



## ESG Disclosure, Financial Performance, and Firm Value: The Mediating Role of Competitive Advantage

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### ABSTRACT

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Understanding how sustainability disclosure and financial performance shape firm value remains an important issue in corporate governance and capital market studies. The purpose of this research is to examine the influence of Environmental, Social, and Governance (ESG) disclosure and financial performance on firm value, with competitive advantage acting as a mediating variable. A quantitative approach was employed using panel data from 46 publicly listed companies over the 2021–2024 period. The analysis utilized panel regression combined with path analysis to evaluate both direct and indirect relationships among variables. The findings indicate that financial performance has a positive and significant effect on firm value, confirming its central role in determining market valuation. In contrast, ESG disclosure does not show a significant direct effect on firm value. Furthermore, ESG disclosure demonstrates a negative relationship with competitive advantage, while financial performance positively influences competitive advantage. Mediation analysis reveals that competitive advantage does not mediate the relationship between ESG disclosure and firm value but partially mediates the relationship between financial performance and firm value. These findings imply that companies should strengthen financial performance as a strategic foundation while integrating ESG practices more effectively to enhance long-term competitive positioning and firm value.

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## INTRODUCTION

Corporate disclosure has increasingly become a strategic signal used by investors to evaluate a company's prospects and performance in capital markets. Traditionally, investors relied primarily on financial performance indicators to assess the credibility and profitability of firms. However, the growing global

emphasis on sustainability has expanded this perspective, placing Environmental, Social, and Governance (ESG) practices at the center of corporate evaluation. The reason for this shift lies in the recognition that long-term corporate value is not only determined by short-term profitability but also by a company's ability to manage environmental risks, social responsibilities, and governance quality. Empirical evidence supports this transformation, as the Global Sustainable Investment Alliance (2022) reported that global sustainable investment assets reached USD 30.3 trillion, reflecting a significant increase of around 20 percent since 2020 outside the United States market. In addition, firms that consistently implement sustainability practices tend to demonstrate stronger resilience and superior long-term performance while contributing positively to environmental and social stability (Krueger et al., 2020). Consequently, ESG disclosure has become an increasingly important factor influencing investors' evaluation of corporate value.

Despite the increasing global recognition of sustainability principles, a gap remains between the ideal implementation of ESG practices and their actual realization within corporations. Ideally, companies are expected to integrate sustainability considerations into their operational and strategic decisions in order to enhance long-term competitiveness and stakeholder trust. The rationale behind this expectation lies in the growing pressure from regulators, investors, and society for businesses to operate responsibly and transparently. In Indonesia, regulatory frameworks have been established to encourage the adoption of sustainable finance practices, particularly through the issuance of Financial Services Authority Regulation No. 51/POJK.03/2017 concerning sustainable finance implementation for financial institutions, issuers, and public companies. This regulation was further strengthened by Circular Letter No. 16/SEOJK.04/2021, which obligates companies to prepare sustainability reports annually. However, implementation challenges persist, partly due to the economic disruptions caused by the COVID-19 pandemic, which delayed sustainability initiatives and reporting activities until 2021 (Aljohani et al., 2025). Therefore, although regulatory structures exist, the actual execution of ESG practices still varies significantly across companies.

From a theoretical perspective, the relationship between sustainability disclosure, financial performance, and corporate value can be explained through several fundamental frameworks in strategic management and corporate governance. Stakeholder Theory argues that companies must balance the interests of multiple stakeholders rather than focusing solely on shareholder wealth maximization. This perspective implies that firms should integrate environmental, social, and governance responsibilities into their strategies to maintain legitimacy and long-term relationships with stakeholders. In addition,

Signaling Theory suggests that companies convey information to the market to reduce information asymmetry and communicate their true quality to investors. Within this context, both ESG disclosure and financial performance serve as signals that influence investor perceptions of corporate value. Firm value itself represents the market's overall assessment of a company's ability to generate sustainable profitability and future growth, often reflected through stock price movements in capital markets (Zhang et al.,2025). Accordingly, these theoretical perspectives provide a conceptual foundation for examining the interconnected roles of ESG, financial performance, and firm value.

Several empirical studies have investigated the relationship between ESG disclosure, financial performance, and firm value, producing varying results. Some research highlights the dominant role of financial performance in determining corporate valuation in capital markets. For instance, Su et al., (2025) found that financial performance has a positive and significant influence on firm value, while ESG disclosure shows a negative but insignificant relationship. The underlying reasoning behind these findings suggests that investors in certain markets may still prioritize traditional financial indicators over sustainability information when evaluating corporate prospects. Supporting this argument, firm value is widely considered a key indicator of public confidence in a company's capability to generate profits and maintain long-term performance, as reflected in market price fluctuations (Tandiawan et al., 2025). These results indicate that while ESG disclosure is increasingly recognized in theory, financial performance remains a primary determinant of firm value in many empirical contexts.

Other studies, however, reveal different patterns, indicating that ESG practices may positively influence corporate valuation under certain conditions. Research conducted by Su et al. (2025) and Cheng et al. (2024) demonstrates that ESG disclosure can have a positive and significant impact on firm value, whereas financial performance may exhibit a negative but insignificant effect. These findings suggest that sustainability initiatives may enhance corporate reputation, legitimacy, and stakeholder trust, which ultimately strengthens firm valuation. Nevertheless, the inconsistency of empirical results across studies indicates the presence of a research gap in understanding how ESG disclosure and financial performance interact to influence firm value. Differences in industry characteristics, firm size, regulatory pressure, and the maturity of ESG implementation may contribute to these divergent findings. Therefore, further investigation is required to clarify the mechanisms through which both financial and non-financial indicators shape corporate value, particularly by incorporating additional variables that may explain the relationship between ESG practices and firm valuation.

Within this context, competitive advantage emerges as a potentially important mediating factor that can clarify the relationship between ESG practices, financial performance, and firm value. Competitive advantage refers to a firm's strategic position in which it possesses capabilities or resources that are difficult for competitors to imitate, allowing the company to achieve superior performance over time. When organizations effectively integrate sustainability initiatives and financial strength into their strategies, these elements may enhance differentiation, efficiency, and stakeholder trust, which collectively strengthen their competitive position in the market. Companies that succeed in transforming internal resources and strategic initiatives into distinctive advantages are more likely to expand market share, attract investors, and maintain long-term profitability. Consequently, competitive advantage may act as a strategic bridge linking internal performance indicators and external market valuation (Indriyani et al., 2025).

Based on the issues described above, it becomes important to examine how financial and non-financial performance indicators simultaneously influence firm value within sectors that have substantial environmental and economic impacts. Infrastructure, property and real estate, as well as transportation and logistics industries represent sectors that rely heavily on large-scale resource utilization and long-term investment decisions. These sectors are closely associated with environmental challenges, operational efficiency, and sustainable development considerations. Consequently, companies operating within these industries face increasing expectations from investors and stakeholders to demonstrate responsible practices while maintaining strong financial performance. Understanding how sustainability disclosure and financial capability contribute to firm value within these sectors is therefore essential for evaluating corporate strategies and improving long-term competitiveness.

In light of these considerations, the present study investigates the influence of ESG disclosure and financial performance on firm value by incorporating competitive advantage as a mediating variable. The research seeks to analyze whether financial and sustainability indicators can simultaneously shape corporate valuation through strategic advantages possessed by companies. By examining the interrelationships among these variables, the study aims to provide a more comprehensive understanding of the mechanisms linking sustainability practices, financial outcomes, and firm value. To achieve this objective, a quantitative research approach is employed to test the causal relationships among variables and evaluate both direct and indirect effects within the proposed conceptual framework. This methodological approach enables the empirical verification of theoretical assumptions regarding the strategic role of ESG practices, financial performance, and competitive advantage in determining firm value.

## **Literature Review**

### **Signaling Theory**

Signaling Theory was initially introduced by Spence (1973) to explain how information can be used to convey the true condition of an organization to external parties despite the presence of uncertainty and information asymmetry. In corporate settings, managers possess more complete knowledge about the company's internal conditions compared to external stakeholders such as investors. This imbalance of information creates uncertainty in the market regarding the firm's actual performance and future prospects. To reduce this information asymmetry, companies provide signals through observable actions or disclosures that reflect their real conditions.

According to signaling theory, firms with superior quality are more likely to send positive signals to the market through transparent information disclosure. These signals help investors evaluate a company's growth potential and long-term sustainability, thereby influencing investment decisions. Corporate disclosures such as financial reports, sustainability reports, and ESG information are considered credible signals that indicate the firm's operational performance and governance quality. Consequently, the availability of reliable information enables investors to make more accurate assessments regarding corporate value and long-term prospects (Han & Wu, 2024).

### **Stakeholder Theory**

Stakeholder Theory was first introduced by Freeman in 1984, emphasizing that companies have responsibilities not only to shareholders but also to various stakeholders who are directly or indirectly affected by corporate activities. These stakeholders include employees, customers, suppliers, governments, investors, and local communities. The theory highlights that corporate success cannot be evaluated solely based on financial performance but must also consider the social and environmental impacts generated by the organization.

Within this framework, firms are expected to balance economic objectives with social responsibilities by maintaining ethical practices, transparency, and accountability toward stakeholders. The ability of companies to maintain positive relationships with stakeholders is considered an essential factor in sustaining long-term organizational performance. Therefore, implementing ESG practices can be viewed as a strategic approach to fulfilling stakeholder expectations while simultaneously strengthening corporate reputation and legitimacy (Kandpal et al., 2024).

## **Resource-Based Theory**

Resource-Based Theory (RBT) proposed by Barney (1991) explains that sustainable competitive advantage originates from a firm's internal resources that are valuable, rare, inimitable, and non-substitutable. According to this perspective, organizations that effectively manage their internal resources can achieve superior performance compared to competitors. These resources may include tangible assets, intangible assets, organizational processes, knowledge, and managerial capabilities that enable firms to differentiate themselves in competitive markets.

Furthermore, Fahy (2000) classifies resources into three primary categories: tangible assets, intangible assets, and organizational capabilities. Capabilities refer to a company's ability to coordinate and utilize resources effectively through aspects such as organizational culture, teamwork, communication skills, and collaborative practices. Firms that successfully transform these resources into strategic advantages are more likely to develop sustainable competitive advantage, which ultimately contributes to improved performance and long-term firm value.

## **ESG (Environmental, Social, and Governance)**

Environmental, Social, and Governance (ESG) has become an important concept in global business and investment practices. ESG encompasses three main pillars—environmental responsibility, social responsibility, and corporate governance—that are used to evaluate the sustainability and ethical impact of corporate activities. In recent years, investors have increasingly considered ESG performance alongside traditional financial indicators when making investment decisions due to its potential long-term implications for corporate sustainability (Kräussl, et al., 2024).

The ESG concept is closely related to the Triple Bottom Line framework introduced by Elkington (1998), which emphasizes that business success should not be measured solely by economic profit but also by social responsibility (people) and environmental preservation (planet). This holistic approach highlights that companies capable of balancing economic, social, and environmental dimensions are more likely to achieve sustainable growth and long-term value creation.

## **Financial Performance**

Financial performance represents the ability of a company to achieve its financial objectives through effective management of financial resources. It reflects management's success in utilizing assets, controlling costs, and generating profits within a certain period (Rafique et al., 2025). Financial

performance is commonly evaluated through financial statements that provide detailed information regarding assets, liabilities, revenues, expenses, and cash flows, enabling stakeholders to assess the company's financial health (Bhagavath & Sasirekha, 2025).

One widely used indicator for measuring financial performance is Return on Assets (ROA), which measures a company's efficiency in generating net profit from its total assets. A higher ROA indicates that the firm is more effective in utilizing its resources to produce profits. Strong financial performance sends a positive signal to investors regarding the company's operational efficiency and profitability potential, thereby increasing investor confidence and improving market valuation.

### **Firm Value**

Firm value reflects the market's overall assessment of a company's performance and future growth prospects. It is often considered an important indicator of public confidence in the company's ability to generate sustainable profitability and maintain long-term performance (Kayani et al., 2024). High firm value indicates that investors perceive the company as having strong growth potential and effective management strategies, which in turn increases shareholder wealth.

For investors, firm value serves as both a reflection of past performance and an indicator of future expectations. One commonly used proxy to measure firm value is Tobin's Q (Tharavanij, 2024). This ratio compares the market value of a firm's assets with their replacement cost, providing a comprehensive indicator of corporate performance. When the value of Tobin's Q exceeds one, it suggests that the market values the company higher than the cost of its assets, indicating the creation of economic value for shareholders.

### **Competitive Advantage**

Competitive advantage refers to a firm's ability to operate more efficiently or effectively than its competitors, enabling it to achieve superior performance and maintain a stronger position in the market (Novitasari & Agustia, 2023). Organizations that possess unique resources and capabilities can develop strategies that are difficult for competitors to imitate, thereby achieving sustainable competitive advantage.

Companies are more likely to obtain competitive advantage when they possess strong social capital, innovative capabilities, and strategic resource management. These factors allow firms to respond more effectively to market changes and develop distinctive attributes that differentiate them from competitors. Organizational capabilities such as teamwork, communication skills, and collaborative culture also contribute significantly to strengthening a company's competitive position in dynamic business environments.

## **Hypothesis Development**

### **ESG and Firm Value**

ESG disclosure helps companies meet stakeholder expectations while strengthening corporate reputation and reducing potential risks. Firms that consistently implement strong ESG practices are more likely to enhance corporate resilience, improve transparency, and gain investor trust. In addition, companies with strong ESG performance often demonstrate greater competitiveness in global markets, which can support sustainable financial performance and long-term profitability (Prayogo et al., 2023).

Empirical evidence suggests that ESG disclosure positively influences firm value because investors increasingly consider sustainability information when evaluating corporate performance. Transparent ESG reporting improves corporate credibility and signals responsible management practices, thereby strengthening market perception and increasing firm value (Agbakwuru et al., 2024).

**H1:** ESG disclosure positively affects firm value.

### **Financial Performance and Firm Value**

Financial performance plays a crucial role in determining firm value because investors often rely on financial indicators to evaluate corporate viability and profitability potential. Companies with strong financial performance are more capable of generating higher returns, which attracts investors and increases demand for their shares (Al-Omari et al., 2024).

Research conducted by Al-Omari et al. (2024) shows that financial performance has a positive effect on firm value. Higher profitability, as reflected by ROA, tends to increase stock prices and market valuation. Similarly, Adamu & Hamidah, (2024) found that firms with higher ROA levels are perceived as financially healthier and more efficient, which ultimately enhances their firm value.

**H2:** Financial performance positively affects firm value.

### **ESG and Competitive Advantage**

Companies that actively engage in environmental, social, and governance initiatives tend to receive positive responses from stakeholders, which may strengthen their competitive position in the market. ESG practices can improve corporate reputation, increase stakeholder trust, and create differentiation compared to competitors (Novitasari & Agustia, 2023).

Empirical findings from Rohendi et al. (2024) indicate that ESG disclosure positively influences competitive advantage. By disclosing ESG activities, companies develop unique organizational attributes that are difficult for competitors to replicate, thereby enhancing their strategic positioning and long-term competitiveness.

**H3:** ESG disclosure positively affects competitive advantage.

### **Financial Performance and Competitive Advantage**

Financial performance can also contribute to the development of competitive advantage because firms with strong profitability have greater resources to invest in innovation, operational efficiency, and strategic initiatives. According to Resource-Based Theory, organizations that possess valuable resources and capabilities are more likely to achieve sustainable competitive advantage.

Research conducted by Riyanti et al. (2025) shows that profitability, measured by ROA, positively influences competitive advantage. Firms that generate higher profits are able to strengthen their market position, improve operational capabilities, and achieve superior performance compared to competitors.

**H4:** Financial performance positively affects competitive advantage.

### **Competitive Advantage as a Mediator**

Competitive advantage can strengthen a company's reputation and credibility in the eyes of investors, governments, and other stakeholders. A strong competitive position enables firms to expand market share, attract investment, and reduce risks associated with regulatory and social pressures.

Empirical studies indicate that competitive advantage can mediate the relationship between sustainability practices, financial performance, and firm value. Rohendi et al. (2024) found that competitive advantage mediates the influence of ESG disclosure on firm value. Similarly, Badawi et al. (2024) demonstrated that competitive advantage fully mediates the relationship between profitability (ROA) and firm value. These findings suggest that competitive advantage acts as an important mechanism linking both financial and non-financial performance to firm value.

**H5:** Competitive advantage mediates the relationship between ESG disclosure and firm value.

**H6:** Competitive advantage mediates the relationship between financial performance and firm value.

## RESEARCH METHODS

### Research Design, Participants, and Sampling

This study employs a causal associative research design with a quantitative approach to examine the relationships among multiple variables. Specifically, the research analyzes the effect of Environmental, Social, and Governance (ESG) disclosure and financial performance on firm value, with competitive advantage serving as a mediating variable. The study utilizes panel data, which combines time-series and cross-sectional data to provide more comprehensive empirical analysis (Madany et al., 2022).

The population consists of 199 companies listed on the stock exchange within the infrastructure, property and real estate, and transportation and logistics sectors. The sampling technique used is purposive sampling, where samples are selected based on specific criteria that align with the research objectives. After applying the selection criteria, 46 companies were identified as eligible samples over a four-year observation period, resulting in 184 total observations.

**Table 3.1. Sampling Criteria**

No	Description	Total
1	Population (Infrastructure; Property and Real Estate; Transportation and Utilities companies listed on the stock exchange)	199
2	Companies not consistently listed during the 2021–2024 period	(42)
3	Companies that did not disclose ESG information in sustainability reports according to the Global Reporting Initiative (GRI) standards during 2021–2024	(110)
4	Companies without complete financial and stock price data during 2021–2024	(20)
5	Extreme data categorized as outliers	(20)
	Final number of companies meeting the criteria	46
	Research period	4
	Total observations	184

### Measures and Data Collection Procedure

This study includes several variables, namely ESG disclosure, financial performance, competitive advantage, firm value, firm size, and firm age. ESG disclosure is measured using an ESG disclosure index based on the proportion of disclosed items compared to the maximum disclosure items (Kumar, 2024). Financial performance is proxied by Return on Assets (ROA), which reflects the company's ability to generate profit from its assets. Competitive advantage is measured using the difference between Return on Invested Capital (ROIC) and Weighted Average Cost of Capital (WACC).

Firm value is measured using Tobin's  $Q$ , which reflects the market valuation of the company relative to its assets. In addition, firm size and firm age are included as control variables. Firm size is measured using the natural

logarithm of total assets, while firm age is calculated based on the difference between the year of establishment and the observation year. The study uses secondary data obtained from annual reports, sustainability reports, and financial statements of the sampled companies.

## Data Analysis

Data analysis was conducted using path analysis with panel data regression to examine the relationships among variables (Basuki, 2021). The analysis was performed using EViews 12. Model selection was determined using the Chow test, Hausman test, and Lagrange Multiplier (LM) test to identify the most appropriate panel data model.

After selecting the best model, classical assumption tests including multicollinearity and heteroskedasticity tests were performed. Hypothesis testing was conducted using the t-test to examine partial effects, the Sobel test to test the mediating role of competitive advantage, and the Adjusted R<sup>2</sup> to evaluate the explanatory power of the model (Basuki, 2021).

## RESULTS AND DISCUSSION

### Results

#### Descriptive Statistics

Table 4.1. Descriptive Statistics

	TOBINS'Q	ESG	ROA	CA	FAGE	FSIZE
Minimum	0.163760	0.119660	-0.418790	-0.185010	8.000000	25.08115
Maximum	7.527690	0.949580	0.349510	0.260350	140.0000	33.33372
Median	0.977775	0.521190	0.025290	-0.019705	33.00000	30.15379
Mean	1.231791	0.553247	0.024285	-0.008156	35.36957	29.99825
Std.Dev	0.945525	0.177219	0.081257	0.057341	22.23089	1.742485
Observations	184	184	184	184	184	184

Source: Processed data using EViews 12

Based on Table 4.1, the descriptive statistics of 184 observations show that Tobin's Q has a mean value of 1.231791 with a minimum of 0.163760 and a maximum of 7.527690, indicating variation in firm value among the sampled companies. ESG disclosure has an average value of 0.553247 with a standard deviation of 0.177219, reflecting a moderate distribution of ESG disclosure levels. The ROA variable shows an average value of 0.024285 with a minimum of -0.418790 and a maximum of 0.349510, indicating differences in profitability across firms. Competitive advantage has an average value of -0.008156 with a

standard deviation of 0.057341, suggesting that the data are relatively concentrated around the mean. Meanwhile, the control variables firm age and firm size have mean values of 35.36957 and 29.99825 respectively, with relatively smaller variability, particularly for firm size.

### Panel Data Regression Model Selection

Panel regression model selection was conducted using the Chow test, Hausman test, and Lagrange Multiplier test to determine the most appropriate estimation model.

**Table 4.2. Model Selection**

Model Selection	Chow Test	Hausman Test	Lagrange Multiplier	Result
Model 1	Prob. 0.000 < 0.05	Prob. 0.6003 > 0.05	Prob. 0.001 < 0.05	REM
Model 2	Prob. 0.000 < 0.05	Prob. 0.0428 < 0.05	-	FEM

Source: Processed data using EViews 12

The results indicate that Model 1 uses the Random Effect Model (REM), while Model 2 applies the Fixed Effect Model (FEM). These models are considered the most appropriate estimation approaches for each regression.

### Classical Assumption Tests

Classical assumption testing for the FEM model includes multicollinearity and heteroskedasticity tests, while the REM model does not require classical assumption testing (Napitupulu et al., 2021).

**Table 4.3. Classical Assumption Tests**

Variable	Multicollinearity	Heteroskedasticity		
	ESG	ROA	CA	Prob. Obs *R Squared
ESG	1.000000	-0.032404	-0.310843	0.5630
ROA	-0.032404	1.000000	0.407220	
CA	-0.310843	0.407220	1.000000	

Source: Processed data using EViews 12

The multicollinearity test shows that the correlation values among ESG, ROA, and CA are below 0.80, indicating no multicollinearity problem. The heteroskedasticity test using the White test shows a probability value of 0.5630 (>0.05), indicating that the model does not suffer from heteroskedasticity.

## Hypothesis Testing

Table 4.4. Hypothesis Testing

Model	Variable	Coefficient ( $\beta$ )	Std. Error	t-Statistic	Prob	
2	Constant	-7.836270	2.731381	-2.868978	0.0048	
	ESG	-0.054690	0.034234	-1.597553	0.1125	
	ROA	0.019832	0.007083	2.800144	0.0059	
	CA	-0.048678	0.016765	-2.903548	0.0043	
	FAGE	-0.422911	0.074535	-5.673993	0.0000	
	FSIZE	2.699559	0.864376	3.123130	0.0022	
	R-Square	0.908407	Mean dependent var	-0.327768		
	Adjusted R-Square	0.873974	S.D. dependent var	1.747963		
	S.E. of regression	0.419900	Akaike info criterion	23.45005		
	F-Statistic	26.38157	Durbin-Watson stat	2.411045		
	Prob (F-Statistic)	0.000000				
	1	Constant	10.23096	3.959632	2.583816	0.0014
		ESG	-0.412225	0.155870	-2.644663	0.0089
ROA		0.227730	0.045308	5.026320	0.0000	
FAGE		0.080079	0.118966	0.673128	0.5017	
FSIZE		-3.976324	1.218494	-3.263311	0.0013	
R-Square		0.252275	Mean dependent var	-2.291785		
Adjusted R-Square		0.235566	S.D. dependent var	0.691301		
S.E. of regression		0.604419	Akaike info criterion	65.39261		
F-Statistic		15.09818	Durbin-Watson stat	2.035544		
Prob (F-Statistic)		0.000000				

Source: Processed data using EViews 12

Panel data regression combined with path analysis was used to evaluate both direct and indirect relationships among variables.

The regression equation for Model 1 is:

$$CA = 10.230 - 0.4122 ESG + 0.2277 ROA + 0.0800 FA - 3.9763 FS + e$$

The results indicate that ESG has a negative and significant effect on competitive advantage, while ROA has a positive and significant effect. Firm age does not show a significant effect, whereas firm size has a significant negative effect on competitive advantage.

The regression equation for Model 2 is:

$$TOBINSQ = -7.8363 - 0.0547 ESG + 0.0198 ROA - 0.0486 CA - 0.4229 FA + 2.6995 FS + e$$

The results show that ESG does not significantly affect firm value. ROA has a positive and significant effect on firm value, while competitive advantage has a negative and significant effect. Among the control variables, firm age negatively affects firm value, whereas firm size has a positive and significant effect.

### **Coefficient of Determination**

The adjusted R-squared value of Model 1 is 0.235566, indicating that ESG, ROA, and the control variables explain 23.55% of the variation in competitive advantage, while the remaining 76.45% is explained by other variables outside the model.

In Model 2, the adjusted R-squared value is 0.873974, indicating that ESG, ROA, competitive advantage, firm age, and firm size explain 87.39% of the variation in firm value, while the remaining 12.61% is explained by other factors.

### **Sobel Test**

The Sobel test was conducted to examine the mediating role of competitive advantage.

The Sobel test result for the relationship between ESG and firm value through competitive advantage shows a t-value of 1.894, which is smaller than the t-table value of 1.973. This indicates that competitive advantage does not mediate the relationship between ESG and firm value.

In contrast, the Sobel test for the relationship between financial performance and firm value through competitive advantage produces a t-value of 2.4765, which is greater than the t-table value of 1.973. This result indicates that competitive advantage mediates the relationship between financial performance and firm value.

## **Discussion**

### **The Effect of Environmental, Social, and Governance on Firm Value**

The hypothesis testing results indicate that ESG has a probability value of 0.1125 ( $> 0.05$ ) with a coefficient of  $-0.054690$  and a t-statistic of  $-1.597553$ , which is lower than the t-table value. These findings show that ESG disclosure does not have a significant effect on firm value. This result suggests that ESG practices have not yet aligned with stakeholder expectations and are often perceived as regulatory compliance through sustainability reporting rather than as strategic initiatives that enhance firm value. Previous studies report that the average ESG performance score of Indonesian companies remains relatively low, indicating limited implementation and disclosure practices (Rahmaniati et al., 2024). In addition, ESG disclosure may not be considered a primary factor in investment

decision-making, contradicting signaling theory, as investors tend to prioritize financial information that directly affects profitability (Prayogo et al., 2023). Consequently, ESG initiatives are sometimes viewed as additional costs that may reduce short-term profitability and investor interest. These findings are consistent with previous studies conducted by (Prayogo et al., 2023).

### **The Effect of Financial Performance on Firm Value**

The hypothesis testing results show that ROA has a probability value of 0.0059 ( $< 0.05$ ) with a coefficient of 0.019832 and a t-statistic of 2.800144, which is higher than the t-table value. This indicates that financial performance has a positive and significant effect on firm value. The findings imply that higher profitability increases market appreciation and investor confidence in the company. From the perspective of signaling theory, strong financial performance provides a positive signal to investors regarding the firm's ability to generate returns and manage its resources efficiently. Companies with higher ROA demonstrate effective asset utilization, which strengthens market perceptions and ultimately increases firm value as reflected in Tobin's Q (Tharavanij, 2024). These results are consistent with prior studies by (Aprilia & Wahjudi, 2021).

### **The Effect of Environmental, Social, and Governance on Competitive Advantage**

The results show that ESG has a probability value of 0.0089 ( $< 0.05$ ) with a coefficient of  $-0.412225$  and a t-statistic of  $-2.644663$ , indicating a negative and significant effect on competitive advantage. This finding suggests that the implementation of ESG practices may require substantial investment and operational costs, which can reduce short-term strategic performance. Since competitive advantage in this study is measured through value creation relative to the cost of capital, increased ESG-related expenses may reduce the calculated competitive advantage if they are not accompanied by proportional returns. According to (Meilanda et al., 2025), ESG has not yet functioned as a strategic resource within the framework of Resource-Based Theory because many firms still treat ESG disclosure as a formality rather than integrating it into their core business strategies. Consequently, ESG initiatives have not yet demonstrated a direct role in strengthening firms' competitive positioning.

### **The Effect of Financial Performance on Competitive Advantage**

The hypothesis testing results show that ROA has a probability value of 0.0000 ( $< 0.05$ ) with a coefficient of 0.227730 and a t-statistic of 5.026320, indicating a positive and significant effect on competitive advantage. This result suggests that improved financial performance strengthens a firm's competitive position.

According to Resource-Based Theory (Barney, 1991), competitive advantage arises from a firm's ability to effectively utilize its internal resources and capabilities. Higher profitability provides firms with greater capacity to invest in innovation, strategic development, and service quality, which contribute to sustainable competitive advantage. Firms with strong financial performance are therefore more capable of expanding market share and maintaining competitiveness in dynamic markets (Pertwi et al., 2025). These findings are consistent with previous research by (Pertwi et al., 2025).

### **The Mediating Role of Competitive Advantage in the Relationship between ESG and Firm Value**

The Sobel test results show a t-value of 1.894, which is lower than the t-table value of 1.973, indicating that competitive advantage does not mediate the relationship between ESG and firm value. This finding implies that although ESG reflects a firm's commitment to sustainability and responsible governance, its impact has not yet been translated into increased firm value through competitive advantage. One possible explanation is that ESG disclosure in many companies remains voluntary and symbolic, rather than strategically integrated into core business operations. Furthermore, sustainability initiatives often require substantial long-term investments, meaning their benefits may not be immediately reflected in competitive performance or firm value (Meilanda et al., 2025). This result is consistent with previous studies conducted by (Meilanda et al., 2025).

### **The Mediating Role of Competitive Advantage in the Relationship between Financial Performance and Firm Value**

The Sobel test results show a t-value of 2.4765, which is higher than the t-table value of 1.973, indicating that competitive advantage partially mediates the relationship between financial performance and firm value. This finding suggests that strong financial performance not only directly increases firm value but also strengthens competitive advantage, which subsequently enhances firm value. Firms with higher profitability possess stronger resources and capabilities to invest in strategic initiatives, innovation, and operational improvements that support long-term competitiveness. This mechanism is consistent with both Resource-Based Theory (Barney, 1991) and signaling theory, where strong financial performance signals organizational strength and growth potential to investors. Consequently, firms with better financial performance tend to have stronger competitive positions and higher firm value. These results are consistent with the findings of (Sinulingga et al., 2023).

## CONCLUSION

This study highlights that financial performance remains the most critical determinant of firm value, particularly in the infrastructure, property and real estate, as well as transportation and logistics sectors. The findings indicate that Environmental, Social, and Governance (ESG) disclosure does not have a significant direct effect on firm value, suggesting that ESG activities have not yet generated immediate economic benefits in industries characterized by high operational complexity and capital intensity. In contrast, financial performance measured by ROA shows a positive and significant influence on firm value, implying that investors still prioritize profitability and efficient asset utilization when assessing corporate performance. In addition, competitive advantage is proven to significantly mediate the relationship between financial performance and firm value, indicating that strong profitability not only directly increases firm value but also strengthens a firm's competitive position through the effective management of internal resources. From an academic perspective, this study contributes to the literature by integrating ESG, financial performance, and competitive advantage within a panel data framework, thereby providing empirical evidence on how competitive advantage functions as an important mechanism in linking financial performance to firm value.

Despite these contributions, this study has several limitations that should be considered in future research. First, the measurement of ESG relies on available disclosure scores, which may not fully capture the depth and effectiveness of sustainability practices implemented by firms. Second, the study focuses only on specific sectors, which may limit the generalizability of the findings to other industries with different characteristics. Third, the research period and the set of explanatory variables remain relatively limited. Therefore, future studies are encouraged to employ more comprehensive ESG indicators, incorporate additional non-financial variables, and expand the sectoral and temporal scope of the analysis. Such approaches are expected to provide a deeper understanding of the role of ESG and financial performance in enhancing firm value, as well as to further explore the strategic role of competitive advantage in the capital market context.

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