CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The contemporary business environment has moved ESG from the margin of corporate reporting to the center of strategic evaluation. Investors, regulators, lenders, consumers, employees, and communities now assess firms not only through profitability, liquidity, and market value, but also through the ability to manage environmental exposure, social legitimacy, and governance quality. This change is especially important for listed firms in emerging markets, where institutional pressure for sustainability is rising while the quality of implementation still differs across companies. In this setting, Environmental, Social, and Governance (ESG) performance becomes a relevant signal of whether a firm can survive regulatory pressure, preserve stakeholder trust, and create long-term value. From the perspective of Signaling Theory, ESG performance can communicate information about corporate quality, risk management, and long-term commitment to external stakeholders, thereby reducing information asymmetry between managers and investors (Spence, 1973).

Accordingly, differences in Environmental, Social, and Governance performance may provide different signals regarding the firm's ability to sustain its performance. Indonesia provides a suitable context for this issue because ESG adoption has become more formal after the issuance of POJK No. 51/POJK.03/2017 on sustainable finance. The regulation requires financial institutions, issuers, and public companies to integrate sustainability principles and publish sustainability reports. However, the existence of sustainability reporting does not automatically mean that every company has achieved strong ESG performance. A firm can publish a report, build a sustainability narrative, and satisfy formal disclosure requirements, while its actual environmental, social, and governance performance remains uneven. This condition creates an important empirical problem: ESG has become more visible, but the real value of ESG for firm performance still needs to be tested carefully.

The manufacturing industry is the most relevant sector for this research. Manufacturing firms are economically strategic because they contribute to industrial output, employment, export activity, and domestic supply chains. At the same time, the sector faces direct ESG pressure because production activities often involve energy consumption, emissions, waste, occupational safety risks, labor issues, supplier responsibility, and internal control problems. Therefore, ESG is not an abstract concept for manufacturing firms. It enters daily operating decisions. It affects production efficiency, compliance costs, reputation, labor stability, and investor confidence. This sector also faces a difficult trade-off. Environmental and social programs may improve legitimacy and long-term competitiveness, yet they often require large investments before financial benefits appear.

Empirical studies confirm that the ESG performance relationship is still unresolved. Alareeni and Hamdan, (2020) found that ESG disclosure can improve firm performance, but the separate effects of environmental, social, and governance components differ across ROA, ROE, and Tobin's Q. Lunawat and Lunawat, (2022) also showed that overall ESG performance has a positive association with operational and market performance, while the individual ESG pillars do not always create the same financial outcome. Ho et al., (2024) reported that ESG performance can increase firm performance, but the effect is shaped by contextual conditions and is mainly driven by environmental and social dimensions rather than governance. These findings support the idea that ESG should not be treated as one single score only. Each pillar must be examined separately.

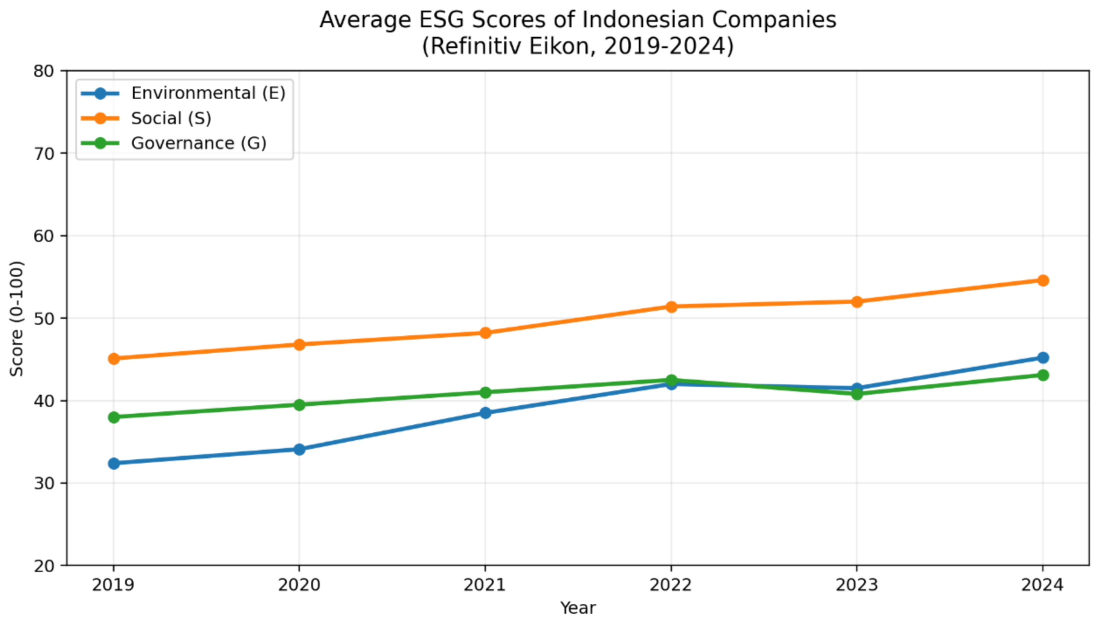

Figure 1.1 Average ESG Scores of Indonesian Companies (Refinitiv Eikon, 2019-2024)

Source: Refinitiv Eikon data, processed by author.

The trend in Figure 1.1 strengthens the research phenomenon. The average Environmental score increased from 32.4 in 2019 to 45.2 in 2024, or around 12.8 points. This is the largest improvement among the three pillars. The increase suggests that Indonesian companies have started to respond more actively to environmental issues, especially after sustainability regulation became more visible in the capital market. However, the Environmental pillar still remained below the Social pillar across the entire period. This means that environmental transformation has improved, but it has not yet become the strongest ESG dimension among the observed companies. The Social score shows a more stable upward pattern. It increased from 45.1 in 2019 to 54.6 in 2024, or around 9.5 points. Social performance was consistently the highest pillar throughout the period. This pattern indicates that Indonesian firms may find social initiatives easier to implement and communicate. Programs related to employee welfare, community engagement, occupational safety, product responsibility, and stakeholder relations are often more visible to the public and may create faster reputational benefits. However, the high Social score also raises an important question. If Social performance is the strongest ESG pillar, does it actually improve firm performance, or does it merely strengthen corporate image?

The Governance score presents a different pattern. It increased only from 38.0 in 2019 to 43.1 in 2024, or around 5.1 points. It also declined from 42.5 in 2022 to 40.8 in 2023 before rising again in 2024. This weaker and less stable pattern is important because governance is the pillar that controls transparency, board discipline, shareholder protection, internal control, and executive accountability. If governance performance remains weaker than the other pillars, ESG improvement may become unbalanced. A company may look strong in environmental and social narratives, but still face internal control problems, weak accountability, or managerial opportunism. This is why the Governance pillar needs separate attention in this study. Overall, the chart shows an ESG catch-up process, not a fully mature ESG transformation. The average of the three pillars rose from approximately 38.5 in 2019 to 47.6 in 2024, but the rise was uneven. Environmental improved the fastest, Social remained the strongest, and Governance remained the weakest and most volatile. This pattern creates the core phenomenon of this research. ESG in Indonesian firms is growing, but the growth is asymmetric. Therefore, a composite ESG score may hide important differences among the pillars. A separate test of Environmental, Social, and Governance performance is necessary to understand which dimension truly matters for firm performance.

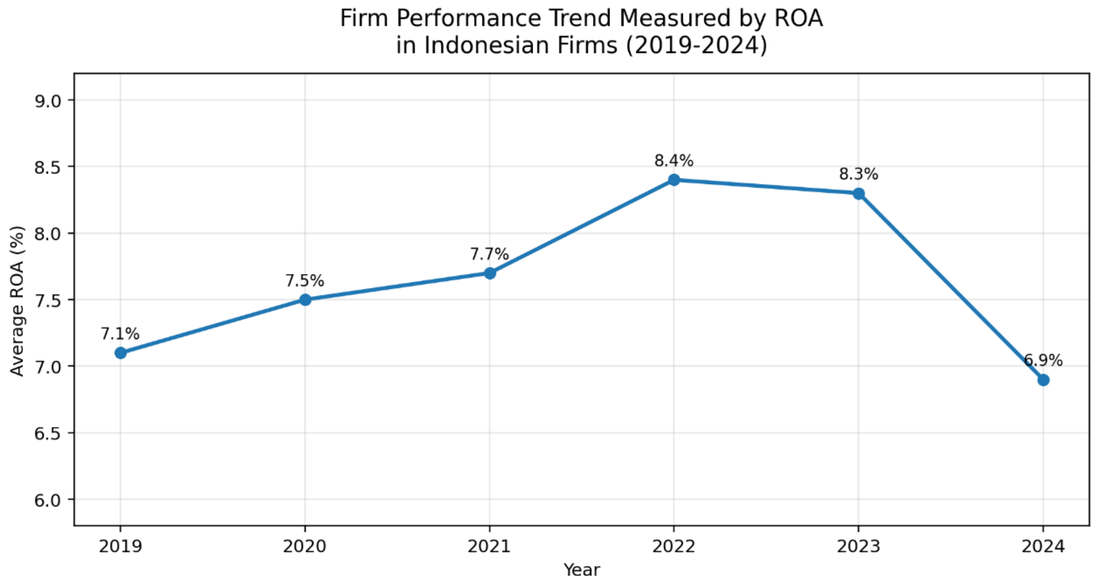

Figure 1.2 Firm Performance Trend Measured by ROA in Indonesian Firms (2019-2024)

Source: ROA data collected for this study, processed by author.

The firm performance phenomenon can be seen more clearly from the ROA trend in Figure 1.2. Average ROA increased from 7.1% in 2019 to 8.4% in 2022, then slightly decreased to 8.3% in 2023. In 2024, ROA fell to 6.9%, the lowest point in the six-year period. When Figures 1.1 and 1.2 are viewed together, a clear divergence can be observed between the development of ESG performance and firm profitability in Indonesia. The average Environmental, Social, and Governance scores generally show an upward trend from 2019 to 2024, indicating that Indonesian companies have increasingly strengthened their sustainability-related performance. However, the improvement in ESG scores is not followed by a consistent increase in ROA, as firm performance fluctuates over the same period and declines considerably in 2024. This pattern is particularly important because previous studies generally suggest that stronger ESG performance is associated with better firm performance, although the magnitude and direction of the relationship may differ across individual ESG pillars and performance measures (Alareeni & Hamdan, 2020; Lunawat & Lunawat, 2022; Ho et al., 2024). Therefore, the Indonesian context presents an empirical inconsistency in which improving ESG performance does not automatically correspond to improving accounting profitability. This divergence strengthens the need to examine Environmental, Social, and Governance performance separately and to investigate whether CEO narcissism may help explain why improvements in ESG performance generate different financial outcomes across firms. This mismatch creates a clear research problem: better ESG scores do not always translate directly into stronger accounting performance. This ROA pattern is important for the background of this study. ROA reflects how efficiently a firm uses its assets to generate profit. For manufacturing firms, asset efficiency is crucial because the sector relies on factories, machinery, inventory, and working capital. When ESG investment increases, firms may experience higher short-term costs through environmental equipment, waste treatment, employee programs, compliance systems, and reporting infrastructure. These costs may reduce ROA if they are not followed by efficiency gains, stronger stakeholder trust, or better governance. Therefore, the decline in ROA in 2024 supports the need to examine whether each ESG pillar improves or weakens firm performance.

The research concerns the effect of Environmental performance on firm performance. In manufacturing, environmental performance covers emissions control, waste management, energy efficiency, resource efficiency, environmental compliance, and investment in cleaner production. These activities may create financial benefits through lower energy costs, stronger regulatory compliance, better reputation, and lower environmental risk. However, they may also reduce short-term performance because they require capital expenditure, new technology, monitoring systems, and operational adjustment. The Eikon trend shows that Environmental performance improved the most, but it started from the lowest base. This research also concerns the effect of Social performance on firm performance. Social performance reflects how a firm manages employees, customers, suppliers, communities, and product responsibility. Strong social performance may increase employee productivity, reduce labor conflict, strengthen customer trust, and protect reputation during uncertainty. The Eikon data show that Social performance is the highest ESG pillar from 2019 to 2024. This suggests that companies may prioritize social issues because they are more visible and more directly connected to stakeholders. Yet, the financial effect is still uncertain. Social programs may strengthen legitimacy, but they can also become symbolic activities if they are not connected to operational productivity. This relationship is consistent with Stakeholder Theory, which explains that firms create and sustain value by managing their relationships with stakeholders rather than focusing exclusively on shareholders (Freeman, 1984).

However, Governance performance is different from the Environmental and Social pillars because it does not mainly deal with external visibility. It concerns the internal system that disciplines executive power. Good governance strengthens transparency, protects shareholders, improves information quality, and reduces agency conflict. In theory, it should improve performance because investors value firms with credible control systems. This relationship is further explained by Agency Theory, which views effective governance as a mechanism for limiting managerial opportunism and aligning managerial decisions with the interests of shareholders and other stakeholders (Jensen & Meckling, 1976). Stronger Governance performance is therefore expected to support firm performance through better monitoring, internal control, transparency, and more disciplined resource allocation. However, the Eikon data show that Governance is the weakest and most unstable pillar. This suggests that governance improvement may be harder to achieve than environmental or social reporting. This structural instability highlights a critical vulnerability in corporate oversight: internal discipline systems do not operate in a vacuum, but are profoundly shaped—and sometimes resisted—by the very executives they are designed to restrain. Because governance is meant to serve as an internal control mechanism to restrict opportunistic behavior, its effectiveness cannot be decoupled from the psychological disposition of the leader at the helm.

To address this human element, this research introduces CEO narcissism as the moderating variable. This choice is based on Upper Echelons Theory, which argues that corporate decisions reflect the values, cognition, and psychological traits of top executives. ESG decisions are not purely technical; they involve uncertainty, resource allocation, public reputation, and long-term commitment. In this condition, the CEO's personality may influence whether ESG becomes a substantive strategy or only a symbolic signal. Chatterjee and Hambrick (2007) showed that narcissistic CEOs tend to pursue bold, attention-seeking strategic actions and create more extreme organizational outcomes. This behavioral logic is highly relevant to ESG because sustainability initiatives can easily become a public stage for executive visibility and grandstanding , whereas a robust internal governance structure is specifically required to counter and restrict a narcissistic CEO's opportunistic tendencies. CEO narcissism may moderate the Environmental-performance relationship because environmental programs are often visible and can be framed as visionary leadership. A narcissistic CEO may support large environmental initiatives to gain public attention and strengthen personal reputation. This can strengthen the value of Environmental performance if the initiatives are real, efficient, and strategically aligned. Yet, it can also weaken the relationship if the CEO overinvests in visible projects without economic discipline or uses environmental claims as greenwashing. Song and Zhang, (2025) warned that narcissistic CEOs may reduce ESG quality through weaker internal control, lower transparency, and stronger financing constraints.

CEO narcissism may also moderate the Social-performance relationship. Social programs are closely related to public image, employee narratives, community engagement, and stakeholder recognition. For this reason, narcissistic CEOs may be attracted to social initiatives because they provide immediate reputational benefits. Soetanto et al., (2025) found in Indonesia that CEO narcissism significantly influences social performance, while its effect on overall ESG, environmental performance, and governance performance is not significant. This suggests that narcissistic executives may prefer social visibility over less visible ESG dimensions. However, if social initiatives are used mainly for self-promotion, the impact on firm performance may become weaker. The moderation role of CEO narcissism may be even more critical in the Governance pillar. Governance limits executive discretion through transparency, board monitoring, internal control, and accountability. For narcissistic CEOs, these mechanisms may be perceived as restrictions on personal authority. Prior research shows that CEO narcissism can be connected with opportunistic reporting behavior and earnings management (Rusydi, 2021), while Song and Zhang, (2025) found that narcissistic CEOs can weaken internal control and information transparency. This makes governance different from Environmental and Social activities. A narcissistic CEO may support visible sustainability programs, but resist governance mechanisms that reduce autonomy. Therefore, the sixth problem asks whether CEO narcissism moderates the relationship between Governance performance and firm performance.

The use of LinkedIn-based measurement also strengthens the relevance of this study. Traditional CEO personality measurement often depends on self-report surveys, which can be affected by social desirability bias and limited executive access. Recent literature encourages unobtrusive measurement because it captures behavioral traces that are publicly observable. Junge et al., (2025) developed and validated a LinkedIn-based measure of executive narcissism, while Soetanto et al., (2025) applied LinkedIn profiles in the Indonesian ESG context. LinkedIn profiles can show how executives present themselves through profile visibility, leadership identity, self-description, title emphasis, and digital self-promotion. This method fits the logic of narcissism because the trait is related to attention seeking and public self-presentation.

Firm size is included as a control variable because ESG performance and firm performance may both be influenced by scale. Larger firms usually have more resources to implement sustainability programs, hire ESG specialists, prepare sustainability reports, and respond to stakeholder pressure. They also receive more public attention and may be evaluated more intensively by rating agencies. Without controlling for firm size, the analysis may confuse the effect of ESG with the effect of corporate scale. A positive relationship between ESG and firm performance may simply reflect the resource advantage of large firms, not the actual effectiveness of ESG itself. Based on this background, the present study focuses on the ESG phenomenon in Indonesian manufacturing firms during 2020-2024. The Eikon data show that ESG scores improved, but the improvement was uneven across Environmental, Social, and Governance pillars. The literature also shows that ESG does not always produce the same performance effect across firms and contexts. This study therefore examines the effect of each ESG pillar on firm performance and investigates whether CEO narcissism changes the strength or direction of those relationships. The research is designed to answer six problem statements of the effects of Environmental, Social, and Governance performance on firm performance, and the moderating role of CEO narcissism in each relationship.

Accordingly, the title of this study is **"The Impact of Environmental, Social, and Governance (ESG) on Firm Performance: CEO Narcissism as a Moderating Variable Measured through LinkedIn Profiles in the Indonesian Manufacturing Industry (2020-2024)"**. The study is expected to provide a clearer explanation of why ESG performance creates different outcomes across firms. It also contributes to ESG research by treating Environmental, Social, and Governance as separate strategic dimensions and by adding CEO narcissism as a behavioral condition that may shape the value of ESG implementation.

1.2 Research Problem

On the basis of the background explained above, there is a multidimensionality in the relationship between sustainability strategy and financial performance. In the past literature, there is a propensity to use aggregation bias in which the Environmental, Social, and Governance factors are merged into one variable. The fact is that the value transmission processes of these three pillars to the firm performance are all different and asymmetric.

Moreover, these pillars are most vulnerable to being twisted due to the managerial opportunistic behavior, namely, CEO Narcissism. It is theorized that the relationship between executive ego and both ESG pillars will have different trends: a narcissistic CEO can see grandiose Environmental projects as an opportunity to self-promote, but at the same time, stringent Governance can be perceived as a threat to his or her freedom. The naked effect of managerial narcissism cannot be seen without breaking down these influences individually.

In this regard, this research develops six basic questions in order to dissect this phenomenon holistically:

1. Does Environmental performance significantly affect firm performance in the Indonesian manufacturing industry during the 2020-2024 period?
2. Does Social performance significantly affect firm performance in the Indonesian manufacturing industry during the 2020-2024 period?
3. Does Governance performance significantly affect firm performance in the Indonesian manufacturing industry during the 2020-2024 period?
4. Does CEO Narcissism moderate the relationship between Environmental performance and firm performance?
5. Does CEO Narcissism moderate the relationship between Social performance and firm performance?
6. Does CEO Narcissism moderate the relationship between Governance performance and firm performance?

1.3 Research Objectives

According to the above research questions, the study will produce holistic empirical data regarding the behavioral contingencies of ESG implementation within Indonesian manufacturing companies.

1. To analyze the effect of Environmental performance on firm performance in Indonesian manufacturing companies during the period 2020–2024.
2. To analyze the effect of Social performance on firm performance in Indonesian manufacturing companies during the period 2020–2024.
3. To analyze the effect of Governance performance on firm performance in Indonesian manufacturing companies during the period 2020–2024.
4. To analyze whether CEO narcissism moderates the relationship between Environmental performance and firm performance.
5. To analyze whether CEO narcissism moderates the relationship between Social performance and firm performance.
6. To analyze whether CEO narcissism moderates the relationship between Governance performance and firm performance.

Through these objectives, the study aims to move beyond static ESG analysis toward a dynamic behavioral explanation of sustainability outcomes.

1.4 Research Benefits

This research is expected to provide original contributions and strategic implications for various stakeholders:

1.4.1 Theoretical Benefits

1. This study contributes to ESG literature by implementing a granular moderation approach. Instead of considering ESG a composite index, this study breaks down Environmental, Social, and Governance dimensions and evaluates the interaction of CEO narcissism on each pillar in a different manner. The strategy contributes to the literature on strategic management by identifying the reasons why narcissistic leadership can enhance Environmental initiatives and, at the same time, compromise Governance mechanisms. It provides a finer behavioral explanation of inconsistent ESG-performance results.

2. This research advances executive personality measurement methodology in emerging markets. Using digital footprints of LinkedIn that are used to measure narcissism unobtrusively and attributes of visual self-presentation, this study reacts to the recent methodological demands of objective personality measurement. This will help to advance behavioral accounting and executive research by decreasing self-report bias and introducing digital behavioral analysis into corporate governance research.

3. The combination of the Upper Echelons Theory, Stakeholder Theory, Signaling Theory, and Agency Theory into a single framework makes this research more powerful in terms of theoretical coherence of the ESG-performance research in the Indonesian context.

1.4.2 Practical Benefits

1. For investors, the results provide a more comprehensive representation of fundamental analysis. Sustainability quality cannot be fully captured using the ESG scores. Knowledge of CEO behavioral traits is useful to differentiate substantive ESG performance and symbolic greenwashing, which enhances the assessment of investment risk.

2. For boards of commissioners and governance committees, the study presents empirical finding that, executive monitoring mechanisms ought not to be applied in a uniform manner. Highly narcissistic CEOs might need to have a stronger governance control over them to avoid managerial opportunism, and might have the benefit of being tactically deployed in high-profile Environmental projects that demand a high-profile leader.

3. For policymakers and regulators, this study indicates the need to pay attention to the managerial behavior during the formulation of ESG disclosure frameworks and corporate governance regulations.

1.5 Scope of Research

The study focuses on listed firms observed during 2020–2024. This period was selected based on data availability and consistency, as 2025 ESG pillar scores were not yet consistently available in Refinitiv Eikon at the time of data collection. Extending the observation period would also substantially reduce the eligible sample because this study requires CEO continuity throughout the research period to ensure consistent measurement of CEO narcissism. The manufacturing industry is selected because of its relatively high environmental impact and exposure to ESG-related regulatory and reputational risks. The manufacturing industry is chosen because of its high level of environmental impact and exposure to the ESG-related regulatory and reputational risks. The study analyses how Environmental, Social and Governance (ESG) performance changes the performance of firms. ESG is further broken down into the three individual pillars of Environmental, Social, and Governance to prevent aggregation bias as well as to reflect the unique strategic processes inherent in each of the dimensions. Firm performance is used as the dependent variable and is measured using financial indicators that reflect corporate profitability and market valuation. The moderating variable is CEO narcissism, which is measured with the help of unobtrusive digital footprint analysis on LinkedIn. This strategy enables the objective evaluation of behavioral attributes of executives without using self-report questionnaires. Also, firm size is taken as a control variable to consider the scale of resources, visibility and institutional exposure that can affect the ESG implementation and financial performance. Other sectors, non-listed firms or other executive personality traits are not analyzed in this study. The secondary data is analyzed based on the financial reports, sustainability reports from Refinitiv Eikon and LinkedIn professional profiles obtained in the given time frame.

1.6 Systematic of Writing

In order to achieve the logical soundness and analytical richness, the systematic writing of this thesis is structured in the following manner:

CHAPTER I: INTRODUCTION. This chapter presents the sense of urgency to deconstruct ESG variables and the involvement of the psychological bias of the CEO in the background of the study, develops acute research questions, sets the goals of empirical validation, and expounds on the theoretical and practical contributions.

CHAPTER II: LITERATURE REVIEW. In this chapter, the main theoretical bases (Upper Echelons Theory, Stakeholder Theory, Signaling Theory) get disaggregated, a synthesis of the previous studies on the topic of the ESG-Narcissism nexus is provided, a conceptual framework of interrelating E-S-G with performance is developed, and the research hypotheses are formulated.

CHAPTER III: RESEARCH METHODOLOGY. The chapter describes the quantitative research design, population and sample (manufacturing firms listed on the IDX 2020-2024), and operational definitions. In particular, the chapter will specify the methods of unobtrusive measurement of narcissism (LinkedIn profile analysis and visual attributes) and data analysis model (Firm Size as a control variable) based on the Moderated Regression Analysis (MRA).

CHAPTER IV: RESULTS AND DISCUSSION. The chapter contains the descriptive statistics, the results of the classical assumption tests, and the results of the partial and moderation hypothesis tests. The main part of this chapter is the deep discussion of the integration of statistical results and actual industry phenomena to respond to the question why and how CEO narcissism affects ESG investment outcomes.

CHAPTER V: CONCLUSION. The chapter is an extensive conclusion based on the research findings, methodological constraints that were faced (e.g., digital footprint data availability), and strategic suggestions on how future scholarly research and business practitioners can utilize the findings.