

THE INFLUENCE OF ESG PERFORMANCE, LIQUIDITY, CAPITAL STRUCTURE, AND CASH HOLDING ON CORPORATE FINANCIAL PERFORMANCE

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Abstrak

Background: In recent years, the integration of Environmental, Social, and Governance (ESG) considerations has become increasingly important in corporate decision-making, as stakeholders demand greater transparency and accountability regarding corporate sustainability practices. Alongside ESG performance, internal financial factors such as liquidity, capital structure, and retained cash play a crucial role in determining a firm's ability to maintain operational efficiency and enhance financial performance. However, empirical evidence on how ESG performance and these financial characteristics jointly affect both accounting-based and market-based performance remains inconclusive, particularly in emerging markets such as Indonesia.

Objective: This study aims to examine the effect of ESG performance, liquidity, capital structure, and cash holding on the financial performance of non-financial sector companies

Research Methods: The research employs a quantitative method using secondary data and a purposive sampling technique, resulting in a sample of 48 companies listed on the Indonesia Stock Exchange (IDX). Hypothesis testing was conducted using multiple linear regression analysis with SPSS 25.

Research Results: The results show that ESG performance has a significant positive effect on financial performance (measured by ROA and Tobin's Q). Liquidity and capital structure have no significant effect on financial performance. Cash holding has a significant positive effect on ROA but does not significantly affect Tobin's

Originality/Novelty of Research: This study examines the impact of ESG performance, liquidity, capital structure, and retained cash on financial performance, measured using two indicators: accounting performance proxied by Return on Assets (ROA) and market performance proxied by Tobin's Q. The analysis compares non-financial sector companies listed on the Indonesia Stock Exchange (IDX) using data from 2021 to 2023.

Keywords: ESG Performance, Liquidity, Capital Structure, Cash Holding, Financial Performance

Introduction

In the rapidly evolving business environment, companies must continuously improve their performance to achieve organizational objectives and remain competitive. Company performance provides an overview of achievements within a specific period, with financial performance serving as one of the key

indicators (Luthan et al., 2018). Financial performance reflects how effectively a company manages its resources, generates profits, and maintains financial stability (Septiano et al., 2022). Furthermore, financial performance is widely used to assess a company's financial health and sustainability and serves as an important basis for stakeholder decision-making.

Investors consider a company's financial performance when making capital investment decisions (Afifah & Priantilianingtiasari, 2024). Strong financial performance is associated with increased shareholder welfare. Optimal financial performance can be reflected in the level of profit successfully generated by the company (Zakiyah & Maryanti, 2024). This performance can be measured by two approaches, namely accounting-based measurement such as profitability ratios, and market-based measurement, namely market capitalization and Tobin's Q (Luthan et al., 2018). One commonly used profitability ratio is Return on Assets (ROA), which indicates the effectiveness of asset utilization and is calculated as the ratio of net income (profit after tax) to total assets (Doan, 2020). Higher profits indicate better financial performance and reflect the quality of effective corporate management (Imronudin et al., 2022). Meanwhile, Tobin's Q is a ratio that measures firm performance not only from a fundamental perspective but also by reflecting how the market values the company based on various aspects considered by investors (Fitani & Amanah, 2022). This study employs both accounting-based and market-based measures of financial performance to enable a more comprehensive analysis and comparison of results.

In the new normal era in 2021, Indonesia's economic growth reached 3.69 percent, an increase compared to 2020 which experienced a decline of 2.07 percent (Badan Pusat Statistik, 2022). This signals an economic recovery after the Covid-19 pandemic. Furthermore, economic development in 2022 amounted to 5.31%, and in 2023 when the government officially revoked the Covid-19 pandemic status of 5.05% which showed a lower figure than the previous year (Badan Pusat Statistik, 2024). These changes cause fluctuating financial performance in various sectors of the Indonesian economy. According to Inawati & Rahmawati (2023), non-financial sector companies contribute significantly to Indonesia's Gross Domestic Product (GDP), accounting for 57 percent, compared to the financial sector. GDP is closely related to people's purchasing power, both of which have a positive relationship. An increase in people's purchasing power indicates an increase in sales, which means that a company's ROA increases (Putra & Diatmika, 2022). This can be interpreted that the non-financial sector which has a large contribution to GDP has a good level of ROA. ROA reflects good financial performance and quality of company management (Imronudin et al., 2022). It also reflects the value of the company by giving positive signals to investors through Tobin's Q (Safriani & Utomo, 2020).

In conducting business activities, companies are required not only to focus on profit generation but also to consider the impacts arising from their operational activities (Safriani & Utomo, 2020) . The phenomenon of global warming also encourages companies to be more concerned about the surrounding environment. In 2022, CO₂ emissions in Indonesia reached 692,236,110 tons, an increase of 13.14% compared to emissions in 2021 (Worldmeters.info, 2022). Indonesia is also one of the ten largest GHG emitters in 2023 (Kompas.com, 2024). Law No. 40 of 2007 on Limited Liability Companies stipulates that companies operating in natural resource–related sectors are required to undertake social and environmental responsibility. The expansion of the non-financial sector can therefore have a direct impact on environmental, social, and corporate governance aspects, including increased industrial activity, higher resource utilization, and rising greenhouse gas emissions (Inawati & Rahmawati, 2023).

Despite the regulations established by the Global Reporting Initiative (GRI), there are still cases of companies that are not responsible for the environment and social around them. For example, PT Rayon Utama Makmur (RUM) and PT Japfa Comfeed Indonesia are suspected of polluting the environment due to their operational activities (Lbhsemarang.id, 2023; Beritasatu.com, 2024). This encourages companies to demonstrate greater responsibility through the implementation of ESG (Environmental, Social, Governance) strategies. This increase in ESG is also done to meet the increasing demands of various stakeholders (Candio, 2024). Investments in the ESG field have received significant attention driven by high investor interest (Mohammad & Wasiuzzaman, 2021).

One factor that has received increasing attention is ESG performance. ESG represents a framework used by investors to evaluate corporate activities across environmental, social, and governance dimensions and serves as a non-financial performance indicator (Kim & Li, 2021). Companies today are required to focus not only on profit generation but also on the impact of their operations on the environment and society, in line with global warming concerns and regulatory frameworks such as Law No. 40 of 2007 and the Global Reporting Initiative (GRI) standards. Nevertheless, the literature presents mixed evidence regarding the impact of ESG performance on financial performance, with some studies reporting a positive relationship (Chung et al., 2023), and others finding no significant effect (Zakiyah & Maryanti, 2024).

In addition to ESG, cash holding is also an important factor that affects financial performance. Cash holding refers to the amount of cash available to support investment activities or dividend distribution, and its effective management can promote a company's economic growth (Rebin et al., 2024). However, empirical studies examining the effect of cash holding on financial performance also yield inconsistent

results, ranging from positive (Özcan, 2024; Zakiyah & Maryanti, 2024) to negative relationships (Aslam et al., 2019).

Liquidity, which indicates a firm's capacity to fulfill its short-term liabilities, is a crucial element for sustaining business operations. (Yusoff, 2017). A strong level of liquidity indicates a sound condition of a company's financial health (Surjandari et al., 2020). However, empirical findings regarding the effect of liquidity on financial performance remain inconsistent, with some studies reporting an insignificant effect (Dirmansyah et al., 2022; Abdelrahim Dahiyat et al., 2021) and others showing a significant negative impact (Diroh & Mochlasin, 2023).

Finally, capital structure defined as the proportion of debt and equity used as source of financing, is critical for long-term business continuity and influences a company's future prospects (Afifah & Priantilianingtiasari, 2024). Selecting an appropriate capital structure can help maximize corporate returns (Tretiakova et al., 2021) . However, similar to the previously discussed factors, studies examining the impact of capital structure on financial performance have produced mixed results, with some reporting a significant negative effect (Afifah & Priantilianingtiasari, 2024) and others show a positive effect (Nur Amalia, 2021; Dinh & Pham, 2020).

This study offers several notable novelties compared to prior research. First, it develops a more comprehensive empirical model by simultaneously examining ESG performance, liquidity, capital structure, and cash holding within a single analytical framework, thereby integrating both non-financial and internal financial determinants of corporate financial performance. Second, this study employs dual measures of financial performance—accounting-based (ROA) and market-based (Tobin's Q)—allowing for a more holistic assessment of firm performance from both fundamental and market valuation perspectives. Third, the study focuses on non-financial firms in Indonesia during the post-pandemic period (2021–2023), providing updated empirical evidence in an emerging market context and contributing to the clarification of inconsistent findings in prior literature.

This study is expected to make a theoretical contribution by enriching the literature on the factors that influence corporate financial performance, especially in the Indonesian non-financial sector. From a practical perspective, the findings are expected to provide relevant insights for company management in formulating optimal strategies related to ESG practices, cash holding, liquidity, and capital structure to enhance financial performance. This study employs a quantitative approach using multiple linear regression analysis to examine the relationships among variables based on company data that meet the research criteria, selected through a purposive sampling method. The variables analyzed include ESG performance,

liquidity, capital structure, and cash holding. The implications of this study extend to both academic and practical domains. For academics, the findings may serve as a reference to enrich the literature on factors influencing corporate financial performance and provide a basis for comparison or refinement in future studies. For practitioners, including investors, regulators, and policymakers, the results offer deeper insights into the determinants of corporate financial performance based on both accounting-based and market-based measures, which can support investment decisions, corporate strategy development, and the formulation of more targeted regulatory policies.

Literature Review

Stakeholder Theory

The term stakeholder was first proposed by the Stanford Research Institute (SRI) in 1963 (Freeman & McVea, 2002). Stakeholders are defined as groups or individuals who can influence or be influenced by the process of achieving an organization's objectives. These groups constitute an important consideration for company management in deciding whether or not to disclose information in the company's annual report. Stakeholder theory emphasizes that companies are accountable not only for maximizing returns to investors and owners, known as shareholders, but also for delivering value to the government, society, and the wider social environment, collectively referred to as stakeholders.

Legitimacy Theory

Legitimacy theory explains that organizations continuously operate in accordance with the norms, values, and boundaries accepted by the surrounding community in order to obtain legitimacy (Luthan et al., 2018). This view is consistent with Zakiyah & Maryanti (2024), who state that community involvement is an important factor influencing the sustainability of a company's operations. According to Ghozali and Chariri (2007), Legitimacy theory posits that a company operates under a social contract with the society in which it conducts its activities and from which it derives economic resources. Every social institution, including business entities, operates within society under an explicit or implicit social contract, which requires that its continued existence and growth align with the achievement of societal objectives and the fair distribution of economic, social, or political benefits to groups that provide the basis of its authority and legitimacy (Shocker & Sethi, 1973).

Signalling Theory

Signaling theory was introduced by Michael Spence (1973), who argued that information owners tend to convey information that can be utilized by information recipients, who then adjust their behavior

based on their interpretation of the signals received. According to signalling theory, management uses signals to reduce information asymmetry (Mahendra & Daljono, 2023). Information asymmetry refers to a condition in which one of the parties involved in a relationship possesses more information than the other (Hendriksen, 1987). Such information is particularly important for investors and other stakeholders, as it consists of detailed records and descriptions of a company's past performance and future prospects (Brigham and Houston, 2022). Therefore, signaling theory provides a framework for reducing information asymmetry by enabling companies to communicate their prospects transparently to investors.

Corporate Financial Performance

Corporate financial performance reflects a company's condition during a specific period and can be assessed through the analysis of its financial statements. Financial performance refers to a company's ability to manage and control its resources in order to achieve predetermined financial objectives (Afifah & Priantilianingtiasari, 2024). A company is considered to have strong financial performance when it successfully plans and implements management strategies to achieve its goals, which in turn enhances profitability and demonstrates effective performance management (Dirmansyah et al., 2022). This study measures financial performance using ROA (accounting-based measurement) and Tobin's Q (market-based measurement) indicators, allowing for comparative analysis. Profitability measures such as ROA serve as leading indicators that reflect a company's fundamental performance and management effectiveness (Luthan et al., 2018). ROA illustrates how efficiently a company utilizes its assets, where higher asset utilization indicates better financial performance. In line with the development of financial management research, profitability is generally considered to have a causal relationship with firm value, which in publicly listed companies can be reflected in stock prices in the capital market, with Tobin's Q serving as one of the key indicators of firm value.

ESG Performance

ESG generally refers to a set of environmental, social, and governance that influence a company's ability to implement its business strategy and create long-term value (Ningwati et al., 2022). ESG performance is commonly measured as a composite score or weighted average of three main pillars—environmental, social, and governance—based on several subcategories designed to reflect a company's commitment, effectiveness, and overall ESG performance using publicly available information (Candio, 2024). In Indonesia, the government, through the Financial Services Authority (/OJK), issued Financial

Services Authority Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies. Article 10 of the regulation stipulates that Financial Services Institutions, Issuers, and Public Companies are required to prepare a Sustainability Report. Through the preparation of sustainability reports, companies are expected to disclose information regarding their performance and the impacts generated by their operational activities (Safriani & Utomo, 2020).

Liquidity

Liquidity refers to a company's ability to meet short-term obligations or debts using its current assets (Yuliani, 2021). Liquidity is closely related to financial performance as measured by profitability, as it reflects the extent to which a company possesses sufficient working capital to support its investment activities (Diroh & Mochlasin, 2023). The level of liquidity illustrates a company's financial health, where higher liquidity generally indicates more favorable financial performance (Surjandari et al., 2020).

Capital Structure

Capital structure refers to the mix of debt and equity used by a company to finance its operational activities (Brigham & Houston, 2022). Tretiakova et al. (2021) state that decisions regarding capital structure are among the most critical aspects of corporate financial management, as they can help maximize company returns and ensure operational continuity in a competitive environment. Therefore, companies must carefully consider the appropriate composition of capital structure in order to enhance financial performance.

Cash Holding

Cash holding refers to the amount of cash and cash equivalents held by a company. It includes important current assets such as cash on hand, bank deposits, and cash equivalents, including marketable securities, deposits, government securities, and bonds, which are expected to be readily available in sufficient amounts to meet daily operational needs and settle obligations on time. Companies must ensure adequate cash availability to support daily operations and fulfill short-term liabilities in a timely manner (Rebin et al., 2024). This view is supported by Zakiyah and Maryanti (2024), who state that insufficient cash holdings may disrupt a company's operational activities. Therefore, cash holding plays a crucial role in supporting the smooth operation of a company.

The Influence ESG Performance on Corporate Financial Performance

ESG performance reflects a firm's non-financial performance across environmental, social, and governance dimensions. From the perspective of Stakeholder Theory, companies that actively implement ESG practices can enhance stakeholder trust, reduce information asymmetry, and improve transparency, thereby strengthening long-term relationships with investors, customers, and regulators. Strong stakeholder relationships may translate into improved operational efficiency and enhanced financial outcomes.

In line with Legitimacy Theory, ESG disclosure enables firms to align their activities with societal norms and expectations. By demonstrating environmental responsibility, social commitment, and sound governance practices, firms may gain public legitimacy, reduce reputational risk, and improve their competitive positioning. In the post-pandemic recovery period, where sustainability awareness has increased significantly, ESG performance may serve as a strategic tool to attract capital and enhance firm value.

Empirical evidence generally supports a positive association between ESG performance and financial performance. Chung et al. (2023) show that high-quality ESG disclosure enhances ROA and market value. Similarly, Safriani and Utomo (2020) and Pulino et al. (2022) find that higher ESG scores are associated with improved profitability and firm value. However, Nareswari et al. (2023) report a negative relationship, arguing that ESG implementation involves substantial costs and may reduce short-term profitability.

Given the growing importance of sustainability in emerging markets such as Indonesia and the potential long-term benefits of ESG engagement, ESG performance is expected to enhance both accounting-based and market-based financial performance.

H1_a: ESG performance has a significant positive effect on the company's financial performance (ROA)

H1_b: ESG performance has a significant positive effect on the company's financial performance (Tobin's q).

The Influence Liquidity on Corporate Financial Performance

Liquidity reflects a firm's ability to meet its short-term obligations using current assets (Brigham & Houston, 2022). Adequate liquidity ensures smooth operational activities and reduces the risk of financial distress. From a working capital management perspective, sufficient liquidity enables firms to finance day-to-day operations and respond to short-term investment opportunities.

However, according to Signaling Theory, liquidity may convey different signals to investors. While moderate liquidity indicates financial stability, excessive liquidity may signal inefficient asset utilization, idle funds, and suboptimal investment decisions. Particularly in the post-pandemic period, firms that retain excessive current assets may fail to allocate resources efficiently toward productive investments, potentially weakening profitability and market valuation.

Empirical findings remain inconsistent. Diroh and Mochlasin (2023) find a negative relationship between liquidity and financial performance, suggesting that excessive liquidity reduces profitability. Dahiyat et al. (2021) also report a negative but insignificant effect. Conversely, Makena et al. (2023) find a positive relationship, while Ayoush et al. (2021) and Sumani and Roziq (2020) find no significant effect.

Given the potential inefficiency associated with excessive liquidity, higher liquidity levels are expected to reduce both profitability and firm value.

H2_a:Liquidity has a significant negative effect on the company's financial performance (ROA)

H2_b:Liquidity has a significant negative effect on the company's financial performance (Tobin's q)

The Influence Capital Structure on Corporate Financial Performance

Capital structure reflects the proportion of debt and equity used to finance corporate assets (Brigham & Houston, 2022). Capital structure decisions determine the cost of capital and influence the level of financial risk borne by the firm. According to Signaling Theory, a high debt-to-equity ratio (DER) may signal greater financial risk, as excessive reliance on debt increases fixed interest obligations and the probability of financial distress.

In uncertain economic conditions, particularly during the post-pandemic recovery, firms with high leverage may face higher vulnerability due to interest burden and reduced financial flexibility. High leverage may discourage investors, reduce stock prices, and ultimately lower firm value.

Empirical evidence shows mixed results. Zakiyah and Maryanti (2024) find that DER affects ROA, indicating that excessive debt reduces profitability due to interest expenses. Afifah and Priantilianingtiasari (2024) report a negative relationship between capital structure and financial performance. However, Fitani and Amanah (2022) suggest that debt may enhance firm value when maintained at an optimal level.

Considering the risks associated with high leverage, capital structure is expected to negatively affect both profitability and market valuation when debt levels are excessive.

H3_a:Capital structure has a significant negative effect on the company's financial performance (ROA)

H3_b:Capital structure has a significant negative effect on the company's financial performance (Tobin's q)

The Influence Cash Holding on Corporate Financial Performance

Cash holding represents the proportion of cash and cash equivalents maintained by a firm relative to total assets, reflecting financial flexibility. Adequate cash reserves allow firms to finance operations, exploit investment opportunities, and withstand financial shocks (Doan, 2020). In the post-pandemic environment, financial flexibility becomes increasingly important to manage uncertainty and market volatility.

From the perspective of Signaling Theory, higher cash holding may signal financial strength and internal funding capability. Firms with sufficient internal liquidity are less dependent on external financing and better positioned to respond to unexpected risks. This financial flexibility may enhance investor confidence and support both profitability and firm value.

Empirical evidence generally supports a positive relationship. Özcan (2024) and Zakiyah and Maryanti (2024) find that cash holding improves ROA. Aslam et al. (2019) also report that cash holding positively affects Tobin’s Q, as it supports growth opportunities and enhances resilience during macroeconomic uncertainty.

Therefore, higher levels of cash holding are expected to improve both accounting-based and market-based financial performance.

H4_a:Cash holding has a significant positive effect on the company's financial performance (ROA)

H4_b:Cash holding has a significant positive effect on the company's financial performance (Tobin’s q)

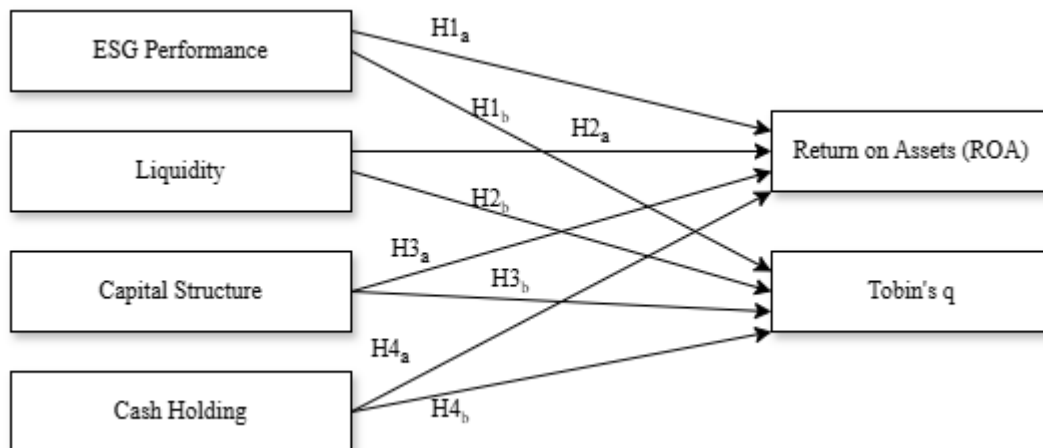


Figure 1 Research Model

Research Methods

This study adopts a quantitative research approach. The population of this research consists of non-financial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. This sector contributes substantially to Indonesia’s Gross Domestic Product (GDP), accounting for approximately 57 percent, and its activities may have direct impacts on environmental, social, and corporate governance aspects. The sampling technique employed in this study is purposive sampling, which involves selecting samples based on specific criteria determined by the researcher (Sekaran & Bougie, 2020). Accordingly, the sample comprises companies that meet the following criteria:.

Table 1. Sample Selection Criteria

Description	Total
Non-financial sector companies listed on the Indonesia Stock Exchange (IDX) during 2021–2023	835
Sample selection criterion: Non-financial sector companies listed on the IDX that do not have complete ESG scores from Refinitiv Eikon consecutively during the 2021–2023 period	(787)
Final sample size	48
Number of observations for the three-year period (2021–2023)	144

Operational Definition of Variables

Corporate Financial Performance

In this study, the dependent variable used is the company's financial performance measured through ROA and Tobin's Q so that the results can be compared. ROA is a ratio used to measure the company's ability to generate profits through the management of all assets owned. The ROA model has also passed the test for overall significance (Saygili et al., 2021).

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

The measurement of company performance using Tobin's Q reflects the fundamental aspects of the company as well as the market view of investor and market assessments of the company (Fitani & Amanah, 2022).

$$\text{Tobin's Q} = \frac{(\text{Market Value of Equity} + \text{Book Value of Debt})}{\text{Total Assets}}$$

ESG Performance

ESG is the three central factors that measure the impact of sustainability and ethics in making decisions to invest, and is an important part of assessing the implementation of ESG practices in companies (Indonesia Stock Exchange, 2024). ESG Score is the average of all assessment scores from the three main pillars, namely environmental, social, and governance. All ESG data is obtained through Refinitiv Eikon because it has complete and standardized data.

Liquidity

Liquidity is an indicator used to measure the extent of the company's ability to meet its short-term financial obligations using current assets owned (Diroh & Mochlasin, 2023). The higher the company's liquidity level, the greater the company's ability to meet its immediately due obligations (Afifah & Priantilianingtiasari, 2024).

$$\text{CR} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Capital Structure

The capital structure measurement used in the study is DER (Debt to Equity Ratio) (Jessica & Triyani, 2022). DER is a financial ratio used to measure the proportion of total debt to total company equity. This ratio shows the extent to which the company's assets are financed by debt compared to its own capital. A high DER reflects that the company has more debt than capital.

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$$

Cash Holding

Cash holding is one of the strategic assets that play an important role for a company (Özcan, 2024). The purpose of the company holding cash is to meet working capital needs that are directly related to sales (Aslam et al., 2019). The economic growth of a business will increase if its cash and cash equivalents are

managed effectively and efficiently (Rebin et al., 2024). Cash holding ratio is calculated by the amount of cash and cash equivalents divided by total assets (Zakiyah & Maryanti, 2024).

Data Analysis Method

This study uses multiple linear regression models to evaluate the relationship of independent variables such as ESG performance, cash holding, liquidity, and capital structure to financial performance using the SPSS software tool version 25 . The regression model used is as follows:

$$Y = \alpha + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \beta_4 (X_4) + e$$

Description:

Y: Company Financial Performance

α : Constant

β : Variable regression coefficient

X1: ESG Performance

X2: Cash holding

X3: Liquidity

X4: Capital Structure

e: error

Results and Discussion

Descriptive Statistical Analysis Results

Table 2. Descriptive Statistics Test Result

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	144	-.04566	.45400	.0809052	.07734124
TOBIN'S Q	144	.33911	9.57494	1.6023610	1.35805878
ESG PERFORMANCE	144	19.01394	89.38000	52.3126260	18.28985744
LIQUIDITY	144	.18218	9.90000	2.2439543	1.90788616
CAPITAL STRUCTURE	144	-.40000	190.50000	2.1717351	15.86099668
CASH HOLDING	144	.00470	.54000	.1302728	.09424206
Valid N (listwise)	144				

Sourcè : SPSS Procèssèd Data (Version 25)

Based on the descriptive statistics presented in the table, financial performance measured by Return on Assets (ROA) ranges from -0.04566 to 0.45400 , with a mean value of 0.0809052 and a standard deviation of 0.07734124 . Meanwhile, Tobin's Q ranges from 0.33911 to 9.57494 , with an average of 1.6023606 and a standard deviation of 1.35805891 . The first independent variable, ESG performance, measured using ESG scores obtained from Refinitiv Eikon (Thomson Reuters), ranges from 19.01394 to 89.38000 , with a mean of 52.3126260 and a standard deviation of 18.28985744 . The second independent variable, liquidity, measured by the CR, ranges from 0.18218 to 9.90000 , with an average value of 2.2439543 and a standard deviation of 1.90788616 . The third independent variable, capital structure, measured using the DER, ranges from -0.40000 to 190.5000 , with a mean of 2.1717351 and a standard deviation of 15.86099668 . The fourth independent variable, cash holding, ranges from 0.00470 to 0.54000 , with an average value of 0.1302728 and a standard deviation of 0.09424206 .

Regression Result Analysis

Table 3. Regression Results Model 1 ROA

Model	Coefficients				
	Unstandardized		Standardized		
	Coefficients		Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	-.026	.017		-1.540	.126
ESG PERFORMANCE	.001	.000	.343	4.604	.000
LIQUIDITY	-.005	.003	-.112	-1.378	.171
CAPITAL STRUCTURE	.000	.000	.025	.360	.719
CASH HOLDING	.318	.070	.388	4.549	.000

a. Dependent Variable: ROA

Source : SPSS Processied Data (Version 25)

Table 4. Regression Results Model 2 Tobins'q
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.072	.150		-.478	.633
ESG PERFORMANCE	.006	.003	.195	2.255	.026
LIQUIDITY CAPITAL STRUCTURE	-.046	.029	-.151	-1.601	.112
CASH HOLDING	.001	.003	.040	.491	.625
	.913	.610	.148	1.497	.137

a. Dependent Variable: LN_Tobin's Q

Sourcè : SPSS Procèssied Data (Viersion 25)

Based on the table above, the regression equation for models 1 and 2 can be formulated as follows:

$$\text{Model 1 ROA} = -0,026 + 0,001X1 - 0,005X2 + 0,000X3 + 0,318X4 + e$$

$$\text{Model 2 Tobin's Q} = -0,072 + 0,006X1 - 0,046X2 + 0,001X3 + 0,913X4 + e$$

Discussion

Effect of ESG performance on ROA

The results of the t-test indicate that ESG performance has a significance value of 0.000, which is below the 0.05 threshold. Thus, H1a is **accepted**. This finding demonstrates that ESG performance has a positive effect ROA. In practical terms, firms with higher ESG scores tend to generate higher profitability relative to their total assets.

This finding is consistent with prior studies conducted by Safriani and Utomo (2020), Chung et al. (2023), Mohammad and Wasiuzzaman (2021), and Buallay (2019), all of which report that ESG performance positively influences ROA. These studies suggest that firms actively implementing ESG practices are better positioned to enhance operational efficiency, strengthen stakeholder relationships, and improve long-term financial outcomes. In particular, Safriani and Utomo (2020) argue that strong ESG performance reflects a firm's commitment to meeting stakeholder expectations and aligning with prevailing social values, thereby encouraging stakeholder support through increased investment, consumption, and trust. Similarly, Chung et al. (2023) emphasize that firms with higher ESG performance tend to manage environmental and social risks more effectively, which contributes to sustainable profitability.

However, this result contradicts the findings of Chininga and Alhassan (2024) and Giannopoulos et al. (2022), who report a negative relationship between ESG performance and ROA. These studies argue that ESG implementation requires substantial investment and may divert financial resources from core profit-generating activities, thereby reducing short-term profitability. The difference in findings may be explained by variations in economic context, industry characteristics, and the stage of ESG implementation. In the context of Indonesian non-financial firms during the post-pandemic recovery period, ESG initiatives may be perceived as strategic investments that enhance efficiency, reduce long-term risks, and strengthen competitiveness, which ultimately improve profitability.

From a theoretical perspective, this result supports Stakeholder Theory, which posits that firms that address the interests of multiple stakeholders—not only shareholders—are more likely to gain long-term support and legitimacy. By fulfilling stakeholder expectations, companies can strengthen their reputation, increase customer loyalty, and secure investor confidence, ultimately improving profitability. In addition, the finding aligns with Legitimacy Theory, which suggests that ESG disclosure enables firms to align their operations with societal norms and values. Such alignment enhances corporate legitimacy and reduces potential social and regulatory risks, thereby contributing to improved financial performance.

Effect of liquidity on ROA

The results of the t-test indicate that liquidity has a significance value of 0.171, which is greater than 0.05. Thus, H2a is **rejected**. This finding suggests that liquidity does not have a significant effect on ROA. In other words, variations in a firm's liquidity level do not necessarily influence its profitability.

This result is consistent with Aryaningsih et al. (2022), Ayoush et al. (2021), and Imronudin et al. (2023), who also report that liquidity does not significantly affect financial performance. These findings imply that the ability to meet short-term obligations does not automatically translate into higher profitability. Liquidity primarily reflects short-term solvency rather than operational efficiency or asset productivity, which are more directly associated with ROA.

However, this finding contradicts Diroh and Mochlasin (2023) and Makena et al. (2023), who report that liquidity positively affects financial performance by increasing investor confidence and enabling firms to exploit investment opportunities. The difference may be attributed to variations in economic conditions and firm characteristics. In the context of Indonesian non-financial firms, liquidity may function primarily as a risk management tool rather than a driver of profitability, explaining its insignificant relationship with ROA.

From a theoretical perspective, this result does not fully support signaling theory. Although high liquidity may signal financial stability, excessive current assets may indicate idle funds that are not allocated to productive investments. Funds held in liquid form do not directly generate returns and may reduce asset utilization efficiency. Therefore, maintaining high liquidity does not necessarily enhance profitability.

Effect of capital structure on ROA

The results of the t-test indicate that capital structure has a significance value of 0.850, which is greater than 0.05. Thus, H3a is **rejected**. This finding suggests that capital structure does not have a significant effect on ROA. In other words, variations in leverage levels do not necessarily influence firm profitability.

This result is consistent with the findings of Jessica and Triyani (2022), Oktaviyana et al. (2023), Farida and Yulazri (2024), and Wulandari et al. (2020), who also report that capital structure does not significantly affect ROA. These studies argue that profitability is more directly determined by sales performance and operational efficiency rather than the proportion of debt used to finance assets. In many cases, debt financing is allocated to long-term investments or capital expenditures, which may not immediately impact short-term profitability reflected in ROA.

However, this finding contradicts Afifah and Priantilianingtiasari (2024), Zakiyah and Maryanti (2024), and Imronudin et al. (2023), who report that capital structure significantly influences ROA. These studies emphasize that excessive reliance on debt increases interest expenses and financial risk, which may reduce profitability. The difference in findings may reflect variations in firm characteristics, debt management strategies, and economic conditions. In the context of Indonesian non-financial firms, leverage may function more as a financing mechanism for long-term growth rather than a direct driver of short-term profitability, explaining its insignificant relationship with ROA.

From a theoretical perspective, this result does not fully align with signaling theory, which suggests that higher leverage may signal greater financial risk and negatively affect firm performance. However, the insignificant relationship found in this study indicates that investors and stakeholders may not perceive leverage levels as a direct determinant of profitability. Firms may manage debt in a way that does not substantially interfere with operational performance, thereby neutralizing its impact on ROA.

Effect of cash holding on ROA

The t-test results show that cash holding has a significance value of 0.000, which is lower than 0.05. Therefore, H4a is **accepted**. This indicates that cash holding has a significant positive effect on financial performance as measured by ROA. Firms with higher levels of cash reserves tend to exhibit higher profitability.

This finding is consistent with Özcan (2024), Zakiyah and Maryanti (2024), Yilmaz and Samour (2024), and Doan (2020), who report that cash holding positively affects ROA. These studies argue that cash provides financial flexibility, supports operational activities, enables firms to seize profitable investment opportunities, and reduces reliance on costly external financing. As a result, adequate cash reserves contribute to improved profitability.

However, this finding contradicts Aslam et al. (2019), Hilmi and Aini (2023), and Annika (2022), who report a significant negative relationship between cash holding and ROA. These studies suggest that excessive cash reserves may create agency problems and reduce efficiency, as idle cash could otherwise be invested in productive assets. The difference in findings indicates that the impact of cash holding depends on how effectively firms manage and allocate their cash resources. In this study, cash appears to function as a strategic buffer that enhances operational efficiency and profitability rather than as unproductive idle funds.

From a theoretical perspective, this result aligns with signaling theory. Effective cash management signals financial strength and managerial efficiency to investors. Firms that maintain optimal cash reserves demonstrate their ability to finance operations, manage risks, and respond quickly to investment opportunities, which ultimately enhances financial performance. In modern corporate finance, cash is viewed as a strategic asset that strengthens firm stability and supports value creation.

Effect of ESG performance on Tobin's q

Based on the results of the t-test, the ESG performance variable shows a significance value of 0.026, which is lower than the 0.05 threshold. Therefore, H1b is **accepted**. This finding indicates that ESG performance has a positive and significant effect on firm value as proxied by Tobin's Q. In other words, companies with higher ESG performance tend to have higher market valuations.

This result is consistent with previous studies conducted by Chininga and Alhassan (2024), Giannopoulos et al. (2022), Naeem et al. (2022), and Mohammad and Wasiuzzaman (2021), all of which

report a positive and significant relationship between ESG performance and Tobin's Q. These findings suggest that capital markets respond favorably to firms that demonstrate strong ESG practices.

However, this finding contradicts the study by Safriani and Utomo (2020), which reports a negative relationship between ESG performance and Tobin's Q. Their study argues that ESG activities may be perceived as additional costs that reduce short-term profitability, potentially lowering investor interest and market demand for the firm's shares. The difference in findings indicates that investor perceptions of ESG may vary depending on whether ESG is viewed as a long-term strategic investment or as a short-term financial burden.

From a theoretical perspective, this result can be explained through signaling theory, stakeholder theory, and legitimacy theory. According to signaling theory, a high ESG score serves as a positive signal to investors regarding the firm's transparency, risk management capability, and long-term strategic orientation. This positive signal enhances investor confidence, which may increase demand for the firm's shares and ultimately raise its market value.

From the perspective of stakeholder theory, firms that actively manage environmental, social, and governance issues are more likely to build sustainable relationships with key stakeholders, including investors, customers, regulators, and communities. Such relationships contribute to operational stability and growth potential, which are reflected in higher market valuations.

Furthermore, legitimacy theory suggests that firms engaging in ESG practices align their operations with societal norms and expectations. By maintaining legitimacy and strengthening their corporate reputation, firms enhance public trust and investor perception, thereby positively influencing firm value.

Effect of liquidity on Tobin's q

Based on the results of the t-test, the liquidity variable shows a significance value of 0.112, which is higher than the 0.05 significance level. Therefore, H2b is **rejected**. This finding indicates that liquidity does not have a significant effect on corporate financial performance as measured by Tobin's Q. In other words, the level of liquidity, whether high or low, does not influence the market valuation of the company.

This finding is consistent with previous studies conducted by Wahyuningtyas (2023), Pambudi et al. (2022), Suwarno and Susanto (2021), and Anggraini and Widhiastuti (2020), which also report that liquidity does not significantly affect Tobin's Q. These studies suggest that a company's ability to meet short-term obligations does not necessarily attract investors or increase firm value. Investors tend to focus

more on long-term growth prospects rather than merely assessing the company's short-term solvency position.

However, this result is inconsistent with the findings of Sumani and Roziq (2020) and Oppusunggu and Chalil (2025), who document a significant negative relationship between liquidity and Tobin's Q. They argue that excessively high liquidity may indicate inefficient fund allocation, as companies may prioritize settling short-term obligations rather than distributing dividends or investing in profitable opportunities, thereby sending a negative signal to investors.

From a theoretical perspective, this finding does not fully support signaling theory, which suggests that liquidity serves as a positive signal regarding a firm's financial health. In the context of this study, investors may recognize the limitations of the current ratio as a liquidity proxy and therefore rely on broader financial and strategic information when making investment decisions. Since Tobin's Q reflects market expectations and long-term growth potential, short-term liquidity alone may not be a determining factor in shaping investor perception and firm valuation.

Thus, it can be concluded that liquidity is not a primary determinant of market-based financial performance, as measured by Tobin's Q, particularly when investors place greater emphasis on sustainability, growth opportunities, and overall strategic performance.

Effect of capital structure on Tobin's q

Based on the results of the t-test, the capital structure variable shows a significance value of 0.625, which is higher than the 0.05 significance level. Therefore, H3b is **rejected**. This finding indicates that capital structure does not have a significant effect on corporate financial performance as measured by Tobin's Q. In other words, the proportion of debt to equity does not influence the company's market valuation.

This result is consistent with prior studies conducted by Ristian and Sudarsi (2022), Siti Fatimah (2022), Ningsih and Santoso (2019), Suwantono and Indah (2025), and Niar (2019), which also report that capital structure does not significantly affect Tobin's Q. These studies suggest that financing decisions are not the primary consideration for investors. Instead, investors tend to prioritize how effectively management utilizes available funds to generate profitability and enhance firm value. Capital structure alone does not directly influence market performance unless it is accompanied by efficient capital management and strong operational performance.

However, this result is inconsistent with the findings of Fitani and Amanah (2022) as well as Suwarno and Susanto (2021), who document a positive and significant relationship between capital

structure and Tobin's Q. These studies argue that the use of debt can enhance firm value when maintained at an optimal level, as debt financing may support operational expansion and business opportunities. Nevertheless, excessive leverage may increase financial distress and bankruptcy risk, ultimately reducing firm value.

The findings are not consistent with signaling theory, as capital structure does not influence firm value when considered in relation to specific industry or firm characteristics. Some companies may place greater emphasis on operational performance, marketing strategies, or industry-specific factors, such that capital structure does not necessarily represent a significant signal for investors or other stakeholders. Furthermore, changes in market conditions may reduce the relevance of capital structure as a signal, making it less noticeable or less influential in the assessments of market participants (Maymunatul et al., 2024).

Overall, the findings of this study indicate that capital structure is not a primary determinant of market-based financial performance. Tobin's Q appears to be more strongly influenced by profitability, growth prospects, and strategic performance rather than by financing composition alone.

Effect of cash holding on Tobin's q

Based on the results of the previously conducted t-test, the cash holding variable obtained a significance value of 0.137, which is greater than 0.05. It can be concluded that H4b is **rejected**. This result indicates that cash holding does not have a significant effect on Tobin's Q. Thus, financial performance measured using ROA produces different results compared to Tobin's Q. This reflects that accounting-based measures may provide more accurate results than market-based measures. This discrepancy may be due to other factors influencing Tobin's Q that were not analyzed in this study.

The findings of this study are consistent with research conducted by Agbata et al. (2021), Winata & Malelak (2021), and Agustianingrum et al. (2023), which report that cash holding does not affect financial performance proxied by Tobin's Q. This may occur because investors do not fully understand or respond to a company's cash holding when assessing market performance. Moreover, net income generated from a company's revenues is not always received in the form of cash or cash equivalents, but may take the form of accounts receivable that are yet to be collected or even at risk of being uncollectible. These uncollected receivables can have a greater impact on financial performance as they lead to a reduction in expected revenue (Winata & Malelak, 2021).

This finding is not supported by Aslam et al. (2019), who show that cash holding has a positive effect on Tobin's Q. This positive relationship reflects that cash holding positively impacts market

performance, indicating that companies with high cash holdings have greater potential to generate profits in the future.

In contrast to signaling theory, a company's financial performance should serve as a signal to external parties, especially investors, since investors are likely to invest in companies demonstrating strong financial performance. Investors expect the company's cash to be allocated to safer portfolios in the money market to generate stable returns. However, this opportunity is lost if the company holds excessive cash that is not effectively utilized, thus failing to generate profits in line with investor expectations (Agustianingrum et al., 2023).

Overall, the results indicate that while cash holding contributes to internal profitability (ROA), it does not directly translate into higher market valuation. Market-based performance appears to depend not only on financial flexibility but also on how effectively cash resources are utilized to generate sustainable growth and investor confidence.

Additional Analysis

Based on the results of the tests above, it can be concluded that the independent variables in this study are more effective in explaining financial performance when using ROA as the proxy. Out of four hypotheses tested using ROA, two were accepted and two were rejected. In contrast, for the four hypotheses tested using Tobin's Q, only one hypothesis was accepted while three were rejected. This indicates that accounting-based measures provide more accurate or reliable results compared to market-based measures.

Conclusion

Based on the results of hypothesis testing, this study concludes that ESG performance has a positive and significant effect on corporate financial performance, as measured by both ROA and Tobin's Q. These findings indicate that companies with stronger ESG practices tend to achieve higher profitability and greater market valuation, suggesting that ESG implementation is increasingly perceived not merely as a cost burden but as a strategic investment that enhances corporate reputation, stakeholder trust, and long-term competitiveness. In contrast, liquidity does not have a significant effect on either ROA or Tobin's Q, implying that a firm's ability to meet short-term obligations does not directly determine its profitability or market value. Similarly, capital structure is found to have no significant influence on both measures of financial performance, indicating that variations in leverage levels do not directly affect profitability or firm valuation. With regard to cash holding, the findings reveal mixed results. Cash holding has a positive and

significant effect on ROA, demonstrating that adequate cash reserves enhance operational flexibility and profitability. However, cash holding does not significantly affect Tobin's Q, suggesting that the market does not automatically translate internal cash reserves into higher firm value unless such resources are clearly associated with growth opportunities and value creation. Overall, ESG performance emerges as the most consistent determinant of financial performance in this study, and the independent variables appear to explain accounting-based performance (ROA) more effectively than market-based performance (Tobin's Q).

The implications of this study are both theoretical and practical. Theoretically, the findings reinforce stakeholder theory and legitimacy theory, which emphasize that firms aligning their operations with stakeholder expectations and societal norms are more likely to achieve superior financial outcomes. The results also partially support signaling theory, particularly in explaining the role of ESG performance and cash holding in enhancing profitability. From a practical perspective, the findings highlight the importance for corporate management to integrate ESG practices into core business strategies in order to improve both profitability and firm value. Maintaining an optimal level of cash reserves is also essential to support operational efficiency. For investors, ESG performance may serve as an important indicator in assessing long-term corporate prospects. For regulators and policymakers, the positive relationship between ESG performance and financial performance underscores the need to strengthen ESG disclosure frameworks to promote transparency and sustainable corporate development.

This study is subject to several limitations. The sample is limited to 48 non-financial companies due to the limited availability of ESG scores sourced from Refinitiv Eikon, as many firms did not provide complete ESG data and therefore had to be excluded from the sample. This limitation may restrict the generalizability of the findings. Accordingly, future research is encouraged to expand the population to include financial sector companies or all sectors listed on the Indonesia Stock Exchange (IDX) in order to enhance generalizability. Future studies may also utilize alternative ESG databases, such as Bloomberg, KLD (Kinder, Lydenberg, and Domini), FTSE Russell, or other comprehensive data providers to obtain broader ESG coverage. Additionally, further research is recommended to incorporate other relevant independent variables that may influence corporate financial performance, such as sales growth and asset management efficiency, as well as alternative proxies for financial performance, including Return on Equity (ROE). The inclusion of control variables, such as firm size and firm age, is also suggested to enable a more comprehensive and robust analysis.

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