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The Role of Financial Performance in Mediating ESG and Institutional Ownership Structure on Firm Value in Indonesia

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ABSTRACT

The decline in Initial Public Offering (IPO) value in terms of fundraising quality, the decline in the number of daily active investors, and the weak Composite Stock Price Index (IDX Composite) in 2022 are year-end notes that need to be highlighted. The main objective of this study is to examine how ESG practices and institutional ownership structure affect firm valuation, specifically exploring whether financial performance acts as a mediator. This study focuses on companies in various sectors listed on the Indonesia Stock Exchange in 2022 that have implemented the Environmental, Social, and Governmental (ESG) framework. This study involves 79 companies on the Indonesia Stock Exchange (IDX) implementing the ESG framework. Data analysis uses multiple linear regression and path analysis methods. The results of hypothesis testing, including the t-test and Sobel test, show that ESG practices and institutional ownership structure significantly affect financial performance. However, these variables do not show a significant impact on company valuation. Furthermore, the study concluded that financial performance does not mediate the relationship between ESG practices, institutional ownership structure, and firm value.

Keywords: *ESG; Financial Performance; Firm Value, Institutional Ownership Structure*

ABSTRAK

Penurunan nilai *Initial Public Offering* (IPO) dari sisi kualitas penggalangan dana dan penurunan jumlah investor aktif harian, serta lemahnya Indeks Harga Saham Gabungan (IHSG) tahun 2022 menjadi catatan akhir tahun yang perlu disoroti. Tujuan utama dari penelitian ini adalah untuk menguji bagaimana praktik-praktik ESG dan struktur kepemilikan institusional mempengaruhi penilaian perusahaan, khususnya mengeksplorasi apakah kinerja keuangan bertindak sebagai mediator. Studi ini berfokus pada perusahaan-perusahaan di berbagai sektor yang terdaftar di Bursa Efek Indonesia pada tahun 2022 yang telah menerapkan kerangka *Environmental, Social, and Governmental* (ESG). Penelitian ini melibatkan 79 perusahaan di Bursa Efek Indonesia (BEI) yang telah menerapkan kerangka ESG. Analisis data menggunakan metode regresi linier berganda dan analisis jalur. Hasil pengujian hipotesis yang meliputi uji t dan uji Sobel menunjukkan bahwa praktik ESG dan struktur kepemilikan institusional berpengaruh signifikan terhadap kinerja keuangan. Namun variabel-variabel tersebut tidak menunjukkan pengaruh yang signifikan terhadap nilai perusahaan. Lebih lanjut, penelitian tersebut menyimpulkan bahwa kinerja keuangan tidak dapat memediasi pengaruh antara praktik ESG, struktur kepemilikan institusional, dan nilai perusahaan.

Kata kunci: ESG; Kinerja Keuangan; Nilai Perusasahaan; Struktur Kepemilikan Institusional

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INTRODUCTION

A company is a business entity formed by an individual or group of individuals who aim to seek profit through commercial activities. Companies with good conditions usually refer to companies that have good financial, operational, and organizational health. The ideal condition of company value is when the company value reflects strong and sustainable fundamentals. Several factors can create the ideal condition of company value, including strong financial performance, growth and future prospects, good corporate governance, strong reputation and brand, and a stable economic environment.

Company value is influenced by external factors, such as inflation, Gross Domestic Product (GDP), economic growth, and interest rates, which are macroeconomic factors (Nikmah & Hung, 2024). Changes in macroeconomic conditions require companies to implement adaptive strategies to maintain company value. In addition to the condition of the company's value, which is a fundamental aspect, investors usually pay attention to several macroeconomic indicators when evaluating the potential risks and opportunities faced by the company.

The phenomenon related to the value of companies in the news states that several things make the value of companies in 2022 decrease, such as the value of IPOs (Initial Public Offering) dropped dramatically in terms of the quality of fundraising, which decreased from IDR 62.6 trillion to IDR 33.06 trillion. In addition, daily active investors decreased in 2022 from 198.1 to 181.8 or a decrease of 8.2% (Gumilar, 2023). Other news also stated that the JCI in 2022 weakened, the JCI closed down to 9.46 points or 0.14% to 6,850.62. Meanwhile, the LQ45 index (Group of 45 leading stocks) fell 2.7 points or 0.29% (Estu, 2024).

Based on the performance of the domestic stock market, the technology sector is considered to be the main factor inhibiting the growth of the Composite Stock Price Index (CSPI). Based on data from the Indonesia Stock Exchange, the technology sector is expected to experience a significant decline in 2022, with a correction of around 42.61%. This decline can be seen in the performance of companies transitioning from startups to public entities. For example, Bukalapak (BUKA) and GoTo Gojek Tokopedia (GOTO), whose shares fell by 69% and 73% from the IPO offering price.

The decline in these stocks resulted in a significant loss of domestic stock market capitalization of hundreds of trillions. In addition, Meta stock fell 64% in 2022, Netflix fell 51%, and three other stocks fell at least 27%. These FAANG stocks contributed to market capitalization losses exceeding US$3 trillion, putting significant downward pressure on the broader stock market. The S&P 500 index declined by 19% (Feri, 2023).

Financial performance is important for company owners, company leaders, and parties related to the organization, such as creditors and employees (Mirza & Javed, 2013; Vieira et al., 2019). Some previous studies used Return on Asset (ROA) as a proxy to measure the company's profitability as a reflection of the company's performance (Saleh Alarussi & Mohammed Alhaderi, 2018; Al-Jafari & Al Samman, 2015; Nanda & Panda, 2018). Profitability is, therefore, the primary means of withstanding adverse volatility and promoting system stability (Tariq Bhutta & Hasan, 2013). It also substantially impacts the accomplishment of other company goals and is a key predictor of long-term sustainability and success (Yazdanfar, 2013).

The elements that affect firm performance have been the subject of numerous earlier studies. The materiality of environmental, social, and governance (ESG) variables to long-term company performance and risk reduction can be effectively addressed by ESG investments, which provide a comprehensive alternative to Corporate Social Responsibility (CSR) (Akala et al., 2022). In this regard, Vishwanathan et al. (2020) highlighted how ESG can boost stakeholder collaboration and increase business efficiency, impacting the organization's performance. Businesses can improve long-term corporate performance by integrating ESG principles into business strategy decisions and operational procedures, increasing legitimacy (Ashrafi et al., 2020).

In addition to ESG, corporate governance elements about institutional ownership structure are significant elements that can lower agency costs and enhance business performance, both affect company value because of institutional shareholders' oversight of managers (Musallam et al., 2019). According to earlier studies, institutional shareholders—including pension funds, insurance companies, independent investment advisors, and investment companies—have more voting rights and participate in management decision-making, which will affect the performance of the business and raise its value (Brickley et al., 1997).

This research is important to study for related parties, especially how applying the ESG framework and institutional oversight of the company's business continuity improves company performance and value. This study examines the effect of ESG and institutional ownership structure on firm value and updates it using financial performance as an intervening variable. To close this gap in the literature, this study reexamines the impact of institutional ownership structure and ESG performance on financial performance and firm value, paying special attention to significant intervening factors that have not gotten enough attention in earlier research.

LITERATURE REVIEW

Stakeholder Theory

Freeman developed the concept of stakeholder theory in 1984, which describes a business as having numerous connections with individual and group stakeholders, each of whom can affect the business's success and/or have an interest in it Stakeholder theory proponents try to explain what managers do regarding stakeholder interactions, what would occur if managers adhered to stakeholder management principles, and what managers ought to do in this regard (Jones, 1995). According to this view, businesses have responsibilities to all parties involved, including local communities, government organizations, suppliers, employees, customers, and shareholders (Freeman, 2010). Companies can build stakeholder trust by carrying out their ESG obligations, which may raise the value of the business (Wu et al., 2023; Lokuwaduge & Heenetigala, 2017).

Based on stakeholder theory, disclosure of non-financial information such as ESG is expected to be a social investment to meet stakeholders' needs, which will then contribute to improving company performance. Companies will make disclosures that aim to gain support from stakeholders. In addition, companies that disclose ESG will also be considered by shareholders, who are part of the stakeholders, because shareholders want long-term benefits from investing in the company. Therefore, firm value can increase when the ESG disclosure improves (Adhi & Cahyonowati, 2023).

Institutional ownership is significant in reducing agency conflicts between managers and shareholders. Institutional investors are considered an effective supervisory mechanism in every manager's decision. With increased institutional ownership, management performance can be monitored more optimally so that management tends to avoid behavior that harms major shareholders (Saifi, 2019). Based on stakeholder theory, effective institutional ownership monitoring of managers can increase management effectiveness by incentivizing managers to try to increase firm value and shareholder welfare. Increased institutional ownership means increased voting rights and motivation to maximize firm value (Mudjijah et al., 2019).

Firm Value

A company's share price indicates its level of market success, which in turn determines its value. The business owner's objective is to raise the company's worth to enhance shareholder wealth (Riska, 2018). According to some earlier research, the amount of money the company spends on ESG initiatives affects its value (Abdi et al., 2022).

Financial Performance

A company's financial performance is an analysis that shows how well it has applied the laws of financial implementation to carry out its operational activities (Fahmi, 2014). In order to determine how successfully a firm has implemented fundamental financial principles in its operations, an evaluation of financial performance is conducted (Hutabarat, 2020).

Environment, Social, Governance (ESG)

Companies use the Environmental, Social, and Governance (ESG) framework when developing their investment plans. Environmental stewardship, social responsibility, and corporate governance efforts are the three primary pillars of ESG (Darmasakti, 2023). For businesses seeking sustainable strategies that impact their financial results, ESG has emerged as a crucial element of corporate social responsibility (CSR) in the modern period (Duque-Grisales & Aguilera-Caracuel, 2021). ESG concentrates on quantifiable factors influencing investment choices, whereas CSR offers a more comprehensive view of a business's social impact ESG concentrates on quantifiable factors influencing investment choices, whereas CSR offers a more comprehensive view of a business's social impact (Seok et al., 2024).

Institutional Ownership Structure

Institutional ownership, often determined at the end of the year, indicates the proportion of firm shares held by organizations like insurance companies, pension funds, or other corporate entities (Ramadhani & Andayani, 2019). Almazan et al. (2005) distinguish two categories of institutional ownership. Investors who are not responsive to pressure make up the first category, and ownership subject to pressure makes up the second. They contend that stricter guidelines for executive compensation are linked to more extensive equity ownership by investors who are not receptive to pressure. In corporate governance, institutional ownership is crucial for effective oversight with a greater collective capacity (Pound, 1991).

Hypotheses Development

The Influence of ESG on Financial Performance

The company's implementation of ESG principles is still evolving significantly. Effective ESG implementation enables businesses to effectively manage long-term objectives because it reflects a thorough awareness of long-term strategic challenges. However, it should be emphasized that there is a propensity to use abundant resources for enormous profits, which might harm the environment. Stakeholder theory emphasizes that revealing non-financial information, like ESG, is supposed to be a social investment to satisfy stakeholders' needs, which would ultimately help the business operate better. Disclosures made by businesses are intended to establish authority over stakeholders. In order to establish an excellent reputation in the eyes of the public, businesses will thus publicly reveal their environmental, social, and governance (ESG) activities (Khairunnisa & Widiastuty, 2023).

H_1 : There is a significant effect of ESG on financial performance

The Influence of Institutional Ownership Structure on Financial Performance

Since institutional shareholders can monitor managers, they significantly influence business management (Musallam et al., 2019). According to stakeholder theory, institutional ownership is critical in lowering agency conflicts between shareholders and management. Investors aim to maintain an ownership structure that enables them to monitor managers' actions, ultimately improving the firm's performance and preventing the adverse effects of such issues (Colpan & Yoshikawa, 2012). Institutional investors are considered an efficient monitoring mechanism in every manager's decision. A higher percentage of institutional ownership allows for better management performance monitoring, encouraging management to refrain from actions that could harm significant shareholders (Saifi, 2019).

H_2 : There is a significant effect of institutional ownership structure on financial performance

The Influence of ESG on Firm Value

According to Bagh et al. (2024) incorporating ESG investments into the company's business plan is necessary for sustainable finance. Investors will examine the company's compliance with Environmental, Social, and Governance (ESG) standards due to their social concerns. ESG has emerged as a key element of corporate social responsibility (CSR) for businesses interested in sustainable practices that impact their bottom line (Duque-Grisales & Aguilera-Caracuel, 2021). If the stock price increases to the point that the firm's success rate becomes an investor evaluation, a company value correlated with stock prices can maximize shareholder prosperity. This valuation ratio can reveal how much the public appreciates the company's existence, enticing investors to purchase shares (Arofah & Khomsiyah, 2023).

H_3 : There is a significant effect of ESG on firm value

The Influence of Institutional Ownership Structure on Firm Value

The percentage of shares held by significant shareholders and institutions is known as institutional ownership. Institutional ownership will encourage more effective oversight of the business's performance in accomplishing its goals, explicitly maximizing its value (Barokah, 2023). According to stakeholder theory, having an efficient institutional ownership monitoring system for managers may increase management effectiveness by motivating them to contribute toward increasing shareholder welfare and firm value. Big institutional investors are encouraged to monitor the business's decision-making process. A high level of institutional ownership reflects the degree of voting power and drive to optimize the company's value (Jamil et al., 2019).

H_4 : There is a significant effect of institutional ownership structure on firm value

The Influence of Financial Performance on Firm Value

In order to be held accountable to internal and external stakeholders, publicly traded corporations must release financial reports. The performance of the business is reflected in financial statements, which also give users financial information. Investors can evaluate a company's performance based on its financial performance.

Stakeholder theory explains that a company's ability to survive and thrive is highly dependent on its financial performance, where profitability is an indicator that measures the success of the company's performance. The stock price will increase in response to the company's ability to increase profitability and investor interest to positively influence stakeholders (Adyaksana et al., 2024).

H_5 : There is a significant effect of financial performance on firm value

The Influence of ESG on Firm Value through Financial Performance

One significant factor that might impact a company's value is its financial performance. Because more considerable corporate earnings encourage investors to put their money into businesses that make big profits, a company's value is positively correlated with its financial growth. A company's entire worth may be impacted by its improved financial performance, which can be achieved with a high degree of corporate ESG. A company's ESG value can rise due to better financial performance, which in turn can raise the company's value (Kusumawardhani et al., 2023). According to stakeholder theory, stakeholders have access to resources that the company needs. Before investing, stakeholders take the company's ESG disclosure into account. The company will try to satisfy stakeholders' expectations when looking for outside funding sources. It achieves this by providing information about social and environmental responsibilities and using ESG disclosure to show its sustainability. This indicates that the company's management system gives equal importance to profitability values and increasing ESG values achieved through sustainable management (Xaviera & Rahman, 2023).

H_6 : Financial performance can mediate the effect of ESG on firm value

The Influence of Institutional Ownership Structure on Firm Value through Financial Performance

The management of the company's stakeholders is the primary concern of stakeholder theory. Businesses are instructed to find stakeholders considered valuable to the business (Rachmah & Iswara, 2023). The management of the company's stakeholders is the primary concern of stakeholder theory. Businesses are instructed to find stakeholders that are considered valuable to them (Ghozali, 2020). According to research by Rachmah & Iswara (2023), ownership structure influences firm value by influencing a company's financial performance.

H_7 : Financial performance can mediate the effect of institutional ownership structure on firm value

METHOD

The research approach in this study uses a quantitative approach. The population in this study were all companies listed on the Indonesia Stock Exchange (IDX) that implemented ESG in 2022. The sampling technique in this study is a saturated sample by involving the entire research population of 79 companies in all IDX sectors that implement ESG in 2022. The data collection method was carried out using documentation, which was used to gather information in the company's annual report, obtained through the www.idx.co.id page or the company's official website. The data analysis technique used multiple linear regression and path analysis to answer the hypotheses proposed in this study. The following is an operational definition of the variables contained in this study.

Table 1
Operational Definition of Variables

Variable	Operational Definition	Indicator	Scale
Firm Value (Y_2)	Company value is a picture of public trust in the company's operational performance over a period of several years, both from the aspect of financial and non-financial performance.	Tobin's Q = $\frac{market\ value\ of\ equity + total\ debts}{total\ asset}$	Ratio
Financial Performance (Y_1)	Financial performance is an analysis carried out to evaluate the extent to which the company carries out financial activities properly and according to the rules.	ROA = $\frac{net\ profit\ after\ tax}{total\ asset}$	Ratio
ESG (*Environmental, Social, Governance*) (X_1)	ESG (*Environmental, Social, Governance*) is a concept that emphasizes the importance of sustainable development, investment, and business.	ESG Score	Ratio
Institutional Ownership Structure (X_2)	Ownership structure is the procedure or pattern of ownership of shares or assets of an entity which includes the rights and distribution of ownership among shareholders or other owners.	Persentage of ownership = $\frac{number\ of\ institutional\ shares}{number\ of\ shares\ outstanding}$	Ratio

RESULT AND DISCUSSION

Statistic Descriptive Analysis

The data variables are described as follows:

Table 2
Statistic Descriptive Analysis

Variable	n	Min	Max	Mean	Std. Deviation
Firm Value (Y_2)	75	0,07	2,11	0,53	0,29
Fiancial Performance (Y_1)	75	0,00	0,30	0,08	0,07
ESG *Score* (X_1)	75	12,92	53,10	29,57	9,40

Variable	n	Min	Max	Mean	Std. Deviation
Institutional Ownership Structure (X_2)	75	0,02	0,92	0,52	0,21

Source: Data processed, 2024

Based on the descriptive statistical test in Table 1, it is known that the company value variable (Y_2) has a minimum value of 0.07 obtained by PT Saratoga Investama Sedaya Tbk and a maximum value of 2.11 obtained by PT Bumi Resources Minerals Tbk. This means that the high Tobins'Q value owned by PT Bumi Resources Minerals Tbk shows the high achievement of company performance based on the high market value compared to the company's asset value, and conversely, the low Tobins'Q value at PT Saratoga Investama Sedaya Tbk shows the low achievement of company performance based on market value and company assets.

The financial performance variable (Y_1) has a minimum value of 0.00 obtained by PT Wijaya Karya (Persero) Tbk and a maximum value of 0.30 obtained by PT Harum Energy Tbk. This means that the high ROA value owned by PT Harum Energy Tbk shows the high achievement of the company in obtaining returns based on its assets, and conversely, the low ROA value at PT Wijaya Karya (Persero) Tbk shows the low achievement of the company in obtaining returns.

The ESG *score* variable (X_1) has a minimum value of 12.92 obtained by PT Jasa Marga Tbk and a maximum value of 53.10 obtained by PT Adaro Minerals Indonesia Tbk. This means that the high ESG score owned by PT Adaro Minerals Indonesia Tbk shows the company's high commitment to ESG practices. This means that the company realizes the importance of sustainable development, investment, and business which is manifested in ESG practices, and conversely, the low ESG score at PT Jasa Marga Tbk shows that the company seeks to achieve sustainable development, investment, and business, but in practice it is still not optimal. However, this is still a good thing that needs to be appreciated considering that there are still many companies that have not implemented ESG in Indonesia.

The institutional ownership structure variable (X_2) has a minimum value of 0.02 obtained by PT Barito Pacific Tbk and a maximum value of 0.92 obtained by PT HM Sampoerna Tbk. This means that the high institutional share ownership of PT HM Sampoerna Tbk shows the high supervision carried out by institutional investors, and conversely, the low institutional share ownership of PT Barito Pacific Tbk shows the low supervision carried out by institutional investors on PT Barito Pacific Tbk.

Hypothesis Test

Multiple Linear Regression Analysis and Path Analysis

This study uses data analysis in the form of multiple linear regression analysis and path analysis. The following are the results of multiple linear regression analysis on the First Sub Structural Equation.

Table 3
First Sub Structural Equation

Coefficiens					
Model	**Unstandardized B**	**Coef. Std. Error**	**Standardized Coef. Beta**	**t**	**Sig**
(constant)	0,044	0,031		1,439	0,155
ESG Score	0,002	0,001	0,321	2,893	0,005
Institutional Ownership Structure	-0,075	0,030	-0,272	-2,452	0,017
F Sig.	0,000				
Adj. R *Square*	0,192				

Dependen Variabel: Financial Performance
Source: Data processed, 2024

Based on the test results, it is known that the Sig. value on the ESG score variable is 0.005, so **Hypothesis 1 is accepted** and the Sig. value on the institutional ownership structure variable is 0.017, so **Hypothesis 2 is accepted**. This means that ESG score and institutional ownership structure partially affect financial performance. Based on Table 2, the regression equation is also known, which is as follows.

Y1 = 0,044 + 0,002X1 - 0,075X2

The following are the results of multiple linear regression analysis on the Second Sub-Structural Equation.

Table 4
Second Sub Structural Equation

Coefficiens					
Model	**Unstandardized B**	**Coef. Std. Error**	**Standardized Coef. Beta**	**t**	**Sig**
(constant)	0,463	0,146		3.177	0,002
ESG Score	0,007	0,004	0,229	1,986	0,051
Institutional Ownership Structure	-0,056	0,150	-0,042	-0,73	0,711
Financial Performance	-1,336	0,436	-0,345	-3,063	0,003
F Sig.	0,011				
Adj. R *Square*	0,107				

Dependen Variabel: Firm Value
Source: Data processed, 2024

Based on the test results, it is known that the Sig. value on the ESG score variable is 0.051, so **Hypothesis 3 is rejected** and the Sig. value on the institutional ownership structure variable is 0.711, so **Hypothesis 4 is rejected**, and the Sig. value on the financial performance variable is 0.003, so **Hypothesis 5 is accepted**. This means that

ESG score and institutional ownership structure partially do not affect firm value, while financial performance partially has a significant effect on firm value. Based on Table 3, the regression equation is also known, which is as follows.

Y2 = 0,463 + 0,007X1 - 0,056X2 - 1,336Y1

Sobel Test

The following is the calculation of the sobel test in this study.

Formula : $t = \frac{ab}{\sqrt{b2SEa2+a2SEb2}}$

Note:

a : path of the independent variable on the intervening variable

b : path of the intervening variable on the dependent variable

SE : error standard

Formula for calculating roots: = SQRT (*number*)

Table 5
Calculation of the t Value for the Sobel Test

X1	a=	0,002	Y1	b=	-1,336	Y2
	SEa=	0,001		SEb=	0,436	
		t=	-1,675			

X2	a=	-0,075	Y1	b=	-1,336	Y2
	SEa=	0,030		SEb=	0,436	
		t=	1,937			

Source: Data processed, 2024

Based on these calculations, it is known that the t-count value for the sobel test on the effect of ESG score on firm value through financial performance is -1.675 smaller than the t-table value of 1.992, so **H_6 is rejected**. The t-count value for the sobel test on the effect of institutional ownership structure on firm value through financial performance is 1.937 smaller than the t-table value of 1.992, so **H_7 is rejected**.

DISCUSSION

The Influence of ESG on Financial Performance

Based on the results of hypothesis testing in Table 2, it is known that the Sig. value on the ESG score variable is 0.005. These results mean that ESG significantly affects financial performance, so **Hypothesis 1 is accepted**. This study proves that ESG affects financial performance and aligns with stakeholder theory.

This study's findings align with stakeholder theory, which explains that companies have obligations to all parties involved and affected by the company's operational activities other than shareholders. If there is a substantial correlation between ESG and financial success, then the company's finances can benefit from adopting sound ESG practices. ESG and other non-financial information disclosure are anticipated to be a social investment to satisfy stakeholder needs, subsequently enhancing business performance (Khairunnisa & Widiastuty, 2023). This study's findings are consistent with those of Safriani & Utomo (2020) and Khairunnisa & Widiastuty (2023), who found that ESG significantly affects a company's financial success.

The Influence of Institutional Ownership Structure on Financial Performance

Based on the results of hypothesis testing in Table 2, it is known that the Sig. value on the institutional ownership structure variable is 0.017. These results mean that institutional ownership structure significantly affects financial performance, so **Hypothesis 2 is accepted**. This study proves that institutional ownership structure affects financial performance and aligns with stakeholder theory.

The findings in this study align with stakeholder theory, which explains that companies may be more likely to consider the interests of all stakeholders if they have a shared ownership structure with major institutional investors. Stronger institutional investor oversight can motivate management to manage the business more effectively and in an arrangement that better serves stakeholders' interests. The high degree of institutional ownership makes it possible to track management performance more effectively, encouraging management to refrain from actions that could hurt most shareholders (Saifi, 2019). The study's findings are consistent with those of Irma (2019) and Saifi (2019), who found that the institutional ownership structure significantly affects the business's financial success.

The Influence of ESG on Firm Value

Based on the results of hypothesis testing in Table 3, it is known that the Sig. value of the ESG variable is 0.051. These results mean that ESG does not affect firm value, so **Hypothesis 3 is rejected**. Stakeholder theory explains that companies have not fully considered the interests of all stakeholders in managing their business. Practices focusing on environmental aspects require high costs in the short term, but sustainability-oriented actions can provide greater significance to the company's long-term financial performance (Johan & Toti, 2022).

The fact that ESG does not significantly affect firm value may be because there are still investors who do not fully understand the importance of ESG practices for the sustainability and competitiveness of the company in the long run. Furthermore, most investors continue to emphasize financial metrics like profit, growth, and margin above considering ESG factors. It is known from the research data that 56% of the sample has an ESG value that is below average. This suggests that many businesses continue to have poor ESG values, which is compelling evidence that the study's hypothesis was rejected. The findings of this study are consistent with Wangi & Aziz (2024), who found an insignificant effect of ESG on firm value.

The Influence of Institutional Ownership Structure on Firm Value

Based on the results of hypothesis testing in Table 3, it is known that the Sig. value on the ESG variable is 0.711. These results mean that the institutional ownership structure does not affect firm value, so **Hypothesis 4 is rejected**. Stakeholder theory explains that companies have not fully implemented governance practices aligned with stakeholder theory. Companies may prioritize majority shareholders' interests rather than accommodating other stakeholders' interests, including institutional investors. Although institutions own shares in the company, their ownership percentage is ineffective in overseeing its management performance. This is due to information asymmetry, where institutional investors may not fully know company management (Fadhilah et al., 2021).

Because of the lack of active participation from institutional investors and the asymmetry of information, the ownership structure of a corporation does not affect its value. According to the study data, 57% of research samples have a corporate valuation below the average value, while 52% have an institutional ownership structure above the average value. This indicates that the large institutional ownership structure does not necessarily correspond with the company's high value, which is compelling evidence that the study's premise was rejected. The study's findings are consistent with those of Adrianto et al. (2021), who found no relationship between institutional ownership structure and business value.

The Influence of Financial Performance on Firm Value

Based on the results of hypothesis testing in Table 3, it is known that the Sig. value on the ESG variable is 0.003. These results mean that financial performance significantly affects firm value, so **Hypothesis 5 is accepted**. This study proves that financial performance affects firm value and aligns with stakeholder theory.

This study's findings align with stakeholder theory, which explains that financial success significantly impacts the company's ability to survive and develop. The longer the company can grow, the better its financial success will be. A key element of the business's financial performance is profitability. The study's findings are consistent with those of Mudjijah et al. (2019), who found that financial performance can significantly impact firm value.

The Influence of ESG on Firm Value through Financial Performance

Based on the results of calculating the t-count value on the ESG variable, it is known that the t-count value of -1.675 is smaller than the t-table value of 1.992. This indicates that financial performance cannot mediate the effect of ESG on firm value, so **Hypothesis 6 is rejected**. According to stakeholder theory, businesses must consider and weigh the interests of all parties impacted by their operations, not just shareholders. The importance of managing operational impacts on stakeholders is critical to a company's long-term survival, environmental, social, and governance issues are among the key elements of stakeholder theory. To enhance their financial performance, businesses must focus on and prioritize environmental, social, and governance factors (Wardani & Sa’adah, 2020).

Although this study indicates that ESG directly impacts financial performance and that financial performance influences company value, it fails to prove that financial performance mediates the effect between ESG and firm value. Determining the causal relationship between financial performance and firm value requires time because the effects of ESG on firm value do not happen quickly. To have a significant impact, implementing ESG principles requires patience and persistence. The study's findings are consistent with those of Arofah & Khomsiyah (2023) who found that the impact of ESG on business value cannot be mediated by financial performance.

The Influence of Institutional Ownership Structure on Firm Value through Financial Performance

Based on the calculation of the t-count value on the ESG variable, it is known that the t-count value of 1.937 is smaller than the t-table value of 1.992. This indicates that financial performance cannot mediate the effect of institutional ownership structure on firm value, so **Hypothesis 7 is rejected**. According to stakeholder theory, businesses must consider and balance the interests of all parties impacted by their operations, not just shareholders. As one of the primary stakeholders, institutional investors are supposed to actively participate in oversight and strategic decision-making to protect the interests of those involved. It is anticipated that the supervision will guarantee the well-being of the stockholders. Large capital market institutions' shareholdings can serve as a check on the authority of other parties (Purba & Effendi, 2019).

This study indicates that financial performance directly impacts institutional ownership structure and that financial performance influences firm value. However, it is not established that financial performance mediates the impact between institutional ownership structure and firm value. Financial performance is not a powerful component that can mediate the impact of institutional ownership structure on firm value. Many other factors, such as investment policy, long-term strategy, and involvement in making business choices, are believed to have a more significant influence. The study's findings support those of Rachmah & Iswara (2023), who found that the impact of institutional ownership structure on business value cannot be mediated by financial performance.

CONCLUSION

The decline in Initial Public Offering (IPO) value in terms of fundraising quality, the decline in the number of daily active investors, and the weak Composite Stock Price Index (CSPI) in 2022 are year-end notes that need to be highlighted. This study proves that ESG practices and high supervision by institutional investors can affect company performance. The high achievement of company performance has also been proven to significantly affect the company's value in the eyes of the public. However, this study cannot significantly prove that ESG practices and supervision carried out by institutional investors can increase firm value and does not significantly prove the role of financial performance in mediating the effect of ESG practices and institutional ownership on firm value. This may be because there are still investors who do not fully understand the importance of ESG practices for the sustainability and competitiveness of the company in the long run. In addition, most investors still emphasize financial metrics such as profit, growth, and margin more than considering ESG factors.

Meanwhile, in institutional ownership, companies may prioritize the interests of majority shareholders rather than accommodating the interests of other stakeholders, including institutional investors. Although institutions own shares in the company, the percentage of ownership is ineffective in overseeing the company's management performance. In addition to using more comprehensive analytical techniques such as panel data analysis or others, future researchers are expected to add mediating variables or moderating variables that may have an impact on the relationship between ESG, institutional ownership structure, financial performance, and firm value to obtain a more complex picture of the relationship between existing variables.

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