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Corporate Governance, ESG Disclosure, and Firm Value: Evidence from Public Companies in Indonesia

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Abstract: This study examines the influence of corporate governance and Environmental, Social, and Governance (ESG) disclosure on firm value in publicly listed companies in Indonesia. The research utilizes a quantitative approach with secondary data derived from annual and sustainability reports of 120 non-financial companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2022. Corporate governance is measured using board characteristics, including board size, independence, and gender diversity, while ESG disclosure is assessed through a modified GRI-based content analysis index. Firm value is proxied by Tobin's Q. The results of panel data regression analysis indicate that board independence and ESG disclosure have a significant positive impact on firm value, while board size shows a negative but insignificant effect. These findings suggest that strong governance structures and transparent ESG practices contribute to market-based performance and investor confidence. The study provides theoretical contributions to stakeholder theory and practical implications for corporate policy-makers and regulators in emerging markets.

Keywords: *corporate governance, ESG disclosure, firm value, Tobin's Q, Indonesia, IDX.*

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INTRODUCTION

The rising global attention to sustainable corporate practices has placed greater emphasis on how firms balance profitability with social and environmental accountability. Over the past decade, issues such as climate change, labor rights, ethical supply chains, and corporate governance scandals have pushed investors, regulators, and the public to demand higher standards of responsibility from corporations. As institutional investors and regulators demand higher transparency and accountability, Environmental, Social, and Governance (ESG) disclosure has emerged as a critical component in shaping firm behavior and market valuation (Eccles & Klimenko, 2019). For companies in emerging markets such as Indonesia, ESG practices are no longer voluntary add-ons but are becoming instrumental in attracting long-term investment and managing stakeholder expectations. Firms that fail to adapt to this new paradigm risk reputational damage, limited access to capital, and diminished competitiveness. Conversely, companies that strategically embrace ESG reporting can differentiate themselves, enhance brand value, and gain access to socially responsible investment funds, which have grown significantly worldwide. Thus, ESG is increasingly viewed not only as a

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compliance exercise but also as a long-term strategic driver of corporate sustainability and financial resilience.

Corporate governance plays a central role in shaping firms' disclosure practices, strategic decisions, and performance. Governance mechanisms such as board independence, board diversity, and board size are often cited as determinants of transparency and ethical conduct (García-Sánchez et al., 2021). Effective governance ensures that managerial decisions align with the interests of both shareholders and broader stakeholders, reducing agency problems and curbing opportunistic behaviors. Good governance structures can drive firms to adopt more responsible ESG reporting practices and align business objectives with stakeholder interests. For example, a diverse and independent board is more likely to demand transparency on environmental risks, labor standards, and corporate ethics, thereby strengthening the credibility of sustainability disclosures. In this context, governance mechanisms not only shape disclosure outcomes but also influence how stakeholders perceive the integrity of ESG reporting. Consequently, understanding the interplay between governance structure, ESG transparency, and firm value has become a pressing research agenda, particularly in markets where institutional quality and regulatory enforcement may vary significantly.

In Indonesia, the regulatory environment around corporate governance and sustainability disclosure has undergone significant transformation in recent years. The Financial Services Authority (OJK) has mandated ESG reporting for listed companies, reflecting global best practices that aim to standardize corporate sustainability communication. At the same time, corporate governance codes encourage board independence and diversity, highlighting the need for checks and balances within organizational leadership. However, the level of compliance and quality of disclosure varies considerably among firms, raising questions about the effectiveness of such mandates in influencing firm value (Yulianto et al., 2023). Some firms provide comprehensive ESG disclosures aligned with international frameworks such as the Global Reporting Initiative (GRI), while others disclose minimal qualitative information that lacks comparability and depth. This unevenness suggests that while regulatory pressure exists, its impact depends on internal governance capacity and organizational commitment to transparency. For investors and regulators, such variation presents challenges in assessing the reliability and comparability of ESG information, making empirical research on its impact in the Indonesian context highly relevant.

Prior studies in developed markets show that ESG disclosure positively influences firm value by reducing information asymmetry, enhancing reputation, and attracting socially responsible investors (Dhaliwal et al., 2011). These findings suggest that ESG reporting can serve as a strategic communication tool to signal credibility and long-term orientation to the market. However, empirical results in developing markets remain inconclusive. While some studies confirm the value relevance of ESG (El Ghoul et al., 2018), others argue that poor enforcement, greenwashing, and weak investor activism dilute its effect. For instance, in environments where capital markets are dominated by retail investors rather than institutional investors, ESG information may not be fully incorporated into valuation models. Moreover, when regulatory monitoring is weak, firms may engage in symbolic disclosures without substantive sustainability practices, undermining the intended benefits of transparency. Thus, country-specific studies are needed to provide contextual understanding and policy insights. For Indonesia, with its unique institutional, cultural, and ownership characteristics, research in this area can provide fresh evidence to guide both market participants and policymakers.

Board characteristics, especially independence and diversity, are theorized to enhance the quality of decision-making and corporate monitoring. According to agency theory, independent directors are more likely to act in shareholders' interests and promote long-term value creation by constraining managerial opportunism (Jensen & Meckling, 1976). Independent boards are also better positioned to demand credible ESG disclosures and to ensure that sustainability initiatives are not mere symbolic gestures. Additionally, gender-diverse boards are associated with broader perspectives, ethical oversight, and stakeholder sensitivity, contributing to improved governance quality and stakeholder engagement (Post & Byron, 2015). By integrating diverse viewpoints, boards are more likely to recognize emerging risks and opportunities related to sustainability, such as climate change adaptation or community engagement. Yet, empirical evidence remains mixed in Southeast Asia, where cultural and institutional dynamics differ from Western contexts. In some cases, entrenched family ownership and patriarchal norms may limit the influence of independent and female directors, raising questions about the universal applicability of agency and resource dependency theories in explaining board effectiveness.

Firm value, as captured by Tobin's Q, reflects investor perception of a firm's future growth and intangible assets. This metric is particularly relevant in contexts where market valuation goes beyond tangible resources, emphasizing factors such as innovation, brand reputation, and sustainability performance. ESG-related initiatives and strong governance can be seen as strategic assets, leading to higher valuation multiples by signaling long-term resilience and competitive advantage. For instance, transparent reporting on carbon reduction or labor rights can reduce perceived risk and attract global investors seeking socially responsible portfolios. Conversely, weak governance or opaque ESG practices may erode investor trust and expose firms to reputational risks, potentially resulting in stock price volatility and higher capital costs. These dynamics highlight the strategic importance of intangible resources as outlined in the resource-based view, which positions ESG and governance practices as valuable, rare, and inimitable capabilities. Understanding which aspects of governance and disclosure drive value is crucial for boards and regulators seeking to enhance market confidence. In emerging markets such as Indonesia, where institutional frameworks are still developing, measuring the link between disclosure and valuation provides critical insights into whether global theories of value creation hold in less mature environments. This underscores the need to test and validate the ESG–value relationship using robust empirical methods tailored to local conditions.

There is a growing recognition that ESG disclosure, when credible and standardized, contributes to a firm's intangible capital. Unlike traditional financial reporting, sustainability reporting often involves qualitative assessments of environmental and social impacts, which may not be easily quantifiable. Nonetheless, these disclosures serve as an important tool to communicate corporate accountability, align with global sustainability goals, and strengthen relationships with stakeholders. However, in the Indonesian context, ESG reporting remains largely unregulated in terms of standardization. While some firms adopt the GRI framework, others provide limited qualitative disclosures, making cross-firm comparisons challenging (Nawaz, 2017). This inconsistency poses problems for investors who require reliable and comparable data to inform capital allocation decisions. It also limits the ability of regulators to monitor the effectiveness of sustainability policies across industries. Furthermore, firms that provide only superficial or fragmented ESG information may face accusations of greenwashing, undermining stakeholder trust. For researchers, this lack of standardization opens an

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avenue for developing new methodologies such as content analysis or disclosure indices to measure and compare ESG performance across diverse firms. By systematically quantifying disclosures, it becomes possible to evaluate whether transparency meaningfully affects firm valuation in an emerging market setting like Indonesia.

Another dimension that merits attention is the mediating or moderating role of governance in the ESG–firm value relationship. Governance structures provide the mechanisms through which disclosures are translated into tangible corporate outcomes. García-Sánchez et al. (2021) suggest that ESG disclosures only translate into value when supported by robust internal controls and governance systems. This implies that without effective oversight, ESG reports may be viewed as symbolic or superficial rather than credible signals of sustainable behavior. For instance, independent boards may play a moderating role by ensuring that ESG initiatives are integrated into strategic planning rather than remaining isolated reporting exercises. Similarly, gender-diverse boards could mediate the impact of ESG by fostering inclusivity and broader ethical perspectives in decision-making, thereby enhancing the credibility of disclosures. By testing these relationships, scholars can provide a nuanced understanding of how governance quality amplifies or diminishes the market relevance of ESG practices. Such insights are critical for investors who need to differentiate between firms that are genuinely committed to sustainability and those engaging in symbolic compliance. In addition, regulators can benefit from this evidence to design policies that encourage not just disclosure, but governance reforms that ensure ESG information is reliable and value-relevant.

The Indonesian capital market, dominated by retail investors and family-controlled businesses, presents a unique case for studying the governance–ESG–value nexus. Unlike in developed markets, where institutional investors and active shareholder engagement play a strong role in disciplining firms, the Indonesian market is characterized by concentrated ownership and limited board independence. Governance reforms are often challenged by entrenched ownership structures, potential conflicts of interest, and cultural norms that prioritize loyalty over independence. Consequently, even when ESG disclosures are mandated, their effectiveness in shaping firm value may depend heavily on governance structures that either enable or constrain transparency. For instance, family-controlled firms may disclose selectively to maintain reputation, while professionally managed firms may embrace broader transparency to attract global investors. This institutional setting offers valuable insights for other emerging markets with similar ownership and governance dynamics, where regulatory enforcement is weaker and investor activism is limited (Susanto et al., 2024). Therefore, examining Indonesia not only contributes to the local literature but also enriches comparative studies on corporate governance and sustainability across emerging economies.

Against this background, this study investigates the joint and separate effects of corporate governance characteristics and ESG disclosure on firm value among public companies in Indonesia. By analyzing recent data and incorporating robust econometric methods, the study seeks to offer both empirical evidence and practical implications for regulators, investors, and corporate leaders seeking to strengthen sustainable corporate practices and maximize shareholder value. This dual focus on governance mechanisms and ESG disclosure allows the research to address key gaps in the literature, particularly the extent to which disclosure practices are contingent on governance quality. Moreover, the study contributes to ongoing policy debates on how emerging markets can align with global sustainability reporting standards while accommodating unique institutional characteristics. The findings are expected to provide actionable recommendations for corporate boards on enhancing governance effectiveness, for regulators on strengthening

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ESG policies, and for investors on identifying firms with credible long-term value creation strategies. By situating the research within Indonesia's evolving regulatory and market context, the study not only adds to the theoretical discourse but also provides timely insights for practitioners navigating the complexities of sustainable corporate governance in emerging economies.

RESEARCH METHODS

This study employs a quantitative explanatory research design using secondary data extracted from annual and sustainability reports of public companies listed on the Indonesia Stock Exchange (IDX). The sample consists of 120 non-financial firms observed over a five-year period from 2018 to 2022, resulting in a panel dataset of 600 firm-year observations. Firms from the banking and financial sectors were excluded due to different regulatory frameworks and disclosure requirements.

Corporate governance is measured through three board attributes: board size (total number of directors), board independence (proportion of independent commissioners), and gender diversity (percentage of female board members). ESG disclosure is measured using a content analysis index based on the Global Reporting Initiative (GRI) standards. Each ESG item is scored as 1 (disclosed) or 0 (not disclosed), and a total ESG disclosure score is derived for each firm-year.

Firm value is proxied using Tobin's Q, calculated as the ratio of market value of equity plus total liabilities to total assets. Control variables include firm size (log of total assets), leverage (debt-to-equity ratio), and profitability (ROA), based on previous literature indicating their influence on firm valuation (El Ghoul et al., 2018; Yulianto et al., 2023).

The data were analyzed using panel data regression with fixed-effect and random-effect models, tested via the Hausman specification test. Diagnostic tests were performed to ensure the absence of multicollinearity, heteroskedasticity, and serial correlation. Robust standard errors were applied to enhance model validity. The statistical analysis was conducted using STATA 17.

To ensure data reliability, cross-checking of report disclosures was done manually. ESG content scores were validated by two independent coders with inter-rater agreement above 90%. Ethical considerations were addressed by ensuring that only publicly available data were used and that firm confidentiality was preserved in reporting.

RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive analysis provides an overview of corporate governance characteristics and ESG disclosure practices among Indonesian listed firms during the observation period. On average, firms have a board size of 6.2 members, indicating relatively compact boards. This structure may support efficient coordination, although it may also limit the breadth of expertise available at the board level. The average proportion of independent commissioners is 42%, suggesting partial compliance with governance recommendations while indicating scope for stronger independent oversight. Female board representation averages 18%, reflecting gradual progress toward gender diversity, yet remaining below levels observed in many developed markets.

ESG disclosure exhibits substantial variation across firms. The average disclosure score of 53% indicates moderate transparency, with several firms adopting structured frameworks such as the GRI, while others disclose selectively. This dispersion reflects

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uneven implementation of sustainability reporting practices and supports concerns regarding comparability and consistency in the Indonesian context (Yulianto et al., 2023).

Table 1. Descriptive Statistics of Key Variables

Variable	Mean	Minimum	Maximum	Std. Deviation
Board Size	6.2	3.0	11.0	1.8
Board Independence (%)	42.0	25.0	67.0	9.6
Female Board (%)	18.0	0.0	45.0	11.2
ESG Disclosure Score (%)	53.0	21.0	86.0	14.5
Tobin's Q	1.37	0.62	3.94	0.71

These descriptive findings highlight heterogeneity in governance and disclosure practices, providing an empirical basis for examining their association with firm value.

Corporate Governance and Firm Value

The panel regression results demonstrate that board independence has a positive and statistically significant effect on firm value. The estimated coefficient ($\beta = 0.216$, $p < 0.01$) supports agency theory, which posits that independent directors enhance monitoring effectiveness and reduce managerial opportunism (Jensen & Meckling, 1976). In the Indonesian market, where ownership concentration is prevalent, independent commissioners appear to play a critical role in strengthening investor confidence and improving market valuation.

Board size shows a negative but statistically insignificant relationship with firm value. This result suggests that increasing the number of board members does not necessarily enhance governance effectiveness. Larger boards may face coordination challenges and slower decision-making processes, which can offset potential benefits of increased expertise. The finding implies that governance quality in Indonesia is driven more by board composition than by board size alone.

Gender diversity exhibits a positive but marginally significant association with firm value ($\beta = 0.082$, $p = 0.07$). Although the effect is weak, the positive direction indicates emerging market recognition of diversity as a governance attribute. Female board members may contribute broader perspectives and improved ethical oversight, yet institutional and cultural constraints may limit their influence in strategic decision-making processes.

ESG Disclosure and Firm Value

ESG disclosure demonstrates a strong positive effect on firm value ($\beta = 0.341$, $p < 0.001$). This finding indicates that capital market participants in Indonesia increasingly value transparency regarding environmental and social practices. ESG reporting reduces information asymmetry and signals long-term orientation, which enhances investor trust and market valuation (Dhaliwal et al., 2011).

The magnitude of the ESG coefficient suggests that sustainability disclosure is not merely symbolic but is perceived as economically relevant. Firms that provide more comprehensive ESG information are likely viewed as better prepared to manage regulatory, environmental, and reputational risks. This result aligns with evidence from emerging markets showing that ESG practices contribute to market-based performance when disclosures are credible (El Ghoul et al., 2018).

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Interaction between Governance and ESG Disclosure

The interaction analysis reveals that ESG disclosure strengthens the positive effect of board independence on firm value. This result indicates a complementary relationship between governance structures and sustainability transparency. Independent boards enhance the credibility of ESG disclosures, while ESG reporting reinforces the legitimacy of board oversight. Together, these mechanisms form a reinforcing governance–disclosure framework that investors reward.

This interaction supports the argument that ESG disclosures generate value only when supported by robust governance mechanisms (García-Sánchez et al., 2021). Without effective oversight, sustainability reports may be perceived as symbolic and fail to influence valuation. In contrast, firms with independent boards and transparent ESG practices are more likely to be regarded as low-risk and well-governed.

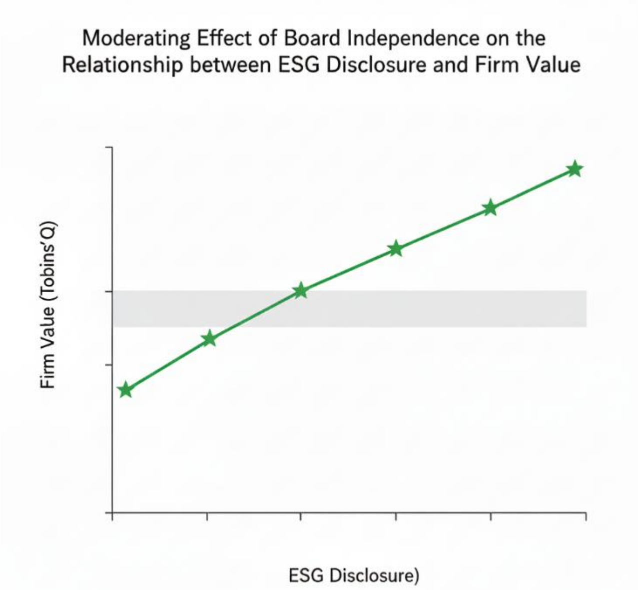

Figure 1. Interaction Effect of Board Independence and ESG Disclosure on Firm Value (ASCII Diagram)

The diagram illustrates that higher ESG disclosure levels correspond to greater increases in firm value when board independence is strong.

Robustness and Model Explanatory Power

Robustness checks using alternative firm value measures yield consistent results, confirming the stability of the estimated relationships. The model explains approximately 41% of the variation in Tobin's Q, indicating moderate explanatory power. This suggests that while governance and ESG disclosure are important determinants of firm value, other firm-specific and macroeconomic factors also influence market valuation.

In summary, the results confirm that governance quality and ESG transparency are valued by the Indonesian capital market, particularly when implemented jointly. Structural compliance alone, such as board size, appears insufficient. Instead, independent oversight and credible sustainability disclosure emerge as key drivers of firm value in an emerging market context..

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CONCLUSION

This study demonstrates that corporate governance mechanisms and ESG disclosure are relevant factors in explaining firm value among publicly listed companies in Indonesia. The empirical results show that firms with stronger governance structures and higher levels of sustainability disclosure tend to be valued more favorably by the market.

Board independence plays a central role in this relationship. A higher proportion of independent commissioners is associated with increased firm value, indicating that effective oversight enhances market confidence. In an environment characterized by concentrated ownership, independent boards appear to function as an important control mechanism that reassures investors regarding transparency and accountability. Conversely, board size does not exhibit a significant effect on firm value, suggesting that governance effectiveness is driven more by board quality than by the number of board members.

ESG disclosure emerges as the most influential variable in the model. Firms that disclose sustainability information more extensively achieve higher market valuation, reflecting investor appreciation for transparency related to environmental and social responsibilities. This result suggests that ESG reporting in Indonesia is increasingly perceived as value relevant rather than symbolic. Moreover, the interaction between ESG disclosure and board independence indicates that sustainability information is more effective when supported by strong governance. Independent boards appear to enhance the credibility of ESG disclosures, allowing such information to be more fully incorporated into firm valuation.

The findings carry important implications for regulators, corporate decision-makers, and investors. Regulatory initiatives aimed at strengthening board independence and improving the consistency of ESG reporting are supported by the evidence. For firms, integrating ESG disclosure into governance practices is likely to enhance credibility and market perception. Investors, meanwhile, may benefit from evaluating governance quality alongside ESG performance when assessing firm value.

In conclusion, the study highlights that firm value in the Indonesian capital market is shaped by the interaction between effective corporate governance and credible ESG disclosure. Strengthening these two dimensions simultaneously is essential for firms seeking to improve market valuation and sustain long-term performance.

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