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The Impact of ESG Factors on Stock Price through Profitability and Finance Performance

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Abstract

This study investigates how ESG (environment, social and Governance) factors influence stock prices through profitability and finance performance listed on the Indonesia Stock Exchange (IDX), specifically those included in the 2024 has ESG scored. The study applies with structural equation modelling and analyzes cross section data to examine the relationship between ESG score and stock prices. The results showed that ESG significantly affected finance performance; ESG also significantly affected stock prices. Then, ESG does not influence profitability, finance performance does not influence stock prices and profitability doesn't influence finance performance. Profitability could not moderate ESG, and finance performance could not moderate ESG. This finding indicates that companies with strong ESG practices tend to be more highly valued by investors, as ESG is increasingly viewed as a key indicator of long-term sustainability, lower risk, and responsible corporate behavior. The positive response from the market suggests that ESG is no longer just a symbolic or ethical consideration, but a strategic factor that contributes to enhancing firm value and investor confidence.

Keyword: ESG, Finance Performance, Profitability.

1. Introduction

Stock prices on the Indonesian Stock Exchange (IDX) serve as a vital barometer of a company's financial health, with profitability margins playing a key role in shaping investor perception and market valuation. Profitability margins such as gross profit margin, operating margin, and net profit margin—indicate how efficiently a company converts revenue into profit. In the context of the IDX, where both domestic and international investors closely monitor financial indicators, companies with strong and stable profitability margins often enjoy higher stock prices due to their perceived operational efficiency and lower financial risk. This underscores the close link between internal financial performance and external market value in Indonesia's competitive capital market.

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FMI, Vol 2
15-17 July 2025

Stock prices are closely influenced by a company's operational margin, which reflects the efficiency and profitability of its core business operations. Operational margin, calculated by dividing operating income by revenue, indicates how well a company controls its operating costs relative to its income. In the Indonesian capital market, where investors seek stable and financially sound companies, a high and consistent operational margin is often viewed as a sign of strong management and sustainable performance. As a result, firms with superior operational margins typically attract more investor interest, leading to higher stock valuations. This connection highlights the critical role of operational efficiency in driving stock market success and long-term business growth in Indonesia.

Stock prices are significantly influenced by a company's Return on Assets (ROA), as this metric reflects how effectively a firm utilizes its assets to generate profit. ROA, calculated by dividing net income by total assets, provides insight into a company's operational efficiency and overall financial performance. Investors closely monitor ROA because a higher ratio indicates that a company is managing its resources well to produce earnings, which often leads to greater investor confidence and upward movement in stock prices.

The importance of stock prices in relation to environmental, social, and governance (ESG) factors is increasingly recognized by investors seeking sustainable returns. Companies that prioritize these factors often demonstrate enhanced performance, leading to a positive effect on their stock prices. Measures like return on assets (ROA) and management effectiveness serve as critical indicators of a company's financial health. Higher ROA typically reflects efficient management and operational success, which can boost investor confidence and drive stock prices upward.

Indonesia is ranked 163rd out of 180 countries researched by the Environmental Performance Index 2024 (EPI) The EPI is a composite index that measures environmental performance based on various indicators, including climate change, air quality, water sanitation, biodiversity, and more. The 2024 EPI report suggests that Indonesia needs to improve its environmental policies and practices to address environmental challenges. In addition, problems of environmental degradation, such as resource depletion, carbon pollution, climate change, and a decline in biodiversity, leading to a decline in ecological balance, have occurred almost all over the world (Yildiz Çankaya & Sezen, 2019).

ESG factors have been studied in developed economies, where they are shown to influence stock market performance and investor behavior (Schmidt, 2019). Investors are currently more interested in companies that have implemented ESG thoroughly. (Clark et al., 2014) stated that companies implementing ESG will produce better operational performance and increase share price performance. (Cakranegara & Sidjabat, 2021) stated that companies implementing ESG will

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FMI, Vol 2
15-17 July 2025

increase the company's competitive advantage, which will ultimately increase company value. (Triyani et al., 2020) stated that one aspect of financial performance that is important for investors is the company's ability to generate profits. Good financial performance will give investors hope to invest, increasing share prices. Implementing ESG by existing regulations will increase the company's credibility. Revenue growth depends on improving the company's image and customer trust, which influences the acquisition of loyalty to the company (D'Amato et al., 2024).

2. Literature Review

ESG disclosure on Finance Peformance. Various previous studies have examined applying sustainability reports to profitability and company value. Research from Buallay (2019) said that environmental scores influence profitability. However, research from (Alareeni & Hamdan, 2020) and (Atan et al., 2018) says the opposite result. Then, Li et al. (2017) and López-Toro et al. (2021) in their research produced the finding that environmental scores have a positive effect on company value. On the other hand, research by (Balasubramanian, 2019) also shows that there is a negative relationship between the environment and company value. Studies from Bodhanwala (2018) and Triyani et al. (2020) concluded that social aspects influence the company's ROE and company value, while research Buallay (2019) and Alareeni & Hamdan (2020) produces negative relationship results on profitability and company value. Regarding corporate governance, research from (Han et al., 2016) and(López-Toro et al., 2021) shows that it positively and significantly influences profitability and company value. However, Alareeni & Hamdan (2020) and Buallay (2019) state that corporate governance has a positive effect on ROE, and according to Balasubramanian (2019), governance hurts company value. ESG scores often measure environmental, social, and governance performance. In previous research, the ESG Score has influenced company profitability, and the ESG score is even said to be a reliable predictor for looking at company profitability(D'Amato et al., 2024). Then, Aydoğmuş et al. (2022) also found that ESG score performance significantly influences company profitability. Besides that, Melinda & Wardhani (2020) found that the ESG index significantly affected company value. In contrast to the opinion above, Dahlsjö & Hedström (2023) found no proven relationship between ESG Score and financial performance. In a recent study conducted by (Risal et al., 2024), different results were shown, namely that ROA was not affected by ESG disclosure.

ESG disclosure on Profitability. Profitability (Net Profit Margin) is a measure of a business's ability to generate money with its current resources (Harahap, 2016). The higher the NPM, the more effective the company is in using its resources. ESG disclosure and company performance as measured by Return on Assets (ROA) and Net Profit Margin have a strong positive correlation (Ningwati & Putri, 2023). Other studies also show that strong ESG disclosure results in large Net profit margins in the automotive, construction, and goods and services sectors (Koundouri et al.,

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FMI, Vol 2
15-17 July 2025

2022). In addition, a study conducted on public companies on the Nasdaq found that Net profit margin and ESG disclosure were positively and significantly correlated (Wu, 2023). Researchers study a positive link between ESG performance and firm value or profitability. (Ardiansyah & Hersugondo, 2024) study found that ESG score performance high significane on net profit margin, which is a measure of company performance. However, ESG disclosure has no effet on ROA or ROE.

ESG disclosure on Stock Price. According to studies, companies with high ESG scores outperform their peers in terms of stock returns and volatility. Engelhardt et al. (2021). This is attributed to the perception that such companies are better managed, more resilient to risks, and more likely to attract long-term investors. Similarly, research by Avramov et al. (2021) indicated that stocks with high ESG scores and low ESG rating disagreement tend to perform better in the long run. According to research by Statman and Glushkov (2009), stocks of companies with excellent sustainability profiles yield higher returns compared to those of their traditional counterparts. On the opposite side, Alsahlawi, Chebbi and Ammer (2021) contribute with their findings suggesting a significant negative impact of environmental sustainability disclosures on stock returns, especially for companies facing financial constraints. Mănescu (2011) offers additional insights founded that ESG traits are important in determining value, they are not well reflected in stock prices.

Profitability on Finance Performance. The relationship between Net Profit Margin (NPM) and Return on Assets (ROA) is a significant area of study in financial analysis, as both metrics are crucial indicators of a company's profitability and efficiency. NPM measures the percentage of revenue that remains as profit after all expenses, while ROA indicates how effectively a company uses its assets to generate profit. The interaction between these two metrics can provide insights into a company's financial health and operational efficiency.

Sinaga (2013) stated that that net profit margin has a positive relationship and has a significant influence on return on assets. Another research by Yudi et al. (2023) examines net profit margin partially has a significant effect on return on assets. A study by Hamzah et al. (2024) found that NPM has a positive and significant impact on ROA, indicating that higher net profit margins can lead to better asset utilization and profitability. Research by (Nabela et al., 2023) stated that NPM, along with ROA and Return on Equity (ROE), significantly influences firm value, suggesting that improvements in NPM can enhance overall asset returns and company valuation. Another reseacrh by Ilyas et al. (2023) indicates that net profit margin (NPM) does not exhibit a significant effect on stock prices and has a negative influence, while return on assets (ROA) also shows no significant effect on stock prices. This suggests that, within the context of the study, NPM and ROA may not directly correlate positively with each other in terms of impacting stock.

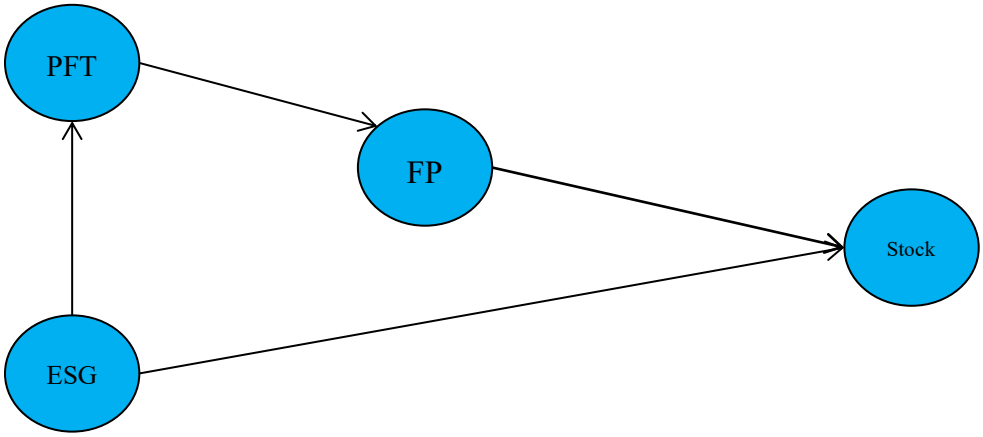
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Profitability and Finance Performance on Stock Price. The relationship between net profit margin (NPM) and stock prices is a significant area of study in financial performance analysis. Research indicates that a higher NPM positively influences stock prices, as it reflects a company's profitability and operational efficiency, making it attractive to investors. (Albart et al., 2023) states that Net profit margin positively influences stock prices, reflecting strong profitability and efficient cost management. Companies with healthy profit margins attract investors, enhancing their stock valuation, while financial performance metrics like debt ratio and current ratio also impact stock prices significantly. Penelitian ini juga sejalan dengan yang dikaji oleh (Sumarni et al., 2022) which is net profit margin (NPM) significantly influences stock prices, with a 69.5% impact identified in the study. Different research results were found by(Sumarni et al., 2022) Net Profit Margin (NPM) does not have a significant effect on stock prices, according to the study. Financial performance, particularly through Return on Assets (ROA) significantly influences stock prices in the food and beverage sector.

Based on the literature review and referring to previous studies that are still relevant, a theoretical framework can be drawn which can be seen in Figure 1 as follows:

Figure 1. Conceptual Framework



Stock Price (Stock) : Dependent Variable

Environtment Social Governance (ESG) : Independent Variable

Finance Performance (FP) : Mediating 1 Variable

Profitability (PFT) : Mediating 2 Variable

e-ISSN: 3064-6030
FMI, Vol 2
15-17 July 2025

3. Research Method

This research is deductive quantitative research. The objects used in this research are companies listed on the Indonesia Stock Exchange (BEI) from 2024. The type of data used in this research is secondary data. Secondary data is data that refers to information collected from existing sources. The data used in this report are the financial reports of all companies listed on the IDX with ESG scores in 2024. This data was taken from Yahoo Finance. Data will be analyzed using regression analysis. This research uses samples selected using the purposive sampling method. Sugiyono (2016) calls purposive sampling a technique for selecting research samples using specific criteria to obtain more representative data. These criteria are as follows: (1) The company was registered on the IDX in 2024. (2) The company has an ESG Score on the IDX in 2024. (3) The company has completed financial reports in 2024. (4) The sample used in this research, based on data from IDX and Yahoo finance, can be seen in Table 1.

Table 1. Popullation and Sample

No	Sample Criteria	Total
1	Companies listed on the IDX that have an ESG Score on IDX in 2024	87
2	ESG score data is complete, Financial statement data is incomplete	-1
3	Financial statement data is incomplete	-9
4	Number of observation	77

4. Finding and Discussion

Based on the results of data identification in Table 2, 77 companies met the data selection criteria. With a testing time of 2024, the data used was 77. Based on Table 2, the companies' average market share price in the research sample is IDR 3,190. Furthermore, the average profitability margin in the research sample is 13.09 percent. The highest profitability margin was PT Adaro Minerals Indonesia Tbk. (ADMR.JK) was 54.97 percent and the lowest was PT Gudang Garam Tbk. was 0.51 percent. The average operational margin in this research was 22.51 percent. The highest operational margin was PT Bank Central Asia Tbk. with 64.43 percent and the lowest operational margin was PT Gudang Garam Tbk. with 1.33 percent. The average return on assets (ROA) is 6.74, which means that the average rate of return on total assets in the sample company is 6.74 percent. PT Alamtri Resource Indonesia Tbk obtained the highest ROA value in 2024, with a value of 54.97 percent. The lowest ROA value occurred at PT Bank Jago Tbk., with a value of 0.61 percent. The highest share price was PT United Tractor Tbk. (UNTR.JK) with a price of IDR 26,775, and the lowest share price was PT Surya Citra Media Tbk. (SCMA.JK), with a price of 167. The average

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FMI, Vol 2
15-17 July 2025

Score ESG is 29.26 poin, The highest ESG Score was PT Adaro Minerals Indonesia Tbk. (ADMR.JK) WIth score 54.02 and the lowest score ESG was PT Mitra Pinasthika Mustika Tbk. (MPMX.JK). The higher the ESG score, the better the company can carry out its operations by prioritizing good management and environmental and social benefits.

Table 2. Descriptive Analysis of Variable

Variable	Observation	Mean	Std Dev	Min	Max
ESG	77	29.26	9.59	10.05	54.02
Profitability (Profitability Margin)	77	16.67	13.09	0.51	54.97
Profitability (Operational Margin)	77	22.51	13.09	1.33	64.43
ROA	77	6.53	6.74	0.61	54.97
Stock Pricce	77	3,190	4,911	167	26,775

After conducting descriptive analysis, the next step is to carry out tests conducted on the outer model are convergent validity, discriminant validity and unidimensional validity (Hussein, 2015). Convergent validity is conducted by assessing the loading factor value on the latent variable with its respective indicators, in this study it is a reflective indicator. The expected loading factor value is above 0.7 (Ghozali and Latan 2015), if the loading factor value is below 0.7 then it must be removed from the model. Discriminant validity is the cross loading value on the intended construct must be greater than the loading value with other constructs. While unidimensional validity consists of composite reliability where data that has composite reliability> 0.8 has high reliability and average variance extracted (AVE) which requires acceptance if the AVE value> 0.5

Table 3. Outer Model

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
ESG	0.959	0.987	0.98	0.961
FINANCE PERFORMANCE	1	1	1	1
PROFITABILITY	0.836	4.307	0.886	0.798
STOCK PRICE	1	1	1	1

Based on data from Table 3, the Outer model shows that the Cronbach's Alpha value of all variables is >0.7, this indicates that the construct has good internal reliability, and the data can be trusted to represent the construct (latent variable). All variables show a composite reliability value of >0.8 (ESG 0.98 >0.8); (FINANCE PERFORMANCE 1>0.8); (PROFITABILITY 0.886>0.8); (STOCK

e-ISSN: 3064-6030
FMI, Vol 2
15-17 July 2025

PRICE 1>0.8) CR>0.8, then the construct can be concluded as reliable, and the indicators that make it up consistently measure the same thing. The average variance extracted (AVE) of all variables exceeds 0.5, then it can be concluded that the indicator is quite worthy of reflecting its construct (latent variable).

After conducting the outer model test, the next step was to conduct the inner model test with the following results:

Tabel 4. Result Test of Structural Model (Inner Model)

	R Square	R Square Adjusted	Explain
FINANCE PERFORMANCE	0.138	0.114	Weak
STOCK PRICE	0.064	0.039	Weak
PROFITABILITY	0.01	-0.003	Meak

The R-Square test or coefficient of determination is used to measure the magnitude of the influence of the independent variable in influencing the dependent variable. Table 4 show that the profitability variable is influences the ESG variabel by 1% and the remaining 99% is influenced by other factors that are not included in this research model. The the stock price variabel is influences the ESG variabel by 6.4% and the remaining 93.6% is influenced by other factors that are not included in this research model. The finance performance variable is influences the ESG variabel by 13.8% and the remaining 86.2% is influenced by other factors that are not included in this research model. Assessing the R square of the variables in Table 4, the Q-square value can be calculated. The Q-Square test or predictive relevance is used to measure the level of goodness of observations generated from parameters and estimation models. The Q square value of this study is 0.79, by looking at these results, the model and parameter estimates in this study can be said to the model is good because they have predictive relevance (values approaching 1). The model fit test in the Partial Least Squares (PLS) analysis was carried out by looking at the Standardized Root Mean Square Residual (SRMR) and Normed Fit Index (NFI) values. The results of the analysis showed that the SRMR value was 0.061, which was below the threshold of 0.08, indicating that the model had a good level of fit. Meanwhile, the NFI value of 0.827 was still in the sufficient category, although it had not reached the ideal value of ≥ 0.90. However, because the SRMR showed adequate results, it can be concluded that the model has an acceptable level of fitness and is worthy of further analysis. Table 5 shows result of test fit model.

e-ISSN: 3064-6030
FMI, Vol 2
15-17 July 2025

Table 5. Result of Test Fit Model

	Saturated Model	Estimated Model
SRMR	0.059	0.061
d_ULS	0.074	0.077
d_G	0.081	0.083
Chi-Square	39.58	40.408
NFI	0.83	0.827

In the use of the Smarts 4.0 program, the hypothesis acceptance criteria are carried out by bootstrapping, so that the relationship between the influence of the independent variable on the dependent variable can be known. A hypothesis can be said to be accepted and significant if the P-value is <0.5 and the t-statistic value is > t-table (1.96). The results of the path coefficient test and hypothesis test are as follows: a) Patch Coefficient Results or direct effects.

Tabel 6. Result of Path Coefficient or Direct Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Explain
ESG -> Finance Performance	0.255	0.219	0.113	2.263	0.024	Significant
ESG -> Profitability	-0.102	-0.099	0.141	0.719	0.472	Not Significant
ESG -> Stock Price	0.253	0.25	0.126	2.012	0.045	Significant
Finance Performance -> Stock Price	-0.003	-0.003	0.089	0.038	0.969	Not Significant
Profitability -> Finance Performance	0.297	0.247	0.203	1.459	0.145	Not Significant

Table 6 shows hypothesis testing results for each variable (direct effect), as follows: The analysis indicate that the ESG has a significant influence on financial performance, with a p-value of 0.024. Since the p-value is below the standard threshold of 0.05, this finding confirms that the relationship is statistically significant. This suggests that companies with higher ESG scores are more likely to experience improved financial outcomes. The positive impact of ESG practices may be attributed

e-ISSN: 3064-6030
FMI, Vol 2
15-17 July 2025

to enhanced corporate reputation, better stakeholder relationships, improved operational efficiency, and reduced regulatory or reputational risks. The analysis indicates that ESG does not have a influence on profitability, as reflected by a p-value of 0.472. Since this value exceeds the standard significance level of 0.05, the relationship between ESG performance and profitability cannot be confirmed in this study. This suggests that, within the observed data, variations in ESG scores are not strongly associated with changes in profitability. The analysis test results found that ESG has a significant influence on stock price, with a p-value of 0.045. As this value is below the commonly accepted significance level of 0.05, it indicates that the relationship is statistically significant. This finding suggests that higher ESG performance may contribute positively to a company's stock valuation. Investors may perceive companies with strong ESG practices as lower risk and more sustainable in the long term, leading to increased investor confidence and demand for their shares. The analysis reveal that financial performance does not have a statistically significant influence on the stock price, as indicated by a p-value of 0.969. This value is far above the conventional significance threshold of 0.05, suggesting that variations in financial performance do not significantly impact stock price in the context of this study. The analysis indicates that profitability does not have a statistically significant influence on financial performance, as shown by a p-value of 0.145. Since this value exceeds the standard significance level of 0.05, the relationship between profitability and financial performance cannot be considered statistically significant in this study. This suggests that, within the observed data, changes in profitability are not strongly associated with overall financial performance. Result Indirect Effect shows Table 7

Table 7. Result Spesific Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Noted
ESG -> Profitabillity -> Finance Performance	-0.03	-0.008	0.042	0.717	0.474	Not Significant
ESG -> Finance Performance -> Stock Price	-0.001	0	0.019	0.04	0.968	Not Significant
Profitability -> Finance Performance -> Stock Price	-0.001	-0.001	0.022	0.045	0.964	Not Significant

e-ISSN: 3064-6030
FMI, Vol 2
15-17 July 2025

Table 7 shows hypothesis testing results for each variable (indirect effect), as follows:

The analysis results indicate that profitability does not significantly moderate the relationship between Environmental, Social, and Governance (ESG) performance and financial performance, as reflected by a p-value of 0.474. Since the p-value exceeds the conventional significance threshold of 0.05, it can be concluded that the moderating effect of profitability is not statistically significant in this study. This suggests that variations in profitability do not strengthen or weaken the influence of ESG performance on financial performance. In other words, the impact of ESG on financial performance appears to occur independently of the firm's level of profitability. The analysis shows that financial performance does not significantly moderate the relationship between Environmental, Social, and Governance (ESG) performance and stock price, as evidenced by a p-value of 0.968. Given that this p-value is substantially higher than the 0.05 significance threshold, the moderating effect of financial performance in this context is not statistically supported. This implies that the influence of ESG on stock price is not dependent on or altered by variations in financial performance. Consequently, ESG factors appear to affect stock prices independently of a company's financial performance. The analysis results reveal that financial performance does not significantly moderate the relationship between profitability and stock price, as indicated by a p-value of 0.964. Since this p-value far exceeds the common significance level of 0.05, it suggests that the moderating effect of financial performance in this relationship is not statistically significant. This means that the impact of profitability on the stock price is not influenced or altered by changes in financial performance. Therefore, profitability and financial performance appear to independently affect stock prices without significant interaction effects.

This study aims to analyze the influence of ESG on Stock Price with Profitability and Finance Performance (Return on Assets) as moderating variables in Indonesia Stock Exchange in 2024. The results of this study indicate that Environmental, Social, and Governance (ESG) performance has a significant influence on stock price among companies listed on the Indonesia Stock Exchange (IDX). Data obtained through the collection of financial report data, ESG scores and stock prices on Yahoo Finance and IDX. Then further processed and analyzed by researchers to obtain output or research results. The following is a discussion of the research results that have been processed and analyzed by researchers:

The Influence of ESG on Finance Performance. The findings of this study reveal that Environmental, Social, and Governance (ESG) performance has a positive and significant influence on financial performance. This result supports the growing consensus that firms implementing strong ESG practices tend to experience better financial outcomes. This result is same with study from D'Amato et al. (2024); Aydoğmuş et al. (2022) ESG initiatives, such as environmental efficiency, social responsibility, and transparent governance, can lead to enhanced

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FMI, Vol 2
15-17 July 2025

operational performance, reduced risk exposure, and improved stakeholder trust. These factors contribute to increased investor confidence and potentially lower capital costs, which positively affect a firm's financial metrics. The results align with stakeholder theory, which suggests that addressing the interests of a broad range of stakeholders including employees, customers, communities, and the environment can lead to long-term financial benefits ((López-Toro et al., 2021). Therefore, the study confirms that ESG performance is not merely a compliance requirement or ethical consideration, but a strategic asset that contributes to improved financial performance.

The Influence of ESG on Profitability. The finding that ESG performance does not significantly influence profitability margin and operational margin suggests that the implementation of ESG initiatives may not directly translate into short-term financial efficiency or cost management improvements. This result same with study by (Atan et al., 2018). Explanation is that ESG activities often involve long-term strategic investments such as improving environmental compliance, enhancing employee welfare, or restructuring governance systems which may incur high initial costs without yielding immediate financial returns. Additionally, the benefits of ESG practices are typically intangible (e.g., reputation, brand value, stakeholder trust), and may not be fully reflected in profitability or operational metrics in the short term. It is also possible that investors and managers in the Indonesian market have not yet fully integrated ESG performance into operational decision-making processes that directly impact margins. Sectoral differences, inconsistent ESG reporting quality, or lack of regulatory pressure could further weaken the immediate financial impact of ESG. Therefore, while ESG may contribute to long-term value, its influence on short-term financial ratios like Profit Margin and Operational Margin may remain limited or delayed.

The Influence of ESG on Stock Price. The results of this study show that Environmental, Social, and Governance (ESG) performance has a significant influence on stock price, indicating that the market positively responds to companies with strong ESG practices. This finding is same with study by Engelhardt et al. (2021) and Avramov et al., (2022). This finding suggests that investors in the Indonesia Stock Exchange increasingly value non-financial indicators such as environmental responsibility, social contributions, and sound corporate governance. Firms that demonstrate strong ESG commitment are often perceived as more sustainable, less risky, and better positioned for long-term growth. These perceptions can enhance investor confidence, drive demand for shares, and subsequently increase stock prices. This result supports the stakeholder theory and the concept of sustainable investing, which posits that companies addressing broader stakeholder interests tend to create long-term value. The finding also aligns with global trends where ESG disclosure is becoming a key consideration in investment decision-making. In the context of

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FMI, Vol 2
15-17 July 2025

emerging markets like Indonesia, the significant relationship between ESG and stock price signals a growing awareness and responsiveness among market participants to sustainability issues, despite the country's still-developing ESG regulatory framework.

The Influence of Profitability on Finance Performance. The finding that profitability does not significantly influence financial performance, as measured by Return on Assets (ROA), may appear counterintuitive at first. However, there are several plausible explanations for this result. This result is same with study by (Ilyas et al., 2023). First, profitability indicators such as net profit margin or gross profit margin focus solely on income relative to sales or revenue, while ROA considers the efficiency of using total assets to generate profit. A company may report high profitability ratios but still have inefficient asset utilization, which results in a low ROA. Second, firms with high profitability might have large asset bases due to capital-intensive operations, which can dilute the return on assets. Third, the time lag between improvements in profitability and their reflection in overall asset performance can weaken the immediate statistical relationship between the two. Additionally, in certain industries—especially those in early growth stages or with high reinvestment needs—profitability might not yet translate into strong financial performance as reflected in ROA. Finally, accounting differences, non-operating income, or financial management decisions (such as debt usage) may distort the direct impact of profitability on ROA. These factors combined suggest that while profitability is important, it may not always serve as a direct or sole driver of financial performance when assessed through ROA.

The Influence of ESG on Finance Performance Through Profitability. The analysis reveals that profitability measured by profit margin and operational margin does not significantly moderate the relationship between Environmental, Social, and Governance (ESG) performance and Financial Performance (measured by Return on Assets). This result is same with study by Sumarni et al. (2022). There are several possible explanations for this. First, profitability and ROA are conceptually and statistically related, as both are measures of a firm's financial outcomes. Using profitability as a moderator between ESG and ROA may introduce overlap or redundancy, limiting its ability to show distinct moderating effects. Second, ESG impacts ROA through broader mechanisms, such as long-term risk mitigation, stakeholder trust, and operational resilience—factors that may not be immediately reflected in short-term profitability metrics. As a result, profitability may not substantially strengthen or weaken the ESG–ROA relationship because it does not capture the full scope of ESG's strategic influence. Third, companies with high profitability may already invest in ESG as part of their long-term growth strategy, creating a direct effect rather than an interactive (moderating) one. Lastly, in emerging markets like Indonesia, where ESG integration is still maturing, profitability may not yet act as a strategic lever that

e-ISSN: 3064-6030
FMI, Vol 2
15-17 July 2025

influences how ESG contributes to financial outcomes. Therefore, profitability may not serve as an effective or statistically significant moderator in the ESG–financial performance linkage.

The Influence of ESG on Stock Price Through Finance Performance. The findings indicate that financial performance, measured by Return on Assets (ROA), does not significantly moderate the relationship between Environmental, Social, and Governance (ESG) performance and stock price. The result of this study are not in line with researh (Engelhardt et al., 2021); (Avramov et al., 2022) who found that Finance Performance significant moderates ESG on stock prices. Financial performance, especially as measured by return on assets (ROA), can have various impacts on the relationship between Environmental, Social, and Governance (ESG) and stock prices. However, in some cases, ROA may not function as a moderate variable for several reasons. First, Buallay (2019) stated that ESG Focus Is Long-Term: ESG usually focuses on the long-term performance and sustainability of the company, while ROA is a more temporal measure of financial performance and may not reflect the underlying value offered by ESG practices. Second, Cakranegara & Sidjabat (2021) state that investor perception: Investors may pay more attention to ESG metrics as indicators of reputation and potential risk, rather than focusing on financial performance as measured by ROA. This may cause the relationship between ESG and stock prices to be stronger without moderation from ROA. Third, Market Impact: Market conditions can also affect how ESG information is received. If the market is highly focused on ESG issues, financial performance such as ROA may become less relevant in contexts where stock prices are affected by ESG-related news or regulatory changes ((Schmidt, 2019). Thus, although ROA is an important indicator, it may not play a significant role as a moderating variable between ESG and stock prices.

Additionally, ROA primarily reflects internal operational efficiency, while stock price is influenced by external market perceptions, macroeconomic conditions, and investor sentiment. Therefore, even if a company has strong financial performance, it may not significantly change how the market responds to its ESG efforts. It's also possible that the influence of ESG on stock price is direct and independent, meaning ROA does not enhance or weaken this effect. Finally, in emerging markets like Indonesia, where ESG integration and investor awareness are still developing, financial metrics such as ROA may not yet serve as strategic leverage that shapes the market's valuation of ESG. As a result, ROA fails to function effectively as a moderating variable in the ESG–stock price relationship.

The Influence of Profitability on Stock Price Through Finance Performance. The study finds that financial performance, as measured by Return on Assets (ROA), does not significantly moderate the relationship between profitability (profit margin and operational margin) and stock price. ROA (Return on Assets) is not influential as a moderate variable between margin profitability and stock price for several reasons. This results of this reseacrh are in line with

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FMI, Vol 2
15-17 July 2025

(Hedström & Dahlsjö, 2023). Fisrt, direct relationship: Margin profitability may already affect stock prices directly, without requiring moderation from ROA. If profitability is already high enough, investors may see it as a positive indicator for stock price, so ROA does not need to play a role, Second, asset quality: ROA reflects the efficiency of asset use, but does not always reflect profitability or growth potential. In some cases, investors consider other factors, such as industry prospects or company management, which can have a greater influence on stock prices. Third, External influences, stock price is influenced by many external factors, such as market conditions, investor sentiment, and macroeconomics. If these factors are more dominant, the role of ROA as a moderator will be reduced. Four, data variability: Sometimes, the data used to measure ROA, margin profitability, and stock price may not be completely consistent or relevant, making it difficult to see a clear relationship between the three. Therefore, although ROA can provide valuable information regarding firm performance, in this context, its influence is not significant enough to act as a moderate variable between margin profitability and stock price. Additionally, in the context of the Indonesia Stock Exchange, investor focus on short-term profitability might outweigh interest in deeper performance metrics like ROA, especially in sectors where asset structures vary widely. As a result, ROA may not significantly influence how profitability affects stock price, leading to a non-significant moderation role in the model.

5. Conclusion

Based on data analysis and testing results, several conclusions. The ESG significantly influenced Finance Performance. These results reinforce the view that ESG performance is not only a matter of corporate responsibility but also a key driver of financial success. Finance performance significantly influenced stock prices. It can be concluded that ESG factors play an important role in shaping market perceptions and influencing stock price performance. Then, The ESG has no effect on profitability, Finance performance has no effect on Stock Price. This finding implies that investors may consider other factors such as market sentiment, or macroeconomic conditions, more heavily when valuing a company's stock. Profitability also has no effect on finance performance. It is possible that other factors, such as operational efficiency, asset management, or external economic conditions, play a more dominant role in influencing financial performance. Profitability does not mediate between ESG and Finance performance. Financial performance does not mediate between ESG and stock price. And also finance performance does not mediate between profitability and stock price.

e-ISSN: 3064-6030
FMI, Vol 2
15-17 July 2025

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