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### Unraveling the Link: Relationship Firm Value Shapes ESG Ratings

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**Abstract:** The study aims to fill the research gap by examining the relationship between ESG ratings and firm value in energy companies and whether company profitability controls this relationship. The study uses multiple regression models to test this hypothesis and examines the impact of Tobin's Q, profitability, and ESG ratings on firm value. The study sample is energy sector companies listed on the Indonesia Stock Exchange from 2015-2022. The result of this paper is a negative relationship between Tobin's Q and ESG performance, indicating that firms with higher market valuations may prioritize shareholder value over ESG considerations. On the other hand, there is a positive relationship between NPM and ESG performance, suggesting that companies with higher profitability may have more resources to invest in sustainable and socially responsible practices. The lack of a significant relationship between ROE and ESG performance suggests that the financial returns to equity shareholders may not directly impact on a company's ESG initiatives. The positive relationship between ROA and ESG Performance aligns with the idea that companies with efficient asset utilization are better positioned to invest in sustainable practices. The negative relationship between GPM and ESG Performance suggests that companies with higher gross profit margins may face pressure to cut costs, potentially at the expense of environmental or social responsibility. This study highlights the importance of incorporating ESG considerations into business operations and decision-making to increase company value. Considering ESG in business operations and decision-making includes aligning ESG practices with overall corporate strategy. Managers must focus on optimizing operations to increase company value. A sustainable and efficient process will improve ESG ratings and contribute to long-term growth and profitability.

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## INTRODUCTION

The relationship between corporate value and ESG ratings has been a global phenomenon that has gained increasing attention in recent years (Zheng et al., 2022). In addition, the relationship between corporate values and ESG ratings has become a topic of interest in recent research (Dincă et al., 2022; Svensson, 2020; Clementino & Perkins, 2021; Aydoğmuş et al., 2022). ESG ratings are used to evaluate a company's environmental, social, and governance performance and are believed to impact a company's profitability and value (Aydoğmuş et al., 2022). Indonesia is one of the largest energy producers in the world, and a large part of its economy depends on the energy sector. However, the energy sector is also one of the most significant contributors to greenhouse gas emissions, so this sector is the focus of the ESG rankings. Additionally, PWC (2023) states the importance of ESG performance in Indonesia and how this

can impact access to funding. It also highlights that a company can achieve a strong ESG rating despite weak performance on some factors if it performs strongly on others.

In recent years, there has been increasing awareness of the importance of ESG performance in Indonesia's energy sector, as companies face increasing pressure from investors, regulators, and other stakeholders to upgrade their ESG ratings. ESG ratings are used to evaluate a company's environmental, social, and governance performance and are believed to impact a company's profitability and value (Alabdullah et al., 2021). Zheng et al. (2022) analyzes the impact of ESG performance on corporate value from the perspective of stakeholders. The study discusses the positive feedback effects and ways of improving ESG performance.

Another study, Dincă et al. (2022) explores the relationship between non-financial sustainability, measured by ESG scores, and firm value in the automotive industry. The study found a positive relationship between ESG scores and firm value. Aydoğmuş et al. (2022) examines the impact of ESG performance on firm value and profitability. The study found that ESG performance has a positive impact on both firm value and profitability. Svensson (2020) investigates how ESG affects the expected returns of companies based on their price-to-earnings (PE) ratio and dividend yield. The study found that ESG ratings have a positive impact on expected returns. Other research by Clementino and Perkins (2021) examines how companies respond to ESG ratings. The study found that companies with higher ESG ratings are more likely to respond positively to ESG ratings.

In Indonesia, ESG rankings and assessments are becoming increasingly important as companies and investors realize the importance of sustainability and responsible business practices. Organizations in Indonesia often refer to local ESG indices or rankings, such as the SRI KEHATI Index, managed by the Indonesian Biodiversity Foundation (KEHATI). This index focuses on a company's environmental and social performance (PWC, 2023; Volz et al., 2015; UNPRI, 2021). The KEHATI Foundation, a leading environmental NGO, pioneered ESG in Indonesia's capital market by launching the SRI KEHATI Index, Indonesia's first ESG equity index, in 2009 (UNPRI, 2021). The foundation approaches and encourages asset managers to start their ESG journey by providing the SRI KEHATI index, first benchmarked to an ESG fund product launched by Indopremier Investment Management in 2014 (UNPRI, 2021). Since then, the number of asset managers partnering with the KEHATI Foundation has grown to 11, and the total AUM of ESG funds benchmarking to its SRI KEHATI Index has grown to around IDR2.5 trillion (UNPRI, 2021).

One issue with ESG ratings is a divergence in ESG rating methodologies, which can lead to disparate ratings for the same company (Alduais, 2023). Additionally, ESG ratings are forward-looking and can be used to predict a company's long-term valuation and financial performance in emerging markets (Liu, 2020). ESG disclosure is valuable to shareholders and can impact corporate value, but ESG can amplify the actual value of overvalued companies and reduce the true value of undervalued firms. ESG disclosure enables communication with investors and plays a critical moderating role, which mitigates the negative impact of disadvantaged firms and weakens the positive impact of advantaged firms (Jun et al., 2022).

The novelty of this research lies in its focus on the energy sector, particularly in Indonesia, and its examination of the relationship between ESG ratings and company value in this sector. The energy sector has significant environmental and social impacts due to its role in resource extraction and energy production. Research is urgently needed to assess how companies in this sector can align their operations with sustainability goals to mitigate environmental damage and promote social responsibility. Additionally, understanding the influence of ESG practices on the value of companies in this sector is critical for economic stability, growth, and competitiveness. This understanding provides insight into how companies can secure long-term profitability while addressing sustainability issues. This study aims to fill the research gap by examining the relationship between ESG ratings and firm value in energy companies and whether corporate profitability controls this relationship.

## LITERATURE REVIEW AND HYPOTHESES

Institutional theory is a theoretical framework that explains how organizations conform to societal norms and expectations (Avetisyan & Hockerts, 2017). Institutional theory suggests that organizations are influenced by the norms, values, and beliefs of their institutional environment, which includes regulatory bodies, professional associations, and other organizations (Avetisyan & Hockerts, 2017). Institutional theory argues that organizations that conform to institutional norms and expectations are more likely to be successful and legitimized in their environment (Avetisyan & Hockerts, 2017). ESG ratings evaluate the performance and risks of a company based on numerous factors, such as exposure to climate risks, regulation of greenhouse gas emissions, effective and transparent governance, ethical supply chains, labor standards, human rights practices, and board diversity (Larcker et al., 2022). Institutional investors use ESG ratings for investment selection and underwriting criteria or require an issuer to have a minimum ESG. However, there needs to be more standardization between providers of ESG ratings, both as to methodology and scope. ESG ratings have real value when taken together with other risk assessments, targeted due diligence, and credit.

The relationship between company values and ESG ratings can be explained by institutional theory. Companies that conform to institutional norms and expectations are more likely to receive higher ESG ratings. Institutional theory suggests that companies prioritizing ESG factors are more likely to be successful and legitimized in their environment. Therefore, companies that prioritize ESG factors are more likely to conform to institutional norms and expectations, which can lead to higher ESG ratings.

The literature review shows that further research is needed in several sectors, especially the energy sector. One of the critical areas is assessing the impact of ESG regulations, engaging listed companies to understand their ESG practices, and studying long-term analyst forecasts. As the field of ESG continues to develop, ongoing research is critical to provide more insight into the relationship between ESG and financial performance. The issue of how to assess the quality of ESG reporting is critical. The report by NYU Stern (2021) examines the impacts of ESG disclosure and financial reporting quality on firm performance. Finally, the meta-study examines the relationship between ESG and financial performance over several decades. Some studies report a positive relationship between ESG performance and financial performance (Crace & Gehman, 2023), while others report negative or neutral relationships. The oldest line of ESG research compares the performance of conventional and ESG funds (Wang et al., 2023). The study by Wang et al. (2023) found that ESG performance significantly improves the market value and book value of enterprises. The literature review suggests that further research is needed to assess the impact of ESG regulations, engage with listed companies, and study longer-term analyst forecasts. The challenge of standardizing ESG reporting remains. International institutions like the Global Reporting Initiative (GRI), the United Nations Conference on Trade and Development (UNCTAD), and regulatory bodies like the Hong Kong Stock Exchange (HKEx) have developed Key Performance Indicators (KPIs) for ESG reporting. However, with a widely agreed-upon measurement basis, assessing and comparing the ESG performance of different companies can be more accessible. ESG ratings have become increasingly important for investors to evaluate companies' long-term sustainability and financial performance.

Awareness of ESG issues and ratings is increasing among Indonesian companies and investors, and governments and regulatory bodies are also taking steps to promote sustainability (PWC, 2023; Volz et al., 2015). As global investors increasingly emphasize ESG factors, Indonesian companies with higher ESG ratings may attract more investment. Several global ESG rankings and indices have a significant impact on companies around the world. The DJSI is one of the most widely recognized global ESG indices, and the MSCI provides ESG ratings and research that investors use to evaluate companies' ESG performance. The FTSE4Good Index Series includes companies that meet specific ESG criteria, and being listed in this index can enhance a company's reputation and attractiveness in the eyes of responsible investors. Additionally, research companies such as Sustainalytics, ISS ESG, and others provide ESG scores and ratings that can influence investment decisions and capital allocation (PWC, 2023; Asian Development Bank, 2022).

A study by Tian (2021) examines whether ESG is an adequate indicator for firms' future financial performance in China. The study investigates 377 China A-share companies covered by two ESG rating

agencies, one based in China (SynTao) and the other based in Switzerland (RepRisk), and finds that ESG rating, albeit divergent due to disparate methodologies, is instrumental in predicting the trend of corporate financial performance (CFP). The study concludes that the forward-looking nature of ESG makes it crucial for firms' long-term valuation and financial performance in emerging markets. [NYU Stern \(2021\)](#) found that firms with strong ESG ratings had returned up to 3.8% higher per standard deviation of ESG score in the mid-and long-term. The study is a cross-sectional analysis of firms with strong ESG ratings, and it suggests that ESG ratings can be a valuable tool for investors to evaluate companies' long-term financial performance.

Despite the increasing interest in the relationship between ESG ratings and company value, further research is still needed, especially in the context of the energy sector in Indonesia. While several studies have explored the impact of ESG performance on firm value and profitability ([Svensson, 2020](#); [Zheng et al., 2022](#)), they have yet to investigate the energy sector explicitly. Therefore, more research is needed that examines the direct relationship between ESG ratings and company value in the energy sector in Indonesia. We propose the following hypothesis:

**H1:** Company value as proxied by Tobin's Q has a positive influence on ESG performance.

**H2:** NPM has a positive influence on ESG performance.

**H3:** GPM has a positive influence on ESG performance.

**H4:** ROA has a positive influence on ESG performance.

**H5:** ROE has a positive influence on ESG performance.

## **METHODS**

We use statistical analysis of empirical data for variables and indicators in this research and also use multiple regression models to research hypotheses. The sample for this paper is an energy sector company listed on the Indonesia Stock Exchange (IDX) for 2015 - 2022. We chose energy sector companies because Indonesia regulates in Law No. 32 of 2009 that energy sector companies are required to comply with applicable environmental regulations. The study is limited to listed companies expected to comply with established regulatory standards. In addition, listed companies tend to prepare their accounting figures according to international accounting practices ([Aydoğmuş et al., 2022](#)). We emphasize that we excluded companies that had recent IPOs in the middle of our research period. To the relevant literature discussed in Section 2, multiple regression analysis was used to help capture some of the variables involved in the study. Additionally, we use cross-sectional regression analysis to examine the empirical data. We have used the data analysis software package in Excel to examine the data through multivariate analysis to obtain descriptive statistics of the total variables, such as mean, SD, minimum, maximum, coefficient of variation, skewness, and kurtosis. Next, we use the correlation method to estimate the relationship between the independent, dependent, and control variables. Multiple linear regression is finally used to test company value against ESG performance.

In addition, we will demonstrate the measurement and use of proxies to measure the firm's value mechanism variables and their relationship to ESG ratings. The selection of variables is based on previous literature ([Zheng et al., 2022](#)) and [Aydoğmuş et al. \(2022\)](#) by considering theoretical and empirical studies. Researchers have used various accounting-based measures to estimate corporate financial performance ([Aydoğmuş et al., 2022](#)). Includes sales, return on assets (ROE), earnings per share, and growth. Accounting-based measures represent historical figures that focus on the management of a company. However, these figures are sometimes distorted to suit management and may not represent reality ([Aydoğmuş et al., 2022](#)). According to [Ahmad et al. \(2021\)](#), operating income, as measured by ROA, is better when examining the relationship between financial performance and corporate governance. For example, leverage, extraordinary items, and other discretionary items do not affect ROA. In addition, other researchers ([Nguyen et al., 2022](#)) have used ROA as an accounting measure. We use ROA in this study based on these factors and previous research. Second, a forward-looking financial market measure, Tobin's Q, is used in this study. The efficient market hypothesis was proposed by ([Fama, 1970](#)), where Tobin's Q captures a firm's existing assets and future growth potential. Tobin's Q also captures investors' expectations

of future events, including evaluations of current business strategies (Avramov et al., 2022; Aydoğmuş et al., 2022; Zheng et al., 2022; Dincă et al., 2022).

The dependent variable of this study is the ESG rating obtained from the Bloomberg value of each firm's value in this study sample. The independent variable in this study uses two measurements, namely Tobin's Q. Tobin's Q is the ratio of the market value of the company's outstanding shares and debt divided by the replacement cost of the company's assets or book value (Aydoğmuş et al., 2022). Furthermore, this paper uses profitability as a control variable, which is measured through net profit margin (NPM), gross profit margin (GPM), return on assets (ROA), and return on equity (ROE). Table 1 below is a summary of the variables used in this research.

**Table 1. Summary of variabel**

Variable Type	Variable Name	Description/Formula	References
Dependent variables	ESG Ratings	ESG Disclosures Scores	Bloomberg
Independent variables	Tobin's Q	Tobin's Q measured as total market value of firm / total assets value	(Aydoğmuş et al., 2022)
Control Variable	NPM	Net Profit Margin = Net Profit / Total Revenue × 100	(Zheng et al., 2022)
	GPM	Gross Profit Margin = Gross Profit / Total Revenue × 100	(Zheng et al., 2022)
	ROA	Return on assets, measured as net income/total assets × 100	(Zheng et al., 2022; Aydoğmuş et al., 2022; Alabdullah et al., 2021)
	ROE	Return on Equity = Net Income / Shareholders' Equity × 100	(Aydoğmuş et al., 2022; Alabdullah et al., 2021)

Based on previous research by authors such as (Kyere & Ausloos, 2021; Aydoğmuş et al., 2022; Dincă et al., 2022), we propose regression models to determine the relationship between suitable ESG performance and firm value. For both, the model equation is:

$$ESG = \beta_0 + \beta_1. Q + \beta_2. ROA + \beta_3. NPM + \beta_4. GPM + \beta_5. ROA + \beta_6. ROE + \epsilon_i$$

## RESULTS AND DISCUSSION

Table 2 shows results providing descriptive statistics for various indicators of company financial performance used in studies related to forming ESG performance. The ESG variable has a sample size of 232, with a minimum value of 10.5, a maximum value of 70.5, a mean of 38.0955, and a standard deviation of 14.41285. Tobin's Q variable has a sample size of 232, with a minimum value of -0.09, a maximum value of 1.53, a mean of 0.7452, and a standard deviation of 0.36764. NPM variable has a sample size of 232, with a minimum value of 11.7, a maximum value of 58.7, a mean of 29.5639, and a standard deviation of 12.12597. GPM variable has a sample size of 232, with a minimum value of 0.9, a maximum value of 21.4, a mean of 7.6972, and a standard deviation of 5.42303. ROA variable has a sample size of 232, with a minimum value of 0.6, a maximum value of 19.4, a mean of 5.7947, and a standard deviation of 4.22195. ROE variable has a sample size of 232, with a minimum value of 1.1, a maximum value of 61.4, a mean of 18.5625, and a standard deviation of 13.14345.

**Table 2. Summary of descriptive statistics (N=232)**

Variables	N	Minimum	Maximum	Mean	Std. Deviation
ESG	232	10.5	70.5	38.0955	14.41285
Q	232	-0.09	1.53	0.7452	0.36764
NPM	232	11.7	58.7	29.5639	12.12597
GPM	232	0.9	21.4	7.6972	5.42303
ROA	232	0.6	19.4	5.7947	4.22195
ROE	232	1.1	61.4	18.5625	13.14345
<b>Valid N (listwise)</b>	<b>232</b>				

In summary, the search results provide descriptive statistics for various financial performance indicators used in studies related to ESG and corporate financial performance. The variables include ESG, Tobin's Q, net profit margin, gross profit margin, return on assets, and equity. The descriptive statistics for each variable include the sample size, minimum value, maximum value, mean, and standard deviation.

**Table 3. Pearson correlation matrix**

Variables		ESG	Q	NPM	GPM	ROA	ROE
<b>ESG</b>	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	232					
<b>Q</b>	Pearson Correlation	-.339**	1				
	Sig. (2-tailed)	0					
	N	232	232				
<b>NPM</b>	Pearson Correlation	.156*	.160*	1			
	Sig. (2-tailed)	0.018	0.015				
	N	232	232	232			
<b>GPM</b>	Pearson Correlation	-0.068	.474**	.785**	1		
	Sig. (2-tailed)	0.3	0	0			
	N	232	232	232	232		
<b>ROA</b>	Pearson Correlation	0.024	.298**	.745**	.925**	1	
	Sig. (2-tailed)	0.717	0	0	0		
	N	232	232	232	232	232	
<b>ROE</b>	Pearson Correlation	0.012	.310**	.828**	.891**	.876**	1
	Sig. (2-tailed)	0.854	0	0	0	0	
	N	232	232	232	232	232	232

\*\* Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

Table 3 shows the Pearson correlation matrix between the variables used in the studies related to ESG and corporate financial performance. The ESG variable is positively correlated with NPM (0.156\*) and weakly negatively correlated with Tobin's Q (-0.339\*\*). Tobin's Q is negatively correlated with ESG (-0.339\*\*) and positively correlated with NPM (0.160\*) and GPM (0.474\*\*). NPM is positively correlated with ESG (0.156\*) and Tobin's Q (0.160\*) and highly positively correlated with GPM (0.785\*\*) and ROE (0.828\*\*). GPM is weakly negatively correlated with ESG (-0.068) and highly positively correlated with NPM (0.785\*\*), ROA (0.925\*\*), and ROE (0.876\*\*). ROA is weakly positively correlated with Tobin's Q (0.298\*\*) and highly positively correlated with NPM (0.745\*\*), GPM (0.925\*\*), and ROE (0.891\*\*). ROE is weakly positively correlated with Tobin's Q (0.310\*\*) and highly positively correlated with NPM (0.828\*\*), GPM (0.876\*\*), and ROA (0.891\*\*).

In summary, the Pearson correlation matrix shows the correlations between the variables used in the studies related to ESG and corporate financial performance. The correlations suggest that ESG has a weak negative relationship with Tobin's Q, and NPM has a positive relationship with ESG and Tobin's Q. GPM and ROA have a highly positive relationship with NPM and ROE. In contrast, Tobin's Q has a weak positive relationship with ROA and ROE.

**Table 4. Model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.405 <sup>a</sup>	0.164	0.149	13.29616	0.164	11.108	4	227	0
2	.436 <sup>b</sup>	0.19	0.172	13.11172	0.027	7.431	1	226	0.007

a. Predictors: (Constant), ROE, NPM, ROA, GPM

b. Predictors: (Constant), ROE, NPM, ROA, GPM, Q

Table 4 shows the results of two linear regression models. The first model, Model 1, has four predictors: ROE, NPM, ROA, and GPM. The second model, Model 2, has five predictors: ROE, NPM, ROA, GPM, and Q. The R-value is a measure of how well the model fits the data. An R-value of 1 indicates a perfect fit, while an R-value of 0 indicates no fit. In this case, the R-value for Model 1 is 0.405, which indicates a moderate fit. The R-value for Model 2 is 0.436, which indicates a slightly better fit than Model 1.

The R Square value measures the proportion of the variance in the response variable that the model explains. An R Square value of 1 indicates that the model explains all of the variance in the response variable, while an R Square value of 0 indicates that the model explains none of the variance. In this case, the R Square value for Model 1 is 0.164, which indicates that the model explains about 16% of the variance in the response variable. The R Square value for Model 2 is 0.190, which indicates that the model explains about 19% of the variance in the response variable. The Adjusted R Square value is similar to the R Square value but considers the number of predictors in the model. An Adjusted R Square value lower than the R Square value indicates the model overfitting the data. In this case, the Adjusted R Square values for Model 1 and Model 2 are 0.149 and 0.172, respectively. This indicates that Model 2 is more balanced with the data as much as Model 1.

The Standard Error Estimate is a measure of the average distance between the predicted values and the actual values. A lower standard error of the estimate indicates that the model is more accurate. In this case, the standard error of the estimate for Model 1 is 13.296, while the standard error for Model 2 is 13.112. This indicates that Model 2 is slightly more accurate than Model 1. The Change Statistics section shows the test results to see if adding the fifth predictor (Q) to Model 1 significantly improved the model fit. The R Square Change value is the difference between the R Square values for Model 1 and Model 2. In this case, the R Square Change value is 0.027, which is a small amount. The F Change value is the F statistic's value for the significance test. The df1 and df2 values are the degrees of freedom for the F statistic. The Sig. F Change value is the p-value for the test of significance. In this case, the p-value is 0.007, which is

less than 0.05. This indicates that adding the fifth predictor to Model 1 was statistically significant. Overall, the model summary table results suggest that Model 2 is a slightly better fit than Model 1. Adding the fifth predictor (Q) to Model 1 significantly improved the model fit.

**Table 5. Linier regression**

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	28.495	2.499		11.404	0.000
NPM	0.673	0.131	0.566	5.131	0.000**
GPM	-2.46	0.482	-0.925	-5.105	0.000**
ROA	1.993	0.573	0.584	3.476	0.001**
ROE	-0.157	0.172	-0.143	-0.913	0.362
(Constant)	35.178	3.476		10.121	0.000**
NPM	0.538	0.139	0.453	3.883	0.000**
GPM	-1.444	0.604	-0.543	-2.391	0.018*
ROA	1.3	0.62	0.381	2.098	0.037*
ROE	-0.157	0.17	-0.143	-0.924	0.357
Q	-8.72	3.199	-0.222	-2.726	0.007*

\*p < 0.05; \*\*p < 0.01.

Table 5 results from multiple regression analysis with the dependent variable being "ESG Performance" and several independent variables including NPM, GPM, ROA, ROE, and Q (Tobin's Q, which measures company value). This table shows the unstandardized coefficients, standardized coefficients (Beta), t values, and p values for each variable in two models (possibly comparing different data sets or scenarios).

Model 1 shows that the constant term (intercept) is 28.495. It represents an estimate of ESG Performance when all independent variables are zero. An increase in NPM of one unit is associated with an ESG Performance of 0.673, assuming other variables remain constant. The standard coefficient (Beta) of 0.566 indicates that NPM has a moderate positive influence on ESG Performance. The t value of 5.131 is highly significant (p < 0.01), indicating that this relationship is statistically significant. An increase in GPM of one unit is associated with a decrease in ESG Performance of -2.46, assuming other variables remain constant. The standard coefficient (Beta) of -0.925 indicates that GPM has a strong negative influence on ESG Performance. The t value -5.105 is highly significant (p < 0.01), indicating statistical significance. An increase in ROA of one unit is associated with an increase in ESG Performance of 1.993, assuming other variables remain constant. The standard coefficient (Beta) of 0.584 indicates that ROA has a moderate positive influence on ESG Performance. The t value of 3.476 is significant at the 0.01 level. ROE does not appear to significantly affect ESG performance because the p-value is 0.362 (greater than 0.05).

This second regression model must be clarified from the table whether it is a different dataset or scenario. Similar interpretations can be made for this model's coefficients of NPM, GPM, ROA, and ROE. However, the coefficients and significance levels may differ. In this model, Tobin's Q has a coefficient of -8.72, suggesting that a one-unit increase in Q is associated with a -8.72 decrease in ESG Performance, holding other variables constant. The standardized coefficient (Beta) of -0.222 suggests a moderate negative effect. The t-value of -2.726 is significant at the 0.01 level.

Our first hypothesis assumed a positive relationship between company value and ESG performance, but the statistical results showed the opposite, meaning the hypothesis was rejected. The negative relationship between Tobin's Q and ESG Performance suggests that companies with higher market valuations may prioritize shareholder value over ESG considerations. A high Q ratio can indicate an

emphasis on maximizing financial returns for shareholders. Research has shown that companies with higher market valuations, as measured by Tobin's Q, may be less interested in engaging in ESG activities, as they may prioritize short-term financial gains over long-term sustainability (Crace & Gehman, 2023; Wang et al., 2023).

The second hypothesis proves where there is a positive relationship between NPM and ESG Performance. The positive relationship between NPM and ESG Performance is consistent with the idea that companies with higher profitability may have more resources to invest in sustainable and socially responsible practices. Higher returns provide the financial capacity to implement ESG initiatives. Previous research shows mixed results regarding the relationship between profitability and ESG performance. Some studies show that profitability positively affects ESG practices, while other studies do not find a significant relationship. Specific context and industry may play a role in this relationship (Zheng et al., 2022 and Velte, 2017).

The third hypothesis states a positive relationship exists between GPM and ESG performance, but the statistical results are negative. The negative relationship between GPM and ESG Performance suggests that companies with higher gross profit margins may face pressure to cut costs, potentially compromising environmental or social responsibilities. A high GPM can indicate cost-cutting measures that may not align with ESG goals. There is a need to conduct more direct research on the relationship between gross profit margin and ESG performance. However, some studies link high-profit margins in specific industries (e.g., extractive industries) with negative environmental and social impacts (Aydoğmuş et al., 2022; Dincă et al., 2022).

In Hypotheses four and five, it is stated that ROA and ROE positively affect ESG performance. However, the statistical results show that ROA has positive results on ESG performance, whereas ROE does not affect ESG performance. The positive relationship between ROA and ESG Performance aligns with the idea that companies with efficient asset utilization are better positioned to invest in sustainable practices. A higher ROA indicates effective resource management. Research shows that companies with better financial efficiency, as measured by ROA, are more likely to engage in ESG activities. This is because efficient use of resources can provide funds for sustainability initiatives (Crace & Gehman, 2023 and Wang et al., 2023). The lack of a significant relationship between ROE and ESG Performance suggests that financial returns to shareholders may not directly impact on a company's ESG initiatives. ROE measures profitability from a shareholder's perspective. Previous research has produced mixed findings regarding the impact of ROE on ESG performance. ROE may have a less direct influence on ESG activities than other financial metrics.

## CONCLUSION

The relationship between ESG ratings and corporate value has garnered global attention. ESG ratings assess a company's performance in these areas and are believed to influence profitability and value. Indonesia, a major energy producer, relies heavily on the energy sector, a key focus for ESG rankings due to its significant greenhouse gas emissions. However, there needs to be more research in understanding this relationship in the Indonesian energy sector. Studies suggest a positive link between ESG performance and corporate value, with high-quality ESG performance attracting media and analyst attention, enhancing awareness and company value. ESG performance also positively impacts firm value and profitability. However, more research is needed, specifically in the energy sector. This study underscores the importance of integrating ESG considerations into business operations and decision-making to boost company value. This includes aligning ESG practices with the overall corporate strategy and optimizing operations. A sustainable and efficient approach improves ESG ratings and long-term growth and profitability. Managers should recognize the impact of financial metrics on company value and ESG performance, emphasizing the need for ESG-aware financial decision-making.

The study finds a negative relationship between Tobin's Q and ESG performance, suggesting that firms with higher market valuations may prioritize shareholder value over ESG concerns. Conversely, a positive relationship between net profit margin (NPM) and ESG performance suggests that more profitable companies may invest in sustainable practices. The negative relationship between gross profit margin (GPM) and ESG performance implies that high-GPM companies may cut costs at the expense of environmental or social responsibility. A positive relationship between return on assets (ROA) and ESG performance indicates that companies with efficient asset utilization invest in sustainability. The absence of a significant relationship between return on equity (ROE) and ESG performance suggests that ROE may not directly impact a company's ESG initiatives. Overall, ESG ratings are crucial for evaluating company performance and value, but more research is needed to explore the relationship between gross profit margin and ESG performance. Higher profitability and efficient asset utilization position companies to invest in sustainable practices, while those with higher market valuations may prioritize shareholder value over ESG considerations. This study highlights the intricate connection between ESG performance and financial metrics and underscores the need for industry-specific analysis. Further research in various sectors can offer deeper insights into this relationship, aiding companies in shaping their sustainability strategies.

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