

The Impact of ESG Performance on Firm Value with Moderation of Corporate Sustainable Growth Rate (Study on JII Indexed Companies for the 2021-2023 Period)

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Abstract

The value of a company reflects investors' perception of the effectiveness of management in utilizing the company's resources in the present and future. This study investigates the impact of environmental, social, and governance (ESG) performance on firm value, as represented by ESG Risk Rating, with the sustainable growth rate (SGR) acting as a moderating factor. The study adopts a quantitative approach using the moderated regression analysis (MRA) method. The research focuses on companies listed on the Jakarta Islamic Index (JII) during 2021-2023. The findings indicate that ESG performance significantly influences firm value, and SGR can moderate the relationship between ESG performance and firm value for companies listed on the JII during 2021-2023. This study concludes that the level of ESG performance of companies proxied by ESG risk rating is one of the factors that must be considered when making investments. In addition, the company's sustainability growth rate is essential when making investments in the long term. This research provides important implications for company management and investors in making strategic decisions related to ESG and sustainable growth so that they can achieve optimal long-term value.

Keywords: ESG Performance, ESG Risk Rating, Firm Value, Sustainable Growth Rate

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1. INTRODUCTION

Value is the most comprehensive measure of a company's performance (Indrarini, 2019). The measure includes various aspects that reflect the health and operational effectiveness of the company in creating long-term profits and growth (Latifah, 2020). In this instance, companies must devote enhanced focus to their performance and strategy to elevate their value and competitive position. The value of the company helps to identify the company's strengths and weaknesses as a whole, thus providing a more realistic picture of the company's position and potential in the future (Abisola & Akinsulere, 2019; Andreas & Gumanti, 2022; Blajer-Golebiewska, 2021; Giannetti et al., 2022; Handoyo et al., 2021; Putri et al., 2023; Ratnaningtyas et al., 2021; Tarczyński et al., 2020). The value of a company can be measured based on the Price-Earning Ratio (PER).

PER is a measure that compares a company's current stock price to its earnings per share, and it provides insight into how much investors are willing to pay for each dollar of earnings (Ferniawan et al., 2024; Neldi et al., 2023; Sihaloho & Rochyadi, 2021). This method offers insight into how investors assess a company's future potential by examining its performance and growth. This is particularly relevant for publicly traded companies, as their stock prices can fluctuate significantly to reflect shifts in market sentiment (Ahmed, 2020; Guo et al., 2017; Loekito & Setiawati, 2021). This PER approach is crucial because it reflects an external and objective view of the company's performance in generating profits.

Based on data on the average PER ratio of public companies listed in the Indonesia capital market (Jakarta Composite Index (JCI)) for the period January 2021-December 2023, it shows that there is a

dynamic change in the valuation of the JCI (see figure 1) (Indonesia Stock Exchange (IDX), 2023). Based on Figure 1. It can be explained that the average PER rate in companies listed on the JCI has fluctuated quite significantly. At the beginning of 2021, the average PER ratio increased due to economic recovery post-COVID-19. However, in April 2021, there was a significant downward trend in the PER rate until the end of 2023. Based on this, it can be concluded that the fluctuation of the average PER rate reflects a change in investors' perception of the company's

future profit prospects, so a decrease in PER can indicate that there are investors' concerns about the potential decline in profits or increased risks (Neldi et al., 2023). This is supported by the signal theory, which reveals that any information published by a company can affect the public's response (Suganda, 2018). Thus, a comprehensive analytical approach, especially for investors and stakeholders, is needed so that they can make informed decisions, manage risks effectively, and maximize the potential profits obtained.

Market Value Average Data of Indonesian Capital Market Based on Price to Earning Ratio for the Period 2021-2023

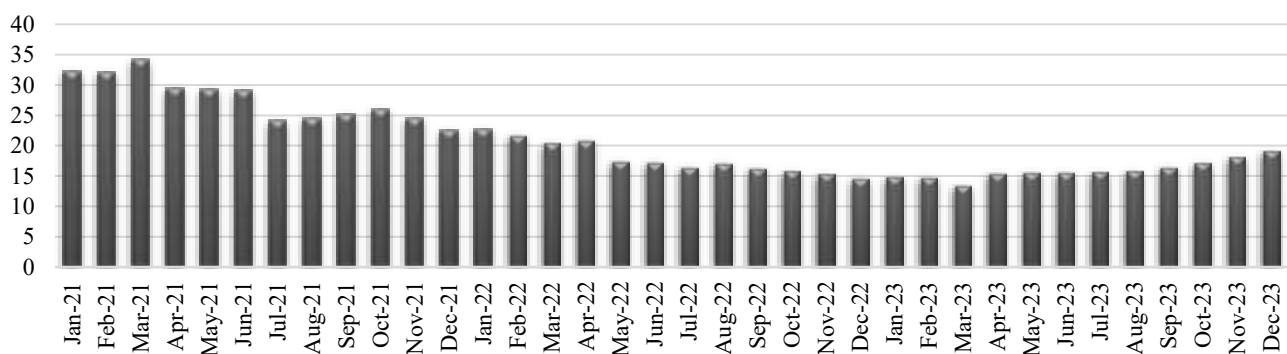


Figure 1. Market Value Average Data of Indonesian Capital Market Based on Price to Earning Ratio for the Period 2021-2023

Source: *idx.co.id* (data processed)

Various factors can impact the overall value of a company, both from the external and internal sides. Based on the company's external factors, Environmental, Social, and Governance (ESG) performance is a factor that can affect firm value. This is based on the fact that the company's operational performance can have a negative impact on environmental factors (Abrams et al., 2021). Based on this, the assessment related to ESG performance in the company is an essential indicator in assessing its sustainability and responsibility in its operations. ESG performance shows the company's level of commitment to the surrounding environment and efforts to minimize the negative impact of unsustainable business processes (Ani, 2021; Nur & Panggabean, 2023; Wibawa & Khomsiyah, 2022). With this assessment, companies will gain a positive reputation from investors and can strengthen their competitive position in the market to increase demand for shares and ultimately maximize the company's market value (Alsayegh et al., 2020; Lin & Qamruzzaman, 2023). Several studies have examined the influence of ESG on company value, including: (Anisa & Nikmah, 2023; Dincă et al., 2022; Handayati

et al., 2022; Khairredine et al., 2024; Ningwati et al., 2022; Nurhayati et al., 2021) Studies state that companies that make ESG disclosures can gain investor trust and increase their value.

To integrate ESG principles into the company's operations, the company also demonstrates a commitment to sustainable and responsible business practices, which can enhance reputation and trust among investors and other stakeholders. However, on the other hand, the cost needed to implement ESG is one of the factors that can affect a company's valuation (Lee & Suh, 2022; Tao et al., 2022). In this case, the company is required to have good performance so that it can maximize the company's value (Ahadiya, 2021; Koko Safitri, 2021). Good company performance can reflect the success of the company's management in managing its operations in a certain period, which can be seen based on the corporate sustainable growth rate (SGR) factor. The SGR concept shows the company's ability to generate sales and asset growth without changing the existing capital structure (Ariesa et al., 2023; Febriani et al., 2022; Priyanto & Robiyanto, 2020). SGR is the financial policy of each company following the

growth of the company (Mat Nor et al., 2020). This concept is driven by the motivation to make sustainable profits in the future (Mukherjee & Sen, 2019). Investors will tend to prefer stocks of companies that promise higher SGR. Companies with a high SGR generally have a more significant internal funding source and promising prospects, ultimately impacting the company's value. This assertion is widely supported by research linking SGR to company value (Febriani et al., 2022; Ramadhan et al., 2022; Rohmah & Shodiq, 2024; Vivianita et al., 2023). Accordingly, it may be inferred that the financial performance of companies is a critical factor in adopting ESG principles. The integration of ESG considerations into a company's operations, when coupled with the stability of its financial performance, has the potential to enhance its overall value.

This study aims to examine the effect of ESG performance on company value with SGR moderation in companies indexed by the Jakarta Islamic Index (JII) for the 2021-2023 period. The ESG performance proxy in this study uses ESG Scoring issued by Sustainalytics. Sustainalytics is a prominent independent ESG research, ranking, and data firm that provides valuable support to investors globally in formulating and executing responsible investment approaches (Fachrezi et al., 2024). The Indonesia Stock Exchange (IDX) has collaborated with Sustainalytics to conduct ESG Scoring on several listed companies to encourage the implementation of sustainable finance in companies, and the assessment is called ESG Risk Rating (Indonesia Stock Exchange (IDX), 2021). Sustainalytics' ESG Risk Rating measures the exposure and management to material ESG risks and how well the company manages those risks. Thus, the ESG Risk Rating value refers to the implementation of ESG practices in the company, where the lower the ESG Risk Rating value, the better the company's ESG performance because a low ESG Risk Rating has good exposure and management value and minimal controversy. The ESG Risk Rating categories are as follows (Indonesia Stock Exchange (IDX), 2021):

Table 1. ESG Risk Rating Category

Risk Score	0-10	10-20	20-30	20-40	>40
Category	Negligible	Low	Medium	High	Severe

Source: idx.co.id

Research on ESG performance using the ESG Risk Rating proxy is still limited, especially on issuers listed in the Jakarta Islamic Index (JII). Research is generally more likely to use issuer objects included in ESG-based indices. The implementation of ESG on the Indonesian stock exchange is not only limited to issuers indexed in ESG-based stocks, but it is a broader concern in the Indonesian capital market and includes a variety of more comprehensive initiatives. Issuers that implement ESG in their operations will get more attention and are increasingly in demand by investors; in addition to the standards set more widely in the Indonesian capital market, they also encourage issuers and investors to integrate sustainability into their investment strategies. One of them is the issuer indexed in the JII index. Based on this description, the researcher related to the influence of ESG performance on the firm value with moderation of corporate SGR in JII-indexed companies for the 2021-2023 period. The hypotheses proposed in this study are as follows:

H1: ESG performance has a significant effect on firm value.

H2: SGR can moderate ESG Performance and firm value variables.

2. RESEARCH METHODS

The study employs a quantitative approach using Moderated Regression Analysis (MRA) to analyze the influence of ESG performance variables on firm value, considering the moderation of the corporate SGR. The research focuses on companies listed in the JII index from 2021 to 2023, with purposive sampling, a non-probability sampling technique involving specific criteria for the entire Population (Hardani, 2020). The criteria used in selecting samples are:

- Companies included in the JII index from 2021 to 2023.
- The company possesses complete financial statements for 2021-2023.

The study consists of 20 companies selected from the JII index during the 2021-2023 period using purposive sampling. Therefore, the total panel data utilized in this study is 60. The following is the list of companies included in this study:

Table 2. List of Research Samples

No.	Code	Issuer Name	No.	Code	Issuer Name
1	ADRO	Adaro Energy Indonesia	11	ITMG	Indo Tambangraya Megah
2	ANTM	Aneka Tambang	12	KLBF	Kalbe Farma
3	BRIS	Bank Syariah Indonesia	13	MIKA	Mitra Keluarga Karyasehat
4	CPIN	Charoen Pokphand Indonesia	14	PGAS	Perusahaan Gas Negara
5	EXCL	XL Axiata	15	PTBA	Bukit Asam
6	ICBP	Indofood CBP Sukses Makmur	16	SMGR	Semen Indonesia (Persero)
7	INCO	Vale Indonesia	17	TLKM	Telkom Indonesia (Persero)
8	INDF	Indofood Sukses Makmur	18	TPIA	Chandra Asri Pacific
9	INKP	Indah Kiat Pulp and Paper	19	UNTR	United Tractors
10	INTP	Indocement Tungal Prakarsa	20	UNVR	Unilever Indonesia

Source: idx.co.id

The study utilizes secondary data, specifically the company's financial statements, which are available on idx.go.id Website. This study will analyze three variables: ESG Performance as an independent

variable, firm value as a dependent variable, and SGR as a moderation variable. Here are each of the research variables and their measurements.

Table 3. Research Variables

Variable	Indicator	Source
ESG Performance	ESG Risk Rating	sustainalytics.com/esg-rating
Firm Value	$PER = \frac{\text{Market Price per Share}}{\text{Earning Per Share}}$	(Rashid & Islam, 2008)
SGR	$SGR = ROE \times \text{Earning Retention Rate}$	(Stowe, 2007)

The analysis in this study involved using a moderated regression analysis (MRA) test. This assessment examines whether the moderating factor can enhance or diminish the connection between the independent and dependent factors. The model for determining the impact of independent factors on dependent factors with moderating factors is as follows:

$$(I) \quad FV = \alpha + \beta_1 ESGp + \varepsilon$$

$$(II) \quad FV = \alpha + \beta_1 ESGp + \beta_2 SGR + \beta_3 ESGp * SGR + \varepsilon$$

Information:

FV : Firm Value (Y)

A : Constant

B1- B3 : Regression coefficient direction

ESGp : ESG Performance (X)

SGR : Sustainable Growth Rate (M)

ESGp*SGR : The interaction between ESG Performance and Sustainable Growth Rate.

ε : Error

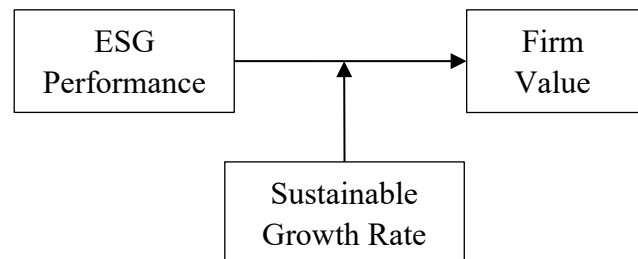


Figure 2. Conceptual Framework

3. RESULTS AND DISCUSSION

3.1. Results

3.1.1. Descriptive statistics

In this study, descriptive statistics are used to provide an overview of the data. The results of descriptive statistics using E-views 12 are shown in the table below.

Table 4. Descriptive Statistics

	Firm Value	ESG Performance	SGR
Mean	17.02867	30.89400	1291.626
Maximum	44.55000	44.48000	13963.92
Minimum	2.340000	17.33000	0.660000
Std. Dev.	10.94259	7.455797	2942.863
Observations	60	60	60

Source: output e-views 12

According to the descriptive statistics in Table 3, the average values for the firm value and ESG performance variables are higher than the standard deviation values. This suggests that the data distribution for these variables is consistent. The more minor standard deviation than the mean indicates limited deviation in the research variables. On the other hand, the average value of the SGR variable is lower than the standard deviation value, indicating a relatively high variability in the data.

3.1.2. Model Selection Test

In testing panel data, three approaches can be taken, namely the Random Effect Model (REM), the Fixed Effect Model (FEM) and the Common Effect Model (CEM). Based on this, an analysis is conducted to choose the most appropriate model. Model selection tests can be carried out using the likelihood ratio (chow test), Hausman test, and Lagrange multiplier test. The following are the results of the model selection test for the three estimation models in this study.

Table 5. Model Test Results

	Model Estimation	Prob	Model Selection
Research model 1			
Likelihood Ratio/Chow Test	EMF/FEM	0.0424	FEM
Hausman test	REM/EMF	0.0979	REM
Lagrange Multiply/LM Test	CEM/REM	0.6580	CEM
Research model 2			
Likelihood Ratio/Chow Test	EMF/FEM	0.0868	CEM
Lagrange Multiply/LM Test	CEM/REM	0.9801	CEM

Source: output e-views 12

Based on the findings from the model test presented in Table 4, it can be inferred that research model 1 and research model 2 use the common effect model (CEM) approach. This is because the range multiplier test values produced by each research model are 0.6580 and 0.9801 (greater than 0.05), so it can be concluded that the selected model is a common effect model. Thus, classical assumption tests are needed to ensure that the regression equations are free

from data normality, multicollinearity, heteroskedasticity, and autocorrelation problems.

3.1.3. Classical Assumption Test

The classical assumption test aims to determine whether the variable data used in this study is free from data normality, multicollinearity, heteroscedasticity, and autocorrelation problems. The following are the results of the classical assumption test for the three research models used in this study.

Table 6. Classical Assumption Test

Classical Assumption Test	Model Estimation	Result	Results
Normality Test (Probability Jarque-Bera > 0.05)	Model 1	0.257627	Normally distributed
	Model 2	0.245304	Normally distributed
Multicollinearity Test (1<VIF<10.00)	Model 1	ESGp: 1.302941	No Multicollinearity Occurs
	Model 2	ESGp: 1.013786 SGR: 1.014540	No Multicollinearity Occurs
Heteroscedasticity Test (Prob. Breusch-Pagan-Godfrey >0.05)	Model 1	0.6241	No Heteroscedasticity Occurs
	Model 2	0.1915	No Heteroscedasticity Occurs
Autocorrelation Test (LM Test > 0.05)	Model 1	0.3447	No Autocorrelation Occurs
	Model 2	0.3476	No Autocorrelation Occurs

Source: output e-views 12

Based on Table 5, the data in these two research models are free from the classical assumption problem. This means that the data used in this study has met the criteria of Best Linear Unbiased Estimator (BLUE); namely, the model estimation is unbiased,

consistent, normally distributed, and efficient so that it can be used as a valid test tool.

3.1.4. Hypothesis Test

Based on the model selection test in Table 4, hypothesis testing for research models 1 and 2 uses the

common effect model (CEM). The decision-making process for hypothesis testing in the model is that when the variable probability level is less than

0.05, the hypothesis in this study is accepted. The following are the results of hypothesis tests of models 1 and 2 with common effect models (CEM).

Table 7. Hypothesis Test Results

Variable	Coefficient	Std. Error	T-Statistics	Prob.	Results
ESGp → FV	-0.046891	0.020986	-2.234391	0.0314	H1 Accepted
ESGp*SGR → FV	0.005565	0.001209	4.601934	0.0001	H2 Accepted

Source: output e-views 12

From the results of the hypothesis test in Table 6, the result is that the probability level of the ESG performance variable is less than 0.05, which is 0.0314. This implies that the ESG performance variable significantly affects firm value. Therefore, it can be concluded that H1 is accepted. Then, based on the results of hypothesis testing for moderation variables, the result was obtained that the probability level of ESG performance and SGR interaction variables was less than 0.05, which was 0.0001. The results indicate that the SGR variable can moderate the relationship between ESG performance variables and firm value. Therefore, based on these findings, it can be concluded that H2 is accepted.

3.1.5. Determination Coefficient Test (R^2)

The coefficient of determination test assesses the extent to which the independent variables can account for the variations in the dependent variables within the analyzed equation model. The specific outcomes of the coefficient of determination test for the two-equation models mentioned earlier are as follows:

Table 8. Determination Coefficient Test Results (R^2)

Model Estimation	R Square
Model 1: $Y = 258.879799215 - 0.0468907295783 \cdot X$	0.116125
Model 2: $Y = 215.214266698 - 0.0246493660113 \cdot X - 0.0256379142666 \cdot M + 0.00556518879006 \cdot XM$	0.476680

Source: output e-views 12

According to the determination coefficient test in Table 7, the R Square value in equation model 1 was 0.116125, indicating that the ESG performance variable can influence firm value by 11.6%, with 88.4% attributed to other variables not included in the study. In equation model 2, the R Square value was 0.476680, showing that ESG performance, SGR, and the interaction between ESG performance and SGR can collectively affect firm value by 47.7%, with

52.3% influenced by other variables beyond the scope of the study.

3.2. Discussion

3.2.1. The Effect of ESG Performance on Firm Value

According to the results of hypothesis testing in Table 6, it is evident that the first hypothesis of this study is accepted. This means there is a significant influence between ESG performance and firm value in companies listed on the JII index from 2021 to 2023. The t-test results show that the variable coefficient of ESG performance is negative; this means that when the level of ESG performance is low, the firm value level will increase significantly. In this study, the level of ESG performance is measured based on ESG Risk Rating. ESG Risk Rating uses a multidimensional approach by combining the company's management concepts and exposure to risk in the final assessment of ESG risks. ESG Risk Rating first evaluates a company's exposure to industry-specific ESG risks and then assesses the management's handling of those risks. The company's exposure here is a company's vulnerability to ESG risks. The lower the company's exposure level, it can be interpreted that ESG risks can be ignored.

Empirical data from companies indexed by JII during the 2021-2023 period shows that the majority of companies show a reasonably high ESG value, namely in the High (ESG risk rating 30-40) and Serve (ESG risk rating >40), which shows that the company is considered to have high and heavy ESG risk. Companies with a high level of ESG risk demonstrate a deficiency in the management's ability to effectively address ESG-related responsibilities, leading to a failure to prioritize stakeholders' interests. (Sitorus et al., 2023). The findings of this investigation are consistent with the results of previous studies on the identical subject matter. (Cohen, 2023; Istikomah et al., 2023) This indicates that ESG risk adversely affects corporate value. The findings of this study contradict the outcomes of previous studies conducted

by other researchers (Fachrezi et al., 2024; Priandhana, 2022) Explains that ESG risk has a negative but insignificant effect on corporate value and does not significantly affect the company's financial performance.

3.2.2. The Effect of ESG Performance on Firm Value with Moderation of the Sustainable Growth Rate

The results of the hypothesis testing presented in Table 6 indicate that the study has supported the second hypothesis, namely that the Sustainable Growth Rate (SGR) can moderate ESG performance and firm value variables in companies indexed by JII for the 2021-2023 period. The analysis shows that SGR can significantly strengthen the influence between ESG performance and firm value. Following the data presented in Table 7 about the R Square values for each model, it is evident that the relationship between ESG performance and firm value is characterized by a magnitude of 11.6%, meaning that the level of influence produced is included in the weak category. Then, after being given the moderation variable between ESG performance and firm value, the amount of influence obtained increased by 47.7%, meaning that the level of moderation produced increased and was included in the moderate category.

A high level of SGR can strengthen the influence of ESG performance on firm value. The SGR concept shows the company's ability to generate sales and asset growth without changing the existing capital structure in the long term (Ariesa et al., 2023; Febriani et al., 2022; Priyanto & Robiyanto, 2020). In this situation, a higher SGR indicates that companies can rely more on their internal financing sources to sustain their sales growth. In the long run, it can be profitable for investors. In addition, a high SGR indicates that the company has a more significant source of internal funding and better prospects so that the company will be increasingly in demand by investors. The statement aligns with the concept of signal theory, which explains that investors will respond according to the transparency of the information published by the company (Suganda, 2018). Thus, it can be concluded that the implementation of ESG in company operations must be accompanied by better stability of the company's financial performance so that its value can increase significantly. The findings of this study indicate a linear relationship as a result of research conducted by (Chang & Yoo, 2023; Listiani & Supramono, 2020), which explains that the industrial

growth rate can influence the connection between corporate social responsibility and firm performance. In contrast, the sustainable growth rate can intervene in the connection between fixed asset growth and firm value.

4. CONCLUSION

Based on the results of the study, which discusses the influence of ESG performance on firm value with a moderate, sustainable growth rate (SGR) in JII-indexed companies for the 2021-2023 period, it is concluded that ESG performance proxied by ESG Risk Rating has a significant effect on firm value in JII-indexed companies for the 2021-2023 period. The influence is negative; the higher the ESG Risk Rating value, the lower the company's value will decrease. This shows that companies must be able to manage the level of ESG risks that will be faced to minimize losses that will be incurred in the future. Then, SGR can moderate the influence of ESG performance on firm value in JII-indexed companies for the 2021-2023 period. A high SGR level indicates the company's performance level in growing sustainably without changing the existing capital structure. Additionally, a high SGR rate has the potential to entice investors to consider investing in the company, as it indicates better performance prospects for the company. This is important to ensure the company's financial stability by reducing the level of ESG risks that the company will face, increasing investor confidence, and ultimately increasing the company's value.

This study has several limitations, namely, the research period studied is only three years, namely 2021-2023. The variable used to analyze the company's value is only one variable, namely ESG performance based on ESG Risk Rating, which is an assessment indicator that has only been used for four years in the Indonesia Stock Exchange. Based on this, there are several suggestions for future researchers, namely by increasing the number of research periods and being able to add other variables related to non-financial and financial performance in companies indexed in Sharia stocks, such as using ESG analysis based on each segment, namely environmental performance, social disclosure, and good corporate governance. In addition, researchers can also use different analysis methods, such as qualitative methods, to find a comprehensive picture related to each variable in this study.

5. ACKNOWLEDGMENTS

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