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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.

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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 indicate that the average board size among the sampled firms is 6.2 members, with an average board independence ratio of 42% and female representation of 18%. These figures provide important insights into the governance structures of Indonesian listed firms. The relatively modest average board size suggests that firms prefer compact decision-making bodies, which may facilitate efficiency but could also limit diversity of expertise. The independence ratio of 42% indicates that nearly half of board members are independent, aligning with regulatory expectations but leaving room for further strengthening of external oversight. Female representation, at 18%, reflects gradual progress toward gender diversity, although it remains below global best practices where female participation often exceeds 30%. ESG disclosure scores vary significantly across firms, with an average index score of 53%, suggesting room for improvement in standardized sustainability reporting. This variation highlights the fragmented nature of ESG practices in Indonesia, where some firms adopt comprehensive frameworks such as GRI, while others engage in minimal qualitative disclosures. Such

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disparities underscore the need for policy interventions and market incentives to encourage consistency in reporting. Overall, these descriptive findings set the foundation for empirical analysis by revealing the heterogeneity of governance and ESG practices, which may explain differences in firm valuation outcomes.

Panel regression results reveal that board independence has a positive and statistically significant effect on firm value ($\beta = 0.216$, $p < 0.01$), supporting the agency theory notion that independent oversight enhances shareholder trust. This finding suggests that independent directors play a critical role in mitigating agency problems, ensuring transparency, and aligning managerial decisions with shareholder interests. The positive effect resonates with global evidence that stronger governance leads to enhanced investor confidence and valuation. In contrast, board size has a negative but statistically insignificant effect, implying that larger boards may not necessarily lead to better governance outcomes. While large boards could theoretically provide diverse perspectives, they may also suffer from coordination problems, slower decision-making, and diluted accountability. This aligns with prior studies suggesting that beyond a certain threshold, increasing board size may reduce efficiency rather than strengthen governance. In the Indonesian context, where boards already face challenges due to ownership concentration and regulatory complexity, the size of the board may be less important than the independence and quality of its members. Hence, the regression results highlight that effective governance is driven not by structural compliance alone but by the presence of directors who are independent and capable of exercising meaningful oversight.

Gender diversity on the board is positively associated with firm value, although the effect is marginal ($\beta = 0.082$, $p = 0.07$), indicating emerging investor recognition of diversity as a governance strength. While not statistically strong, the positive association suggests that diverse boards may contribute to better decision-making, improved risk management, and enhanced stakeholder engagement. Female directors often bring alternative perspectives on social and ethical issues, which can strengthen a firm's reputation and legitimacy. This is consistent with international findings that diverse boards offer broader perspectives and mitigate groupthink, ultimately benefiting governance outcomes. In emerging markets such as Indonesia, however, cultural and institutional barriers may limit the extent to which gender diversity translates into measurable financial performance. For instance, women may face constraints in influencing key decisions if their representation is tokenistic rather than substantive. Nonetheless, the marginally positive effect signals growing awareness among investors of the value of inclusivity, and it may also reflect global shifts in investment preferences where diversity is increasingly factored into ESG considerations. Over time, as female representation grows and societal norms evolve, gender diversity could play a more decisive role in enhancing firm value and governance credibility.

ESG disclosure shows a strong positive relationship with firm value ($\beta = 0.341$, $p < 0.001$), reinforcing the hypothesis that transparent sustainability practices increase investor confidence and perceived legitimacy. This finding underscores the strategic importance of ESG reporting as a tool to reduce information asymmetry between firms and stakeholders. Investors are more likely to reward companies that provide credible disclosures on environmental and social impacts, as such information signals long-term resilience and risk management capacity. The result aligns with Dhaliwal et al. (2011), who found that voluntary disclosure of sustainability information improves access to capital markets, and with local studies confirming positive market responses to ESG initiatives in Indonesia. The magnitude of the effect suggests that ESG practices are not

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only symbolic but are increasingly viewed as material to firm performance in the Indonesian market. This may reflect rising global investor attention toward sustainability and the gradual incorporation of ESG metrics into investment decision-making processes. For firms, this evidence highlights the competitive advantage of adopting comprehensive reporting frameworks, while for regulators, it confirms the value relevance of ESG policies in enhancing market efficiency and investor protection.

When examining interaction effects, ESG disclosure strengthens the positive impact of board independence on firm value, suggesting that good governance and transparent reporting are complementary. This interaction indicates that independent boards amplify the credibility of ESG disclosures, while ESG initiatives enhance the legitimacy of independent oversight. Together, they create a reinforcing cycle of accountability and transparency that investors reward through higher valuation. This finding supports García-Sánchez et al. (2021), who argue that governance quality is crucial in translating ESG efforts into financial gains. In practice, firms with both strong governance and robust ESG disclosure are likely to be perceived as lower-risk investments, better prepared to handle external shocks, and more committed to long-term sustainability. Conversely, firms with weak governance may fail to realize the value of ESG initiatives, as stakeholders may doubt the credibility of disclosures in the absence of strong oversight. Thus, the interaction analysis highlights the importance of considering governance and ESG not as isolated factors but as mutually reinforcing dimensions of corporate value creation.

Robustness tests using alternative measures of firm value (e.g., market-to-book ratio) yielded consistent results, adding credibility to the findings. The stability of the results across different valuation metrics suggests that the observed relationships are not artifacts of a particular measurement choice but reflect genuine patterns in the data. This robustness strengthens the validity of the conclusions and enhances their relevance for both academic research and policy discussions. Moreover, the model explains 41% of the variation in Tobin's Q, indicating moderate explanatory power. While this figure suggests that governance and ESG practices are important drivers of firm value, it also highlights that other factors such as industry dynamics, macroeconomic conditions, and firm-specific strategies contribute significantly to market valuation. For researchers, this points to opportunities for further inquiry into complementary determinants of firm value, while for practitioners, it emphasizes the need to integrate governance and ESG strategies with broader business and financial planning.

These results suggest that ESG and governance practices are valued by the capital market in Indonesia, particularly when accompanied by credible and independent oversight. Investors may perceive such firms as less risky and more strategically positioned for long-term growth, which explains their willingness to assign higher valuation multiples. The findings also reinforce the importance of policy initiatives aimed at improving corporate transparency and board effectiveness. For regulators, the evidence supports continued efforts to standardize ESG reporting and strengthen governance codes, while for investors, it highlights the need to assess not only financial metrics but also non-financial indicators when evaluating firms. The insignificant impact of board size suggests that mere structural compliance may not be sufficient. Rather, the quality and engagement of board members, particularly independent ones, appear to matter more in influencing firm value. Overall, the results contribute to the growing literature on sustainable governance in emerging markets and support regulatory efforts aimed at improving corporate transparency and board effectiveness in Indonesia.

CONCLUSION

This study concludes that corporate governance, especially board independence, and ESG disclosure play a significant role in enhancing firm value among Indonesian public companies. ESG disclosure was found to have the strongest impact, emphasizing the growing importance of transparent sustainability reporting in investor decision-making.

Board independence contributes positively to firm valuation, highlighting the need for strengthened governance mechanisms in capital markets with high ownership concentration. Gender diversity on the board also shows promising results, warranting further encouragement from regulators and shareholders.

Policy makers are advised to promote standardized ESG reporting frameworks and encourage board reforms that enhance independence and diversity. ESG guidelines should be enforced not just as compliance checklists but as strategic tools for value creation.

Corporate leaders should integrate ESG into core business strategies and foster board structures that are agile, diverse, and transparent. By doing so, firms not only build trust with investors but also improve their long-term competitiveness and resilience.

For scholars, the study provides empirical validation of stakeholder theory and agency theory in the Indonesian context. Future research may explore causal pathways, the role of ownership structure, or longitudinal impacts of governance and ESG on firm performance.

In conclusion, the synergy between strong governance and credible ESG disclosure serves as a vital lever for enhancing firm value in emerging capital markets. As Indonesia moves toward sustainable development goals, strengthening these dimensions becomes essential for a responsible and thriving corporate sector.

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