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The Influence of Working Capital Management, Sustainable Investment, and Environmental Performance on Profitability and Firm Value in the Textile Industry

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A B S T R A C T

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 working capital management, sustainable investment, and environmental performance 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 and sustainability reports. Variables include working capital management, sustainable investment, environmental performance, profitability (measured by ROA), and firm value (measured by Tobin's Q). The empirical results reveal that working capital management and sustainable investment have no significant effect on either profitability or firm value. Environmental performance negatively and significantly impacts profitability but positively influences firm value. Moreover, profitability does not significantly affect firm value and does not mediate the relationship between the independent variables and firm value.

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INTRODUCTION

The textile industry in emerging economies, particularly Indonesia, faces significant pressure to align profitability with environmental sustainability. Despite regulatory efforts and stakeholder interest in responsible corporate behavior, many firms continue to experience inconclusive financial outcomes from sustainability-related strategies. The manufacturing sector, especially textiles, is resource-intensive both in terms of raw materials and energy consumption which places these companies at the center of the sustainability debate. In recent years, Indonesia has witnessed increased public scrutiny and tighter environmental regulations that aim to mitigate industrial pollution and promote sustainable development (Susanto, 2022).

As consumer awareness increases and global investors emphasize Environmental, Social, and Governance (ESG) standards, firms in the textile industry must adapt by integrating these expectations into their business strategies. Global platforms and rating agencies now evaluate corporations not solely based on profitability, but on broader social and environmental metrics. This has led to the emergence of sustainable finance frameworks, pushing companies to rethink traditional cost-benefit analyses and account for long-term stakeholder value (Huang et al., 2022).

Table 1. Development of Industrial Company Value (P/E Ratio) Textile Year 2016 - 2023

Year	P/E Ratio
2016	8.61
2017	8.61
2018	8.19
2019	16.64
2020	7.18
2021	9.93
2022	8.80
2023	10.53

Source: Statistik BEI Tahun 2016 – 2023

One challenge facing textile firms is the dual objective of achieving operational efficiency through effective Working Capital Management (WCM) and adopting Sustainable Investment (SI) practices that often require high upfront capital with delayed financial returns. At the same time, Environmental Performance (EP), though crucial to long-term legitimacy and stakeholder trust, can incur additional short-term costs that impact immediate profitability. This trade-off between financial prudence and sustainability obligations has made decision-making more complex (Dowell et al., 2000; Putri & Arsjah, 2023).

Empirical evidence on the effect of these factors on firm profitability and value is mixed. Some researchers argue that efficient WCM improves profitability by reducing capital lock-in and optimizing liquidity, especially in working-capital-intensive sectors like textiles. Conversely, others contend that over-optimization may disrupt supplier relationships or inventory stability.

Similarly, sustainable investments are praised for enhancing brand value and reducing long-term risks but are also criticized for their slow ROI realization.

From a theoretical standpoint, Stakeholder Theory (Freeman et al., 2023) suggests that fulfilling stakeholder expectations (including environmental responsibilities) leads to long-term value creation. Legitimacy Theory posits that organizations seek societal approval, which can be enhanced through robust environmental performance (Suchman, 1995). These macro theories are complemented by operational theories: Liquidity-Profitability Trade-Off Theory (Ross et al., 2020) emphasizes that too much liquidity can hurt profitability, while too little can threaten solvency. Eco-efficiency Theory (Porter & Van der Linde, 1995)underlines that environmentally responsible investment can yield operational savings and competitive advantage in the long run.

Despite these frameworks, the link between non-financial performance metrics and market valuation remains ambiguous, especially in emerging markets. In Indonesia, the textile industry operates within an evolving regulatory framework and limited investor maturity regarding ESG. Many local investors still prioritize short-term financial returns, potentially overlooking sustainability disclosures that lack clear monetization pathways.

Additionally, profitability, often represented by Return on Assets (ROA), is commonly used as an intermediary indicator, reflecting how operational and strategic inputs convert into financial performance. If profitability serves as a bridge between internal strategies (like working capital managemen or sustainable investment) and external valuation (such as Tobin's Q or Price-to-Book Value), understanding its mediating role becomes essential. Yet, in the textile context, empirical results suggest that this mediation is not guaranteed.

This study thus aims to investigate whether working capital management, sustainable investment, and environmental performance significantly influence profitability and firm value, and whether profitability mediates these relationships. The Indonesian textile industry offers a compelling setting due to its dual pressures of international competition and regulatory adaptation. By examining this sector from 2018 to 2023, the study incorporates post-pandemic recovery trends and ESG maturity acceleration.

This research contributes to the academic discourse in three key ways. First, it contextualizes the theoretical link between sustainability and profitability within an emerging market. Second, it offers empirical evidence from a resource-intensive industry where such dynamics are particularly salient. Third, it integrates multiple theoretical frameworks to provide a comprehensive understanding of how operational, environmental, and strategic decisions interact to shape financial and non-financial outcomes.

The findings are expected to benefit multiple stakeholders. Corporate managers can gain insights into which strategic levers yield both financial performance and long-term market value. Policymakers can better design regulations that incentivize rather than penalize early sustainability adopters. Investors, especially those with ESG mandates, may use these insights to refine valuation models that balance profitability with responsibility.

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

LITERATURE REVIEW

This study is anchored in multiple theoretical perspectives to provide a comprehensive understanding of how working capital management (MK), sustainable investment (IB), and environmental performance (KL) influence firm profitability (PFT) and firm value (NP).

At the macro level, Stakeholder Theory (Freeman et al., 2023) posits that firms must consider the interests of all stakeholders shareholders, employees, customers, suppliers, and communities to achieve long-term sustainability. This theory suggests that environmental and social responsibilities are not merely ethical obligations but strategic components that can enhance a firm's legitimacy and value. Firms that align their operations with stakeholder expectations are more likely to receive continued support and trust, which, in turn, contributes to competitive advantage and market valuation.

Closely related is the Legitimacy Theory (Suchman, 1995), which argues that organizational survival depends on societal perceptions of legitimacy. Companies that adopt proactive environmental practices may enhance their legitimacy, thus gaining access to capital, favorable regulatory treatment, and consumer loyalty. Legitimacy becomes particularly relevant in the textile industry, where environmental concerns such as water pollution, chemical waste, and labor practices often attract media and regulatory scrutiny.

From an operational standpoint, the Liquidity-Profitability Trade-off Theory (Ross et al., 2020) informs the discussion on WCM. This theory states that holding too much liquidity may reduce profitability due to the opportunity cost of idle resources, while insufficient liquidity may lead to financial distress. Effective WCM ensures optimal use of short-term resources and minimizes capital lock-in, theoretically enhancing firm performance. However, in practice, the effect may vary based on industry characteristics and macroeconomic stability.

In relation to sustainable investment, the Eco-Efficiency Theory (Porter & Van der Linde, 1995) proposes that environmental protection and economic performance can be mutually reinforcing. Investments in cleaner technologies and resource-efficient processes may reduce operational costs and improve brand perception. This theory challenges the traditional view that environmental efforts are inherently cost-adding, suggesting instead that innovation in sustainability can create value.

For environmental performance, the Environmental Legitimacy Framework (Clarkson et al., 2008) explains how transparent environmental disclosures and compliance with environmental standards enhance corporate reputation and risk management. Firms that achieve higher environmental scores often enjoy improved investor confidence and stakeholder relations.

Residual Income Valuation Theory (Penman, 2013) supports the link between profitability and firm value. According to this theory, firm value is derived not only from current profitability but also from the firm's ability to generate excess returns over the cost of capital in the future. Thus, profitability serves as a key mediator, reflecting how internal efficiencies translate into external valuation.

These theories collectively support the development of the research model and hypotheses. They enable a multidimensional view of how strategic and operational variables influence both financial and non-financial outcomes, particularly in a resource-intensive and regulation-sensitive industry like textiles. At the applied level, each variable is supported by specific theoretical underpinnings:

1. Working Capital Management: The Liquidity-Profitability Trade-off theory suggests that effective WCM can enhance profitability by balancing cash flow and operational efficiency (Ross et al., 2020). Working Capital Management is measured by the indicators:
   a. Net working capital = Current Asset – Curret Liabilities
   b. Current Ratio = Current Asset / Current Liabilities
   c. Quick Ratio = (Current Asset – Inventory) / Current Liabilities
   d. Cash Ratio = (Cash + Cash Equivalent) / Current Liabilities
   e. Working Capital Turnover = Annual Sales / Average Working Capital
2. Sustainable Investment: The Eco-efficiency theory emphasizes that environmentally oriented investments can reduce long-term costs and increase firm competitiveness (Porter & Van der Linde, 1995). Sustainable investment is measured by the indicators:
   a. Carbon Emission Disclosure = Number of items disclosed/Total disclosure
   b. IPAT-e (Environmental Impact Indicator for Public Companies) = P x A x Te
      P: Production scale
      A: Level of resource consumption
      Te: Environmental technology factor
   c. Green investment ratio = (Green Investment (t) – Green Investment (t-1)) / Total Assets
3. Environmental Performance: Environmental performance frameworks posit that proactive environmental strategies foster legitimacy, reduce compliance risks, and build positive reputation (Clarkson et al., 2008). Environmental performance is measured by the indicators:
   a. Energy Efficiency = Total production output (units)/Total energy consumption (kWh)
   b. Environmental Investment = (Total expenditure for environmental project/Total Revenue) x 100%
   c. PROPER = Five colors (Gold, Green, Blue, Red, Black) with scores of 5, 4, 3, 2, and 1, respectively

4. Profitability: According to Residual Income Valuation theory, firm value is enhanced by sustained profitability exceeding cost of capital (Penman, 2013). Profitability is measured by the indicators:
   a. Net Profit Margin = (Earning after tax / Total revenue) x 100%
   b. ROA = (Earning after tax / Total Assets) x 100%
   c. ROE = (Earning after tax /Total Equity) x 100%
5. Firm Value: Company value is defined as investors' perception of the company's level of success, which is often associated with its stock price (Setiawan et al., 2021). Firm value is measured by the indicators:
   a. P/E Ratio = Price per share / Earning per share
   b. Price to Book Value (PBV) = Price per share / Book value per share
   c. Tobin's Q = (Market value of equity + Total Debt) / Total Assets

METHODOLOGY

This study adopts a quantitative research approach with a causal-comparative design to examine the direct and indirect effects of Working Capital Management (MK), Sustainable Investment (IB), and Environmental Performance (KL) on Profitability (PFT) and Firm Value (NP) in the Indonesian textile industry. The methodology aims to capture the complex interaction among financial and non-financial variables, especially in the context of environmental, social, and governance (ESG) practices.

Working capital management is measured by the indicators net working capital, current ratio, quick ratio, cash ratio, and working capital turnover. Sustainable investment is measured by the indicators carbon emission disclosure, IPAT-e (environmental impact indicator for public companies), and green investment ratio. Environmental performance is measured by the indicators energy efficiency, environmental investment, and PROPER. Profitability is measured by the indicators net profit margin, ROA, and ROE. Firm value is measured by the indicators P/E Ratio, Price to Book Value (PBV) and Tobin's Q.

The population of the study includes all textile firms listed on the Indonesia Stock Exchange (IDX) between 2018 and 2023. The sample was determined using purposive sampling, selecting only those firms that consistently published both annual financial statements and sustainability reports over the six-year period. A total of 15 firms met these criteria, yielding a balanced panel dataset. Data were collected from secondary sources, namely the audited financial reports and corporate sustainability disclosures available through the IDX and individual company websites.

The primary data analysis technique used in this research is Partial Least Squares Structural Equation Modeling (PLS-SEM), conducted with 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 criteria such as Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). Discriminant validity was assessed through the Fornell-Larcker criterion and cross-loading analysis.

The structural model was tested to evaluate the significance of path coefficients, using bootstrapping procedures with 5,000 subsamples. Mediation analysis was conducted to assess whether profitability (PFT) acts as an intermediary variable between working capital management (MK), sustainable investment (IB), environmental performance (KL), and firm value (NP). The coefficient of determination (R^2), predictive relevance (Q^2), and effect size (f^2) were also examined to evaluate model robustness and explanatory power.

RESEARCH RESULT

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

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

Variable	Indicator	*Outer Loading*
Working Capital Management (MK)	MK-CR	0.824
	MK-CSHR	0.334
	MK-NWC	0.856
	MK-QR	0.390
	MK-WCTR	0.135
Sustainable Investment (IB)	IB-EK	0.789
	IB-GI	0.589
	IB-IPATE	0.080
Environmental Performance (KL)	KL-EE	-0.503
	KL-IL	0.945
	KL-PROP	0.337
Profitability (PFT)	PFT-NPM	0.998
	PFT-ROA	0.486
	PFT-ROE	-0.021
Firm Value (NP)	NP-PBV	-0.521
	NP-PER	-0.422
	NP-TOBIN	0.824

The convergent validity analysis results show that not all outer loading values for each variable are greater than 0.7. This indicates that several research variable indicators have not yet met the convergent validity criteria. 9 Therefore, indicators with values below 0.7 will be dropped, and the convergent validity will be re-tested until all indicators have met the criteria.

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

Variable	Indicator	*Outer Loading*
Working Capital Management (MK)	MK-CR	0.776
	MK-NWC	0.923
Sustainable Investment (IB)	IB-EK	1.000
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 the model correction show that all outer loading values for each variable are greater than 0.7. This indicates that all research variable indicators now meet the convergent validity criteria.

Table 4. *Fornell-Larcker Criterion*

	IB	KL	MK	NP	PFT
Sustainable Investment (IB)	**1**				
Environmental Performance (KL)	-0.069	**1**			
Working Capital Management (MK)	0.213	-0.279	**0.853**		
Firm Value (NP)	-0.048	0.327	-0.308	**1**	
Profitability (PFT)	0.101	-0.494	0.084	-0.151	**1**

The analysis shows that the square root of AVE for the sustainable investment (IB) construct is 1.000, which is higher than the correlation between the IB construct and environmental performance (KL), working capital (MK), firm value (NP), and profitability (PFT). Similarly, the square root of AVE values for the environmental performance (KL) construct at 1.000, working capital (MK) at 0.853, firm value (NP) at 1.000, and profitability (PFT) at 1.000 are each higher than their correlations with the other constructs. This indicates that the indicators for each variable have appropriately measured their respective variable constructs.

Table 5. Crossloading Test

Indicators	IB	KL	MK	NP	PFT
IB-EK	**1.000**	-0.069	0.213	-0.048	0.101
KL-IL	-0.069	**1.000**	-0.279	0.327	-0.494
MK-CR	0.209	-0.188	**0.776**	-0.182	0.088
MK-NWC	0.170	-0.275	**0.923**	-0.319	0.064
NP-TOBIN	-0.048	0.327	-0.308	**1.000**	-0.151
PFT-NPM	0.101	-0.494	0.084	-0.151	**1.000**

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

Table 6. Composite Reliability and Cronbach's Alpha Analysis Results

Variabel	*Cronbach's Alpha*	*Composite Reliability*
Sustainable Investment (IB)	1	1
Environmental Performance (KL)	1	1
Working Capital (MK)	0.642	0.841
Firm Value (NP)	1	1
Profitability (PFT)	1	1

The analysis shows that the Cronbach's Alpha value for working capital is 0.642, but it has a Composite Reliability value of 0.841. Although the Cronbach's Alpha is 0.642, which is slightly below the common threshold of 0.7, the construct's reliability is still acceptable because the Composite Reliability (CR) shows a high value of 0.841, which exceeds the 0.7 threshold. According to Hair et al. (2019), a CR above 0.7 indicates good reliability, so a CR value of 0.841 supports that the construct is reliable even though the Cronbach's Alpha is lower. The other variables are also reliable as they have a value of 1.000.

Table 7. Path Coefficient Significance Test Results - Structural Model

Hypothesis		Coefficient (*Path*)	*t statistics*	*p value*	Description
H1	MK → PFT	-0.076	0.640	0.522	Not Significant
H2	MK → NP	-0.240	2.244	0.025	Significant Negative
H3	IB → PFT	0.082	1.302	0.193	Not Significant
H4	IB → NP	0.021	0.210	0.834	Not Significant
H5	KL → PFT	-0.510	2.553	0.011	Significant Negative
H6	KL → NP	0.259	2.845	0.004	Significant Positive
H7	PFT → NP	-0.004	0.051	0.959	Not Significant
H8	MK → PFT → NP	0.000	0.026	0.979	Not Significant
H9	IB → PFT → NP	0.000	0.034	0.973	Not Significant
H10	KL → PFT → NP	0.002	0.052	0.958	Not Significant

Based on Table 7, the following can be concluded:

1. H1, which states that working capital management has a significant effect 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 effect on firm 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. It can be concluded that working capital management has a significant negative effect.
3. H3, which states that sustainable investment has a significant effect on profitability, is not accepted because it has a positive path coefficient of 0.082 with a t-statistic of 1.302 < 1.96 and a p-value of 0.193 > 0.05.
4. H4, which states that sustainable investment has a significant effect on firm value, is not accepted because it has a positive path coefficient of 0.021 with a t-statistic of 0.210 < 1.96 and a p-value of 0.834> 0.05.
5. H5, which states that environmental performance has a significant effect 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. It can be concluded that environmental performance has a significant negative effect.
6. H6, which states that environmental performance has a significant effect on firm 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.

7. H7, which states that profitability has a significant effect on firm value, 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.
8. H8, which states that working capital has a significant effect on firm value 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.
9. H9, which states that sustainable investment has a significant effect on firm value through profitability, is not accepted because it has a path coefficient of 0.000 with a t-statistic of 0.034 < 1.96 and a p-value of 0.973 > 0.05.
10. H10, which states that environmental performance has a significant effect on firm 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.

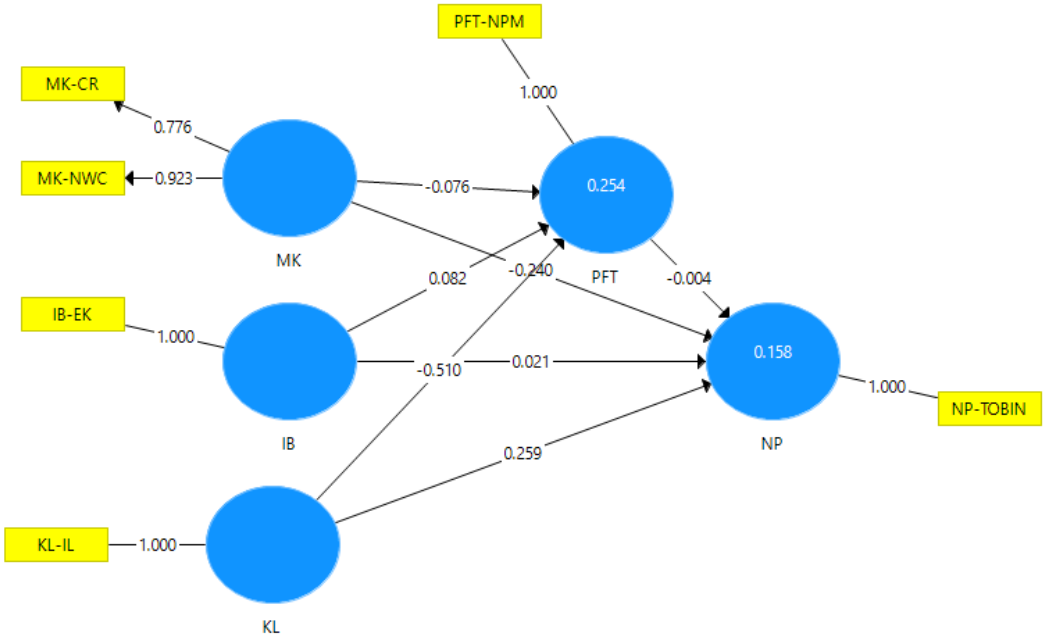

Figure 1. PLS Analysis Results

Table 8. Coefficient of Determination or R Square (R^2) and Stone-Geisser (Q^2) Values

Endogen Variable	R^2 Value	Q^2 Value
Profitability (PFT)	0,254	0,094
Firm Value (NP)	0,158	0,111

Based on Table 8, it can be explained that the influence of working capital (MK), sustainable investment (IB), and environmental performance (KL) on profitability (PFT) shows an R-Square value of 0.254. This can be interpreted to mean that 25.4% of the variability of the profitability (PFT) construct can be explained by working capital (MK), sustainable investment (IB), and environmental performance (KL), while the remaining 74.6% is explained by other variables not studied. The analysis shows that the R^2 value for profitability (PFT) is 0.254, which falls into the weak category. The influence of working capital (MK), sustainable investment (IB), environmental performance (KL), and

profitability (PFT) on firm value (NP) shows an R-Square value of 0.158. This means that 15.8% of the variability of the firm value (NP) construct can be explained by these variables, while the remaining 84.2% is explained by other variables not researched. The analysis shows that the R^2 for firm value (NP) is 0.158, which is categorized as weak because it is below the 0.20 value.

Table 9. *f^2 Effect Size* Analysis Results

Variable	NP	PFT
IB	0.001	0.009
KL	0.056	0.321
MK	0.060	0.007
PFT	0.000	

Source: PLS analysis results

Based on Table 9, it can be explained that the variables working capital (MK), sustainable investment (IB), and environmental performance (KL) in explaining profitability (PFT) have f-squared effect sizes of 0.007, 0.009, and 0.321, respectively. Referring to Hair et al. (2019), it can be concluded that sustainable investment (IB) and working capital (MK) have a very small effect size as they are below the 0.02 value. Environmental performance has a moderate effect size as it is in the 0.15-0.35 range.

The variables working capital (MK), sustainable investment (IB), environmental performance (KL), and profitability (PFT) in explaining the firm value variable have f-squared effect sizes of 0.060, 0.001, 0.056, and 0.000, respectively. It can be concluded that sustainable investment (IB) and profitability (PFT) have a very small effect size as they are below the 0.02 value. Working capital (MK) and environmental performance (KL) have a small effect size as they are in the 0.02-0.15 range.

DISCUSSION

The research indicates that working capital management does not significantly affect profitability, despite financial theory suggesting that efficient working capital management enhances operational efficiency and profits. In the context of Indonesia's textile industry, factors such as long production cycles, reliance on imported raw materials, managerial inefficiencies, and the dominance of fixed costs hinder the translation of working capital optimization into short-term profits. Empirical studies like Contesa & Mayasari (2019) and Putri & Arsjah (2023) support these findings, highlighting those operational constraints, such as raw material price volatility and suboptimal inventory management, weaken the impact of working capital on profitability. Conversely, research in developed countries, such as Gill & Mathur (2011) and Deloof (2003), found a significant positive relationship, underscoring the influence of differing managerial contexts between developing and developed nations.

Working capital management has a significant negative impact on firm value in the textile industry, contradicting the theory that efficient working capital management boosts profitability and firm value. Factors such as

unproductive accumulation of current assets, extended accounts receivable periods, and overinvestment in working capital tie up funds, reducing cash flow and profit efficiency, thus suppressing firm value. Empirical studies like Raheman & Nasr (2007) and Kasozi (2017) support this finding, showing that prolonged accounts receivable and inventory periods lower profitability and firm value. In contrast, research by Gill et al. (2010) and Deloof (2003) in developed countries found that efficient working capital management enhances firm value, emphasizing the role of operational efficiency in different managerial contexts.

Sustainable investment does not significantly affect profitability in the textile sector of developing countries, despite theories suggesting it can improve cost efficiency and reputation. High initial implementation costs, lack of human resource capacity, and price pressures in the textile industry hinder the short-term profitability impact of sustainable investments. Studies by Rosyid & Mulatsih (2024) and Qiu et al. (2016) support this, noting delayed economic benefits due to high initial costs and lenient regulations. However, research like Friede et al. (2015) and Habib (2022) found a positive relationship between ESG investments and profitability, particularly when implemented strategically in firms with strong management.

Sustainable investment does not significantly affect firm value in the textile industry of developing countries, despite legitimacy and stakeholder theories suggesting it enhances reputation and long-term value. Slow long-term returns, lack of transparency in reporting, and minimal integration with core business strategies result in investors not valuing these investments as key determinants of firm valuation. Studies by Rosyid & Mulatsih (2024) and Qiu et al. (2016) support this, indicating low market appreciation for sustainable investments. Conversely, research by Clarkson et al. (2008) and Friede et al. (2015) found that strong ESG performance increases firm value, particularly when reporting is transparent and relevant to investors.

Environmental performance has a significant negative impact on profitability in the textile sector, contrary to stakeholder and legitimacy theories predicting improved profits through reputation and efficiency. High environmental compliance costs, inefficient implementation, and lack of government incentives increase cost burdens, suppressing profit margins. Studies by Hassel et al. (2005) and Zeng et al. (2011) support this, showing that environmental costs do not immediately yield efficiency or revenue gains. However, research by Clarkson et al. (2008) and Friede et al. (2015) found that strong environmental performance enhances long-term profitability, particularly in large firms with robust management systems.

Environmental performance has a significant positive impact on firm value, aligning with legitimacy and stakeholder theories, which assert that strong environmental practices enhance investor trust and reduce risks. Lower perceived risks, capital market preferences for ESG factors, and links to efficiency-driven innovations contribute to increased firm valuation. Empirical studies like Clarkson et al. (2008), Habib (2022), and Putri & Arsjah (2023) support this, showing that strong environmental performance boosts Tobin's Q and

investor confidence. However, Hassel et al. (2005) and Zeng et al. (2011) found that environmental performance is not always relevant to investors, particularly when not directly tied to financial performance.

Profitability does not significantly affect firm value in the textile industry, despite residual income valuation theory linking profits to economic value creation. Industry volatility, thin margins, and investor focus on growth prospects make accounting profits less relevant as a determinant of firm valuation. Studies by (Prasetya & Nuryatno, 2021) and Handayani & Pramesti (2022) support this, noting that investors prioritize external conditions and growth potential. In contrast, research by Gill & Mathur (2011) and Majumdar & Chhibber (1999) found that profitability significantly influences firm value, particularly in markets valuing operational efficiency.

Working capital management does not significantly affect firm value through profitability mediation, despite theories suggesting that efficient working capital enhances profits and firm value. Long operational cycles, production inefficiencies, and lack of market appreciation for profitability in the textile industry hinder this mediation pathway. Studies by Kustina (2020) and Rosyid & Mulatsih (2024) support this, showing that inefficient working capital management does not yield profits that impact firm value. Conversely, research by Deloof (2003) and Gill et al. (2010) found that efficient working capital management improves profitability and firm value, particularly in developed countries with better management practices.

Sustainable investment does not significantly affect firm value through profitability mediation, despite stakeholder and legitimacy theories predicting enhanced profits and value. High costs, slow financial returns, and low market sensitivity to ESG factors in developing countries obstruct this mediation pathway. Studies by Rosyid & Mulatsih (2024) and Qiu et al. (2016) support this, noting that sustainable investments do not significantly boost profitability. In contrast, research by Clarkson et al. (2008) and Habib (2022) found that sustainable investments enhance profitability and firm value, especially when integrated as a core business strategy.

Environmental performance does not significantly affect firm value through profitability mediation, despite legitimacy and stakeholder theories predicting improved profits and value. Compliance-driven environmental efforts, high implementation costs, and investor focus on growth over environmentally driven profits hinder this mediation pathway in the textile industry. Studies by Rosyid & Mulatsih (2024) and Hassel et al. (2005) support this, showing that environmental performance does not significantly enhance profitability. However, research by Clarkson et al. (2008) and Friede et al. (2015) found that strong environmental performance boosts profitability and firm value, particularly in firms with standardized ESG reporting.

CONCLUSION AND RECOMMENDATIONS

This study set out to examine the effect of Working Capital Management (WCM), Sustainable Investment (SI), and Environmental Performance (EP) on Profitability and Firm Value within the context of Indonesia's textile industry.

The findings reveal several important insights that contribute to both theoretical development and managerial practice. First, it was found that neither WCM nor SI had a statistically significant impact on Profitability or Firm Value. This indicates that short-term financial strategies and long-term sustainability investments may not yield measurable returns under current industry and market conditions. These results highlight the contextual dependency of financial effects from internal strategies, especially in sectors with low margins and high operational volatility.

In contrast, EP demonstrated a significant negative effect on Profitability but a positive and statistically significant impact on Firm Value. This bifurcation suggests that while environmental initiatives incur operational costs that reduce short-term earnings, they are recognized and rewarded by investors in the long term. Thus, EP serves as a strategic investment toward long-term legitimacy and resilience rather than immediate financial gain.

Furthermore, the study confirmed that Profitability does not mediate the relationship between any of the independent variables and Firm Value. This finding suggests a shift in valuation paradigms, where non-financial indicators, such as ESG performance, are becoming more relevant in shaping market perceptions of firm quality. In the Indonesian textile sector, which operates under increasing environmental scrutiny and global competition, these insights point to the growing importance of integrating ESG metrics into corporate strategies. In sum, firms must recognize the dual imperative of managing financial performance while actively pursuing sustainability. Policymakers are advised to design incentives that bridge the short-term financial burdens of environmental compliance with the long-term benefits to firm value. For researchers, these findings underline the need to further explore sectoral and regional variations in how financial and non-financial strategies affect organizational outcomes.

ADVANCED RESEARCH

Future research can explore sectoral differences in the mediating role of profitability on the relationship between sustainability strategies and firm value by conducting comparative studies across industries with varying resource intensities and ESG maturity levels. Particularly, longitudinal studies involving larger datasets and time series econometric methods could capture delayed financial effects of sustainable investment and environmental performance that are not evident in short-term cross-sectional analyses. Additionally, integrating behavioral finance perspectives may reveal how investor perceptions and biases toward ESG disclosures influence market valuations, especially in emerging economies where sustainability standards are still evolving. Exploring the role of digital transformation and green technologies as potential moderators in this relationship may also offer deeper insights into how operational innovation can mitigate the short-term costs of sustainability practices while enhancing firm value in the long run.

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