



ESG (ENVIRONMENTAL, SOCIAL AND GOVERNANCE) AND GCG (GOOD CORPORATE GOVERNANCE) DISCLOSURE ON FIRM VALUE: PROFITABILITY AS A MEDIATING VARIABLE

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ARTICLE INFORMATION

Article History:

Received 21 Januari, 2026

Revised 20 Februari, 2026

Published 25 April, 2026

Keyword:

ESG Disclosure,
GCG,
Profitability,
Firm Value.

ABSTRACT

Abstract: This study aims to analyze the effect of ESG and GCG disclosure on firm value with profitability as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2020–2024 period. Out of a total population of 473 companies, 58 companies met the sample criteria through purposive sampling, resulting in 290 observation data points. Data analysis used SEM-PLS with a quantitative approach. The results show that ESG disclosure has a significant effect on profitability but does not have a significant effect on firm value. Meanwhile, GCG has a significant effect on both profitability and firm value. In addition, profitability has a significant effect on firm value. Based on the mediation test results, profitability is unable to mediate the effect of ESG disclosure on firm value, but it is able to mediate the effect of GCG on firm value.

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Introduction

Changes and dynamics in the business environment have recently emerged alongside increasing demands for transparency, accountability, and sustainability practices in corporate operational activities (Akbar Rachmadiansyah et al., 2025, 159). Companies are now assessed not only on their financial performance, but also on the extent to which an entity is able to manage its impact on the environment, consider the interests of society, and implement good corporate governance (Nilawati & Arizah, 2025, 97). In this context, the concept of ESG has increasingly drawn the attention of investors, regulators, and stakeholders, as it is considered an important indicator for assessing a company's sustainability and long-term performance (Putra & Asfiah, 2024, 102).

Firm value is an important aspect that shows how investors view a company's future prospects (Widyowati et al., 2024, 532). A high firm value is considered a positive signal because it shows that the market assesses the company as capable of generating good performance and maintaining

operational sustainability (Hapsari, 2023, 66). Therefore, companies strive to increase firm value through various strategies, both through improving financial performance and through the implementation of sustainability practices and good corporate governance.

ESG disclosure is one of the non-financial aspects that affects firm value. ESG reflects the level of an entity's engagement with environmental issues, social responsibility, and governance in conducting its business activities (Nilawati & Arizah, 2025, 97). Transparency in ESG disclosure can increase investor reputation and trust. However, previous research shows mixed results, with some studies finding that ESG has a positive effect on firm value, while others show an insignificant effect.

In addition to ESG, another factor believed to influence firm value is the implementation of Good Corporate Governance (GCG). GCG is a system that regulates and controls a company so that it is managed transparently, accountably, and responsibly. The implementation of GCG aims to minimize conflicts of interest between management and shareholders and to improve the efficiency of company management (Widyowati et al., 2024, 532). However, previous research also shows inconsistent results regarding the effect of GCG on firm value.

To gain a more comprehensive understanding of the relationship between ESG, GCG, and firm value, this study considers the role of profitability as a mediating variable. Profitability reflects a company's ability to generate profit through the utilization of its resources (Sirkomba & Amirya, 2023, 973). Thus, good ESG practices and GCG implementation are expected to increase profitability, which ultimately has an impact on increasing firm value.

In Indonesia, attention to sustainability practices has increased since the issuance of OJK Regulation Number 51/POJK.03/2017, which requires public companies to submit sustainability reports (Otoritas Jasa Keuangan, 2017). This shows that ESG and GCG practices are becoming increasingly important in supporting corporate transparency and sustainability.

This study uses manufacturing companies listed on the Indonesia Stock Exchange as its research object because this sector has resource-intensive operational characteristics and has the potential to generate significant environmental and social impacts (Putri et al., 2025, 52).

Although research on ESG, GCG, and firm value has been conducted extensively, a research gap remains. Most previous studies have only examined ESG or GCG separately in relation to firm value. Therefore, this study aims to analyze the effect of ESG and Good Corporate Governance disclosure on firm value with profitability as a mediating variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2020–2024 period.

Literature Review and Hypothesis Development

Stakeholder Theory

Stakeholder theory explains that a company is not only responsible to its shareholders, but also to all parties with an interest in the company, such as employees, consumers, the government, communities, and the environment (Hakki et al., 2024, 494). A company's long-term success is greatly influenced by its ability to maintain relationships with and meet the interests of its stakeholders. Therefore, companies need to pay attention to stakeholder interests through information transparency, the implementation of sustainability practices, and good corporate governance.

In the context of this study, ESG disclosure and GCG implementation can be viewed as a form of corporate responsibility toward stakeholders. ESG disclosure reflects a company's concern for environmental and social aspects, while GCG implementation demonstrates a company's commitment to transparent and accountable governance (Awaliyah, 2025, 2294).

Legitimacy Theory

Legitimacy theory states that companies strive to obtain and maintain legitimacy from society by ensuring that their operational activities align with prevailing social values and norms (Puspitaningrum & Indriani, 2021, 3). Companies can gain this legitimacy by transparently communicating information about their activities, including through ESG disclosure and the

implementation of good corporate governance.

Through ESG disclosure and GCG implementation, companies can demonstrate their responsibility toward the environment and society, thereby gaining stakeholder support. This support can enhance a company's reputation and strengthen investors' positive perception of the company (Marheni, 2022, 1698).

Hypotheses

ESG disclosure reflects a company's commitment to implementing sustainability practices that can enhance reputation and stakeholder trust. Good ESG implementation is believed to be able to increase operational efficiency and strengthen relationships with stakeholders, thereby impacting the company's profitability.

H1: ESG disclosure affects company profitability.

H2: GCG affects company profitability.

H3: ESG disclosure affects firm value.

H4: GCG affects firm value.

H5: Profitability affects firm value.

H6: Profitability is able to mediate the effect of ESG disclosure on firm value.

H7: Profitability is able to mediate the effect of GCG on firm value.

Research methods

This study uses a quantitative approach with an explanatory research design to analyze the effect of profitability, the Investment Opportunity Set (IOS), and net income on dividend policy in financial sector companies listed on the Indonesia Stock Exchange (IDX) for the 2020–2024 period. The data used is secondary data obtained through documentation from annual financial statements published on the official IDX website (www.idx.co.id). The study population consists of 106 financial sector companies, while the sample was determined using purposive sampling based on certain criteria, resulting in 18 companies with a total of 90 observations. Dividend policy is proxied using the Dividend Payout Ratio (DPR), profitability using Return on Assets (ROA), the Investment Opportunity Set (IOS) using the Market to Book Value of Assets (MBVA), and net income is measured based on the company's net income value. Data analysis was performed using multiple linear regression analysis with IBM SPSS Statistics, preceded by classical assumption tests, followed by partial tests (t-test), simultaneous tests (F-test), and the coefficient of determination (R^2).

Operational Definition of Variables

Research Design

This study uses a quantitative approach with a causal research design aimed at analyzing the cause-and-effect relationship between the independent and dependent variables. A quantitative approach was chosen because this study uses numerical data that is statistically analyzed to test the effect of ESG and GCG disclosure on firm value with profitability as a mediating variable.

Population and Sample

The population in this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The sampling technique used purposive sampling with the criteria of being a manufacturing company listed on the IDX, publishing an annual report during the research period, and submitting a sustainability report. Based on these criteria, 58 companies were obtained as the research sample, with a total of 290 observation data points.

Research Instruments

The variables in this study consist of ESG and GCG disclosure as independent variables, firm value as the dependent variable, and profitability as the mediating variable. ESG is measured using a

disclosure score based on environmental, social, and governance indicators. GCG is assessed using four indicators: institutional ownership, the number of the board of directors, the proportion of independent commissioners, and the size of the audit committee. Profitability is proxied by ROA, while firm value is proxied by Tobin's Q ratio.

Data Collection Technique

The data used in this study is secondary data obtained from annual reports and sustainability reports of companies published through the official website of the Indonesia Stock Exchange and the official websites of each company.

Data Analysis Technique

The data analysis technique used in this study is the SEM-PLS (Structural Equation Modeling-Partial Least Squares) method. The analysis was carried out through several stages: descriptive statistical analysis, measurement model (outer model) testing, structural model (inner model) testing, and hypothesis testing through the bootstrapping method.

Results and Discussion

Descriptive Statistical Analysis

Descriptive statistical analysis aims to provide a general overview of the characteristics of the research data. The variables used in this study include ESG disclosure, GCG, profitability as proxied by ROA, and firm value as proxied by Tobin's Q.

Table 1. Descriptive Statistical Analysis Results

Variable	Minimum	Maximum	Mean	Median	Std. Deviation
E Score (X1.1)	0.400	1.000	0.973	1.000	0.094
S Score (X1.2)	0.800	1.000	0.987	1.000	0.050
G Score (X1.3)	0.800	1.000	0.999	1.000	0.012
PKI (X2.1)	0.000	1.000	0.439	0.400	0.144
KI (X2.2)	0.012	0.996	0.653	0.672	0.222
UKA (X2.3)	0.000	5.000	2.705	3.000	0.806
JDD (X2.4)	1.000	15.000	5.351	5.000	2.228
Tobin's Q (Y)	0.216	14.415	1.631	1.096	1.647
ROA (Z)	-0.682	0.492	0.048	0.049	0.103

Source: Processed Data, 2026

Note: PKI = proportion of independent commissioners; KI = institutional ownership; UKA = audit committee size; JDD = number of board of directors.

Based on the results of the descriptive statistical analysis, the research data shows fairly diverse values across companies during the 2020–2024 observation period. This variation indicates differences in the level of ESG disclosure, GCG implementation, profitability performance, and firm value among the companies sampled in this study.

Outer Model Test

Convergent Validity Test

The convergent validity test was carried out by examining the outer loading value of each indicator on its construct. An indicator is declared valid if it has an outer loading value > 0.7 , although at the early stages of instrument development, values of 0.5–0.6 may still be acceptable (Hardisman, 2021, 6–7).

Table 2. Outer Loading Results of the Convergent Validity Test Before Removing the G Score, KI, and JDD Indicators

Instrument	ESG (X1)	GCG (X2)	Firm Value	Profitability	Note
E Score (X1.1)	0.929				Valid
S Score (X1.2)	0.732				Valid
G Score (X1.3)	0.036				Invalid
PKI (X2.1)		0.814			Valid
KI (X2.2)		-0.028			Invalid
UKA (X2.3)		0.687			Valid
JDD (X2.4)		0.459			Invalid
Tobin's Q (Y)			1.000		Valid
ROA (Z)				1.000	Valid

Source: Processed Data, 2026

The initial test results show that several indicators had values below the specified threshold, namely the G Score, KI, and JDD indicators, so these indicators were eliminated from the research model.

Table 3. Outer Loading Results of the Convergent Validity Test After Removing the G Score, KI, and JDD Indicators

Instrument	ESG (X1)	GCG (X2)	Firm Value (Y)	Profitability (Z)	Note
E Score (X1.1)	0.930				Valid
S Score (X1.2)	0.733				Valid
PKI (X2.1)		0.913			Valid
UKA (X2.3)		0.602			Valid
Tobin's Q (Y)			1.000		Valid
ROA (Z)				1.000	Valid

Source: Processed Data, 2026

After removing the indicators, the test results show that all remaining indicators have an outer loading value above 0.7, thereby meeting the convergent validity criteria.

Convergent validity was also tested using the Average Variance Extracted (AVE) value. A construct is declared to have good convergent validity if it has an AVE value greater than 0.5.

Table 4. AVE Values for the Convergent Validity Test

Variable	Average Variance Extracted (AVE)	Note
ESG (X1)	0.702	Valid
GCG (X2)	0.598	Valid

The test results show that all research variables have an AVE value above 0.5, so it can be concluded that all constructs meet the convergent validity criteria.

Discriminant Validity Test

The discriminant validity test was carried out to ensure that each construct in the research model has a clear distinction from other constructs. This test was carried out through cross loading and the Fornell-Larcker criterion.

A factor is proven valid if its cross loading value is > 0.7 , or if the cross loading value on its own factor is greater than on other factors (Hardisman, 2021, 7).

Table 5. Cross Loading Results of the Discriminant Validity Test

Instrument	ESG (X1)	GCG (X2)	Firm Value (Y)	Profitability (Z)	Note
E Score (X1.1)	0.930	0.131	-0.005	0.299	Valid
S Score (X1.2)	0.733	0.184	-0.007	0.161	Valid
PKI (X2.1)	0.175	0.913	0.237	0.346	Valid
UKA (X2.3)	0.072	0.602	0.185	0.124	Valid
Tobin's Q (Y)	-0.007	0.271	1.000	0.317	Valid
ROA (Z)	0.291	0.602	0.317	1.000	Valid

Source: Processed Data, 2026

The cross loading test results show that each indicator has a higher correlation value with the construct it measures compared to other constructs.

Table 6. Fornell-Larcker Results of the Discriminant Validity Test

Instrument	ESG (X1)	GCG (X2)	Firm Value (Y)	Profitability (Z)	Note
ESG (X1)	0.838				Valid
GCG (X2)	0.173	0.774			Valid
Firm Value (Y)	-0.007	0.271	1.000		Valid
Profitability (Z)	0.291	0.335	0.317	1.000	Valid

Source: Processed Data, 2026

In addition, the test results using the Fornell-Larcker method show that the square root of the AVE value for each construct is greater than the correlation with other constructs. Thus, it can be concluded that all constructs in this study meet the discriminant validity criteria.

Reliability Test

The reliability test was conducted to determine the level of consistency of the indicators in measuring the research constructs. The reliability test was carried out by examining the Composite Reliability and Cronbach's Alpha values. Reliability generally lies between the Cronbach's Alpha (CA) value, which reflects the lower bound, and the Composite Reliability (CR) value, which reflects the upper bound. Thus, the CR value should be higher than the CA value (Hair et al., 2017, 137).

Table 7. Reliability Test Results

Instrument	Cronbach's Alpha	Composite Reliability (rho_c)	Description
ESG (X1)	0.604	0.823	Reliable
GCG (X2)	0.367	0.741	Reliable

Source: Processed Data, 2026

The test results show that all research variables have a Composite Reliability value greater than the Cronbach's Alpha value, so it can be concluded that the indicators used in this study have a good level of reliability.

Model Fit

The model fit test was carried out by examining the Standardized Root Mean Square Residual (SRMR) value. A model is considered feasible, or to show a good level of model fit, if the SRMR value is < 0.08, with a tolerance limit of up to < 0.1 (Hardisman, 2021, 75).

Table 8. SRMR Test Results Using the Model Fit Test

Parameter	Saturated Model	Estimated Model	Description
SRMR	0.095	0.095	Fit

Source: Processed Data, 2026

The test results show that the SRMR value in this study is below the specified threshold, so the research model is declared to have a good level of fit.

Inner Model Test

Coefficient of Determination (R^2)

The R-Square (R^2) value is used to measure the ability of the independent variables to explain the dependent variable in the research model. R^2 has a value between 0 and 1, with R^2 values of 0.75, 0.50, and 0.25 respectively indicating strong, moderate, and weak model categories (Hair et al., 2017, 209).

Table 9. R-Square (R^2) Values

Instrument	R-Square	Interpretation
Firm Value (Y)	0.145	Weak
Profitability (Z)	0.168	Weak

Source: Processed Data, 2026

Based on the R^2 test results, the R^2 value for the firm value variable is 0.145, and for profitability it is 0.168. These values indicate that the model's ability to explain firm value and profitability is still relatively low. This means that the research model is able to explain 14.5% of the variation in firm value and 16.8% of the variation in profitability, while the remainder is explained by other factors outside the model that may affect firm value and profitability.

Effect Size (f^2)

The effect size (f^2) test was conducted to determine the magnitude of the effect of each independent variable on the dependent variable. Based on the f^2 value, the magnitude of the effect can be categorized as no effect (< 0.02), small (0.02–0.15), medium (0.15–0.35), and large (≥ 0.35) (Hardisman, 2021, 11).

Table 10. Effect Size (f^2) Values

Instrument	ESG (X1)	GCG (X2)	Firm Value (Y)	Profitability (Z)
ESG (X1)			0.016	0.067
GCG (X2)			0.040	0.101
Firm Value (Y)				
Profitability (Z)			0.080	

Source: Processed Data, 2026

Based on the f^2 calculation results, the following results were obtained:

1. The effect of ESG on Firm Value ($f^2 = 0.016$). This value is lower than 0.02, reflecting that ESG has no effect on firm value. This means that the presence of the ESG variable in the model has not made a meaningful contribution to changes in firm value.
2. The effect of ESG on Profitability ($f^2 = 0.067$). This value falls within the range of 0.02–0.15, so it is categorized as a small effect. Thus, ESG makes a relatively small contribution to the variation in profitability.
3. The effect of GCG on Firm Value ($f^2 = 0.040$). This value falls within the small-effect category, indicating that GCG makes a limited contribution to explaining changes in firm value.
4. The effect of GCG on Profitability ($f^2 = 0.101$). This value also falls within the small-effect category. This means that GCG has a small contribution to fluctuations in profitability.
5. The effect of Profitability on Firm Value ($f^2 = 0.080$). This value falls within the small-effect category, so profitability makes a limited contribution to explaining variation in firm value.

Significance Test (Path Coefficient)

Hypothesis testing was carried out using path coefficient analysis to measure the strength of the relationship between constructs in the model. The significance test was carried out through a bootstrapping procedure with a two-tailed test type. Decisions regarding the hypotheses were determined based on a t-statistic value ≥ 1.96 at a 5% significance level ($\alpha = 0.05$) and a p-value < 0.05 , where a hypothesis is accepted if it meets these criteria (Hardisman, 2021, 11).

Table 11. Hypothesis Testing Through Path Analysis

Instrument	Original Sample (O)	Sample Mean (M)	Std. Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
ESG (X1) -> Firm Value (Y)	-0.124	-0.122	0.069	1.807	0.071
ESG (X1) -> Profitability (Z)	0.240	0.229	0.108	2.226	0.026
GCG (X2) -> Firm Value (Y)	0.197	0.194	0.087	2.264	0.024
GCG (X2) -> Profitability (Z)	0.294	0.290	0.058	5.027	0.000
Profitability (Z) -> Firm Value (Y)	0.287	0.291	0.071	4.058	0.000

Source: Processed Data, 2026

Based on the path coefficient analysis results in the table above, each relationship path can be interpreted as follows:

1. The effect of ESG Disclosure (X1) on Firm Value (Y): the path coefficient (O) was -0.124, the t-statistic was 1.807, and the p-value was 0.071, which is declared not significant. Because the t-statistic (1.807) is below 1.96 and the p-value exceeds 0.05, this indicates that ESG disclosure does not have a significant effect on firm value.
2. The effect of ESG Disclosure (X1) on Profitability (Z): the path coefficient (O) was 0.240, the t-statistic was 2.226, and the p-value was 0.026, which is declared significant. Because the t-statistic of 2.226 is higher than 1.96 and the p-value of 0.026 is below 0.05, this indicates that ESG disclosure has a significant effect on profitability.
3. The effect of GCG (X2) on Firm Value (Y): the path coefficient (O) was 0.197, the t-statistic was 2.264, and the p-value was 0.024, which is declared significant. Because the t-statistic of 2.264 is above 1.96 and the p-value of 0.024 is below 0.05, this indicates that GCG has a significant effect on firm value.
4. The effect of GCG (X2) on Profitability (Z): the path coefficient (O) was 0.294, the t-statistic was 5.027, and the p-value was 0.000, which is declared significant. Because the t-statistic of 5.027 exceeds 1.96 and the p-value of 0.000 is below 0.05, this means GCG has a significant effect on profitability.
5. The effect of Profitability (Z) on Firm Value (Y): the path coefficient (O) was 0.287, the t-statistic was 4.058, and the p-value was 0.000, which is declared significant. Because the t-statistic of 4.058 is above 1.96 and the p-value of 0.000 is below 0.05, this means profitability has a significant effect on firm value.

Furthermore, to determine whether profitability acts as a mediating variable, an indirect effect test was carried out, as shown in the following table.

Table 12. Specific Indirect Effect Bootstrapping Test Results

Instrument	Original Sample (O)	Sample Mean (M)	Std. Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
ESG (X1) -> Profitability (Z) -	0.069	0.066	0.036	1.927	0.054

Instrument	Original Sample (O)	Sample Mean (M)	Std. Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
> Firm Value (Y)					
GCG (X2) -> Profitability (Z) -> Firm Value (Y)	0.084	0.085	0.029	2.919	0.004

Source: Processed Data, 2026

Based on the specific indirect effect test results, the indirect effects can be explained as follows:

1. The effect of ESG Disclosure on Firm Value through Profitability shows a coefficient value of 0.069, with a t-statistic of 1.927 and a p-value of 0.054. Because the t-statistic is below 1.96 and the p-value exceeds 0.05, this indirect effect is not significant. This indicates that profitability is not yet able to act as a mediating variable between ESG disclosure and firm value.
2. The effect of GCG on Firm Value through Profitability shows a coefficient value of 0.084, with a t-statistic of 2.919 and a p-value of 0.004. A t-statistic exceeding 1.96 and a p-value below 0.05 indicate that this indirect effect is significant. Therefore, profitability can mediate the relationship between GCG and firm value.

Discussion

The Effect of ESG Disclosure on Company Profitability

The research results show that ESG disclosure has a significant effect on company profitability. This shows that companies that implement good sustainability practices tend to be able to improve operational efficiency and strengthen relationships with stakeholders. ESG implementation can also enhance a company's reputation, thereby having a positive impact on the company's financial performance.

This finding is in line with stakeholder theory, which states that companies that are able to meet stakeholder interests will gain support that can improve company performance. In addition, legitimacy theory also explains that ESG disclosure serves as a means for companies to gain social legitimacy. This research result is supported by the studies of Pangentas & Prasetyo (2023, 7), Jaya & Martadinata (2024, 68), and Subagio & Subagio (2025, 128), which show that ESG has a significant effect on profitability.

The Effect of GCG on Company Profitability

The research results show that GCG has a significant effect on company profitability. This indicates that the implementation of good corporate governance is able to improve management effectiveness, strengthen the oversight system, and minimize conflicts of interest between management and shareholders, thereby having an impact on improving the company's financial performance.

From the perspective of stakeholder theory, the implementation of GCG reflects a company's efforts to protect the interests of all stakeholders, thereby increasing trust and company performance. In addition, legitimacy theory explains that good governance can enhance a company's legitimacy in the eyes of the public. This result is in line with the studies of Hartanto, Trimurti, Adinegara & Nainggolan (2025, 688), Puspitaningrum & Indriani (2021, 12), and Aini, Haryati & Widodo (2025, 122), who found that GCG affects profitability.

The Effect of ESG Disclosure on Firm Value

The research results show that ESG disclosure does not have a significant effect on firm value. This indicates that investors in the Indonesian capital market have not fully made ESG disclosure a primary consideration in their investment decision-making. Investors still tend to focus on financial performance, such as profit and profitability, rather than non-financial information such as ESG.

This lack of significance can be explained by the fact that investors' level of understanding of ESG remains relatively low, so ESG information is not yet considered relevant in assessing a company's

prospects. In addition, ESG disclosure in Indonesia is still voluntary and not yet fully standardized, resulting in varying quality and consistency of the information presented across companies. On the other hand, ESG implementation is also often viewed as an additional short-term cost that has not been able to provide a direct impact on increasing firm value in the eyes of investors.

Based on stakeholder theory, ESG disclosure should ideally increase investor trust and impact firm value. However, in the context of this study, legitimacy theory explains that the legitimacy obtained through ESG disclosure has not yet been fully responded to by the market. This means that although companies have made efforts to obtain social legitimacy, the market has not fully appreciated these efforts in the form of increased firm value. This result is in line with the studies of Putri, Sukmadilaga & Cempaka (2025, 61), Romli & Abdurrohman (2024, 176), and Sumarno, Andayani, Prihatiningtias (2023, 59), who found that ESG has no significant effect on firm value.

The Effect of GCG on Firm Value

The research results show that GCG has a significant effect on firm value. This indicates that companies with good governance are able to increase transparency, accountability, and investor trust, thereby impacting the market's perception of the company.

This finding is consistent with stakeholder theory, which states that companies that are able to protect stakeholder interests will increase investor trust. In addition, legitimacy theory explains that GCG implementation can enhance a company's legitimacy in the eyes of the public. This result is supported by the studies of Sirkomba & Amirya (2023, 980), Hartanto, Trimurti, Adinegara & Nainggolan (2025, 685), and Alkhairani, Kamaliah & Rokhmawati (2020, 21), who show that GCG affects firm value.

The Effect of Profitability on Firm Value

The research results show that profitability has a significant effect on firm value. This shows that companies with a high level of profitability tend to have higher firm value because they are able to provide good returns to investors.

From the perspective of stakeholder theory, profitability reflects a company's success in meeting investor interests, thereby increasing trust in the company. Meanwhile, legitimacy theory explains that high profit is an indicator that a company has operated in accordance with public expectations. This result is in line with the studies of Awaliyah (2025, 2308), Masfiah & Sulistyowati (2025, 17), and Aini, Haryati & Widodo (2025, 120), who state that profitability affects firm value.

The Role of Profitability in Mediating the Effect of ESG Disclosure on Firm Value

The research results show that profitability is not able to mediate the effect of ESG disclosure on firm value. This indicates that although ESG disclosure has been proven to increase company profitability, this increase has not been able to translate into increased firm value in the eyes of investors. In other words, the indirect relationship between ESG and firm value through profitability was not proven to be significant, indicating that the financial performance generated from ESG practices is not yet strong enough to influence market perception.

This condition can be explained by the fact that investors still place greater emphasis on direct financial results compared to the underlying processes, including sustainability practices. Although ESG can improve operational efficiency and financial performance, this impact tends to be long-term in nature, so it has not been fully reflected in firm value during the research period. In addition, ESG disclosure that is not yet consistent or standardized also causes the information received by investors to be less than optimal in supporting investment decision-making.

Based on stakeholder theory, ESG disclosure should ideally be able to increase firm value through improved financial performance, as a form of fulfilling stakeholder interests. However, from the perspective of legitimacy theory, the legitimacy obtained through ESG practices has not been fully converted into economic value recognized by the market. This shows that although companies have obtained social legitimacy, the market has not fully responded in the form of increased firm value.

This research result is in line with the studies of Utami & Falah (2025, 464), Utami, Muhtadin & Firmansyah (2025, 11), and Siregar, Rasyad, Onasis & Hardi (2025, 186), who found that ESG has no direct effect on firm value and that the mediating role of profitability is not always significant.

The Role of Profitability in Mediating the Effect of GCG on Firm Value

The research results show that profitability is able to mediate the effect of GCG on firm value. This shows that good GCG implementation can improve a company's financial performance, which subsequently has an impact on increasing firm value.

This finding is in line with stakeholder theory, which states that good governance can increase stakeholder trust through improved company performance. In addition, legitimacy theory explains that GCG can strengthen a company's legitimacy, which has an impact on increasing firm value through profitability. This result is supported by the studies of Devi & Idris (2025, 2935), Hartanto, Trimurti, Adinegara & Nainggolan (2025, 687), and Alkhairani, Kamaliah & Rokhmawati (2020, 22), who found that profitability is proven to be able to mediate the effect of GCG on firm value.

Conclusion

Based on the research that has been conducted, the following conclusions can be drawn:

1. H1 is accepted: ESG disclosure has a significant effect on company profitability, indicating that sustainability practices are able to improve a company's financial performance.
2. H2 is accepted: GCG has a significant effect on company profitability, meaning that good governance implementation can improve the effectiveness of company management and performance.
3. H3 is rejected: ESG disclosure does not have a significant effect on firm value, indicating that investors have not fully taken ESG information into consideration when assessing a company.
4. H4 is accepted: GCG has a significant effect on firm value, indicating that good governance is able to increase investor trust and market perception.
5. H5 is accepted: profitability has a significant effect on firm value, meaning that financial performance is a key factor in determining firm value.
6. H6 is rejected: profitability is not able to mediate the effect of ESG disclosure on firm value, indicating that the improvement in financial performance from ESG is not yet strong enough to influence firm value.
7. H7 is accepted: profitability is able to mediate the effect of GCG on firm value, meaning that good governance can increase firm value through improved financial performance.

Recommendations

This study has several limitations, including a research object that focuses only on manufacturing companies listed on the Indonesia Stock Exchange, so the results cannot yet be generalized to other sectors. In addition, the variables used are still limited, so other factors outside the model that could influence firm value remain unexamined.

Based on these limitations, future research is recommended to expand the research object by including other industry sectors so that the results are more generalizable. In addition, future researchers could add other variables such as leverage, company size, or market performance to obtain more comprehensive results.

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