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Analysis of the Relationship Between ESG and Firm Value with the Moderating Role of Earnings Management

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Abstract

Background: Environmental, Social, and Governance (ESG) has become an increasingly important non-financial factor in assessing corporate sustainability and long-term performance.
Objective: This research seeks to analyze the impact of Environmental, Social, and Governance (ESG) factors on corporate value and to explore the role of earnings management as a moderating variable in the relationship between ESG and firm value.
Methods: This research utilizes a quantitative methodology, drawing on panel data from consumer goods firms listed on the Indonesia Stock Exchange for the period spanning 2022 to 2025. The sample comprises 31 companies, yielding 124 firm-year observations, which were selected through purposive sampling. Environmental, Social, and Governance (ESG) performance is assessed via a disclosure index aligned with the Global Reporting Initiative (GRI) standards, while firm value is represented by Tobin's Q.
Results: This finding indicates that investors and consumers in the consumer goods sector continue to place greater emphasis on financial performance, product quality, price, and brand reputation than on sustainability-related information. Furthermore, earnings management is not proven to moderate the relationship between ESG and firm value. This study contributes to the literature by highlighting that the effectiveness of ESG in enhancing firm value depends not only on disclosure practices but also on market characteristics, investor perceptions, consumer behavior, and the firm's ability to integrate sustainability initiatives into business strategies that generate tangible economic benefits.
Conclusion: The findings provide implications for managers and regulators in improving the quality of ESG implementation and ensuring that sustainability practices contribute to long-term value creation.

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INTRODUCTION

Firm value has become an increasingly critical concern in the context of shifting global economic conditions and heightened financial market uncertainty. The escalation of global interest rates, mounting inflationary pressures, and geopolitical instabilities have collectively amplified volatility in financial markets, rendering investors considerably more selective in their evaluation of corporate performance and prospects. A report by the International Monetary Fund (2023) confirms that prevailing global uncertainties and restrictive monetary policies have exerted notable adverse effects on financial market stability and corporate valuations. These dynamics are equally pertinent to the Indonesian capital market, where fluctuations in the

Composite Stock Price Index (CSPI) over the 2020–2024 period mirrored the cumulative impact of the Covid-19 pandemic, global economic headwinds, and adjustments in interest rate policies (Indonesia Stock Exchange Activities, 2024). Concurrently, the Indonesian investor base expanded substantially, surpassing 10 million participants in 2023, with retail investors comprising the dominant segment (Indonesia, 2023). This demographic shift may have amplified stock price sensitivity to market sentiment and near-term informational cues, thereby elevating firm value as a subject warranting deeper academic scrutiny.

This issue is especially salient within the consumer goods sector. Although enterprises in this sector are broadly categorized as defensive in nature due to the essential and recurrent character of their products, firm value within the sector has nevertheless exhibited marked variability. PT Unilever Indonesia Tbk (UNVR), for instance, recorded a substantial contraction in its share price in the aftermath of 2020, whereas PT Indofood CBP Sukses Makmur Tbk (ICBP) and PT Mayora Indah Tbk (MYOR) demonstrated comparatively resilient performance by pursuing product diversification and geographic market expansion. Such divergences underscore the notion that firm value is not exclusively dictated by the defensive industry profile, but is also shaped by financial performance, market perceptions, non-financial disclosures, and managerial conduct. Accordingly, identifying the determinants of firm value variation remains a pressing priority, particularly within the Indonesian consumer goods sector.

One increasingly consequential non-financial dimension in corporate assessment is Environmental, Social, and Governance (ESG). ESG encompasses an organization's practices pertaining to environmental stewardship, social responsibility, and governance standards, and is increasingly incorporated into evaluations of corporate sustainability and long-term viability. Drawing on stakeholder theory, enterprises that attend to the interests of their diverse stakeholders through responsible conduct are better positioned to reinforce legitimacy, enhance reputation, and cultivate stakeholder trust (Donaldson & Preston, 1995; Freeman, 1984; Mahajan et al., 2023). It follows that ESG disclosure may serve as a credible signal of management quality and organizational commitment to sustainability, potentially alleviating information asymmetry and bolstering investor confidence. A number of studies have documented a positive association between ESG performance and firm value. Hidayat et al. (2026) and Mahmood et al. (2026), for example, established that ESG-oriented practices and reporting can contribute to higher firm valuations through enhanced transparency and stronger stakeholder relationships.

Nevertheless, the empirical landscape regarding the ESG–firm value nexus remains ambiguous. Yori and Rahmawati (2025) and Prabawati and Rahmawati (2022) identified a negative association between ESG and firm value, while Hariyanto and Ghozali (2024) reported that the effects of individual ESG dimensions are not uniformly significant. Such inconsistencies imply that ESG disclosure does not automatically translate into superior market valuations. Gillan et al. (2021) emphasize that the economic ramifications of ESG are context-sensitive, contingent upon industry characteristics, institutional environments, capital market maturity, and investor orientations (Branco, 2024; Simone, 2026). In emerging market contexts, ESG-related activities may entail substantial upfront costs, with their economic returns manifesting only over extended time horizons (Branco, 2024). Consequently, the degree to which ESG disclosure enhances firm value may depend on the interpretive frameworks employed by investors and the extent to which companies successfully embed ESG principles within their core business strategies.

The persistence of mixed empirical findings additionally signals the need to account for managerial behavior when examining the ESG–firm value relationship. Earnings management constitutes a form of managerial discretion in financial reporting and may arise from information asymmetry and conflicts of interest between principals and agents (Bansal, 2024; Healy & Wahlen, 1999; Jensen & Meckling, 1976; Stevens et al., 2026). Such practices are capable of eroding the reliability of financial disclosures and heightening uncertainty regarding reported corporate performance. Prior scholarship has demonstrated that earnings management can exert adverse effects on both firm value and the informativeness of accounting data (Burlacu et al., 2024; Limarwati et al., 2023). As such, earnings management may be relevant not merely as an independent determinant of firm value, but also as a factor that potentially conditions investor responses to other forms of corporate disclosure.

The moderating potential of earnings management can be theoretically grounded in agency theory. When managerial opportunism manifests through earnings manipulation, investors may discount corporate disclosures due to elevated information asymmetry. Accordingly, the affirmative signal conveyed through ESG disclosure may be attenuated when the credibility of financial reporting comes into question. Heling and Lastanti (2024) demonstrate that earnings management can assume a moderating function in the relationship between corporate characteristics and firm value. Notwithstanding this, empirical inquiry specifically investigating earnings management as a moderator of the ESG–firm value relationship remains limited, particularly within the context of consumer goods companies listed on the Indonesia Stock Exchange. This constitutes a meaningful research gap, given that ESG disclosures and earnings-related information represent distinct yet potentially interacting channels through which investors form evaluations of companies.

Grounded in stakeholder theory, ESG disclosure is anticipated to reinforce corporate legitimacy, transparency, and stakeholder trust, collectively contributing to enhanced firm value. Organizations characterized by more robust ESG practices are better equipped to communicate their dedication to responsible business conduct and long-term sustainability, thereby transmitting a credible and favorable signal to the investment community. Empirical corroboration from Mahmood et al. (2026) and Hidayat et al. (2026) lends support to this proposition, demonstrating that more comprehensive ESG disclosure tends to be associated with elevated firm value. On the basis of these considerations, the following hypothesis is advanced:
H1: ESG has a positive effect on firm value.

From the vantage point of agency theory, earnings management may compromise the credibility of corporate disclosures by signaling potential managerial opportunism rooted in information asymmetry (Jensen & Meckling, 1976; Stevens et al., 2026). Although ESG disclosure may communicate favorable prospects regarding sustainability and governance quality, investors may discount such signals when they perceive shortcomings in the reliability of financial reporting. Accumulated empirical evidence indicates that earnings management can diminish information quality and adversely affect firm value (Burlacu et al., 2024; Limarwati et al., 2023), while Heling and Lastanti (2024) confirm that earnings management can indeed perform a moderating role. It is therefore anticipated that elevated earnings management activity will attenuate the positive influence of ESG disclosure on firm value. This reasoning underlies the formulation of the second hypothesis: H2: Earnings management weakens the positive effect of ESG on firm value.
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Based on the identified research gaps, this study aims to investigate the impact of ESG disclosure on firm value and to evaluate whether earnings management serves as a moderating factor in this relationship among companies in the consumer goods sector listed on the Indonesia Stock Exchange from 2022 to 2025. This research contributes to the existing body of literature by merging ESG performance with managerial behavioral aspects within a cohesive explanatory framework for firm value, and by formally establishing earnings management as a moderating variable, a configuration that has not been extensively explored empirically thus far. Practically, the results are expected to provide valuable insights for corporate managers and investors concerning the economic importance of ESG information and the quality of corporate reporting, while also offering regulatory recommendations aimed at enhancing the quality, credibility, and effectiveness of ESG disclosure practices in the Indonesian capital market.

METHOD

The present study adopted a quantitative research approach utilizing panel data to examine and analyze the influence of the independent variables on the dependent variable. This analytical framework is well-suited to identifying causal patterns embedded in panel data and for elucidating the directional relationships between ESG-related variables and firm value. The study relies on secondary data sourced from financial statements and sustainability reports of companies listed on the Indonesia Stock Exchange (IDX).

The study population encompasses all consumer goods sector enterprises listed on the

IDX throughout the designated observation period of 2022–2025. The consumer goods sector was selected on the grounds that, despite its classification as a defensive sector by virtue of its fundamental demand characteristics, it continues to exhibit meaningful fluctuations in firm value, rendering it an analytically interesting research context. The 2022–2025 observation window was selected because it represents a period of post-pandemic economic recuperation and stabilization, characterized by macroeconomic recalibration, evolving capital market dynamics, and heightened corporate attention to sustainability practices, thereby offering research findings that are particularly germane to contemporary conditions.

The study employed purposive sampling as the primary selection technique, with the following inclusion criteria: (1) consumer goods sector companies listed consecutively on the IDX throughout the 2022–2025 observation period; (2) companies that issued complete annual financial reports for the duration of the study; (3) companies possessing ESG-related disclosures; and (4) companies that had not experienced delisting during the observation window. The application of these criteria yielded a final research sample satisfying the requirements for further analytical investigation.

Firm value denotes the aggregate assessment of a company's performance and market standing as perceived by investors. In this study, firm value is operationalized through Tobin's Q ratio. This metric is widely adopted as a proxy for firm value given its capacity to reflect the organization's anticipated future growth trajectory and the efficiency of capital resource deployment (Hidayat et al., 2026):

$$\boxed{Tobin'sQ = \frac{Market\,Value\,of\,Equity + Book\,Value\,of\,Debt}{Book\,Value\,of\,Total\,Assets}}$$

Explanation:
1. $Market\,Value\,of\,Equity$ = Year-end closing stock price multiplied by the number of shares outstanding.
2. $Book\,Value\,of\,Debt$ = Total liabilities (total debt).
3. $Book\,Value\,of\,Total\,Assets$ = Total assets.

ESG in this study is operationalized through a disclosure index calibrated against the standards established by the Global Reporting Initiative (GRI). The measurement procedure employs a content analysis methodology applied to companies' annual reports and/or sustainability reports, with the aim of determining the extent to which each company discloses information pertaining to environmental, social, and governance dimensions.

The ESG index is computed by assigning a value of 1 to each item disclosed by the company and 0 to items not disclosed. The aggregate number of ESG disclosure items employed in this study is 80, comprising 31 items for the environmental dimension, 36 for the social dimension, and 13 for the governance dimension, in alignment with the GRI 2021 standards adopted in the study by Dinianti et al. (2025). Accordingly, the ESG index is computed as follows:

$$\boxed{ESG\ Index = \frac{Number\ of\ items\ disclosed}{80}}$$

Earnings management in this study is quantified through discretionary accruals utilizing the Modified Jones Model, as developed by Dechow et al. (1995) and (Nguyen et al., 2023). This model stands as one of the most widely applied and methodologically refined instruments in the accounting literature for identifying earnings management activity, owing to its superior capacity to isolate discretionary accrual components from their non-discretionary counterparts. The model incorporates an adjustment for revenue changes to account for corresponding shifts in receivables, thereby mitigating potential estimation bias in accrual computation. The Modified Jones Model takes the following functional form:

$$\frac{TACC_{it}}{A_{it-1}} = \alpha_1 \frac{1}{A_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + \alpha_3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon_{it}$$

In this analysis, $TACC_{it}$ is identified as total accruals, which are computed by subtracting operating cash flow from net income for company i in period t, and A_{it-1} indicates the total assets from the previous period, which is employed as a scaling basis. The term ΔREV_{it} signifies the change in revenue, while ΔREC_{it} represents the change in receivables. Additionally, PPE_{it} refers to the value of the company's fixed assets. The residual (ε_{it}) resulting from this equation is recognized as discretionary accruals (DA), which act as a proxy for earnings management.

The estimation procedure entails several sequential stages: computing total accruals, estimating model parameters via regression to derive non-discretionary accruals (NDA), and subsequently determining discretionary accruals as the residual difference between total and non-discretionary accruals. The resulting discretionary accrual values are then employed as an indicator of the magnitude of earnings management behavior in this study.

Higher discretionary accrual values are indicative of greater managerial intervention in the financial reporting process. In this study, discretionary accruals are employed in absolute value terms to capture the overall intensity of earnings management activity, irrespective of whether such manipulation is income-increasing or income-decreasing, thereby providing a more complete characterization of the degree of managerial manipulation undertaken.

This study incorporates control variables to mitigate potential estimation bias attributable to firm-specific characteristics that may independently influence firm value. The control variables selected comprise profitability, liquidity, and firm size.

Profitability is measured using Return on Assets (ROA), which captures the organization’s capacity to generate earnings relative to its total asset base.

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

Liquidity is operationalized through the Current Ratio (CR), which assesses the firm’s ability to fulfill its short-term financial obligations using current assets.

$$CR = \frac{Current\ Assets}{Current\ Liabilities}$$

Firm size is quantified using the natural logarithm (LN) of total assets, a transformation that normalizes distributional disparities arising from scale heterogeneity across sample firms.

$$Size = ln(Total\ Assets)$$

The research equation model is as follows:

$$FVit = \beta 0 + \beta 1ESGit + \beta 2EMit + \beta 3(ESGit \times EMit) + \beta 4ROAit + \beta 5CRit + \beta 6SIZEit + \varepsilon it$$

in which:

1. FV_{it} = Firm Value (Tobin's Q)
2. ESG_{it} = Environmental, Social, and Governance
3. EM_{it} = Earnings Management

4. $ESG_{it} \times EM_{it}$ = Interaction variable (moderation)
5. ROA_{it} = Profitability (Return on Assets)
6. CR_{it} = Liquidity (Current Ratio)
7. $SIZE_{it}$ = Firm Size
8. α = Constant
9. $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ = Regression coefficients
10. ε_{it} = Error term
11. i = Company
12. t = Year of observation

Coefficient β_1 is used to test the effect of ESG on firm value, while coefficient β_3 is used to test the role of earnings management as a moderating variable through the interaction variable between ESG and earnings management. If the interaction coefficient is significant, it can be concluded that earnings management moderates the relationship between ESG and firm value. Furthermore, coefficients β_4, β_5, β_6 are used to control the effect of profitability and liquidity on firm value, so that the estimation results are more accurate and unbiased.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive statistical analysis is utilized to provide an initial characterization of the research data, which includes the minimum, maximum, arithmetic mean, and standard deviation for each variable being examined.

Table 1
Descriptive Statistics

Variables	Obs	Mean	Median	Std. Dev.	Minimum	Maximum
FV	124	2.1173	1.6870	1.6457	0.4070	10.5702
ESG	124	0.5352	0.5875	0.2107	0.1000	0.9500
EM	124	0.0572	0.0385	0.0571	0.0002	0.2970
ROA	124	0.0919	0.0849	0.1231	-0.4888	0.3817
CR	124	2.6494	1.7409	2.4452	0.3098	14.3136
SIZE	124	29.5048	29.3001	1.5690	24.5683	33.0154

Referring to Table 1, the firm value variable proxied by FV records a mean of 2.1173, a median of 1.6870, a minimum of 0.4070, and a maximum of 10.5702. The mean value exceeding unity suggests that, on aggregate, consumer goods sector companies in this sample maintain market valuations surpassing their book values. Nevertheless, a standard deviation of 1.6457 reflects considerable heterogeneity in firm value across companies throughout the observation period.

The ESG variable registers a mean of 0.5352 and a median of 0.5875, indicating that sample firms have, on average, disclosed approximately 53.52% of the total ESG indicators included in the study. The range spanning from a minimum of 0.1000 to a maximum of 0.9500 reflects a substantial disparity in ESG disclosure practices across firms. A standard deviation of 0.2107 underscores the variability in ESG implementation and reporting among consumer goods companies in Indonesia.

The earnings management variable (EM), operationalized through discretionary accruals, yields a mean of 0.0572 and a median of 0.0385, indicating that the general level of earnings management activity among sample firms is relatively contained. The maximum value of 0.2970 nonetheless reveals that certain firms engage in earnings management at considerably elevated levels. A standard deviation of 0.0571, which approximates the mean, suggests that the distribution of earnings management data is relatively stable with limited extreme variation.

Profitability as proxied by ROA records a mean of 9.19% and a median of 0.0849, suggesting that the majority of sample firms are capable of generating positive returns on their asset bases. However, a minimum value of −0.4888 indicates that certain firms incurred losses during the observation period. A standard deviation of 0.1231 reflects divergence in profitability performance across sample companies.

Liquidity as proxied by the Current Ratio (CR) exhibits a mean of 2.6494 and a median of 1.7409. The disparity between the mean and median is attributable to the presence of several firms with exceptionally elevated liquidity positions that exert upward pressure on the overall average. The minimum of 0.3098 and maximum of 14.3136 highlight considerable cross-sectional variation in firms' capacity to service near-term financial obligations. A standard deviation of 2.4452 further confirms a relatively wide spread in liquidity data.

The firm size variable registers a mean of 29.5048 and a median of 29.3001. The range between the minimum value of 24.5683 and the maximum of 33.0154 reflects meaningful variation in asset scale across sample companies. A standard deviation of 1.5690 suggests that, relative to other study variables, the variation in firm size is comparatively moderate.

In aggregate, the descriptive statistical findings reveal that the consumer goods sector companies constituting the research sample exhibit heterogeneous characteristics across all dimensions examined, including firm value, ESG disclosure practices, earnings management behavior, and financial conditions. This heterogeneity implies that individual companies adopt distinct approaches to resource governance, sustainability implementation, and shareholder value creation.

Panel Regression Model Test Results

The determination of the most suitable panel regression specification was achieved through the utilization of the Chow Test and the Hausman Test. The outcomes of the Chow Test revealed a probability value that fell below the 0.05 threshold, suggesting that the Fixed Effect Model (FEM) is more fitting than the Common Effect Model (CEM) for the given data structure. Following this, the Hausman Test also yielded a probability value under 0.05, reinforcing the preference for FEM over the Random Effect Model (REM). Consequently, FEM is utilized in this research as it effectively addresses unobserved firm-specific heterogeneity throughout the observation period.

Additionally, this study incorporates the Panel EGLS (Cross-section Weights) estimation method to improve the efficiency of parameter estimates and to mitigate potential issues related to heteroscedasticity and autocorrelation that are commonly found in panel data structures.

Table 2

Regression Results on Firm Value

Variable	Coefficient	t-Statistic	Probability
C	26.915	5.1516	0.0000***
ESG	-0.2986	-1.7395	0.0855*
EM	0.4100	0.5364	0.2965
ESG*EM	-0.5994	-0.3671	0.3572
CR	-0.0584	-2.3131	0.0231**
ROA	0.5446	0.8126	0.2093
SIZE	-0.8317	-4.6527	0.0000***
R-squared	0.9468		
Adjusted R-squared	0.9248		
F-statistic	43.0633		
Prob(F-statistic)	0.0000		

Notes:
*** significant at the 1% level
** significant at the 5% level
* significant at the 10% level

The Adjusted R-Squared value of 0.9248 indicates that 92.48% of the variance in firm value is collectively accounted for by the ESG variable, earnings management, the ESG×EM interaction term, and the control variables incorporated in the model. The remaining 7.52% of variation is attributable to factors external to the specified research model. The Prob(F-statistic) value of 0.0000 confirms that the overall regression model is jointly statistically significant and appropriate for examining the hypothesized relationships.

The Effect of ESG on Firm Value

The empirical findings reveal that ESG exerts a negative effect on firm value at the 10% significance level, indicating that the implementation and disclosure of ESG practices have not succeeded in generating higher firm valuations among consumer goods sector companies in Indonesia. This outcome suggests that sustainability-related disclosures have not yet emerged as a primary evaluative criterion for investors when appraising company performance. Although growing awareness of sustainability considerations has been observed in recent years, investment decision-making within the Indonesian capital market continues to be predominantly shaped by financial performance metrics, earnings growth trajectories, and the capacity to deliver near-term returns. Consequently, ESG-related activities have not yet been firmly perceived by the market as a reliable mechanism for creating tangible economic value.

The present findings illuminate the nascent stage of ESG adoption and institutionalization in the Indonesian corporate landscape. In a considerable proportion of companies, ESG implementation continues to be driven primarily by regulatory compliance imperatives and reporting mandates, rather than constituting an organically embedded component of broader corporate strategy. As a consequence, ESG disclosures frequently fail to convey a compelling forward-looking signal about the company's strategic trajectory or competitive positioning. Furthermore, the long-term nature of ESG value creation stands in contrast to the shorter investment time horizons that tend to characterize participants in developing capital markets, resulting in the systematic underpricing of ESG-related value in current market assessments.

Consumer goods sector enterprises are simultaneously confronted with intense competitive pressures that demand rigorous cost management and the preservation of profitability margins. The execution of ESG programs typically necessitates incremental capital allocation across environmental, social, and governance domains. Over shorter time frames, such expenditures carry the potential to constrain financial performance outcomes, which discourages the market from immediately ascribing incremental value to companies' sustainability undertakings. The prevailing market orientation toward directly observable economic outcomes, rather than long-term sustainability payoffs, thereby limits the near-term firm value implications of ESG engagement.

Consumer purchasing behavior within the consumer goods sector has also not yet fully elevated sustainability considerations to the status of a decisive criterion in product selection. Despite widespread corporate adoption of ESG-oriented initiatives (including eco-friendly packaging, plastic reduction commitments, energy optimization measures, and social responsibility programs) the resultant benefits have not consistently translated into measurable consumer responsiveness. In practice, Indonesian consumers continue to assign primary importance to considerations of price, product quality, taste, accessibility, and brand equity relative to environmental or social attributes. The use of more sustainable packaging, for instance, often entails higher production costs without corresponding increases in revenue, as consumers have not yet broadly demonstrated willingness to bear premium prices for sustainability-enhanced products. Accordingly, ESG expenditures may amplify operational costs in the short term without generating proportional revenue growth, sustaining the market's perception that ESG activities do not yet constitute a direct driver of economic value creation.

Furthermore, public awareness and literacy concerning sustainability matters remain unevenly distributed across the Indonesian population. A segment of consumers lacks sufficient information regarding the environmental implications of their consumption choices or the long-term systemic benefits of sustainable business practices. This informational gap constrains the transmission of ESG investments into enhanced consumer loyalty or competitive differentiation. As a result, investors tend to regard ESG commitments as deferred-return investments whose economic payoffs are not yet discernible in contemporaneous financial performance metrics. Even where companies have demonstrated substantive sustainability commitments, the market has largely refrained from translating this into commensurate valuation premiums. From an analytical standpoint, the inverse relationship between ESG and firm value within the consumer goods sector may also be partially explained by the cost-benefit asymmetry that characterizes ESG investment. Companies bear immediate costs for sustainability programs, while the associated benefits (encompassing brand equity enhancement, regulatory risk mitigation, and stakeholder relationship improvement) tend to materialize over extended temporal horizons. This temporal mismatch engenders a valuation discount in markets where investors maintain shorter-term orientations (Atan et al., 2018; Friede et al., 2015; Ibrahim et al., 2026). Additionally, the absence of standardized ESG measurement frameworks in developing economies compounds information asymmetry, making it difficult for investors to accurately price sustainability-related value contributions.

The results of this study are not fully consistent with the predictions of stakeholder theory, which posits that responsive stakeholder management generates legitimacy, reputational advantages, and enhanced firm value. The present evidence suggests that the benefits of ESG engagement in cultivating stakeholder relationships have not yet been fully recognized and rewarded by the market in the form of valuation premiums. Thus, the capacity of ESG practices to generate firm value appears to be moderated by prevailing market characteristics, the depth of investor understanding of sustainability issues, and the overall quality and integration of ESG implementation within company operations.

The present findings align with a body of prior empirical work that has similarly documented the limited ability of ESG engagement to generate firm value uplift, particularly within developing economy contexts. Yori and Rahmawati (2025) documented a negative ESG–firm value relationship among Indonesian non-financial firms, attributing this outcome to the market's incomplete internalization of sustainability information as a value-relevant factor. Prabawati and Rahmawati (2022) similarly observed that ESG performance effects on firm value remain inconsistent and context-sensitive. Prayogo et al. (2025) additionally noted that ESG disclosures have not consistently translated into higher valuations, as investors remain predominantly oriented toward conventional financial performance benchmarks rather than sustainability-related disclosures. Collectively, these findings reinforce the perspective that the ESG–firm value relationship is not determined solely by the volume or quality of ESG disclosures, but is also shaped by market characteristics, institutional conditions, investor sophistication levels, and the company's ability to embed sustainability practices within value-generating business strategies.

The Moderating Role of Earnings Management on the Relationship between ESG and Firm Value

The empirical results reveal that earnings management does not exert a significant moderating effect on the relationship between ESG and firm value. This outcome indicates that investor assessments of ESG-related disclosures are not systematically conditioned by the level of earnings management activity observed within the company. The market appears to evaluate sustainability-related disclosures on a basis that is largely independent of the quality of reported earnings, suggesting that the existence of earnings management practices is insufficient to materially alter investor perceptions of ESG activities among Indonesian consumer goods sector companies.

From an agency-theoretic perspective, earnings management represents a manifestation of principal-agent conflicts and information asymmetry between corporate management and shareholders. Earnings management activity is conventionally regarded as diminishing the credibility of corporate disclosures, given that investors must contend with heightened uncertainty regarding the reliability of reported financial outcomes. Theoretically, it would therefore be expected that elevated earnings management would attenuate the positive influence of ESG disclosure on firm value. However, the empirical findings of this study do not corroborate this expectation. The evidence suggests that investors do not systematically incorporate information about earnings management behavior as a primary lens through which to assess the ESG-related disclosures made by companies.

This pattern may reflect the distinct informational properties of ESG disclosures and earnings management indicators. ESG reflects the firm's broader commitment to sustainability, social responsibility, and long-term governance quality, whereas earnings management pertains to the near-term quality and reliability of financial reporting. These fundamental differences appear to prompt investors to assess these two informational domains independently. When evaluating ESG performance, investors concentrate on the company's sustainability outlook, reputational standing, and capacity to generate enduring value, rather than conditioning their assessments on the presence or absence of accruals-based manipulation.

These outcomes are consistent with empirical findings from Heling and Lastanti (2024), who demonstrate that earnings management does not always function as an effective moderating mechanism between non-financial performance indicators and firm value. The results are similarly aligned with Prayogo et al. (2025), who show that the firm value implications of ESG are more strongly determined by the quality of disclosure practices and investor confidence levels than by opportunistic managerial behaviors. Additional recent evidence from ESG research in developing markets indicates a prevailing tendency among investors to evaluate sustainability performance and financial reporting quality as separate and non-overlapping information domains.

From a theoretical standpoint, the findings indicate that agency theory does not fully account for the ESG–firm value relationship when earnings management is posited as the mediating channel. The evidence suggests that sustainability-related information possesses distinct characteristics that differentiate it from conventional financial information, implying that investor responses to ESG disclosures are not consistently contingent upon reported earnings quality. Consequently, the ESG–firm value relationship appears to be more fundamentally driven by investor perceptions of the economic substance and long-term viability of corporate sustainability initiatives than by managerial manipulation of financial reporting.

A closer examination of the data reveals notable commonalities and differences across the sample firms. Companies with higher ESG disclosure indices (above 0.60) did not systematically exhibit higher Tobin's Q values compared to those with moderate disclosure levels (0.40–0.60), suggesting a threshold effect rather than a linear relationship. Conversely, firms demonstrating both high profitability and moderate ESG engagement tended to maintain more stable valuations, indicating that financial performance remains the primary driver of investor confidence in this sector. These patterns underscore the need for companies to develop integrated strategies that align sustainability initiatives with core business competencies to enhance organizational capabilities and create measurable economic value (Khairani & Dinuka, 2026; Li et al., 2018; Velte, 2023).

The Effect of Control Variables on Firm Value

The empirical results confirm that liquidity, as measured by the current ratio, exerts a negative effect on firm value. This finding suggests that excessively elevated liquidity levels may be interpreted by investors as a signal of suboptimal capital deployment, whereby assets are not being channeled toward productive investment activities. Investors therefore assign higher valuations to firms that demonstrate efficient and productive asset utilization relative to those that sustain disproportionately high liquidity buffers.

Profitability as proxied by ROA exhibits a positive yet statistically insignificant effect on firm value. This result implies that the earnings-generating capacity of consumer goods companies has not constituted a primary driver of investor valuation judgments during the research period. Investors also appear to consider supplementary determinants such as forward-looking growth prospects, strategic business positioning, and sectoral dynamics when forming their valuation assessments.

Firm size is found to exert a negative and statistically significant effect on firm value. This outcome suggests that larger companies do not inherently attract superior market valuations. Investors’ assessments appear to incorporate considerations of organizational complexity, managerial effectiveness, and growth potential, implying that scale advantages alone are insufficient to enhance firm value in the absence of sustained performance improvements and credible long-term growth trajectories.

CONCLUSION

This study investigates the effect of ESG performance on firm value and examines the moderating role of earnings management among consumer goods sector companies listed on the Indonesia Stock Exchange during the 2022–2025 period. The empirical findings indicate that ESG exerts a statistically negative influence on firm value, suggesting that current ESG disclosure practices have not yet been translated into higher market valuations. This finding implies that market participants in the consumer goods sector continue to prioritize financial performance metrics, earnings growth potential, product quality, pricing, and brand equity over sustainability-related information when forming investment assessments. Earnings management does not emerge as a significant moderator of the ESG–firm value relationship, indicating that investors tend to evaluate ESG disclosures and earnings quality as distinct and non-interacting informational dimensions in the valuation process. Among the control variables, both liquidity and firm size exhibit negative and significant effects on firm value, while profitability does not demonstrate a statistically significant impact.

The findings enrich the existing scholarly discourse by establishing that the ESG–firm value relationship is inherently context-dependent, particularly pronounced in an emerging market setting such as Indonesia, and that earnings management does not systematically condition investor responses to ESG information. The practical implications suggest that companies should transition beyond compliance-centric ESG reporting and pursue the authentic integration of sustainability principles into their core strategic operations, with the objective of generating quantifiable economic and stakeholder value from ESG initiatives. Investors, for their part, may benefit from engaging more deeply with the economic substance and strategic relevance of ESG information, rather than focusing exclusively on the scale of disclosure. Future research may extend the temporal scope of investigation, widen the sectoral coverage of the sample, and incorporate alternative measures of ESG performance and earnings management to generate more comprehensive and generalizable insights into the determinants of firm value.

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AUTHOR CONTRIBUTION STATEMENT

The first author assumed primary responsibility for conceptualization, data collection, research design, quantitative analysis, and preparation of the original manuscript. The second author contributed through academic supervision, methodological oversight, and research validation. Both authors reviewed and approved the final version of the manuscript prior to submission.

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