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Environmental Management Accounting, Strategy, Costs, and Firm Value: Performance Mediation

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Abstract

Purpose – This study examines the effects of Environmental Management Accounting (EMA), Business Strategy (BS), and Environmental Cost (EC) on Firm Value (FV), with Corporate Performance (CP) as a mediating variable.
Design/Methodology/Approach – A quantitative descriptive-verificative design was employed using 196 observations from 49 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2021-2024. Data were obtained from annual reports, financial statements, and sustainability reports and analyzed using Structural Equation Modeling (SEM) with AMOS and the Sobel test.
Results – The findings indicate that EMA and BS positively and significantly affect CP, whereas EC has no significant effect. CP negatively and significantly affects FV. EMA and BS also have positive indirect effects on FV through CP, indicating full mediation. In contrast, CP does not mediate the relationship between EC and FV. EC has a significant positive direct effect on FV.
Originality – This study integrates EMA, BS, and EC within a unified framework by positioning CP as a mediating mechanism for FV creation. The findings extend the Natural Resource-Based View by demonstrating how environmental capabilities can enhance FV through improved corporate performance, particularly in the Indonesian manufacturing context.
Research limitations/Implications – The findings suggest that firms should integrate EMA and BS with performance-enhancing strategies to generate economic value, while allocating environmental expenditures more strategically. The study is limited to manufacturing firms, the 2021-2024 observation period, secondary data, and selected construct proxies. Future research should consider longer periods, other industries, and alternative measures of environmental performance and FV.

Keywords: Business Strategy, Corporate Performance, Environmental Cost, Environmental Management Accounting, Firm Value

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Introduction

Environmental degradation, climate change, and increasing stakeholder demands for sustainable business practices have prompted businesses to shift from short-term profit maximization to long-term value creation across economic, social, and environmental dimensions and to integrate environmental considerations into strategic decision-making. Accordingly, ESG issues have attracted increasing investor attention as indicators of corporate governance quality and long-term sustainability prospects. In this context, firm value reflects market perceptions of a company's ability to create shareholder wealth, with higher firm value indicating stronger investor expectations regarding future growth and cash-generating capacity; therefore, companies must not only enhance financial performance but also develop sustainable competitive advantages through effective environmental management.

EMA is one tool that can help attain these objectives. EMA helps management increase productivity and the caliber of decision-making by providing physical and financial data on resource use, energy consumption, waste, emissions, and environmental costs. According to the NRBV, an organization's capacity to manage its environmental resources is a strategic asset that can generate long-term competitive advantage. Therefore, putting EMA into practice could boost business performance and eventually raise the company's worth.

Apart from EMA, BS plays a significant role in shaping corporate performance. Sustainability-oriented BS enable companies to improve operational efficiency, foster innovation, differentiate their products, and strengthen their competitive position in the market. In line with the development of the ESG concept, BS are no longer solely aimed at maximizing profits, but also at creating economic and environmental value simultaneously. Therefore, the effectiveness of BS has become one of the main determinants in improving corporate performance and firm value.

However, there are costs associated with implementing environmental initiatives, which are referred to as EC. Theoretically, EC is viewed as a strategic investment that can enhance resource use efficiency and reduce future environmental risks. However, in practice, EC are often perceived as a burden that can decrease a company's profitability. These differing perspectives have led to the relationship between EC, CP, and FV still being a subject of debate in the empirical literature.

Previous research has shown inconsistent results. Several studies have found that EMA has a positive impact on CP and FV, while other studies have reported insignificant effects, including Al-Mawali, Al Sharif, Rumman, Kerzan, and Liu (2018), Mohd Fuzi, Habidin, Janudin, Ong, and Ku Bahador (2019), Aslam, Elmagrhi, Rehman, and Ntim (2021), Effendi (2021), Mulyadi & Maulana (2022), Zaneta, Ermaya, and Nugraheni (2023), and Magoba et al. (2024).

The link between EC and both CP and FV is another area where research findings are inconsistent, as demonstrated by studies conducted by as research by Ulfamawaddah, Junaidi, and Wahyudi (2022), Putri, Indriani, and Hudaya (2024), Ilmi and Setiyaningsih (2025), and Kartobi and Dewi (2025). Similarly, the impact of BS on FV still shows varied results such as Henri, Boiral, and Roy (2016), Anwar and Hasnu (2016), Yuliansyah, Gurd, and Mohamed (2017), Nababan and Hasyir (2019), Suhadak et al. (2019), Ermaya and Mashuri (2020), Harahap, Septiani, and Endri (2020), Ismail (2021), Al-Mawali (2021), Siagian (2021), Setiawan and Honesty (2021), Domineka (2023), Enekwe, Ugwudioha, and Uyagu (2023), Pamungkas, Purwantoro, Sari, and Hersugondo (2023), Handoyo, Suharman, Ghani, and Soedarsono (2023), Fristianti, Novi, and Komara (2024), and Kartobi and Dewi (2025).

Besides the empirical gap, previous research generally examines the influence of each variable separately and more often places financial performance as the dependent variable. Research that integrates EMA, BS, and EC into a single model with CP as a mediating variable for FV is still relatively limited, especially in manufacturing companies in Indonesia. However, the increase in company value is unlikely to occur directly, but rather, it is achieved by first improving corporate performance.

This research uses the NRBV (Hart, 1995) and legitimacy theory (Suchman, 1995) as its theoretical foundation. According to NRBV, a company's environmental capabilities can provide it with a sustainable competitive advantage, and according to legitimacy theory, businesses aim to obtain social acceptance by adopting behaviors that are consistent with societal norms and values. The combination of these two theories explains that environmental management not only generates internal efficiency but also enhances the external legitimacy of the company, which ultimately impacts the increase in the FV.

Based on the description, this study aims to analyze the influence of EMA, BS, and EC on FV with CP as a mediating variable in manufacturing companies listed on the IDX for the period 2021-2024. This research provides several contributions. First, the research expands the development of the NRBV theory by testing the role of environmental capabilities in enhancing FV. Second, the research offers a mediation model that explains the mechanism by which environmental practices and BS are translated into FV through

improved CP. Third, the research results are expected to provide practical implications for company management and investors in making decisions that support sustainability and long-term value creation.

Literature Review and Hypothesis Development

The Natural Resource-Based View (NRBV), developed by Hart (1995) as an extension of the Resource-Based View (RBV), positions environmental resources and capabilities as sources of sustainable competitive advantage through pollution prevention, product stewardship, and sustainable development, which can enhance efficiency, innovation, and competitive position. In this study, EMA, BS, and EC represent environmental and strategic capabilities that may improve operational and financial performance and, consequently, FV.

Legitimacy theory further suggests that corporate sustainability depends on alignment between business activities and societal values, norms, and expectations (Dowling & Pfeffer, 1975; Purnomo & Santoso, 2025); thus, environmentally responsible practices can strengthen social legitimacy, corporate reputation, and stakeholder support, ultimately enhancing FV. EMA integrates physical and monetary environmental information, including materials, energy, water, waste, emissions, and environmental costs, to support managerial decision-making (United Nations Division for Sustainable Development, 2001), improving resource efficiency, reducing waste, and enhancing profitability (International Federation of Accountants (IFAC), 2005). BS comprises decisions aimed at achieving competitive advantage and, within a sustainability context, encompasses economic, social, and environmental value creation through efficiency, innovation, and differentiation (Wheelen, Hunger, Hoffman, & Bamford, 2018). EC refers to costs associated with preventing, detecting, controlling, and remediating environmental impacts (United States Environmental Protection Agency, 1995), including prevention, detection, internal failure, and external failure costs (Hansen, Mowen, & Heitger, 2025).

Corporate Performance reflects the effectiveness of resource utilization in achieving organizational objectives and is measured by Return on Assets (ROA), which indicates the firm's ability to generate profit from its assets (Brigham & Houston, 2019; Lina & Rinaldy, 2025; Pardamean & Gunawan, 2025). Finally, FV reflects market perceptions of the firm's growth prospects and wealth-creation capacity for shareholders (Rappaport, 1986) and is measured using Tobin's Q, which captures market valuation by incorporating equity and debt (Pardamean & Gunawan, 2025).

Conventional accounting has traditionally emphasized financial profitability while giving limited attention to broader business impacts, including climate change, the depletion of non-renewable resources, environmental concerns, and social issues within supply chains. The failure to adequately account for these environmental and social consequences has prompted growing criticism of conventional accounting practices and contributed to the increasing prominence of EMA, as well as the broader fields of social, environmental, and sustainability accounting, in recent years (Schaltegger, Gibassier, & Zvezdov, 2013).

According to NRBV, the ability to manage the environment is a strategic capability that can enhance competitive advantage. Environmental Management Accounting provides information about resource use and EC that helps companies reduce waste, increase efficiency, and control costs. Thus, the effective implementation of EMA can enhance CP.

Al-Mawali et al. (2018) found that EMA improves organizational performance in manufacturing enterprises listed on the Amman Stock Exchange. Through a survey of 395 manufacturing companies in Malaysia, Mohd Fuzi et al. (2019) found that EMA has a positive and significant effect on organizational performance. According to Aslam et al. (2021), environmental management techniques have a positive effect on financial performance. EMA has a significant positive impact on organizational performance (Magoba et al., 2024).

H1: Environmental management accounting positively influences corporate performance

From the NRBV point of view, EMA enables companies to enhance resource efficiency, manage environmental costs and risks, and develop competitive advantages that may increase firm value (FV). In addition, Legitimacy Theory suggests that EMA enhances corporate transparency and legitimacy, thereby fostering stakeholder trust and favorable perceptions. Accordingly, EMA can contribute to the enhancement of FV.

Environmental management accounting has a significant positive effect on FV (Zaneta et al., 2023). EMA has a positive effect on FV (Mulyadi & Maulana, 2022). When considering material input and environmental complaint systems, EMA has a substantial positive impact on FV. Furthermore, it was also found that the non-product output aspect and the compliance aspect have a significant negative impact on FV. However, FV is positively but marginally impacted by three parts of the EMA application proxies: the transportation aspect, the other aspects, and the supplier assessment aspect (Effendi, 2021).

H2: Environmental management accounting positively influences firm value

Although previous research has examined the relationship between EMA and FV, evidence regarding the mechanisms explaining this relationship, particularly through CP, remains limited (Wahyuni, Mulyasari, & Soleha, 2024). However, the implementation of EMA generates information regarding environmental costs, resource usage, and process efficiency that can help companies control costs, improve efficiency, and enhance decision-making, thereby potentially increasing CP. Better CP subsequently sends positive signals regarding the company's ability to create economic benefits, which can enhance investor confidence and the FV. Thus, this research argues that CP is the mechanism that bridges the positive impact of EMA on the FV; the better the implementation of EMA, the greater the opportunity for improved CP, which ultimately increases the FV.

H3: Environmental management accounting positively influences firm value with corporate performance as a mediator

In strategic management, strategic typology theory has become a significant field of study. The strategic types of Miles et al. (1978) (Prospectors, Analyzers, Defenders, and Reactors); a collection of "generic strategies" by Porter (1980) (Cost Leadership, Differentiation, and Focus); high-performance "gestalts" Miller (1992) (Craftsman, Builder, Pioneer, and Salesman); and three strategic types (Thürer et al., 2018) (Operational Excellence, Product Leadership, and Customer Intimacy). These typologies have inspired new lines of inquiry (Anwar & Hasnu, 2016).

According to NRBV, BS enables firms to leverage strategic resources and capabilities to build competitive advantage and improve CP. Legitimacy Theory further suggests that BS helps firms align with stakeholder expectations and maintain legitimacy. Thus, effective resource utilization, competitive positioning, and stakeholder alignment can enhance CP. Anwar and Hasnu (2016) show in a multi-industry analysis, that BS has a positive effect on CP. In a survey of 157 Indonesian financial institution managers, Yuliansyah et al. (2017) found that BS improves organizational performance. In a similar vein, Handoyo et al. (2023) study on manufacturing firms listed on the IDX shows that BS has a significantly positive effect on performance.

H4: Business strategy positively influences corporate performance

According to NRBV, strong CP reflects effective resource and capability utilization that can create competitive advantage and enhance FV. Legitimacy Theory suggests that strong performance strengthens stakeholder confidence and corporate legitimacy, fostering positive market perceptions. Thus, improved CP can increase investor confidence and FV.

Harahap et al. (2020) studied the effect of financial performance measured using the current ratio (CR), return on equity (ROE), net profit margin (NPM), total asset turnover (TATO), and debt to asset ratio (DAR) on FV. The results showed that ROE negatively affected FV, while NPM, TATO, and DAR positively affected FV. Meanwhile, the CR ratio did not affect FV. Financial performance positively and significantly affects FV (Pamungkas et al., 2023; Suhadak et al., 2019).

H5: Corporate performance positively influences firm value

Green innovation is one form of strategic instrument that can be integrated into a company's business strategy to achieve competitive advantage and sustainable performance. Asni and Agustia (2022) proved that CP mediates the relationship between BS and FV.

H6: Business strategy positively influences firm value with corporate performance as a mediator

The term EC refers to the financial resources incurred by firms for environmental conservation and initiatives, including pollution prevention, environmental improvement, R&D, and environmental management systems (Ifada & Jaffar, 2023). Research on EC in relation to CP and FV, including by Nababan and Hasyir (2019), proves that EC significantly affects CP. Community development costs have a negative and insignificant impact on CP, whereas employee health and safety costs have a positive and insignificant impact on CP, according to the analysis by Enekwe et al. (2023), in which EC is measured using staff development costs, employee health and safety costs, and community development costs.

Environmental cost can be viewed as a strategic investment that improves resource efficiency and reduces environmental risks, thereby supporting corporate performance. According to Legitimacy Theory, environmental spending reflects environmental commitment, strengthens corporate legitimacy, and gains stakeholder support. Thus, effective EC management can enhance CP. Al-Mawali (2021) concluded that environmental cost accounting affects CP. EC has a significant positive effect on CP (Henri et al., 2016). Environmental conventional cost affects CP (Setiawan & Honesty, 2021).

H7: Environmental cost positively influences corporate performance

From the NRBV perspective, environmental cost is a strategic investment that improves resource efficiency, reduces environmental risks, and strengthens long-term competitive advantage, thereby enhancing firm value. Legitimacy Theory views environmental spending as a demonstration of corporate responsibility that strengthens legitimacy and stakeholder confidence. Thus, effective environmental cost

management can increase firm value. Environmental cost has a positive effect on FV (Ulfamawaddah et al., 2022). EC has a positive effect on FV (Fristianti et al., 2024).
H8: Environmental cost positively influences firm value

Effective EC management not only demonstrates the company's commitment to the environment but can also enhance operational efficiency, reduce environmental and regulatory risks, and strengthen the company's reputation. Proper environmental expenditures can reduce waste and costs in the future, thereby potentially increasing CP. Furthermore, good CP reflects the company's ability to manage resources and generate economic benefits, which can enhance investor confidence and positive perceptions of the company's prospects, ultimately increasing Firm Value (FV). Thus, CP can serve as a mechanism bridging the impact of EC on FV, as effective EC management has the potential to improve CP, which in turn increases FV (Nurhalija, Mediaty, & Said, 2025).
H9: Environmental cost positively influences firm value with corporate performance as a mediator

Methods

Research Design

This study employs a descriptive-verificative strategy with a quantitative approach. While the verificative technique is used to evaluate the causal relationships between variables that have been formulated in the research hypothesis, the descriptive approach is used to describe the features of each research variable.

Population and Sample

The research population consists of 98 manufacturing enterprises. Purposive sampling is used in the sampling technique with the following criteria: (1) manufacturing companies in the Consumer Non-Cyclicals and Industrials sectors listed on the IDX during the 2021-2024 period; (2) companies that publish sustainability and annual reports consecutively during the observation period; and (3) companies that have complete data for all research variables. Of the 98 companies, 49 met these criteria, yielding a final sample of 49 companies. Observed over four years (2021-2024), this produced 196 firm-year observations.

Operationalization of Variables

Firm value as the dependent variable is measured using the Tobin's Q ratio (Patima, Helmi, & Rusmita, 2024). As an independent variable, EMA is measured using the EMA Index (number of disclosed EMA items divided by the total number of EMA items) developed based on United Nations Division for Sustainable Development (2001), Burritt, Hahn, and Schaltegger (2002), International Federation of Accountants (IFAC) (2005), and adapted from A'zizah, Aji, Puspawati, Ulynnuha, and Andriyani (2024). Business strategy is measured using Total Asset Turnover (TATO) as done by Handoyo et al. (2023), while environmental costs are measured using the Environmental Cost Ratio (ECR) as referenced by Patima et al. (2024). The mediating variable, namely company performance, is proxied using ROA (Lina & Rinaldy, 2025).

Data Analysis Techniques and Hypothesis Testing

The analysis begins with descriptive statistics to summarize the basic features of each variable. After that, the analysis continues with path analysis, which is a statistical technique used to measure the causal relationship (cause-effect) among a number of variables established in the theoretical model (Amos, 2025). Path analysis is appropriate for this study because it tests not only direct effects but also indirect effects through intervening variables.

This study does not examine the direct effect of Business Strategy on Firm Value, as Corporate Performance is positioned as the mediating mechanism. Business Strategy is expected to enhance resource utilization and competitive positioning, thereby improving Corporate Performance and, ultimately, Firm Value. Thus, the BS–FV relationship is examined through CP rather than directly. Specifically, this study will examine the influence of EMA, BS, and EC on FV with CP as the intervening variable, which can be visually represented through the following path diagram.

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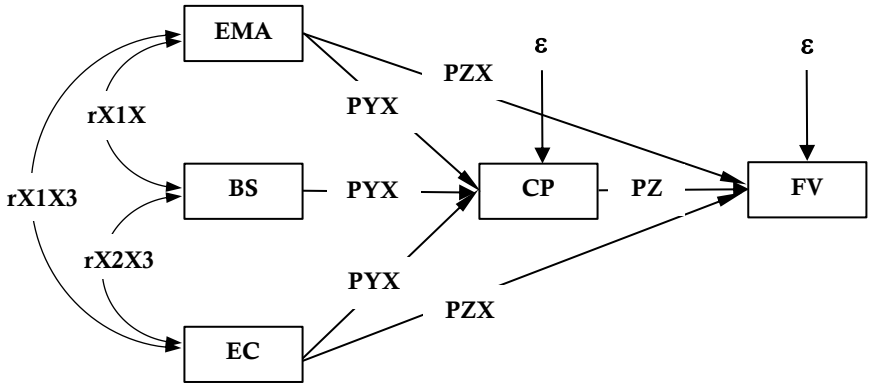


Figure 1
Research Model Path Diagram

Before hypothesis testing is conducted, the research model is first evaluated through assumption testing, which includes: multivariate normality, outlier detection, and goodness of fit testing. The model's feasibility is evaluated using several indicators, including: Chi-square, Goodness of Fit Index (GFI), Root Mean Square Error of Approximation (RMSEA), and Root Mean Square Residual (RMR).

The critical ratio (CR) value and a significance level of five percent are the basis for hypothesis testing. If the probability value of a relationship between variables is less than 0.05, it is deemed significant. Additionally, the Sobel test is used in the mediation effect test to assess the significance of the independent variable's indirect effect on FV through CP.

Research Results

Descriptive Statistics

The descriptive statistics for each variable are displayed in Table 1 below.

Table 1
Descriptive Statistics

Variable	Mean	Median	Max	Min	Std. Dev.
FV	1.9098	1.19	10.57	0.35	1.8216
CP	0.0659	0.0616	0.330	-0.445	0.1001
EMA	0.5939	0.58	0.92	0.34	0.1154
BS	1.0145	0.9561	3.3468	0.0626	0.5045
EC	0.0029	0.0016	0.093	-0.050	0.0088

Table Source: Processed Data (2026)

Firm value, measured by Tobin's Q, has an average of 1.9098, indicating that manufacturing firms listed on the IDX generally had market values exceeding their book values during 2021–2024. The lower median suggests a positively skewed distribution, while the relatively high standard deviation indicates considerable data variability.

Corporate performance, measured by ROA, averaged 6.59%, indicating relatively strong performance among manufacturing firms listed on the IDX during 2021-2024. The close median suggests a relatively symmetrical distribution, while the standard deviation exceeding the mean indicates substantial variability across firms.

Environmental Management Accounting (EMA), measured using the EMA index, had an average score of 0.5939, indicating that manufacturing firms listed on the IDX implemented more than half of the assessed EMA practices during 2021-2024. The closeness of the median indicates a relatively symmetrical distribution, whereas the low standard deviation suggests limited variability and greater homogeneity within the dataset.

Business strategy, measured by Total Asset Turnover (TATO), averaged 1.0145, indicating relatively efficient asset utilization among manufacturing firms listed on the IDX during 2021-2024. The close median

suggests a relatively symmetrical distribution, while the lower standard deviation indicates a relatively homogeneous dataset.

Environmental cost, measured by the Environmental Cost Ratio (ECR), averaged 0.29%, indicating relatively low environmental cost allocation among manufacturing firms listed on the IDX during 2021-2024. The substantially lower median indicates a skewed distribution, while the standard deviation exceeding the mean reflects considerable heterogeneity across firms.

Goodness of Fit

A p-value > 0.05 is found in the overall model fit test findings using the χ^2 (*chi-square*) test. The overall model developed is fit, according to the χ^2 test findings. Additionally, the model under study has a Goodness of Fit Index (GFI) score of 1.00, which is higher than 0.90 and suggests that the model is accepted. Furthermore, the model can be approved because the RMR and RMSEA values are both less than 0.08. It may be inferred that the model estimation findings are acceptable since the model fit test results show that the acquired model satisfies the goodness of fit criteria, indicating that the empirical model obtained is still compatible with the theoretical model.

Hypothesis Testing

The Influence of EMA, BS, and EC on CP

In Table 2, the R-square value of 0.299 indicates that EMA, BS, and EC can explain CP by 29.9%. Meanwhile, the remaining 70.1% is influenced by other factors that were not examined.

Table 2
Regression Results on the Influence of EMA, BS, and EC on CP

Hypothesis	Path	Std. Coefficient	C.R	p-value	R-square	Decision
H1	EMA ==> CP	0.421	6.400	0.000		Accepted
H4	BS ==> CP	0.341	5.105	0.000	0.299	Accepted
H7	EC ==> CP	-0.045	-0.663	0.508		Rejected

Table Source: Processed Data (2026)

Table 2 shows that EMA has a significant positive effect on CP. The study's findings offer factual proof that improved EMA will enhance CP. In a similar vein, BS has a significant positive effect on CP. The study's findings offer factual proof that improved BS will enhance CP. On the other hand, EC has no significant effect on CP (coefficient = -0.045, p = 0.508).

The Influence of EMA, EC, and CP on FV

In Table 3, the R-square value of 0.496 indicates that EMA, EC, and CP can explain FV by 49.6%. Meanwhile, the remaining 50.4% is influenced by other factors that were not examined.

Table 3
Regression Results on the Influence of EMA, CP, and EC on FV

Hypothesis	Path	Std. Coefficient	C.R	p-value	R-square	Decision
H2	EMA ==> FV	0.027	0.444	0.657		Rejected
H5	CP ==> FV	-0.120	-2.135	0.033	0.496	Accepted
H8	EC ==> FV	0.657	10.825	0.000		Accepted

Table Source: Processed Data (2026)

Table 3 shows that EMA has a positive but statistically insignificant effect on FV. FV is unaffected by EMA. CP has a significant negative effect on FV. The negative impact of CP on FV indicates that an improvement in CP does not always increase the FV. This can occur if the increase in ROA is not followed by good growth prospects, profits are deemed unsustainable, or the increase in profits comes from a reduction in long-term investments that could potentially hinder the company's growth in the future. On the other hand, EC has a positive and statistically significant effect on FV.

The Influence of EMA, BS, and EC on FV through CP

Table 4 shows that EMA has a significant positive indirect effect on FV through CP. The study's findings offer empirical proof that improved EMA will enhance CP, which will have a positive effect on FV. In a similar vein, BS has a significant positive indirect impact on FV through CP. The study's findings offer

empirical proof that improved BS will enhance CP, which will have a positive effect on FV. Nevertheless, EC has a negative and indirect impact on FV through CP. FV is unaffected by EC indirectly through CP.

Table 4
Results of the Indirect Influence Test of EMA, BS, and EC on FV through CP

Hypothesis	Variable			Mediator (CP)		Indirect Effect		Decision
		a	*sa*	*B*	*sb*	*Z*	*p-value*	
H3	EMA	0.342	0.053			5.543	0.000	Accepted
H6	BS	0.082	0.016	8.098	0.748	4.632	0.000	Accepted
H9	EC	-1.493	2.254			-0.661	0.509	Rejected

Table Source: Processed Data (2026)

Discussion & Conclusion

Discussion

The Influence of EMA on CP

The research results show that EMA has a positive impact on CP. These findings indicate that the environmental information generated through EMA can help companies identify waste, improve resource use efficiency, and enhance the quality of decision-making. The findings support the perspective of the NRBV, which explains that environmental capabilities are a source of sustainable competitive advantage. The better the implementation of EMA, the higher the company's ability to achieve better CP. These findings are consistent with Al-Mawali et al. (2018), Mohd Fuzi et al. (2019), Aslam et al. (2021), and Magoba et al. (2024).

The Influence of EMA on FV

The research results show that EMA does not have a direct impact on FV. This result indicates that investors have not yet made environmental accounting practices the main basis for valuing companies. This condition can be explained by the fact that most of the benefits of EMA implementation are long-term and do not immediately reflect in market prices. Moreover, the environmental practices undertaken by the company are likely still perceived as a form of compliance with regulations, rather than as a source of economic value creation. The results of this study are not in line with the research conducted by Zaneta et al. (2023) and Mulyadi & Maulana (2022).

The Role of CP in the Relationship between EMA and FV

Corporate performance has been shown to mediate the relationship between EMA and FV. These findings indicate that the benefits of EMA implementation are not directly appreciated by the market, but are first translated into an increase in the company's profitability. From the NRBV perspective, environmental capabilities generate economic value through superior performance. Thus, CP acts as a transformation mechanism between environmental practices and the enhancement of FV. These findings indicate the presence of full mediation, as the direct effect of EMA on FV is not significant, while the indirect effect through CP is significant.

The Influence of BS on CP

Business strategy has a positive impact on CP. This result shows that the effectiveness of utilizing company assets can enhance the company's productivity and profitability. These findings support the NRBV, which emphasizes the importance of a company's ability to manage resources efficiently to create sustainable competitive advantages. The results of this study confirm the research conducted by Anwar and Hasnu (2016), Yuliansyah et al. (2017), and Handoyo et al. (2023).

The Influence of CP on FV

The finding indicates that CP has a statistically significant negative effect on FV, suggesting that higher accounting-based performance does not necessarily lead to higher market valuation. This may occur because investors consider not only current profitability but also the sustainability and future growth prospects of earnings. Thus, higher ROA may reflect short-term improvements in profitability that are perceived as temporary or insufficient to create sustainable economic value, resulting in lower FV. This finding is consistent with the findings of Harahap et al. (2020), confirming that accounting-based performance and market-based firm valuation do not always move in the same direction.

The Role of CP in the Relationship between BS and FV
Business strategy enhances FV through CP. These findings indicate that BS does not directly affect FV, but rather through the enhancement of operational effectiveness and profitability. Thus, CP serves as a mechanism that bridges the relationship between BS and FV.

The Influence of EC on CP
Environmental cost does not affect CP. The results indicate that the environmental expenditures made by the company have not yet been able to improve efficiency or profitability. From the NRBV perspective, EC yields economic benefits only when treated as a strategic investment. These findings indicate that most companies still position EC as compliance costs, rather than as instruments for value creation. The results of this study are not in line with the research conducted by Henri et al. (2016), Nababan and Hasyir (2019), Setiawan and Honesty (2021), and Al-Mawali (2021).

The Influence of EC on FV
The finding indicates that EC has a statistically significant positive effect on FV, suggesting that environmental investment can enhance market valuation by strengthening corporate reputation, stakeholder trust, and legitimacy while reducing environmental and regulatory risks. Although such expenditures may increase short-term costs, investors may perceive them as strategic investments that support long-term sustainability and value creation. This finding is consistent with Ulfamawaddah et al. (2022) and Fristianti et al. (2024), who also reported a positive effect of EC on FV.

The Role of CP in the Relationship between EC and FV
Corporate performance is unable to mediate the relationship between EC and FV. This occurs because EC does not affect CP, thus the mediation path is not formed. The findings indicate that most manufacturing companies in Indonesia are still at the stage of a reactive environmental strategy, meaning they incur environmental expenses solely to meet regulatory demands and have not yet integrated them into their long-term value creation strategy.

Overall, the research results provide a more comprehensive understanding of the application of the Natural Resource-Based View (NRBV) and Legitimacy Theory in explaining the relationship between environmental practices, CP, and FV. NRBV explains that environmental practices can become a source of competitive advantage if companies can transform them into strategic capabilities that yield efficiency, innovation, and superior performance. The research results support this argument in the relationship between EMA and CP and in the role of CP as a mediator between EMA and FV. However, the insignificant effect of EC on CP and the lack of mediation by CP in the relationship between EC and FV indicate that environmental expenditures alone are not sufficient to create economic benefits unless they are integrated into the company's strategic capabilities.

Legitimacy Theory suggests that environmental practices and expenditures respond to regulatory pressures and social expectations to maintain legitimacy. The insignificant effect of EMA on FV and the positive effect of EC on FV indicate that environmental expenditures can enhance FV when perceived as credible corporate environmental commitment, strengthening legitimacy and stakeholder confidence. Thus, FV creation depends not only on environmental practices but also on the credibility and perceived value of the company's environmental commitment.

Conclusion
This study aims to analyze the effects of EMA, BS, and EC on FV, with CP as a mediating variable, in manufacturing companies listed on the IDX during 2021–2024. The results show that EMA and BS have positive effects on CP, whereas EC has no significant effect on CP. Furthermore, CP has a statistically significant negative effect on FV, indicating that higher accounting-based performance does not necessarily translate into higher market valuation. This finding suggests that investors may consider not only current profitability but also the sustainability and future growth prospects of corporate performance when evaluating firm value.

This study also found that EMA does not have a direct effect on FV but has an indirect effect through CP, indicating full mediation. Similarly, the effect of BS on FV occurs through the improvement of CP. In contrast, EC has a statistically significant positive effect on FV, and this effect is not mediated by CP. These findings suggest that environmental expenditures may be perceived by investors as a strategic commitment to environmental responsibility, strengthening corporate legitimacy and stakeholder confidence and ultimately enhancing firm value, independent of the company's accounting-based performance.

Theoretically, these findings reinforce the NRBV perspective that environmental capabilities and business strategy create competitive advantage through improved CP. Additionally, this study shows that CP plays an important role in transforming environmental capabilities into increased FV. Thus, this research contributes to the development of literature on the relationship between sustainability practices, CP, and value creation in the context of developing countries, particularly Indonesia.

Limitation & Future Research

The study is limited by its focus on manufacturing companies listed on the IDX during 2021–2024 and its reliance on secondary data and selected proxies for the research constructs. Future research could extend the observation period, examine other industries, and incorporate additional measures of environmental performance and firm value.

Declaration of Generative AI Use

Generative AI tools were used to support research ideation, theoretical exploration, and translation into academic English. AI use was limited to these supporting activities and did not replace the authors' responsibility for research design, data collection and analysis, interpretation, theoretical arguments, or conclusions. All AI-assisted outputs were independently reviewed, verified, and revised by the authors to ensure accuracy, academic integrity, and consistency with the research objectives and evidence.

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