



Enhancing firm value through ESG: Fraud, financial performance, sustainability disclosure

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Article Info

Article history:

Received Feb 8, 2026

Revised March 5, 2026

Accepted May 1, 2026

Keywords:

ESG;

Firm Value;

Fraudulent Financial Reporting;

Financial Performance;

Sustainability Disclosure.

ABSTRACT

This research analyzes the effect of Fraudulent Financial Reporting (FFR), Financial Performance, and Sustainability Disclosure on Firm Value, with Environmental, Social, Governance (ESG) as a mediating. The novelty of this study lies in positioning ESG as a post-pandemic mediation mechanism that explains how FFR risk, financial performance, and sustainability disclosure affect firm value. In addition, it shows ESG's role as an intermediary linking the company's internal practices to market valuation. Research data were obtained from technology sector companies listed on IDX for the period 2021- 2024, with a sample of 88. Data analysis using PLS-SEM based on SmartPLS version 4.0. The result showed that FFR doesn't affect on firm value, as the direction of influence is opposite to the hypothesis, it has positive effect. Financial performance and ESG have a significant positive effect on the firm value, while sustainability disclosure have no effect. The result of the mediation test showed that ESG mediated the effect of FFR and sustainability disclosure on firm value, but didn't mediate the effect of financial performance on firm value. This finding shows that the market isn't capable of directly detecting manipulation practices. However, ESG commitment acts as a credibility signal that can increase investor confidence in the company's commitment to implementing sustainable business practices and help reduce risk perception related to potential FFR and sustainability disclosure burden in the formation of the firm value of post-pandemic technology sector companies.

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1. INTRODUCTION

Indonesia is a developing country with a large number of companies across various sectors. The Organization for Economic Co-operation and Development (OECD) projects that Indonesia will become the fourth-largest economy in the world by 2045, with an estimated valuation of USD 8.89 trillion (Nurmillah, 2021). This achievement will be supported by the demographic bonus phase during the 2030–2040 period, which coincides with the implementation of the Industrial Revolution 5.0, thereby encouraging automation and digitalization (Siagian, 2023). This transformation aligns with the growth of the technology sector in Indonesia since the early 2000s, driven by the widespread adoption of digital technologies and strong market demand for innovation-based solutions (Purwanto & Lastanti, 2025; Alsultan, 2025)

The technology sector in Indonesia is experiencing rapid growth but faces significant challenges to firm value stability due to post-IPO stock fluctuations and intense competition. Firm value is strongly influenced by investors' perceptions as reflected in stock prices. Interestingly, whereas firm value was previously dominated by tangible assets, it is now largely determined by intangible assets, which account for approximately 90% of firm value and reflect non-financial performance (Mengko et al., 2022; Rawashdeh, 2025). This was evident in 2021, when the pandemic accelerated the massive adoption of technology, driving the sector's index up to 870.56%, before it subsequently declined in the following years (Non & Aziz, 2023; Lillah, 2024).

Amid capital market dynamics, FFR remains a significant issue that threatens investor confidence and corporate reputation. Despite strengthened regulatory oversight, conflicts of interest continue to fuel fraudulent practices that negatively affect firm value (Junus et al., 2025). Several cases of fraud in technology-sector companies in Indonesia, such as PT Envy Technologies Indonesia Tbk in 2020, where the alleged manipulation of financial statements was evident in unrealistic revenue growth in 2016-2019, which then decreased dramatically in 2020. Then, Envy experienced a suspension of its share from Desember 1, 2020 to more than 2 years, thus triggering a potential delisting (Christian et al., 2022).

In addition, the eFishery case at the end of 2024 suspected of financial fraud for providing false financial statements since 2018, reinforces evidence that FFR practices remain relevant and can reduce firm value. This fraud includes profit reporting Rp. 261 billion while experiencing a loss of Rp. 578 billion. The impact of this case led to company restructuring and mass layoffs of up to 300 employees in early 2025. Then, the case shook investors' confidence so much that it made them more cautious in investing and highlighted the weakness of corporate governance (Al-Natour et al., 2025). Conversely, strong financial performance remains the primary measure of a company's success (Non & Aziz, 2023). However, modern investors are no longer solely focused on profit figures but are increasingly paying attention to how companies manage sustainability aspects (Pamungkas & Meini, 2023).

Sustainability disclosure is an important means of demonstrating corporate responsibility across economic, social, and environmental aspects. Previous research on sustainability disclosure has shown inconsistent results with regard to its impact on firm value in Indonesia (Mengko et al., 2022; Mintah & Gulko, 2025). This is because the quality of disclosure still varies; however, this practice is considered a positive signal to stakeholders (Pamungkas & Meini, 2023). This inconsistency suggests that other variables may explain the relationship between sustainability disclosure and firm value in real terms. Building on this, the study incorporates Environmental, Social, and Governance (ESG) as a mediating variable reflecting the firm's dedication to sustainable practices.

Theoretically, the role of ESG as mediating variable can be selected through stakeholder theory, which suggests that companies are not only responsible to stakeholders, but also responsible to stakeholder such as investors, employees, managers, and the wider community. Therefore, companies that are able to meet commitments to environmental, social, and governance aspect will gain legitimacy and support from stakeholders that can ultimately increase the firm value (Carreira et al., 2025). Therefore, from the side of investment theory, it is understood that ESG serves as information for the market in order to reduce information uncertainty between management and investors. Strong ESG implementation business strategies that increase investor confidence and afford on increasing the value of the company (Tamasiga et al., 2024).

ESG can increase firm value by improving transparency and governance, thereby reducing information asymmetry. Then, the implementation of ESG also strengthens stakeholder confidence because the company is considered more responsible for environmental, social and governance aspects (Zhou et al., 2022). In addition, it lowers business risk and the company has better access to funding, thus increasing the company's attractiveness in the capital market. Thus, ESG serves as a credibility signal that demonstrates the strategic sustainability of company's business, thereby increasing investor perception and encouraging an increase in firm value (Azizah & Haron, 2025).

This study offers novelty by placing ESG as a mediation variable that connects FFR, financial performance, and sustainability disclosure to firm value, especially in the post-pandemic Indonesian

technology sector. Different from previous research that generally focuses on direct relationships between variables, this study positions ESG as a recovery mechanism and credibility signal that strengthens relationship between company internal practices and market perceptions, as well as the uncertainty of the post-pandemic business environment in shaping firm value. In addition, empirical findings show that FFR can have a positive effect on firm value. This indicates the market's limitations in directly detecting financial manipulation practices. In this context, ESG is proven to be able to mediate the impact of fraud risk and sustainability disclosure cost on firm value, thus providing a more comprehensive understanding of the role of ESG in maintaining investor confidence and the stability of firm value in the post-pandemic technology sector.

2. RESEARCH METHOD

This study employs a quantitative approach and relies on secondary data to analyze the relationships between the variables. The research objects are technology sector listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The data were collected from the official IDX website <http://www.idx.ac.id> and the companies' official websites. The selection of the technology sector in Indonesia is due to this sector experiencing rapid post-pandemic growth and being in great demand by investors. However, in recent years there has also been a decline in valuations as well as performance pressures despite the growing society 5.0 era. These conditions increase demands on transparency, governance and sustainability practices, making the technology sector a relevant context for analysis. Data analysis was performed using the PLS-SEM method with SmartPLS version 4.0. SEM was chosen because it enables the testing of more complex relationships among variables. SEM is advantageous as it can comprehensively manage independent, mediating, and dependent variables and assess more detailed and specific relationships within complex contexts. The regression equations are formulated as outlined below:

$$FV = \alpha + \beta_1.FFR + \beta_2.FP + \beta_3.SD + \beta_4.ESG + e \quad \dots\dots\dots (1)$$

$$ESG = \alpha + \beta_1.FFR + \beta_2.FP + \beta_3.SD + e \quad \dots\dots\dots (2)$$

Description: FV: Firm value; α : Konstanta; β : Koefisien regresi; e: Error; FFR: Fraudulent financial reporting; FP: Financial performance; SD: Sustainability disclosure; ESG: Environmental, Social, Governance

Table 1. Operational definition

No	Variable Name	Measurement Scale	References
1.	Firm Value	Tobins Q = $(MVA + TL) / (TA)$	(Junus et al., 2025)
2.	Fraudulent Financial Reporting	M-Score = $-4.84 + 0.920 \text{ DSRI} + 0.528 \text{ GMI} + 0.404 \text{ AQI} + 0.892 \text{ SGI} + 0.115 \text{ DEPI} - 0.172 \text{ SGAI} + 4.679 \text{ TATA} - 0.327 \text{ LVGI}$	(Kuang & Natalia., 2023)
3.	Financial Performance	CR = Current Asset / Current Liabilities DER = Total Liabilities / Total Ekuitas	(Purwanto & Lastanti., 2025)
4.	Sustainability Disclosure	Sustainability Report Disclosure Index (SRDI) $SRDI = V / M$	(Anggraini & Arieftiara., 2023)
5.	ESG	$ESG_i = \frac{E_i + S_i + G_i}{3}$ Description: E_i : environmental aspect score, which reflects the company's performance in environmental impact management, such as emissions and waste management, energy use, and arch policies S_i : social aspect score, which describes the company's responsibilities to employees, consumers, society, and human rights and safety practices G_i : governance aspect score, which reflects the quality of corporate governance, such as board structure, transparency, accountability, and ethical business practices	(Kaya et al., 2025)

The sample selection in this study was conducted using a purposive sampling method by setting the criteria relevant to the study as follows:

Table 2. Research sample criteria

No	Criteria	Amount
1.	Technology sector companies listed on the Indonesia Stock Exchange (IDX) for the 2021-2024 period	47
2.	Technology sector companies that didn't publish annual reports consecutively for the 2021-2024 period.	(3)
3.	Technology sector companies that didn't disclose ESG for the 2021-2024 period.	(22)
	Number of samples for the period 2021-2024 (22 companies x 4 years)	88

3. RESULTS AND DISCUSSIONS

Table 3. Descriptive analysis results

Variable	N	Minimum	Maximum	Mean	Standard deviation
FV	88	1.540	2.310	1.838	0.179
ESG	88	0.000	1.000	0.466	0.499
FFR	88	-9.420	1.190	-2.594	1.683
FP	88	0.330	3.860	1.410	0.747
SD	88	0.380	0.880	0.660	0.102

Data source processed, 2026

The descriptive analysis indicates that this study employed 88 observations for each variable. FV varies from a low of 1.540 to a high of 2.310, with an average of 0.838 and a relatively low standard deviation of 0.179. The ESG variable spans from 0.000 to 1.000, confirming that it is measured as a dummy variable. In addition, FFR exhibits a broad range from -9.420 to 1.190 and the highest standard deviation of 1.683, suggesting considerable variation in financial distress conditions. Meanwhile, Financial Performance FP ranges between 0.330 and 3.860, and SD ranges from 0.380 to 0.880, with the smallest standard deviation of 0.102. This indicates that the SD data are tightly clustered around the mean.

Table 4. R-Square test results

Variable	R-Square	R-Square Adjusted
FV	0.259	0.223
ESG	0.217	0.189

Data source processed, 2026

The test results in Table 4 show that the R-Square value for the firm value model is 0.259, indicating it explains 25.9% of firm value, while variables outside the research model explain the remaining 74.1%. Then the R-Square value for the ESG variable is 0.217, which means it explains 21.7% of the variance in the ESG model, and the remaining 78.3% is explained by other factors outside the research model. The value of R-Square is relatively low, but it does not reduce the validity of the relationship between variables. This low R-Square value naturally occurs in phenomena with high volatility. In addition, this R-Square value suggests that the formation of firm value in the technology sector is complex and may also be influenced by other factors, such as profitability, company size, ownership structure, technological innovation, capital market conditions, and investor sentiment, that are not analyzed in this study.

Table 5. Inflation factor variance test results

	FV	ESG
FV		
ESG	1.278	
FFR	1.097	1.056
FP	1.153	1.148
SD	1.330	1.133

Data source processed, 2026

The VIF test results show a range of VIF values ranging between 1.056 and 1.330, indicating the absence of multicollinearity.

Table 6. Hypothetical results

Path	Coefficient	T-Statistics	P-Values	Result
FFR => FV	0.140	2.095	0.036*	H1 Rejected
FP => FV	0.234	1.981	0.048*	H2 Accepted
SD => FV	-0.107	1.159	0.247	H3 Rejected
ESG => FV	0.863	4.230	0.000**	H4 Accepted
FFR => ESG	0.089	2.294	0.022*	H5 Rejected
FP => ESG	0.032	0.694	0.487	H6 Rejected
SD => ESG	0.196	4.115	0.000**	H7 Accepted
Mediation				
FFR => ESG => FV	0.077	2.056	0.040*	H8 Accepted
FP => ESG => FV	0.028	0.671	0.502	H9 Rejected
SD => ESG => FV	0.169	3.138	0.002**	H10 Accepted

Data source processed, 2026

The result shown in table 6 indicate that hypotheses with p-values below 0.05 are considered significant and are marked with one star (*), Hypotheses with p-values below 0.01 are considered highly significant and are indicated with two asterisks (**). The findings show that five hypotheses were rejected. The relationship between FFR and FV was significant ($p < 0.05$); however, the direction of the effect was inconsistent in line with the proposed hypothesis that FFR would negatively affect FV. The relationship between sustainability disclosure (SD) and FV was also rejected, since it produced a p-value exceeding 0.05 (0.247). Furthermore, the effect of FFR on ESG was significant ($p < 0.05$), but the direction of the relationship was not consistent with the proposed hypothesis. The relationship between financial performance (FP) and ESG, as well as the mediating role of ESG in the relationship between FP and firm value, was also rejected, as the p-values were not significant (0.487 and 0.502, respectively).

Discussion

The influence of FFR on the Firm Value.

The fraud test results show that FFR significantly affects firm value; however, the direction of the relationship is positive, leading to the rejection of H1. Although FFR was hypothesized to decrease firm value, The result show that FFR actually raises firm value. This suggests that pressure to meet financial targets may encourage management to engage in FFR to enhance firm value, thereby making the company appear financially sound (Junus et al., 2025). In response to such reports, investors with limited information tend to react positively. This response may be driven by manipulative practices aimed at maintaining market reputation, thereby keeping the company's share value competitive (Shodiq et al., 2025; Al-Natour et al., 2025). These findings indicate that market mechanisms are not yet fully capable of accurately assessing the quality of financial information, allowing manipulated performance signals to be valued by investors.

The high reliance on short-term accounting information makes FFR appear to represent a genuine improvement in company performance. Consequently, the market tends to provide a positive assessment, even though the valuation does not reflect the company's actual condition. This may ultimately increase demand for shares, thereby enhancing firm value. However, these results are temporary and pose significant risks if FFR is eventually detected by the public (Sun et al., 2025). This confirms that the positive market reaction is driven more by short-term perceptions than by comprehensive evaluations. When FFR is disclosed, it can result in a sharp decline in investor sense of confidence, a significant correction in share prices, and long-term damage to the company's reputation. These findings align with the studies by Shodiq et al., (2025) and Junus et al., (2025), which report that FFR significantly affects firm value.

The Influence of Financial Performance on the Firm Value

The results of the financial performance test indicate that financial performance has a significant positive effect on firm value. Based on these findings, H₂ is accepted. This finding aligns with signaling theory, which suggests that financial performance is an important indicator in evaluating a company's strategic success (Purwanto & Lastanti, 2025; Aboelfotoh et al., 2025). Strong financial performance sends positive signals to stakeholders regarding stability, growth prospects, and the company's capacity to generate profits, thereby enhancing firm value. Furthermore, Financial performance reflects a company's efficiency in managing its resources, the extent to which its assets generate profits, and its ability to meet both short-term and long-term obligations (Rapel et al., 2025).

Strong financial performance is typically followed by increased market confidence and investment interest, which ultimately enhances firm value. Moreover, it represents the overall health of the company's activities and is regarded as an indicator of future business sustainability. Thus, financial performance not only serves as a measure of operational success but also as a determinant of market perceptions of the firm's overall value (Abdullah et al., 2025). These result are consistent with Purwanto & Lastanti, (2025) who state that financial performance positively influences firm value by enhancing investor confidence and promoting firm growth. Similarly, Rapel et al., (2025) conclude that financial performance has a significant positive effect on firm value.

The Influence of Sustainability Disclosure on the Firm Value

The sustainability disclosure test results show that sustainability disclosure negatively affects firm value; thus, H₃ is rejected. Sustainability disclosure represents a form of corporate responsibility toward environmental and social aspects that, in principle, is expected to increase firm value. However, the results indicate an adverse effect on firm value. This indicates that the relatively high costs associated with implementing sustainability initiatives are perceived by the market as an additional financial burden that may reduce the company's profitability, thereby lowering market valuations of firm value (Rukmiyati et al., 2023). Moreover, not all investors are able to adequately assess the quality of sustainability information; consequently, for some investors, sustainability disclosure is not considered value-relevant (Moalla & Dammak, 2025).

Sustainability disclosure without robust standards may increase information asymmetry, raise doubts about report credibility, and reduce firm valuation as perceived risk increases (Van et al., 2024). This effect is reinforced due to investors' focus on short-term returns, whereas the benefits of sustainability disclosure tend to materialize only over the long-term. When the economic benefits of sustainability initiatives have not yet become evident, investors may place greater emphasis on the potential decline in profitability due to higher implementation costs. Thus, limited confidence in the effectiveness of sustainability disclosure in generating economic value is a key factor contributing to its negative impact on firm value.

This condition indicates that sustainability disclosure is not strong enough to influence market valuation if it only reports information. Investors tend to assess the credibility of such disclosures through the real implementation of sustainability practices that are reflected in the company's ESG performance. Therefore, sustainability disclosure more effectively affects firm value when followed by an increase in ESG quality, so it is highly important for companies to ensure that the information submitted reflects the real implementation of sustainability practices in order to provide a stronger signal of economic value to the market. These findings are supported by Anggraini & Ariefiara, (2023) and Van et al., (2024), who report that sustainability disclosure negatively affects firm value.

The Influence of ESG on the Firm Value

The outcomes of the ESG test indicate that ESG has a significant positive effect on firm value; therefore, H₄ is accepted. The adoption of ESG practices has become increasingly emphasized, in line with government regulatory initiatives requiring companies to report their sustainability performance. High-quality ESG disclosure not only reflects a company's commitment to sustainability but also strengthens its relationships with investors. Zheng et al., (2025) Companies demonstrating strong ESG

performance are more likely to meet the expectations of diverse stakeholders. Compliance with environmental, social, and governance standards enhances stakeholder trust and support, thereby increasing firm value by reducing perceived risk and improving growth prospects (Brighi et al., 2025). Robust ESG practices also serve as a risk management tool by reducing potential social, environmental, and governance risks that could impact firm value.

Companies with robust ESG performance are generally more appealing to institutional investors and individuals focused on responsible investing, thereby increasing demand for their shares (Aydoğmuş et al., 2022). Robust ESG performance also reflects effective long-term management, enhancing confidence in the sustainability of financial performance. Thus, ESG is not just a reporting tool, companies need to improve the quality of ESG implementation in an integrated manner in business strategies in order to be able to create added value and increase firm value through reputation, market trust, and lack of business risk. These findings provide an important contribution to the ESG literature by showing that ESG not only serves as an indicator of sustainability but also as a mechanism that links a company's internal practices to market perceptions. In this case, ESG proves to be a strategic factor that explains how financial and non-financial factors translate into a rise in firm value. These findings are consistent with Zheng et al., (2025) and Ayem & Bobat, (2025), who conclude that ESG has a significant positive impact on firm value.

The Influence of FFR on the ESG

The findings of the FFR test show that FFR exerts a significant positive impact on ESG; therefore, H₅ is rejected. This finding indicates that companies engaging in FFR may use ESG as a tool to divert attention from issues in their financial statements. Under such conditions, ESG performance appears to improve, even though it does not reflect the actual quality of governance or reporting integrity (Dengjia et al., 2024). Moreover, stakeholder pressure to maintain a responsible corporate image may encourage companies to expand ESG disclosures to remain acceptable to stakeholders. This phenomenon is often referred to as greenwashing or ESG-washing, whereby sustainability reporting is used as a manipulative strategy to enhance market perception, despite underlying weaknesses in financial and governance fundamentals (Liao et al., 2023; Mandal & Amilan, 2025)

Improvements in ESG may also represent a strategic response to stakeholder pressure; however, they are often merely symbolic and do not result in substantive changes (Passas & Garefalakis, 2025). This condition indicates that the market may react favorably to ESG information even when it cannot fully detect fraud risk. Thus, the impact of FFR does not directly promote genuine sustainability; instead, it may motivate companies to enhance ESG scores as a reputational strategy. These findings are consistent with Passas & Garefalakis, (2025), who report that FFR has a significant effect on ESG.

The Impact of Financial Performance on the ESG

The results of the financial performance test show that financial performance does not affect on ESG; therefore, H₆ is rejected. This indicates that companies with strong financial performance do not necessarily exhibit high levels of ESG disclosure (Yavuz et al., 2025). ESG policies tend to receive greater attention when they are directly associated with reputational risks or increasingly stringent regulatory requirements. ESG performance may improve under strong stakeholder pressure. Thus, improvements in ESG more accurately reflect compliance with stakeholder expectations and long-term strategic considerations rather than short-term financial performance (Abogazia et al., 2024).

Responses to ESG may also arise when companies prioritize financial stability and operational efficiency to achieve corporate objectives (Shehadeh & Hussainey, 2025). Consequently, companies may be reluctant to allocate additional resources to ESG implementation due to its perceived high costs. Under such conditions, firms may limit investment in ESG initiatives, as the economic benefits are not immediately realized. This supports the view that ESG implementation is more strongly driven by external pressures than by internal incentives, such as strong financial performance (Rawashdeh, 2025). Therefore, these findings confirm that financial success does not automatically translate into a

stronger commitment to sustainability practices. The results of this study correspond with Yavuz et al., (2025), who found that financial performance has no impact on ESG.

The Impact of Sustainability Disclosure on ESG

The results of the sustainability disclosure test suggest that sustainability disclosure has a significant positive impact on ESG; therefore, H7 is accepted. This finding suggests that sustainability disclosure provides stakeholders with essential non-financial information regarding the company's impact on ESG-related issues. Higher-quality sustainability disclosure encourages companies to implement substantive sustainability practices rather than merely symbolic actions (Ningly & Rahmadhani, 2025). When companies enhance their ESG programs in accordance with global standards, it reflects more comprehensive and transparent sustainability reporting. Such transparency strengthens corporate credibility by demonstrating a strong commitment to sustainable business practices (Al-Amosh et al., 2024).

High-quality sustainability disclosures are generally accompanied through enhancements in overall ESG performance, as companies are encouraged to ensure alignment between reported information and actual practices (Karim & Djasuli, 2025). Enhanced disclosure also helps minimize reputational risk and increase external oversight, thereby motivating companies to consistently strengthen ESG implementation. Therefore, the greater the quality of a firm's sustainability disclosure, the higher the level of stakeholder trust, which ultimately enhances ESG. These findings correspond with Karim & Djasuli, (2025), who report that sustainability disclosure exerts a significant positive impact on ESG.

ESG mediates the relationship between FFR and Firm Value

The results of the FFR test indicate that ESG successfully mediates the relationship between FFR and firm value; therefore, H8 is accepted. This finding suggests that ESG can mitigate the negative impact of FFR on public confidence by enhancing the quality of governance and internal controls (Li et al., 2024). ESG performance significantly reduces the likelihood of FFR by lowering financing constraints and increasing information transparency, serving as an implicit mediation channel between ESG and FFR behavior (Sun et al., 2025). Furthermore, ESG practices promote greater managerial accountability and strengthen supervisory mechanisms, thereby minimizing opportunities for financial misreporting. The implementation of ESG also enhances the quality of non-financial reporting, enriching the information available to investors and reducing information asymmetry, which is often a key driver of FFR (Fei et al., 2024).

By enhancing investor confidence through strong ESG practices, the risk of negative market perceptions related to potential fraud can be mitigated, thereby preserving firm value (Wang & Liu, 2025). ESG also contributes to building a reputation as a credible and responsible company, ultimately strengthening investors' long-term perceptions of corporate sustainability. Thus, ESG functions as a reputation-protection mechanism that transforms the adverse effects of FFR into stronger firm value by enhancing market confidence and corporate legitimacy. These findings are consistent with Wang & Liu, (2025) who demonstrate that high ESG performance can suppress FFR, indicating that ESG serves as an intermediary between FFR and firm value.

ESG doesn't mediate the relationship between Financial Performance and Firm Value

The results of the financial performance test indicate that ESG does not function as a mediator between financial performance and firm value; therefore, H9 is rejected. This is because financial performance does not significantly influence ESG performance. Financial performance, as measured by liquidity and solvency ratios, is not sufficient to enhance ESG performance. ESG is often perceived as a short-term cost burden that does not substantially increase profitability, thereby weakening the ability of financial performance to enhance the company's market value (Rachmadiansyah et al., 2025). Moreover, investors tend to respond more directly to financial performance, as reflected in profitability

and stability, rather than to ESG commitments that may not generate immediate economic benefits (Assad et al., 2023; Necib et al., 2024).

The implementation of ESG also requires a lengthy process, substantial costs, and structural changes; therefore, its impact on market value may not be immediately observable (Chau et al., 2025). Furthermore, the average level of disclosure is only 46.6%. Thus, the mismatch between financial performance's ability to generate short-term profits and ESG's capacity to create long-term value renders financial performance ineffective as a mediating channel for enhancing firm value through ESG. These findings correspond with Rachmadiansyah et al., (2025), who state that ESG practices have not yet been fully regarded as a strategic competitive advantage by shareholders in determining firm value; consequently, ESG does not mediate the impact of financial performance on firm value.

ESG mediates the relationship between Sustainability Disclosure and Firm Value

The results of the sustainability disclosure indicate that ESG successfully serves as a mediator of the impact of sustainability disclosure on firm value; therefore, H10 is accepted. These findings suggest that sustainability disclosure can enhance firm value through ESG as a mediating mechanism. The direct relationship tested in H3 shows that sustainability disclosure negatively affects firm value, as it is perceived by investors as a cost burden (Duan et al., 2025). On average, only 18.2% of companies engage in sustainability disclosure, indicating a relatively low level of disclosure among technology companies in Indonesia. However, the presence of strong ESG practices can mitigate information asymmetry related to sustainability disclosure (Moalla & Dammak, 2025; An et al., 2025).

Strong ESG practices enable the market to distinguish substantive sustainability strategies from merely symbolic disclosures, thereby reducing the perception of sustainability reporting as a cost burden (Yang, 2024). Robust ESG performance also signals greater transparency, enhances corporate reputation, and lowers perceived investment risk. These findings are consistent with Hamdouni, (2025), who argues that high-quality ESG strengthens the signaling effect of sustainability disclosure and ultimately increases firm value. Similarly, (Norisnita et al., 2025) indicate that companies with greater transparency and informative ESG disclosures gain stronger investor support, improve access to capital markets, and reduce information asymmetry. Collectively, these mechanisms explain how ESG mediates the negative effect of sustainability disclosure on firm value.

4. CONCLUSION

This study shows that FFR exerts a significant positive correlation with the firm value, but the direction is contrary to the initial hypothesis predicting a negative relationship. These findings indicate that the market is not yet fully capable of detecting financial statement manipulation practices, so that manipulated information can still affect investor perceptions in the short term. Conversely, financial performance positively affects the company's value, confirming that it remains a key indicator in decision-making. Meanwhile, sustainability disclosure has no effect on the company's value, indicating that in the technology sector in Indonesia, it is still considered an additional cost and not fully recognized as relevant information. In contrast, ESG has been shown to positively affect firm value and to mediate the link between FFR and sustainability disclosures and corporate value. These findings imply that investors need to consider ESG quality when assessing the sustainability of companies. For technology companies, ESG implementation integrated with governance and business strategy can increase market credibility and trust. Meanwhile, capital market regulators need to strengthen ESG reporting standards aimed at enhancing the transparency of non-financial information. Methodologically, this study also shows that the PLS-SEM approach is effectively used to analyze the complex relationship between financial and non-financial variables, and ESG mediation mechanisms in the formation of firm value. Based on these findings, technology companies are advised to implement ESG more integrally and strategically, not merely as a form of reporting compliance. Then improve governance quality and the transparency of sustainability disclosure as part of a long-term business strategy to strengthen the company's reputation, reduce investor risk perception, and

ultimately increase firm value sustainably. Then, future research is expected to expand the set of sector objects, as well as other research variables, for a more comprehensive understanding.

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