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The Value Relevance of Environmental, Social, and Governance Disclosure: Evidence from Companies Listed on the Indonesia Stock Exchange

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Abstract

Purpose of this study is to analyze the effect of Environmental Disclosure, Social Disclosure, and Governance Disclosure on firm value, with Board Size, Return on Equity, Firm Size, and Leverage as control variables. The study utilized a purposive sampling method, obtaining a sample from 40 companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. A quantitative approach and panel data regression analysis were employed. Based on the model selection procedures, the Random Effect Model (REM) was determined as the best estimation model. Results of this research indicate that Environmental Disclosure and Governance Disclosure have a negative but insignificant effect on firm value, whereas Social Disclosure has a negative and significant effect. At the control variables, Board Size has a positive but insignificant effect, Return on Equity has a positive and significant effect, Firm Size has a negative but insignificant effect, and Leverage has a positive and significant effect on firm value. These findings imply that sustainability disclosures do not automatically enhance firm value; therefore, companies need to pay close attention to the quality, effectiveness, and relevance of ESG implementation in their business strategies. Consequently, profitability and financing structure emerge as critical aspects in improving investor perception of firm value.

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Introduction

Over the past few decades, the business world has undergone a paradigm shift in evaluating corporate success and sustainability. Corporate success is no longer measured solely by the ability to generate profits and enhance financial performance, but also by considering environmental, social, and governance aspects (Chen, et al., 2023). This shift is driven by the growing attention of investors, regulators, the public, and other stakeholders toward responsible business practices. Environmental, Social, and Governance (ESG) has evolved as a crucial approach for evaluating corporate responsibility and sustainability (Chopra et al., 2024). ESG disclosure is not merely an auxiliary component of annual reports; rather, it has become strategic information that potentially influences investment decisions and market valuations of firms (Phonlaboon et al., 2026). Transparency of sustainability information holds increasing relevance in capital markets (Ko et al., 2024). Investors not only focus on a company's profit-generating capacity but also consider its ability to manage environmental risks, maintain social relationships, and implement effective governance (Hijazin et al., 2025). Companies capable of disclosing sustainability practices transparently are more likely to gain investor confidence, as they are perceived to have a commitment to long-term business continuity (Agbakwuru et al., 2024). Conversely, a lack of transparency can heighten reputational risks, information uncertainty, and lowering market trust (Fung, 2014). Therefore, Environmental Disclosure, Social Disclosure, and Governance Disclosure are essential aspects to examine in relation to firm value.

The development of sustainability practices in Indonesia, has received governmental support through policies enacted by the Financial Services Authority (Otoritas Jasa Keuangan - OJK), specifically OJK Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies. The regulation governs the implementation of sustainable finance principles and the obligation to submit sustainability reports for parties within its scope. Sustainability reports become instruments for companies to convey strategies, policies, performance, and responsibilities in economic, social, and environmental aspects (Rusu et al., 2024). This regulatory development indicates that sustainability disclosure is increasingly becoming a vital part of corporate reporting and governance practices in Indonesia. The strengthening of ESG policies is reflected in the evolution of OJK regulations, notably through the proposed amendments to POJK 51/2017 aimed at reinforcing the disclosure of climate and sustainability information (Ridho, 2025). These proposed changes include alignment with international standards IFRS S1 and IFRS S2, as well as the reinforcement of governance, risk management, strategy, metrics, and sustainability targets (Kornelius, 2025). This development shows that the quality of sustainability information is increasingly being considered in the Indonesian financial system. Therefore, companies listed on the Indonesia Stock Exchange (IDX) face increasingly demanding transparency requirements, while investors need more comprehensive information to assess the quality of management and the company's prospects (Bachtiar et al., 2025).

The relationship between ESG disclosure and firm value is explained through Stakeholder Theory, Legitimacy Theory, Signaling Theory, and Agency Theory. Stakeholder Theory, developed by Freeman (1984), explains that a company's success is determined not only by shareholders' interests but also by its ability to satisfy the interests of other stakeholders. Legitimacy Theory explains that companies strive to gain societal acceptance through activities that align with social norms and values (Suchman, 1995). Signaling Theory, introduced by Spence (1976), explains that information disclosure can serve as a positive signal to reduce information asymmetry between management and investors.

Agency Theory by Jensen & Meckling (1976), highlights the importance of monitoring mechanisms in mitigating conflicts of interest. Together, these theories provide a foundation indicating that environmental, social, and governance transparency can influence investor confidence and firm value. Empirically, each ESG dimension possesses distinct characteristics and potential impacts on firm value (Segura et al., 2024). Disclosure reflects corporate transparency in managing emissions, energy, waste, and environmental impacts, which can affect operational risks and corporate reputation (Walker, 2008). Social Disclosure describes the company's responsibility toward employees, communities, human rights, occupational safety, and social welfare, which supports long-term stakeholder relationships (Alsayegh et al., 2020). Governance Disclosure exhibits shows the transparency of governance structure, board independence, risk management, internal controls, and management accountability (Efunniyi et al., 2024). These three dimensions have the potential to provide relevant information for investors in evaluating corporate prospects and sustainability. However, the economic benefits and market responses to each disclosure may not necessarily be the same.

Prior studies reveal inconsistent findings regarding the relationship between ESG and firm value. Rachmawati & Mariana (2026), found that Environmental Disclosure and Governance Disclosure have a positive effect on firm value, whereas Social Disclosure has a negative effect. In contrast Wongso et al., (2025), found that social and governance disclosures have a significant negative effect, while environmental disclosure has no significant effect on firm value. The study by (Sitorus et al. (2026), indicated that, partially, only Environmental Disclosure has a significant negative effect on firm value. These divergent findings point to a research gap characterized by inconsistent findings. In addition, this research separates the three dimensions of ESG as independent variables so that the influence of each disclosure can be analyzed more specifically.It also incorporates Board Size, Leverage, Return on Equity (ROE), and Firm Size as control variables to account for corporate governance and financial characteristics. Based on the phenomenon of ESG development, regulatory strengthening, theoretical foundations, and the inconsistency of previous research results, the study on the impact of Environmental Disclosure, Social Disclosure, and Governance Disclosure on company value becomes important to conduct. However, it is necessary to consider using control variables. This is done so that the research can provide more comprehensive empirical results regarding the relationship of each ESG dimension with the company's value.

Methods

This research uses a quantitative approach with an associative research type aimed at testing the influence of Environmental Disclosure, Social Disclosure, and Governance Disclosure on firm value with Board Size, Leverage, Return on Equity (ROE), and Firm Size as control variables. The research object is companies listed on the Indonesia Stock Exchange (IDX), using secondary data obtained from annual reports, sustainability reports, and company financial statements during the research period. Sample selection was conducted using purposive sampling based on specific criteria: companies listed on the IDX throughout the observation period, issuers that publish annual reports containing ESG disclosure information, and those with complete data for all research variables. Environmental Disclosure, Social Disclosure, and Governance Disclosure were measured using disclosure indices based on GRI Standards indicators, while firm value was measured using Tobin's Q. The control variables are measured through the number of board members, the debt-to-asset ratio, the return on equity, and the natural logarithm of total assets. The data analysis technique uses panel data regression. Through this method, the research is expected to provide empirical evidence regarding the relevance

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of each dimension of ESG disclosure to the value of companies listed on the Indonesia Stock Exchange, taking into account the characteristics of governance and the financial condition of the companies.

Results and Discussions

Using purposive sampling, a total of 40 sample companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period with available Environmental, Social, and Governance (ESG) disclosure scores on Refinitiv Eikon were obtained. The selected companies represent nine industry sectors: banking and financials, energy, consumer non-cyclicals, consumer cyclicals, healthcare, basic materials, infrastructure, properties and real estate, and automotive. Based on these sectoral characteristics, the banking and financial sector constitutes one of the dominant groups within the sample. This industrial diversity enables an analysis of the impact of ESG disclosure on firm value while accounting for inter-industry variations.

Firm value, proxied by Tobin's Q, exhibits a mean value of 1.327 and a standard deviation of 0.812, indicating that the mean is higher than the data dispersion. The maximum Tobin's Q value of 3.923 was recorded by PT Kalbe Farma Tbk in 2019, whereas the minimum value of 0.159 was held by PT Global Mediacom Tbk in 2021. Regarding the ESG dimensions, Environmental Disclosure has a mean of 51.409, Social Disclosure stands at 60.949, and Governance Disclosure averages 55.011. The highest environmental disclosure score was achieved by PT Indo Tambangraya Megah Tbk in 2023 at 88.023, the highest social disclosure score by PT Bukit Asam Tbk in 2023 at 96.760, and the highest governance disclosure score by PT Vale Indonesia Tbk in 2022 at 94.060. These findings show that Social Disclosure has the highest mean score among the three ESG dimensions, while Environmental Disclosure records the lowest mean. This condition indicates varying degrees of corporate transparency in communicating environmental, social, and governance responsibilities over the study period.

Board Size has a mean of 6.18 members with a standard deviation of 2.024, whereas Return on Equity (ROE) has a mean of 13.475 percent with a standard deviation of 26.499. The maximum ROE of 221.100 percent was recorded by PT Matahari Department Store Tbk in 2023, while the minimum ROE of -122.290 percent belonged to PT Bumi Resources Tbk in 2020. Firm Size displays a mean of 17.991 with a standard deviation of 1.336, reflecting that the variation in firm size across the sample is relatively more concentrated compared to ROE. Leverage, measured via the Debt to Asset Ratio (DAR), has a mean of 0.472 with a standard deviation of 0.226, reaching a maximum of 0.910 and a minimum of 0.040. Overall, the descriptive statistics illustrate heterogeneity in financial and non-financial characteristics among firms, particularly concerning profitability, funding structure, and ESG disclosure levels. Such variation provides the foundation for conducting panel data regression analysis to examine the relationship between each ESG disclosure dimension and firm value.

The Chow test results yielded a cross-section Chi-square probability value of 0.0000, which is below the 0.05 significance threshold. This outcome indicates that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The Hausman test yielded a cross-section random probability value of 0.0529, which exceeds the 0.05 significance level, rendering the Random Effect Model (REM) more appropriate than the Fixed Effect Model (FEM). Based on the Lagrange Multiplier test, the Breusch-Pagan cross-section probability value was 0.0000, falling below the 0.05 significance level and confirming that the Random Effect Model (REM) is superior to the Common Effect Model (CEM). Consequently, based on the Chow, Hausman, and Lagrange Multiplier tests, the panel data regression model selected for this study is the Random Effect Model. The Random Effect Model regression results yield an F-statistic probability value of 0.0000, which is less than the 0.05

significance level. This indicates that Environmental Disclosure, Social Disclosure, Governance Disclosure, Board Size, Return on Equity, Firm Size, and Leverage simultaneously exert a significant effect on firm value proxied by Tobin's Q. This result implies that firm value is determined not only by financial information but also by non-financial data reflecting corporate environmental, social, and governance responsibilities. These findings align with Stakeholder Theory, which explain that value creation is tied to a company's ability to manage the interests of diverse stakeholders (Jensen, 2010). Furthermore, Signaling Theory explains that information communicated by a company serves as a signal for investors to assess corporate prospects and management quality (Connelly et al., 2025). The Adjusted R-squared value obtained from the estimation is 0.181281, indicating that Environmental Disclosure, Social Disclosure, Governance Disclosure, Board Size, Return on Equity, Firm Size, and Leverage explain 18.12 percent of the variation in firm value. The results indicate that the model's ability to explain variations in company value is still relatively limited. This condition may indicate that investors' valuation of the company is influenced by various other factors, such as company growth, dividend policy, ownership structure, business risk, management quality, macroeconomic conditions, and other external factors. Nevertheless, this Adjusted R-squared value does not diminish the relevance of examining the relationship between ESG disclosure and firm value, as the study focuses on testing predetermined variables derived from theoretical frameworks and prior literature.

The estimation results of the Random Effect Model indicate that Environmental Disclosure, Social Disclosure, and Governance Disclosure exhibit negative coefficients. Among the control variables, Board Size, Return on Equity, and Leverage possess positive coefficients, whereas Firm Size has a negative coefficient. At a 5 percent significance level, Social Disclosure, Return on Equity, and Leverage are proven to have a significant effect on firm value. Meanwhile, Environmental Disclosure, Governance Disclosure, Board Size, and Firm Size do not exhibit statistically significant effects. The detailed research findings are presented below:

Table 1. Research Results

Variables	Coefficients (β)	Prob. (p-value)	Conclusion
Environmental Disclosure	-0.065453	0.0548	Negative, not significant
Social Disclosure	-0.189877	0.0434	Negative, significant
Governance Disclosure	-0.075354	0.1861	Negative, not significant
Board Size	0.010449	0.5116	Positive, not significant
ROE	0.002813	0.0002	Positive, significant
Firm Size	-1.431231	0.0604	Negative, not significant
Leverage	0.174818	0.0032	Positive, significant

Key Findings

- Social Disclosure has a negative and significant effect on Firm Value (p = 0.0434).
- ROE and Leverage have a positive and significant effect on Firm Value (p = 0.0002 and 0.0032, respectively).
- Other variables show no significant effect on Firm Value.

Source: Processed research data, 2026.

Environmental Disclosure has a negative coefficient of -0.065453 with a probability of 0.0548. This indicates that Environmental Disclosure displays a negative relationship direction, but does not exert a significant effect on firm value at the 5 percent significance level. However, at a 10 percent significance level, this variable exhibits a significant negative effect. The findings indicate that increased

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environmental disclosure does not necessarily receive a positive response from investors. This can occur because environmental management activities, such as emission reduction, waste management, energy efficiency, and sustainable resource use, require relatively large investments and costs (Tsui & Wong, 2019). If the short-term economic benefits of these activities are not yet visible, investors may withhold positive valuations regarding corporate environmental disclosures (Martin & Moser, 2016).

From an Agency Theory perspective, the allocation of corporate resources must be executed effectively to generate benefits for shareholders (Panda & Leepsa, 2017), and environmental expenditures that fail to generate proportionate economic returns can be perceived as an additional corporate burden (Martin & Peter, 2017). Social Disclosure yields a negative coefficient of -0.189877 with a probability of 0.0434. Because this probability is less than 0.05, it is concluded that Social Disclosure has a negative and significant effect on firm value. This indicates that higher corporate social disclosure tends to coincide with lower firm value. Social disclosure encompasses information regarding employee welfare, occupational safety, equal opportunity, training, human rights, and social responsibility toward communities (Abdalla et al., 2026). Such activities require resource allocations that can increase corporate expenditures (Qiu et al., 2016). Under Agency Theory, management is pressured to manage resources efficiently in the interest of shareholders (Naz et al., 2022). If social activities entail high costs without producing commensurate economic returns, investors may view them as a burden that exerts downward pressure on corporate performance (Xiao et al., R., 2026). Nevertheless, this negative result does not imply that social responsibility lacks corporate benefits; rather, social benefits may be long-term, such as enhanced employee loyalty, corporate reputation, and community relations. Hence, companies must ensure that implemented social programs possess strategic relevance and deliver sustainable benefits.

Governance Disclosure obtains a negative coefficient of -0.075354 with a probability of 0.1861. Since this probability value exceeds 0.05, Governance Disclosure does not significantly affect firm value. This finding indicates that corporate governance disclosure does not necessarily translate directly into investor valuations (Asay et al., 2017). Information regarding board structure, independence, internal controls, risk management, and anti-corruption policies is important for outlining governance quality (Al-Hajaya, 2026); however, formal disclosures do not automatically reflect the practical effectiveness of governance implementation in daily operations. From an Agency Theory standpoint, corporate governance functions to mitigate conflicts of interest between management and shareholders (Raelin & Bondy, 2013). However, governance effectiveness is determined not only by the completeness of disclosed information but also by actual oversight implementation and accountability (Sari, 2023). This study indicates that Governance Disclosure is not yet a factor that significantly influences firm value within the sample.

In Board Size, Return on Equity, Firm Size, and Leverage, diverse results were obtained. Board Size has a positive coefficient of 0.010449 with a probability of 0.5116. The results indicate that Board Size does not have a significant impact on the company's value. This indicates that the number of board members does not directly determine the high or low value of the company (Mak & Kusnadi, 2005). Although a larger number of board members has the potential to enhance oversight capacity and diversity of expertise, an increase in the number of board members does not always guaranty the effectiveness of decision-making (Cui, 2024). Based on Agency Theory, effective oversight mechanisms can reduce conflicts of interest between management and shareholders (Badu & Appiah, 2017). However, the effectiveness of supervision is more determined by the competence, independence, experience, and quality of coordination of board members rather than just their number (Dewi & Soemantri, 2025). Investors are likely to consider the quality of governance more than the number of

board members when evaluating a company. Return on Equity has a positive coefficient of 0.002813 with a probability of 0.0002. This indicates that higher profitability generated from shareholder equity corresponds to higher firm value (Soeharjoto et al., 2021).

ROE reflects management's effectiveness in utilizing shareholder capital to generate profits (Choiriya et al., 2020). Under Signaling Theory, high profitability acts as a positive signal to investors regarding management quality and future earnings prospects (Puspitae et al., 2025). Companies with good ROE tend to have higher investment appeal because they demonstrate the ability to generate returns on the invested capital (Nadyayani & Suarjaya, 2021). The results of this study show that profitability is one of the important factors considered by investors in determining the value of a company. Firm Size has a negative coefficient of -1.431231 with a probability of 0.0604. At the 5 percent significance level, Firm Size does not have a significant effect on the company's value. However, at the 10 percent significance level, there is a significant negative effect. These results indicate that larger companies tend to have lower firm values, although this relationship is not statistically significant at the 5 percent significance level. This condition may be caused by the increasingly complex operational activities of larger companies (Lee & Yeo, 2016). Organizational complexity, coordination costs, and resource management needs can increase the risk of inefficiency if not balanced with adequate control systems (Schäffer et al., 2015). In the perspective of Agency Theory, the larger the company, the more complex the relationship between the owners and management (Mustapha & Ahmad, 2011). These conditions have the potential to increase monitoring costs and agency conflicts (Bendickson et al., 2016).

Therefore, the size of the company does not automatically reflect an increase in the company's value. Leverage has a positive coefficient of 0.174818 with a probability of 0.0032. The results indicate that leverage has a positive and significant impact on the company's value. These findings indicate that the use of debt can support the increase in company value if managed effectively (Ahmad et al., 2020). Debt provides an additional source of funding that can be used to finance investments, business expansions, and the development of operational activities (Ribeiro & Serrasqueiro, 2026). This result can be explained through the Trade-Off Theory, which states that the use of debt can provide benefits such as tax savings, but also poses the risk of financial difficulties (Ginanjar & Ichwanudin, 2026). If the benefits of using debt outweigh the costs and risks incurred, the funding structure can increase the company's value. The use of debt can encourage management to manage resources more disciplinedly because the company has an obligation to pay interest and principal on the loan (Alfharizqi & Oktapiani, 2025). Thus, the results of this study indicate that leverage is one of the financial factors that positively affects the value of the company in the research sample.

The results of the individual effect constant calculation for 40 companies listed on the Indonesia Stock Exchange during the period 2019-2023 show that PT Kalbe Farma Tbk (KLBF) obtained the highest constant value of 6.767940, while PT Global Mediacom Tbk (BMTR) obtained the lowest constant value of 4.347297. The high constant value of KLBF indicates that the company has a relatively higher intrinsic value compared to other companies, after accounting for the influence of variables in the regression model. This condition can be linked to the stability of the company's performance as well as the consistency in the implementation of Environmental, Social, and Governance (ESG) practices, which is reflected in the disclosure of environmental, social, and governance aspects during the observation period. On the contrary, the low BMTR constant indicates that the company's intrinsic value is relatively lower, which may be related to the characteristics of the media and entertainment industry, the dynamics of the digital market, and the challenges in maintaining public trust and corporate governance. Overall, the analysis results indicate that the characteristics of the industrial sector are

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related to the differences in the fundamental value of the companies. Pharmaceutical and consumer goods companies tend to have relatively high company values due to supported demand stability, operational sustainability, and product contributions to societal needs. Meanwhile, companies in the media, entertainment, and property sectors face market dynamics and changes in consumer preferences that can affect investors' perceptions of the company's prospects. As for companies in the mining and energy sectors, they have company value characteristics influenced by commodity price fluctuations as well as environmental and regulatory risks. Thus, the differences in individual effect constants indicate that industry characteristics, business stability, and the company's ability to integrate ESG practices into operational activities are relevant aspects in explaining the variation in the company's fundamental value.

Conclusion

Environmental Disclosure and Governance Disclosure have a negative but insignificant effect on company value, while Social Disclosure has a negative and significant effect on the value of companies listed on the Indonesia Stock Exchange. On the control variables, Board Size has a positive but insignificant effect, ROE has a positive and significant effect, Firm Size has a negative but insignificant effect, and Leverage has a positive and significant effect on the company's value. The results of this study indicate that ESG disclosure does not automatically increase the value of the company because investor responses can be influenced by implementation costs, economic benefits, and the quality of information provided by the company. Therefore, theoretically, this research contributes to the development of Stakeholder Theory, Signaling Theory, Legitimacy Theory, and Agency Theory in explaining the relationship between sustainability disclosure and company value. Companies are advised to improve the quality of environmental, social, and governance disclosures by prioritizing transparency, credibility, and effective implementation so that sustainability activities can provide long-term economic benefits. Investors are expected to consider ESG information alongside financial indicators, particularly profitability and capital structure, when making investment decisions. For regulators, the results of this research can serve as a consideration in promoting the implementation of higher quality and measurable sustainability disclosure standards. Subsequent research is recommended to extend the observation period, increase the sample size, and broaden the industrial sector coverage to make the research results more comprehensive and representative. In addition, future researchers can add other variables, such as ESG Performance, Carbon Disclosure, Green Innovation, and institutional ownership, as well as use alternative proxies for firm value to obtain more diverse results and deepen the understanding of the factors influencing firm value.

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