

ABSTRACT

This study examines the impact of Environmental, Social, and Governance (ESG) scores on profitability and Firm Value in Indonesian energy sector companies, particularly those focused on the coal mining and oil & gas subsectors. MSCI ESG Research data shows that Indonesia's exposure to fossil fuel-based industries reaches 12.8%, almost double the world average of 7.2%, while the ESG performance of companies in Indonesia is still lagging behind with a score of only 5.8 out of 10, compared to the global index of 6.7 (Morgan Stanley Capital International, 2024). Several global studies have shown a positive correlation between ESG performance and profitability and firm value, such as research by Ademi and Klungseth (2022) on the US S&P 500 index. However, the limited research in the oil and gas industry in developing countries such as Indonesia makes this study important to understand the impact of ESG on profitability and firm value in the context of the national energy sector. This study aims to analyze the relationship between ESG scores and corporate profitability and Firm Value in this carbon-intensive industry.

The research employs a quantitative approach using a simple linear regression analysis cross-sectionally. The sample consists of 18 companies listed on the Indonesia Stock Exchange (IDX), consisting of coal mining and oil & gas companies, with observations covering the years 2021-2023. Financial performance is measured by the profitability ratio, while Firm Value is measured using market-based indicators. This study uses a simple linear regression model cross-sectionally to analyze the influence between these variables. The following study tests the hypothesis that ESG Score has a positive effect on financial performance and market value of the company. The findings of this study are expected to provide knowledge for investors, managers, and policy makers regarding the importance of ESG practices in the coal, oil, and gas industry in Indonesia.

Keywords: *ESG, Profitability, Firm's Value, Sustainability, Coal, Oil and Gas.*