

THE EFFECT OF ESG DISCLOSURE ON EQUITY VALUATION WITH PROFITABILITY MEDIATION

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Abstract: The mining sector in Indonesia exhibits a disparity between corporate profitability and equity valuation, indicating that non-financial factors may influence investors' assessments. This study aims to examine the effect of Environmental, Social, and Governance (ESG) disclosure on equity valuation with profitability as a mediating variable. The research sample consists of mining companies listed on the Indonesia Stock Exchange during the 2020–2024 period. A quantitative approach with panel data regression analysis was employed. Data were collected from companies' annual and sustainability reports and analyzed using EViews software. The results indicate that Environmental and Social Disclosure have no significant effect on equity valuation, while Governance Disclosure has a positive and significant effect. Environmental Disclosure negatively affects profitability, whereas Social and Governance Disclosure positively and significantly influence profitability. Profitability has a positive and significant effect on equity valuation but does not mediate the relationship between ESG disclosure and equity valuation. Simultaneously, ESG disclosure significantly affects both profitability and equity valuation. This study concludes that good corporate governance plays a crucial role in enhancing equity valuation, while environmental and social disclosures require further strengthening to generate optimal financial and market value impacts.

Keywords: ESG Disclosure, Profitability, Equity Valuation, Mining Sector, Indonesia Stock Exchange

INTRODUCTION

Evaluation equity is fundamental aspects in taking decision investment Because reflect how the market values mark company relatively to mark his book . For investors, the assessment accurate equity help identify undervalued or overvalued condition of something shares, while for companies and stakeholders interest others , assessment equity reflect level market confidence , stability finance , as well as prospects sustainability business . In sector Indonesian mining , assessment measured equity using Price to Book Value (PBV) shows significant dynamics throughout period 2019–2024, marked with decline sharp increase during the pandemic and a strong increase during the period recovery economy . Interestingly , the increase in PBV No always followed by improvements stable profitability , as reflected from low Return on Assets (ROA) of the company mining on average.

Phenomenon increasing evaluation equity in the middle relative profitability low indicates that investors do not only consider performance finance term short , but also take into account factor non-financial . In context This , Environmental, Social, and Governance (ESG) disclosure becomes the more relevant ,

especially in the sector mining that has risk high environmental , social , and governance standards . Good ESG practices viewed capable give signal positive related management risk , sustainability term long , and quality of governance company . However Thus , the practice ESG disclosure in the sector Indonesian mining is still face challenge , start from incompleteness information , greenwashing risks , to governance problems that have an impact on the decline investor confidence

Findings study previously show results that have not been consistent related the relationship between ESG, profitability, and valuation equity. A number of studies find that ESG has an impact positive to mark company and profitability, while other studies show unintended influence significant, negative, or even non-linear relationship. The difference The results are also seen in the role of each ESG dimension, where the aspects environmental and social tend give more influence consistent compared to governance, as well as on the role deep profitability a number of study No capable explain connection between ESG and valuation equity. Inconsistency findings This show the existence of a research gap, especially related mechanism how ESG affects evaluation equity through profitability in the sector mining in developing countries like Indonesia

Based on phenomenon empirical and research gaps said, research This aim For analyze the influence of ESG Disclosure on evaluation equity with mediation profitability in the company sector mining companies listed on the Indonesia Stock Exchange for the 2020–2024 period. Research This in a way special test the influence of each ESG component, namely Environmental Disclosure, Social Disclosure, and Governance Disclosure, on evaluation proxied equity with PBV, as well as the role of Return on Assets (ROA) as variables mediation.

Contribution study This expected can enrich literature accounting and finance with give proof empirical about the relationship between ESG, profitability, and valuation equity in the sector with risk sustainability high. Besides that, research This give implications practical for management companies, investors, and regulators in understand importance quality ESG disclosure and profitability in formation mark companies in the Indonesian capital market.

RESEARCH METHOD

Study This use approach quantitative with characteristic study associative For analyze connection cause and effect between Environmental, Social, and Governance (ESG) Disclosure and evaluation equity with profitability as variables mediation. Method analysis used is panel data regression with approach analysis path analysis, which allows testing influence direct and No direct intervariable study

Object study is company sector mining companies listed on the Indonesia Stock Exchange (IDX) during 2020–2024 period. Population study covers all over company mining listed on the IDX during the period namely, as many as 79 companies. The sampling technique sample using purposive sampling, with criteria : (1) company registered in a way consecutive during period research, (2) publish report finance annually, and (3) publish report sustainability. Based on criteria said, obtained sample study as many as 23 companies with period five- year observation, so that forming panel data

Type of data used is secondary data obtained through studies documentation and studies bibliography. Data collected from report annual and reports sustainability public companies in a way official through the Indonesia Stock Exchange website (www.idx.co.id) and the websites of each company. The data obtained Then processed and analyzed in accordance with objective study

Evaluation equity as variables dependent measured using Price to Book Value (PBV), namely ratio between stock market prices and values book per sheet stock. Variable independent consists of from Environmental Disclosure, Social Disclosure, and Governance Disclosure, each of which is measured use index disclosure based on the Global Reporting Initiative (GRI) with content analysis method. Profitability as variables mediation measured using Return on Assets (ROA), which reflects ability company in produce profit of the total assets owned. All variables measured in scale ratio

Data analysis was performed use device EViews software version 13. Stages analysis covering statistics descriptive and panel data regression. Panel model estimation is carried out through Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) approaches, with best model selection based on the Chow test, Hausman test, and Lagrange Multiplier test. Next, the analysis track used For test role mediation profitability, with testing significance influence No direct using the Sobel test. Testing hypothesis done through partial tests (t-test), simultaneous tests (F-test), and coefficients determination (Adjusted R²) at the level significance 5%.

RESULTS AND DISCUSSION

Study This using panel data from 23 companies sector mining companies listed on the Indonesia Stock Exchange (IDX) during period 2020–2024, with a total of 115 observations. The variables analyzed

includes Environmental Disclosure, Social Disclosure, and Governance Disclosure as variables independent , Profitability (ROA) as variables mediation , as well as Evaluation Measured equity using Price to Book Value (PBV) as variables dependent .

Analysis statistics descriptive show that the average PBV of the company mining amounting to 1,214 with mark maximum 9.076 and minimum -7.983. The average values of Environmental Disclosure , Social Disclosure, and Governance Disclosure were 55.72%, 53.44%, and 53.15%, respectively , which indicated that level ESG disclosure in companies mining is in the category moderate . Meanwhile that , the average profitability (ROA) was recorded of 0.084 with enough variety high , reflecting fluctuations performance finance sector mining during period observation .

Table 1. Test Statistics Descriptive

	PBV	Environmental	Social	Governance	ROA
Mean	1.214017	55.71652	53.43922	53.15470	0.084278
Median	0.947000	64.52000	51.28000	66.67000	0.061000
Maximum	9.076000	100,0000	100,0000	100,0000	0.454000
Minimum	-7.983000	6.250000	5,000,000	4,000,000	-0.098000
Std . Dev .	1.461317	30.85543	25.62526	26.80679	0.090350
Observations	115	115	115	115	115

The selection of the panel data regression model is carried out through the Chow test and the Hausman test. The results of both testing show that mark probability more small from level 5% significance across all equation , so the Fixed Effect model is chosen as an estimation model best . Therefore that , the whole testing hypothesis furthermore based on the results Fixed Effect Model estimation .

Table 2. Results Test Chow

Model	Prob. chi-square cross section	Alpha level ($\alpha = 5\%$)	Hypothesis	Final decision
Equation 1	0.0000	0.0000 < 0.05	H_a accepted	<i>Fixed Effect</i>
Equation 2	0.00 16	0.001 6 < 0.05	H_a accepted	<i>Fixed Effect</i>

Table 3. Results Test Hausman

Model	Random cross-sectional prob.	Alpha level ($\alpha = 5\%$)	Hypothesis	Final decision
Equation 1	0 .0 1 00	0 .0 1 00 < 0.05	H_1 accepted	<i>Fixed Effect</i>
Equation 2	0 .00 67	0 .00 67 < 0.05	H_1 accepted	<i>Fixed Effect</i>

the panel data regression test on the equation First show that Environmental Disclosure has an impact negative and significant to profitability , while Social Disclosure and Governance Disclosure have

Table 4. Fixed Effect Regression Results Equation 1

Variable	Coefficient	Std . Error	t- Statistic	Prob .
C	0.067398	0.016693	4.037551	0.0001
Environmental	-0.185185	0.046838	-3.953748	0.0002
Social	0.138022	0.045110	3.059672	0.0029
Governance	0.087127	0.027958	3.116376	0.0025

In the equation second , the results estimate show that Environmental Disclosure and Social Disclosure are not influential significant to evaluation equity . On the other hand , Governance Disclosure and profitability (ROA) have an effect positive and significant on PBV. The results of the simultaneous test also showed that Environmental Disclosure, Social Disclosure, Governance Disclosure, and profitability in a way together influential significant to evaluation equity .

Table 5. Fixed Effect Regression Results Equation 2

Variable	Coefficient	Std . Error	t- Statistic	Prob .
C	1.015321	0.396943	2.557853	0.0122
Environmental	-1.582996	1.110231	-1.425826	0.1575
Social	-0.249413	1.036740	-0.240574	0.8104
Governance	1.493391	0.643682	2.320075	0.0227
Roa	4.987321	2.317309	2.152204	0.0341

The adjusted R² value in the equation First of 0.622, which shows that variation profitability can explained by the three ESG dimension of 62.2%. Meanwhile that is , the adjusted R² value in the equation second of 0.309, which indicates that variation evaluation equity explained by ESG and profitability by 30.9%.

Table 6. Coefficients Determination (R²) Equation 1

R- squared	0.704821	Mean dependent var	0.084278
Adjusted R- squared	0.621906	SD dependent var	0.090350
SE of regression	0.055556	Akaike info criterion	-2.746988
Sum squared residual	0.274691	Schwarz criterion	-2.126395

Log likelihood	183.9518	Hannan-Quinn criter .	-2.495092
F- statistic	8.500484	Durbin-Watson stat	1.903211
Prob (F- statistic)	0.000000		

Table 7. Coefficients Determination (R^2) Equation 2

R- squared	0.466785	Mean dependent var	1.214017
Adjusted R- squared	0.309245	SD dependent var	1.461317
SE of regression	1.214525	Akaike info criterion	3.428553
Sum squared residual	129,8062	Schwarz criterion	4.073015
Log likelihood	-170.1418	Hannan-Quinn criter .	3.690137
F- statistic	2.962952	Durbin-Watson stat	1.616265
Prob (F- statistic)	0.000081		

Testing mediation use analysis path and Sobel Test shows that profitability No mediate connection between Environmental Disclosure, Social Disclosure, and Governance Disclosure regarding evaluation equity . All Z- value count be under mark critical 1.96, so effect No direct stated No significant .

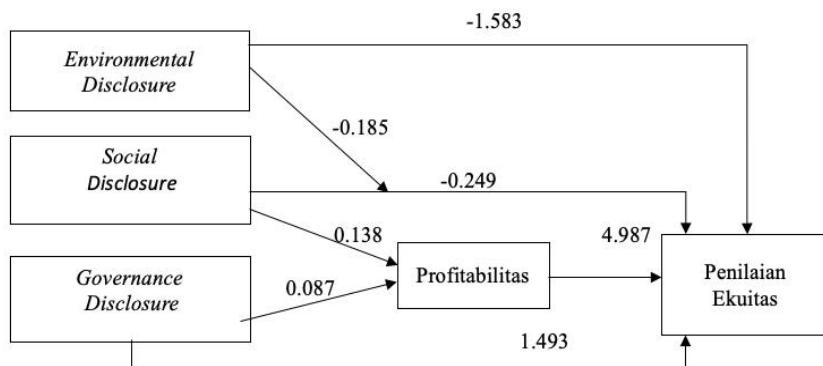

Figure 1. Path Analysis Model

Table 7. Sobel Test Results

Estimation results coefficient track show that influence direct Environmental Disclosure to Profitability worth negative of -0.185, while Social Disclosure and Governance Disclosure each have an effect positive to Profitability with coefficients of 0.138 and 0.087. The influence Profitability to Evaluation Equity show coefficient positive of 4,987, which indicates that improvement profitability responded to positive by the market. Temporary that , influence direct Environmental Disclosure to Evaluation Equity worth negative of -1.583, Social Disclosure of -0.249, and Governance Disclosure shows influence positive of 1,493.

Influence No direct ESG Disclosure towards Evaluation Equity through Profitability counted based on results multiplication coefficient path a and b. Calculation results show that influence No direct Environmental Disclosure to Evaluation Equity through Profitability of -0.923, Social Disclosure of 0.688,

and Governance Disclosure of 0.434. These values show that although there is effect No direct in a way mathematical , required testing statistics more carry on For ensure its significance .

For test significance influence No direct said , research This using the Sobel test. The results of the Sobel test show that influence No direct Environmental Disclosure to Evaluation Equity through Profitability produce Z value = -1.84 , more small from mark critical Z table of 1.96 at the level significance of 5 percent . With Thus , profitability No mediate the influence of Environmental Disclosure on Evaluation Equity .

test on Social Disclosure resulted in Z value = 1.70 , which is also higher small from Z table value of 1.96 . This is show that Profitability No mediate connection between Social Disclosure and Assessment Equity. Furthermore , the results of the Sobel test for Governance Disclosure show Z value = 1.71 , which is also below mark critical 1.96 . With Thus , Profitability No play a role as variables mediation in connection between Governance Disclosure and Assessment Equity .

Discussion

Research result show that Environmental Disclosure has an impact negative to Profitability , however No capable increase Evaluation Equity Good in a way direct and No directly . Findings This indicates that in the sector mining , costs incurred from implementation and disclosure activity environment , such as reclamation land and management waste , tends to increase burden operational company . In term short , increase cost the Not yet can compensated by an increase profit , so that impact negative to profitability . Conditions This in line with theory legitimacy , which views disclosure environment more as effort get reception social than as driver market value .

Social Disclosure is proven influential positive to Profitability , however No influential significant to Evaluation Equity , good in a way direct and through Profitability . Findings This show that activity social company capable strengthen connection with stakeholders interests and improve stability operational , but Not yet become consideration main investor in evaluate equity company mining . This is support stakeholder theory which emphasizes that benefit disclosure social more Lots felt in the company's internal performance compared to market perception .

Different with two other ESG dimensions , Governance Disclosure shows influence positive to Evaluation Equity , though influence No directly through Profitability No significant . Findings This strengthen perspective signaling theory, which states that good governance practices give signal credibility , transparency , and quality management to investors. Investors tend to respond governance disclosure in a way direct without must wait improvement performance finance as intermediary .

The results of the Sobel test show that Profitability No mediate the relationship between ESG Disclosure and Evaluation Equity . This is indicates that in the sector mining , mechanisms creation mark through ESG Disclosure no fully through track performance finance , but rather more through perception risk , legitimacy , and quality of governance company . With Thus , the role Profitability as intervening variables are limited in explain connection between ESG Disclosure and Assessment Equity .

CONCLUSION

Study This aim For analyze the influence of environmental disclosure, social disclosure, and governance disclosure on evaluation equity with profitability as intervening variables in the company sector mining companies listed on the Indonesia Stock Exchange for the 2020–2024 period . Based on results analysis panel data regression , fixed effect model, path analysis, and Sobel test, can concluded a number of findings main as following .

First , environmental disclosure is not influential significant to evaluation equity , however influential significant to profitability with direction negative . Findings This show that disclosure environment in the company mining tend increase burden cost operational in term short , so that pressing level profitability , and not yet capable increase market perception of mark company .

Second , social disclosure does not influential significant to evaluation equity , but influential positive and significant to profitability . This is indicates that activity social company capable increase performance

Third , governance disclosure has an influence positive and significant Good to profitability and evaluation equity . Findings This confirm that governance practices good company become the most consistent factor in increase efficiency company at a time investor confidence in the sector mining .

Fourth , profitability proven influential positive and significant to evaluation equity . This is show that ability company in produce profit still become the main fundamental indicators that investors consider in evaluate equity company mining .

Fifth , based on Sobel test results , profitability No proven mediate the influence of environmental disclosure, social disclosure, and governance disclosure on evaluation equity . With Thus , the influence of ESG on evaluation equity in the sector mining more nature directly , especially through governance dimensions company , and not through track performance finance .

In a way overall , research This conclude that implementation of environmental , social, and governance integrated still important for company mining , but each dimension own track different influences . Dimensions environmental and social tend impact on the company's internal performance , while governance dimensions own the most dominant role in form evaluation equity in the Indonesian capital market.

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