

ABSTRACT

This study aims to analyze the effect of Environmental, Social, and Governance (ESG) on firm financial performance by considering the role of stakeholder pressure as a moderating variable and innovation as a mediating variable. The research was conducted on companies listed on the Indonesia Stock Exchange (IDX) during the period 2021–2023. ESG is regarded as an essential and can enhance financial performance.

The research method used is a quantitative approach with purposive sampling technique. Data were obtained from annual and sustainability reports of the companies. The independent variable is ESG Disclosure, the dependent variable is Return on Assets (ROA) as a proxy for financial performance, the mediating variable is the ESG Innovation Score, and the moderating variable is the ESG Controversies Score representing stakeholder pressure. Data analysis was conducted using multiple linear regression.

The results show that ESG disclosure has a significant positive effect on ROA. It indicates that ESG transparency contributes to improved financial performance. Stakeholder pressure was found to positively moderate the relationship between ESG and financial performance, while innovation significantly mediates the relationship. These findings suggest that stakeholder demands encourage better ESG implementation, and innovation acts as a strategic bridge connecting ESG practices to enhanced profitability.

Keywords: Environmental, Social, and Governance (ESG), Stakeholder Pressure, Innovation, Return on Assets (ROA), and Corporate Sustainability

