ABSTRACT

This study aims to examine the effect of Environmental, Social, and Governance (ESG) performance on financial distress and investigate the moderating role of firm size in this relationship among energy and basic materials companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The study is motivated by the growing attention to corporate sustainability practices and the need to understand the financial consequences of ESG implementation, particularly in industries with high exposure to environmental and sustainability issues.

The research method employed is panel data regression using Moderated Regression Analysis (MRA). Secondary data were collected from annual financial statement reports and Bloomberg databases. Financial distress was measured using the Altman Z-Score, ESG performance was measured using Bloomberg ESG Performance Score, while firm size was proxied by the natural logarithm of total assets. The sample was selected using purposive sampling, resulting in 37 energy and basic materials companies with a total of 148 firm-year observations during the study period. Based on panel data model selection tests, the Random Effect Model (REM) was identified as the most appropriate estimation model.

The findings indicate that ESG performance has a significant effect on financial distress. However, the direction of the relationship is contrary to the proposed hypothesis, as higher ESG performance is associated with lower Altman Z-Scores, indicating a higher risk of financial distress. Furthermore, firm size significantly moderates the relationship between ESG performance and financial distress and is classified as a pure moderator. The results suggest that larger firms possess greater resource capacity to absorb ESG implementation costs, thereby mitigating the adverse impact of ESG on corporate financial health. These findings highlight that the relationship between ESG and financial distress is contextual and influenced by a firm's resource capacity.

Keywords: ESG, financial distress, Altman Z-Score, firm size.