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ESG Risk, Inflation, and Intellectual Capital: Drivers of Market Capitalization in Indonesia

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Abstract

Main Objectives: This study analyzes the effect of ESG Risk Rating, inflation, and intellectual capital on the market capitalization of LQ45 companies in Indonesia. This topic is important because sustainability risk, macroeconomic conditions, and intangible assets increasingly shape firm value in emerging capital markets. **Background Problems:** The research problem is whether these three factors significantly explain differences in market capitalization among leading Indonesian companies. **Novelty:** The novelty of this study lies in integrating ESG risk, inflation, and intellectual capital in a single valuation model within the Indonesian context, which has rarely been examined simultaneously. **Research Methods:** Using panel data from 2020–2024 obtained from Sustainalytics ESG Fact Sheets, annual reports, and official inflation statistics, This study employs panel regression and uses a sample of 24 companies, which means the research comprises 120 observations. **Finding/Results:** The results show that ESG Risk Rating and inflation have not affected market capitalization. Intellectual capital and Firm size as a control variable have a significant positive effect. Meanwhile, Firm age as another control variable has a positive but insignificant effect. However, when the three variables are tested together, they are able to influence market capitalization. **Conclusion:** Intellectual capital becomes the main factor that can influence market capitalization, both before and after the introduction of control variables. With the results of this research, policies related to human resources should be prioritized, and regulators need to provide education or literacy for investors with a tendency to shift from short-term investments to sustainable investments.

Keywords: ESG Risk Rating; Inflation; Intellectual Capital; Market Capitalization.
JEL Classification: C23; E44; G14; G32

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INTRODUCTION

In recent years, performance evaluation of corporate firms is no longer evaluated solely based on financial indicators, but it has extended beyond traditional financial indicators to encompass broader measures of sustainability and intangible value creation (Yusra et al., 2026). Environmental, Social, and Governance (ESG) issues are increasingly becoming a major focus in the capital markets and the corporate world, both globally and nationally, including in Indonesia. The government's commitment to achieving Net Zero Emissions (NZE) 2060 and its commitment to fully contribute to the UN's Sustainable Development

Goals (SDGs) are encouraging Indonesian companies to implement stronger sustainable business practices not only to meet regulatory demands but also to attract investors who are increasingly concerned about sustainability. Environmental, Social, and Governance (ESG) performance has become a critical factor influencing investors' decision-making, corporate reputation, and long-term firm value (Feng et al., 2025). ESG Risk Rating, in particular, provides a quantitative assessment of a firm's exposure to sustainability-related risks that may affect its financial stability and market valuation. Companies with lower ESG risk are generally perceived as more resilient, better managed, and more attractive to long-term investors, especially in emerging markets such as Indonesia (Yusra et al., 2026).

Concurrently ESG considerations, macroeconomic conditions especially inflation, play a significant role in shaping market capitalization. Inflation affects purchasing power, interest rates, and the cost of capital, leading to significant implications for corporate profitability, investment strategies, and stock market performance. In developing economies like Indonesia, inflation volatility is often more pronounced, making it a crucial variable in explaining stock market behavior. Therefore, understanding how inflation interacts with firm-specific factors such as ESG risk and intellectual capital is essential to explain variations in market capitalization. Despite inflation's recognized macroeconomic impact, its interaction with firm-level sustainability practices and intangible assets in determining firm value remains underexplored, particularly in emerging markets like Indonesia where inflationary pressures can be more volatile. Finance literature seldom integrates inflation into firm-level analyses that consider sustainability metrics.

Moreover, the transition from a traditional asset-based economy to a knowledge-based economy has made intellectual capital a major driver of firm value. Intellectual capital, which includes human capital, structural capital, and relational capital, reflects a firm's ability to innovate, maintain competitive advantage, corporate adaptability and create sustainable growth. Firms with strong intellectual capital are more capable of managing ESG-related challenges, adapting to inflationary pressures, and delivering superior financial and market performance. Prior studies in Indonesia have examined the effect of intellectual capital on firm performance and value, but these tend to focus on direct effects or moderating roles in isolation, without integrating broader sustainability or macroeconomic variables (Febrianti et al., 2023).

Despite a growing body of literature examining relationships among ESG performance, intellectual capital, and firm value, gaps remain in the integrated understanding of these constructs. Prior research in Indonesia has focused largely on the effects of ESG disclosure and risk on traditional performance and valuation measures (Oktris et al., 2026; Rohendi et al., 2024) without sufficiently considering how inflationary dynamics interact with sustainability and intangible assets to influence market capitalization. Talking about this research, studies addressing intellectual capital have predominantly examined its direct impact on financial performance or moderated relationships with ESG disclosure, but few have linked intellectual capital to market capitalization outcomes while simultaneously accounting for ESG risk and macroeconomic variables (Febrianti et al., 2023). Additionally, research specifically analyzing ESG Risk Rating as opposed to general ESG disclosure measures and its correlation with firm value or market capitalization in the Indonesian capital

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market remains limited or demonstrates mixed results, signaling an unresolved empirical debate (Yusra et al., 2026).

Given these gaps, there is a pressing need for an integrated empirical investigation that examines the correlation among ESG Risk Rating, inflation, intellectual capital, and market capitalization in Indonesian corporate settings. By incorporating inflation as a macroeconomic variable alongside sustainability risks and intangible assets, this study addresses an important void in the current sustainability finance and corporate valuation literature. Moreover, the explicit focus on market capitalization, a forward-looking market-based measure advances prior work that has largely emphasized accounting-based performance indicators (Yusra et al., 2026). The novelty of this research lies in constructing a holistic analytical model that simultaneously considers ESG risk, macroeconomic inflation, and intellectual capital in explaining market capitalization, contextualizing these relationships within an emerging market, where ESG integration and inflation pressures may differ from developed economies and providing empirical insights that are directly relevant for investors, corporate managers, and policymakers seeking to optimize sustainable value creation and market performance. Through addressing these underexplored linkages, the present study contributes to a deeper understanding of how sustainability risks, knowledge assets, and economic conditions interact to shape corporate valuation in Indonesia.

Firm characteristics such as firm age and firm size have been widely recognized as important determinants of market valuation and investor assessment, and thus are often included as control variables in firm value research. Firm age, measured as the number of years since incorporation, reflects organizational maturity, accumulated experience, and reputational capital, which can influence investor's perceptions of risk and stability (Singh & Khatua, 2025). Meanwhile, firm size, commonly proxied by total assets or revenue, represents the scale and resource capacity of a company, which has been shown to affect investor confidence, access to capital markets, and valuation multiples in both emerging and developed markets (Singh & Khatua, 2025). Therefore, controlling for firm age and firm size ensures that the estimated impacts of ESG risk, inflation, and intellectual capital on market capitalization are not confounded by these fundamental firm features, providing a more robust understanding of valuation determinants in the context of LQ45 companies.

This research was conducted in companies included in the LQ-45 index in Indonesia because the LQ45 index represents the 45 most liquid stocks with the largest market capitalization and strong financial fundamentals in the Indonesian Stock Exchange, making it a reliable proxy for blue-chip companies and investor preference in the Indonesian capital market (Indonesian Stock Exchange, 2024). Firms included in LQ45 are subject to stricter disclosure standards, higher investor scrutiny, and more intensive trading activity, which makes their market capitalization more sensitive to changes in ESG risk, macroeconomic conditions such as inflation, and firm-specific intangible assets (Damodaran, 2012). Moreover, LQ45 firms are typically market leaders within their respective industries and are more likely to implement ESG practices, invest in intellectual capital, and respond strategically to inflationary pressures compared to smaller or less liquid firms (Xu & Wang, 2018). Therefore, focusing on LQ45 companies allows this study to capture the dynamics of sustainability risk, macroeconomic stability, and intangible value creation in firms that play a dominant role in shaping the overall performance of the Indonesian stock market.

According to signaling theory, corporate ESG performance and risk levels convey

important signals to investors regarding a firm's long-term sustainability, risk management quality, and governance effectiveness. A lower ESG risk rating indicates that a company is better able to identify, manage, and mitigate environmental, social, and governance risks, which reduces uncertainty about future cash flows and operational continuity. Conversely, a high ESG risk rating reflects poor sustainability risk management, potentially exposing the firm to regulatory sanctions, reputational damage, and operational disruptions. These risks increase investors' perceived uncertainty, leading to higher required rates of return and lower firm valuation. In capital markets, investors tend to discount companies with high ESG risk because sustainability-related controversies can erode profitability and increase volatility. Moreover, research within Indonesian contexts shows that ESG risk has a significant negative impact on firm value when evaluated alongside traditional corporate finance variables, confirming that unmanaged sustainability risks can reduce investor confidence and market capitalization (Ashari & Rahmawati, 2025). Liu et al., (2025) examined the relationship between ESG ratings and firm performance using panel data and found that ESG ratings were negatively related to firm performance. This study strengthens the argument that higher ESG risk tends to be associated with lower market valuations, in line with signaling theory that investors evaluate companies with high ESG risk less favorably. Therefore, ESG Risk Rating is expected to have a negative relationship with market capitalization, as firms with higher ESG risk are valued lower by the market.

H1: ESG Risk Rating has a negative effect on the market capitalization of LQ45 companies listed on the Indonesian Stock Exchange.

From a discounted cash flow (DCF) perspective, inflation leads to higher discount rates, thereby reducing the present value of expected future earnings. In stock markets, rising inflation also increases uncertainty and reduces investor confidence, causing stock prices to decline. For large listed companies such as those in the LQ45 index, inflationary pressures can significantly affect operating margins and financing costs, resulting in lower market valuation. Research on the relationship between inflation and stock returns/equity value shows that rising inflation generally negatively impacts stock values and firm performance, primarily through increased capital costs and decreased equity valuations (Putri et al., 2025). Some arguments, such as Cohn & Lessard (1981) , observe that firm equity value declines when inflation increases the cost of capital and depresses domestic output, illustrating the negative effect of inflation on market valuations. Therefore, inflation is expected to have a negative effect on market capitalization.

H2: Inflation has a negative effect on the market capitalization of LQ45 companies listed on the Indonesian Stock Exchange.

This hypothesis is based on resource-based theory (RBT), which argues that firms achieve sustainable competitive advantage and superior performance when they possess valuable, rare, inimitable, and non-substitutable resources. Intellectual capital comprising human capital, structural capital, and relational capital represents a critical intangible asset

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that enhances innovation capability, organizational efficiency, and customer loyalty (Farooq et al., 2022). Companies with strong intellectual capital are better able to adapt to market changes, manage ESG risks, and create long-term value, which increases investor confidence and market attractiveness (Minh & Nguyen, 2024). In capital markets, intellectual capital serves as a positive signal of growth potential and operational excellence, leading to higher stock prices and market capitalization. Dian & Rahmawati, (2025) examined the relationship between intellectual capital and firm value in the context of Indonesian companies. The results showed that intellectual capital is significantly associated with firm valuation, supporting the resource-based view theory that intangible resources such as intellectual capital enhance a firm's ability to create value and are perceived more highly by the market. Therefore, intellectual capital is expected to have a positive relationship with market capitalization.

H3: Intellectual capital has a positive effect on the market capitalization of LQ45 companies listed on the Indonesian Stock Exchange.

Theoretically, companies with longer operating years tend to have more stable performance, more established governance structures, and higher levels of investor trust, thus increasing the company's perceived value in the market. International empirical studies show that stock characteristics and investor valuation patterns change with company age, with older companies generally having a lower risk profile and more stable market valuations (Bank & Insam, 2021). Therefore, our hypothesis is:

H4: Firm age has a positive effect on the market capitalization of LQ45 companies listed on the Indonesian Stock Exchange.

Larger companies tend to have broader access to funding, a higher degree of risk diversification, and greater visibility in the capital markets, making them more attractive to investors. International finance literature shows that firm size plays a significant role in determining how financial and non-financial information is responded to by the market and significantly influences a company's market value (Singh & Khatua, 2025). Firm size captures the scale of corporate operations and is an essential control variable because it influences market capitalization directly. Therefore, our hypothesis is:

H5: Firm size has a positive effect on the market capitalization of LQ45 companies listed on the Indonesian Stock Exchange

RESEARCH METHOD

The study uses panel data consisting of cross-sectional data of firms and time-series data from 2020 to 2024. This approach enables the analysis of both inter-firm variation and temporal dynamics in explaining market capitalization. The sample is restricted to firms that are consistently included in the LQ45 index during the period 2020–2024. The sampling technique applied is purposive sampling, with the criterion that companies must have complete ESG Risk Rating, financial reports, and market capitalization data throughout the observation period, so the sample for this research is 24 companies.

The data are analyzed using panel analysis to examine the relationship between ESG

risk rating, inflation, intellectual capital, and market capitalization. The panel model is specified as follows:

$$\mathbf{LnMC_{it} = \alpha + \beta_1 ESGR_{it} + \beta_2 INF_t + \beta_3 IC_{it} + \beta_4 FAGE_{it} + \beta_5 FSIZE_{it} + \varepsilon_{it}} \quad \mathbf{(1)}$$

where:

$LnMC_{it}$ = The natural logarithm of the market capitalization of firm *i* in year *t*
$ESGR_{it}$ = ESG risk rating of firm *i* in year *t*
INF_t = Inflation rate in year *t*
IC_{it} = Intellectual capital of firm *i* in year *t*
$FAGE_{it}$ = Firm age of firm *i* in year *t*
$FSIZE_{it}$ = Firm size of firm *i* in year *t*
α = Constant
$\beta_1,\beta_2,\beta_3,\beta_4,\beta_5$ = Regression coefficients
ε_{it} = Error term

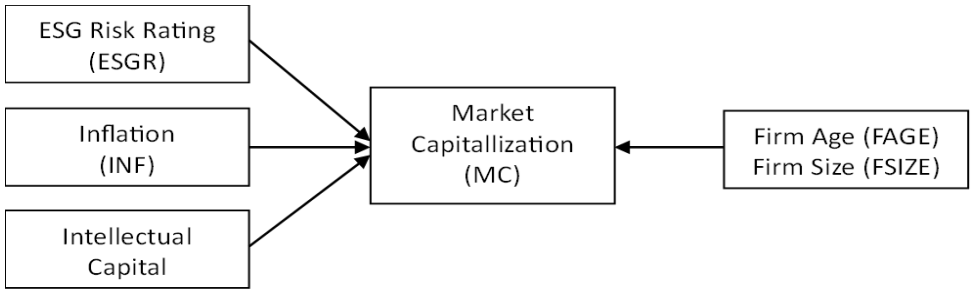


Figure 1. Research Design

ESG Risk Rating measures a firm's exposure to environmental, social, and governance risks. A higher ESG risk score indicates greater unmanaged sustainability risk. ESG data are obtained from the IDX ESG Fact Sheet, which reports ESG Risk Scores compiled by Sustainalytics. These scores reflect a firm's exposure to material ESG risks and its ability to manage those risks.

Inflation is defined as the annual percentage change in Indonesia's consumer price index (CPI), reflecting general price level changes that influence purchasing power, interest rates, and corporate profitability. Inflation data are collected from official publications of Bank Indonesia and Badan Pusat Statistik , representing Indonesia's annual inflation rate during the study period.

Intellectual capital data are derived from company annual reports and measured using the Value Added Intellectual Coefficient (VAIC™) developed by Pulic, which consists of:

$$VAIC = HCE + SCE + CEE \quad (2)$$

where:

HCE is Human Capital Efficiency, SCE is Structural Capital Efficiency, and CEE is Capital Employed Efficiency. Intellectual capital data are derived from company annual reports and measured using the Value Added Intellectual Coefficient (VAIC™) model (Pulic, 2000).

Market capitalization data are calculated as the market value of a company's outstanding

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shares at the end of each year. Market capitalization represents the market value of a firm and is calculated as:

LnMC = ln(Share Price × Number of Outstanding Shares) (3)

Firm age is defined as the length of time a company has operated since its establishment. Firm age data were collected from company annual reports. In this study, firm age is calculated as:

Firm Age = Year of research – Year of company establishment (4)

Firm size reflects the scale of a company's economic activities and resource capacity. In this study, firm size is measured as the natural logarithm of total assets. Firm size data were obtained from company annual reports.

Firm Size = Ln (Total Assets) (5)

RESULTS AND DISCUSSION

The characteristics of data are important for researchers to know, as these characteristics can illustrate the distribution patterns and tendencies of the data. These data characteristics can be obtained from measurements such as mean, median, minimum, maximum, and standard deviation. Here we present the results of the descriptive test in this study:

Table 1. Descriptive Statistics Test

	Y_MC	X1_ESGR	X2_INF	X3_IC	FAGE	FSIZE
Mean	31.83724	32.00233	2.917500	11.25467	51.33333	32.52300
Median	31.71860	29.73500	2.240000	11.13000	52.00000	32.30765
Maximum	34.39680	62.02000	5.510000	16.16000	129.0000	35.42550
Minimum	28.91990	17.42000	1.680000	6.110000	11.00000	30.40650
Std. Dev.	0.979953	8.567701	1.543020	1.614355	25.09589	1.413668
Skewness	-0.158245	0.858004	0.988900	0.361629	0.886769	0.516561
Kurtosis	4.725852	4.176904	2.185373	3.689341	4.479038	2.155909

Source: Data processing results

The average value for the market capitalization is 31.84, with the median showing a value of 31.72. The close values indicate that the data distribution is relatively symmetric. Next, a standard deviation of 0.98 indicates that this MC data tends to be homogeneous. Then we look at the skewness value of -0.158 and the kurtosis value of 4.726, which indicates that this data variable is relatively stable.

Now, let's switch our focus to the first independent variable, which is the ESG Risk Rating. This variable has an average value of 32.002 and a median of 29.735, which means that the data shows a tendency that is not one hundred percent symmetrical. It can also be seen that the maximum value is around 62.02, which is much higher than the minimum value, meaning that companies with high ESG risk ratings dominate the research sample. This conclusion is further supported by a skewness value of 0.858, indicating that the data distribution is skewed to the right. In the second independent variable, namely inflation, it has a mean value of 2.918, with a median of 2.24 and a standard deviation of 1.543. This indicates that inflation fluctuations are at a moderate level. Then, the kurtosis value of 2.185 indicates that the inflation variable is relatively more stable and does not have an extreme

data distribution. In the third independent variable, namely Intellectual Capital, it has a mean value of 11.26, a median of 11.13, and a standard deviation of 1.614. This indicates that the IC data shows a relatively symmetric and moderate pattern.

In the first control variable, namely the age of the company, the mean value is 51.33, the median is 52, and the standard deviation is 25.096. This indicates a diversity in the characteristics of company age, from relatively young to established companies. However, the kurtosis value of 4.479 indicates the possibility of certain companies with specific ages dominating the research model estimation. The second control variable, which is the size of the company, has a mean value of 32.52, a median of 32.308, a standard deviation of 1.414, and a kurtosis value of 2.156. This indicates that there is no significant concentration of extreme data in the dataset.

The data presentation above illustrates that the data from the variables used in this study have a relatively normal distribution pattern. The mean and median values do not differ significantly, the standard deviation indicates that the data spread is still within reasonable limits, and no outliers that disrupt the distribution pattern were found. Therefore, the data used in this study can and is suitable for regression testing.

This data is panel data, therefore, we have to conduct a model test. Why is model testing very important in a study that uses panel data? Because if there is an error in model selection, it can produce biased results. Therefore, it is necessary to conduct a model selection test so that the panel regression results can be interpreted correctly. Here are the results of the model selection test in this study.

Table 2. Chow Test

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	35.172572	(23,91)	0.0000
Cross-section Chi-square	274.980119	23	0.0000

Source: Data processing results

The results of the Chow test above show a cross-section f-probability value of 0.0000, which is less than 0.05 (0.0000 < 0.05). Therefore, the selected model is the Fixed Effect Model (FEM), because the Fixed Effect Model is more appropriate to apply than the Common Effect Model in this test.

Table 3. Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.311090	5	0.1399

Source: Data processing results

Table 4. Lagrange Multiplier Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects

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Alternative hypotheses: Two-sided (Breusch-Pagan) and one -sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	174.1078	1.084906	175.1927
	(0.0000)	(0.2976)	(0.0000)

Source: Data processing results

The Hausman test is used to determine whether a fixed effects model or a random effects model is appropriate to use. Based on the results of the Hausman test above, the cross-section random probability value is 0.1399, which is greater than 0.05, meaning that the appropriate model for this test is the random effects model. This means that the fixed-effects model cannot be applied in this test.

The Lagrange Multiplier test is used to evaluate or select the optimal model between the Random Effect Model approach and the Common Effect Model approach. Based on the output of the Breusch Pagan probability value is 0.0000, which is less than 0.05. This means that the appropriate model used in this test is the Random Effect Model, so if the Common Effect Model is used in this test, the results will be less accurate.

Table 5. Panel Regression Results with Random Effects Model

Dependent Variable: Y_MC
Method: Panel EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.03197	2.617241	9.564259	0.0000
X1_ESGR	-0.001730	0.005472	-0.316165	0.7525
X2_INF	-0.005444	0.016381	-0.332359	0.7402
X3_IC	0.083633	0.039416	2.121785	0.0360
Control_FAGE	0.010928	0.006327	1.727132	0.0869
Control_FSIZE	0.165246	0.081731	2.021832	0.0455
R-squared	0.124603			
Adj. R-Squared	0.086209			
F-Statistic	3.245334			
Prob(F-Statistic)	0.008903			

Source: Data processing results

From the table 5, the regression model is:

Y_MC = 25.03197 - 0.001730*X1 - 0.005444*X2 + 0.083633*X3 + 0.010928*C_AGE + 0.165246*C_SIZE

Based on the data above, it was found that with the presence of a control variable (t = -0.316165; p = 0.7525), the **ESG risk rating** has no effect on market capitalization. The inability of the ESG risk rating to influence market capitalization can be explained by several factors. The first, within the framework of the Efficient Market Hypothesis (EMH), the ESG risk rating has shown information that is fully available to the public. As a result, changes in a company's ESG rating are considered an insignificant additional value or information (Fatemi et al., 2018) or even irrelevant in relation to the stock price (Halbritter & Dorfleitner, 2015).

The second factor involves the investors. There are investors who do not yet understand and have difficulty interpreting ESG values, making their ability to analyze the relationship between ESG risk ratings and stock prices, which ultimately affects market capitalization, less accurate. This situation is because the correlation of ESG scores is far below the expected consistency (Berg et al., 2022; Chatterji et al., 2016). This conclusion is also supported by Syarkani et al., (2024) who state that low investor awareness makes the reception of signals difficult to comprehend. Therefore, there are investors who do not consider ESG scores as a primary factor in their investment decisions (Chatterji et al., 2016; Shakil, 2021). Then, the short-term orientation tendency of some retail investors in several emerging markets prefers other factors over ESG, such as EPS, liquidity, or dividend yield (Eccles et al., 2014). Other factors were also revealed through studies conducted by Liu (2025) and Schilpzand et al. (2014) which state that the ESG performance of several companies is not fully disclosed, meaning there are negative aspects that are still hidden, causing investors to be skeptical of these ESG scores

Another variable in this study that does not have an impact on market capitalization is **inflation**, with a coefficient value of -0.005444 and a probability level of 0.7402. The lack of inflation impact is due to the resilience of the company itself in facing inflation. The company is considered capable of implementing adaptive strategies in the market, as demonstrated by the study conducted by Spyrou (2004). In addition, the sample in this company consists of various sectors, so the impact of inflation on the company becomes varied. Companies in the technology and service sectors, which have a high level of price flexibility, are considered more resilient to inflation than sectors like manufacturing. Another factor why inflation does not have an impact is because of monetary policy. Inflation is often countered with interest rate adjustments, so the impact of inflation becomes invisible in the market. From that explanation, inflation is not a fundamental factor that can support and shape a company's market capitalization

The last independent variable, **intellectual capital**, has a significant positive influence on market capitalization. This effect is shown in the hypothesis test above, both before and after the introduction of control variables. These findings indicate that the higher the intellectual capital of a company, the higher the market capitalization of that company will be. The reasons are (1) companies with good human capital will drive innovation, productivity, and strong adaptability; (2) companies with good structural capital will be able to create effectiveness and efficiency; and (3) companies with capital employed efficiency will be able to generate continuously positive financial performance

The three reasons mentioned above are also expressed by Barney (1991), namely, that companies with high-quality resources, capable of adapting and innovating, and difficult to imitate by others will be able to create sustainable competitive advantages. On one hand, from the perspective of signaling theory (Spence, 1973) the high quality of a company's IC will result in an increase in market performance, thereby sending a positive signal to investors. The impact is that investors' perception of the company becomes very positive. The results of this study are in line with the research conducted by Chen et al., (2005), Nimtrakoon (2015), Ousama et al. (2020), Xu & Liu (2020), and Dsouza et al. (2025) which state that there is a very strong relationship between intellectual capital and market value.

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The significant positive influence of intellectual capital proves that the market is not only interested in the physical asset values but also in the quality of human resources possessed by the company. Therefore, this finding implies that improving the quality of human resources, such as organizational system management and enhancing knowledge and technology capabilities, is one of the long-term investment programs that a company must undertake.

In table 5 above, the Adjusted R-Squared is 0.0862, indicating that the independent variable in this regression model accounts for only 8.62% of the variation in market capitalization. However, the F-Statistic is 3.245 with a Prob(F-Statistic) of 0.08903, indicating it is significant at the 1% level. This indicates that the independent variables collectively relate to market capitalization. In this way, the model in this regression can be said to be feasible, although its ability to explain the independent variables' effect on market capitalization is still relatively limited. The reason why these three variables can exert a simultaneous influence is because these three variables represent complementary aspects in understanding market capitalization (Nguyen & Minh, 2025; Rahat & Nguyen, 2024).

CONCLUSION

The purpose of this research is to examine how ESG risk rating, inflation, and intellectual capital affect the market capitalization of companies, controlled by the variables of company age and size. The result is that, whether or not control variables are present, ESG risk rating and inflation have no impact on market capitalization. In the framework of the Efficient Market Hypothesis (EMH), information related to ESG risk ratings has been absorbed into the market, and not all investors have a competent understanding or interpretation of ESG risk ratings. As a result, the ESG risk rating is considered not to be a major factor in driving the market. Meanwhile, inflation has no impact because the company has adaptive strategies in place for both controlled and uncontrolled inflation. This factor is the reason considered capable of mitigating the impact of inflation on market capitalization.

The third independent variable, intellectual capital, is the opposite of the previous two variables. Intellectual capital has a significant positive impact on market capitalization. This result is due to (1) companies with good human capital driving innovation, productivity, and strong adaptability; (2) companies with good structural capital being able to create effectiveness and efficiency; and (3) companies with capital employed efficiently being able to generate continuously positive financial performance. These findings indicate that the market tends to place greater emphasis on a company's ability to manage its human resources. However, when the three variables are tested together, they are able to influence market capitalization because these three variables represent complementary aspects in understanding market capitalization.

The implication of this research is that investments related to the enhancement of human resources, whether in the form of organizational strengthening or the competence of science and technology, must remain a priority and be further expanded by companies. Clear information about the ESG assessment is necessary to bridge the gaps in understanding the ESG risk rating. This means that regulators and capital market authorities need to explain the ESG risk rating information clearly and transparently, such as ESG assessment indicators, ESG rating standardization, and education for short-term-oriented investors to consider sustainability indicators more in their investment decisions in the future.

This research has limitations that need to be examined and further developed. The limitation is the use of ESG risk rating as an independent variable, where not all investors have the same understanding of ESG. Additionally, the study incorporates the macroeconomic variable of inflation across a diverse sample of companies. In fact, we could use many more potential macroeconomic proxies, such as interest rates or economic growth. In the end, the limitations of this study can open up space for further research to delve deeper into the discussion on market capitalization.

AUTHORSHIP CONTRIBUTION STATEMENT

Yopi Yudha Utama	: Developing the research concept and processing data.
Binti M. and Delavilanda B.E	: Creating the background and methodology concept
Ning P. S. and Yuliani	: Interpreting the research results

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