European Journal of Accounting, Auditing and Finance Research
Vol.12, No. 8, pp.,19-33, 2024
Print ISSN: 2053-4086(Print),
Online ISSN: 2053-4094(Online)
Website: https://www.eajournals.org/
Publication of the European Centre for Research Training and Development-UK

The Impact of ESG Disclosure on Firm Value Relevance: Moderating Effect of Competitive Advantage

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doi: https://doi.org/10.37745/ejaafr.2013/vol12n81933 Published August 11, 2024

Citation: Wahyuni P.D., Utami S.W. and Tanjung J. (2024) The Impact of ESG Disclosure on Firm Value Relevance: Moderating Effect of Competitive Advantage, *European Journal of Accounting, Auditing and Finance Research*, Vol.12, No. 8, pp.,19-33

Abstract: *ESG has become a corporate standard in investment practices that integrate and implement corporate policies in line with environmental, social and governance concepts. In addition, to achieve high corporate value from ESG disclosure, it is necessary to be driven by competitive advantage, which is an advantage strategy for companies that work together to compete more effectively in the market. This study aims to provide empirical evidence regarding ESG disclosure on Firm value with moderated competitive advantage. This research uses a quantitative approach with an explanatory method. The sample used is a company listed on the IDX for the period 2020-2022 which is included in Morningstar Sustainalytics. Regression analysis using Moderated Regression Analysis. The results showed that the ESG Disclosure variable had no significant effect on the relevance of firm value and competitive advantage was able to strengthen the influence of the ESG disclosure variable on the relevance of firm value.*

Keywords: ESG Disclosure, TobinsQ, Competitive Advantage

INTRODUCTION

The rapid development of the economy has caused the business world to compete to achieve its goals, namely to generate profits where the main goal of a company is to maximize the value of the Company. However, at present, in carrying out its business activities, the company does not only focus on profit objectives, but also carefully considers the implementation of the company's operational activities. The survival of a company is highly dependent on how well the company is connected to society and the environment. As a form of concern, companies are required to present these activities in a report commonly referred to as environmental social governance disclosure which includes disclosures regarding corporate social performance, governance performance, and environmental performance. Environmental social governance disclosure is a measure to evaluate the value of the Company. Company value is a very important benchmark for the company. When the company value increases, the company will be able to carry out its business activities optimally, and investors will also have confidence in the quality of the company.

In 2021, CFA Institute conducted a survey of investors to identify environmental, social and governance factors as common considerations in making investment decisions. Only 15% of the 2,800 respondents said they do not consider environmental, social and governance (ESG) factors when making investment decisions. The vast majority of respondents (85%) consider ESG factors when making investment decisions. The majority of this group, representing 77% of respondents, prioritized governance as a key factor in their investment decisions. In addition, 67% of respondents consider social factors and 70% of respondents consider environmental factors (Inawati & Rahmawati, 2023).

Although many companies around the world and in Indonesia are implementing ESG principles, Charid Hader, Office Managing Partner and DNFP Litigation Partner, believes that lack of understanding and awareness is still a big challenge that needs to be overcome. ESG is still narrowly understood and only considers environmental impacts. In fact, there are also social aspects and licensing compliance (governance) that need to be considered. The complexity of ESG is often at odds with limited resources and expertise, which does not take into account cost constraints and ultimately leaves many companies feeling unprepared and hesitant. "ESG is still seen as an unnecessary expense”. However, in the long run, the intent and purpose of its implementation is the future viability of the company. ESG implementation is carried out by companies from various sectors, including mining, which is often in the spotlight due to its extractive nature (hukumonline.com, 2023).

The mining sector plays an important role in the improvement and sustainable development of a country's economy. State budget revenue from the mining and coal industry (Minerba) to date has exceeded IDR 127.9 trillion, exceeding 301.88% of the 2022 target of IDR 42.37 trillion. However, the mining sector is considered an industry that contributes significantly to environmental pollution. Stakeholders believe that the mining industry is vulnerable to unexpected and irresponsible events. Because its locations are usually remote, its activities are extensive and it is often associated with environmental and social issues, its regulations are increasingly tightened (Durlista & Wahyudi, 2023). In addition, at a time when ESG was just being implemented in Indonesia, PT Pertamina was almost in danger of being excluded from ESG assessments. This was due to an oil refinery fire in West Java that threatened the surrounding environment, causing PT Pertamina to decline in the social and environmental sectors of ESG. The government as the regulator issued OJK Regulation No. 51/Pojk.03/2017 regarding the Implementation of Sustainable Finance for Financial Services Institutions, Issuing Institutions, and Public Companies. With an accountability report, companies must be able to communicate their performance and impact (POJK, 2017).

The implementation of ESG in the company can be seen in the company's sustainability report. sustainability report is a reflection of organizational performance in the economic, social, and environmental dimensions that can be a medium for companies to inform their organizational performance to all stakeholders, which in turn can help organizations set goals, measure performance, and manage change so that organizational operations can continue (Indriawati et al., 2022). Sustainability reporting is a medium used by companies to disclose information about ESG implementation and performance. Sustainability reporting is a medium used by companies to disclose information about the company's ESG implementation and performance. ESG disclosure is important for companies to communicate ESG implementation and how the company manages ESG-related risks to stakeholders including investors (Christy & Sofie, 2023). These ESG reports cover the company's use of resources, natural resources, human rights, levels of corruption, how they invest in community relations, and so on.

Competitive advantage is an advantage strategy for companies that work together to compete more effectively in the market. Competitive advantage reflects superior resources to win the competition and achieve strategic goals in the form of corporate value Wijayanto et al. (2019) and can encourage the Company to innovate its products (Romadhani et al., 2022). The existence of competitive advantage has a vital role in the survival of the company and winning the competition (Andes et al., 2020). This argument is reinforced by Barney (1991) who identifies attributes in the company that can be a source of competitive advantage, including valuable, rare, inimitable, and organized. Although the resources owned by the company meet the characteristics of valuable, rare, and inimitable, but not well organized, it will not provide benefits for the company. This indicates that to generate a company's competitive advantage, a system is needed that can organize existing management and policies.

The reason for conducting this research is because ESG disclosure is one of the important indicators to see the value of the Company, namely the value of the Company will be guaranteed to grow sustainably if the Company pays attention to the economic, social and environmental dimensions because sustainability is a balance between economic, social and governance interests. In addition, to be able to strengthen the relationship between ESG and firm value, it is necessary to have a competitive advantage as a differentiator between one company and another. This research contributes especially to stakeholders, especially investors and creditors related to decision making on the responsibility of the business activities that have been carried out, namely ESG generally refers to various environmental, social, and corporate governance considerations that can have an impact on the company's ability to implement its business strategy and create long-term value. A company's good ESG performance affects the increase in company value. With a competitive advantage in moderating the relationship between ESG disclosure and the relevance of the Company's value. It is expected that companies, especially mining companies, not only produce ESG disclosure but can create competitive advantages in order to achieve good corporate value. Based on this, the formulation of the problem to be studied, 1) ESG disclosure has a significant effect on firm value, 2) ESG disclosure has a significant effect on firm value moderated by competitive advantage.

LITERATURE REVIEW

In signalling theory, in a transaction the parties involved have different levels of information from each other where the information has value. Some companies disclose sustainability reports as a signalling mechanism to gain a good reputation and to gain legitimacy from stakeholders by integrating a focus on social and environmental issues into business operations and their interactions with stakeholders (Wood & Mellahi, 2010). Environmental performance focuses on long-term values. Environmental performance allows companies to maintain the sustainability of the resources they use so that these resources can still be enjoyed in the future (Bekefi & Epstein, 2008). Signalling theory provides an understanding that signals are actions taken by company management that provide clues to investors about how management views the company's prospects. This theory reveals that investors can distinguish between high-value companies and low-value companies (Putri & Pernamasari, 2023).According to the resource-based view (RBV) approach, the company's main ability to compete in business is to use competitive advantage (Collis & Montgomery, 2009). Competitive advantage is the company's ability to determine the advantages used in facing business competition which leads to profitability (Wiggins & Ruefli, 2002).

The Effect of ESG Disclosure on Firm Value Relevance

ESG factors can motivate companies to take practical environmental and social measures that are consistent with prioritizing investor interests. Non-financial forms of disclosure, such as ESG disclosure, can also be seen as good signals that are likely to be received by other parties and can influence their decisions. Signalling theory can help reduce information asymmetry between companies and outside parties with the quality and integrity of the financial statement information produced (Wahyuni et al., 2023). A company’s disclosure of non-financial environmental, social and governance information can be a positive signal to investors. If investors perceive a positive signal, the company will be considered good in the eyes of investors, this will lead to an increase in demand for these shares and an increase in the share price which will have an impact on increasing the company’s value. With the increasing interest in conducting assessments using ESG criteria, investors need a mechanism to objectively analyze the company's ESG performance (Mutiah, 2023). This study is in line with those conducted by Bashatweh et al.,(2023) and Cheng et al.,(2024) which state that ESG disclosure has a significant effect on firm value.

The Effect of ESG Disclosure on Firm Value Relevance Moderated by Competitive Advantage

ESG disclosures, including environmental, social and governance practices, can be seen as signals that companies send to investors. Companies seek to provide investors with the best information regarding the health of the company as a positive signal.According to the resource-based approach, firm value is the result of the company's resource performance activities and is useful for expanding competitive advantage (Barney, 1991); (Wiggins & Ruefli, 2002); (Qureshi, 2007). This competitive advantage can be utilized by companies to get a good stock market value. The increase in firm value makes the use of competitive advantage more scalable and it can maintain the company's existence in a particular industry. This indicates that the existence of competitive advantage can affect ESG disclosure on firm value.

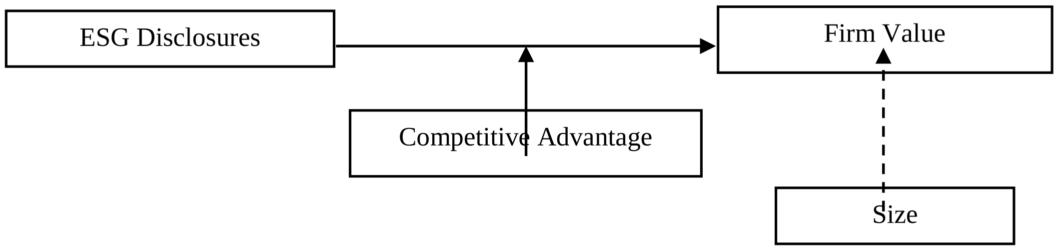

Figure 1. Framework of Research

Hypothesis

H1 = ESG Disclosure Has a Significant Effect on Firm Value Relevance

H2 = ESG Disclosure Has a Significant Effect on Moderated Corporate Value Relevance Competitive Advantage

METHODOLOGY

Research Design

This research uses a quantitative approach. The method used in this research is an explanatory method (Explanatory Research) where information data is collected from the population, the results are collected and then analyzed with the aim of measuring the effect of one variable on another. This method explains the causal relationship between variables through hypothesis testing.

Variable Operationalization

Dependent Variable

Dependent variables or dependent variables are variables that are influenced or that are the result of the existence of independent variables. The dependent variable in this study is the value of the Company as measured using the proxy tobin's Q.

$$\boldsymbol{Firm\,Value = \frac{MVE + Total\,Debt}{Total\,Asset}}$$

Description:

MVE = Share price at closing multiplied by the number of shares outstanding (The share price per share taken is the average closing price of the company's shares every day in one year. The average closing price is calculated by summing up the closing prices for a year and dividing by the number of Exchange trading days in a year.

Total Debt = The total amount of debt that must be paid within a predetermined period

1. If the result of Tobin's Q > 1 means that the company's management is successful in managing the company's assets or assets, <u>Overvalued</u>
2. If the Tobin's Q < 1 means that the company's management has failed to manage the company's assets or assets, <u>Undervalued.</u>
3. If the result of Tobins'Q = 1 means that the company's management is stagnant in managing the company's assets. <u>Average</u>

Independent Variables

The independent variable in this study is ESG disclosure. Proxy ESG disclosure by using the score. The ESG disclosure score is obtained from the Bloomberg database which assesses the ESG disclosure score including three elements contained therein, namely environmental disclosure, social disclosure, and governance disclosure elements in one numerical size ranging from 0 to100.

Moderating Variables

Moderating variables are variables that have a strong dependence (strengthening or weakening) influence on the relationship between the independent variable and the dependent variable. The moderating variable in this study is competitive advantage. Competitive advantage variables are measured using asset utilization capability. Asset Utilization (AU) shows the company's ability to generate income through the use of its assets. The greater the AU shows the greater ability of the company to generate income (Purwanto & Mela, 2021). The formula used is: $AUC = \frac{Sales}{Total\,Asset}$

Population and Sample

The population that is the object of this research is companies that have been listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. Data is taken from the annual report, Bloomberg database. The research method in sampling uses purposive sampling method with the following criteria:

Table 1. Criteria for Sample Selection

Description	Total
Companies listed on the Indonesia Stock Exchange (IDX) and publish complete annual reports during the period 2020 - 2022	920
Companies that do not have an ESG score issued by Bloomberg during the period 2020 - 2022	(845)
Companies with incomplete financial statement data	17
Total company	58
Year of Study	3
Total research data	174

ANALYSIS METHOD

The method of analysis of this research was carried out with descriptive statistics, panel data model test, classical assumption testand regression test. In this study, the regression method used was panel data regression using the SPSS Version 25 statistical program. The regression model used in this study is MRA (Moderated Regression Analysis) or interaction test is a special application of multiple linear regression where the regression equation contains interaction elements (multiplication of two or more independent variables). Before conducting the MRA test, descriptive statistical testing, normality test, classical assumption test (multicollinearity, heteroscedasticity and autocorrelation) then linear regression test and finally MRA (Moderated Regression Analysis) test are carried out. This test is conducted to see the significance of the individual influence of the independent variables in the model on the dependent variable. In this study there are two forms of regression models, namely as follows:
Model 1: TobinsQ = α + β1ESGD + β2Size (Control) + e
Model 2: TobinsQ = α + β1ESGD + β2AUC + β3Size (Control) + β4ESG*AUC + e

RESULTS AND DISCUSSION

Descriptive Statistics Test

Tabel 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TobinsQ	130	.58	2.30	1.2858	.36150
ESGD	130	26.55	69.12	47.2224	10.90794
Size	130	12.42	24.96	18.6616	3.00223
AUC	130	.04	3.82	.5797	.61993
Valid N (listwise)	130				

Firm value is the selling value of a company that investors are willing to pay as a company that supports the growth of the company against the Company's performance as seen from the share price in the stock market. Tobin's Q is a ratio measurement tool that determines the value of a business in terms of the value of tangible and intangible assets. Tobin's Q can also describe the efficiency and effectiveness of a company in utilizing all resources in the form of assets owned by the Company (Dzahabiyya et al., 2020).. The test results obtained a mean value of 1.28, which means that the TobinsQ value > 1, namely the Company's management is successful in managing the Company's assets (overvalued) in producing good Company performance in the stock market. The lowest value of 0.58 is owned by PT Media Nusantara Citra Tbk in 2022. The highest value of 2.30 is owned by PT Tower Bersama Infrastructure Tbk in 2021.
ESG is a corporate standard for investment practices and consists of three concepts or criteria: environmental, social, and governance. Meanwhile, ESG disclosure is a form of public reporting by management regarding the company's performance related to the ESG concept. ESG disclosure helps stakeholders (such as investors, creditors, employees, potential customers, and others) to understand how the company manages ESG risks and opportunities. Ineffective or misleading ESG disclosures can be considered greenwashing. The test results obtained a mean value of 47.22 which means that the level of ESG disclosure of companies in Indonesia according to Bloomberg data is 47.22% which is categorized as large. This indicates that companies in Indonesia already care and implement good investment practices related to the environment, social and governance. The lowest value of 26.55% is owned by PT Sarana Menara Nusantara Tbk in 2020. The highest value of 69.12% is owned by PT Vale Indonesia Tbk in 2022.

Size or company size is a description of the size of a company. The test results obtained a mean value of 18.66, which means that the average company that provides ESG disclosure is categorized as a large company in terms of its total assets in carrying out its operations. The lowest value of 12.42 (IDR 246,943,000,000) is owned by PT

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Telkom Indonesia (Persero) Tbk in 2020. The highest value of 24.96 (IDR 69,385,794,346) is owned by PT Wijaya Karya (Persero) Tbk in 2021.

Competitive advantage is an advantage that can provide added value to a company, and only a few other companies can do the same. In the test results, the mean value of 0.57% is obtained, which means that the total assets owned by the Company to provide added value to sales are still relatively low so that competitors can do the same so that there is a need for innovation and creativity from the management. The lowest value of 0.04% is owned by PT Bank Jago Tbk in 2020 The highest value of 3.82% is owned by PT Erajaya Swasembada Tbk in 2021.

Coefficient of Determination Test

Tabel 3. Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.232[a]	.054	.039	.35443

a. Predictors: (Constant), Size, ESGD
b. Dependent Variable: TobinsQ

In testing the coefficient of determination, the value seen is the R Square value and has a value of 0.054 or 5.4%. This means that the ESG Disclosure variable can explain the relevance of the company value proxied by TobinsQ only by 5.4%, the remaining 94.6% is another factor not examined in this study.

Model Fit Test (F Test)

Tabel 4. Model Fit Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.904	2	.452	3.598	.030[b]
	Residual	15.954	127	.126		
	Total	16.858	129			

a. Dependent Variable: TobinsQ
b. Predictors: (Constant), Size, ESGD

The results of testing the suitability of the model or the F test, stating the sig value. $0.000 \leq 0.05$, meaning that the data model in this study is suitable for examining the company's financial performance proxied by TobinsQ.

Hypothesis Test of Linear Regression

Tabel 5. Linear Regression Test
Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.773	.256		6.933	.000
	ESGD	.001	.003	.017	.197	.844
	Size	-.028	.010	-.229	-2.622	.010

a. Dependent Variable: TobinsQ

In model 1:

The regression coefficient value of the statistical t test on the ESG Disclosure variable (X1) is 0.197 with a significance probability level of 0.844 > 0.05 so it can be concluded that ESG Disclosure has no significant effect on the relevance of the Company's value.

Moderated Regression Analysis

Tabel 6. Uji MRA
Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.906	.264		7.231	.000
	ESGD	-.006	.004	-.183	-1.472	.144
	Size	-.022	.011	-.183	-2.069	.041
	AUC	-.351	.194	-.603	-1.812	.072
	M_ESGD	.010	.005	.773	2.260	.026

a. Dependent Variable: TobinsQ

In model 2:

1. The regression coefficient value of the statistical t test on the ESG Disclosure variable (X1) is -1.472 with a significance probability level of 0.144 > 0.05 so it can be concluded that ESG Disclosure has no significant effect on the relevance of the Company's value.
2. The regression coefficient value of the t statistical test on the competitive advantage variable moderating ESG Disclosure (M_ESG) is 2.260 with a significance probability level of 0.026 > 0.05 so it can be concluded that competitive advantage can moderate the effect of ESG disclosure on the relevance of the company's value.

DISCUSSION

The Effect of ESG Disclosure on the Relevance of Firm Value

In the results of hypothesis testing, it is known that ESG disclosure has no effect on the relevance of the Company's value proxied by TobinsQ. Companies that successfully implement ESG should have a deep understanding of long-term strategic issues and be able to manage long-term goals. ESG information allows for more targeted and realistic analytical forecasts. Investors or shareholders are starting to consider ESG aspects in their investment activities, as well as being used to assess a company. ESG disclosure is a form of report that shows the company's concern for global climate change issues that affect the future of the earth, and affect the sustainability of the company itself and affect the value of the company. This is due to the lack of awareness regarding the compliance of environmental, social and governance factors with applicable standards, and the information disclosed has no effect on company value. Based on the test results, there is no significant relationship between ESG disclosure and firm value. This happens because ESG disclosure is considered a disadvantage for companies so that it reduces their financial performance in a certain period of time which has an impact on firm value. This also contradicts the signal theory, where a signal can be interpreted as a sign given by the company to investors (Durlista & Wahyudi, 2023). the disclosure of ESG factors should be a good signal for stakeholders, especially investors. Because, if a company fulfills its environmental responsibilities in full, it will create a positive and environmentally friendly corporate image from the investor's point of view. Therefore, the signal sent by the company must have the power of information that can change stakeholders' thinking about the company's assessment. ESG disclosure as a form of positive signal should be able to provide a positive response to investors (Ningwati et al., 2022). However, it turns out that it does not have a significant effect because it is still voluntary in its presentation and not many companies in Indonesia have presented ESG disclosure because the costs presented are very large. The results of this study are in line with those conducted Rastogi et al.,(2024) that the company's ESG disclosure does not have a significant effect on the value of the Company.

The Effect of ESG Disclosure on the Relevance of Firm Value Moderated by Competitive Advantage

In the results of hypothesis testing, it is known that competitive advantage can moderate the effect of ESG disclosure on the relevance of firm value. Moderation that occurs is reinforcing where the value of coefficients B is positive. The disclosure aims to convince external parties of the company's performance or ability that is not the same as the conditions of other companies in an industry. Companies signal to investors by providing certain information to show that they are better than other companies in the market to attract investment and enhance a good reputation. The existence of competitive advantage can strengthen the significant influence on the relevance of the Company's value. This is in line with the Resources Based View (RBV), competitive advantage occurs when companies implement value creation strategies that cannot be implemented by competitors at the same time. A company has a competitive advantage if the company can implement a strategy and other companies cannot imitate it or require high costs to reproduce it so that high company value is created. In other words, if a company can manage and utilize existing resources, these resources can create value for the company. The results of this study are in line with those conducted by Mohammad & Wasiuzzaman (2021) that ESG disclosure improves firm performance even after controlling for competitive advantage. Porter et al.,(2019) stated that ESG disclosure is related to the company's competitive advantage because the company provides sustainable solutions to environmental and social issues. Furthermore, by engaging in ESG activities, companies can redefine their product offerings according to society's needs for environmental protection and a better quality of life. Companies that prioritize ESG factors will have a positive impact on their company and can minimize negative impacts on the environment and society, as well as a brand that is viewed positively by investors and can form a good image that is accepted by the community. Companies that create a positive image will increase consumer confidence and affect the value of the company. Investors who incorporate ESG factors into their analysis can identify new opportunities, manage long-term investment risks and avoid poor company performance caused by weak environmental, social and governance practices (Antonius & Ida, 2023).

Implication to Research and Practice

The implication of the research is that investors are expected to consider aspects of investment that are not only seen in monetary measures but must also pay attention to corporate responsibility for the environment, social, and corporate governance towards society, especially in companies classified as sensitive industries. Companies should pay more attention to ESG-related information in their annual reports and useful content for stakeholders so that stakeholders pay attention. Investors should pay attention to the state of the company and provide insight and knowledge when making investment decisions in the company, regardless of short-term financial considerations that will affect the expected long-term performance.

For the government, these findings can highlight and strengthen regulations and policies regarding disclosure of environmental and social responsibility by providing harsher sanctions so that companies realize the importance of this issue.

CONCLUSION

This study provides results that ESG disclosure does not have a significant influence on firm value. but after the existence of competitive advantage it turns out that the results can strengthen the influence of ESG disclosure on firm value. This is in accordance with signalling theory and resource-based view theory which states that companies are required to carry out responsibilities to stakeholders in order to create sustainable management in the company so that it can produce maximum returns to stakeholders.
This indicates that achieving high company value in the eyes of stakeholders is not only in the form of disclosure but also driven by the existence of competitive advantage as a

form of innovation and creativity of the company in producing different and high-value products and services.

Future Research

- Future research can make a comparison of company values in various companies from an ESG point of view.
- ESG measurement is expected to be seen from ESG performance in order to better see the performance and risk of the company for investors.
- Measurement of competitive advantage can be seen from an ESG point of view, namely green competitive advantage.

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