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The Effect of Profitability and Environmental, Social, Governance Disclosure on Company Value (Case Study on Basic Materials Sub-Sector Companies Listed on the Indonesia Stock Exchange in 2021-2024)

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Abstract: This study aims to examine the effect of profitability and disclosure of Environmental, Social, and Governance (ESG) aspects on company value in basic materials sub-sector companies listed on the Indonesia Stock Exchange during the period 2021-2024. The data used are financial reports, sustainability reports, and ESG disclosure scores measured based on GRI standards. The method applied is panel data regression to test the relationship simultaneously and partially. The results of the study show that profitability has a positive impact on company value, as well as the disclosure of ESG aspects as a whole which has been proven to have a significant effect on company value. These findings confirm that financial performance and company sustainability efforts are key factors in increasing company value and attracting investor interest. Therefore, companies in the basic materials sector are advised to increase their level of transparency and sustainability performance in order to create optimal long-term value.

Keywords: environmental, governance, corporate value, profitability, social.

INTRODUCTION

This study adopts (Signalling theory) The Signal Theory is an action taken by company management that provides investors with indications of how management views the company's future prospects (Ratna Wati & Juliana Dillak, Vaya, 2021). The goal is to minimize information asymmetry by sending positive or negative signals that can affect investment decisions. Positive signals tend to encourage investors to hold shares in the long term, while negative signals can result in a reduction in share ownership (Susanto E, 2024).

In this study, company value was measured using the Tobin's Q proxy. Tobin's Q is a measuring tool used to assess company performance, especiallyin the context of company value, and reflects how management manages the assets it owns (Bambang Sudiyatno, 2010). Company value is an important concept because company value is an indicator of how the

market values the company as a whole. High stock prices reflects a high company value, this is due to investor confidence in the company's performance.

Current company and the company's future prospects. In order to attract investors, companies expect financial managers to act optimally in the interests of the company by maximizing the company's value, so that shareholder welfare can be realized. When the company's value increases, the company will be considered better by potential investors (MFaishal & Pratomo D , 2018).

In recent years, attention to environmental, social, and governance (ESG) factors has increased both globally and nationally. Stakeholders, including investors and regulators, are increasingly demanding transparency and sustainability from companies in carrying out their business activities. The ESG aspect disclosure policy is essential because it can reflect the company's commitment to sustainable and socially responsible business practices (Nugrahani & Rohmah, 2023). Environmental, social, and governance disclosures use the GRI score index contained in the sustainability report with the calculation used by dividing the total that has been disclosed by the maximum total disclosure.

According to Utama E & Farida Titik, (2018) the profitability ratio is used to determine a company's ability to generate profits during a certain period and also a description of the level of management effectiveness in carrying out its operational activities. In this study, profitability is measured by the return on equity (ROE) ratio which is a ratio that describes the Company's ability to generate profits for investors (Sembiring, S., & Trisnawati, 2019).

METHODS

This study is on basic materials companies listed on the Indonesia Stock Exchange in 2021-2024. This study uses a quantitative approach included in the descriptive research category. This method is also called a confirmatory method, because this method is suitable for use for proof/confirmation, because the research data is in the form of numbers and analysis using statistics (Sugiyono, 2019). The data used in this study are secondary data obtained from the annual reports and sustainability reports of basic materials companies listed on the Indonesia Stock Exchange (IDX). The data is cross-sectional and time series for the period 2021-2024. The data used by the author in this study is secondary data. Secondary data is data that is not collected by researchers directly, but is obtained from existing sources (Sugiyono, 2019). These sources include documents, government publications, articles, books, and related reports, which are used to enrich research data (Ayu Rifka Sitoresmi, 2022). The secondary data used are annual reports, sustainability reports and information related to research originating from the Indonesia Stock Exchange (IDX) website, and referring to various previous studies that are related.

The research variables consist of 4 independent variables (X), namely profitability (X1), environmental (X2), social (X3), governance (X4) and one dependent variable (Y), namely company value. In the study, the population is companies that report sustainability reports using GRI standards. In carrying out this research, it depends on maximum planning and implementation. Therefore, it is important to understand and follow the research stages systematically. The stages of the research in question are observation, initial information collection, theory formulation, hypothesis formulation, further scientific data collection and deduction. In this study, the purposive sampling technique was used to select samples. Samples that do not meet the established criteria will be eliminated from the study (Sugiyono, 2019). Referring to the predetermined sample criteria, the company samples and total observations for this study are as follows.

Table 1 Sample Selection Criteria

No	Sample criteria	Amount
1	Basic materials sub-sector companies that consistently publish sustainability reports using GRI standards during the 2021-2024 period	20
2	Number of samples	20
3	The number of samples corresponding to the research year (2021-2024) multiplied by 4 years	80

Source: data processed by the author (2025)

RESULTS AND DISCUSSION

Descriptive Analysis

Descriptive statistical tests were conducted to obtain descriptions derived from research sample data relating to obtaining maximum, minimum, mean and standard deviation values:

Table 2 Descriptive Statistics

	Profitability	Environmental	Social	Governance	Company Values
Mean	-1.40	0.52	0.47	0.61	0.43
Median	0.07	0.58	0.50	1.00	0.40
Maximum	4.49	1.13	1.00	1.00	1.43
Minimum	-126.14	0.00	0.00	0.00	0.00
Std. Dev.	14.14	0.29	0.30	0.46	0.29
Observations	80	80	80	80	80

Source: Data processed by the author (2025)

Based on the table, the Profitability variable has an average value of -1.40 with a very wide distribution, from -126.14 to 4.49. The Environmental and Social variables each have an average value of around 0.52 and 0.47, with maximum values at 1.13 and 1.00, indicating a fairly high level of disclosure on average. The Governance variable has an average value of 0.61 with a median of 1.00, indicating that most companies fully disclose aspects of governance. Company Value has an average of 0.43 and a maximum value of 1.43, indicating a fairly large variation in company assessments.

Panel Data Regression Model Selection

There are three tests used to determine the most appropriate technique for estimating panel data regression.

Chow Test

TestChow is a test to determine whether the fixed effect model or common effect model is most appropriate to use. This test is conducted with the following hypothesis:
H0 : Common Effect Model
H1 : Fixed Effect Model Model
The following are the results of the Chow test:

Table 3. Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Cross-section fixed effects test

Effects Test	Statistics	df	Prob.
Cross-section F	26.282962	(19.56)	0.0000
Cross-section Chi-square	183.543534	19	0.0000

Source: Eviews output results 12, 2025

Based on the tableabove shows that the model has a probability (p-value) Cross-section F of less than the significance level of 5% (0.0000< 0.05). Based on the data, it can be decided that H0 is rejected and H1 is accepted. This means that the fixed effect model is better than the common effect model.

Hausman test

The Hausman Test is used to determine which fixed effect or random effect model to use. The decision making criteria are if:

1. Probability (p-value) Random cross-section ≤ 0.05 = fixed effect
2. Probability (p-value) Random cross-section > 0.05 = random effect

The following are the results of the Hausman test:

Table 4. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Cross-section random effects test

Test Summary	Chi-Sq. Statistic	Chi-Sq. df	Prob.
Random cross section	7.623299	4	0.1064

Source: Eviews output results 12, 2025

Based on the table aboveshowThe probability value (p-value) of the random cross-section is more than the significance level of 5% (0.1064 >0.05). Based on these data, it can be concluded that the random effect model is better than the fixed effect model.

Lagrange Multiplier Test

TestLagrangeMultiplier (LM) is a test to determine whether the random effect model or common effect model is most appropriate to use. This test is carried out by the following hypothesis:

H0 : Common Effect Model
H1 : Random Effect Model

The following are the results of the Lagrange Multiplier test:

Table 5. Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects
Null hypothesis: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Hypothesis Testing		
	Cross section	Time	Both
Breusch Pagan	67.93388 (0.0000)	1.046517 (0.3063)	68.98040 (0.0000)

Source: Eviews output results 12, 2025

Based on the table above, it shows the probability valueBreusch-*Pagan*(BP) from a significance level of 5% shows that in Breusch-PaganBoth have a probability value (p-value) of less thansignificance level of 5% (0.0000< 0.05). Based on these data, it can be concluded that the random effect model is better than the common effect model.. Based on the results of

the Hausman and Lagrange Multiplier tests, it states that the method*randomeffect*is a suitable model.

Coefficient of Determination Test (R2)

The purpose of this test is to determine the extent of the ability of independent variables to explain dependent variables simultaneously. This test is also useful for measuring the goodness and truth of the relationship between variables in the model used.

Table 6. Coefficient of Determination

Root MSE	0.241101	R-squared	0.071538
Mean dependent variable	-0.017510	Adjusted R-squared	0.022020
SD dependent var	0.251796	SE of regression	0.249008
Sum squared residual	4.650390	F-statistic	1.444694
Durbin-Watson stat	1.243680	Prob(F-statistic)	0.227674

Source: Eviews output results 12, 2025

Based on the table above, it can be seen that the value of the determination coefficient R2 is0.071538or 7.15%. This shows that Profitability, Environmental, Social, and Governance on Company Value are able to explain 7.15% while the remaining 92.85% is explained by other variables outside the study.

Hypothesis Testing

Simultaneous Test (F Test)

Simultaneous hypothesis testing is a hypothesis test that aims to determine whether the independent variables have a significant or no significant effect on the dependent variable together or simultaneously.

Table 7. F Statistic Test

Root MSE	0.241101	R-squared	0.071538
Mean dependent variable	-0.017510	Adjusted R-squared	0.022020
SD dependent var	0.251796	SE of regression	0.249008
Sum squared residual	4.650390	F-statistic	1.444694
Durbin-Watson stat	1.243680	Prob(F-statistic)	0.227674

Based on the output above, the F-statistic value is known to be1.444694with p-value (sig)0.227674. Because the p-value (sig) is greater than 0.05 (α = 5%) or0.227674> 0.05 then H0 is accepted and H1 is rejected, meaning that Profitability, Environmental, Social, and Governance together do not have a significant effect on Company Value. This finding also contradicts the signaling theory which is based on the theory that ESG disclosure is a form of positive signal that elicits a positive investor response to company value. Contrary to this theory, studies that show that ESG has a negative impact are influenced by the popular view (Friedman, 1962) that the main goal of a company is only to increase the wealth of its stakeholders and other non-financial goals can reduce company efficiency.

Partial Test (t-Test)

To determine the magnitude of the influence of each independent variable on the dependent variable, partial testing or t-test is used.

Table 8. Partial Test Results (t-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.082710	0.159058	0.520001	0.6046
PROFITABILITY	-0.220656	0.091110	-2.421866	0.0179
ENVIRONMENTAL	-0.019313	0.051898	-0.372132	0.7108
SOCIAL	-0.032631	0.054617	-0.597462	0.5520
GOVERNANCE	-0.006056	0.038886	-0.155736	0.8767

1. Partial Variable Hypothesis TestingProfitability Against Company Value
   From the calculation above, the p-value or (significance) for the Profitability variable is 0.0179. Because the p-value is less than 0.05 (α = 5%) or 0.0179 < 0.05, H0 is rejected and H1 is accepted, meaning that Profitability has a significant effect on Company Value.
2. Partial Variable Hypothesis TestingEnvironmental Impact on Corporate Values
   From the calculation above, the p-value or (significance) for the Environmental variable is 0.7108. Because the p-value is greater than 0.05 (α = 5%) or 0.7108 > 0.05, H0 is accepted and H1 is rejected, meaning that Environmental does not have a significant effect on Company Value.
3. Partial Variable Hypothesis TestingSocial Towards Corporate Values
   From the calculation above, the p-value or (significance) for the Social variable is 0.5520. Because the p-value is greater than 0.05 (α = 5%) or 0.5520 > 0.05, H0 is accepted and H1 is rejected, meaning that Social does not have a significant effect on Company Value.
4. Partial Variable Hypothesis TestingGovernance Against Corporate Value
   From the calculation above, the p-value or (significance) for the Governance variable is 0.8767. Because the p-value is greater than 0.05 (α = 5%) or 0.8767 > 0.05, H0 is accepted and H1 is rejected, meaning that Governance does not have a significant effect on Company Value.

CONCLUSION

The Influence of Profitability, Environmental, Social, Governance on Company Value

Because the p-value (sig) is greater than 0.05 (α = 5%) or0.227674> 0.05 then H0 is accepted and H1 is rejected, meaning that Profitability, Environmental, Social, and Governance together do not have a significant effect on Company Value. meaning that Profitability, Environmental, Social, and Governance together do not have a significant effect on Company Value. This finding also contradicts the signaling theory which is based on the theory that ESG disclosure is a form of positive signal that elicits a positive investor response to company value. Contrary to this theory, studies that show that ESG has a negative impact are influenced by the popular view (Friedman, 1962) that the main goal of a company is only to increase the assets of its stakeholders and other non-financial goals can reduce the efficiency of the Company(Ningwati et al., 2022).

For the Profitability variable of 0.0179. Because the p-value is less than 0.05 (α = 5%) or 0.0179 <0.05, H0 is rejected and H1 is accepted, meaning that Profitability has a significant effect on Company Value. One of the benefits can come from property buying and selling activities, where the selling price is higher than the acquisition cost and related expenses, or from routine rental income in the property rental business. In addition, property development companies can make a profit through the construction and sale of new properties.

Environmental Impact on Company Value

Analysis of the social performance variable shows that because the p-value is greater than 0.05 (α = 5%) or 0.7108 > 0.05, H0 is accepted and H1 is rejected, meaning that

Environmental does not have a significant effect on Company Value. The results of this study are in line with research conducted by which found that the environment has no effect on company value. These results can be explained by research conducted byHariyanto & Ghozali, (2024)which reveals that the environment is not considered too much by stakeholders. This could be because environmental requires higher costs and a longer time for its environmental impact to be felt.

Social Influence on Company Value

Analysis of the social performance variable shows Because the p-value is greater than 0.05 (α = 5%) or 0.5520 > 0.05 then H0 is accepted and H1 is rejected, meaning that Social does not have a significant effect on Company Value. has no effect. This is thought to occur because consumers, employees, and other stakeholders have not seen any added value in the company's social responsibility activities that are realized through the implementation of sustainability reporting. Social has no effect(Jeanice & Kim, 2023).

The Influence of Governance on Company Value

Analysis of the governance variable shows a p-value greater than 0.05 (α = 5%) or 0.8767 > 0.05, then H0 is accepted and H1 is rejected, meaning that Governance does not have a significant effect on Company Value. indicating that governance issues may not be a major concern for stakeholders for companies in the basic materials sector, or that such disclosures do not meet stakeholder expectations in terms of transparency or relevance.(Putri et al., 2024).

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