variables and address research issues. Secondary data came from the annual reports, sustainability reports, and financial reports of businesses that were part of the Indonesia Stock Exchange's (IDX) ESG Leaders Index from 2020 to 2024. Purposive sampling was used to choose the sample based on the following criteria: businesses that regularly appear in the ESG Leaders Index, publish comprehensive financial, sustainability, and annual reports, and supply complete data for all research variables. 17 businesses were chosen as the final sample based on these standards, yielding 49 firm-year observations. Because the dataset includes both cross-sectional and timeseries observations, panel data regression was used. Before estimating the regression model, the Chow, Hausman, and Lagrange multiplier tests were used to choose the best panel regression model. Descriptive statistical analysis, panel regression analysis, classical assumption tests, hypothesis testing using t-tests and F-tests, and coefficient of determination (R^2) analysis to assess the model's explanatory power were all part of the data analysis that was carried out using EViews 12.

Result and Discussion

Descriptive Statistical Analysis

Each variable in this study is first summarized using descriptive statistical analysis. To make it simpler to comprehend and assess, this approach condenses the data for each variable. The displayed values include the mean, median, maximum, and minimum. The following are the descriptive statistical analysis's findings (see Table 1).

The following data was gathered based on the aforementioned descriptive statistical analysis's findings:
Although all companies are included in the ESG Leaders Index, the Good Corporate Governance (GCG) variables indicate differences in governance characteristics across firms. Likewise, the Environmental, Social, and Governance (ESG) Risk Rating shows variation in ESG risk exposure, suggesting that companies differ in managing environmental, social, and governance risks. Differences are also observed in firm size, reflecting variations in the scale of business operations among the sampled companies.

Furthermore, the descriptive statistics of Return on Assets (ROA) and firm value indicate differences in profitability and market valuation across firms. Overall, these results demonstrate that the sample exhibits sufficient variation in the observed variables, providing an appropriate basis for subsequent panel regression analysis.

Selection of the Panel Data Regression Model

Table 2 presents the results of the Chow, Hausman, and Lagrange Multiplier tests used to determine the most appropriate panel data regression model.

Classical Assumption Tests
Multicollinearity Test

Finding out if the independent variables in the regression model have a high or perfect correlation is the goal of the multicollinearity test. One test for multicollinearity is the Variance Inflation Factor (VIF); if the VIF value is less than 10, multicollinearity is not an issue.

Because the VIF number is less than 10, it is clear from the table's results that multicollinearity does not exist. As a result, H_0 is accepted and H_1 is denied (see Table 3).

Heteroscedasticity Test

The probability value is 0.1414 > 0.05 based on the table's results, which means the data indicates the absence of heteroscedasticity (see Table 4).

Hypothesis Test

Using the chosen panel data regression model, the associations between the research variables were subsequently investigated using hypothesis testing. E-Views 12 was used to do panel data regression analysis, and mediation analysis was performed using the Sobel test. The results of the hypothesis test are shown in the following table (see Table 5, Table 6, Table 7).

The Random Effects Model is the best model for this investigation, according to the model selection test findings. The following is the regression equation.:
Equation 1

ROA = 0.533979 + 0.042116*GCG - 0.000838*ESG - 0.035070*SIZE
Equation 2

Tobins = -3.354623 + 0.217725*GCG + 0.021783*ESG - 0.016820*SIZE + 18.83435*ROA

Simultaneous Test

As demonstrated by the F statistic of 28.59574 and a probability value of 0.000000, which is below the 0.05 significance level, the simultaneous test results show that Good Corporate Governance (GCG), Environmental, Social, and Governance (ESG), firm size, and Return on Assets (ROA) all significantly affect firm value (see Table 8). This result suggests that governance quality, sustainability performance, business characteristics, and financial performance all interact to affect firm value. This suggests that instead of depending only on one metric to determine firm value, investors review businesses holistically, taking into account operational features, sustainability, profitability, and governance procedures at the same time.

Destermination Coefficient Test

Good Corporate Governance (GCG), Environmental, Social, and Governance (ESG), firm size, and Return on Assets (ROA) account for 58.84% of the variation in firm value, while factors outside the purview of this study account for 41.16%, according to the coefficient of determination results, which show an Adjusted R-squared value of 0.588441 (see Table 9). This result suggests that the chosen variables are significant predictors of firm value and that the suggested model has a reasonable explanatory power. The unexplained fluctuation, however, raises the possibility that additional variables.

The Effect of *Good Corporate Governance* on Return on Assets

According to the premise, Return on Assets (ROA) is positively impacted by Good Corporate Governance (GCG). The findings demonstrate that good corporate governance improves supervision, boosts asset management effectiveness, and boosts profitability by confirming that GCG has a favorable impact on ROA. Additionally, GCG facilitates better decision-making and lessens agency conflicts, which makes it a crucial component in raising ROA and a helpful metric for investors assessing a company's capacity to generate profits. These findings support Agency Theory by demonstrating that effective corporate governance mechanisms reduce agency conflicts and improve managerial oversight. As a result, management is encouraged to utilize company assets more efficiently, leading to higher profitability as reflected in Return on Assets (ROA).

These results align with a study conducted by Kurniawan & Mildawati (2023) that shows how good corporate governance affects return on assets. This is further supported by Bintara (2021) study, which asserts that good corporate governance greatly increases ROA. This, however, runs counter to the conclusions of Rumapea & Silitonga (2020) and Andani (2025), who claim that ROA is not much impacted by excellent corporate governance.

The Effect of Environmental, Social, and Governance on Return on Assets

The theory states that Environmental, Social, and Governance (ESG) can improve Return on Assets (ROA). However, the study's findings indicate that ROA is unaffected by ESG. These results suggest that increasing business profitability has not yet been directly impacted by the application of ESG. This is due to the fact that putting ESG into practice necessitates a large investment and that its advantages are typically recognized over time; as a result, they have not yet been reflected in a company's capacity to make money off of its assets. Thus, companies need to integrate ESG

Table 1. Descriptive Analysis Results

	GCG	ESG	SIZE	ROA	TOBIN
Mean	16.60	21.32	32.36	0.08	1.69
Median	16.29	20.5	31.81	0.07	1.07
Maximum	20.17	29.74	35.43	0.46	14.41
Minimum	14.03	10.96	29.32	-0.03	0.11
Std. Dev	1.45	5.22	1.95	0.09	2.23

Source: IDX (Data Processed in 2025)

Table 2. Results of Regression Model Selection Test for Panel Data

Test	P-Value	Conclusion
Chow	0.0000 < 0.05	FEM
Hausman	0.9534 < 0.05	REM
Lagrange Multiplier	0.0000 < 0.05	REM

Table 3. Multicollinearity Test Results

Variable	Centered VIF
GCG	2.652383
ESG	1.180511
SIZE	3.207918
ROA	2.852975

Source: Results of data processing utilizing E-views 12

Table 4. Heteroscedasticity Test Results

F-statistic	1.800305	Prob. F(5,44)	0.1454
Obs*R-squared	6.897559	Prob. Chi-Square(5)	0.1414
Scaled explained SS	6.159018	Prob. Chi-Square(5)	0.1876

Source: Results of data processing utilizing E-views 12

strategies more effectively into their operational activities to contribute to increased profitability, while investors should consider the benefits of ESG from a long-term perspective rather than focusing solely on short-term profitability. Legitimacy Theory, which contends that businesses that earn stakeholder legitimacy through ESG practices should see improved financial performance, is somewhat at odds with these findings. However, in this study, profitability did not instantly reflect the advantages of ESG adoption, suggesting that legitimacy may produce long-term rather than short-term financial results.

Return on assets (ROA) is unaffected by environmental, social, and governance (ESG) concerns, according to Wulandari & Rosini (2023) and Sukaryono & Tasrim (2025). These findings contradict the research by Aydoğmuş et al. (2022), which showed that ESG has a major impact on ROA. Additionally, research by Priandhana (2022) and Abdi et al. (2022) shows that ESG contributes to higher ROA.

The Effect of Firm Size on Return on Assets

The theory states that Return on Assets (ROA) can increase as a company grows in size. However, the study's findings indicate that ROA is negatively impacted by a firm's size. These findings demonstrate that a company's ability to generate revenue from its assets does not always increase with its size. Large asset companies typically have higher operating, administrative, and managerial expenses, which can lower how effectively assets are used to generate profits. The Resource-Based View (RBV), which contends that businesses with more resources should perform better through effective resource use, is contradicted by these findings. The findings imply that having a lot of assets by itself won't increase profitability if those assets are not effectively managed.

These findings are consistent with the study conducted by Laili et al. (2019), which found that firm size had a substantial negative influence on profitability. However, they contradict studies by Atiningsih & Izzaty (2021), which asserted that firm size influences ROA, and Natsir & Yusbardini (2020), which shown that firm size considerably increases ROA.

The Effect of *Good Corporate Governance* on Firm Value

The hypothesis states that Good Corporate Governance (GCG) affects firm value. But the findings indicate that GCG has no impact on firm value, indicating that excellent governance practices have not directly improved investors' perceptions of the company. Investors seem to give more weight to financial performance, growth prospects, and market conditions even though companies have put in place efficient governance structures. As a result, GCG is no longer the main determinant of firm value. Because the installation of corporate governance tools was insufficient to boost firm value, these findings partially contradict Agency Theory. This implies that financial performance is more important to investors than governance frameworks.

These findings align with a study conducted in 2020 by Mardinata Rusli et al. (2020) that found no correlation between firm value and excellent corporate governance. They, however, run counter to Wahidahwati & Ardini (2021) research, which claims that improved corporate governance raises firm value. Additionally, Abraar et al. (2024) found that corporation value is negatively impacted by effective corporate governance.

The Impact of Environmental, Social, and Governance on Firm Value

The hypothesis states that environmental, social, and governance (ESG) aspects affect a company's value. Nevertheless, the findings demonstrate that ESG has little bearing on firm value, indicating that sustainable practices have not directly increased firm value. Investors appear to put financial success ahead of ESG considerations, even while the long-term advantages of putting ESG into practice are more likely to be realized. As a result, investors have not yet made ESG a major consideration when valuing companies. These results defy the predictions of legitimacy theory, which holds that businesses with better ESG performance ought to be valued more highly by stakeholders. The findings show that during the study period, investors did not yet prioritize ESG Risk Rating.

This study supports finding that firm value is unaffected by environmental, social, and governance variables. Nonetheless, the findings of Fang & Guo (2025) study show that ESG is extremely important for firm value. Additionally, Putri & Desyana (2025) analysis shows that ESG risk assessments significantly increase organizational value.

The Effect of Firm Size on Firm Value

The theory states that business size affects a company's worth. However, the study's findings indicate that firm size has little bearing on firm value. This result suggests that a company's overall asset size does not ensure a high firm value in the view of investors. It's not always the case that big businesses can outperform smaller ones. Instead of only focusing on the number of a company's assets, investors often

Table 5. Equation 1

Variable	Coefficient	t-Statistic	P-Value	Decision
C	0.533979	2.694174	0.0086	
GCG	0.042116	5.171671	0.0000	H0 Rejected
ESG	-0.000838	-0.594559	0.5538	H0 Accepted
SIZE	-0.035070	-5.365075	0.0000	H0 Rejected

Source: Results of data processing utilizing E-views 12

Table 6. Equation 1

Variable	Coefficient	t-Statistic	P-Value	Decision
C	-3.354623	-0.889411	0.3764	
GCG	0.217725	1.188019	0.2383	H0 Accepted
ESG	0.021783	0.709442	0.4801	H0 Accepted
SIZE	-0.016820	-0.114428	0.9092	H0 Accepted
ROA	18.83435	7.605668	0.0000	H0 Rejected

Source: Results of data processing utilizing E-views 12

Table 7. Sobel Test

Variable	t-Statistic	P-Value	Decision
GCG	4.227516	0.0000	H0 Rejected
ESG	-0.565803	0.5715	H0 Accepted
SIZE	-4.385117	0.0000	H0 Rejected

Source: Results of data processing utilizing sobel test

Table 8. Simultaneous Test Results (F Test)

F-statistic	28.59574
Prob (F-statistic)	0.000000

Table 9. Determination Coefficient Test Results

Adjusted R-squared	0.588441

consider how well it manages its assets and how profitable it can be. Because there are other, more significant aspects that affect investment decisions and market valuation, Firm size is not the sole factor that determines a company's value. The Resource-Based View is not entirely supported by these results, which show that having more resources does not necessarily translate into higher firm value unless those resources are well managed to produce a competitive advantage.

This is in line with study by Rumapea & Silitonga (2020), which shows that firm value is independent of firm size.

Furthermore, it contradicts the findings of Kencana et al. (2025), which demonstrate that business size considerably raises firm value. Furthermore, studies by Amelia & Sembiring (2023) and Natsir & Yusbardini (2020) demonstrate that firm size considerably raises firm value. Furthermore, Hirdinis (2019) study shows that firm size has a negative effect on firm value.

The Effect of Return on Assets on Firm Value

According to the idea, firm value is impacted by Return on Assets (ROA). The study's findings demonstrate that ROA increases firm value. This result suggests that a company's value to investors increases with its capacity to make money off of its assets. A high return on assets (ROA) shows how well a company manages its assets, which increases investor trust and sends a favorable message about the company's future. The Resource-Based View (RBV), which holds that efficient resource management can boost firm value and provide a competitive advantage, is supported by these results. Therefore, in order to maximize firm value, businesses must constantly increase the effectiveness of their asset management and profitability. These results corroborate the Resource-Based View by showing that effective use of business assets increases profitability, which is favored by investors and raises firm value.

These findings align with earlier research by Rumapea & Silitonga (2020), which discovered that ROA affects firm value. Additionally, research by Suhartini et al. (2024) and Prastika et al. (2025) shows that ROA affects firm value. Bintara (2021) research, on the other hand, found that the value of the company is unaffected by ROA.

Return on Assets Mediates the Effect of *Good Corporate Governance* on Firm Value

The findings demonstrate that the impact of Good Corporate Governance (GCG) on firm value is mediated by ROA. This implies that by first increasing profitability, as shown by ROA, GCG indirectly increases firm value. Good governance improves asset utilization and operational efficiency, which boosts profitability and boosts investor confidence and firm value. These results are consistent with Agency Theory, which maintains that GCG improves financial performance and firm value by lowering conflicts of interest between management and shareholders.

These findings align with earlier research by Rumapea & Silitonga (2020), which asserts that return on assets serves as a bridge between commercial value and good corporate governance. According to Kurniawan & Mildawati (2023), The relationship between outstanding corporate governance and firm value is not mediated by return on assets.

Return On Assets Mediates the Influence of Environmental Social Governance on Firm Value.

The findings demonstrate that the impact of Environmental, Social, and Governance (ESG) on firm value is not mediated by ROA. This suggests that ESG implementation has not improved profitability sufficiently to increase firm value indirectly. Since ESG initiatives require substantial investment and generally produce long-term benefits, their impact on profitability was not reflected during the study period. As a result, As of yet, Firm value and ESG cannot be mediated by ROA.

These findings are supported by studies conducted by Nabila et al. (2026), It clarifies that the relationship between environmental social governance and firm value cannot be mediated by return on assets. However, a study by Sumarno et al. (2023) found that return on assets can mediate the relationship between environmental social governance and firm value.

Return On Assets Mediates the Effect of Firm Size on Firm value

The study's findings demonstrate that ROA negatively mediates the relationship between a firm's size and value. This result suggests that more profitability isn't always associated with larger businesses. ROA is a measure of a company's profitability, can be negatively impacted by an excessive amount of assets due to operational complexity and inefficiencies in asset management. Investors receive a less favorable signal as a result of this decline in profitability, which also affects the company's declining value. Therefore, ROA serves as a mediating variable that clarifies that a large firm's size would only increase its value if it is accompanied by efficient and successful asset management. Large resource ownership does not always increase firm value unless those resources are used effectively to produce increased profitability, according to these studies, which strengthen the Resource-Based View.

Research by Alamsyah et al. (2023), which indicates that return on assets mediates the firm's size on firm value in a negative way, supports these findings. Nonetheless, Natsir & Yusbardini (2020) According to study, the detrimental effects of firm size on firm value can be mitigated by ROA. Furthermore, according to study by Atiningsih & Izzaty (2021), ROA can lessen the impact of firm value on business size.

Conclusion

utilizing companies featured in the ESG Leaders Index between 2020 and 2024, this study looked at the impact of Good Corporate Governance (GCG), Environmental Social, and Governance (ESG), and firm size on firm value, utilizing Return on Assets (ROA) as a mediating variable. The results show that ROA is positively impacted by GCG, negatively impacted by firm size, and not significantly impacted by ESG. Moreover, firm value is positively impacted by ROA but not by GCG, ESG, or firm size. According to mediation analysis, ROA negatively mediates the association between firm size and firm value, mediates the relationship between GCG and firm value, and does not mediate the relationship between ESG and firm value.

By expanding Agency Theory, Legitimacy Theory, Sustainability Theory, and the Resource-Based View in the context of ESG Leaders Index firms, this study theoretically adds to the body of literature. The results show that rather than having a direct impact on firm value, corporate governance creates value mostly through enhanced financial performance. Furthermore, the application of ESG Risk Rating offers an alternative viewpoint by demonstrating that reduced ESG risk does not always result in increased short-term profitability or firm value.

From a managerial standpoint, the results indicate that in order to increase profitability and firm value, businesses should improve asset usage and fortify governance procedures. On the other hand, rather than being a short-term driver of financial performance, ESG implementation should be seen as a long-term strategic investment. In order for a larger organization to provide more economic value, managers should also make sure that asset management is effective in tandem with firm expansion.

There are a number of limitations to this study. It employs ROA as the only mediating variable and only looks at businesses that were part of the ESG Leaders Index between 2020 and 2024. As a result, the results might not apply to businesses outside of the sample or to other market circumstances. To provide a more thorough understanding of the factors influencing firm value, future research is advised to use a larger sample size, prolong the observation period, take into account additional measures of ESG performance and firm value, and include additional mediating or moderating variables like capital structure, investment choices, or corporate reputation.

Author contributions

Muhammad Fadly served as the study's principal investigator and oversaw every step of the investigation, comprising defining the research question, creating the methods and theoretical framework, gathering and evaluating data, and assessing and interpreting the results. Muhammad Fadly was also in charge of compiling all of the research findings into the final draft and authoring the scientific article.

Early on in the research, Dr. Ferikawita Magdalena Sembiring, SE., M.Si. assisted in formulating the problem, choosing a topic, and honing the research strategy. In order to enhance the writing quality and guarantee that it complies with journal requirements and scientific standards, Dr. Ferikawita Magdalena Sembiring, SE., M.Si. additionally contributed to the analytic results assessment, study findings interpretation, and paper editing. The final paper was reviewed, edited, and approved by all authors before being submitted for publication.

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