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Assessing the Disclosure of Environmental, Social, and Governance on Financial Performance and Firm Value

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ABSTRACT

This study aims to analyze the influence of Environmental, Social, and Governance (ESG), leverage, and firm size on financial performance proxied by Return on Assets (ROA) and firm value proxied by Price to Book Value (PBV) in automotive firms listed on the Indonesia Stock Exchange for the 2022-2024 period. This research uses a quantitative approach with archival data obtained from the firm's annual reports and sustainability reports. The sample was determined using purposive sampling techniques and resulted in 33 observations from 11 firms over three years. All data was processed using EViews 12 software with a panel data regression method through the selection of the best model based on the Chow, Hausman, and Lagrange Multiplier tests. The results of the study show that ESG does not have a significant effect on firm performance and firm value. Meanwhile, the control variable leverage is found to have a negative effect on financial performance and firm value. In contrast, the control variable firm size does not have a significant effect on financial performance, as measured by Return on Assets (ROA), nor on firm value, proxied by Price to Book Value (PBV).

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INTRODUCTION

Firm value is an important indicator reflecting investor perceptions of a firm's future performance, prospects, and sustainability. In the context of automotive firms in Indonesia, firm value is often measured by the Price to Book Value (PBV) ratio, which indicates how much the market values the firm compared to its book value (Danish et al., 2021). Research conducted by Danish et al., (2021) shows that in automotive firms listed on the Indonesia Stock Exchange during the 2016–2019 period, the capital structure variable, proxied by the Debt to Equity Ratio (DER), significantly influenced firm value, while financial performance (ROA) did not. This suggests that investors in the automotive sector tend to consider a firm's funding structure when assessing its market value (Danish et al., 2021). Meanwhile, research by Wahyuni et al., (2023) found that firm size had a positive effect on firm value, while DER had a negative and significant effect. This phenomenon shows that automotive firms with substantial assets tend to have higher market values because they are perceived as more stable, while high debt levels actually undermine investor confidence (Wahyuni et al., 2023). Based on these conditions, automotive firms must maintain superior financial performance and capital structures to increase firm value. Furthermore, ESG disclosure practices can be an additional strategy to strengthen investor confidence and increase firm value in the public eye (Wahyuni et al., 2023). In recent years, sustainability issues have

become a major concern in the global business world, including in Indonesia.

The concept of ESG has emerged as a new benchmark for assessing corporate sustainability and responsibility towards the environment, society, and good governance. ESG implementation not only serves as a form of regulatory compliance but also serves as a crucial strategy for building reputation and attracting investors who are increasingly concerned about sustainable business practices (Khairunnisa & Haryati, 2024). Safitri & Arizah, (2025) state that ESG is the narrative behind the numbers, reflecting a firm's commitment to sustainability and business ethics. This trend is further reinforced by Manuel, (2024) findings, which state that investors are now paying greater attention to ESG aspects in investment decision-making, as they are perceived as reducing long-term risk and increasing firm value. The Indonesian government is encouraging the implementation of ESG principles through sustainability policies outlined by the Financial Services Authority (OJK), as well as support for the Sustainable Development Goals (SDGs). In line with what was stated by the Senior Executive Vice President of Services and Development of the Indonesia Stock Exchange, the top three characteristics that investors pay attention to are the relevance of ESG factors to the company's business model and how the company implements ESG in its operations (PwC Indonesia, 2022). This shows that ESG is an essential factor attracting investors. Therefore, integrating ESG into business practices is no longer an option but a strategic necessity for firms to survive in global competition that increasingly demands transparency, accountability, and social responsibility (Jaya & Martadinata, 2024). However, this contradicts the Indonesian Environment and Energy Center's statement that the main obstacle to ESG implementation is the high cost of implementation. Companies require advanced infrastructure and technology to support sustainable practices, resulting in relatively significant implementation costs (Indonesia Environment & Energy Center, 2024). This will undoubtedly impact a company's financial performance. This research gap further reinforces the importance of exploring the role of ESG in financial performance and company value.

The automotive industry is one of the sectors that makes a significant contribution to the national economy. Based on data Ministry of Industry, (2023), the automotive sector contributes approximately 4.5% to the national Gross Domestic Product (GDP) and absorbs more than 1.5 million workers directly and indirectly. However, this industry is also a significant contributor to environmental problems, including carbon emissions reaching approximately 28% of the total emissions of the national transportation sector, high industrial waste, and the use of fossil fuels in its production process (Ministry of Industry, 2023). Therefore, the application of ESG principles is very important to support sustainability and social responsibility in this sector. ESG disclosure serves as a manifestation of the firm's commitment to transparency and ethical business practices (Safitri & Arizah, 2025). ESG can also strengthen investor confidence because firms that disclose their social responsibility are considered better able to manage long-term risks (Manuel, 2024). In the Indonesian context, the government, through the Ministry of Industry, continues to encourage the development of a sustainable automotive industry, including the transition to electric vehicles and the use of environmentally friendly energy. Thus, implementing ESG in the automotive sector is not merely a form of regulatory compliance but a crucial business strategy for maintaining a firm's competitiveness, reputation, and sustainability in the face of increasingly stringent global demands on environmental and social aspects (Manuel, 2024).

ESG disclosure, financial performance, and firm value has become a significant focus in both academics and business practitioners. In theory, sound ESG implementation is believed to improve financial performance through operational efficiency, risk management, and enhanced reputation, which in turn increases firm value. ESG disclosure has been shown to positively impact firm value as investors increasingly consider social responsibility and sustainability as indicators of trust and long-term stability (Syaputri & Linda, 2025). Furthermore, firms with high levels of ESG disclosure are considered more

capable of maintaining financial stability and attracting investor interest (Manuel, 2024). Good ESG practices can also strengthen a firm's image and credibility, thereby driving improved financial performance and market value (Safitri & Arizah, 2025). Therefore, the link between ESG, financial performance, and firm value is becoming increasingly clear, with successful ESG implementation not only contributing to social and environmental sustainability but also generating significant economic value for automotive firms in Indonesia. Many studies have investigated the impact of ESG disclosure on financial performance and firm value, but the results remain inconsistent. Some studies found that ESG disclosure has a positive impact on firm value and performance, while others found the impact to be insignificant or even negative. Research conducted by Syaputri & Linda, (2025) showed that ESG disclosure positively impacts the value of manufacturing firms in Indonesia because it increases investor confidence and corporate reputation. Syaputri & Linda, (2025) similarly stated that ESG disclosure practices are an effective communication strategy for demonstrating sustainability commitment and enhancing public perception of firm value. Meanwhile, Manuel, (2024). emphasized that firms with high ESG disclosure tend to have lower risks and gain greater investor trust because they are perceived to be able to manage social and environmental impacts effectively.

However, several studies have shown conflicting results. Marsuki & Efendi, (2024) found that ESG disclosure had no significant impact on firm value in the manufacturing sector in Indonesia. Similar findings were expressed by Kartika et al., (2023), who stated that ESG disclosure had not significantly increased the value of public firms listed on the Indonesia Stock Exchange. Meanwhile, Paramitha & Devi, (2024) found that ESG scores did not affect firm value because the implementation of sustainability principles in Indonesia is still symbolic and has not yet become a top priority in corporate strategy. These differing research findings indicate that the relationship between ESG disclosure, financial performance, and firm value remains inconsistent, particularly in the context of the automotive sector, which has distinct operational characteristics and environmental risks. Therefore, this research needs to be conducted again to provide more specific empirical evidence and clarify the role of ESG in influencing the financial performance and value of automotive firms in Indonesia. The novelty of this research lies in its conceptual model that integrates the influence of Environmental, Social, and Governance (ESG) disclosure on financial performance and firm value, particularly in the Indonesian automotive sector, which is characterized by its capital intensity and high environmental impact. Previous research has generally focused solely on the relationship between ESG and financial performance or firm value separately, while this study attempts to analyze both simultaneously by adding control variables of leverage and firm size to strengthen the empirical model (Safitri & Arizah, 2025).

Research analyzing the effect of ESG disclosure on financial performance and firm value utilizes leverage and firm size as control variables because they play a crucial role in influencing the direction and strength of the relationship between key variables. Leverage describes the extent to which a firm uses debt in its financing structure to finance assets and operational activities. High leverage can increase financial risk and suppress a firm's ability to fund sustainability programs, potentially reducing firm value (Putri & Wiagustini, 2025). Conversely, low leverage may indicate excessive financial prudence and hinder profit growth. Therefore, the effect of ESG on financial performance and firm value needs to be controlled for leverage levels to ensure more objective research results and avoid distortions due to differences in capital structure between firms (Putri & Wiagustini, 2025).

Furthermore, firm size is also an important factor that can influence the implementation of ESG principles. Large firms generally have more adequate financial, technological, and human resources to implement sustainability practices and make broader ESG disclosures (Irwan et al., 2024). Large firms also face higher public pressure and regulatory oversight, so they tend to be more proactive in carrying out social and environmental responsibilities than smaller firms. Conversely, smaller firms often face cost

and capacity constraints in optimally implementing ESG activities. Therefore, leverage and firm size are used in this study as control variables to strengthen the validity of the results and ensure that the relationship between ESG disclosure and financial performance and firm value in the automotive industry truly reflects the substantial influence of ESG, rather than differences in firm scale or financial structure (Irwan et al., 2024).

Signaling theory was first introduced by Michael Spence in 1973. This theory explains how firm management attempts to send signals to external parties, particularly investors, to reduce information asymmetry between the two parties. In this context, firm management has more complete information about internal conditions and financial prospects than investors, so positive signals are needed to increase market confidence in the firm's performance and reputation. These signals can take the form of financial reports, non-financial disclosures, or sustainability reporting that reflects the firm's commitment to good governance and business sustainability (Safitri & Arizah, 2025).

Stakeholder theory explains that firms are responsible to various parties involved in their activities, such as employees, customers, the community, the government, and the environment. A firm's sustainability is greatly influenced by its ability to meet the needs and expectations of these parties through ethical, transparent, and long-term practices. One form of this responsibility is reflected through the implementation and disclosure of ESG which demonstrates a firm's concern for the environment, society, and business governance. ESG is a concept that describes the extent to which a firm considers sustainability aspects in conducting its business activities. ESG serves as a non-financial measure that demonstrates a firm's commitment to social responsibility, ethics, and environmental sustainability (Safitri & Arizah, 2025). This concept is also used to assess the extent to which a firm is able to integrate environmental concerns, social welfare, and good governance practices into its operational strategy and business decision-making. In the context of the capital market, ESG reflects a firm's transparency and integrity in managing the economic, social, and environmental impacts of its operational activities (Ilma & Wahyuni, 2025).

Financial performance assessment is an important tool for measuring the success of a firm's managerial strategies (Rahmawati et al, 2024). ESG is a sustainability framework that reflects the extent to which a firm manages its environmental impacts, fulfills its social responsibilities, and implements good governance. Strong ESG implementation not only demonstrates regulatory compliance but also demonstrates a firm's ability to manage risks, improve resource efficiency, and maintain positive long-term relationships with stakeholders. This implementation has the potential to lower operational costs, mitigate litigation risks, and strengthen operational stability, ultimately increasing firm profitability (Ilma & Wahyuni, 2025). This makes ESG an important indicator that provides insight into the quality of a firm's sustainable management. The relationship between ESG and financial performance can be explained through a stakeholder approach and signaling theory. From a stakeholder perspective, firms that prioritize stakeholder interests through sound ESG implementation tend to gain sustained support from employees, investors, and the public, enabling more effective and efficient operational activities (Ilma & Wahyuni, 2025). Furthermore, from a signaling theory perspective, ESG disclosure is viewed as a positive signal regarding management quality and a firm's commitment to long-term risk management. These signals can increase investor and stakeholder confidence, which ultimately impacts on improving the firm's financial performance (Jaya & Martadinata, 2024).

H1: (Environmental, Social, Governance) ESG has a positive effect on financial performance.

Firm value view as market's perception of a firm's success in managing its resources. This value reflects the level of investor confidence in a firm's prospects and performance, which is usually reflected in its stock price on the capital market. The higher the stock price,

the higher the firm's value, indicating that the market perceives the firm as having good growth and profitability potential (Vick & Tjhai, 2024). Theoretically, the influence of ESG on firm value can be explained through signaling theory and the stakeholder approach. Based on signaling theory, ESG disclosure provides a credibility signal indicating that a firm has good governance, is transparent, and is committed to sustainability. This signal encourages investors to evaluate the firm more positively due to its perceived lower risk and more stable long-term performance (Manuel, 2024). Meanwhile, from a stakeholder perspective, firms that are able to meet stakeholder interests through sound ESG implementation tend to gain continued support and trust from investors, the public, and other stakeholders. This support strengthens the firm's reputation and competitiveness, ultimately contributing to increased firm value (Jaya & Martadinata, 2024).
H2: (Environmental, Social, Governance) ESG has a positive effect on firm value

Based on the hypotheses, the conceptual framework is as follows.

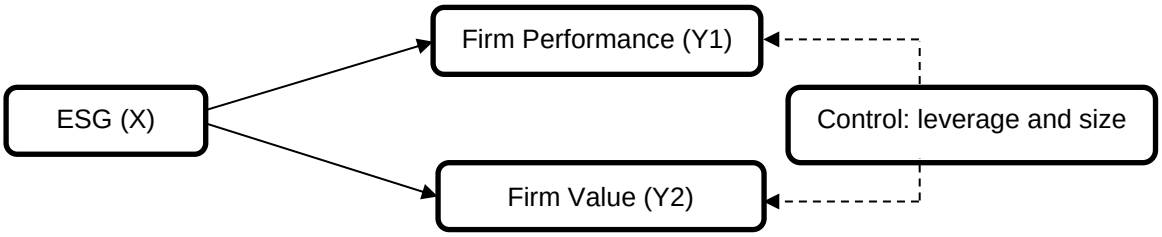

Figure 1. Conceptual framework
Source: Data processed by researchers (2025)

METHODS

The study examined ESG disclosure, financial performance, and firm value among automotive firms that consistently published annual and sustainability reports during the observation period. The population comprised all automotive subsector firms listed on the Indonesia Stock Exchange (IDX) during the 2022-2024 period. Given the relatively small population size within the automotive sector, this study employed a saturated sampling method, which involves using all members of the population as the research sample sample (Prasetyo & Laily, 2021). Accordingly, all automotive firms that met the IDX listing criteria and consistently published both annual and sustainability reports during the observation period were included in the sample. The use of saturated sampling enables the researcher to capture the comprehensive relationships among ESG disclosure, financial performance, and firm value, while minimizing potential bias arising from random sample selection.

Table 1. Research Observation

No	Information	Amount
1	Automotive firm listed in IDX from 2022-2024	12
2	Automotive firm that not published the financial statement continuously from 2022-2024	(1)
Total Firms		**11**
Observation (year)		**3**
Total observation		**33**

Source: processed data (2026)

Data processing was performed using EViews, a data analysis program widely used in quantitative research due to its comprehensive, accurate, and easy-to-interpret presentation (Paramitha & Devi, 2024). In panel data regression analysis, selecting an estimation model is a crucial step before determining the best model. Generally, three

approaches can be considered: the common effects model (CEM), the fixed effects model (FEM), and the random effects model (REM). To determine the model that best fits the data characteristics, a series of tests were conducted, including the Chow Test, the Hausman Test, and the Lagrange Multiplier Test, as the basis for selecting the optimal panel model. This study used two regression models, with the following explanations:

Regression Model 1: The effect of ESG on financial performance (ROA)
ROAit = β0+β1ESGit+β2SIZEit+β3LEVit+Єit
Description:
ROA : Company financial performance
i : Sample company, namely an automotive company
t : Observation period from 2022 to 2024
β1-β3 : Regression coefficients for each variable/parametric
ESG : ESG
SIZE : Company size (control variable)
LEV : Leverage (control variable)
Єit : Error in the regression model that appears for each observation i at t

Regression Model 2: The effect of ESG on firm value (PBV)
PBVit = β0+β1ESGit+β2SIZEit+β3LEVit+Єit
Description:
PBV : Firm value
i : Sample company, namely an automotive company
t : Observation period from 2022 to 2024
β1-β3 : Regression coefficients for each variable/parametric
ESG : ESG
SIZE : Firm size (control variable)
LEV : Leverage (control variable)
Єit : Error in the regression model that appears for each observation i at t

ESG is a standard used to assess how firms manage environmental impacts, social responsibility, and transparent and ethical governance as part of sustainable business practice. The proxy of ESG is the ESG index that is calculated through the equation as follows.

$$\text{ESG } index = \frac{Number\ of\ ESG\ Disclosesd}{Total\ number\ of\ ESG\ items}$$

Financial performance is measured using the Return on Assets (ROA) ratio. ROA is the main indicator that shows the extent to which a firm is able to utilize all its assets efficiently to generate profits. ROA is calculated as follows:

$$\text{ROA} = \frac{Net\ income}{Total\ Asset}$$

The firm value in this study is measured using the Price to Book Value (PBV) ratio because PBV is a commonly used indicator to describe how the market assesses the performance, prospects, and economic value of a firm compared to its book value. The equation is as follows:

$$\text{PBV} = \frac{Market\ price\ per\ share}{Book\ value\ per\ share}$$

We used leverage and size as control variables. Firm size is measured by the natural logarithm of total assets, while leverage is calculated as follows.

Debt to Asset Ratio = $\frac{Total\ Debt}{Total\ Asset}$

The data analysis technique used in this study was panel data regression analysis.

RESULTS AND DISCUSSION

Descriptive statistics is used to describe and summarize research data systematically by presenting minimum, maximum, average (mean), and standard deviation values.

Table 2. Descriptive Statistics of Firm Performance

Variable	N	Min.	Max.	Mean	Std. Dev
Firm Performance (Y1)	11	-0,025041	0,226667	0,077392	0,059992
Environmental, Social, Governance (X)	11	0,050000	0,862500	0,552273	0,151923
Leverage (Z1)	11	0,067379	0,763059	0,360420	0,197523
Size (Z2)	11	6,024166	21,06350	14,49191	4,567203

Source: processed data (2026)

Table 3. Descriptive Statistics of Firm Value

Variable	N	Min.	Max.	Mean	Std. Dev
Nilai Perusahaan (Y1)	11	-1,490000	4,970000	0,803939	1,911191
Environmental, Social, Governance (X)	11	0,050000	0,860000	0,552727	0,152013
Leverage (Z1)	11	0,260000	0,870000	0,577576	0,165700
Ukuran Perusahaan (Z2)	11	6,020000	21,06000	14,49182	4,567355

Source: processed data (2026)

The Chow test is conducted to determine the appropriate panel data model, specifically whether the Common Effect Model (CEM) or the Fixed Effect Model (FEM) is more suitable. The results of the Chow test are presented as follows.

Table 4. Chow Test of Firm Performance

Information	Stat.	Prob.
Cross-section F	54,173884	0,0000
Cross-section Chi-square	111,698938	0,0000

Source: processed data (2026)

Table 4 indicates that the cross-section F-statistic probability obtained from the fixed effects regression is 0,0000. Since the probability value is less than the 5 percent significance level, the Fixed Effect Model (FEM) is considered more appropriate than the Common Effect Model (CEM).

Table 5. Chow Test of Firm Value

Information	Stat.	Prob.
Cross-section F	181,355754	0,0000
Cross-section Chi-square	150,777952	0,0000

Source: processed data (2026)

Table 5 shows that the cross-section probability value F is 0,0000. The fixed effect regression test results show that the value of the cross-section probability F <0,05,

therefore the selected model is the FEM. The test is continued by conducting the Hausman test and the Lagrange multiplier test.

The Hausman test is employed to determine whether the Fixed Effect Model (FEM) or the Random Effect Model (REM) is more appropriate for the panel data analysis. Based on Table 6, the cross-section random probability value obtained from the Test Summary output is 0.1236. Since this probability value exceeds the 5 percent significance level, the REM is considered the more appropriate model.

Table 6. Hausman Test of Firm Performance

Information	*Chi-Square Statistic*	Prob.
Cross-section Random	5,764,831	0,1236

Source: processed data (2026)

Based on Table 7, the random cross-section probability value is 0,5672 obtained from the Test Summary regression. The results show that the cross-section probability value is > 0,05, so the selected model is the REM. The test is continued by conducting a Lagrange multiplier test to determine the best model in this study.

Table 7. Hausman Test of Firm Value

Information	*Chi-Square Statistic*	Prob.
Cross-section Random	2,025,395	0,5672

Source: processed data (2026)

The Lagrange Multiplier test is used to determine whether the Random Effect Model (REM) is better than the Common Effect Model (CEM). Table 8 shows that the Breusch-Pagan cross-section probability value is 0,0000, the results indicate that the cross-section probability value is <0,05 thus, the selected model is the REM.

Table 8. Lagrange Multiplier of Firm Performance

Information	Stat.	Prob.
Breusch-Pagan (Cross-section)	20,57457	0,0000

Source: processed data (2026)

Based on Table 9, the Breusch-Pagan cross-section probability value is 0,0000. The results show that the cross-section probability value is <0,05 thus, the selected model is REM.

Table 9. Lagrange Multiplier of Firm Value

Information	Stat.	Prob.
Breusch-Pagan (Cross-section)	26,58421	0,0000

Source: processed data (2026)

The data analysis technique used in this study was panel data regression analysis. The t-test results can be seen in Table 10 below.

Table 10. Regression Result of Firm Performance

Variable	Coeff.	t-Stat.	Prob.
Constanta (C)	10,47577	3,038742	0,0050
Environmental, social, Governance (X)	-0,139412	-0,135812	0,8929
Leverage (Z1)	-9,926576	-3,130412	0,0040
Size (Z2)	-0,154417	-0,876742	0,3878

Source: processed data (2026)

Based on the Y1 t-test results, significance value is 0,8929, which is higher than 0,05. Thus, the null hypothesis is accepted, and the alternative hypothesis is rejected. This shows that sharing information about ESG factors does not greatly influence how well a company performs financially, as measured by return on assets. Even though the coefficient is positive, it does not have a strong enough statistical effect to explain the changes in ROA. For leverage, the significance value is 0,0040, which is less than 0,05. Thus, leverage has a negative and significant effect on financial performance. The significance value of size is 0,3878 which is higher than 0,05.This shows that firm size has no significant effect on its financial performance.

Table 11. Regression Result of Firm Value

Construct	Coeff.	t-Stat.	Prob.
Constanta (C)	3,674970	1,622637	0,1155
Environmental, Social, Governance (X)	0,105190	0,255056	0,8005
Leverage (Z1)	-3,249037	-2,156484	0,0395
Size (Z2)	-0,072635	-0,546713	0,5888

Source: processed data (2026)

Based on the Y2 t-test results that show on Table 11, the significance value is 0,8005, which is greater than 0,05. Therefore, the null hypothesis is accepted, and the alternative hypothesis is rejected. This means that sharing information about ESG practices does not really change how much a company is worth based on its price-to-book value. For leverage, the significance level is 0,0395, which means that leverage has a negative significant effect on firm value. On the other side, the significance of firm size is 0,5888, which is greater than 0,05. The result shows that firm size has no significant effect on firm value.

Based on the result above, ESG does not statistically significantly influence firm performance in automotive firms listed on the Indonesia Stock Exchange. This finding indicates that high ESG disclosure in automotive firms has not been able to improve the efficiency of asset use or firm profitability. Sustainability efforts expressed through the Environmental, Social, and Governance aspects have not had a direct financial impact on financial performance as measured by ROA. Therefore, the hypothesis stating that ESG influences Return on Assets (ROA) is rejected. This research finding is in line with the results of research conducted by Kartika et al., (2023) and Paramitha & Devi, (2024), which found that ESG disclosure does not significantly influence financial performance or firm value because sustainability practices in Indonesia still tend to be symbolic and have not become a top priority in business strategy. In contrast, this study differs from the findings of Safitri & Arizah, (2025) and Ilma & Wahyuni, (2025), which showed a positive influence of ESG on profitability through increased operational efficiency. Therefore, the results of this study reinforce the view that in the automotive sector, ESG has not yet had a direct financial impact and still requires time and stronger strategic integration to contribute to improved firm financial performance.

ESG does not statistically significantly influence firm value. Therefore, it can be concluded that the level of ESG disclosure in automotive firms during the observation period has not been able to improve market perception or investor assessment of firm value. These results indicate that even though firms disclose sustainability information, the market has not responded positively, thus rejecting the hypothesis that ESG influences firm value. Kartika et al., (2023) and Paramitha & Devi, (2024) found that ESG does not significantly impact firm value in Indonesia because its implementation is still limited, symbolic, and has not yet become a primary concern for investors in assessing firm prospects. Conversely, the results of this study differ from the findings of Syaputri & Linda,

(2025), Manuel, (2024), and Putri & Wiagustini, (2025), who found that ESG has a positive impact by increasing investor confidence and strengthening firm reputation. Thus, the findings of this study reinforce the view that in the automotive sector, ESG disclosure is not yet a major factor influencing market decisions and still requires stronger strategic integration to have a direct impact on increasing firm value.

CONCLUSSION

Based on the empirical results obtained from automotive subsector firms listed on the Indonesia Stock Exchange during the 2022-2024 period, it can be concluded that ESG does not exert a statistically significant effect on financial performance or firm value. In contrast, the leverage control variable is found to have a significant negative effect on both financial performance and firm value, suggesting that higher levels of debt utilization may weaken firm performance and adversely affect market perceptions. Furthermore, firm size does not demonstrate a significant influence on financial performance or firm value. This finding indicates that larger firm size does not necessarily enhance a firm's ability to improve financial performance or increase firm value through ESG implementation. Accordingly, firm size does not appear to be a determining factor in the effectiveness of ESG practices within the firms examined.

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