THE EFFECT OF ESG RATINGS ON FIRM PERFORMANCE WITH ESG RATING DISAGREEMENT AS THE MODERATING VARIABLE

(Undergraduate Thesis)

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ABSTRACT

THE EFFECT OF ESG RATINGS ON FIRM PERFORMANCE WITH ESG RATING DISAGREEMENT AS THE MODERATING VARIABLE

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This study was conducted to examine the effect of Environment, Social, and Governance (ESG) ratings to firm performance and ESG rating disagreement as a moderating variable in the relationship between ESG ratings and firm performance. The proxy used to define ESG ratings is the score from Refinitiv Eikon that is now under London Stock Exchange Group (LSEG). The firm performance is measured by the market-based assessment, Tobin's Q which counts the market value of equity added with book value of debt and then devided by the book value of assets. ESG rating disagreement is measured by standard deviation of the ESG scores from Refinitiv Eikon and Bloomberg. The population in this research are all sector companies listed on the Indonesia Stock Exchange (IDX) during 2021-2023. Determination of the sample is done by using purposive sampling to choose the research sample, as a result there are total panel data of 62 companies. The data are analyzed using descriptive statistical analysis, classical assumption tests, and panel data regression with a fixed-effect model using STATA 16. The results of this study indicate that (1) ESG ratings does not have a significant effect on firm performance, (2) ESG rating disagreement does not moderate the relationship between ESG ratings and firm performance, which shows insignificant. These findings indicate that in the emerging market like Indonesia, ESG is not credible enough to act as a signal. Investor perceived this information as a weak signal that makes them believe companies only use ESG as a symbolic act. Therefore, the market is still incapable in utilizing the rating divergence as monitoring tools, and the disagreement are perceived as a noise rather than information

Keywords: ESG Ratings, Firm Performance, ESG Rating Disagreement, Sustainability.

ABSTRAK

PENGARUH PERINGKAT ESG TERHADAP KINERJA PERUSAHAAN DENGAN KETIDAKSEPAKATAN PERINGKAT ESG SEBAGAI VARIABEL MODERASI

Oleh:

AZARIA NABILA

Penelitian ini dilakukan untuk menguji pengaruh peringkat Environment, Social, and Governance (ESG) terhadap kinerja perusahaan dan ketidaksepakatan peringkat ESG sebagai variabel moderasi dalam hubungan diantara peringkat ESG dan kinerja perusahaan. Proksi yang digunakan untuk mendefinisikan peringkat ESG adalah nilai dari Refinitiv Eikon yang sekarang berada di bawah London Stock Exchange Group (LSEG). Kinerja perusahaan diukur dengan menggunakan penilaian berbasis pasar, Tobin's Q yang menghitung nilai pasar ekuitas ditambah dengan nilai buku hutang dan kemudian dibagi dengan nilai buku aset. Ketidaksepakatan peringkat ESG diukur dengan standar deviasi dari nilai ESG dari Refinitiv Eikon dan Bloomberg. Populasi dalam penelitian ini adalah perusahaan semua sektor yang terdaftar dalam Bursa Efek Indonesia (BEI) dalam 2021-2023. Penentuan sampel dilakukan dengan menggunakan purposive sampling untuk memilih sampel penelitian, sebagai hasilnya ada total data panel dari 62 perusahaan. Data dianalisis menggunakan analisis statistik deskriptif, uji asumsi klasik, dan regresi data panel dengan model fixed-effect menggunakan STATA 16. Hasil penelitian ini mengindikasikan bahwa (1) peringkat ESG tidak memiliki efek yang signifikan terhadap kinerja perusahaan, (2) ketidaksepakatan peringkay ESG tidak memoderasi hubungan antara peringkat ESG dan kinerja perusahaan, yang menunjukkan tidak signifikan. Penemuan ini mengindikasikan bahwa dalam pasar berkembang seperti Indonesia, ESG tidak cukup kredibel untuk berperan sebagai sinyal. Investor menangkap informasi ini sebagai sinyal lemah yang membuat mereka percaya bahwa perusahaan hanya menggunakan ESG sebagai peran simbolik. Maka, pasar masih belum mampu memanfaatkan perbedaan peringkat sebagai alat pemantauan, dan ketidaksepakatan tersebut dianggap sebagai kebisingan daripada informasi.

Kata Kunci: *Peringkat ESG, Kinerja Perusahaan, Ketidaksepakatan Peringkat ESG, Keberlanjutan.*

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STATEMENT OF ORIGINALITY

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Hereby declare that my undergraduate thesis entitled **"The Effect of ESG Ratings on Firm Performance with ESG Rating Disagreement as The Moderating Variable"** is entirely my own original work. In this undergraduate thesis, there is no part or entirety of the writing, ideas, or opinions of other authors that I have acknowledged as my own without proper acknowledgment of the original author. If it is proven in the future that this statement is not true, I am willing to accept sanctions in accordance with the applicable regulations.

Bandar Lampung, February 10th, 2026

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AUTHOR BIOGRAPHY

The author, Azaria Nabila, was born in Bandar Lampung, Lampung, on January 7th, 2004, as the third child of four siblings of Mr. Ahmad Baharuddin Naim, S.H., M.H. and Mrs. Erniyati, A.Md.

The author completed her elementary education at SD Muhammadiyah 1 Bandar Lampung from 2010 to 2016. She then continued her junior high school education at SMP Negeri 2 Bandar Lampung from 2016 to 2019. During this period, she was actively involved in the choir (Paduan Suara) organization and served as the chief of organization. She completed her senior high school at SMA Negeri 9 Bandar Lampung from 2019 to 2022, majoring in Social Science. During the high school years, she was actively involved in the Ansamble Music 9 organization and served as the vice president. At the same time, she also was actively giving contribution in Student Council (OSIS) and become the head department of skills and talent.

In 2022, the author admitted as an undergraduate student in the Accounting Major, Faculty of Economic and Business, University of Lampung through SNMPTN admission pathway. After successfully passing the TOEFL test and interview process, she was officially accepted into the International Accounting Class and have passed the comprehensive exam on February 10th, 2026. Throughout her study at University of Lampung, the author has assigned as the member committee of AIESEC (Association Internationale des Etudiants en Sciences Economiques et Commerciales) as Manager or Team Leader of Outreach Relations of External Relations and Business Development. When serving time in AIESEC, the author received a recognition as the Best Manager for Quarter 4 of 2023.

To fulfill her participation in International Class program, in 2025, the author was also joined the student exchange program from Faculty of Economic and Business to Russia, in North-West Institute of Management RANEPA (СЗИУ РАНХиГС) for one semester. She went to Russia to the city of Saint Petersburg with five other student that represented University in Lampung for the program. During her student exchange journey, she gets the chance to meet and have a discussion with the Indonesian Minister of Higher Education, Science and Technology, Prof. Brian Yuliarto, S.T., M.Eng., Ph.D. when he was visiting Saint Petersburg.

DEDICATION

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"For indeed, with hardship [will be] ease. Indeed, with hardship comes ease."

Q.S. Al-Insyirah (94): 5-6

"Believe in everything you do. Believe in your mistakes and grow from them."

Taylor Swift

"If you don't step forward, you're always in the same place."

Suho EXO

"It always seems impossible until it's done."

Nelson Mandela

"Educating the mind without educating the heart is no education at all."

Aristotle

"What is meant for you will come to you."

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In closing, the author realizes that this thesis is far from perfect. Therefore, the author apologizes for any shortcomings. Hopefully, this thesis can be of benefit to many parties.

Bandar Lampung, February 10th, 2026
The Author

Azaria Nabila

LIST OF CONTENTS

Page

LIST OF TABLES

Tables Page

LIST OF FIGURES

Figures Page

LIST OF APPENDICES

Appendices Page

I. INTRODUCTION

1.1. Background

In this recent modern time, investors and policymakers have given more consideration to environmental, social, and governance (ESG) issues, believing that non-financial information can play an essential part in helping companies perform well and stay sustainable in the long run (Jitmaneeroj, 2016). In 2004, the United Nations Global Compact publicly adopted the notion of "environmental, social, and governance" (ESG)., sustainability issues have become a major attention in a global business practicess. Investor all over the world increasingly pay attention to non-financial factors in their investment decisions.

REGION	2016	2018	2020	2022
Europe	12,040	14,075	12,017	14,054
Canada	1,086	1,699	2,423	2,358
Australia & New Zealand	516	734	906	1,220
Japan	474	2,180	2,874	4,289
Sub-total (USD Billions)	14,115	18,688	18,220	21,921
% change		*32%*	*-3%*	*20%*
United States	8,723	11,995	17,081	8,400
Total (USD Billions)	22,838	30,683	35,301	30,321
% change		*34%*	*15%*	n/a

Figure 1.1

Global Sustainable Investing Assets 2016-2022

Source: Global Sustainable Investment Review 2022

In 2022, sustainable investment throughout Japan, Canada, Australia, Europe, and New Zealand will reach $21.9 trillion in assets under management (AUM), having

risen by 20% in the past two years (GSIA, 2022). Over $30 trillion in AUM has been invested in sustainable strategies that use ESG criteria to examine assets and choose portfolios (Carlos & Lewis, 2018).

Back in 2006, the United Nations worked together with financial institutions, governments, and other global groups to launch the Principles for Responsible Investment (UN-PRI), a set of guidelines to encourage responsible investing. The main goal of the UN-PRI is to help investors understand why ESG matters and to guide them in factoring these issues into their investment decisions. (UN PRI, 2025). The UN-PRI encourages investors to consider ESG problems when assessing the performance of any firm (Caplan et al., 2013). When making investment selections, responsible investors will take into account a company's success in ESG criteria as well as its financial performance (Atan et al., 2018).

Other than from the global investors demand, in Indonesia ESG implementation also increasingly strengthen by the government regulations. Otoritas Jasa Keuangan (OJK) published POJK No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance that required financial services institutions, issuers, and public company to arrange Sustainable Finance Action Plan, and diclose their sustainable implementation in annual report. This regulation then emphasized by additional rules under POJK No. 60/POJK.04/2017 concerning the Annual Report of Issuers or Public Companies, which regulates the obligation to submit sustainability report.

These regulations mentioned are not just made ESG as a voluntary practice, but also a legal obligation that must be fulfilled by public companies in Indonesia. As a result, firms are required to focus on environmental management, social responsibility, and good governance as part of their long-term strategy, in addition to financial performance. The presence of these regulation reflect a paradigm shift from a sole focus on profit towards a more balanced perspective that incorporates financial, social, and environmental performance. However, the implementation of ESG in Indonesia still faces some challenges, especially in terms of the quality, which remain inconsistent across firms.

ESG Principles are a framework that covers three main aspects: environment (E), social (S), and governance (G), which originated from the concept of responsible investment. According to Principle for Responsible Investment (2025), ESG is a strategy to integrate these three factors into the investment decision making process and active ownership. ESG is used by investors as a standard to assess corporate behavior and future financial performance, as well as to measure the sustainability and social impact of business activities.

The European Bank Authority (2021) highlights that ESG variables can have a positive or negative influence on an entity's financial performance and solvency. Jitmaneeroj (2016) mentions that future oriented investors believe that investing in non-financial aspects is one of the way to create a greener economic globally. As a result, ESG not only reflects the value of sustainable development, but also becomes a long term investment philosophy and a comprehensive and realistic governance method (Li et al., 2021).

The first aspect of ESG is environment. This aspect measures how a company impact the environment, like for example are carbon emission, waste management, energy consumption, and natural resources (Li et al., 2021). Therefore, companies that implement ESG aspects must have a greater emphasis on developing environmental strategies that are integrated with their long term business vision, including the ability to adapt to climate risks and commit to the transition for a sustainable economy.

The second aspect is social, which in this aspect includes firms relationship with the employees, consumers, communities, and other issues like human rights, diversity, and employee’s wellbeing (Li et al., 2021). In this case, companies are encouraged to create a workplace that is fair and inclusive, and to maintain public confidence through socially responsible business practices.

Governance, as the final aspect assesses the structure and practices of corporate governance, including transparency, ethics, board composition, and shareholder rights protection (Li et al., 2021). Thereby, focusing on this aspect require firm to build a monitoring system that is accountable and also ensures that decision

making is done objectively in order to maintain investor confidence and minimize potential conflicts of interest.

The implementation of ESG practices brings tangible benefits to firms. Firms with high ESG commitments, for example, have greater access to funding, reduced capital costs, and more effective organizational processes (Eccles et al., 2014; El Ghoul et al., 2011). All of these efforts and activities are reflected in a firm's ESG ratings. ESG ratings act as a benchmark for investors to compare firms in the same sector, as well as across sectors (Biju et al., 2025). ESG ratings is assigned by ESG rating agencies, like for example Refinitiv, MSCI, Bloomberg, Sustainalytics, S&P Global, ISS-Oekom, and Vigeo-EIRIS (Zumente & Lāce, 2021).

With the pressure from existing regulations, and to fulfill the needs of information for investors, several agencies that assess ESG rating have arisen in the financial markets, resulting in an excess of ESG rating data. (Liu et al., 2025). However, each agency, like for examples Refinitiv, MSCI, and Bloomberg use different methodology in assessing company's ESG ratings. As the result, a company can have higher ratings from one agency but have a low ratings on another agency. While a high ESG ratings generally signals stronger market confidence, the lack of methodological consistency often results in divergence, where the same company receives very different ratings across agencies (Berg et al., 2022).

This divergence creates uncertainty for the investors, because it becomes harder to confirm whether the ESG ratings trully reflect the company's true sustainability practices. In the context of ESG, investors' growing demand for transparency reflects their view that ESG engagement can be an important determinant of future performance (Albitar et al., 2020). While ESG provides a framework for companies to address environmental, social, and governance concerns, its ultimate relevance lies in how these practices affect firm performance.

Firm performance is the results achieved by a company in carrying out its business activities, which reflects the company's ability to develop, survive and create added value in a sustainable manner (Taouab & Issor, 2019). Prior studies frequently employ accounting-based measurements, like for example return on

equity (ROE), return on assets (ROA), or Tobin's Q which is the one that use the indicator based from the market. The numerous uses of Tobin's Q is because it incorporates not only current firm performance but also market expectations of future cash flows and risks (Servaes & Tamayo, 2013). Chung & Pruitt (1994) elaborate that Tobin's Q is influenced by factors including total assets, total liabilities, and stock price, making it a comprehensive indicator of firm performance. Speaking of ESG, Tobin's Q is particularly relevant because it captures how non-financial initiatives, such as environmental responsibility, social engagement, and strong governance describe into market reactions and investor confidence. This explains why many recent studies examining ESG and firm performance adopt Tobin's Q as the primary measure, like the study by Liu et al. (2025), Aydoğmuş et al. (2022), Biju et al. (2025), and Atan et al. (2018).

The research by Liu et al. (2025) uses Tobin's Q as the proxy of their firm performance as the dependent variable. The results shows that ESG is giving negative influence towards the dependent variable firm performance (Tobin's Q). Other claims by Aydoğmuş et al. (2022) proven that the ESG score has a highly positive influence in corelation with the firm value that use Tobin's Q as the proxy. However, the investigation by Biju et al. (2025) concluded that the ESG have no significant influence for the firm performance measured by Tobin's Q, they claim that the issue because of how ESG is still not effectively used in emerging market. Moreover, study by Atan et al. (2018) also choose Tobin's Q as the measurement of firm value and have found insignificant results in the correlation with ESG, they suggested that company with however the ESG scores are just equally valued in the market.

From an investor's perspective, firm performance is not only assessed based on historical profitability, but also on market expectations regarding a firm's future growth and risk. Therefore, Tobin's Q can be seen as an appropriate proxy for the firm performance measurement because it represents how the market values a corporation in relation to its book value of assets, capturing both current performance and forward-looking expectations (Chung & Pruitt, 1994; Servaes & Tamayo, 2013). On context with ESG, this metric is especially important since ESG-related operations can provide long-term advantages such as increased

reputation, stakeholder confidence, and mitigation of risks, which may not be instantly represented in accounting-based measures. As a result, Tobin's Q provides a more comprehensive indicator to examine whether ESG ratings are perceived by investors as value-enhancing and how they are translated into market valuation.

The ESG scores give a good impression that may make influence investors perception for the company Biju et al. (2025). This is align with the signaling theory by Spence (1973) that explain how parties with better information can convey credible signals to reduce information asymmetry in the market. Other researchers, using agency theory, point out that ESG can sometimes give managers a chance to act in their own self-interest. This behavior can raise costs for the company and, in the end, hurt its performance. (Brammer & Pavelin, 2006; Duque-Grisales & Aguilera-Caracuel, 2021). The resource-based view theory by Barney (1991) elaborates how a firm considers a consistent high ESG ratings as a competitive advantage, which implicitly could enhance managerial opportunism (Liu et al., 2025). Some studies, however, find no clear link at all. They suggest this might be because researchers often miss hidden factors, like a company's R&D spending or its intangible assets that could explain the connection (Mcwilliams & Siegel, 2001; Surroca et al., 2010).

Other previous research done haven't reached a clear answer on how ESG is linked to company performance as well. Research on the relationship between ESG ratings with firm performance has been conducted by Xu et al. (2025), Jung & Yoo (2023), Liu et al. (2025), and Biju et al. (2025). Xu et al. (2025) found that in Chinese listed enterprises shows higher ESG ratings improve corporate performance as assessed by ROA. Jung & Yoo (2023) further demonstrate that there is a positive linear link between ESG performance as evaluated by ESG ratings and company performance, as measured by profit margin or ROA. However, the findings of Liu et al. (2025) study reflects the other way, they stated that ESG ratings on average negatively impact firm performance, but the disagreement can mitigate this negative effect by serving a governance role. And lastly, Biju et al. (2025) studies serve the result that the direct connection between ESG and company performance proved to be not significant.

Most ESG studies in Indonesia rely on CSR disclosure index or single-agency ratings, without accounting for the divergence among multiple rating providers. This leaves a significant research gap, particularly in understanding whether rating disagreement in emerging markets acts primarily as noise or as a governance mechanism. This research primarily have a goal to study the impact of ESG ratings on firm performance with ESG rating disagreement as a moderating variable. ESG ratings is measured by the ESG score retrieved from Refinitiv Eikon. ESG ratings is a standardized quantitative indicator, making it easier to measure a company's ESG performance objectively and compare it between companies (Global Reporting Initiative, n.d.). The dependent variable in this study is firm performance, which is measured using the Tobin's Q method. Tobin's Q technique is employed in this research because it can thoroughly incorporate market reactions concerning the firm's future cash flow and threats, as well as forward-looking market valuation (Servaes & Tamayo, 2013).

This study also has a moderating variable, which is ESG rating disagreement. The prior study measure this variable with the calculation of standard deviation from three agencies that provides ESG ratings (Liu et al., 2025). In this study, the author will use the standard deviation of ESG ratings gathered based on two agencies to determine the moderating variable of ESG rating disagreement, which means that if the ratings of both institutions are similar, the standard deviation is small, meaning there is little difference (agreement).

This research is a modification of (Liu et al., 2025) study, which titled “ESG Ratings and Firm Performance: The Moderating Role of ESG Rating Disagreement.” Most previous studies are focusing on the already developed countries like for example United States, China, Italy, and France, so this type of research has rarely been conducted in developing countries. The sample for this study was drawn from Indonesian enterprises, which distinguishes it from earlier studies.

According to explanation above about the background, researcher will conduct a study entitled “The Effect of ESG Ratings on Firm Performance with ESG Rating Disagreement as a Moderating Variable”.

1.2. Research Questions

From the background of this research that the author have already elaborate, the main problems that this research has are as follows:

1. Does ESG ratings affect firm performance?
2. Does ESG rating disagreement moderate the relationship between ESG ratings and firm performance?

1.3. Research Objectives

This research has the objectives based on the formulation of the above problems, which is to:

1. Analyze the impact of ESG ratings towards firm performance.
2. Analyze the role of ESG rating disagreement as the moderating variable in the relationship between ESG ratings and firm performance.

1.4. Research Benefits

This research is expected to provide theoretical and practical benefits from this problem. The benefits that are expected to be received by various parties are as follows:

1. Theoretical Benefits

   The results of this research are expected to contribute to the academic literature by extending the discussion on the relationship between ESG performance and firm performance, particularly by incorporating the moderating role of ESG rating disagreement. Most earlier research was concentrated on developed markets, but this study presents actual evidence from an emerging market context, namely Indonesia, where ESG disclosure practices and regulations are still evolving. Furthermore, this

study exist in hope that it can provide more reference for future scholars who aim to examine ESG-related issues in developing countries, or to explore the dynamics of multi-agency ESG ratings as a governance mechanism.

2. Practical Benefits

   Practically, this research is expected to provide insights for multiple stakeholders. For company management, the findings may increase awareness of the importance of prioritizing ESG performance not merely as compliance or image-building, but as part of a long-term strategy to enhance firm performance. For investors, this study highlights the relevance of considering ESG ratings and alongside rating disagreement, when making investment decisions, particularly in the context of companies listed on the Indonesia Stock Exchange (IDX). This enables investors to assess the long-term potential of firms more comprehensively, beyond purely financial metrics. For regulators and policymakers, the research may provide useful input to strengthen ESG disclosure standards and encourage rating practices that better reflect a company's true sustainability performance.

II. LITERATURE REVIEW

2.1. Theoretical Basis

2.1.1 Signaling Theory

Signaling Theory was first introduced by Spence (1973) to explain how parties with better information can convey credible signals to reduce information asymmetry in the market. In the context of capital markets, managers possess more information about a firm's true condition and future prospects than external parties such as investors. This information gap creates uncertainty, which may affect investors' decisions. To reduce this asymmetry, firms can send signals through observable actions or disclosures that reflect their underlying quality.

According to signaling theory, effective signals must be credible and costly to imitate, so that low-quality firms are less able or willing to send the same signals as high-quality firms (Spence, 1973). In corporate, financial performance, dividend policies, voluntary disclosures, and sustainability reporting can function as such signals. Investors then interpret these signals as indicators of firm quality, risk level, and long-term prospects (Bergh et al., 2014).

In recent years, ESG disclosure and ESG ratings have increasingly functioned as important signals in the capital market. By engaging in environmental protection, social responsibility, and good governance practices, and by disclosing these activities transparently, firms signal their commitment to sustainability and long-term value creation. High ESG ratings are often interpreted by investors as signals of lower risk, better management quality, and stronger future performance (Huang, 2022). As a

result, firms with favorable ESG ratings may attract more investors, enjoy better market valuation, and gain easier access to capital.

However, signaling theory also highlights the risk of misleading or weak signals. When ESG information is not standardized and rating methodologies differ across agencies, the same firm may receive divergent ESG ratings. This divergence can reduce the clarity of the signal and create confusion for investors. In such cases, ESG ratings may fail to fully reflect a firm's true sustainability performance and instead become symbolic signals used to shape market perception rather than to convey substantive ESG quality (Bergh et al., 2014).

Therefore, signaling theory provides a useful framework to understand how ESG ratings influence firm performance through investor perception. ESG ratings serve as signals that shape market expectations, but their effectiveness depends on credibility and consistency. When ESG ratings are clear and consistent, they can strengthen investor confidence and positively affect firm performance. Conversely, when ESG rating disagreement is high, the signal becomes noisier, potentially weakening the impact of ESG ratings on firm performance. This perspective supports the relevance of examining ESG rating disagreement as an important moderating factor in the ESG and firm performance relationship.

2.1.2 Agency Theory

Agency theory is a theory that discusses the relationship between two parties, namely the principal (the assigner, namely invertors) and the agent (the assignee, for example the management of a company). The agency theory applied in a joint stock company, that the ownership is held by individuals or groups in the form stock shares, and these shareholders (principals) delegates the authority to the managers (agents) to run the business on their behalf (Jensen & Meckling, 1976). This theory focuses on problems that arise due to different interests between the principal and the agent (Linder & Foss, 2013). Shareholders here as the principal, which

is the owner of the company and manager as company's management (agent) that is the one given the responsibility to directly run the company.

Although both the owner and manager have the same main goal to maximize the firm performance, managers may act for their own interest, which may be different from shareholder's interest. The shareholders as the principal in here want the company to focus on improving long-term performance, while the managers can make decision that are not aligned. In this case, company managers take advantage of ESG trends to fulfill their own personal reputation and seek recognition, without really care about the essentials of sustainability itself. Such opportunistic behavior is consistent with what Jensen & Meckling (1976) call agency costs, which consist of monitoring costs incurred by principals, bonding costs borne by agents, and the residual loss that arises from decisions diverging from the principals' best interests. Therefore, ESG that is overly forced by the agent could possibly trigger agency cost to emerge, which means there is an inefficient high cost that would make the firm performance decrease.

Agency theory explains how incentives, contracts, and monitoring mechanisms can be used to minimize conflicts of interest and welfare losses that may occur because of agents behaving in ways that are not always aligned with the interests of principals (Eisenhardt, 1989). Jensen & Smith, Jr. (2005) also emphasize that these conflicts extend beyond shareholders and managers to include creditors, as agents may engage in decisions that shift risks unfairly. In other words, the principal–agent conflict is a general problem that exists in almost all organizations whenever control and ownership are separated.

Therefore, this theory is used to explain the risk side of ESG. It can be said that ESG is not always bring positive impact, because there is a potential that the management would act opportunistic and use ESG as a gimmick. When ESG practices are pursued excessively for reputational building rather than genuine sustainability, the additional expenditures may not

translate into real value creation. Instead, they can trigger agency costs to emerge in the form of inefficient high costs that reduce firm performance.

2.1.3 Resource-Based View

Resource-Based View (RBV) is a theoretical framework that explains differences in firm performance through the unique resources and capabilities that companies possess (Barney, 1991). Rather than focusing only on industry structure or market positioning, RBV emphasizes that firms are essentially bundles of resources, and these resources, when strategically managed become the foundation of competitive advantage (Wernerfelt, 1984). Building on this perspective, Barney (1991) argues that not all resources can lead to superior performance. Only resources that are valuable, rare, difficult to imitate, and non-substitutable (commonly referred to as the VRIN framework), and that are effectively organized within the firm, can create sustained competitive advantage.

Over time, the development of RBV has highlighted the crucial role of intangible resources, such as reputation, organizational culture, stakeholder trust, and managerial capabilities. These resources are often more important than tangible assets because they are harder for competitors to replicate, and thus more effective in explaining heterogeneity in firm performance (Gerhart & Feng, 2021; Mcgee, 2014). Intangible resources also include relational capital, such as long-term partnerships, customer loyalty, and regulatory goodwill, which create barriers to imitation and generate long-term rents (Freeman et al., 2021).

Within this framework, ESG performance and, more specifically, ESG ratings can be conceptualized as intangible resources that support competitive advantage. A strong ESG profile contributes to valuable resources such as corporate reputation, customer trust, improved relationships with regulators, and better access to financing. Companies that are perceived as responsible and sustainable often benefit from lower costs of capital (El Ghoul et al., 2011), stronger brand loyalty, and enhanced operational efficiency. These outcomes align with the RBV logic

that firms gain advantage when their resources are not only valuable but also rare, inimitable, and embedded in socially complex relationships that competitors cannot easily copy (Barney, 1991; Bhandari et al., 2022).

Furthermore, ESG resources often meet the conditions of causal ambiguity and path dependence. The link between ESG practices and positive outcomes, such as stakeholder trust or enhanced reputation, is often unclear and socially complex, making it hard for competitors to reproduce the same results (Barney, 1991; Wernerfelt, 1984). Similarly, reputations and relationships built over time reflect path-dependent processes, which means they cannot be instantly replicated by late adopters. This strengthens ESG's potential role as a VRIN resource within RBV.

However, while RBV provides a strong foundation for explaining the potential benefits of ESG as an intangible resource, the empirical measurement of ESG remains problematic. ESG ratings, as external proxies of sustainability performance, often vary across rating agencies due to differences in methodology. This divergence creates uncertainty about whether high ESG ratings truly reflect valuable and rare resources, or whether they simply capture symbolic actions taken by managers. As Liu et al. (2025) note, ESG rating disagreement can therefore be interpreted as an important moderating factor, revealing whether ESG truly functions as a source of competitive advantage or merely as a signaling tool.

Therefore, RBV explains the upside potential of ESG by positioning it as a strategic resource that, when properly developed and embedded, can strengthen firm performance. ESG ratings serve as external indicators of these resources, but their credibility depends on consistency and alignment across different evaluators. Thus, RBV underlines the logic that ESG, if genuinely integrated into corporate strategy, has the characteristics of VRIN resources and can enhance competitive advantage, while also recognizing the limitations and risks of relying solely on external ratings as proxies for such intangible assets.

2.1.4 ESG Ratings

Environmental, Social, and Governance (ESG) has become a commonly used paradigm for assessing company sustainability and social responsibility. ESG principles were formally introduced in 2004 through the United Nations Global Compact initiative, and later reinforced by the United Nations Principles for Responsible Investment (UN-PRI) in 2006. The framework highlights that firm performance should not only be judged by financial outcomes but also by how well companies manage their environmental impact, social relations, and governance practices (Li et al., 2021) As investor demand for responsible and sustainable investment grows, ESG ratings have become an increasingly important tool to assess firms beyond their financial performance.

ESG ratings originally appeared in the 1980s as a means for investors to examine firms for environmental, social, and corporate governance performance (Berg et al., 2022). The ESG ratings is a quantitative assessment provided by independent third-party rating agencies to evaluate a firm's sustainability practices across three dimensions. The first one is environment that includes the aspects of carbon emission, waste management, energy consumption, and natural resources. The second aspect is social, this covers the area of labor practices, human rights, and community engagement. The last aspect is governance which involves around board independence, shareholder rights, and transparency of an organization. By gathering the performance indicators in these areas, ESG ratings allow investors, regulators, and other stakeholders to compare firms both within and across industries (Zumente & Lāce, 2021). A high ESG ratings generally signals that a company effectively manages sustainability risks and opportunities, which can enhance its market reputation and stakeholder trust.

In this study, the proxy of ESG ratings will used the data gathered from Refinitiv that now is under LSEG (London Stock Exchange Group). The ESG ratings by Refinitiv are designed to objectively measure a company's

relative environmental, social, and governance performance, commitment, and effectiveness based solely on publicly reported data (LSEG, 2024). Refinitiv is one of the most recognized and extensive ESG data suppliers in the world, to calculate the ESG rating. ESG scores are assigned by Refinitiv Eikon and range from 1 to 100, with higher values indicating greater ESG performance(LSEG, 2024).

The use of data from Refinitiv as the primary resource for ESG ratings proxy is because Refinitiv provides a comprehensive score based on the company's actual performance and align closely with the theoretical tested compared to other agencies. Additionally, when conducted sampling, the author have face some limitation in terms of acquiring data from other agencies.

Despite these limitations, ESG ratings continue to serve as a proxy for a company's intangible resources, including reputation, stakeholder trust, and regulatory goodwill. Several studies suggest that ESG ratings can be linked to financial outcomes by influencing factors such as cost of capital, risk exposure, and long-term competitiveness (Eccles et al., 2014; El Ghoul et al., 2011). At the same time, divergent ESG ratings also open the possibility of opportunistic behavior, where managers may selectively engage in ESG activities or disclosures aimed at improving ratings rather than genuinely enhancing sustainability practices (Liu et al., 2025).

Therefore, ESG ratings provide a measurable benchmark of corporate sustainability and governance practices, but their effectiveness depends on the credibility and comparability of the rating methodologies. While they offer valuable insights for investors and policymakers, the lack of standardization and the potential for managerial opportunism highlight the need to critically interpret ESG ratings in evaluating firm performance.

2.1.5 Firm Performance

Firm performance is one of the most central constructs in management, accounting, and finance research because it reflects the extent to which a

company is able to achieve its objectives, generate value, and maintain long-term sustainability. Broadly defined, firm performance captures the outcomes of managerial decisions and organizational processes, providing an overall picture of how effectively a firm deploys its resources to achieve growth, profitability, and shareholder wealth maximization (Taouab & Issor, 2019). In empirical research, firm performance is often treated as the dependent variable, as it is influenced by a wide range of strategic, financial, and environmental factors, including investment policies, governance mechanisms, and sustainability practices such as environmental, social, and governance (ESG) initiatives.

Measurement of firm performance can be approached from multiple perspectives. One type of research uses accounting-based measures, such as return on equity (ROE) and return on assets (ROA), to assess resource efficiency and profitability in relation to shareholders' equity. Another stream relies on market-based indicators, such as Tobin’s Q, which captures market expectations by comparing the market value of a firm to the replacement cost of its assets (Chung & Pruitt, 1994; Servaes & Tamayo, 2013). Tobin’s Q is particularly favored in modern finance research because it integrates both current financial standing and forward-looking market perceptions, making it a more comprehensive measure of firm value. Unlike accounting-based ratios, which are backward-looking, Tobin’s Q incorporates investor sentiment, anticipated risks, and future cash flow expectations.

In addition to these measures, scholars often highlight that firm performance is multidimensional and should not be restricted to financial indicators alone. Non-financial measures, such as innovation outcomes, customer satisfaction, and reputational capital, are increasingly recognized as critical determinants of long-term success (Kaplan & Norton, 1992). In this sense, firm performance is not only a reflection of immediate financial results but also an indicator of strategic positioning and competitiveness. This broader understanding is particularly important in the context of ESG, where intangible benefits such as stakeholder trust, regulatory

goodwill, and enhanced corporate image can translate into long-term performance advantages.

The determinants of firm performance have been widely studied. At the firm level, factors such as size, leverage, liquidity, R&D intensity, and cash holdings are often included as control variables because they shape the company's ability to operate efficiently and capture growth opportunities (Chung & Pruitt, 1994). At the market level, industry conditions, competition intensity, and environmental dynamism also affect performance outcomes. Furthermore, corporate governance mechanisms such as board independence, ownership concentration, and executive incentives help to align management actions with shareholder interests, impacting company value.

The connection between firm performance and ESG engagement has received substantial scholarly attention. Signaling theory explains how a company that have a good ESG score is indirectly give a commitment to sustainability and long term value which captured by investors as a "green flag signal" (Huang, 2022). By contrast, agency theory emphasizes that ESG activities may not always translate into better firm performance, as managers might use ESG initiatives opportunistically to pursue personal goals, resulting in higher expenses and inefficiencies (Brammer & Pavelin, 2006; Jensen & Meckling, 1976). Some empirical research indicate no significant association, implying that the correlation between ESG and company success may be mediated or controlled by other variables, such as R&D investment, corporate governance, or rating disagreement (Liu et al., 2025; Mcwilliams & Siegel, 2001).

Therefore, firm performance serves as a key outcome variable in corporate research, reflecting both the financial and strategic health of a company. Its measurement encompasses accounting-based metrics, market-based indicators, and increasingly, non-financial dimensions that capture long-term sustainability and stakeholder value. In the context of this study, firm performance is proxied by Tobin's Q, which is particularly appropriate for

examining the relationship between ESG ratings and market perceptions. Tobin's Q reflects not only the tangible financial condition of a firm but also how investors interpret its future prospects, making it a suitable measure to evaluate whether ESG engagement, along with rating disagreement, and ultimately enhances or harms firm performance.

2.1.6 ESG Rating Disagreement

ESG ratings are not standardized across rating agencies. Agencies such as Refinitiv, MSCI, Bloomberg, Sustainalytics, S&P Global, ISS-Oekom, and Vigeo-EIRIS apply different methodologies, weightings, and data sources. As a result, the same firm may receive widely different ESG ratings depending on the agency, leading to divergence in ESG assessments (Berg et al., 2022). This inconsistency creates challenges for investors seeking to interpret the true sustainability profile of a company and raises questions about the reliability of ESG ratings as universal indicators.

ESG rating disagreement refers to the divergence of ratings assigned to the same company by different ESG rating agencies. Unlike credit ratings, which are relatively standardized, ESG ratings are based on non-financial, multidimensional, and often qualitative criteria. Each rating agency employs its own theoretical framework, evaluation scope, and weighting system in assessing companies, leading to variations in how firms' environmental, social, and governance practices are quantified (Berg et al., 2022; Chatterji et al., 2016).

For example, Refinitiv and Bloomberg themselves employ fundamentally different approaches. Refinitiv's ESG score emphasizes a company's actual performance and commitment across ESG pillars, evaluating how effectively it manages material issues relative to industry peers. Its methodology is based on over 870 company-level metrics, grouped into ten categories that roll up into three pillar scores. Environmental and social categories are benchmarked against the company's industry group, while governance categories are benchmarked against its country of incorporation. The final score is a percentile rank (1–100) that reflects

relative performance within the peer group, and an ESG Combined Score further adjusts for significant controversies (LSEG, 2024).

In contrast, Bloomberg's ESG Disclosure Score is not a measure of performance, but of transparency. It assesses the extent to which a company publicly discloses ESG information across more than 120 data points covering environmental, social, and governance factors (ESG Advising LLC, 2024). Each data point is scored *1* if disclosed and *0* if not, the total is normalised to a score between 0.1 and 100.

Based on ESG Advising LLC (2024), the indicators are grouped into the three ESG pillars. Under Environmental, Bloomberg tracks disclosures related to carbon footprint, energy and water usage, waste management, environmental management policies, and climate-related risks. The Social pillar captures disclosures on labour practices, employee diversity, health and safety, human rights policies, community engagement, and product safety. The Governance pillar covers board composition, board independence, shareholder rights, executive pay, business ethics, and anti-corruption measures.

Because the score is based solely on the presence or absence of disclosure, a company that fully reports its (even poor) ESG performance can achieve a high score, while a company with excellent sustainability practices but limited public reporting will receive a low score (ESG Advising LLC, 2024). This distinction is making the Bloomberg ESG Disclosure Score does not assess actual ESG impact or performance, it only indicates the level of transparency. This fundamental difference of measuring real-world impact versus measuring disclosure quantity often leads to significant divergence. A certain company may receive a high score from Bloomberg for excellent disclosure but a moderate score from Refinitiv if its actual performance lags behind.

Scholars divide ESG rating dispute into three major sources, which are range variation, measurement variance, and weight difference (Berg et al., 2022) Scope divergence occurs when agencies include or exclude different

ESG indicators in their assessment (e.g., one agency may emphasize carbon emissions, while another may prioritize labor rights). Measurement divergence arises from differences in how the same indicator is quantified, such as the criteria used to assess board diversity. Weight divergence, meanwhile, stems from differences in how much importance agencies assign to each ESG pillar, leading to distinct aggregate ratings even when the same raw data are considered. These methodological differences create inconsistency and reduce comparability across ratings.

The consequences of ESG rating disagreement are twofold. On the negative side, disagreement creates opacity in the information environment. When ratings vary widely, investors face greater uncertainty in evaluating a firm's ESG performance, which increases information asymmetry and investment risk (Avramov et al., 2022). This uncertainty also makes it more difficult for external stakeholders, such as analysts, regulators, and creditors to monitor corporate behavior effectively (Serafeim & Yoon, 2022). Moreover, divergence can provide room for managerial opportunism, where managers selectively highlight ratings that are favorable to the firm while ignoring less flattering assessments. In this sense, ESG rating disagreement may exacerbate agency problems, further weakening the link between ESG practices and firm performance.

On the positive side, ESG rating disagreement can play a governance role. Because rating agencies often specialize in different dimensions of ESG, divergent ratings may reveal aspects of corporate behavior that would otherwise remain hidden. For example, one agency may identify weaknesses in governance practices while another highlights strengths in environmental performance, thereby providing a fuller picture of the company. Disagreement can also prevent firms from opportunistically "gaming the system," since it is harder for managers to manipulate ESG practices in a way that simultaneously satisfies all agencies' criteria (Liu et al., 2025). In this sense, ESG rating divergence can enhance monitoring power, as analysts and investors are able to use differences across ratings

to identify potential inconsistencies, red flags, or agency problems within firms.

Empirical studies have documented these contrasting effects. Most research stresses the hazards of ESG disagreement, demonstrating that it reduces the relationship within ESG performance and asset prices (Berg et al., 2022), raises the risk of sustainable investment (Avramov et al., 2022), and leads to stock return uncertainty (Brandon et al., 2021). However, more recent data shows that rating disagreement might potentially attenuate the detrimental impact of ESG ratings on business performance, functioning as a governance tool (Liu et al., 2025). This dual nature highlights the importance of examining ESG rating disagreement not only as "noise" in the data, but also as a potential corrective force that sheds light on opportunistic ESG practices.

This study defines ESG rating disagreement with the standard deviation from ESG ratings throughout the two largest agencies that provides ESG assessment (Refinitiv and Bloomberg). Refinitiv and Bloomberg are among the most widely recognised and frequently used ESG data providers in both academic research and investment practice. Moreover, their contrasting philosophies, performance-based assessment (Refinitiv) versus disclosure-based assessment (Bloomberg), make them ideal candidates for capturing meaningful divergence.

A smaller standard deviation indicates higher agreement across agencies, while a larger deviation suggests greater divergence. By integrating ESG rating disagreement as a moderating variable, this study tries to capture how discrepancies in ESG assessments impact the link between ESG ratings and business performance in Indonesian listed firms. This approach recognizes the dangers and possible advantages of divergence, providing a more nuanced view about the way ESG ratings work in developing countries.

2.2 Previous Research

Table 2.1 will show previous studies that examined independent boards of commissioners, firm value, and foreign ownership.

Table 2.1
Previous Research

No	Research Title	Researcher	Variable	Result
1	ESG Ratings and Firm Performance: The Moderating Role of ESG Rating Disagreement	Chengcheng Liu, Qianhui Wu, and Yu-En Lin (Borsa Istanbul Review 25 (2025) 816–823)	1. ESG ratings 2. Firm performance (Tobin's Q) 3. ESG rating disagreement	1. ESG ratings have a significant negative effect on firm performance. 2. ESG rating disagreement have a positive moderating role in the negative relationship between ESG ratings and firm performance. 3. The positive moderating effect of ESG rating disagreement only exists in firms with good disclosure quality, weak governance, high munificent and dynamic environments,

				high social capital, and small size.
2	Impact of ESG Performance on Firm Value and Profitability	Mahmut Aydogmus, Guzhan Gulay, and Korkmaz Ergun (Borsa Istanbul Review 22-S2 (2022) S119–S127)	1. ESG score 2. Environment score 3. Social score 4. Governance score 5. Firm value (Tobin's Q) 6. Return on Assets (ROA	1. ESG score proven to give high significant positive influence to firm value measured by Tobin's Q.
3	ESG – Firm Performance Nexus: Evidence From an Emerging Economy	Ajithakumari Vijayappan Nair Biju, Sreelekshmi Geetha, Salu Prasad, Aghila Sasidharan, and Ambili Jayachandran (Business Strategy and the Environment, 2025; 34:3469–3496)	1. ESG ratings 2. E score 3. S score 4. G score 5. Firm Performance (Tobin's Q)	The relationship between ESG and firm performance are insignifficant.
4	The Impact of Environmental, Social, and Governance	Ruhaya Atan, Md. Mahmudul Alam,	1. ESG disclosure score	ESG score have no significant influence to both firm value

	Factors on Firm Performance: Panel Study of Malaysian Companies	Jamaliah Said, and Mohamed Zamri (Management of Environmental Quality: An International Journal, Vol. 29 Issue: 2, pp.182-194)	2. Firm value (Tobin's Q) 3. Profitability (ROE) 4. Cost of capital	(Tobin's Q) and profitability (ROE).
5	Environmental, Social, and Governance Factors in Emerging Markets: The Impact on Firm Performance	Negar Bahadori, Turhan Kaymak, dan Mehdi Seraj (Business Strategy and Development Vol. 4 Issue 4, 2021 pp 411-422)	1. ESG scores 2. Environmental score 3. Social score 4. Governance score 1. Firm financial performance	The results suggest that, after controlling for firm size and leverage, firms with higher ESG scores experience greater levels of profitability.

2.3 Hypothesis

Based on the explanation on the background, purpose, and benefits of research and literature review, in this study the researcher formulated a hypothesis, and a test of the hypothesis will be carried out to prove whether the hypothesis is supported or not supported.

2.3.1 The Effect of ESG Ratings on Firm Performance

According to signaling theory, ESG ratings serve as a significant signal in capital markets, reducing information asymmetry between enterprises and

investors. Managers possess superior information about a firm's long-term strategy and risk profile compared to external stakeholders. By disclosing strong ESG performance and achieving higher ESG ratings, firms send positive signals regarding management quality, risk management capability, and commitment to sustainable value creation (Bergh et al., 2014; Spence, 1973). Investors interpret high ESG ratings as indicators of lower non-financial risk and better future prospects, which can lead to higher market valuation and improved firm performance.

This signaling mechanism is particularly relevant when firm performance is measured using the indicators based on the market such as Tobin's Q. ESG activities frequently produce long-term advantages, such as stakeholder confidence, improved reputation, and regulation credibility, and this may not be immediately represented in accounting-based KPIs. However, these benefits are incorporated into investors' expectations and are therefore captured by market valuation. As a result, businesses with better ESG ratings have predicted to achieve greater Tobin's Q, indicating superior company performance from the market's perspective (Servaes & Tamayo, 2013).

The Resource-Based View (RBV) adds to the evidence that ESG ratings have a favorable impact on corporate performance. RBV contends that organizations attain higher performance by holding "valuable, rare, inimitable, and non-substitutable" or "VRIN" resources (Barney, 1991). ESG performance can be viewed as an intangible strategic resource, as it contributes to corporate reputation, customer loyalty, improved relationships with regulators, and better access to capital. These ESG-related resources are socially complex and developed over time, making them difficult for competitors to replicate (Freeman et al., 2021; Wernerfelt, 1984). When ESG practices are genuinely embedded in corporate strategy, they can strengthen competitive advantage and enhance firm performance.

Empirical studies also provide evidence supporting this positive relationship. Aydoğmuş et al. (2022) have proven that the ESG score has a highly positive influence in corelation with the firm value thaJung & Yoo (2023)s the proxy. Jung & Yoo (2023) also report a positive linear relationship between ESG performance and firm performance. In emerging market contexts, Bahadori et al. (2021) show that firms with higher ESG scores experience higher levels of profitability after controlling for firm characteristics. These findings suggest that ESG ratings are not merely symbolic indicators but can reflect substantive sustainability practices that contribute to improved firm performance.

Although agency theory highlights the possibility of managerial opportunism in ESG activities, this study emphasizes that, on average, ESG ratings act as positive signals and valuable resources rather than purely opportunistic tools. When ESG engagement is aligned with long-term value creation and properly communicated to the market, higher ESG ratings are expected to enhance investor confidence and firm valuation.

Therefore, based on the existing theories and the prior empirical evidence, this study proposes the following hypothesis:

H1 : ESG ratings positively affect firm performance

2.3.2 The Moderating Effect of ESG Rating Disagreement

Although ESG ratings usually convey favorable signals about a firm's commitment to sustainability and long-term wealth creation, the intensity of this signal could differ based on the amount of consensus across ESG rating organizations. ESG rating disagreement emege is because of the different agencies apply distinct methodologies, scopes, and weighting schemes when evaluating firms' ESG performance (Berg et al., 2022; Chatterji et al., 2016). As a result, investors may receive multiple ESG assessments for the same firm, which can influence how ESG information is interpreted in the capital market.

According to signaling theory, ESG ratings serve as signals that lessen information asymmetry between enterprises and investors. However, the credibility of these signals depends on their clarity and consistency. When ESG ratings from different agencies are relatively consistent, investors are more likely to perceive the ESG signal as credible and informative. In contrast, when ESG rating disagreement exists but remains within a reasonable range, it may actually prompt investors to conduct deeper analysis rather than dismiss the ESG signal altogether. In this case, rating disagreement does not eliminate the signal but instead encourages more careful interpretation of ESG performance (Bergh et al., 2014).

According to the resource-based view (RBV), ESG rating dispute can enhance the beneficial impact of ESG ratings on business performance by serving as a separate inspection and governance tool. When multiple agencies assess ESG performance differently, it becomes more difficult for managers to strategically manipulate ESG disclosures to satisfy all evaluators at once (Liu et al., 2025). This reduces the likelihood that ESG ratings merely reflect symbolic actions and increases the probability that high ESG ratings represent genuine, well-embedded sustainability practices. As a result, ESG-related resources such as reputation, stakeholder trust, and regulatory goodwill are more likely to be substantive, valuable, and difficult to imitate, thereby enhancing firm performance.

Moreover, ESG rating disagreement provides additional informational content for investors and analysts. Differences across ratings can highlight specific strengths and weaknesses in a firm's ESG practices, allowing market participants to form a more comprehensive assessment of the firm's sustainability profile (Serafeim & Yoon, 2022). Rather than weakening the ESG signal, such disagreement can reinforce investors' confidence when high ESG ratings are consistently observed despite methodological differences. In this situation, ESG rating disagreement strengthens the positive relationship between ESG ratings and firm

performance by validating ESG as a credible indicator of long-term value creation.

Empirical evidence also supports this view. While earlier studies often treat ESG rating disagreement as noise, more recent research suggests that disagreement can play a governance role by enhancing transparency and limiting opportunistic behavior (Liu et al., 2025). When ESG ratings remain strong across different evaluators, even in the presence of disagreement, investors are more likely to interpret ESG performance as genuine and value-enhancing. This technique is particularly essential in emerging economies, where ESG disclosure processes are still evolving and external scrutiny is critical.

Therefore, ESG rating disagreement is expected to strengthen the positive relationship between ESG ratings and firm performance by improving the governance function of ESG signals. Based on this argument, the following hypothesis is proposed:

H2 : ESG rating disagreement strengthen the positive relationship between ESG ratings and firm performance

2.4 Research Framework

The research framework that will be used to describe the relationship between independent variables, dependent variables, and moderating variables is as follows:

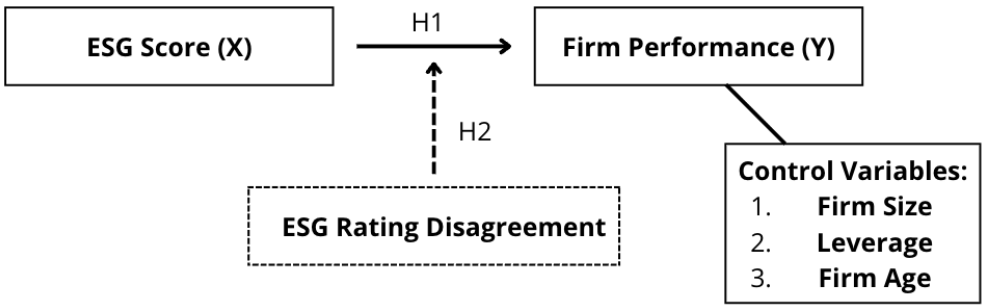

Figure 2.1

Research Framework

III. RESEARCH METHODOLOGY

3.1 Type and Source of Data

To examine the influence of ESG ratings on firm performance and the moderating of ESG rating disagreement, researcher uses a quantitative approach with secondary data. This means the data were not collected directly by the researcher but obtained from existing sources. Quantitative data research are data in the form of numbers as generally gathered through structured questions (Sekaran & Bougie, 2016).

The data on ESG ratings are gathered from the Refinitiv Eikon database of company listed on Indonesia Stock Exchange (IDX) from 2021-2023. The information about firm performance are going to be assessed by Tobin's Q, firm size, leverage, and firm age which are collected from the annual report published on the official website of the company and IDX website. Lastly, the data regarding ESG rating disagreement are obtained from various sources of ESG ratings, namely Refinitiv Eikon and Bloomberg. Therefore, the focus of this study is on the 62 companies that have ESG ratings consistently during the period of 2021 to 2023 and listed in Indonesia Stock Exchange (IDX).

3.2 Population and Sample of Research

The population in this research consists of companies listed on Indonesia Stock Exchange (IDX) that have ESG ratings during the period of 2021 to 2023. The sampling method used in this study is purposive sampling, which is a non-probability technique where the researcher selects companies based on specific

criteria that best match the focus of the research (Sekaran & Bougie, 2016). The criteria used for determining the research sample are as follows:

1. Companies listed on the Indonesia Stock Exchange (IDX) from 2021-2023.
2. Companies that have ESG ratings in the Refinitiv and Bloomberg database consistently for the period 2021-2023.
3. Companies that have complete 2021-2023 annual reports that are publicly accessible.
4. Companies that have the variables needed in the research.

Researcher use these purposive sampling criteria with the expectation that the selected firms are those most closely related to the subject of the study in Indonesia. Based on these criteria, the research includes sample of companies listed on IDX with ESG rating retrieved from Refinitiv Eikon and Bloomberg from 2021-2023. Therefore, the datails about research sample are shown in the table below.

Table 3.1
Samples

Description	Total
Companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023	891
Companies without ESG ratings in all ESG database used (Refinitiv Eikon and Bloomberg)	(828)
Companies with ESG ratings and published complete annual reports from 2021-2023	63
Total companies for research sample	63
Total research period	3
Total research sample period 2021-2023	189
Outlier data	(3)
Total sample	**186**

3.3 Operational Variables

3.3.1 Independent Variable

According to Sekaran & Bougie (2016), the independent variable is an element that affects or forecasts developments in the dependent variable, whether positively or negatively. This time, the author use ESG ratings (*ESG*) as the independent to study.

The ESG rating is a quantitative evaluation of a company's sustainability performance determined by three primary pillars that include environmental, social, and governance. These ratings are gathered from independent third-party agencies that assess how successfully a company incorporates with the ESG principles into their daily activities, policies, and disclosures. ESG ratings are a vital indicator for investors and other stakeholders to measure the commitment of a company to sustainable and responsible business practices (Reber et al., 2022)

This study uses data from Refinitiv Eikon that is now under LSEG (London Stock Exchange Group), because it is one of the most recognized and extensive ESG data suppliers in the world, to calculate the ESG rating. The assessment metrics are grouped into 10 categories that reformulate the three pillar scores, which are Environmental, Social, and Governance (LSEG, 2024).

The environmental pillar compromises three catagories: 1) **Emissions**, measures a company’s commitment and effectiveness in reducing environmental emissions in production and operational processes; 2) **Innovation**, reflects a company’s capacity to reduce environmental costs for customers, creating new market opportunities through eco-designed products, green R&D, and environmental technologies; and 3) **Resource use**, assesses performance in reducing the use of materials, energy, or water, and finding eco-efficient solutions via supply chain management.

Second is the social pillar, that consist of four catagories: 1) **Workforce**, evaluates job satisfaction, health and safety, diversity and equal opportunity, and development opportunities for employees; 2) **Human rights**, measures effectiveness in respecting fundamental human rights conventions; 3) **Community**, assesses the company's commitment to being a good citizen, protecting public health, and respecting business ethics; and 4) **Product responsibility**, reflects capacity to produce quality goods and services, integrating customer health and safety, integrity, and data privacy.

Lastly, the governance pillar includes three catagories: 1) **Management**, measures commitment and effectiveness in following best-practice corporate governance principles, including board structure and compensation; 2) **Shareholders**, assesses equal treatment of shareholders and the use of anti-takeover devices; and 3) **CSR strategy**, reflects a company's practices to communicate that it integrates economic, social, and environmental dimensions into day-to-day decision-making.

For each metric, a percentile rank score is computed relative to a defined peer group. Environmental and social categories are benchmarked against the company's TRBC (The Refinitiv Business Classification) Industry Group, while governance categories are benchmarked against the country of incorporation (LSEG, 2024). This industry-relative approach ensures that scores reflect performance within the context of sector-specific challenges and norms. Boolean metrics (Yes/No) receive a default value of zero if not disclosed, and numeric metrics are used only when reported. The percentile rank formula accounts for the number of companies with worse values and those with the same value, producing a score between 1 and 100 (LSEG, 2024).

Each score is derived from a detailed set of metrics that reflect how well the company performs and discloses information related to ESG issues. These scores are widely used in both academic research and investment

analysis because they provide standardized, comparable, and quantifiable insights into firms' non-financial performance.

Using ESG ratings as the independent variable allows this study to examine whether stronger sustainability practices, reflected through higher ESG scores that lead to better firm performance, as suggested by theories such as the Resource-Based View and Agency Theory.

3.3.2 Dependent Variable

The dependent variable is the main focus of a research study. It is analyzed to understand, describe, explain its variability, or predict it, and by examining what factors influence it, researchers can find answers or solutions to the problem (Sekaran & Bougie, 2016). This variable becomes the center of the research because analyzing what factors influence it can help provide answers or solutions to the research problem. Therefore, the dependent variable of this study is firm performance.

Firm performance refers to the results achieved by a company in carrying out its business activities. It shows the company's ability to grow, survive, and create added value in a sustainable way (Taouab & Issor, 2019). In this study, firm performance (*FP*) is measured using Tobin's Q. This measurement is considered the most appropriate because it is widely used and reflects not only current firm performance but also market expectations regarding future cash flows and risks (Servaes & Tamayo, 2013). According to Chung & Pruitt (1994), Tobin's Q is influenced by factors such as total assets, total liabilities, and stock price, making it a comprehensive indicator of firm performance. Tobin's Q is particularly useful in the context of ESG because it may capture how non-financial activities like environmental responsibility, social involvement, and good governance are reflected in market movements and investor confidence. As a result, many contemporary research on ESG and business performance have chosen Tobin's Q as the key assessment method, namely Liu et al. (2025); Albitar et al. (2020); and Atan et al. (2018).

Tobin's Q is determined through an approach from (Chung & Pruitt, 1994). It describes Tobin's Q as the market value of equities plus book value of debt, and then divided by the book value of firm assets. (Chung & Pruitt, 1994).

$$Tobin's\ Q\ = \frac{Market\ Value\ of\ Equity + Book\ Value\ of\ Debt}{Book\ Value\ of\ Assets}$$

3.3.3 Moderating Variable

According to Sekaran & Bougie (2016), moderating variable is one that has a considerable impact on the connection between the independent and dependent variables. In simpler terms, the presence of the third variable changes or modifies how the independent variable influences the dependent variable, which might be weakening, strengthening, or otherwise.

For this study, researcher wants to assess the impact of ESG Rating Disagreement (*ERD*) when it become the moderating variable. The disagreement of these ESG rating emerge from the situation where the assessment results between agencies are inconsistent, because each ESG rating agencies have different score assessment. This study measures ESG rating disagreement using the standard deviation from the ESG ratings obtained from two agencies, Refinitiv and Bloomberg. This approach is slightly different from the previous study like Liu et al. (2025) that use three rating agencies. This difference is based on several methodological considerations and relevant contextual with the condition of the research on emerging country like Indonesia. Because unlike the developed countries, the companies listed in Indonesia Stock Exchange (IDX) that have ESG coverage for three rating agencies all at once is still very limited.

Additionally, the standard deviation is statistically can still be calculated using two data points. Even though the standard deviation from two observation data has limitation in representing the population variability,

in the context of this research it acts as a simple index of the divergence between agencies. Therefore, the standard deviation of ESG ratings will be used in this study to assess the moderating variable of ESG rating disagreement from two different agencies. Researcher compile ESG ratings from Refinitiv Eikon and Bloomberg.

The standard deviation is an indicator of statistical significance that determines how much each of the data points are different from the mean (average) value. It represents the scope of disparity or variability within a group of data (Pearson, 1894). The lower standard deviation indicates that the data units are relatively near to the mean (low variation), whereas the greater standard deviation indicates that the data points are dispersed (high variation).

$$SD = \sqrt{\frac{\sum(X_i - \bar{X})^2}{N}}$$

Where:

SD = Standard deviation

X_i = Individual ESG score from each agency

$\bar{X}$ = Mean (average) ESG score

N = Number of rating agencies

3.3.4 Control Variables

According to Salkind (2017) control variable represents as the variable which may influence the dependent variable, yet they won't be the primary topic of the study. Researchers include it in the analysis to remove or control its influence, this way the link connecting the independent variable and the dependent variable is observed more clearly and properly.

3.3.4.1 Firm Size

The author set the measurement of the firm size (*SIZE*) through the total asset of company and then turn it into its natural logarithm forms (Biju et al., 2025; Xu et al., 2025). This assets value can

reflect the future prospects of the company. Company with big assets usually considered to have a good long term potential and is more attractive for investors.

Additionally, big firms are usually tend to have a better performance comparing to small companies because they have a bigger market power (Lee, 2009). Most of the study about ESG, like the research by Biju et al. (2025), and Jung & Yoo (2023) shows that firm size has a connection with firm performance.

3.3.4.2 Leverage

Leverage (*LEV*) is a way to see the risk level of a company. It shows how much of the company's financing comes from debt if it got compared with the total assets. A higher leverage means the company relies more on borrowed funds, which can increase financial risk. Because of this, companies with high leverage are often motivated to improve their ESG scores as a way to reduce or manage that risk. This time the author set leverage to be calculated using the total liabilities that got devided by total assets. (Liu et al., 2025). In a lot of research related to ESG, leverage is employed as the control variable with the consideration that debt levels may considerably affect a company performance. Controlling on leverage allows the research to more properly measure the influence of ESG on firm performance.

Leverage tells us how much of the company's financing comes from loans and how much comes from shareholders (Biju et al., 2025). If a company has high leverage, it means it's using a lot of debt compared to equity. If it has low leverage, it means it's using less debt and relying more on its own money.

3.3.4.3 Firm Age

Firm age (*AGE*) refers to the how long it is since the company was established, which usually measured by years. In the context of

ESG analysis, firm age is more likely to become a control variable to separate the influence of company's age to their firm performance.

Firm age is measured by calculating the year since the company was built (Liu et al., 2025). This means you first count how many years the company has been existed. According to Abdi et al. (2022), firm age is used as the control variable in a lot of ESG studies because the older company usually have more experience, more reputable, and more mature corporate governance structure, which can influence the performance of a company and ESG implementation.

Table 3.2

Variables Measurement

Variable	Measurement	Literature
Tobin's Q (FP)	$\frac{MV\ of\ Equity + BV\ of\ Debt}{Book\ Value\ of\ Assets}$	Chung & Pruitt (1994); Servaes & Tamayo (2013)
ESG Rating (ESG)	ESG rating obtained from Refinitif Eikon (range 0 – 100).	Biju et al. (2025); Reber et al. (2022)
ESG Rating Disagreement (ERD)	Standard deviation of ESG ratings from Refinitif Eikon and Bloomberg.	Liu et al. (2025); Brandon et al. (2021); Serafeim & Yoon (n.d.)
Firm Size (SIZE)	Natural logarithm of total assets.	Abdi et al. (2022); Xu et al. (2025)
Leverage (LEV)	$\frac{Total\ Debt}{Total\ Assets}$	Liu et al. (2025); Biju et al. (2025)

Firm Age (AGE)	Number of years since firm establishment.	Liu et al. (2025); Abdi et al. (2022)

3.4 Data Analysis Technique

For this study, researcher use panel data regression model as the analytical technique. Regression analysis is a method used to study how one variable, called the dependent variable, is influenced by one or more other variables, known as independent variables (Gujarati & Porter, 2009). The purpose of this analysis is to figure out an average score from the dependent variable using the established or constant values of the independent variables. In simple terms, regression helps to understand how changes in one or more factors can affect another outcome, allowing researchers to make predictions or identify important relationships among variables.

The researcher will use STATA 16 and Microsoft Excel as the tools to process the data for all research variables. The data used in this is a panel data, which is a combination of time series data (data collected over several years) and cross-sectional data (data collected from several companies at the same point in time).

3.5 Descriptive Statistical Analysis

The data are described and explained using descriptive statistical methods. Descriptive statistical analysis is a type of statistical analysis used to describe, summarize, and present data in a simple and informative way. This method helps researchers understand the general characteristics of the data before moving on to further analysis.

According to Sugiyono (2023), descriptive statistics include the calculation of measures such as mean, median, and mode, as well as deciles and percentiles, and also involve computing the average and standard deviation. The presentation of data can be done through tables, charts, and graphs to make the information easier to read and interpret. This type of analysis does not aim to draw conclusions or generalizations about the population, but only to describe the existing data as it is.

As explained by Mishra et al. (2019), the main purpose of descriptive statistical analysis is to present large amounts of data in a concise, clear, and understandable form, allowing readers to easily grasp the overall pattern and distribution of the data.

3.6 Panel Data Model Selection Tests

3.6.1 Chow Test

The Chow Test is used to verify whether individual effects exist throughout the data, justifying the choice of the Fixed Effect Model (FEM) over the Common Effect Model (CEM) in panel data estimation. The decision criteria are as follows (Gujarati & Porter, 2009):

1. If the probability value of the cross section F statistic exceeds the significance threshold of 0.05, H_0 is accepted, indicating that the Common Effect Model (CEM) is the best fit.
2. If the probability value of the cross section F statistic is lower than the significance level of 0.05, H_0 is rejected and H_1 is accepted, which indicates that the most appropriate model to choose is Fixed Effect Model (FEM).

3.6.2 Hausman Test

The Hausman Test is a statistical test used to determine the most appropriate approach between the Random Effect Model (REM) and the Fixed Effect Model) in estimating panel data. The decision criteria are as follows (Gujarati & Porter, 2009):

1. If the probability value of the cross-section random statistic is greater than the significance level of 0.05, H_0 is accepted, indicating that the most appropriate model to use is the Random Effect Model (REM).
2. If the probability value of the cross-section random statistic is less than the significance level of 0.05, H_0 is rejected and H_1 is

accepted, indicating that the most appropriate model to use is the Fixed Effect Model (FEM).

3.6.3 The Lagrange Multiplier (LM) Test

The Lagrange Multiplier (LM) test is a statistical test used to determine the most appropriate model between the Common Effect Model (CEM) and the Random Effect Model (REM) in panel data estimation. The decision criteria are as follows (Gujarati & Porter, 2009):

1. If the probability value of the Breusch–Pagan cross-section statistic is greater than the significance level of 0.05, H_0 is accepted, indicating that the most appropriate model to use is the Common Effect Model (CEM).
2. If the probability value of the Breusch–Pagan cross-section statistic is lower than the significance level of 0.05, H_0 is rejected and H_1 is accepted, indicating that the most appropriate model to use is the Common Effect Model (CEM).

3.7 Classic Assumption Test

Classic assumption test is a series of statistical tests used to ensure that the data and regression model meet the basic requirements (classical assumptions) before carrying out further analysis such as linear regression. The main purpose of this test is to make sure that the analysis results are valid, accurate, and not biased. According to Delacre et al. (2020), the classic assumption test serves several important purposes. First, it ensures the validity of the model by confirming that the regression produces accurate and reliable estimates. Second, it helps prevent statistical errors, because when the assumptions are not met, the analysis results may become biased, increase the risk of Type I (false negative) or Type II (false positive) errors, and lead to incorrect interpretations. Third, it helps determine the appropriate analysis method, whether the data can be analyzed using classical parametric methods or requires robust or non-parametric approaches.

In regression analysis, the classic assumption test is essential to ensure that the model satisfies the Best Linear Unbiased Estimator (BLUE) criteria, meaning the estimators are unbiased, consistent, and efficient. In this study, four classical assumption tests will be conducted to confirm that the regression model used meets these requirements and produces results that are accurate, unbiased, and consistent.

3.7.1 Normality Test

The normality test is used to check whether the data in the regression model, both for the independent and dependent variables, follow a normal distribution. This is important because one of the assumptions in regression analysis is that the residuals (errors) must be normally distributed. The test works by comparing the actual sample distribution (frequency distribution) with the theoretical normal distribution that has the same mean and standard deviation.

There are three common ways to test the normality of residuals: by looking at the histogram of residuals, the normal probability plot (NPP), and the Jarque-Bera (JB) test (Gujarati & Porter, 2009). Among these methods, the Jarque-Bera test is one of the most widely used because it calculates two important measures, skewness (to see whether the data is symmetrical) and kurtosis (to see the sharpness or flatness of the distribution).

To decide whether the residuals are normally distributed or not, the following criteria are used:

a. If the p-value > 0.05, it means the residuals are normally distributed (H_0 is accepted).
b. If the p-value < 0.05, it means the residuals are not normally distributed (H_0 is rejected).

Therefore, the normality test helps ensure that the regression model meets one of the basic classical assumptions so that the analysis results can be considered valid and unbiased.

3.7.2 Multicollinearity Test

The multicollinearity test is conducted to examine whether there are correlations among the independent variables in the regression model. A good regression model should not have strong correlations between its independent variables because this can twist the estimation results and make it difficult to determine the actual effect of each variable (Gujarati & Porter, 2009). In simple terms, multicollinearity occurs when one independent variable can be predicted or explained by another independent variable. This situation can lead to unstable regression coefficients, making the interpretation of the model less reliable.

To detect multicollinearity, this study uses two statistical indicators: Tolerance (*TOL*) and Variance Inflation Factor (*VIF*) (Gujarati & Porter, 2009). These two measures are mathematically related, where VIF is the mutual of Tolerance (VIF = 1 or Tolerance). Tolerance measures how much of the variability of an independent variable cannot be explained by other independent variables, while VIF shows how much the variance of a regression coefficient increases due to multicollinearity.

According to Gujarati & Porter (2009), the criteria used to identify multicollinearity are as follows:

a. If Tolerance > 0.05 and VIF < 10, the variable is considered free from multicollinearity (no multicollinearity problem).
b. If Tolerance < 0.05 and VIF > 10, the variable is indicated to have multicollinearity (multicollinearity problem exists).

In this study, a couple correlation test will first be carried out to identify potential correlations among independent variables. After that, the Tolerance and VIF values of each variable will be analyzed to ensure that the regression model fulfills the classical assumption of no multicollinearity.

3.7.3 Autocorrelation Test

The autocorrelation test is used to examine whether there is a correlation between the residuals (disturbance errors) in one period (t) and the residuals in the previous period (t-1) within a multiple linear regression model. In other words, this test checks if the error terms are independent from one another across time. If a correlation is found between these residuals, it is referred as autocorrelation problem.

Autocorrelation usually occurs in time series data because the value of one observation may depend on its past values. The presence of autocorrelation can cause the regression estimates to become inefficient and lead to incorrect conclusions in hypothesis testing, even though they might still be unbiased.

To detect autocorrelation in this study, the Wooldridge test is used. This test is specifically designed to detect first-order serial correlation within panel data models and is suitable for use under the Fixed Effects estimation framework (Wooldridge, 2012). The decision criteria for the Wooldridge test are:

1. If the Prob > F value is less than 0.05, the null hypothesis of no correlation is rejected, indicating the presence of autocorrelation in the regression model.
2. If the Prob > F value is greater than 0.05, the null hypothesis cannot be rejected, indicating that there is no autocorrelation in the regression model.

3.7.4 Heteroscedasticity Test

Homoscedasticity is a test that examines whether the residual variance in a regression model remains constant. If the residual variance does not change between consecutive observations, it means it indicates homoscedasticity; if the variance changes, it means it indicates heteroscedasticity. A good regression model should be homoscedastic,

which means it should not have heteroscedasticity (Gujarati & Porter, 2009).

In this study, heteroscedasticity was tested using the Wald test, this test is often used in panel data models, especially for estimating fixed effects models. The Wald test examines whether the error variance is constant across all observed data. According to Greene (2002), the Wald test is a standard statistical procedure for detecting heterogeneity in panel regression models. The decision criteria for Wald test are as follows:

1. If the Prob > chi-square is less than 0.05, the null hypothesis of homoscedasticity is rejected, indicating the presence of heteroscedasticity.
2. If the Prob > chi-square is bigger than 0.05, the null hypothesis cannot be rejected, indicating that heteroscedasticity is not present in the model.

3.8 Hypothesis Test

The data in this study will be analyzed using multiple linear regression with the panel data model. Regression analysis is a method used to study how one variable, called the dependent variable, is influenced by one or more other variables, known as independent variables (Gujarati & Porter, 2009).

3.8.1 Multiple Linear Regression Analysis

Multiple regression is a statistical analysis technique that uses more than one independent variable to predict or explain the c(Gujarati & Porter, 2009)iable (Gujarati & Porter, 2009). In this study, multiple linear regression is applied because the model not only includes the main independent variable, which is the ESG rating, but also a moderating variable, ESG rating disagreement. This approach helps to examine how ESG ratings influence firm performance. The regression model used in this study is formulated as follows.

$$FP_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 AGE_{it} + \varepsilon_{it}$$

Where:

FP_{it}= Financial performance (Tobin's Q) for firm i at the time t

α = Constanta

$\beta_1, \beta_2, \ldots \beta_4$ = Coefficients for each variable

ESG_{it} = ESG rating from Refinitiv Eikon

$SIZE_{it}$ = Firm size

LEV_{it} = Leverage

AGE_{it} = Firm age

ε_{it} = Error term

3.8.2 Moderated Regression Analysis

To examine how ESG ratings influence firm performance and whether the level of disagreement among ESG ratings strengthens or weakens the relationship, the regression model used in this study is formulated as follows.

$$FP_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 ERD_{it} + \beta_3 ESG_{it} \times ERD_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 AGE_{it} + \varepsilon_{it}$$

Where:

FP_{it}= Financial performance (Tobin's Q) for firm i at the time t

α = Constanta

$\beta_1, \beta_2, \ldots \beta_6$ = Coefficients for each variable

ESG_{it} = ESG rating from Refinitiv Eikon

ERD_{it} = ESG rating disagreement (standard deviation from two agencies: Refinitiv Eikon and Bloomberg)

$ESG_{it} \times ERD_{it}$= Interaction between ESG_{it} and ERD_{it}

$SIZE_{it}$ = Firm size

LEV_{it} = Leverage

AGE_{it} = Firm age

ε_{it} = Error term

3.8.3 Coefficient of Determination (R^2)

The coefficient of determination (R^2) is a statistical measure used to show how well the independent variables explain the variation in the dependent variable (Gujarati & Porter, 2009). In other words, R^2 indicates how much of the changes in the dependent variable can be explained by the independent variables in the model. A higher R^2 value means the model has stronger explanatory power, while a lower value suggests the opposite.

In this study, the dependent variable is firm performance, and the independent variable is the ESG rating. The R^2 value will be obtained from the regression output and used to evaluate how well the model fits the data. The interpretation of R^2 is as follows:

a. If the R^2 value is close to 1, it means the independent variables explain most of the variation in the dependent variable, which indicates that the model fits the data well.
b. If the R^2 value is close to 0, it means the independent variables explain very little of the variation in the dependent variable, suggesting that the model does not fit the data well.

3.8.4 Simultaneous Significance Test (F-Test)

The F-test is used to evaluate whether the overall regression model is feasible and statistically significant. It tests whether all the independent variables, taken together, have a meaningful effect on the dependent variable (Gujarati & Porter, 2009). In simple terms, this test helps determine if the regression model as a whole can explain the variation in the dependent variable. The interpretation of the F-test is based on the significance (p-value) as follows:

a. If the p-value ≤ 0.05, it means the regression model is statistically significant, indicating that the independent variables jointly have an influence on the dependent variable.
b. If the p-value > 0.05, it means the regression model is not statistically significant, suggesting that the independent variables,

as a group, do not have a meaningful effect on the dependent variable.

3.8.5 Individual Parameter Significance Test (t-Test)

The t-test is used to examine whether each independent variable individually has a statistically significant effect on the dependent variable. In this study, the test is conducted using a significance level of 0.05 (or 5%) as the standard threshold (Gujarati & Porter, 2009). This means that each independent variable is tested one by one to see if it meaningfully contributes to explaining the changes in the dependent variable. The decision criteria for interpreting the t-test results are as follows:

a. If the significance value (p-value) ≤ 0.05, it indicates that the independent variable has a significant partial effect on the dependent variable.
b. If the significance value (p-value) > 0.05, it indicates that the independent variable does not have a significant partial effect on the dependent variable.

In simple terms, the t-test helps identify which specific variables truly matter in influencing the outcome being studied.

V. CONCLUSION, LIMITATIONS, AND RECOMMENDATION

5.1 Conclusion

This study concludes that Environmental, Social, and Governance (ESG) ratings do not exert a statistically significant effect on firm performance, as measured by Tobin's Q, among companies listed on the Indonesia Stock Exchange. This core finding is robust across model specifications. The fixed effects regression without moderation reveals that ESG possesses a negative yet statistically insignificant coefficient ($\beta = -0.0387$; $p = 0.093$). Similarly, after incorporating the variables for ESG Rating Disagreement (ERD) and the relevant interaction term, the standalone effect of ESG ratings remains statistically insignificant ($p = 0.138$). These consistent results strongly indicate that, within the Indonesian context, ESG ratings alone do not explain meaningful variations in firm performance as perceived by the capital market.

Furthermore, the analysis demonstrates that ESG Rating Disagreement does not function as a significant moderating variable in the relationship between ESG ratings and firm performance. The interaction term between ESG ratings and ESG Rating Disagreement (ESGxERD), while positive, is statistically insignificant ($\beta = 0.0014$; $p = 0.607$). This suggests that the divergence in assessments provided by different ESG rating agencies neither strengthens nor weakens the impact of ESG ratings on firm value. Consequently, the hypothesized moderating effect is not supported, implying that market participants do not differentially value ESG performance based on the level of consensus among raters.

Taken together, these results lead to several critical implications. Primarily, they imply that ESG-related information has not yet been fully internalized into firm valuation mechanisms within Indonesia's capital market. This lack of integration suggests that, for the sampled companies and period, ESG practices may remain

largely symbolic or transactional, adopted for legitimacy or compliance rather than being substantively embedded into core corporate strategy and operations in a way that translates into measurable market performance. Therefore, neither high ESG ratings nor the controversy signaled by rating disagreement currently serve as effective mechanisms for enhancing firm performance in the Indonesian context.

In conclusion, this research provides a significant and nuanced addition to the existing literature on ESG and financial performance in emerging markets. By systematically testing both the direct and moderated relationships, the study's findings offer clear empirical evidence leading to the rejection of both proposed hypotheses: first, that ESG ratings positively affect firm performance, and second, that ESG rating disagreement moderates this relationship. This contribution underscores the importance of contextual factors, indicating that the ESG-performance link observed in some developed markets cannot be generalized without consideration of local institutional, regulatory, and market maturity. Future research should therefore investigate the specific barriers to ESG internalization in Indonesia and explore alternative metrics or time horizons that might better capture the value of sustainable business practices in similar emerging economies.

5.2 Limitations

The writer acknowledges that this research has several limitations.

1. Based on the coefficient of determination, the regression model is only able to explain a relatively small proportion of the variation in firm performance. This indicates that firm performance is influenced by other factors that are not included in this study, such as macroeconomic conditions, corporate governance mechanisms, or firm-specific strategic variables.
2. The sample of this study is limited to Indonesian listed companies that have ESG scores available from Refinitiv and Bloomberg during the observation period of 2021–2023. As a result, the findings may not be

fully generalizable to all listed firms, particularly those that do not disclose ESG information or are not covered by these rating agencies.

3. This study relies on ESG ratings and ESG rating disagreement as proxies for firms' sustainability performance. These measures may not fully capture the substantive quality of ESG implementation, as ESG scores can be influenced by disclosure practices and methodological differences across rating agencies.

5.3 Recommendation

Based on the findings of this research, several recommendations can be proposed for future studies:

1. Future research is encouraged to include additional explanatory or moderating variables that may better capture the determinants of firm performance, such as corporate governance quality, ownership structure, board independence, institutional ownership, or disclosure quality. Including these variables is expected to improve the explanatory power of the model and provide a more comprehensive understanding of the ESG–firm performance relationship.
2. Future studies are recommended to expand the research sample by extending the observation period and including a broader range of firms, not only those covered by Refinitiv and Bloomberg ESG databases. Incorporating firms from other databases, sectors, or countries would enhance the generalizability of the findings and allow for cross-country or cross-market comparisons between emerging and developed capital markets.
3. Future research may consider using alternative measures of firm performance and ESG-related variables. In addition to Tobin's Q, accounting-based performance indicators such as ROA or ROE may be employed to capture different dimensions of firm performance. Moreover, alternative proxies for ESG rating disagreement, such as absolute score

differences or pillar-level disagreement, may provide deeper insights into how ESG information is interpreted by investors.

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