



# The Effect of Environmental, Social, and Governance (ESG) Performance on Firm Value with Managerial Ownership and Profitability as Moderating Variables (An Empirical Study on Energy Sector Companies Listed on the Indonesia Stock Exchange for the Period 2021–2024)

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## ABSTRACT

This study is motivated by the inconsistent empirical evidence regarding the effect of Environmental, Social, and Governance (ESG) performance on firm value, particularly in the energy sector. This study aims to examine the effect of ESG performance on firm value, with managerial ownership and profitability as moderating variables. The sample consists of 121 energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. Using a quantitative approach, this study employs secondary data obtained from annual reports and sustainability reports. The data were analyzed using SPSS version 25 through descriptive statistical analysis, classical assumption tests, and hypothesis testing. The results indicate that ESG performance has a significant negative effect on firm value, while managerial ownership and profitability have a significant positive effect on firm value. Furthermore, managerial ownership and profitability moderate the relationship between ESG performance and firm value by weakening the negative effect of ESG performance on firm value. These findings suggest that managerial ownership and profitability play an important role in mitigating the adverse impact of ESG performance on firm value in energy sector companies.

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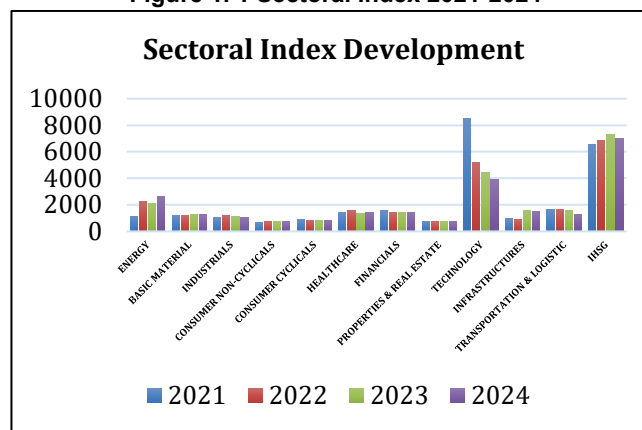
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## INTRODUCTION

Firm value is one of the key indicators used by investors to assess a company's performance and future prospects (Ida Ayu Putu & Devi, 2024). The higher the firm value, the greater the level of investor confidence in the company's ability to generate economic value in the future (Meini et al., 2024). In the capital market, changes in firm value are often reflected in stock price movements. The Jakarta Composite Index (IHSG) serves as the primary indicator of stock market performance on the Indonesia Stock Exchange (IDX), where listed companies are classified into 11 sectoral indices

according to the Indonesia Capital Market Statistics (SPMI). In the energy sector, firm value developments can be observed through the movement of the sectoral energy index. Based on SPMI data, the energy sector index increased by 102.30% in 2022, declined by 7.85% in 2023, and rose again by 26.50% in 2024. These fluctuations indicate that firm value in the energy sector is influenced by various factors, including both financial and non-financial factors.

**Figure 1. 1 Sectoral Index 2021-2024**

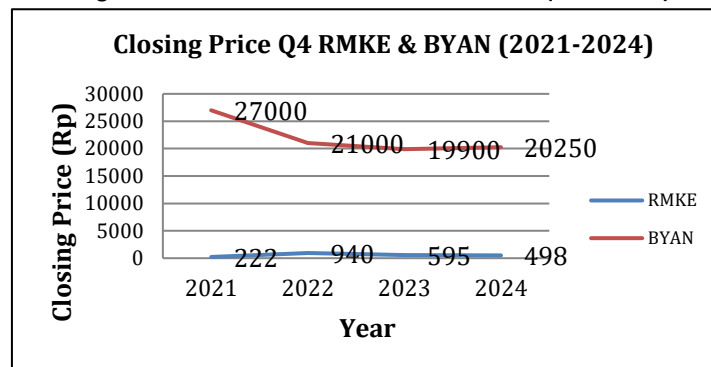


Source: Indonesia Capital Market Statistics (SPMI)

One of the non-financial determinants that has gained increasing attention from investors is Environmental, Social, and Governance (ESG) performance (Aydoğmuş et al., 2022). ESG represents a framework for evaluating a company's commitment to sustainable environmental, social, and governance practices (Huang & Zhou, 2024). The growing importance of ESG has been driven by heightened investor awareness of responsible and sustainable business conduct. In Indonesia, this commitment to sustainability is supported by Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies, which requires and encourages companies to disclose sustainability reports as a means of enhancing transparency and accountability toward stakeholders.

The influence of ESG on investor perceptions can be illustrated by developments in several Indonesian energy companies, including RMKE and BYAN. RMKE's share price increased significantly from IDR 222 in 2021 to IDR 940 in 2022, before declining to IDR 595 in 2023 and IDR 498 in 2024. This decline occurred alongside heightened public attention to alleged environmental violations, which may have contributed to adverse market sentiment. Likewise, BYAN experienced a decline in its share price from IDR 27,000 in 2021 to IDR 21,000 in 2022 and further to IDR 19,900 in 2023. During this period, the company faced public scrutiny regarding land disputes, transparency in concession acquisition processes, and the effectiveness of its corporate social responsibility initiatives (Kiflan, 2023). These developments suggest that environmental, social, and governance considerations play an increasingly important role in investors' assessment of corporate risk and long-term prospects, ultimately affecting firm value (Chi et al., 2024).

**Figure 1. 2 RMKE and BYAN Stock Price Trends (2021–2024)**



Source: Annual Reports

The relationship between ESG performance and firm value remains inconclusive in the existing literature. Several studies, including those conducted by (Rahmawati, 2024) and (Oktadewi & Diantini, 2025), found that ESG performance has a negative effect on firm value, as ESG implementation is perceived to increase operational costs and reduce short-term profitability. In contrast, other studies, such as Duan et al. (2023) and Setioko (2024), reported a positive effect of ESG performance on firm value, arguing that ESG practices enhance corporate reputation, transparency, and investor confidence. These inconsistent findings suggest that additional factors may influence the relationship between ESG performance and firm value. According to Agency Theory, conflicts of interest between managers and shareholders may give rise to information asymmetry, which can affect investors' evaluations of a company (Jensen & Meckling, 1976). ESG implementation can help mitigate information asymmetry by enhancing corporate transparency and accountability (Yu & Xiao, 2022). In addition, managerial ownership may align the interests of managers with those of shareholders, while profitability reflects a firm's ability to support and sustain ESG initiatives over time. Therefore, ESG performance, managerial ownership, and profitability are expected to play important roles in influencing firm value. Accordingly, this study aims to examine the effect of ESG performance on firm value, with managerial ownership and profitability serving as moderating variables, in energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Theoretical and Conceptual Background

#### Agency Theory

Agency theory (Jensen & Meckling, 1976) explains that conflicts of interest and information asymmetry may arise between shareholders and managers. In this study, managerial ownership aligns the interests of both parties, while profitability reflects management's effectiveness in utilizing company resources. These factors are expected to influence the relationship between ESG performance and firm value.



### Firm Value

Firm value is investors' perception of a company's success as reflected in its market stock price (Nabit & Helmy, 2025). Firm value reflects a company's ability to create value for shareholders and indicates the company's future growth prospects and performance. The higher the firm value, the higher the level of investor confidence in the company (Angela & Rusmanto, 2025). In this study, firm value is measured using the Price to Book Value (PBV) ratio, which compares the market price of a stock to its book value per share.

$$PBV = \frac{\text{Market Price per Share}}{\text{Book Value per Share}}$$

### Environmental, Social, Governance (ESG) Performance

Environmental, Social, and Governance (ESG) is a framework that reflects a company's commitment to managing environmental, social, and governance aspects as part of sustainable business practices (Zheng, 2025). ESG performance indicates the extent to which sustainability principles are integrated into corporate operations and strategies (Zhang et al., 2024). In this study, ESG performance is measured using the Sustainability Reporting Disclosure Index (SRDI) based on the Global Reporting Initiative (GRI) Standards (Ayu et al., 2024).

$$SRDI = \frac{\text{Disclosed items}}{\text{Expected items}}$$

### Managerial Ownership

Managerial ownership refers to the proportion of a company's shares held by management relative to the total number of outstanding shares (Sari et al., 2025). Managerial ownership reflects the level of management's involvement as both owners and managers of the company. The greater the share ownership by management, the higher the incentive to improve company performance and maximize company value (Kulo et al., 2023).

$$MOWN = \frac{\text{Number of Shares Owned by Management}}{\text{Total Outstanding Shares}}$$

### Profitability

Profitability refers to a company's ability to generate profits through the utilization of its resources (Rasyad et al., 2024). Profitability reflects the effectiveness of a company's performance in managing assets to generate profits and serves as a key

$$ROA = \frac{\text{Net income}}{\text{Total asset}} \times 100 \%$$

indicator in assessing a company's financial condition (Hasanah & Paramita, 2025). A high level of profitability indicates that a company is able to manage its assets efficiently, thereby generating optimal profits.

### **Empirical Review and Hypothesis Development**

#### **The Effect of Environmental, Social, and Governance (ESG) Performance on Firm Value**

Agency theory suggests that ESG implementation often requires substantial costs that may reduce short-term financial performance and negatively affect investor perceptions when the benefits are not immediately realized (Behl et al., 2022). Consequently, ESG performance may reduce firm value. This argument is supported by Oktadewi and Diantini (2025) and Jeanice and Kim (2023), who found a negative relationship between ESG performance and firm value.

**H<sub>1</sub>: ESG performance has a negative effect on firm value.**

#### **The Effect of Managerial Ownership on Firm Value**

Agency theory suggests that managerial ownership reduces conflicts of interest between managers and shareholders by aligning their interests. Managers who hold company shares are more motivated to improve performance and enhance firm value. Therefore, higher managerial ownership is expected to increase firm value. This argument is supported by Fadli et al. (2025) and Nur Laksana and Ashari (2024), who found a positive effect of managerial ownership on firm value.

**H<sub>2</sub>: Managerial ownership has a positive effect on firm value.**

#### **The Effect of Profitability on Firm Value**

Agency theory suggests that profitability reflects management's effectiveness in utilizing corporate resources to generate returns for shareholders. Higher profitability enhances investor confidence in the company's future prospects, which may increase demand for its shares and ultimately improve firm value. Empirical evidence from Utami et al. (2025) supports the positive effect of profitability on firm value.

**H<sub>3</sub>: Profitability has a positive effect on firm value.**

#### **The Moderating Role of Managerial Ownership on the Relationship Between ESG Performance and Firm Value**

Agency theory suggests that managerial ownership reduces conflicts of interest between managers and shareholders by aligning their interests. In the context of ESG implementation, managers who hold company shares have stronger incentives to manage ESG activities efficiently and minimize their negative impact on firm value. Therefore, higher managerial ownership is expected to weaken the negative effect of ESG performance on firm value. This argument is supported by Wu et al. (2022), who found that ownership structure weakens the negative relationship between ESG performance and firm value.

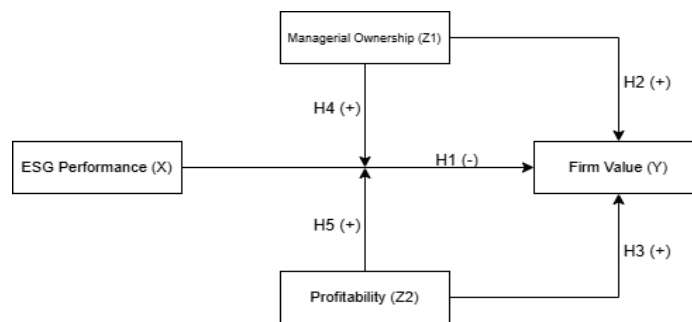
**H<sub>4</sub>: Managerial ownership weakens the relationship between ESG performance and firm value.**

### The Moderating Role of Profitability on the Relationship Between ESG Performance and Firm Value

Agency theory suggests that profitability reflects management’s ability to utilize corporate resources effectively. Firms with higher profitability have greater financial capacity to support ESG initiatives without significantly affecting financial performance, thereby reducing investor concerns regarding ESG-related costs (Melina & Endri, 2025). As a result, profitability is expected to weaken the negative effect of ESG performance on firm value. This argument is supported by Oktadewi and Diantini (2025), who found that profitability moderates the relationship between ESG performance and firm value.

**H<sub>5</sub>: Profitability weakens the relationship between ESG performance and firm value.**

Figure 2. 1 Research Model



### METHODOLOGY

This study employs a quantitative approach to examine the effect of ESG performance on firm value, with managerial ownership and profitability serving as moderating variables. The population consists of energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. The sample was selected using a purposive sampling technique based on the criterion that companies must publish complete annual reports and sustainability reports throughout the observation period. The study utilizes secondary data obtained from annual reports and sustainability reports accessed through the IDX website and the official websites of the respective companies. Data were collected through documentation and literature review methods using various sources relevant to the research topic. Furthermore, the data were analyzed using multiple linear regression and Moderated Regression Analysis (MRA) to investigate the effect of ESG performance on firm value while examining the moderating roles of managerial ownership and profitability.

$$PBV_{it} = \alpha + \beta_1 ESGP_{it} + \beta_2 MOWN_{it} + \beta_3 ROA_{it} + \epsilon \quad (1)$$

$$PBV_{it} = \alpha + \beta_1 ESGP_{it} + \beta_2 ESGP_{it} * MOWN_{it} + \beta_3 ESGP_{it} * ROA_{it} + \epsilon \quad (2)$$

Information :

- $\alpha$  = Constant (Intercept)
- $\beta_1$ -  $\beta_3$  = Regression Coefficients
- $\varepsilon$  = Error term
- PBV = Firm Value
- ESGP = ESG Performance
- MOWN = Managerial Ownership
- ROA = Profitability

## RESULTS AND DISCUSSIONS

### Data Analysis

#### Descriptive Statistical Analysis

**Table 4. 1 Descriptive Statistics Results**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ESG Performance	121	0	0,9186	0,351721	0,2312575
Firm Value	121	0,0259	21,7447	1,825122	2,869411
Managerial Ownership	121	0	0,6867	0,075323	0,1437915
Profitability	121	0,4337	45,4267	11,60965	10,0640106
Valid N (listwise)	121				

The descriptive statistical results in Table 4.1 are based on 121 observations. ESG performance shows a mean of 0.351721 with a standard deviation of 0.2312575, indicating a moderate level of implementation. Firm value has a mean of 1.825122 and a standard deviation of 2.869411, reflecting variation in market valuation across firms. Managerial ownership records a mean of 0.075323 with a standard deviation of 0.1437915, indicating a relatively low and varying ownership proportion. Profitability has a mean of 11.60965 and a standard deviation of 10.0640106, suggesting generally good profit-generating ability. Overall, the results indicate variation in the characteristics of the sampled companies over the study period.

- **Classical Assumption Tests**

#### 1. Normality Test

**Table 4. 2 Normality Test Results**

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		121
Normal Parameters <sup>a,b</sup>	Mean	0,0000000
	Std. Deviation	0,70357694
Most Extreme Differences	Absolute	0,070
	Positive	0,070
	Negative	-0,069
Test Statistic		0,070
Asymp. Sig. (2-tailed)		0,200 <sup>c,d</sup>

The normality test results in Table 4.2 show that all variables are normally distributed, as indicated by an Asymp. Sig. (2-tailed) value of 0.200, which is above the 0.10 significance level. This result was achieved after applying a natural logarithm transformation to improve data distribution and conducting outlier detection and treatment using SPSS. Consequently, the number of observations was reduced from 124 to 121, and the data met the normality assumption.

## 2. Multicollinearity Test

**Table 4. 3 Multicollinearity Test Results**

Coefficients <sup>a</sup>			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ESG Performance	0,784	1,276
	Managerial Ownership	0,780	1,282
	Profitability	0,991	1,009

The multicollinearity test results presented in Table 4.3 indicate that none of the variables exhibit multicollinearity issues. This is evidenced by the Tolerance values exceeding 0.10 and the Variance Inflation Factor (VIF) values remaining below 10 for all variables. Therefore, the regression model is considered free from multicollinearity problems and is suitable for further analysis.

## 3. Heteroscedasticity Test

**Table 4. 4 Heteroscedasticity Test Results**

Coefficients <sup>a</sup>		
Model		Sig.
1	(Constant)	0,000
	ESG Performance	0,358
	Managerial Ownership	0,161
	Profitability	0,984

a. Dependent Variable: ABS RES

The heteroscedasticity test results using the Glejser method, as presented in Table 4.4, indicate that the regression model does not exhibit heteroscedasticity. This is evidenced by the significance values of all variables, which are greater than 0.10. Therefore, the regression model satisfies the homoscedasticity assumption and is appropriate for further analysis.

## 4. Autocorrelation Test

**Table 4. 5 Autocorrelation Test Results**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,628 <sup>a</sup>	0,394	0,378	0,71254	1,769

The autocorrelation test results presented in Table 4.5 show a Durbin–Watson (DW) statistic of 1.769. This value falls within the range of  $DU < DW < (4 - DU)$ , specifically  $1.754 < 1.769 < 2.246$ , indicating that the regression model does not suffer from autocorrelation. Therefore, the independence assumption of the residuals is satisfied.

- **Model Fit Test**

**1. Coefficient of Determination (R<sup>2</sup>) Test**

**Table 4. 6 Determination Coefficient Test (R<sup>2</sup>) Results**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,628 <sup>a</sup>	0,394	0,378	0,71254

The coefficient of determination results presented in Table 4.6 show an Adjusted R-squared value of 0.378. This indicates that the independent variables included in the research model explain 37.8% of the variation in firm value, while the remaining 62.2% is attributable to other factors not incorporated in the model.

**2. Goodness of Fit (F-Test)**

**Table 4. 7 Goodness of Fit Test Results**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38,600	3	12,867	25,343	,000 <sup>b</sup>
	Residual	59,402	117	0,508		
Total		98,003	120			

The F-test results in Table 4.7 show a calculated F-value of 25.343 with a significance level of 0.000 ( $< 0.01$ ). These results indicate that ESG performance, managerial ownership, and profitability simultaneously have a significant effect on firm value.

- **Hypotheses Test**

**1. Partial Test (t-Test)**

**Table 4. 8 Partial Test (t-Test) Results**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0,317	0,162		-1,954	0,053
	ESG Performance	-0,581	0,318	-0,149	-2,830	0,070
	Managerial Ownership	1,889	0,512	0,301	3,689	0,000
	Profitability	0,042	0,006	0,472	6,531	0,000

Based on the t-test results presented in Table 4.8, ESG performance shows a t-statistic of -2.830 with a significance level of 0.070 ( $< 0.10$ ), indicating a negative and significant effect on firm value. Managerial ownership has a t-statistic of 3.689 with a significance level of 0.000 ( $< 0.01$ ), indicating a positive and significant effect on firm value. Meanwhile, profitability records a t-statistic of 6.531 with a significance level of 0.000 ( $< 0.01$ ), also indicating a positive and significant effect on firm value.

## 2. Moderated Regression Analysis (MRA)

**Table 4. 9 Moderated Regression Analysis (MRA) Results**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
		1	(Constant)	0,470		
	ESG Performance	-2,160	0,366	-0,553	-5,905	0,000
	ESGP*MOWN	5,418	2,052	0,206	2,641	0,009
	ESGP*ROA	0,083	0,016	0,479	5,095	0,000

Based on the results of the Moderated Regression Analysis (MRA) presented in Table 4.9, managerial ownership as a moderating variable has a t-statistic of 2.641 with a significance level of 0.009 ( $< 0.01$ ), indicating that it significantly moderates the effect of ESG performance on firm value. Similarly, profitability as a moderating variable shows a t-statistic of 5.095 with a significance level of 0.000 ( $< 0.01$ ), indicating that it also significantly moderates the effect of ESG performance on firm value.

## Discussion

### The Effect of Environmental, Social, and Governance (ESG) Performance on Firm Value

The results provide evidence that ESG performance significantly influences firm value, as indicated by a t-statistic of -2.830 and a p-value of 0.070 (significant at the 10% level). The negative regression coefficient of -0.581 further confirms a negative relationship between ESG performance and firm value, thereby supporting H1. From an Agency Theory perspective, ESG activities may increase short-term costs, leading investors to perceive lower immediate returns when long-term benefits are not yet visible, which can reduce firm value. These findings are consistent with Oktadewi and Diantini (2025), who also report a negative relationship between ESG performance and firm value, indicating that investors tend to prioritize short-term financial performance over long-term ESG benefits.

### The Effect of Managerial Ownership on Firm Value

The results provide evidence that managerial ownership has a statistically significant positive effect on firm value, as shown by a t-statistic of 3.689 and a p-value of 0.000 (significant at the 1% level). The positive coefficient of 1.889 indicates that higher managerial ownership increases firm value, thereby supporting H2. From an

Agency Theory perspective, managerial ownership aligns managers' and shareholders' interests, reducing agency conflict and information asymmetry while strengthening managerial commitment and investor confidence, which ultimately increases firm value. These findings are consistent with Fadli et al. (2025), who also report a positive relationship between managerial ownership and firm value.

### **The Effect of Profitability on Firm Value**

The results provide evidence that profitability has a statistically significant positive effect on firm value, as shown by a t-statistic of 6.531 and a p-value of 0.000 (significant at the 1% level). The positive coefficient of 0.042 indicates that higher profitability increases firm value, thereby supporting H3. From an Agency Theory perspective, profitability reflects management's effectiveness in generating returns and maximizing shareholder wealth. Strong profitability also reduces information asymmetry, strengthens investor confidence in future prospects, and increases demand for the company's shares, ultimately raising firm value. These findings are consistent with Utami et al. (2025), who also report a positive relationship between profitability and firm value.

### **The Moderating Role of Managerial Ownership on the Relationship Between ESG Performance and Firm Value**

The results indicate that the interaction term between ESG performance and managerial ownership yields a t-statistic of 2.641 with a p-value of 0.009, which is significant at the 1% level. Therefore, managerial ownership is found to significantly moderate the relationship between ESG performance and firm value. Accordingly, the fourth hypothesis (H4) is supported. The findings further suggest that managerial ownership mitigates the negative effect of ESG performance on firm value. From the perspective of Agency Theory, managerial ownership serves as a governance mechanism that aligns the interests of managers with those of shareholders. When managers hold equity stakes in the company, they are more likely to make decisions that maximize shareholder wealth, as they directly share in the benefits and risks associated with corporate actions. Consequently, ESG initiatives may be implemented more efficiently and strategically, reducing the likelihood that ESG-related expenditures will adversely affect firm value. These findings are consistent with those reported by Wu et al. (2022), who found that managerial ownership weakens the negative relationship between ESG performance and firm value. This evidence suggests that higher levels of managerial ownership enhance the effectiveness of ESG implementation by encouraging management to balance sustainability objectives with shareholder interests. As a result, the adverse impact of ESG performance on firm value becomes less pronounced as managerial ownership increases.

### **The Moderating Role of Profitability on the Relationship Between ESG Performance and Firm Value**

The results indicate that the interaction term between ESG performance and profitability yields a t-statistic of 5.095 with a p-value of 0.000, indicating statistical significance at the 1% level. Therefore, profitability is found to significantly moderate

the relationship between ESG performance and firm value. Accordingly, the fifth hypothesis (H5) is supported. The findings further suggest that profitability mitigates the negative effect of ESG performance on firm value. From the perspective of Agency Theory, profitability reflects management's effectiveness in utilizing corporate resources to generate returns for shareholders. Firms with higher profitability generally possess stronger financial capacity to undertake ESG initiatives without placing substantial pressure on their financial performance. Consequently, investors may perceive ESG-related expenditures as strategic investments rather than financial burdens, which can enhance investor confidence and reduce the adverse impact of ESG performance on firm value. These findings are consistent with those reported by (Oktadewi & Diantini, 2025), who found that profitability weakens the negative relationship between ESG performance and firm value. This evidence suggests that profitable firms are better positioned to absorb the costs associated with ESG implementation while maintaining strong financial performance. As a result, the negative effect of ESG performance on firm value becomes less pronounced as profitability increases.

### **CONCLUSION**

This study investigates the effect of Environmental, Social, and Governance (ESG) performance on firm value, with managerial ownership and profitability acting as moderating variables, among energy sector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The findings indicate that ESG performance has a negative and significant effect on firm value, suggesting that the market may still perceive ESG implementation as a short-term cost burden rather than an investment capable of generating immediate economic benefits. In contrast, managerial ownership and profitability have positive and significant effects on firm value, indicating that stronger managerial alignment with shareholders' interests and higher profitability contribute to greater market confidence and firm valuation. Furthermore, the results reveal that managerial ownership and profitability significantly weaken the negative effect of ESG performance on firm value. This finding implies that companies with higher managerial ownership and stronger financial performance are better positioned to implement ESG initiatives efficiently and absorb the associated costs, thereby reducing negative market perceptions of ESG-related investments. Consequently, the adverse impact of ESG performance on firm value becomes less pronounced. This study contributes to the existing literature by providing empirical evidence that the relationship between ESG performance and firm value is contingent upon internal corporate characteristics, particularly managerial ownership and profitability. The findings also offer practical implications for managers and investors, emphasizing the importance of integrating sustainability initiatives with effective governance mechanisms and strong financial performance to maximize firm value. Despite these contributions, this study has several limitations. Future research is encouraged to incorporate additional variables that may influence firm value, examine companies from different industry sectors, and employ longer observation periods to enhance the robustness, comprehensiveness, and generalizability of the findings.

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