

The Influence of Financial and Environmental Performance on Stock Prices: Evidence from Indonesian Manufacturing Firms

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ABSTRACT

This study examines the influence of financial and environmental performance on stock prices among manufacturing companies listed on the Indonesia Stock Exchange during the period 2015–2024. Using panel data regression with the Random Effect Model (REM), the results show that Return on Assets (ROA), Net Profit, and Greenhouse Gas (GHG) Emissions have significant positive effects on stock prices, while Return on Equity (ROE) does not have a significant impact. These findings highlight those financial fundamentals remain the primary determinants of stock price movements, while environmental performance is beginning to serve as an indirect indicator of firm size and strength. The study suggests that investors in emerging markets continue to prioritize profitability and operational efficiency, although sustainability considerations are gradually gaining relevance. Future research is recommended to incorporate firm size controls and ESG quality measures to deepen the understanding of sustainability's role in market valuation.

ABSTRAK

Penelitian ini mengkaji pengaruh kinerja keuangan dan kinerja lingkungan terhadap harga saham perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia selama periode 2015–2024. Dengan menggunakan regresi data panel melalui pendekatan *Random Effect Model* (REM), hasil penelitian menunjukkan bahwa *Return on Assets* (ROA), Laba Bersih, dan Emisi Gas Rumah Kaca (GRK) berpengaruh positif secara signifikan terhadap harga saham, sedangkan *Return on Equity* (ROE) tidak berpengaruh signifikan. Temuan ini menunjukkan bahwa fundamental keuangan tetap menjadi faktor utama dalam pergerakan harga saham, sementara kinerja lingkungan mulai berfungsi sebagai indikator tidak langsung dari skala dan kekuatan perusahaan. Penelitian ini menyarankan agar investor di pasar berkembang tetap memprioritaskan profitabilitas dan efisiensi operasional, meskipun pertimbangan keberlanjutan mulai mendapatkan perhatian. Penelitian selanjutnya disarankan untuk memasukkan variabel pengendali ukuran perusahaan dan kualitas pengungkapan ESG untuk memperdalam pemahaman tentang peran keberlanjutan dalam penilaian pasar.

1. Introduction

Environmental degradation remains one of the most pressing global challenges, particularly for developing countries, where economic growth often comes at the expense of environmental sustainability. Among the most critical concerns is the increase in greenhouse gas (GHG) emissions, especially carbon dioxide (CO₂), which significantly contributes to global warming and climate change [1], [2]. As awareness of climate issues grows, so too does the demand for environmentally responsible business practices, pushing firms to integrate sustainability into their strategic planning.

In the modern economy, company performance is no longer assessed solely through financial metrics. Environmental and social aspects have increasingly become part of the broader corporate accountability framework, often captured under the Environmental, Social, and Governance (ESG) criteria [3]. Several

studies indicate a growing investor preference for firms with strong environmental credentials. A study in China found that there is a positive relationship between environmental performance (EP) and financial performance (FP) among Chinese firms, suggesting that sustainability initiatives can lead to reputational gains and market value appreciation [4]. Similarly, environmental characteristics such as emissions and disclosure quality significantly affect the financial performance of Nigerian energy companies [5]. These findings suggest a global trend where environmental stewardship is not only an ethical imperative but also a financially strategic asset [6].

In Indonesia, the manufacturing sector is a key contributor to both economic output and national GHG emissions. In response to global and domestic sustainability pressures, the Indonesian government has implemented various initiatives, such as ESG-related regulations and the corporate environmental rating

program (PROPER) under the Ministry of Environment and Forestry (KLHK). Despite these policy efforts, there remains a limited body of empirical research that explicitly investigates the relationship between environmental performance and stock market behavior in Indonesia, especially over extended time periods using panel data methodologies. This gap is particularly relevant as the capital market matures and investors become more discerning in factoring environmental risks and performance into their decision-making.

This study aims to assess whether the Indonesian capital market recognizes and rewards environmentally responsible companies. Specifically, it explores the extent to which GHG emissions, return on assets (ROA), and other financial indicators jointly influence stock prices of firms in the manufacturing sector. By examining the intersection of environmental and financial metrics, this research seeks to understand whether sustainability is being valued as a core driver of firm value in Indonesia's emerging market context.

Numerous studies have demonstrated that strong financial performance tends to boost investor confidence and enhance a firm's market valuation. Indicators such as Return on Assets (ROA) and Price Earnings Ratio (PER) often show a positive relationship with stock prices. A higher ROA, for instance, signals efficient asset utilization and overall profitability, which can attract investor interest and support rising stock prices. Similarly, a high PER may reflect strong earnings expectations and positive investor sentiment [7].

However, not all financial indicators hold the same weight. For example, the Debt-to-Equity Ratio (DER) has been found to have no significant effect on stock prices, possibly because changes in debt structure do not directly influence investor perceptions of firm value in the short term. Likewise, the Dividend Payout Ratio has shown limited impact, suggesting that investors in some markets, like Indonesia, are more focused on a firm's long-term earnings potential than on immediate dividends.

Environmental performance has been found to positively and significantly influence stock prices [8]. Green accounting, although still developing, appears to have a complex relationship with company performance; while it may initially reduce profitability due to upfront costs, it ultimately contributes positively to stock prices as investors tend to reward transparency and responsible environmental practices.

As global awareness of sustainability rises, investors are increasingly attentive to companies' environmental behavior. Firms that perform well environmentally tend to enjoy stronger reputations, which can translate into higher stock valuations.

Beyond stock prices, good environmental performance can enhance financial outcomes directly.

Environmentally responsible companies often operate more efficiently, reduce exposure to regulatory penalties, and benefit from stronger stakeholder trust. In Indonesia's resource-based sectors, Corporate Social Responsibility (CSR)—which includes environmental stewardship—has shown a positive correlation with profitability [9]. These findings support the growing body of evidence suggesting that sustainability and profitability are not mutually exclusive but can reinforce each other when strategically aligned.

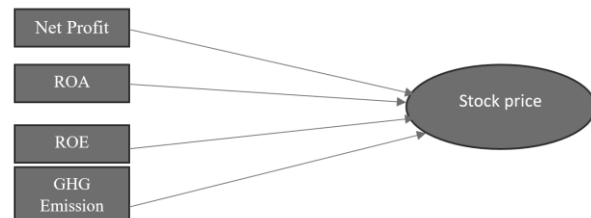


Figure 1. Research Framework

2. Research Method

This study employs a quantitative approach using panel data regression analysis to examine the influence of financial and environmental performance on stock prices. The panel data technique enables analysis across both time (2015–2024) and entities (six manufacturing companies listed on the Indonesia Stock Exchange), allowing for richer insight by combining cross-sectional and time-series data. This approach is considered appropriate for capturing variations between firms while also accounting for temporal changes.

2.1. Population and Sample

The population of this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period from 2015 to 2024. The sample was selected using purposive sampling, with specific criteria to ensure data completeness and consistency. Companies included in the sample were those that published complete annual financial statements and sustainability reports for each year during the observation period, had accessible data on Return on Assets (ROA), Return on Equity (ROE), Net Profit, and Greenhouse Gas (GHG) emissions, and remained actively listed on the IDX without delisting throughout the entire study period. Based on these criteria, six companies were selected, resulting in a balanced panel of 60 observations (six firms over ten years).

2.2. Operational Definition of Variables

The dependent variable in this study is stock price, which reflects the market valuation of a company's shares as traded on the IDX. The independent variables include Return on Assets (ROA), which measures the efficiency of asset utilization to generate profits, calculated as net income divided by total assets; Return on Equity (ROE), which assesses the return on

shareholder investment, calculated by dividing net income by shareholder equity; Net Profit, representing the company's total earnings after all expenses and taxes; and Greenhouse Gas (GHG) emissions, serving as an indicator of environmental performance, as reported in company sustainability reports. The variables can be seen on Table 1.

Table 1. Definition of Variables

Variable	Definition
Stock Price (Y)	The market price of a company's shares, as reported on the IDX.
Return on Assets (X ₁)	Measures profitability from assets. ROA is calculated as net income divided by total assets.
Return on Equity (X ₂)	Measures return to shareholders. ROE is calculated as net income divided by shareholders' equity.
Net Profit (X ₃)	The company's net earnings after all expenses and taxes.
GHG Emissions (X ₄)	Greenhouse gas emissions (CO ₂ equivalents), obtained from sustainability reports.

2.3. Data Collection

The data used in this research is secondary in nature, derived from publicly available sources. Financial data were collected from each company's audited annual reports and financial statements available through the IDX or company websites. Environmental data, particularly those related to GHG emissions, were obtained from sustainability reports or corporate social responsibility disclosures. For the year 2024, estimated or projected figures were used when actual data were not yet published at the time of analysis.

2.4. Data Analysis

The data analysis was conducted using EViews 13 statistical software. The first step involved descriptive statistical analysis to provide a general overview of the variables, including their minimum, maximum, mean, and standard deviation values. Following this, a panel data regression was performed to estimate the relationship between the independent variables and stock prices. The analysis considered three possible models: the Common Effect Model (CEM), which assumes that the intercept and slope are constant across all entities; the Fixed Effect Model (FEM), which allows for varying intercepts among firms; and the Random Effect Model (REM), which assumes that firm-specific effects are random and uncorrelated with the independent variables.

To determine the most appropriate model, several diagnostic tests were conducted. The Chow Test was used to compare the CEM and FEM and to determine whether firm-specific effects should be included. The Hausman Test was then used to decide between the FEM and REM by evaluating whether the individual effects are correlated with the regressors. Finally, the Lagrange Multiplier (LM) Test was employed to choose between the CEM and REM by testing for the presence of random effects.

Once the preferred model was selected, classical assumption tests were carried out to validate the model. These included a normality test to confirm that residuals followed a normal distribution, a multicollinearity test to detect linear dependence among the independent variables, a heteroscedasticity test to assess the consistency of error variance, and an autocorrelation test to identify any serial correlation in the residuals.

2.5. Model Estimation and Interpretation

Based on the diagnostic testing procedures, the Random Effect Model (REM) was identified as the most suitable for this study. The REM regression analysis was then performed to estimate the coefficients of the independent variables and evaluate their significance levels. The interpretation focused on coefficient values, p-values, and the adjusted R-squared, which measures the proportion of variation in stock price explained by the combination of ROA, ROE, net profit, and GHG emissions.

3. Results and Discussion

3.1. Preliminary Tests

Before estimating the panel data regression model, several preliminary tests were conducted to determine the most appropriate regression model for the data: Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM). These tests are crucial to ensure that the model selection accounts for variations across companies and over time, leading to more accurate and reliable results.

3.1.1. Chow Test (Common Effect vs Fixed Effect Model)

The Chow Test was conducted to assess whether the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The CEM assumes that all companies have identical intercepts and slopes, while the FEM allows each company to have its own intercept, accounting for individual characteristics that could influence stock prices. The test result can be seen on Table 2. The hypotheses for the Chow Test are:

H₀: The Common Effect Model (CEM) is appropriate (no individual differences).

H₁: The Fixed Effect Model (FEM) is appropriate (individual differences exist).

Table 2. Chow Test Result

Effects Test	Statistic	d.f.	P-value
Cross-section F	53.336920	(5, 50)	0.0000
Cross-section Chi-square	110.752999	5	0.0000

The test result showed a probability value less than 0.05, indicating that the null hypothesis is rejected. This implies that the Fixed Effect Model is statistically preferred over the Common Effect Model, suggesting significant differences across companies in the sample.

3.1.2. Hausman Test (Fixed Effect vs Random Effect Model)

Following the Chow Test, the Hausman Test was applied to choose between the Fixed Effect Model (FEM) and the Random Effect Model (REM). The FEM assumes that company-specific effects are correlated with the independent variables, while the REM assumes that these effects are random and uncorrelated. The test result can be seen on Table 3.

The hypotheses for the Hausman Test are:

H₀: The Random Effect Model (REM) is appropriate (no correlation between individual effects and regressors).

H₁: The Fixed Effect Model (FEM) is appropriate (correlation exists between individual effects and regressors).

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	P-value
Cross-section random	4.973196	4	0.2901

The Hausman Test produced a probability value of 0.2901, greater than the significance threshold of 0.05. Therefore, the null hypothesis cannot be rejected, suggesting that the Random Effect Model is more appropriate for this study.

3.1.3. Lagrange Multiplier (LM) Test (Common Effect vs Random Effect Model)

Finally, the Lagrange Multiplier (LM) Test was used to confirm the selection between the Random Effect Model (REM) and the Common Effect Model (CEM). This test checks whether the Random Effect Model provides a better fit compared to the Common Effect Model by testing for the presence of significant random effects. The test result can be seen on Table 4.

The hypotheses for the LM Test are:

H₀: The Common Effect Model (CEM) is appropriate (no random effects).

H₁: The Random Effect Model (REM) is appropriate (random effects exist).

Table 4. Lagrange Multiplier (LM) Test Result

Test Hypothesis	Cross-section	Time	Both
Breusch-Pagan	96.29307 (0.0000)	3.524740 (0.0605)	99.81781 (0.0000)

The LM Test resulted in a probability value less than 0.05, meaning the null hypothesis is rejected. Consequently, the Random Effect Model is confirmed as the most appropriate model for analyzing the panel data.

3.1.4. Summary of Model Selection

The following table summarizes the preliminary testing decisions can be seen on Table 5.

Table 5. Model Selection Summary

Test	Preferred Model
Chow Test	FEM
Hausman Test	REM
Lagrange Multiplier Test	REM

Based on the results of the Chow Test, Hausman Test, and Lagrange Multiplier Test, the Random Effect Model (REM) was determined to be the most suitable approach for this study. The REM accounts for random variations across companies, improving estimation efficiency without requiring strict assumptions about the correlation between company-specific factors and independent variables. Thus, all subsequent regression analyses and interpretations are based on the Random Effect Model.

3.2. Classical Assumption Tests

Before interpreting the regression results, classical assumption tests were conducted to ensure the validity and reliability of the Random Effect Model (REM). A summary of these test results is presented in the following Table 6.

Table 6. Summary of Classical Assumption Tests

Assumption	Result	Conclusion
Normality	Residuals are normally distributed	Passed
Multicollinearity	VIF < 0.9 for all variables	No multicollinearity
Heteroscedasticity	Addressed by REM (GLS estimation)	Passed
Autocorrelation	No autocorrelation detected	Passed

The normality test using the Jarque-Bera statistic indicated that the residuals are normally distributed, with a p-value greater than 0.05. Multicollinearity was assessed using the Variance Inflation Factor (VIF), and all variables showed VIF values well below the common threshold of 10, suggesting no multicollinearity issues. Heteroscedasticity concerns were addressed through the use of the REM with Generalized Least Squares (GLS) estimation, which inherently corrects variance inconsistencies across companies and over time. Finally, no signs of autocorrelation were detected in the residuals, supporting the assumption of error independence. Based on these results, it can be concluded that the model satisfies all classical OLS assumptions, allowing the regression coefficients to be interpreted with confidence.

3.3. Panel Regression Results

The Random Effect Model (REM) regression was conducted to analyze the influence of Return on Assets (ROA), Return on Equity (ROE), Net Profit, and Greenhouse Gas (GHG) Emissions on stock prices of manufacturing companies. The regression output is summarized on Table 7.

Table 7. Random Effect Model (REM) Regression Results

Variable	Coefficient	t-Statistic	P-Value	Significance
ROA	2.7028	4.179567	0.0001	Significant
ROE	-0.1676	-0.710992	0.4801	Not Significant
Net Profit	1.5078	2.111196	0.0392	Significant
GHG Emissions	0.2367	2.065969	0.0436	Significant

The regression results indicate that Return on Assets (ROA) has a positive and highly significant effect on stock prices. This suggests that companies that effectively utilize their assets to generate profits are more highly valued by the market. Net Profit also shows a positive and statistically significant relationship with stock prices. This implies that firms reporting higher profitability are rewarded by investors through higher stock valuations.

Interestingly, Greenhouse Gas (GHG) Emissions also have a positive and significant effect on stock prices. This finding may reflect the operational scale of the companies, where larger firms tend to emit more but are also perceived as financially stronger, thus maintaining high stock prices despite environmental concerns. Return on Equity (ROE), however, does not have a statistically significant effect on stock prices. This result aligns with prior studies suggesting that in emerging markets, ROE may not always be a strong indicator for investors due to possible issues of financial transparency or varying capital structures. Overall, the combination of financial and environmental performance variables provides a strong explanation of stock price variation among Indonesian manufacturing companies.

Estimated Regression Equation can be seen on Equation 1.

$$\text{Stock Price} = -12.6858 + 2.7028(\text{ROA}) - 0.1676(\text{ROE}) + 1.507(\text{NP}) + 0.2367(\text{GHG}) \quad (1)$$

Where stock price is closing stock price of the firm (in IDR). RoA is Return on Assets (%) and ROE is Return on Equity (%). NP is net profit reported (in billion IDR). GHG is greenhouse gas emissions (in tons of CO₂e).

It is important to note that the interpretation of the regression coefficients depends heavily on the units used in this study. ROA and ROE are expressed in percentage terms, not as raw fractions. Net Profit is measured in billions of Indonesian Rupiah (IDR), while GHG Emissions are measured in tons of CO₂ equivalent (CO₂e). Stock prices are recorded in full IDR amounts without scaling.

For example, a Net Profit figure of 200 billion IDR should be input as “200” in the regression equation. Substituting the full IDR figure (200,000,000,000) without scaling would lead to predicted stock prices far exceeding any plausible stock market value. This highlights the necessity of careful unit management to maintain the accuracy and practical relevance of regression results.

3.4. Discussion

The analysis revealed that Return on Assets (ROA), Net Profit, and Greenhouse Gas (GHG) Emissions significantly affect stock prices, while Return on Equity (ROE) does not have a statistically significant influence. The positive and significant relationship between ROA and stock price found in this study reinforces previous findings that highlight operational efficiency as a key driver of firm valuation. It has been confirmed that ROA remains one of the most consistent predictors of stock returns across Southeast Asian markets [10]. Similarly, it was found that companies with higher ROA tend to attract greater investor attention and achieve superior market valuations, particularly during periods of economic recovery [11]. These results suggest that investors continue to prioritize asset efficiency when evaluating the prospects of manufacturing firms.

Net Profit also showed a strong positive impact on stock prices, consistent with traditional valuation theories that associate earnings generation with firm value enhancement. Higher profitability has been found to directly correlate with stock price appreciation among Indonesian companies, emphasizing the enduring importance of earnings information for investors [12]. Furthermore, it has been shown that Net Profit remains a crucial factor influencing stock price movements, even as awareness of non-financial corporate disclosures continues to grow [13]. These findings underline that, despite the increasing integration of ESG considerations, financial fundamentals continue to dominate investment decision-making in emerging markets.

Surprisingly, GHG Emissions were found to have a positive and significant relationship with stock prices. This finding is consistent with observations that, in Indonesia, emissions levels often correlate with firm size, where larger, more operationally intensive companies are perceived as financially stronger and more resilient [14]. In addition, firms with higher environmental impacts have been shown to maintain or even improve their market valuations when their economic contributions or production scales outweigh concerns over environmental performance [15]. Therefore, the positive association between emissions and stock price in this study likely reflects a market bias toward firm size and operational dominance rather than an outright disregard for sustainability issues.

Conversely, ROE did not exhibit a significant effect on stock prices in this study. This result is consistent with prior research showing that ROE has become a less influential metric in predicting stock price variations within Indonesia’s manufacturing sector, likely due to diverse capital structures and financial leverage strategies [16]. Similarly, it has been found that investors are increasingly cautious about relying solely on ROE figures, favoring broader measures of firm performance such as ROA or overall profitability [17].

These findings suggest that while traditional financial indicators such as ROA and Net Profit continue to shape investor behavior, environmental performance metrics like GHG Emissions are beginning to carry indirect signaling value, particularly as proxies for firm size. However, there remains a need for investors to more directly incorporate sustainability performance into valuation models, especially as global ESG trends continue to grow in importance.

Future research could expand upon these findings by controlling for firm size, industry characteristics, and ESG disclosure quality to better isolate the true effects of environmental and financial performance on stock valuation. Additionally, examining the impact of recent regulatory developments, such as mandatory sustainability reporting standards, could provide valuable insights into the evolving relationship between sustainability and market performance in emerging economies.

3.5. Conclusion

This study examined the impact of financial and environmental performance on stock prices among manufacturing companies listed on the Indonesia Stock Exchange from 2015 to 2024. The findings show that Return on Assets (ROA) and Net Profit have significant positive effects on stock prices, highlighting the continued dominance of operational efficiency and profitability in shaping investor behavior. Greenhouse Gas (GHG) Emissions also exhibited a positive relationship with stock prices, suggesting that in the Indonesian market, emissions may serve as a proxy for firm size and operational scale rather than purely reflecting environmental risk. Return on Equity (ROE), on the other hand, did not significantly influence stock prices, indicating a shift in investor focus away from equity-based performance measures. Overall, the results affirm that financial fundamentals remain key drivers of stock valuation in Indonesia's manufacturing sector, while environmental aspects are beginning to carry indirect signaling value. Future research is recommended to incorporate firm size controls, sector-specific analyses, and ESG disclosure metrics to better capture the evolving relationship between sustainability performance and capital market behavior in emerging economies.

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