

# Reassessing The Role of Political Embeddedness: ESG and Corporate Market Outcomes in Indonesia

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## ABSTRACT

This study aims to test and analyze the role of political embeddedness on the relationship between ESG and corporate market performance in Indonesia. This study used data from companies listed on the Indonesia Stock Exchange (IDX), excluding financial sector companies. The final sample size was 1,281 firm-years. Panel data regression analysis techniques were used to test the research hypotheses. Furthermore, several tests, including robustness tests and further testing, were conducted to deepen the research. Regression results reveal that ESG plays a role in building market confidence in a company, thus increasing its value. Furthermore, political embeddedness plays a significant role in strengthening ESG's influence on corporate market outcomes. The integration of political embeddedness, ESG, and corporate market outcomes into a research model, along with its comprehensive analysis, makes this study valuable for advancing the literature. This study addresses a research gap and provides a broad perspective on the model analyzed.

**Keywords :** ESG, Corporate Market Outcome, Indonesia

## INTRODUCTION

The phenomenon of massive environmental damage, exploitation of natural resources, discrimination, agrarian conflicts, and other social, environmental, and economic problems has made sustainability issues increasingly central to discussions in recent decades (Agustin et al., 2025; Lee et al., 2025; Zhang et al., 2020; Zharfpeykan & Bai, 2025). The impact, in a more severe form, is climate change, which threatens human survival globally. The response from corporate stakeholders is to expect companies, which are a vital part of the business world, to implement sustainability principles reflected in three aspects: environmental, social, and governance (ESG) (Armadani & Zarefar, 2023; Liu & Lee, 2025; Tjahjadi et al., 2021). Stakeholders are demanding that companies address not only their economic performance but also environmental and social aspects (Baldini et al., 2016; Erin et al., 2022; Gallego et al., 2025). The consequence of these demands is that companies that fail to meet stakeholder expectations will be negatively perceived.

The market responds to a company's ESG practices by rewarding the company, which is reflected in its value. High stakeholder interest in a company increases its market value (Ning & Chen, 2025; Armadani & Zarefar, 2023). Investors are increasingly attracted to companies with strong ESG performance (Cheng et al., 2024; Truong, 2024; Aydoğmuş et al., 2022; Tang et al., 2024). They view companies with strong ESG performance as having promising prospects. Companies tend to have low levels of risk, particularly litigation and financial risks. Furthermore, companies that implement sustainability throughout their operations have the potential to be sustainable in the long term. It, in turn, attracts the sympathy of investors and other stakeholders, thus creating a positive reputation for the company, which ultimately leads to high company value.

Several previous studies have analyzed the relationship between ESG and corporate market outcomes. Some studies have revealed that a company's ESG performance improves corporate

market outcomes (Aydoğmuş et al., 2022; Miao et al., 2023; Sunil & Nair, 2021; Tasnia et al., 2020). Conversely, previous studies have also found that ESG reduces corporate market outcomes (Castillo-Merino & Rodríguez-Pérez, 2021; Gutsche, 2016; Kevser et al., 2024; Kraus et al., 2020). It indicates that inconsistent results remain, necessitating further analysis and research. Furthermore, the studies are generally conducted in developed countries. It means that the setting and regulations are still rarely implemented in developing countries like Indonesia. There is a strong urgency to conduct more in-depth research regarding the influence of ESG on corporate market outcomes.

We see the potential for variables to moderate this relationship. Other informal factors, such as political embeddedness, play a significant role in the context of developing countries. Companies with political connections offer various advantages not enjoyed by companies without political embeddedness. They have access to strategic resources, which provide greater flexibility in obtaining information on policy direction, including sustainability. On the other hand, the potential for a decline in corporate governance quality due to political interference is also higher. It means that there are both positive and negative potential effects of corporate political connections on the relationship between ESG and corporate market outcomes (Aldhamari et al., 2020; Faccio, 2006; Zhao et al., 2022).

The purpose of this study is to examine and analyze ESG and corporate market outcomes, and the moderating role of political connections in Indonesian companies. The Indonesian setting is unique compared to developed countries, where the relationship between ESG and corporate market outcomes is typically observed. Indonesia's regulations are still developing and often problematic. Furthermore, the implementation of good corporate governance (GCG) has not been widely recognized in Indonesia compared to other developed nations. Therefore, this research makes a significant contribution to both the literature and practice, providing a comprehensive analysis of this model, and extends prior evidence in the Indonesian setting. Furthermore, this research can be used as a practical consideration in formulating strategic corporate policies with long-term goals, particularly in promoting ESG implementation.

## LITERATURE REVIEW

### ESG and corporate market outcomes

High demands from corporate stakeholders are driving companies to undertake sustainable actions. Companies are required to focus not only on profit-seeking activities but also on environmental and social aspects (Agustin et al., 2025; Lestari & Soewarno, 2024; Liu & Lee, 2025; Zharfpeykan & Bai, 2025). From the perspective of legitimacy theory, companies have a social contract with society that they must fulfill (Tantawy & Moussa, 2023; Tran et al., 2021; Uyar et al., 2023; Wang & Zheng, 2025). Social norms and values must be a serious concern for companies to avoid conflicts with stakeholders. In other words, companies will gain legitimacy from stakeholders when they operate in accordance with their expectations. ESG practices play a crucial role in building and maintaining this legitimacy. Companies with ESG practices represent management of negative environmental impacts, prioritize social welfare, and implement good corporate governance principles such as transparency and accountability. Therefore, these companies are perceived as having high long-term stability.

Furthermore, investors see significant opportunities in companies with good ESG practices. The company's reputation improves, accompanied by the perception that its risks are lower, making achieving long-term targets more likely. This reputation attracts investors to invest in these companies (Lestari & Soewarno, 2024) and (Armadani & Zarefar, 2023). High demand for shares in the market drives up the company's value. Thus, ESG becomes a highly effective tool for building corporate legitimacy, resulting in high market outcomes for the company.

H1. High ESG has a positive impact on corporate market outcomes.

### ESG, Political Embeddedness, Corporate Market Outcomes

In the context of developing countries like Indonesia, conditions are unique compared to developed countries with effectively functioning formal institutions. Therefore, informal factors, such as political embeddedness, can play a key role and significantly influence corporate

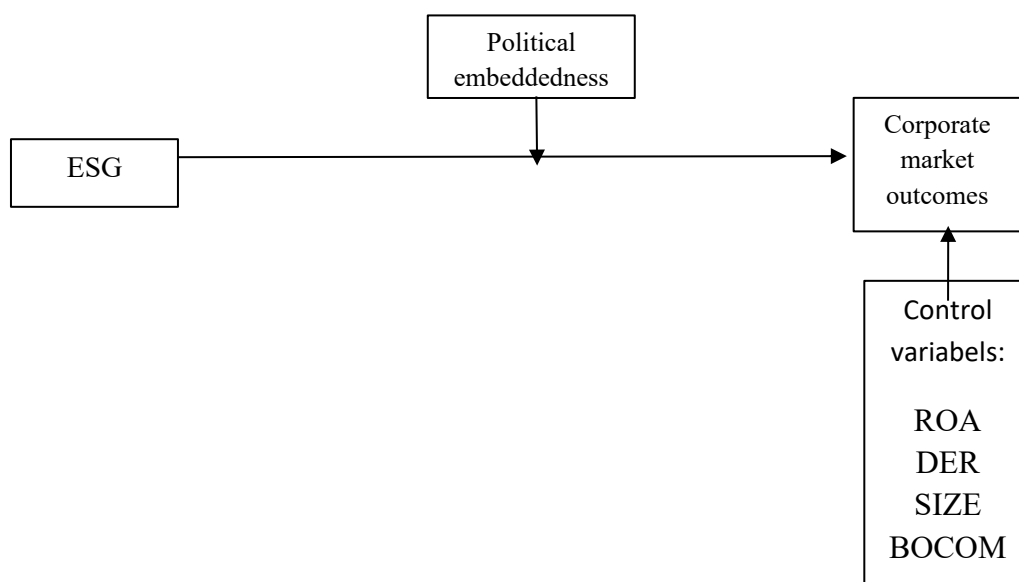
governance and the direction of a company's operations. Essentially, ESG practices implemented by a company will impact the achievement of high market output (Oktavia et al., 2026). This influence is further strengthened by the presence of political connections within the company (Momon et al., 2021). It is due to the numerous advantages political embeddedness brings, such as access to strategic resources.

Referring to the perspective explained by legitimacy theory, companies' efforts to align with prevailing societal values and norms make ESG a crucial pillar of corporate strategic policy (Doni et al., 2022; Elsayed & Ammar, 2020; Luh et al., 2024; Sulaiman, 2023). In the context of companies with political embeddedness, companies face greater pressure to implement ESG due to their direct ties to regulators. Politically connected company leaders are motivated to maintain their reputation within the company and externally, ensuring they are perceived as aligned with the government's sustainability agenda. This tendency toward political connections is not merely symbolic; it also has substantive implications, as they are involved in policymaking and the establishment of sustainability regulations. They must encourage their companies to implement ESG. It means that ESG implementation is not merely a tool for achieving a positive image but also serves as substantive institutional approval. It is naturally perceived as a positive signal that increases company value.

Furthermore, the signaling theory lens highlights a positive signal from corporate activities, particularly ESG implementation, which is reinforced by political embeddedness (Surya et al., 2026). The market response is naturally to build trust in the company. Investors are attracted to the company because it is perceived as having a low risk of litigation, stable long-term growth prospects, and, most importantly, a concern for sustainable development. This trust comes not only from investors but also from the public at large, who support the company through product purchases that ultimately generate economic benefits and increase the company's value.

H2. Political embeddedness strengthens the positive influence of ESG on corporate market outcomes.

Berikut ini adalah kerangka konseptual yang digunakan pada penelitian ini:



**Figure 1. Conceptual framework**

## RESEARCH METHOD

### Data

This study uses secondary data derived from company annual reports. The sample comprises companies listed on the Indonesia Stock Exchange from 2010 to 2023, excluding financial companies. Financial companies were excluded from the sample due to their distinct business characteristics and specific regulations. After sample selection, the final observation was 1,281

firm-years.

### Analysis Technique

This study uses a moderated regression analysis (MRA) approach to test the research hypotheses. The following is the empirical model used:

$$TBNQ_{it} = \alpha + \beta_1 ESGIMP_{it} + \beta_2 ROA_{it} + \beta_3 DER_{it} + \beta_4 SIZE_{it} + \beta_5 BOCOM_{it} + \varepsilon_{it} \dots (1)$$

$$TBNQ_{it} = \alpha + \beta_1 ESGIMP_{it} + \beta_2 POCO_{it} + \beta_3 ROA_{it} + \beta_4 DER_{it} + \beta_5 SIZE_{it} + \beta_6 BOCOM_{it} + \varepsilon_{it} \dots (2)$$

$$TBNQ_{it} = \alpha + \beta_1 ESGIMP_{it} + \beta_2 POCO_{it} + \beta_3 ESGIMP * POCO_{it} + \beta_4 ROA_{it} + \beta_5 DER_{it} + \beta_6 SIZE_{it} + \beta_7 BOCOM_{it} + \varepsilon_{it} \dots (3)$$

Where TBQ is Tobin's Q, a proxy for corporate market outcome, ESGIMP is ESG, POCO is political embeddedness, ROA is return on assets, DER is debt-to-equity ratio, SIZE is company size, and BOCOM is board of commissioners size.

### Operational Definition and Variable Measurement

This study uses corporate market outcome as the dependent variable. The proxy used to measure corporate market outcome is Tobin's Q (TBNQ). Tobin's Q is measured by summing the market value of equity and the book value of debt, then dividing by the book value of total assets (Armadani & Naimah, 2025; Nasir et al., 2024; Oktavia et al., 2026). Additionally, alternative measurements used to test robustness are market-to-book value (MARBV) and price-to-book value (PRCBV). MARBV is measured by total market capitalization by equity (Diaz & Armadani, 2024). PRCBV is measured by the market price per share/book value per share (Nasir et al., 2024).

The independent variable used is ESG implementation (ESGIMP). ESGIMP is a form of corporate performance reported in sustainability reports, examining environmental, social, and governance aspects. ESG performance in this study is proxied by scores obtained from the Refinitiv dataset, consistent with prior studies (Oktavia et al., 2026). The dataset evaluates corporate ESG performance based on three main pillars and 10 thematic categories, drawing on more than 600 underlying indicators.

The moderating variable in this study is political embeddedness (POCO). Political embeddedness refers to the relationship between a company's shareholders, particularly its leadership, with the government or legislative assembly, and other matters related to power (Faccio, 2006). POCO is measured as a dummy variable, with a value of 1 for company shareholders, directors, or commissioners who are current or former high-ranking government officials, members of political parties, or have family ties to political figures, and 0 otherwise.

The control variables in this study include Return on Assets (ROA), Debt to Equity (DER), company size (SIZE), and board of commissioners (BCOM). ROA is measured by dividing net profit by total assets. DER is measured by dividing debt by total equity. The natural logarithm of total assets measures SIZE. Finally, BCOM is measured by the number of the board of commissioners.

## RESULTS

### Descriptive Statistics

Tables 1 and 2 present a summary of the variables used in this study. Table 1 presents a general summary, and Table 2 presents a year-over-year analysis. Based on Table 1, it is clear that the company's market outcome, as proxied by TBNQ, MARBV, and PRCBV, shows a fairly stable value, above 1. It also occurred from 2014 to 2023 (Table 2). In other words, there was a general increase from 2010 to 2023, despite minor fluctuations. The values that ESGIMP uses are the results of the log-transform. The company's ESGIMP during the observation period was at 2.277.

Furthermore, there is a year-over-year increase in the company's ESG practices. Political embeddedness indicates that Indonesian companies generally have political connections. It is in line with Table 2, which shows that the level of political embeddedness remains relatively constant from year to year, with more than half of the companies on the Indonesian Stock Exchange having political connections.

**Table 1. Descriptive Statistics**

| Variable | Obs  | Mean   | Std. Dev. | Min    | Max    |
|----------|------|--------|-----------|--------|--------|
| TBNQ     | 1281 | 1.543  | 3.766     | .001   | 72.601 |
| MARBV    | 1281 | 2.867  | 7.599     | .001   | 99.75  |
| PRCBV    | 1281 | 2.868  | 7.598     | .104   | 99.75  |
| ESGIMP   | 1281 | 2.277  | 0.223     | 1.48   | 2.73   |
| POCO     | 1281 | 0.51   | 0.5       | 0      | 1      |
| POCDD    | 1281 | 0.407  | 0.492     | 0      | 1      |
| ROA      | 1281 | 6.856  | 8.358     | 0      | 94.36  |
| DER      | 1281 | 1.057  | 1.143     | .002   | 9.024  |
| SIZE     | 1281 | 27.416 | 3.45      | 17.365 | 33.731 |
| BCOM     | 1281 | 5.892  | .867      | 4      | 7      |

**Tabel 2. Descriptive statistics - by(Year )**

|      | TBNQ  | MARBV | PRCBV | ESGIMP | POCO | POCDD | ROA    | DER   | SIZE   | BCOM  |
|------|-------|-------|-------|--------|------|-------|--------|-------|--------|-------|
| 2010 | .934  | 2.368 | 2.368 | 1.69   | .571 | .429  | 5.503  | 2.099 | 26.636 | 4.857 |
| 2011 | .781  | 1.873 | 1.873 | 1.662  | .625 | .625  | 6.101  | 1.804 | 27.209 | 4.875 |
| 2012 | .819  | 2.369 | 2.369 | 1.743  | .5   | .5    | 5.655  | 2.226 | 26.704 | 5     |
| 2013 | .813  | 1.786 | 1.786 | 1.626  | .75  | .375  | 5.349  | 1.442 | 29.109 | 5     |
| 2014 | 2.804 | 8.22  | 8.220 | 1.669  | .778 | .556  | 10.424 | 1.676 | 30.21  | 5.333 |
| 2015 | 2.523 | 7.519 | 7.519 | 1.797  | .6   | .5    | 8.58   | 1.349 | 30.098 | 5.3   |
| 2016 | 2.667 | 6.636 | 6.636 | 1.835  | .6   | .533  | 7.369  | 1.116 | 29.349 | 5.4   |
| 2017 | 1.829 | 4.922 | 4.922 | 1.86   | .556 | .37   | 5.551  | 1.491 | 28.726 | 5.296 |
| 2018 | 1.412 | 2.898 | 2.898 | 2.086  | .513 | .333  | 5.829  | 1.396 | 28.273 | 5.128 |
| 2019 | 1.276 | 2.871 | 2.871 | 2.064  | .517 | .414  | 5.435  | 1.408 | 27.746 | 5.121 |
| 2020 | 1.352 | 3.002 | 3.002 | 2.106  | .575 | .46   | 4.94   | 1.178 | 28.005 | 6.069 |
| 2021 | 1.886 | 3.176 | 3.176 | 2.32   | .539 | .423  | 7.718  | 1.023 | 27.276 | 6.025 |
| 2022 | 1.529 | 2.609 | 2.609 | 2.323  | .518 | .403  | 7.633  | .989  | 27.179 | 6.028 |
| 2023 | 1.379 | 2.428 | 2.431 | 2.403  | .448 | .384  | 6.405  | .927  | 27.161 | 5.988 |

### Regression Model Selection

Before conducting the regression test, the researcher selected a regression model using the Chow, LM, and Hausman tests. Based on the results presented in Table 3, this study's regression model is fixed-effects.

**Table 3. Selection of regression models**

| Test    | Results                 | Conclusion            |
|---------|-------------------------|-----------------------|
| Chow    | Prob > F = 0,0000       | Model using FE method |
| Uji LM  | Prob > chibar2 = 0,0000 | Model using RE method |
| Hausman | Prob > chi2 = 0,078     | Model using FE method |

We also conducted a heteroscedasticity test, which is presented in Table 4. The results of this study indicate a problem of heteroscedasticity. We treated this problem using the robust approach when conducting regression.

**Table 4. Results of heteroscedasticity test**

| Indicators  | Result   |
|-------------|----------|
| chi2 (79)   | 53162,25 |
| Prob > chi2 | 0.0000   |

### Pairwise correlations

We ensured that the model used in this study was free from multicollinearity by conducting a pairwise correlation test, referring to previous research (Nasir et al., 2024). The threshold for a model to be free from multicollinearity is that no coefficients between independent variables exceed 0.8. Based on Table 5, there are no relationships between independent variables that exceed this threshold. Therefore, this research model is free from multicollinearity.

**Tabel 5. Pairwise correlations**

| Variables  | (1)    | (2)    | (3)    | (4)    | (5)    | (6)   | (7)    | (8)   | (9)   |
|------------|--------|--------|--------|--------|--------|-------|--------|-------|-------|
| (1) TBNQ   | 1.000  |        |        |        |        |       |        |       |       |
| (2) MARBV  | 0.865* | 1.000  |        |        |        |       |        |       |       |
| (3) PRCBV  | 0.865* | 1.000* | 1.000  |        |        |       |        |       |       |
| (4) ESGIMP | 0.029  | -0.029 | -0.029 | 1.000  |        |       |        |       |       |
| (5) POCO   | 0.034  | 0.024  | 0.024  | -0.047 | 1.000  |       |        |       |       |
| (6) ROA    | 0.229* | 0.265* | 0.265* | 0.003  | -0.053 | 1.000 |        |       |       |
| (7) DER    | -0.059 | 0.109* | 0.109* | -      | 0.085* | -     | 1.000  |       |       |
| (8) SIZE   | -0.011 | 0.013  | 0.013  | -      | 0.054  | -     | 0.047  | 1.000 |       |
| (9) BCOM   | -0.019 | -0.009 | -0.009 | 0.179* | -0.061 | 0.056 | -0.009 | 0.000 | 1.000 |

**Table 6. Main Regression**

|             | TBNQ     | TBNQ     | TBNQ     | TBNQ     | TBNQ     |
|-------------|----------|----------|----------|----------|----------|
| Intercept   | -2.570*  | -2.291*  | -2.464*  | -1.786   | 0.599    |
|             | (-1.915) | (-1.781) | (-1.683) | (-1.009) | (0.401)  |
| ESGIMP      | 1.738**  | 1.677**  | 1.670**  | 1.629**  | 0.524    |
|             | (2.275)  | (2.246)  | (2.233)  | (2.144)  | (0.924)  |
| POCO        |          |          |          |          | -4.551** |
|             |          |          |          |          | (-2.348) |
| ESGIMPxPOCO |          |          |          |          | 2.138**  |
|             |          |          |          |          | (2.400)  |
| ROA         | 0.103*** | 0.102*** | 0.102*** | 0.103*** | 0.103*** |
|             | (5.188)  | (5.016)  | (4.970)  | (5.010)  | (5.009)  |
| DER         |          | -0.080   | -0.080   | -0.076   | -0.086   |
|             |          | (-1.053) | (-1.059) | (-0.997) | (-1.100) |
| SIZE        |          |          | 0.007    | 0.008    | 0.005    |
|             |          |          | (0.248)  | (0.300)  | (0.189)  |
| BCOM        |          |          |          | -0.135   | -0.129   |
|             |          |          |          | (-1.175) | (-1.119) |
| Adj.R2      | 0.05     | 0.05     | 0.05     | 0.05     | 0.05     |
| N           | 1281     | 1281     | 1281     | 1281     | 1281     |
| F-stat      | 2.970    | 3.273    | 3.102    | 2.853    | 2.450    |

**Regression Results**

Based on Table 6, it is evident that ESG implementation significantly influences a company's market outcomes, with a t-statistic of 2.275 and a p-value < 0.01. This finding confirms Hypothesis 1. Furthermore, political embeddedness acts as a moderator, strengthening the positive influence of ESG on corporate market outcomes (t-statistic = 2.400; p-value < 0.05); this finding supports Hypothesis 2.

**DISCUSSION****The role of ESG implementation on company's market outcome**

ESG implementation plays a significant role in improving a company's market outcomes, and H1 is accepted. This finding aligns with legitimacy theory, which states that a social contract exists between companies and stakeholders, especially the public (Erin et al., 2022; Gallego et al., 2025). If a company is able to meet societal expectations, specifically by implementing sustainability principles, it gains legitimacy. Companies with legitimacy experience significant operational benefits. They tend to have a lower risk of conflict, which benefits the company. It

reduces the need for companies to expend significant energy and resources on legal matters and compensation for disputes. Furthermore, companies with strong ESG practices provide exceptional support, attract new customers, and increase their revenue. It is seen as having tremendous long-term potential by investors, ultimately attracting more ESG-positive companies.

Furthermore, companies with high ESG practices also tend to be more stable in various aspects. Companies that integrate ESG concepts into their strategic policies demonstrate their long-term performance goals. They prioritize short-term performance and demonstrate a commitment to corporate sustainability. It is because ESG demonstrates a company's commitment to environmental and social sustainability. They manage negative environmental impacts and prioritize social welfare through corporate social responsibility (CSR). Companies with sound ESG practices also avoid discrimination and exploitation of workers.

### **The moderating role of political embeddedness in the effect of ESG on corporate market outcomes**

Furthermore, Table 6 also shows that political embeddedness strengthens the role of ESG in a company's market outcomes, thus supporting H2. This research finding also aligns with legitimacy theory. In the context of political engagement, legitimacy assumes that companies with political connections have strong incentives and motivations to implement ESG principles. They have a strong interest in maintaining the company's reputation. As political actors involved in policy planning and formulation, these companies are deeply concerned about their reputation being tarnished by the public. Symbolically and substantively, they strongly value ESG implementation by their companies. Symbolically, they need a good reputation with investors. Substantively, they are motivated to implement ESG due to their moral responsibility as public officials.

Furthermore, political engagement also brings numerous positive aspects to companies when utilized appropriately (Aldhamari et al., 2020; Kaur & Singh, 2019). Companies are more likely to quickly understand the direction of government policy regarding sustainability, enabling them to implement ESG initiatives quickly. Furthermore, government incentives to encourage ESG implementation can be obtained by companies with political connections, thus benefiting the company financially. Thus, ESG, which improves a company's market outcomes, is strengthened by the company's political connections.

Furthermore, signaling theory views a company's ESG implementation, reinforced by political embeddedness, as a strong positive signal to the market (Surya et al., 2026). Investor perception of the company improves. The company is seen as having the potential to continue to exist and grow in the long term. Furthermore, the company is seen as having lower risks of harm. The company will avoid socio-environmental problems and conflicts by considering environmental and social aspects in its pursuit of profit. Ultimately, investor confidence is bolstered, attracting investment in the company.

The Adjusted R<sup>2</sup> value of 0.05 indicates that the variation in company value is explained only by the independent variables in this study, with the remainder attributable to other factors not included. While this is low, it is common in research on capital markets due to the complex, multidimensional nature of factors such as geopolitics, market sentiment, volatility, industry characteristics, and other specific factors that are difficult to measure comprehensively in regression models (Surya et al., 2026; Richter, 2025; Githaiga, 2025).

### **Robustness Test**

We conducted a robustness test by changing the dependent variable measurements to MARBV and PRCBV. The robustness test results are presented in Tables 7 and 8. Both tables demonstrate consistent results with the main regression test, which reveals that ESG has a positive effect on a company's market outcomes. Furthermore, political embeddedness strengthens the influence of ESG on a company's market outcomes. Therefore, the findings of this study are robust.

Table 7. Robustness test

|             | MARBV              | MARBV               | MARBV                | MARBV                 | MARBV                | MARBV               |
|-------------|--------------------|---------------------|----------------------|-----------------------|----------------------|---------------------|
| Intercept   | -0.808<br>(-0.386) | -2.911<br>(-1.385)  | -6.344**<br>(-2.365) | -7.595***<br>(-2.675) | -7.011**<br>(-2.005) | -2.420<br>(-0.715)  |
| ESGIMP      | 1.880<br>(1.590)   | 2.335*<br>(1.952)   | 3.088**<br>(2.415)   | 3.041**<br>(2.336)    | 3.005**<br>(2.275)   | 0.960<br>(0.773)    |
| POCO        |                    |                     |                      |                       |                      | -8.847*<br>(-1.754) |
| ESGIMPxPOCO |                    |                     |                      |                       |                      | 4.010*<br>(1.821)   |
| ROA         |                    | 0.243***<br>(4.210) | 0.261***<br>(4.395)  | 0.263***<br>(4.367)   | 0.263***<br>(4.399)  | 0.263***<br>(4.421) |
| DER         |                    |                     | 0.982***<br>(3.323)  | 0.979***<br>(3.306)   | 0.983***<br>(3.327)  | 0.974***<br>(3.320) |
| SIZE        |                    |                     |                      | 0.050<br>(0.719)      | 0.051<br>(0.742)     | 0.047<br>(0.680)    |
| BCOM        |                    |                     |                      |                       | -0.117<br>(-0.511)   | -0.115<br>(-0.506)  |
| Adj.R2      | 0.00               | 0.07                | 0.09                 | 0.09                  | 0.09                 | 0.10                |
| N           | 1281               | 1281                | 1281                 | 1281                  | 1281                 | 1281                |
| F-stat      | 1.074              | 1.709               | 1.735                | 1.648                 | 1.861                | 1.731               |

Table 8. Robustness test

|             | PRCBV                | PRCBV               | PRCBV                | PRCBV                 | PRCBV               |
|-------------|----------------------|---------------------|----------------------|-----------------------|---------------------|
| Intercept   | -7.012**<br>(-2.005) | -2.911<br>(-1.384)  | -6.342**<br>(-2.365) | -7.594***<br>(-2.674) | -2.441<br>(-0.721)  |
| ESGIMP      | 3.005**<br>(2.275)   | 2.335*<br>(1.952)   | 3.088**<br>(2.414)   | 3.041**<br>(2.336)    | 0.969<br>(0.780)    |
| POCO        |                      |                     |                      |                       | -8.806*<br>(-1.746) |
| ESGIMPxPOCO |                      |                     |                      |                       | 3.992*<br>(1.813)   |
| ROA         | 0.263***<br>(4.396)  | 0.242***<br>(4.208) | 0.260***<br>(4.393)  | 0.263***<br>(4.365)   | 0.263***<br>(4.419) |
| DER         | 0.982***<br>(3.326)  |                     | 0.982***<br>(3.322)  | 0.978***<br>(3.305)   | 0.974***<br>(3.319) |
| SIZE        | 0.051<br>(0.742)     |                     |                      | 0.050<br>(0.719)      | 0.047<br>(0.680)    |
| BCOM        | -0.116<br>(-0.509)   |                     |                      |                       | -0.114<br>(-0.504)  |
| Adj.R2      | 0.09                 | 0.07                | 0.09                 | 0.09                  | 0.09                |
| N           | 1281                 | 1281                | 1281                 | 1281                  | 1281                |
| F-stat      | 1.857                | 1.708               | 1.732                | 1.645                 | 1.727               |

### Additional Analysis

We conducted additional analysis to deepen our study by examining the moderating role of political embeddedness if the measurement was replaced with political embeddedness through company leadership only (POCDD), which is measured using a dummy variable. This variable is assigned a value of 1 if an individual in a strategic position in the company—such as the presiding officer, secretary, board member, or CEO—is a current or former high-ranking government official (e.g., a minister, member of parliament, or senior military officer), a member of a political party, or has family ties with these political actors. Conversely, a value of 0 is assigned if these conditions are not met.

The results of the additional analysis are presented in Table 9. The findings of the additional analysis align with the main findings. These findings indicate that politically connected leaders also strongly support ESG implementation efforts and improve the company's market outcomes through such implementation.

Table 9. Additional analysis

|              | TBNQ                 | MARBV               | PRCBV               |
|--------------|----------------------|---------------------|---------------------|
| Intercept    | 0.232<br>(0.160)     | -3.527<br>(-1.087)  | -3.543<br>(-1.092)  |
| ESGIMP       | 0.742<br>(1.401)     | 1.507<br>(1.426)    | 1.514<br>(1.432)    |
| POCDD        | -5.044**<br>(-2.149) | -8.903<br>(-1.638)  | -8.865<br>(-1.631)  |
| ESGIMPXPOCDD | 2.436**<br>(2.232)   | 4.179*<br>(1.731)   | 4.161*<br>(1.724)   |
| ROA          | 0.103***<br>(4.968)  | 0.263***<br>(4.398) | 0.263***<br>(4.396) |
| DER          | -0.084<br>(-1.089)   | 0.976***<br>(3.297) | 0.976***<br>(3.296) |
| SIZE         | -0.001<br>(-0.041)   | 0.037<br>(0.527)    | 0.037<br>(0.528)    |
| BCOM         | -0.132<br>(-1.158)   | -0.117<br>(-0.521)  | -0.117<br>(-0.519)  |
| Adj.R2       | 0.06                 | 0.10                | 0.10                |
| N            | 1281                 | 1281                | 1281                |
| F-stat       | 2.573                | 1.688               | 1.684               |

## CONCLUSION

The level of public and other stakeholders' concern about sustainability issues is increasing. Consequently, they are demanding more from companies to prioritize practices based on sustainability principles. The purpose of this study is to empirically test ESG on corporate market outcomes. In addition, we also analyze the moderating role of political embeddedness in the influence of ESG on corporate market outcomes. The research findings indicate that ESG has a positive impact on firm value. Robustness tests, which replace the dependent variable, also show consistent results with the main regression. Furthermore, additional tests, which examine the moderating role of political embeddedness by only considering politically connected leaders, also strengthen the relationship between ESG and corporate market outcomes.

This research makes significant contributions to both theory and practice. Theoretically, it successfully fills a research gap by providing comprehensive evidence and analysis regarding how political embeddedness strengthens the role of ESG in improving corporate market outcomes in the context of developing countries. Practically, this study provides empirical evidence that ESG can improve corporate market outcomes. It, of course, can be a special consideration for integrating it into a company's long-term strategy. Furthermore, political connections can contribute positively as long as they are implemented and utilized effectively. It means that there are no problems, and support must be maintained for companies with political connections.

This study has limitations, including the measurement of political embeddedness, which only uses a dummy variable, indicating the presence or absence of political connections. Future research could be developed by separating the number of individuals within a company with political connections, assigning a value of 1 or 0. It would provide a more in-depth measure of their influence within the company. Furthermore, this study only used the moderating variable of political connections. Future research could develop the research model by adding moderating variables such as external assurance, which is also rarely discussed. Finally, this study has limitations in the endogeneity test. Future research should conduct an endogeneity test as part of a more in-depth analysis to ensure the model is not endogenous.

### Conflict of Interest

There is no conflict of interest in this research with the reference sources of Oktavia et al. (2026) or with other previous research.

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