CHAPTER V
CONCLUSION

5.1 Conclusion

The findings of this study provide several insights regarding the role of ESG Performance and ESG Controversies in influencing firm value and firm risk among non-financial companies in Indonesia in 2020–2024. Using panel data regression with the Fixed Effect Model and cluster-robust standard errors, this study finds that ESG Performance and ESG Controversies do not always produce consistent effects on firm value and firm risk within the Indonesian market.

The results indicate that ESG Performance does not significantly affect firm value proxied by Tobin's Q. This result suggests that ESG implementation has not yet become a major determinant in investors' valuation decisions within the Indonesian capital market. In contrast, ESG Performance is found to have a significant negative effect on Firm Risk, indicating that stronger ESG practices may contribute to reducing corporate risk and improving business stability.

Furthermore, ESG Controversies are found to have a negative but insignificant effect on firm value. This finding indicates that ESG-related controversies have not yet generated strong market responses in determining company valuation during the observation period. Meanwhile, ESG Controversies show a significant negative effect on Firm Risk, which is contrary to the proposed hypothesis. This result may indicate that companies exposed to ESG controversies tend to possess stronger governance mechanisms, higher public scrutiny, and more developed risk management systems, particularly among large and highly visible firms.

In the Indonesian context, ESG practices appear to contribute more strongly toward corporate stability and risk mitigation than toward market value enhancement. The results also indicate that the relationship between ESG practices and corporate outcomes may depend heavily on institutional settings, market characteristics, and the maturity of ESG implementation within each country. Therefore, the effectiveness of ESG implementation in influencing corporate outcomes may not be fully generalized across different market environments.

5.2 Implications

The findings of this study provide several implications for theoretical development, corporate practice, investors, and policymakers in relation to ESG implementation in Indonesia. Theoretically, this study contributes to stakeholder theory and risk management theory by showing that ESG information in Indonesia may not yet be fully translated into market valuation, but it can still reflect corporate stability and risk management. This indicates that the role of ESG in developing markets may not always appear directly through firm value, but may first be observed through the company's ability to manage uncertainty and maintain stakeholder trust. Therefore, this study enriches the ESG literature by emphasizing that the effectiveness of ESG as a stakeholder response mechanism and risk management mechanism depends on the maturity of ESG practices, investor awareness, and the institutional environment.

Practically, the findings suggest that companies should not treat ESG merely as a formal disclosure obligation or a tool to improve corporate image. ESG implementation needs to be integrated into governance, operational decisions, risk management, and stakeholder engagement. Companies that are able to manage ESG issues more substantively may be better positioned to reduce reputational, operational, and financial uncertainty. In this context, ESG should be viewed as part of long-term corporate resilience rather than only as a strategy to increase short-term market valuation.

For investors, this study highlights the importance of considering ESG information as part of long-term investment assessment. ESG scores and ESG controversies should not only be viewed as reputational indicators, but also as indicators related to governance quality, business stability, and corporate risk exposure.Therefore, investors are expected to evaluate ESG information alongside financial indicators in order to obtain a more comprehensive understanding of a company's long-term prospects and risk profile.

For regulators and policymakers, the findings imply the need to strengthen ESG reporting quality, comparability, and credibility in Indonesia. Although ESG reporting regulations have been introduced, the effectiveness of ESG information in the capital market still depends on how consistently and transparently companies disclose their sustainability practices. Therefore, regulators may need to improve ESG disclosure standards, encourage better monitoring, and increase market education so that ESG information can be more useful for companies, investors, and other stakeholders.

5.3 Limitations

This study has several limitations that should be considered when interpreting the results. These limitations are related to the research sample, variable measurement, data availability, and model specification. The limitations of this study are explained as follows:

1. This study uses ESG Performance and ESG Controversies data from secondary databases. Therefore, the availability and depth of information depend on the database coverage. In addition, ESG Controversies are measured using a dummy variable, which only captures the presence or absence of controversies and does not reflect their severity, frequency, or materiality.
2. Firm Risk is measured using return volatility. Thus, the interpretation of risk in this study is limited to market-based risk and does not fully capture other forms of risk, such as operational, reputational, regulatory, or insolvency risk.
3. This study focuses on non-financial companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Therefore, the findings may not be fully generalized to financial companies or specific sectors with different business characteristics, regulatory environments, and ESG exposure.

5.4 Suggestions

Based on the limitations and findings of this study, several suggestions can be proposed for future research:

1. Future studies may use broader ESG data sources or compare ESG data from other sources to improve the coverage and depth of ESG-related information. In addition, future research may apply more detailed measurements of ESG Controversies, such as severity level, frequency,

duration, or materiality of controversies. This can help explain whether different levels of controversy produce different effects on firm value and firm risk.

2. Future studies are encouraged to use both total risk and idiosyncratic risk measurements. This can help distinguish between overall stock return volatility and firm-specific risk, providing a more detailed understanding of how ESG Performance and ESG Controversies relate to corporate risk.
3. Future research may expand the sample by including financial companies to improve the generalizability of the findings. In addition, future studies may conduct sector-specific analysis, particularly in sectors with high ESG exposure, to provide a more detailed understanding of ESG effects under different business characteristics. Future research may also consider certain firm characteristics or interaction effects among ESG-related variables to explain why ESG Performance and ESG Controversies may produce different effects on firm value and firm risk.