Governors
Volume 04 | Number 02 | August 2025 |
E-ISSN: 2962-5505 | DOI: doi.org/10.47709/governors.v4i2.6757

Assesing the Role of ESG on Firm Value in Indonesia: Signaling or Symbolism?

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ABSTRACT

This research delves into how Environmental, Social, and Governance (ESG) disclosures affect a company's value, using Tobin's Q as a measure of market performance. It centers on companies included in the KOMPAS100 index of the Indonesia Stock Exchange from 2020 to 2023, applying a fixed-effects panel regression model to assess the impact of each ESG aspect using Stata. The ESG disclosure scores and firm value represented by Tobin's Q were collected from Bloomberg Database. The findings reveal that none of the ESG elements—environmental, social, or governance—have a statistically significant influence on firm value. Although all three variables display negative but insignificant coefficients, this suggests that ESG disclosures in Indonesia are not yet perceived by investors as adding value. These results support signaling and stakeholder theories, which stress the need for reliable information and active stakeholder involvement for ESG to affect firm valuation. The study underscores the necessity for enhanced ESG transparency, stricter regulatory enforcement, and greater investor awareness in emerging markets. It also provides practical advice for companies, policymakers, and investors aiming to bolster ESG integration and reporting standards in Southeast Asia.

Keywords: Emerging Market, ESG Disclosure, Firm Value, KOMPAS100, Tobin's Q.

INTRODUCTION

The integration of Enviromental, Social, and Governance (ESG) factors into corporate decision-making has transitioned from a peripheral concern to a central strategic priority in global capital markets. This shift has been driven by growing stakeholder demands for transparency, accountability, and sustainable practices as well as the rising influence of ESG-oriented investors. ESG performance has become an increasingly important criterion for investment and corporate valuations (Ma, 2023).

Firm value is commonly assessed using Tobin's Q, a forward-looking market-based metric that is defined as the ratio of a firm's market value to the replacement cost of its assets. Tobin's Q captures investor perceptions of a firm's growth prospects, intangible assets, and risk profil, making it particularly suitable for evaluating the market valuation impact of ESG activites. A higher Tobin's Q suggest that investor place a premium on the firm, possibly reflecting trust in its long-term value creation capabilities, including those derived from ESG performance (Dkhili, 2023).

Globally, numerous studies have reported a positive link between ESG performance and Tobin's Q. These findings suggest that firms with better ESG practices are often rewarded with higher market valuation, as they are seen as lower risk and more sustainable over the long term (Dkhili, 2023). However, this relationship is context-dependent, and regional differences—especially in emerging markets—may influence how ESG initiatives affect firm valuation.

In Indonesia, ESG reporting has been encouraged through regulatory efforts, such as the Financial Services Authority's (OJK) sustainable finance regulations. Nevertheless, ESG disclosure remains voluntary for most firms, and standardization across industries is still lacking. Consequently, the financial market's ability to fully price ESG performance into firm value remains limited. This contrasts with findings from developed markets, where institutional investors actively reward ESG transparency and performance (Farooq, 2015).

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Volume 04 | Number 02 | August 2025 |
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Understanding the connection between ESG performance and firm value is particularly crucial in Indonesia, a rapidly developing economy with growing sustainability aspirations but limited ESG maturity. While developed markets have established robust ESG frameworks, clear reporting standards, and high investor awareness, Indonesia is still in a transitional phase. ESG disclosures on the Indonesia Stock Exchange (IDX) are largely voluntary, leading to inconsistent data quality and varied adoption across industries. Despite regulatory encouragement, such as the OJK's sustainable finance roadmap, the capital market response to ESG efforts remains unclear (Itan, Sylvia, Septiany, & Chen, 2025). Existing local studies are scarce and primarily focus on specific sectors, like banking, often yielding inconclusive or contradictory results. This study aims to provide empirical clarity on whether ESG activities are rewarded in the Indonesian market, particularly through Tobin's Q, a widely used proxy for firm value.

Beyond addressing a local empirical gap, this research has broader theoretical and practical implications. From a theoretical perspective, it tests the applicability of stakeholder and resource-based views in an emerging market setting, where institutional pressures and investor sophistication differ significantly from mature economies. From a practical standpoint, the findings can inform managerial decisions on ESG investment, helping firms balance social responsibility with financial performance. For investors, particularly ESG-focused or impact investors, the study offers insights into whether ESG scores can serve as credible indicators of long-term value creation in Indonesia. Moreover, for regulators and policymakers, the results can guide improvements in ESG disclosure standards and sustainable finance policies. By addressing these multi-level concerns, this research contributes both to academic knowledge and to the development of Indonesia's sustainable financial ecosystem.

Research has shown that ESG initiatives generally have a positive impact on a company's value, as measured by Tobin's Q. However, the strength and consistency of this relationship can vary a lot based on things like competitive advantage, company size, and where the company is located. For example, a study in Europe with 720 companies found that ESG practices positively affected Tobin's Q, especially when combined with competitive advantages. This suggests that ESG practices are more beneficial when they're strategically woven into a company's operations (Dkhili, 2023). Similarly, research on Chinese A-share listed companies showed that ESG had a positive overall impact on Tobin's Q, though the results differed among the ESG components. Environmental and social factors were consistently beneficial, while governance effects were less strong (Yu & Xiao, 2022). In Levant countries, environmental and social ESG performance also significantly boosted Tobin's Q, highlighting the importance of stakeholder engagement and corporate reputation as key drivers of value (Al Amosh, Khatib, & Ananzeh, 2023).

On the other hand, some studies have found that ESG initiatives can negatively affect a company's value. For instance, a study of Indonesian companies found a negative relationship between ESG disclosure and Tobin's Q, possibly because of limited investor confidence or a compliance-focused ESG reporting environment rather than a strategic one (Angir & Weli, 2024). Globally, another study found that the social aspect of ESG negatively impacted firm value, suggesting that capital markets might undervalue immediate spending on social responsibility because of its intangible and long-term returns (Mardini, 2022). Additionally, evidence from S&P 500 companies shows that smaller companies often experience neutral or negative effects from ESG disclosures, reflecting market perceptions that ESG initiatives are too costly for firms that don't have enough resources or scale (Minutolo, Kristjanpoller, & Stakeley, 2019).

LITERATURE STUDY

Environmental, Social, and Governance (ESG) practices have become a key part of how businesses aim to be sustainable. Companies are now judged not just by how much money they make, but also by how they handle their environmental responsibilities, treat their employees and communities, and govern themselves. Experts believe that doing well in ESG can help companies lower risks, draw in long-term investors, boost their reputation, and ultimately increase their value.

Stakeholder theory, first introduced by Freeman in 1984, suggests that a company's long-term success hinges on its ability to juggle the needs of various stakeholders—like employees, customers,

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suppliers, regulators, communities, and shareholders—instead of just chasing short-term profits for shareholders. From this viewpoint, ESG disclosures are smart strategies for nurturing stakeholder relationships, minimizing reputational and regulatory risks, and building trust. Each aspect of ESG targets different stakeholder groups: environmental disclosures tackle societal and environmental worries, social disclosures help strengthen ties with employees and communities, and governance disclosures give investors and regulators peace of mind about ethical practices. This makes stakeholder theory the cornerstone of this study, as it positions ESG practices as essential parts of corporate strategy and long-term value creation. However, in emerging markets like Indonesia, stakeholder involvement with ESG issues might not be as advanced, which could make the connection between ESG and firm value less apparent.

Building on this idea, signaling theory, as introduced by Spence in 1973, helps us understand how ESG disclosures act as market signals. These signals are designed to bridge the gap in information between companies and investors. When ESG signals are credible, they can showcase a company's quality, ethical standards, and focus on the long term, which might boost its market value. However, if ESG reporting isn't backed by standardized guidelines, third-party verification, or robust regulations, investors and stakeholders might be skeptical, reducing the influence of these signals on a company's worth. This study merges stakeholder theory with signaling theory to explore whether ESG disclosures impact Tobin's Q for KOMPAS100 companies in Indonesia. It also looks into why the strength and direction of this relationship might hinge on how engaged stakeholders are and how credible the ESG signal is.

Companies with strong ESG performance are likely to share more information, indicating better management, risk management, and a focus on the long term (Cheng, Gao, Liu, & Treepongkaruna, 2024). However, how well ESG works as a signal depends on how credible and valuable the information is seen to be. In emerging markets where ESG rules and assurance are still developing, these disclosures might be viewed as more symbolic than meaningful (Shaikh, 2022). Research indica tes that ESG signals are more impactful when they come with independent verification or are part of a company's long-term plan. For example, Glova & Panko (2025) discovered that companies spending too much on ESG without a clear strategic direction saw a negative impact on their value, showing that weak or unclear signals can confuse investors or be seen as unnecessary (Glova & Panko, 2025).

Companies that excel in ESG areas are thought to have fewer reputational, legal, and operational risks and are more likely to draw in long-term investors who care about ethical and sustainable practices (Dkhili, 2023). Research backs this up, showing that ESG-focused companies often have higher valuations, especially when stakeholders push for corporate responsibility (Mardini, 2022). But in places where stakeholder awareness is low or ESG expectations are still developing—like in emerging markets—the market might not fully appreciate or reward ESG efforts, leading to weaker or even negative valuation results (Angir & Weli, 2024).

In recent years, there's been a growing interest in how Environmental, Social, and Governance (ESG) performance affects a company's value, both in developed and emerging markets. While some studies highlight a positive link, others reveal mixed or even negative results, often influenced by regional, sectoral, or methodological differences.

A large study on Chinese A-share companies found a strong positive connection between ESG performance and firm value, as measured by Tobin's Q. The study highlighted the benefits of environmental and social aspects, though governance results were inconsistent (Yu & Xiao, 2022). Similarly, research on European companies showed that ESG positively impacts Tobin's Q, especially when influenced by competitive advantage and company size (Dkhili, 2023).

However, findings in emerging markets are more complex. In Indonesia, a 2024 study reported a negative link between ESG disclosure and Tobin's Q, suggesting that the market might not yet fully appreciate ESG efforts due to underdeveloped ESG infrastructure and low investor awareness (Angir & Weli, 2024). Another Indonesian study (2025) found no overall significant impact of ESG on firm value, though the environmental aspect showed some positive connection with dividend policy, while governance had a negative effect (Handajani & Murhadi, 2025).

Kong et al. (2023) looked at pharmaceutical firms in developing countries and found that

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environmental and social components boosted firm value, especially when combined with technological innovation, while governance had no clear effect (Kong, Agyemang, Alessa, & Kongkuah, 2023). Meanwhile, Truong (2024) studied Southeast Asian firms and found that ESG performance negatively affected firm value, with ownership concentration further weakening the ESG-value relationship, particularly for governance (Truong, 2025).

Joshi & Joshi (2024) explored Indian firms and discovered that financial strength and liquidity at the firm level positively influence ESG performance, which might indirectly support enhancing firm value (Joshi & Joshi, 2024). Yang & Han (2023) also noted that digital transformation improves ESG performance, especially in firms with low financing constraints, potentially boosting their market valuation (Yang & Han, 2023).

Chouaibi et al. (2023) examined European ESG firms and found that environmental and governance scores were positively linked to financial risk disclosure and firm value, while the social aspect had no significant effect, adding to the evidence of ESG component-specific outcomes (Chouaibi, Benmansour, Ben Fatma, & Zouari-Hadiji, 2024). Lastly, Zrigui et al. (2024) found that higher ESG scores led to lower acquisition premiums in mergers and acquisitions, suggesting that ESG-focused firms might already be fairly valued or seen as lower-risk targets, which could influence how value is perceived by acquiring firms (Zrigui, Khanchel, & Lassoued, 2024).

Empirical studies present a range of results. Yu and Xiao (2022) discovered that ESG disclosure enhances firm value for Chinese listed companies, especially when there is significant information asymmetry. On the other hand, Shaikh (2022) and Angir & Weli (2024) observed that ESG had no or even detrimental effects in certain emerging market environments, linking this to inadequate institutional enforcement and limited investor attention to non-financial disclosures. Governance performance is also noted to be context-dependent, influenced by ownership concentration and enforcement mechanisms (Truong, 2024).

Considering these theoretical bases and the diverse empirical findings, this study takes a neutral stance to examine the connections between ESG disclosures and firm value within the Indonesian context.

When a company shares its environmental efforts, it shows its dedication to tackling environmental challenges, using resources more wisely, and following environmental rules. Research in developed countries has shown that being open about environmental practices can boost a company's value by lowering regulatory risks and drawing in investors who care about sustainability (Yu & Xiao, 2022). But in emerging markets, the results aren't as clear. For instance, Grishunin et al. (2022) discovered no strong connection between environmental disclosure and Tobin's Q in U.S. telecom companies, indicating that without reliable assurance or market interest, the impact on valuation might be limited. This mixed evidence highlights that the relationship between environmental disclosure and a company's value depends a lot on the context.

H1: There is a significant relationship between environmental disclosure and firm value.

Social disclosure includes things like taking care of employees, promoting diversity, getting involved with the community, and being responsible with products. According to stakeholder theory, when companies put money into social projects, they can strengthen their bonds with employees, customers, and communities, which might lead to better financial results in the long run. Dkhili (2023) discovered that actively engaging socially can give companies a competitive edge and improve their market performance. On the other hand, Shaikh (2022) noted that the social aspect of ESG can sometimes have a neutral or even negative impact on a company's value, especially when investors focus more on short-term financial gains than on social goals. These mixed findings suggest that the relationship can differ based on what stakeholders expect and how mature the market is.

H2: There is a significant relationship between social disclosure and firm value.

Governance disclosure covers details about the board's setup, how executives are paid, shareholder rights, and the internal control systems in place. According to agency theory, developed by Jensen and Meckling in 1976, having strong governance systems helps align the interests of managers and shareholders, which can boost a company's value. Research in developed markets often shows that better governance is linked to higher market valuations (Truong, 2024). However, in emerging markets where ownership is concentrated or enforcement is weak, governance practices

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might not be as effective, which can limit their impact on valuations (Buallay, 2019). Because of these varied results, the way governance disclosure affects a company's value can differ based on the institutional setting.

H3: There is a significant relationship between governance disclosure and firm value.

METHOD

This study employs a quantitative research approach to explore the connection between a company's Environmental, Social, and Governance (ESG) performance and its overall value among publicly traded companies. ESG performance is evaluated using standardized scores from the Bloomberg ESG Disclosure Score. The firm's value is measured by Tobin's Q, a widely recognized market-based metric for assessing a company's worth.

The ESG performance data comes from Bloomberg's ESG database, offering detailed and standardized ESG Disclosure Scores for publicly listed companies. These scores reflect how much a company discloses about its ESG activities, covering over 120 indicators across three main categories: Environmental (E)—This encompasses metrics like carbon emissions, energy efficiency, water usage, and environmental policies, Social (S)—It focuses on aspects such as employee diversity, community engagement, labor practices, and human rights policies. Governance (G) — This assesses factors like board independence, executive compensation, shareholder rights, and audit structure.

Companies are given a disclosure score ranging from 0 to 100, with a higher score signifying more transparency and compliance with ESG best practices. The overall ESG score, along with scores for each dimension (E, S, and G), is utilized in regression models to analyze their individual and combined impacts on firm value.

To evaluate a company's worth, Tobin's Q is often used, indicating how investors view a company's value in relation to the cost of replacing its assets. This ratio is calculated by adding the total market value of a company's equity to the book value of its debt, and then dividing this sum by the book value of all the company's assets. This method provides insight into a company's financial health by comparing its equity and debt to its total assets.

The current market value of equity is determined by multiplying the current stock price by the total number of shares available for trading. The book value of debt is the total liabilities, and the book value of total assets is the total reported assets on the balance sheet. Tobin's Q is especially useful for capturing the impact of intangible factors like reputation, governance quality, and ESG performance.

The sample consists of KOMPAS100 Index listed on the Indonesia Stock Exchange (IDX) for the period 2020–2023. Firms are included based on the availability of Bloomberg ESG scores and financial data necessary to compute Tobin's Q. Bloomberg Terminal is used to retrieve ESG data, while financial statements and market data are obtained from company filings and the IDX database (Bloomberg, 2025). Purposive sampling method is employed to ensure that only firms with consistent ESG disclosure and publicly available market data are included. Firms in the financial sector are excluded due to differences in financial structure and regulatory reporting.

The study employs panel data regression analysis to test the impact of ESG performance on firm value. Fixed effects model regression are estimated using Stata. Control variables include profitability (ROA) and financial leverage (DER).

RESULTS AND DISCUSSION

Results

This research employed a fixed-effects panel regression to examine the impact of environmental, social, and governance disclosures on a company's value, as assessed through Tobin's Q. The study involved 177 observations of various companies over time, with a specific focus on 47 firms listed on the Indonesia Stock Exchange from 2020 to 2023. To ensure the accuracy of the findings, control variables were included to account for the distinct financial characteristics of each company.

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The findings from the regression analysis are presented in Table 1. A within R-squared value of 0.0801 suggests that the model accounts for about 8% of the changes in firm value over time within each company. Overall, the model shows marginal significance at the 10% level.

Table 1. Regression Result

Variable	Coefficient	Std. Error	*p*-value	Interpretation	Result
Environmental (x1)	-0.0085	0.0084	0.312	Negative, not significant	H1 rejected
Social (x2)	-0.0044	0.0135	0.743	Negative, not significant	H2 rejected
Governance (x3)	-0.0268	0.0247	0.28	Negative, not significant	H3 rejected

Source: Data processed, 2025.

Discussion

The ESG disclosure variables did not show any statistical significance. Notably, each of the three ESG components had negative coefficients, implying that greater disclosure in these areas did not improve market valuation. Among the control variables, only one was statistically significant ($p < 0.05$), highlighting that firm fundamentals remain a more crucial determinant of firm value.

The regression analysis indicates that none of the ESG components—environmental, social, or governance—have a statistically significant impact on firm value, as measured by Tobin's Q. The environmental disclosure variable (x1) shows a negative coefficient ($\beta = -0.0085$, $p = 0.312$), suggesting a weak and non-significant relationship. This implies that, in the Indonesian market, investors do not view environmental initiatives as enhancing firm value. One possible reason is that environmental practices are often seen as costly or lacking measurable results, leading to skepticism about their strategic value, especially when disclosure quality is not standardized or externally verified. This aligns with findings by Grishunin et al. (2022), who noted that environmental disclosures had no significant effect on firm value when perceived as symbolic or unsubstantiated (Grishunin, Naumova, Burova, Suloeva, & Nekrasova, 2022).

Similarly, the social disclosure variable (x2) also shows a small, negative, and non-significant effect ($\beta = -0.0044$, $p = 0.743$). While social responsibility efforts, such as employee welfare or community engagement, may be important from an ethical or operational perspective, they are not clearly reflected in market valuation. This is consistent with Shaikh (2022), who found that the social dimension of ESG often yields weak or negative associations with firm performance in both developed and emerging markets. The result may be due to investor perceptions that social initiatives offer uncertain or long-term payoffs that are challenging to monetize in the short term (Shaikh, 2022).

The governance disclosure variable (x3) has the strongest negative coefficient among the three ($\beta = -0.0268$, $p = 0.280$), yet it remains statistically insignificant. Governance disclosures—such as board structure, risk oversight, and audit practices—are expected to improve transparency and accountability. However, in many emerging markets like Indonesia, governance structures are often viewed as formalities, particularly in environments with concentrated ownership or weak enforcement (Angir & Weli, 2024). Investors may therefore discount governance reporting that lacks credible implementation. Buallay (2019) similarly found that governance ESG had a negative effect on firm performance when disclosures were not aligned with real managerial accountability. These findings suggest that ESG disclosures may not serve as effective market signals unless they are perceived as credible, strategically integrated, and relevant to investor concerns (Buallay, 2019). From both signaling and stakeholder theory perspectives, these results highlight the importance of market context and institutional trust in determining whether ESG efforts translate into tangible firm value.

The findings can be understood through the lens of stakeholder theory and signaling theory. According to stakeholder theory (Freeman, 1984), companies that actively engage in ESG practices are expected to build trust, reduce risk, and foster loyalty among a broader base of stakeholders. However, the results here suggest that in the Indonesian market, stakeholders—particularly

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E-ISSN: 2962-5505 | DOI: doi.org/10.47709/governors.v4i2.6757

investors—may not yet fully integrate ESG factors into their valuation of firms. This could be due to low ESG awareness, a lack of standardized reporting, or skepticism regarding the authenticity of disclosures.

From the perspective of signaling theory (Spence, 1973), ESG disclosure serves as a tool to reduce information asymmetry by conveying firm quality and long-term orientation to investors. However, the negative coefficients imply that ESG signals in this context may not be perceived as credible or valuable. This aligns with the findings of Shaikh (2022), who reported that social ESG efforts had a negative association with firm value in global markets, and Grishunin et al. (), who found that environmental disclosure had no significant effect in the U.S. telecommunications sector.

Additionally, Buallay (2019) observed that governance-related ESG practices negatively affected firm performance in European banks, attributing the result to possible compliance-driven or symbolic governance reforms rather than impactful strategic improvements. These studies collectively suggest that unless ESG disclosures are of high quality and tied to tangible performance outcomes, they may not yield positive market responses—especially in emerging markets where ESG ecosystems are still developing.

CONCLUSION

This study looked into how Environmental, Social, and Governance (ESG) disclosures affect a company's value, using Tobin's Q as a measure. It analyzed listed firms on the Indonesia Stock Exchange from 2020 to 2023 with a fixed-effects panel regression. The results showed that none of the ESG components—environmental, social, or governance—had a significant impact on firm value. Interestingly, all three variables had negative but insignificant coefficients, suggesting that ESG disclosures in Indonesia might not be changing investor perceptions or affecting firm valuation. These outcomes indicate that, even with global trends focusing on sustainability and corporate responsibility, ESG efforts in emerging markets like Indonesia might struggle to be recognized and rewarded by capital markets. This could be due to factors such as low quality of ESG disclosures, lack of independent assurance, weak regulatory enforcement, and limited investor awareness. From a signaling theory perspective, the findings suggest that ESG information might not be a credible or trustworthy signal of firm quality. Similarly, stakeholder theory implies that ESG activities only boost firm value when stakeholders actively engage with and reward these practices, which may not be common in this market environment.

Overall, the findings suggest a need for more efforts to improve ESG reporting standards, enhance transparency, and build stakeholder confidence in sustainability practices. Policymakers, regulators, and corporate leaders should focus on making ESG initiatives more credible and strategically integrated if they want them to become meaningful drivers of firm value in emerging markets. This study focuses on KOMPAS100 companies listed on the Indonesia Stock Exchange from 2020 to 2023, which might limit how well its findings apply to smaller or less active businesses. Although the ESG scores from Bloomberg are standardized, they might not fully reflect the quality or context of the disclosures. Furthermore, Tobin's Q is the only measure used to assess firm value, leaving out accounting-based indicators. In the future, research should look at a wider range of companies, incorporate various ESG data sources or qualitative evaluations, and explore different or combined performance metrics. Longitudinal studies spanning longer timeframes and different market environments could provide a better understanding of the delayed or context-specific impacts of ESG disclosures on valuation.

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