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Examining Greenwashing's Impact on Performance with ESG as a Buffer

Dian Widiyati[1*], Neneng Hasanah[2]
[1,2]Pamulang University, Banten, Indonesia
Dosen02421@unpam.ac.id
Corresponding Author

ABSTRACT

In the Fast-Moving Consumer Goods (FMCG) sector, greenwashing has become a widely discussed phenomenon. This industry is closely connected to consumers because its products are used daily, ranging from food and beverages to personal care items. Furthermore, corporate financial performance has become a central concern for both shareholders and stakeholders. Corporate performance often focuses primarily on commercial objectives while neglecting ecological and social aspects. This study aims to analyze the effect of greenwashing on corporate performance, evaluate the influence of Environmental, Social, and Governance (ESG) factors on corporate performance, and examine the role of ESG as a moderating variable in the relationship between greenwashing and corporate performance. The study population consists of Fast-Moving Consumer Goods (FMCG) companies listed on the Indonesia Stock Exchange during the 2020–2024 period. The population in this study consisted of 57 companies, and the sample included 14 companies over a five-year period, resulting in a total of 70 observations. The sampling technique used was purposive sampling, and the data were analyzed using Moderated Regression Analysis (MRA) with EViews. The results show that greenwashing has a negative effect on corporate performance, ESG has a positive effect on corporate performance, and ESG significantly moderates the relationship between greenwashing and corporate performance. This research provides theoretical contributions to the sustainability literature as well as practical implications for companies, investors, and regulators in enhancing information transparency and ESG implementation.

Keywords: Company Performance, ESG, *Greenwashing*

INTRODUCTION

In the past two decades, sustainability has become a central topic in the business world. Growing public awareness of climate change, resource scarcity, and demands for more ethical business practices have driven companies to adopt sustainability strategies. (Ovelia & Bayangkara, 2025; Santoso & Tobing, 2025). One concept that has become a global reference is Environmental, Social, and Governance (ESG). ESG is not just about corporate social responsibility (CSR), but rather a more comprehensive framework for assessing how a company manages its environmental impact, social relations with the community, and corporate governance. Governance criteria in ESG focus more on how a company has good and sustainable internal management processes. (Gustanto & Risman, 2025; Luthan et al., 2025). Governance criteria address company activities. Aspects to consider in these criteria include company policies, standards, culture, disclosure, information, audit processes, and compliance.

Companies that successfully implement ESG are believed to gain greater legitimacy from stakeholders, increase competitiveness, and strengthen long-term financial performance. (Febriantoko et al., 2025; Wahyuni & Ahdim, 2025a). Investors are increasingly using ESG indicators to assess investment risk and potential. This is evidenced by the growing popularity of ESG indices on various global stock exchanges, including in Indonesia through the ESG Leaders Index on the Indonesia Stock Exchange. However, ESG implementation practices often don't align with reality. Many companies engage in greenwashing, a manipulative effort to project an environmentally friendly image through sustainability reports, advertising, or marketing campaigns, without backing it up with significant concrete action (Rusli et al., 2025). Greenwashing is a form of

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misleading communication that attempts to create a positive perception of a company when its contribution to sustainability is actually very limited.

Greenwashing is a marketing and communication strategy for a company to provide an environmentally friendly image, both in terms of products, values, and company goals without actually carrying out activities that have an impact on environmental sustainability. The greenwashing strategy is carried out in the form of advertisements, promotions, or events with an environmentally friendly theme (Departemen Lingkungan Hidup Universitas Indonesia, 2020). This green image is expected to give investors a more favorable view of the company compared to other companies in the same sector, thereby attracting fresh funding. However, behind this funding comes an increase in environmentally damaging demand.

Corporate financial performance has become a central issue for shareholders and stakeholders. Corporate performance is primarily focused on commercial objectives and pays little attention to ecological and social aspects. There is still insufficient recognition of the potential of these ecological and social aspects. Cegarra-Navarro (2016) defines CSR as a concept where companies integrate three ESG elements, namely concern for social aspects, environmental aspects and economic aspects into the company's business operations and in the company's interactions with stakeholders. In the fast-moving consumer goods (FMCG) sector, greenwashing has become a widely discussed phenomenon. This industry is closely connected to consumers, as its products are used daily, from food and beverages to personal care products. Therefore, marketing strategies that emphasize sustainability are often used to attract consumers who are increasingly concerned about environmental issues (Juanita et al., 2024; Tri Widayati, 2025). However, on the other hand, the FMCG industry is also accused of being one of the main contributors to single-use plastic waste.

One concrete example is PT Unilever Indonesia Tbk, a multinational corporation widely known for its household and personal care products. Unilever frequently touts its commitment to sustainability globally through its Sustainable Living Plan and plastic waste reduction targets. However, the reality on the ground shows criticism from various non-governmental organizations (NGOs) and environmental activists. For example, although Unilever claims to use environmentally friendly packaging and a recycling program, a Greenpeace study (2020) ranked Unilever as one of the world's largest contributors to plastic waste. This has given rise to allegations of greenwashing, where sustainability claims are more about publicity than substantial change.

This phenomenon raises an important question: does the practice of greenwashing actually affect company performance? Theoretically, greenwashing may have positive impacts in the short term, such as improving a company's image, expanding its customer base, and attracting environmentally sensitive investors. However, in the long term, greenwashing can be detrimental to companies due to decreased public trust, increased stakeholder criticism, and potential regulatory sanctions. Previous research has shown that greenwashing negatively impacts financial performance (Abada & Listyorini, 2025). Kissany's research findings indicate that greenwashing impacts financial performance (Kissany, 2023). On the other hand, consistent and authentic implementation of Environmental, Social, and Governance (ESG) practices has the potential to act as a moderating variable, capable of buffering or even neutralizing the negative impacts of greenwashing practices. Greenwashing often creates negative perceptions among the public, investors, and other stakeholders because it is perceived as a form of sustainability image manipulation without concrete action. However, companies that truly integrate ESG principles into all aspects of their operations and strategic decision-making can build a strong foundation of credibility.

Comprehensive ESG implementation includes a commitment to sustainable environmental management, fair treatment of employees and communities, and transparent and accountable corporate governance. When these practices are consistently and verifiably implemented, companies are better able to maintain public trust, even when facing accusations or suspicions of greenwashing. In other words, ESG acts as a reputational defense mechanism, where honesty, transparency, and tangible evidence of sustainability initiatives differentiate between sincere companies and those simply exploiting sustainability issues for their image.

Furthermore, robust ESG implementation can strengthen stakeholder relationships, attract sustainability-minded investors, and increase customer loyalty, increasingly aware of environmental

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and social issues. ESG also encourages companies to objectively measure and report sustainability performance, ensuring that public claims have a verifiable, empirical basis. Thus, ESG serves not only as a measure of sustainability but also as an effective tool for mitigating reputational risk. Consistent ESG implementation makes companies more resilient to public opinion fluctuations and enables them to maintain long-term value amidst increasing demands for social and environmental responsibility. Based on this description, this study is important to analyze the effect of greenwashing on company performance with ESG as a moderating variable, focusing on FMCG sector companies in Indonesia, especially PT Unilever Indonesia Tbk.

LITERATURE STUDY

Stakeholder Theory

Stakeholder theory was proposed by Freeman (1984), who stated that companies are responsible not only to shareholders but also to all stakeholders, such as consumers, employees, the government, the community, and the environment. In the context of sustainability, this theory emphasizes the importance of maintaining a balance between economic, social, and environmental interests in the corporate decision-making process. The application of stakeholder theory is closely related to sustainability reporting practices and the application of Environmental, Social, and Governance (ESG) principles. Through this approach, companies are expected to focus not only on profitability but also on creating long-term value that can enhance legitimacy and reputation among stakeholders (Freeman & McVea, 2001). ESG is a crucial instrument that helps companies demonstrate their commitment to social and environmental concerns. The Covid-19 pandemic and, before it, the 2008 global financial crisis serve as reminders of the challenging yet crucial importance of building a risk-resilient business. In this context, it is time to update traditional valuation systems and investment styles. Integrating ESG factors into the financial world is one way to achieve this. This can reduce companies' vulnerability to global sustainability-related shocks and strengthen the economy as a whole.

Legitimacy Theory

Legitimacy theory is a conceptual framework often used to explain the relationship between corporate social responsibility practices and corporate reporting behavior to the external environment (Safitri et al., 2025; Wahyuni & Ahdim, 2025b). According to this theory, organizations operate based on a social contract with society, where their continued existence depends heavily on the extent to which the company's activities and values are perceived as compliant with prevailing social norms, values, and expectations (Suchman, 1995). When a gap arises between a company's actions and societal expectations, the company's legitimacy can be compromised, prompting the company to attempt to close the gap through various communication and public reporting strategies. Based on legitimacy theory, greenwashing can be viewed as a managerial response to external pressures to maintain social acceptance. Companies use symbolic strategies, such as sustainability reports or green campaigns, to create positive perceptions without concrete action. However, these strategies are short-term; when the public recognizes the discrepancy between image and reality, the company's legitimacy can decline, ultimately negatively impacting both its financial and non-financial performance (Deegan, 2019).

Company Performance

Company performance reflects an organization's ability to achieve its stated goals, both financially and non-financially. Performance not only reflects the final result in the form of profit or asset growth, but also demonstrates management's effectiveness in managing resources efficiently and responsibly. In the modern context, performance measurement is no longer limited to financial indicators but also encompasses social and environmental dimensions that demonstrate a company's sustainability (Isma & Satyawan, 2025; Nurhayati & Rahayu, 2025). Companies with strong performance are typically able to maintain investor trust, attract customers, and maintain positive relationships with stakeholders. Strong performance signals good corporate governance, effective strategies, and a commitment to social responsibility. However, increasing public awareness of

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sustainability issues has changed the way companies view corporate performance. Today, success is measured not only by economic profit but also by the company's contribution to the environment and society. With regard to greenwashing, a company's performance can be influenced by how the public perceives the authenticity of its sustainability commitments. Greenwashing practices may provide a positive image in the short term, but have the potential to undermine trust and reputation when proven to be inconsistent with reality. This can have a negative impact on company value, consumer loyalty, and relationships with investors.

Greenwashing

Greenwashing is the practice of companies projecting an exaggerated or misleading image of environmental friendliness without a real commitment to sustainability (Farilla & Abiprayu, 2025b; Nisa & Sisdianto, 2025). In the modern business context, greenwashing often occurs through sustainability reports, marketing campaigns, or product claims that emphasize green aspects that are not in line with reality. This practice typically aims to attract the attention of investors, consumers, and stakeholders who are increasingly concerned about environmental issues and social responsibility. The phenomenon of greenwashing reflects a gap between a company's communication and its actual actions. Companies engaging in greenwashing tend to focus more on external image than on the actual implementation of sustainability strategies. This can pose reputational risks, undermine public trust, and impact market perceptions of the company's integrity and credibility.

***Environmental, Social, and Governance* (ESG)**

Environmental, Social, and Governance (ESG) is a concept used to assess the extent to which a company implements sustainable and responsible business practices (Gultom, 2025; Nisa & Sisdianto, 2025; Wulandari & Bayangkara, 2025). ESG not only assesses financial performance but also considers the company's impact on the environment, society, and its internal governance. These three aspects are important indicators in assessing the long-term sustainability and non-financial risks faced by a company. The environmental aspect focuses on the extent to which a company considers the environmental impact of its operational activities, such as energy efficiency, waste management, carbon emissions, and the sustainable use of natural resources. The social aspect relates to the company's relationship with employees, customers, suppliers, and the surrounding community, including aspects of labor treatment, human rights, and social contributions. Meanwhile, the governance aspect encompasses the corporate governance system, encompassing transparency, business ethics, board of directors structure, and oversight and accountability mechanisms for stakeholders.

Research Framework

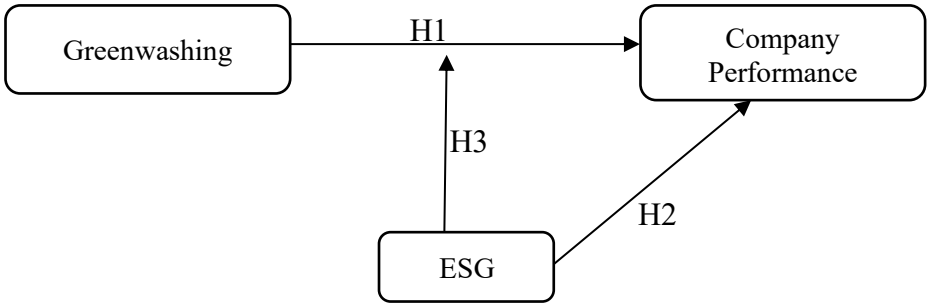


Figure 1. Research Framework

So based on this Research Framework, the researcher formulated a hypothesis:
H1: Greenwashing affects company performance.
H2: ESG affects company performance.
H3: Environmental, Social, and Governance (ESG) moderates the effect of greenwashing on company performance

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METHOD

This research is a quantitative study using a causality approach (explanatory research). Through this approach, the study attempts to analyze whether greenwashing as an independent variable can affect company performance as a dependent variable, as well as the extent to which Environmental, Social, and Governance (ESG) acts as a moderating variable that strengthens or weakens this relationship. The population in this study includes all companies operating in the Fast-Moving Consumer Goods (FMCG) sector and listed on the Indonesia Stock Exchange (IDX) during the period 2020–2024. The population in this study consists of 57 companies, and the sample includes 14 companies over a five-year period, resulting in a total of 70 observations. Financial performance is measured using the Return on Assets (ROA) indicator, which describes the company's efficiency in generating profits from its assets and capital. Measurement of the greenwashing variable is carried out through content analysis of company sustainability reports, with a dummy score of 1 if the company is indicated to have greenwashed, and 0 otherwise. ESG variables were analyzed using available ESG scores or through content analysis based on Global Reporting Initiative (GRI) guidelines to ensure consistency and objectivity of assessments. Data analysis in this study was conducted using Eviews 12, with technical guidance from Ghozali (2023).

RESULTS AND DISCUSSION

Results

Classical Assumption Test

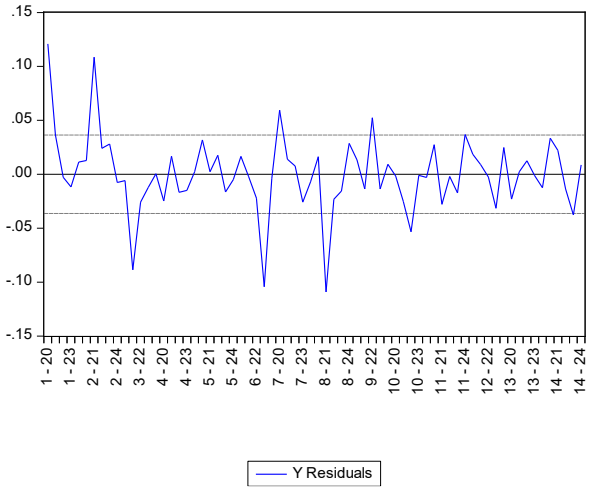
If the CEM model is selected, proceed with the classical assumption test of the CEM model. The classical assumption tests used are multicollinearity and heteroscedasticity (Basuki & Yuliadi, 2014) (Napitupulu et al., 2021:120).

Table 1. Multikolinearity Test

	X	Z	XZ
X	1.000000	**0.0868958**	**0.8244650**
Z	0.0868958	1.000000	**0.3062002**
XZ	0.8244650	0.3062620	1.000000

The correlation coefficient of X and Z is 0.0868958 < 0.85. The correlation coefficient of X and XZ is 0.8244650 < 0.85, and the correlation coefficient of Z and XZ is 0.3062002 < 0.85, so it can be concluded that it is free from multicollinearity or passes the multicollinearity test (Napitupulu, et al., 2021:141)

Figure 2. Heteroscedasticity Test



Source: Eviews 12 Data Processing, 2025

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From the Residual Graph, it can be seen that the residual values are 0.15 and -0.15, which do not exceed the limits of 500 and -500 (0.15 < 500 and -0.15 > -500), meaning the residual variances are the same. Therefore, there is no heteroscedasticity symptom or the heteroscedasticity test passes (Napitupulu et al. 2021:143).

Model Selection Test

Chow Test

Table 2. Chow Test

Redundant Fixed Effects Tests			
Equation: Untitled			
Test cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.358901	(13,53)	0.2107
Cross-section Chi-square	20.136796	13	0.0919

Source: Eviews 12 Data Processing, 2025

In the table, the Cross-section F Prob Value is 0.2107 > 0.05, so the CEM model is selected (Napitupuli, et al., 2021: 135-136). Based on the provisions, if the CEM model is selected, there is no need to conduct a Hausman test. The Hausman test compares the REM model with the FEM.

Table 3. Legrange Multipler Test

Null (no rand. effect)	Cross-section	Period	Both
Alternative	One-sided	One-sided	
Breusch-Pagan	0.476328	2.723645	3.199973
	(0.4901)	(0.0989)	(0.0736)
Honda	0.690165	1.650347	1.654992
	(0.2450)	(0.0494)	(0.0490)
King-Wu	0.690165	1.650347	1.777966
	(0.2450)	(0.0494)	(0.0377)
GHM	--	--	3.199973
	--	--	(0.0873)

Source: Eviews 12 Data Processing, 2025

The probability value is 0.4901>0.05, so the CEM model is selected. (Napitupulu, et al. 2021: 138-139).

Panel Data Regression Analysis

Y = 0.237885 - 0.037891X + 0.047020*Z + 0.02212*XZ

Table. 4 Data Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.237885	0.90049	2.641729	0.0642
X	-0.037891	0.20130	1.782309	0.0103
Z	0.047020	0.05652	8.319083	0.0000
XZ	0.02212	0.01361	1.624819	0.0210

Source: Eviews 12 Data Processing, 2025

Y = 0.237885 - 0.037891X + 0.047020*Z + 0.02212*XZ

The explanation is as follows:

1. The constant value is 0.237885 or 23.7885%, meaning that without the GWS (X), ESG (Z), and interaction variables (XZ), the ROA (Y) variable would increase by 23.7885%.

2. The beta coefficient of the GWS (X) variable is -0.03789 or -3.789%. If the other variables are held constant and the X variable increases by 1%, the ROA (Y) variable will decrease by -3.789%.

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3. The beta coefficient of the ESG (Z) variable is 0.04702 or 4.7020%. If the other variables are held constant and the Z variable increases by 1%, the ROA (Y) variable will increase by 4.7020%.

4. The beta coefficient value of the GWS*ESG (XZ) variable is 0.02212 or 2.212%. If the values of other variables are constant and the XZ variable increases by 1%, the ROA (Y) variable will increase by 2.212%.

Hypothesis Testing

Table 5. t-test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.237885	0.90049	2.641729	0.0642
X	-0.037891	0.20130	**1.782309**	0.0103
Z	0.047020	0.05652	8.319083	0.0000
XZ	0.02212	0.01361	**1.624819**	0.0201

Source: Eviews 12 Data Processing, 2025

The influence of the independent variables on the dependent variable is as follows:

a. The t-test results for the GWS (X) variable yielded a calculated t-value of 1.782309 < 1.995 and a sig. value of 0.0103 < 0.05. Therefore, H01 is rejected, and Ha1 is accepted, indicating that GWS influences ROA.

b. The t-test results for the ESG (Z) variable yielded a calculated t-value of 8.319083 > 1.995 and a sig. value of 0.0000 < 0.05. Therefore, H02 is rejected, and Ha2 is accepted, indicating that ESG influences ROA.

c. The t-test results for the GWS*ESG interaction variable (XZ) yielded a calculated t-value of 1.624819 < 1.995 and a sig. value of 0.0201 < 0.05. Therefore, H03 is rejected, and Ha3 is accepted, indicating that GWS influences ROA with SEG as a moderator.

F-Test

Table 6. F Test Result

R-squared	0.794462	Mean dependent var	1.936329
Adjusted R-squared	**0.794211**	S.D. dependent var	0.478577
S.E. of regression	0.036414	Akaike info criterion	-3.732278
Sum squared resid	0.087515	Schwarz criterion	-3.603793
Log likelihood	13.46297	Hannan-Quinn criter.	-3.681242
F-statistic	39.50768	Durbin-Watson stat	1.688846
Prob(F-statistic)	0.000000		

Source: Eviews 12 Data Processing

The calculated F value is 39.50768 > F Table of 2.743711 with a sig. value of 0.000000 < 0.05, so H03 is rejected and Ha3 is accepted, meaning that the GWS, ESG and interaction variables have an effect on ROA.

Coefficient of Determination

Results of the Determination Coefficient Test (R2). Adjusted R-squared value of 0.794211 or 79.4211% The Determination Coefficient value shows that the independent variables consisting of GWS, ESG and interactions are able to explain the ROA variable by 79.4211%, while the remaining 20.5789% (100-Adjusted R-squared value) is explained by other variables not included in this assessment model.

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Discussion

Greenwashing Influence Company Performance

Based on the results of the partial t-test, the Greenwashing variable (GWS) has a calculated t-value of 1.782309, which is smaller than the t-table of 1.995, and a significance value of 0.0103 < 0.05. Therefore, H_{01} is rejected and H_{a1} is accepted, indicating that greenwashing significantly impacts company performance (ROA). This finding indicates that greenwashing practices by companies have significant implications for financial performance, as reflected in Return on Assets (ROA). Conceptually, greenwashing is a company's exaggerated or misleading image of environmental friendliness without actually implementing substantial sustainability practices. This phenomenon is often perpetrated through communication strategies, such as sustainability reports, green marketing campaigns, or environmental symbols aimed at gaining investor and consumer trust. Although manipulative, in the short term, greenwashing can create a positive public perception and enhance a company's reputation, resulting in a temporary improvement in financial performance.

The results of this study indicate that greenwashing has a positive and significant effect on ROA, indicating that a company's environmental communication strategy, even if not fully supported by actual practices, can still boost its financial performance. This is understandable because public perception of a company's environmental responsibility is a crucial factor in shaping investment decisions and consumer trust. When stakeholders perceive a company as committed to the environment, they tend to provide support in the form of consumer loyalty, increased product demand, and investor confidence, ultimately increasing the company's profitability. Stakeholder theory (Freeman, 1984) explains that companies are responsible not only to shareholders but also to all parties with an interest in the company's activities, such as consumers, employees, the government, the community, and the environment. In this context, greenwashing emerges as a strategic corporate response to meet stakeholder expectations regarding sustainability and social responsibility issues.

Meanwhile, legitimacy theory (Suchman, 1995) is based on the assumption that a company's survival depends heavily on public acceptance of its existence and activities. Legitimacy is achieved when a company's values and actions are perceived as consistent with prevailing social norms, values, and beliefs. In this context, greenwashing practices can be viewed as a company's attempt to maintain social legitimacy through a positive environmental image. Companies recognize that environmental and sustainability issues are now a key part of social norms and societal expectations. Therefore, to maintain legitimacy, companies strive to demonstrate their commitment to sustainability, even if not all of these activities are actually implemented substantively. Sustainability reports and green communications are often used as legitimacy tools to shape public perception. With increased perceptions of social legitimacy, companies gain greater support from the public, government, and financial institutions. This support can take the form of increased access to capital, ease of regulation, and public trust, ultimately positively impacting the company's financial performance. The results of this study reflect that companies currently operate in a social context where environmental issues have high economic and symbolic value. Greenwashing, while not reflecting true environmental responsibility, can serve as an effective short-term legitimacy and stakeholder management strategy. Its impact on ROA suggests that public perception of corporate social responsibility still holds strong economic appeal.

ESG Affects Company Performance

The results of the partial t-test indicate that the Environmental, Social, and Governance (ESG) variable has a calculated t-value of 8.319083, which is greater than the t-table value of 1.995, with a significance level of 0.0000 < 0.05. These results indicate that statistically, ESG has a significant effect on Return on Assets (ROA), which is a proxy for a company's financial performance. This means that the better the implementation of ESG practices in a company, the higher its financial performance, reflected in increased ROA. This finding strengthens the argument that ESG implementation is not merely a form of regulatory compliance or an effort to build a positive image, but also has a real impact on operational efficiency, productivity, and long-term competitiveness. In the corporate context, the application of ESG principles can simultaneously create economic and

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social value through sustainable environmental management, social responsibility towards stakeholders, and transparent and accountable corporate governance.

These results align with stakeholder theory (Freeman, 1984), which states that a company's success and sustainability depend on its ability to meet the expectations and interests of various parties involved in or impacted by its activities. Stakeholders include not only shareholders but also employees, customers, governments, communities, suppliers, and the surrounding environment. By implementing ESG principles, companies demonstrate their commitment to maintaining a balance between economic and social interests. Environmentally, companies that implement environmentally friendly practices such as energy efficiency, emission reduction, and responsible waste management are able to reduce operational risks and long-term costs. This ultimately increases asset efficiency and impacts ROA.

Furthermore, stakeholder theory also emphasizes that companies are not entities that operate solely to maximize shareholder profits but also have social and environmental responsibilities. By consistently implementing ESG, companies can create harmonious relationships with stakeholders, reduce conflicts of interest, and strengthen the social legitimacy that underpins business sustainability. ESG implementation is a key means of gaining and maintaining this legitimacy. In this context, the significant impact of ESG on ROA demonstrates that society, investors, and the market value companies committed to sustainability and business ethics. Companies that demonstrate concern for environmental issues (e.g., carbon reduction and energy efficiency), social responsibility (such as community welfare and employee equity), and good governance are more likely to be trusted by the public.

In the context of ROA, strong social legitimacy reduces non-financial risks such as a negative reputation and pressure from community groups, enabling companies to operate more efficiently and stably. Therefore, an increase in ESG scores directly contributes to increased efficiency in asset use and resource management, ultimately increasing profitability. Based on research findings and theoretical support, it can be concluded that ESG plays a strategic role in shaping corporate performance. The implementation of ESG principles not only impacts the achievement of social and environmental goals but also represents a long-term investment in improving a company's efficiency, reputation, and competitiveness.

From a stakeholder perspective, ESG serves as a means for companies to fulfill their responsibilities to all stakeholders, thus creating positive and sustainable reciprocal relationships. From a legitimacy perspective, ESG serves as a tool to gain and maintain social acceptance from the public and regulators. These two theories complement each other in explaining how and why ESG can significantly impact ROA. These findings also indicate that the market and investors are increasingly recognizing the strategic value of ESG in creating added economic value. Companies with strong ESG performance are generally more adaptable to environmental and social risks and better prepared to address changing regulations and public expectations. Therefore, improved ESG performance is a positive signal to investors regarding a company's stability and future growth prospects.

Environmental, Social, and Governance (ESG) Moderates the Effect of Greenwashing on Company Performance

The t-test results for the interaction between Greenwashing and Environmental, Social, and Governance (GWS*ESG) variables show a calculated t-value of 1.624819, smaller than the t-table of 1.995, but a significance value of 0.0201 <0.05. Based on the testing criteria, this indicates that the null hypothesis (H03) is rejected and the alternative hypothesis (Ha3) is accepted. This means that ESG variables are proven to moderate the effect of greenwashing on company performance, as measured by Return on Assets (ROA). This finding confirms that the implementation of ESG practices can strengthen or weaken the impact of greenwashing practices on financial performance, depending on how the environmental, social, and governance dimensions are actually implemented in the company's strategy.

Conceptually, greenwashing is a misleading communication practice in which companies attempt to project an environmentally friendly image without following up with substantive actions

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that support sustainability. Companies engaging in greenwashing generally aim to gain social legitimacy, attract sustainability-oriented investors, and build a positive public image. However, this practice is often manipulative and risks undermining stakeholder trust when discrepancies between claims and operational reality are revealed. In this context, Environmental, Social, and Governance (ESG) plays a crucial role as a moral and managerial control mechanism that can strengthen the positive relationship between sustainability communication and corporate performance.

The finding that ESG moderates the relationship between greenwashing and ROA suggests that a strong ESG presence can shift the direction of greenwashing's influence on performance toward a more positive one or at least mitigate its negative effects. Companies with good governance, high transparency, and a genuine commitment to environmental and social aspects can utilize sustainability communication strategies without losing public trust. Conversely, if ESG dimensions are merely formal or symbolic, greenwashing will negatively impact the company's reputation and profitability. Stakeholder theory explains that corporate sustainability is strongly influenced by a company's ability to meet the expectations and interests of its stakeholders, such as investors, customers, employees, the government, and the community. According to Freeman (1984), companies cannot operate solely for the benefit of shareholders; they must also consider the interests of other parties impacted by their activities.

In the context of this research, greenwashing practices can be viewed as a form of communication that seeks to satisfy stakeholders through a green image. However, without strong ESG support, stakeholders will easily detect discrepancies between sustainability claims and actual company practices. When ESG is consistently implemented, it demonstrates a company's commitment to social and environmental interests, not simply a marketing strategy. Thus, ESG acts as an instrument that strengthens the relationship of trust between companies and stakeholders. Possible greenwashing does not directly damage the company's reputation because stakeholders perceive the company as still striving for real improvement. Meanwhile, legitimacy theory states that every organization strives to ensure that its activities are perceived as legitimate and in accordance with prevailing societal norms, values, and beliefs (Suchman, 1995). Companies will strive to gain social legitimacy because legitimacy is a crucial resource for long-term survival. In this context, greenwashing can be seen as a strategy to quickly gain legitimacy through the image of sustainability, despite the lack of concrete evidence of corporate activities.

However, the legitimacy gained through greenwashing is temporary and fragile. When the public or regulators discover a gap between the image and actual practices, that legitimacy is lost, potentially even leading to a reputational crisis. This is where ESG plays a crucial role. ESG serves as a sustainable legitimacy mechanism, where corporate practices are transparently evaluated and communicated based on measurable indicators. With ESG, companies gain legitimacy not from claims, but from concrete evidence of publicly verifiable environmental, social, and governance performance. The link between research findings and legitimacy theory is clear: when ESG is consistently implemented, corporate legitimacy depends not on communication strategies (greenwashing) alone, but on the substance of policies and concrete actions taken.

CONCLUSION

The research results show that greenwashing, Environmental, Social, and Governance (ESG), and the interaction between the two significantly influence company performance, as measured by Return on Assets (ROA). Greenwashing practices were shown to have a positive and significant effect on ROA, indicating that green branding strategies can enhance positive public, investor, and consumer perceptions of the company. This improved perception can strengthen stakeholder trust and loyalty, thereby increasing company profitability. However, this effect is short-term, as greenwashing practices have the potential to create reputational risk when the public recognizes a discrepancy between claims and reality. The application of ESG principles has also been shown to positively impact financial performance. The implementation of responsible environmental policies, demonstrated social responsibility, and transparent corporate governance can create operational efficiency and strengthen a company's legitimacy in the public eye. This demonstrates that ESG is not merely an image tool, but a management strategy that delivers real economic impact and supports

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long-term sustainability.

This study has several limitations that should be considered. The greenwashing and ESG variables were measured using secondary data and quantitative indicators that may not fully reflect the reality of corporate behavior on the ground. Furthermore, company performance is represented solely by ROA, thus not fully reflecting non-financial performance aspects such as reputation, market value, or stakeholder loyalty. The study's limited scope to a specific period and sector may also limit the generalizability of the results to a broader industry context. Future research is recommended to include other performance indicators, both financial and non-financial, for a more comprehensive analysis of the influence of greenwashing and ESG. A mixed quantitative and qualitative approach can be used to delve deeper into stakeholder perceptions of a company's sustainability practices. The study can also be expanded to different industry sectors and longer time periods to examine the consistency of the relationship between ESG, greenwashing, and company performance. Thus, the results of this further research are expected to make a broader contribution to the development of sustainability management theory and practice in the modern business era.

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