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RESEARCH ARTICLE

The Effect of Financial Performance and ESG Disclosure on Firm Value: Evidence from IDX Score Firms in 2024

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Abstract
This study examines the influence of financial performance and ESG disclosure on firm value for companies listed on the Indonesian Stock Exchange (IDX) that are included in the IDX ESG Score index for the year 2024. Financial performance is indicated by Return on Assets (ROA), firm value is quantified using Tobin's Q, and ESG disclosure is denoted by the ESG score released by IDX. Grounded in agency theory, stakeholder theory, and signaling theory, the study utilises a quantitative associative methodology, drawing on secondary data from annual reports and sustainability reports. A purposive sampling method produced a final sample of 58 companies. Multiple linear regression analysis was applied following classical assumption tests. The findings demonstrate that ROA significantly enhances firm value, whereas ESG disclosure exhibits a favourable albeit statistically minor impact on tobin's Q. Simultaneously, both variables significantly influence firm value, with an Adjusted R-squared of 13.7%, suggesting that additional factors beyond the model explain the majority of firm value variation. These studies confirm that in the Indonesian capital market, financial performance remains the primary signal for investors, while ESG disclosure functions as a supporting signal not yet fully priced by the market.

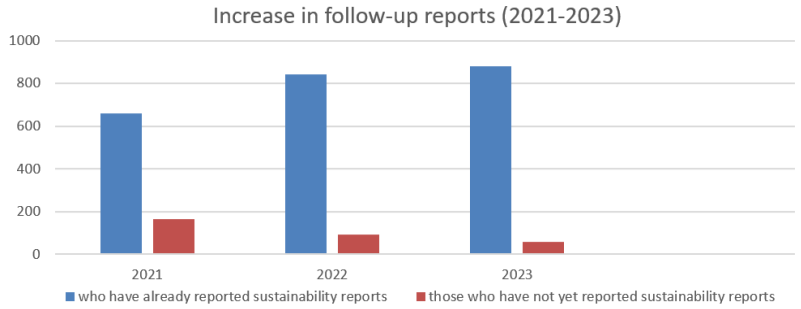
Keywords
Financial Performance; ESG Disclosure; ESG score; ROA; Tobin's Q.

1 | INTRODUCTION

Sustainability and social responsibility now shape how investors assess firm value in modern capital markets. Investors no longer rely only on financial ratios, because profit growth does not always reflect how well a company manages environmental risk, employee welfare, transparency, and board accountability. Return on Assets (ROA), Return on Equity (ROE), and profit margin remain relevant, but these indicators need support from credible ESG disclosure to give a clearer picture of business quality. Pressure from institutional investors and global capital markets has encouraged companies to improve ESG reporting practices, especially as investors demand stronger evidence of risk management and long-term business direction (Serafeim, 2020). Firms that disclose ESG information transparently can build market trust because they show stronger awareness of regulatory, social, and operational risks. Prior studies also indicate that firms with better ESG transparency often gain stronger investor confidence because they appear more prepared to protect firm value over time (Friede *et al.*, 2015).

Research has consistently demonstrated that ESG disclosure serves both as a regulatory obligation and a strategic metric influencing market perceptions of firm value. Serafeim (2020) found that firms exhibiting robust sustainability performance generally achieve higher market valuations, particularly when public attention to sustainability issues is high, whereas poor sustainability performance may result in valuation discounts. This indicates that investors use ESG-related information as a forward-looking indicator of long-term risk and potential. Complementing this perspective, Friede *et al.* (2015) conducted a meta-analysis of over 2,200 empirical studies, revealing a largely positive correlation between ESG performance and investment returns, with ESG portfolios outperforming non-ESG counterparts by an average of 4 to 7 percent annually. Li *et al.* (2018) provided further evidence that the impact of ESG on firm value is strongly influenced by the intensity and transparency of ESG disclosures, particularly in reducing information asymmetry for firms operating in environmentally or socially sensitive sectors.

In Indonesia, sustainability reporting has gained stronger institutional support since the issuance of OJK Regulation No. 51/POJK.03/2017, which requires publicly listed companies, financial service institutions, and issuers to publish sustainability reports. The rise in reporting compliance shows clear progress, yet it should not be read only as proof of better corporate responsibility. The number of submitted reports increased from 661 reports, or 80 percent compliance in 2021, to 842 reports, or 90 percent in 2022, and reached 882 reports, or 94 percent in 2023 (Liputan6.com, 2025). This trend indicates that Indonesian firms are becoming more responsive to regulatory pressure and investor demand. However, higher compliance does not automatically guarantee stronger disclosure quality. Firms still need to ensure that sustainability reports contain measurable targets, consistent data, and credible explanations of ESG-related risks.



Graph 1. Increase in follow-up reports

Despite this regulatory progress, a critical gap persists in the limited availability of standardized and comparable ESG scores. Based on data from the Indonesia Stock Exchange (IDX) as of 2024, fewer than 100 companies had formally published ESG scores through the IDX ESG Score system out of more than 900 publicly listed companies on the exchange. This stark disparity reflects a fundamental problem. Although sustainability report submissions have increased substantially in volume, the translation of these reports into quantifiable and investable ESG scores remains at an early stage. The IDX ESG Score was developed to provide a standardized, risk-weighted assessment that allows meaningful comparisons across companies and sectors. However, only a small fraction of listed companies have undergone this scoring process, indicating that the ESG ecosystem in Indonesia is still in its formative stage. This limited coverage creates challenges in establishing robust empirical relationships between ESG disclosure and firm value, as selection bias may arise when samples are drawn exclusively from companies with available ESG scores. This study deliberately focuses on companies within the IDX ESG Score framework because they represent the subset of Indonesian listed firms that have met the disclosure criteria required for standardized ESG measurement, making them the most appropriate and analytically rigorous population for examining how ESG disclosure relates to market valuation.

Despite these changes, empirical evidence regarding the relationship between ESG disclosure and firm value

remains inconclusive. Prabawati and Rahmawati (2022) found that investors in the ASEAN context do not consistently perceive ESG disclosure as value-enhancing; some data indicate a negative or negligible correlation between ESG scores and firm value. This contrasts with broader global evidence and suggests that market maturity, investor sophistication, and institutional factors may play a moderating role. Furthermore, Arief *et al.* (2024) confirmed that the direction and magnitude of ESG's impact on firm value vary significantly across countries, sectors, and regulatory environments, emphasizing the need for country-specific and period-specific studies to generate more precise and actionable conclusions.

The research gap that motivates this study is multidimensional. First, while global evidence broadly supports a positive relationship between ESG and firm value, findings in the Indonesian context remain inconclusive and are often methodologically limited in scope. Second, most prior studies on the Indonesian capital market use general sustainability report data rather than standardized ESG scores, which creates significant measurement inconsistency. Third, the period following the COVID-19 pandemic represents a structurally different investment environment. Broadstock *et al.* (2021) demonstrated that companies with stronger ESG disclosure showed significantly greater resilience during the pandemic, experiencing stock price declines of 8 to 12 percent less than their non-ESG counterparts. This suggests that the market response to ESG information may have intensified after the pandemic. However, empirical evidence for the Indonesian market in 2024, a period marked by post-pandemic recovery and accelerating ESG regulatory enforcement, remains largely absent from the existing literature.

Against this backdrop, this study examines how financial performance (proxied by ROA) and ESG disclosure (proxied by the IDX ESG Score) jointly and individually influence firm value (proxied by Tobin's Q) for companies listed on the IDX and included in the IDX ESG Score index for the 2024 fiscal year. By employing a rigorous quantitative approach using standardized ESG score data, this research aims to provide up-to-date empirical evidence on investor responses to both financial and non-financial signals in the Indonesian capital market and to reconcile contradictory findings from previous studies through a contextualized, current analysis.

H1: Financial performance (ROA) has a significant positive effect on firm value (Tobin's Q) for companies registered in the IDX ESG Score in 2024.

H2: ESG disclosure (ESG Score) has a positive effect on firm value (Tobin's Q) for companies registered in the IDX ESG Score in 2024.

H3: Financial performance and ESG disclosure simultaneously have a significant effect on firm value for companies registered in the IDX ESG Score in 2024.

2 | BACKGROUND THEORY

This study is grounded in three complementary theoretical frameworks agency theory, stakeholder theory, and signaling theory each of which addresses a distinct dimension of how financial performance and ESG disclosure interact to generate firm value. Rather than treating these theories in isolation, this section demonstrates how they collectively construct a coherent logical framework linking the study's variables.

2.1 Agency Theory and Financial Performance

Agency theory, articulated by Jensen and Meckling (1976), assert that organisations function under an intrinsic conflict between principals (shareholders) and agents (managers), with the principal aim being effective maximization of shareholder wealth. Within this framework, financial performance particularly as measured by Return on Assets (ROA) serves as the key observable signal of how effectively management deploys firm assets on behalf of shareholders. High ROA reflects operational efficiency and managerial competence, thereby reducing information asymmetry between insiders and external investors (Limba *et al.*, 2023). Importantly, agency theory also provides a mechanism through which financial performance connects to ESG disclosure. Angga Zulianto, (2025) it has been shown that companies exhibiting superior financial performance are more inclined to proactively enhance their non-financial disclosures, including ESG information, since managerially efficient enterprises has both the resources and the motivation to convey their quality to the market. Sianturi & Aziza, (2025) corroborated this view, finding that higher profitability is positively associated with the breadth of ESG-related disclosures. Beyond disclosure, Romansyah *et al.*, (2021) confirmed that financial performance directly influences firm value, as investors interpret strong ROA as evidence of sustainable earnings capacity, which in turn supports market valuation. Thus, from the perspective of agency theory, ROA serves as both a direct factor influencing company value and a facilitating condition for substantive ESG disclosure. One of the independent variables in this study is ROA (return on assets), utilised to forecast future financial performance (X1).

$$\text{Return On Asset} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Return on Assets, as defined by Kasmir (2016:201), measures the overall productivity of all assets employed by a company. A superior ROA signifies that the company yields enhanced returns from its asset base, demonstrating both operational efficacy and managerial competence, which investors reward with elevated market prices.

2.2 Stakeholder Theory

Although agency theory elucidates the correlation between financial performance and business value, it inadequately addresses the increasing significance of non-financial information in investment decisions. Stakeholder theory, pioneered by Freeman (1984), expands the conceptual framework by asserting that corporations have responsibilities not solely to shareholders but to a broader array of stakeholders, including employees, consumers, communities, and regulators. ESG disclosure, within this framework, is the mechanism through which firms demonstrate accountability to these diverse stakeholders, thereby building trust, reducing reputational risk, and securing long-term operating licenses. The relevance of stakeholder theory in the Indonesian context is reinforced by (OJK, 2017) Regulation No. 51/POJK.03/2017, which institutionalizes sustainability reporting as a component of sustainable finance. Agustin *et al.*, (2025) found that ESG considerations are increasingly integrated into investor decision-making, influencing not only risk perceptions but also stock return generation. Aditya & Hasnawati, (2025) Further evidenced that firms included in the IDX ESG Leaders Index, which provided superior ESG disclosures, attained enhanced company values as indicated by Price-to-Book Value (PBV). Notably, however, their study revealed that only the social aspect of ESG exerted a statistically significant impact on firm value, whereas the environmental and governance aspects did not, highlighting the disparate maturity of ESG integration in Indonesia. ESG disclosure is operationalized in this study using the ESG score published by IDX, which uses a risk-weighted scoring methodology to quantify companies' exposure to ESG-related risks. The scoring categories are presented in Table.

Table 1. ESG Risk Category

Risk Score	Category	Description
0 – 10	Negligible	Considered to have negligible ESG risk
10 – 20	Low	Considered to have low ESG risk
20 – 30	Medium	Considered to have a moderate ESG risk
30 – 40	High	Considered to have high ESG risk
40 – 50	Serverse	Considered to have significant ESG risks

Source: (BEI) IDX.co.id

The GRI (global reporting initiative) disclosure index, which uses a scale to quantify each disclosure item, may be used for measured. The total score is then normalized to obtain the company's ESG disclosure level. ESG disclosure has now shifted from merely a reporting obligation to strategic instruments for maintaining the sustainability of companies. Effective ESG disclosure can help reduce social and environmental risks in the Indonesian context, which often directly impacts the operational stability of companies with stakeholders while also enhancing competitiveness in the capital market. (OJK, 2017) Regulation No. 51/POJK.03/2017 mandates that publicly traded corporations provide sustainability reports as part of their efforts to improve sustainable financing.

2.3 Signalling Theory

Signalling theory, as articulated by Ross (1977), provides the integrative framework that connects both independent variables to firm value. The theory holds that in markets characterized by information asymmetry, firms transmit signals observable actions or disclosures that allow investors to make inferences about unobservable quality characteristics. In this study, both ROA and ESG scores serve as distinct but complementary signals: ROA communicates short-to-medium-term operational efficiency, while ESG disclosure signals long-term risk management, governance quality, and sustainability orientation. Firm value, proxied by Tobin's Q, represents the market's aggregate interpretation of these signals. Trisnawati *et al.*, (2024) demonstrated that financial ratios and firm-specific characteristics, including size, significantly influence firm value in the Indonesian market, confirming that the market responds to a combination of financial and fundamental signals. L. Li *et al.*, (2024) found that ESG disclosure enhances firm value as measured by Tobin's Q among Chinese listed companies, without significantly affecting ROE, suggesting that market participants respond more to sustainability signals in terms of long-term value expectations than in terms of short-term profitability. According to the Tobin's q ratio (Y), originally formulated by James Tobin (1967), the dependent variable in this research is firm value.

$$\text{Tobin's } Q = \frac{(\text{Market value of Equity}) + Debt}{\text{Total Assets}}$$

When Tobin's Q exceeds 1, it indicates that the market values the firm above its book value of assets, implying that the firm's intangible assets including brand, governance quality, and sustainability reputation contribute to market

premium. Conversely, a Tobin's Q below 1 suggests that the market perceives the investment as less attractive relative to asset replacement cost (Wufron, 2017). This ratio is therefore particularly appropriate for studying the influence of ESG disclosure, as ESG-related value is largely intangible and forward-looking precisely the type of information that Tobin's Q captures better than accounting-based valuation measures (Iswajuni & Soegeng Soetedjo, 2018). In synthesis, the three theoretical frameworks are not competing but mutually reinforcing in this study. Agency theory explains why financial performance both directly creates firm value and enables ESG disclosure. Stakeholder theory explains why ESG disclosure is valued by a broad range of market participants. Signaling theory explains how both financial and ESG information are transmitted to and processed by the capital market, ultimately shaping firm value as reflected in Tobin's Q.

3 | METHOD

This study employs an associative quantitative approach, designed to test causal hypotheses through empirical data analysis. The quantitative methodology was selected because it enables systematic, objective testing of the relationships between the independent variables (financial performance and ESG disclosure) and the dependent variable (firm value), as specified in the study's hypotheses (Sugiyono, 2019). The research design is classified as causal-associative, grounded in agency theory, stakeholder theory, and signaling theory.

The research population comprises all companies listed on the Indonesia Stock Exchange (IDX) that were officially included in the IDX ESG Score index during the 2024 fiscal year, totalling 94 companies. The 2024 period was selected for three reasons. First, it represents the most current available data, enabling the study to capture the post-pandemic investment landscape in Indonesia, during which sustainability considerations have accelerated significantly. Second, the IDX ESG Score for 2024 represents the most comprehensive and standardized ESG scoring exercise conducted by the exchange to date, providing the highest data quality. Third, focusing on a single cross-sectional period reduces confounding temporal effects and ensures consistency in regulatory and macroeconomic conditions across observations.

Sample selection used purposive sampling to ensure that the data matched the research objectives. Companies were selected based on four predetermined criteria, including their listing status, availability of financial data, ESG Score publication, and completeness of firm value indicators. The final selection process is summarized in Table 2.

Table 2. Research sample criteria

No	Sample Criteria	Amount
1	Companies listed on the IDX and registered in the IDX ESG Score	94
2	Companies that did not incur losses during the research	3
3	Companies that had not yet submitted an ESG score report	14
4	Companies that use the Rupiah (IDR)	19
Total		58

Source: author's processing (2025)

The final sample of 58 companies is notable in that it reflects a critical empirical reality of the Indonesian capital market: as of 2024, fewer than 100 companies and out of more than 900 IDX-listed companies had formally published ESG scores through the IDX system. Of those, a further 14 had submitted sustainability reports but had not obtained a formal ESG score sufficient for inclusion in this study. This underscores that ESG scoring in Indonesia remains concentrated among larger, more established firms, which may introduce a size and liquidity selection bias a limitation that is addressed in the discussion.

Secondary data were collected from three principal sources: (1) annual reports and financial statements accessed via the IDX website (idx.co.id) for ROA and firm value (Tobin's Q) calculations; (2) sustainability reports issued by the selected corporations for the purpose of ESG disclosure; and (3) official IDX ESG Score statistics released by the Indonesia Stock Exchange for the 2024 term. Where ESG scores were not directly available through IDX, supplementary data were drawn from Sustainalytics or Refinitiv Eikon ESG Score if available for the same period.

The three principal variables in this study consist of financial performance, ESG disclosure, and firm value. Financial performance (X1) is measured using Return on Assets (ROA), which is calculated by dividing net income by average total assets and expressed as a percentage. ESG disclosure (X2) is measured using the ESG risk score released by the IDX, with a numerical value ranging from 0 to 50. A lower ESG risk score indicates stronger ESG risk management. Firm value (Y) is measured using Tobin's Q, which is calculated by dividing the sum of market value of equity and total debt by total assets. To examine the effect of ROA and ESG disclosure on firm value, this study applies a multiple linear regression model specified as Tobin's $Q = \alpha + \beta_1 ROA + \beta_2 ESGscore + \varepsilon$, where α represents the

regression constant, β_1 and β_2 represent the regression coefficients, and ε represents the error term.

Data were analyzed via IBM SPSS Statistics 26, adhering to a systematic analytical protocol. Initially, descriptive statistics were produced to delineate the sample. Secondly, classical assumption tests were performed to validate the regression model: normality was evaluated using the Kolmogorov-Smirnov test; multicollinearity was assessed through Variance Inflation Factors (VIF) and tolerance values; heteroscedasticity was examined with the Glejser test; and autocorrelation was analyzed using the Durbin-Watson statistic. The multiple regression analysis was conducted only after fulfilling all classical assumptions, then followed by a study of the coefficient of determination and hypothesis testing using partial (t-test) and simultaneous (F-test) methods (Hajarisman & Herlina, 2022).

4 | RESULTS AND DISCUSSION

4.1 Results

4.1.1 Descriptive test

The descriptive test examines the basic characteristics of the dataset, focusing on financial performance (ROA), ESG disclosure (ESG Score), and firm value (Tobin's Q) for companies in the IDX ESG Score index in 2024. It provides measures of central tendency, variability, and range, highlighting differences across companies and identifying potential outliers. This analysis clarifies the distribution and consistency of the data, allowing for critical evaluation before applying regression models. By reviewing the mean, minimum, maximum, and standard deviation for each variable, the study ensures that subsequent analyses rely on data that is properly scaled and comparable, reducing the risk of misleading results.

Table 3. Results of the descriptive statistical test

variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	58	0,45%	29,72%	7,01%	5,17%
ESG_Score	58	9,85	44,73	26,66	8,01
Tobin's q	58	0,20	6,36	1,51	1,21

The descriptive statistics provide an initial characterization of the sample that is analytically meaningful beyond mere data summarization. ROA ranges from 0.45% to 29.72%, with a mean of 7.01% and standard deviation of 5.17%, demonstrating significant variability in profitability among the 58 sampled enterprises. A mean ROA above 5% suggests that, on average, the sample firms are operationally profitable a prerequisite for credible ESG investment, as financially stressed firms are unlikely to allocate resources to sustainability reporting. The high standard deviation, however, signals significant dispersion, with some companies generating exceptionally high returns while others marginally clear the profitability threshold.

The ESG Score variable exhibits a mean of 26.66 and standard deviation of 8.01, spanning from 9.85 to 44.73. Under the IDX ESG Score risk classification, a mean score of 26.66 falls within the 'Medium' risk band (20–30), indicating that the average sample firm carries moderate ESG-related risk. The relatively modest standard deviation of 8.01 suggests that ESG scores are more homogeneous across the sample than financial performance a finding consistent with the fact that companies voluntarily submitting IDX ESG Scores may already share baseline governance and disclosure standards. Notably, the presence of scores above 40 (approaching the 'Severe' category) signals that even within this screened population, some companies carry elevated ESG risks, creating variance sufficient for regression analysis.

Firm value, as measured by Tobin's Q, averages 1.51 with a standard deviation of 1.21 and a range from 0.20 to 6.36. A mean Tobin's Q above 1 indicates that, on average, the market values these firms above their book assets, reflecting positive investor expectations regarding future earnings and intangible value. The wide range suggests that while some companies command significant market premiums, others trade below book value possibly reflecting sector-specific risks or weaker investor confidence. Taken together, these descriptive patterns confirm that the sample is analytically suitable for examining differential effects of financial and ESG signals on market valuation.

4.1.2 Classic assumption

The classical assumption test checks whether the regression model meets the statistical requirements needed to produce reliable results. This test covers normality, multicollinearity, heteroscedasticity, and autocorrelation. Normality testing reviews whether the residual values follow an acceptable distribution. Multicollinearity testing assesses whether ROA and ESG Score have excessive correlation that may distort coefficient estimates. Heteroscedasticity testing examines whether residual variance remains stable across observations. Autocorrelation testing checks whether residuals are independent. By passing these tests, the model gains stronger statistical support for assessing the effect of financial performance and ESG disclosure on firm value.

Table 4. Results of the normality test

N	SIG
58	0.200

Source: test results by the author

The normality test in this study produced a significance value of 0.200, exceeding the 0.05 threshold. This result indicates that the residuals follow an approximately normal distribution, satisfying one of the key requirements for regression analysis. Consequently, the dataset is suitable for multiple linear regression, allowing the model to produce reliable estimates and support valid interpretation of the relationship between financial performance, ESG disclosure, and firm value.

Table 5. Results of the multicollinearity test

variable	tolerance	VIF
ROA	0,998	1,002
ESGscore	0,998	1,002

Source: test results by the author

The multicollinearity test shows that each independent variable has a tolerance value of 0.998, which remains below 1 and above the minimum threshold of 0.10. The VIF value is 1.002, which is far below the maximum threshold of 10. These results indicate that ROA and ESG Score do not have excessive correlation, so the regression model is free from multicollinearity problems.

Table 6. Results of the heteroscedasticity test

variable	SIG
ROA	0,903
ESGscore	0,465

Source: test results by the author

To test for heteroscedasticity, this study uses the Glejser test by regressing the absolute residual value against each independent variable. The decision rule refers to the significance value, where a value above 0.05 indicates that heteroscedasticity does not occur. Based on the test results, the financial performance variable measured by ROA has a significance value of 0.903, while the ESG disclosure variable measured by ESG Score has a significance value of 0.465. Since both values exceed 0.05, the regression model shows no indication of heteroscedasticity, meaning that the residual variance remains stable across observations.

Table 7. Results of the autocorrelation test

Durbin-watson	DU	4-DU
2,314	1,6475	2,3525

Source: test results by the author

The Durbin-Watson test is used in this study to assess autocorrelation by comparing the obtained DW value against the lower (dl) and upper (du) bounds. The criterion for no autocorrelation requires that du < DW < 4 – du. Based on the research table (n = 58, k = 2), du is 1.6475 and 4 – du equals 2.3525. The calculated DW value of 2.314 falls within this range, confirming that there is no serial correlation in the residuals. Considering the cross-sectional nature of the 2024 data, this result aligns with expectations and reinforces the validity of the regression assumptions.

4.1.3 Multiple regression analysis

Multiple regression analysis tests how financial performance and ESG disclosure relate to firm value. This study uses ROA to measure financial performance, ESG Score to measure ESG disclosure, and Tobin's Q to measure firm value. The model evaluates whether profitability and ESG risk management can explain differences in market valuation among IDX ESG Score firms in 2024. It also checks the individual effect of each independent variable and their joint effect on firm value. The results give a statistical basis for accepting or rejecting the proposed hypotheses while helping assess whether investors respond more strongly to financial signals or ESG-related information.

Table 8. Results of multiple regression test

Constant value	ROA	ESGscore
-1,105	0,311	0,239

The previous table shows that the multiple regression equation is Tobin's Q = -1.105 + 0.311(ROA) + 0.239(ESG Score) + e. The constant value of -1.105 indicates that when financial performance (ROA) and ESG disclosure (ESG Score) are equal to zero, firm value tends to stand at -1.105. The ROA regression coefficient of 0.311 has a positive direction, meaning that higher financial performance tends to increase firm value. This result indicates that firms with stronger ability to generate profit from their assets tend to gain higher market valuation. Meanwhile, the ESG Score regression coefficient of 0.239 also shows a positive direction, indicating that stronger ESG disclosure tends to increase firm value. Better ESG implementation can strengthen investor trust because it reflects stronger risk management, transparency, and long-term business orientation.

4.1.4 Test of the coefficient of determination

The coefficient of determination test measures how far financial performance and ESG disclosure explain changes in firm value. In this study, ROA and ESG Score act as independent variables, while Tobin's Q acts as the dependent variable. The R^2 value helps assess whether the regression model has sufficient explanatory strength. A higher R^2 means the model can explain a larger share of firm value variation. However, this test also encourages a careful reading, because firm value may also depend on other factors outside the model.

Table 9. Results of the coefficient of determination test

Adjusted R-squared value
0,137

Source: test results by the author

The Adjusted R-squared of 0.137 indicates that ROA and ESG Score jointly explain approximately 13.7% of the variation in firm value, while the remaining 86.3% is attributable to factors outside this model. While this may appear modest at first glance, it is not atypical for cross-sectional, single-period regressions in emerging market capital market studies, where a single year's snapshot captures limited temporal dynamics. More critically, this low explanatory power is itself a theoretically meaningful finding: it indicates that firm value in the Indonesian capital market is predominantly influenced by variables beyond just short-term profitability and ESG risk assesments.

The substantial unexplained variance points to the likely importance of omitted variables in shaping firm value. Leverage (debt-to-equity ratio) affects investor risk perception and the firm's cost of capital. Firm size influences market liquidity, analyst coverage, and institutional investor interest. Corporate governance quality beyond what is captured in ESG scores may independently signal management integrity to investors. Macroeconomic conditions in 2024, including interest rate movements by Bank Indonesia, inflationary pressures, and exchange rate dynamics, would affect discount rates and market-wide valuation levels, systematically shifting Tobin's Q across all sample firms regardless of their individual financial or ESG performance. Future research would benefit substantially from incorporating these variables as additional controls to improve model explanatory power.

4.1.5 Hypothesis testing

Hypothesis testing was conducted to examine the effect of financial performance and ESG disclosure on firm value. The partial test, or T-test, was used to assess the individual influence of each independent variable on Tobin's Q. This test determines whether ROA and ESG Score significantly explain changes in firm value at the 5% significance level. A variable is considered significant when its significance value is below 0.05 and its t-value exceeds the t-table value. The results of the partial test are reported in Table 10 below.

Table 10. Partial test results

Variable	T	Sig.
ROA	3.140	0.003
ESG Score	0.938	0.352

Source: Author's data processing results

H1: Financial Performance and Firm Value, The partial test result shows that ROA has a t-statistic of 3.140, which is higher than the t-table value of 1.673 at df = 55 and α = 5%. The significance value is 0.003, which is below 0.05. Based on the statistical criteria, H1 is accepted. Financial performance, as measured by ROA, has a positive and statistically significant effect on firm value. The regression coefficient of ROA is 0.311, meaning that a one-unit increase in ROA is associated with a 0.311-unit increase in Tobin's Q, assuming other variables remain constant. The result indicates that profitability is an important factor in shaping market valuation. Companies with stronger asset utilization tend to be perceived more positively by investors, as reflected in higher Tobin's Q values. The result aligns with signalling theory, which explains that strong profitability can act as a credible signal of management effectiveness, operational efficiency, and future earnings capacity. In the Indonesian capital market, profitability remains one of the main indicators considered

by investors when assessing firm value. Similar findings have been reported in prior studies showing that ROA has a positive role in firm value formation (Diantari & Lestari, 2025), (Saniah & Thamrin, 2025), and (Subaida *et al.*, 2018).

H2: ESG Disclosure and Firm Value, The partial test result shows that ESG Score has a t-statistic of 0.938, which is lower than the t-table value of 1.673. The significance value is 0.352, which is above 0.05. Based on the statistical criteria, H2 is not accepted. ESG disclosure does not have a statistically significant effect on firm value. Although the ESG Score coefficient is positive at 0.239, the effect cannot be interpreted as statistically significant. A positive coefficient only indicates the direction of the relationship, while hypothesis acceptance requires statistical significance. Therefore, ESG disclosure in the research sample has not been proven to influence Tobin's Q at the 5% significance level. The result suggests that ESG information may not yet be fully reflected in market valuation. Investors may still place greater emphasis on financial indicators, especially profitability, compared with sustainability-related indicators. ESG disclosure also tends to reflect long-term risk management and corporate responsibility, while market participants may respond more quickly to financial performance indicators that are easier to measure. The finding is consistent with studies showing that ESG disclosure does not always have a significant direct effect on firm value (Negara *et al.*, 2024), (Nurannisa & Bandi, 2024), (Rasyad *et al.*, 2024), (Sunarsih & Augustine, 2024), and (Junius *et al.*, 2020). However, other studies found a positive relationship between ESG disclosure and firm value, showing that the effect of ESG may vary across sectors, samples, and measurement methods (Sari *et al.*, 2025), (Husnah, 2023), and (Anisa & Panuntun, 2025)

Table 11. Simultaneous Test Results

F	Sig.
5.516	0.007

Source: Author's data processing results

H3: Simultaneous Effect of Financial Performance and ESG Disclosure on Firm Value, The F-test result shows an F-statistic of 5.516, which is higher than the F-table value of 3.16 at df1 = 2, df2 = 55, and α = 5%. The significance value is 0.007, which is below 0.05. Based on the statistical criteria, H3 is accepted. Financial performance and ESG disclosure simultaneously have a statistically significant effect on firm value. The result means that ROA and ESG Score, when tested together, explain changes in firm value as measured by Tobin's Q. However, the simultaneous significance does not mean that both independent variables are individually significant. The partial test shows that ROA has a significant effect, while ESG Score does not. Therefore, the overall model significance is mainly supported by the strong effect of financial performance. From a theoretical perspective, ROA reflects current financial strength, while ESG Score reflects sustainability-related disclosure. Both variables may provide different types of information to investors. Profitability appears to have stronger explanatory power in the model, while ESG disclosure may require stronger market awareness, better reporting consistency, and longer observation periods before its effect becomes statistically clear.

4.2 Discussion

Indicate that profitability has a stronger role than ESG Score in explaining firm value among companies included in the IDX ESG Score group in 2024. The average ROA of 7.01% shows that the sampled firms were generally able to generate profit from their assets. At the same time, the average Tobin's Q of 1.51 indicates that the market valued these companies above their recorded asset value. Such a pattern suggests that investors still respond clearly to financial strength, especially when a firm can show efficient asset use and stable profit generation. The regression model also meets the required statistical assumptions. The normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test all show acceptable results. Referring to Ghozali (2021) and Hajarisman *et al.* (2022), these results support the use of multiple linear regression because the residuals are normally distributed, the independent variables do not overlap excessively, the variance of errors remains stable, and serial correlation does not appear in the model. Therefore, the interpretation of the relationship between ROA, ESG Score, and Tobin's Q can be carried out with reasonable statistical confidence.

The partial test shows that ROA has a positive and significant effect on firm value. The t-value of 3.140 and significance value of 0.003 confirm that H1 is accepted. The coefficient of 0.311 means that higher ROA is associated with higher Tobin's Q, assuming other variables remain constant. Such a result supports agency theory, which argues that strong profitability reflects better managerial performance in managing company assets for shareholder welfare (Jensen & Meckling, 1976). ROA also reflects how effectively total assets generate net income, as explained by Kasmir (2016). From an investor's view, firms with stronger ROA tend to be seen as more efficient, more disciplined, and more capable of sustaining earnings. The finding also aligns with signalling theory. Profitability acts as a clear signal because investors can read it directly from financial reports and compare it across firms. In the capital market, a strong ROA may reduce investor uncertainty about operational quality and future earnings. This supports Ross (1977), who argued that firms send signals to reduce information gaps between management and external parties. Similar findings were also reported by Romansyah *et al.* (2021), Limba *et al.* (2023), and Trisnawati *et al.* (2024), who found that profitability and financial ratios play a meaningful role in shaping firm value.

The ESG Score, on the other hand, does not show a significant effect on firm value. The t-value of 0.938 and significance value of 0.352 indicate that H2 is not accepted. Although the coefficient is positive, the result is not strong enough to prove that ESG Score affects Tobin's Q. More care is also needed in interpreting the IDX ESG Score because the score reflects ESG risk. According to IDX (2025), a higher score represents higher ESG risk, while a lower score indicates better risk management. For that reason, the positive coefficient should not be read as evidence that better ESG quality raises firm value. The weak market response to ESG Score suggests that investors may still rely more heavily on profitability than sustainability-related risk data. ESG information usually deals with long-term business resilience, environmental exposure, social responsibility, and governance quality. These issues matter, but they may not yet be priced strongly by investors in the same way as profitability. Arief *et al.* (2024) noted that sustainability reporting in Indonesia has continued to grow, yet higher reporting volume does not always mean stronger reporting quality or stronger market reaction. Prabawati and Rahmawati (2022) also found that ESG scores in ASEAN markets do not always increase firm value.

This result does not mean ESG has no value for companies. A more balanced reading is that ESG information may need better quality, clearer measurement, and stronger investor understanding before its effect appears in market valuation. Studies by Li *et al.* (2018), Serafeim (2020), and Li *et al.* (2024) found that ESG disclosure can support firm value when the information is credible and useful for investors. Aditya and Hasnawati (2025) also found that ESG disclosure positively affects firm value among IDX ESG Leaders companies, although the strongest effect came from the social dimension. These differences show that ESG effects may depend on measurement, sector, sample period, and investor attention. The simultaneous test shows that ROA and ESG Score jointly affect firm value, as reflected in the F-value of 5.516 and significance value of 0.007. Therefore, H3 is accepted. Still, the partial test makes clear that the model's strength mainly comes from ROA. The Adjusted R-squared value of 0.137 also shows that ROA and ESG Score explain only 13.7% of the variation in Tobin's Q. The remaining 86.3% may be shaped by other factors, such as firm size, leverage, corporate governance quality, interest rates, exchange rate movement, inflation, market sentiment, and industry differences. This suggests that future research should include additional variables so the explanation of firm value becomes more precise and useful for investors, companies, and regulators.

5 | CONCLUSIONS AND FUTURE WORK

The study finds that financial performance, measured by ROA, has a significant positive effect on firm value, measured by Tobin's Q, for companies listed in the IDX ESG Score index in 2024. Profitability remains the strongest market signal because investors give higher value to firms that use assets efficiently and generate stable returns. ESG disclosure, measured through the IDX ESG Score, has a positive coefficient but is not statistically significant. The result means that ESG information has not yet become a decisive factor in investor pricing decisions, although its direction aligns with the theoretical expectation that better non-financial disclosure may support valuation. When ROA and ESG Score are tested together, both variables significantly affect firm value. However, the partial test shows that the model is driven mainly by ROA. The Adjusted R-squared of 13.7% indicates that ROA and ESG Score explain only a small part of firm value variation. Other factors, such as leverage, firm size, governance quality, industry characteristics, interest rates, inflation, exchange rate movement, and investor sentiment, may also influence market valuation. The findings offer practical implications. Company management should maintain strong profitability while improving ESG disclosure quality, consistency, and credibility. ESG reporting should not only meet regulatory requirements but also communicate risk management, stakeholder responsibility, and long-term business direction. Regulators, especially OJK and IDX, should strengthen reporting standards, expand ESG Score coverage, and improve investor education so ESG information can be used more effectively in valuation. The study has methodological limitations. The use of one-year cross-sectional data makes it difficult to observe changes over time or confirm causal direction. Future studies should use panel data, add control or moderating variables, and separate ESG into environmental, social, and governance dimensions. Comparisons with other ASEAN markets may clarify whether Indonesia's ESG-firm value relationship follows a local or regional pattern.

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