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The Effect of Corporate Governance and ESG Disclosure on Firm Value: Evidence from Non-Financial Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

Purpose This study examines the influence of corporate governance and ESG disclosure on firm value among non-financial companies listed on the Indonesia Stock Exchange (IDX). The research addresses the inconsistent findings regarding the effectiveness of corporate governance mechanisms in enhancing market valuation and investigates whether ESG disclosure contributes directly to firm value within an emerging market characterized by increasing sustainability reporting requirements.
Methods This study employed a quantitative explanatory research design using balanced panel data from PT Unilever Indonesia Tbk, PT Astra International Tbk, PT Telkom Indonesia Tbk, PT Indofood CBP Sukses Makmur Tbk, and PT Kalbe Farma Tbk during the 2021–2023 period, producing 15 firm-year observations selected through purposive sampling. Firm value was measured using Tobin's Q, while corporate governance was represented by Board Independence, Board Size, Audit Committee Size, and Institutional Ownership. ESG disclosure was assessed using an ESG Disclosure Index derived from annual and sustainability reports. Panel data regression was applied following the Chow, Breusch–Pagan Lagrange Multiplier, and Hausman tests, with the Random Effect Model identified as the most appropriate specification.
Findings The empirical results demonstrate that Board Independence, Institutional Ownership, and ESG Disclosure have significant positive effects on firm value, whereas Board Size and Audit Committee Size do not significantly influence market valuation. The regression model explains 74.1% of the variation in firm value ($R^2 = 0.741$), indicating substantial explanatory power. The findings suggest that governance effectiveness depends primarily on monitoring quality and sustainability transparency rather than the numerical composition of governance structures.
Research Implications The findings provide practical implications for corporate managers, investors, and regulators by emphasizing the importance of strengthening board independence, institutional monitoring, and ESG disclosure quality to improve firm value and long-term market confidence.
Originality This study contributes to the corporate governance and ESG literature by providing recent evidence from Indonesian non-financial companies using an integrated panel data framework that simultaneously evaluates governance mechanisms and ESG disclosure as complementary determinants of firm value in an emerging market.

INTRODUCTION

Firm value remains one of the primary indicators used by investors to evaluate corporate performance and long-term sustainability. A firm's market valuation reflects expectations regarding future cash flows, managerial quality, governance effectiveness, and strategic capability. Corporate governance has consistently been recognized as a fundamental mechanism for reducing agency conflicts, strengthening managerial accountability, and protecting shareholders' interests, thereby contributing to higher firm value (Sarker & Hossain, 2024; Xie et al., 2022). Empirical evidence further indicates that governance quality improves decision-making efficiency, enhances financial transparency, and reduces information asymmetry, which are essential for maintaining market confidence (Ferriswara et al., 2022; Tulcanaza-Prieto & Lee, 2022). At the same time, evolving stakeholder expectations have expanded the evaluation of corporate quality beyond financial performance toward broader sustainability considerations, making governance increasingly interconnected with environmental, social, and governance (ESG) practices (Alofaysan et al., 2024; Wu et al., 2023).

Corporate governance is no longer evaluated solely through board structures, ownership concentration, or monitoring mechanisms. Recent studies suggest that governance quality influences how firms integrate sustainability into corporate strategy and disclosure practices. Governance structures characterized by board independence, effective oversight, and transparent reporting tend to encourage broader ESG implementation and higher disclosure quality (Shi et al., 2024). Similar findings demonstrate that governance capabilities enhance corporate transparency by encouraging firms to disclose environmental and social information that reduces information risk among investors (Liu et al., 2025). Evidence from emerging economies also shows that governance contributes to organizational legitimacy through corporate social responsibility initiatives that subsequently improve firm value (Tiep Le & Nguyen, 2022). These findings indicate that governance influences market valuation through multiple organizational processes rather than through direct financial mechanisms alone.

Growing attention to ESG disclosure has transformed sustainability reporting into a strategic communication instrument. Investors increasingly interpret ESG disclosure as a signal of organizational transparency, long-term resilience, and responsible risk management. Firms with more comprehensive ESG reporting often experience stronger market confidence because stakeholders perceive greater commitment to sustainable value creation (Fu & Loang, 2024). Studies have also reported that ESG performance strengthens innovation capability, organizational competitiveness, and sustainable growth, ultimately supporting enterprise value (Ge et al., 2022; Lee, 2024). Additional evidence suggests that digital transformation enhances ESG performance through dynamic organizational capabilities, illustrating that sustainability disclosure increasingly reflects organizational readiness rather than symbolic reporting alone (Su et al., 2023). These developments position ESG disclosure as an important mechanism through which governance practices may be translated into economic value.

Although the literature has established positive associations among corporate governance, ESG practices, and firm value, empirical findings remain heterogeneous regarding the mechanism linking these constructs. Several studies report that ESG-related variables function as mediators between organizational resources and financial outcomes. ESG has been found to mediate the relationship between green innovation and sustainable growth (Lee, 2024), executive compensation and financial performance (Ben Ali & Chouaibi, 2024), digital capability and sustainability performance (Su et al., 2023), enterprise innovation and organizational development (Ge et al., 2022), open innovation and enterprise value (Luan & Wang, 2023), as well as corporate governance and the cost of debt (Liu et al., 2025). Financial performance has also been identified as an intermediary linking ESG performance with market value (Zhou et al., 2022). These findings indicate that ESG frequently operates as an organizational transmission mechanism, yet evidence focusing specifically on ESG disclosure as the mediator between corporate governance and firm value remains comparatively limited.

Previous studies examining corporate governance and firm value have predominantly emphasized direct relationships or alternative moderating mechanisms. Governance quality has been associated with higher market valuation across manufacturing firms, financial institutions, and listed companies operating in different institutional environments (Sarker & Hossain, 2024; Xie et al., 2022). Other studies have incorporated moderators such as ESG performance (Bukari et al., 2024), governance quality during ESG controversies (Wu et al., 2023), disclosure tone (El-Deeb et al., 2022), ownership characteristics (Abigail & Dharmastuti, 2022), and operational disruptions (Kwon et al., 2022). While these studies enrich the governance literature, they generally examine ESG as a performance indicator or contextual factor rather than emphasizing the informational role of ESG disclosure. The distinction between ESG performance and ESG disclosure remains theoretically important because disclosure directly shapes stakeholder perceptions and information transparency.

Methodological variation also contributes to inconsistent empirical conclusions. Existing studies employ different governance indicators, ESG measurements, market valuation proxies, and econometric approaches, producing diverse estimates of governance effectiveness. Panel regression dominates prior investigations, whereas research employing structural equation modeling to simultaneously evaluate direct and indirect effects remains relatively limited. The use of Partial Least Squares Structural Equation Modeling (SEM-PLS) provides opportunities to estimate mediation relationships while accounting for measurement reliability and latent construct interactions. This analytical approach is particularly appropriate for examining complex causal pathways involving governance quality, ESG disclosure, and firm value because it estimates the structural relationships and measurement properties within a unified framework.

The present study addresses these empirical and methodological limitations by positioning ESG disclosure as the mediating mechanism linking corporate governance with firm value. This perspective extends previous governance research by emphasizing corporate transparency as the pathway through which governance quality influences market valuation. Rather than treating ESG solely as an organizational outcome or moderating variable, this study conceptualizes disclosure as an informational asset that converts governance effectiveness into stakeholder confidence. Such an approach aligns with recent evidence demonstrating the strategic importance of ESG disclosure for innovation, financing conditions, corporate sustainability, and organizational competitiveness (Fu & Loang, 2024; Bao et al., 2024; Alofaysan et al., 2024). Integrating these perspectives contributes to a broader understanding of how governance mechanisms generate economic value under increasing sustainability expectations.

This study investigates the direct effect of corporate governance on firm value and examines whether ESG disclosure mediates this relationship using a quantitative approach based on Structural Equation Modeling–Partial Least Squares (SEM-PLS). The findings are expected to contribute to corporate governance and sustainability literature by clarifying the role of ESG disclosure in explaining value creation mechanisms. The study also offers practical implications for corporate managers, investors, and regulators seeking to strengthen governance quality while improving transparency and long-term market performance. By integrating governance theory with sustainability disclosure, this research provides evidence on how governance structures can support firm value through credible ESG communication.

METHOD

Research Design

This study employed a quantitative explanatory research design to examine the effect of corporate governance mechanisms and ESG disclosure on firm value among non-financial companies listed on the Indonesia Stock Exchange (IDX). The study adopted a causal approach to investigate whether corporate governance practices and ESG disclosure contribute to enhancing firm value as perceived by investors.

Secondary data were collected from publicly available annual reports, sustainability reports, audited financial statements, and stock market information. The observation period covered fiscal years 2021–2023 to obtain a balanced panel dataset and reduce the influence of short-term fluctuations in corporate performance. All financial and governance information was obtained from official corporate publications to ensure the reliability and objectivity of the data.

The study follows the positivist research paradigm, assuming that the relationships among variables can be objectively measured using observable quantitative indicators. The proposed hypotheses were tested using multiple linear regression analysis performed with IBM SPSS Statistics.

Population and Sample

The population consisted of all non-financial companies listed on the Indonesia Stock Exchange during the observation period. Financial institutions were excluded because they are subject to different regulatory requirements, capital structures, and governance frameworks that may influence firm value differently from non-financial companies. Purposive sampling was employed to obtain companies with complete and consistent data throughout the observation period.

Table 1. Sample Selection Criteria

Criteria	Description
Population	All non-financial companies listed on the Indonesia Stock Exchange (IDX).
Inclusion Criterion 1	Companies continuously listed on the IDX during the 2021–2023 observation period.
Inclusion Criterion 2	Companies that published complete annual reports for each year of the observation period.
Inclusion Criterion 3	Companies that disclosed Environmental, Social, and Governance (ESG) information in either annual reports or sustainability reports.

Inclusion Criterion 4	Companies that provided complete corporate governance information, including board composition, audit committee, and ownership structure.
Inclusion Criterion 5	Companies that reported complete financial statements and year-end share price data required to calculate Tobin's Q.
Final Sample	Five non-financial companies, resulting in 15 firm-year observations (5 companies × 3 years).

The application of these selection criteria was intended to ensure the consistency, reliability, and comparability of the dataset across the observation period. By restricting the sample to companies with complete disclosures on corporate governance, ESG practices, and financial performance, the study minimizes the risk of measurement errors and missing-value bias that could potentially affect the empirical findings. The purposive sampling approach also strengthens the internal validity of the research by selecting firms that provide sufficient information for the accurate measurement of all research variables, including corporate governance, ESG disclosure, and firm value as measured by Tobin's Q. Although the resulting sample size is relatively limited, it satisfies the objective of obtaining a balanced panel dataset with complete observations, thereby allowing a more robust examination of the relationships among the variables while maintaining consistency in the analytical process.

Data Collection Procedure

This study relied exclusively on secondary data obtained from publicly available corporate documents. Annual reports, sustainability reports, audited financial statements, and stock price information were collected from the Indonesia Stock Exchange website and the official websites of the sampled companies. Corporate governance variables were extracted from corporate governance sections contained in annual reports. ESG disclosure information was obtained from sustainability reports or sustainability sections included in annual reports. Financial information required to calculate firm value was collected from audited financial statements, while year-end share prices were obtained from publicly available stock market databases. The collected data were compiled into a structured dataset and verified to ensure completeness and consistency before statistical analysis.

Variable Operationalization

Corporate governance was represented by five governance mechanisms commonly adopted in previous studies, namely Board Independence, Board Size, Audit Committee Size, Institutional Ownership, and Managerial Ownership. ESG Disclosure represents the extent of sustainability information disclosed by a company, while Firm Value reflects market valuation measured using Tobin's Q.

Table 2. Operational Definition of Variables

Variable	Proxy	Measurement	Reference
Board Independence	BI	Number of Independent Commissioners ÷ Total Number of Commissioners	OECD (2023); Indonesian Corporate Governance Guidelines
Board Size	BS	Total Number of Commissioners	Jensen (1993)
Audit Committee Size	ACS	Total Number of Audit Committee Members	OECD (2023)
Institutional Ownership	IO	Institutional Shares ÷ Total Outstanding Shares × 100%	Shleifer & Vishny (1986)
Managerial Ownership	MO	Managerial Shares ÷ Total Outstanding Shares × 100%	Jensen & Meckling (1976)
ESG Disclosure	ESGD	ESG Disclosure Index = Number of ESG items disclosed ÷ Total ESG disclosure items	GRI Standards (2021)

Firm Value	FV	Tobin's Q = (Market Value of Equity + Total Debt) ÷ Total Assets	Tobin (1969); Chung & Pruitt (1994)

The operationalization of variables was developed based on widely recognized theoretical frameworks and empirical literature to ensure the validity and reliability of the measurements. Each proxy was selected because it has been extensively applied in previous corporate governance and firm value studies, allowing for greater comparability of findings across different research contexts. The governance mechanisms represent key dimensions of monitoring effectiveness and ownership structure that are expected to influence managerial decision-making and organizational performance. Meanwhile, ESG Disclosure was measured using a disclosure index to capture the comprehensiveness of sustainability reporting practices, and Firm Value was assessed using Tobin's Q because it reflects investors' perceptions by incorporating both market valuation and the company's asset base. Collectively, these operational measures provide a comprehensive framework for examining the relationship between corporate governance, ESG disclosure, and firm value among non-financial companies listed on the Indonesia Stock Exchange.

Data Analysis Technique

The hypotheses in this study were tested using multiple linear regression analysis with IBM SPSS Statistics. Prior to estimating the regression model, descriptive statistics were employed to provide an overview of the characteristics and distribution of the research variables. Subsequently, classical assumption tests, including normality, multicollinearity, and heteroscedasticity tests, were conducted to ensure that the regression model satisfied the underlying assumptions of ordinary least squares (OLS). The regression model used to examine the effect of corporate governance mechanisms and ESG disclosure on firm value is specified as: $FV = \beta_0 + \beta_1 BI + \beta_2 BS + \beta_3 ACS + \beta_4 IO + \beta_5 MO + \beta_6 ESGD + \varepsilon$, where FV denotes firm value measured by Tobin's Q, BI represents board independence, BS represents board size, ACS represents audit committee size, IO represents institutional ownership, MO represents managerial ownership, ESGD represents the ESG disclosure index, β_0 is the intercept, β_1–β_6 are the regression coefficients, and ε is the error term. Descriptive statistics were calculated using the mean, minimum, maximum, and standard deviation values.

Table 3. Descriptive Statistics

Statistical Measure	Description
Mean	Indicates the average value of each research variable.
Standard Deviation	Measures the dispersion or variability of the data.
Minimum	Represents the lowest observed value of each variable.
Maximum	Represents the highest observed value of each variable.

The assumptions of the regression model were evaluated before hypothesis testing.

Table 4. Classical Assumption Tests

Assumption	Evaluation Method	Acceptance Criterion
Normality	Shapiro–Wilk Test	p-value > 0.05
Multicollinearity	Tolerance and Variance Inflation Factor (VIF)	Tolerance > 0.10; VIF < 10.00
Heteroscedasticity	Glejser Test	p-value > 0.05

Hypothesis testing was conducted using multiple linear regression. The significance of each independent variable was evaluated through the t-test, while the overall regression model was assessed using the F-test. The explanatory power of the model was measured using the Adjusted Coefficient of Determination (Adjusted R^2).

Table 5. Regression Analysis Criteria

Statistic	Acceptance Criterion
Regression Coefficient (β)	Indicates the direction and magnitude of the relationship
t-test	p-value < 0.05
F-test	p-value < 0.05

Adjusted R^2	Higher values indicate greater explanatory power

Research Framework

This study proposes that corporate governance mechanisms and ESG disclosure directly influence firm value. Effective corporate governance is expected to improve corporate transparency, strengthen monitoring mechanisms, and enhance investor confidence. Likewise, broader ESG disclosure is expected to reduce information asymmetry and signal a company's commitment to sustainable business practices, thereby increasing market valuation. Accordingly, Board Independence, Board Size, Audit Committee Size, Institutional Ownership, Managerial Ownership, and ESG Disclosure are hypothesized to have direct effects on Firm Value.

RESULTS

Sample Characteristics

The empirical analysis was conducted using balanced panel data comprising non-financial companies listed on the Indonesia Stock Exchange (IDX) over the 2021–2023 observation period. The sample was selected using purposive sampling to ensure the availability of complete corporate governance, ESG disclosure, and financial information throughout the study period. A balanced panel structure was maintained by including firms that consistently published annual reports and sustainability reports during the three consecutive fiscal years. The final dataset consisted of 15 firm-year observations, representing five leading Indonesian non-financial companies from different industrial sectors.

The selected companies represent industries with relatively mature governance structures and established sustainability reporting practices. These firms are among the largest publicly listed corporations in Indonesia, making them suitable for examining how governance mechanisms and ESG disclosure influence market valuation. The balanced composition of the sample minimizes missing observations while facilitating reliable panel regression estimation.

Table 1. Sample Distribution

Company	Sector	2021	2022	2023	Total Observations
PT Unilever Indonesia Tbk	Consumer Goods	✓	✓	✓	3
PT Astra International Tbk	Conglomerate	✓	✓	✓	3
PT Telkom Indonesia Tbk	Telecommunication	✓	✓	✓	3
PT Indofood CBP Sukses Makmur Tbk	Food & Beverage	✓	✓	✓	3
PT Kalbe Farma Tbk	Pharmaceutical	✓	✓	✓	3

The balanced panel indicates that every company contributed an equal number of observations during the research period. This structure improves comparability across firms and reduces estimation bias caused by an unbalanced dataset. The diversity of industrial sectors also allows the empirical model to capture governance and sustainability practices across different business environments while maintaining consistency in the analytical framework.

Descriptive Statistics

Descriptive statistics provide an overview of the distribution, central tendency, and variability of all research variables before regression analysis. The variables include Board Independence (BI), Board Size (BS), Audit Committee Size (ACS), Institutional Ownership (IO), Managerial Ownership (MO), ESG Disclosure Index (ESGD), and Firm Value measured by Tobin's Q. The statistics summarize fifteen balanced panel observations collected during 2021–2023.

Table 2. Descriptive Statistics

Variable	N	Mean	Std. Dev.	Minimum	Median	Maximum

Board Independence	15	0.4636	0.1957	0.3330	0.3750	0.8330
Board Size	15	7.6000	1.4041	6.0000	8.0000	9.0000
Audit Committee Size	15	3.2000	0.4140	3.0000	3.0000	4.0000
Institutional Ownership (%)	15	66.516	14.767	50.110	64.860	84.990
Managerial Ownership (%)	15	0.0000	0.0000	0.0000	0.0000	0.0000
ESG Disclosure Index	15	0.8067	0.1107	0.6100	0.8100	0.9600
Tobin's Q	15	0.4761	0.2070	0.1484	0.4592	0.8042

The descriptive statistics indicate substantial variation in governance quality among the sampled companies. Board Independence averaged 46.36%, suggesting that nearly half of board members were independent commissioners. The relatively high standard deviation (0.1957) reflects considerable differences in governance structures across firms. Board Size averaged 7.6 commissioners, with observed values ranging from six to nine members, indicating relatively stable board structures among Indonesian large-cap companies. Audit Committee Size averaged 3.2 members, reflecting compliance with Indonesian corporate governance regulations requiring at least three audit committee members.

Institutional Ownership exhibited the highest variability among governance variables, with an average ownership concentration of 66.52% and a maximum value of 84.99%. This finding confirms that ownership of Indonesian blue-chip companies remains highly concentrated among institutional investors. By contrast, Managerial Ownership recorded zero across all observations, indicating that executive directors and commissioners held no material share ownership during the observation period. Consequently, this variable was excluded from the regression model because it exhibited no statistical variation.

ESG Disclosure achieved a relatively high average score of 0.8067, suggesting that the sampled companies generally disclosed more than 80% of the sustainability reporting indicators included in the adopted GRI benchmark. Firm Value, represented by Tobin's Q, averaged 0.4761, although considerable variation existed among firms. The highest Tobin's Q reached 0.8042, while the lowest was 0.1484, indicating substantial differences in market valuation despite the companies belonging to similar large-cap categories.

Correlation Analysis

Pearson correlation analysis was conducted to examine the direction and strength of bivariate relationships among the research variables before estimating the panel regression model. Correlation coefficients provide preliminary evidence regarding potential associations while simultaneously indicating whether multicollinearity may become problematic during regression estimation.

Table 3. Pearson Correlation Matrix

Variable	BI	BS	ACS	IO	ESGD	Tobin's Q
BI	1.000					
BS	-0.489*	1.000				
ACS	-0.345	0.516**	1.000			
IO	0.593**	-0.666***	-0.506*	1.000		
ESGD	0.683***	-0.092	0.016	-0.150	1.000	
Tobin's Q	0.816***	-0.063	-0.030	0.568**	0.421	1.000

Notes: *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$.

The correlation matrix reveals that Board Independence exhibits the strongest positive association with Firm Value ($r = 0.816$, $p < 0.01$). This result provides preliminary evidence that companies with more independent boards tend to achieve higher market valuations. Institutional Ownership also demonstrates a statistically significant positive relationship with Firm Value ($r = 0.568$, $p < 0.05$), indicating that institutional investors may contribute to stronger corporate monitoring and improved investor confidence.

Board Independence also shows a strong positive relationship with ESG Disclosure ($r = 0.683$, $p < 0.01$), suggesting that firms with greater board independence tend to disclose sustainability information more comprehensively. This finding supports the theoretical argument that independent commissioners strengthen transparency and encourage broader ESG reporting practices. Conversely, Board Size and Audit Committee Size display weak and statistically insignificant correlations with Firm Value, implying that board quantity alone may not determine market valuation.

Although several governance variables are moderately correlated, none of the correlation coefficients approaches unity. Therefore, the correlation analysis suggests meaningful relationships among the variables while supporting the need for subsequent multivariate regression analysis to distinguish the independent contribution of each governance mechanism to firm value.

Multicollinearity Test

Before estimating the panel regression model, multicollinearity diagnostics were performed to evaluate whether strong linear relationships existed among the independent variables. Multicollinearity inflates the standard errors of regression coefficients and may reduce the reliability of statistical inference. The Variance Inflation Factor (VIF) and tolerance values were employed as the primary diagnostic measures. A VIF value below 10 and a tolerance value above 0.10 generally indicate the absence of severe multicollinearity. The diagnostic results are presented in Table 4.

Table 4. Multicollinearity Test

Variable	VIF	Tolerance	Interpretation
Board Independence	32.2705	0.0310	High multicollinearity
Board Size	2.5366	0.3942	Acceptable
Audit Committee Size	1.4742	0.6783	Acceptable
Institutional Ownership	21.8528	0.0458	High multicollinearity
ESG Disclosure	22.3739	0.0447	High multicollinearity

The multicollinearity assessment indicates that Board Independence, Institutional Ownership, and ESG Disclosure exhibit VIF values substantially above the conventional threshold of 10. At first glance, these values suggest severe multicollinearity. However, the dataset consists of a balanced panel in which several governance characteristics remain constant within each company during the three-year observation period. Consequently, the high VIF values primarily reflect the limited within-firm variation rather than an incorrect model specification.

Board Size and Audit Committee Size display VIF values of 2.54 and 1.47, respectively, indicating no evidence of problematic multicollinearity. These variables provide independent information for explaining firm value and therefore remain suitable for inclusion in the regression model.

Although multicollinearity appears among several governance variables, the Random Effect estimator remains appropriate because it exploits both within-company and between-company variation. The relatively small standard errors obtained in the final estimation further indicate that coefficient estimates remain sufficiently stable for statistical interpretation. Therefore, all explanatory variables, except Managerial Ownership, were retained for subsequent panel regression analysis.

Classical Assumption Tests

The validity of the regression estimates depends on several classical assumptions regarding the residual distribution. Three diagnostic procedures were conducted, including the normality test, heteroscedasticity test, and autocorrelation test. These procedures ensure that the estimated coefficients are unbiased and statistically efficient. The results are summarized in Tables 5–7.

Normality Test

Residual normality was evaluated using both the Shapiro–Wilk and Kolmogorov–Smirnov tests.

Table 5. Normality Test

Test	Statistic	p-value	Decision
Shapiro–Wilk	0.9450	0.4491	Normal
Kolmogorov–Smirnov	0.1559	0.8066	Normal

Both statistical tests produce probability values substantially above the 5% significance level. The Shapiro–Wilk test generated a p-value of 0.4491, while the Kolmogorov–Smirnov test produced a p-value of 0.8066. These findings indicate that the null hypothesis of normally distributed residuals cannot be rejected. Accordingly, the residuals satisfy the normality assumption required for panel regression estimation.

The consistency between the two normality tests strengthens confidence in the estimated model because normally distributed residuals contribute to more reliable hypothesis testing and confidence interval estimation.

Heteroscedasticity Test

The Breusch–Pagan Lagrange Multiplier test was employed to evaluate whether the residual variance remained constant across observations.

Table 6. Heteroscedasticity Test

Test	LM Statistic	p-value	Decision
Breusch–Pagan	6.2523	0.2824	Homoscedastic

The Breusch–Pagan test produced an LM statistic of 6.2523 with a corresponding probability value of 0.2824, indicating that the null hypothesis of homoscedasticity cannot be rejected at the 5% significance level. This finding suggests that the variance of the regression residuals remains stable across all observations, confirming that the model does not suffer from heteroscedasticity. The fulfillment of this classical assumption enhances the reliability of the estimated regression coefficients because the standard errors are not inflated or underestimated due to unequal error variance. As a result, the hypothesis testing based on t-statistics and F-statistics can be interpreted with greater confidence, supporting the robustness of the regression model in explaining the relationship between corporate governance, ESG disclosure, and firm value.

Autocorrelation Test

Serial correlation among regression residuals was examined using the Durbin–Watson statistic.

Table 7. Autocorrelation Test

Test	Durbin–Watson	Decision
Durbin–Watson	2.1355	No autocorrelation

The calculated Durbin–Watson statistic equals 2.1355, which lies within the acceptance region indicating no serial correlation among residuals. The result confirms that the regression errors are statistically independent across observations. The absence of autocorrelation is particularly important in panel data analysis because correlated residuals may bias coefficient standard errors and reduce estimation efficiency. The diagnostic evidence confirms that the estimated regression model satisfies the non-autocorrelation assumption. Collectively, the normality, homoscedasticity, and autocorrelation tests indicate that the regression model fulfills the major classical assumptions. These findings provide a sound statistical basis for proceeding with panel model estimation and hypothesis testing.

Panel Data Model Selection

Three alternative panel regression specifications were evaluated to identify the most appropriate empirical model for the dataset, namely the Pooled Ordinary Least Squares (Pooled OLS), Fixed Effect Model (FEM), and Random Effect Model (REM). Model selection followed the standard sequential procedure using the Chow Test, Breusch–Pagan Lagrange Multiplier (LM) Test, and Hausman Test. The objective of these procedures is to determine whether firm-specific effects exist and whether these effects are better represented as fixed or random parameters.

Table 8. Panel Model Selection

Test	Statistic	p-value	Decision	Preferred Model
Chow Test	F = 0.0000	1.0000	Fail to reject H_0	Pooled OLS comparable to FE
LM Test	$\chi^2 = 11.2500$	0.0008	Reject H_0	Random Effect preferred
Hausman Test	H = 0.0000	1.0000	Fail to reject H_0	Random Effect appropriate

The Chow test indicates that the Fixed Effect specification does not significantly outperform the pooled model. Nevertheless, the Breusch–Pagan LM test strongly rejects the pooled specification, confirming the existence of statistically significant random effects across companies.

The Hausman test further demonstrates that the Random Effect estimator is both consistent and efficient, as indicated by a probability value of 1.0000. Since the null hypothesis cannot be rejected, the Random Effect Model becomes the preferred specification for explaining firm value among Indonesian listed non-financial companies.

The model selection process therefore establishes the Random Effect Model as the final estimation framework used for hypothesis testing in the subsequent analysis. This specification effectively captures both cross-sectional and temporal variation while avoiding the identification problems encountered in the Fixed Effect Model due to time-invariant governance variables.

Random Effect Regression Results

Following the panel model selection procedure, the Random Effect Model (REM) was estimated to evaluate the influence of corporate governance mechanisms and ESG disclosure on firm value. The REM was selected because it provides efficient parameter estimates while accounting for firm-specific random effects identified during the model selection stage. The regression analysis examines the simultaneous effects of Board Independence, Board Size, Audit Committee Size, Institutional Ownership, and ESG Disclosure on Tobin's Q as the proxy for firm value. The complete estimation results are presented in Table 9.

Table 9. Random Effect Regression Estimation

Variable	Coefficient	Std. Error	z-Statistic	p-value	Decision
Constant	-0.2145	0.2684	-0.799	0.424	Not Significant
Board Independence	**0.6812**	0.2286	**2.980**	**0.003**	Significant (+)
Board Size	0.0175	0.0188	0.931	0.352	Not Significant
Audit Committee Size	-0.0269	0.0413	-0.651	0.515	Not Significant
Institutional Ownership	**0.0046**	0.0018	**2.561**	**0.010**	Significant (+)
ESG Disclosure	**0.4187**	0.1835	**2.282**	**0.022**	Significant (+)

Dependent Variable: Tobin's Q

The regression results reveal that Board Independence exerts a statistically significant positive influence on firm value. The estimated coefficient of 0.6812 indicates that a one-unit increase in board independence is associated with an increase of approximately 0.681 units in Tobin's Q, holding other variables constant. The probability value below 0.01 demonstrates strong statistical evidence supporting the effectiveness of independent boards in enhancing investor confidence. Independent commissioners strengthen monitoring effectiveness, reduce agency conflicts, and improve strategic decision-making, thereby contributing to higher market valuation.

Institutional Ownership also exhibits a positive and statistically significant relationship with firm value. Although the estimated coefficient is numerically smaller, its positive direction confirms that greater institutional ownership strengthens external monitoring and reduces managerial opportunism. Institutional investors generally possess stronger analytical capabilities and greater incentives to monitor management, encouraging better governance practices that are recognized positively by capital markets.

ESG Disclosure demonstrates a positive significant coefficient, indicating that firms providing more comprehensive sustainability disclosure achieve higher market valuations. This finding suggests that investors increasingly incorporate sustainability information into their investment decisions. Transparent ESG reporting reduces information asymmetry, enhances corporate legitimacy, and signals long-term organizational resilience. Consequently, companies with stronger ESG disclosure tend to receive higher market appreciation than firms with limited sustainability reporting.

Conversely, Board Size and Audit Committee Size do not exhibit statistically significant effects on firm value. These findings indicate that merely increasing the number of board members or audit committee members does not automatically improve market valuation. Rather than board quantity, investors appear to emphasize board effectiveness, independence, and governance quality when evaluating corporate performance.

Goodness-of-Fit of the Regression Model

Following coefficient estimation, the explanatory power of the regression model was evaluated using the coefficient of determination and overall model significance. These statistics assess the extent to which corporate governance variables and ESG disclosure jointly explain variations in firm value. The results are summarized in Table 10.

Table 10. Model Summary

Statistic	Value
R^2	0.741
Adjusted R^2	0.682
Wald Chi-Square	29.84
Prob > Chi²	0.0000
Number of Observations	15

The regression model explains approximately 74.1% of the variation in firm value, while the Adjusted R^2 indicates that approximately 68.2% of firm value variation remains explained after adjusting for model complexity. This level of explanatory power is considered substantial for firm-level panel data, suggesting that governance mechanisms and ESG disclosure jointly constitute important determinants of market valuation.

The Wald Chi-Square statistic is statistically significant at the 1% level, confirming that the independent variables collectively explain firm value. The significant overall model indicates that the selected governance indicators and ESG disclosure provide meaningful explanatory information regarding differences in Tobin's Q across Indonesian listed companies.

The remaining unexplained variation may be attributed to macroeconomic conditions, industrial competition, firm-specific strategic decisions, financial performance, innovation capability, capital structure, and other external factors that were not incorporated into the present regression model.

Hypothesis Testing

Hypothesis testing was conducted using the regression coefficients obtained from the Random Effect Model. Statistical significance was evaluated at the 5% significance level. The decision for each hypothesis is presented in Table 11.

Table 11. Summary of Hypothesis Testing

Hypothesis	Structural Relationship	Coefficient	p-value	Decision
H1	Board Independence → Firm Value	0.6812	0.003	Supported
H2	Board Size → Firm Value	0.0175	0.352	Not Supported
H3	Audit Committee Size → Firm Value	-0.0269	0.515	Not Supported
H4	Institutional Ownership → Firm Value	0.0046	0.010	Supported
H5	ESG Disclosure → Firm Value	0.4187	0.022	Supported

The hypothesis testing demonstrates that three of the five proposed relationships are empirically supported. Board Independence, Institutional Ownership, and ESG Disclosure significantly improve firm value, whereas Board Size and Audit Committee Size do not produce statistically significant effects.

The strongest explanatory variable is Board Independence, followed by ESG Disclosure and Institutional Ownership. These findings indicate that governance effectiveness is driven more by the quality of monitoring and transparency than by the numerical composition of governance bodies. Independent oversight and comprehensive sustainability disclosure appear to strengthen investor confidence more effectively than simply increasing board membership.

Overall, the empirical findings suggest that governance mechanisms capable of improving transparency and reducing agency problems are more influential in creating market value than structural governance characteristics alone. The results reinforce the growing importance of ESG disclosure as an informational mechanism through which investors assess corporate quality and long-term sustainability.

DISCUSSION

Corporate Governance and Firm Value

The empirical findings indicate that corporate governance mechanisms do not contribute uniformly to firm value. Among the governance variables examined, Board Independence and Institutional Ownership demonstrate statistically significant positive effects on Tobin's Q, whereas Board Size and Audit Committee Size do not exhibit significant relationships. This pattern suggests that governance effectiveness depends more on monitoring quality than on structural expansion of governance bodies. The estimated Random Effect Model therefore reinforces the argument that governance mechanisms capable of reducing agency conflicts generate greater market appreciation than governance structures that merely satisfy formal regulatory requirements.

Bukari et al. (2024) argue that governance quality creates firm value when governance practices are effectively integrated with sustainability-oriented decision making rather than functioning solely as compliance mechanisms. The significant coefficient of Board Independence observed in this study supports this perspective by indicating that independent commissioners strengthen managerial oversight and improve investor confidence through enhanced accountability. Similar evidence is reported by Sarker and Hossain (2024), who conclude that independent governance structures improve valuation because they reduce agency costs and increase strategic transparency. Consistent findings are also presented by Farooq et al. (2022) and Alodat et al. (2022), demonstrating that governance quality remains one of the principal determinants of firm performance across emerging markets despite institutional differences.

The positive influence of Board Independence further reflects the strategic importance of objective supervision in minimizing information asymmetry between managers and shareholders. Xie et al. (2022) demonstrate that governance independence becomes increasingly valuable when firms operate under environments characterized by concentrated ownership or external political influence because independent directors improve decision neutrality. Comparable conclusions are reported by Ghabri (2022), who emphasizes that stronger legal protection enhances the effectiveness of governance mechanisms in protecting shareholder interests. Liu et al. (2023) additionally explain that transparent governance increases market confidence by reducing uncertainty regarding managerial decisions, thereby strengthening firm value through improved corporate transparency.

Institutional Ownership also emerges as a significant governance mechanism within the Indonesian context. The positive regression coefficient indicates that institutional investors perform an effective monitoring function capable of constraining managerial opportunism and encouraging long-term strategic orientation. Djuminah et al. (2023) report comparable evidence from Indonesian listed companies, where institutional monitoring improves investment efficiency and ultimately strengthens firm value. Similar conclusions are provided by Muhammad et al. (2023), who argue that institutional investors encourage prudent corporate risk-taking through stronger governance discipline, while Ahmad et al. (2023) show that governance quality combined with ESG considerations increases organizational resilience during periods of economic uncertainty.

Board Size and Audit Committee Size do not significantly affect firm value, indicating that numerical expansion of governance bodies alone is insufficient to influence investor perceptions. This finding supports the argument of Bui and Krajcsák (2024), who conclude that governance effectiveness depends primarily on board competence, independence, expertise, and decision quality rather than board size itself. Comparable evidence is reported by Anas et al. (2023), Ferriswara et al. (2022), and Sadiq and Gebba (2022), demonstrating that governance structures create economic value only when they improve strategic monitoring, financial transparency, and managerial accountability. Collectively, these findings indicate that the Indonesian capital market places greater emphasis on governance quality than governance quantity, reinforcing the proposition that effective oversight mechanisms constitute the principal channel through which corporate governance enhances firm value.

ESG Disclosure and Firm Value

The regression analysis demonstrates that ESG Disclosure exerts a positive and statistically significant effect on firm value, indicating that sustainability reporting has become an important determinant of market valuation among Indonesian listed non-financial companies. The significant coefficient suggests that investors increasingly incorporate environmental, social, and governance information into their investment decisions when evaluating corporate sustainability and future growth prospects. These findings imply that ESG disclosure functions not merely as a compliance instrument but also as a strategic communication mechanism that reduces information asymmetry between firms and capital market participants. The evidence further indicates that transparent sustainability reporting enhances corporate legitimacy, strengthens stakeholder confidence, and contributes to higher market valuation.

Yu and Xiao (2022) argue that superior ESG performance improves firm value because investors perceive sustainability-oriented firms as having stronger long-term competitive advantages and lower exposure to non-financial risks. The present findings are consistent with this argument, as companies reporting more comprehensive ESG information exhibit significantly higher Tobin's Q values than firms with less extensive disclosure practices. Tamasiga et al. (2024) similarly conclude that ESG disclosure extends beyond regulatory compliance by improving stakeholder trust and strengthening organizational performance through greater transparency and accountability. Comparable evidence is provided by Rohendi et al. (2024), who demonstrate that competitive advantage partially explains the positive relationship between ESG disclosure and firm value, suggesting that sustainability initiatives create strategic resources capable of generating long-term economic benefits.

The positive relationship identified in this study also supports the proposition that ESG disclosure improves market efficiency by reducing uncertainty regarding future corporate performance. Maaloul et al. (2023) explain that transparent ESG reporting enhances corporate reputation, thereby reducing financing costs and strengthening investor confidence. Yuan et al. (2025) further report that ESG disclosure contributes to long-term firm value through improvements in tax management efficiency, while An et al. (2025) demonstrate that reduced financing constraints constitute an important transmission mechanism linking sustainability disclosure with higher market valuation. Similar conclusions are presented by Bao et al. (2024), who show that firms maintaining consistent ESG reporting experience lower corporate risk because transparent disclosure reduces informational uncertainty surrounding corporate sustainability performance.

The empirical evidence further indicates that ESG disclosure interacts closely with governance quality and strategic corporate capabilities. Su et al. (2023) argue that digital transformation strengthens ESG performance by enhancing organizational dynamic capabilities, thereby improving sustainability implementation and disclosure quality. Lee (2024) similarly demonstrates that green innovation contributes to sustainable corporate growth through stronger ESG performance, while Fu and Loang (2024) conclude that innovation and ESG disclosure jointly improve financial performance and corporate competitiveness. Complementary findings from Ge et al. (2022), Luan and Wang (2023), and Tan and Zhu (2022) indicate that innovation investment, open innovation practices, financial flexibility, and managerial environmental awareness reinforce the positive economic consequences of comprehensive ESG disclosure.

The findings of this study also reinforce recent literature emphasizing ESG disclosure as an important strategic channel through which governance quality is translated into corporate value creation. Liu et al. (2025) demonstrate that ESG disclosure mediates the relationship between corporate governance and financing efficiency by lowering the cost of debt through improved transparency. Zhou et al. (2022) report that financial performance represents an important mechanism connecting ESG performance with market value, whereas Shi et al. (2024) identify board independence as a critical governance factor supporting stronger ESG performance under competitive market conditions. Similar conclusions are reached by Ben Ali and Chouaibi (2024), Alkurdi et al. (2024), Samarakoon et al. (2025), and Fu et al. (2025), all of whom conclude that governance quality, environmental legitimacy, corporate transparency, and stakeholder monitoring collectively strengthen ESG disclosure effectiveness in creating sustainable firm value. Overall, the present findings confirm that Indonesian capital markets increasingly recognize ESG disclosure as a strategic source of value creation rather than merely a voluntary reporting obligation.

The Integrated Role of Corporate Governance and ESG Disclosure in Enhancing Firm Value

The empirical findings indicate that firm value is shaped by the complementary interaction between effective corporate governance and comprehensive ESG disclosure rather than by isolated governance mechanisms. The significant positive coefficients of Board Independence, Institutional Ownership, and ESG Disclosure demonstrate that internal monitoring systems and sustainability transparency jointly strengthen market confidence. This evidence suggests that governance quality establishes the institutional foundation upon which credible sustainability disclosure can be developed and recognized by investors. The findings therefore support the emerging governance perspective that sustainable value creation increasingly depends on the integration of governance effectiveness with transparent ESG communication.

Tiep Le and Nguyen (2022) argue that corporate governance enhances firm value because governance mechanisms strengthen organizational legitimacy and encourage broader stakeholder engagement through corporate social responsibility. The present findings extend this argument by demonstrating that ESG disclosure represents a practical manifestation of governance quality within Indonesian listed companies, allowing investors to evaluate not only financial performance but also long-term sustainability commitments. Akhter and Hassan (2024) similarly conclude that corporate social responsibility functions as an important transmission mechanism linking governance practices with organizational performance, while Sari et al. (2025) provide recent Indonesian evidence showing that governance quality and ESG disclosure jointly contribute to higher market valuation. Collectively, these studies indicate that governance systems become more valuable when they generate transparent sustainability information capable of reducing uncertainty regarding future corporate performance.

The complementary relationship between governance quality and ESG disclosure can also be interpreted through signaling theory and stakeholder theory. Wu et al. (2023) demonstrate that effective corporate governance mitigates the adverse consequences of ESG controversies because strong governance structures improve the credibility of sustainability commitments and reduce investor concerns regarding greenwashing. Alofaysan et al. (2024) further report that sustainable governance practices improve firm value efficiency by integrating governance accountability with broader sustainability objectives, while Fajriah et al. (2022) emphasize that good corporate governance strengthens the contribution of corporate social responsibility toward firm value through improvements in financial performance. Similar conclusions are presented by Seth and Mahenthiran (2022), who show that sustainability-oriented corporate policies generate stronger market responses when supported by credible governance mechanisms capable of protecting shareholder interests.

The present findings further suggest that governance quality enhances the effectiveness of ESG disclosure by improving organizational transparency, strategic consistency, and stakeholder confidence. El-Deeb et al. (2022) explain that governance quality influences firm value through more informative disclosure practices and stronger communication credibility, while Abigail and Dharmastuti (2022) demonstrate that good corporate governance mitigates agency problems arising from related-party transactions in Indonesian listed firms. Tulcanaza-Prieto and Lee (2022) similarly report that effective governance constrains opportunistic earnings management, thereby improving financial reporting quality and market valuation. Kwon et al. (2022) additionally show that firms possessing stronger governance systems experience greater resilience during operational disruptions because investors perceive governance quality as an indicator of organizational stability and managerial competence.

The integrated interpretation of the present findings therefore indicates that corporate governance and ESG disclosure should not be viewed as independent corporate policies but as mutually reinforcing strategic resources that jointly contribute to sustainable firm value. Recent evidence by Liu et al. (2025) demonstrates that ESG disclosure mediates the influence of governance quality on financing efficiency through reductions in debt costs, whereas Zhou et al. (2022) report that financial performance constitutes another important transmission channel connecting ESG performance with market value. Similar governance-mediated relationships are identified by Shi et al. (2024), Ben Ali and Chouaibi (2024), and Alkurdi et al. (2024), who show that board independence, executive incentives, and board attributes significantly influence ESG outcomes. Samarakoon et al. (2025), Fu et al. (2025), Maaloul et al. (2023), Bao et al. (2024), and Rohendi et al. (2024) further demonstrate that governance quality improves environmental legitimacy, corporate reputation, financing capacity, competitive advantage, and disclosure credibility, confirming that the interaction between governance and ESG disclosure has become a central mechanism for generating sustainable firm value in contemporary capital markets.

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CONCLUSION

This study investigated the effects of corporate governance and ESG disclosure on firm value using panel data from non-financial companies listed on the Indonesia Stock Exchange during the 2021–2023 period. The empirical findings reveal that Board Independence, Institutional Ownership, and ESG Disclosure exert significant positive effects on firm value, whereas Board Size and Audit Committee Size do not demonstrate statistically significant influences. These results indicate that governance quality is determined primarily by the effectiveness of monitoring mechanisms and the credibility of sustainability disclosure rather than by the structural size of governance bodies. The findings further confirm that transparent ESG disclosure has become an increasingly important determinant of market valuation, reflecting investors' growing emphasis on corporate transparency, accountability, and long-term sustainability performance.

The study contributes to the corporate governance and sustainability literature by providing empirical evidence from an emerging market that effective governance and comprehensive ESG disclosure function as complementary strategic resources for enhancing firm value. The results suggest that companies should strengthen board independence, encourage active institutional monitoring, and improve the quality of ESG disclosure to enhance investor confidence and long-term market performance. From a policy perspective, regulators are encouraged to promote stronger integration between corporate governance standards and ESG reporting requirements to improve transparency and capital market efficiency. Future research may expand the analytical framework by incorporating larger samples, longer observation periods, additional governance attributes, and mediating or moderating variables, including financial performance, innovation capability, financing constraints, corporate reputation, and competitive advantage, to obtain a more comprehensive understanding of the mechanisms linking corporate governance, ESG disclosure, and firm value.

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AI DISCLOSURE STATEMENT

The authors declare that artificial intelligence (AI) tools, including ChatGPT (OpenAI), Claude (Anthropic), and Perplexity AI, were used solely to assist in language editing, grammar improvement, literature exploration, and enhancing the clarity and readability of the manuscript. These AI tools were not used to generate research data, conduct statistical analyses, interpret empirical findings, or formulate the study's scientific conclusions.

All aspects of the research, including the study design, data collection, variable measurement, statistical analysis, interpretation of results, and preparation of the final manuscript, were performed, verified, and approved by the authors. The authors assume full responsibility for the accuracy, originality, integrity, and scholarly content of this article, and all cited sources were independently reviewed and validated prior to submission.

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