

EFEK SKOR ESG PADA KAPITALISASI PASAR PERUSAHAAN DALAM INDEX ESG LEADERS INDONESIA

ESG LEADERS INDEX INDONESIA: THE IMPACT OF ESG SCORES ON MARKET CAPITALIZATION

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ABSTRAK

ESG merupakan suatu konsep yang mengutamakan pembangunan berkelanjutan, investasi, dan kegiatan bisnis berdasarkan tiga kriteria, yaitu lingkungan, sosial, dan tata kelola. Perusahaan yang memiliki praktik baik dalam hal ESG cenderung memiliki hasil yang lebih baik dalam jangka panjang. Kinerja jangka panjang yang lebih baik ini dapat tercermin dalam pendapatan, laba bersih, pertumbuhan, dan akhirnya, dalam valuasi pasar yang lebih tinggi, yang tercermin dalam kapitalisasi pasar. Penelitian ini menganalisis pengaruh skor ESG terhadap kapitalisasi pasar dengan nilai perusahaan sebagai faktor yang memengaruhi tujuh belas perusahaan dalam Indeks ESG Leaders Indonesia (15 Maret–19 September 2023). Analisis data dilakukan dengan analisis regresi linier berganda dan IBM SPSS 29. Hasil penelitian ini menunjukkan bahwa skor ESG tidak berdampak signifikan pada kapitalisasi pasar melalui nilai perusahaan secara keseluruhan.

Kata Kunci: Skor ESG, Kapitalisasi Pasar, Nilai Perusahaan

ABSTRACT

ESG is a concept that prioritizes sustainable development, investment, and company operations using three criteria—environmental, social, and governance. Businesses with strong ESG policies typically do better over the long run. Revenue, net profit, growth, and a greater market valuation—reflected in market capitalization—can all be indicators of improved long-term performance. This study examines the relationship between ESG scores and market capitalization for 17 businesses included in the Indonesian ESG Leaders Index (March 15-September 19, 2023) using firm value as an intervening variable. Multiple linear regression analysis was employed as the data analysis strategy. The study's results, which were obtained by regression analysis with IBM SPSS 29, demonstrated that ESG scores had no discernible impact on market capitalization as measured by business value overall.

Keywords: *ESG Scores, Market Capitalization, Firm Value.*

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1. INTRODUCTION

Companies seek to increase profits and market value, which are reflected in their stock prices (Nuradawiyah & Susilawati, 2020). Investors consider the value of a company before investing because stock prices reflect market confidence (Suffah & Riduwan, 2016). One factor that attracts investors is the implementation of ESG, which creates value over the long run for shareholders and society (Clark, Feiner, & Viehs, 2015). ESG includes components of governance, society, and the environment, each contributing to a business's operational efficiency and transparency (Bebchuk & Tallarita, 2020). Previous research has shown a favorable correlation between corporate value and ESG (Melinda & Wardhani, 2020) ultimately increasing investment attractiveness and market value. The amount of market capitalization is a key indicator in determining the market value of a business, which corporate governance and investor perceptions are two ways that ESG can have an impact. (Turjak & Kristek, 2023). From March 15, 2023, to September 19, 2023, companies listed on the IDX ESG Leaders Indonesia Index were the subject of this study, which examines the relationship between ESG scores on market capitalization and company value as an intervening variable.

2. LITERATURE REVIEW AND HYPHOTHESIS

Sustainability Theory

In the context of businesses, sustainability theory describes how organizations can function in a way that is not only financially successful but also socially and environmentally responsible. Creating long-term benefit for all parties involved is the aim. The three primary pillars of sustainability—economic, environmental, and social—must be balanced in order to accomplish sustainability objectives. (Purvis, Mao, & Robinson, 2019)

Signaling Theory

Signaling Theory by Arkelof (1970) as quoted in Sari & Setijawan (2024) states that the parties to the transaction have different levels of information regarding the value of the information. Company signals will be seen as significant factors influencing investment decisions by parties outside the company. Stable and regular dividend payments can be considered a favorable indication of the business's success and revenue generation (Anindya & Muzakir, 2023).

Stakeholder Theory

According to Freeman, as quoted in Daromes & Gunawan (2020), businesses must build strong bonds with those who are interested in their operations. The company is likely to give these stakeholders more consideration when they have significant influence over resources that impact the company's success (Daromes & Gunawan, 2020).

Legitimacy Theory

According to legitimacy theory, businesses make an effort to gain and preserve social legitimacy by making sure that their operations and activities adhere to accepted social norms, values, and expectations. Companies that make social disclosures can be considered to have obtained social status from their communities and environments so that the company is considered legitimate (Hidayah & Kartikadevi, 2021).

Firm Value

The selling price that investors are prepared to pay for a company that is comparable to development businesses is known as the firm value. Firm value can be used to gauge how well a business uses its resources to turn a profit. (Amerta & Soenarno, 2022). Firm value can be influenced by profitability, size, institutional ownership, and capital structure.

ESG

ESG, or environmental, social, and governance, is a catch-all phrase used in corporate social responsibility (CSR) initiatives. ESG itself is a practice that aims to measure, disclose, and carry out responsibilities to all stakeholders inside and outside the company (Pfajfar, Shoham, Małecka, & Zalaznik, 2022)

- Environmental

The way a business handles the effects of its operations on the environment is known as the environmental side of environmental, social, and governance, or ESG. This component addresses a number of topics, including waste management, energy efficiency, lowering greenhouse gas emissions, and conservation initiatives (Clark et al., 2015).

- Social

Because they enable stakeholders to evaluate a company's social performance, encourage ethical investment choices, control social risks, improve brand reputation, draw in talent, and promote sustainable development, social ratings are crucial. It offers a thorough analysis of a business's social responsibility strategy and how it affects different stakeholders and society as a whole (Gillan, Koch, & Starks, 2021).

- Governance

ESG governance ratings are also crucial for encouraging responsibility, openness, and risk management in the business. It boosts long-term performance, safeguards stakeholders, assures regulatory compliance, instills investor trust, and enhances the company's reputation and brand value (Bebchuk & Tallarita, 2020).

Market Capitalization

The market capitalization of a corporation is calculated by multiplying its final stock price by the total number of outstanding shares (Mufreni & Amanah, 2015). Market capitalization is a significant indicator of a company's attractiveness in the eyes of investors. Investor trust in the company's prospects increases with market capitalization.

Conceptual Hypothesis

The Effect of the Environmental on Firm Value

One of the ESG (Environmental, Social, and Governance) tenets is the environmental principle. Environmental performance significantly increases firm value, at least in part (R. H. D. P. Sari & Sutopo, 2023). Companies with high environmental ratings are considered more environmentally responsible, which can improve their reputation and image in the eyes of consumers and investors. Companies with good environmental performance can better avoid regulatory risks and legal sanctions associated with environmental violations. This effective risk management can provide more excellent stability and increase firm's value.

H1 = Environmental factors have an impact on firm value.

The Effect of Social on Firm Value

Social ratings in ESG refer to assessing and measuring a company's social performance. It includes working conditions, human rights, community involvement, gender equality, and practices that support employee and community well-being. Businesses that exhibit a dedication to social responsibility are typically seen more favorably, which can raise their market worth (Clark et al., 2015).

H2: Social factors have an impact on firm value

The Effect of Governance on Firm Value

Governance ratings in ESG measure corporate governance's quality, including various aspects such as the board of directors' structure, shareholder rights, transparency, business ethics, risk management, and regulatory compliance. Companies with high governance ratings tend to have more effective management and better strategic decisions. Increased company value can be achieved if shareholders and stakeholders work together to make the right decisions to maximize capital and implement suitable corporate governance mechanisms (Onasis & Robin, 2016).

H3: Governance factors have an impact on firm value

The Effect of Firm Value on Market Capitalization

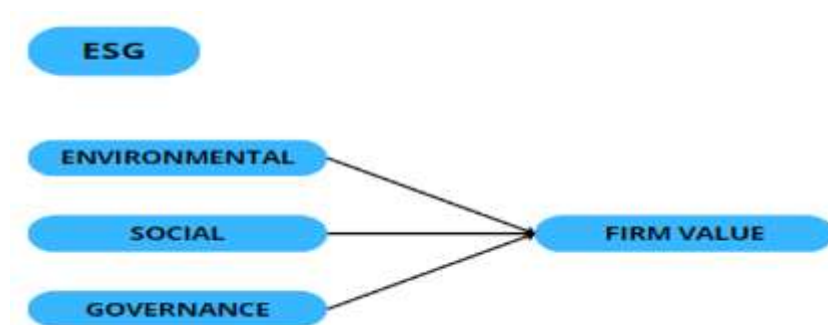
The intrinsic value of all company assets is frequently reflected in the firm value. The market's opinion of the company's worth is often reflected in market capitalization, which is calculated by multiplying the stock price by the number of outstanding shares. Strong financial performance, such as increased profits, operational efficiency, and effective asset management, tends to increase firm value. This increase can increase stock prices as investors expect higher profit prospects, ultimately increasing market capitalization.

H4: Firm Value has an impact on Market Capitalization

The Effect of ESG on Market Capitalization through Firm Value

Market capitalization benefits from ESG, according to mounting empirical data. Companies with good ESG practices have better financial performance, easier access to capital, and a better reputation. Therefore, ESG is not just a trend but an increasingly important factor in business and investment. ESG considerations are becoming more and more integrated into institutional investors' investment decision-making process. It is driven by increasing awareness of social and environmental risks and stakeholder pressure (Friede, Busch, & Bassen, 2015). If H4 has a substantial impact, the company value has been successful in acting as an intervening variable.

H5: ESG has an impact on Market Capitalization by way of Firm Value



Source: Author's own creation (2024)

Figure 1
Conceptual Framework Model 1



Source: Author's own creation (2024)

Figure 2
Conceptual Framework Model 2

3. RESEARCH METHODS

Operational Definition

Environmental

An important metric used by investors and other stakeholders to evaluate a company's dedication to ecologically friendly activities is environmental in ESG (Cheng, Ioannou, & Serafeim, 2014). According to S&P Global (2024), the formula for environmental is:

$$Dimension\ score_x = \frac{\sum_{k=1}^m Criteria\ score_k}{m}$$

Social

Social is one of the independent variables also used in this study. An element that characterizes how a business handles its connections with stakeholders, such as workers, communities, clients, and suppliers, is the social variable in ESG (Environmental, Social, and Governance). According to S&P Global (2024), the formula for environmental is:

$$Dimension\ score_x = \frac{\sum_{k=1}^m Criteria\ score_k}{m}$$

Governance

Governance is an aspect that represents the standards in running a company, consisting of committee structure, composition of superiors, 28 political contributions, executive compensation, and others. This variable is important to the company's success and sustainability because it requires

compliance with existing regulations. According to S&P Global (2024), the formula for environmental is:

$$\text{Dimension score}_x = \frac{\sum_{k=1}^m \text{Criteria score}_k}{m}$$

Firm Value

Assessing a company's success as represented by its stock price, which is determined by supply and demand in the capital market, is one way to define firm value. As a result, the public's opinion of the company's success is reflected in its valuation. As stated by Meidiawati & Mildawati (2016), The following is the Tobin's Q formula:

$$\text{Tobin's } Q = \frac{\text{Market Capitalization} + \text{Total Debt}}{\text{Total Asset}}$$

Market Capitalization

The dependent variable in this study is market capitalization. The total market value of a company's outstanding shares, which is determined by multiplying the share price by the number of outstanding shares, is sometimes referred to as market capitalization. According to Sarantsev, Ofori-Atta, and Flores (2019), the Market Capitalization formula:

$$\text{Market Capitalization} = \text{Market Price} \times \text{Outstanding Shares}$$

This study uses descriptive statistical analysis methods and multiple linear regression of the research data results using the IBM SPSS (Statistical Product and Service Solution) version 29.

Analysis of Descriptive Statistics

Analysis of Descriptive Statistics is an important part of statistics that aims to describe and summarize data in a more manageable form. This analysis focuses on describing the characteristics of existing data through numerical and graphical representations and identifying patterns or trends that may exist in the data.

Classical Assumption Test

Prior to conducting additional analysis of the gathered data, traditional assumption testing is done. The purpose of the classical assumption test is to determine whether an Ordinary Least Square (OLS) linear regression model has classical assumption issues. Creating a regression model that satisfies the Best Linear Unbiased Estimator (BLUE) requirements is the aim.

a. Normality Test

A statistical study called the normality test is used to determine how closely the data distribution resembles a normal or Gaussian distribution pattern. One common way to test normality is to use statistical tests, such as the following requirements for the Kolmogorov-Smirnov test:

- a) If the significant value is more than 0.05, the data is typically distributed.
- b) If the significant number is less than 0.05, the data is not normally distributed.

b. Heteroscedasticity Test

This test helps identify whether there is a specific pattern in the residual variability. If the test results show statistical significance, We can conclude that the model contains heteroscedasticity. Identifying heteroscedasticity in a simple linear regression model can be done by examining the scatterplot or comparing the dependent variable's predicted value (i.e., Studentized Residual or SRESID) with the Standardized Predicted Value (ZPRED). The characteristics of heteroscedasticity testing include:

- a) a regular pattern, such as a wave or a narrowing spread, can be interpreted as an indication of heteroscedasticity.
- b) It can be presumed that the data does not exhibit heteroscedasticity if there is no discernible pattern and the dots are dispersed above and below the 0 on the Y axis.

c. Multicollinearity Test

One statistical technique for determining if two or more independent variables in a regression model have a strong link is the multicollinearity

test. By examining the VIF value using the following indicators, this study examines multicollinearity:

- a) If the VIF value < 10 , then there is no multicollinearity in the regression model.
- b) If the VIF value > 10 , then there is multicollinearity in the regression model.

Multiple Linear Regression

A statistical analysis method for determining the association between one dependent variable and two or more independent variables is multiple linear regression. Multiple linear regression's main goals are to forecast the value of the dependent variable based on the values of the independent factors and to determine how much the independent variables simultaneously affect the dependent variable.

Regression model 1:

$$M = \beta_0 + \beta_1 \cdot ESG_{Environmental} + \beta_2 \cdot ESG_{Social} + \beta_3 \cdot ESG_{Governance} + \epsilon_1$$

Variable M (firm value) is predicted by three ESG factors: Environmental, Social, and Governance.

Regression model 2:

$$Y = \beta_0 + \beta_1 \cdot ESG_{Environmental} + \beta_2 \cdot ESG_{Social} + \beta_3 \cdot ESG_{Governance} + \beta_4 \cdot M + \epsilon_2$$

Three ESG factors influence Market Capitalization (Y), and Firm Value (M) is an intervening variable.

Hypothesis Testing

a. Determination coefficient (adjusted R²)

Using the corrected R-squared value, the determination coefficient explains the degree to which the independent factors concurrently affect the dependent variable. The value of this determination coefficient ranges from 0 to 1. When

the independent variables can help predict the dependent variable and vice versa, the modified R-squared value that gets closer to one will be better.

b. Statistical test t (t-test)

The test of statistics It is employed to determine whether the developed hypothesis is true. By examining the computed t value or probability value using the t table, the statistical test is evaluated. The t-table value in the statistical test is 0.05. The following is the basis for decision-making (Ghozali, 2021):

- a) The independent variable has an impact on the dependent variable if the significance value is less than 0.05.
- b) The independent variable has no effect on the dependent variable if the significance value is greater than 0.05.

c. Simultaneous Significance Test (F Statistic Test)

The F test determines whether all independent variables included in the research regression model affect the dependent variable (Haryoko & Rabani, 2019). The criteria for making decisions with the F test are (Karnadi, 2017)

- a) A simultaneous effect is present when the significance value is less than 0.05.
- b) There is no simultaneous effect if the significance value is > 0.05 .

4. RESULT AND DISCUSSION

The amount of seventeen businesses included in the ESG Leaders Indonesia Index between March 15, 2023, and September 19, 2023, was used in this study as research subjects that had met the sample criteria. However, the sample data that fully met the research criteria were 17 companies.

Table 1
Table of Descriptive Statistical Analysis

Variable	N	Min	Max	Mean	Std. Dev	Skewness	Kurtosis
E	17	3.091	3.932	3.48395	0.258134	0.314	-0.901
S	17	3.135	4.317	3.63794	0.286229	0.615	0.816
G	17	3.219	4.094	3.56144	0.261360	0.574	-0.243
FV	17	8.077	13.065	9.86796	1.410887	0.767	-1.149
MC	17	4.826	13.027	9.28947	2.609294	-0.737	-0.788

Source (s): Author's own research (2024)

Based on the results of descriptive statistical analysis, it can be seen that the Environmental (E) variable has an average value of 3.48395. The maximum value is 3.932 owned by PT Bank Rakyat Indonesia (Persero) Tbk. While the minimum value of 3.091 is owned by PT Bank Negara Indonesia (Persero) Tbk.

The Social (S) variable has an average of 3.63794. The maximum value of 4.317 is owned by PT Bank Rakyat Indonesia (Persero) Tbk. Then, PT Sarana Menara Nusantara Tbk owns the minimum value of 3.135.

The Governance (G) variable shows an average of 3.56144. The maximum value of 4.094 is owned by PT Bank Rakyat Indonesia (Persero) Tbk. Then, the minimum value of 3.219 is owned by PT Bukalapak.com Tbk.

The Firm Value (FV) variable has an average of 9.86796. The maximum value of 13.065 is owned by PT Bank Mandiri (Persero) Tbk. Then, the minimum value of 8.077 is owned by PT Barito Pacific Tbk. The Market Capitalization (MC) variable has an average of 9.28947. PT Chandra Asri Pacific Tbk owns a maximum value of 13.027. Then, the minimum value of 4.826 is owned by PT Barito Pacific Tbk.

Table 2
Table of Model 1 Normality Test

Jumlah Sampel (N)	17
Mean	0.0000
Std. Deviation	1.39956002
Asymp. Sig. (2-tailed)	0.200
Monte Carlo Sig. (2-tailed)	0.312

Source (s): Author's own research (2024)

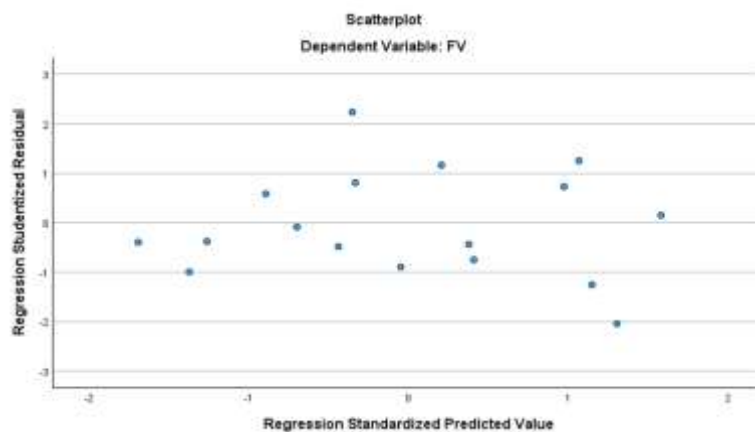
Based on the Kolmogorov-Smirnov normality test results of the first model, the Asymp. Sig. (2-tailed) value was obtained as 0.200, and the Monte Carlo Sig. (2-tailed) value was 0.312. These significance values are greater than the significance level of 0.05 ($\alpha = 5\%$). It indicates that the residual data is normally distributed.

Table 3
Table of Model 2 Normality Test

Jumlah Sampel (N)	17
Mean	0.0000
Std. Deviation	1.97364544
Asymp. Sig. (2-tailed)	0.200
Monte Carlo Sig. (2-tailed)	0.688

Source (s): Author's own research (2024)

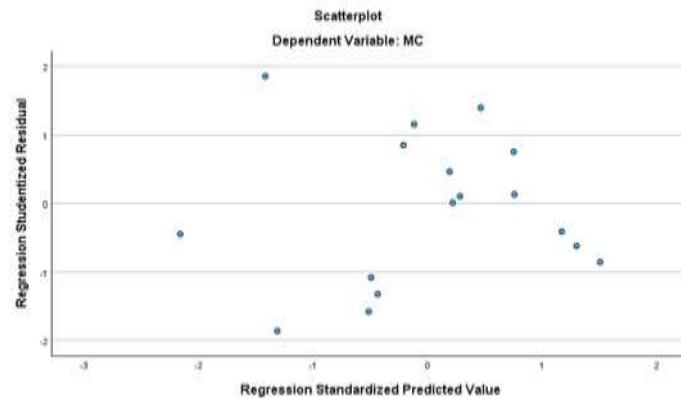
Based on the Kolmogorov-Smirnov Normality test results of the second model, the Asymp. Sig. (2-tailed) value was obtained as 0.200, and the Monte Carlo Sig. (2-tailed) value was 0.688. Because the significance value is more significant than 0.05 ($\alpha = 5\%$), it can be concluded that the residual data is normally distributed.



Source: Author's own research (2024)

Figure 3
Heteroscedasticity Test Model 1

Scatterplot of heteroscedasticity test model 1 shows data points are randomly distributed without any particular pattern around the horizontal axis. This even distribution indicates the absence of heteroscedasticity symptoms in the regression model.



Source: Author's own research (2024)

Figure 4
Heteroscedasticity Test Model 2

The presence of heteroscedasticity symptoms in the regression model is indicated by the scatterplot of the heteroscedasticity test for model 2, which displays a pattern with narrowing or broadening in specific locations.

Table 4
Table of Multicollinearity Test Model 1

Variabel	Koefisien (B)	Std. Error	Beta	t-statistic	Sig.	Tolerance	VIF
(Constant)	7.834	6.438		1.217	0.245		
E	712	1.616	130	440	0.687	0.864	1.157
S	-348	2.515	-0.071	-138	0.892	0.291	3.44
G	231	2.742	0.043	0.084	0.934	0.293	3.409

Source: Author's own research (2024)

It can be inferred from the multicollinearity test findings of model 1 that all data in each variable do not have multicollinearity issues because the average tolerance value is greater than 0.1 and the average variance inflation factor (VIF) value is less than 10.

Table 5
Table of Multicollinearity Test Model 2

Variabel	Koefisien (B)	Standar Error	Beta	t-statistik	Sig.	Toleransi	VIF
Konstant							
a	11.947	9.973		1.198	0.254		
E	3.955	2.39	0.392	1.655	0.124	0.852	1.174

S	3.912	3.694	0.429	1.059	0.31	0.29	3.445
G	-9.31	4.026	-0.933	-2.313	0.039	0.293	3.411
FV	252	407	0.136	0.62	0.547	0.984	1.016

Source: Author's own research (2024)

All data in each variable does not have multicollinearity issues, according to the findings of the multicollinearity test of model 2, which show that the average Tolerance value is above 0.1 and the average Variance Inflation Factor (VIF) value is below 10.

Table 6
Table of Determination Coefficient of Model 1

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.348	.221	.187	1.72485

Source: Author's own research (2024)

According to the first model's coefficient of determination (R²) of 0.221, other factors account for 77.9% of the variation in firm value, whereas ESG accounts for 22.1%. It suggests that the explanatory power of the model is low.

Table 7
Table of Determination Coefficient of Model 2

Model Summary			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.712	.547	.336	4.43592

Source: Author's own research (2024)

The coefficient of determination (R²) for the second model is 0.547, meaning that company value and ESG account for 54.7% of the variation in market capitalization, whereas other factors not included in the study account for 45.3%.

Table 8
Table of Statistical T Test Model 1

Model	t	Sig.
(Constant)	1.182	0.227
E	0.440	0.032
S	0.138	0.142
G	0.084	0.317

Source: Author's own research (2024)

It can be inferred from the t-test findings in the preceding table that:

a. Environmental Impact on Firm Value

The computation shows that the environmental variable has a major impact on business value.

b. Social Impact on Firm Value

The computation indicates that the social variable has no discernible impact on business value.

c. Governance Impact on Firm Value

The result indicates that company value is not greatly impacted by the governance variable.

Table 9
Table of Statistical T Test Model 2

Model	t	Sig.
(Constant)	2.563	0.512
E	3.125	0.029
S	1.986	0.052
G	2.751	0.023
FV	3.217	0.014

Source: Author's own research (2024)

The following can be inferred from the t-test findings in the preceding table:

a) The Effect of Firm Value on Market Capitalization

According to the computation, market capitalization is greatly impacted by the firm value variable.

b) The Effect of ESG on Market Capitalization through Firm Value

Only the environmental component in ESG has a considerable impact on market capitalization through firm value, according to the estimate.

Table 10
Table of Statistical F Test Model 1

Model	F	Sig.
Regression	1.006	0.00694

Source: Author's own research (2024)

Based on the calculation of the first model, it is concluded that each ESG variable does not simultaneously influence firm value.

Table 11
Table of Statistical F Test Model 2

Model	F	Sig.
Regression	2,752	0.03723

Source: Author's own research (2024)

Each ESG variable and firm value have a simultaneous impact on market capitalization, according to the second model's computation.

DISCUSSION

Environmental Influence on Firm Value

The study's findings demonstrate that environmental factors significantly impact corporate value (p-value = 0.032), in line with the findings of Mardiana and Wuryani (2019) that businesses that focus more on environmental management might enhance their reputation among shareholders, which will raise their worth. Stakeholder and legitimacy theories support that good environmental performance improves reputation and attracts investors. However, Brammer, Brooks, and Pavelin (2006) discovered that because environmental investment expenses can be a burden, there are situations when the relationship between financial performance and environmental responsibility is equivocal or

antagonistic. Signal theory explains that a company's efforts to implement good environmental practices convey to the market and investors that the business has a long-term, sustainable plan.

Social Influence on Firm Value

The study's findings indicate that social factors have no discernible impact on firm value ($p\text{-value} = 0.142$), so H2 is rejected. These results align with the research of Wijayanti & Dondoan (2022) that although environmental initiatives significantly increase a company's value, social actions significantly decrease it. On the other hand, Prabaningrum & Santoso (2025) stated that overall, the value of a firm is positively impacted by CSR disclosure, depending on the type of disclosure. The social aspect of ESG is less prioritized because its impact is long-term, difficult to measure, and there are minimal reporting standards. Signaling theory states that corporate social actions can provide positive signals to the market, but the impact is weak if they are not strong enough. Stakeholder theory (Freeman, 2015) emphasizes the fulfillment of the needs of various parties, but investors who focus more on financial gain tend to ignore it. Therefore, although the social aspect is important for sustainability, its contribution to firm value is still limited.

The Influence of Governance on Firm Value

The study's findings indicate that firm value is not much impacted by the governance component ($p\text{-value} = 0.317$), so H3 is rejected. Ferriswara, Sayidah, & Buniarto (2022) and Setiawati & Hidayat (2023) stated that governance do not affect firm value in developing markets due to low transparency and regulatory oversight. In contrast, Gompers, Ishii, & Metrick (2003) found that companies with strong governance have lower capital costs and easier access to financing, increasing investor confidence. However, governance is often only implemented formally without any real impact. Industry and business environment factors also play a role, where sectors such as technology focus more on innovation than governance. Signaling theory states that good governance should provide a positive signal about stability and long-term prospects, but the impact is

negligible if the signal is weak. In markets with low ESG awareness, governance is not fully understood as an important factor. Therefore, although governance is crucial, It has a longer-term effect on corporate value..

The Effect of Firm Value on Market Capitalization

The study's findings demonstrate that market capitalization is significantly impacted by corporate value ($p\text{-value} = 0.014$), as supported by Dimitrov and Jain (2008), who stated that increasing company value impacts increasing stock prices and market capitalization. However, Kothari, Lewellen, & Warner (2006) emphasized that market trends, Market capitalization is also influenced by macroeconomic factors and investor mood, particularly in the near run. According to sustainability theory, a high firm value indicates that the market is confident in the company's prospects, stakeholder theory, and signaling theory, where companies with good management and clear strategies are more attractive to investors. Effective ESG integration further strengthens the link between market capitalization and firm value by enhancing the company's reputation and investor attraction. With a high coefficient of determination (R^2), this model emphasizes the importance of sustainability strategies and sound governance to raise market capitalization and corporate value throughout time.

The Influence of ESG on Market Capitalization through Firm Value

According to this study, market capitalization through business value is significantly impacted only by environmental factors in ESG, while social and governance variables do not show a significant effect. It indicates that investors and stakeholders pay greater attention to environmental issues, such as energy efficiency, carbon emission reduction, and compliance with environmental regulations, which contribute to increasing company value and market capitalization. According to sustainability theory, companies with sound environmental practices are more attractive to investors in the sustainable investing trend. Stakeholder theory also supports this finding by emphasizing that companies are not only responsible to shareholders but also to different stakeholders who are increasingly demanding sustainable business practices. In

addition, according to legitimacy theory, good environmental performance helps companies gain social legitimacy, which contributes to increasing investor confidence and market value. Further research needs to explore how companies can holistically manage the three pillars of ESG to create long-term value by understanding the dynamics of social and governance factors in various industry and regional contexts.

5. CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Using firm value as an intervening variable, this study examines the relationship between ESG Scores and Market Capitalization in companies included on the IDX ESG Leaders Indonesia Index from March 15, 2023, to September 19, 2023. The following conclusions are drawn from the analysis of 17 samples of businesses that fit the study's requirements:

1. The Environmental element in ESG significantly affects firm value.
2. The Social element in ESG does not significantly affect firm value.
3. The Governance element in ESG does not significantly affect firm value.
4. Firm Value in ESG has a significant effect on market capitalization.
5. Only the environmental variable in ESG significantly affects market capitalization through firm value.

RECOMMENDATIONS

Based on the findings of the study, the researcher has made the following recommendations:

1. For Companies

Companies are advised to increase their commitment to sustainable environmental practices through energy efficiency, carbon emission reduction, and waste management. In addition, transparency in ESG reporting and proactive environmental risk mitigation needs to be strengthened to increase firm value and market capitalization and attract investors.

2. For Investors

Investors should consider the company's environmental performance in investment decisions because it has been proven to affect market value significantly. Although social and governance factors do not show a direct influence, This factor should still be considered in order to diversify the portfolio and control long-term risk.

3. For Further Research

Future research is advised to expand the scope of the sample, extend the study period, and use more complex analysis methods such as SEM. In addition, exploration of contextual factors such as regulation and macroeconomic conditions is needed better to understand the relationship between ESG and company performance.

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