IJEC
International Journal of Economics
https://ejournal.ipinternasional.com/index.php/ijec
e-ISSN: 2961-712X
Vol. 4 Issue 2, July-December 2025
DOI:10.55299/ijec.v4i2.1626

The Effect of Environmental Performance and Working Capital Management on Firm value with Profitability as an Intervening in the Textile Industry Sector

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Article history: Received September 24, 2025; revised October 17, 2025; accepted November 01, 2025

ABSTRACT

The integration of environmental sustainability and financial performance has become a growing concern in emerging economies, particularly within resource-intensive sectors such as the textile industry. This study investigates how environmental performance and working capital management affect firm profitability and firm value. It also examines the mediating role of profitability in these relationships. A quantitative research design was employed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The sample consisted of 15 textile companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023. Data were collected from audited financial statements. Variables include environmental performance, working capital management, profitability (measured by ROA), and firm value (measured by Tobin's Q). The empirical results reveal that environmental performance has a negative and significant impact on profitability but positively influences firm value. Working capital management negatively impacts profitability but does not significantly influence firm value. Furthermore, profitability does not significantly affect firm value and does not mediate the relationship between the independent variables and firm value. The findings suggest that environmental initiatives can enhance firm value independently of short-term financial gains. In the textile industry context, non-financial performance, particularly environmental responsibility, is increasingly recognized by the market, even when profitability does not improve. These findings offer useful insights for corporate managers and policymakers aiming to promote sustainability without compromising market valuation.

Keywords: Environmental Performance, Working Capital Management, Profitability, Firm Value, Textile Industry

INTRODUCTION

Currently, environmental problems are in the spotlight of governments, consumers, and investors. As the phenomenon that occurred on September 6, 2024 as quoted by detiknews, the Director of Complaints, Supervision, and Administrative Sanctions of the Ministry of Environment and Forestry, has a target of supervision of 230 industrial entities or companies that have the potential to pollute and destroy the environment and stated that 51 entities have been supervised and 11 of them have been sealed. This pollution is not only air pollution, there are several examples of air pollution that do exist in Tangerang, such as aluminum foil and hazardous materials in Bunder Village, Cikupa, Tangerang Regency (Ardyanto Nugroho, 2024). This case proves that environmental pollution in Indonesia is worsening due to the impact of environmental management that is not in accordance with the stipulated environment. Some companies still do not consider the social impacts that arise as a result of industrial practices that use advanced technology and hazardous chemicals. Among them are raw materials, production processes, and production results, which cause environmental pollution, such as air pollution, water, and sewage. In developing countries, particularly Indonesia, the textile industry faces significant pressure to align environmental sustainability with profitability. Despite regulatory efforts and stakeholder interest in responsible corporate behavior, many companies continue to experience inconclusive financial results.

As consumer awareness and global investors increasingly emphasize Environmental, Social, and Governance (ESG) standards, companies in the textile industry must adapt by integrating these

e-ISSN: 2961-712X
Vol. 4 Issue 2, July-December 2025
DOI:10.55299/ijec.v4i2.1626

expectations into their business strategies. Global platforms and rating agencies now evaluate companies not only in terms of profitability, but also on broader social and environmental metrics. This has led to the emergence of financial frameworks that encourage companies to rethink traditional cost-benefit analyses and consider long-term stakeholder value (Huang et al., 2022).

Table 1. Industrial Firm value Development (P/E Ratio) of Textiles
Year 2018 – 2023

Year	P/E Ratio
2018	8.19
2019	16.64
2020	7.18
2021	9.93
2022	8.80
2023	10.53

Source: IDX Statistics for 2018 – 2023

One of the challenges facing textile companies is the dual goal of achieving operational efficiencies through Environmental Performance (EP), which is important for long-term legitimacy and stakeholder trust and can incur additional short-term costs that affect immediate profitability. This trade-off between financial prudence and sustainability obligations has made decision-making more complex (Dowell et al., 2000; Putri & Arsjah, 2023).

The empirical evidence on the influence of these factors on a company's profitability and value is diverse. Some researchers argue that efficient WCM increases profitability by reducing capital lock-up and optimizing liquidity, especially in working capital-intensive sectors, such as textiles. On the other hand, others argue that over-optimization can disrupt supplier relationships or inventory stability.

From a theoretical perspective, Stakeholder Theory suggests that meeting stakeholder expectations (including environmental responsibility) leads to long-term value creation. Legitimacy Theory argues that organizations seek public approval that can be improved through strong environmental performance. This macro theory is complemented by operational theory, which emphasizes that too much liquidity can damage profitability, while too little liquidity can threaten solvency. The eco-efficiency theory underlines that environmentally responsible investments can result in operational savings and competitive advantage in the long run. (Freeman et al., 2023) (Suchman, 1995) (Ross et al., 2020) (Porter & Van der Linde, 1995)

Despite this framework, the relationship between non-financial performance metrics and market valuations remains ambiguous, especially in emerging markets. In Indonesia, the textile industry operates within the framework of evolving regulations and limited investor maturity related to ESG. Many local investors still prioritize short-term financial returns, potentially overlooking sustainability disclosures that do not have clear monetization paths.

In addition, profitability, often represented by Return on Assets (ROA), is typically used as an intermediary indicator that reflects how operational and strategic inputs are converted into financial performance. If profitability serves as a bridge between internal strategies (such as working capital managers) and external valuations (such as Tobin's or price-to-book value), understanding its mediating role becomes important. However, in the context of textiles, the empirical results show that this mediation is not guaranteed.

Therefore, this study investigates whether working capital management and environmental performance significantly affect profitability and firm value and whether profitability mediates these relationships. Indonesia's textile industry is attractive because of the dual pressures of international competition and regulatory adaptation. By examining the sector from 2018 to 2023, this study combines post-pandemic recovery trends and acceleration of ESG maturity.

This study contributes to the academic discourse in three main ways. First, it contextualizes the theoretical relationship between sustainability and profitability in the emerging markets. Second, it offers empirical evidence of resource-intensive industries, in which these dynamics are particularly prominent. Third, it integrates several theoretical frameworks to provide a comprehensive understanding of how operational,

e-ISSN: 2961-712X
Vol. 4 Issue 2, July-December 2025
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environmental, and strategic decisions interact to shape financial and non-financial outcomes.

These findings are expected to be beneficial to many stakeholders. Company managers can gain insights into which strategic levers generate long-term financial performance and market value. Policymakers can better design regulations that incentivize rather than penalize the early adopters of sustainability. Investors, especially those with ESG mandates, can use these insights to refine valuation models that balance profitability and responsibility.

In conclusion, the textile industry is at the crossroads of tradition and transformation. As global supply chains become more transparent and investors become more conscientious, the ability to reconcile financial prudence with environmental stewardship will determine competitive advantage. This study seeks to offer a nuanced data-driven contribution to this ongoing dialogue.

LITERATURE REVIEW

This study is anchored in a variety of theoretical perspectives to provide a comprehensive understanding of how environmental performance (KL) and working capital management (MK) affect company profitability (PFT) and firm value (NP), and how profitability mediates these relationships.

At the macro level, **Stakeholder Theory** (Freeman et al., 2023) posits that companies must consider the interests of stakeholders, shareholders, employees, customers, suppliers, and society to achieve long-term sustainability. This theory suggests that environmental and social responsibility is not just an ethical obligation, but a strategic component that can enhance a company's legitimacy and value. Companies that align their operations with stakeholder expectations are more likely to receive support, which in turn, contributes to competitive advantage and market valuation.

the Theory of Legitimacy (Suchman, 1995), which argues that the survival of an organization depends on the public's perception of legitimacy. Companies that adopt proactive environmental practices can increase their legitimacy, thereby gaining access to capital, favorable regulatory treatment, and consumer loyalty. Legitimacy has become particularly relevant in the textile industry, where environmental issues, such as water pollution, chemical waste, and labor practices, often attract media and regulatory scrutiny.

From an operational point of view, **the Liquidity-Profitability Trade-off Theory** (Ross et al., 2020) informs the discussion on WCM. This theory states that holding too much liquidity can reduce profitability due to idle resource opportunity costs, whereas insufficient liquidity can lead to financial stress. Effective WCM ensures optimal short-term use of resources and minimizes capital lock-ups, theoretically improving company' performance. However, in practice, the effects can vary based on the industry characteristics and macroeconomic stability.

Eco-Efficiency Theory (Porter & Van der Linde, 1995) proposes that environmental protection and economic performance can be mutually reinforcing. Investing in cleaner technology and resource-efficient processes can reduce operational costs and improve brand perceptions. This theory challenges the traditional view that environmental efforts inherently add to costs; instead, it shows that innovation in sustainability can create value.

the Environmental Legitimacy Framework (Clarkson et al., 2008) describes how transparent environmental disclosure and compliance with environmental standards improve a company's reputation and risk management. Companies with higher environmental scores often enjoy better investor trust and stakeholder relationships.

The Residual Income Valuation Theory (Penman, 2013) supports the relationship between profitability and firm value. According to this theory, a company's value comes not only from its current profitability but also from its ability to generate an excess return on future capital costs. Thus, profitability serves as a key mediator, reflecting how internal efficiency translates into external judgment.

These theories collectively support the development of the research models and hypotheses. They enable a multidimensional view of how strategic and operational variables affect financial and non-financial outcomes, especially in resource-intensive and regulatory-sensitive industries, such as textiles. At the application level, each variable is supported by a specific theoretical foundation.

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1. **Environmental Performance:** The environmental performance framework posits that proactive environmental strategies foster legitimacy, reduce compliance risks, and build a positive reputation (Clarkson et al., 2008). Environmental performance was measured using the following indicators.
   a. Energy Efficiency = Total production output (units)/Total energy consumption (kWh)
   b. Environmental Investment = (total expenditure on environmental projects/total revenue) x 100%,
2. PROPER = Five colors (Gold, Green, Blue, Red, Black) with scores of 5, 4, 3, 2, and 1. **Working Capital Management:** The liquidity profitability trade-off theory suggests that an effective WCM can increase profitability by balancing cash flow and operational efficiency (Ross et al., 2020). Working Capital Management is measured using the following indicators.
   a. Net working capital = Current Assets – Curret's liabilities
   b. Current Ratio = Current Assets / Current Liabilities
   c. Quick Ratio = (Current Assets – Inventory) / Current Liabilities
   d. Cash Ratio = (Cash + Cash Equivalent) / Current Liabilities
   e. Working Capital Turnover = Annual Sales / Average Working Capital
3. **Profitability:** According to the theory of Residual Income Valuation, a company's values is increased by profitability, whichexceeds the cost of capital (Penman, 2013). Profitability was measured using the following indicators.
   a. Net Profit Margin = (Earnings after tax / Total revenue) x 100%
   b. ROA = (After-tax income / Total Assets) x 100%
   c. ROE = (Earnings after tax / Total Equity) x 100%
4. **Firm Value:** A company's value is defined as an investor's perception of a company's success rate, which is often associated with its stock price (Setiawan et al., 2021). The value of a company is measured using the following indicators. (Setiawan et al., 2021)
   a. P/E ratio = Price per share / Earnings per share
   b. Price to Book Value (PBV) = Price per share / Book value per share
   c. Q Tobin = (Market value of equity + Total Debt) / Total Assets

Hypothesis

H1 : Environmental performance has a significant effect on profitability
H2 : Environmental performance has a significant effect on the firm value
H3 : Working capital management has a significant effect on profitability
H4 : Working capital management has a significant effect on the firm value
H5 : Profitability has a significant effect on the firm value
H6 : Environmental performance has a significant effect on firm value through the mediation of profitability.
H7 : Working capital management has a significant effect on firm value through profitability.

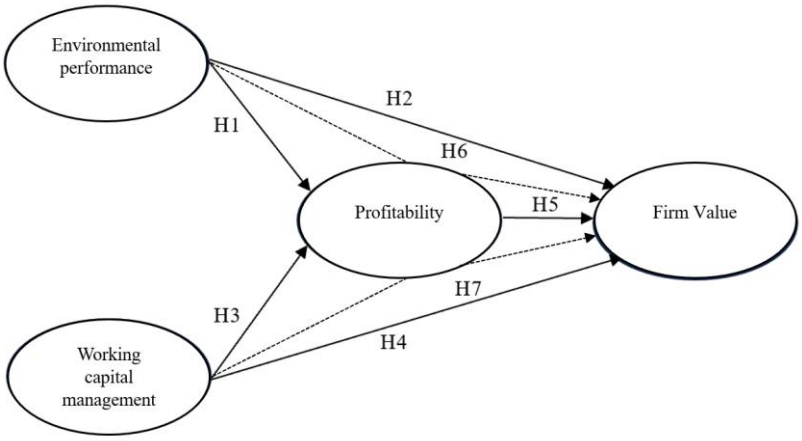

Figure 1 Conceptual Framework

METHODOLOGY

This study adopts a quantitative research approach with a causal-comparative design to examine the direct

e-ISSN: 2961-712X
Vol. 4 Issue 2, July-December 2025
DOI:10.55299/ijec.v4i2.1626

and indirect effects of Environmental Performance (KL) and Working Capital Management (MK) on profitability (PFT), Firm Value (NP), and profitability, to mediate these relationships in the Indonesian textile industry. This methodology aims to capture the complex interactions between financial and non-financial variables, especially in the context of environmental, social, and governance (ESG) practices.

Environmental performance was measured using indicators of energy efficiency, environmental investment, and precision. Working capital management is measured by the indicators net working capital, current ratio, quick ratio, cash ratio, and working capital turnover. Profitability is measured by the indicators net profit margin, ROA, and ROE. The company's value is measured by the P/E Ratio, Price to Book Value (PBV), and Q Tobin.

The study population included all textile companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023. The sample was determined using purposive sampling, selecting only those companies that consistently published annual financial statements and sustainability reports over a six-year period. Fifteen companies met this criterion, resulting in a balanced panel dataset. Data are collected from secondary sources, namely audited financial statements and the disclosure of the company's sustainability, available through the IDX website and individual companies.

The primary data analysis technique used in this study is Partial Least Squares Structural Equation Modeling (PLS-SEM), which was carried out using SmartPLS version 3.0. PLS-SEM is particularly suitable for complex models with latent variables and small-to-medium sample sizes, making it ideal for this study. The measurement model was first evaluated for reliability and validity using Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). Discriminant validity was assessed using the Fornell-Larcker criteria and a cross-loading analysis.

Structural models were tested to evaluate the significance of path coefficients using a bootstrapping procedure with 5,000 subsamples. A mediation analysis was conducted to assess whether profitability (PFT) acts as an intermediate variable between environmental performance (KL), working capital management (MK), and firm value (NP). Th determination coefficients (R^2), predictive relevance (Q^2), and effect size (f^2) were also examined to evaluate model robustness and explainability.

RESEARCH RESULTS

In PLS, the validity test is measured through convergent validity and discriminant validity.

Table 2. Convergent Validity Test Results (Outer Loading) - Initial Model

Variable	Indicators	*External Loading*
Environmental Performance (KL)	KL-EE	-0.503
	KL-IL	0.945
	KL-PROP	0.337
Working Capital Management (MK)	MK-CR	0.824
	MK-CSHR	0.334
	MK-NWC	0.856
	MK-QR	0.390
	MK-WCTR	0.135
Profitability (PFT)	PFT-NPM	0.998
	PFT-LONG	0.486
	PFT-ROE	-0.021
Firm value (NP)	NP-PBV	-0.521
	NP-PER	-0.422
	NP-TOBIN	0.824

The results of the convergent validity analysis showed that not all the outer loading values for each variable were greater than 0.7. This indicates that some of the research variables did not meet the criteria for convergent validity. Therefore, indicators with values below 0.7 will be dropped, and the validity of the convergence will be retested until all indicators meet the criteria.

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Table 3. Convergent Validity Test Results (Outer Loading) - Corrected Model

Variable	**Indicators**	***External Loading***
Working Capital Management (MK)	MK-CR	0.776
	MK-NWC	0.923
Environmental Performance (KL)	KL-IL	1.000
Profitability (PFT)	PFT-NPM	1.000
Firm value (NP)	NP-TOBIN	1.000

The results of the convergent validity analysis after model correction showed that all the outer loading values for each variable were greater than 0.7. This shows that all indicators of the research variables meet the criteria of convergent validity.

Table 4. *Fornell-Larcker Criteria*

	KL	MK	NP	PFT
Environmental Performance (KL)	**1**			
Working Capital Management (MK)	-0.279	**0.853**		
Firm value (NP)	0.327	-0.308	**1**	
Profitability (PFT)	-0.494	0.084	-0.151	**1**

The analysis showed that the square root of AVE for environmental performance (KL) construction was 1,000, which was higher than the correlation between KL construction and working capital (MK), firm value (NP), and profitability (PFT). Similarly, the square root of the AVE value for working capital construction (MK) at 0.853, enterprise value (NP) at 1,000, and profitability (PFT) at 1,000 are higher than their correlations with other constructions. This indicates that the indicators for each variable accurately measure the construction of the respective variables.

Table 5. Crossloading Test

Indicators	KL	MK	NP	PFT
KL-IL	**1.000**	-0.279	0.327	-0.494
MK-CR	-0.188	**0.776**	-0.182	0.088
MK-NWC	-0.275	**0.923**	-0.319	0.064
NP-TOBIN	0.327	-0.308	**1.000**	-0.151
PFT-NPM	-0.494	0.084	-0.151	**1.000**

Table 5 shows that the correlation of environmental performance construction (KL) with its indicators is higher than the correlation of environmental performance indicators (KL) with working capital construction (MK), firm value (NP), and profitability (PFT). This also applies to the other three variables. Therefore, based on the results of cross-loading testing, it shows that each latent construct predicts its indicator block better than the indicator in the other variable block.

Table 6. Composite Reliability and Alpha Cronbach Analysis Results

Variable	*Alpha Cronbach*	*Composite Reliability*
Environmental Performance (KL)	1	1
Working Capital (MK)	0.642	0.841
Firm value (NP)	1	1
Profitability (PFT)	1	1

The analysis showed that the Cronbach's alpha value for working capital was 0.642, but it had a Composite Reliability value of 0.841. Although Cronbach's alpha is 0.642, which is slightly below the general threshold of 0.7, the reliability of the construct is still acceptable as the Composite Reliability (CR) shows a high value of 0.841, which exceeds the threshold of 0.7. According to Hair et al. (2019), a CR above 0.7 indicates good reliability, so a CR value of 0.841 indicates that the construction is reliable despite the lower Cronbach's alpha. The other variables are also reliable because they have a value of 1,000.

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Vol. 4 Issue 2, July-December 2025
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Table 7. Results of the Path Coefficient Significance Test - Structural Model

Hypothesis		Path Coefficient	*T Statistics*	*Value p*	Information
H1	MK → PFT	-0.076	0.640	0.522	Insignificant
H2	MK → NP	-0.240	2.244	0.025	Significant negatives
H3	→ KL PFT	-0.510	2.553	0.011	Significant negatives
H4	→ KL NP	0.259	2.845	0.004	Significant positives
H5	PFT → NP	-0.004	0.051	0.959	Insignificant
H6	KL → PFT → NP	0.002	0.052	0.958	Insignificant
H7	MK → PFT → NP	0.000	0.026	0.979	Insignificant

Based on Table 7, the following can be deduced:

1. H1, which states that working capital management has a significant influence on profitability, is not accepted because it has a negative path coefficient of -0.076 with a t-statistic of 0.640 < 1.96 and a p-value of 0.522 > 0.05.
2. H2, which states that working capital management has a significant influence on the company's value, is accepted because it has a negative path coefficient of -0.240 with a t-statistic of 2.244 > 1.96, and a p-value of 0.025 < 0.05. Thus, working capital management has a significant negative effect.
3. H3, which states that environmental performance has a significant influence on profitability, is accepted because it has a negative path coefficient of -0.510 with a t-statistic of 2.553 > 1.96 and a p-value of 0.011 < 0.05. Thus, environmental performance has a significant negative effect.
4. H4, which states that environmental performance has a significant influence on company value, is accepted because it has a positive path coefficient of 0.259 with a t-statistic of 2.845 > 1.96, and a p value of 0.004 < 0.05.
5. H5, which states that profitability has a significant effect on the value of the company, is not accepted because it has a negative path coefficient of -0.004, with a t-statistic of 0.051 < 1.96$ and a p-value of 0.959 > 0.05.
6. H6, which states that environmental performance has a significant influence on a company's value through profitability, is not accepted because it has a path coefficient of 0.002 with a t-statistic of 0.052 < 1.96 and a p-value of 0.958 > 0.05.
7. H7, which states that working capital has a significant influence on the value of the company through profitability, is not accepted because it has a path coefficient of 0.000, with a t-statistic of 0.026 < 1.96$ and a p-value of 0.979 > 0.05.

Table 8. Coefficient of Determination or R Value of Squares (R2) and Geisser Rocks (Q2)

Endogenous Variable	R2 Value	Q2 Value
Profitability (PFT)	0,254	0,094
Firm value (NP)	0,158	0,111

Based on Table 8, it can be explained that the effect of environmental performance (KL) and working capital (MK) on profitability (PFT) shows an R-Square value of 0.254. This can be interpreted as 25.4% of the profitability construct variability (PFT) can be explained by environmental performance (KL) and working capital (MK), whereas the remaining 74.6% is explained by other variables that have not been studied. The analysis shows that the R2 value for profitability (PFT) is 0.254, which falls into the weak category. The effects of environmental performance (KL), working capital (MK), and profitability (PFT) on firm value (NP) showed an R-square value of 0.158. This means that 15.8% of the variability in the company's value construct (NP) can be explained by these variables, while the remaining 84.2% is explained by other variables that have not been studied. The analysis shows that the R2 for a company's value (NP) is 0.158, which is categorized as weak because it is below 0.20.

e-ISSN: 2961-712X
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Table 9. *Effect* Size Analysis Results f2

Variable	NP	PFT
KL	0.056	0.321
MK	0.060	0.007
PFT	0.000	

Source: PLS analysis results

From Table 9, it can be seen that the variables of environmental performance (KL) and working capital (MK) in explaining profitability (PFT) have squared effect sizes of 0.321 and 0.007, respectively. Referring to, it can be concluded that working capital (MK) has a very small size of securities because it is below 0.02. Environmental performance has a moderate effect size, such as in the range of 0.15-0.35. Hair et al. (2019) The variables of environmental performance (KL), working capital (MK), and profitability (PFT) explaining the variables of firm value have square effect sizes of 0.056, 0.060, and 0.000, respectively. It can be concluded that profitability (PFT) has a very small effect size because it is below 0.02. Working capital (MK) and environmental performance (KL) have small effect sizes because they are in the range of 0.02-0.15.

DISCUSSION

Research shows that environmental performance has a significant negative impact on profitability in the textile sector, contrary to stakeholder theory and legitimacy, which predict increased profits through reputation and efficiency. High environmental compliance costs, inefficient implementation, and lack of government incentives increase the cost burden and depress profit margins. Studies by and support this, show that environmental costs do not immediately result in efficiency or revenue gains. However, research found that strong environmental performance increases long-term profitability, especially in large companies with strong management systems. Hassel et al. (2005) Zeng et al. (2011) Clarkson et al. (2008) Friede et al. (2015)

Environmental performance has a significant positive impact on a company's value, in line with legitimacy and stakeholder theories, which affirms that strong environmental practices increase investor confidence and reduce risk. Lower perceived risk, capital market preference for ESG factors, and association with efficiency-driven innovation contribute to a company's increased valuation. Empirical studies such as, and support this, showing that strong environmental performance enhances Tobin's Q&A and investor confidence. However, they found that environmental performance is not always relevant to investors, especially if it is not directly related to financial performance.Clarkson et al. (2008) Habib (2022) Princess & Arsjah (2023) Hassel et al. (2005) Zeng et al. (2011) .

Working capital management does not significantly affect profitability, although the financial theory suggests that efficient working capital management increases operational efficiency and profitability. In the context of the Indonesian textile industry, factors such as long production cycles, dependence on imported raw materials, managerial inefficiencies, and persistent cost dominance hinder the translation of working capital optimization into short-term profits. Empirical studies support these findings, highlighting that operational constraints, such as volatility in raw material prices and suboptimal inventory management, weaken the impact of working capital on profitability. By contrast, research in developed countries, such as and, found a significant positive relationship, underscoring the influence of different managerial contexts between developing and developed countries. Contesa & Mayasari(2019) Princess & Arsjah (2023) Gill & Mathur (2011) Deloof (2003).

Working capital management has a significantly negative impact on the value of companies in the textile industry, contrary to the theory that efficient working capital management increases profitability and firm value. Factors such as the accumulation of unproductive current assets, extended receivable periods, and overinvestment in working capital tie up funds, reducing cash flow and profit efficiency, thus reducing the company’s value. Empirical studies support these findings, suggesting that prolonged periods of accounts receivable and inventory lower a company's profitability and value. By contrast, research by and in developed countries found that efficient working capital management increases firm value, emphasizing the role of operational efficiency in different managerial contexts. Raheman -Nasr (2007) Kasozi (2017) Gill et al. (2010) Deloof (2003)

e-ISSN: 2961-712X
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Although the theory of residual income valuation links profits to the creation of economic value, profitability does not significantly affect a firm's value in the textile industry. Industry volatility, thin margins, and investor' focus on growth prospects make accounting earnings less relevant as determinants of a company's valuation. Studies by and support this notion that investors prioritize external conditions and growth potential. In contrast, research by and found that profitability significantly affects a company's value, especially in markets that value operational efficiency. (Stuttgart & Nuryatno, 2021) Stuttgart & Pre-Orders (2022) Gill & Mathur (2011) Majumdar & Chhibber (1999)

Working capital management does not significantly affect a company's value through profitability mediation, although the theory suggests that efficient working capital increases a company's profits and value. Long operational cycles, production inefficiencies, and a lack of market appreciation for profitability in the textile industry hinder this mediation path. Studies by and support this, show that inefficient working capital management does not generate profits that impact the value of the company. In contrast, research by and found that efficient working capital management increases the profitability and value of companies, especially in developed countries with better management practices. Kustina (2020) Rosyid & São Paulo (2024) Deloof (2003) Gill et al. (2010)

Environmental performance does not significantly affect a company's values through the mediation of profitability, although legitimacy and stakeholder theories predict increased profits and value. Compliance-driven environmental efforts, high implementation costs, and investor focus on growth rather than environmentally driven profits hinder this mediation pathway in the textile industry. Studies by and support this, show that environmental performance does not significantly increase profitability. However, research found that strong environmental performance increases a company's profitability and value, especially in companies with standard ESG reporting. Rosyid & São Paulo (2024) Hassel et al. (2005) Clarkson et al. (2008) Friede et al. (2015)

CONCLUSIONS AND RECOMMENDATIONS

This study examines the influence of Environmental Performance (EP) and Working Capital Management (WCM) on Profitability and Firm value and whether profitability mediates these relationships in the context of the Indonesian textile industry. These findings reveal important insights that contribute to the development of managerial theories and practices. First, neither WCM had a statistically significant impact on Profitability or Firm value. This suggests that short-term financial strategies may not yield measurable returns under the current industry and market conditions. These results highlight the contextual dependence of financial effects on internal strategies, particularly in sectors with low margins and high operational volatility.

In contrast, EP shows a significant negative effect on profitability but a positive and statistically significant impact on firm value. This split shows that while environmental initiatives incur operational costs that reduce short-term revenues, they are recognized and appreciated by investors in the long run. Thus, EP serves as a strategic investment for long-term legitimacy and resilience, rather than direct financial gains.

Furthermore, this study confirms that profitability does not mediate the relationship between the independent variables and firm value. These findings indicate a paradigm shift in valuation, where non-financial indicators such as ESG performance have become more relevant in shaping market perceptions of company quality. These insights demonstrate the growing importance of integrating ESG metrics into corporate strategies in Indonesia's textile sector, which operates under increasing environmental scrutiny and global competition. Policymakers are advised to design incentives that bridge the short-term financial burden of environmental compliance with corporate value. These findings underscore the need to further explore sectoral and regional variations in how financial and non-financial strategies affect organizational outcomes.

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