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ESG DISCLOSURE, INTELLECTUAL CAPITAL, FIRM VALUE: MODERATING ROLE OF EARNINGS MANAGEMENT

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ABSTRACT

Purpose: This study seeks to examine the influence of Environmental, Social and Governance (ESG) Disclosure and intellectual capital on firm value moderated by earnings management.

Methodology/approach: This study uses quantitative method by taking a research sample consisting of 38 companies that have consistently implemented ESG from 2019 to 2023 and are not bank financial institutions. The data analysis technique uses data panel regression.

Findings: ESG disclosure has a negative effect on firm value while intellectual capital has no effect on firm value. In addition, earnings management is also able to moderate ESG disclosure to firm value but is not able to moderate intellectual capital to firm value.

Practical implications: Companies need to evaluate how ESG information is delivered in a relevant, accurate and transparent manner so that the disclosure truly reflects sustainable practices and is able to add value and trust from investors. Companies also need to create strategies that are able to increase intellectual capital so that they can be appreciated by stakeholders such as innovating products or providing superior services.

Originality/value: This study is a development of the previous study by adding earnings management as a moderation variable that was not found in the previous study.

Keywords: Earnings Management; Environmental, Social and Governance (ESG) Disclosure; Firm Value; Intellectual Capital



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ABSTRAK

Tujuan penelitian: Penelitian ini memiliki tujuan untuk menganalisis pengaruh *environmental, social and governance (ESG) disclosure* dan *intellectual capital* terhadap *firm value* yang dimoderasi oleh *earnings management*.

Metode/pendekatan: Penelitian ini menggunakan metode kuantitatif dengan mengambil sampel penelitian yang terdiri dari 38 perusahaan yang konsisten menerapkan ESG sejak tahun 2019 sampai 2023 dan bukan merupakan lembaga keuangan bank. Teknik analisis data regresi data panel.

Hasil: *ESG disclosure* berpengaruh negatif terhadap *firm value* sedangkan *intellectual capital* tidak berpengaruh terhadap *firm value*. Selain itu, *earnings management* juga mampu memoderasi *ESG disclosure* terhadap *firm value* tetapi tidak mampu memoderasi *intellectual capital* terhadap *firm value*.

Implikasi praktik: Perusahaan perlu mengevaluasi bagaimana informasi ESG disampaikan secara relevan, akurat dan transparan sehingga pengungkapan tersebut benar mencerminkan praktik berkelanjutan serta mampu menambah nilai dan kepercayaan dari investor. Perusahaan juga perlu membuat strategi yang mampu meningkatkan *intellectual capital* sehingga dapat diapresiasi oleh *stakeholders* seperti melakukan inovasi produk atau memberikan pelayanan yang unggul.

Orisinalitas/kebaharuan: Penelitian ini merupakan pengembangan dari penelitian sebelumnya dengan menambahkan *earnings management* sebagai variabel pemoderasi yang tidak terdapat pada penelitian sebelumnya.

Kata kunci: *Earnings Management; Environmental, Social and Governance (ESG) Disclosure; Firm Value; Intellectual Capital*

INTRODUCTION

An important factor in optimizing firm value is to maintain long-term corporate sustainability, namely by implementing the principles of good corporate governance because for companies that pay attention to environmental, social, and governance (ESG) issues, it will be one of the factors for investors to invest ([De Lucia et al., 2020](#); [Zahroh &](#)

[Hersugondo, 2021](#)). The sustainability of the company's life can be assessed through the relationship created between the company and the surrounding community so that the company begins to pay attention to social responsibility. Companies are required to no longer always focus on the company's profits but must pay attention to the impact of the company's operational activities on the company's environment ([Nugroho & Hersugondo, 2022](#)). This is also consistent with the stakeholder-theory which claims that a firm should benefit all stakeholders, one of which is realized through ESG disclosure ([Andriani & Arsjah, 2022](#)). The disclosure of information related to social responsibility carried out by the company is expected to receive support from investors for the company's activities so that it can achieve maximum profits which in turn the firm's value will also increase.

Sustainability report, which is an important instrument in ESG disclosure, has been required for financial institutions and public companies starting in 2019 and listed companies starting in 2020. However, due to the COVID-19 pandemic, the policy was only implemented in 2021. According to the results of a survey conducted by PwC Indonesia, in 2022, 88% of listed companies in Indonesia have submitted sustainability reports that indicate better information disclosure and sustainability implementation when compared to 2021 which only reached 77%. In addition, the level of public trust in companies that implement ESG in 2022, which is 49%, is higher when compared to 2021 which is only around 37% ([Indonesia, 2023](#))

One form of public trust, in this case, investors in companies that have implemented ESG can be clearly seen in the capital market. Indonesia's capital market is among those that have experienced a positive impact from sustainable investment developments. Public companies in Indonesia that implement ESG continue to increase. In 2015, there was only one ESG-based mutual fund product with an AUM of Rp 36 billion, while as of December 30, 2020, there were 14 products with an AUM of more than Rp 3 trillion. With the increasing ESG awareness among issuers and capital market investors, the Indonesia Stock Exchange (IDX) launched a new index, namely the IDX ESG Leaders, in mid-December ([Keuangan, 2021](#)) From the existing phenomenon, we can see that ESG has a direct impact on the firm value.

In addition to ESG policies and disclosures that companies must adhere to, intellectual capital (IC) is seen to have the potential to influence a firm's value. Intellectual capital is considered crucial in enhancing a firm's value. Companies that can efficiently employ intellectual capital will raise their market value, therefore investors will choose companies with high intellectual capital over companies with low intellectual capital ([Verawaty, 2022](#)). The three elements of intellectual capital are human capital, structural capital and employed capital, are combined to increase the firm's value.

Beside the theories presented above, there are also some inconsistent studies. According to [Ningwati et al. \(2022\)](#); [Prabawati and Rahmawati \(2022\)](#), ESG has a negative effect on firm value, however [Aydoğmuş et al. \(2022\)](#); [Chang and Lee \(2022\)](#) believe that ESG has a positive effect on firm value. According to [Rabaya et al. \(2020\)](#); [Suzan and Ramadhani \(2023\)](#) research, intellectual capital has a partial and simultaneous effect on firm value, however [Sholikhah and Hermawan \(2022\)](#); [Verawaty \(2022\)](#) found that intellectual capital had no effect on firm value.

The novelty of this study is that the researcher tries to raise the earnings management variable as a moderating variable to associate ESG disclosure and intellectual capital variables with firm value that has never existed in previous research. Earnings management is considered an action that prioritizes the interests of the company manager by putting aside the interests of investors so that it will affect investor confidence in a company. The difference in interests

between company management and company owners (investors) is known as agency-theory ([Jensen & Meckling, 2019](#)). Earnings management practices are considered to reduce the firm value as perceived by investors because companies that implement earnings management are considered to reduce the value of financial statements and provide irrelevant information for investors in making decisions. Interestingly, the results of research conducted by [Adiasih et al. \(2018\)](#); [Prior et al. \(2008\)](#) stated that ESG has a positive relationship with earnings management where if management implements earnings management practices, they will also implement ESG practices with the aim of reducing information asymmetry for both internal and external parties of the company. Another thing that is of interest to researchers is that by implementing intellectual capital, it not only increases the firm value but is able to reduce the company's earnings management practices ([Andriani & Arsjah, 2022](#)).

The influence between ESG Disclosure and firm value is supported through stakeholder theory, which emphasizes that ESG disclosure can increase information transparency and create interaction with stakeholders and is useful for decision-making that will lead to improved financial performance and ultimately increase firm value ([Andriani & Arsjah, 2022](#)). With ESG practices, companies are believed to be able to build a better reputation and strengthen trust from various stakeholders and this is important in stakeholder theory which views trust as a factor in the company's long-term success.

Companies that maintain long-term corporate sustainability by applying corporate governance principles that focus on environmental, social, and governance (ESG) issues will be one of the factors that can be attractive for investors to invest ([De Lucia et al., 2020](#); [Zahroh & Hersugondo, 2021](#)). Good governance can increase the firm value which is reflected in the increase in stock prices because investors assume most of the company's profits will go back to investors in the form of dividends ([Jensen & Meckling, 2019](#)). In addition, investors tend to be interested in companies that have a commitment to social and environmental responsibility because this is not just the fulfillment of ethical responsibilities and needs, but is considered an important factor that is able to increase the long-term value of investment so that companies are required to be more transparent and responsible for the company's business practices related to ESG issues ([Rismanto, 2024](#)). ESG practices are able to increase trust and loyalty from stakeholders and investors so that this has a positive impact on the stock price and the company's overall value.

Previous studies have also supported that ESG has a positive effect on firm value. Some of them are research conducted by [Fatemi et al. \(2018\)](#), [Quintiliani \(2022\)](#) which researches public companies in various sectors in Europe stating that ESG has a positive effect on firm value. Research conducted by [Wu et al. \(2022\)](#) who researched public companies in China found that ESG has a positive effect on firm value. The results of a study conducted by [Aydoğmuş et al. \(2022\)](#) which took 5000 public companies with the largest market capitalization from around the world also found that ESG has a positive effect on firm value.

H_{A1}: Environmental, Social and Governance (ESG) Disclosure Has a Positive Effect on Firm Value

Intellectual Capital is considered to be able to increase the firm value. Intellectual capital is an intangible resource that can have a significant influence on a company's performance and value. Companies that have intellectual capital and if used efficiently, will increase competitive advantages and value added for the company ([Yunita & Prastiwi, 2021](#)). The relationship between intellectual capital and firm value is supported through resource based theory. The company's resources are divided into three categories. First, physical capital,

consisting of technology, factories and equipment, geographical location, and access to raw materials. Second, human capital consists of training, experience, intelligence, and relationships between managers and employees. Third, organizational capital consists of formal structures in the company, formal and informal planning, control systems and relationships between groups in the same company and with other companies ([Barney, 1991](#); [Radjenovic & Krstic, 2017](#)).

According to resource based theory, a company cannot achieve optimal intellectual capital if it is not supported through good company systems and operations. By establishing a good relationship between human capital and capital structure, it will improve business performance which can provide benefits for both parties which will ultimately increase the firm's value ([Verawaty, 2022](#)). Based on this theory, companies that manage intellectual capital effectively can create a competitive advantage so that they cannot be imitated by competitors ([Barney, 1991](#); [Radjenovic & Krstic, 2017](#)). Therefore, investors tend to invest in companies that have higher intellectual capital than companies with lower intellectual capital. Investment from investors is one of the measures of the firm's value, the greater the capital invested by investors, the greater the firm's value ([Yunita & Prastiwi, 2021](#)).

Many studies support that intellectual capital has a positive effect on the firm value. Some of the research is a study conducted by [Salvi et al. \(2020\)](#) who researched companies in the financial sector stated that intellectual capital has a positive effect on firm value. Research conducted by [Yunita and Prastiwi \(2021\)](#) on the Indonesian stock exchange stated that intellectual capital has a positive effect on the firm value. Research conducted by [Ni et al. \(2021\)](#) on companies in Taiwan, [Nguyen and Doan \(2020\)](#) in Vietnam also stated that intellectual capital has a positive effect on firm value.

H_{A2}: Intellectual Capital Has a Positive Effect on Firm Value

ESG implementation requires very expensive costs so that it can reduce the company's profits. Small company profits are a reason for a manager to practice profit management, especially for investors who view profits as an indicator of company performance ([Adlah & Febrianto, 2023](#)). Managers who typically practice profit management will also disclose ESG activities because they consider the information asymmetry between the company's internal parties (managers and directors) as well as the company's external parties (shareholders) ([Adiasih et al., 2018](#); [Prior et al., 2008](#)). ESG disclosures can show investors that the company is dedicated not only to maximizing shareholder wealth but also to improving the welfare of the communities it serves. The attractiveness in terms of optimal profits and ESG disclosure, this builds a positive perception from investors so that it can affect stock trading volume and ultimately increase the firm's value.

However, research conducted by [Almubarak et al. \(2023\)](#) which examined the relationship between ESG, earnings management, and financial distress found a positive relationship between these variables. This research was conducted in Saudi companies which concluded that companies that practice ESG may also apply profit management to maintain a good perception in the eyes of stakeholders. ESG disclosures are done to hide bad financial practices and strengthen the company's positive image, especially in situations of financial difficulties.

H_{A3}: Earnings Management as a Moderation of Environmental, Social, and Governance (ESG) Disclosure to Firm Value.

The practice of earnings management is deliberately carried out by management to show that the company's performance is better than it actually is, so that this practice can make

intellectual capital appear positive because it can create the impression of a well-managed relationship and reputation of the company (Mohapatra & Pattanayak, 2024). In addition, it is based on the resource-based theory that companies will achieve a competitive advantage if they use resources, especially intangible assets, efficiently. Therefore, if intellectual resources are managed properly and efficiently, a competitive advantage will be achieved which in the end the firm's value can increase and profit management behavior can be reduced (Andriani & Arsiah, 2022). Through the practice of earnings management, companies try to show stakeholders that their intellectual capital provides profitable results, even though financial performance does not reflect the actual state (Mohapatra & Pattanayak, 2024).

The results of the research from Mohapatra and Pattanayak (2024) concluded that intellectual capital, especially structural capital, is positively related to the company's performance. The company's profit management practices can hide the true impact of existing intellectual capital so companies need to balance transparency and effective management of the company's intangible assets to optimize performance.

H_{A4}: Earnings Management as a Moderation of Intellectual Capital on Firm Value

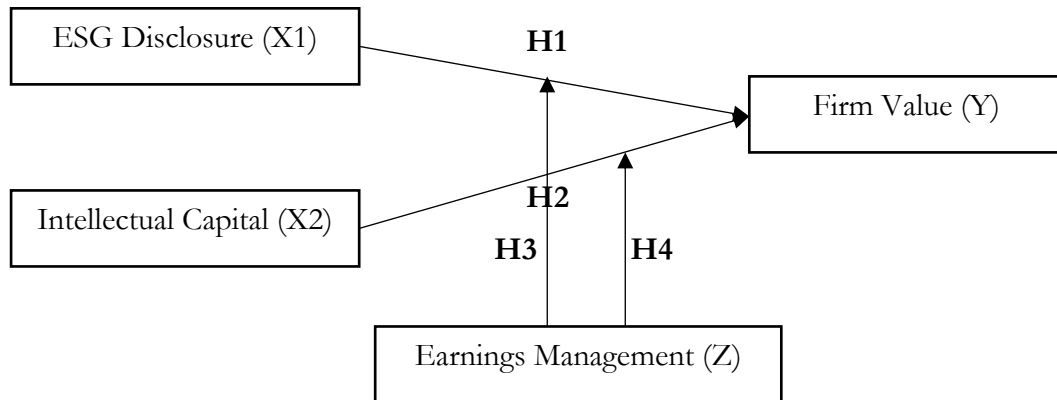


Figure 1. Research Model

Source: Data Author

METHOD

This study employs an indirect data collection technique, utilizing secondary data. The data is obtained from official sources, including the Indonesia Stock Exchange (www.idx.co.id) and Refinitiv Eikon, regarding publicly listed companies on the Indonesia Stock Exchange for the period between 2019 and 2023.

The sampling method used is purposive sampling, where the sample is chosen based on specific criteria. The study focuses on 38 companies listed on the Indonesia Stock Exchange over a 5-year span (2019-2023) that meet those criteria.

	Description	Number of Companies
Population	Companies traded on Indonesia Stock Exchange 2023	944
	Companies that are not consistent in implementing the ESG concept from the period 2019 to 2023.	(900)

Companies that are financial institutions, especially banks	(6)
Number of Companies Sampled	38
Number of Companies Sampled x 5 periods	190

Table 1.
Table Criteria Sampling

Source: Data Processed (2024)

The regression models formed based on this study are:

$$FV = \alpha_0 + \alpha_1ESG + \alpha_2IC + \varepsilon \dots \dots \dots (1)$$

$$FV = \alpha_0 + \alpha_1ESG + \alpha_3EM + \alpha_5ESG*EM + \varepsilon_1 \dots \dots \dots (2)$$

$$FV = \alpha_0 + \alpha_2IC + \alpha_4EM + \alpha_6IC*EM + \varepsilon_2 \dots \dots \dots (3)$$

FV represents the firm value which in this study is measured by tobin's Q; α_0 represents the constant of a regression equation; α_1ESG is an Environmental, Social and Governance (ESG) variable measured through ESG score; α_2IC is a representation of the intellectual capital variable; α_3EM and α_4EM are representations of the variables of the earnings management measure; $\alpha_5ESG*EM$ is a representation of environmental, social and governance (ESG) variables multiplied by earnings management; α_6IC*EM is a representation of the intellectual capital variable multiplied by earnings management while ε is an error term, which is the level of error of the estimator in the research.

DEFINITION OPERATIONAL VARIABLE

Variable	Variable Measurement	Measurement Scale
ESG (X ₁)	ESG Score	Ratio
Intellectual Capital (X ₂)	Structural Capital (SC) = Value Added (VA) – Human Capital (HC) VACE efficiency = Value Added (VA) / Capital Employee (CE) VAHC efficiency = Value Added (VA) / Human Capital (HC) SCVA efficiency = Structural Capital (SC) / Value Added (VA) ICE = VAHC + SCVA VAIC = (VACE + ICE) atau (VACE + VAHC + SCVA)	Ratio
Firm Value (Y)	$Q = \frac{(MVE + Debt)}{Total\ asset}$	Ratio
Earnings Management (Z)	$DA_{it} = TA_{it} / A_{it-1} - NDA_{it}$	Ratio

Table 2.
Definition Operational Variables

Source: Data Author

This study uses panel data regression analysis in data testing supported through the Eviews 12 program. Panel data regression is a combination of cross section data and time series data observed over a certain period of time. There are three models that are often used to estimate

model parameters in the data panel, namely the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Widarjono, 2007). The common effect and fixed effect models use the Ordinary Least Square (OLS) approach in their estimation techniques, while the random effect uses Generalized Least Square (GLS) as the estimation technique. The classical assumption test was also tested in a regression using the Ordinary Least Square (OLS) approach. However, in the regression of panel data, not all classical assumptions are tested in the OLS method, which focuses only on the multicollinearity test and the heteroskedasticity test (Iqbal, 2015).

The multicollinearity Test was used to assess whether there was a relationship between each independent variable. If the value of the correlation coefficient between each variable > 0.80, then the data has a problem of multicollinearity (Widarjono, 2007). The Heteroskedasticity test is used to determine whether the residual of the model has a constant variance or not. If the probability value > 0.05, it can be concluded that the data is free from heteroskedasticity problems.

To determine which model to use, there are three estimation techniques in the data panel, namely first, the statistical test F (Chow Test) to determine the common effect method or the fixed effect method. Second, the Hausman test is used to determine between the fixed effect method or the random effect method. When, the Lagrange Multiplier (LM) test is to choose between the common effect or random effect method (Widarjono, 2007).

After we know the type of model to be used, next we test the hypothesis with panel data regression including moderation tests. To test the existence of moderation variables whether as pure moderators, quasi-moderators or not moderating variables can be determined through the output value of each interaction between independent variables and moderating variables. A pure moderator occurs when one of the following is significant: either the moderating variable's effect on the dependent variable (first output) or the interaction between the independent and moderating variables (second output). If both the moderating variable's direct effect on the dependent variable and its interaction with the independent variable are significant, it is considered a quasi-moderator. However, if neither the moderating variable's direct effect nor its interaction with the independent variable is significant, then no moderation is present (Tambun, 2013).

RESULT AND DISCUSSION

Descriptive Analysis

The value of ESG and earning management has a higher mean value compared to the standard deviation value which means that the deviation value is small, and the data variation is low while the intellectual capital and firm value variable has a lower mean value when compared to the standard deviation value which means the deviation value is high and the data variation is high.

	N	Minimum	Maximum	Mean	Std. Deviation
ESG	190	13.58	87.52	51.11	18.67
IC	190	-22.5	40.37	4.83	5.47
EM	190	-0.07	0.38	0.11	0.093
LN_FV	190	-1.19	2.67	0.24	0.571
Valid N (listwise)	190				

Table 3.
Descriptive
Analysis

Source: Data Processed (2024)

Data Panel Modelling

The first step in regression of panel data is to test the parameters of the model to determine the right approach method. Chow's test concluded H_1 was acceptable so the FEM model was the right model that could be used in this study. The Hausman test concluded that H_1 was acceptable so that the FEM model was the right model that could be used in this study. The Lagrange Multiplier test does not need to be continued because it has been concluded through the Chow test and the Hausman test if the most appropriate FEM model is used in this study.

Test Statistics	p – value	Criterion
Chow Test	$0.0000 < \alpha = 5\%$	H_1 Accepted: The Corresponding FEM Model
Hausman Test	$0.0056 < \alpha = 5\%$	H_1 Accepted: The Corresponding FEM Model

Table 4.
Test Result Using R Application

Source: Data Processed (2024)

Because the research model to be used is the FEM method, a multicollinearity test and a heterokedasticity test will be carried out. Because the value of the correlation coefficient between each variable is below 0.80, the data is free from the problem of multicollinearity.

	ESG	IC	EM
ESG	1.000	0.018	-0.051
IC	0.018	1.000	0.212
EM	-0.051	0.212	1.000

Table 5.
Multicollinearity Test

Source: Data Processed (2024)

The heteroskedasticity test results show that all significance values exceed 0.05, indicating that the data in this study does not exhibit heteroskedasticity issues.

Coefficients	
Variables	Sig.
(Constant)	0.0045
ESG	0.1681
IC	0.7381
EM	0.1052

Table 6.
Heteroskedasticity Test

Source: Data Processed (2024)

Hypothesis Test

Even though the ESG value is below 0.05, but because the statistical t value is negative, it can be concluded that ESG has a negative effect on the firm's value, while the Intellectual Capital value above 0.05 can be concluded that intellectual capital has no effect on the firm's value. Therefore, both hypothesis 1 and hypothesis 2 in this study are unacceptable. The regression model formed in this study is $LN_FV = -0.75378 - 0.01015ESG + 0.00028IC + \epsilon \dots \dots (1)$

Coefficients			
Variables	Coefficients	t-Statistic	Prob.
(Constant)	0.75378	5.7874	0
ESG	-0.01015	-4.0278	0.0001

Table 7.
Table Hypothesis Testing 1 and 2

IC	0.00028	0.073	0.9419
R-Squared			0.8633
Prob(F-Statistic)			0.0000

a. Dependent Variable: LN_FV

Source: Data Processed (2024)

The value of earnings management in model 1 is not significant ($0.3148 > 0.05$) while the value of ESG*EM in model 2 is significant ($0.0357 < 0.05$), so earnings management is considered as a pure moderator so hypothesis 3 is accepted. The regression analysis model formed was $LN_FV = 0.5827 - 0.0063ESG + 1.6540EM - 0.0371ESG*EM + \epsilon \dots \dots \dots (2)$

Table 8.
Table
Hypothesis
Testing 3

Coefficients ^a						
	Model 1			Model 2		
Variables	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
(Constant)	0.8108	5.7590	0.0000	0.5827	3.3123	0.0012
ESG	-0.0103	-4.1044	0.0001	-0.0063	-2.0028	0.0470
EM	-0.4035	-1.0087	0.3148	1.6540	1.5779	0.1167
ESG*EM				-0.0371	-2.1195	0.0357
R Square			0.8642			0.8682
Prob(F-Statistic)			0.0000			0.0000

a. Dependent Variable: LN_FV

Source: Data Processed (2024)

The value of earnings management in model 1 is not significant ($0.4991 > 0.05$) while the significance value of IC*EM in model 2 also is not significant ($0.0763 > 0.05$), so earnings management is not a moderator variable so hypothesis 4 is rejected. The regression analysis model formed is $LN_FV = 0.2247 + 0.0085IC + 0.0545EM - 0.0530C*EM + \epsilon \dots \dots \dots (3)$

Table 9.
Table
Hypothesis
Testing 4

Coefficients ^a						
	Model 1			Model 2		
Variables	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
(Constant)	0.2697	5.1496	0.0000	0.2247	3.888	0.0002
IC	0.0004	0.1032	0.9179	0.0085	1.3719	0.1722
EM	-0.3033	-0.6775	0.4991	0.0545	0.1117	0.9112
IC*EM				-0.0530	-1.7852	0.0763
R Square			0.8489			0.8521
Prob(F-Statistic)			0.0000			0.0000

a. Dependent Variable: LN_FV

Source: Data Processed (2024)

DISCUSSION

Effect of Environmental, Social and Governance (ESG) Disclosure on Firm Value

Based on the results of this study, ESG disclosure has a negative effect on firm value. This research is in line with research conducted by [Mendiratta et al. \(2023\)](#), [Derrien et al. \(2021\)](#), [Ningwati et al. \(2022\)](#), [Prabawati and Rahmawati \(2022\)](#) who also stated that ESG has a negative effect on firm value. The main goal of a company is to increase investor wealth so that non-financial goals sometimes make the company less effective. Non-financial information such as ESG is considered to fulfill the demands of stakeholders charged to the

company so that it will cause agency conflicts. Investors have the assumption that ESG is an expensive activity and detrimental to the interests of investors so investors prefer not to invest which will ultimately reduce the firm value ([Friedman, 2007](#)).

In addition, sometimes for investors who value profit as a measure of a company's performance, implementing ESG can certainly increase operational costs so that this can reduce profits and ultimately reduce the firm's value, especially if investors consider ESG costs as expenses that will not provide profits in a short period of time. The results of this study are not in line with stakeholder theory which states that ESG disclosure can increase information transparency and create interaction with stakeholders and is useful for decision-making that will lead to improved financial performance and ultimately increase firm value ([Andriani & Arsjah, 2022](#)).

Effect of Intellectual Capital on Firm Value

Based on the results of this study, intellectual capital has no effect on firm value. This research is in line with research conducted by [Sholikhah and Hermawan \(2022\)](#), [Verawaty \(2022\)](#), [Wafiyudin et al. \(2020\)](#), who also stated that intellectual capital has no effect on the firm's value. The results of this study are not in line with the resource-based theory that states that companies are able to achieve optimal intellectual capital if supported through good corporate systems and operations. In this case, investors consider intellectual capital not as the only factor that can increase the firm value. Investors tend to rely more on information from tangible assets and the number of physical assets controlled by the company to assess the effectiveness of the company than to assess intangible assets, so this can be one of the reasons why intellectual capital is not able to affect the firm value ([Ponirah et al., 2021](#)).

In addition, although intellectual capital is considered important for a company in creating a competitive advantage, the results of intellectual capital management cannot directly affect financial statements because it is influenced by the nature of intellectual capital itself, namely difficulties in the measurement process because intellectual capital also consists of intangible assets. For example, human resource management and innovation carried out by the company will not be directly reflected in profits or increased revenues so that these circumstances will not affect the firm's value, especially for investors who make profits as an indicator of the company's success.

Effect of Earnings Management as a Moderator of Environmental, Social, and Governance (ESG) Disclosure on Firm Value

The results of this study conclude that earnings management is able to moderate ESG disclosure of firm value. Earnings management is able to be a pure moderator, which means that earnings management is able to strengthen the relationship between ESG disclosure and firm values. Managers who typically practice profit management will also disclose ESG activities because they consider the information asymmetry between the company's internal parties (managers and directors) as well as the company's external parties (shareholders) ([Adiasih et al., 2018](#); [Prior et al., 2008](#)). ESG disclosures can show investors that the company is dedicated not only to maximizing shareholder wealth but also to improving the welfare of the communities it serves.

ESG disclosure is also able to improve stakeholder perception and hide financial weaknesses that occur in the company so that by doing so, this practice can increase investor confidence in the company's sustainability efforts which will ultimately affect the firm's value both through the cost of capital and through lower debt.

Effect of Earnings Management as a Moderator of Intellectual Capital on Firm Value

The results of this study conclude that earnings management is not able to moderate intellectual capital against the firm value, so it can be concluded that earnings management is not a moderation variable in this study. Intellectual capital is difficult to measure quantitatively, so it is difficult to relate to firm values, such as knowledge, employee skills, intangible business relationships, and difficult to manipulate through profit management practices ([Verawaty, 2022](#)). Intellectual capital, especially human capital and structure capital, is a resource that is not reflected in financial statements so that it cannot be manipulated through profit management practices. In addition, profit management is carried out to achieve short-term goals such as affecting or reducing profit fluctuations. However, intellectual capital focuses on creating more sustainable long-term value. Because of this difference in objectives, earnings management is not directly related to the long-term impact of intellectual capital so that in the end it will not affect the firm's value ([Fanni & Fuad, 2019](#)).

CONCLUSION

The results of this study show that ESG Disclosure has a negative effect on the firm's value. ESG disclosure can have a negative effect on the firm's value if investors assume that ESG is an activity that requires a very large amount of funds that are ultimately charged to investors so that investors choose not to take the risk by investing capital in companies that implement ESG. Therefore, based on the results of this study, the implication of the research in this case is that companies need to evaluate how the ESG disclosures submitted are more relevant, accurate and transparent so that the disclosures reflect substantial sustainability practices and not just formalities that are detrimental to the company and investors.

This study shows that intellectual capital has no effect on the firm value. Intellectual capital has no effect on the firm value due to the difficulty in accurately reporting and measuring intellectual capital because the nature of intellectual capital is intangible and not always reflected specifically in the financial statements so that intellectual capital is often not fully reported and the influence on the firm value will be reduced. Therefore, based on the results of this study, the implication of the research in this case is that companies need to find strategies to increase intellectual capital that affect the company's performance such as innovating products or providing superior services so that it is hoped that this strategy will be able to increase the firm's value for investors.

This study shows that earnings management is able to moderate ESG disclosure of firm value. This is because managers who usually practice earnings management will also disclose ESG activities because they consider the information asymmetry between the company's internal parties (managers and directors) as well as the company's external parties (shareholders). This practice is carried out to maintain profitability that can be seen by investors in financial statements so that ESG is sometimes used as a means to protect the reputation of the company so that the firm's value also seems to increase in the eyes of investors. Therefore, based on the results of this study, the implication of this research for companies is that companies must consider when implementing this practice because it will reduce investor confidence if dishonesty is found in ESG disclosure. In addition, it is also important for investors to analyze in depth ESG disclosure with the company's performance and the annual report presented before investing in the company.

This study shows that earnings management is not able to moderate intellectual capital to the firm value. This is due to the nature of intellectual capital itself which is difficult to measure in financial statements so that although the company may practice profit management to beautify the financial statements, this manipulation attempt may not increase the firm value

due to the opacity of the value of intellectual capital itself. Therefore, the implication of the research results in this case is that companies need to create more real strategies to manage intellectual capital such as improving the quality of employees and innovating products so that this can have an impact on company performance which is ultimately able to increase firm value.

The limitations of this study are related to the problem of data collection. Because not all companies implement and disclose ESG, the number of samples is still very limited. In addition, the data collection in this study uses data from Refinitiv. Therefore, the next suggestion for researchers is to try and compare the results of the study with direct data collection using sustainability reports and annual reports and expand the research sample by expanding the observation years.

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