EXAMINING THE IMPACT OF ESG DIMENSIONS ON CORPORATE FINANCIAL PERFORMANCE: EVIDENCE FROM THE SUSTAINABLE AND RESPONSIBLE INVESTMENT (SRI) KEHATI INDEX

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Abstract

This study aims to analyse the influence of the Environmental, Social, and Governance (ESG) dimension on financial performance for companies listed in the Sustainable and Responsible Investment (SRI) KEHATI Index on the Indonesia Stock Exchange (IDX) for the 2020-2024 period. This research provides an empirical contribution by examining differences in the influence of ESG aggregates and dimensions on the financial performance of sustainability-oriented companies in Indonesia. The research used a quantitative approach based on secondary data from Refinitiv and the financial statements of 22 companies selected through purposive sampling over five years of observation. The data was analysed using panel data regression. Financial performance is measured using indicators of firm value (Tobin's Q) and profitability (Return on Assets). The study's results indicate that the ESG aggregate has a positive and significant effect on firm value as measured by Tobin's Q, and on profitability as measured by ROA. At the dimension level, both the environmental and social dimensions show a negative and significant effect on Tobin's Q and ROA. This result suggests that increased focus on environmental and social factors may introduce operational challenges and additional costs, thereby adversely affecting financial performance. In contrast, the governance dimension does not exhibit a significant effect on either financial performance indicator. These findings provide implications for investors and management in formulating effective ESG strategies to improve company value and long-term financial performance.

Keywords: ESG, Financial Performance, Firm Value, Profitability, SRI-KEHATI

INTRODUCTION

Increasing global business competition requires companies to prioritise not only short-term profitability but also the sustainability of long-term financial performance. Financial performance is a critical indicator for investors, reflecting a company's ability to manage resources and generate economic value efficiently (Rocca et al., 2022). Recent developments in the business environment, such as the Covid-19 pandemic, geopolitical dynamics, climate change, changing legal, and social expectations, have prompted companies to adopt large-scale responsible business practices. This aligns with stakeholder theory, which emphasizes balancing the interests of stakeholders, including investors, employees, governments, and society (Freeman, 1984). The adoption of ESG principles as a strategic means to increase transparency, manage nonfinancial risks, and strengthen corporate legitimacy impacts on financial performance (Tabur & Bildik, 2025).

Despite growing corporate commitment to ESG principles, empirical evidence on ESG impact on a company's financial performance remains inconclusive, especially in emerging markets such as Indonesia. This research aims to address these uncertainties by examining the relationship between the ESG dimension and a company's financial performance in Indonesia. The international commitment to sustainable development is increasing, and global agreements encourage companies to internalize environmental and social issues into their activities (Ha et al., 2024). ESG uses quantitative indicator to evaluate a company's sustainability practices and is even correlated with the potential for improved financial performance. The environmental dimension refers to the management of environmental impact and resource efficiency, the social dimension concerns the company's relationship to internal and external stakeholders, and the governance dimension relates to transparency, accountability, and managerial decision-making (Zhang & Liu, 2022). The ESG assessment developed by Refinitiv based on the Global Reporting Initiative (GRI) framework, provides a comprehensive measure of sustainability performance from an investor's perspective using Key Performance Indicators (KPI) (Toti & Johan, 2022).

Although research on the relationship between ESG and corporate financial performance has been widely conducted in developed markets, research in emerging markets especially in Indonesia, has been limited especially after the Covid-19 pandemic. Furthermore, most existing studies focus on only one type of performance measure, while few analyse both simultaneously or break down the ESG dimension into its components. In Indonesia, commitment to business practices is strengthened through various policies, including Presidential Regulation Number 98 of 2021 concerning the Economic Value of Carbon, as part of efforts to achieve the Net Zero Emission target by 2060. In line with these developments, the SRI-KEHATI Index on the Indonesia Stock Exchange (IDX) is one of the indices composed of companies that meet the principles of sustainable, responsible investment, covering ESG aspects. Companies selected for this index must meet several requirements, including having a minimum market capitalisation and total assets of 1 trillion rupiah, a free float ratio above 10%, and a positive price-earnings ratio (KEHATI Foundation, 2022). ESG practices in SRI-KEHATI Index companies serve as a parameter for investors to assess management quality and potential sustainability-related risks.

ESG is a framework for companies to integrate sustainability into their business, make renewable energy investments, and adopt more responsible resource management, thereby contributing to the reduction of greenhouse gas emissions (Chen et al., 2023). The

company's efforts to improve social, environmental, and governance performance not only reflect its responsibility to stakeholders but also affect firm value and profitability.

The relationship between ESG performance and financial performance remains inconsistent. Several studies have found that companies with high ESG scores tend to have better financial performance (Aydoğmuş et al., 2022; Naeem et al., 2022; Chininga et al., 2024), but other findings show diverse, even negative results depending on the ESG dimension, company characteristics, and institutional context (Liu et al., 2022; Narula et al., 2024; Toti & Johan, 2022). Empirical inconsistencies are particularly pronounced across ESG dimensions. For example, several studies identify a positive impact of the environmental dimension on financial performance (Yu & Xiao, 2022; Yavuz et al., 2024; Morri et al., 2024; Bumin & Ertugtul, 2024; Chininga et al., 2024; Habib & Mourad, 2024; Jin, 2025; Tabur & Bildik, 2025), whereas others report negative or insignificant effects (Aydoğmuş et al., 2022; Shahrun et al., 2024; Shaikh, 2021). Similar variability is observed in the social and governance dimensions, where differences in social, cultural, and governance quality may affect the direction and magnitude of the relationship with financial performance (Bumin & Ertugtul, 2024; Chininga et al., 2024; Grisales & Caracuel, 2021; Jin, 2025; Naeem et al., 2022; Shahrun et al., 2024; Shaikh, 2021; Toti & Johan, 2022). With a particular focus on Indonesia after Covid-19, during significant economic and regulatory changes, this study examines whether these theoretical predictions apply to companies in Indonesia as an emerging market, especially those that are members of the SRI KEHATI index, by relating ESG dimensions to their financial performance.

Given inconsistencies in empirical findings, this study investigates the influence of ESG and its Environmental, Social, and Governance dimensions on the financial performance of companies in the SRI KEHATI Index from 2020 to 2024, using both market-based (Tobin's Q) and accounting-based (ROA) indicators. This research seeks to contribute to the literature on emerging markets, particularly Indonesia, during the post-Covid-19 period, marked by significant economic and regulatory changes. The study's findings are intended to offer practical implications for investors and company management in evaluating strategies focused on performance and sustainability.

REVIEW OF LITERATURE

Stakeholder theory explains that a company's success lies in its ability to align the interests of all stakeholders, thereby supporting long-term sustainability (Freeman, 1984). Freeman (1994) expands on this theory by asserting that the company's goal is not only to maximize profits for shareholders, but also to meet the needs and interests of various other stakeholders, such as customers, suppliers, employees, governments, and society. Stakeholder theory posits that companies that create value for multiple stakeholders not just shareholders, will achieve superior long-term performance through enhanced legitimacy, reduced conflict, and stronger stakeholder support. Businesses that incorporate ESG factors into their strategies tend to benefit in the long term by being more responsive to stakeholder concerns and receiving stakeholder support (Barko et al., 2022).

ESG practices operationalize this theory by addressing stakeholder concerns in three dimensions: environmental (community & regulator), social (employees & customers), and governance (investors & board of directors) (Zhang & Liu, 2022). Therefore, companies with higher ESG scores should experience improved financial performance through increased legitimacy and reduced risk (Freeman & McVea, 2002). A company's financial performance

can be measured through various financial indicators, such as Tobin's Q and Return on Asset, as well as other ratios that assess an entity's ability to generate profits from its assets (Chen et al., 2023). These ESG principles improve transparency, risk management, and accountability, thereby strengthening relationships with stakeholders and supporting the sustainability and profitability of companies. Strong ESG implementation can increase a company's financial flexibility, thereby strengthening its long-term competitiveness, and assist stakeholders in assessing the company's environmental and social impacts, such as greenhouse gas emissions, natural resource sustainability, and employee and community well-being (Ouni et al., 2020).

The Influence of ESG Dimensions on Firm Value (Tobin's Q)

Environmental, Social, and Governance (ESG) reflects the integration of sustainability aspects in the company's strategy and operations, demonstrating a commitment to non-financial risk management (Chininga et al., 2024). Based on stakeholder theory (Freeman & McVea, 2002) companies must consider the impact of their decisions on individuals or groups that may be affected or influenced by the company's operations. Implementing ESG can increase transparency, improve risk management, and strengthen managerial accountability, thereby enhancing the company's financial performance. The strengthening of these three dimensions is a reflection of how effectively the company manages financial resources to reduce cash flow uncertainty and reputational risks, which in turn can improve the market's perception of the company's long-term prospects, as reflected in performance measured through the firm value (Shaikh, 2021).

However, empirical findings show that the relationship between ESG and firm value is not always consistent. In developed markets, ESG, especially the governance dimension, is more often valued by investors. Alareeni & Hamdan (2020) study of S&P 500 companies and the United States market shows that ESG and its three dimensions have a positive effect on financial performance as measured by Tobin's Q. Similar findings were also obtained in the study of Habib & Mourad (2024) which found that ESG and its three dimensions have a positive effect on financial performance. This pattern indicates that in markets with higher information efficiency and more mature regulation, sustainability mechanisms are more readily recognized as signals of managerial quality and risk reduction. However, in emerging markets, these relationships tend to be more volatile. Narula et al. (2024) found that the ESG aggregate is not significant for company performance in India, with the environmental dimension negatively affecting performance and the governance dimension positively affecting it. Research by Yavuz et al. (2025) on companies listed on the Borsa Istanbul-100 shows that the environmental dimension has a positive effect on financial performance, whereas the governance dimension has a negative effect. Similar findings were also recorded in the banking sector listed on the Indonesia Stock Exchange (2017-2023) (Lanjaryanto & Riwayati, 2025), where all ESG dimensions negatively impact financial performance.

Other studies in Indonesia have also yielded mixed findings. Kartika et al. (2023) showed that the ESG aggregate did not affect Tobin's Q in companies listed on the Indonesia Stock Exchange (2017-2021). On the other hand, a study by Toti & Johan (2022) examining companies in the SRI-KEHATI Index (2015-2020) found that environmental and social dimensions negatively affected Tobin's Q, while the governance dimension positively affected Tobin's Q. These results contradict research by Suretno et al. (2022), which shows that good environmental disclosure can improve a company's image, attract investment interest, as well as improve business performance in the market. Another finding by Melinda

& Wardhani (2020), which analyzed companies listed in 22 Asian countries (2014-2018), found that the three dimensions of ESG had a significant positive effect on Tobin's Q. This result is in line with the principle of Stakeholder Theory, companies that are responsible for sustainability will gain more trust from consumers, investors, and regulators (Freeman & McVea, 1984).

These differences in findings are due to industry sector factors and the context of emerging markets. In more capital-intensive industrial sectors or in emerging markets, ESG is often seen as a short-term cost burden, especially when implementation costs exceed the direct benefits perceived by the company (Candio, 2024). In contrast, in sectors more directly connected to consumers or in developed markets, investments in ESG are valued because they are seen as contributing to the company's long-term value (Naeem et al., 2022). Some studies use different ESG data providers, such as Refinitiv and Bloomberg, which each have different methodologies for assessing, weighting, and covering indicators (Chininga et al., 2024; Alahdal et al., 2024). These differences can result in variations in ESG scores even though the companies analyzed have similar objectives, and lead to different findings because they reflect different performance dimensions, long-term investor perceptions versus short-term operational efficiency (Tabur & Bildik, 2025).

The Influence of ESG Dimensions on Profitability (ROA)

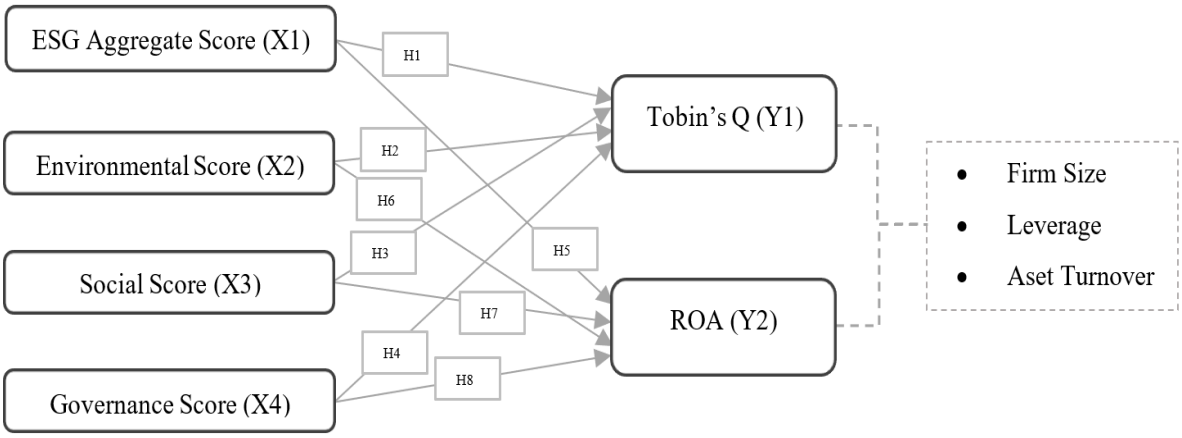
In addition to influencing market valuations, ESG also affects a company's financial performance, as reflected in profitability measured by Return on Assets (ROA). ROA reflects a company's ability to generate profits from its total assets, making it more sensitive to internal efficiency than market-based measures (Chen et al., 2023). In stakeholder theory, companies that effectively manage the interests of various stakeholders can achieve operational stability, customer loyalty, and higher employee productivity (Freeman, 1984). This condition can theoretically increase the efficiency of asset use and improve profitability, although there is a potential trade-off if the costs of ESG implementation, such as investments in environmentally friendly technologies, social programs, or governance restructuring exceed the short-term benefits that can be achieved, so that profitability can be depressed (Naeem et al., 2022). Accountability to all stakeholders requires transparency and organizational adjustments that are not always cost-free, which also influences the impact of ESG on ROA.

Empirical research in developed countries shows a positive relationship between ESG and profitability. Chen et al. (2023) in a large-scale global study found that ESG performance has a significant positive effect on financial performance. Naeem et al. (2022), who compared companies from developed and developing countries in environmentally sensitive industries, also found that ESG has a significant positive effect on financial performance, with a stronger effect in developed countries. In contrast, in emerging markets, this relationship is more varied. Research by Minggu et al. (2023) examined public companies on the Indonesia Stock Exchange (2010-2019) and found that environmental performance negatively affected financial performance, while social performance had a significant positive effect, and governance performance was insignificant. Ngan & Tumba (2024) research on Indonesia's energy sector shows a positive relationship between ESG performance and investment efficiency and company performance. Stakeholder theory holds that companies that accommodate the needs and expectations of stakeholders will gain greater support, higher customer loyalty, and more motivated employees (Freeman & McVea, 1984). These findings

suggest that the ESG dimension in Indonesia can have a more complex impact, depending on the sector's context and each individual's economic conditions.

A methodological separation of testing between aggregate scores and individual ESG dimensions is necessary to gain a clearer understanding of each dimension's impact on financial performance. This study aims to minimize these methodological differences by consistently using Refinitiv's ESG score and testing the company's performance using two indicators: Tobin's Q and ROA. This allows for a more comprehensive and controlled analysis. In Indonesia, especially among companies listed in the SRI-KEHATI Index, despite meeting sustainability criteria, previous evidence shows that not all ESG dimensions are accepted by the market as improvements in financial performance (Toti & Johan, 2022). With increased attention to sustainability following the Covid-19 pandemic and tightening regulatory pressures, retesting is needed to determine whether the relationship becomes more consistent in the 2020-2024 period.

Hypotheses Development



Based on stakeholder theory (Freeman, 1984), companies that meet the interests of various stakeholders, including through effective ESG practices, are expected to strengthen relationships with external parties. By meeting stakeholder expectations, companies can achieve greater operational stability, which in turn can improve their financial performance (Chen et al., 2023). Additionally, several empirical studies have shown a relationship between ESG practices and a company's financial performance, as measured by firm value and profitability. Based on stakeholder theory, this research hypothesizes that the ESG dimension positively influences the company's financial performance, both in aggregate and by dimension. Therefore, the research hypothesis is formulated as follows:

H1: ESG aggregate has a positive and significant effect on firm value (Tobin's Q).
H2: Environmental dimension has a positive and significant effect on firm value (Tobin's Q).
H3: Social dimension has a positive and significant effect on firm value (Tobin's Q).
H4: Governance dimension has a positive and significant effect on firm value (Tobin's Q).
H5: ESG aggregate has a positive and significant effect on profitability (ROA).
H6: Environmental dimension has a positive and significant effect on profitability (ROA).
H7: Social dimension has a positive and significant effect on profitability (ROA).
H8: Governance dimension has a positive and significant effect on profitability (ROA).

RESEARCH METHOD

Table 1.
Variable

Dependent Variables	Description/Formula
TQ - Tobin's Q	Market Cap + Liabilities/Total Assets
ROA - Return on Assets	Net Income/Total Assets
Independent Variables	
ESG - ESG Aggregate Score	Refinitiv Score
ENV - Environmental Score	Refinitiv Score
SOC - Social Score	Refinitiv Score
GOV - Governance Score	Refinitiv Score
Control Variables	
FSIZE - Size	Logarithm of Total Assets
TDTA - Leverage	Total Debt/Total Assets
ATO - Asset Turnover	Sales/Total Assets

Source: Processed Data (2026)

This research uses data from companies listed in the Sustainable and Responsible Investment (SRI) KEHATI Index on the Indonesia Stock Exchange (IDX) for the 2020-2024 period. From a total of 50 companies listed in the SRI-KEHATI Index during the observation period, the research sample was selected purposively based on the availability of Refinitiv ESG data and complete financial statements. The sample selection process was carried out with the following steps: (1) eliminating companies that did not publish consecutive annual financial statements during the study period (n=1), and (2) eliminating companies that did not have complete ESG data on Refinitiv, as well as financial data required during the study period (n=27). After the elimination process, 22 companies met the criteria, yielding a total of 110 observations (22 companies × 5 years).

A company's financial performance is measured using Tobin's Q as a proxy for the firm value and Return on Assets as a proxy for profitability that represents the company's performance from a market and accounting perspective (Aydoğmuş et al., 2022; Naeem et al., 2022; Chininga et al., 2024). Stakeholder theory holds that companies that integrate ESG considerations into their business strategies will be more responsive to the interests and concerns of stakeholders related to environmental, social, and governance issues, thereby improving the company's financial performance (Freeman & McVea, 2002). Tobin's Q measures a company's financial performance relative to the market's perception of its value. At the same time, ROA as a profitability proxy reflects a company's efficiency in utilising assets to generate profits (Yori & Rahmawati, 2025).

The independent variables in this study include ESG aggregate and its three main dimensions: Environmental, Social, and Governance. This study controls for several variables that may affect the relationship between ESG implementation and a company's financial performance, including company characteristics, as used in previous studies (Aydoğmuş et al., 2022; Naeem et al., 2022; Alahdal et al., 2024; Tabur & Bildik, 2025). Firm size indicates that larger companies have more resources to implement ESG policies and are more visible to stakeholders, which in turn can affect their ESG scores and financial performance. In addition, leverage is used to control differences in capital structures between

companies, as companies with high leverage may be more exposed to risk, but also have the potential to leverage debt to increase profitability. Finally, asset turnover measures a company's operational efficiency and can affect ROA, thereby moderating the relationship between ESG policy implementation and a company's financial performance.

Table 2.
Refinitiv ESG Score Range

Score Range	Description
From 0 to 25	Scores in this range imply poor relative ESG performance and insufficient transparency of relevant ESG data to the public.
From 26 to 50	Scores in this range imply satisfactory relative ESG performance and moderate transparency of relevant ESG data to the public.
From 51 to 75	Scores in this range imply good relative ESG performance and above-average transparency of relevant ESG data to the public.
From 76 to 100	Scores in this range imply excellent relative ESG performance and high transparency of relevant ESG data to the public.

Source: Refintiv (2025)

Financial data for variables was obtained from the annual financial statements available on Refinitiv. All collected data is then fed into Excel for further analysis, with validation checks to ensure no out-of-the-box values or missing data. Any inconsistencies found during this process are resolved by referring directly to the original data available on Refinitiv. Refinitiv measures ESG Performance by collecting data from a variety of auditable public sources, such as corporate annual reports, sustainability reports, company websites, filings with stock exchanges, and reports from non-governmental organizations (Görkem & Taşkın, 2022).

Table 3.
Descriptive Statistics

	N	Mean	St Dev	Min	Median	Max
Dependent Variables						
Tobin's Q	110	1.378	0.753	0.500	1.050	4.260
ROA	110	0.051	0.040	-0.067	0.040	0.166
Independent Variables						
ESG	110	61.045	16.457	20.990	64.866	89.171
ENV	110	57.936	18.114	8.827	60.118	86.673
SOC	110	66.813	18.104	13.942	68.067	93.897
GOV	110	56.942	21.121	2.977	57.807	94.564
Control Variables						
FSIZE	110	32.518	1.413	30.560	32.275	35.430
TDTA	110	0.197	0.174	0.000	0.160	0.840
ATO	110	0.554	0.471	0.052	0.522	2.022

Source: Processed Data (2026)

The average ESG aggregate shows 61.04, which falls within the "good" range (51-75) according to Refinitiv, indicating that companies listed in the SRI-KEHATI Index have better-than-average sustainability practices (Refinitiv, 2025). The social dimension recorded the highest score, averaging 66.81, indicating that Indonesian companies prioritise social responsibility and stakeholder relations, in line with the cultural emphasis on community (Freeman & McVea, 2002). Meanwhile, the environmental and governance dimensions recorded average scores of 57.93 and 56.94, indicating that companies in the SRI-KEHATI index have a relatively balanced focus on environmental and governance, although slightly lower than the social dimension. For the control variable, firm size had an average value of 32.51, indicating a sizable firm (Chen et al., 2023). Leverage has a moderate value of 0.19, indicating a reasonable debt-to-total assets ratio and a balanced capital structure (Naeem et al., 2022). Meanwhile, an average asset turnover of 0.55 indicates that these companies are efficient at managing their assets to generate sales.

However, wide standard deviations, ranging from 16 to 21 points across various dimensions, reveal substantial heterogeneity. Some companies have very low ESG scores (below 20), indicating a lack of attention to ESG, while others have very high scores (over 90), indicating excellent ESG implementation. This variation provides statistical power to detect the relationship between ESG and financial performance, and shows that the implementation of ESG policies among companies listed in this index varies widely (Freeman & McVea, 2002).

Methodology

This study employs panel-data regression models to assess the impact of ESG on financial performance. According to earlier studies (Aydoğmuş et al., 2022; Chininga et al., 2024; Alahdal et al., 2024; Tabur & Bildik, 2025), the first model uses Tobin's Q to analyse the impact of ESG on firm value, while the second model uses ROA to assess its impact on profitability. The dataset obtained a balanced panel of 22 cross-sectional units (companies) observed over 5 time periods (2020-2024), yielding a total of 110 observations (22 companies × 5 years). The panel data method was chosen because it allows for control of unobserved company-specific heterogeneity, which can affect financial performance. Using panel data yields more efficient estimates than aggregating cross-sectional data, as this method can reduce biases arising from unobserved heterogeneity across companies (Alahdal et al., 2024). The period 2020 to 2024 was chosen because it reflects an important phase in which ESG awareness is beginning to be integrated into business strategies, driven by investor expectations and regulatory pressures in various countries, including in the Asian region (Ismail & Azman, 2024). The regression equations are as follows:

Model 1 (Tobin's Q)

$$TQ = \alpha + \beta 1\ ESG_{it} + \beta 2\ ENV_{it} + \beta 3\ SOC_{it} + \beta 4\ GOV_{it} + \beta 5\ FSIZE_{it} + \beta 6\ TDTA_{it} + \beta 7\ ATO_{it} + \varepsilon_{it}$$

Model 2 (Return on Assets - ROA)

$$ROA = \alpha + \beta 1\ ESG_{it} + \beta 2\ ENV_{it} + \beta 3\ SOC_{it} + \beta 4\ GOV_{it} + \beta 5\ FSIZE_{it} + \beta 6\ TDTA_{it} + \beta 7\ ATO_{it} + \varepsilon_{it}$$

RESULTS AND DISCUSSION

Table 4.
Pearson Correlation Matrix

	TQ	ROA	ESG	ENV	SOC	GOV	FSIZE	TDTA	ATO
TQ	1								
ROA	0.619	1							
ESG	-0.239	-0.236	1						
ENV	-0.273	-0.229	0.873	1					
SOC	-0.351	-0.345	0.908	0.708	1				
GOV	-0.041	-0.105	0.864	0.647	0.681	1			
FSIZE	-0.331	-0.409	0.452	0.395	0.526	0.301	1		
TDTA	-0.264	-0.349	-0.386	-0.424	-0.266	-0.366	-0.125	1	
ATO	0.564	0.670	-0.417	-0.341	-0.576	-0.193	-0.664	-0.142	1

Source: Processed Data (2026)

Correlation Results

The results of Pearson Correlation test reveal several significant relationships that provide important insights into the dynamics of ESG in Indonesian companies. Tobin's Q shows a moderate positive correlation with ROA, showing that companies with higher firm values tend to be more profitable. This indicates that the market considers these companies more valuable, reflecting investor confidence in sustainable financial performance. In addition, the strong correlation between the ESG aggregate and the environmental dimension, as well as between the environmental and social dimensions, suggests that companies with a strong commitment to sustainability tend to implement better environmental policies while also showing concern for social issues. Environmental management and social responsibility are operating in an integrated manner, thereby increasing the company's market attractiveness and reflecting the growing adoption of sustainable business practices in Indonesia.

On the other hand, firm size and leverage show negative relationships with Tobin's Q and ROA, explaining that large companies with high debt may face challenges maintaining market value and profitability. This may be due to higher cost structures and reliance on external financing, which reduces their flexibility in managing assets and operations efficiently. In contrast, asset turnover shows a positive correlation with both financial performance indicators, suggesting that companies with higher asset turnover are more likely to have better financial performance. These findings underscore the importance of operational efficiencies in improving market performance and company profitability, which should be a key focus in the company's sustainability strategy in Indonesia.

Test Results

Table 5.
Hausman Test

Variabel Dependen	Test Result	Chi-Square Statistic	p-Value
Tobin's Q	Fixed Effects	31.352	0.000
ROA	Random Effects	4.149	0.763

Source: Processed Data (2026)

To determine the most suitable panel data regression model, this study conducted a series of statistical tests: (1) the chow test to choose between the common effect model and the fixed effect model, (2) the hausman test to choose between the fixed effect model and the random effect model, and (3) the breusch-pagan lagrange multiplier test to choose between the common effect model and the random effect model (Ghozali, 2017). Based on the test results, the fixed effect model was selected to analyze Tobin's Q, while the random effect model was selected to analyze ROA. Based on the test results, the fixed effect model was chosen to analyse Tobin's Q (0.000 < 0.05), while the random effect model was chosen to analyse ROA (0.763 > 0.05 and the breusch-pagan lagrange multiplier test showed 0.000 < 0.05). This study has passed the classical assumption test. The analysis shows heteroscedasticity, which is addressed by using white standard errors to produce consistent and valid estimates, thereby making the model more robust.

Table 6.
Goodness of Fit Test
Adjusted R^2 & F-statistic Test

	Model 1	Model 2
	Tobin's Q	**ROA**
R-squared	0.876	0.384
Adjusted R-squared	0.833	0.342
S.E. of regression	0.280	0.020
Sum squared resid	6.362	0.043
F-statistic	20.402	9.082
Prob(F-statistic)	0.000	0.000

Source: Processed Data (2026)

Table 7.
T Statistics Test

Variable	Model 1 Fixed Effect Regression				Model 2 Random Effect Regression			
	Tobin's Q				ROA			
	Coefficient	Std. Error	t-statistic	Prob.	Coefficient	Std. Error	t-Statistic	Prob.
C	31.581	5.757	5.485	0.005	0.055	0.086	0.647	0.552
ESG	0.041	0.014	2.778	0.049	0.005	0.001	3.877	0.017
ENV	-0.016	0.004	-3.305	0.029	-0.001	0.000	-6.062	0.003
SOC	-0.015	0.005	-3.005	0.039	-0.002	0.000	-3.957	0.016
GOV	-0.008	0.003	-2.538	0.064	-0.001	0.000	-2.232	0.089
FSIZE	-0.931	0.178	-5.206	0.006	0.000	0.002	0.173	0.870
TDTA	-0.664	0.400	-1.661	0.171	-0.089	0.047	-1.885	0.132
ATO	0.331	0.160	2.061	0.108	0.042	0.009	4.516	0.010

Note: ESG = ESG Aggregate Score; ENV = Environmental Score; SOC = Social Score; GOV = Governance Score; FSIZE = Logarithm of Total Assets; TDTA = Leverage; ATO = Asset Turnover
Source: Processed Data (2026)

The Goodness-of-Fit test results show that the Tobin's Q regression model has an Adjusted R-squared of 0.833, explaining 83.3% of the variation in firm value. In contrast, the model for Return on Assets has an Adjusted R-squared of 0.342. This shows that the independent variables in this study, comprising ESG and Environmental, Social, and Governance dimensions, can explain 83.3% of the company's financial performance (Tobin's Q). Meanwhile, ROA could be explained by only 34.2% of the independent variables. In comparison, the remaining variation in Tobin's Q (16.7%) and ROA (65.8%) was explained by factors other than the independent variables in this study. The F-statistic tests for Tobin's Q (20.40) and ROA (9.08) yield p-values of 0.00, confirming that both models are significant at the 5% level. Although the ROA model explains only a small portion of the variation in profitability, these results suggest that the variables in both models have a significant influence on firm value and profitability.

The results of the study show that company size has a negative and significant effect on firm value, indicating that larger companies have lower market values. This can be because large companies tend to be at a more mature stage of growth and have higher operational complexity (Naeem et al., 2022). Meanwhile, leverage has not been shown to have a significant effect on company value or profitability, so the debt structure in this study has not been the main factor that determines the company's financial performance (Tabur & Bildik, 2025). Conversely, asset turnover has a positive effect on profitability, confirming that asset utilisation efficiency is more relevant to profit growth than the size of the company or the level of funding.

Table 8.
Hypothesis Testing Results

Hypothesis	Coeff.	Prob.	Result
H1: ESG aggregate has a positive and significant effect on firm value (Tobin's Q)	0.041	0.049	Supported
H2: Environmental dimension has a positive and significant effect on firm value (Tobin's Q)	-0.016	0.029	Not supported
H3: Social dimension has a positive and significant effect on firm value (Tobin's Q)	-0.015	0.039	Not supported
H4: Governance dimension has a positive and significant effect on firm value (Tobin's Q)	-0.008	0.064	Not supported
H5: ESG aggregate has a positive and significant effect on profitability (ROA).	0.005	0.017	Supported
H6: Environmental dimension has a positive and significant effect on profitability (ROA).	-0.001	0.003	Not supported
H7: Social dimension has a positive and significant effect on profitability (ROA).	-0.002	0.016	Not supported
H8: Governance dimension has a positive and significant effect on profitability (ROA).	-0.001	0.089	Not supported

Source: Processed Data (2026)

The Effect of ESG on Firm Value (Tobin's Q) and Profitability (ROA)

The regression results showed that the aggregate ESG score has a positive and significant effect on firm value as proxied by Tobin's Q (0.041, p-value 0.049 < 0.05). These findings align with Stakeholder Theory, which holds that companies that accommodate the needs and expectations of stakeholders will gain greater support, higher customer loyalty, and more motivated employees (Freeman & McVea, 1984). Companies that are committed to sustainability and pay attention to ESG factors are more likely to gain better access to capital and greater stakeholder trust. Companies that pay more attention to sustainability factors in their operations tend to be more attractive in the eyes of investors, which is reflected in the significant increase in Tobin's Q. Therefore, good ESG practices are often considered the minimum standard expected by investors and are no longer a distinguishing factor in valuation (Wu et al., 2022; Aydoğmuş et al., 2022; Chininga et al., 2024; Tabur & Bildik, 2025).

H1: ESG aggregate has a positive and significant effect on firm value (Tobin's Q).

The aggregate ESG score also has a positive and significant effect on the company's profitability as proxied by ROA (0.005, p-value 0.017 < 0.05). These findings show that companies with better ESG scores tend to be more profitable. This means that effective sustainability policies can serve as a key driver of operational efficiency and cost reductions related to long-term risks, thereby increasing a company's profitability. Although the impact on profitability is not as great as on a company's firm value, ESG factors can improve a company's efficiency and reputation, ultimately positively impacting financial performance (Naeem et al., 2022). These results align with findings from several studies showing that the influence of ESG on financial performance tends to vary across contexts and industries (Aydoğmuş et al., 2022; Candio, 2024).

H5: ESG aggregate has a positive and significant effect on profitability (ROA).

The Effect of Environmental Dimension on Firm Value (Tobin's Q) and Profitability (ROA)

Based on the regression results, the environmental dimension has a negative and significant effect on firm value as proxied by Tobin's Q (-0.016, p-value 0.029 < 0.05). Environmental dimensions negatively impact financial performance due to high investment costs and the lack of concrete short-term results (Yuan et al., 2022). From the perspective of stakeholder theory, companies are accountable not only to shareholders but also to other stakeholders, including society and environmental regulators (Freeman, 1984). External stakeholders view the company's commitment to environmental issues as an obligation, thereby increasing market legitimacy and trust. Environmental practices often involve additional costs that reduce the company's profitability and firm value. These results show that good sustainability practices do not necessarily directly increase shareholder profits (Candio, 2024).

H2: Environmental dimension has a negative and significant effect on firm value (Tobin's Q).

The environmental dimension also has a negative and significant effect on ROA, suggesting that the economic benefits of environmental practices have not been directly reflected in short-term financial performance (-0.001, p-value 0.003 < 0.05). These results indicate that the higher a company's environmental score, the more likely it is to experience a decrease in financial performance. The company's initiatives and commitments to environmental conservation, such as investments in green technology, energy efficiency, and

waste management systems, entail significant operational costs (Nazarova & Lavrova, 2022). So the impact is more visible in the firm value than its current profitability. These findings align with Alareeni & Hamdan (2020), an excessive focus on environmental factors, while beneficial in the long term, can lead to increased operational costs and investments required to meet environmental regulations. These results are consistent with several studies that have found the environmental dimension negatively and significantly influences a company's financial performance (Liu et al., 2022; Narula et al., 2024).

H6: Environmental dimension has a negative and significant effect on profitability (ROA).

The Effect of Social Dimension on Firm Value (Tobin's Q) and Profitability (ROA)

The test results show that the social dimension has a negative and significant effect on Tobin's Q (-0.015, p-value 0.039 < 0.05), indicating that although companies that focus on social responsibility can improve their image, investments in CSR programs or social practice may not directly increase the firm value. These findings are not in line with stakeholder theory, which assumes that active engagement in social practice increases stakeholder support and firm values. This is due to the imbalance between the high costs of social programs and the short-term benefits that investors receive. These results are consistent with the findings of Lanjaryanto & Riwayati (2025) and Toti & Johan (2022), that social performance is not yet relevant to corporate value in developing countries, where sustainability reporting remains varied.

H3: Social dimension has a negative and significant effect on firm value (Tobin's Q).

On the other hand, the social dimension showed a negative and significant effect on the company's profitability (-0.002, p-value 0.016 < 0.05). These findings indicate that while social programs can provide great reputational benefits, significant investments in time and resources can reduce a company's profit margins and profitability in the short term. Although social contributions impact a company's image, the direct effect on profitability, as measured by ROA, suggests that the long-term benefits of social initiatives may not be sufficient to offset near-term costs (Naeem et al., 2022). These results are consistent with previous research showing that the social dimension negatively and significantly influences a company's financial performance (Chininga et al., 2024; Tabur & Bildik, 2025).

H7: Social dimension has a negative and significant effect on profitability (ROA).

The Effect of Governance Dimension on Firm Value (Tobin's Q) and Profitability (ROA)

The regression analysis found that the governance dimension did not have a significant effect on firm value, as measured by Tobin's Q (-0.008, p-value 0.064 > 0.05). This result shows that good corporate governance is generally expected to enhance firm value, its direct impact on financial performance is not statistically significant. According to stakeholder theory, good corporate governance serves as a fundamental mechanism for safeguarding stakeholder interests and ensuring managerial accountability (Freeman, 1984). Furthermore, the implementation of adequate governance is typically regarded by investors as a standard requirement, and therefore does not act as a distinguishing factor in determining company value in the capital market (Toti & Johan, 2022; Nur'aeni & Sari, 2023; Yori & Rahmawati, 2025; Lanjaryanto & Riwayati, 2025).

H4: Governance dimension has no significant effect on firm value (Tobin's Q).

The governance dimension also did not have a significant effect on company profitability, as measured by ROA (-0.001, p-value 0.089 > 0.05). This finding indicates that good governance does not necessarily lead to an immediate increase in profitability.

Although good governance may contribute to improved management efficiency and effectiveness, its direct impact on profitability is not statistically significant. This study implies that the influence of governance on profitability may be indirect and take longer to be reflected in financial outcomes (Nazarova & Lavrova, 2022). These results are consistent with previous studies, which have also reported that the implementation of good corporate governance does not significantly affect financial performance within the Environmental, Social, and Governance (ESG) framework (Bumin & Ertugtul, 2024; Shahrun et al., 2024).
H8: Governance dimension has no significant effect on profitability (ROA).

CONCLUSION

This study analyses the influence of ESG aggregate and its three dimensions (Environmental, Social, and Governance) on the financial performance of companies listed in the Sustainable and Responsible Investment (SRI) KEHATI Index on the Indonesia Stock Exchange (IDX) for the 2020-2024 period. The results show that the ESG aggregate has a positive and significant influence on both financial performance indicators, firm value (Tobin's Q) and profitability (ROA). These findings show that investments in ESG initiative companies tend to have higher market value, indicating that investments over time positively contribute to a company's financial performance (Chininga et al., 2024). However, when analyzed separately, the environmental and social dimensions negatively affected firm value and profitability, whereas the governance dimension did not show a significant effect (Aydoğmuş et al., 2022; Liu et al., 2022; Naeem et al., 2022; Tabur & Bildik, 2025). These findings are not entirely consistent with stakeholder theory, which hold that active stakeholder engagement in sustainability can improve long-term relationships with investors and customers, thereby minimizing the risk of conflicts of interest and enhancing financial performance (Freeman & McVea, 1984)

ESG aggregate reflects the company's overall sustainability commitment, fostering a positive perception among investors. In contrast, when analyzed separately, environmental or social practices often do not directly reflect financial performance, especially when companies incur high costs to meet sustainability standards (Chininga et al., 2024). As a result, the market views the short-term impact of these factors as a reduction in profitability or market value, even though such sustainability policies can provide long-term benefits. Social and environmental activities are often seen as formalities, rather than deep strategic commitments (Luan, 2024). Research by Gerged et al. (2023) shows that the influence of environmental performance on a company's financial performance varies by industry and country, which explains why companies with high environmental performance in Indonesia do not necessarily receive direct financial benefits. Governance practices have begun to be formally implemented by companies, but they have not fully contributed to increased net profit or more effective use of capital. These findings support the research of Strekalina et al. (2023), which suggests that governance practices do not necessarily have a direct impact on a company's financial performance, especially when board structures and oversight mechanisms operate suboptimally. In Indonesia, governance performance still needs to be strengthened to significantly improve the company's profitability.

This research makes an empirical contribution by examining the impact of the Environmental, Social, and Governance (ESG) dimensions on the financial performance of companies in the Indonesian market, as reflected in the SRI-KEHATI Index. The findings show that sustainability practices contribute to corporate value, underscoring their

importance in building trust and reputation with investors. However, the results of this study need to be interpreted with several limitations, including the limited number of indeks samples, limits the generalizability of the findings, and the relatively short observation period, which may not fully capture the long-term impact of ESG implementation. In addition, the Adjusted R-Squared value of 34.2% in the ROA model indicates that other factors outside the model still affect financial performance. Therefore, further research is recommended to include additional variables such as macroeconomic factors and characteristics of certain industry sectors, such as mining or manufacturing, so that the influence of ESG can be analysed more contextually according to the characteristics of each industry to improve the accuracy of measurements, model validity, and generalisation of findings related to the company's financial performance in Indonesia.

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