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The Effects of CEO Traits, Managerial Ownership, and Profitability on ESG Performance in Companies Listed on the Indonesia Stock Exchange

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Abstract. This study examines the effect of CEO Traits, Managerial Ownership, and Profitability on ESG performance in manufacturing firms listed on the Indonesia Stock Exchange (IDX) during 2021–2024. ESG performance serves as a key indicator of corporate sustainability, reflecting a firm's commitment to environmental, social, and governance responsibilities beyond financial objectives. Although attention to ESG has increased, empirical findings on its internal determinants remain inconsistent, partly because many prior studies rely on cross-sector samples. Given the higher environmental exposure and regulatory pressure faced by manufacturing firms, the determinants of ESG performance in this sector may differ from those identified in broader multi-industry contexts. Grounded in pecking order theory and agency theory, this study employs panel data regression on 39 firms, resulting in 142 observations after data cleaning. ESG performance is measured using the Refinitiv ESG score, and the Random Effects Model (REM) is selected based on Chow and Hausman tests. The results reveal that profitability has a significant negative effect on ESG performance, while CEO Traits and Managerial Ownership show no significant influence. These findings suggest that highly profitable firms may prioritize short-term financial efficiency over sustainability investment. This study extends prior research by providing a comprehensive sector-specific model that simultaneously examines governance and financial determinants of ESG performance in an emerging market context.

Keywords: CEO Traits, ESG Performance, Managerial Ownership, Manufacturing Firms, Profitability

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Introduction

In this era, attention to sustainability and social responsibility of every company is increasing. One important indicator in measuring a company's sustainability performance is ESG, social, and corporate governance. ESG performance is a benchmark of how companies not only pursue financial gains but also be mindful to social and environmental impacts, such as transparency and accountability in governance.

ESG developments are becoming increasingly important for all companies worldwide, including those listed on IDX. ESG is now used as an indicator to assess corporate sustainability and governance (Handoko and Holili 2024). Companies with good ESG performance can be considered to have higher transparency and greater investment appeal (Cecilia, Rizki, and Putri 2025).

ESG investing faces a number of challenges after attracting significant interest at its inception. These challenges stem from poor performance, strict regulations in the European Union, and increasingly intense anti-ESG campaigns in the United States (Ahmadi 2025). The downward trend in global ESG investment in 2024 signals a demand for encouraging businesses to raise the standard of their ESG reporting.

According to data from Morningstar Sustainalytics, ESG-based investments have experienced a significant decline. This data shows that global capital flows into ESG investments only reached US$36 billion. This figure is down 50% from the previous year and is the lowest since 2018. This may be due to allegations that companies are only pretending to care about ESG, and the lack of clarity in the definition of ESG methodology has made investors doubt whether these investments are having a positive impact or not. Christensen and Hail (2021) said that even though ESG investment trends are declining, ESG must still be reported because it is a regulatory requirement. Therefore, having and understanding the factors that influence ESG performance provides advantages for Indonesian companies. Mubin et al. (2023) says the company has shifted its focus from profit to the positive impact of its activities on the environment, society, and government.

The phenomenon shows that the presence of female CEOs is increasingly associated with companies' growing attention to issues of sustainability and social responsibility. Several studies have found that women in top positions tend to have an increased degree of ethical sensitivity higher and more consider the social impact of business decisions (Sri Utaminingsih et al. 2022). This finding is supported by Peng and Chandarasupsang (2023) which proves that female directors have a favorable impact on the implementation of ESG practices and corporate sustainability transparency. Besides that, Wang et al. (2021) also found that having female directors on the board not only of directors not only improves ESG performance, but is also linked to a rise in the business's financial performance.

Although global awareness of ESG practices continues to increase and is expected to drive corporate sustainability, ESG implementation and performance in Indonesian companies is still not optimal, particularly in the manufacturing sector. This is reflected in IDX data showing that of the approximately 850 listed companies, only around 70 have ESG scores. This fact demonstrates that most companies have not consistently adopted, measured, and reported ESG practices as part of their sustainable business strategies. Limitations in ESG reporting and disclosure indicate a gap between the increasing sustainability demands of stakeholders and the ESG practices implemented by companies in the field. Therefore, this condition needs to be bridged through more detailed empirical analysis to understand the internal factors that influence the ESG performance of manufacturing firms in Indonesia.

Literature Review

Two theories are used in this investigation, namely agency theory and pecking order theory. Agency theory explains the contractual connection between business owners and managers, where by managers are given the power to run the business on behalf of the owners (Company, Jensen, and Meckling 1976). Differences in interests and information asymmetry in this relationship have the potential to cause agency conflicts, which encourage managers to act to maximize personal interests or short-term goals.

In the context of ESG performance, agency theory explains that sustainability activities are often perceived as additional costs that do not provide direct financial benefits. Therefore, the characteristics of CEO's and share ownership by managers do not necessarily automatically improve a company's ESG performance (Farizki and Harto 2025). Managerial ownership in relatively small proportions is also considered insufficiently effective in aligning managers' interests with the long-term business sustainability goals. In addition to the agency

perspective, this study also uses pecking order theory to explain corporate decisions in allocating internal funds to sustainability activities.

According to the pecking order idea, businesses that companies have a preferred order in selecting funding sources, namely internal funds, debt, and equity as the last option (Avenue, n.d. 1984). This theory emphasizes the role of information asymmetry in the funding of corporations financing decisions. In the pecking order theory perspective, Businesses that are profitable typically to prioritize the use of internal funds to support key operational activities and investments that have a direct impact on financial performance (Ganesha 2025). ESG activities are often viewed as long-term expenditures that do not provide immediate economic benefits, so funding for ESG can be reduced. As such, profitability can have an adverse effect on the ESG performance of a business ESG performance.

Based on agency theory and pecking order theory, ESG performance is influenced by managerial orientation and preferences for the use of company resources. When management focuses more on cost efficiency and short-term profit, commitment to sustainability practices becomes limited (Siti Hajar et al 2024). This condition is relevant for manufacturing companies in Indonesia, which still face regulatory constraints and market demands related to ESG implementation. Therefore, this theory is relevant to explain how internal company factors such as CEO traits, Managerial Ownership, and Profitability can affect ESG performance.

Although attention to ESG is increasing among investors and regulators, empirical data regarding the internal determinants that influence corporate ESG performance still shows inconsistencies. These inconsistent findings may be attributed to differences in ESG measurement proxies, research periods, industrial characteristics, or institutional contexts across studies. Variations in methodological approaches and the level of strategic authority held by female CEOs may also contribute to the divergent results. Investigations on how CEO gender affects on ESG performance shows conflicting results. Dillak and Hapsari (2024) found that the involvement of female leaders in strategic positions has a positive relationship with ESG performance, mainly because female leaders are considered to be more responsive to stakeholder interests and sustainability issues. On the opposite side, Rahman, Samiono, and Gemilang (2024) shows that the gender of CEOs has no appreciable impact on ESG in Indonesian companies, and concludes that sustainability decisions are determined more by external factors than by the gender characteristics of CEO's. In this context, the presence of female CEO's does not necessarily come with sufficient strategic authority in ESG decision-making, which could potentially cause the company to place less emphasis on sustainability. From an agency theory perspective, CEOs act as agents whose strategic decisions are influenced by principals and corporate governance mechanisms. When agency conflicts arise or managerial discretion is constrained by dominant shareholders, personal characteristics such as gender may not significantly determine sustainability decisions. Therefore, this research puts forth the hypothesis that CEO gender has an adverse impact on ESG performance.

H_1: CEO traits negatively impact on ESG performance

Moreover, the relationship between managerial ownership and ESG performance has yet to show consistent conclusions. Hidayatul Aisyah Nur Rohman, Nur Ainiyah, and M.Bahril Ilmidaviq (2024) found that ownership structure, including managerial ownership, has a positive effect on ESG implementation, as managers who own shares tend to align their interests with the long-term sustainability of the company. But the results of Renaldy and Rani (2025) shows that Managerial Ownership has no significant influence on ESG, because sustainability decisions are driven more by regulations and market pressures than by managerial ownership incentives. These inconsistent findings may arise not only from differences in ESG measurement proxies but also from variations in the level of managerial ownership, ownership concentration, and institutional pressures across research contexts. Based on the agency theory viewpoint and the inconsistency of these empirical findings, High managerial ownership has the potential to encourage managers to be more oriented towards personal interests and short-term performance, thereby reducing attention to corporate sustainability practices. Therefore, this research puts forth the hypotesis that managerial ownership has a adverse impact on ESG performance.

H_2: Managerial Ownership negatively impact on ESG performance

Literature regarding the outcome of profitability on ESG performance also shows inconsistent results. Sutisna and Salman (2025) found that profitability has a favorable effect on ESG, because more profitable companies have greater resources to invest in sustainability programs. In contrast, study conduct by Emilda et al. (2025) shows that profitability has no subtansial impact, and in some cases even tends to be negative, when companies focus more on short-term

efficiency and cost savings than on ESG programs. This difference in discovery demonstrates that high profitability does not always drive improved ESG performance, as a company's focus on short-term profit can reduce its commitment to sustainability practices. In line with pecking order theory, firms with higher profitability tend to rely more on internal financing and face lower external monitoring pressures. As a result, the incentive to enhance ESG disclosure and sustainability investments may weaken. Therefore, this study conduct puts forth the hypotesis that profitability has a negative effect on ESG performance.

H_3: Profitability negatively impact on ESG performance

In addition to the main independent variables Additionally, this report contains firm size as a control variable. Firm size is controlled because larger companies tend to acquire more adequate resources, higher pressure from regulations, and greater public interest to sustainability practices, which can potentially impact a company's ESG performance. By controlling for firm size, this study tries to ensuring that the influence of CEO Traits, Managerial Ownership, and Profitability ESG performance is not impacted by differences in company size.

Based on the hypothesis developed, this study's goal to investigate the effect of CEO Traits, Managerial Ownership, and Profitability on ESG performance in manufacturing businesses that are listed on IDX. Additionally, this study looks for ways to offer a more empirical perception of how internal company factors play a role in improving sustainability performance, with a focus on ESG performance, not just ESG disclosure.

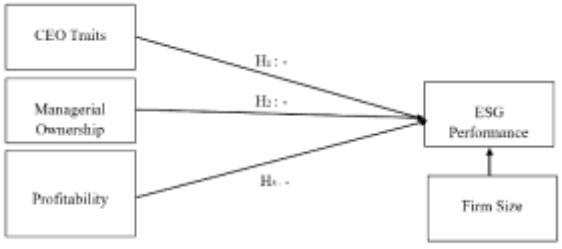

Fig. 1. Conceptual Framework
Source: Data processed

Research Method

This research employs quantitative research with an explanatory approach that objectives to investigate the effect of CEO Traits, Managerial Ownership, and Profitability on ESG performance. Hypothesis testing in this study was conducted using panel data regression analysis. The data used is secondary data, using a research population from manufacturing firms that are listed on the Indonesia Stock Exchange (IDX) from 2021 to 2024. Using purposive sampling, the sample was chosen techniques with the criteria of manufacturing companies (Basic Material, Consumer non cylical, Consumer cylical, industrial) that have ESG scores on Refinitiv and were not delisted during the research period. The criteria are as follows for the company sample, which will be explained in Table 1.

Table 1
Research Sample

No	Company	Total
1.	Basic Material	12
2.	Consumer Non Cylical	14
3.	Consumer cylical	8
4.	Industrial	5
	Total	39

Source: Secondary data processing result

From Table 1, this study has 156 observations derived from company data during the four-year research period. Based on the outlier detection results, 14 observations were found to have extreme values that could disrupt the data distribution and regression accuracy. Therefore, the 14 outlier observations were removed from the dataset, so that the analysis was conducted using only data that did not contain extreme values. The removal of outliers was done to improve the normality and stability of the data and reduce distortion in the panel regression estimation. Table 2 presents the discovery.

Table 2
Research Sample Selection Summary

Description	Total
Total initial Observation	156
Deleted Outlier	14
Final Observation used	142

Source: Secondary data processing result

Operational definitions of variables are used to explain in detail the concept of each research variable and how it is measured. In this study, there are several variables, namely dependent variables, independent variables, and control variables. ESG performance is a dependent variable measured using ESG scores published by Refinitiv. The independent variables in this study are CEO Traits, Managerial Ownership, and Profitability. CEO traits are measured using a dummy

variable, which looks at the gender of each company's directors, whether male or female. Managerial ownership is measured by the percentage of managerial share ownership of total outstanding shares using the formula MO = (number of shares owned by management / total outstanding shares) x 100%. Profitability is measured using the NPM formula, which is net profit / Revenue x 100%. This study uses one control variable, namely firm size, to ensure that the independent variable connection is not influenced by differences in company size. Company size is measured using the natural logarithm of total assets (Ln Total Assets) as an indicator commonly used in corporate governance and sustainability reporting research. Including Firm Size as a control variable helps produce a more accurate and unbiased relationship in the panel data regression model.

Table 3
Operational Variable Definition

ESG Performance (Y)	
Operational Definition	Company performance in environmental (E), social (S), and governance (G) aspects as measured by Refinitiv's ESG score.
Indicator	1. Environmental Score 2. Social Score 3. Governance Score
Proxy	ESG Score = ESG score from the Refinitiv database (0-100)
Scale	Ratio
Source	Refinitiv (2023)
CEO Traits (X1)	
Operational Definition	The personal characteristics of a CEO that can influence the company's leadership style and strategic decisions.
Indicator	CEO Gender
Proxy	- GENDER = Dummy (1 = Woman, 0 = Man)
Scale	Nominal
Source	Hambrick & Mason (1984); Custódio & Metzger (2014)
Managerial Ownership (X2)	
Operational Definition	Share ownership by management who play a role in corporate decision-making.
Indicator	Percentage of managerial share ownership of total outstanding shares.
Proxy	MO = (Number of shares owned by management / Total outstanding shares) x 100%
Scale	Ratio
Source	Jensen & Meckling (1976)
Profitability (X3)	
Operational Definition	Profitability is the company's ability to generate profit from its operational activities and the managed resources.
Indicator	Net income & net sales
Proxy	NPM = Net income / net sales
Scale	Ratio
Source	Nollet, J., Filis, G., & Mitrokostas, E. (2016)
Firm Size (Control)	
Operational Definition	Company size reflects the size of a company based on its total assets.
Indicator	Total company assets
Proxy	FSIZE = Ln (Total assets)
Scale	Ratio
Source	Dang et al. (2018)

Source: Secondary data processing results

Result and Discussion

To test the hypothesis, this reseacrh uses panel data regression through the Eviews 12 application by comparing three estimation models, namely the Random Effects model (CEM), Fixed Effects model (FEM), and Random Effects Model (REM). The selection of the best model is done using the Chow test, Hausman test, and Lagrange Multiplier (LM) test.

Table 4
Model Selection

Spesification	Effect test	Statistic	Prob
Chow Test	Cross-section F	22.893766	0.0000
	Cross-section Chi-square	323.917149	0.0000
Hausman Test	Cross-section mode	7.599580	0.1074

Source: Data processed with eviews 12

To begin selecting an estimation model, first use the Chow test. The Chow test is useful for comparing CEM and FEM. If the probability is < 0.05, then the model used is FEM, and vice versa. The results above show that the probability is 0.00, which means that FEM is the appropriate model.

Next, model selection must continue to the Hausman test. The Hausman test is useful for selecting the best model between FEM and REM. If the probability is < 0.05, then the model used is FEM and vice versa. The results above show a probability of 0.1074, so the model used is REM.

The Lagrange Multiplier (LM) test was not performed because this model only tests CEM and REM. Since CEM was not selected, it was not necessary to test it using LM.

Based on these test results, REM was determined to be the most model for this investigation. The regression model used can be formulated as follows:

$$ESG_{it}=\alpha_i+\beta_1 CEO_{i,t}+\beta_2 MO_{i,t}+\beta_3 PROF_{i,t}+\beta_4 FS_{i,t}+\varepsilon_{i,t}$$

Explanation =
ESGit = Environmental, Social, and Governance performance of company i in year t
α = constant (intercept value)

β1 - β4 = Regression coefficients of each independent variable
CEOTit = CEO traits company i in year t
MOWNit = Managerial Ownership company i in year t
Profit = Profitabilitas company i in year t
SIZEit=Firm size as a control variable company i in year t
Єit Error term (disturbance component)

The regression model was used as a basis for testing the magnitude of the independent variables' influence on ESG performance and assessing the significance of each coefficient in this study.

Table 5
Descriptive Statistic Analysis

Desc	ESG	CEO	MO	PROF	FS
Mean	48.2	0.02	5.73	0.08	30.51
Median	48.01	0.00	0.01	0.08	30.52
Max	88.01	1.00	75.1	0.55	33.43
Min	11.71	0.00	0.00	-0.66	25.85

Source: Data processed with eviews 12

Descriptive statistical analysis of 142 observations in the research model shows varying data characteristics. founded on the descriptive statistical results, the ESG variable has a minimum value of 11.71 and a maximum value of 88.01 with an average value of 48.28. This demonstrates that the ESG performance level of the sample companies is in the middle category, with a standard deviation of 16.73, indicating considerable variation between companies.

The CEO Traits (CEOT) dummy variable has a minimum value of 0.00 and a maximum value of 1.00, indicating that only about 2.1% of the sample falls into category 1. This shows that the majority of CEOs in the sample are 0/(male).

The Managerial Ownership variable (MWON) has an average value of 5.73 with a minimum value of 0.00 and a maximum value of 75.18. This demonstrates that there is considerable variation in managerial ownership between companies. The standard deviation of 15.83 demonstrates a high level of dispersion, given that some companies have much larger managerial shares than others.

The Profitability variable has a positive mean of 0.089, which means that the average net profit of companies is around 8.9%. However, the data range is very wide, from the lowest loss (Minimum) of -0.67 (67% loss) to the highest profit (Maximum) of 0.55 (55% profit). The significant disparity between the Maximum and Minimum values demonstrates high variability in profitability among the sample companies.

The FM variable (Firm Size) as a control variable shows the most consistent and homogeneous data among all variables. The mean value of 30.51 is almost identical to the median value of 30.52. The data range is also relatively narrow, from a minimum of 25.85 to a maximum of 33.43. This stability demonstrates that the FS data has low dispersion and shows little variation across the sample.

Table 6
Jarque-Bera normality test

Desc	N
Observation	142
Jarqua- Bera	2.155099
Prob.	0.340429

Source : Data processed with eviews 12

The normality test on the standard residuals of Regression analysis was conducted using the Jarque-Bera method. This test showed a Jarque-Bera statistic value of 2.155099 with a profitability value of 0.340429. Since the probability value (0.340429) is considerably more important than the level of 0.05, this means that declaring that the residuals are normally distributed is acceptable. Thus, it can be concluded that the assumption of normality has been met and the residual data of the regression model is normally distributed.

Table 7
Multicollinearity Test

Description	X1	X2	X3	K
X1	1.00	0.05	0.04	0.08
X2	-0.05	1.00	0.06	0.009
X3	0.04	0.06	1.00	0.21
K	0.08	0.009	0.21	1.00

Source : Data processed with eviews 12

Based on the results of the independent variable correlation matrix analysis, Thus, it may be said that the regression model lacks a serious multicollinearity problem. The results of this test show that all correlation coefficients among independent variables have very low values and are well below the critical threshold of 0.80. The highest correlation value only reaches 0.215766, which is between variable X3 and the control variable. Since there is no strong linear connection among the independent variables, it can be ensured that the regression coefficient estimates will be stable and not biased by the connection between the x variables, so that the model can go forward to the hypothesis testing stage.

Table 8
Hypotesis Testing

Variable	Coefficient	Std. Error	t-statistic	Prob
C	-117	48.63	-242	0.01
CEOT	5.05	6.47	0.78	0.436
MO	-0.06	0.14	-0.48	0.62
PROF.	-14.95	6.66	-2.24	0.026
FS	5.49	1.59	3.44	0.008
Prob (F-statistic)	0.005			
Adjusted R-squared	0.07			

Source: Data processed with eviews 12

The t-test results from the Random Effect Model (REM) reveal that two of the four independent and control variables have a statistical significance with regard to the dependent variable Y. First, the profitability variable shows a negative and statistically significant coefficient (β = -14.95, p=0.02. The small p-value (0.0264) is more likely to decrease variable Y. Conversely, variables X1 and X2 were found to have no statistical relationship with Y, as indicated by high p-values (0.4363 and 0.6275 respectively). The small p-value (0.0264) is more likely to decrease variable Y. Conversely, variables X1 and X2 were found to have no statistical relationship with Y, as indicated by high p-values (0.4363 and 0.6275, respectively).

Furthermore, the overall f-statistic (Prob.F=0.005332) demonstrates that all of independent variables combined significantly affect the dependent variable y. Since the probability value of 0.005332 is less than 0.05, this model is appropriate for use in inference.

Finally, the coefficient of determination shows (R=0.101145; Adjusted R= 0.074902). The adjusted R value of 0.074902 demonstrates that the independent variables in the model explain approximately 7.49% of the total variation that occurs in variable y. This result is clearly low, indicating that most of the Y variable (92.51%) is influenced by factors outside the model. The low R2 may be a reflection of the high heterogeneity in the panel data. The estimated model includes 30 company entities and 4 periods in which companies have different characteristics.

However, a low adjusted R-square does not necessarily invalidate the model, particularly in ESG and corporate governance research where firm behavior is influenced by complex and multidimensional factors. Although the explanatory power is limited, the model remains useful in identifying the statistical significance and direction of key variables. Future studies may incorporate additional governance or firm-specific variables to enhance explanatory power.

The Influence of CEO Traits on ESG Performance

Referring to Table 8, CEO traits were found to have no appreciable effect on the dependent variable Y, with a positive coefficient value of β = 5.052473 and a probability of 0.4363 (>0.05). Therefore, hypothesis H_1 is rejected. One possible reason for the insignificant effect of CEO traits on ESG performance is the low proportion of female CEOs in the research sample, which was only 2.1%. This very small proportion resulted in limited data variation and low statistical power in detecting the effect. According to agency theory, differences in interests between principals and agents can influence corporate decisions, where CEOs as agents are expected to encourage the implementation of ESG policies in accordance with their personal characteristics. The rejection of this hypothesis demonstrates that in the context of this study, CEO traits not immediately impact on ESG performance. This result also reinforces the importance of agency theory, namely that corporate supervision and control play an crucial part in maintaining balance the interests of CEOs and shareholders, so that CEO characteristics do not always have a major influence on ESG performance.

These discovery indicate that CEO traits do not play a dominant role in influencing corporate investment or commitment to ESG. ESG decisions are often long-term strategic decisions that require more fundamental structural changes than just the personal preferences of leaders. The influence is not statistically significant in this model. These discovery are consistent with research previously showed that CEO Traits are not always a significant predictor of ESG performance due to the complex and multidimensional nature of ESG characteristics The discovery of this investigation are consistent with (Yapianto and Dewi 2023) which claimsthat CEO Traits have no significant influence on ESG performance. However, research on CEO Traits and ESG Performance has produced mixed findings. On the other hand, (Difitri and Wijayanti 2025) claims that several CEO attributes influence ESG performance. These discovert indicate that not all CEO traits improve the success of sustainability reporting. Thus, the hypothesis regarding CEO traits and ESG needs to be re-examined to obtain a more comprehensive picture.

The Influence of Managerial Ownership on ESG Performance

Referring to Table 8, managerial ownership also has no significant impact on the dependent variable Y, with a negative coefficient value of β = -0.068658 and a very high probability of 0.6275 (>0.05). Therefore, Hypothesis H_2 is rejected. This may be because managers who are also owners tend to focus on short-term returns to satisfy themselves as shareholders, there by sacrificing long-term ESG investments that require large expenditures. Based on agency theory, an increase in managerial ownership should align the interests of CEOs and shareholders, thereby encouraging more proactive decision-making regarding ESG performance. The rejection of this hypothesis demonstrates that in the context of this study, managerial ownership does not directly affect ESG performance, possibly because oversight mechanisms, majority ownership structures, or other control variables are more dominant in influencing ESG performance. These results confirm that agency theory remains relevant, whereby corporate oversight and control mechanisms play a major function in weighing the interests of agents and principals, so that managerial ownership alone is not sufficient to significantly influence ESG performance.

These results s that managerial ownership is not dominant enough to influence ESG performance. This study shows the same results as Graita Nur Fajrin, Ratna Anggraini, and Gentiga Muhammad Zairin (2025), which claims that the low proportion of managerial ownership is considered insufficient to have a significant impact and may even give rise to negative perceptions. However, other studies have found the opposite to be true. Wardani, Juanda, and Wicaksono (2025) claims that a major impact on ESG performance is managerial ownership. managerial ownership has a significant impact on ESG performance. This needs to be tested further to obtain more logical results.

The Influence of Profitability on ESG Performance

Referring to Table 8, Profitability was found to have a negative and significant coefficient on the dependent variable Y, with a value of β= -14.95422 with a probability of 0.0264 (<0.05). Hypothesis H_3 is accepted. This demonstrates that an increase in profitability tends to decrease the value of variable Y. In the context of Indonesian manufacturing firms, higher profitability may encourage companies to prioritize operational efficiency, production expansion, and capital expenditures rather than sustainability initiatives. Manufacturing companies are generally cost-sensitive and capital-intensive, requiring continuous reinvestment in machinery, raw materials, and production capacity to maintain competitiveness. As ESG initiatives are often perceived as long-term strategic investments with indirect financial returns, firms with higher profits may choose to allocate resources toward short-term efficiency and core operational improvements instead of sustainability programs. Based on the Pecking Order theory Businesses typically employ internal funds for more priority needs, so that high profitability can cause the allocation of funds for ESG activities to be relatively lower. This finding shows that in practice, higher company profitability does not always have a positive impact on ESG performance, because the company's internal priorities are more directed towards strategic or key operational investments. These discovert validate the Pecking Order theory, which emphasizes that the use of internal funds follows the company's priority hierarchy, so that high profitability can have a negative impact on spending on ESG.

Therefore, the higher the company's profitability, the greater their incentive to restrain spending on ESG. This finding is in line with (Fathihani et al. 2025) which claims that profitability has a significant impact on ESG performance. Conversely, several studies have found that ESG components or the relationship between profitability and ESG do not have a significant impact on company value or overall profitability. This can occur if the internal structure does not support transparency or the allocation of resources for ESG (Prayogo, Setiawati, and Jariatu Bah 2024).

Conclusion

According to the regression analysis results, this study concludes that of the main variables tested, Profitability has a significant negative effect on ESG performance. This discovery is consistent with the Pecking Order theory, which claims that companies prioritize the use of internal funds for investments or needs that are considered more urgent. Thus, high profitability does not always translate into an increase in ESG performance, due to priority of use funds following the company's internal hierarchy. These discovery indicate that companies with high profitability are not necessarily committed to

sustainability practices, as management tends to focus on cost efficiency and short-term profit growth. Thus, a strong profit orientation can reduce companies' incentive to allocate resources to environmental, social, and governance activities. Meanwhile, the other two main variables, CEO Traits and Managerial Ownership, were found to have no significant effect on ESG performance. The insignificance of these two variables demonstrates that the personal characteristics of top management and the level of share ownership by managers do not have a strong enough influence on strategic decisions related to sustainability. This may be because ESG decisions in companies are determined more by overall corporate policy, regulatory requirements, and external pressures, rather than individual preferences.

Suggestion

For additional investigation, it is recommended to add new variables such as corporate culture, stakeholder pressure, managerial incentives, or sustainable innovation such that gain a more extensive understanding of the factors that influence ESG performance. Subsequent may also be usefull mixed-method or qualitative approaches, such as interviews with management, to analyze ESG practices in deeper level. In addition, it is recommended to explore moderating or mediating variables, such as corporate governance or institutional ownership, which may influence the relationship between profitability or CEO traits and ESG performance. Future investigations should also expand the sector or regional context, as ESG standards and compliance vary across industries, and consider the use of longitudinal data to examine trends and the long-term effects of these factors on ESG performance.

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