INQUISITIVE Vol 6 (1) (December 2025) page: 61 – 77
e - ISSN 2775 – 1244 p - ISSN 2774 – 8634
e-journal : http://journal.univpancasila.ac.id/index.php/INQUISITIVE/

STRENGTHENING THE IMPACT OF ESG ON FIRM VALUE THROUGH CORPORATE GOVERNANCE: EMPIRICAL EVIDENCE FROM INDONESIA

Khalida Utami[1*]
Petiana Indriati[2]
Syamsul Bahri[3]
Cantika Putri Permatasari Santio[4]

[1,2,3,4] Faculty of Economics and Business, Universitas Pancasila, Jakarta, Indonesia

*Corresponding Author: khalida.utami@univpancasila.ac.id

Received: November 7, 2025 Accepted: December 6, 2025 Published: December 23, 2025

Abstract: This study aims to examine the effect of Environmental, Social, and Governance (ESG) disclosure on firm value, with corporate governance (CG) serving as a moderating variable, using data from companies listed on the Indonesia Stock Exchange. The research is motivated by the increasing emphasis on sustainability and governance practices as key drivers of long-term corporate value. Data were obtained from annual and sustainability reports over the observation period and analyzed using panel regression with a fixed-effect model. ESG disclosure was measured based on the extent of reporting across environmental, social, and governance dimensions, while CG was assessed through a composite index comprising the proportion of independent commissioners, audit committee existence, institutional ownership, and board size. The findings reveal that ESG disclosure has a negative and significant effect on firm value, proxied by Tobin's Q, suggesting that the Indonesian capital market has not yet fully recognized ESG practices as value-enhancing factors. However, the interaction term between ESG and corporate governance (ESG×CG) exhibits a positive and significant coefficient, indicating that effective governance strengthens the impact of ESG on firm value. Additional analysis using an alternative measure of firm value (Price to Book Value or PBV) and robustness checks confirms the consistency of these results. Overall, the findings emphasize that ESG practices generate economic value only when reinforced by credible and well-functioning corporate governance mechanisms.

Keywords: ESG disclosure, corporate governance, firm value, Tobin's Q, sustainability, PBV

Abstrak: *Penelitian ini bertujuan untuk menganalisis pengaruh pengungkapan Environmental, Social, and Governance (ESG) terhadap nilai perusahaan dengan corporate governance (CG) sebagai variabel moderasi pada perusahaan yang terdaftar di Bursa Efek Indonesia. Kajian ini didasari oleh meningkatnya perhatian terhadap praktik keberlanjutan dan tata kelola yang baik dalam mendorong nilai jangka panjang perusahaan. Data penelitian diperoleh dari laporan tahunan dan laporan keberlanjutan perusahaan selama periode pengamatan tertentu, dengan metode analisis regresi data panel menggunakan model efek tetap (fixed effect model). Pengukuran ESG dilakukan berdasarkan tingkat pengungkapan dalam dimensi lingkungan, sosial, dan tata kelola, sedangkan CG diukur menggunakan indeks komposit yang mencakup proporsi komisaris independen, keberadaan komite audit, kepemilikan institusional, dan ukuran dewan. Hasil penelitian menunjukkan bahwa pengungkapan ESG berpengaruh negatif dan signifikan terhadap nilai perusahaan yang diproksikan dengan Tobin's Q, mengindikasikan bahwa pasar di Indonesia belum sepenuhnya menghargai praktik ESG sebagai faktor peningkat nilai perusahaan. Sebaliknya, interaksi antara ESG dan corporate governance (ESG×CG) berpengaruh positif dan signifikan, yang berarti bahwa tata kelola perusahaan yang efektif mampu memperkuat pengaruh ESG terhadap nilai perusahaan. Uji tambahan dengan proksi nilai perusahaan alternatif (Price to Book Value atau PBV) serta pengujian ketahanan (robustness check) menunjukkan hasil yang konsisten. Temuan ini menegaskan bahwa penerapan ESG baru akan memberikan nilai ekonomi ketika didukung oleh tata kelola perusahaan yang kredibel dan berfungsi secara efektif.*

Kata Kunci: *ESG disclosure, corporate governance, firm value, Tobin's Q, sustainability, PBV*

INTRODUCTION

In recent years, attention to Environmental, Social, and Governance (ESG) practices has increased substantially, particularly among investors, regulators, and corporate stakeholders. ESG is not only viewed as an ethical corporate commitment to sustainability but also as a determinant of a firm's long-term value (Eccles et al., 2014; Khan et al., 2015). In Indonesia, mandatory sustainability reporting through POJK No. 51/POJK.03/2017 and the issuance of the Green Taxonomy serve as important foundations for promoting more integrated ESG practices. Public companies have begun to recognize ESG as a strategic tool for enhancing reputation, risk management, and financial performance. Quintiliani (2022) finds a positive correlation between ESG scores and firm value—measured using Tobin's Q and Price-to-Book Value (PBV). Similarly, Zhang and Liu (2022) show that firms with stronger ESG performance tend to have higher financial flexibility, which ultimately contributes to increased firm value.

However, improvements in firm value do not automatically result from ESG adoption alone. ESG initiatives may fail to create value if they are not supported by effective corporate governance (CG) mechanisms. Strong CG ensures that ESG implementation is substantive rather than symbolic or merely a form of greenwashing. According to Hasan et al. (2012), Sprenger and Lazareva (2022), and Utami et al. (2022), CG can reduce information asymmetry and agency conflicts, both of which often hinder firms from achieving optimal value.

In the Indonesian context, empirical studies examining how CG strengthens (moderates) the effect of ESG on firm value remain scarce. Prior research by Anri and Utama (2024), for example, focuses only on the relationship between ESG and investment–cash flow sensitivity, without exploring its implications for firm value. Therefore, this study seeks to fill this gap by investigating how ESG performance influences firm value and how corporate governance reinforces this relationship, using a sample of publicly listed non-financial firms in Indonesia.

The first issue addressed in this study is whether ESG performance has a significant effect on firm value in Indonesia. This question is important because, although ESG has become a strategic agenda for many public companies in Indonesia, empirical evidence on its impact on firm value remains limited and inconsistent. Several international studies, such as Eccles et al. (2014) and Quintiliani (2022), indicate that firms with strong ESG performance tend to exhibit higher firm value. However, in emerging markets like Indonesia, challenges in ESG implementation—such as greenwashing practices, limited disclosure quality, and low investor literacy regarding ESG—may weaken this relationship compared with that found in developed markets. Therefore, it is crucial to examine whether ESG truly contributes to firm value within the Indonesian context, which is characterized by distinct institutional structures and regulatory compliance environments.

The second issue concerns whether corporate governance (CG) is able to strengthen or moderate the effect of ESG on firm value. ESG initiatives implemented without robust corporate governance

mechanisms risk becoming merely symbolic or a form of regulatory compliance, rather than an integrated business strategy. Corporate governance plays a pivotal role in ensuring that ESG initiatives are carried out with accountability, transparency, and integrity, thereby contributing meaningfully to firm value creation. In this regard, CG functions as a monitoring mechanism that can enhance the positive signals associated with ESG in the eyes of the market. The presence of independent commissioners, the effectiveness of audit committees, and institutional ownership can all increase the credibility of ESG performance among investors. However, empirical studies examining the moderating role of CG in the ESG–firm value relationship remain scarce in Indonesia, particularly those utilizing quantitative ESG scores from credible sources such as Sustainalytics or Bloomberg.

In contrast to previous studies such as Anri and Utama (2024), which focus solely on the influence of ESG on investment–cash flow sensitivity, the present study seeks to make a broader contribution by linking ESG and CG to firm value. This research also fills an important gap by examining how corporate governance strengthens the ESG–firm value relationship—a topic that has received limited attention in ESG studies within emerging markets. Thus, the study is expected to provide not only theoretical contributions through the enrichment of empirical models but also practical relevance for regulators, investors, and corporate management in understanding the importance of ESG–CG synergy for sustainable value creation.

As an emerging capital market, Indonesia encounters a set of distinctive challenges in the adoption and evaluation of Environmental, Social, and Governance (ESG) principles (Frias-Aceituno, 2023). A key challenge lies in the substantial heterogeneity in ESG reporting quality and the absence of harmonized standards, which hinder investors' ability to accurately assess the implications of sustainability practices for corporate performance and firm value. Although an increasing number of firms recognize the strategic importance of ESG disclosures, uncertainty persists regarding whether such disclosures meaningfully influence investment decisions, long-term operational outcomes, and market valuation.

To address these research problems, this study adopts an explanatory quantitative design and employs panel data regression on non-financial firms listed on the Indonesia Stock Exchange (IDX) over the 2019–2023 period. Specifically, the study seeks to empirically investigate the effect of ESG performance on firm value; and the moderating role of corporate governance in strengthening the ESG–firm value relationship.

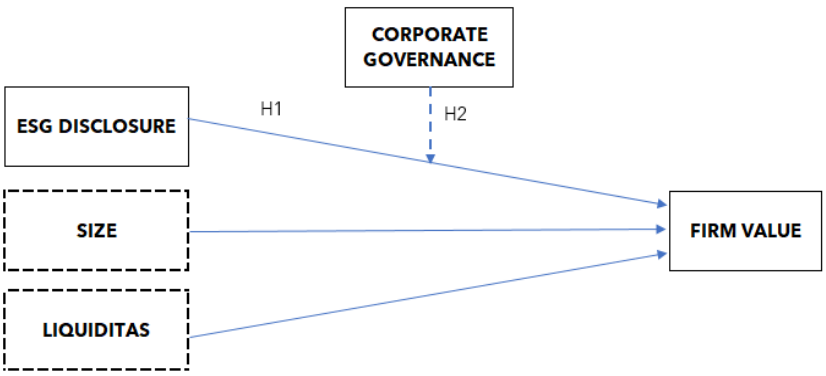
The proposed empirical framework is grounded in an integration of signaling theory and agency theory. ESG performance is conceptualized as a credible signal that conveys a firm's long-term strategic orientation, responsible operational conduct, and commitment to sustainability, thereby enhancing investor confidence. Concurrently, corporate governance is posited to mitigate agency conflicts between managers and shareholders by ensuring that ESG initiatives are executed substantively, transparently, and in alignment with shareholder interests. In doing so, corporate governance reinforces the credibility of ESG disclosures and amplifies their impact on firm value.

LITERATURE REVIEW

Research examining the impact of Environmental, Social, and Governance (ESG) performance on firm value has gained substantial prominence in global finance and accounting literature. Prior studies such as Eccles et al. (2014), Khan et al. (2015), and Quintiliani (2022) consistently document that firms with superior ESG performance tend to exhibit higher firm value, attributable to enhanced sustainability practices, more effective risk management, and greater investor confidence. However, the majority of these studies are situated within the context of developed economies, where governance systems and regulatory enforcement mechanisms are more mature than those in emerging markets. In Indonesia, the implementation of ESG remains challenged by limited disclosure quality, insufficient managerial understanding, and the risk of greenwashing in sustainability reporting. Consequently, it remains an open and critical empirical question whether ESG performance genuinely contributes to firm value enhancement in the Indonesian market.

The key novelty of this study lies in its examination of corporate governance as a moderating variable in the ESG–firm value relationship—an area that has received limited empirical attention in Indonesia. Prior research has largely treated ESG and corporate governance as separate, independent determinants of firm outcomes, without exploring their interactive effects. In reality, ESG initiatives that are not supported by robust governance structures risk being symbolic rather than substantive, thereby failing to generate long-term value. By positioning corporate governance as a moderating mechanism, this study develops an integrative conceptual framework that draws upon both signaling theory and agency theory. ESG performance is conceptualized as a positive signal to investors regarding a firm's long-term commitment and operational responsibility, while corporate governance serves as a control mechanism that ensures such signals are credible, verifiable, and reflective of actual firm performance and prospects.

The following research model is designed to systematically address the core questions of this study. It illustrates the proposed causal relationships between ESG performance, corporate governance, and firm value, as well as the moderating role of corporate governance in strengthening the ESG–firm value linkage.



Note: - - - - - : Control Variable
_____ : Independent Variable

Figure 1. Conceptual Framework

Based on the proposed research model, the hypotheses developed in this study are formulated as follows:

H_1: ESG disclosure has a positive and significant effect on firm value.

This hypothesis is grounded in signaling theory and supported by prior empirical evidence showing that strong ESG performance conveys credible sustainability commitments and reduces external risk exposure, thereby enhancing firm valuation (Eccles et al., 2014; Quintiliani, 2022).

H_2: Corporate governance strengthens the positive effect of ESG disclosure on firm value.

This hypothesis is derived from agency theory, which posits that effective governance mechanisms enhance the credibility and substantive implementation of ESG initiatives, thereby amplifying their value-enhancing impact (Hasan et al., 2012; Sprenger & Lazareva, 2022).

RESEARCH METHODOLOGY

This study employs a descriptive method with a quantitative approach. The quantitative analysis is conducted using secondary data obtained from non-financial firms listed on the Indonesia Stock Exchange (IDX). The data collected include annual reports, sustainability reports, and financial statements relevant to the variables examined in this study.

The sample consists of all non-financial companies listed on the IDX over the period 2019–2023. This study investigates the impact of ESG disclosure on financial performance and firm value within the Indonesian market context. The setting is particularly noteworthy because ESG disclosure in Indonesia remains largely voluntary, and Indonesia is categorized as an emerging capital market. Consequently, the findings of this study are expected to provide insights into the challenges of adopting ESG practices and assessing the effectiveness of ESG implementation in such environments.

A total of 39 non-financial firms from various industry sectors are included as the research sample, resulting in 195 firm-year observations for each variable over the five-year period (2019–2023).

Table 1. Distribution of Companies by Industry Sector

Industry Sector	Total	Observasi	%
Basic Materials	8	40	20.51
Consumer Cyclicals	4	20	10.26
Consumer Non-Cyclicals	7	35	17.95
Energy	6	30	15.38
Healthcare	1	5	2.56
Industrials	2	10	5.13
Infrastuctures	7	35	17.95
Properties & Real Estate	4	20	10.26
Total	**39**	**195**	**100%**

Source: Data processed by the author, 2025

Table 1 presents the distribution of sample companies across industry sectors, indicating that all major industries are represented in the dataset. However, during the observation period, only one

company in the Healthcare sector and two companies in the Industrials sector consistently disclosed ESG information, resulting in their relatively limited representation. Overall, approximately 20.51% of the sample consists of firms in the Basic Materials sector; 17.95% each from the Consumer Non-Cyclicals and Infrastructure sectors; 15.38% from the Energy sector; and 10.26% each from the Consumer Cyclicals and Property & Real Estate sectors.

Variable Measurement

ESG Disclosure

This study examines the impact of sustainability reporting—captured through ESG disclosure—on financial performance and firm value. ESG disclosure serves as the independent variable and is measured using ESG scores published by Thomson Reuters. Although some prior studies employ ESG scores provided by Bloomberg, these scores primarily focus on the extent of ESG disclosure rather than performance (Fatemi et al., 2018). In contrast, the Thomson Reuters ESG score is designed to assess a firm's performance, commitment, and effectiveness across the three core ESG dimensions: environmental (resource use, emissions, and innovation), social (workforce, human rights, community, and product responsibility), and governance (management, shareholders, and CSR strategy). This score is considered a comprehensive evaluation of a firm's sustainability impact and practices, based on publicly disclosed information.

Corporate Governance

Corporate Governance (CG) is measured using a composite Corporate Governance Index (CGI), constructed from several key structural indicators of governance mechanisms. This approach follows Adinegara (2021), who assessed corporate governance quality through indicators such as the proportion of independent commissioners, the presence of an audit committee, institutional ownership, and board size. The construction of this index is also informed by the multidimensional assessment framework of the Corporate Governance Perception Index (CGPI) developed by the Indonesian Institute for Corporate Governance (IICG), as adopted in studies such as Zaidirina and Lindrianasari (2015). CGPI evaluates the implementation of Good Corporate Governance (GCG) principles using a composite scoring system to reflect overall governance quality and credibility.

Each governance indicator is standardized to a uniform scale ranging from 0 to 1 using the following formula:

$$Z_i = \frac{(X_i - Xmin)}{(Xmax - Xmin)}$$

Where represents the actual value of the indicator, i is the minimum value, and is the maximum value across the entire sample. Standardization ensures comparability across indicators with different measurement units. For dummy indicators, a value of 1 is assigned if the governance mechanism exists (e.g., the presence of an audit committee) and 0 otherwise.

After standardization, the Corporate Governance Index is calculated as the simple average of the four indicators:

$$\text{CGI} = \frac{(\text{IND} + \text{AUD} + \text{INST} + \text{BSIZE})}{(4)}$$

Where IND denotes the proportion of independent commissioners, AUD represents the presence of an audit committee, INST measures institutional ownership, and BSIZE captures board size. Higher CGI values indicate stronger governance practices, while lower values reflect weaker governance quality.

Firm Value

Firm value is used as the dependent variable and is measured using Tobin's Q, calculated as the ratio of the market value of equity plus total liabilities to total assets. Tobin's Q is widely used in the literature to capture market-based valuation and investors' expectations of future performance.

Control Variables

Consistent with prior empirical studies, this research includes two control variables known to influence firm value: firm size (SIZE) and liquidity (Current Ratio). Firm size is measured as the natural logarithm of total assets in year *t*. Larger firms are expected to exhibit higher firm value due to greater resource availability for ESG initiatives and non-financial reporting. Liquidity is measured using the Current Ratio, defined as current assets divided by current liabilities in year *t*. Adequate liquidity enables firms to meet short-term obligations, avoid default risk, and maintain stable operations. However, excessively high liquidity may reduce profitability because liquid assets typically generate lower returns compared to productive investments. Therefore, liquidity is expected to have a negative association with firm value.

Research Desain

The research data were obtained from the Refinitiv Eikon DataStream database. The selected time frame allows the study to capture the long-term evolution of ESG practices during both stable and volatile market conditions. Hypothesis testing in this study employs multiple regression analysis using STATA as the analytical tool. The empirical model used in this study is specified as follows:

$$TobinsQ_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 CGI_{it} + \beta_3 ESG_CGI_{it} + \beta_4 SIZE_{it} + \beta_5 CR_{it} + \varepsilon_{it}$$

Note:

Tobin's Q represents firm value in year *t*,

ESG denotes a firm's ESG disclosure score in year *t*,

CGI refers to the Corporate Governance Index,

SIZE is the natural logarithm of total assets in year *t*, and

CR represents the firm's liquidity ratio in year *t*.

RESULT AND DISCUSSION

Descritive Statistical

Table 2. Descriptive statistics for all variables included in the regression analysis

	N	Mean	SD	Min	Max
Tobin's Q	195	1.749	1,924	0.336	16,263
ESG	195	53,817	21,883	15,638	138,583
CGI	195	0.757	0.179	0.25	1
IND	195	0.373	0.187	0	1
AUD	195	1	0	1	1
INST	195	0.649	0.186	0	1
BSIZE	195	0.388	0.115	0	1
SIZE (Ln Total Assets)	195	17,744	0.875	15,390	19,915
CR	195	3,709	2,343	0.564	13,348
ROA	195	0.074	0.082	-0.185	0.454

Source: Data processed by the author, 2025

Table 2 below presents the descriptive statistics results. Table 2 shows that *TobinsQ* has an average value of 1.749, which means that on average, the market value is slightly greater than the opposite asset value. The independent variable in this study is the *ESG* score, which has an average value of 53.817 with a standard deviation of 21.883, a minimum value of 15.638, and a maximum value of 138.583. Meanwhile, the moderating variable in this study is *CGI,* which has an average value of 0.757 with a standard deviation of 0.179. Table 2 also shows the results for the four CG indicators, namely the proportion of independent commissioners (IND), the existence of an audit committee (AUD), institutional ownership (INST), and the size of the board of directors (BSIZE).

Table 3. *Pearson Correlations* between *TobinsQ, ROA, ESG_Disclosure,* and control variables

	TobinsQ	ESG	CGI	IND	INST	BSIZE	ESG_CGI	ESG_IND	ESG_INST	ESG_BSIZE	SIZE	CR
Tobin's Q	1.000											
ESG	0.110	1,000										
CGI	0.380***	0.092	1.000									
IND	0.410***	0.018	0.660***	1,000								
INST	0.236***	0.062	0.652***	0.029	1.000							
BSIZE	-0.102	0.101	0.361***	0.027	-0.038	1.000						
ESG_CGI	0.262***	0.945***	0.394***	0.231***	0.252***	0.197**	1.000					
ESG_IND	0.480***	0.615***	0.575***	0.752***	0.091	0.062	0.767***	1.000				
ESG_INST	0.286***	0.746***	0.471***	0.062	0.647***	0.025	0.848***	0.516***	1.000			
ESG_BSIZE	0.003	0.788***	0.277***	0.019	-0.008	0.669	0.804	0.499***	0.525***			
SIZE	-0.329***	0.054	-0.041	-0.189**	-0.115	0.391	0.024	-0.129*	-0.049	1.000		
CR	-0.249***	-0.068	-0.092	-0.094	0.048	-0.154	-0.100	-0.134	-0.023	-0.039	1,000	
ROA	0.568***	0.185***	0.258***	0.183**	0.244	-0.048	0.274***	0.300	0.339	-0.219**	-0.126*	1.000

***p-value<0.01,
**p-value <0.05,
*p-value <0.1
Source: Data processed by the author, 2025

The control variable in this study, SIZE, which is proxied by the natural logarithm of total assets, has an average value of 17.744 and a standard deviation of 0.875. The control variable Liquidity, proxied by *CR (Current ratio)*, has an average value of 3.709 and a standard deviation of 2.343, and *ROA* has an average value of 0.074 with a minimum value of -0.185 and a maximum value of 0.454, highlighting the differences in profit levels between companies.

Table 3 shows the results of the Pearson correlation test between company value (Tobin's Q), ESG disclosure, corporate governance mechanisms, and interaction variables between ESG and governance indicators (ESG_CGI, ESG_IND, ESG_INST, and ESG_BSIZE). These correlation results provide an initial overview of the direction and strength of the relationship between variables before regression analysis is performed.

In general, company value (Tobin's Q) has a positive and significant relationship with several key variables. ESG Disclosure correlates positively with Tobin's Q ($r = 0.380$, $p < 0.01$), indicating that the higher the level of sustainability disclosure, the greater the market's perception of company value. Tobin's Q also correlates positively with the proportion of independent commissioners (IND; $r = 0.410$, $p < 0.01$), institutional ownership (INST; $r = 0.236$, $p < 0.01$), and profitability (ROA; $r = 0.568$, $p < 0.01$). This indicates that effective supervision, long-term oriented ownership, and strong financial performance contribute to an increase in company value. Conversely, Tobin's Q's correlation with company size (SIZE) and liquidity (CR) shows a negative direction, although not entirely significant, indicating that larger companies or those with high liquidity do not necessarily reflect higher market value.

The correlation between ESG variables and governance mechanisms (CG) shows a strong and significant relationship. ESG Disclosure is highly correlated with the CG index (CGI; $r = 0.092$), the proportion of independent commissioners (IND; $r = 0.018$), and institutional ownership (INST; $r = 0.062$). This relationship indicates that ESG disclosure tends to be carried out by companies with better governance practices.

Meanwhile, the interaction variables—ESG_CGI, ESG_IND, ESG_INST, and ESG_BSIZE—show a significant positive correlation with both Tobin's Q and the main ESG and CG variables. The correlation between Tobin’s Q and ESG_CGI ($r = 0.262$, $p < 0.01$), ESG_IND ($r = 0.480$, $p < 0.01$), ESG_INST ($r = 0.286$, $p < 0.01$), and ESG_BSIZE ($r = 0.003$, not significant) indicate that the effect of ESG disclosure on company value can be strengthened by effective governance, particularly through board mechanisms and institutional ownership. For example, the high correlation between ESG_IND ($r = 0.848$, $p < 0.01$) and between ESG_INST ($r = 0.745$, $p < 0.01$) indicates synergy between ESG dimensions and oversight structures in supporting company performance.

Table 4. Panel Data Regression Analysis Results

	Model 1 **Tobin's Q** **(Base Model)**	**Model 2** **Tobin'sQ** **(Alt.1)**	**Model 3** **PBV (Alt.2)**	**Model 4** **Robust** **(Alt.3)**	**Model 5** **Robust** **(Alt.4)**
	Coefficient	**Coefficient**	**Coefficient**	**Coefficient**	**Coefficient**
ESG	-0.0272**	-0.0202*	-0.2548*	-0.2722	-0.0202**
CGI	-0.9747*		-2.8614	-0.9747	
ESG_CGI	0.0365*		0.5102**	0.0364	
IND		-0.3753			-0.3752**
INST		0.0919			-0.0919
BSIZE		-0.2991			-0.2991
ESG_IND		0.0113			0.0114
ESG_INST		0.0080			0.0081
ESG_BSIZE		0.0081			0.0164**
SIZE	-0.8064***	-0.7932***	-3.8458***	-0.8064***	-0.7932***
CR	-0.2833	-0.3422	-5/1824**	-0.2832	-0.3422
ROA	6.0184***	6.1949***	24.1536**	6.0184**	0.021***
Constant	17.0370***	16.6539***	77.1342***	17.0370***	16.6539***
Adj. R^2	0.3562	0.3774	0.2670	0.3562	0.3774
Wald chi^2	66.65	69.13	36.52	48.79	58.00
Probability > Chi-Square ^{2}	0.0000	0.0000	0.00	0.00	0.000
Observ	195	195	195	195	195

***p-value<0.01,
**p-value <0.05,
*p-value <0.1
Source: Data processed by the author, 2025

These results show that moderating variables (interactions between ESG and CG) play an important role in strengthening the relationship between ESG disclosure and company value. Positive and significant correlations between ESG and its interaction variables (e.g., ESG with ESG_CGI or ESG_IND) reflect that companies with better governance tend to be able to utilize ESG disclosure more effectively to increase market value. Thus, these correlation findings support the conceptual hypothesis that corporate governance strengthens the influence of ESG on firm value, although regression analysis is needed to empirically confirm its moderating effect.

Regression Results

The following are the results of the regression analysis with panel data shown in Table 4 in this study. Table 4 presents the results of multiple regression analysis to test the effect of ESG disclosure on firm value with the moderating role of corporate governance (CG), as well as a series of alternative tests and robustness checks to ensure the consistency of the results. The analysis was conducted using a fixed effect model, which was shown to be significant overall based on the Wald chi² value and Chi² probability of 0.0000 in all models.

Model 1 (Base Model-Moderated CG)

In model 1, the testing was conducted in accordance with the main hypothesis of the study. The results show that the ESG disclosure variable has a negative effect on company value (Tobin's Q) with a coefficient of -0.0272 and significant at the 5% level ($p < 0.05$). This indicates that increased ESG disclosure has not directly increased company value. These results may reflect conditions in which the market has not yet fully appreciated sustainability practices as a factor that increases company value, or ESG disclosure in Indonesia is still symbolic (ceremonial).

Meanwhile, the Corporate Governance Index (CGI) variable also shows a negative and significant effect on Tobin's Q (coefficient -0.9747; $p < 0.1$), indicating that corporate governance mechanisms in general are not yet optimal in creating value perceptions in the capital market. However, the ESG_CGI interaction variable has a positive coefficient of 0.0365 and is significant at the 10% level ($p < 0.1$). This result indicates that corporate governance strengthens the positive influence of ESG disclosure on company value. This means that in companies with better governance, ESG disclosure is considered more credible by investors, thereby increasing company value.

Thus, the first hypothesis (H1), namely that ESG disclosure has a positive effect on company value, is not supported, because the direction of the effect is negative. However, the second hypothesis (H2), namely that corporate governance strengthens the effect of ESG disclosure on company value, is empirically supported, given that the interaction between ESG and CGI is significantly positive at the 10% level.

Model 2 (Alternative Model – CG Indicator Moderation)

Model 2 is an alternative test that aims to evaluate the moderating effect of each corporate governance (CG) indicator on the relationship between ESG disclosure and company value. The results

show that the direzction and significance of the effect of ESG disclosure on Tobin's Q remain negative and significant at the 10% level (coefficient -0.0202; $p < 0.1$), consistent with the results in Model 1. This reinforces the finding that, in general, ESG disclosure does not directly increase the perception of value in the market.

The results show that the direction of the coefficients of all interaction variables is consistent with the findings of Model 1 (positive coefficient direction for interactions expected to strengthen the influence of ESG), but none of the indicator interactions reached statistical significance. In other words, although in terms of direction it appears that governance indicators tend to strengthen the effect of ESG on firm value, the empirical evidence at the indicator level in Model 2 is not yet strong enough to confirm this moderating effect. These findings indicate that the moderating effect of CG may be weak or require a more sensitive sample size, variable size, or measurement quality to be detected at the indicator level.

Model 3 (Alternative Model – PBV as a Measure of Company Value)

Model 3 uses Price to Book Value (PBV) as an alternative measure of company value to test the consistency of the results. The ESG disclosure coefficient continues to show a negative and significant direction at the 10% level (coefficient -0.2548; $p < 0.1$), reinforcing previous findings that ESG disclosure is not yet fully appreciated by the market as a driver of company value. However, the moderation results between ESG and CGI (ESG_CGI) again show a significant positive coefficient (0.5102; $p < 0.05$), confirming that strong corporate governance aspects can increase the effectiveness of ESG disclosure in creating market value. The results in Model 3 also show consistency with Model 1, providing additional evidence that the relationship between ESG and corporate value is conditional, depending on the inherent quality of corporate governance.

Model 4 (Robustness Check – Alt. 3)

Model 4 was conducted as the first robustness test to confirm the stability of the results against potential extreme influences or estimation biases. The results show a similar direction and level of significance to Model 1. ESG disclosure still shows a negative coefficient (-0.2722) with a similar level of significance, while the ESG_CGI interaction is positive (0.0364) but not statistically significant. This indicates that the main results of the study are relatively stable against variations in model specifications. Thus, the main findings regarding the negative effect of ESG and the potential moderating role of corporate governance remain consistent after model robustness testing.

Model 5 (Robustness Check – Alt. 4)

Model 5 is a further robustness test by including CG indicators separately to test the consistency of the moderating effect at the indicator level. The results show a similar pattern to Models 2 and 3, where the ESG disclosure variable remains negative and significant at the 10% level (coefficient -0.0202; $p < 0.1$), while the ESG_BSIZE interaction shows a positive coefficient (0.0164; $p < 0.1$). These findings indicate that a larger board size can strengthen the influence of ESG on company value,

possibly because a broader board capacity allows for a division of supervisory tasks and more diverse views on the implementation of sustainability strategies.

Overall, the results of Model 4 and Model 5 show that the research findings are robust to various model specifications and company value measures used. Thus, it can be concluded that although ESG disclosure alone has not been able to increase company value, the existence of strong governance mechanisms, particularly board size, can significantly strengthen this relationship.

Discussion

The results of this study indicate that ESG disclosure is directly negatively related to company value—in contrast to theoretical frameworks such as Signaling Theory (Chen et al., 2023; W.-A. Li et al., 2025). This theory states that transparent ESG disclosure should serve as a positive signal to investors regarding long-term prospects and non-financial risk management, thereby increasing company value (Aboud & Diab, 2018; Y. Li et al., 2018). These negative results can be explained through the perspective of Neoclassical Theory or Trade-off Theory, which views ESG investment and disclosure as additional costs (agency costs) that are not always offset by equivalent profits in the short term, thereby damaging shareholder value (Fatemi et al., 2018; Mishra et al., 2024). Furthermore, these findings are consistent with research in developed countries that found ESG disclosure can lower company valuations. In the context of emerging markets such as Indonesia, this sentiment is reinforced by market skepticism regarding the potential for greenwashing or the perception that ESG spending is a costly diversion of resources (Malik & Kashiramka, 2024, 2025).

Hypothesis 2 in this study is supported, showing that Corporate Governance (CG) positively and significantly moderates the relationship between ESG disclosure and company value, providing an in-depth understanding of how internal mechanisms can bridge the gap between ESG practices and market valuation. These findings strongly support the integration of Agency Theory and Signaling Theory. According to Agency Theory, strong CG plays an important role in reducing agency conflicts, where managers may be motivated to overinvest in ESG activities for personal gain (e.g., reputation) to the detriment of shareholders (Jensen & Meckling, 1976). With effective CG, ESG disclosure becomes more credible and substantial, rather than merely symbolic, prompting a positive market response (Aboud & Diab, 2018; Y. Li et al., 2018).

The positive moderating role of CG can be explained through two main mechanisms: increased commitment and risk mitigation. First, high-quality CG, reflected in high CGI, acts as a signal enhancer. Investors interpret ESG disclosures from companies with strong governance as evidence of greater strategic commitment to sustainability. This mechanism is similar to the findings of Li et al. (2018) where high CEO power strengthens the positive relationship between ESG disclosure and company value. Second, CG functions as a reputation shield. Fatemi et al. (2018) explain that more intensive disclosure can mitigate the negative effects of ESG concerns or weaknesses on company valuation.

This study shows that strong CG provides assurance to the market that the company is capable of managing risks and addressing existing ESG weaknesses, thereby reducing the negative impact of ESG disclosure observed in H1. These consistent results confirm that CG is not only a supporting variable but also an important contingency factor that determines the success of ESG strategies in creating value, especially in environments characterized by high information asymmetry, such as emerging markets. This phenomenon is also supported by literature showing that ESG disclosure has a stronger impact on companies with lower financial reporting quality (FRQ), where ESG disclosure serves as a substitute for the lack of traditional transparency.

In summary, this study makes a significant contribution by confirming that in Indonesia, ESG disclosure must be supported by a strong corporate governance framework in order to generate positive market value. Although ESG without strong CG can be seen as a cost or greenwashing that actually depresses valuation (negative H1), the synergy between ESG and CG (positive H2) transforms this narrative into an opportunity for value creation. Therefore, the policy implications underscore the need for regulators in emerging markets to not only encourage mandatory ESG disclosure, but more importantly, to improve CG standards (e.g., through board independence and effective oversight mechanisms) so that companies' ESG commitments are considered credible by investors, which will ultimately promote sustainable development and enhance corporate value resilience amid uncertaint.

CONCLUSION

This study shows that although ESG disclosure independently has a negative relationship with Firm Value, indicating that in the Indonesian context, the market may view ESG spending as agency costs or costs that are not justified in the short term, the role of Corporate Governance (CG) has been proven to significantly and positively moderate this relationship. This finding is supported by the results of robustness testing using Price to Book Value (PBV) as an alternative proxy for firm value, which shows consistent results (Yin et al., 2025). These results reinforce the argument of Agency Theory that strong governance mechanisms are essential to credit (validate) ESG signals in the eyes of investors, thereby transforming negative perceptions (or market skepticism) into increased value. In other words, ESG disclosure only increases company value in the Indonesian market when supported by high CG quality (Aydoğmuş et al., 2022; Bukari et al., 2024).

The theoretical implications of these findings are significant because they enrich the literature examining the relationship between ESG and Firm Value in the context of emerging markets (Global South), where results are often divergent or mixed. Partial support for the negative ESG findings (H1 rejected) is consistent with the findings of Fatemi, Glaum, & Kaiser (2018), which show that disclosure can lower valuation, or studies in India that find a negative relationship between ESG and performance. However, the results of H2 emphasize the need for contingency analysis, in line with the findings of Li, Gong, Zhang, & Koh (2018), which highlight the moderating role of CEO power (as an aspect of CG) in enhancing the positive relationship between ESG disclosure and company value. Practically, these

findings imply that for managers in Indonesia, the allocation of resources for ESG must be accompanied by increased transparency and quality of board oversight (CG mechanisms) so that ESG initiatives can be recognized by the market and contribute to long-term value creation. Policymakers and regulators, such as capital market regulators, should focus not only on encouraging the quantity of disclosure (e.g., mandatory disclosure) but also on strengthening the CG framework that oversees ESG practices, as solid CG is a determining factor in whether ESG will provide financial benefits.

The results of this study provide opportunities for further research to expand understanding of ESG dynamics in emerging markets, namely (1) Exploration of Disclosure Quality: This study is limited to measuring the level of disclosure (quantity), so future research should analyze the impact of the quality of ESG disclosure (e.g., using textual analysis) on company value, which may yield more positive results than pure quantity. (2) Expanding the Sample and Context Variation: Although this study focuses on Indonesia, cross-country studies in Sub-Saharan Africa or the Global South with different institutional frameworks are recommended to test the external validity of the moderating role of CG. (3) Identifying Other Moderators and Mediators: In addition to CG, other moderating or mediating factors such as ownership structure, leverage, or industry competition should be examined in more detail, as these factors have been shown to moderate the ESG-performance relationship in various markets. (4) Addressing Causality and Endogeneity Issues: Although robustness testing has been conducted, future studies should use more sophisticated methodologies, such as natural experiments or Difference-in-Differences (DID) with heterogeneity effects to isolate causality and reduce the endogeneity bias inherent in corporate finance research.

REEFRENCES

Aboud, A., & Diab, A. (2018). The impact of social, environmental and corporate governance disclosures on firm value. Journal of Accounting in Emerging Economies, 8(4), 442–458. https://doi.org/10.1108/JAEE-08-2017-0079

Anri, N., & Utama, C. A. (2024). ESG Performance on Investment–Cash Flow Sensitivity: Case Study of Non-Financial Companies Listed on the Indonesian Stock Exchange. Quantitative Economics and Management Studies, 5(1), 135–141. https://doi.org/10.35877/454RI.qems2323

Alfi, C. F., Mohamad, M., & Hussainey, K. (2025). Unveiling the hidden symphony: board dynamics and carbon emission disclosure–a meta-analysis study in the realm of developed markets. Journal of Accounting Literature, 47(2), 404-432.

Aydoğmuş, M., Gülay, G., & Ergun, K. (2022). Impact of ESG performance on firm value and profitability. Borsa Istanbul Review, 22, S119–S127. https://doi.org/10.1016/j.bir.2022.11.006

Bukari, A., Agyemang, A. O., & Bawuah, B. (2024). Assessing the moderating role of ESG performance on corporate governance and firm value in developing countries. Cogent Business and Management, 11(1). Scopus. https://doi.org/10.1080/23311975.2024.2333941

Chen, S., Song, Y., & Gao, P. (2023). Environmental, social, and governance (ESG) performance and financial outcomes: Analyzing the impact of ESG on financial performance. Journal of Environmental Management, 345, 118829. https://doi.org/10.1016/j.jenvman.2023.118829

Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The Impact of Corporate Sustainability on Organizational Processes and Performance. Management Science, 60(11), 2835–2857. https://doi.org/10.1287/mnsc.2014.1984

Fatemi, A., Glaum, M., & Kaiser, S. (2018). ESG performance and firm value: The moderating role of disclosure. Global Finance Journal, 38, 45–64. Scopus. https://doi.org/10.1016/j.gfj.2017.03.001

Hasan, I., Song, L., & Waisman, M. (2012). Corporate Governance and Financial Constraints: Evidence from a Natural Experiment. Review of Financial Studies, 25(2), 526–555

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Khan, M., Serafeim, G., & Yoon, A. (2015). Corporate Sustainability: First Evidence on Materiality. The Accounting Review, 91(6), 1697–1724. https://doi.org/10.2308/accr-51383

Li, W.-A., Du, H., & He, F. (2025). Mandatory corporate ESG disclosure and default risk – Evidence from China. Pacific-Basin Finance Journal, 89, 102578. https://doi.org/10.1016/j.pacfin.2024.102578

Li, Y., Gong, M., Zhang, X.-Y., & Koh, L. (2018). The impact of environmental, social, and governance disclosure on firm value: The role of CEO power. The Effects of Environmental, Social and Governance Disclosures and Performance on Firm Value, 50(1), 60–75. https://doi.org/10.1016/j.bar.2017.09.007

Malik, N., & Kashiramka, S. (2024). "Impact of ESG disclosure on firm performance and cost of debt: Empirical evidence from India." Journal of Cleaner Production, 448. Scopus. https://doi.org/10.1016/j.jclepro.2024.141582

Malik, N., & Kashiramka, S. (2025). "ESG disclosure and its impact on firm leverage: Moderating role of quality of financial reporting and financial constraints." Global Finance Journal, 65, 101099. https://doi.org/10.1016/j.gfj.2025.101099

Mansour, M., Abu-Allan, A. J., Alshdaifat, S. M., E'leimat, D. A., & Saleh, M. W. (2025). Board effectiveness and carbon emission disclosure: evidence from ASEAN countries. Discover Sustainability, 6(1), 604

Mishra, G., Patro, A., & Tiwari, A. K. (2024). Does climate governance moderate the relationship between ESG reporting and firm value? Empirical evidence from India. International Review of Economics & Finance, 91, 920–941. https://doi.org/10.1016/j.iref.2024.01.059

Otoritas Jasa Keuangan (OJK). (2017). Peraturan OJK No. 51/POJK.03/2017 tentang Penerapan Keuangan Berkelanjutan bagi Lembaga Jasa Keuangan, Emiten, dan Perusahaan Publik. https://www.ojk.go.id

Quintiliani, A. (2022). ESG and Firm Value. Accounting and Finance Research, 11(4), 37–47. https://doi.org/10.5430/afr.v11n4p37

Spence, M. (1973). Job Market Signaling. The Quarterly Journal of Economics, 87(3), 355–374. https://doi.org/10.2307/1882010

Sprenger, C., & Lazareva, O. (2022). Corporate Governance and Investment–Cash Flow Sensitivity: Evidence from Russian Unlisted Firms. Journal of Comparative Economics, 50(1), 71–100. https://doi.org/10.1016/j.jce.2021.05.004

Utami, K., Amyulianthy, R., Astuti, T. (2022). Good Corporate Governance and Integrated Reporting Implementetation of Rev. 4.0. Economics and Business Quarterly Reviews 5 (4), 268-275

Yin, H., Tang, Y., & Jin, H. (2025). Sustainability in the supply chain, environmental, social and corporate governance performance, and corporate value. Finance Research Letters, 77, 107061. https://doi.org/10.1016/j.frl.2025.107061

Zhang, D., & Liu, L. (2022). Does ESG Performance Enhance Financial Flexibility? Evidence from China. Sustainability, 14(18), 11324. https://doi.org/10.3390/su141811324

Zhu, G., Ong, T. S., & Hassan, A. F. S. (2025). Legitimization Tools or Governance Tools? A Systematic Literature Review of Corporate Governance and Carbon Disclosure Quality. Business Strategy & Development, 8(2), e70117.