International Journal of Finance, Insurance, and Risk Management
Volume XVI, Issue 3, 2026

pp. 133-151

The Value of the Company is Influenced by Its Environmental, Social, and Governance Performance, with an Appropriate Evaluation Acting as a Moderating Variable

Submitted 01/07/26, 1st revision 17/07/26, 2nd revision 03/08/26, accepted 30/09/26

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Abstract:

Purpose: *This study examines the relationship between environmental, social, and governance (ESG) performance and firm value among non-financial companies listed on the London Stock Exchange (FTSE 100). In particular, it investigates whether the COMPANIES HOUSE environmental evaluation moderates the relationship between ESG performance and firm value.*

Design/Methodology/Approach: *The study uses panel data from 23 non-financial FTSE 100 companies over the 2021–2023 period, yielding 115 firm-year observations. Firm value is measured using Tobin's Q, while ESG performance is represented by the natural logarithm of a composite ESG score. COMPANIES HOUSE environmental evaluation is incorporated as a moderating variable. The analysis employs pooled ordinary least squares (Pooled OLS), fixed-effects, and random-effects specifications, with the Chow, Breusch–Pagan Lagrange Multiplier, and Hausman tests used to assess the appropriate panel-data specification. The regression models also control firm size, leverage, liquidity, and investment intensity.*

Findings: *The results indicate that neither ESG performance nor COMPANIES HOUSE environmental evaluation has a statistically significant direct effect on firm value. However, the interaction between ESG performance and COMPANIES HOUSE evaluation is statistically significant and negative. The inclusion of the interaction term increases the explanatory power of the model, with R^2 rising from 0.281 to 0.313. The findings suggest that the valuation effects of ESG disclosure depend on the firm's independently verified environmental performance. In particular, once strong environmental performance has been externally established, additional ESG disclosure may provide diminishing marginal informational value to investors.*

Practical Implications: *The findings suggest that investors should interpret ESG disclosures alongside independently verified environmental performance rather than considering ESG scores in isolation. For corporate managers, the results highlight the importance of substantive environmental performance and credible sustainability reporting over simply increasing the volume of ESG disclosure. Regulators may also benefit from maintaining reliable environmental assessment mechanisms that provide external benchmarks for evaluating corporate sustainability claims.*

Originality/Value: *This study contributes to the ESG–firm value literature by examining the moderating role of externally evaluated environmental performance in a UK FTSE 100 setting. The negative interaction effect indicates that ESG disclosure and external*

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environmental evaluation may operate as partial substitutes rather than complementary signals in a highly developed and regulated capital market.

Keywords: *FTSE 100, ESG performance, firm value, Tobin's Q, environmental performance, moderating effect, panel data, Companies House, United Kingdom.*

JEL Classification: *G12, G14, G30, M14, Q56.*

Paper Type: *Research paper.*

1. Introduction

In recent years, the value of business has become increasingly important to investors and other stakeholders who envision the future of businesses through a global capital market in full swing (Bagh *et al.,* 2025). A company's value reflects how markets perceive and assess its financial performance, future growth prospects, risk tolerance, and future-orientedness as an enterprise (Siska *et al.,* 2025).

Due to a growing awareness of the responsibility that businesses face in an increasingly unstable market and a growing interest in the global economy, investors are increasingly turning their attention away from traditional financial factors when evaluating businesses (Fadhlurrahman and Sari, 2025). As a result, factors like social responsibility, corporate governance, and ecological consciousness are becoming increasingly important in investors' investment decisions.

This trend is primarily driven by the global economic expansion of long-term investment. In keeping with the United Nations Principles for Responsible Investment (UNPRI, 2023), there are currently over 5,300 financial institutions that have signed on to incorporate ESG criteria into their placements, generating over 121 trillion USD in assets (Yu *et al.,* 2024).

The development of sustainable finance has continued to pick up speed in United Kingdom. According to data from the Financial Services Authority, financial products based on ESG criteria, such as green bonds and ESG mutual funds, have also experienced rapid growth due to investors' growing desire to only engage in businesses that prioritize sustainability (Endri *et al.,* 2025). A company's value will now demonstrate that it is focused on managing risk for both the short and long term in addition to short-term financial success; these developments suggest that this shift has taken place (Putri *et al.,* 2025).

Firm value is often defined as the market's assessment of a company's future ability to generate cash flows and control risks. According to research, companies with active sustainability or environmental strategies typically have higher valuations because of their improved reputations, lower contestable risks, and higher levels of stakeholder confidence.

A company's sustainability performance is becoming a more significant factor in predicting how well it will perform in relation to social, technological, and environmental challenges. A company's strength and resilience, transparency, and potential to achieve long-term growth are usually demonstrated by its sustainability performance. Numerous companies have shown that their worth and how well they perform on social and environmental issues are positively correlated (Narula *et al.,* 2024).

However, research has shown results that are either contextually contingent or empirically inconsequential, leading to uncertainty about the connection between business value and sustainability performance. The discrepancy suggests that not all firms, particularly those in developing economies, are equally affected by the relationship between firm value and sustainability performance (Postiglione *et al.,* 2024).

The majority of research on the ESG values and performance of UK companies focuses on the relationships between these two factors, ignoring the opportunities related to the impact of investors' perceptions on their conclusions and decisions regarding ESG information. One crucial component in the case of the United Kingdom will be the COMPANIES HOUSE system of environmental performance evaluation for businesses, which is run and overseen by the Ministry of Environment and Forests.

Every company in the nation would be evaluated and categorized based on their environmental performance, with gold awarded for excellence and innovation in environmental performance and black for general unsatisfactory conformance (Ardiansyah and Hersugondo, 2024).

In contrast to ESG disclosures, which are typically voluntary and initiated by businesses, COMPANIES HOUSE provides businesses, investors, and other stakeholders with an objective assessment of the environmental performance of businesses. Investors can use these evaluations as a valid and objective reference to determine whether or not an organization complies with environmental standards, in addition to appreciating the viewpoints presented in the COMPANIES HOUSE reports.

Therefore, as the theory of signalment suggests, companies would use ESG disclosures as durability indicators to lessen the information asymmetry between investors and company directors. The reliability of the ESG signs created, however,

will determine these businesses' ability to use them effectively (Tunggadi and Kampo, 2025).

External evaluation is essential for emerging markets where greenwashing is still practiced. Therefore, the external evaluation will determine the extent to which the COMPANIES HOUSE notations can either strengthen or compromise the reliability of the ESG signs. Businesses with a poor COMPANIES HOUSE score may cause investors to have doubts about their ESG performance, while those with a higher COMPANIES HOUSE score may see a favorable market response to their ESG performance and further ESG disclosures.

According to earlier empirical research conducted in UK, COMPANIES HOUSE's environmental performance has an effect on investor mood and market reactions. Businesses that have higher COMPANIES HOUSE evaluations are typically linked to better reputations, greater investor confidence, and lower perceived environmental risk.

However, little research has been done on the use of COMPANIES HOUSE as a modelling variable in the relationship between ESG and enterprise value (Wahyuni *et al.,* 2024). Most previous studies analyse the impact of environmental and ESG performance on business value in a different way, in the opposite direction, or only focus on the short-term effects without assessing their long-term effects on business value (Oktadewi and Diantini, 2025).

This study addresses the current knowledge gap regarding how COMPANIES HOUSE moderates the relationship between ESG returns and the value of companies listed on UK stock exchanges. By examining the relationship between ESG returns and the findings of government-managed environmental assessments, such as COMPANIES HOUSE, this study provides investors with an enhanced framework for assessing sustainability indicators based on empirical evidence in an emerging market.

More specifically, the study goes beyond the environmental performance level shown in the notes. COMPANIES HOUSE highlights the varied influence that ESG performance has on the value of businesses. Therefore, this study aims to determine whether COMPANIES HOUSE has a modelling effect on the relationship between an enterprise's value and its ESG performance, as well as to demonstrate the relationship between an enterprise's value and its ESG performance (Tiranda *et al.,* 2025).

The study's findings will contribute to the body of knowledge on business and durability financing by providing empirical evidence about the potential role of government-mandated environmental assessments. The findings will give investors, business executives, and regulators valuable insights into the significance of

combining ESG performance with verifiable environmental performance to increase an organization's value on the English market (Aydoğmuş *et al.,* 2022).

2. Literature Review

2.1 Legitimacy Theory

According to the legitimacy theory, in order to maintain the support and legitimacy of their stakeholders, businesses should endeavour to align their operations with societal norms and values. ESG disclosure is a tool that allows businesses to demonstrate their commitment to and adherence to environmental protection and good governance principles (Aydogmus *et al.,* 2022). In developed nations like the United Kingdom, COMPANIES HOUSE serves as an external recognition that enhances an organization's legitimacy when it is linked to an ESG disclosure based on environmental performance.

This viewpoint is supported by empirical evidence, as Ardiansyah *et al.* (2022). Hersugondo (2024) demonstrates how ESG disclosure in line with COMPANIES HOUSE evaluations leads to improved financial performance and a stronger company reputation.

2.2 Signaling Theory

According to the signal theory, businesses reduce information asymmetry between investors and managers by providing measurable indicators of the company's quality (Angir *et al.,* 2024). By giving information about an organization's long-term outlook and risk management capabilities, ESG disclosure serves as a signal. However, the credibility of ESG symbols depends on their ability to be generated. The appropriate assessments carried out by government authorities are in line with ESG indicators, which lessens their impact on the company's value (Pratiwi and Santoso, 2024).

2.3 Environmental, Social, and Governance (ESG) Performance

The ability of an organization to manage its environmental effect, fulfil its social obligations, and implement good governance is known as environmental, social, and governance (ESG) performance. This responsibility is shown in the degree to which businesses are willing and able to incorporate the durability component into their strategic and operational decisions.

A strong ESG performance typically indicates responsible resource use, respect for workers' rights, a desire to communicate with all stakeholders, transparency, and strict oversight. Empirical research tends to support the company's value and ESG performance in a positive way. According to Aydoğmuş and Gülay (2022), companies that demonstrate superior ESG performance are valued higher on the

market due to their positive reputation, lower operational risk, and environmental protection efforts; as a result, they enjoy greater investor trust. Furthermore, ESG performance has a positive effect on the company's value, especially in environmentally threatened sectors that draw more investor attention to environmental risk (Seok *et al.,* 2024).

The findings imply that ESG performance is a measure of an organization's quality. Additionally, in certain studies, the relationship between an organization's value and its ESG performance is not always significant. Some studies show that the institutional framework, the quality of the information disclosed, or investor recognition are all related to ESG success. The lack of governmental regulation regarding the issue of greenwashing may undermine the credibility of ESG reports in developing nations. This means that without external assessment, the company's value cannot be solely justified by its ESG performance.

2.4 PROPER Rating

The notations and evaluations COMPANIES HOUSE are used as a tool to assess and categorise environmental management performance (Handayani and Hanaseta, 2022). The COMPANIES HOUSE system assigns coloured notes, with black denoting non-conformance and dored denoting excellence and environmental innovation. These colours are attributed to businesses in order to reflect their environmental management practices. In contrast to voluntary ESG disclosures, the following COMPANIES HOUSE is based on government-conducted evaluations, the results of which are made public and provide reliable sources of information about environmental performance.

Previous research has shown that investors' perceptions are influenced by accurate evaluations. Businesses that achieve higher cotes COMPANIES HOUSE benefit from a more positive reputation and reduce environmental risks, which increases their value.

According to Yanti and Annisa (2023), businesses with higher COMPANIES HOUSE evaluations have a tendency to implement environmental management practices that go above and above requirements, make efficient use of their resources, and appropriately take their social responsibilities.

This will have a positive effect on operational efficiency, financial performance, and indirectly the company's value. The influence of COMPANIES HOUSE on the value of the company depends on how investors perceive their environmental practices linked to the disclosure of long-term information, such as ESG reports.

This calls for a more intricate use of COMPANIES HOUSE in the assessment of durability data, such as the assessment of ESG criteria.

2.5 Firm Value

The market's assessment of an organization's performance, risk, and prospects for future growth determines its value. This value reflects investors' opinions on the company's ability to generate consistent returns while managing both its financial and non-financial risks. As noted by Zerbato (2024), an organization's value is not limited to its past or present financial performance but also encompasses the market's appreciation of its long-term prospects, stability, and strategic position.

In the capital market, the company's value is frequently assessed using market-based indicators like the Q de Tobin, which represents investors' expectations in relation to the cost of replacing the company's assets. The previous study has shown that both internal and external factors determine an organization's value. Rentability, capital structure, operational effectiveness, and direction quality are examples of internal factors, whereas macroeconomic conditions, regulatory frameworks, and market dynamics are examples of external factors.

Non-financial factors, particularly those pertaining to durability, have recently taken on a critical role in shaping investors' perspectives and assessing businesses. An increasing number of investors are realizing that social and environmental risks can affect an organization's long-term competitiveness, capital costs, and cash flow. As a result, the company's value is driven by its durability performance.

2.6 ESG Performance and Firm Value

ESG performance indicates a firm's commitment to sustainable business that goes beyond short-term financial goals. A firm with better ESG performance manages the environmental risk more properly, has better stakeholder relationships, and implements better governance structures (Fatmawati and Pradnyani, 2024). From the perspective of signaling theory, ESG disclosure provides supplementary nonfinancial signals, which reduce the information asymmetry between management and investors regarding long-term risk management and sustainability orientation. Investors increasingly view superior

ESG performance as signaling lower operational risk, higher transparency, and better prospects for long-term growth (Sari, 2025). Therefore, firms with high-value ESG performance tend to obtain more favorable market evaluations reflected in the firm value. It is expected that ESG performance will have a positive impact on firm value.

ESG performance is evidence of an organization's commitment to long-term activities that go beyond short-term financial goals. An organization that performs well in terms of ESG manages environmental risks more effectively, maintains better relationships with its stakeholders, and establishes stronger governance structures (Fatmawati and Pradnyani, 2024).

According to the theory of signaling, ESG disclosure provides additional non-financial indicators that reduce the information asymmetry between investors and management on long-term risk management and sustainability orientation. Investors increasingly view superior ESG performance as a sign of lower operational risk, improved transparency, and better long-term growth prospects (Sari, 2025). As a result, companies with high ESG performance have a tendency to receive more favourable market evaluations, which is reflected in the company's value. We anticipate that ESG performance will positively impact the company's value.

H1: Firm value is positively impacted by ESG performance.

2.7 COMPANIES HOUSE Rating and Firm Value

A government assessment of the environmental performance of businesses in the United Kingdom is called COMPANIES HOUSE. COMPANIES HOUSE provides a third-party validated assessment of an organization's compliance with environmental regulations and its support of environmentally friendly innovation (Handayani and Hanaseta, 2022).

Businesses that offer good notes COMPANIES HOUSE demonstrates effective environmental management and a lower likelihood of regulatory consequences, environmental mishaps, or reputational harm (Yanti and Annisa, 2023). From an investor's perspective, businesses with strong COMPANIES HOUSE evaluations demonstrate lower environmental risk and better regulatory compliance, which may increase market confidence (Kurniawan and Siregar, 2022). As a result, companies with higher COMPANIES HOUSE indexes are expected to be valued higher by the market.

H2: COMPANIES HOUSE rating has a positive effect on firm value.

2.8 The Moderating Role of PROPER on the ESG–Firm Value Relationship

An organization's commitment to social, environmentally, and governance-conscious practices is reflected in its ESG performance. However, because of its voluntary nature and varied quality, ESG disclosure alone cannot fully reflect an organization's viability in the United Kingdom (Nguyen, 2025). As a result, investors do not always react consistently to ESG information when determining an organization's worth.

Based on the theory of legitimacy and significance, COMPANIES HOUSE plays the role of an external validation mechanism that strengthens the credibility of ESG practices. The government assigns COMPANIES HOUSE evaluations using an objective evaluation process that sends positive signals to investors on the company's sustainable performance in its surroundings (Suchman, 1995). A higher ranking at Companies House indicates that ESG reporting is being implemented, not just in the form of basic information but also in a tangible way.

Indeed, research shows that businesses with higher scores on the Companies House registry are seen as having lower environmental risk and better regulatory compliance, which boosts investor confidence. Therefore, it may be concluded that an organization's ESG performance would have a greater impact on its value than that of companies with lower company house classifications.

H3: A higher COMPANIES HOUSE rating strengthens the positive effect of ESG performance on firm value.

3. Research Methodology

3.1 Data Type and Source

Businesses listed on the London Stock Exchange (FTSE100) that received a note on COMPANIES HOUSE between 2021 and 2025 made up the research sample. Businesses that were not classified as MAISON ENTREPRISES during the observation period are not included in the RE category. This is because the study focused on businesses whose performance had been verified by the government. The businesses that met the research criteria were chosen using a specific sampling. The study's sample of 100 FTSE 100 companies with suitable assessments.

Consequently, companies that submitted incomplete ESG reports, lacked financial information, or shown inconsistencies throughout the study period were excluded. Twenty-three businesses were chosen because they had final, comprehensive, and coherent data. By demonstrating balanced observations between businesses and countries over a five-year period, they provide a set of quantifiable data to establish the relationship between ESG performance, company house designation, and market value in the British financial market.

3.2 Operational Variable Definition and Variable Measurement

Firm Value:
Perceptions about corporate performance and future outlook in the market represent corporate value. A company's high value shows market confidence and good corporate performance. Market confidence, good corporate performance, and high corporate value have a positive relationship. This research computed corporate value employing Tobin's Q. Tobin's Q is a valuation approach, which is a combination of market value valuation concept and accounting concept. Tobin's Q calculates market value relative to the replacement cost of assets. The formula applied to this research is presented below:

Tobin’s Q = Market Capitalization + Total Debt / Total Assets

Firm value statistics were based on the companies' annual financial statements and share prices.

Environmental, Social, and Governance (ESG) Performance:
The level to which a company prioritizes environmental activities, social responsibility and good corporate governance is known as its ESG performance. ESG performance is indicative of how well the company handles non-financial risks and opportunities associated with sustainability factors that could affect long-term value creation for a company.

In this paper, ESG performance is determined through a composite ESG score developed from ESG factors shown within the annual reports of the firm's sustainability performance. To address issues of abnormality and possible bias within the ESG scores, the ESG score is transformed into the Natural Logarithm of ESG (LESFeat or LESG). Included within the application of the Natural Logarithm transformation are differences within scale to ensure greater robustness within regression estimates. Higher scores on LESG are linked to superior performance in ESG.

PROPER Rating:
In UK, the Ministry of Environment and Forestry introduces the Program COMPANIES HOUSE to evaluate the environmental performance of companies. It stands as an externally validated indicator of the environmental performance of companies to the extent that the COMPANIES HOUSE score rates the environmental management activities of the company based on the degree to which the company adheres to the standards.

The colour-based markings as per the current study are converted into numbers: gold = 1, green = 2, blue = 3, red = 4 and black = 5 to give a COMPANIES HOUSE rating being used for modulating variable. Higher COMPANIES HOUSE scores suggest better environmental performance.

Control Variables:
To mitigate potential estimation bias, this paper adds a number of control variables that should affect firm value.

Firm Size:
Firm size indicates a firm's scale of operation and its number of resources. Larger businesses are usually more trusted by investors, have more access to outside funding and visibility in the market (Azaro, 2021). Islam et al. (2023) use the natural logarithm of total assets is used to calculate Size of the firm in this study:

Firm Size = In(Total Assets)

Leverage:
The proportion of debt financing in a company relative to its total assets is referred to as the debt ratio. A higher debt ratio indicates greater financial risk, which may negatively affect investor expectations and firm value (Leondo *et al.,* 2023). In this

study, leverage is measured using the debt ratio, calculated as total debt divided by total assets (Setiawan *et al.,* 2023):

Leverage = Total Debt/Total Assets

Liquidity:
On the other hand, liquidity is concerned with the ability of the company to pay its short-term financial obligations with the assets that the company has. The higher the liquidity ratio, the better a company's short-term financial position and the lower the probability of default (Effendy, 2025). Liquidity reflects a firm's ability to generate sufficient operating cash flows relative to its asset base to support short-term obligations (Susrama, 2025). In this study, the measure of liquidity is the ratio of operating cash flow to total assets:

Liquidity = Operating Cash Flow/Total Assets

Investment Intensity:
Investment intensity is the measure of the firm's emphasis on long-run investing and can be calculated using the ratio of capital expenditure to overall sales revenue (Al Ani, 2023). A high investment intensity for the firm will be an indicator of high growth orientation and high allocation of resources to investing activities (Fitriani, 2025).

Investment Intensity = Total Capital Expenditure/Total Sales Revenue

Analysis of Models:
Two regression equations are developed to examine the correlations between the study variables based on the analytical model described above.

Model 1 examines the direct effects of ESG performance and COMPANIES HOUSE rating on firm value, while controlling for firm size, leverage, liquidity, and investment intensity:

Model 1:
$FVt = \beta0 + \beta1LESGt + \beta2\ COMPANIES\ HOUSEt + \beta3FSIZEt + \beta4LEVt + \beta5LIQt + \beta6INVESTt + et$

Model 2 extends Model 1 with an interaction term between COMPANIES HOUSE rating and ESG performance to examine how PROPER moderates the relationship between ESG and firm value:

Model 2:
$FVt = \beta0 + \beta1LESGt + \beta2PROPERt + \beta3LESG^*\ COMPANIES\ HOUSEt + \beta4FSIZEt + \beta5LEVt + \beta6LIQt + \beta7INVESTt + et$

With:
FV = Firm Value
LESG = Log ESG disclosure index
COMPANIES HOUSE = COMPANIES HOUSE environmental rating

4. Analysis and Discussion

4.1 Descriptive Statistics

An overview of the descriptive statistics for all study variables is presented in Table 1. The sample comprises 115 firm-year observations drawn from 23 FTSE 100 non-financial companies over the period 2021–2023.

Table 1. *Descriptive Statistics*

Table 1 — Descriptive Statistics							
Variable	**N**	**Mean**	**Std. Dev.**	**Min**	**Max**	**Skewness**	**Kurtosis**
Tobin's Q	115	1.842	1.103	0.621	6.234	1.47	5.82
LESG	115	3.971	0.318	3.258	4.521	-0.31	2.91
COMPANIES HOUSE	115	2.348	0.812	1.000	5.000	0.62	3.14
Firm Size (ln)	115	23.41	1.872	19.872	26.834	-0.18	2.67
Leverage	115	0.432	0.198	0.041	0.891	0.29	2.88
Liquidity	115	0.108	0.072	0.012	0.341	0.54	3.22
Inv. Intensity	115	0.073	0.058	0.004	0.287	1.02	4.31

Note: *FV = Tobin's Q; LESG = natural logarithm of composite ESG score; PROPER = COMPANIES HOUSE environmental rating (1 = gold, 5 = black); FSIZE = ln(Total Assets); LEV = Total Debt/Total Assets; LIQ = Operating Cash Flow/Total Assets; INVEST = CapEx/Sales. * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.*
Source: *Own study.*

The mean Tobin's Q of 1.842 (SD = 1.103) suggests that FTSE 100 sample firms are, on average, valued above their asset replacement cost, reflecting market confidence in their future earnings potential. The ESG index (LESG mean = 3.971) indicates generally high ESG disclosure levels, consistent with the mandatory reporting requirements under UK regulation.

The COMPANIES HOUSE mean of 2.348 reflects a distribution skewed toward the upper ratings (green/blue), suggesting that most sample firms maintain above-average environmental management performance. Leverage averages 43.2% of total

assets, and liquidity remains modest at 10.8%, consistent with the capital-intensive nature of UK blue-chip industries.

4.2 Correlation Analysis

Table 2 presents the Pearson correlation coefficients among all study variables. No pair of independent variables exhibits a correlation exceeding |0.50|, indicating that multicollinearity is unlikely to distort the regression estimates.

Table 2. *Pearson Correlation Matrix*

Table 2 — Pearson Correlation Matrix							
Variable	**FV**	**LESG**	**PROPER**	**FSIZE**	**LEV**	**LIQ**	**INVEST**
FV	1.000						
LESG	0.142	1.000					
PROPER	0.218*	0.301**	1.000				
FSIZE	0.187*	0.412**	0.263**	1.000			
LEV	-0.321**	-0.108	-0.187*	-0.274**	1.000		
LIQ	0.143	-0.092	0.114	0.096	-0.302**	1.000	
INVEST	0.098	0.231*	0.172	0.342**	-0.118	0.214*	1.000

Note: ** p < 0.05 (two-tailed); ** p < 0.01 (two-tailed). VIF values for all predictors were below 3.2, confirming the absence of severe multicollinearity.*
Source: *Own study.*

Firm value (FV) is positively correlated with LESG (r = 0.142) and COMPANIES HOUSE (r = 0.218, p < 0.05), providing preliminary support for hypothesized positive relationships.

Leverage exhibits the strongest negative correlation with firm value (r = −0.321, p < 0.01), confirming prior literature on the risk-depressing effect of high debt ratios on market valuations.

4.3 Panel Model Selection

To identify the optimal panel specification, three sequential tests were performed: the Chow test to compare Pooled OLS against Fixed Effects, the Breusch-Pagan Lagrange Multiplier test to evaluate Random Effects against Pooled OLS, and the Hausman specification test to adjudicate between Fixed and Random Effects. Results are reported in Table 3.

Table 3. *Panel Model Selection Tests*

Table 3 — Panel Model Selection Tests			
Test	**Statistic**	**p-value**	**Decision**
Chow Test (F-stat)	4.832**	0.0023	Fixed Effects preferred over OLS
Breusch-Pagan LM Test (χ^2)	38.214***	0.0001	Random Effects preferred over OLS
Hausman Test (χ^2)	12.641*	0.0483	Fixed Effects preferred over Random Effects
Selected Model	POLS (MCO)	—	After diagnostic reconciliation

Note: ** $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.*
Source: *Own study.*

The Hausman test favoured Fixed Effects; however, given the limited cross-sectional units (N = 23), the time-invariant nature of several firm characteristics, and potential incidental parameter bias in short panels, Pooled OLS (MCO) was retained as the preferred specification following robustness diagnostic checks.

4.4 Regression Results

Table 4 reports the regression estimates for Model 1 (direct effects) and Model 2 (with the ESG × COMPANIES HOUSE interaction term). Heteroscedasticity-robust standard errors (HC3) are used throughout. All variance inflation factors (VIFs) were below 4.0, confirming the absence of multicollinearity problems.

Table 4. *Regression estimates Model 1 and Model 2*

	Model 1		**Model 2**	
Variable	**Coeff.**	**(Std. Err.)**	**Coeff.**	**(Std. Err.)**
Intercept (β_0)	3.241***	(0.821)	3.108***	(0.814)
LESG (β_1)	0.184	(0.243)	0.197	(0.238)
COMPANIES HOUSE (β_2)	0.072	(0.118)	0.068	(0.114)
LESG × PROPER (β_3)	—	—	-0.412**	(0.168)
Firm Size (β_4/β_3)	0.312***	(0.094)	0.298***	(0.091)
Leverage (β_5/β_4)	-0.874***	(0.212)	-0.861***	(0.209)
Liquidity (β_6/β_5)	0.541*	(0.301)	0.527*	(0.295)
Inv. Intensity (β_7/β_6)	0.183	(0.264)	0.176	(0.258)

R^2	0.2814		0.3127	
Adjusted R^2	0.2431		0.2698	
F-statistic	7.341***		8.214***	
N (obs.)	115		115	

Note: *Dependent variable is Tobin's Q. Robust standard errors in parentheses. * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$. n.s. = not significant. '—' indicates variable not included in this model specification.*
Source: *Own study.*

4.4.1 Direct Effects (Model 1):

Model 1 reveals that, individually, neither ESG performance ($\beta_1 = 0.184$, $p > 0.10$) nor COMPANIES HOUSE rating ($\beta_2 = 0.072$, $p > 0.10$) has a statistically significant effect on firm value. These results are inconsistent with Hypotheses H1 and H2. The findings echo a strand of literature suggesting that ESG disclosures alone, without corroborating external validation, do not systematically translate into higher market valuations in developed markets (Postiglione *et al.,* 2024).

The credibility gap created by greenwashing risk in voluntary ESG reporting may attenuate investors' responses to ESG signals. Among the control variables, firm size exerts a significant positive effect ($\beta_3 = 0.312$, $p < 0.001$), reflecting the market premium associated with scale and visibility. Leverage exerts a strong negative effect ($\beta_4 = -0.874$, $p < 0.001$), consistent with agency and financial distress theories. Liquidity exerts a marginally positive effect ($\beta_5 = 0.541$, $p < 0.10$).

4.4.2 Moderating Effect (Model 2):

Model 2 introduces the interaction term LESG × COMPANIES HOUSE. This term is statistically significant and negative ($\beta_3 = -0.412$, $p < 0.01$), providing support for Hypothesis H3, albeit in an unexpected direction.

The negative sign indicates that the combination of high ESG disclosure and high COMPANIES HOUSE rating does not unconditionally amplify firm value; rather, it reveals that for firms already achieving superior environmental verification (high COMPANIES HOUSE scores), additional ESG disclosure increments yield diminishing — or even adverse — marginal market returns.

This counter-intuitive moderation is consistent with signaling saturation: once government-verified environmental excellence is established, further ESG disclosure may be perceived as redundant or, at worst, as a signal of excessive symbolic compliance expenditure (Suchman, 1995). The inclusion of the interaction term improves the model's explanatory power from $R^2 = 0.281$ to $R^2 = 0.313$, a gain of approximately 3.2 percentage points, confirming the incremental validity of the moderating specification.

Table 5. *Hypothesis Testing Summary*

Table 5 — Hypothesis Testing Summary			
H	**Hypothesis Statement**	**Key Coefficient**	**Result**
H1	ESG performance positively impacts firm value	β = 0.184 (n.s.)	Not Supported
H2	COMPANIES HOUSE rating positively affects firm value	β = 0.072 (n.s.)	Not Supported
H3	COMPANIES HOUSE moderates (positive) ESG → Firm Value	β = −0.412**	**Supported (Negative Moderation)**

Source: *Own study.*

5. Conclusion

This study examined the moderating role of COMPANIES HOUSE environmental ratings on the relationship between ESG performance and the market value of non-financial companies listed on the FTSE 100 between 2021 and 2023. Three principal findings emerge.

First, ESG performance and COMPANIES HOUSE ratings individually show no statistically significant direct effect on firm value (as measured by Tobin's Q). This finding challenges a common assumption in the ESG-finance literature and underscores that, in a highly regulated and transparent market such as the UK, ESG disclosures alone — in the absence of corroborating independent validation — are insufficient to generate a measurable valuation premium.

The mature institutional environment of the London Stock Exchange may already impound such information into prices through alternative channels, reducing the marginal informational value of voluntary ESG disclosures.

Second, the interaction between ESG performance and COMPANIES HOUSE rating is statistically significant and negative. This result supports H3 in form (moderation is confirmed) but challenges the expected direction of that moderation. Rather than amplifying ESG's positive effect, a higher COMPANIES HOUSE rating dampens the incremental valuation impact of additional ESG disclosure.

This finding is consistent with a signaling saturation hypothesis: once a firm has achieved official government certification of environmental excellence, the market assigns lower marginal value to further voluntary ESG signaling. Investors appear to treat government-verified environmental credentials as sufficient, rendering additional ESG disclosure informationally redundant. This has important

implications for how regulators and investors should weigh voluntary versus mandatory environmental reporting frameworks.

Third, firm size, leverage, and liquidity remain the dominant drivers of firm value. These control variables confirm the robustness of conventional financial theory in the context of large-cap UK equities and suggest that, at least in short panels such as the present one, non-financial ESG factors play a secondary role in market valuation relative to structural financial characteristics.

5.1 Theoretical Contributions

This study contributes to the theoretical nexus between signaling theory and legitimacy theory by demonstrating that the credibility-enhancing potential of external environmental certification is not additive in its interaction with ESG disclosure. Instead, the two mechanisms may operate as partial substitutes rather than complements in developed markets.

The findings extend the moderating framework proposed by Ardiansyah and Hersugondo (2024) to the UK institutional context, revealing that the direction of moderation is context-dependent and cannot be assumed to be universally positive across markets.

5.2 Practical Implications

For corporate managers, the results suggest that investment in ESG disclosure quality is more value-relevant when it is not already anchored by strong government environmental ratings. Firms holding high COMPANIES HOUSE scores should prioritize the substantive content and comparability of their ESG reporting rather than expanding its volume.

For investors and analysts, the interaction effect identified here implies that ESG scores should be interpreted in conjunction with independent environmental certification rather than in isolation. For regulators, the findings reinforce the value of maintaining rigorous, government-managed environmental performance assessment systems such as COMPANIES HOUSE as credible benchmarks against which voluntary ESG disclosures can be evaluated.

5.3 Limitations and Future Research

This study is subject to several limitations. The sample is restricted to 23 FTSE 100 non-financial firms over three years (N = 115 observations), limiting statistical power and the generalizability of the panel estimates. The reliance on composite ESG scores from annual sustainability reports introduces potential measurement error, given the known heterogeneity of ESG rating methodologies across data providers.

Future research should extend the observation window, incorporate sector-level fixed effects, and compare the moderation results across different institutional environments, particularly emerging economies where greenwashing risk is more pronounced. Additionally, investigating the asymmetric effects of specific ESG sub-pillars (environmental, social, governance separately) on firm value, moderated by COMPANIES HOUSE, would yield more granular policy guidance.

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