E-JURNAL EKONOMI DAN BISNIS UNIVERSITAS UDAYANA
Available online at https://ejournal4.unud.ac.id/index.php/eeb/index
Vol. 15 No. 05, Mei 2026, pages: 561-571
e-ISSN: 2337-3067

ESG DISCLOSURE AND FIRM VALUE: THE MODERATING ROLE OF INSTITUTIONAL OWNERSHIP

Novinda Kurnia Ichsanti[1] Novrys Suhardianto[2]

Article history:

Submitted: 13 April 2026
Revised: 1 Mei 2026
Accepted: 31 Mei 2026

Keywords:

Emerging Market;
ESG Disclosure;
Firm Value;
Institutional Ownership;

Corresponding:
Faculty of Economics and Business, Airlangga University, East Java, Indonesia
Email: novinda.kurnia.ichsanti-2024@feb.unair.ac.id

Abstract

This paper examines the effect of ESG disclosure on firm value and the moderating role of institutional ownership in this relationship among publicly listed non-financial firms on the IDX over 2017–2023. Using pooled OLS regression on a sample of 675 observations, this study finds that ESG disclosure exerts a positive and significant effect on firm value, supporting the stakeholder and signaling theory predictions. Furthermore, institutional ownership positively moderates this relationship, such that the value-enhancing effect of ESG disclosure is amplified in firms with higher institutional shareholding. These findings are grounded in stakeholder theory and signaling theory, contribute to the ESG literature by establishing institutional ownership as an active governance mechanism that conditions the market's recognition of sustainability disclosure quality in an emerging market context. Theoretically, this study extends the ESG-firm value literature to an emerging market setting by establishing institutional ownership as an active governance moderator. Practically, the findings offer directional guidance for policymakers, corporate managers, and institutional investors on strengthening the credibility and market recognition of sustainability disclosures.

Faculty of Economics and Business, Airlangga University, East Java, Indonesia[2]
Email: novrys@feb.unair.ac.id

INTRODUCTION

The global business paradigm has undergone a fundamental transformation: corporate sustainability has evolved from a discretionary practice into an existential prerequisite amid converging systemic pressures (Akyuni & Oktaryani, 2025; Larasati & Nafiati, 2025). The COVID-19 pandemic served as a critical accelerant, exposing the vulnerability of firms that neglected social and governance dimensions in their operational frameworks (Alsayegh et al., 2020; Broadstock et al., 2021). In response, the ESG framework has emerged as the most comprehensive and widely endorsed standard for evaluating corporate sustainability, integrating environmental stewardship, social responsibility, and governance transparency into a unified assessment construct with material implications for firm valuation (Gillan et al., 2021; Liang et al., 2023). These global dynamics resonate strongly in Indonesia, where the OJK has established the second phase of the Sustainable Finance Roadmap (2021-2025) and IDX has launched an ESG index as a benchmark for responsible investment (BEI, 2022; OJK, 2021). However, the Indonesian capital market is characterized by concentrated ownership structures that give rise to governance dynamics fundamentally different from those in developed markets, rendering findings from advanced economies difficult to transplant without contextual revalidation (Mulyani et al., 2022).

An empirical evidence supports a positive association between ESG and firm value. Choi et al. (2024) established that ESG disclosure positively and significantly affects firm value through reduced information asymmetry and enhanced investor confidence. Alsayegh et al. (2020) and Raimo et al. (2021) reported convergent findings across multinational and Southeast Asian samples respectively. The theoretical underpinning is dual: from a stakeholder theory perspective (Al Amosh & Mansor, 2020; Freeman, 1984), ESG disclosure reduces stakeholder conflict risks and strengthens legitimacy; from a signaling theory perspective (Serafeim & Yoon, 2022; Spence, 1973), it reduces information asymmetry and compresses the cost of capital (Li et al., 2020). Nevertheless, the consensus is not uniform. Raimo et al. (2021) document negative or insignificant relationships in contexts characterized by weak enforcement, low disclosure quality, or greenwashing risk. Serafeim & Yoon (2022) further show that ESG effects are highly contingent on rating source credibility. This contradictory evidence signals that the ESG-firm value relationship is conditional rather than universal.

The conditionality of the influence of ESG on firm value points to a theoretically compelling yet empirically underexplored conditioning variable in the Indonesian context: institutional ownership. Prior studies have examined governance moderators (Albitar et al., 2020; Choi et al., 2024; Rossi et al., 2021; Shakil, 2021), but none, to the authors' knowledge, has directly tested the moderating role of institutional ownership on the nexus of ESG and firm value using data from the IDX. Institutional investors possess superior monitoring capacity through large equity stakes, specialist analytical resources, and shareholder voice mechanisms, which collectively reduce greenwashing risk and amplify the market credibility of ESG signals (Suandewi & Sukartha, 2025; Wu et al., 2022). Furthermore, their long investment horizons align naturally with the long-term value creation logic embedded in ESG strategy, making them more likely to accurately price ESG quality in their valuation assessments (Gillan et al., 2021). This paper addresses the identified gap by introducing institutional ownership as a moderating variable in the ESG-firm value within the Indonesian capital market context.

This paper integrates two complementary theoretical frameworks. Stakeholder theory Freeman (1984) and Khatib et al. (2022) posits that firm value is a function of the quality of relationships with all stakeholder groups, while ESG disclosure is therefore a strategic instrument for fulfilling diverse stakeholder expectations and sustaining market legitimacy (Al Amosh & Mansor, 2020; Khatib et al., 2022). Institutional investors, as the economically dominant stakeholders, reinforce this mechanism by exerting governance pressure that promotes genuine ESG commitment. Signaling theory complements this view by explaining how ESG disclosure functions as a credible quality signal to the capital market (Li et al., 2020; Spence, 1973). Critically, signal efficacy depends on receiver interpretive capacity: institutional investors serve as privileged signal receivers who augment ESG signal credibility for the

broader market, thereby amplifying the valuation consequences of disclosure quality (Albitar et al., 2020; Wu et al., 2022).

This paper pursues two primary objectives: first, to examine the effect of ESG disclosure on firm value among publicly listed non-financial companies on the IDX over 2017-2023; and second, to test the moderating role of institutional ownership in this relationship. The use of MTBV, rather than accounting-based ROA, reflects a forward-looking market perspective that captures investor expectations of long-term sustainability value (Alsayegh et al., 2020; Choi et al., 2024). Theoretically, this study enriches the ESG literature in the emerging market context by introducing institutional ownership as a conditioning variable underexplored in the Indonesian setting. Practically, findings offer actionable guidance: OJK policymakers are advised to strengthen mandatory ESG disclosure standards and develop tiered reporting frameworks that reward disclosure quality, not merely breadth; corporate management should prioritize consistent and credible ESG communication to attract institutional ownership, which this study shows amplifies ESG's value-relevance; and institutional investors should actively engage with portfolio firms on ESG governance practices, as their monitoring role demonstrably conditions the market's recognition of sustainability value. The remainder of this article presents the introduction, research methodology, results and discussion, and conclusion in sequence.

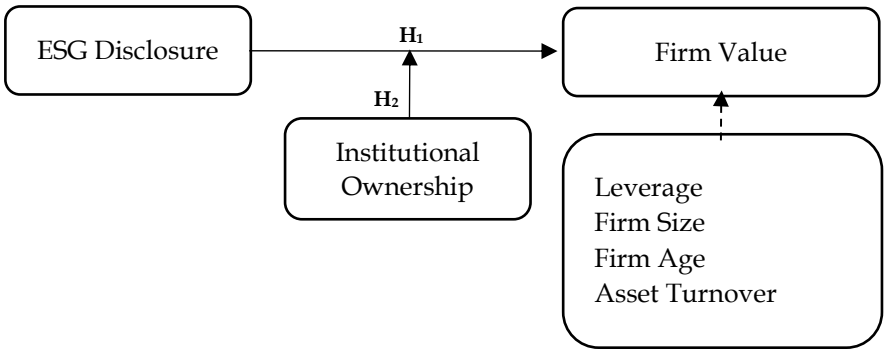
ESG-committed firms reduce stakeholder conflict risk and reputational exposure (Freeman, 1984), while high-quality ESG disclosure credibly signals governance quality to the market, lowering investor-perceived risk and the cost of equity capital (Gillan et al., 2021; Spence, 1973). Empirical evidence broadly corroborates these predictions: Alsayegh et al. (2020), Choi et al. (2024), Liang et al. (2023), Raimo et al. (2021) all document positive ESG-firm value relationships across Korea, multinational, Southeast Asian, and Chinese samples respectively. In the Southeast Asian context, Raimo et al. (2021) further confirm that ESG reduces the cost of debt financing, providing a capital structure channel through which ESG translates into higher net firm value. Grounded in this theoretical and empirical foundation, this paper advances the following hypothesis:

H_1: ESG disclosure has a positive and significant effect on firm value.

While the direct ESG-firm value relationship is theoretically grounded, its conditionality across institutional contexts motivates the introduction of institutional ownership as a moderating variable. Institutional investors strengthen this relationship through three reinforcing mechanisms. First, their monitoring and governance pressure incentivizes management to maintain consistency between ESG narratives and actual practices, reducing greenwashing risk and enhancing signal credibility (Albitar et al., 2020; Wu et al., 2022). Second, by maintaining substantial ownership positions in ESG-disclosing firms, institutional investors co-sign disclosure quality with their capital commitments, increasing the signal-to-noise ratio of ESG information for the broader market (Serafeim & Yoon, 2022; Wu et al., 2022). Third, their long investment horizons align with the long-term value logic of ESG strategy, making them more likely to capitalize ESG quality in market valuations (Gillan et al., 2021; Rahman, 2024). Supporting evidence spans multiple contexts: Albitar et al. (2020) confirm that ownership mechanisms amplify ESG-performance relationships in a cross-country sample; Ngatno et al. (2021) establish ownership structure as a relevant governance boundary condition at the IDX; and (Elmanaseer & Gerged, 2025) demonstrate that institutional ownership conditions environmental disclosure consequences in emerging markets. Drawing upon these theoretical channels and convergent empirical evidence, this study proposes:

H_2: Institutional ownership moderates the ESG disclosure and firm value.

The proposed relationships between the research variables are illustrated in Figure 1.



Sources: Research Data, 2025

Figure 1. Theoretical Framework

RESEARCH METHODS

This paper employs a quantitative panel data design to examine the ESG-firm value relationship among publicly listed non-financial companies on the IDX over 2017-2023. The sample is constructed using purposive sampling based on four criteria: first, exclusion of financial sector firms, whose distinct regulatory capital requirements and business models render their financial ratios structurally incomparable with non-financial firms; second, inclusion of only firms with Bloomberg ESG Disclosure Scores; third, exclusion of firms with incomplete financial data; and fourth, restriction to companies with data consistently available in the Bloomberg Terminal throughout the full observation window. Application of these criteria yields a final sample of 675.

All data are sourced from the Bloomberg Terminal to ensure measurement consistency. The dependent variable, firm value is operationalized as market-to-book value, a forward-looking market-based measure that captures investor expectations of long-term value creation and is more appropriate than accounting-based ROA for examining market responses to ESG disclosure (Alsayegh et al., 2020; Choi et al., 2024). ESG disclosure, is measured using the Bloomberg ESG Score, a continuous variable from 0 to 100 reflecting the breadth of publicly disclosed ESG information. Unlike ratings-based ESG metrics, the Bloomberg score is a pure disclosure measure that isolates the signaling dimension of interest in this study (Alsayegh et al., 2020; Serafeim & Yoon, 2022). The moderating variable, institutional ownership, is measured as the percentage of total shares outstanding held by institutional investors (Ngatno et al., 2021; Wu et al., 2022). An interaction term (ESG × INSOWN) is constructed following the mean-centering procedure of Liang et al. (2023) to mitigate multicollinearity. Four control variables are included: firm size (FSIZE = ln total assets), firm age (FAGE = years since establishment), financial leverage (FLEV = total liabilities / total equity), and asset turnover (ATURN = total revenue / total assets), all of which are documented in prior literature as systematic determinants of market-based firm value (Choi et al., 2024; Ngatno et al., 2021).

Three sequential pooled OLS models with robust standard errors, year fixed effects, and industry fixed effects are estimated to test H1 and H2. Model 1 includes controls only (baseline); Model 2 adds ESG and INSOWN; Model 3 adds the interaction term ESG × INSOWN. The sequential structure isolates the incremental explanatory contribution of each variable set through changes in adjusted R^2. The robust standard errors address heteroskedasticity common in multi-industry firm-level panels, while fixed effects control for unobserved time-invariant and industry-specific heterogeneity (Wooldridge, 2019). Three sequential models are estimated. Model 1 (baseline) includes controls only. Model 2 adds ESG disclosure and institutional ownership. Model 3 adds the interaction term to test the moderation hypothesis:

$$\text{Model 1: Firm Value} = \beta_0 + \beta_1 \text{ESG} + Controls + \text{Year FE} + \text{Industry FE} + \epsilon \quad \text{.....(1)}$$

$$\text{Model 2: Firm Value} = \beta_0 + \beta_1 \text{ESG} + \beta_2 \text{INSOWN} + Controls + \text{Year FE} + \text{Industry FE} + \epsilon \text{.....(2)}$$

$$\text{Model 3: Firm Value} = \beta_0 + \beta_1 \text{ESG} + \beta_2 \text{INSOWN} + \beta_3 (\text{ESG} \times \text{INSOWN}) + Controls + \text{Year FE} + \text{Industry FE} + \epsilon \quad (3)$$

To verify the reliability of the findings and the unbiased nature of the OLS estimators, the model was subjected to a series of diagnostic tests. Specifically, assessments for multicollinearity, heteroscedasticity, and autocorrelation were conducted. The results validated the suitability of the panel data regression framework for the current dataset.

RESULT AND DISCUSSIONS

Table 1 presents the descriptive statistics in this paper, based on a final sample of 675 drawn from publicly listed companies on the IDX over the period 2017-2023. Firm value (MTBV), exhibits a mean of 3.393 and a standard deviation of 10.369, with values ranging from a minimum of 0.101 to a maximum of 147.004. The substantially high standard deviation relative to the mean reflects the well-documented positive skewness of market-to-book ratios in emerging market settings, driven by a subset of high-growth firms commanding disproportionately elevated valuations (Choi et al., 2024; Raimo et al., 2021). The median MTBV of 1.202 is considerably lower than the mean, confirming right-skewed distribution and suggesting that the majority of sampled firms trade at near-book values, a pattern consistent with the relatively nascent state of ESG integration in Indonesian.

The primary independent variable, ESG disclosure score sourced from Bloomberg, records a mean of 41.400 and a standard deviation of 11.941, spanning a range of 16.450 to 75.760. These figures indicate meaningful variation in ESG disclosure quality across sampled firms, with no firm achieving a near-perfect score, reflecting the early-stage nature of ESG reporting practices among Indonesian listed companies. The mean ESG score of 41.400 is notably lower than those reported in studies from Korea (Choi et al., 2024), corroborating the argument that emerging market firms generally exhibit lower ESG disclosure intensity due to less stringent mandatory reporting requirements and weaker institutional enforcement mechanisms (Raimo et al., 2021).

Institutional ownership (INSOWN) records a mean of 32.663 percent and a standard deviation of 30.812, with values ranging from 0 to 135.740. The high standard deviation relative to the mean, coupled with a median of only 18.110 percent, indicates substantial heterogeneity in institutional ownership concentration across sampled firms, with a right-skewed distribution suggesting that a minority of firms are characterized by dominant institutional shareholders while the majority maintain relatively dispersed institutional holdings. This distributional pattern is consistent with the dual ownership structure observed in the Indonesian market, where state-owned enterprises and large conglomerates tend to attract concentrated institutional shareholdings, while smaller listed firms are predominantly held by retail and family investors (Elmanaseer & Gerged, 2025). With respect to control variables, the mean financial leverage (FLEV) of 2.764, mean firm size (FSIZE) of 7.294, mean firm age (FAGE) of 39.896 years, and mean asset turnover (ATURN) of 0.746 are broadly consistent with the distributional characteristics of non-financial listed companies in Southeast Asian emerging markets.

Table 1.
Descriptive Statistics

	OBS	MEAN	STD	MEDIAN	MIN	MAX
MTBV	675	3.393	10.369	1.202	0.101	147.004
ESG	675	41.400	11.941	40.710	16.450	75.760
INSOWN	675	32.663	30.812	18.110	0.000	135.740
FLEV	675	2.764	2.189	2.150	0.860	26.080
FSIZE	675	7.294	1.175	7.390	3.860	10.270
FAGE	675	39.896	21.620	37.000	4.000	122.000
ATURN	675	0.746	0.582	0.590	-0.190	3.850

Sources: Research Data, 2025

Table 2 reports the pearson correlation matrix. Several observations merit attention prior to the multivariate analysis. First, correlation between ESG disclosure and MTBV is insignificant (r = 0.023, p = 0.552). This finding is consistent with prior studies documenting that the ESG-firm value relationship is not detectable in bivariate analysis due to omitted variable bias and the conditioning role of governance mechanisms (Albitar et al., 2020; Choi et al., 2024). The absence of a significant bivariate correlation does not preclude a significant multivariate relationship; rather, it reinforces the central theoretical argument of this study that the ESG-firm value relationship is conditional and requires the inclusion of relevant moderating and control variables to be properly identified.

Second, institutional ownership (INSOWN) exhibits a negligible and statistically insignificant correlation with MTBV (r = 0.005, p = 0.903), suggesting that institutional ownership per se does not independently drive firm value in this sample. This pattern is theoretically consistent with the moderating, rather than direct, role attributed to institutional ownership in the present study's framework: institutional ownership is expected to condition the ESG-firm value relationship rather than exert an unconditional main effect on valuation. Third, financial leverage (FLEV) records the strongest positive correlation with MTBV among all variables (r = 0.226, p < 0.001), reflecting the market's capitalization of the tax shield and growth-financing signaling effects associated with leverage in the Indonesian market context. Fourth, firm size (FSIZE) is negatively correlated with MTBV (r = -0.114, p < 0.01), consistent with the well-documented inverse size-valuation relationship in emerging markets where smaller firms tend to carry higher growth premia. The inter-variable correlations among the independent and control variables remain moderate, with no pair exceeding 0.335, providing preliminary assurance against severe multicollinearity concerns in the regression estimation.

Table 2.
Pearson Correlation

	MTBV	ESG	INSOWN	FLEV	FSIZE	FAGE	ATURN
MTBV	1.000						
ESG	0.023	1.000					
	(0.552)						
INSOWN	0.005	0.033	1.000				
	(0.903)	(0.395)					
FLEV	0.226***	-0.010	0.072*	1.000			
	(0.000)	(0.791)	(0.063)				
FSIZE	-0.114***	0.335***	0.074*	0.165***	1.000		
	(0.003)	(0.000)	(0.053)	(0.000)			
FAGE	-0.014	0.201***	0.084**	0.008	-0.024	1.000	
	(0.710)	(0.000)	(0.030)	(0.840)	(0.530)		
ATURN	0.154***	0.034	-0.001	-0.154***	-0.225***	0.073*	1.000
	(0.000)	(0.384)	(0.989)	(0.000)	(0.000)	(0.056)	

p-values in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Sources: Research Data, 2025

Table 3 presents the results of the pooled OLS regression across three sequential models. Model 1 includes only baseline specification. Model 2 introduces ESG disclosure and institutional ownership as the primary explanatory variables alongside the controls. Model 3 adds the interaction term ESG x INSOWN to test the moderating hypothesis. Year fixed effects and industry fixed effects are included across all three models to control for unobserved time-specific and industry-specific heterogeneity that may independently influence firm value. The sequential model structure allows for systematic assessment of incremental explanatory power attributable to each variable set.

Table 3.
Regression Result

	(1) MTBV	(2) MTBV	(3) MTBV
ESG	0.092**	0.093**	-0.066
	(2.19)	(2.25)	(-1.41)
INSOWN		-0.008	-0.209***
		(-0.56)	(-4.43)
ESG x INSOWN			0.005***
			(3.96)
FSIZE	-1.503***	-1.502***	-1.448***
	(-2.80)	(-2.81)	(-2.73)
FAGE	-0.039	-0.039	-0.038
	(-1.60)	(-1.61)	(-1.62)
ATURN	2.961***	2.963***	3.142***
	(3.17)	(3.17)	(3.48)
FLEV	1.347*	1.356*	1.315*
	(1.74)	(1.74)	(1.68)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Cons	6.154*	6.153*	12.280***
	(1.78)	(1.78)	(3.41)
R^2	0.130	0.131	0.161
Adjusted R^2	0.106	0.106	0.135
N	675	675	675

p-values in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Sources: Research Data, 2025

Model 1 in Table 3 reports the effect of ESG on firm value after controlling for institutional ownership and all firm-level control variables. ESG disclosure exerts a positive and significant effect on MTBV ($\beta = 0.092$, $p < 0.05$), providing empirical support for H_1. The positive coefficient indicates that a one-unit increase in Bloomberg ESG score is associated with a 0.092-unit increase in market-to-book value, holding all other variables constant. The adjusted R^2 of 0.106 in Model 1 indicates that the explanatory variables collectively account for approximately 10.6 percent of the cross-sectional variation in MTBV, which is consistent with the explanatory power typically reported in market-based firm value models for emerging market samples (Alsayegh et al., 2020; Kusno & Novita, 2026; Raimo et al., 2021).

Model 2 introduces ESG disclosure and institutional ownership as main-effect predictors alongside the control variables, without the interaction term. The non-significant coefficient of INSOWN in Model 2 ($\beta = -0.008$, $t = -0.56$, $p > 0.10$) confirms a pure moderation structure — meaning institutional ownership functions solely as a boundary condition, not an independent predictor of firm value. This finding is theoretically meaningful and would be lost if only one model were reported. Sequential moderated regression is widely adopted in SSCI-indexed journals (Wu et al., 2022; Liang et al., 2023; Albitar et al., 2020). To address the consistency concern, we have revised the discussion to explicitly address all three models.

These results are consistent with the theoretical predictions. From a stakeholder perspective, firms that demonstrate commitment to ESG principles signal their capacity to manage diverse stakeholder relationships, thereby reducing the probability of reputational damage, regulatory sanctions, and stakeholder conflicts that can erode market capitalization (Al Amosh & Mansor, 2020). From a signaling perspective, ESG reduces information asymmetry from management and investors by providing credible non-financial quality signals, which in turn lower investor-perceived risk and compress the cost of equity capital, producing the observed premium in market-to-book valuations (Li et al., 2020). The positive finding is further consistent with a substantial body of prior empirical research. Choi et al. (2024) reported a comparable positive ESG-firm value relationship in the Korean context, while Alsayegh et

al. (2020) and Raimo et al. (2021) documented analogous findings across multinational and Southeast Asian samples respectively. In the Southeast Asian context, Liang et al. (2023) confirmed that higher ESG scores reduce stock liquidity risk, indirectly contributing to elevated market-based firm values. The present findings extend this evidence base to the Indonesian capital market, demonstrating that ESG disclosure generates measurable market value premia even in an emerging market context characterized by comparatively lower baseline ESG disclosure intensity and less developed sustainability reporting infrastructure.

Model 3 introduces the interaction term ESG x INSOWN to examine the moderating role of institutional ownership in the ESG-firm value relationship. The interaction coefficient is positive and highly significant ($\beta = 0.005$, $t = 3.96$, $p < 0.01$), providing strong empirical support for H_2. The positive sign of the interaction term confirms that institutional ownership strengthens the positive effect of ESG disclosure on firm value: as institutional ownership increases, the marginal effect of ESG disclosure on MTBV becomes progressively larger, consistent with the amplification mechanism predicted by both stakeholder theory and signaling theory. The inclusion of the interaction term in Model 3 improves the adjusted R^2 from 0.106 in Model 2 to 0.135, representing a meaningful increment of 2.9 percentage points attributable exclusively to the moderating role of institutional ownership.

A notable finding in Model 3 is the sign reversal of the ESG main effect coefficient, which becomes negative and insignificant ($\beta = -0.066$, $t = -1.41$, $p > 0.10$) once the interaction term is included. This pattern is a standard algebraic consequence of mean-centered interaction modeling rather than a substantive reversal of the ESG-firm value relationship. In moderated regression, the main effect of ESG in the presence of an interaction term represents the conditional effect of ESG when INSOWN equals zero, a condition that is empirically rare in this sample given the mean institutional ownership of 32.663 percent. The economically meaningful interpretation of the ESG effect is therefore the conditional effect evaluated at realistic levels of institutional ownership, which remains robustly positive across the observed range of the moderator (Choi et al., 2024; Liang et al., 2023). This interpretation is further supported by the statistically significant and positive interaction coefficient, which confirms that the net effect of ESG on firm value is positive and increasing in institutional ownership.

Additionally, the INSOWN main effect becomes negative and highly significant in Model 3 ($\beta = -0.209$, $t = -4.43$, $p < 0.01$), in contrast to its insignificant coefficient in Model 2 ($\beta = -0.008$). This shift is again attributable to the mechanics of interaction modeling: the INSOWN main effect in Model 3 represents the conditional effect of institutional ownership when ESG equals zero, a counterfactual scenario without direct interpretive relevance. The combined reading of the positive interaction term alongside the significant main effects confirms that the value-creating potential of institutional ownership is realized specifically through its complementary interaction with ESG disclosure quality, consistent with the governance synergy argument advanced in this study.

These findings are theoretically interpretable through three reinforcing mechanisms identified in the hypothesis development section. The monitoring and governance pressure channel is evidenced by the interaction coefficient: institutional investors, by exercising shareholder voice and demanding accountability in ESG reporting, reduce the risk of greenwashing and enhance the credibility of ESG signals, thereby amplifying their market valuation consequences (Albitar et al., 2020; Wu et al., 2022). The signal amplification channel is consistent with signaling theory (Serafeim & Yoon, 2022; Spence, 1973): institutional ownership co-signs the quality of ESG disclosures through capital commitment, increasing the signal-to-noise ratio of non-financial information in the capital market and making non-specialist investors more likely to correctly price the ESG premium. The long-term value alignment channel is reflected in the forward-looking nature of MTBV as a dependent variable: institutional investors with long investment horizons are more likely to capitalize the intertemporal value implications of ESG commitment, producing a stronger MTBV response to ESG disclosure in high institutional ownership firms (Elmanaseer & Gerged, 2025; Gillan et al., 2021).

The present findings are broadly consistent with the international evidence on governance mechanisms as moderators of the ESG-firm value relationship. Albitar et al. (2020) demonstrated that

ownership-related governance mechanisms amplify the positive performance consequences of ESG disclosure in a cross-country sample. Ngatno et al. (2021) confirmed the conditioning role of ownership structure in the governance-performance relationship in the Indonesian context. Elmanaseer & Gerged (2025) established that institutional ownership moderates ESG and firm value. The present study extends this evidence base by directly testing and confirming the institutional ownership moderation hypothesis in the specific context of ESG disclosure and market-based firm value at the IDX, addressing the empirical gap identified in the introduction. Collectively, the results affirm that institutional ownership is not merely a passive structural feature of the Indonesian capital market but an active governance mechanism that conditions the financial returns to ESG disclosure and plays a central role in translating sustainability commitments into market-recognized firm value.

With respect to the control variables, firm size (FSIZE) exerts a consistently negative and significant effect on MTBV across all three models (β ranges from -1.448 to -1.503, $p < 0.01$). This finding is consistent with the inverse size-valuation relationship documented in emerging market studies, where smaller firms tend to carry higher growth premia relative to book value, while larger firms are more likely to trade at valuations closer to their asset base (Choi et al., 2024). Asset turnover (ATURN) is positive and significant across all models (β ranges from 2.961 to 3.142, $p < 0.01$), reflecting the market's capitalization of operational efficiency as a forward-looking value indicator. Financial leverage (FLEV) exhibits a consistently positive and marginally significant effect (β ranges from 1.315 to 1.356, $p < 0.10$), consistent with the tax shield hypothesis and the signaling interpretation of debt usage in the Indonesian corporate context. Firm age (FAGE) is consistently negative but insignificant across all models, suggesting that firm maturity does not independently drive market-to-book valuations in this sample beyond what is captured by size and leverage.

CONCLUSION AND SUGGESTION

This study examined the effect of ESG disclosure on firm value and the moderating role of institutional ownership among IDX-listed non-financial firms over 2017–2023. Based on 675 firm-year observations and pooled OLS estimation, both hypotheses are confirmed. ESG disclosure exerts a positive and significant effect on market-to-book value (H_1), while institutional ownership positively moderated the ESG-firm value relationship (H_2), with the inclusion of the interaction term raising adjusted R^2 from 0.106 to 0.135. These findings establish institutional ownership as an active governance mechanism that amplifies the market's recognition of ESG signal quality, consistent with stakeholder theory and signaling theory. Theoretically, this study contributes to the ESG literature by introducing institutional ownership as an active moderating governance mechanism in the ESG–firm value nexus within an emerging market context, extending signaling and stakeholder theory to explain how institutional monitoring conditions the market's valuation of sustainability disclosure. Practically, the findings provide directional guidance for OJK to strengthen mandatory ESG disclosure quality standards; for corporate management to prioritize consistent and credible ESG communication to attract institutional ownership; and for institutional investors to leverage their governance monitoring role as an active amplifier of ESG value-relevance.

This study carries two limitations that direct future research. First, data availability constraints restricted the analysis to firms with complete Bloomberg ESG Disclosure Scores throughout the full observation window, which may introduce a survivorship bias toward larger and more transparent firms; future studies with broader data coverage would yield more generalizable findings. Second, institutional ownership is treated as homogeneous; disaggregating by investor type, domestic versus foreign, active versus passive, ESG-mandated versus conventional would yield finer-grained evidence on which shareholder categories most effectively condition ESG value relevance.

REFERENCES

Akyuni, Q., & Oktaryani, G. A. S. (2025). Pengaruh ESG Risk Rating terhadap Nilai Perusahaan dengan Profitabilitas sebagai Variabel Moderasi. *E-Jurnal Ekonomi Dan Bisnis Universitas Udayana*, *14*(9), 1351–1364. https://doi.org/10.24843/EEB.2025.v14.i09.p09

Al Amosh, H., & Mansor, N. (2020). The Implications of Ownership Structure on The Environmental Disclosure in Jordan. *International Journal of Academic Research in Business and Social Sciences*, *10*(3), 330–346. https://doi.org/10.6007/IJARBSS/v10-i3/7054

Albitar, K., Hussainey, K., Kolade, N., & Gerged, A. M. (2020). ESG disclosure and firm performance before and after IR: The moderating role of governance mechanisms. *International Journal of Accounting and Information Management*, *28*(3), 429–444. https://doi.org/10.1108/IJAIM-09-2019-0108

Alsayegh, M. F., Abdul Rahman, R., & Homayoun, S. (2020). Corporate economic, environmental, and social sustainability performance transformation through ESG disclosure. *Sustainability*, *12*(9), 3910. https://doi.org/10.3390/su12093910

Broadstock, D. C., Chan, K., Cheng, L. T. W., & Wang, X. (2021). The role of ESG performance during times of financial crisis: Evidence from COVID-19 in China. *Finance Research Letters*, *38*, 101716. https://doi.org/10.1016/j.frl.2020.101716

Bursa Efek Indonesia. (2022). *ESG IDX index guide*.

Choi, J.-H., Hwang, S.-J., & Lim Chiu, J. (2024). The moderating role of governance mechanisms on the relationship between ESG disclosure and firm value. *Review of Integrative Business and Economics Research*, *13*(3), 59–72.

Elmanaseer, M. I., & Gerged, A. M. (2025). How Do Institutional Pressures Reshape the Association Between Corporate Sustainability Disclosure and Firm Value in Emerging Economies? The Moderating Role of the Audit Committee Function. *Business Strategy and the Environment*. https://doi.org/10.1002/bse.4340

Freeman, R. E. (1984). Strategic Management: A Stakeholder Theory. *Journal of Management Studies*, *39*, 1–21.

Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance*, *66*, 101889. https://doi.org/10.1016/j.jcorpfin.2021.101889

Khatib, S. F. A., Abdullah, D. F., Hendrawaty, E., & Elamer, A. A. (2022). A bibliometric analysis of cash holdings literature: Current status, development, and agenda for future research. *Management Review Quarterly*, *72*(3), 707–744. https://doi.org/10.1007/s11301-021-00213-0

Kusno, H. R., & Novita, S. (2026). The impact of ESG disclosure on firm value in ASEAN: The moderating role of audit quality. *E-Jurnal Akuntansi*, *36*(2), 306–320. https://doi.org/10.24843/EJA.2026.v36.i02.p03

Larasati, S., & Nafiati, L. (2025). Pengaruh ESG disclosure serta intellectual capital terhadap kinerja perusahaan dengan risiko lingkungan sebagai variabel moderasi. *E-Jurnal Ekonomi Dan Bisnis Universitas Udayana*, *14*(9), 1365–1378. https://doi.org/10.24843/EEB.2025.v14.i09.p10

Li, Z., Liao, G., & Albitar, K. (2020). Does corporate environmental responsibility engagement affect firm value? The mediating role of corporate innovation. *Business Strategy and the Environment*, *29*(3), 1045–1055. https://doi.org/10.1002/bse.2416

Liang, Y., Xue, C., & Zhang, J. (2023). The impact of ESG ratings on stock liquidity risk: Evidence from the Chinese market. *Review of Integrative Business and Economics Research*, *12*(4), 1–16. https://doi.org/10.55493/5010.v12i4.5123

Mulyani, E., Singh, H., & Mishra, S. (2022). Earnings management, outside directors, and family firms: Evidence from Indonesia. *Journal of International Accounting, Auditing and Taxation*, *46*, 100442. https://doi.org/10.1016/j.intaccaudtax.2021.100442

Ngatno, Apriatni, E. P., & Youlianto, A. (2021). Moderating effects of corporate governance mechanism on the relation between capital structure and firm performance. *Cogent Business and Management*, *8*(1), 1866822. https://doi.org/10.1080/23311975.2020.1866822

Otoritas Jasa Keuangan. (2021). *Indonesia Sustainable Finance Roadmap Phase II (2021–2025)*.

Rahman, Md. A. (2024). Are Board Attributes and Ownership Structure Value Relevant in Developing Economies: New Institutionalist Perspective. *Asian Journal of Accounting Research*, *9*(1), 67–77. https://doi.org/10.1108/AJAR-04-2022-0125

Raimo, N., Caragnano, A., Zito, M., Vitolla, F., & Mariani, M. (2021). Extending the benefits of ESG disclosure: The effect on the cost of debt financing. *Corporate Social Responsibility and Environmental Management*, *28*(4), 1412–1421. https://doi.org/10.1002/csr.2134

Rossi, M., Chouaibi, J., Chouaibi, S., Jilani, W., & Chouaibi, Y. (2021). Does a board characteristic moderate the relationship between CSR practices and financial performance? Evidence from European ESG firms. *Journal of Risk and Financial Management*, *14*(8), 354. https://doi.org/10.3390/jrfm14080354

Serafeim, G., & Yoon, A. (2022). Which corporate ESG news does the market react to. *Financial Analysts Journal*, *78*(1), 59–78. https://doi.org/10.1080/0015198X.2021.1973879

Shakil, M. H. (2021). Environmental, social and governance performance and financial risk: Moderating role of ESG controversies and board gender diversity. *Resources Policy*, *72*, 102144. https://doi.org/10.1016/j.resourpol.2021.102144

Spence, M. (1973). Job Market Signaling. *The Quarterly Journal of Economics*, *87*(3), 355. https://doi.org/10.2307/1882010

Suandewi, N. P. E. A., & Sukartha, P. D. Y. (2025). Hubungan kinerja lingkungan, good corporate governance dan corporate social responsibility dengan nilai perusahaan. *E-Jurnal Ekonomi Dan Bisnis Universitas Udayana*, *14*(11), 1580–1592. https://ojs.unud.ac.id/index.php/EEB/index

Wooldridge, J. M. (2019). *Introductory Econometrics: A Modern Approach* (7th ed.). Cengage Learning.

Wu, S., Li, X., Du, X., & Li, Z. (2022). The impact of ESG performance on firm value: The moderating role of ownership structure. *Sustainability*, *14*(21), 14507. https://doi.org/10.3390/su142114507