

CHAPTER I

INTRODUCTION

1.1 Research Object

The object of this research is companies in consumer non-Cyclical sector, specifically in Indonesia. The Consumer Non-Cyclical sector consists of companies that produce and distribute essential goods and services that are regularly consumed by the public regardless of economic conditions. These products typically include food and staples retailing, beverages, processed foods, agricultural products, tobacco, household goods, and personal care products, all of which are consistently purchased by consumers even during periods of economic downturn (Chen, 2025).

Consequently, demand in the Consumer Non-Cyclical sector tends to be relatively stable, allowing firms to generate more consistent revenue than companies operating in cyclical industries (Chen, 2025; Garnett, n.d.). From a corporate finance perspective, this stability reduces the influence of short-term demand fluctuations on market valuation, allowing firm-specific strategic initiatives, such as Digital Transformation and ESG implementation, to play a more important role in determining Firm Value (Damodaran, 2012). Therefore, this sector provides an appropriate context for examining firm value because changes in market valuation are more likely to reflect firm-specific strategic initiatives, such as Digital Transformation and ESG implementation, rather than short-term fluctuations in product demand.

This stability is also reflected in firms' business operations, where companies generally maintain large-scale production and extensive distribution networks to ensure the continuous availability of essential goods.

While the Consumer Non-Cyclical sector consists of various industries, this study only focuses on companies that are part of the food value chain, namely Food Producers and Fisheries, Food and Beverage manufacturers, and Food Retailers. According to the Food and Agriculture Organization (FAO, 2023), the food value chain includes activities related to food production, processing, distribution, and retailing. Therefore, these three industries are closely connected because they operate within the same food supply system.

The selection of these industries is based on their similar sustainability issues and business activities. According to the OECD (2023) and FAO (2023), companies operating throughout the food value chain face common sustainability challenges, including greenhouse gas emissions, resource consumption, waste management, food safety, supply chain transparency, and responsible sourcing. Because these sustainability characteristics are relatively comparable across food production, manufacturing, and retail activities, limiting the sample to these industries reduces business heterogeneity and provides a more appropriate setting for examining the relationship between Digital Transformation, ESG Performance, and Firm Value.

As a result, ESG disclosures among Food Producers and Fisheries, Food and Beverage manufacturers, and Food Retailers are expected to be more comparable than those of other industries within the broader Consumer Non-Cyclical sector.

As these sustainability issues become increasingly important to regulators, investors, and consumers, companies across the food value chain have devoted greater attention and resources to integrating environmental and social responsibility into their business practices. More importantly, companies are expected to demonstrate tangible sustainability performance through their actual business practices rather than relying solely on sustainability claims (Am et al., 2023).

In addition to sustainability concerns, digital transformation has become increasingly important for companies operating in the food value chain. Firms are adopting digital technologies to improve supply chain efficiency, optimize inventory management, streamline distribution processes, and respond more quickly to changes in consumer demand (Shahadat et al., 2023; Zhen & Shang, 2025). Digital platforms also strengthen communication with customers through online channels and data-driven marketing strategies (Damar & Nursyamsiah, 2025). Beyond improving operational efficiency, digital transformation also facilitates better data management, transparency, stakeholder engagement, and ESG-related reporting, which support improvements in ESG performance (M. Zhang & Huang, 2024a; W. Zhang et al., 2025). Improved ESG performance, in turn, may strengthen investor confidence and contribute to higher firm value. These capabilities indicate that digital transformation may influence firm value not only directly but also indirectly through improvements in ESG performance.

Indonesia has experienced rapid growth in e-commerce over the past decade and is recognized as one of the largest digital markets in Southeast Asia (Google, Temasek, & Bain & Company, 2024). Consumer Non-Cyclical companies have become key participants in this digital ecosystem by leveraging e-commerce and omni-channel strategies to distribute essential goods more efficiently. This rapid digital expansion is also reflected in Indonesia's e-commerce market. Research by McKinsey Indonesia shows that Indonesia's online commerce market increased from approximately USD 8 billion in 2018 to around USD 43 billion in 2021, reflecting the rapid acceleration of digital adoption in the sector (Das et al., 2018; Tay & Wintels, 2023). These developments encourage companies to accelerate digital transformation initiatives, which may support ESG implementation and contribute to long-term firm value.

Therefore, the Consumer Non-Cyclical sector, particularly companies operating within the food value chain, provides an appropriate research setting because it combines relatively stable demand, comparable sustainability characteristics, and increasing digital adoption. These characteristics make the sector suitable for examining the relationship between Digital Transformation, ESG Performance, and Firm Value. Accordingly, this study examines whether ESG Performance mediates the relationship between Digital Transformation and Firm Value among Consumer Non-Cyclical companies listed on the Indonesia Stock Exchange during 2019–2024. By focusing on this sector, the study is expected to provide empirical evidence on whether Digital Transformation contributes to Firm Value directly and indirectly through ESG Performance within the Indonesian Consumer Non-Cyclical sector (Marczewska et al., 2025; M. Zhang & Huang, 2024a).

1.2 Research Background

Firm value has long been regarded as one of the primary objectives in corporate finance because it reflects investors' expectations regarding a firm's future cash flows, growth opportunities, and long-term value creation. Consequently, managers continuously implement various strategic initiatives aimed at maximizing firm value and enhancing shareholder wealth. The rapid development of digital technologies has significantly transformed the way businesses operate across various industries. Many organizations functioning in today's highly volatile environment do not yet

possess clearly established digital capabilities and strategies, making it challenging for firms to achieve sustainable performance (Brenner & Hartl, 2021). As a solution to this challenge, many firms have begun to implement digital transformation strategies to improve operational efficiency and support sustainable business practices.

While previous studies have examined the relationship between digital transformation, ESG performance, and firm value, several gaps remain. Most existing studies investigating the relationship between digital transformation, ESG performance, and firm value have predominantly focused on developed markets or broad samples of listed firms, while empirical evidence from emerging markets remains comparatively limited (Rahat & Nguyen, 2024). Furthermore, prior research generally employs cross-industry samples rather than examining specific sectors such as consumer non-cyclical companies, which possess unique characteristics including relatively stable demand and heightened stakeholder expectations regarding sustainability practices (Wang & Xia, 2024a; Zheng & Bu, 2024). In addition, the mediating role of ESG performance in the relationship between digital transformation and firm value has not been extensively explored in this specific context. Therefore, this study aims to address these gaps by examining the impact of digital transformation on firm value through ESG performance as a mediating variable, specifically within consumer non-cyclical companies listed on the Indonesia Stock Exchange over the period 2018–2024. Accordingly, this study positions Firm Value as the primary financial outcome, while Digital Transformation is examined as a strategic corporate initiative that may influence Firm Value directly and indirectly through ESG Performance.

Among various strategic initiatives, Digital Transformation has emerged as one of the key drivers of long-term corporate competitiveness and value creation. Digital transformation refers to the integration of digital technologies into various aspects of business operations, enabling firms to enhance efficiency, improve decision-making processes, and create new sources of value. Indonesia has also experienced significant growth in its digital economy. According to a report by Google, Temasek, and Bain & Company, Indonesia's digital economy is projected to reach a Gross Merchandise Value (GMV) of approximately USD 90 billion (around IDR 1,414 trillion) in 2024. This shows an estimated 13% year-on-year growth, positioning

Indonesia as the largest digital economy in Southeast Asia (*Google Projects 13 Percent Growth in Indonesia's Digital Economy*, 2024).

From a corporate finance perspective, Digital Transformation is expected to improve Firm Value by enhancing firms' competitive advantage, reducing information asymmetry, and strengthening investors' confidence regarding future corporate performance (Wang & Xia, 2024b). Firms that adopt digital technologies are able to improve operational efficiency, enhance information transparency, reduce information asymmetry, and strengthen communication with stakeholders. These improvements provide positive signals regarding firms' future growth prospects and long-term competitiveness, thereby increasing investors' confidence and contributing to higher Firm Value (Wang & Xia, 2024b).

Accordingly, this study does not examine Digital Transformation merely as an operational initiative, but rather as a strategic corporate investment that has the potential to enhance Firm Value. In addition, digital transformation enables firms to integrate sustainability practices into their business processes, thereby improving the quality and credibility of ESG implementation.

Digital transformation enhances corporate transparency and alleviates information asymmetry between firms and stakeholders by improving information processing capabilities and disclosure quality (Xie et al., 2024). Consequently, investors are able to evaluate firms more accurately, thereby supporting higher market valuation. Furthermore, digital platforms facilitate continuous interactions between companies and stakeholders, enabling firms to better identify stakeholder expectations, strengthen communication, and improve the credibility and effectiveness of sustainability initiatives (Zhang & Huang, 2024). As a result, these interactions can strengthen the implementation and overall performance of Environmental, Social, and Governance (ESG) practices while simultaneously improving firms' operational efficiency and supporting long-term sustainable development (Zhou et al., 2025). In this context, digital transformation not only enhances operational efficiency but also supports companies in improving their sustainability-related practices, which are commonly captured through ESG performance.

Environmental, Social, and Governance (ESG) represents a set of standards used by investors to evaluate how companies manage their environmental impact,

social responsibilities, and governance practices. These criteria cover various aspects, including environmental sustainability, social accountability, and the effectiveness of corporate governance structures. In recent years, attention toward ESG has grown significantly due to increasing global awareness, rising societal concerns, and the development of regulatory frameworks related to sustainability (Arvidsson & Dumay, 2022). Consequently, ESG performance has increasingly been incorporated into investment decisions because it provides investors with additional information regarding firms' long-term sustainability, governance quality, and risk management capabilities (Khan, 2022). Accordingly, strong ESG performance is increasingly viewed as a source of long-term corporate value.

However, despite the growing importance of Digital Transformation, investors may not always fully capture its economic value because information regarding digital initiatives disclosed in annual reports is often difficult to interpret and may still create information asymmetry (Wang & Xia, 2024b). In this case, investors may not be able to fully understand the actual extent of digital transformation implemented by a company. This limitation may influence how market participants evaluate a firm's performance and ultimately affect the company's market value.

Moreover, firm characteristics such as firm size, leverage, and profitability may also influence investors' valuation of a company because firms with different financial characteristics may exhibit different valuation patterns. Therefore, these variables are incorporated as control variables to isolate the relationship between Digital Transformation, ESG Performance, and Firm Value.

Consequently, the extent to which Digital Transformation contributes to Firm Value may depend on whether firms successfully translate their digital initiatives into observable sustainability performance through ESG. Therefore, this study investigates whether ESG Performance serves as the mechanism through which Digital Transformation enhances Firm Value in Indonesian Consumer Non-Cyclical companies, thereby providing empirical evidence from an emerging market context.

1.3 Problem Statement

1. How does digital transformation affect firm value of non cyclical consumer companies listed on the Indonesia Stock Exchange?
2. How does ESG performance affect firm value in these companies?

3. Does ESG performance mediate the relationship between digital transformation and firm value in the non cyclical consumer sector in Indonesia Stock Exchange?

1.4 Scope of Research

This research focuses on companies operating in the consumer non-cyclical sector listed on the Indonesia Stock Exchange (IDX). The consumer non-cyclical sector includes firms that produce essential goods such as food, beverages, household products, and other basic necessities that are consistently demanded by consumers regardless of economic conditions. Companies in this sector are selected as the object of this research due to their relatively stable market demand and their increasing attention toward sustainability practices (operational) and digital transformation initiatives.

The period of analysis in this study covers the year 2018 to 2024, depending on the availability of the required data. This period is chosen in order to analyze recent developments in digital transformation and ESG practices among companies in Indonesia, especially following the rapid growth of digital technologies and increasing global attention toward sustainability issues.

The sample of this research consists of approximately 50 companies within the consumer non-cyclical sector that meet specific criteria. The selection of the sample is based on the availability of complete annual reports and sustainability-related disclosures required to measure the variables used in this study. Companies that do not provide sufficient information within the observation period are excluded from the sample.

This research analyzes the relationship between digital transformation, ESG performance, and firm value. In this study, digital transformation is treated as the independent variable, ESG performance acts as the mediating variable, and firm value serves as the dependent variable. The research aims to analyze how digital transformation may influence firm value directly as well as indirectly through ESG performance.

Digital transformation is measured using the frequency of digital-related keywords disclosed in companies' annual reports. These keywords are used as indicators to capture how firms communicate their digital initiatives and technological adoption. A higher frequency of these keywords indicates a greater

emphasis on digital transformation within the company's strategic communication. However, this measure reflects the extent of disclosure rather than the actual depth of implementation. ESG performance is measured using an ESG disclosure index based on the Global Reporting Initiative (GRI) framework, which evaluates how companies report their environmental, social, and governance activities. Meanwhile, firm value is measured using a market-based indicator such as Tobin's Q, which captures the market's perception of a firm's value relative to its assets (cite main journal).

To achieve more reliable and comprehensive results, this research also includes several control variables that may influence firm value. These control variables include firm size, leverage, and profitability. Firm size represents the scale of the company's operations. Firm size is measured using the natural logarithm of total assets to represent the scale of the company's operations. Leverage is measured by the debt-to-equity ratio, reflecting the company's capital structure. Profitability indicates the firm's financial performance. Profitability is measured using return on assets (ROA). Including these variables helps ensure that the analysis more accurately captures the relationship between digital transformation, ESG performance, and firm value.

Although numerous factors influence Firm Value, recent corporate finance literature increasingly recognizes Digital Transformation as a strategic investment that may enhance shareholder value by improving firms' operational capabilities, reducing information asymmetry, and strengthening long-term competitiveness. However, the mechanisms through which Digital Transformation influences Firm Value remain underexplored, particularly in emerging markets.

1.5 Objective of Research

1. To examine the effect of digital transformation on firm value of consumer non cyclical companies listed on the Indonesia Stock Exchange.
2. To analyze the effect of digital transformation on ESG performance in consumer non cyclical companies listed on the Indonesia Stock Exchange.
3. To investigate the effect of ESG performance on firm value in consumer non cyclical companies listed on the Indonesia Stock Exchange.

4. To examine the mediating role of ESG performance in the relationship between digital transformation and firm value in the Indonesian consumer non cyclical sector.

1.6 Research Benefits

Based on the research problems, the specific objectives/research benefit of this study are as follows:

3.4.1 Theoretical Benefit

- i. This research is expected to contribute to the existing literature on digital transformation, ESG performance, and firm value by providing empirical evidence on the relationship among these variables. Specifically, this study examines the role of ESG performance as a mediating variable in the relationship between digital transformation and firm value. In addition, by focusing on companies in the consumer non-cyclical sector in Indonesia, this research provides a more specific context that may support future studies in similar settings.

3.4.2 Practical Benefits

- i. This research is expected to provide an overview for companies, particularly those in the consumer non-cyclical sector, regarding the potential role of digital transformation and ESG performance in influencing firm value. The findings may serve as a reference for companies in considering the importance of these aspects in their business strategies.
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