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THE MODERATING ROLE OF THE BOARD OF DIRECTORS AND SHAREHOLDER OWNERSHIP CONCENTRATION ON THE RELATIONSHIP BETWEEN ESG PERFORMANCE AND FINANCIAL PERFORMANCE

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Abstract

ESG is important factor in running a business, where its optimal implementation is believed to drive a company success and make it more attractive to investor. Through testing and analysis, this research investigates the relationship between the size of the board of directors and shareholder ownership concentration can moderate the relationship between ESG performance and financial performance. The sample uses data from 29 public companies in Indonesia operating outside the financial sector, for the period 2020-2024. The data was obtained from Refinitiv Eikon and company annual reports. The proxy variable for ESG performance in this study is the ESG Score, the number of board directors, and the top three largest shareholdings, the study aims to examine their influence in strengthening or weakening the relationship between ESG performance and financial performance. Empirical findings indicate that the effectiveness of ESG relationship and financial performance depends on the existence of a board of directors, but it is not influenced by concentrated share ownership structures.

Keywords: ESG Performance; Board of Directors; Shareholder Ownership Concentration; Financial Performance.

Abstrak

ESG merupakan faktor penting dalam menjalankan bisnis, di mana implementasinya secara optimal dipercaya mampu mendorong kesuksesan perusahaan dan dapat lebih menarik di mata investor. Penelitian ini menguji dan menganalisis bagaimana jumlah dewan direksi dan konsentrasi kepemilikan pemegang saham dapat memoderasi hubungan antara kinerja ESG terhadap kinerja keuangan. Sampel perusahaan menggunakan data 29 perusahaan publik sektor non keuangan di Indonesia selama tahun 2020-2024. Data diperoleh dari Refinitiv Eikon dan laporan tahunan perusahaan. Dengan menggunakan data ESG Score sebagai proksi variabel kinerja ESG, jumlah dewan direksi, jumlah persentase tiga kepemilikan saham terbesar sebagai proksi variabel moderasi untuk menemukan hubungan nya terhadap kinerja keuangan. Analisis regresi data panel pada STATA menunjukkan bahwa hasil dewan direksi dapat memoderasi hubungan antara kinerja ESG terhadap kinerja keuangan, konsentrasi kepemilikan saham tidak dapat memoderasi hubungan antara kinerja ESG terhadap kinerja keuangan.

Kata Kunci: *Kinerja ESG; Dewan Direksi; Konsentrasi Kepemilikan Pemegang Saham; Kinerja Keuangan.*

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INTRODUCTION

Recently, countries around the world have actively promoting three pillars concept ESG in business. The concept that was initially viewed as separate are now seen by the global community as interrelated. The first aspect is related to the environment, this aspect is a major and crucial concern at the global level, particularly global warming (IPCC, 2023). Global warming is a phenomenon of increasing the average temperature of the earth caused by increasing concentrations of greenhouse gases (such as CO_2, CH_4, N_2O) in the atmosphere, which trap the sun's heat and warm the Earth (Arora, 2020).

The second aspect of ESG is social. Global issues include inequality, human rights, social justice, and the gap between rich and poor. The richest 1% of the population controls nearly two-thirds of global wealth (Bosmans & Ozturk, 2019; Junaedi, 2024; Chancel, 2022). Responses to these issues include calls for progressive tax policies, increases in minimum wages, and corporate CSR initiatives focused on empowering impoverished poor communities (LeBaron et al., 2022; Tjan, 2024; Zhang & Wang, 2025). In Indonesia, social issues continue to present serious challenges. Since 2022, the Jakarta Legal Aid Institute (LBH Jakarta) has received reports of several cases, including 115 complaints of agrarian conflicts, seven of which involved forced evictions (Hukumonline.com, December 2023).

Regarding the third aspect of ESG, namely governance, the world is currently facing numerous complex governance challenges, beginning with a crisis of legitimacy in global institutions.Organizations such as the PBB and WTO are considered ineffective in addressing international issues, including geopolitical conflicts, due to decision-making structures that are not inclusive and are heavily dominated by developed countries (Qian & Li, 2020). Meanwhile, in Indonesia, efforts to implement Good Corporate Governance (GCG) still face significant challenges. These issues arise because many government actors have not effectively carried out their duties in accordance with GCG principles, along with increasing corruption, nepotism, discriminatory practices in public services, and injustice in law enforcement.

ESG considers non financial factors that include environmental, social, and governance indicators that serve as important information that will affect the company's value and financial health in the future (Fu & Li, 2023). ESG performance is an indicator that reflects the harmony between humans, the environment, and society, with an emphasis on reducing greenhouse gas emissions, restricting hazardous chemicals, waste management, effective resource utilization, and biodiversity conservation (Chen & Xie, 2022). Consistent ESG practices demonstrate a company commitment to ESG performance indicators, which are not only oriented toward financial targets but also serve as a foundation for achieving long term corporate growth (Zainab&Burhany, 2020). Corporate awareness of environmental responsibility helps reduce the risk of financial losses and builds competitive advantage (Coelho et al., 2023).

Bhaskaran et al., (2020) argue that a company concern for employee well being for example, by providing a good work environment can increase employee motivation. As a result, employee productivity improves, ultimately enhancing firm value and business performance. Employees perceive corporate attention to ESG aspects as evidence that the company is caring, ethical, and committed to doing good. Firms with comprehensive ESG strategies tend to have lower costs, stronger public trust, and better collaborative relationships with stakeholders (Cherkasova & Nenuzhenko, 2022). ESG performance guides investors in allocating investments that are more ethical, responsible, and effective, thereby generating superior long-term performance (Berg et al., 2022).

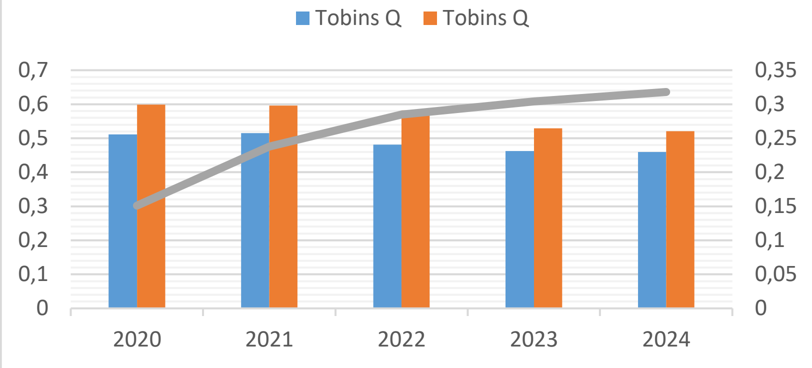
Previous findings on the relationship between ESG and financial performance has not yet reached a convergent conclusion. Several studies, such as Fu & Li (2023), Ahmad, et al., (2021), Nguyen & Compiegne (2023) identified a positive relationship, whereas Narula et al., (2024) found no significant correlation. Lubis & Rokhim (2021) reported that ESG negatively affects financial performance. Teng et al., (2024) show that excessive implementation of ESG practices has the potential to reduce financial performance, where operational costs are not covered by short term benefits. In addition, ESG performance can also reduce company valuation (Fatemi & Kaiser, 2018). This contradicts the assumption that ESG contributes to increasing company value. Furthermore, ESG increases operational costs, resulting in economic losses (Yoon & Byun, 2018).

Although responsibility for ESG aspects has become a growing trend in investment today (Qodary, 2021), many firms in Indonesia have not yet fully implemented ESG principles effectively. According to a survey by the Indonesian Business Council, Indonesia's ESG position is ranked 36th out of 47 countries, lagging behind Singapore, Malaysia, Thailand, the Philippines, and India (Investor.id). Furthermore, ESG implementation is not yet a priority for 40% of companies in Indonesia. (Sirait, 2024).

The implementation of ESG pillars in Indonesian companies is generally still in its early stages. (Nurahman et al., 2024). According to BPS data, the contribution of non-financial sector companies has a greater impact on Gross Domestic Product (GDP) than the financial sector, namely 57% (bps.go.id). The expansion of non-financial sector companies can have an impact on the environment, society, and governance of industrial activities. Inawati & Rahmawati (2023) revealed public companies in the non financial sector have a direct influence on the three pillars of ESG, such as carbon emissions, energy efficiency, industrial waste, excessive use of natural resources, and guarantee of health and safety while working. To examine the extent to which ESG phenomena affect companies' financial conditions, Figure 1 presents financial performance trends from 2020 to 2024.

In the environmental aspect, in 2019 PT Indofood was found to have improperly managed hazardous and toxic waste (B3), resulting in environmental pollution (Media Indonesia, 2019). This incident led to fluctuations in Tobin's Q in its annual financial reports from 2020 to 2024, recorded at 0.511, 0.515, 0.481, 0.462, and 0.460. In the social aspect, PT Pan Brothers was reported to have made a unilateral decision to cut employee wages and holiday allowances (THR) (CNBC Indonesia, 2021). This event caused changes in the company's Tobin's Q values from 2020 to 2024, which were 0.599, 0.596, 0.582, 0.529, and 0.521. In terms of governance, the financial statements of PT Hanson International contained material misstatements amounting to 613 billion rupiah (Kompas.com, 2020). This incident also led to changes in the company's Tobin's Q values from 2020 to 2024, recorded at 0.151, 0.238, 0.285, 0.304, and 0.318.

Figure 1. ESG Issues and Their Impact on Tobin's Q (2020-2024)



Ahmad et al., (2021) found that ESG aspects have potential to improve financial performance and increase company scale. However, this study is limited to companies in the UK in the context of mature ESG regulations and further research is needed in emerging markets, especially in companies such as Indonesia, which are still in the development stage of ESG regulations, namely POJK No. 51/POJK.03/2017. Furthermore, research by Ahmad et al., (2021), Albitar et al., (2020), Cherkasova & Nenuzhenko (2022) investigate the correlation between ESG and financial performance across all financial and non financial sectors. In fact, non financial sector public companies have a direct impact on ESG aspects compared to financial sector public companies, such as carbon emissions, energy efficiency, industrial waste and excessive use of natural resources, community relations, occupational health and safety, workers' rights, transparency, and board diversity (Inawati & Rahmawati, 2023).Previous empirical research only focused on revealing the direct relationship between ESG performance and company financial performance and have not considered the variables of the board of directors and shareholder ownership concentration as moderating variables (Ahmad et al., 2021; Coelho et al., 2023; Teng et al., 2024; Nguyen & Compiegne, 2023), thereby ignoring their influence in improving ESG performance on financial performance.

The board of directors has a primary role in overseeing the performance of the company's management in order to create alignment of interests between the principal and agent. The board's responsibilities include strict financial control to monitor company profits on an ongoing basis (Agarwal, 2020). A diverse board of directors encourages a wider exchange of ideas and ultimatelyhas a positive effect on the company's financial performance (Husted & Filho, 2019). A larger board has many diverse perspectives and skills that have a direct impact on strategic decision making such as asset allocation, innovation, or operational efficiency. This has the potential to increase revenue or reduce costs, thereby increasing ROA

Previous empirical findings are contradictory regarding the relationship between board size and financial performance. On the one hand, Yan, Hui & Xin (2021) revealed a negative correlation between board size and corporate financial performance. On the other hand, Almashhadani (2022) findings showed a significant positive relationship. A larger board of directors is able to improve its supervisory function over management, which in turn can improve the quality of information disclosure (Vitolla, et al., 2020). A larger board has diverse expertise, including in the field of ESG, which will help companies identify ESG issues that are material to the business and stakeholders.

The relationship between ESG and financial performance can also be influenced by shareholder ownership concentration (Selcuk, 2019). When ownership concentration is high, dominant shareholders can make decisions in line with the company's development vision, so that an increase in ownership concentration can actually reduce agency costs, improve operational efficiency, and ultimately increase company value (Shiyu Wu, Xinyi Li, 2022).Large shareholders may have incentives to disclose more ESG information. However, they can also use their position to gain personal benefits at the expense of minority shareholders, which ultimately raises agency issues (Kao et al., 2019).

There are inconsistent results in previous studies, where Wu et al. (2022) found that concentrated share ownership in one large shareholder did not have a significant impact on company value. Then, Abdallah & Ismail (2017) showed a negative correlation between share ownership concentration and company financial performance. However, Queiri et al., (2021) & Sarhan (2023) proved that shareholder concentration can affect company performance. High concentration of share ownership gives dominant power so that majority shareholders have a major influence on the strategic decision making process. Queiri et al., (2021)

This research was conducted based on the following, First, In the Indonesian context, this study aims to determine the impact of ESG performance on financial performance under POJK No. 51/POJK.03/2017, but its implementation remains low. Most companies, around 40%, are still unaware of the importance of ESG pillars (IBCSD Survey, 2021). Second, there are inconsistencies in previous findings, where several studies such as Fu & Li (2023) and Ahmad et al. (2021) stated that ESG performance can improve financial performance, while Lubis & Rokhim (2021) and Fatemi et al., (2018) show negative or insignificant effects. This calls for a more in-depth analysis by including two moderating variables to determine does this variable have the potential to strengthen or weaken the relationship between ESG performance and a company's financial performance. The novelty of this research is the addition of two moderating variables, namely the board of directors and shareholder ownership concentration. Furthermore, with the latest observation period, namely 2020–2024, this study uses the latest post-pandemic data when ESG awareness has increased and many companies are adapting to regulations and global investor pressure for ESG transparency.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory states that a company must pay attention to the interests of the parties involved in company activities, such as employees, customers, the community, the government, and shareholders (Rahmaniati & Ekawati, 2024). In this context, Disclosing information related to ESG performance is a strategic effort to maintain positive relationships with stakeholders. In stakeholder theory, it is stated that more comprehensive ESG reporting enables companies to make truthful statements that are more readily accepted by stakeholders (Deegan, 2014). ESG aspects can not only benefit stakeholders, but they can also provide financial benefits for shareholders and companies. The main role of Stakeholder theory in this context is as a theory underlying the correlation between ESG performance and financial performance.

AgencyTheory

The board of directors has a key role in reducing information asymmetry between stakeholders and capital owners. (Chung et al., 2010). The board of directors serves as the primary supervisor of management performance with the aim of protecting the interests of shareholders. The effectiveness of the board of directors is highly dependent on the availability of relevant and complete information from management, so that stakeholders can make the right decisions. Therefore, the competence, experience, and expertise of the directors are key factors in performing their supervisory function optimally (Bear et al., 2010).

Jensen and Meckling (1976) state that agency theory is related to the concentration of share ownership through the analysis of agency costs and how concentrated ownership can influence managerial actions. According to Jensen and Meckling (1976), the role of shareholder ownership concentration in reducing agency costs can be achieved through a supervisory mechanism, whereby shareholders with large holdings (blockholders) have a greater incentive to supervise managerial decisions because they bear more financial risk.

ESG Performance

Through ESG benchmarks, we can determine the extent of a company's contribution and impact on environmental sustainability, social welfare, and good governance practices, so that companies are not only profit-oriented but also responsible and concerned about social welfare, environmental sustainability, and governance (Flink, 2024). Zhao et al., (2023) reveal three aspects of ESG, namely the environment, social contribution, and governance. The environmental dimension prioritize the importance of improving environmental performance in order to reduce environmental expenditures, especially those related to production costs and operating expenses. Social responsibility requires companies to align themselves with business ethics and rights of shareholders and to engage with external parties Jo, et al., (2015). According to Erlangga (2024), corporate governance reflects a management system that regulates the distribution of shareholder rights and the management of the board of directors so that it can be divided fairly (Erlangga, 2024).

Financial Performance

Financial performance is an evaluation of financial health that includes assets, liabilities, capital, expenses, income, and profits. Furthermore, Financial performance is an indicator that describes a business's achievement in generating its profit target and how the company's activities are in line with its vision and mission. There are two objectives of financial performance measurement. First, for internal users, it is used to assess the success of the financial position. Second, for external users, it is used as a guideline in evaluating investment opportunities and determining the value of the company (Anjelina, 2020) .

Board Size

In its role, the board of directors oversees the company's regulations to ensure compliance with relevant legal provisions, guarantees that the company optimally fulfills its social and environmental responsibilities, leads the company in implementing ethical and sustainable business practices, and creates positive benefits for society. A larger board will have a positive and significant impact on company performance (Neralla, 2022).

Ownership Concentration

The conflict of interest that occurs between management and capital owners is the main discussion of agency theory. This is due to differences in interests, whereby managers make decisions to obtain personal gain rather than maximize company value (Jensen & Meckling, 1976). ESG practices can be categorized as an agency problem when managers allocate excessive investments to improve the company's reputation. (Serafeim & Yoon, 2022). As a result of this reputation, managers'confidence can increase, and overconfident CEOs sometimes invest excessively or make decisions that destroy value (Malmendier & Tate, 2005).

The Relationship Between ESG Performance and Financial Performance

Sustainability strategies will create greater growth for companies because they will attract the attention of many corporate stakeholders (Buallay, 2019). Therefore, important information must be disclosed, both financial and non-financial, to meet stakeholder demands for information on the company's financial performance and the implementation of corporate governance. Azhar et al. (2023) reveal that the main reasons companies engage in ESG activities are to reduce company risk, improve market performance, and strengthen the company's sustainable development capabilities.

Ahmad et al., (2021) and De Lucia et al., (2020) prove a significant positive correlation between ESG and financial performance. Through ESG reporting, the presence of investors motivates companies to be more transparent and improve their disclosure standards (Aboud & Diab, 2018). According to stakeholder theory, corporate engagement in maintaining positive relationships with stakeholders can improve financial performance (Hamman et al., 2010).

H1: ESG performance has a relationship with a company's financial performance.

The Relationship of ESG Performance on Financial Performance with Board of Directors Size as a Moderating Variable.

A larger board of directors optimizes its oversight function, fulfilling its obligations and prioritizing shareholder interests. Furthermore, a larger board brings diverse expertise, generating a wealth of ideas that enable effective discussion and negotiation. Neralla (2022) reveals that a larger board of directors has a significant positive impact on financial performance and helps strengthen the decision-making process.

Various empirical findings prove that the size of the board of directors has a significant positive relationship with the implementation of ESG pillar practices, as found by Allegrini & Greco (2013), Almashhadani (2022), Husted & Filho (2019). A larger board of directors increases oversight and accountability because there is more expertise in ESG-related decision-making. For example, large boards tend to have special committees on sustainability that focus on ESG issues. The findings of Husted & Filho (2019) reveal that boards of directors with a large number of members generally have a higher capacity to integrate ESG performance into the company because they are supported by a wider variety of member expertise.

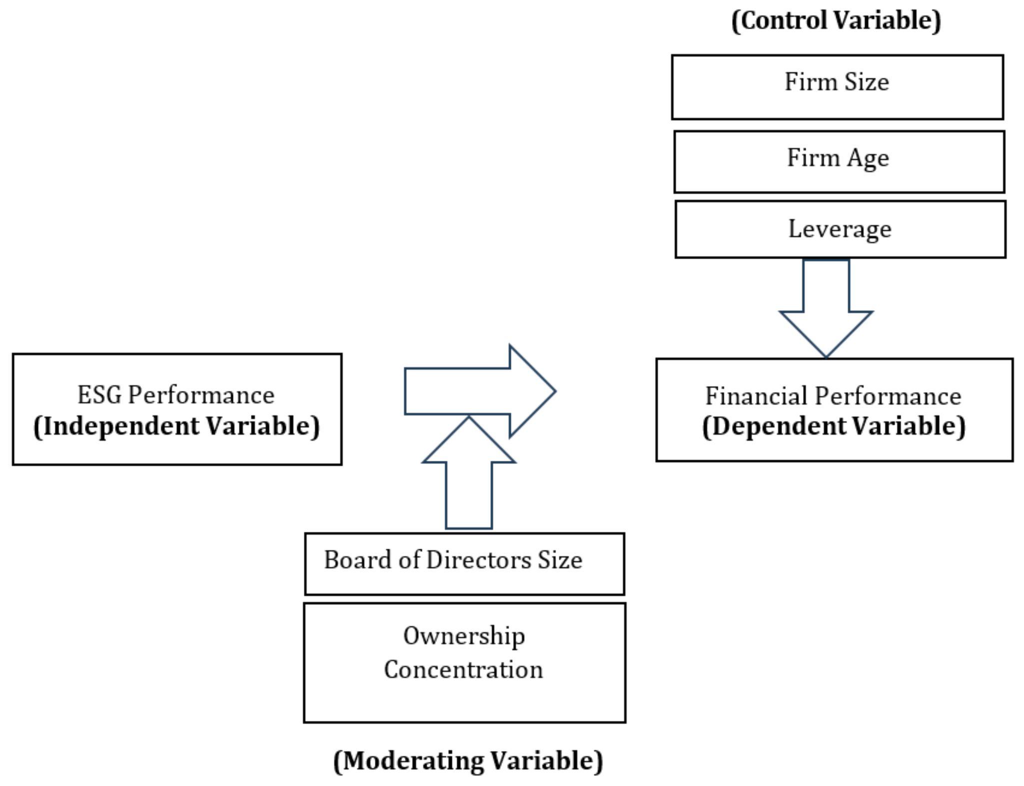
H2: The Size of the Board of Directors can strengthen the Relationship between ESG Performance and Corporate Financial Performance.

The Relationship between ESG Performance and Financial Performance with Shareholder Ownership Concentration as a Moderating Variable.

Martins (2024) proves that shareholder ownership concentration is an effective oversight mechanism for influencing ESG practices in companies targeting greater market value. High shareholder ownership concentration tends to encourage decision-makers to take a long-term perspective, thereby improving ESG performance effectiveness (Kong, Y.S., 2018). Concentrated share ownership among a few major shareholders has a crucial influence on ESG performance because large shareholders often have greater power in decision making (Dam & Scholtens, 2013). For example, creating policies for the use of renewable energy (solar, wind), optimizing energy efficient machines, so that there is a long-term cost-saving impact. When ownership concentration is high, dominant shareholders can make decisions in line with the company's development vision so that an increase in ownership concentration can reduce agency costs and improve operational efficiency (Shiyu Wu, 2022). According to stakeholder theory, large shareholders have the power to implement ESG practices that are useful for their personal interests and can establish good relationships with many stakeholders (Dam & Scholtens, 2013; Brooks & Oikonomou, 2018).

H3: Shareholder Ownership Concentration can Strengthen the Relationship between ESG Performance and Corporate Financial Performance.

Figure 2.
Research Framework Model



RESEARCH METHODOLOGY

The unit of analysis in this study consists of non financial public companies in Indonesia Stock Exchange (IDX) in the period 2020 to 2024. Sampling technique is purposive, which means that subjects are selected based on the research objectives. Data collection techniques involved compiling quantitative data from the companies' annual financial reports and ESG Score reports from Refinitiv eikon. The company's annual report is one source of data on the composition of the board of directors and share ownership structure. The data was tabulated using Excel for processing with STATA. The total population of non-financial public companies was 847, while the number of non-financial public companies that did not have complete ESG score was 807, and the number of non-financial public companies that did not include other information was 10. Over a period of five years, 29 companies were selected as research subjects, producing a sample data set of 145.

Table 1. Research Sample Criteria

Description	Total
Non financial public sector companies listed on the Indonesia Stock Exchange (IDX) 2020-2024	846
Non financial public sector companies that did not consistently report ESG Scores from 2020 to 2024	807
Non financial companies that go public but do not have the required supporting information	10
Final Number	29

Source: Processed by the author (2025)

The research model in this study is as follows:

FPE= β0 + β1ESG + β2Lev + β3LogFS + β4FAGE+Ɛ

FPE = β0 + β1ESG +β2ESG* BSize + β3ESG*βOC β4Lev + β5LogFS + β6FAGE + Ɛ

β1ESG : ESG Performance
β2BSIZE : Board Size
β3OC : Ownership Concentration
β4Lev : Leverage
β5LogFS : Firm Size
β6FAGE : Firm Age

Financial performance is measured using a metric known as Tobin's Q. One consideration in using Tobin's Q is its ability to take into account changes in stock prices and investment growth (Bhandari et al., 2022).

$$\text{Tobin's Q} = \frac{Total\ Market\ Value + Book\ Value\ Of\ Liabilities}{Total\ Book\ Value\ Of\ Asset} \times 100\%$$

Description:
Tobin’s Q = Financial Performance
Total Market Value = Market Capitalization Value
Book Value Of Liabilities = Total Debt
Total Book Value of Assets = Total Aset

ESG Performance

ESG performance encompasses three main dimensions, namely environmental, social, and governance (Changhong & Yunfei, 2018). ESG Scores are a proxy that can measure a company's ESG performance (Li et al., 2018).

Board Size

The board of directors, which has the highest and most crucial supervisory function, is responsible for overseeing management policies and playing a role in determining the company's most strategic direction and decisions. In this study, the size of the board of directors is measured by finding the total number of directors at the end of the year (Souther, 2021).

Ownership Concentration

Conceptually, the level of ownership concentration describes the control of shares by majority shareholders and reflects the extent of that control over the company (Selcuk, 2019). For research data purposes, the proportion of stock was measured using the cumulative method, which involves adding up the ownership percentages of the three largest shareholders (Selcuk, 2019).

RESULT AND DISCUSSIONS

Descriptive Statistics Results Analysis

The results of the Descriptive Statistics Analysis of the Research can be displayed in Table 2, which explain the characteristics of the dependent, independent, and moderating variables in the study. The descriptive statistics show a mean Tobin's Q value of 0.49 with a standard deviation of 0.211. A Tobin's Q value < 1 means that a company is more undervalued when compared to the replacement value of its assets. This means that the Company's market value less than its physical asset value or that its performance is less than optimal. In the eyes of investors, the company is considered inefficient or has low growth opportunities. The score of 51.709 is in the moderate category and indicates that ESG practices have been implemented, but there is still room for improvement. The size of the board of directors shows an average value of 6.9. The concentration of ownership of shares held by major shareholders has an average value of 78.36, implies that the shares are concentrated.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
TOBINSQ	145	0.49	0.211	0.081	0.994
ESGScore	145	51.709	18.593	15.59	89.18
BISA	145	6.903	2.155	4	15
OC	145	78.36	23.21	30.11	99.99
FS	145	31.566	.999	29.268	33.79
FA	145	25.276	8.763	5	42
LEV	145	.499	0.216	.081	.995

Source: Processed by the author (2025)

Multicollinearity Test

From the VIF values in Table 3, it can be seen that all values are below 10, This confirms that there are no symptoms of multicollinearity in the regression model.

Table 3. Multicollinearity Test

Variable	VIF	1/VIF
ESGScore	8.77	0.113967
FA	8.52	0.117337
LEV	5.23	0.191339
FS	1.43	0.699508
BISA	1.22	0.817373
OC	1.09	0.919109
Mean VIF	4.39	

Source: Processed by the author (2025)

Correlation Test

A correlation test was performed using Table 4. This test is conducted to detect whether there is a correlation between explanatory variables in a regression model. One important assumption in linear regression models is that there is no significant correlation between independent variables. There is no correlation between independent variables because the test results are below 0.9.

Table 4. Correlation Test

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	8
(1)TOBINSQ	1.000							
(2)ESGScore	0.073	1.000						
	(0.38)							
(3)BISA	0.075	0.214	1.000					
	(0.36)	(0.010)						
(4)WOB	0.003	-0.142	-0.228	1.000				
	(0.87)	(0.089)	(0.006)					
(5)OC	-0.040	0.286	0.143	0.141	1.000			
	(0.62)	(0.000)	(0.087)	(0.090)				
(6)FS	0.051	0.171	0.387	-0.439	0.124	1.000		
	(0.54)	(0.040)	(0.000)	(0.000)	(0.13)			
(7)FA	-0.027	0.296	0.021	0.038	0.257	-0.171	1.000	
	(0.74)	(0.000)	(0.806)	(0.647)	(0.00)	(0.039)		
(8)LEV	0.878	0.053	0.141	-0.034	-0.007	0.099	-0.084	
	(0.00)	(0.529	(0.091)	(0.682)	(0.89)	(0.238	(0.313)	

Source: Processed by the author (2025)

Chow Test

To determine whether the Common Effect Model or Fixed Effect Model is better suited for panel data regression analysis, the Chow Test is used. From Table 5, the Chow test results show a prob > F value of 0.000, with a significance value less than 0.005, so the selected model is the fixed effect model (FEM).

Lagrange Multiplier (LM) Test

In panel data modeling, the Lagrange Multiplier (LM) test aims to determine whether the Random Effect Model value exceeds the Common Effect Model value.

Table 5. Lagrange Multiplier Test (LM)

	Var	SD= sqrt (Var)
Tobins Q	0.0447087	0.2114444
E	0.000059	0.0076817
U	0.0017134	0.0413937

Test: Var (u) = 0	Chibar2 (01) = 234.44
	Prob > chibar2 = 0.0000

Source: Processed by the author (2025)

From Table 5, the results of the Lagrange Multiplier test show a Prob > chibar2 value of 0.0000 (<0.05), with a very small significance value of 0.005, which is the reason for choosing the REM model.

Hausman Test Results

The results of the Hausman test analysis in Table 6 show that a p-value of 0.4452 > 0.05, which means that the Random Effect Model (REM) is more appropriate than the fixed effects model (FEM). Therefore, further testing of this study will use the REM model.

Table 6. Hausman Test

Chi-Sq. Statistic	Chi-Sq.d.f.	Prob
6.84	4.000	0.4452

Source: Processed by the author (2025)

Through the Chow test procedure, Lagrange Multiplier test, and Hausman test, one test was obtained using the FEM model and two tests using the REM model. Therefore, the researchers in this study used the Random Effect Model (REM) in further data processing.

Panel Data Regression Analysis

There are two models that will be the main objects of analysis in this study. The first model describes the direct relationship between ESG Score variables and financial performance, while the second model describes the relationship between ESG Score variables and financial performance moderated by the size of the board of directors and the concentration of shareholder ownership.

The Relationship of ESG Performance on Financial Performance

As shown in Table 7, ESG performance does not have a significant effect on Tobin's Q, which is a financial performance indikator. p-value 0.327 is greater than the significance level. Previous empirical studies describe the impact of ESG on financial performance as highly variable between developed and developing countries. Studies in developed countries, such as as Ahmad (2021), Cherkasova & Nenuzhenko (2022), Camelia (2021) have found that ESG has an impact on financial performance. Research conducted in developing countries, such as Aboud & Diab (2018), Shiyu Wu, Xinyi Li (2022); Chen (2022) also found that ESG influences financial performance, but the findings of Barakat et al., (2024), Lubis & Rokhim (2021), Atan (2018) did not find that ESG performance influences financial performance.

Table 7. The Regression Results of Model 1

TOBINSQ	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
ESGScore	0.000	0.000	-0.98	0.327	-.000	0.000	
BS	-.001	0.001	-1.30	0.194	-.002	0.004	
OC	0000	0.000	0.07	0.942	-.000	0.000	
FS	-.001	0.003	-0.38	0.707	-.008	0.005	
FA	0000	0.001	-0.10	0.921	-.001	0.009	
LEV	0.988	0.01	95.28	0.000	0.96	1.008	***
Constant	0.052	0.106	0.49	0.622	-.156	0.261	

Mean dependent var	0.490	SD dependent var	0.211
Overall r-squared	0.741	Number of obs	145
Chi-square	11233.882	Prob > chi2	0.000
R-squared within	0.750	R-squared between	0.753

**** p<.01, ** p<.05, * p<.1*

Source: Processed by the author (2025)

Previous findings in developing countries have been inconsistent due to significant differences. In developed countries, ESG related regulations are stricter, investors are more responsive to sustainable practices, and companies are more concerned about ESG practices and have made them part of their business strategy (Berg, 2022; Brandon et al., 2021). Meanwhile, in developing countries, ESG implementation is still low, with Indonesia itself ranking 6th in ASEAN, below Singapore, Malaysia, and Thailand with an ESG score of 49/100 (Standard & Poors.com). Some investors also only focus on short-term profits, such as profits and revenue growth. This finding is reinforced by Shaikh (2021) argument that ESG implementation requires high capital costs and operational overheads, which has a direct effect on reducing company profit and reduce cash flow in the short term. In addition, financial aspects remain a major consideration for investors such as effective risk management, including credit, liquidity, and operational risks, which will reduce uncertainty in the cost of capital, thereby increasing the value of Tobin's Q (Zaiane & Moussa, 2021).

The Relationship Between ESG Performance and Financial Performance Moderated by Board Size

With a p-value of 0.075, which is below the significance level of 10%, the results in Table 8 can be seen to be statistically significant at that level. This means that board size can moderate the relationship between ESG performance and financial performance. Boards of directors with a larger number of members tend to have a higher level of collective intellectual ability than smaller boards of directors, which can provide more diverse perspectives, thereby helping to improve decision-making, possess expertise in various fields, and monitor performance and control management activities (Arora, 2016). The agency theory, which explains the relationship between board structure and ESG transparency, is confirmed by these findings. One of the main arguments is that the board of directors has a role in minimizing information asymmetry, both for stakeholders from within and outside the company (Chung et al., 2010). The monitoring role and transparency aspects implemented by the board of directors will reduce the risk of information misrepresentation and increase corporate accountability (Chung et al., 2010). A large board brings diversity of experience, including more comprehensive ESG decision-making (Khan, 2016). A company's commitment to ESG aspects beyond profit can be attractive and increase investment interest, so that the share value that reflects financial performance will increase (Wang et al., 2021). A board of directors with expertise in ESG will allocate budgets and incentives for sustainable programs, accelerate positive financial impacts, and ensure ESG implementation is in line with business targets. Furthermore, larger boards will be better able to integrate ESG strategies into their business strategies because they tend to have a variety of expertise (Husted & Filho, 2019). For example, a board of directors with a background in environmental expertise can help companies adopt renewable energy. H2 in this study is accepted. This study is in line with Neralla (2022) and Husted & Filho (2019), but it is not in line with Enilolobo & Adesanmi (2019), Raboshuk et al. (2023), and Chu Yan et al. (2021).

Table 8. Regression Results for Model 2

TOBINSQ	Coef.	St.Err.	t-value	p-value	[95% Conf.	Interval]	Sig
ESGScore	0.00	0.00	0.24	0.81	-0.00	0.00	
ESGScore_BS	0.00	9.78	1.78	0.075	0.00	1.74	*
ESGScore_OC	-2.72	1.03	-0.26	.792	-2.30	1.75	
FS	-.001	.003	-0.30	.765	-.008	.006	
FA	-0.00	.001	-0.17	.864	-.001	.001	
LEV	0.986	0.011	93.69	0.00	.965	1.006	***
Constant	0.039	0.106	0.37	.71	-.168	.247	

Mean dependent var	0.490	SD dependent var	0.211
Overall r-squared	0.728	Number of obs	145
Chi-square	11543.764	Prob > chi2	0.000
R-squared within	0.790	R-squared between	0.754

**** p<.01, ** p<.05, * p<.1*

Source: Processed by the author (2025)

The Relationship Between ESG Performance and Financial Performance Moderated by Shareholder Ownership Concentration.

As can be seen in Table 8, ESG performance has no significant relationship with financial performance (Tobins Q) moderated by shareholder ownership concentration in non-financial sector companies with a p value of 0.792, which is greater than the significance level of 10%. This could be because large shareholders prioritize short-term financial targets (dividends or quarterly profits) over long-term financial targets, thereby neglecting ESG investments whose benefits are only visible in the long term. This is in line with the findings of Yi su et al. (2021), which reveal that companies may neglect sustainability factors in order to increase shareholder wealth. Majority shareholders have greater power in decision-making, so decisions related to ESG performance can be determined by majority shareholders (Wang, 2020).

Majority shareholders who are more oriented towards short-term profits have not prioritized the implementation of ESG programs (Liao et al., 2018). Based on these findings, there are indications that in order to obtain maximum profits, it is suspected that large shareholders who are only oriented towards the short term have not considered ESG aspects because they can increase the company's operating expenses and reduce the company's profit margin. These findings are similar with Nikolaos' (2022) statement that dominant shareholder investors tend to avoid ESG strategies in order to maintain profitability, worrying about increased operational costs.

Thus, H3 in this study is rejected. Share ownership concentration cannot moderate the relationship between ESG performance and financial performance. Large shareholders are suspected of focusing only on short-term profits, while ESG strategies require higher initial costs and their results can only be seen in the long term, resulting in low shareholder support for ESG policies. As a result, concentration of ownership was found to have no significant effect on strengthening the relationship between ESG and financial performance. These findings are in line with Selcuk (2019), Martins et al. (2024), and Kong (2018). However, the findings obtained in this study differ from previous studies, such as by Shiyu Wu et al. (2022) and Abdallah & Ismail (2017).

CONCLUSION

Based on the findings, the following are the main conclusions that can be drawn from this study: First, ESG performance has no significant effect on a company's financial performance. This is because ESG implementation is still low, and some investors also focus only on short-term profits, such as profits and revenue growth. ESG implementation incurs very high capital costs and operational overheads, so in the short term, this ESG strategy can reduce company profits. Therefore, based on the analysis results, H1 was rejected. The results of this study support the findings of previous studies by Narula et al. (2024), Lubis and Rokhim (2021), but the results of this study are not in line with the studies by Fu & Li (2023), Ahmad et al. (2021), and Nguyen et al. (2023).

Second, the relationship between ESG performance and financial performance can be influenced by the size of the board of directors, because a larger board of directors is associated with intellectual diversity, multiple perspectives, improved decision-making, expertise in various fields, and the ability to monitor performance and control management activities. Thus, a larger board brings diversity of experience, including in making more comprehensive ESG decisions, which can improve the company's financial performance. Therefore, H2 in this study is rejected. The results of this study are in line with the studies by Neralla (2022) and Husted & Filho (2019), but this study is not in line with the studies by Enilolobo & Adesanmi (2019), Raboshuk et al. (2023), and Chu Yan et al. (2021).

Third, shareholder ownership concentration cannot moderate the relationship between ESG performance and financial performance. This could be because majority shareholders are more focused on short-term financial goals, such as dividends or quarterly profits, thereby neglecting ESG strategies whose benefits are only visible in the long term. The results of this study are consistent with the findings with Selcuk (2019), Martins et al., (2024), (Kong, 2018). However, the results of this study produced findings that contrasted with those of previous studies, for example Shiyu Wu et al. (2022) and Abdallah & Ismail (2017).

The findings in this study did not show statistical significance. presumably due to the Covid-19 period. Therefore, the next research recommendation is to examine the COVID-19 phase and the normal phase separately. This study uses quantitative data, so it cannot develop other variables that affect the relationship between ESG performance and financial performance. Thus, for future research, it is recommended to use quantitative and qualitative methods so that the extent of investor concern for ESG aspects and the motivation of the board of directors in implementing ESG can be explored. This study does not accommodate the possibility of double measurement between the ESG Score governance pillar and the moderating variable. As a financial performance measurement instrument, this study uses Tobin's Q as an indicator, which is a ratio limited to evaluating market value relative to the total value of company assets. Therefore, future research needs to integrate other accounting metrics, such as ROA, ROI, and sales growth.

The implication of this study indicates that ESG performance is not yet a primary concern for investors in analyzing the company's financial performance. Thus, companies need to develop other strategies, such as innovation, brand building strategies, and pricing strategies. Furthermore, if ESG performance has not been able to increase Tobin's Q, companies must be more transparent in communicating the added value that companies will gain from implementing ESG performance, such as increased sales, risk mitigation, improved reputation, and enhanced labor efficiency.

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