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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) RISK RATINGS AND FIRM MARKET VALUE

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INFORMASI ARTIKEL	ABSTRAK
	Penelitian ini bertujuan untuk menganalisis dampak dari ESG risk rating terhadap metrik kinerja pasar, yang diproksikan dengan Earnings per Share (EPS) dan Tobin's Q. Pengujian regresi linier berganda dilakukan pada observasi 85 perusahaan/tahun yang konsisten terindeks pada IDX ESG Leaders selama periode 2020-2024. Hasil penelitian menunjukkan bahwa perusahaan dengan risiko ESG yang lebih rendah dinilai lebih tinggi oleh pasar yang ditunjukkan oleh peningkatan EPS. Namun demikian, ESG risk rating, tidak signifikan dalam mempengaruhi nilai pasar perusahaan (Tobin's Q), yang mengindikasikan bahwa valuasi saham investor masih lebih berfokus pada indikator keuangan bukan pengelolaan risiko ESG yang bersifat jangka panjang. Hasil penelitian ini mengimplikasikan bahwa pengelolaan risiko ESG harus sejalan dengan kebutuhan untuk mempertahankan keberhasilan indikator kinerja keuangan jangka pendek. Pencapaian kinerja keuangan yang baik memberikan kapasitas bagi perusahaan untuk mengelola risiko lingkungan, sosial, dan tata kelola secara lebih efektif. Kata Kunci: ESG risk rating, kinerja pasar perusahaan, index ESG leaders

ABSTRACT

This study aims to analyze the impact of ESG risk ratings on market performance metrics, proxied by Earnings per Share (EPS) and Tobin's Q. Multiple regression analysis was conducted using 85 company-year observations of firms consistently included in the IDX ESG Leaders Index during the 2020–2024 period. The results indicate that firms with lower ESG risk are more highly valued by the market, as reflected in higher EPS. However, ESG risk ratings do not have a significant effect on firm market value as measured by Tobin's Q, suggesting that investor stock valuations remain more focused on short-term financial indicators rather than long-term ESG risk management. These findings imply that ESG risk management should be aligned with the objective of sustaining strong short-term financial performance. Strong financial performance, in turn, enhances firms' capacity to manage environmental, social, and governance risks more effectively.

Keywords: ESG risk rating, firm market value, ESG leaders index

1. Introduction

Environmental, Social, and Governance (ESG) is currently gaining prominence and receiving significant attention in the capital market. Several studies have been conducted across various sectors and industries to demonstrate the critical role of ESG in business management. ESG plays a vital role for markets and investors and contributes to long-term company growth (Li et al., 2024). ESG can also strengthen a company's reputation by promoting transparency in the business world regarding sustainability (Roberto, 2025). However, the impact of ESG on market value still provides inconsistent evidence regarding its contribution to market valuation, particularly regarding ESG risk metrics, which are risk factors influencing market valuation.

Previous studies have provided mixed findings regarding the influence of ESG information on market perceptions. Several studies have shown the contribution of ESG to a company's financial performance and market value (Giese *et al.*, 2019; Gawęda, 2022; Zhou, 2022; Rahat & Nguyen, 2024; Wong et al., 2021). A study by Giese *et al.* (2019) shows that a company's ESG characteristics can be an indicator of the company's financial performance, both through company valuation and performance as well as risk profile. Improved ESG performance of listed companies in China also shows an increase in market value (Zhou et al., 2022). Gawęda (2022) found evidence that ESG disclosure and ratings are determinants of company market value in certain sectors, which implies that a sector-based approach is needed in ESG studies. Another study by Wong et al. (2021) showed that an increase in Tobin's Q occurred in companies that received ESG ratings, indicating benefits to stakeholders from companies implementing the ESG agenda. Consistent with previous results, Rahat & Nguyen (2024) found a positive relationship between the profile ESG and company market valuation, as proxied by Tobin's Q. This finding indicates that companies prioritizing ESG can drive long-term value creation. However, contradictory results have been shown in other studies (Aldieri et al., 2023; Sunelwala et al., 2022). These studies revealed an insignificant effect between ESG ratings and financial performance (Sunelwala et al., 2022) and market performance (Aldieri et al., 2023), indicating that market performance is not influenced by high or low ESG levels.

Specific tests of ESG indicators have been found in several previous studies. Ionescu et al. (2019) provide empirical evidence of the link between ESG and company market value and find that governance factors have the most significant influence relevant to stakeholder interests. Another study by Verma & Shroff (2025) using ESG pillars found that the environmental pillar has a greater influence on market valuations of energy companies than governance factors, indicating the need for alignment of environmental and governance factors. Furthermore, a study by Cheng et al. (2024) stated that disclosure of ESG-related information, particularly scores, significantly increases firm value, and this relationship intensified after the pandemic.

The use of ESG risk metrics to influence market valuation provides limited evidence compared to previous research. ESG risk significantly impacts market performance, indicating the need to integrate ESG into corporate strategy (Riani et al., 2025). A study by Chmielewska & Kluza (2024) showed a negative relationship between company market valuation and increasing ESG risk across various industries on the Warsaw Stock

Exchange. This study's findings imply that investors positively appreciate and are willing to pay higher prices for companies that are more resistant to future ESG risks and have a quality management culture. Other findings suggest that high perceptions of ESG risk can increase operational and compliance costs, which can reduce working capital and cash flow (Caceres, 2024). Brighi et al. (2025) confirm empirical evidence that ESG controversies significantly reduce firm value, implying that companies investing in ESG practices will be more prepared to face adverse impacts on reputation and finances, and enjoy a competitive advantage in the capital markets.

While previous studies have primarily used ESG performance metrics, this study fills the gap by specifically examining the influence of ESG risk on market value. This research broadens the perspective of ESG as a measure of risk, not just performance. The results of this study enrich the literature by viewing ESG as a financial risk factor that can influence market valuation. This research provides practical contributions for market participants (investors) in assessing the relevance of ESG risk ratings in assessing investment risk and company market valuation.

2. Literature Review and Hypothesis Development

Signaling theory is used in this study to argue the relationship between ESG and a company's market value. Signaling theory explains how corporate information disclosure can influence stakeholder behavior or decision-making in the capital market. Disclosure can reduce information asymmetry between insiders and outsiders, including the disclosure of ESG ratings. However, varying perceptions of ESG risk can influence the behavior of investors and other stakeholders, potentially lowering market valuations (Bao et al., 2024). Conversely, disclosing ESG ratings can reduce information asymmetry, increasing investor and stakeholder confidence in a company's future performance (Bofinger et al., 2022). Therefore, transparency regarding ESG risks will increase trust and positive market perceptions.

With increasing environmental and social risks, companies' financial stability can be compromised, and sustainability risk management is essential to improve their financial stability (Cohen, 2023). An ESG risk rating can represent a company's ESG risk management practices, signaling its ability to ensure future sustainability. ESG engagement is an important indicator for investment managers and policymakers seeking to maximize a company's market value while complying with ESG standards (Ersoy et al., 2022). Companies with improved ESG performance demonstrate increased market value (Zhou et al., 2022; Wong et al., 2021). Companies investing in ESG commitments will generate financial returns (Aydoğmuş et al., 2022). Previous studies provide empirical evidence that ESG is related to company market value (Gawęda, 2022; Giese et al., 2019; Ionescu et al., 2019). Similar results were found in Yoon et al.'s (2018) study in developing countries, revealing that ESG scores as a representation of CSR practices have a positive and significant impact on company markets.

Recent empirical findings by Cheng et al. (2024) also confirm that disclosure of ESG-related information significantly increases firm value, especially in the post-pandemic period. More specifically, measuring ESG with ESG risk metrics, the study by Shobhwani & Lodha (2023) states that ESG risk scores have an insignificant negative impact on

Tobin's Q. ESG risk analysis is needed to assess sustainability performance to create value while mitigating risks in firm value valuation (Verma & Shroff, 2025). Empirical findings by Chmielewska & Kluza (2024) show that increasing ESG risk is negatively related to company market valuation. Reductions in firm value also occur in companies with ESG controversies (Brighi et al., 2025). It can be implicitly argued that although sustainable investments can incur high costs initially, in the long term, they can generate investment cash flows that will be positively appreciated by investors in increasing market value (Caceres, 2024). Therefore, it can be argued that transparency of ESG risk rating information can influence investor perceptions of a company's ability to manage sustainability risks, which will impact the company's market value.

H_1: ESG risk ratings have a significant effect on firm market value.

3. Research Method

The population of this study is companies listed on the Indonesia Stock Exchange (IDX) as ESG Leaders indexed during the period 2020 to 2024, a period that provides a current overview of the development of ESG practices in Indonesia. The sample consisted of 17 companies consistently included in the ESG Leaders index over the five-year observation period, resulting in 85 firms per observation year. Therefore, the sample consists of firms that were consecutively included in the IDX ESG Leaders Index during the 2020–2024 period.

Firm market value is the dependent variable, proxied by the market value ratio, namely Earnings per Share (EPS) and Tobin's Q. ESG risk rating is the independent variable measured using the ESG risk rating score indicator based on Sustainalytics, and published on the official website of the Indonesia Stock Exchange (IDX). ESG risk rating values range from the lowest score representing negligible ESG risk (0-10) to the highest ESG risk (>40). The control variables in this study are profitability, measured by Return on Assets (ROA), firm size, leverage, and a dummy sector variable to distinguish between the non-financial sector (1) and the financial sector (0). Multiple linear regression analysis was conducted using the following empirical model:

$$\text{Market Value}_{i,t} = \alpha + \beta_1 \text{ESG Risk}_{i,t} + \beta_2 \text{Profit}_{i,t} + \beta_3 \text{FirmSize}_{i,t} + \beta_4 \text{Leverage}_{i,t} + \beta_5 \text{Dummy Sector}_{i,t} + e$$

Where,

ESG Risk$_{i,t}$	= ESG risk rating of firm i in year t
Market Value$_{i,t}$	= Market value of firm i in year t, proxied by EPS and Tobin's Q
Profit$_{i,t}$	= Profitability of firm i in year t
Firm Size $_{i,t}$	= Firm size of firm i in year t
Leverage $_{i,t}$	= Debt to asset ratio of firms i year t
Dummy Sector$_{i,t}$	= Industry sector of firm i in year t
α	= Constant
β_1-β_5	= Regression coefficients
e	= error

4. Results and Discussion

Table 1 below explains the descriptive statistics of the research variables, consisting of minimum, maximum, mean, and standard deviation values. From the perspective of the market value ratio (EPS and Tobin's Q) as the dependent variable, the average Earnings per Share (EPS) value is 215.92, with a minimum value ranging from -35.26 to a maximum value of 1,112.20, representing good company prospects. The EPS standard deviation is 248.46, which is not far from the average EPS value. Tobin's Q has an average of 1.860, indicating that firms are overvalued relative to their asset value. Some firms are even overvalued by the market with a value of 14.41, although some sample firms are undervalued by 0.25.

The independent variable, ESG Risk Rating, has a minimum value of 10.96 and a maximum value of 29.74, with an average value of 21.38, indicating a medium ESG risk rating. This indicates that the sample firms have environmental, social, and governance risks in the medium exposure category and have been able to take risk mitigation measures. The control variable for company size has an average of 31.7862, with the highest value of 35.43, indicating that the sample firms are in the large company category. Company leverage, measured by the Debt to Asset ratio, has an average value of 55.39, indicating the amount of assets financed by debt, with a minimum range of 8.10 and a maximum of 86.89. The value of the control variable for profitability, proxied by Return on Assets (ROA), is in the range of -3.32 to 34.39, with an average of 6.96. The average ROA value indicates that the company is in a good category compared to the industry average. The leverage value measured by the Debt to Asset Ratio (DAR) shows that the average external funding to finance assets is 55.38%, with a range of a minimum value of 8.10%, and the highest external funding is 86.89%. The categorization sector of firms in Panel B shows that 70 or 82.4% of the sample firms are in the non-financial sector, while the remaining 15 or 17.6% are in the financial sector.

Table 1. Descriptive Statistics

Panel A

	Minimum	Maximum	Mean	Std. Deviation
ESG risk rating	10.96	29.74	21.38	5.263
Tobin's Q	0.25	14.41	1.86	2.214
EPS	-35.26	1112.20	215.92	248.458
Profitability	-3.32	34.89	6.96	6.655
Firm size	29.54	35.43	31.79	1.668
DAR	8.10	86.89	55.38	22.547

Panel B

Sector Dummy	Category	Amount	Percentage	Cumulative
Financial sector	0	15	17.6	17.6
Non-Financial Sector	1	70	82.4	100

Based on the correlation matrix in Table 2, using Pearson correlation, EPS is positively correlated with ESG risk rating, firm size, and leverage, but negatively correlated with Profitability (ROA) and industry type. Tobin's Q is negatively correlated with ESG risk rating and firm size, but positively correlated with ROA, leverage, and industry type. The VIF (Variance Inflation Factor) value is less than 10 (VIF < 10),

indicating no multicollinearity issues in the study variables. The results of the normality test using the One-Sample Kolmogorov-Smirnov Test show an Asymp. Sig. (2-tailed) value greater than 0.05, indicating normally distributed residual data. The heteroskedasticity test results indicate no evidence of heteroskedasticity, as the p-values exceed the 5% significance level.

Table 2. Correlation Matrix

	Variables	1	2	3	4	5	6	7
1	EPS	1.000						
2	Tobin's Q	-0.1113	1.000					
		(0.3103)						
3	ESG Risk	0.2521	-0.1040	1.000				
	Rating	(0.0200)**	(0.3433)					
4	Profitability	-0.1356	0.8730	-0.1998	1.000			
		(0.2161)	(0.0000)***	(0.0668)*				
5	Firm Size	0.6798	-0.2378	0.5494	-0.3895	1.000		
		(0.0000)***	(0.0284)**	(0.000)***	(0.0002)***			
6	Leverage	0.3727	0.2190	0.3962	-0.0638	0.6190	1.000	
		(0.0004)***	(0.0440)**	(0.0002)***	(0.5620)	(0.0000)***		
7	Sector	-0.5892	0.1384	-0.4587	0.3329	-0.8537	-0.5461	1.000
	Dummy	(0.0000)***	(0.2065)	(0.000)***	(0.0019)***	(0.000)***	(0.000)	
	VIF			1.444	1.255	4.983	1.741	3.693

*** Correlation is significant at the 0.01 level (2-tailed).

**.Correlation is significant at the 0.05 level (2-tailed).

* Correlation is significant at the 0.10 level (2-tailed).

Before interpreting the regression results, classical assumption tests—including multicollinearity, heteroscedasticity, and normality—were conducted, and the results indicate that the model meets these assumptions. The results of the multiple linear regression test denote the goodness of fit of the predictive model, as presented in Table 3. The individual parameter significance value for the dependent variable, Earnings per Share (EPS), showed an F-test value of 16.541, with a significance level of 0.000, less than 5%. The R-square value of 0.511 indicates the model's predictive ability of 51.1%, with the remaining 0.489, or 48.9%, influenced by variables outside the specified model. The results of the individual parameter significance test indicate that the ESG risk rating has a significant negative effect on the EPS-market value ratio, with a significance level of 0.080, less than 0.10. The control variables, profitability (ROA) and firm size, significantly influence the EPS-market value ratio. However, the control variables, leverage and firm size, do not significantly influence EPS.

The model fit test using the dependent variable Tobin's Q showed a significant F-test value, with a significance level of 0.000, less than 0.05. The R-square and Adjusted R-square values were 0.858 and 0.849, respectively. The results of the individual parameter significance tests showed different results, with ESG risk having a negative and insignificant effect on Tobin's Q. The results of the control variable tests indicate that profitability and leverage have a significant positive effect on Tobin's Q, whereas firm size and industry category exhibit a significant negative effect on Tobin's Q.

Table 3. Summary of Multiple Linear Regression Test Results

Variables	EPS	Tobin's Q
ESG Risk Rating	-0.168	-0.003
	(0.080)*	(0.947)
Profitability	0.180	0.848
	(0.045)**	(0.000)***
Firm Size	-0.884	-0.303
	(0.000)***	(0.002)***
Leverage	-.115	0.344
	(0.270)	(0.000)***
Sector Dummy	-0.035	-0.217
	(0.819)	(0.009)***
F Test	16.541	95.714
Sig. F Test	0.000***	0.000***
R Square	0.511	0.858
Adj. R Square	0.481	0.849

***.Correlation is significant at the 0.01 level (2-tailed).
**.Correlation is significant at the 0.05 level (2-tailed).
* Correlation is significant at the 0.10 level (2-tailed).

The significant negative effect of ESG risk rating on EPS indicates that an increase in the ESG risk rating results in a decrease in the EPS market value ratio. This finding suggests that firms with high EPS tend to be valued more highly by the market due to their perceived lower ESG risk. The market (investors) will positively value firms with low ESG risk because they are perceived to have good governance and sustainability practices, thus being considered more capable of maintaining long-term performance and minimizing non-financial risks. A decrease in ESG risk will significantly impact EPS value. These results also suggest that high EPS indicates a company's liquidity and profitability, with its resources capable of managing non-financial risks such as environmental impact, social engagement, and improved governance. Therefore, a company's ability to manage environmental, social, and governance risks more effectively will contribute to improved financial performance ratios.

The results of this study also revealed a negative and insignificant effect of ESG risk rating on Tobin's Q market value. This finding indicates a consistent (negative) relationship between ESG risk rating and Tobin's Q. Firms with high market value tend to have good long-term growth prospects, strong reputations, and are sensitive to investor perceptions. To this end, firms manage ESG risk well, as indicated by lower ESG risk ratings. In other words, a company's improved ESG risk management (reducing ESG risk) will increase its market valuation. However, the insignificant effect of ESG risk rating on Tobin's Q in this study argues that ESG risk rating has not yet become a primary factor in stock valuation decisions. This is likely due to investors' continued focus on financial indicators rather than sustainability performance, particularly in developing economies.

The results of the study support previous research (Chmielewska & Kluza, 2024; Riani et al., 2025) that increasing ESG risk values will have a negative impact on market valuations. This argues that increasing ESG risk will affect investor choices in investing, thereby affecting firm value. High ESG risk perceptions can have a negative impact on

market perceptions because they increase operational and compliance costs that can reduce working capital and cash flow (Caceres, 2024). These results imply that investors appreciate positively by being willing to pay higher prices for firms that can manage ESG-related risks, as indicated by lower risk values. This is in line with the argument of Chmielewska & Kluza (2024) that investors will give positive valuations to firms that are more resistant/resilient to ESG risks in the future and have a quality management culture. Firms with high ESG risk indirectly represent ESG controversies that can reduce firm value. These results also support the argument of Brighi et al. (2025) that firms that invest in ESG will be better prepared to face adverse impacts on reputation and finances, and can enjoy the benefits of a competitive advantage in the market.

The test results show that the profitability control variable, measured by ROA, reflects a company's operational efficiency in generating profits from its managed assets. Increasing ROA allows for increased resources for sustainable investments such as ESG, thereby reducing ESG risk. Reducing ESG risk can improve a company's market performance, both in terms of EPS and Tobin's Q. The diversity of industry characteristics within the sample firms can also influence the impact of ROA on ESG risk. The financial and energy sectors tend to experience higher ESG pressures compared to the services and technology sectors. Not all firms with strong profitability will invest in ESG. However, regulatory pressure can encourage firms to implement them.

The test results for the firm size control variable show consistent, negative, and significant effects on both EPS and Tobin's Q. Large firms tend to have increasing ESG risk. Large firms tend to have substantial asset resources that can be invested in sustainability risk management, but pressure on short-term achievements, such as growth and profitability, can increase ESG risk. Increased ESG risk and the complexity of large firms' operations tend to have broader environmental and social exposures and face greater pressure from regulators and the public, which can adversely affect market performance. This argument is consistent with Bolibok (2024), who finds that larger firms tend to perform better in managing ESG risks due to greater financial resources and more informative sustainability reporting. However, increased firm size is also associated with greater complexity in ESG-related issues, which may pose challenges for firms in translating ESG performance into higher investor appreciation and improved market valuation.

The results of the leverage control variable test showed inconsistent results. Leverage had a significant negative effect on Tobin's Q, but did not significantly affect EPS. Firms with high levels of debt tend to have greater ESG risk. These results suggest that firms with high levels of debt tend to be more transparent because they gain greater visibility from creditors. ESG risk disclosure represents a transparency mechanism through which firms communicate risk exposures, thereby reducing information asymmetry between firms and lenders (Malik & Kashiramka, 2024). Financial pressure and limited financial flexibility in firms with high levels of debt tend to prioritize short-term financial stability over investing in sustainable practices.

The results also revealed that sector category had a significant negative effect on Tobin's Q, but did not significantly affect EPS. These results suggest that the diversity of industry characteristics within the sample firms is related to ESG risk. This study shows

that the financial services sector tends to experience lower ESG pressure compared to non-financial sectors such as energy, technology, and other extractive industries. These findings are in line with the argument of Yoon et al. (2018) that more environmentally sensitive industries show lower ESG performance values compared to those that are less environmentally sensitive. These results indicate that firms in non-financial industries such as energy, manufacturing, and other extractive industries have sustainability risk management that can address environmental, social, and governance risks from the impacts of company operations.

Thus, the results of this study explain that ESG risk ratings play a role in influencing market valuations. Firms with high EPS and Tobin's Q tend to be more highly valued by investors. In relation to ESG ratings, firms with good liquidity and profitability performance are considered capable of managing non-financial risks such as environmental impact, social engagement, and improved governance. A decrease in ESG scores indicates a company's ability to manage exposure to non-financial risks, which leads to an improvement in market performance indicators.

This study conducts robustness checks using time-lag tests. The results for one-year (t+1) and two-year (t+2) lags are consistent with the main findings. The robustness test results indicated that all estimates had a goodness of fit, with a significant F-test. The highest coefficient of determination was found in the two-year (t+2) Tobin's Q regression estimate, and the lowest R-squared was found in the t+1 EPS estimate. The results of individual parameter significance tests confirm that ESG risk has a negative and insignificant effect on market value, both as proxied by EPS and Tobin's Q, in all robustness estimation models. These results indicate that ESG risk disclosure is not yet reflected in stock prices and is therefore underappreciated by the market. The success of short-term financial performance indicators such as profit, cash flow, and leverage appears to attract more investor interest than ESG risk. Furthermore, in the context of developing countries, ESG risk rating disclosure may be driven more by regulatory compliance and the pressures of global ESG issues, rather than solely as a strategic commitment to sustainability.

Table 4. Robustness Test

Variables	EPS		Tobin's Q	
	t+1	t+2	t+1	t+2
ESG Risk	-0.096	-0.122	-0.015	-0.020
Rating	(0.404)	(0.356)	(0.793)	(0.759)
Profitability	0.201	0.146	0.848	14.787
	(0.058)*	(0.218)	(0.000)***	(0.000)***
Firm Size	0.793	0.817	-0.296	-2.047
	(0.000)***	(0.001)***	(0.006)***	(0.047)**
Leverage	-0.077	-0.085	-0.186	-0.161
	(0.670)	(0.674)	(0.041)	(0.113)
Sector	-0.128	-0.091	0.371	5.940
Dummy	(0.303)	(0.514)	(0.000)***	(0.000)***
F Test	10.627	9.835	81.824	68.043
Sig. F Test	0.000***	0.000***	0.000***	0.000***

Variables	EPS		Tobin's Q	
	t+1	t+2	t+1	t+2
R Square	0.461	0.522	0.868	0.883
Adj. R Square	0.418	0.469	0.858	0.870

***.Correlation is significant at the 0.01 level (2-tailed).

**.Correlation is significant at the 0.05 level (2-tailed).

* Correlation is significant at the 0.10 level (2-tailed).

From a theoretical perspective, these findings enrich the Signaling Theory literature by highlighting transparency in ESG risk rating disclosure as an effective mechanism for transmitting information from corporate insiders to external stakeholders. Transparent disclosure reduces information asymmetry between firms and market participants, thereby enhancing information equity and enabling stakeholders to make more informed and optimal economic decisions. The findings of this study provide practical implications regarding the important role of ESG risk disclosure in suggesting corporate transparency toward environmental, social, and governance risks associated with firms' operational activities. Enhanced transparency in ESG risk disclosure can assist investors in predicting firms' future risk exposure and in assessing management's ability to manage risks and make informed business decisions going forward. Looking ahead, regulators may encourage ESG risk disclosure among all firms listed on the Indonesia Stock Exchange, rather than limiting such disclosure to ESG-indexed firms, to strengthen ESG risk transparency across publicly listed firms in Indonesia.

5.   Conclusions, Implications, and Limitations

This study provides empirical evidence of the influence of ESG risk rating on market value, as proxied by the Earnings per Share (EPS) market value ratio and Tobin's Q for firms consistently indexed as ESG Leaders listed on the Indonesia Stock Exchange during the period 2020 to 2024. The research findings reveal that ESG risk rating has a significant negative effect on EPS, but does not significantly affect Tobin's Q. This result implies that reducing ESG risk can increase the market value ratio. Firms with good liquidity and profitability from their resources will receive positive appreciation and valuation from the market because they are considered more capable of minimizing non-financial risks, such as ESG risks. Nevertheless, the impact of ESG risk on firm market value, as measured by Tobin's Q, is realized over a longer horizon due to the long-term nature of ESG risk management, heterogeneity across industries, and differing regulatory pressures among sectors. The results of this study also reveal that large firms with high debt levels tend to be more transparent and accountable due to high visibility regarding broader environmental and social exposures, and face greater pressure from regulators and the public. Although firms invest in sustainability risk management, short-term financial pressures from shareholders, creditors, and other stakeholders can increase ESG risks. Therefore, firms need to balance the demands of long-term sustainability with the pressures of short-term financial performance.

This study has limitations that can be further explored in future research. This study was limited to examining the impact of ESG risk ratings on market performance, so future research could examine a broader range of key performance indicators tailored to the

characteristics of different sectors. As ESG practices continue to evolve, future research could extend the analysis by incorporating broader observations across industries and sectors to capture heterogeneity in ESG implementation and market responses. This study only used ESG risk rating measurements from a single ESG rating agency. Therefore, future research could examine ESG rating scores from different sustainability rating agencies to enrich research findings in the ESG field.

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