IMPLEMENTATION OF ENVIRONMENT, SOCIAL, AND GOVERNANCE (ESG) ON COMPANY VALUE WITH FINANCIAL PERFORMANCE AS MODERATION (A STUDY ON MINING SECTOR COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE 2019-2023)

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ABSTRACT

Corporate value has become a primary focus in business and investment analysis. It reflects the overall health and desirability of a business entity. Various factors influence corporate value, one of which is the implementation of Environment, Social, and Governance (ESG) principles, a key element that serves as an important reference for investors in making investment decisions. This study aims to analyze the impact of ESG on corporate value, with financial performance acting as a moderating variable. The research utilizes data from mining companies listed on the Indonesia Stock Exchange (IDX). The sample represents a portion of the total population and its characteristics. In this study, the sample is selected using purposive sampling, meaning it is based on specific criteria. In recent years, the disclosure of information regarding ESG aspects has garnered significant attention from investors and stakeholders. Good ESG disclosure practices not only reflect corporate social responsibility but can also enhance reputation and investor trust. The population for this study consists of all 324 mining companies listed on the Indonesia Stock Exchange (IDX) during the period of 2019-2023.

Keywords: company value, environment, social, governance, financial performance, signalling theory

INTRODUCTION

Corporate value has become a primary benchmark in business and investment evaluation, reflecting a company's overall condition and potential. In an increasingly intense global competitive landscape, this value is determined not only by financial performance but also by nonfinancial elements such as reputation, innovation, and commitment to sustainability. In this context, the principles of Environmental, Social, and Governance (ESG) have emerged as a crucial reference point for investors in making investment decisions, prompting many companies worldwide to integrate these principles into their operational strategies.

The ESG concept encompasses three main pillars: Environmental (e.g., operational impact on carbon emissions and waste management), Social (the company's relationship with society, human rights, working conditions, and community responsibility), and Governance (accountability, transparency, and business ethics). ESG implementation is now viewed not merely as an ethical obligation but also as a fundamental strategy to enhance corporate value in the long term.

The mining sector, in particular, faces significant challenges related to its environmental and social impacts. Issues such as pollution, ecosystem degradation, human rights violations, and the dynamics of relationships with local communities are major concerns. Furthermore, the depletion of assets, such as mineral and coal reserves, can affect stock prices and investor confidence, as it threatens future production and revenue.

This research aims to analyze how ESG practices influence corporate value, with financial performance serving as a moderating variable. The study focuses on mining companies listed on the IDX during the 2019-2023 period. It is hoped that these findings will provide deep insights into effective and sustainable ESG practices, and contribute to the formulation of policies that support sustainability in the mining industry.

This research aims to investigate the influence of ESG practices on corporate value, with financial performance serving as a moderating variable. The study specifically examines mining companies listed on the IDX from 2019 to 2023. The expected outcomes include providing in-depth insights into effective and sustainable ESG practices and contributing to policy formulation that promotes sustainability in the mining sector.

This manuscript is structured into several key sections. The initial section, the Introduction, provides background, motivation, and the study's objectives. The subsequent section, the Literature Review, delves into relevant theories and prior research. The Methodology section details the research approach, data sources, and analytical methods employed. Following this, the Results and Discussion section presents the findings and their interpretation. The paper concludes with a Conclusion and Recommendations.

LITERATURE REVIEW

Signalling Theory

This theory posits that company management possesses superior internal information about the firm's quality compared to external investors. To mitigate information asymmetry, companies transmit "signals" through various disclosures, both financial and nonfinancial. Transparent ESG disclosure can serve as a robust positive signal to investors, demonstrating a company's commitment to sustainable business practices and promising long-term prospects.

ESG Disclosure

ESG focuses on how companies manage their environmental impact, social responsibilities, and governance practices. Implementing ESG not only fulfills social and environmental obligations but also has the potential to boost market value by mitigating risks, improving operational efficiency, and strengthening reputation.

Firm Value

Firm value reflects the market's perception of a company's future potential, commonly quantified by market capitalization (Tobin's Q). Beyond financial performance, sound ESG practices are increasingly recognized as crucial factors enhancing investment appeal. **Financial Performance:** Financial performance assesses a company's health and operational efficiency, typically through ratios like Return on Assets (ROA). Strong financial performance instills greater investor confidence and sends positive signals to the market, potentially elevating firm value.

METHOD, DATA, AND ANALYSIS

This study employs a quantitative research design, utilizing secondary data from annual and sustainability reports of mining companies listed on the IDX from 2019 to 2023. The research population encompasses all mining companies on the IDX (totaling 324 companies). A purposive sampling method was used to select the sample based on the following criteria: (1) listed on the IDX during the 2019-2023 period, (2) published annual reports, and (3) published sustainability reports. A total of 49 observations met these criteria and were included in the analysis.

The variables investigated are dependent Variable: Firm Value (measured by Tobin's Q). Independent Variables: Environmental Disclosure, Social Disclosure, and Governance Disclosure. Moderating Variable: Financial Performance (measured by ROA). Data analysis was performed using Moderating Regression Analysis (MRA) with SPSS software, after confirming that the data satisfied classical assumption tests (normality, autocorrelation, multicollinearity, and heteroscedasticity).

RESULT AND DISCUSSION

Classical Assumption Test Results

All classical assumption tests (normality, autocorrelation, multicollinearity, and heteroscedasticity) confirmed that the regression model was valid and met statistical prerequisites, thus rendering the data suitable for further analysis.

Moderating Regression Analysis (MRA) Results

The derived moderating regression equation is: $Y= 1{,}246 + 0{,}68X1- 1{,}093X2- 0{,}142X3 + 1{,}432X1Z +1{,}917X2Z-4{,}315X3Z$. Where: Y = Firm Value, X1 = Environmental Disclosure, X2 = Social Disclosure, X3 = Governance Disclosure, Z = Financial Performance.

Hypothesis Testing

Impact of Environmental Disclosure on Firm Value

Environmental disclosure (X1) demonstrates a positive and significant effect on firm value (Y) (coefficient 0.680, sig. 0.000). This aligns with signaling theory, where transparent environmental practices convey a positive message to investors, enhancing trust and corporate image.

Impact of Social Disclosure on Firm Value

Social disclosure (X2) exhibits a negative and significant effect on firm value (Y) (coefficient -1.093, sig. 0.000). This finding suggests that negative information related to social aspects (e.g., human rights violations or unfair labor practices) can send a detrimental signal to investors, eroding confidence and diminishing stock value.

Impact of Governance Disclosure on Firm Value

Governance disclosure (X3) shows a negative but statistically insignificant effect on firm value (Y) (coefficient -0.142, sig. 0.374). This implies that negative information concerning governance (e.g., conflicts of interest or lack of transparency) may raise investor doubts, though its impact did not reach statistical significance in this study.

Financial Performance as a Moderator of Environmental Disclosure

Financial performance (Z) is found to strengthen the positive impact of environmental disclosure (X1) on firm value (Y) (interaction coefficient 1.432, sig. 0.044). Robust financial performance enables companies to allocate more resources to environmental initiatives, thereby reinforcing positive signals to investors.

Financial Performance as a Moderator of Social Disclosure

Financial performance (Z) also has the capacity to strengthen the positive impact of social disclosure (X2) on firm value (Y) (interaction coefficient 1.917, sig. 0.025). Strong financial stability makes a company's social responsibility claims more credible, attracting investors who prioritize sustainable investments.

Financial Performance as a Moderator of Governance Disclosure

Financial performance (Z) surprisingly weakens the effect of governance disclosure (X3) on firm value (Y) (interaction coefficient -4.315, sig. 0.000). When financial performance is suboptimal, investors tend to prioritize financial risks, meaning that strong governance disclosure alone may not suffice to alleviate these concerns.

CONCLUSION

This study concludes that environmental disclosure positively and significantly influences firm value, consistent with signalling theory's emphasis on transparency. Conversely, social and governance disclosures were found to negatively impact firm value, indicating that adverse information in these areas can erode investor confidence. Financial performance plays a complex moderating role: it amplifies the positive effects of environmental and social disclosures but diminishes the impact of governance disclosure.

This highlights that while ESG is crucial, the context of a company's financial performance significantly shapes how ESG information is perceived by the market.

IMPLICATION/LIMITATION AND SUGGESTIONS

For Companies mining companies are advised to recognize the critical importance of comprehensive and transparent ESG disclosure in their sustainability reports. A clear focus on measurable environmental initiatives can bolster reputation and attract investment. Companies must also meticulously manage and communicate social and governance aspects, particularly concerning any negative issues, to prevent unfavorable investor perceptions. Sustainability reports should be leveraged as a strategic tool to demonstrate commitment to sustainability and operational efficiency.

For Future Researchers it is recommended to consider incorporating additional variables such as company reputation, risk management, company size, and the Global ESG Disclosure Index for a more holistic understanding. Extending the observation period and selecting research locations in other sectors or across all sectors listed on the IDX could also enrich findings and enhance the generalizability of the research results.

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