ABSTRACT

This study aims to examine the effect of Environmental, Social, and Governance (ESG) performance on idiosyncratic risk and to analyze the role of institutional ownership in moderating this relationship. Idiosyncratic risk serves as a proxy for firm-specific uncertainty, which is heavily influenced by the degree of information asymmetry between management and market participants.

This quantitative research employs a sample of 51 non-financial companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Using the purposive sampling method, a total of 153 balanced panel data observations were obtained. Idiosyncratic risk is measured using the proxy ($1 - R^2$*) extracted from the Fama-French 3-Factor model regressions. The data was analyzed using Moderated Regression Analysis (MRA) with a Fixed Effect Model (FEM) approach, utilizing White Robust Standard Errors to address heteroskedasticity.*

The empirical results reveal that ESG performance independently does not have a significant effect on idiosyncratic risk. Furthermore, institutional ownership was hypothesized to act as a monitoring mechanism that strengthens the negative effect of ESG on idiosyncratic risk. However, the empirical results reject this hypothesis. Institutional ownership is proven to act significantly as a moderator that weakens the relationship between ESG and idiosyncratic risk. This anomaly indicates that institutional investors in the Indonesian emerging market still exhibit a short-term (transient) orientation, prioritizing immediate financial returns over long-term sustainability agendas, thereby distorting ESG effectiveness and amplifying market uncertainty.

Keywords: ESG Performance, Idiosyncratic Risk, Institutional Ownership, Corporate Governance, Panel Data Regression.