

When ESG Meets Politics: The Role of Political Connections in Enhancing Firm Value in Indonesia

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ABSTRACT

The purpose of this study is to examine the effect of ESG performance on firm value. Furthermore, this study also empirically analyzes the moderating role of political connections on the relationship between ESG performance and firm value. This study analyzes non-financial companies listed on the Indonesia Stock Exchange from 2016 to 2023, totaling 1,644. The hypotheses are tested using panel data regression. We also conduct several other tests, such as robustness tests and additional analyses, to deepen the study. This study reveals that ESG performance increases firm value. Furthermore, political connections strengthen the positive effect of ESG performance on firm value. Additional tests align with the main findings. Interestingly, when separating large and small firms, only large firms significantly influence both the direct influence of ESG on firm value and the role of political connections in strengthening this relationship. This study fills an important gap by providing large-sample evidence from an emerging market and demonstrating that political connections are not merely direct value drivers, but institutional mechanisms that amplify the market relevance of ESG practices.

Keywords : ESG Performance, Political Connection, Firm Value, Indonesia

INTRODUCTION

Sustainability is currently a global concern. Global public concern has arisen due to the high rate of environmental damage, labor exploitation, discrimination, and even broader global climate change (Armadani & Zarefar, 2023; Bae Choi et al., 2013; Faqera & Manaf, 2024; Liao et al., 2015; Marie et al., 2024; Tjahjadi et al., 2021). Naturally, corporate profit-seeking is one of the factors most responsible for this. Therefore, the business world is now shifting from solely seeking economic profit to focusing on environmental and social factors (Baldini et al., 2016; Lestari & Soewarno, 2023). Therefore, implementing Environmental, Social, and Governance (ESG) principles is an absolute must for companies. Besides having an impact on external parties, actions that prioritize ESG principles also benefit the company, including its value (Heubeck, 2024; Lee, 2023).

Corporate value is crucial to a company's operations. The primary objective of a company's operations is to achieve high corporate value (Lee et al., 2021; Waheed & Malik, 2019). External reactions strongly influence it. Investor perceptions of a company will influence its value (Tasniah et al., 2020). Therefore, as the business world evolves, investors and other stakeholders will pay close attention to a company's ESG activities. They tend to invest in companies with strong ESG performance (Kumar & Prakash, 2019; Lestari & Soewarno, 2023). Furthermore, companies with strong ESG performance are viewed as having a bright future and sustainable high performance, driven by their reputations (Chakroun et al., 2020; Cheng et al., 2024; Jeffrey et al., 2019). Therefore, ESG and corporate value research become crucial. The global business world has fundamentally shifted. Investors, the public, and other stakeholders have also changed their views.

These shifts demand that companies respond. Companies must make ESG implementation a standard part of their strategy. This implementation directly determines their existence.

Several previous studies have linked ESG disclosure or coverage, but these were mostly conducted in developed countries and are still rare in developing countries, including Indonesia. Several previous studies found that ESG reduces company value (Castillo-Merino & Rodríguez-Pérez, 2021; Gutsche, 2016; Kevser et al., 2024; Kraus et al., 2020). Gutsche (2016) stated that companies with low social performance achieve better market performance. A similar finding was reported by Kevser et al. (2024), who found that Italian companies with strong ESG performance did not exhibit strong market value. Furthermore, research by Al-Shaer et al. (2025) on London Stock Exchange Group companies found that ESG hurts company performance. Conversely, research conducted by Aydoğmuş et al. (2022) in Germany, Miao et al. (2023) in China, and Tasnia et al. (2020) in South Korea showed that sustainability practices significantly increase a company's market value. In the Indonesian context, Armadani & Zarefar (2023) found that company value increases when it also has good ESG practices.

Given the findings from the above studies, there is a research gap due to inconsistent results. Therefore, research is needed to examine the influence of ESG on company value in greater depth, especially in developing countries. Given inconsistent results across previous studies, we suspect a moderating role in this relationship and consider political connections as a potential moderator. It is because companies with political connections tend to have access to key resources that those without may not (Tee & Kasipillai, 2022). Furthermore, these companies will find it easier to finance investment activities, including the implementation of ESG practices (Chen et al., 2019; Maaloul et al., 2018). Ultimately, this will help companies implement ESG initiatives, which in turn will affect their market value.

Furthermore, in the Indonesian context, where corporate governance is still developing and numerous issues related to institutional quality, such as inconsistent regulations, complex bureaucracy, and weak investor rights protection, companies face high levels of uncertainty. These conditions make political connections crucial for replacing formal institutions, reducing uncertainty, and providing corporate protection. On the other hand, a dominant assumption in previous literature is that a company's ESG is directly processed by investors in the capital market as a positive signal. However, this assumption requires that formal institutions in the capital market are well-functioning and capable of enforcing the principles of fairness, transparency, and investor protection. In the context of Indonesia and other developing countries, institutional quality remains weak, making the effectiveness of ESG as a value-enhancing mechanism less clear theoretically.

Furthermore, previous literature generally views ESG as an independent managerial strategy and often ignores the role of informal dynamics, such as political connections. It means that the role of political connections remains underexplored in the literature on the link between ESG and firm value. This neglect leaves a crucial conceptual gap, as political connections can act as a catalyst, enabling a company's ESG to become a positive value and a strong, credible signal to investors. Without this perspective, mainstream research models remain incomplete in explaining the impact of ESG on firm value, particularly in developing countries like Indonesia.

The purpose of this study is to explain when and why ESG provides value to companies by considering the moderating role of political connections. This research was conducted in Indonesia, a developing country with a unique regulatory and corporate governance framework. ESG implementation regulations in Indonesia still require significant improvement due to their relative infancy. Therefore, this research will make a significant contribution to stakeholders, particularly regulators. Furthermore, this study uses a reference measurement for ESG and analyzes its components, a practice rarely undertaken in the Indonesian context. This research will significantly impact the development of the accounting literature. The novelty of this research lies in its shift from simply examining the impact to a more in-depth analysis of when and why ESG adds economic value to companies. This research expands the study of legitimacy theory in the context of ESG by explaining the role of political connections as an institutional reinforcement, a crucial factor in emerging market economies. Therefore, this research provides a much more comprehensive conceptual framework than the existing literature.

LITERATURE REVIEW

Previous research can be divided into two broad streams of ESG analysis. First, ESG is viewed as a generally accepted legitimacy mechanism. This perspective views corporate compliance with ESG implementation as a result of awareness and demands stemming from a social contract (Baldini et al., 2016; Gallego et al., 2025; Wang & Zheng, 2025). Companies are seen as seeking to implement sustainable practices by aligning their actions with societal values and expectations. Companies gain legitimacy from stakeholders, ultimately enhancing their reputation and market value. These studies assume that capital markets can analyze and interpret ESG as a positive signal. A limitation is the lack of consideration of ESG legitimacy's generalizability across institutional and national contexts. Second, previous research views political connections only as a means to seek profit and a reason to maintain their political reputation (Abuhijleh & Zaid, 2023; Peng & Smith, 2024; Reimsbach et al., 2018). They view company leaders with political connections as gaining privileged access to resources that companies without political access might not have. Research within this stream observes negative impacts such as poor governance quality, economic inefficiency, and market distortions. A weakness of this research is the lack of consideration of political connections as an informal institutional mechanism capable of positively impacting formal capital market institutions, thus increasing public trust. Therefore, they rarely link and do not explain how political connections can interact with ESG practices that ultimately increase company value.

Berdasarkan analisis terhadap penelitian terdahulu, penelitian ini akan mengisi celah yang ada. Dengan memberikan analisis kapan dan mengapa ESG memberikan nilai tambah ekonomi terhadap perusahaan khususnya di negara berkembang seperti Indonesia yang memiliki institusi formal yang lemah, regulasi yang belum begitu jelas dan tegas, serta iklim bisnis yang masih menuju stabil.

The implementation of ESG in companies demonstrates a company's commitment to fulfilling its responsibilities under the social contract with society (Peng & Smith, 2024) (Keddie & Magnan, 2023; Velte, 2020). ESG performance demonstrates that their activities align with the values, norms, and expectations of the communities in which they operate (Baldini et al., 2016; Lestari & Soewarno, 2024). According to legitimacy theory, actions that align with societal norms, values, and expectations will be recognized and legitimized by society and other stakeholders (Doni et al., 2022; Erin et al., 2022). Furthermore, when a company demonstrates a strong commitment and implements it, the public and investors will perceive the company as operating ethically and responsibly. Companies that have a good image in the community will provide many benefits, both economic and non-economic.

The resulting legitimacy will attract investors to invest in the company (Gutsche, 2016; Lestari & Soewarno, 2024; Li et al., 2018). Furthermore, the company will gain support from other stakeholders, reducing the likelihood of social conflict and regulatory pressure. Furthermore, the positive reputation and image the company gains in the public and capital markets will ultimately increase investor confidence and the company's value. Investors will invest more, ultimately increasing the company's value in the capital market (Jeffrey et al., 2019; Kong et al., 2023).

Thus, companies with strong ESG performance will also have a good reputation among the public and other stakeholders (Ali & Chouaibi, 2024; He et al., 2017). Implementing sustainability principles through ESG is an excellent method, especially in emerging markets like Indonesia. While this is still relatively new, it is crucial and can provide significant added value to companies that achieve strong ESG performance. It ultimately attracts investors, which ultimately increases the company's value.

H1: ESG performance increases firm value.

According to Resource Dependence Theory (RDT), a company's survival and development depend heavily on external resources. In the context of this research, one strategic resource a company possesses is political connections. Political connections provide companies with various benefits, including broader access to information, policies, funding opportunities, and regulatory protection (Lassoued & Attia, 2014; Shen et al., 2015). Therefore, the presence of political

connections among company leaders or owners will strengthen the positive relationship between ESG performance and firm value.

Furthermore, companies with political connections to the government or legislative bodies also have greater access to larger markets than would be possible without them. Furthermore, political connections also increase recognition of companies with good ESG performance from the government and the public. Therefore, companies will have stronger credibility, enabling them to secure projects, incentives, and subsidies to support their operations. Finally, Indonesia remains notoriously bureaucratic and complex for companies executing large, strategic projects. Companies with political connections can mitigate these obstacles by ensuring they implement ESG principles. Ultimately, companies with these connections are better able to implement ESG and increase their company value (Chen et al., 2019; Dang et al., 2018; Maaloul et al., 2018).

H2: Political connections strengthen the positive influence of ESG performance on firm value.

METHODS

This study uses a sample of non-financial companies listed on the Indonesia Stock Exchange (IDX) between 2016 and 2023. Sample selection was conducted using purposive sampling, with the criteria being non-financial companies listed on the Indonesia Stock Exchange between 2016 and 2023 and possessing the data required for this study. The total number of final observations was 1,644 firm-years. This research hypothesis was tested using panel data analysis. The following is the empirical model used in this study:

$$\text{TobQ}_{it} = \alpha + \beta_1 \text{ESGP}_{it} + \beta_2 \text{ROA}_{it} + \beta_3 \text{DER}_{it} + \beta_4 \text{SIZE}_{it} + \beta_5 \text{BOC}_{it} + \beta_6 \text{AUDCOM}_{it} + \epsilon \dots (1)$$

$$\text{TobQ}_{it} = \alpha + \beta_1 \text{ESGP}_{it} + \beta_2 \text{PC}_{it} + \beta_3 \text{ESGP} * \text{PC}_{it} + \beta_4 \text{ROA}_{it} + \beta_5 \text{DER}_{it} + \beta_6 \text{SIZE}_{it} + \beta_7 \text{BOC}_{it} + \beta_8 \text{AUDCOM}_{it} + \epsilon_{it} \dots (2)$$

Where TobQ is Tobin's Q, ESGP is ESG performance, PC is political connection, ROA is return on assets, DER is debt to equity ratio, SIZE is company size, BOC is board of commissioners, AUDCOM is audit committee.

Firm value is the dependent variable used in this study. The operational definition is that firm value is the market price of the company's stock that reflects investors' perceptions of the company's operational success. It also indicates that investors believe the company will perform well in the future (Dkhili, 2024; Lestari & Soewarno, 2024). Tobin's Q is used to measure firm value in this study. In addition, this study will measure firm value using two alternative measures, namely market-to-book value (MBV) and price-to-book value (PBV), to assess robustness. The following measurements refer to previous studies (Zarefar & Armadani, 2024; Nasir et al., 2024).

$$\text{TobQ} = (\text{market value of equity} + \text{book value of debt}) / \text{book value of total assets}$$

$$\text{MBV} = \text{Market Value of Equity} / \text{Book Value of Equity}$$

$$\text{PBV} = \text{Market Price per Share} / \text{Book Value per Share}$$

ESG performance (ESGP) is a variable in this study. ESG performance is a company's level of success in managing and implementing sustainable practices (Huang et al., 2024; Truong, 2024). ESG performance in this study is measured using scores from the Refinitiv dataset, referring to previous research (Al-Shaer et al., 2025; Kamarudin et al., 2022; Tasnia et al., 2020). This data assesses companies' ESG performance across 10 themes and three pillars, using over 600 criteria.

The moderating variable in this study is political connections (PC). Political connections are a condition in which individual companies, especially those holding key roles, have ties to government officials, political institutions, or other state institutions (Rahman & Chen, 2022; Silvera et al., 2022). Political connections are measured as a dummy variable. If a company (in this case, an investor, board of directors, or board of commissioners) is a high-ranking or former government official, a member of a political party, or has family ties to a politician, it is given a value of 1; otherwise, 0. The control variables in this study consist of Return on Assets (ROA), Debt to Equity (DER), company size (SIZE), board of commissioners size (BOC), and audit committee size (AUDCOM) (Kamarudin, 2021; Nasir et al., 2024). ROA is measured by dividing

profit after tax by total assets. DER is measured by dividing total debt by total equity. The natural logarithm of assets measures SIZE. The number of board members in the company determines the size of the board of commissioners. Finally, AUDCOM is measured by the number of audit committee members.

RESULTS AND DISCUSSION

The descriptive statistics are presented in Tables 1, 2, and 3. Firm value, proxied by Tobin's Q, remained positive throughout the study period (2016 to 2023). It indicates that the company has earned the trust of its stakeholders, especially investors. The ESGP score also showed a relatively good score, consistently remaining at 1 throughout the study period, with an average of 2.294. Political connections are evident in Tables 2 and 3, with more than half of the companies having them. It means these companies will be politically influenced in all their activities, including their support for ESG practices.

Table 1. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
TobQ	1644	1.25	2.059	.057	22.559
ESGP	1644	2.294	.194	1.574	2.684
PC	1644	.509	.5	0	1
ROA	1644	3.519	9.135	-28.06	47.96
DER	1644	1.178	1.329	.013	8.685
Size	1644	27.21	3.333	18.169	33.495
BOC	1644	5.9	.877	4	7
AC	1644	3.529	.499	3	4

The ROA variable shows a fluctuating range of company performance throughout the study year. The company's average DER is not considered high, at only 1,178. Company sizes range from 18,169 to 33,495, indicating a relatively small disparity in size. The minimum number of commissioners is 4 and the maximum is 7. Meanwhile, the audit committee has a minimum of 3 and a maximum of 4 members.

Table 2. Descriptive Statistics: ESG by Year

Year	N	Mean	SD	Min	Max
2016	19	1.839	0.153	1.626	2.108
2017	36	1.866	0.152	1.574	2.155
2018	54	2.087	0.141	1.793	2.374
2019	80	2.078	0.147	1.793	2.374
2020	134	2.103	0.145	1.793	2.37
2021	325	2.32	0.144	2.013	2.594
2022	467	2.322	0.143	2.013	2.606
2023	529	2.401	0.142	2.086	2.684

To ensure that this research model is free from multicollinearity issues, a Pearson correlation test was conducted. The criteria for results that are considered to pass multicollinearity issues are that the coefficient of each variable is no more than 0.8 (Gujarati, 2003). Based on the results displayed in Table 3, it can be seen that each variable does not have a coefficient value greater than 0.8, thus concluding that this research model is free from multicollinearity issues.

Based on Table 4, it can be seen that ESG performance has a significant positive effect on company value, thus accepting H1. ESG, which represents a company's commitment to implementing sustainability principles, brings significant added value to the company. ESG practices implemented by companies demonstrate their commitment to aligning their activities with environmental, societal, and governance principles. Legitimacy theory views strong ESG performance as conferring legitimacy on a company from its stakeholders. In a highly volatile

market, ESG, as a source of corporate legitimacy, becomes highly valuable.

Investors and other stakeholders support companies with strong ESG performance. Companies are less likely to face social conflicts that could undermine their reputation and legitimacy, negatively impacting their performance. Companies with legitimacy tend to receive support for expansion. Furthermore, informally, companies with strong performance are highly attractive and more trusted due to their legitimacy, ultimately increasing their value in the capital market.

Table 3. Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) TobQ	1.000							
(2) ESGP	0.037	1.000						
(3) PC	-0.008	-0.051	1.000					
(4) ROA	0.266*	0.013	-0.040	1.000				
(5) DER	-0.128*	-0.130*	0.072*	-0.226*	1.000			
(6) Size	0.000	-0.032	0.047	-0.011	0.026	1.000		
(7) BOC	-0.016	0.162*	-0.059	0.029	-0.031	0.001	1.000	
(8) AC	0.031	-0.034	0.027	-0.008	0.046	0.044	-0.039	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Furthermore, upon further analysis, the three elements—Environmental, Social, and Governance—each have their own focus, demonstrating a company's commitment. The environmental element demonstrates the company's ability to mitigate the negative environmental impacts of its operations. The social element demonstrates the company's concern for workers' rights without discrimination, and its adherence to gender diversity principles among its employees. The governance element demonstrates the company's commitment to implementing good governance to ensure effective and efficient operations.

Furthermore, companies with strong ESG performance will attract investors to invest their capital. It means that the company's perception in the market will improve due to its strong ESG performance. Investors will flock to the company, thereby increasing its market value. It is because demand for its shares in the market will increase due to the limited number of shares. This finding aligns with previous research that found ESG performance has a positive effect on company value (Aydoğmuş et al., 2022; Miao et al., 2023; Sunil & Nair, 2021; Tasnia et al., 2020).

Table 4. regression result and robustness test

	(1) TobQ	(2) MBV	(3) PBV
Intercept	0.145 (0.131)	-2.114 (-0.707)	-2.113 (-0.707)
ESGP	0.889** (2.531)	1.810*** (2.896)	1.807*** (2.891)
ROA	0.057*** (5.084)	0.142*** (4.074)	0.142*** (4.073)
DER	-0.105*** (-2.652)	0.489*** (4.017)	0.489*** (4.018)
Size	-0.000 (-0.030)	0.038 (1.460)	0.038 (1.462)
BOC	-0.058 (-0.947)	0.068 (0.503)	0.068 (0.505)
AC	0.149 (1.586)	0.423** (2.079)	0.424** (2.082)
Adj.R2	0.08	0.09	0.09
N	1644	1644	1644
F-stat	9.006	3.460	3.457

t statistics in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Based on Table 5, it can be seen that a company's political connections strengthen the positive influence of ESG performance on company value, thus accepting H2. This finding aligns with RDT theory research, which suggests the role of external resources in helping companies achieve high value (Alodat et al., 2021; Cordeiro et al., 2020). A company's political connections will provide them with broader access to resources that are highly beneficial to company activities. Company leaders with political connections, whether within the government or the House of Representatives, will facilitate the company's resolution of bureaucratic issues. Bureaucracy is a key focus for the business climate in Indonesia. This ease of access will help companies achieve high company value.

Furthermore, when it comes to ESG implementation, politically connected companies will be more concerned about protecting their public image. These leaders may be particularly concerned about their company stumbling over sustainability issues, as it could damage their reputations, both personally and professionally. It creates a greater incentive for them to implement ESG practices. In turn, it contributes to a positive corporate image among stakeholders. Ultimately, this makes the company more attractive to investors and increases its market value.

Political connections can help mitigate the perception that a company's ESG practices are merely greenwashing. This is because political connections increase the level of visibility and effectiveness of oversight, making ESG practices more serious. Furthermore, political connections strengthen the regulatory legitimacy of ESG performance. Companies with political connections tend to be more credible and aligned with a country's development priorities, particularly regarding sustainability. This results in a higher valuation of the company, reflected in its value.

Finally, the findings of this study provide evidence that political connections offer more than just initial access to resources beyond the reach of non-politically connected firms. Furthermore, this research strengthens institutions and enhances firms' ability to maximise the benefits of good governance practices, regulations, and existing organisational structures. Ultimately, political connections within firms have a sustainable and systemic impact that ultimately increases firm value in the market.

Table 5. Results of the moderation regression and robustness test

	(1) TobQ	(2) MBV	(3) PBV
Intercept	1.594 (1.308)	1.585 (0.452)	1.559 (0.445)
ESG	0.261 (0.624)	0.251 (0.248)	0.260 (0.257)
PC	-2.808* (-1.939)	-7.234* (-1.674)	-7.184* (-1.663)
ESGxPC	1.227* (1.952)	3.062* (1.671)	3.039* (1.658)
ROA	0.056*** (5.156)	0.140*** (4.164)	0.140*** (4.163)
DER	-0.105*** (-2.624)	0.494*** (3.978)	0.494*** (3.979)
Size	-0.000 (-0.014)	0.040 (1.494)	0.040 (1.497)
BOC	-0.056 (-0.923)	0.065 (0.493)	0.065 (0.494)
AC	0.143 (1.530)	0.411** (2.049)	0.412** (2.053)
Adj.R2	0.08	0.09	0.09
N	1644	1644	1644
F-stat	8.022	3.017	3.017

t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01

We conducted a robustness analysis using alternative measurements for the dependent variables, consisting of MBV and PBV. Tables 5 and 6 show consistent results with the main model. Therefore, we can conclude that the results of this study are robust. We conducted two additional analyses, testing the model with each ESG element: environmental, social, and governance. Table 6 shows that each ESG element has a positive effect on firm value, supporting its main results. This finding reinforces the notion that ESG performance enhances firm value.

Table 6. Additional analysis element ESG

	(1) TobQ	(2) MBV	(3) PBV
Intercept	-0.616 (-0.383)	-5.169 (-1.364)	-5.160 (-1.362)
Envi	0.735* (1.751)	0.761 (0.850)	0.758 (0.846)
Soc	1.124 (1.604)	3.715** (2.161)	3.712** (2.160)
Gov	1.934 (1.087)	5.499* (1.675)	5.482* (1.670)
ROA	0.057*** (5.136)	0.141*** (4.130)	0.141*** (4.129)
DER	-0.104*** (-2.636)	0.492*** (4.047)	0.492*** (4.047)
Size	-0.000 (-0.006)	0.038 (1.483)	0.038 (1.485)
BOC	-0.059 (-0.969)	0.062 (0.463)	0.062 (0.466)
AC	0.149 (1.520)	0.404** (2.009)	0.404** (2.012)
Adj.R2	0.08	0.09	0.09
N	1644	1644	1644
F-stat	7.895	3.102	3.098

t statistics in parentheses * p<0.10, ** p<0.05, *** p<0.01

In addition, we conducted additional analysis by dividing the sample into large and small companies, with the cutoff being the average size of the companies. Companies below the average size were assigned a value of 0, and those above the average size were assigned a value of 1. The regression results, presented in Table 7, indicate that only in larger companies do political connections enhance ESG performance and increase firm value. This finding provides new and unique empirical evidence, suggesting that companies with substantial assets tend to be better able to leverage their political connections and implement ESG practices more effectively. Externally, companies with larger assets are perceived as having greater potential if granted access to strategic projects.

Table 7. Additional analysis by firm size

	TobQ (SIZE=0)	TobQ (SIZE=1)	MBV (SIZE=0)	MBV (SIZE=1)
Intercept	-2.097 (-1.210)	6.590*** (3.809)	-4.875* (-1.705)	13.529*** (3.091)
ESG	0.662 (1.100)	-1.024** (-2.228)	1.428 (1.437)	-3.829*** (-3.292)
PC	-0.874 (-0.433)	-3.173** (-2.280)	-1.073 (-0.322)	-9.009** (-2.559)
ESGxPC	0.407	1.414**	0.495	3.859**

	(0.468)	(2.335)	(0.344)	(2.518)
ROA	0.031***	0.101***	0.051***	0.270***
	(3.971)	(12.742)	(3.955)	(13.494)
DER	-0.163**	0.019	0.167	0.855***
	(-2.408)	(0.403)	(1.494)	(7.342)
Size	0.103***	-0.136***	0.163***	-0.228**
	(3.501)	(-3.123)	(3.337)	(-2.065)
BOC	-0.108	-0.055	-0.130	0.028
	(-1.121)	(-0.817)	(-0.816)	(0.165)
AC	0.042	0.223*	0.096	0.581*
	(0.257)	(1.876)	(0.350)	(1.934)
Adj.R2	0.06	0.16	0.03	0.17
N	623	1021	623	1021
F-stat	5.820	24.454	3.442	27.678

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

CONCLUSION

The shift in global business values from purely economic performance toward social and environmental considerations is driven by increasing stakeholder awareness of sustainability. Investors increasingly favor companies that prioritize sustainability in their strategies. This study examines the effect of ESG performance on firm value, with political connections as a moderating variable. Using panel data regression on non-financial companies listed on the Indonesia Stock Exchange from 2016 to 2023, the results show that ESG performance positively affects firm value, and political connections strengthen this relationship. Robustness tests confirm the consistency of these findings.

This study offers three main contributions. Theoretically, it integrates legitimacy theory and Resource Dependence Theory (RDT) to explain how ESG enhances firm value, highlighting the role of political connections as institutional amplifiers in emerging markets. Empirically, it provides strong evidence from a large-scale, longitudinal dataset in Indonesia, enriching ESG literature that has been dominated by developed country contexts. Methodologically, it presents an integrated framework combining ESG, political connections, and firm value using panel regression and robustness testing, offering a reference for future research.

Practically, the findings support ESG adoption as a strategy for long-term value creation and provide insights for regulators to design policies that promote ESG practices and facilitate access to strategic resources for high-performing firms.

This study has limitations. It focuses only on non-financial firms and measures political connections using a single proxy. Future research is encouraged to include financial sectors and explore more comprehensive measures of political connections, such as founder or government affiliations.

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