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Industry Sensitivity as a Moderator of the Effect of Environmental, Social, and Governance (ESG) Performance on Company Value

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Abstract
The study explores the influence of Environmental, Social, and Governance (ESG) performance on company value, with a focus on non-financial companies listed on the Indonesia Stock Exchange (IDX) between 2014 and 2023. This research aims to evaluate both the individual and combined impact of ESG dimensions on company value and to assess whether industry sensitivity moderates these effects. Using panel data regression and moderated regression analysis (MRA), the study analyzes the relationship between ESG performance, company value, and industry characteristics. The results indicate that ESG performance, both collectively and individually, has a significant negative effect on company value. This suggests that increases in ESG performance are associated with a decrease in company value. However, industry sensitivity was found to positively moderate the relationship, especially in sectors with higher environmental sensitivity, where the negative impact of ESG on company value tends to weaken, or even become positive. The study highlights the need for strategic ESG implementation, considering both long-term sustainability and market perceptions. This research contributes to understanding the dynamics between ESG performance and company value, particularly in the context of Indonesia's non-financial sector.

INTRODUCTION

The digitalization and globalization era that we are currently experiencing has led to rapid advancements in the business world. This situation has resulted in increasingly competitive competition among companies within their industries. Companies need to prepare various strategies to face these challenges, such as conducting research and development, formulating strategies, innovating products or services, and most importantly, increasing capital. Companies have various sources of funding to increase their capital, one of which is from third parties, including creditors and investors (Gitman et al., 2015). To attract the interest of creditors and investors to invest capital, companies must enhance their value.

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The value of a company reflects the investor's perception of its performance and prospects, which is generally associated with the stock price in the market. Gitman (2006) explains that the value of a company is the real value per share that would be received if the company's assets were sold at the prevailing market price. Additionally, Chabacib et al. (2020) emphasize that the company's value also reflects how the public perceives the company's performance, which is reflected in the market's supply and demand for its shares (Chabachib et al., 2019).

In line with this view, Firmansyah and Hidayati (2023) state that a company's value can be defined as market value, as an increase in stock price will lead to an increase in shareholder wealth (Firmansyah, 2023). This is also supported by Brigham and Houston (2011), who explain that a high stock price reflects investors' expectations of future profits, indicating that the company is capable of delivering optimal returns through profit growth, good risk management, and effective business strategies (Brigham & Houston, 2019).

Several studies have discussed the factors influencing company value through previous research (Al-Slehat, 2020; Bachiller et al., 2021; Jihadi et al., 2021; Sondakh, 2019; Zuhroh, 2019). Based on the findings, financial variables such as activity ratios (Jihadi et al., 2021), profitability and liquidity ratios (Zuhroh, 2019; Sondakh, 2019; Jihadi et al., 2021), leverage ratios (Zuhroh, 2019; Jihadi et al., 2021), company size (Zuhroh, 2019; Sondakh, 2019; Al-Slehat, 2019), asset structure (Al-Slehat, 2019), and financial derivative policies (Boubaker et al., 2020) have a significant positive effect on company value.

However, in recent years, research on company value has expanded by incorporating non-financial variables to examine factors affecting company value. Research by (Bardos et al., 2020; Elbardan et al., 2023) has included the variable of Corporate Social Responsibility (CSR). The results indicate that CSR has a positive impact on company value. Furthermore, research by (Al Azizah et al., 2024; Assidi, 2023; Worokinasih & bin Mohamad Zaini, 2020) has considered the variable of Corporate Governance (CG). Their studies also show that CG positively influences company value. However, research combining aspects of corporate social responsibility (CSR), corporate governance (CG), and environmental (E) factors is still limited.

Investor perceptions today increasingly encompass environmental (E) aspects when evaluating a company's success. The growing attention to various environmental issues such as climate change, floods, landslides, global warming, pollution, deforestation, water quality degradation, waste, and biodiversity loss (Ali et al., 2018; Bebbington & Williams, 2008) has made investors more aware of the importance of collaboration across all sectors, including the private sector, to address these environmental challenges.

The private sector or companies with social and environmental exposure need to take strategic actions through good corporate governance to address sustainability issues. Companies must make sustainability efforts to achieve sustainable development goals (UNDP, 2021). The main objective of sustainable development is to improve the welfare of society by meeting their needs and aspirations. According to the Brundtland Commission (1987), sustainability is defined as development that meets present needs without compromising the ability of future generations to meet their own needs (United Nations, 1987).

John Elkington introduced the Triple Bottom Line concept in 1994 to provide a more holistic framework for investors to assess corporate success. The Triple Bottom Line emphasizes that a company's success is measured not only by financial profit but also by its social (people) and environmental (planet) impacts, with the goal of achieving a balance between economic growth, social welfare, and environmental protection (Slaper & Hall, 2011).

This principle is increasingly relevant in the context of global commitments to sustainable development, including actions taken by various countries, including Indonesia. Indonesia is committed to sustainable development through various global initiatives and domestic regulations. One strategic step taken is involvement in the Paris Agreement, where Indonesia has committed to reducing greenhouse gas emissions by 29% independently and up to 41% with international support by 2030. This commitment aligns with the Sustainable Development Goals (SDGs) aimed at balancing economic growth, social welfare, and environmental conservation.

In line with this commitment, the Indonesian government issued Presidential Regulation (Perpres) No. 59 of 2017 regarding the implementation of Sustainable Development Goals (SDGs). This regulation sets the national strategy for achieving SDGs, including sustainability policies in the business and financial sectors. This step reflects how the Triple Bottom Line concept is not just a theoretical framework but also implemented in national policy to create more sustainable economic development.

Internationally, the Organisation for Economic Co-operation and Development (OECD, 2018) has responded to the importance of sustainability by developing sustainability reports as transparency tools for investors. These reports allow investors to understand the social, environmental, and economic impacts of a company's activities and the strategies implemented to address sustainability challenges. Sustainability reports also assist investors in making decisions based on a holistic assessment of company performance and potential in the context of sustainability, aligned with the Triple Bottom Line principles.

The Indonesian government, through the Financial Services Authority (OJK), mandated the disclosure of sustainability reports for companies since 2019. This policy is regulated under OJK Regulation No. 51/POJK.03/2017 regarding the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies, and further reinforced by OJK Circular Letter No. 16/SEOJK.04/2021 regarding the annual report preparation standards for companies.

The sustainability report disclosure covers three main aspects: economy, social, and environment. Previously, market players tended to base their investment decisions solely on financial performance or economic factors. However, today, their attention has expanded to include non-financial factors, namely social and environmental aspects. Therefore, sustainability reports encompass three key non-financial factors, social and environmental, supported by governance to improve the effectiveness of the company’s sustainability performance. The integration of these three aspects is referred to as ESG (Environmental, Social, and Governance).

ESG is a metric used to assess the extent to which a company operates sustainably and responsibly (Serafeim & Yoon, 2022). The concept of ESG was introduced in the United Nations Principles of Responsible Investment report, which proposed that investors consider ESG scores as an important factor in investment decisions (Yoon et al., 2018). ESG emphasizes the importance of sustainable development, focusing on three main aspects: environment, social, and corporate governance (Ministry of Finance of the Republic of Indonesia, 2020). According to Aydoğmuş et al. (2022), the environmental aspect evaluates how business operations impact the environment, such as natural resource conservation, carbon emission reduction, and waste management (Aydoğmuş et al., 2022). Every company uses energy and resources, and every company affects and is affected by the environment.

Furthermore, Aydoğmuş et al. (2022) explain that the social aspect focuses on how a company builds and manages relationships with individuals and communities around it, including addressing issues such as social justice, diversity, human rights, as well as employee and community welfare. The social aspect includes the relationships a company builds and its reputation among the public and community organizations where it operates. Additionally, the social aspect also includes labor relations, diversity, and inclusion.

Lastly, the governance aspect evaluates how the company is managed (Aydoğmuş et al., 2022). This includes principles such as ethics, transparency, and accountability in decision-making processes. A company needs to have a strict code of ethics, avoid conflicts of interest, and steer clear of unethical practices to ensure good governance. Transparency in decision-making, financial reporting, and ownership structure is crucial.

In recent years, ESG-based investments in Indonesia have increased significantly. The number of ESG-themed mutual funds and ETFs (Exchange-Traded Funds) managed has significantly increased since their first launch in 2014. According to data collected by the Financial Services Authority (OJK, 2021), in December 2020, there were 14 ESG-based mutual funds and ETFs with an Asset Under Management (AUM) of IDR 3.062 trillion. This figure has increased compared to the previous year, 2019, which recorded 10 ESG-based mutual funds and ETFs with an AUM of around IDR 1.776 trillion. This upward trend has continued in recent years.

Therefore, business actors are expected to better understand the importance of implementing ESG practices, considering the growing attention from investors towards companies focused on ESG management. Moreover, to provide information to investors and other stakeholders regarding the implementation of ESG practices, companies need to disclose ESG performance. This disclosure is expected to be appreciated by all stakeholders, providing added value to the company and ultimately increasing its value (Nofrian & Sebrina, 2024).

Several previous studies have investigated the influence of ESG disclosure on company value (Abdi et al., 2022; Adhi & Cahyonowati, 2023; Kartika et al., 2023; Sadiq et al., 2020; Toti & Johan, 2022; Zhou et al., 2022). Research by Aydoğmuş et al. (2022) shows that ESG performance disclosure has a positive and significant relationship with company value, measured using the Tobin's Q ratio. Furthermore, Zhou et al. (2022) reported similar findings, with company value measured using market capitalization. Consistent findings were also obtained by Adhi & Cahyonowati (2023), who used the market-to-book ratio to measure company value.

Based on the findings from the previous studies, it can be defined that companies with better ESG performance tend to have higher company values compared to those with low ESG performance. However, on the other hand, there are some studies that challenge these findings, showing different results regarding the influence of ESG performance on company value measured using Tobin's Q ratio (Sadiq et al., 2022; Abdi et al., 2021; Kartika et al., 2023; Toti et al., 2022).

Sadiq et al. (2020) conducted research on a number of companies listed on the Malaysian Stock Exchange and found that ESG disclosure that was considered non-transparent (greenwashing) had a negative effect on company value. According to the explanation in their research, this result occurs because investors tend to evaluate a company's value based on its reputation, operational environment, and revenue growth. Therefore, if ESG disclosure does not reflect good performance in these aspects, investors tend to view the ESG disclosure as non-transparent, negatively affecting company value.

Next, Kartika et al. (2023) studied the effect of each ESG performance indicator separately on company value. This study, conducted on companies listed on the Indonesia Stock Exchange (IDX), found that Environmental and Governance performance contributed positively to company value, while Social performance did not show a significant impact. Similarly, Abdi et al. (2021) and Toti et al. (2022) also studied the relationship between each ESG aspect and company value. Their research revealed that the Environmental and Social indicators had a negative impact on company value, while Governance indicators had a positive effect.

The findings from previous research show inconsistencies regarding the relationship between ESG performance and company value. To better understand this inconsistency, this study was conducted as a follow-up to explore further the relationship between ESG and company value.

To deepen the analysis, this study includes a moderating variable, industry sensitivity. This variable was selected based on previous research by Bing & Li (2019), Nofrian et al. (2024), and Qureshi et al. (2020), which shows that industry sensitivity can play a role as a driving factor in the implementation of ESG practices (Bing & Li, 2019; Qureshi et al., 2020).

The presence of industry sensitivity as a moderating variable aims to understand how ESG can influence company value. Industry sensitivity refers to the extent to which a company's operational activities directly impact its surrounding environment (Yovina, 2018). Industries with high sensitivity are those at high risk of facing criticism regarding environmental issues, as their operations may cause significant impacts, such as excessive exploitation of natural resources or environmental pollution (Branco & Rodrigues, 2008).

Companies operating in industries with high environmental risks generally face greater pressure from stakeholders, including regulators and investors, to implement more stringent sustainability practices (Nofrian et al., 2024). This pressure encourages them to improve their ESG performance to maintain their reputation, attract investors, and ensure long-term business sustainability (Bing & Li, 2019).

On the other hand, industries with lower environmental risks, such as the service and technology sectors, tend to face less pressure. Thus, industry sensitivity not only becomes a distinguishing factor in ESG implementation but also plays a role in strengthening the relationship between ESG and company value. Therefore, including industry sensitivity as a moderating variable in this study is crucial to provide a more comprehensive understanding of ESG dynamics across different industrial sectors.

Regarding the geographical scope, research on sustainability issues related to optimizing company value in developing countries is still relatively scarce compared to developed countries (Khan, M., Serafeim, G., & Yoon, A. 2015). Therefore, there is an urgent need for further research that can explore how companies in developing countries manage sustainability issues reflected in ESG performance and their impact on company value. This is important because the economic, social, environmental, and regulatory contexts in developing countries can differ significantly from those in developed countries.

Thus, this study is conducted in Indonesia, a developing country, focusing on non-financial sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2014 – 2023. The selection of the non-financial sector as the unit of analysis is based on a more relevant and measurable comparison of company values. Non-financial companies generally have more varied asset structures, income sources, and value determinants than financial companies. In the financial sector, company value is often more influenced by external factors such as banking regulations, interest rates, and risk management, which can lead to inconsistencies in measuring company value compared to other sectors. Therefore, excluding the financial sector allows this study to focus more on analyzing the impact of internal company factors on market value without being influenced by the unique dynamics of the financial industry.

Moreover, the non-financial sector more directly reflects the impact of company operations on market value, given its dependence on production factors, supply chains, and environmental exposure. Companies in this sector have a close relationship between business policies and economic value creation, which makes it easier to analyze how ESG aspects affect company performance. By limiting the analysis to the non-financial sector, this study ensures that the comparison of company values is done more consistently and is not distorted by the unique characteristics of the financial sector, which tends to have a different business model and stricter regulations in sustainability aspects.

Furthermore, the selection of the 2014 – 2023 period for this study is based on historical relevance and the development of sustainability reporting practices in Indonesia. The year 2014 was chosen as the starting point due to the increasing awareness of Environmental, Social, and Governance (ESG) principles, as regulatory and capital market organizations pushed for transparency and corporate social responsibility, alongside the broader adoption of reporting guidelines such as GRI G4. Meanwhile, 2023 was selected as the endpoint to reflect the availability of the most current publicly accessible data. This decade-long period is expected to capture the dynamics of ESG performance and its relationship to company value in a more comprehensive manner.

The objectives of this study are to examine the influence of Environmental, Social, and Governance (ESG) performance on the value of non-financial companies listed on the Indonesia Stock Exchange (IDX) during the period of 2014-2023. Specifically, the study aims to analyze the individual impacts of Environmental, Social, and Governance performance on company value, as well as the combined effect of all three aspects of ESG. Additionally, the research seeks to explore whether industry sensitivity moderates the relationship between ESG performance and company value. The study is intended to contribute to a better understanding of how sustainability factors affect company value, particularly within the context of non-financial firms in Indonesia. In terms of benefits, this research is expected to provide theoretical insights into the factors influencing company value, especially from a sustainability perspective, and serve as a resource for further academic development. Practically, the study aims to offer valuable knowledge for investors in making informed decisions based on sustainability principles, as well as provide useful recommendations for companies to develop policies and allocate resources to enhance company value through ESG practices. Ultimately, the findings are expected to support management in designing strategies that focus on long-term sustainability to increase company value.

METHOD

Population and Sample

The population in this study consists of non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. Non-financial companies are chosen because they have more homogeneous characteristics, especially in terms of physical asset dominance, making the use of Tobin's Q ratio (TBQ) more relevant. Their operational income is also more measurable, which allows for a more accurate assessment of company value using TBQ, unlike financial companies that rely on more complex financial activities. Additionally, non-financial companies tend to have simpler capital structures, facilitating easier comparisons using TBQ.

For sampling, the researcher uses a non-probability sampling technique with purposive sampling to select companies that meet specific criteria, including being non-financial companies listed on IDX from 2014-2023, having complete data for the study variables, not being outliers based on Z-score, and having a Tobin's Q value greater than 0.00 during the study period.

Data Collection Techniques

This study uses a quantitative approach by utilizing secondary data, which includes ESG scores, company value, profitability, company size, leverage, and its industrial sector. Data is obtained from the annual reports of companies listed on the Indonesia Stock Exchange (IDX), while information related to ESG performance is taken from the Bloomberg database and ESGI Dataset. Data collection is carried out through the observation method for the period 2014 to 2023.

Data Analysis Techniques

This study employs Panel Data Regression and Moderated Regression Analysis (MRA) to analyze the impact of ESG factors on company value. Panel Data Regression combines time-series and cross-sectional data, while MRA assesses whether industry sensitivity moderates the relationship between independent and dependent variables. The analysis includes descriptive statistics to summarize the data, model selection using Common Effect, Fixed Effect, or Random Effect models, and various assumption tests such as normality, multicollinearity, heteroscedasticity, and autocorrelation. The regression model evaluates the influence of ESG performance and control variables (ROA, DER) on company value (TBQ). MRA is used to determine if industry sensitivity moderates the effects of ESG on company value. The results are interpreted based on the significance of the coefficients and p-values, which indicate the strength of the relationship between the variables.

RESULT AND DISCUSSION

In this section, the results of the study have undergone a strict data validation process, including the screening of sample data by eliminating extreme observations (outliers) and companies with no company value (Tobin's Q = 0.00) during the observation period. This ensures proportional and equal comparisons (apple to apple). Additionally, the data and model have been tested and meet classical assumptions, such as the absence of multicollinearity and heteroscedasticity. Furthermore, potential endogeneity bias has been tested and addressed, ensuring that the model used produces valid and reliable estimates. The study also considers the dynamics of time by incorporating lagged independent variables (e.g., E score at t-1). Based on this validation, the results are presented as follows.

The Effect of Environmental Performance on Company Value

The panel data regression analysis reveals that environmental performance has a significant negative effect on company value. In other words, an increase in environmental performance tends to be followed by a decrease in company value. This study was conducted on non-financial companies, where PT Bukit Asam Tbk (PTBA) recorded the highest environmental performance score in 2022, while the lowest score was found in PT Barito Pacific Tbk in 2015. These findings are consistent with previous studies by Toti et al. (2022), Abdi et al. (2022), and Kumari et al. (2022), which also found a negative effect of environmental performance disclosures on company value. One explanation for this finding is the perception that environmental activities disclosed by companies could incur additional costs and reflect environmental risks not optimally managed. Investors often interpret such disclosures as signs of environmental issues that might lead to extra operational costs, such as waste management or regulatory compliance, which may lower the company's efficiency and profit levels. This perception reduces investor interest and negatively affects the company's value.

The Effect of Social Performance on Company Value

The panel data regression analysis shows that social performance has a significant negative effect on company value. Companies with higher social performance scores tend to experience a decrease in their company value. PT Indo Tambangraya Megah Tbk (ITMG) had the highest social performance score from 2021-2023, while PT Adaro Energy Indonesia Tbk (ADRO) recorded the lowest score in 2014. This finding is in line with previous research by Toti et al. (2022), Prabawati & Rahmawati (2022), and Wu et al. (2023), which showed that social performance disclosures negatively affect company value (Prabawati & Rahmawati, 2022; Wu et al., 2022). The main reason is that increasing social performance typically requires significant financial resources for implementing corporate social responsibility (CSR) programs, which do not directly lead to short-term profit growth. This generates a negative perception from investors, who view these expenditures as financial burdens that reduce company value. Moreover, companies might over-invest in social initiatives to meet stakeholder expectations, which could harm long-term profitability and raise concerns among investors about the sustainability of the company's policies.

The Effect of Governance Performance on Company Value

This study finds that governance performance has a significant negative effect on company value. Increased governance performance tends to be followed by a decrease in company value. This research was conducted on non-financial companies, where PT Vale Indonesia Tbk (INCO) recorded the highest governance performance score in 2022, while PT Solusi Bangun Indonesia Tbk (SMCB) had the lowest score in 2014. These findings are consistent with studies by Husnaini & Basuki (2020) and Meytasari (2024), which also found a significant negative effect of governance performance on company value (Husnaini & Basuki, 2020; Meytasari, 2024). One reason for this is that governance disclosures are often made to comply with regulatory requirements rather than reflect effective governance practices. Investors may see this as a form of window-dressing rather than a genuine commitment to good governance. Excessive or disproportionate governance disclosures can also create negative perceptions, as the resources allocated to report governance information might not directly impact operational efficiency or financial performance, which can lead to reduced investor confidence and lower company value.

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

The panel data regression analysis indicates that ESG performance has a significant negative effect on company value. An increase in ESG performance scores tends to be followed by a decrease in company value. This study was conducted on non-financial companies, where PT Indo Tambangraya Megah Tbk (ITMG) recorded the highest ESG performance score in 2021 and 2022, while PT Adaro Energy Indonesia Tbk (ADRO) had the lowest score in 2014. The findings align with previous studies by Kumari et al. (2022), Nofrian et al. (2024), and Paramitha & Devi (2024), which also indicated a significant negative effect of ESG performance on company value (Putu & Devi, 2024). Implementing ESG practices requires high initial costs to meet environmental, social, and governance standards, without a direct guarantee of increased revenue or stock price growth in the short term. Additionally, investors often perceive ESG investments as a sacrifice of short-term growth potential, as they allocate company resources to sustainability efforts, which may reduce financial efficiency and decrease company value in the near term. In Indonesia, the government's inadequate regulatory support for ESG investments further strengthens the negative perception of ESG's short-term benefits. Policy uncertainty, limited incentives, and weak enforcement of regulations hinder the effectiveness of ESG practices, weakening its impact on company value.

The Effect of Industry Sensitivity in Moderating the ESG Performance-Company Value Relationship

This study analyzes the role of industry sensitivity as a moderating variable in the relationship between each ESG dimension and company value. The analysis shows that industry sensitivity positively moderates the relationship between each ESG dimension and company value. This indicates that the industry context affects how the market responds to a company's sustainability practices. The results show that industry sensitivity plays an important role in moderating the ESG-company value relationship. It acts as a positive moderator, meaning that the negative effect of ESG on company value tends to weaken or even become positive, especially for companies operating in industries with high environmental sensitivity. These findings suggest that investor appreciation for ESG practices is contextual and not universal. Differences in industry characteristics, especially in sectors more vulnerable to environmental issues, such as energy, mining, and manufacturing, lead the market to respond differently to sustainability efforts. In industries with higher sensitivity, companies face stronger pressure from regulators, society, and stakeholders to demonstrate commitment to sustainable practices. This pressure drives companies to improve their ESG performance to maintain legitimacy and manage environmental and social risks. However, enhancing ESG performance in sensitive industries often requires significant costs, which may depress the company's economic value in the short term. Thus, industry sensitivity does not directly drive ESG performance but rather strengthens or alters the relationship between ESG and company value. In industries with high environmental sensitivity, the impact of ESG on company value is more complex and potentially positive, unlike companies in industries with lower environmental sensitivity.

The Effect of Profitability and Leverage as Control Variables

This study finds that profitability has a significant positive effect on company value. The higher the profitability of a company, the higher its perceived value in the eyes of investors and the capital market. Profitability reflects a company's ability to generate profits from its operations, indicating efficiency in managing assets and resources and the potential for long-term business sustainability. Investors tend to view companies that consistently make profits as healthy entities with good growth prospects, which increases their attractiveness in the market. High profitability signals that the company has the ability to pay dividends, strengthen capital structure, and have greater financial flexibility for expansion or risk mitigation. These factors contribute to positive perceptions of company value, both in terms of stock prices and overall market valuation.

In contrast, leverage has a significant negative effect on company value. The higher the leverage or debt proportion in the company's capital structure, the lower its perceived value by investors. This is because high debt levels imply significant obligations, including interest and principal payments, which can reduce net income and free cash flow. This increases financial risk, lowering investor confidence in the company's long-term prospects. Moreover, a high debt ratio is often associated with liquidity issues or even the risk of default, especially if the company's revenue is unstable. Investors tend to avoid companies with higher bankruptcy risks, as it could reduce their stock value. Therefore, companies that rely heavily on debt financing tend to receive lower market valuations. These findings underscore the importance of balanced capital structure management to maintain optimal company value.

CONCLUSION

This study aims to analyze the impact of Environmental, Social, and Governance (ESG) dimensions on company value, both collectively and individually, and evaluate the role of industry sensitivity as a moderating variable in this relationship for non-financial companies listed on the Indonesia Stock Exchange (IDX) during the period of 2014 to 2023. The conclusions drawn from the analysis are as follows:

First, the performance of Environmental, Social, and Governance (ESG), whether assessed as a whole or in individual dimensions, shows a significant negative effect on company value. This suggests that an increase in ESG performance is associated with a decrease in company value.

Second, industry sensitivity has been proven to play a significant moderating role in the relationship between combined ESG performance and company value. In the context of the findings of this study, industry sensitivity moderates this relationship positively, meaning that the negative impact of ESG on company value tends to weaken. In industries with high environmental sensitivity, the impact of ESG on company value may even shift to a positive effect.

Implications

The findings of this study have important implications for decision-makers in corporate sectors, investment, and sustainability policy formulation in Indonesia.

For corporate management, the negative impact of combined ESG performance on company value highlights the need for a strategic evaluation of sustainability initiatives. Companies should ensure that ESG activities are not just symbolic but provide real economic value, such as long-term cost efficiency or enhanced market confidence. Poorly designed ESG strategies can become a cost burden and reduce competitiveness.

For investors and market analysts, it is crucial to consider long-term performance reflected through ESG practices, alongside short-term profitability. ESG focuses not only on financial outcomes but also on environmental conservation, social responsibility, and governance. A long-term investment approach that integrates ESG will help identify companies capable of creating sustainable value in the future.

For governments and regulators, the study emphasizes the need to strengthen ESG regulations and policies. Currently, ESG regulations in Indonesia are voluntary and inconsistent across sectors. Stronger enforcement, performance-based incentives, and better institutional capacity are essential, particularly for industries with high environmental sensitivity. This will ensure that the transition to sustainability does not sacrifice short-term economic value.

Limitations

This study has several limitations. First, it only uses secondary data from non-financial companies listed on the Indonesia Stock Exchange (IDX), which limits the findings to a domestic context. A broader, cross-country dataset could provide more generalizable results. Additionally, the study uses company value as the sole dependent variable, while other financial indicators, such as profitability or operational efficiency, could also be impacted by ESG performance. Furthermore, the variation in Global Reporting Initiative (GRI) standards across companies in the sample may hinder uniform comparisons. Lastly, the study's quantitative approach does not fully capture the internal context of ESG implementation in companies, suggesting that future research could benefit from qualitative or mixed methods to provide a deeper understanding of the ESG-company value relationship.

Suggestion

Based on the limitations mentioned, the following recommendations are made:

1. Expand Geographical Scope: Future research should include companies from multiple countries or regions to provide a more global and relevant perspective.
2. Use Additional Dependent Variables: Future studies should consider other financial indicators, such as profitability, return on assets, or financial efficiency, alongside company value to assess the impact of ESG from different angles.
3. Standardize ESG Reporting: Future research should focus on companies using the same ESG reporting standards, such as the latest GRI Standards, to ensure more valid and consistent comparisons.
4. Qualitative or Mixed Methods Approach: To gain a deeper understanding, future studies could adopt qualitative or mixed methods, focusing on case studies to explore how ESG implementation affects company value in real-world settings.

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