ABSTRACT

This study aims to examine the effect of Environmental, Social, and Governance (ESG) on financial performance and the mediating roles of Product Market Power and sales growth in manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2023 period. The sample consists of 279 firm-year observations from companies that published sustainability reports. The data were analyzed using Partial Least Squares (PLS). The results indicate that ESG does not have a positive effect on financial performance. However, ESG has a positive effect on product market power, Product Market Power positively affects financial performance, and Product Market Power successfully mediates the relationship between ESG and financial performance. These findings support the Resource Based Theory, which views ESG as an intangible strategic resource capable of strengthening market position and enhancing financial performance. In contrast, ESG does not have a positive effect on sales growth, sales growth does not positively affect financial performance, and sales growth does not mediate the relationship between ESG and financial performance. These findings are consistent with The Growth of the Firm Theory, which suggests that firm growth depends not only on investment and resources but also on the firm's ability to utilize those resources effectively. This study is limited to manufacturing companies in Indonesia, and ESG measurement remains relatively inconsistent. Future research is recommended to employ external investor-based measures of firm performance.

Keywords: *ESG; Product Market Power; sales growth; Financial Performance.*