

(Research / Review) Article

The Effect of ESG Ratings on Firm Performance with ESG Rating Disagreement as The Moderating Variable

Azaria Nabila^{1*}, Susi Sarumpaet²

¹ Universitas Lampung, Indonesia; e-mail: azzarianabila714@gmail.com

² Universitas Lampung, Indonesia; e-mail: susi.sarumpaet@feb.unila.ac.id

* Corresponding Author: Azaria Nabila

Abstract: This study examines the effect of Environmental, Social, and Governance (ESG) ratings on firm performance and the moderating role of ESG rating disagreement within the Indonesian capital market. Using a panel dataset of 63 companies listed on the Indonesia Stock Exchange from 2021 to 2023 and employing a fixed-effects regression model, the analysis measures firm performance with Tobin's Q, ESG ratings from Refinitiv Eikon, and ESG rating disagreement as the standard deviation between Refinitiv and Bloomberg scores. The empirical results indicate that ESG ratings do not have a statistically significant effect on firm performance, and ESG rating disagreement does not significantly moderate this relationship. These findings suggest that ESG-related information has not yet been fully internalized into firm valuation in Indonesia, with current ESG practices perceived as largely symbolic rather than substantively integrated into corporate strategy. The study concludes that both ESG ratings and rating disagreement fail to serve as effective mechanisms for enhancing firm performance in the Indonesian context, reflecting the early-stage development and compliance-driven nature of ESG adoption in emerging markets.

Keywords: ESG ratings; Firm performance; ESG rating disagreement; Sustainability; Investment

1. Introduction

Throughout the past few years, Environmental, Social, and Governance (ESG) issues have acquired significant support among investors and governments, who recognize that non-financial factors significantly influence corporate sustainability and long-term performance (Jitmaneeroj, 2016). Since its official adoption by the United Nations Global Compact in 2004, ESG has grown into a major framework for global business operations, with investors progressively incorporating ESG criteria in the way they make decisions (Carlos & Lewis, 2018). By 2022, global sustainable investment assets reached \$21.9 trillion across major markets, reflecting a 20% growth over two years (GSIA, 2022).

In Indonesia, ESG adoption is not only market-driven but also reinforced by regulatory mandates. The Financial Services Authority (OJK) issued POJK No. 51/POJK.03/2017 and POJK No. 60/POJK.04/2017, requiring listed companies to disclose sustainability performance and develop sustainable finance action plans. These regulations shift ESG from a voluntary initiative to a compliance requirement, emphasizing the integration of environmental, social, and governance factors into long-term corporate strategy. However, inconsistent disclosure quality and varying levels of implementation across firms remain notable challenges.

Investors use ESG ratings from organizations like Refinitiv, MSCI, and Bloomberg to measure and evaluate business sustainability performance (Zumente & Láce, 2021). However, methodological differences across rating agencies often lead to significant divergence in ESG ratings within the precise same company, creating confusion about the genuine portrayal of an entity's ESG performance (Berg et al., 2022). This rating disagreement complicates investment decisions and raises questions about whether divergence acts merely as noise or

Received: July 17, 2025
Revised: August 19, 2025
Accepted: January 23, 2025
Published: February 03, 2026
Current Ver.: February 03, 2026



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serves a governance function by revealing inconsistencies in corporate sustainability practices (Liu et al., 2025).

The connection involving ESG performance and firm financial results is still being debated scientifically. Even though some research finds a favorable correlation (Jung & Yoo, 2023; Xu et al., 2025), others find negative or insignificant effects (Biju et al., 2025; Liu et al., 2025). The varied results indicate the existence of contextual and moderating elements, especially in developing nations where ESG standards and law enforcement remain developing. In Indonesia, the majority of previous research depends on single-agency ratings or CSR disclosure indicators, creating an absence in comprehending the way ESG rating disagreement effects firm performance.

This study fills a vacuum by investigating both the influence of ESG ratings on corporate performance in Indonesia and the moderating impact of ESG rating disagreement in this connection. Using Tobin's Q as a market-based measure of firm performance, ESG scores from Refinitiv Eikon, and rating disagreement calculated from Refinitiv and Bloomberg data, this research provides empirical insights from an emerging market context. The findings aim to inform investors, corporate managers, and policymakers about the relevance and limitations of ESG ratings in Indonesia's capital market.

2. Literature Review

Signaling Theory

Signaling theory explains the way the information asymmetry among management and investors might be reduced by credible corporate disclosures (Spence, 1973). In financial markets, ESG ratings have developed as well-known markers of a firm's sustainability dedication and long-term value generation, where high ratings are interpreted as indicators of lower risk and superior management quality (Huang, 2022). Investors rely on these ratings to assess corporate reputation and future performance, often rewarding firms with strong ESG profiles through favorable market valuation and enhanced capital access (Bergh et al., 2014).

Furthermore, the consistency and trustworthiness of ESG ratings are important to their signaling effectiveness. When rating methodologies diverge across agencies, significant rating disagreement arises, which obscures signal clarity and weakens investor confidence (Berg et al., 2022). This inconsistency can transform ESG ratings into mere symbolic signals rather than reliable reflections of true sustainability performance (Bergh et al., 2014). As a result, signaling theory emphasizes the need of investigating ESG rating disagreement which is a crucial moderating element, which may lessen the beneficial effect of ESG ratings on firm performance whenever informational noise grows.

Agency Theory

Agency theory investigates the inherent conflicts of interest which arise when principals (shareholders) transfer the power to make choices to agents (managers) who may pursue personal goals over owner interests (Jensen & Meckling, 1976). The decentralization of ownership and control may result in agency costs, such as surveillance costs and residual losses from poor actions (Eisenhardt, 1989; Jensen & Meckling, 1976). In the context of ESG, managers may engage in sustainability activities not for long-term value creation but for personal reputational gain, thereby incurring costs that do not enhance firm performance (Brammer & Pavelin, 2006).

Therefore, agency theory provides a critical lens through which to assess the potential downside of ESG initiatives. When ESG practices are driven by managerial opportunism rather than substantive sustainability, they represent agency costs that can diminish firm value (Jensen & Smith, Jr., 2005). This approach emphasizes the necessity of governance structures that connect managerial decisions with shareholder priorities, particularly in ESG implementation where symbolic actions may outweigh genuine performance.

Resource-Based View

According to the Resource-Based View (RBV), a company's persistent competitive advantage comes from its unique set of valuable, rare, inimitable, and non-substitutable (VRIN) components (Barney, 1991; Wernerfelt, 1984). Within this approach, ESG performance is regarded as a vital intangible resource, promoting image of the company, stakeholder trust, and governmental goodwill that rivals find hard to imitate (Freeman et al., 2021; Gerhart & Feng, 2021). A high ESG profile could result in real benefits like as decreased

capital costs and enhanced operational efficiency, serving as an indicator of long-term competitive advantage (Bhandari et al., 2022; El Ghoul et al., 2011).

However, the external measurement of this resource through ESG ratings introduces complexity, as methodological differences across agencies can lead to significant rating divergence (Liu et al., 2025). This disagreement creates uncertainty about whether high ratings reflect genuine VRIN resources or merely superficial compliance, potentially undermining ESG's role as a strategic asset. As a result, the RBV viewpoint emphasizes the relevance of ESG rating disagreement as a moderating element that discloses the underlying strategic depth and legitimacy of a company's sustainability promises.

ESG Ratings

The United Nations Global Compact formally adopted ESG principles in 2004. They give an outline to assess company sustainability across environmental, social, and governance aspects (Li et al., 2021). ESG ratings, which emerged in the 1980s, quantify a firm's performance in these areas, covering elements including as labor initiatives, carbon emissions, and board openness (Berg et al., 2022). These ratings allows the stakeholders as well as the investors to compare business entities and assess sustainability risks and opportunities, thereby influencing market reputation and trust (Zumente & Lāce, 2021).

However, the lack of standardization among the agencies that rate ESG such as Refinitiv, MSCI, and Bloomberg often leads to significant divergence in ESG scores for the same firm, undermining their reliability and comparability (Berg et al., 2022). No matter how these inconsistencies exist, ESG ratings still become an influential proxy for intangible resources such as reputation and stakeholder trust, and have been linked to the output from a financial perspective, this covers decreasing the capital costs and improve competitiveness (Eccles et al., 2014; El Ghoul et al., 2011). Nevertheless, rating divergence also creates room for managerial opportunism, where ESG activities may prioritize rating improvement over substantive sustainability (Liu et al., 2025).

Firm Performance

Firm performance is a central construct in management and finance, this the face of a business entities' capability to achieve objectives, emerging value, and sustain long-term growth (Taouab & Issor, 2019). This variable is usually measured using the metrics of accounting based like ROA or ROE, another option is using the market-based indicators like Tobin's Q, this proxy compares the market value to asset replacement cost and incorporates forward-looking investor expectations (Chung & Pruitt, 1994; Servaes & Tamayo, 2013). Furthermore, the dimensions of non-financial things like customer satisfaction, innovation, and reputation are also recognized as vital to long-term success (Kaplan & Norton, 1992).

The determinants of firm performance include the factors in a firm level like the firm size, leverage, and governance, as well as market-level conditions. Connections throughout the ESG engagement and performance remains theoretically and empirically contested. From stakeholder theory, it can be said that ESG affect performance positively from strengthening the relations among stakeholders and reducing risk (Albuquerque et al., 2019), whereas agency theory warns that managerial opportunism in ESG practices may increase costs and reduce efficiency (Brammer & Pavelin, 2006; Jensen & Meckling, 1976). Mixed empirical findings indicate the relationship may be moderated by factors such as corporate governance or ESG rating disagreement (Liu et al., 2025; McWilliams & Siegel, 2001). The author has chosen to do this research by using Tobin's Q proxy as that can reflect the market-based dimension to capture how investors value both current standing and future prospects related to ESG performance.

ESG Rating Disagreement

ESG rating disagreement explains the divergence in the score number or in this study can be define as ratings that was gathered by the agencies that assess ESG, to the same company is due to variations in methodology, scope, and assessment patterns (Berg et al., 2022; Chatterji et al., 2016). This disagreement arises from three primary sources: scope divergence (different indicators included), measurement divergence (different quantification methods), and weight divergence (different emphasis across ESG pillars). Such inconsistencies reduce comparability and increase information asymmetry, potentially heightening investment risk and enabling managerial opportunism (Avramov et al., 2022; Serafeim & Yoon, 2022).

Nevertheless, disagreement can possibly serve a governance role by providing perspective that is more thorough of corporate ESG performance and making it harder for firms to manipulate ratings across all agencies (Liu et al., 2025). The previous research have diverse proofs, some studies highlighting its disruptive effect on market pricing (Berg et al., 2022), while others suggest it can mitigate negative ESG impacts through enhanced monitoring (Liu et al., 2025). In this study, ESG rating disagreement is going to be measured by the standard deviation approach from Refinitiv and Bloomberg ratings, examining its moderating effect on the ESG and firm performance connection within Indonesia's emerging market context.

Hypotheses Development

Based on the perspective of a signaling theory, the ESG ratings works as trustworthy indication that decreasing the information asymmetry among managers and investors, expressing the good information regarding the quality of a corporate management, risk management, and commitment to sustainable value creation, which investors interpret as a signal for a decrease in non-financial risk and stronger future prospects, thereby enhancing market valuation and firm performance (Bergh et al., 2014; Spence, 1973). This view is reinforced by the Resource-Based View (RBV), that posits how ESG performance constitutes a valuable, rare, inimitable, and non-substitutable intangible resource that fosters corporate reputation, stakeholder trust, and regulatory goodwill, thereby strengthening the fierce benefits and firm performance (Barney, 1991; Freeman et al., 2021). Empirical evidence further supports this positive relationship, as studies throughout developed and developing nations, greater ESG ratings are correlated with superior company success (Bahadori et al., 2021; Jung & Yoo, 2023; Xu et al., 2025).

H1: ESG ratings positively affect firm performance.

While ESG ratings are frequently utilized as beneficial indications of the company's dedication to sustainability, the reliability and intensity of these signals rely on the amount of agreement across rating agencies, as dispersion emerges from different methodology, scopes, and weighted frameworks (Berg et al., 2022; Chatterji et al., 2016). Based on the perspective of signaling theory, moderate disagreement may prompt deeper investor analysis rather than signal dismissal, thereby encouraging more careful interpretation of ESG performance (Bergh et al., 2014). Simultaneously, the Resource-Based View suggests that rating disagreement can enhance the positive effect of ESG ratings by acting as an external monitoring mechanism, making it harder for managers to manipulate disclosures across all agencies and ensuring that high ratings reflect genuine, embedded sustainability practices (Liu et al., 2025). Furthermore, disagreement can provide additional informational content, highlighting specific ESG strengths and weaknesses and enabling a more comprehensive firm assessment (Serafeim & Yoon, 2022). Empirical studies support this governance role, indicating that in contexts where ESG practices are still developing, such as emerging markets, rating disagreement can reinforce investor confidence in the authenticity and value-relevance of ESG performance.

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

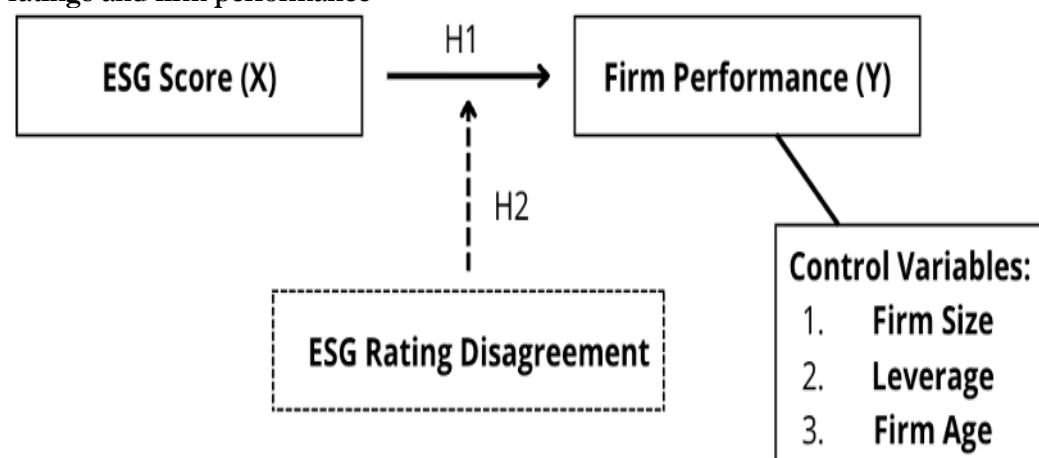


Figure 1. Research Framework

3. Research Method

Population and Sample

The research applies a purposive sampling technique, an indistinguishable approach in which the researcher chooses units based on specific characteristics relevant to the study (Sekaran & Bougie, 2016). The population consists of all companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023. Sample used in this research was determined by implying the following criteria: listing on the IDX during 2021-2023, availability of consistent ESG ratings in both the Refinitiv Eikon and Bloomberg databases throughout the period, publication of complete and publicly accessible annual reports for 2021-2023, and availability of all variables required for the analysis. From an initial population of 891 listed companies, 828 were excluded due to a lack of ESG ratings, resulting in 63 qualifying firms. With a three-year research period, this provided 189 firm-year observations. After removing 3 outliers, the final balanced panel sample comprises 186 observations from 62 companies.

Variables and Measurement

This study employs several key variables: for the variable independent is ESG Rating (ESG), representing the firm's sustainability performance, measured using the composite score from Refinitiv Eikon (Reber et al., 2022); the variable for dependent is firm performance (FP), that is going to be measured using Tobin's Q proxy to reflect market-based valuation (Chung & Pruitt, 1994; Servaes & Tamayo, 2013); and the moderating variable is ESG Rating Disagreement (ERD), that will use the measurement by the standard deviation among the Refinitiv Eikon and Bloomberg scores to capture agency assessment inconsistency (Liu et al., 2025). And lastly, talking about variables the other important thing that have to be included are the control variables. And in this study the researcher decide to include firm size (SIZE) with the measurement use natural logarithm of total assets (Biju et al., 2025), next up is leverage (LEV) that will use the measurement by implement the ratio of total liabilities to total assets (Liu et al., 2025), lastly, the firm sge (AGE) that the measurement will be calculated as the years since listing (Abdi et al., 2022). This research using panel data with fixed effect model.

4. Results

Table 1. Descriptive Statistical Analysis

| Variable | Obs | Mean | Std. Dev | Min | Max |
|----------|-----|----------|----------|---------|----------|
| FP | 186 | 1.7080 | 2.0216 | 0.2789 | 13.8807 |
| ESG | 186 | 56.2172 | 17.0518 | 22.18 | 88.59 |
| ERD | 186 | 8.4694 | 6.0262 | 0.08 | 25.06 |
| ESGxERD | 186 | 499.5751 | 454.1246 | 3.9357 | 2040.571 |
| SIZE | 186 | 31.8565 | 1.3103 | 28.4072 | 35.3154 |
| LEV | 186 | 0.5462 | 0.3984 | 0.02 | 4.79 |
| AGE | 186 | 44.6612 | 21.1547 | 3 | 110 |

The result from descriptive statistics have shown that firm performance, measured by Tobin's Q, ranges from 0.2789 to 13.8807 with a mean of 1.7080 and a standard deviation of 2.0216, indicating substantial variation in market valuation. The ESG Rating (ESG) varies from 22.18 to 88.59, averaging 56.2172 with a standard deviation of 17.0518, reflecting moderate average sustainability performance but high disparity across firms. The moderating variable, ESG Rating Disagreement (ERD), shows scores from 0.08 to 25.06, with a mean of 8.4694 and a standard deviation of 6.0262, signifying notable inconsistency between rating agencies. The interaction term (ESG x ERD) ranges widely from 3.9357 to 2040.571, with a high mean of 499.5751 and standard deviation of 454.1246, consistent with its composite nature. For control variables, Firm Size (SIZE) ranges from 28.4072 to 35.3154 (mean 31.8565, SD 1.3103), Leverage (LEV) spans 0.02 to 4.79 (mean 0.5462, SD 0.3984), and Firm Age (AGE) extends from 3 to 110 years (mean 44.6612, SD 21.1547), collectively showing diverse firm characteristics within the sample.

Table 2. Coefficient of Determination Test (without moderation)

| Within | Between | Overall |
|--------|---------|---------|
| 0.1788 | 0.0145 | 0.0160 |

The within R-squared is 0.1788 indicating that the independent variables are able to explain approximately 17.88% of the variation in FP within entities over time. This is without the moderating variables and the interactions.

Table 3. Coefficient of Determination Test (with moderation).

| Within | Between | Overall |
|--------|---------|---------|
| 0.1819 | 0.0115 | 0.0129 |

The table above shows the result after including the moderating variable and the interaction variable between ESG and ERD. The within R-squared increases slightly to 0.1819, indicating the model explains approximately 18.19% of the within entity variation in firm performance. This is a little increase from 0.1788 in the model without moderation, but only independent variable and control variables, this demonstrates the added explanatory value of including ERD and its interaction variable.

Table 4. F-Test Statistic (without moderation).

| F-statistic | Degrees of Freedom | Prob > F |
|-------------|--------------------|----------|
| 31.76 | 4.61 | 0.0000 |

With a Prob > F value of 0.0000, the model shows that the combined set of independent variable and control variables have a significant effect on firm performance.

Table 5. F-Test Statistic (with moderation).

| F-statistic | Degrees of Freedom | Prob > F |
|-------------|--------------------|----------|
| 25.89 | 6.61 | 0.0000 |

The addition of the moderating variable (ERD) and its interaction variable (ESGxERD) still values 0.0000, which indicates that ESG, ERD, the interaction (ESGxERD), and the control variables have a significant effect on firm performance, same as when tested without moderation.

Table 6. t-Test Statistic (without moderation).

| Variable | Coefficient | t-Statistic | Prob > t |
|----------|-------------|-------------|-----------|
| ESG | -0.0387 | -1.70 | 0.093 |
| SIZE | -2.0242 | -0.96 | 0.341 |
| LEV | 1.0529 | 7.79 | 0.000 |
| AGE | 0.1684 | 1.48 | 0.145 |

The t-Test result before adding the moderation shows that leverage (LEV) is the only variable that have a significant individual effect on FP, where the value is 0.000, meanwhile other variables like ESG, SIZE, and AGE are not significant.

Table 7. t-Test Statistic (with moderation).

| Variable | Coefficient | t-Statistic | Prob > t |
|----------|-------------|-------------|-----------|
| ESG | -0.0460 | -1.50 | 0.138 |
| ERD | -0.0049 | -0.25 | 0.803 |
| ESGxERD | 0.0013 | 0.52 | 0.607 |
| SIZE | -2.0678 | -0.96 | 0.340 |
| LEV | 1.0338 | 7.13 | 0.000 |
| AGE | 0.1883 | 1.29 | 0.203 |

After incorporate with the moderation variable and its interaction, the results remain insignificant for most of the variables (ESG, ERD, ESGxERD, SIZE, AGE), except leverage (LEV) where the values are constantly 0.000. The moderation variable, ERD ($p = 0.803$) and its interaction terms with ESG (0.607) are not significant.

4. Discussion

The Effect of ESG Ratings to Firm Performance

This empirical data reveal that ESG rating are unlikely to significantly impact the performance of the company, which is shown through a negative coefficient of -0.0387 with the statistically insignificant p-value of 0.093, leading to the rejection of hypothesis 1 which states that ESG positively influences Tobin's Q. Looking through the theoretical point of view, this result suggests that within the Indonesian capital market, ESG ratings have not yet functioned as credible signals according to signaling theory, as investors may perceive them as weak or noisy indicators that fail to adequately reduce information asymmetry or reflect genuine long-term value (Atan et al., 2018).

This insignificance are constantly linear with broader evidence from emerging markets, where ESG adoption is often at an early stage and driven by compliance rather than strategic integration, thereby weakening its perceived economic relevance (Husada & Handayani, 2021; Ihsani et al., 2023). Furthermore, investors in such contexts typically prioritize traditional financial metrics over non-financial disclosures, especially in the places that the situation of ESG guidelines that still continue to be changing and enforcement is limited, which diminishes the ESG ratings influence on market valuation (Aprianto & Waspodo, 2025; Biju et al., 2025).

The Moderating Role of ESG Rating Disagreement on The Relationship between ESG Rating and Firm Performance

The results of the regression analysis have shown that ESG Rating Disagreement (ERD) were not significantly moderate the relationship of ESG ratings and firm performance, as the interaction term (ESG \times ERD) is proven not significant statistically. This indication brings to the evidence that means the hypothesis is rejected, implying that divergent assessments from rating agencies do not alter how the market values ESG information in Indonesia, and thus ERD fails to function as an effective moderating mechanism.

This finding contrasts with evidence from developed markets, like the study by Liu et al. (2025), where disagreement enhances market monitoring. The ineffectiveness in Indonesia can be attributed to the early, compliance-driven stage of ESG adoption, where rating discrepancies are perceived as noise rather than informative signals. Furthermore, investors in emerging markets prioritize traditional financial metrics, and the fragmented quality of ESG disclosure limits the ability of rating disagreements to reduce uncertainty or influence valuation, as supported by the context-dependent findings of other regional studies (Tabur & Bildik, 2025).

5. Conclusion, Limitations, and Recommendations

Conclusion

This study concludes that ESG ratings do not have a statistically significant effect on firm performance among Indonesian listed companies, as evidenced by an insignificant coefficient in both the baseline and moderated regression models. Furthermore, ESG Rating Disagreement does not function as a significant moderator, with the interaction term (ESGxERD) also yielding an insignificant result.

These findings imply that ESG-related information has not been fully internalized into firm valuation within the Indonesian market. The results suggest that current ESG practices and ratings remain largely symbolic, failing to translate into measurable market performance or provide effective informational signals to investors in this context.

Limitations and Recommendations

This study acknowledges several limitations, including the regression model's limited explanatory power for firm performance variation, the restricted sample of Indonesian firms with ESG ratings from specific databases which affects generalizability, and the dependencies on agency ESG scores which can possibly not totally apprehended the substantive quality of sustainability implementation.

To address these constraints, future research is recommended to includes some extra explanatory factors, like the governance quality or ownership structure, and to expand the sample by including firms from other databases, sectors, or countries to enhance generalizability. Furthermore, employing alternative performance measures and refined

proxies for ESG rating disagreement could give further understanding regarding the ESG and firm performance association.

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