

EXPLORING THE INFLUENCE OF ESG TRANSPARENCY AND PROFITABILITY RATIOS ON FIRM VALUE IN EMERGING MARKETS

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Article history: received 08 April 2024; revised 16 May 2025; accepted 14 June 2025

DOI: <https://doi.org/10.33751/jssah.v5i1.12843>

Abstract. This study aims to examine the impact of Environmental, Social, and Governance (ESG) disclosure and financial performance on firm value among companies in Indonesia's food and beverage industry listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. Using a quantitative research approach, the study employs panel data regression with purposive sampling across 24 companies, yielding a total of 96 observations. The independent variables consist of ESG disclosure and financial performance indicators, including Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE), and Leverage, while firm value is measured using the Price to Book Value (PBV) ratio. Statistical analysis using the Fixed Effect Model (FEM) reveals that ESG disclosure and ROA have a positive and significant effect on firm value, whereas ROE exhibits a negative and significant relationship. Meanwhile, NPM and Leverage show no significant influence. The joint test results indicate that all independent variables simultaneously affect firm value with a coefficient of determination (R^2) of 96.12%, suggesting that variations in firm value can be largely explained by ESG disclosure and financial performance metrics. These findings highlight the importance of sustainability reporting and efficient asset utilization in enhancing corporate valuation. The study contributes to the growing body of literature on sustainable finance by emphasizing the role of ESG transparency as a strategic factor influencing investor perception and firm competitiveness in emerging markets

Keywords: ESG disclosure; financial performance; firm value; sustainability; food and beverage industry

I. INTRODUCTION

In the modern financial landscape, the value of a company is no longer determined solely by traditional financial indicators but increasingly by its commitment to sustainability and transparency. The concept of Environmental, Social, and Governance (ESG) has become an essential framework for evaluating corporate performance beyond profit, focusing on ethical, social, and environmental dimensions [1]. ESG disclosure allows stakeholders to assess how well a company manages non-financial risks that affect long-term performance, thereby serving as a strategic indicator of firm resilience and reputation [2]. In emerging markets like Indonesia, the integration of ESG principles into corporate reporting has gained significant momentum, driven by growing investor awareness and regulatory encouragement. The Financial Services Authority (OJK), through Regulation No. 51/POJK.03/2017, mandates that public companies and financial institutions submit sustainability reports that encompass governance, social, and environmental impacts [3]. These reports aim to enhance transparency and accountability, ensuring that business practices align with sustainable development goals and ethical governance [4].

Recent global developments, such as the European Green Deal and the U.S. SEC guidelines on ESG disclosure,

have influenced regional markets to adopt similar standards of sustainability reporting [5]. In this context, ESG transparency has evolved into a vital determinant of firm value—a metric representing investor confidence, market perception, and future profitability [6]. Investors increasingly consider ESG indicators alongside financial ratios to evaluate long-term growth potential, especially in industries with high environmental exposure, such as the food and beverage sector [7]. Firm value reflects the market's collective perception of a company's performance and future prospects. It is shaped not only by profitability ratios—such as Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE)—but also by non-financial disclosures that reflect corporate responsibility and ethical conduct [8]. Research consistently shows that companies with robust ESG disclosure and strong financial performance achieve higher Price-to-Book Value (PBV) ratios, signifying improved investor trust and capital access [9].

According to stakeholder theory, transparent disclosure of ESG information strengthens relationships between companies and their stakeholders by reducing information asymmetry and signaling ethical commitment [10]. In turn, this fosters greater investor loyalty and enhances corporate reputation, thereby contributing to firm valuation [11]. Moreover, signaling theory suggests that ESG

transparency acts as a positive signal to the market, indicating sound risk management and sustainable business practices [12].

Profitability ratios remain critical for assessing a company's operational efficiency and its capacity to generate returns from existing assets and equity. Studies by Oktoviyanti and Murwaningsari (2023) and Munawaroh and Suryaningsih found that ROA significantly influences firm value by demonstrating how efficiently firms convert resources into profit [13]. Similarly, ROE reflects how effectively a company utilizes shareholders' equity to maximize returns, a factor that investors perceive as a proxy for management performance and strategic decision-making [14]. Conversely, high leverage may pose both opportunities and risks. When managed effectively, debt financing can amplify returns; however, excessive leverage can increase financial vulnerability, especially in volatile markets [15]. Therefore, evaluating firm value through both ESG transparency and financial performance metrics provides a more holistic understanding of corporate sustainability and competitiveness. In Indonesia's food and beverage industry, which contributes over 6.6% of national GDP and serves as a key driver of the non-oil manufacturing sector, the integration of ESG disclosure is increasingly recognized as a strategic necessity [16]. As consumers and investors become more environmentally and socially conscious, firms that align profitability with responsible governance are likely to experience sustained value growth. This study therefore seeks to analyze the influence of ESG transparency and profitability ratios (NPM, ROA, ROE, and Leverage) on firm value among companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. By examining this relationship, the research aims to contribute to the discourse on sustainable finance and provide empirical insights for corporate managers, policymakers, and investors. The findings are expected to reinforce the importance of ESG disclosure as a strategic element that not only supports compliance and ethical responsibility but also enhances market valuation and investor confidence in emerging economies.

Environmental, Social, and Governance (ESG) Disclosure

ESG disclosure refers to the public reporting of a company's performance in environmental, social, and governance dimensions, which collectively represent non-financial indicators of corporate sustainability [17]. The environmental dimension concerns efforts to reduce ecological impact through efficient resource use and pollution control; the social dimension relates to human capital management, labor welfare, and community development; and the governance dimension evaluates the integrity of internal controls, transparency, and ethical decision-making [18]. According to Kotsantonis et al. (2021), transparent ESG disclosure enhances corporate reputation, attracts long-term investors, and signals sustainable growth potential [19]. In emerging markets, ESG reporting is still developing, often driven by external pressures such as global supply chain requirements and investor demand for responsible investment [20]. Research by Wardhani and Melinda (2020) found that companies with high-quality ESG reports achieve better financial performance and reduced capital costs, as investors

perceive them as less risky and more resilient to environmental or social shocks [2]. Furthermore, ESG transparency supports stakeholder theory, which posits that corporate success depends on satisfying the expectations of various stakeholder groups—shareholders, customers, employees, and regulators [21]. By voluntarily disclosing ESG information, companies reduce information asymmetry, strengthen stakeholder relationships, and enhance trust—all of which positively influence firm value.

Profitability Ratios and Financial Performance

Profitability ratios measure a company's ability to generate earnings relative to its sales, assets, or equity, and are crucial indicators of operational efficiency [22]. The most widely used profitability ratios include Net Profit Margin (NPM), Return on Assets (ROA), and Return on Equity (ROE).

- NPM reflects the proportion of profit generated from sales and indicates cost efficiency.
- ROA measures how effectively assets are utilized to generate profits.
- ROE evaluates the return earned on shareholders' investments.

According to Dewi and Tarmidi, profitability is a primary determinant of firm value because it reflects managerial capability to convert resources into profit [23]. A company with higher profitability demonstrates effective management performance, which attracts investors and strengthens market confidence. The relationship between profitability and firm value is further supported by signaling theory, which suggests that financial ratios convey private information about management quality to the market. High profitability serves as a positive signal of strong corporate governance, efficient operations, and long-term sustainability [12], [24]. In the context of ESG integration, profitability also enables companies to invest in sustainability initiatives. Firms with strong financial performance are better positioned to implement environmental projects, employee welfare programs, and ethical governance systems, all of which contribute to a higher perceived firm value [25].

Leverage and Financial Risk

Leverage represents the proportion of debt used in a company's capital structure and is often measured by the Debt-to-Equity Ratio (DER). A balanced leverage ratio can enhance firm value by optimizing capital efficiency and providing tax advantages; however, excessive leverage can increase financial risk and reduce investor confidence [26]. According to Khotimah et al. (2020), leverage plays a dual role: it may enhance returns through financial leverage effects but can also undermine firm value when debt levels exceed optimal thresholds. Companies with higher debt ratios often face stricter regulatory scrutiny and reduced flexibility in adopting ESG initiatives, as debt covenants may limit discretionary spending on non-financial projects [15]. Therefore, maintaining an optimal leverage structure is essential for achieving both profitability and sustainability.

ESG and Firm Value

Multiple empirical studies demonstrate a significant and positive relationship between ESG disclosure and firm value. Adhi and Cahyonowati (2023) confirmed that firms

with higher ESG scores in Indonesia's capital market achieved superior market valuations, as ESG transparency reduces investor uncertainty and enhances corporate legitimacy [10]. Similarly, Ching et al. (2022) found that consistent ESG reporting improves firm value through reputational gains, particularly in sectors with high consumer visibility [17].

From a theoretical perspective, stakeholder theory and signaling theory provide complementary explanations for this relationship. ESG reporting fulfills stakeholder expectations and simultaneously sends a positive signal to investors regarding risk management and long-term stability [21], [24]. These effects are especially strong in industries where ethical and environmental concerns directly influence consumer and investor decisions, such as the food and beverage sector [16]. Furthermore, the adoption of ESG disclosure is increasingly viewed as a strategic differentiator that drives competitive advantage. Companies that communicate sustainability performance effectively can access new markets, attract ESG-focused investors, and build brand loyalty, thereby increasing overall firm value [18], [20].

Based on the theoretical and empirical literature, the conceptual framework of this study integrates ESG transparency, profitability ratios (NPM, ROA, ROE), and leverage as independent variables influencing firm value. ESG disclosure acts as a non-financial indicator reflecting stakeholder satisfaction and ethical conduct, while profitability ratios capture financial efficiency and performance. Leverage represents the financial structure that may moderate these relationships. Thus, the model posits that higher ESG transparency and profitability ratios enhance firm value, while excessive leverage may weaken this relationship. The integration of financial and non-financial dimensions offers a holistic understanding of how sustainable business practices contribute to corporate valuation in emerging markets.

II. RESEARCH METHOD

The quantitative approach used in this study makes use of secondary data. Both the target company's official website and the Indonesia Stock Exchange's official website, www.idx.co.id, provided the research data. All financial reports from food and beverage companies listed on the IDX comprise the study's population. Purposive sampling, the sampling technique employed, produced 24 companies spanning 4 time periods (2020–2023), for a total sample size of 96. This study has two different kinds of variables: the dependent variable (Y), which is made up of firm value, and the independent variable (X), which is made up of two variables: financial performance and ESG disclosure.

III. RESULT AND DISCUSSION

Panel Data Regression Selection

The best panel data estimation model can be found using one of the following three types of tests:

1. Chow Test

The Chow Test is used to determine the best model between Common Effect and Fixed Effect. The decision-making criteria are as follows: If the probability value (prob) in the cross-section $F < \alpha = 0.05$, then H_0 is rejected, which means that the more appropriate model is the Fixed Effect Model. Conversely, if the probability value (prob) in the cross-section $F \geq \alpha = 0.05$, then H_0 is accepted, which indicates that the better model is the Common Effect Model (Runggu Basmandala Napitupulu [27]). The following is a table of Chow Test results.

Table 1. Chow Test Results

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	16.253630	(29,85)	0.0000
Cross-section Chi-square	225.450697	29	0.0000

Based on the table above, it is known that the probability value in the Cross-section Chi-square is $0.0000 < 0.05$, which means that H_0 is rejected, so it can be concluded that the Fixed Effect model is better to use than the Common Effect model.

2. Hausman Test

The Hausman Test is used to determine the most appropriate model between the Fixed Effect Model and the Random Effect Model. The decision-making criteria are as follows: If the probability value (prob) in the cross-section $F < 0.05$, then H_0 is rejected, which indicates that the Fixed Effect Model is a more appropriate choice. Conversely, if the probability value (prob) in the cross-section $F \geq 0.05$, then H_0 is accepted, which means that the Random Effect Model is more appropriate (Runggu Basmandala Napitupulu et al.[27]). The following is a table of Hausman Test results:

Table 2. Hausman Test Results

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.233678	5	0.0469

Based on the table above, it is known that the probability value of Chi-square is $0.0469 < 0.05$, which means H_0 is rejected, so it can be concluded that the model that must be used is the Fixed Effect model because this model is better than using the Random Effect model.

After testing the panel data regression using the Chow test, and the Hausman test, it states that the best model used

for this study is to use the Fixed Effect model. In this model there is an advantage in being able to find out the characteristics of each individual from the dependent variable.
Hypothesis Testing

The effect of each ESG Disclosure, Net Profit Margin, Return On Asset, Return On Equity, and Leverage on Company Value is partially shown using the t-test.

Table 3. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.308927	0.135429	17.04900	0.0000
ESG Disclosure	0.600921	0.280377	2.143260	0.0350
Net Profit Margin	-0.028058	0.021295	-1.317554	0.1912
Return On Asset	5.420171	1.146976	4.725619	0.0000
Return On Equity	-1.813435	0.491927	-3.686393	0.0004
Leverage	0.092632	0.058833	1.574485	0.1191
R-squared	0.972279			
Adjusted R-squared	0.961191			
S.E. of regression	1.227721			
F-statistic	87.68497			
Prob(F-statistic)	0.000000			

1. Hypothesis Test Results on the ESG Disclosure variable obtained a calculated t value of 2.143260 greater than the t table value of 1.980272249 and a sig. value of 0.0350 less than 0.05, it is known: H0: If the probability value > significance level (sig > 0.05) then there is no effect of ESG Disclosure on Firm Value H1: If the probability value < significance level (sig < 0.05) then there is an effect of ESG Disclosure on Firm Value. From the statement above, it can be concluded that the variable rejects H0 and accepts H1, which means that the ESG Disclosure variable has an effect on Firm Value.
2. Hypothesis Test Results on the Net Profit Margin variable obtained a calculated t value of 1.317554 smaller than the t table value of 1.980272249 and a sig. value. 0.1912 is greater than 0.05, it is known: H0: If the probability value > significance level (sig > 0.05) then there is no effect of Net Profit Margin on Firm Value. H1: If the probability value < significance level (sig < 0.05) then there is an effect of Net Profit Margin on Firm Value. From the statement above, it can be concluded that the variable rejects H1 and accepts H0, which means that the Net Profit Margin variable has no effect on Firm Value.
3. The results of the Hypothesis Test on the Return On Asset variable obtained a calculated t value of 4.725619 greater than the t table value of 1.980272249 and a sig. value of 0.0000 smaller than 0.05, it is known: H0: If the probability value > significance level (sig > 0.05) then there is no effect of Return On Asset on Firm Value. H1: If the probability value < significance level (sig < 0.05) then there is an effect of Return On Asset on Firm Value. From the statement above, it can be concluded that the variable rejects H0 and

accepts H1, which means that the Return On Asset variable has an effect on Firm Value.

4. The results of the Hypothesis Test on the Return On Equity variable obtained a calculated t value of 3.686393 which is greater than the t table value of 1.980272249 and a sig. value of 0.0004 is smaller than 0.05, it is known: H0: If the probability value > significance level (sig > 0.05) then there is no effect of Return On Equity on Firm Value. H1: If the probability value < significance level (sig < 0.05) then there is an effect of Return On Equity on Firm Value. From the statement above, it can be concluded that the variable rejects H0 and accepts H1, which means that the Return On Equity variable has an effect on Firm Value.
5. Hypothesis Test Results on the Leverage variable obtained a calculated t value of 1.574485 smaller than the t table value of 1.980272249 and a sig. value of 0.1191 greater than 0.05, it is known: H0: If the probability value > significance level (sig > 0.05) then there is no effect of Leverage on Firm Value. H1: If the probability value < significance level (sig < 0.05) then there is an effect of Leverage on Firm Value. From the statement above, it can be concluded that the variable rejects H1 and accepts H0, which means that the Leverage variable has no effect on Firm Value.
6. Hypothesis Test Results on the variable obtained a calculated f value of 87.68497 greater than the f table value of 2.682809 and a sig. value of 0.000000 smaller than 0.05, it is known: H0: If the sig. value > 0.05 then there is no influence of ESG Disclosure, Net Profit Margin, Return On Asset, Return On Equity, Leverage on Firm Value. H1: If the sig. value < 0.05 then there is an influence of ESG Disclosure, Net Profit Margin, Return On Asset, Return On Equity, Leverage on Firm Value. From the statement above, it can be concluded that the variable rejects H0 and accepts H1, which means that the Sixth Hypothesis (H6) proposed that there is a joint influence of ESG Disclosure, Net Profit Margin, Return On Asset, Return On Equity, and Leverage on Firm Value

7. From the results of the calculation, the magnitude of the influence of the independent variable on the dependent variable that can be explained by the model in this equation is 0.961191 or 96.1191%. This shows that ESG Disclosure, Net Profit Margin, Return On Asset, Return On Equity, and Leverage are able to explain the variation in the increase/decrease in Firm Value by 96.1191% while the remaining 3.8809% is explained by other factors not included in this regression model.

The Effect of ESG Disclosure on Firm Value

The results of this study can be concluded that ESG Disclosure has a significant positive effect on Firm Value. This means that every time the ESG Disclosure value increases, the Firm Value value will also increase. This shows that the higher the ESG disclosure value, the higher the Firm Value. The research shows that the first hypothesis is empirically supported. The results of this study are consistent with stakeholder theory, which states that companies tend to make certain disclosures, including ESG disclosures, to gain support from stakeholders. ESG disclosures made by companies reflect activities that go beyond just seeking profit [27]), with the aim of creating more responsible value for

stakeholders around them. In addition, ESG disclosures will also attract the attention of shareholders, who are part of the stakeholders, because they expect long-term benefits from their investments. Thus, Firm Value has the potential to increase along with the improvement of ESG disclosures made.

The Effect of Net Profit Margin on Firm Value

The results of this study can be concluded that Net Profit Margin does not have a significant effect on Firm Value. This shows that the Net Profit Margin value is not significantly influenced by Firm Value. This shows that the unaffected Net Profit Margin on Firm Value shows that there are different views for investors about the importance of profit in the company. The possible cause of this phenomenon is when a company achieves high profits or benefits, this can encourage the company to set stock prices (often associated with Firm Value) at a high level as well (Ningsih [7]). This condition makes investors interested in buying shares of the company, which over time can lead to a decrease in Firm Value and market contraction.

The Effect of Return On Asset on Firm Value

The results of this study can be concluded that Return On Asset has a significant positive effect on Firm Value. This means that every time the Return On Asset value increases, the Firm Value value will also increase, this shows that the higher the value of the company's assets, the higher the Firm Value. This phenomenon occurs because company data in the food and beverage sub-sector is relatively stable in the period 2020 to 2023. In addition, Return On Asset and Firm Value have a fairly close relationship, because investors will pay attention to how effectively the company utilizes its assets to generate net profit. Companies with high net profit tend to provide greater benefits to shareholders (Halimatum & Ruliy, 2024). Therefore, if the company's Return On Asset shows good value, this will attract investors or potential investors to invest in the company.

The Effect of Return On Equity on Firm Value

The results of this study can be concluded that Return On Equity has a significant negative effect on Firm Value. This means that every time the ROE value increases, the Firm Value value will decrease, and vice versa if Return On Equity decreases, the Firm Value will increase. This is because Return On Equity that is too high may not be sustainable in the long term. If the company achieves a high Return On Equity through aggressive expansion or asset sales, profit growth may not be maintained. This can reduce investor expectations of the company's future prospects, which ultimately has a negative impact on Firm Value.

The Effect of Leverage on Firm Value

The results of this study can be concluded that Leverage does not have a significant effect on Firm Value. This shows that the Leverage value is not significantly influenced by Firm Value. It can be concluded that Leverage as measured by DER has no effect on Firm Value. The higher the level of Leverage, the Firm Value tends to decrease. Therefore, the use of debt should be limited, and management is expected to be wiser in utilizing funding sources. The high or low Leverage is not directly related to Firm Value, in other words, Leverage cannot be used as a tool to increase Firm Value.

IV. CONCLUSION

Based on the research that has been done above, it can be concluded that the best model estimation selection is the Fixed Effect Model (FEM). After testing the classical assumptions using the Fixed Effect model. The classical assumption test in this study has been met, the results of this study are that the ESG Disclosure variable has a significant positive effect on Firm Value in food and beverage sub-sector companies listed on the IDX for the 2020-2023 period. This shows that high ESG Disclosure means that investors are more efficient in assessing a company. The Net Profit Margin variable does not have a significant effect on Firm Value. This shows that investors do not pay much attention to this ratio to make their investment decisions. The next variable Return On Asset has a significant positive effect on Firm Value. This shows that high ROA means that the company is more efficient in making profits with the company's asset activities. The Return On Equity variable has a significant effect with a negative direction on Firm Value. This shows that a low ROE value can be considered good for investors. The Leverage variable does not have a significant effect on Firm Value. This shows that investors do not pay much attention to this ratio to make their investment decisions. ESG Disclosure, Net Profit Margin, Return On Asset, Return On Equity, and Leverage variables simultaneously have a significant effect on stock returns of food and beverage companies. Thus, it can be said that ESG Disclosure, Net Profit Margin, Return On Asset, Return On Equity, and Leverage all have a significant effect on Firm Value simultaneously.

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