

STRATEGIC TYPOLOGY AND ITS CONTEXTUAL ROLE IN SHAPING THE ESG-FIRM VALUE NEXUS

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Abstract: *In the pursuit of long-term survival and growth, firms must strengthen investor relations and secure stakeholder trust to enhance share prices, thereby reflecting greater firm value. Investment decisions today extend beyond financial metrics, incorporating sustainability considerations through the Environmental, Social, and Governance (ESG) framework. To fully capture ESG's value-creating potential, firms operate within distinct strategic typologies that shape their competitive responses. The prospector typology emphasizes innovation and market exploration, whereas the defender typology focuses on efficiency and market stability. This study examines the influence of ESG performance on firm value, while recognizing strategic typology as a contextual factor in this relationship. Using 639 firm-year observations from Indonesian Stock Exchange-listed firms with ESG scores from Refinitiv Eikon (2014–2024), regression results reveal that ESG performance significantly enhances firm value. This positive association persists across both prospector and defender strategies, highlighting ESG's universal relevance as a driver of firm value. This research underscores ESG performance as a sources of value creation for firms and highlights the importance of aligning sustainability practices with firms' strategic characteristics, particularly within the context of emerging markets.*

Keywords: ESG, Firm Value, Strategic Typology

INTRODUCTION

Firm value refers to the market valuation of managerial effectiveness in managing resources to generate profits and long-term growth (Xaviera and Rahman 2023). Firm value is crucial because higher firm values reflect investors' wealth. Firms seeking to survive and grow must foster robust relationships and acquire support from investors to enhance their values. Several factors affect firm value, such as fundamental factors, macroeconomic conditions, capital market conditions, and the global economy (Ahmad et al. 2022).

Besides the fundamental and economic factors, investors begin to consider non-economic factors, including sustainability-related ones. Investors' attention has shifted to measures to deliver positive impacts by emphasizing the importance of sustainability in recent years (Chasiotis et al. 2024). Heightened attention from investors and global communities toward various risks, especially related to environmental and other non-financial issues (including social responsibilities and good governance), motivates firms to focus and manage these aspects more seriously.

Several stakeholders, like investors, employees, suppliers, customers, and governments, increasingly demand that firms consider these factors and take appropriate preventive measures and deliver performance reports transparently ([Aydoğmuş et al. 2022](#)). Accordingly, investors' investment decisions not only focus on financial aspects but also on non-financial aspects by considering sustainability aspects. In line with this matter, the United Nations has introduced responsible investments in its program, commonly known as the United Nations Principles for Responsible Investment (UNPRI). This program aims to motivate investors to emphasize environmental sustainability by using the Environmental, Social, and Governance (ESG) approach ([Ariastini and Semara 2023](#)).

Nonetheless, the actual implementation in Indonesia has not been compliant with the UN program. ESG disclosure is considered costly by firms that will erode revenues or profits. In Indonesia, firms are under less intense pressure to adopt ESG practices, so they are less motivated to adopt ESG practices. [Xaviera and Rahman \(2023\)](#) demonstrate that in developing countries like Indonesia, firms are under less intense pressure to adopt ESG than those in developed countries.

Firms could utilize their ESG responsibilities as a strategy to boost their reputation among investors and enhance investments ([Melinda and Wardhani 2020](#)). Firms' ESG will attract investors to invest in these firms, thus increasing share prices and eventually firm value ([Ferjiana and Natalylova 2023](#)). Firm value represents investors' perception of firms' capacity to manage their resources as reflected by share ([Amaliyah and Herwiyanti 2019](#)). Investors favor firms that manage their resources more effectively. Prior studies like [Boulhaga et al. \(2023\)](#), [Aydoğmuş et al. \(2022\)](#) and [Buallay \(2019\)](#) document that ESG performance positively affects firm value. However, other studies reveal that ESG

performance does not affect firm value ([Xaviera and Rahman, 2023](#); [Jeanice and Kim, 2023](#)).

Firms boost their values through collaboration between shareholders, managers, and other stakeholders in their decision-making processes. All stakeholders are equally critical in enhancing firm value. In this respect, managers can increase firm value by adopting certain policies to boost shareholder wealth as reflected by share prices ([Rahmawati 2021](#)). Firms can boost their values by selecting appropriate business strategies. Business strategies refer to firms' planning to anticipate business competition by using information and technology to achieve their objectives ([Putrianto and Christiningrum 2020](#)). Each business strategy exhibits distinct competitive approaches and characteristics, reflecting how firms adapt to environmental conditions ([Al-Shaer et al. 2024](#)).

There are four business strategic typologies as suggested by [Miles et al. \(1978\)](#): prospectors, defenders, analyzers, and reactors, with prospectors and defenders dominating. Prospector firms continuously develop products and are innovation-oriented to exploit novel market opportunities. Prospectors are more risk-taking and willing to incur large costs to innovate. Meanwhile, defenders emphasize production and distribution cost efficiency by focusing on narrower markets. Defenders seek to preserve markets and compete in terms of prices, quality, delivery, and services to offer rational products for customers ([Puyo et al. 2022](#)).

These business strategic typologies greatly affect how firms adopt their business activities, including in implementing ESG. Strategic typologies will affect firms' characteristics, long-term orientation, and resource allocation ([Habib et al. 2024](#)). Prospectors tend to adopt ESG practices to develop continuously by initiating several innovations to exploit broader market opportunities. Firms that acquire broader market exposure will arguably attract more investors, leading to higher firm value. In contrast, defenders prefer focusing on cost efficiency so

that they rely on more focused markets and seek to preserve existing market stability ([Maury 2022](#)). Defender firms adopt ESG practices through waste reduction, strict emission management, environmental compliance, more intensive communication with local communities, and operational transparency that boost firms' image before their investors. Better images will attract more investors to invest their funds into these firms that will enhance firm value ([Setiari et al. 2023](#)).

This study seeks to investigate whether ESG performance increases firm value and the role of strategic typology in the association between ESG and firm value. This study is motivated by the fact that only a few studies have investigated the association between ESG and firm value by incorporating the contextual role of strategic typology. It is expected that our results will inform firms and their various stakeholders, including investors and the general public. Specifically, firms can refer to this study to optimize their ESG implementation. Their managers can formulate strategies by better understanding the effect of ESG performance on firm value, emphasizing not only financial aspects but also better corporate images. Besides, investors can refer to this study when making investment decisions by incorporating ESG performance as a long-term sustainability aspect. This study also contributes to the literature by informing how ESG performance affects firm value and the contextual role of strategy in explaining the association between these two variables. The contextual role of strategic typology in this research contribute to the literature and also advise firms in designing their strategies that incorporate various aspects. Lastly, this study will inform the general public by advising firms to be more responsible and environmentally sustainable.

Stakeholder Theory

As suggested by [Freeman \(1984\)](#), the stakeholder theory explains that firms' main

objective is to serve the interests of the entire stakeholders, including shareholders, customers, employees, communities, suppliers, and the general public. For firms adopting the prospector strategic typology, their major stakeholders also include new customers for market expansion, suppliers, business partners, and investors. For defender firms, their major stakeholders include existing customers, operational employees, regulators, and conservative investors. Firms do not only focus on maximizing shareholders' returns, but also on other stakeholders' interests.

The stakeholder theory determines the necessary attitudes, structure, and practices that enable firms to create value for their stakeholders. Stakeholders exert different influences on firms; hence, certain stakeholders may have greater influence than others. Consequently, firms must align the interests of different stakeholders ([Talan et al. 2024](#)). Aligning managerial interests with stakeholders' will enable firms to boost their sustainability and avoid harmful conflicts.

Firms that manage their relationships with all stakeholders more effectively are more likely to achieve long-term success. As suggested by [Peng and Isa \(2020\)](#), harmonious relationships between various stakeholders will strengthen firms' positions and boost their performance. As suggested by the stakeholder theory, firms' success depends on whether all stakeholders are satisfied, thus positively affecting their growth and survivability.

Firm Value

Firm value refers to investors' firm evaluation as reflected by share prices ([Sondokan et al. 2019](#)). Higher share prices indicate higher firm value. Shareholders arguably seek to maximize their firms' values to optimize their wealth. Higher firm values also demonstrate investors' higher trust in firms' performance and growth opportunities.

Several factors affect firm value, including financial factors (e.g., profitability,

operational efficiency, and capital structure) that will directly affect share prices. Besides, the choices of environmentally related strategies, especially those associated with sustainability practices, and governance (those related to transparency and risk management) will contribute to firm value. Other contributing factors include consumers' confidence levels, investors, and regulatory compliance that will jointly strengthen firms' market positions and values ([Amanati and Arifa 2022](#)).

Firms can increase their value through the active participation of shareholders, managers, and other stakeholders in financial decision-making to maximize returns ([Rahmawati 2021](#)). Managers play a pivotal role in increasing firm value by adopting strategic policies that facilitate investors' wealth growth, as reflected by increased share prices.

Environmental, Social, and Governance (ESG)

Firms are currently required not only to focus on financial aspects in their reports, but also on non-financial factors. These non-financial reports are presented as sustainability reports, and the United Nations uses the approach related to environmental, social, and governance (ESG) aspects to help investors incorporate sustainability principles in their investment decisions ([Haludin et al. 2024](#)).

The ESG approach is closely related to environmental, social, and governance systems that could negatively or positively affect firms' financial performance. The ESG implementation is crucial in long-term business decision-making ([Dwistia et al., 2025; Garrido-Ruso et al. 2024](#)). The awareness to adopt ESG reflects firms' responsibility for the impacts of their operating business activities.

In measuring ESG performance, Refinitiv develops a scoring category for each aspect ([Adnindya and Restuti 2024](#)). The environmental aspect consists of three categories: emission, innovation, and resource utilization. The emission aspect is related to waste, biodiversity, and environmental

management system. The innovation system covers product innovation, green revenues, research and development, and capital expenditures. The resource utilization aspect includes water and energy usage, sustainable packaging, and environmentally friendly supply chains.

The social aspect consists of four categories: a) community, related to equality in each industry, human rights, b) product responsibility, related to responsible marketing, c) product quality and data privacy, and d) labor, related to diversity and inclusion, career development and training, work conditions, and health and safety. The governance aspect consists of three categories: a) CSR strategy, related to CSR activities, ESG reporting, and transparency, b) structure-related management (independence, diversity, committee) and compensation, c) shareholders, related to shareholder rights and takeover defenses ([Comporek 2024](#)).

Firm Strategies

Firm strategies represent firms' focus on their competitive objectives in certain market segments. Business strategies reflect firms' actions or decisions to understand, adjust, and position themselves in their markets to optimize their performance ([Setiarini et al. 2023](#)). Business strategies will adjust to market and environmental conditions. Managerial power patterns, resource regulations, and developed values will determine firms' business strategies.

Business strategies will reflect how firms compete and distinguish themselves in certain markets or segments. [Miles et al. \(1978\)](#) classify business strategies into four strategic typologies: prospectors, analyzers, reactors, and defenders, with prospectors and defenders dominating these typologies ([Putrianto and Christiningrum 2020](#)). Defenders tend to adopt a low-cost strategy while prospectors implement differentiation.

The prospector strategic typology aims for development by creating novel innovations

and market trends. This strategy is adopted by developing updated and active programs to exploit novel market opportunities. Prospectors quickly respond to market dynamics. Firms adopting the prospector strategic typology are proactive, aggressive, and risk-taking to exploit new market opportunities. Further, prospectors tend to prioritize innovations over efficiency ([Aydoğmuş et al. 2022](#)).

Meanwhile, the defender typology seeks to stabilize market performance. Defenders seek to keep prices and advertising and promotion costs low, limit product offerings, and ensure better customer service or product quality. Defenders focus on operational efficiency and stability. This strategic typology exhibits stable and centralized organizational structures. Defenders target stable growth and longer employee tenure ([Maury 2022](#)).

Hypothesis Development

Environmental, Social, Governance (ESG) and Firm Value

The association between ESG and firm value can be explained by the stakeholder theory. ESG adoption represents firms' strategy to evaluate their performance and positions in various situations. Stakeholders will evaluate whether firms have operated by considering social, environmental, and good governance factors through ESG performance measurement ([Qodary and Tambun 2021](#)).

Firms with better ESG performance will attract more investors because they emphasize long-term growth that will enhance investors' wealth ([Aydoğmuş et al. 2022](#)). More investors investing in these firms will boost share prices and firm value.

ESG is an indicator to evaluate firms' environmental, social, and governance performance. Investment decisions increasingly emphasize non-financial aspects so that investors are more willing to invest in ESG-adopting firms ([Wang et al. 2023](#)). Hence, firms adopting ESG practices are considered better than those not implementing ESG practices.

Firms with better ESG performance are evaluated more favorably by investors. [Tan and Zhu \(2022\)](#) demonstrate that investors tend to invest in firms committing to sustainability and good governance. Hence, ESG-adopting firms attract more investors, potentially enhancing their share prices and firm values.

ESG enables investors to evaluate firms' performance when making investment decisions. Better-performing firms attract more investors to invest their funds, which will boost share prices. Increased share prices reflect higher firm values. Shareholders expect higher firm values that represent their greater wealth ([Boulhaga et al. 2023](#)).

Prior studies, such as [Wang et al. \(2023\)](#), [Boulhaga et al. \(2023\)](#), [Aydoğmuş et al. \(2022\)](#), and [Abdi et al. 2022](#), demonstrate that ESG performance positively affects firm value. Accordingly, this study predicts that ESG increases firm values because firms with better ESG performance signal to their stakeholders that they care about their surrounding environments and implement their social functions effectively. Firms with better ESG performance are also arguably better governed, indicating that they adopt good governance.

Stakeholder theory posit that firms created value by effectively managing relationship with various stakeholders, including investors, employees, customers, regulators, and the wider community ([Freeman 1984](#)). The implementation of ESG practices reflects a firm's commitment to addressing stakeholders' concerns in these dimensions, thereby enhancing organizational legitimacy and stakeholder trust.

Therefore, firms with better ESG performance will be evaluated more favorably by investors. Investors prefer firms with better ESG performance that reflects better transparency and long-term sustainability. Investors are more likely to invest in firms adopting better ESG practices, leading to higher share prices that reflect greater firm values. Accordingly, we propose the following hypothesis:

H₁: Environmental, Social, and Governance (ESG) performance increases firm values

Environmental, Social, Governance (ESG) and Firm Value: The Contextual Role of Strategic Typology

The contextual role of strategic typology in the association between ESG and firm value can be explained by the stakeholder theory. This theory emphasizes that firms must accommodate all stakeholders' interests. Thus, firms must achieve their objectives and stakeholders' expectations, thus requiring appropriate measures to do so ([Al-Shaer et al. 2024](#)).

Strategic typology enables firms to direct their operational activities not only to achieve their profit targets but also to enhance stakeholders' trust. Firms' strategic typology through ESG practices indicates firms' future sustainability. Better ESG practices also signify firms' commitments towards environmental, social, and governance sustainability that will not only benefit societies and environments, but also strengthen firms' market positions ([Maury 2022](#)). Investors are more likely to invest in firms with better ESG practices, thus elevating share prices and firm values.

Firms' strategic typology will determine their business direction and objectives. Firms with a prospector strategic typology are more willing to make decisions and take risks through novel innovations, such as investing in renewable energy technology, initiating public training, and introducing digital governance. Meanwhile, firms with a defender strategic typology focus on efficiency, energy saving, waste reduction, long-term employee training, and strict regulatory compliance. Thus, firms' strategic typology will affect their decisions and actions ([Setiarini et al. 2023](#)).

Firms with a certain strategic typology that implement ESG will be evaluated more favorably by investors. Investors are more likely

to invest their funds in these firms because of their more promising sustainability. More investors imply higher share prices and firm values ([Park and Byun 2022](#)).

From a stakeholder theory perspective, firm value is created when firms are able to balance and accommodate the interest of diverse stakeholder groups through strategic decision-making. Strategic typology influences how firms prioritize stakeholders and allocate resources to address their expectations. Prospector firms emphasize innovation, growth, and market expansion, which necessitate stronger engagement with external stakeholders such as investors, customers and local communities. In contrast, defender firms prioritize efficiency, operational stability, and regulatory compliance, thereby focusing more on internal stakeholders and risk-averse investors. ESG performance functions as a strategic instrument through which both typologies signal accountability, transparency, and long-term commitment to stakeholder interests. By aligning ESG practices with their respective strategic orientations, firms enhance stakeholder trust, mitigate non-financial risks, and strengthen organization legitimacy, which ultimately contributes to higher firm value. Accordingly, consistent with stakeholder theory, ESG performance is expected to positively affect firm value in both prospector and defender firms, despite their differing strategic orientations.

This study predicts that strategic typology strengthens the effect of ESG on firm value because strategic typology indicates that these firms emphasize their long-term direction and objectives. Such a strategic typology will facilitate firms' decisions to adopt ESG, which will increase firm value. Consequently, we propose the following hypothesis:

H₂: Environmental, Social, and Governance (ESG) performance will increase firm value for both firms with the prospector and defender strategic typologies.

Table 1. Sample Selection Process

No	Criteria	Number of Observations
1	Firms listed on the Indonesian Stock Exchange, 2014-2024	10,505
2	Firms without ESG scores, 2014-2024	(9,866)
Total Research Sample		639

Source: Research Data (2025)

METHOD

Data Source and Sample

This study utilizes secondary data derived from firms' annual reports, accessed via the IDX (Indonesia Stock Exchange) website and the official websites of the sample firms, from 2014 to 2024. The Refinitiv Eikon database is utilized for ESG performance score data. This study employs a purposive sampling technique based on the following criteria: (1) firms listed on the Indonesia Stock Exchange (IDX) from 2014 to 2024, (2) firms having an ESG performance score from Refinitiv Eikon during the same period, and (3) firms having comprehensive financial report data pertinent to the research variables. The sample selection criteria are shown in Table 1.

Firm Value

According to [Dwiastuti and Dillak \(2019\)](#), Tobin's Q proxies firm value. Tobin's Q indicates the financial market estimation that could reflect firms' future financial conditions. Tobin's Q is measured with the following formula:

$$\text{Tobin's Q} = \frac{\text{Total Market Value} + \text{Total Book Value of Liabilities}}{\text{Total Book Value of Assets}}$$

$$\text{Market Value} = \text{Total Outstanding Shares} \times \text{Current Share's Price}$$

Environmental, Social, and Governance (ESG) Performance

Environmental, Social, and Governance (ESG) performance is generated from the Refinitiv Eikon database. The ESG database includes data from firms worldwide and ranks

these firms based on environmental, social, and governance indicator scores. This study uses the Refinitiv Eikon data for Indonesian firms.

The ESG score from the Refinitiv Eikon consists of three pillars. The "E" score measures firms' environmental performance, consisting of emission, innovation, and resource utilization factors. The second pillar (the "S" score) measures firms' social performance based on several factors, such as community, human rights, product responsibility, and labor. The third pillar (the "G" score) measures governance performance based on several items, like Corporate Social Responsibility (CSR) strategy, management, and shareholders ([Setiarini et al., 2023](#)). The ESG score is presented in percentage format, ranging from 0 to 100, suggesting that higher ESG scores imply better environmental, social, and governance performance.

Strategic Typology

This study utilizes the two most dominant strategic typologies: prospectors and defenders. [Setiarini et al. \(2023\)](#) argue that firms' strategic typology can be classified into prospectors and defenders based on firms' financial data more specifically the Premium Price Capability (PPC), Asset Utilisation Efficiency (AUE), and the ratio between Sales and Capital Expenditure (SCAP). Such a strategy classification can be typically utilized for Indonesian firms with the following formulas:

$$\text{PPC} = \frac{\text{Gross Profits}}{\text{Revenues}}$$

$$AUE = \frac{\text{Revenues}}{\text{Total Assets}}$$

$$SCAP = \frac{\text{Revenues}}{\text{Capital Expenditure}}$$

Upon acquiring the relevant values through the above formula, these values are categorized as high or low based on the median value for each industry and year. If the computation results indicate a value exceeding (below) the industry median for each year, it is categorized as high (low). The results are subsequently categorized into prospector and defender classifications, as illustrated in the table 2.

PPC indicates firms' ability to charge premium prices to their customers due to their innovations. Innovative firms are more likely to charge premium prices than firms focusing on cost efficiency. Innovative firms belong to the prospector strategic typology and exhibit higher PPC than defenders.

AUE reflects the strategic importance of operational efficiency. Defender firms tend to operate in stable environments, produce standardized products, and run standard operating procedures, thus enabling firms to enjoy better stability and operational efficiency. Meanwhile, prospectors tend to experience more uncertain conditions in generating revenues because they rely on products not yet marketable. Prospectors exhibit lower AUE scores than defenders. SCAP is measured by dividing total sales by capital expenditure. CAPEX refers to annual asset increase. Higher sales-to-capital expenditure ratios indicate that firms utilize their ratios more efficiently. Prospectors have lower SCAP scores than defenders [\(Restuti et al. 2022\)](#).

If the outcomes do not conform to these criteria, the strategy will be established based on

the more dominant results, ensuring that at least two of the three strategic criteria are satisfied.

Control Variables

Firm Size

Firm size is a measure of how large or small a firm is, measured based on total assets. $\text{Size} = \text{Ln}(\text{Total Assets})$

Debt to Asset Ratio

The Debt to Asset Ratio shows the proportion of a firm's assets that are covered by its liabilities compared to its equity [\(Abdi et al. 2022\)](#).

$$\text{Debt to Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Asset}}$$

Debt to Equity Ratio

The Debt to Equity Ratio shows the proportion of fund derived from debt to finance firm activities [\(Nur et al. 2024\)](#).

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Return On Asset

Return on Assets (ROA) is a profitability ratio used to measure a firm's ability to earn net income from its total assets [\(Xaviera and Rahman 2023\)](#).

$$\text{Return on Asset} = \frac{\text{Net Income}}{\text{Total Asset}}$$

Return On Equity

ROE is a financial ratio used to measure a firm's ability to earn profits after tax relative to the return on shareholders' equity [\(Fachrezi et al. 2024\)](#).

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Total Equity}}$$

Table 2. Firm's Strategy Classification

Prospector	PPC High	AUE Low	SCAP Low
Defender	PPC Low	AUE High	SCAP High

Source: [Setiarini et al. \(2023\)](#)

Table 3. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev
ESG	639	5.76	89.19	48.78	19.61
FV	639	0.08	18.64	1.89	2.34
STRA	639	0	1	0.48	0.5
Size	639	26.69	35.32	31.47	1.47
DAR	639	0.04	30.72	0.57	1.22
DER	639	-7.30	190.31	2.17	7.95
ROA	639	-1.67	63.04	0.22	2.89
ROE	639	-2.54	21.97	0.20	0.99

Source: Research Data (2025)

Analysis Technique

We use the regression analysis to test both hypotheses 1 and 2. For hypothesis 2, this study split the sample into two subsamples: prospectors and defenders. The following is the estimation model to test the hypotheses:

$$FV_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 Size_{it} + \beta_3 DAR_{it} + \beta_4 DER_{it} + \beta_4 ROA_{it} + \beta_5 ROE_{it} + \varepsilon_{it}$$

Where:

FV: Firm Value

ESG: ESG Performance

Size: Firm Size

DAR: Debt to Asset Ratio

DER: Debt to Equity Ratio

ROA: Return On Asset

ROE: Return On Equity

We use the same model specification to test hypothesis 2, but on two distinct subsamples: (prospector and defender strategic typology).

RESULTS

Descriptive Statistics

Table 3 presents the descriptive statistics.

The results of the descriptive statistics indicate that the mean value of the ESG performance variable is 48.78 with a minimum value of 5.76 (PT BFI Finance Indonesia Tbk.) and a maximum value of 89.19 (PT Bank Rakyat Indonesia Tbk.). The standard deviation of ESG performance is 19.61, suggesting that

Indonesian listed firms exhibit varying ESG performance scores.

The mean (standard deviation) value of firm value is 1.89 (2.34), suggesting that firms are overvalued because their profits exceed the book values of their assets. PT Asuransi Dayin Mitra Tbk. exhibits the lowest firm value (0.08) while PT Unilever Indonesia Tbk. exhibits the highest (18.64).

As a dummy variable, firms' strategy is coded "0" for defenders and "1" for prospectors. The descriptive statistics test yields the mean value of 0.48, implying that 48% of firms belong to the prospector strategic typology. The value approaches 0.5, suggesting that the numbers of prospectors and defenders are almost balanced Table 4 presents the correlation between variables. The table suggests that *ESG* and *SIZE* exhibit the highest correlation score.

Hypothesis Testing Results

Table 5 displays the results of the hypothesis testing. Table 5 indicates that in the all-sample column, ESG performance positively affects firm value with a regression coefficient value of 0,0201. Thus, hypothesis 1, which predicts that ESG increases firm value, is empirically supported. ROE also has a positive effect to firm value with a coefficient (t) 1.2866 (3.72). Further, firm size and DER negatively affects firm value with a coefficient (t) value of -0,3210 (-4,21) and -0.1368 (-3.28). Other control variables (DAR and ROA) have no effect on firm value.

Table 4. Correlation

Variable	FV	ESG	SIZE	STRA	DAR	DER	ROA	ROE
FV	1							
ESG	0.048	1						
Size	-0.219***	0.454***	1					
STRA	-0.109***	0.054	0.173***	1				
DAR	-0.025	-0.015	0.042	0.050	1			
DER	-0.032	0.090**	0.089**	-0.008	0.046	1		
ROA	0.022	-0.048	-0.110***	-0.056	-0.010	-0.011	1	
ROE	0.190***	0.026	-0.091**	-0.066*	0.019	0.805***	0.004	1

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

In the prospector column, ESG performance positively affects firm value with a coefficient value of 0.0114 and t-value of 2.47. In the defender column, ESG performance positively affects firm value with a coefficient value of 0.0267 and t-value of 3.00. Hence, hypothesis 2 predicting that ESG performance increases firm value for defenders and prospectors is empirically supported.

In the prospector subsample, firm size negatively affects firm value with a coefficient

value of -0,4165 and a t value of -3,66 while DAR, DER, ROA, and ROE have no effect on firm value. Meanwhile, in the defender subsample, firm size and DER negatively affects firm value with a coefficient value of -0,2354 and a t value of -2,41 also a coefficient value of -0.1615 and a t value of -2.90. In contrast, ROE has a positive effect on firm value with a coefficient value of 1.4358 and t value of 3.25, whereas the variables DAR and ROA had no effect.

Table 5: Hypotheses Testing Result

	All sample	Prospectors	Defenders
FV	Coefficient	Coefficient	Coefficient
	(t)	(t)	(t)
ESG	0.0201***	0.0114**	0.0267***
	3.53	2.47	3.00
Size	-0.3210***	-0.4165***	-0.2354**
	-4.21	-3.66	-2.41
DAR	-0.0054	-0.0151	0.5176
	-0.18	-0.74	0.70
DER	-0.1368***	0.0302	-0.1615***
	-3.28	0.79	-2.90
ROA	-0.0001	4.563	0.0017
	-0.02	1.37	0.25
ROE	1.2866***	-0.1417	1.4358***
	3.72	-0.16	3.25
Constant	11.0332***	13.9861***	7.9117***
	4.84	3.94	3.11
N	639	308	331
R-Squared	0.171	0.205	0.202
Hetttest	Robust	Robust	Robust

Source: Research Data (2025), *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Discussions

The results of the hypothesis testing demonstrate that ESG performance positively affects firm value, implying that better ESG performance increases firm value. ESG facilitates firms to accommodate the interests of all stakeholders, including customers, governments, and communities. This creates long-term mutually beneficial relationships that support business continuity and increase firm value.

The findings of this study provide strong empirical support for stakeholder theory. According to stakeholder theory, firms create value by effectively managing relationship with diverse stakeholder groups rather than focusing exclusively on the maximization of shareholder wealth ([Freeman 1984](#)). The observed positive relationship between ESG performance and firm value suggest that firms which address environmental, social, and governance concerns are rewarded by the capital market through higher share prices. This evidence indicates that investors perceive ESG performance as a credible signal of a firm's commitment to stakeholder welfare, long-term sustainability, and effective risk mitigation.

The results further indicate that ESG performance enhances firm value across different strategic typologies. This finding is consistent with stakeholder theory, which posit that firm value is driven by the ability to effectively manage and satisfy stakeholder interests. For prospector firms, ESG practices support innovation, market expansion, and stronger engagement with external stakeholders, including customers, local communities, and growth-oriented investors. By integrating ESG considerations into their strategic orientation, prospector firms are able to strengthen stakeholder trust, which subsequently contributes to higher firm value. Similarly, for defender firms, ESG performance enhances firm value by fostering stable and long-term relationship with key stakeholders,

such as regulator, employees, and risk averse investors.

ESG signals that firms are well-managed and attentive to sustainability aspects. Consequently, investors consider firms with better ESG performance to have greater commitments toward sustainability practices, social responsibilities, and good governance ([Aydoğmuş et al. 2022](#)). This will boost corporate reputation and investor loyalty, leading to investors' more favorable evaluation, more investments, and higher firm value. Besides, firms with better ESG performance could mitigate risk potentials such as operational problems, litigation or regulatory risks, and other managerial problems so that they are better prepared for long-term risks.

Firms with better ESG practices tend to have more efficient business operation systems, such as energy and resource saving, waste reduction, and the mitigation of environmental regulation sanctions. Such efficiency enables firms to reduce operating costs, increase profitability, and eventually attract investors and boost firm values.

Better ESG performance also increases investors' trust in firms' sustainability and long-term prospects so that higher share prices reflect higher firm values ([Boulhaga et al. 2023](#)). Higher firm values reflect how investors evaluate firms' future relative to their current asset values. Such environment-related information transparency, including energy use, waste reduction, and resource conservation, demonstrates firms' operational efficiency and long-term responsibility.

Besides, ESG is considered a signal that firms manage their non-financial risks, such as legal, social, and reputational risks, effectively ([Buallay 2019](#)). ESG practices indicate that firms are socially responsible and well-governed, which represent long-term strategic managerial measures to enhance investors' expectations toward future growth and performance as reflected by higher firm value. Overall, our findings support [Boulhaga et al. \(2023\)](#),

[Aydoğmus et al. \(2022\)](#) and [Buallay \(2019\)](#), who document that ESG positively affects firm value.

The test results in the prospector subsample reveal that ESG performance increases firm value. Prospectors focus on innovation, novel market opportunities, and technological development so that they are more adaptive to social and environmental changes ([Puyo et al. 2022](#)).

Prospectors adopt ESG by developing environmentally friendly technology and green innovation, encouraging social responsibility through products and services that better meet public needs, being responsive to social issues, and continuously developing sustainability-facilitating governance systems. Firms with the prospector strategic typology tend to have more aggressive financial reporting and a greater willingness to take greater risks. Prospectors focus on innovation and growth, necessitating stronger internal control systems and governance to prevent fraud and manipulation. They respond to social changes more quickly, which serves as their advantage in boosting investor trust as a major stakeholder. Better adaptability also facilitates prospectors to exploit novel market opportunities that enable them to create competitive advantages relative to their competitors.

Using the prospector strategic typology, firms strategically rely on ESG to obtain better images among their investors. These better images will attract investors to invest in these firms. Greater investor interest in investing will boost share prices and firm values.

In the defender subsample, ESG also increases firm value. Defenders focus on cost efficiency and market stability. They adopt ESG by enhancing energy use efficiency, reducing waste, and complying with environmental regulations. Besides, firms maintain their long-term relationships with their stakeholders, such as suppliers, customers, and employees, comply with regulations, and exhibit good governance structures ([Habib et al. 2024](#)).

Firms with the defender strategic typology are arguably more conservative and more attentive to compliance and cost efficiency, and more strictly governed because of their focus on stability and efficiency ([Maury 2022](#)). Defenders maintain customer loyalty and long-term relationships with their employees. Defenders' advantages in efficiency and risk management attract more investors because these investors favor firms with strong internal control structures.

Using the defender strategic typology, firms rely on ESG practices to minimize operating costs through efficiency, mitigate legal and reputational risks, and enhance business continuity and competitiveness in stable markets. More investors will increase share prices that reflect higher share prices.

Additional Tests

We run additional tests by: (1) using ESG Disclosure scores (from the Bloomberg dataset), (2) using ESG Disclosure scores from the ESG intelligence, and (3) utilizing ESG Risk scores from the Indonesian Stock Exchange.

Additional Tests 1 - Bloomberg's ESG Disclosure

The first additional test utilizes Bloomberg's ESG Disclosure scores. The dataset tracks 800 different metrics covering the entire aspects, ranging from emission and shareholder rights, obtained from publicly available data sources like annual reports, sustainability reports, press releases, and third-party analysis. Bloomberg's database follows a disclosure-based methodology and shifts into a single number as commonly known as the ESG disclosure score. The score ranges from 0 to 100, indicating firms' transparency and sustainability reporting practices. More disclosed information implies higher scores and better sustainability reporting ([Sharma et al. Thukral 2019](#)). We use the one-year lagged ESG disclosure in this analysis as presented in table 6.

Table 6. The Results of Additional Tests 1

FV	<i>All sample</i>	<i>Prospector</i>	<i>Defender</i>
	Coefficient (t)	Coefficient (t)	Coefficient (t)
ESGBloomberg	0.0029 0.34	-0.0021 -0.16	-0.0061 0.57
Size	-0.2896*** -2.92	-0.3441** -2.02	-0.2261** -2.19
DAR	0.0086 0.28	-0.0080 -0.34	0.0311* 1.88
DER	0.0464 1.36	0.0363 0.45	0.0311 0.62
ROA	12.0827*** 4.12	9.8770** 2.01	15.5134*** 4.34
ROE	0.7571 1.39	0.2017 0.14	0.6621 1.31
Constant	9.9113*** 3.21	12.0547** 2.30	7.0698** 2.40
N	436	221	215
R-Squared	0.394	0.358	0.437
Hetttest	Robust	Robust	Robust

Source: Research Data (2025), *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

The results of the first additional test indicate that ESG performance does not affect firm value. In line with this, the effect is also insignificant in both subsamples (defenders and prospectors). The results of this supplementary test diverge from those of the primary analysis. This underscores the distinction between ESG performance and ESG disclosure. While ESG performance captures a comprehensive evaluation of a firm's ESG activities, ESG disclosure reflects only the activities that are reported. Firms may actively engage in ESG initiatives yet disclose them only partially, constrained by reporting practices or the limited scope of information permissible within annual or sustainability reports.

Additional Tests 2 - ESG Disclosure, ESG Intelligence

The second additional tests utilize ESG scores released by ESG Intelligence. These

ESG scores are based on the GRI (Global Reporting Initiatives) framework. ESG is obtained from firms' disclosure items related to environment, social, and governance, divided by the total items in the GRI framework ([Airlangga 2025](#)). ESG scores range from zero to one, suggesting that higher scores are associated with more compliance with the GRI framework. Table 7 presents the test result.

The results of the second additional tests demonstrate that ESG disclosures negatively affect firm value. However, further analysis based on strategic typologies indicates that ESG disclosures do not have a statistically significant effect on firm value in either prospector or defender firms. The results do not support hypotheses 1 and 2. The additional tests using the GRI-based ESG disclosure reveal negative effects on firm value. A prior study observes a similar result that ESG disclosure negatively affects firm performance ([Shaikh](#)

2021). The findings of this supplementary test diverge from those of the primary analysis in terms of directionality. Whereas the main test indicates a positive effect, the supplementary test suggests the opposite. This lends further support to the argument that alternative measurement approaches may produce contrasting results, as each measurement framework emphasizes different dimensions of the construct under examination.

Additional Tests 3 - ESG Risks

The third additional tests utilize the ESG risk scores. The ESG Risk indicates environmental, social, and governance risks that may affect firms' conditions and performance. The risks stem from firms' failure to manage various issues, such as environmental pollution, carbon emissions, and waste management. The social factors include employee rights violations, work

safety, and conflicts with communities. The governance factors include corruption, conflict of interest, lack of transparency, and weak governance structures (Stiadi 2023).

We generate ESG Risk scores from LQ45 firms' reports from the Indonesian Stock Exchange. The ESG Risk is measured by Sustainalytics, who evaluate ESG risks by decomposing risks related to ESG issues: exposure and management (Indonesia 2025). Exposure refers to firms' ESG material risks that will affect ESG risk scores, while management represents firms' commitment and real actions to handle ESG issues through various policies and programs. ESG Risk scores range between 0-100, with higher scores representing higher risks. We obtain the ESG Risk data from the IDX Company Fact Sheet LQ45. Table 8 presents the results.

Table 7. The Results of Additional Tests 2

FV	<i>All sample</i>	<i>Prospector</i>	<i>Defender</i>
	Coefficient (t)	Coefficient (t)	Coefficient (t)
ESGIntellegence	-1.1297** -2.27	-0.5219 -0.94	-1.0821 -1.47
Size	-0.3482*** -3.63	-0.2292** -2.36	-0.4319*** -3.24
DAR	-0.5605 -1.11	-0.5836 -1.03	-0.2691 -0.18
DER	0.0876 1.19	0.0284 0.58	0.1524 0.95
ROA	-0.1572** -2.30	-0.1110 -0.07	-0.0159** -2.29
ROE	2.8821*** 22.99	0.9683* 1.73	4.0675*** 3.25
Constant	12.9217*** 4.27	9.2096*** 2.73	15.1050*** 3.67
N	397	193	204
R-Squared	0.262	0.097	0.382
Hetttest	Robust	Robust	Robust

Source: Research Data (2025), *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 8. The Results of Additional Tests 3

FV	All sample	<i>Prospector</i>	<i>Defender</i>
	Coefficient (t)	Coefficient (t)	Coefficient (t)
ESGRisk	0.0239** 2.33	0.0429*** 3.05	-0.0139 -0.87
Size	-0.2581 -3.55	-0.2642** -2.43	-0.2673*** -3.11
DAR	0.4795 0.68	0.7723 1.01	-0.5197 -0.04
DER	-0.0501* -1.71	-0.0442 -0.64	-0.0319 -0.89
ROA	-4.5075 -0.95	5.6754 -1.32	-0.1197 -0.01
ROE	6.6839*** 3.63	5.6754*** 3.27	5.5821** 2.16
Constant	8.4242*** 3.49	7.9609** 2.24	10.1096*** 3.61
N	167	88	79
R-Squared	0.605	0.225	0.749
Hetest	Robust	Robust	Robust

Source: Research Data (2025), *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

The results of the third additional tests indicate that ESG Risk positively affects firm value. When classified by strategic typologies, the positive effect remains evident in prospector firms, whereas no significant effect is observed in defender firms.

This finding suggest that investors may interpret ESG risk differently depending on the firm's strategic orientation. In particular, ESG risk may be perceived more positively in prospector-oriented firms withing a high risk-high return framework. Firms operating in aggressive, expansive, and innovation-driven environments tend to exhibit greater environmental and social exposure, which may result in higher ESG risk scores. Nevertheless, such exposure can also signal growth opportunities, strategic boldness, and intensive business activity. Large or prospector-oriented firms often combine higher ESG risk with strong financial performance, broad market share, and sustained competitive advantages, leading

investors to associate elevated ESG risk with firm scale and expansion potential rather than heightened vulnerability. In some cases, elevated ESG risk may also reflect a transitional phase during strategic transformation and expansion, which investor may interpret as an indicator of future growth prospects, ultimately supporting higher firm valuation.

CONCLUSION

This study examines the effect of ESG performance on firm value and explores the role of strategic typology within this relationship. The findings demonstrate that Environmental, Social, and Governance (ESG) performance enhances firm value. ESG practices function as a mechanism to address stakeholders' interests while simultaneously signaling both financial and non-financial performance. Superior ESG performance increases investor confidence, thereby stimulating demand for shares and ultimately elevating firm value.

The role of firms' strategic typology (defenders vs. prospectors) indicates that ESG performance increases firm value. Prospectors adopt ESG by developing technologies through environmentally friendly products, better governance systems, and exploration of novel market opportunities as a strategy to build better images among investors. Higher adaptability enables prospectors to respond to social and environmental changes quickly and create competitive advantages, thus attracting investors to invest in these firms and increase firm value. Meanwhile, firms with the defender strategic typology, focusing on cost efficiency and market stability, adopt ESG practices to increase firm value through waste reduction, energy efficiency, and regulatory compliance. Efforts to maintain long-term relationships with stakeholders and stronger governance structures enable defenders to exhibit conservatism and effective risk management that attract investors to invest in these firms and boost firm value.

The research is subject to several limitations, specifically the limited availability of Environmental, Social, and Governance (ESG) score data for 2014-2023, as not all firms have ESG scores in the Refinitiv Eikon database, thereby impacting the sample size and the representativeness of the findings. Variations in ESG assessment methodologies among databases can also result in score discrepancies that affect the analytical results. Therefore, we advise future studies to utilize and compare various alternative ESG performance metrics, as well as the analyses that incorporate other variables.

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