Journal of International Conference Proceedings (JICP)
Vol. 9 No. 5, pp 640-659, November, 2026
E-ISSN: 2621-993X P-ISSN: 2622-0989
https://ejournal.aibpmjournals.com/index.php/JICP/index

Competitive Advantage and Corporate Reputation as Mediators of the Relationship Between Environmental, Social, and Governance (ESG) Disclosure and Firm Value

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ARTICLE INFORMATION

Publication information

Research article

HOW TO CITE
Saleh, S., Wahyuniati, & Fitriyanti, A. (2026). Competitive advantage and corporate reputation as mediators of the relationship between environmental, social, and governance (ESG) disclosure and firm value. *Journal of International Conference Proceedings, 9*(5), 640-659.

DOI:
https://doi.org/10.32535/jicp.v9i5.5224

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Received: 16 September 2026
Accepted: 18 October 2026
Published: 26 November 2026

ABSTRACT

This study investigates how competitive advantage and corporate reputation mediate the relationship between Environmental, Social, and Governance (ESG) disclosure and firm value among non-financial public companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2024. Using purposive sampling, 57 firms that consistently published sustainability reports over the period were selected, yielding 342 firm-year observations drawn from annual reports, sustainability reports, and market data. Panel data regression with the Common Effect Model, together with Sobel mediation tests, was applied to examine the direct and indirect effects of ESG disclosure on firm value through competitive advantage (proxied by Return on Invested Capital) and corporate reputation (proxied by the Market-to-Book Ratio). The results show that ESG disclosure significantly and positively influences competitive advantage, corporate reputation, and firm value. Competitive advantage has a positive but statistically insignificant effect on firm value and does not mediate the ESG-firm value relationship, whereas corporate reputation significantly strengthens firm value and acts as a significant mediator. These findings suggest that ESG implementation enhances firm value not only directly, but also indirectly by reinforcing competitive advantage and, more importantly, corporate reputation as mechanisms for long-term value creation.

Keywords: Competitive Advantage; Corporate Reputation; Environmental Social and Governance (ESG); Firm Value; Tobin's Q

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INTRODUCTION

Environmental, Social, and Governance (ESG) disclosure is a form of non-financial reporting that communicates a firm's commitments and performance across environmental, social, and governance dimensions. Such disclosure has grown increasingly important because it offers insight into non-financial risk, management quality, and a firm's long-term outlook (Abdi et al., 2022). Institutional investors worldwide have also begun factoring ESG information into their investment decisions, viewing it as a reflection of a firm's stability and resilience amid business-environment uncertainty (Feng & Wu, 2021). Under signaling theory, ESG disclosure functions as a positive signal from management to the market that narrows the information gap between firms and investors. Transparent, credible ESG information indicates that a firm is managed responsibly and with a long-term orientation, which in turn can strengthen investor confidence and market perceptions of firm value (Li et al., 2018; Melinda & Wardhani, 2020).

Attention to ESG in Indonesia has also intensified through regulation issued by the Financial Services Authority (OJK), namely POJK Number 51/POJK.03/2017, which requires financial services institutions, issuers, and public companies to prepare and submit sustainability reports. This requirement was reinforced by SEOJK Number 16/SEOJK.04/2021, which sets out guidelines on the structure, content, and disclosure mechanisms of sustainability reporting for public companies. Even so, ESG implementation among non-financial public companies continues to face challenges. The Sustainable Finance Roadmap Phase II (2021-2025) indicates that the quality of sustainability-principle adoption in the real sector remains uneven, particularly among firms whose activities carry substantial environmental and social impact (OJK, 2021). Moreover, the mining, energy, manufacturing, construction, and infrastructure sectors are major contributors to carbon emissions, energy consumption, and environmental pressure in developing countries, including Indonesia (ADB, 2023).

The characteristics of non-financial public companies – whose operations are closely tied to production activities, natural-resource use, energy consumption, industrial waste, labor, and community relations – make ESG an increasingly strategic issue. The practice and quality of ESG disclosure among non-financial firms still vary considerably across sectors, indicating that ESG has yet to be fully internalized as a long-term value-creation strategy. At the same time, fluctuations in the value of non-financial-sector firms during 2019–2024 raise questions about the extent to which ESG practices actually translate into economic value. Non-financial public companies therefore provide a relevant context for examining the relationship between ESG disclosure and firm value, particularly through the channels of competitive advantage and corporate reputation.

Empirically, the relationship between ESG disclosure and firm value remains inconsistent. Several studies find that ESG disclosure positively affects firm value by strengthening investor perceptions of sustainability and management quality (Abdi et al., 2022; Feng & Wu, 2021). Other studies, however, show that ESG disclosure does not always exert a significant effect on firm value and, in some contexts, can even have a negative impact. Sadiq et al. (2020) and Behl et al. (2022) find that markets do not always respond positively to ESG disclosure, as investors may perceive ESG activities as cost-increasing without providing clear short-term economic benefits. This inconsistency suggests that the ESG-firm value relationship does not always operate directly; Rohendi et al. (2024), for instance, show that ESG disclosure has no direct effect on firm value among Indonesian non-financial public companies, becoming significant only once mediated by certain variables.

One mechanism that may help explain this relationship is competitive advantage. Under resource-based view theory, firms build competitive advantage from resources that are valuable, rare, difficult to imitate, and non-substitutable (Barney, 1991). ESG disclosure can be viewed as an intangible resource that reflects governance quality, sustainability commitment, and the quality of a firm's stakeholder relationships. Strategically managed ESG practices can generate differentiation and social legitimacy that support a firm's competitive position (Masliza et al., 2021; Rohendi et al., 2024). Mohammad and Wasiuzzaman (2021) likewise show that ESG disclosure can improve firm performance by strengthening competitive advantage. This study proxies competitive advantage using Return on Invested Capital (ROIC), which captures a firm's ability to generate returns on the capital it has invested.

Beyond competitive advantage, corporate reputation also plays a strategic role in linking ESG disclosure to firm value. Corporate reputation reflects stakeholders' collective perception of a firm's credibility, integrity, and long-term performance. Consistent, high-quality ESG disclosure can strengthen corporate reputation by demonstrating concern for environmental and social issues that are of growing interest to investors and the public (Maaloul et al., 2023). A strong reputation can, in turn, increase market trust and investor interest, thereby supporting firm value; Maaloul et al. (2023) show that corporate reputation mediates the relationship between ESG performance and firm value.

Although prior research has examined the ESG-firm value relationship through either competitive advantage or corporate reputation, most studies test these two variables separately. Research that simultaneously examines competitive advantage and corporate reputation as mediating mechanisms in the ESG-firm value relationship – particularly among Indonesian non-financial public companies – remains scarce. This gap motivates the present study to test both mediating variables within a single model. The 2019–2024 period was chosen because it captures the development of sustainability practices in Indonesia following the implementation of sustainability-reporting regulations, while also spanning the business-strategy dynamics of the COVID-19 pandemic and the rising attention paid to ESG adoption.

This study measures ESG disclosure based on SEOJK Number 16/SEOJK.04/2021, firm value using Tobin's Q, competitive advantage using ROIC, and corporate reputation using the Market-to-Book Ratio (MtB). Firm size, leverage, and the size of the audit committee are included as control variables. Testing both mediating variables simultaneously is expected to provide a more comprehensive account of the mechanisms linking ESG disclosure to firm value among Indonesian non-financial public companies.

Building on this background, the study aims to analyze the effect of ESG disclosure on firm value, competitive advantage, and corporate reputation; to analyze the effect of competitive advantage and corporate reputation on firm value; and to test the mediating roles of competitive advantage and corporate reputation in the relationship between ESG disclosure and firm value among non-financial public companies listed on the Indonesia Stock Exchange during 2019–2024. The findings are expected to enrich the literature on sustainable finance, strategic management, and corporate finance, while offering practical input for corporate managers, investors, academics, the public, and other stakeholders in understanding ESG as part of a broader strategy for sustainability and value creation.

LITERATURE REVIEW

Signaling Theory

Signaling theory explains the information asymmetry that exists between a firm's internal parties and external parties, particularly investors. Managers who hold superior information about a firm's condition and prospects can convey that information through disclosure to reduce uncertainty and help the market value the firm more accurately (Spence, 1973). In the ESG context, transparent, high-quality disclosure can serve as a positive signal of a firm's commitment to sustainability, governance, and social responsibility (Hamdouni, 2025). Such signals can strengthen stakeholder trust and support higher firm value. Signaling theory further suggests that reputation and competitive advantage can act as channels that amplify ESG signals to investors and other stakeholders.

Resource-Based View (RBV)

The resource-based view holds that a firm's competitive advantage and long-term performance are determined by its ability to manage internal resources that are valuable, rare, difficult to imitate, and non-substitutable (VRIN) (Barney, 1991). Such resources include not only tangible assets but also intangible ones such as reputation, capability, and managerial expertise. In the ESG context, sustainability practices can serve as strategic resources that support a firm's competitive advantage, while reputation is likewise regarded as a strategically valuable, hard-to-imitate intangible asset. The RBV therefore provides a foundation for explaining how ESG disclosure can strengthen competitive advantage and reputation, which subsequently contribute to firm-value creation.

Stakeholder Theory

Stakeholder theory holds that a firm's continuity depends on its ability to manage relationships with various stakeholders, including investors, employees, customers, government, and the community (Freeman, 1984). Firms must attend to stakeholder interests to secure trust, legitimacy, and long-term sustainability. In this study, ESG disclosure represents a form of transparency and accountability through which firms meet stakeholder expectations regarding environmental, social, and governance matters. Consistent ESG practice can strengthen firm trust and reputation while supporting competitive advantage, which ultimately contributes to firm value (Freeman et al., 2007).

ESG Disclosure and Firm Value

ESG disclosure conveys information on a firm's performance and policies across three principal dimensions: environmental, social, and governance. In the Indonesian context, this study relies on POJK No. 51/POJK.03/2017 and SEOJK No. 16/SEOJK.04/2021 as the basis for measuring ESG disclosure, which encompasses 32 indicators comprising 13 environmental, 14 social, and 5 governance items.

Theoretically, ESG disclosure can raise firm value because such information helps investors assess risk, management quality, growth prospects, and sustainability. Firms that disclose ESG information transparently may be perceived as better equipped to identify and manage non-financial risk. Lower perceived risk and improved expectations of future cash flow can ultimately be reflected in higher market valuation.

Empirical evidence on the ESG-firm value relationship generally points to a positive tendency, although findings remain less than fully consistent. Aboud and Diab (2019) find that firms with ESG listings and higher ESG rankings tend to command higher firm value. Albitar et al. (2020) likewise document a positive relationship between ESG disclosure and firm performance, while Melinda and Wardhani (2020) find that the

environmental, social, and governance dimensions each positively affect firm value across Asia.

Aydoğmuş et al. (2022) find that an aggregate ESG score positively affects firm value, with the social and governance dimensions showing positive effects while the environmental dimension is not significant. Behl et al. (2022) offer a more dynamic perspective, showing that the effect of ESG on firm value may take time to materialize: early-stage effects can be negative owing to implementation costs before turning positive over the longer term – evidence that ESG functions as a strategic investment whose economic benefits accrue gradually.

These findings collectively suggest that the effect of ESG on firm value can depend on firm characteristics, ESG dimension, observation period, and the value-creation mechanism examined. This study therefore tests not only the direct relationship between ESG and firm value but also indirect pathways through competitive advantage and corporate reputation. Based on this reasoning, the following hypothesis is proposed:

H1: ESG disclosure has a positive effect on firm value.

ESG Disclosure and Competitive Advantage

The relationship between ESG and competitive advantage can be explained through the RBV. ESG practices integrated into corporate strategy can generate valuable capabilities and resources, including efficient resource use, innovation, risk management, stakeholder relationships, and governance quality. When such capabilities are difficult for competitors to replicate, ESG can become a source of sustained competitive advantage.

Firms that manage environmental aspects well, for example, may achieve energy and material efficiencies, reduce costs associated with environmental risk, and develop more sustainable innovations. On the social dimension, strong relationships with employees and communities can support productivity, loyalty, and operational stability, while sound governance strengthens risk control and decision-making quality. Together, these three dimensions have the potential to enhance a firm's ability to generate returns on invested capital.

The findings of Mohammad and Wasiuzzaman (2021) and Rohendi et al. (2024), as drawn upon in this study, support the understanding that competitive advantage relates to a firm's ability to manage resources effectively in order to generate economic advantage. This study accordingly uses ROIC as an indicator of competitive advantage, given that ROIC reflects a firm's ability to generate returns on the capital it deploys.

Firms with stronger ESG disclosure are therefore expected to build more robust internal capabilities, use resources more efficiently, and generate competitive advantage. Based on this reasoning, the following hypothesis is proposed:

H2: ESG disclosure has a positive effect on competitive advantage.

ESG Disclosure and Corporate Reputation

Corporate reputation is stakeholders' collective evaluation of a firm's quality, credibility, integrity, and appeal, shaped through experience with and observation of the firm's conduct and performance over time. Reputation is not built overnight; rather, it accumulates from stakeholders' perceptions of a firm's consistency in meeting their expectations.

ESG disclosure can contribute to reputation formation because it allows stakeholders to assess a firm's commitment to sustainability, social responsibility, and governance. Transparent disclosure signals that a firm attends to stakeholder interests and can manage environmental and social risk, thereby building the trust and legitimacy from which reputation is formed.

Aouadi and Marsat (2018) show that ESG issues and social performance carry implications for how markets value firms: those with strong social performance are better able to withstand the adverse consequences of ESG controversies, suggesting that reputation and social performance can serve as a protective mechanism that helps firms preserve market trust.

This view is reinforced by stakeholder theory, which frames reputation as a consequence of a firm's ability to meet stakeholder expectations. In this study, corporate reputation is proxied by the Market-to-Book Value (MtB) ratio, reflecting how the market values a firm's tangible and intangible assets, including its credibility, trustworthiness, and legitimacy. Based on the foregoing, the hypothesis proposed is:

H3: ESG disclosure has a positive effect on corporate reputation.

Competitive Advantage and Firm Value

Competitive advantage is a firm's ability to create greater economic value than its rivals through the effective deployment of resources and capabilities. Under the resource-based view, resources and capabilities that are valuable, rare, difficult to imitate, and non-substitutable provide the foundation for sustained competitive advantage (Barney, 1991).

Competitive advantage can raise firm value by enabling greater efficiency, differentiation, and performance relative to competitors, sending a positive signal to investors about a firm's capacity to sustain performance and generate future value (Andes et al., 2020; Suroto et al., 2025). Empirical evidence also indicates that competitive advantage is positively related to firm value through improved performance and the relevance of corporate information (Rohendi et al., 2024).

Using ROIC as an indicator of competitive advantage captures a firm's ability to generate after-tax operating profit from invested capital. The more effectively a firm manages its capital, the greater its opportunity to create economic value and sustain its competitive position; higher competitive advantage is therefore expected to strengthen investor perceptions and firm value. Based on this reasoning, the following hypothesis is proposed:

H4: Competitive advantage has a positive effect on firm value.

Corporate Reputation and Firm Value

Corporate reputation is an intangible asset capable of generating economic benefits through greater stakeholder trust, customer loyalty, stronger business-partner relationships, and more favorable investor perceptions. A strong reputation signals that a firm can be trusted and is capable of consistently meeting its commitments.

From an RBV perspective, reputation is an intangible resource that is difficult to imitate; firms with a strong reputation can gain access to better resources, build stronger stakeholder relationships, and reduce uncertainty in business dealings – all of which can enhance a firm's ability to create economic value.

From a signaling-theory perspective, reputation also functions as a quality signal. Because investors lack perfect information about a firm's future performance, a strong reputation can reduce the uncertainty and perceived risk that investors face; when a firm is trusted to have good quality and prospects, the market can award it a higher valuation. Daromes et al. (2022), as drawn upon in this study, show that reputation is linked to stakeholder trust and to perceptions of a firm's ability to sustain its commitments over time. A strong reputation can also support capital access, customer loyalty, and competitive advantage, which are ultimately reflected in firm value. Accordingly, the hypothesis proposed is:

H5: Corporate reputation has a positive effect on firm value.

Competitive Advantage as a Mediator of the ESG-Firm Value Relationship

The direct relationship between ESG and firm value does not fully explain how sustainability information is translated into economic value. The RBV suggests that one such mechanism operates through the formation of strategic resources and capabilities: ESG disclosure backed by genuine implementation can help firms build capabilities in resource efficiency, innovation, risk management, and stakeholder relations.

These capabilities can, in turn, generate competitive advantage reflected in a firm's ability to earn higher returns on the capital it deploys. In other words, ESG can create value not merely because investors respond favorably to ESG information, but also because ESG practice improves a firm's internal capacity to create economic value.

If ESG disclosure can strengthen competitive advantage, and competitive advantage in turn raises firm value, then competitive advantage functions as a mediating mechanism – an argument consistent with the RBV's view of strategic resources and capabilities as the foundation for both competitive advantage and value creation.

Prior studies also suggest that ESG can yield economic benefits through internal firm mechanisms, although most earlier work has tested profitability or financial performance, rather than competitive advantage, as the mediator. Behl et al. (2022) for example, show that the benefits of ESG for firm value may take time to materialize, while Albitar et al. (2020) show that ESG disclosure is positively related to firm performance. These findings open room to test competitive advantage as a mechanism more closely aligned with the RBV's strategic perspective. Based on this reasoning, the following hypothesis is proposed:

H6: Competitive advantage mediates the relationship between ESG disclosure and firm value.

Corporate Reputation as a Mediator of the ESG-Firm Value Relationship

Beyond a firm's internal capabilities, ESG can also create value through an external mechanism: reputation formation. Transparent ESG disclosure provides stakeholders with information about a firm's commitment to sustainability; when that information is trusted and backed by consistent practice, the firm can build a positive image and enhance its reputation (Nurlatifah et al., 2025).

The reputation thus formed can subsequently shape investor assessments. Firms with a strong reputation tend to earn greater stakeholder trust, which can improve perceptions of firm quality and prospects. Kim et al. (2023) show that ESG practice can enhance corporate reputation, which subsequently contributes positively to firm value through greater trust and more favorable market perceptions.

Corporate reputation can therefore be viewed as an external mechanism linking ESG to firm value. The pathway ESG disclosure → corporate reputation → firm value can be explained through both signaling theory and stakeholder theory: ESG functions as a signal of firm quality and commitment, while stakeholders' response to that signal contributes to reputation formation and, subsequently, to market valuation. Qonita et al. (2022) similarly show that reputation can serve as a mechanism linking social-responsibility activities to higher firm value.

These empirical findings reinforce the proposition that corporate reputation can act as a mediator in the ESG-firm value relationship. Nurlatifah et al. (2025) specifically show that reputation mediates the effect of ESG on firm value, making it relevant to test reputation as a mediating mechanism among Indonesian non-financial public companies. Based on the foregoing, the hypothesis proposed is:

H7: Corporate reputation mediates the relationship between ESG disclosure and firm value.

RESEARCH METHOD

Research Design and Object

This study adopts a quantitative approach to examine the effect of Environmental, Social, and Governance (ESG) disclosure on firm value, together with the mediating roles of competitive advantage and corporate reputation. The object of the study is non-financial public companies listed on the Indonesia Stock Exchange (IDX) during 2019–2024. The data are secondary, obtained from the IDX's official website and each sampled firm's official website, primarily through annual reports and sustainability reports.

Population and Sample

The population comprises all non-financial public companies listed on the IDX during the observation period. Based on 2024 data, 956 companies were listed, of which 106 belonged to the financial sector, leaving 850 non-financial companies as the study population.

Sampling was conducted through purposive sampling using the following criteria: (1) non-financial public companies listed on the IDX during 2019–2024; (2) companies that published financial reports consistently throughout the observation period; and (3) companies that published sustainability reports consistently during 2019–2024. These criteria yielded a final sample of 57 companies. With six years of observation, the study produced 342 firm-year observations (57 × 6).

Data Type, Source, and Collection Method

This study relies on secondary quantitative data obtained through documentation of the annual reports and sustainability reports available on the IDX's official website and each company's official website. Data collection employed documentation and content-analysis methods, used specifically to identify the level of ESG disclosure based on predetermined indicators.

Operational Definitions and Variable Measurement

This study uses ESG disclosure as the independent variable, competitive advantage and corporate reputation as the mediating variables, firm value as the dependent variable, and firm size, leverage, and the size of the audit committee as control variables.

ESG disclosure was measured through content analysis based on POJK No. 51/POJK.03/2017 and SEOJK No. 16/SEOJK.04/2021, using a 32-item instrument comprising 13 environmental, 14 social, and 5 governance indicators. Each indicator was scored 0–3 according to the completeness of its disclosure; the scores were then

summed and normalized into an ESG index, with a higher index indicating higher-quality ESG disclosure. Competitive advantage was proxied by Return on Invested Capital (ROIC), which captures a firm's ability to generate after-tax operating profit from invested capital, with a higher ROIC indicating more effective use of capital and resources in creating economic value.

Corporate reputation was proxied by the Market-to-Book Value (MtB) ratio, which represents the market's valuation of a firm relative to its book value, with a higher MtB indicating a more favorable market perception of a firm's prospects and quality. Firm value was measured using Tobin's Q, which represents the market's valuation of a firm's assets and prospects and captures how the market values a firm relative to the assets it holds.

The control variables comprised Firm Size, Leverage, and the Size of the Audit Committee (SOAC). Firm Size was measured as the natural logarithm of total assets (Ln Total Assets), Leverage was measured using the Debt to Asset Ratio (DAR), and SOAC was measured by the number of audit committee members.

Data Analysis Technique

Data were analyzed using panel data regression with the assistance of EViews software, consistent with the study's data structure, which combines a cross-sectional dimension (firms) with a time-series dimension (the 2019–2024 period).

The analysis began with descriptive statistics to describe the minimum, maximum, mean, and standard deviation of each variable. This was followed by panel-model selection through the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test to determine the most appropriate model among the Common Effect Model, the Fixed Effect Model, and the Random Effect Model.

Model testing also included tests for multicollinearity, heteroskedasticity, and autocorrelation to ensure the reliability of the estimates. Hypothesis testing was conducted using the t-test to assess the partial effect of each independent variable, the F-test to assess overall model significance, and the coefficient of determination (R^2) to evaluate the model's explanatory power over variation in the dependent variable.

Research Model

Testing the relationships among variables was carried out through three panel regression equations. The first equation tests the effect of ESG on competitive advantage:

$$CA_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 SOAC_{it} + \varepsilon_{it}$$

The second equation tests the effect of ESG on corporate reputation:

$$MtB_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 SOAC_{it} + \varepsilon_{it}$$

The third equation tests the effect of ESG, competitive advantage, and corporate reputation on firm value:

$$TQ_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 CA_{it} + \beta_3 MtB_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 SOAC_{it} + \varepsilon_{it}$$

Mediation Testing

Mediation testing was conducted to determine whether competitive advantage and corporate reputation serve as mechanisms linking ESG disclosure to firm value. This involved estimating the effect of ESG on each mediator, as well as the effect of ESG, the mediators, and the control variables on firm value.

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E-ISSN: 2621-993X P-ISSN: 2622-0989
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The indirect effect of ESG on firm value through each mediator was tested using the Sobel test. Mediation was deemed significant when the indirect effect showed statistical significance. The type of mediation was then determined based on how the direct effect of ESG on firm value changed once the mediator was included in the model: if the direct effect became insignificant, the mediation was classified as full mediation; if the direct effect remained significant but its coefficient decreased, the mediation was classified as partial mediation.

Hypothesis testing was conducted at a 5% significance level (α = 0.05). A hypothesis was accepted when the coefficient's direction matched the hypothesized direction and the probability value (p-value) was below 0.05.

RESULTS

Table 1. Descriptive Statistics of Research Variables (N = 342)

Variable	N	Minimum	Maximum	Mean
Environmental, Social, and Governance (ESG)	342	0.458	1.000	0.887
Competitive Advantage (ROIC)	342	-12.773	1.340	0.065
Corporate Reputation (MTB)	342	-4.105	60.670	2.799
Firm Value (Tobin's Q)	342	0.228	16.263	1.493

Source: processed secondary data, 2025.

Table 1 shows that all research variables comprise 342 observations drawn from 57 companies over 2019–2024. The ESG variable ranges from a minimum of 0.458 to a maximum of 1.000, with a mean of 0.887, indicating that the sample firms generally exhibit a high level of ESG disclosure. Competitive Advantage (ROIC) ranges from -12.773 to 1.340, with a mean of 0.065, suggesting that, on average, firms generate a 6.5% return on invested capital, although some firms record negative returns. Corporate Reputation (MTB) ranges from -4.105 to 60.670, with a mean of 2.799, reflecting considerable variation in how the market values the sample firms. Firm Value (Tobin's Q) ranges from 0.228 to 16.263, with a mean of 1.493, indicating that, on average, the sample firms' market value exceeds their asset value.

Model Estimation

Table 2. Panel Data Model Estimation Summary

Variable	ROIC	MtB	Tobin's Q
ESG	2.0458***	3.9340***	1.1019***
ROIC	–	–	0.1442
MtB	–	–	0.2846***
SIZE	-0.0511	-0.0181	-0.0029
LEV	-0.1747	0.6522	0.8470***
SOAC	-0.1142	-0.2856	-0.0967
Adjusted R^2	0.0505	0.0912	0.4871
Prob. F-statistic	0.0005*	0.0036*	0.0000*
N	342	342	342

Note: *** significant at α = 1%; ** α = 5%; * α = 10%.

As shown in Table 2, the panel data estimation indicates that ESG has a positive and significant effect on ROIC, MtB, and Tobin's Q. The effect of ESG on ROIC is captured by a coefficient of 2.0458 with a probability of 0.0000, while its effect on MtB is 3.9340 with a probability of 0.0003. In the Tobin's Q model, ESG has a coefficient of 1.1019 with a probability of 0.0005. In addition, MtB and leverage (LEV) both have a positive and significant effect on Tobin's Q, while ROIC, SIZE, and SOAC show no significant effect.

Panel Data Model Selection

Table 3. Panel Data Model Selection Results

Model/Relationship	Chow Test (Prob.)	Hausman Test (Prob.)	LM Test (Prob.)	Selected Model
ESG → ROIC	0.0000	0.1821	0.0000	REM
ESG → MtB	0.0000	0.9367	0.0000	REM
ESG, ROIC, MtB → Tobin's Q	0.0000	0.1526	0.0000	REM

Note: Prob. < 0.05 indicates a significant result.

As shown in Table 3, the Random Effect Model (REM) was selected as the estimation model for every relationship tested in this study. The Chow test yields a probability of 0.0000 across all models, indicating that the Fixed Effect Model (FEM) is preferable to the Common Effect Model (CEM). The Hausman test then yields probabilities of 0.1821 for the ESG-ROIC model, 0.9367 for the ESG-MtB model, and 0.1526 for the model of ESG, ROIC, and MtB on Tobin's Q; because all of these exceed 0.05, H_0 is not rejected and REM is preferred over FEM. The Lagrange Multiplier (LM) test further yields a probability of 0.0000 across all models, confirming that REM is preferable to CEM. Taken together, these results establish REM as the final estimation model for every relationship examined in this study.

Classical Assumption Test Results

Table 4. Classical Assumption Test Results

Classical Assumption Test	Sub-model 1	Sub-model 2	Sub-model 3	Conclusion
Normality (Jarque-Bera)	0.5434	0.8699	0.3941	Satisfied
Multicollinearity (VIF)	1.0000	1.0000	1.0669–1.1306	No multicollinearity
Heteroskedasticity (ARCH)	0.2214	0.9417	0.5586	No heteroskedasticity
Autocorrelation (Durbin-Watson)	1.8550	1.7656	1.9464	No autocorrelation

Note: normality and heteroskedasticity are considered satisfied/absent when p-value > 0.05; multicollinearity is considered absent when VIF < 10; and, based on the criteria applied in this study, no autocorrelation is present when the Durbin-Watson statistic falls within the range of 1–3.

Table 4 shows that all models satisfy the classical assumption tests. The Jarque-Bera normality test yields probabilities ranging from 0.3941 to 0.8699, all exceeding 0.05. VIF values range from 1.0000 to 1.1306, indicating no multicollinearity. The ARCH test yields probabilities of 0.2214 to 0.9417, indicating the absence of heteroskedasticity, while Durbin-Watson statistics of 1.7656 to 1.9464 likewise indicate no autocorrelation under the study's criteria. All three models therefore satisfy the classical assumptions and are suitable for panel data regression analysis.

Mediation Test Results

Table 5. Sobel Test Mediation Results

Mediation Path	Coefficient a	SE a	Coefficient b	SE b	Sobel t-value	t-table	Decision
ESG → ROIC → TQ	2.045800	0.491497	0.144213	0.282804	0.506156	1.98	Not significant

ESG → MtB → TQ	3.933963	1.057976	0.284613	0.027091	3.505303	1.98	Significant

Note: ROIC = competitive advantage; MtB = corporate reputation; TQ = firm value.

The Sobel test results indicate that ROIC does not mediate the effect of ESG on firm value, as the computed t-value (0.506) is below the t-table value (1.98). By contrast, MtB is confirmed to mediate the effect of ESG on firm value, with a computed t-value (3.505) exceeding the t-table value (1.98). The mediation hypothesis for ROIC is therefore rejected, while the mediation hypothesis for MtB is accepted.

Hypothesis Test Results

Table 6. Model Fit and Hypothesis Testing Results

Sub-model	Dependent Var.	R^2	F-statistic	Prob. F	Independent Var.	Coefficient	t-statistic	Prob.	Conclusion
1	ESG → ROIC	0.0627	5.1377	0.0005	ESG	2.0458	4.1624	0.0000	Positive & significant
2	ESG → MTB	0.1202	4.1346	0.0036	ESG	3.9340	3.7184	0.0003	Positive & significant
3	ESG → TQ	0.5117	20.7820	0.0000	ESG	1.1019	3.5907	0.0005	Positive & significant
3	ROIC → TQ	0.5117	20.7820	0.0000	ROIC	0.1442	0.5099	0.6110	Not significant
3	MTB → TQ	0.5117	20.7820	0.0000	MTB	0.2846	10.5060	0.0000	Positive & significant

The results indicate that all regression models are jointly significant, as shown by Prob(F-statistic) values below 0.05. ESG has a positive and significant effect on both ROIC and MTB. In the firm-value (TQ) model, ESG and MTB both have positive and significant effects, whereas ROIC shows no significant effect. The R^2 values indicate that the models explain 6.27% of the variation in ROIC, 12.02% of the variation in MTB, and 51.17% of the variation in TQ, making the third model the strongest in explaining firm value.

DISCUSSION

Effect of ESG on Firm Value

Based on the Random Effect Model (REM) results, Environmental, Social, and Governance (ESG) disclosure has a positive and significant effect on firm value as proxied by Tobin's Q, with a regression coefficient of 1.101919, a t-statistic of 3.590716, and a probability of 0.0005 (< 0.05); the hypothesis is therefore accepted. Higher ESG disclosure is associated with higher firm value because comprehensive disclosure conveys information about a firm's commitment to environmental management, social responsibility, and sound governance, information that strengthens investor confidence, shapes perceptions of a firm's prospects, and informs market valuation. This finding is consistent with signaling theory, under which ESG functions as a positive signal that

reduces information asymmetry and demonstrates a firm's capacity to manage non-financial risk and create future economic value. It also supports stakeholder theory, as ESG transparency reflects accountability to a firm's various stakeholders, thereby strengthening trust, legitimacy, and reputation. From a resource-based view (RBV) perspective, ESG likewise constitutes a strategic, hard-to-imitate resource that reflects organizational culture, governance, managerial capability, and stakeholder relationships.

Among Indonesian non-financial public companies, ESG is becoming an increasingly integral part of business strategy amid growing demands for sustainability reporting, rising investor awareness of sustainable investment, and heightened public attention to environmental and social issues. Transparent ESG disclosure signals a stronger sustainability commitment, thereby strengthening investor confidence and firm value. This finding is consistent with Aditya and Hasnawati (2025), who find that aggregate ESG disclosure positively and significantly affects firm value among IDX ESG Leaders companies, with the social dimension contributing the largest effect. It is also consistent with Aydoğmuş et al. (2022), who show that an overall ESG score positively affects firm value as measured by Tobin's Q, even though the environmental dimension alone is not significant.

In addition, Aouadi and Marsat (2018) show that strong social performance and ESG disclosure can sustain, or even enhance, firm value when a firm faces ESG-related controversies, with ESG disclosure functioning as a form of reputational insurance that preserves investor trust. The better the quality of ESG disclosure, the greater the trust that investors and other stakeholders place in a firm's prospects, which in turn raises market valuation. ESG thus serves not merely as compliance with regulatory obligations but as a strategy for creating added value, strengthening investor trust, and sustaining the firm over the long term.

Effect of ESG on Competitive Advantage

Based on the REM results, ESG disclosure has a positive and significant effect on competitive advantage as proxied by Return on Invested Capital (ROIC), with a regression coefficient of 2.045800, a t-statistic of 4.162389, and a probability of 0.0000 (< 0.05); the hypothesis is therefore accepted. Better ESG disclosure is associated with a greater capacity to build competitive advantage through efficient resource management, risk control, stronger governance, and stakeholder relations. Under the RBV, ESG constitutes an intangible resource that reflects governance, organizational culture, innovation, and the capability to manage stakeholder relationships – a strategic asset that is valuable, rare, difficult to imitate, and non-substitutable, and therefore capable of enhancing operational efficiency, competitive positioning, return on investment, and sustained competitive advantage.

These results also support signaling theory: ESG disclosure signals a firm's management quality, sustainability commitment, risk-management capability, and governance, strengthening the trust of investors, customers, and business partners and thereby reinforcing competitive position. Stakeholder theory, meanwhile, explains that meeting stakeholder expectations can generate customer loyalty, easier access to financing, stronger supplier relationships, and greater employee motivation. Among Indonesian non-financial public companies, growing attention to sustainability reporting, ESG-based investment, and responsible business practice is encouraging firms to integrate ESG into their business strategy, thereby improving efficiency, trust, and competitiveness.

This finding is consistent with Nyuur et al. (2019), who show that CSR has a positive and significant effect on competitive advantage through stronger reputation and stakeholder relationships – a relevant parallel, given that ESG represents an expanded, more

comprehensive evolution of the CSR concept across environmental, social, and governance dimensions. It is also consistent with Mohammad and Wasiuzzaman (2021), who show that ESG disclosure contributes to greater firm competitiveness and reinforces the positive relationship between ESG and firm value. ESG thus emerges as a strategic factor capable of improving capital efficiency, stakeholder trust, and sustained competitive advantage.

Effect of ESG on Corporate Reputation

Based on the REM results, ESG disclosure has a positive and significant effect on corporate reputation as proxied by the Market-to-Book Ratio (MTB), with a regression coefficient of 3.933963, a t-statistic of 3.718387, and a probability of 0.0003 (< 0.05); the hypothesis is therefore accepted. Higher ESG disclosure is associated with a stronger corporate reputation because comprehensive disclosure reflects a firm's commitment to responsible business practice, raising credibility, investor trust, and positive perceptions of firm prospects. This finding aligns with signaling theory, under which ESG signals firm quality, sustainability commitment, governance, and the capacity to manage environmental and social risk, thereby reducing information asymmetry and strengthening investor confidence.

These results also support stakeholder theory: meeting the expectations of investors, creditors, customers, employees, government, and the community through responsible business practice can raise legitimacy and trust, thereby building a strong reputation. Under the RBV, reputation is an intangible resource of strategic value that is difficult to imitate and is built through consistent business practice and harmonious stakeholder relationships; ESG implementation and disclosure serve as the mechanism through which this asset is built. Among Indonesian non-financial public companies, rising demands from regulators, investors, and the public, together with mandatory sustainability reporting, are driving improvements in ESG quality that, through transparency, governance, accountability, and risk management, can strengthen market trust and corporate reputation.

This finding is consistent with Uzliawati et al. (2023), who find that ESG implementation has a positive and significant effect on firm value and reinforces reputation as a strategic asset through greater stakeholder trust and stronger competitive positioning. It is also consistent with Xu et al. (2024), who show that ESG performance positively affects corporate reputation, which subsequently strengthens customer-relationship stability and public recognition. ESG thus functions not merely as compliance with sustainability regulation but also as a strategy for building reputation as an intangible asset that supports competitiveness and long-term sustainability.

Effect of Competitive Advantage on Firm Value

Based on the REM results, competitive advantage has no significant effect on firm value, and the hypothesis is therefore rejected. Although the relationship is positive in direction, higher ROIC has not been shown to significantly raise firm value, suggesting that efficiency in generating returns on invested capital is not yet a primary consideration for investors, who also weigh growth prospects, governance quality, reputation, industry conditions, and macroeconomic factors. Under the RBV, competitive advantage stems from resources and capabilities that are valuable, rare, difficult to imitate, and non-substitutable; ROIC, however, may not fully capture the full range of strategic resources that the market values, such that returns on capital do not necessarily reflect the kind of competitive advantage capable of raising market value.

This finding also offers only partial support for signaling theory, as the theoretically expected positive signal from higher ROIC – indicating a firm's capacity to create sustainable economic value – has not elicited a significant investor response. Information

on capital-use efficiency may not yet be a primary factor in assessing firm prospects relative to ESG disclosure, reputation, and growth prospects. Under stakeholder theory, internal efficiency likewise does not necessarily raise firm value unless its benefits are perceived or experienced by stakeholders. Among Indonesian non-financial public companies, investors are increasingly weighing non-financial factors such as governance, ESG, reputation, innovation, and long-term growth prospects, such that ROIC has yet to exert a significant influence on firm value amid other, more dominant factors shaping market perception.

This result diverges from Suroto et al. (2025), who concludes that competitive advantage is a strategic factor capable of raising firm value through differentiation and efficiency, thereby generating added value for investors. This divergence may stem from differences in research approach: Suroto et al. (2025) relies on a systematic literature review without direct statistical testing, whereas the present study applies panel data regression to Indonesian non-financial public companies using ROIC as the proxy for competitive advantage. Differences in sample, period, and variable proxies may likewise contribute to the differing results. Capital-use efficiency alone therefore appears insufficient to raise market valuation; firms need to combine competitive advantage with higher-quality ESG disclosure, stronger reputation, and sound governance to create higher and more sustainable firm value.

Effect of Corporate Reputation on Firm Value

Based on the REM results, corporate reputation as proxied by the Market-to-Book Ratio (MTB) has a positive and significant effect on firm value as proxied by Tobin's Q, with a regression coefficient of 0.284613, a t-statistic of 10.50597, and a probability of 0.0000 (< 0.05); the hypothesis is therefore accepted. A stronger corporate reputation is associated with higher firm value because a positive reputation reflects investor and stakeholder trust in a firm's performance, governance, and sustainability prospects – trust that raises investment interest and share demand, ultimately increasing market value. This finding is consistent with stakeholder theory, under which a strong reputation is built through harmonious relationships with investors, customers, employees, government, and the community, thereby strengthening legitimacy and stakeholder support.

These results also support the resource-based view, which regards reputation as a valuable, rare, and hard-to-imitate intangible resource capable of generating sustained competitive advantage. Reputation built through consistent performance, sound governance, and positive stakeholder relationships becomes a strategic asset that differentiates a firm from its competitors and strengthens investor confidence in its capacity to create economic value. Signaling theory further explains that reputation serves as a positive signal of credibility, governance effectiveness, and business sustainability that can reduce information asymmetry and raise investor valuations. Among Indonesian non-financial public companies, reputation is becoming increasingly important as attention to sustainable business grows; consistent performance, transparency, sound governance, and environmental and social commitment can strengthen market trust and firm value.

This finding is consistent with Qonita et al. (2022), who find that corporate reputation has a positive and significant effect on firm value, with firms of stronger reputation earning greater investor trust and, consequently, higher firm value. Reputation thus emerges as a strategic asset capable of strengthening market perception and creating firm value, underscoring the importance of firms sustaining their reputation through sound governance, information transparency, and sustainable business practice so that

investor and stakeholder trust is maintained and firm value continues to grow sustainably.

The Mediating Role of Competitive Advantage in the ESG-Firm Value Relationship
The Sobel test results indicate that the indirect effect of ESG on firm value through competitive advantage is not significant. The path coefficient from ESG to competitive advantage is 2.045800 (standard error 0.491497), while that from competitive advantage to firm value is 0.144213 (standard error 0.282804). Multiplying these coefficients yields 0.295031, and dividing by the standard error term of 0.582886 produces a Sobel statistic of 0.506156, below the 1.98 threshold at the 5% significance level; H6 is therefore rejected. Although ESG significantly affects competitive advantage, this effect has not been shown to carry through to firm value via ROIC, indicating that the benefit of ESG for firm value is realized primarily through the direct effect or through mechanisms other than the competitive advantage measure used in this study.

From an RBV perspective, ESG should in principle generate the strategic resources and capabilities that produce sustained competitive advantage, but ROIC may not fully capture every dimension of competitive advantage that ESG helps to build. Signaling theory likewise suggests that, while ESG serves as a positive signal of firm quality and sustainability, investors in this study appear to respond to ESG information more directly, as an indicator of governance and sustainability, than through the channel of capital-use efficiency. Stakeholder theory, meanwhile, does not fully account for this mediating mechanism, since the benefits of stakeholder relationships are more likely realized through greater reputation, legitimacy, and investor trust than through higher ROIC. Among Indonesian non-financial public companies, investors may reward ESG without waiting for improved capital efficiency, while competitive advantage itself also encompasses innovation, human capital, technology, product differentiation, and business strategy more broadly.

Competitive advantage as proxied by ROIC is therefore not shown to mediate the effect of ESG on firm value. This finding suggests that ESG raises firm value predominantly through its direct effect or through mechanisms other than competitive advantage as measured here; ROIC may simply not capture the full dimensionality of competitive advantage as a channel linking ESG to firm value. Future research may therefore consider more comprehensive proxies for competitive advantage, or alternative mediating variables, to more fully explain the mechanisms linking ESG and firm value.

The Mediating Role of Corporate Reputation in the ESG-Firm Value Relationship
The Sobel test results confirm that the indirect effect of ESG on firm value through corporate reputation is positive and significant. The path coefficient from ESG to corporate reputation is 3.933963 (standard error 1.057976), while that from corporate reputation to firm value is 0.284613 (standard error 0.027091). Multiplying these coefficients yields 1.119657, and dividing by the standard error term of 0.319418 produces a Sobel statistic of 3.505303, exceeding the 1.98 threshold at the 5% significance level; H7 is therefore accepted. This finding indicates that ESG raises firm value not only directly but also through enhanced reputation: consistent ESG implementation and disclosure build a positive image, strengthen investor and stakeholder trust, and thereby drive firm value upward, with reputation serving as the connecting mechanism.

This result is consistent with stakeholder theory, under which ESG disclosure, as a form of accountability to investors, customers, employees, government, and the community, can raise support, legitimacy, and trust, thereby building a strong reputation that in turn affects firm value. It also supports signaling theory, as transparent ESG information

signals firm quality and sustainability prospects, reduces information asymmetry, and builds a reputation that reinforces positive investor perception. The resource-based view further regards reputation as a strategically valuable, hard-to-imitate intangible resource capable of generating sustained advantage. Among Indonesian non-financial public companies, growing attention to sustainability, reporting regulation, and ESG-based investment is making reputation an increasingly important link between ESG practice and investor valuation.

This finding is consistent with Siregar and Rasyid (2025), who show that corporate reputation acts as a significant intervening variable in the relationship between sustainability communication and firm value, reinforcing the view that higher firm value depends not only on the disclosure of information to the public but also on a firm's capacity to build a positive reputation as a foundation for investor trust. Corporate reputation thus proves to be an effective mediating variable in the ESG-firm value relationship: the benefits of ESG are optimized when it succeeds in building a positive reputation through transparency, accountability, and consistent responsible business practice, thereby strengthening ESG's contribution to sustainable firm-value growth.

CONCLUSION

This study shows that Environmental, Social, and Governance (ESG) disclosure plays an important role in raising firm value, competitive advantage, and corporate reputation among non-financial public companies listed on the Indonesia Stock Exchange during 2019–2024. ESG disclosure is shown to have a positive and significant effect on firm value, competitive advantage, and corporate reputation. Corporate reputation, in turn, has a positive and significant effect on firm value and significantly mediates the effect of ESG on firm value. Competitive advantage, by contrast, has no significant effect on firm value and does not mediate the ESG-firm value relationship. These findings indicate that the benefit of ESG for firm value is realized more strongly through reputation formation than through competitive advantage as proxied by Return on Invested Capital (ROIC).

Theoretically, these findings reinforce the view that ESG can serve as a strategic resource that benefits firms by strengthening market trust, reputation, and stakeholder perception. Managerially, firms need to position ESG as part of a long-term business strategy rather than merely as compliance with regulatory obligations; consistent implementation and transparent ESG disclosure should be directed toward improving efficiency, managing risk, strengthening stakeholder relationships, and building a positive reputation. For investors, ESG information and corporate reputation can inform assessments of firm prospects, while competitive advantage information may serve as supporting evidence. For the Financial Services Authority (OJK) and the Indonesia Stock Exchange, continued improvement in the quality, consistency, comparability, and credibility of sustainability reporting should be pursued through refined guidelines, stronger oversight, and education.

LIMITATION

This study is subject to limitations that warrant consideration when interpreting its results. Competitive advantage was measured using a single proxy, Return on Invested Capital (ROIC), which was found to have no significant effect on firm value and no significant mediating role, suggesting that this proxy does not fully capture every dimension of a firm's competitive advantage. The sample is also limited to 57 non-financial public companies listed on the Indonesia Stock Exchange during 2019–2024, so generalizing these findings to the financial sector or to periods outside this range should be done with caution. Future research is therefore encouraged to broaden the range of sectors and the observation period to obtain a more comprehensive picture of ESG's long-term

impact, to employ a more diverse set of competitive-advantage proxies beyond ROIC, and to consider additional mediating or moderating variables, such as innovation, corporate governance quality, firm risk, or financial performance, in order to provide a fuller understanding of the mechanisms through which ESG creates firm value.

ACKNOWLEDGMENT
The authors would like to thank the Department of Management, Faculty of Economics and Business, Universitas Halu Oleo, for its support throughout this research, as well as all parties who assisted with data provision and offered valuable input during the preparation of this article.

DECLARATION OF CONFLICTING INTERESTS
The authors have declared no potential conflicts of interest concerning the study, authorship, and/or publication of this article.

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