

Research Article

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Environmental, Social, and Governance (ESG) Performance and Firm Value: The Moderating Role of Banking-Specific ESG Context

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Abstract: *This study examines the determinants of School Operational Assistance (BOSP) honorarium compliance under the Ministry of Primary and Secondary Education Regulation No. 8 of 2025, which limits honorarium allocations. Integrating Agency Theory, this study employs a binary logistic regression model with province fixed effects to analyze a nationwide dataset of 32,923 Indonesian junior high schools. The empirical results show that private school status ($OR = 0.70, p < 0.001$), certified teacher ratio ($OR = 0.56, p < 0.001$), and larger budget size ($OR = 0.76, p < 0.001$) significantly lower the odds of budget non-compliance, acting as key protective factors. For example, holding other factors constant, increasing the certified teacher ratio from 0.42 to 0.52 reduces the predicted probability of non-compliance from 38.4% (the national average) to 37.1%. In contrast, higher student-teacher ratios ($OR = 1.01, p < 0.001$) act as a significant risk factor, increasing non-compliance and rejecting the protective hypothesis. This indicates that crowded or understaffed schools face severe operational pressure to hire informal teachers, forcing administrators to violate spending caps to keep classrooms functional. The findings suggest that BOSP non-compliance is largely driven by structural teacher distribution deficits, although administrative factors cannot be entirely ruled out. To enhance public accountability and prevent decoupling, policymakers should transition from rigid caps to dynamic, resource-based caps while expanding affirmative teacher certification programs.*

Keywords: Banking; ESG Performance; Firm Value; Governance; Sustainability; Tobin's Q.

Introduction

Environmental, social, and governance (ESG) performance has increasingly become an important consideration in assessing corporate sustainability, risk management, and long-term value creation. The growing prominence of ESG reflects a broader transformation in corporate and financial decision-making, where firms are increasingly expected to consider not only financial performance but also their environmental responsibilities, social relationships, and governance quality. This development is particularly important in the banking sector because banks occupy a distinctive position in the economy. Unlike non-financial firms whose environmental and social impacts are often concentrated within their own operations, banks influence sustainability outcomes substantially through lending, investment, capital allocation, and risk management decisions. Consequently, the ESG practices of banks may generate effects that extend beyond their organizational boundaries to borrowers, investors, communities, industries, and the wider economy. In Indonesia, the increasing importance of ESG is reflected in the Sustainable Finance Roadmap developed by the Financial Services Authority (Otoritas Jasa Keuangan/OJK), which promotes the integration of sustainability principles into the financial sector (OJK, 2021). This regulatory direction has been further strengthened through the Climate Risk Management and Scenario Analysis (CRMS) framework, which encourages banks to incorporate climate-related considerations into governance, strategy, risk management, and disclosure (OJK, 2024). ESG, therefore, is increasingly positioned not simply as a voluntary sustainability initiative but as an important element of the strategic and regulatory environment of banking.

The growing institutionalization of ESG raises an important question in strategic management and corporate finance: does stronger ESG performance translate into greater firm value? Stakeholder Theory provides an important foundation for explaining why ESG performance may influence firm value. According to Freeman (1984), sustainable organizational value can be created through effective management of relationships with stakeholders whose support is essential to organizational survival and success. In banking, relevant stakeholders include shareholders, investors, depositors, borrowers, employees, regulators, communities, and society. Effective ESG practices may strengthen stakeholder trust, corporate reputation, legitimacy, and confidence, which may subsequently influence investors' perceptions and market valuation. From another perspective, the Resource-Based View (RBV) suggests that valuable, rare, difficult-to-imitate, and organizationally embedded resources and capabilities can generate sustainable competitive advantage (Barney, 1991). ESG may therefore represent more than a reporting mechanism or compliance requirement when sustainability principles become embedded in organizational capabilities, governance systems, stakeholder management, and risk-management processes. Bhandari et al. (2022) further emphasize that ESG-related capabilities can become strategic resources when they are embedded within the ecological, social, and governance relationships of the firm.

Despite these theoretical arguments, empirical evidence regarding the relationship between ESG performance and firm value remains inconclusive. ESG initiatives may generate benefits through improved reputation, stakeholder relationships, risk reduction, resilience, and long-term strategic positioning. However, ESG implementation may also require substantial financial and organizational resources, while the economic benefits may emerge only over an extended period. Investors may consequently respond differently to ESG activities depending on their perceived relevance, credibility, quality, and economic consequences. Previous research has documented heterogeneous relationships between ESG and firm value, indicating that the effect may depend on firm characteristics, institutional environments, industries, market conditions, and ESG measurement approaches (Postiglione et al., 2024). Bani-Khaled et al. (2025), through a systematic review of ESG and firm value research, similarly emphasize the context-dependent nature of ESG value creation and highlight the need for research that considers sectoral and institutional differences. Thus, the central research issue is increasingly shifting from the general question of whether ESG matters toward the more specific question of under what conditions ESG performance is translated into measurable firm value.

The question is particularly relevant in the banking sector because the economic meaning and transmission mechanisms of ESG may differ substantially from those of non-financial corporations. Banks operate under intensive regulatory supervision, face considerable information asymmetry, depend strongly on stakeholder trust, and are exposed to financial, environmental, and social risks that can affect their lending and investment portfolios. Environmental and social impacts can therefore arise indirectly through the activities financed by banks, while governance quality directly influences risk management, accountability, transparency, and institutional stability. These characteristics suggest that the relationship between ESG performance and firm value may be shaped by the specific institutional and strategic context of banking. Existing evidence supports this concern. Salem et al. (2024) demonstrate heterogeneity in the relationship between ESG dimensions and banking performance. Evidence from Indonesian banks also indicates that sustainability-related activities do not consistently translate into superior financial outcomes (Gutiérrez-Ponce & Wibowo, 2023). Similarly, Sari and Valdiansyah (2025) identify the relationship between ESG practices and firm value in Indonesian banking as an issue requiring further empirical investigation. International evidence concerning ESG uncertainty and environmental exposure also

suggests that sustainability-related factors may influence bank valuation through complex and context-dependent mechanisms (Dou et al., 2025).

These findings create an important research puzzle. Although ESG has become increasingly integrated into banking regulation, sustainability strategies, governance practices, and risk-management frameworks, it remains unclear whether stronger ESG performance is consistently reflected in market-based measures of firm value. More importantly, much of the existing literature focuses on the direct relationship between ESG performance and firm value, while comparatively limited attention has been given to whether the specific ESG context of banking changes the strength or direction of this relationship. This gap is important because the same level of ESG performance may produce different valuation outcomes depending on the institutional environment in which it is implemented and interpreted. A banking-specific ESG context may potentially strengthen the relationship by making ESG more strategically relevant, regulated, and visible to stakeholders. Conversely, if ESG practices are primarily implemented as compliance-oriented activities, the existence of such a context may not necessarily translate into greater market valuation. Therefore, examining banking-specific ESG context as a moderating factor provides an opportunity to move beyond a conventional direct-effect model toward a more context-sensitive explanation of ESG value creation.

Building on this research gap, the present study investigates whether banking-specific ESG context conditions the relationship between ESG performance and firm value. The study addresses three related questions. First, does overall ESG performance significantly affect firm value in the banking sector? Second, do environmental, social, and governance performance individually affect firm value? Third, does banking-specific ESG context significantly moderate the relationship between ESG performance and firm value? To address these questions, the study examines bank-level panel data covering the 2019–2024 period and uses Tobin's Q as a market-based measure of firm value. The empirical framework examines both aggregate ESG performance and its environmental, social, and governance dimensions, while introducing banking-specific ESG context and its corresponding dimensions as moderating constructs. This design enables the study to assess not only whether ESG performance is associated with firm value but also whether the specific characteristics of the banking sustainability environment influence that association.

The study contributes to the existing literature in several ways. First, it provides sector-specific empirical evidence by focusing on banking, an industry in which ESG has distinctive implications because of banks' intermediary role, regulatory exposure, stakeholder dependence, and influence through financing decisions. Second, it extends the conventional ESG–firm value framework by introducing banking-specific ESG context as a moderating construct, thereby examining whether the context in which ESG practices are implemented affects their potential valuation consequences. Third, the study integrates Stakeholder Theory and the Resource-Based View to provide complementary explanations of ESG value creation. Stakeholder Theory emphasizes the importance of trust, legitimacy, and stakeholder relationships, while RBV highlights the possibility that ESG becomes economically valuable when sustainability practices are transformed into organizational capabilities and strategic resources. Finally, the study contributes to the growing context-dependent ESG literature by shifting attention from simply measuring the level of ESG performance toward understanding the conditions under which ESG performance may be recognized and translated into market value. In doing so, the study seeks to provide a more nuanced explanation of ESG value creation in banking and to clarify whether stronger ESG performance is sufficient to generate firm value or whether its economic consequences depend on the broader banking-specific ESG context.

Method

This study employs a quantitative explanatory research design to examine the relationship between Environmental, Social, and Governance (ESG) performance and firm value in the banking sector, with particular emphasis on the moderating role of banking-specific ESG context. The unit of analysis is the bank-year observation. The study uses secondary panel data covering 26 banks during 2019–2024, resulting in 133 bank-year observations. The panel-data structure enables the analysis to capture both differences across banks and variations within individual banks over time. The empirical analysis is conducted using R statistical software.

Firm value is the dependent variable and is measured using Tobin's Q, which represents a market-based indicator of investors' valuation of banks. The principal independent variable is overall ESG performance, complemented by three dimensions: Environmental (ENV), Social (SOC), and Governance (GOV). Banking-specific ESG context (BESG) is introduced as the moderating construct and is represented by BESG_ESG, together with its environmental, social, and governance dimensions, namely BESG_ENV, BESG_SOC, and BESG_GOV. The variables are measured according to the operational definitions established in the study dataset.

The analysis begins with data screening to examine the structure and completeness of the panel dataset and to identify potential extreme observations. Descriptive statistics are then used to summarize the mean, standard deviation, minimum, median, maximum, skewness, and kurtosis of the study variables. Correlation analysis and Variance Inflation Factor (VIF) testing are conducted to assess the relationships among explanatory variables and potential multicollinearity.

Panel regression analysis is performed using the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effects Model (REM). Model selection is conducted sequentially using the Chow test, Breusch–Pagan Lagrange Multiplier (LM) test, and Hausman test. The Chow test evaluates whether fixed effects are present relative to pooled estimation, the LM test assesses the presence of random effects, and the Hausman test determines the preferred specification between fixed and random effects. Based on these tests, the Random Effects Model is selected for the principal ESG, dimension-specific, and moderation specifications.

The empirical models are estimated sequentially. The first model examines the effect of overall ESG performance on Tobin's Q, while the second evaluates the individual effects of ENV, SOC, and GOV. The moderation analysis introduces the interaction term $ESG \times BESG_ESG$ to determine whether banking-specific ESG context strengthens or weakens the ESG–firm value relationship. Additional interaction models examine $ENV \times BESG_ENV$, $SOC \times BESG_SOC$, and $GOV \times BESG_GOV$. The explanatory and moderating variables are mean-centered before constructing interaction terms to facilitate interpretation and reduce potential non-essential multicollinearity.

Finally, diagnostic tests are conducted to evaluate the reliability of statistical inference. The Breusch–Pagan test assesses heteroskedasticity, while panel serial-correlation and Pesaran cross-sectional-dependence tests evaluate temporal and cross-sectional dependence. The results indicate no significant heteroskedasticity and no serious multicollinearity, but significant serial correlation and cross-sectional dependence are detected. Accordingly, appropriate robust estimation procedures are required to obtain reliable statistical inference.

Results and Discussion

Descriptive Statistics

The descriptive statistics provide an overview of the distribution and variation of firm value, ESG performance, and banking-specific ESG context across the 133 bank-year observations. Table 1 reports the mean, standard deviation, minimum, median, maximum, skewness, and kurtosis of the variables included in the analysis.

Table 1. Descriptive Statistics

Variable	Mean	SD	Minimum	Median	Maximum	Skewness	Kurtosis
Tobin's Q	1.593	2.650	0.868	1.025	21.850	6.217	39.470
ENV	26.073	13.795	0.000	25.581	65.267	0.478	0.174
SOC	39.368	11.046	10.127	38.331	58.313	-0.061	-0.853
GOV	86.338	8.066	67.821	87.357	97.502	-0.683	-0.126
ESG	50.636	8.633	26.034	51.242	66.482	-0.257	-0.608
BESG_ESG	3.473	1.225	1.220	3.410	6.160	0.258	-0.743
BESG_ENV	1.083	1.169	0.000	0.720	4.695	1.031	0.203
BESG_SOC	4.471	2.152	0.594	4.527	8.559	0.157	-0.954
BESG_GOV	5.127	0.646	3.081	5.236	6.564	-0.569	0.285

Source: Secondary data, processed by the authors (2026)

The results show substantial variation in firm value, as indicated by the relatively high standard deviation and strong positive skewness of Tobin's Q. ESG performance has a mean of 50.636, with governance representing the strongest ESG dimension (86.338), followed by social (39.368) and environmental performance (26.073). The variation across the ESG and BESG measures indicates that banks differ considerably in their sustainability performance and banking-specific ESG context. The particularly high skewness of Tobin's Q suggests that several observations have substantially higher market valuations than the typical bank-year observation.

Panel Model Selection

Before estimating the relationship between ESG and firm value, panel specification tests were conducted to determine whether pooled, fixed-effects, or random-effects estimation provides the most appropriate representation of the data. The results of the Chow, Breusch–Pagan LM, and Hausman tests are presented in Table 2.

Table 2. Panel Model Selection Tests

Model Specification	Chow Test p-value	LM Test p-value	Hausman Test p-value	Selected Model
ESG → Tobin's Q	<0.001	<0.001	0.346	REM
ENV + SOC + GOV → Tobin's Q	<0.001	<0.001	0.255	REM
ESG × BESG_ESG → Tobin's Q	<0.001	<0.001	0.959	REM

Source: Secondary data, processed by the authors (2026)

The Chow tests are significant for all specifications, indicating the presence of bank-specific effects and rejecting the pooled model. The significant LM tests further confirm that a random-effects specification is preferable to pooled estimation. Meanwhile, the insignificant Hausman tests indicate that the random-

effects estimator is appropriate relative to the fixed-effects estimator. Accordingly, the Random Effects Model (REM) is selected for the main empirical specifications.

Effect of Overall ESG Performance on Firm Value

The first empirical model examines whether overall ESG performance is associated with firm value as measured by Tobin's Q. The estimated coefficient, standard error, t-statistic, and significance level are presented in Table 3.

Table 3. Effect of ESG Performance on Firm Value

Variable	Estimate	Std. Error	t-value	p-value
ESG	-0.0812	0.0558	-1.455	0.149

Source: Secondary data, processed by the authors (2026)

The coefficient of ESG is negative ($\beta = -0.0812$) but statistically insignificant ($p = 0.149$). Therefore, the analysis does not provide sufficient evidence that overall ESG performance affects firm value in the sampled banks. Although the direction of the coefficient is negative, its statistical insignificance indicates that variations in ESG performance are not systematically reflected in Tobin's Q.

Effects of ESG Dimensions on Firm Value

To determine whether the relationship differs across the three ESG dimensions, the analysis separately estimates the effects of environmental, social, and governance performance on Tobin's Q. The results are summarized in Table 4.

Table 4. Effects of ESG Dimensions on Firm Value

Variable	Estimate	Std. Error	t-value	p-value
ENV	0.01995	0.02319	0.860	0.392
SOC	-0.08744	0.07354	-1.189	0.237
GOV	-0.01838	0.07494	-0.245	0.807

Source: Secondary data, processed by the authors (2026)

None of the three ESG dimensions has a statistically significant association with Tobin's Q. Environmental performance has a positive coefficient, whereas social and governance performance have negative coefficients, but all three effects are statistically insignificant. These findings suggest that the market valuation of the sampled banks is not systematically associated with any individual ESG dimension during the observation period.

Moderating Effect of Banking-Specific ESG Context

The principal novelty of the study is tested by examining whether banking-specific ESG context changes the relationship between overall ESG performance and firm value. The interaction model uses centered ESG and BESG measures to facilitate interpretation of the interaction coefficient. The estimation results are presented in Table 5.

Table 5. Moderating Effect of Banking-Specific ESG Context

Variable	Estimate	Std. Error	t-value	p-value
ESG_c	-0.03736	0.08245	-0.453	0.651
BESG_ESG_c	-0.27201	0.58282	-0.467	0.642

Variable	Estimate	Std. Error	t-value	p-value
ESG_c × BESG_ESG_c	0.02690	0.03299	0.815	0.417

Source: Secondary data, processed by the authors (2026)

The interaction coefficient between ESG and banking-specific ESG context is positive but statistically insignificant ($\beta = 0.02690$; $p = 0.417$). Thus, the evidence does not support a significant moderating role of BESG_ESG in the ESG–firm value relationship. In other words, stronger banking-specific ESG context does not significantly strengthen or weaken the relationship between overall ESG performance and Tobin's Q.

Dimension-Specific Moderating Effects

The moderation analysis is further extended to examine whether banking-specific context operates differently across the environmental, social, and governance dimensions. Table 6 presents the estimated interaction effects for each ESG dimension.

Table 6. Dimension-Specific Moderating Effects

Interaction	Estimate	t-value	p-value	Result
ENV × BESG_ENV	0.00470	1.005	0.317	Not significant
SOC × BESG_SOC	−0.02139	−1.264	0.209	Not significant
GOV × BESG_GOV	−0.05607	−0.819	0.415	Not significant

Source: Secondary data, processed by the authors (2026)

The results indicate that none of the dimension-specific interaction effects is statistically significant. The interaction between environmental performance and BESG_ENV is positive, while the social and governance interactions are negative, but none reaches conventional significance levels. Therefore, the moderating role of banking-specific ESG context is not supported across the individual ESG dimensions.

Multicollinearity and Diagnostic Tests

Diagnostic tests were conducted to evaluate whether the regression models satisfy the assumptions required for reliable statistical inference. Table 7 summarizes the results of the multicollinearity, heteroskedasticity, serial-correlation, and cross-sectional-dependence tests.

Table 7. Diagnostic Tests

Test	Statistic	p-value	Interpretation
VIF – ENV	1.449	—	No multicollinearity
VIF – SOC	1.156	—	No multicollinearity
VIF – GOV	1.524	—	No multicollinearity
Breusch–Pagan	2.715	0.099	No significant heteroskedasticity
Serial Correlation	35.363	<0.001	Significant
Pesaran CD	15.817	<0.001	Significant

Source: Secondary data, processed by the authors (2026)

The VIF values are substantially below the commonly used threshold of 5, indicating that multicollinearity is not a concern among the ESG dimensions. The Breusch–Pagan test is insignificant at the 5% level, suggesting no strong evidence of heteroskedasticity. However, significant serial correlation and cross-sectional dependence are detected. This indicates that observations within banks and across banks may share correlated error structures, supporting the use of appropriate panel-robust inference in the final estimation.

Summary of Hypothesis Testing

Table 8. summarizes the empirical evidence for the principal relationships examined in the study.

Table 8. Summary of Hypothesis Testing

Relationship	Coefficient	p-value	Decision
ESG → Tobin's Q	−0.0812	0.149	Not supported
ENV → Tobin's Q	0.01995	0.392	Not supported
SOC → Tobin's Q	−0.08744	0.237	Not supported
GOV → Tobin's Q	−0.01838	0.807	Not supported
ESG × BESG_ESG → Tobin's Q	0.02690	0.417	Not supported
ENV × BESG_ENV → Tobin's Q	0.00470	0.317	Not supported
SOC × BESG_SOC → Tobin's Q	−0.02139	0.209	Not supported
GOV × BESG_GOV → Tobin's Q	−0.05607	0.415	Not supported

Source: Secondary data, processed by the authors (2026)

Taken together, the results indicate that neither overall ESG performance nor its individual dimensions significantly explain variation in bank firm value. More importantly, banking-specific ESG context does not significantly moderate the ESG–firm value relationship, either at the aggregate level or across individual ESG dimensions. These findings provide the empirical basis for the subsequent discussion of why ESG performance may not be immediately incorporated into market valuation within the banking context.

The empirical findings provide an important qualification to the conventional assumption that stronger ESG performance automatically enhances firm value. In this study, overall ESG performance has a negative but statistically insignificant effect on Tobin's Q ($\beta = -0.0812$; $p = 0.149$), indicating that higher ESG performance is not systematically incorporated into the market valuation of the sampled banks. This result does not necessarily imply that ESG is economically irrelevant; rather, it suggests that the value-creation mechanism proposed by Stakeholder Theory may require additional conditions before stakeholder benefits are translated into observable market value. Freeman's Stakeholder Theory argues that firms create sustainable value through effective relationships with stakeholders, while the Resource-Based View (RBV) suggests that ESG-related capabilities can become valuable strategic resources when they are embedded within organizational processes and are difficult to imitate (Freeman, 1984; Barney, 1991; Bhandari et al., 2022). The present findings indicate that ESG performance alone may not yet represent such a sufficiently differentiated strategic capability in the banking context.

This interpretation is consistent with the increasingly context-dependent understanding of ESG. Postiglione et al. (2024) and Bani-Khaled et al. (2025) emphasize that ESG–firm value relationships vary according to institutional environments, industries, measurement approaches, and firm characteristics. Evidence from Indonesia similarly demonstrates that sustainability practices do not consistently generate

superior financial outcomes (Gutierrez-Ponce & Wibowo, 2023; Sari & Valdiansyah, 2025), while Hartono et al. (2026) identify substantial heterogeneity in Indonesian ESG–firm value research arising from differences in disclosure quality, industry characteristics, and market conditions. Thus, the insignificant coefficient in this study should be interpreted as evidence that ESG investment and ESG valuation are not necessarily contemporaneous processes. ESG initiatives may generate benefits through risk reduction, reputation, stakeholder trust, and resilience, but these benefits can materialize over a longer horizon than the market-based valuation period captured by Tobin's Q.

The dimension-level findings reinforce this argument. Environmental performance is positively associated with firm value ($\beta = 0.01995$), whereas social ($\beta = -0.08744$) and governance performance ($\beta = -0.01838$) exhibit negative coefficients; however, none is statistically significant. The relatively stronger descriptive position of governance, with a mean score of 86.338, compared with environmental performance of 26.073, is particularly informative. Governance may have become sufficiently institutionalized within banking that additional improvements provide limited marginal valuation benefits. Conversely, environmental initiatives often require substantial investment before generating measurable financial returns, while social initiatives may create intangible stakeholder benefits that are difficult for investors to immediately price. This interpretation contrasts with the positive evidence reported by Abdalhamid and Alhaggan (2026), Saini et al. (2025/2026), and Zahri and Haryanto (2026), who find stronger valuation effects from ESG disclosure, particularly environmental and social dimensions. The difference suggests that disclosure quality, institutional credibility, and market recognition are critical transmission mechanisms rather than ESG performance itself being sufficient.

The findings also contribute to the banking-specific ESG literature. Salem et al. (2024) demonstrate heterogeneity in the relationship between ESG dimensions and banking performance, while Chakraborty et al. (2026) conclude from a systematic review that ESG generally supports long-term banking stability and risk management but that the evidence differs across dimensions. Ozbek et al. (2025) similarly show that governance has become increasingly integrated with broader sustainable banking frameworks. In Islamic banking, Tumewang et al. (2026), Lestari et al. (2025), and Abu Bakar et al. (2026) further demonstrate the increasing convergence between governance, sustainability, Shariah compliance, and institutional structures. These studies suggest that sustainability value in banking cannot be understood solely through conventional ESG scores because governance, regulation, legitimacy, and institutional structures jointly determine whether ESG creates economic value.

More importantly, the central moderation test produces a theoretically significant finding. The interaction between ESG and banking-specific ESG context is positive but insignificant ($\beta = 0.02690$; $p = 0.417$), while the interaction effects for environmental, social, and governance dimensions are also insignificant. Hence, banking-specific ESG context does not significantly strengthen or weaken the ESG–firm value relationship. This finding challenges the expectation that merely operating within a banking-specific sustainability environment automatically enhances ESG value transmission. The result is particularly relevant when compared with Zahri and Haryanto (2026), who find that GRI compliance substantially strengthens the ESG–firm value relationship in ASEAN. The contrast indicates that context alone may not be sufficient; the credibility, standardization, comparability, and external recognition of sustainability information may be the critical mechanisms through which context becomes economically meaningful.

The absence of a significant moderation effect can also be interpreted through the information and legitimacy dimensions of Stakeholder Theory. Investors may recognize ESG only when sustainability

information is sufficiently credible, comparable, and decision-useful. Sihotang and Siregar (2025) demonstrate that ESG controversies can weaken the valuation benefits associated with ESG performance, while Ștefănescu and Suci (2026) emphasize that governance–responsibility mismatches and performance–compliance gaps can generate reputational and systemic consequences. Similarly, Ziolo et al. (2024) highlight the growing importance of greenwashing as a threat to the credibility of sustainability claims. Therefore, a bank may possess strong ESG scores without necessarily obtaining higher market valuation if investors remain uncertain about the substantive quality, credibility, or economic consequences of those practices.

The findings further have implications for the emerging digital and sustainable banking environment. Rahman et al. (2024) identify a growing nexus between FinTech and sustainable banking, while Darraz et al. (2026) emphasize that AI can improve banking performance only when accompanied by appropriate governance, risk control, cybersecurity, and ethical safeguards. Xue et al. (2026) similarly demonstrate that environmental risks can affect banks through operational capacity, credit quality, and default mechanisms. These findings imply that ESG should increasingly be integrated into risk management, digital governance, and strategic decision-making rather than treated merely as a reporting exercise. The broader sustainability literature also emphasizes the integration of governance, green finance, institutional investors, and sustainability reporting into long-term value creation (Aluchna, 2024; Hunjra & Goodell, 2024).

Overall, the study suggests that ESG performance is not automatically converted into market value in the banking sector. The insignificant direct and moderating effects indicate that the critical issue is not simply how much ESG banks implement, but whether ESG is strategically embedded, credibly disclosed, institutionally supported, digitally enabled, and recognized by stakeholders and investors. This extends Stakeholder Theory and RBV by suggesting that ESG becomes economically valuable only when sustainability capabilities are transformed into credible organizational resources and stakeholder signals. Consequently, banks should move beyond compliance-oriented ESG implementation toward substantive sustainability integration, standardized disclosure, credible assurance, climate-risk management, digital governance, and stronger stakeholder communication. Such an approach is more likely to transform ESG from a reporting attribute into a genuinely valuable strategic capability.

Conclusion

This study concludes that ESG performance does not significantly affect firm value among the sampled banks, either at the aggregate level or across the environmental, social, and governance dimensions. Furthermore, banking-specific ESG context does not significantly moderate the relationship between ESG performance and firm value. These findings indicate that ESG implementation alone has not been sufficient to generate market valuation benefits, suggesting that its value depends on how effectively ESG practices are integrated into strategic capabilities, governance, risk management, and credible disclosure. Therefore, to achieve the objective of strengthening the contribution of ESG to bank value, banks should move beyond compliance-oriented ESG practices toward substantive sustainability integration, supported by standardized and credible disclosure, effective risk management, and stronger stakeholder communication. Future research should examine longer-term effects and additional mechanisms that may explain when and how ESG performance is translated into sustainable firm value.

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