



The Effect of ESG Disclosure on Firm Value: A Study of Companies Listed on the Indonesian Stock Exchange in the Manufacturing Sector

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ABSTRACT

This study aims to analyze the effect of ESG disclosure on firm value in 35 manufacturing companies listed on the Indonesia Stock Exchange in 2024. Using a quantitative method with simple linear regression analysis, the result shows that ESG disclosure does not have a significant effect on firm value (sig. 0.480 > 0.05). The average level of ESG disclosure reached 90.26%, but the average Tobin's Q value of 0.4563 indicates undervaluation. This finding indicates that investors in Indonesian capital market are still more focusing on short-term financial performance indicators than sustainability factors. This study contributes to the ESG literature in emerging capital markets by confirming mixed findings in the relationship between ESG disclosure and firm value.

INTRODUCTION

Firm value is a fundamental indicator that reflects the market's perception of the performance and long-term prospects of a business entity. In the context of the capital market, firm value not only describes the company's ability to generate profits, but also reflects investor confidence in the sustainability of the company's operations (Li et al., 2024). However, the phenomenon occurring in the Indonesian manufacturing sector shows a worrying reality. Based on empirical data, most manufacturing companies listed on the Indonesia Stock Exchange have a low Tobin's Q value, and there are even companies with a Tobin's Q value of less than one, indicating that the market value of the company is lower than the book value of its assets (Ana & Wibowo, 2025). This undervaluation not only limits companies' access to external funding sources, but also reduces investor interest and hinders business expansion capabilities amid increasingly competitive global competition (Myers & Majluf, 1984).

The manufacturing sector plays a strategic role in Indonesia's national economy. Based on data from Bank Indonesia, Indonesia's economic growth in 2024's GDP is projected to reach IDR 22,139.0 trillion, a growth of 5.02% compared to 2023. In the context of the Indonesia Emas 2045 vision, in which the government aims for Indonesia to become a developed country, strengthening the value of manufacturing companies is a key prerequisite for attracting foreign investment, enhancing global competitiveness, and promoting sustainable industrialization (Kementerian Perindustrian RI, 2020). Therefore, identifying factors that can increase the value of manufacturing companies is an urgency that cannot be ignored.

In the contemporary global capital market, investors no longer solely consider financial performance when making investment decisions. Non-financial factors, particularly Environmental, Social, and Governance (ESG) practices, have become important considerations in company assessments (Desai, 2024; Wahyuni & Ahdim, 2025). ESG disclosure reflects a company's commitment to sustainability, business ethics, and long-term business resilience. In the context of the manufacturing sector, which has a significant impact on the environment, such as carbon emissions and production waste, ESG disclosure is becoming increasingly relevant as a form of corporate transparency and social responsibility. POJK Regulation No. 51/POJK.03/2017 on the implementation of sustainable finance further reinforces the importance of ESG practices in Indonesia.

From a theoretical perspective, ESG disclosure can be explained through Signaling Theory and Legitimacy Theory. Signaling Theory, proposed by Spence (1973), explains that companies can send positive signals to the market regarding their quality and prospects through the disclosure of credible and relevant information, including non-financial information such as ESG (Fatemi et al., 2018). Meanwhile, Legitimacy Theory, proposed by Dowling and Pfeffer (1975), explains that companies need to obtain social legitimacy from the community to maintain the sustainability of their business (Deegan, 2002). In this context, ESG disclosure not only serves as regulatory compliance, but also as a strategy to

build legitimacy, reduce information asymmetry, and increase stakeholder trust (Serafeim & Yoon, 2023).

A number of empirical studies have shown mixed findings regarding the effect of ESG disclosure on firm value. Research by Li et al. (2024) in China and Desai (2024) in India found that ESG disclosure has a positive and significant effect on firm value. In Indonesia, research by Angir and Weli (2024) and Sari et al. (2025) also showed a significant positive effect. However, not all studies show consistent results. Negara et al. (2024) found that the effect of ESG disclosure on firm value in Indonesia was not significant, depending on company size, market maturity, and reporting consistency. Similar findings were also found by Hutaeruk et al. (2025) in the Indonesian banking sector and Wedajo et al. (2024) in China, which showed that the effect of ESG on firm value is highly dependent on the industry context. The differences in these research results indicate inconsistent findings (mixed findings) that are important to explore further, particularly in the context of Indonesia's manufacturing sector.

This study makes an important contribution to the literature on financial management and sustainability accounting in several aspects. First, this study fills a research gap by specifically examining the effect of ESG disclosure on firm value in the manufacturing sector listed on the Indonesia Stock Exchange with main board criteria, which indicates a sample of companies that are more financially stable and have better reporting practices. Second, this study uses the latest data from 2024, which captures the latest dynamics of sustainability regulation implementation in Indonesia. Third, this study provides a comprehensive theoretical perspective by integrating Signal Theory and Legitimacy Theory in explaining the mechanism of ESG disclosure's influence on company value in emerging capital markets. This study aims to analyze the impact of ESG disclosure on company value in the manufacturing sector listed on the Indonesia Stock Exchange, as well as to provide practical contributions for companies in developing sustainability reporting strategies and for investors in making sustainable investment decisions.

LITERATURE REVIEW

Legitimacy Theory

The Legitimacy Theory introduced by Dowling and Pfeffer (1975) and further developed by Suchman (1995) explains that companies operate within a broader social system and need to obtain legitimacy from society in order to maintain their business continuity. Legitimacy is defined as a condition in which the values, norms, and behavior of a company are considered to be in line with the social values that apply in the environment in which the company operates. In the context of ESG disclosure, especially in the manufacturing sector, which has a significant impact on the environment, companies seek to obtain legitimacy by disclosing information about their environmental, social, and governance practices. This step demonstrates that companies are operating responsibly and in accordance with community expectations and regulatory provisions as stipulated in POJK No. 51/POJK.03/2017. ESG disclosure serves as a legitimacy strategy that helps companies maintain or improve their reputation in the eyes of stakeholders (Deegan, 2002). When companies fail to meet social expectations,

they risk losing legitimacy, which can negatively impact their reputation, access to resources, and ultimately reduce their value. Conversely, companies that proactively disclose their ESG commitments will gain stronger social legitimacy, increase public trust, and minimize potential conflicts with stakeholders.

Signaling Theory

The Signaling Theory proposed by Spence (1973) provides a complementary explanation to the Legitimacy Theory by highlighting the mechanism of how ESG disclosure affects firm value. This theory assumes that management can signal to the market about the quality and prospects of the company through the delivery of credible and relevant information, including non-financial information such as ESG. In the context of this study, the quality and completeness of ESG disclosure act as positive signals that distinguish high-quality companies from other companies with poorer performance. Although there are regulations such as POJK No. 51/POJK.03/2017 that require sustainability reporting, the depth, completeness, and quality of ESG disclosure still vary greatly between companies (Negara et al., 2024). Companies that are comprehensive and transparent in reporting their ESG performance signal that they are committed to sustainability, capable of managing risk well, and conducting business responsibly (Fatemi et al., 2018; Desai, 2024). The integration of Legitimacy Theory and Signaling Theory provides a more comprehensive conceptual framework for explaining the relationship between ESG disclosure and company value, where Legitimacy Theory explains external motivations while Signaling Theory explains the internal mechanisms of how the quality and credibility of ESG disclosure are interpreted by the market (Serafeim & Yoon, 2023).

Firm Value

Firm value is a measure that describes how the market assesses a company's performance, future prospects, and financial condition. This value indicates the level of investor confidence in the company's ability to generate long-term profits and maintain its operational sustainability (Triadita & Lahaya, 2024; Dorothy & Endri, 2024). According to Suhartini et al. (2024), firm value also reflects the market's assessment of a company's ability to create economic value in the future. Therefore, firm value is often used as an indicator to assess the success of management in effectively managing resources to improve shareholder welfare. In financial research, company value is generally measured using Tobin's Q ratio, which is the ratio of a company's market value to its total assets. This ratio is considered more comprehensive than other market measures because it shows the extent to which the market values the company's assets above their book value (Suhartini et al., 2024; Damodaran, 2012). The higher the Tobin's Q value, the greater the investors' expectations of the company's ability to create added value and growth in the future.

This study uses Tobin's Q ratio as an indicator to assess company value. Tobin's Q ratio is widely used in financial studies because it can illustrate the extent to which a company's market value compares to the book value of its assets (Angir & Weli, 2024); (Negara et al., 2024).

$$\text{Tobin's Q} = \frac{\text{Market Value of Shares} + \text{Total Liabilities}}{\text{Total Assets}}$$

Details:

1. Market value of shares = share price × number of shares outstanding, using the closing price on December 30, 2024
2. Total liabilities = total obligations of the company on the annual financial statement balance sheet
3. Total assets = total assets on the annual financial statement balance sheet

If:

- | | |
|---------------------|---|
| Tobin's Q Score = 1 | The company is considered fair, with its value equal to its assets. |
| Tobin's Q Score > 1 | The market values the company higher, meaning that the company is considered to have better prospects. |
| Tobin's Q Score < 1 | The market values the company lower, meaning that the company is considered to have less prospects for investors. |

ESG Disclosure

ESG Disclosure is a form of non-financial information disclosure that covers three main aspects, namely environmental, social, and governance. The purpose of this disclosure is to provide transparency to stakeholders regarding the company's commitment to sustainability and responsible business practices (Triadita & Lahaya, 2024; Dorothy & Endri, 2024). ESG Disclosure serves as a means for companies to explain how they manage their impact on the environment, social aspects, and corporate governance (Suhartini et al., 2024). This information is usually conveyed through sustainability reports or a special section in annual reports. For investors, this information is an important basis for assessing risks, long-term opportunities, and the company's sustainability performance. ESG measurement can be carried out using GRI Standards as the main reference in assessing the level of disclosure of each aspect covering environmental (GRI 300 series), social (GRI 400 series), and governance (GRI 200 series) aspects.

Using this GRI framework, research can assess the extent to which companies disclose their responsibilities and commitments to environmental, social, and governance aspects in a comprehensive and measurable manner. Referring to the GRI standard guidelines at www.globalreporting.org/standards, the ESG Score can be measured using the following formula:

$$\text{SG Score} = \frac{\sum_{i=1}^n \text{score}}{n}$$

Previous Research and Hypothesis Development

A number of empirical studies have examined the relationship between ESG disclosure and firm value in the various results. Li et al. (2024) studied 1,024 manufacturing companies listed on the Shanghai and Shenzhen Stock Exchanges from 2011 to 2021 and found that ESG disclosure had a positive and significant effect on firm value as measured by Tobin's Q. These results indicate that the market places a higher value on companies that actively report their ESG performance. Similar findings were also presented by Desai (2024) in a study of 940 non-financial companies in India in 2021-2022, which concluded that ESG disclosure has a positive and significant effect on firm value as measured by Tobin's Q and Market-to-Book Value Ratio.

In Indonesia, research by Angir and Weli (2024) shows that ESG Disclosure has a positive and significant effect on the value of companies listed on the Indonesia Stock Exchange. These results explain that ESG disclosure helps reduce information asymmetry between management and investors, thereby increasing corporate transparency and accountability. Sari et al. (2025) found that a combination of ESG disclosure and good corporate governance can strengthen investor confidence and increase company valuation. Research by Suhartini et al. (2024) on the manufacturing sector in Indonesia also shows that sustainability reporting that includes ESG disclosure has a positive effect on firm value through increased transparency and accountability. Alomair and Metwally (2025) in their research on the Egyptian emerging market also found that ESG Disclosure has a significant positive effect on firm value.

However, not all studies show consistent results. Negara et al. (2024) studied companies listed on the IDX ESG Index for the period 2017-2021 and found that although ESG Disclosure had a positive effect on company value, the effect was not significant. This indicates that the impact of ESG disclosure may vary depending on company size, capital market maturity, and the consistency and quality of reporting. Similar results were also found by Yeye and Egbunike (2023) in manufacturing companies in Nigeria, which showed that ESG disclosure had a positive but insignificant effect on company value. Hutauruk et al. (2025) also found that ESG disclosure did not have a significant effect on company value in the Indonesian banking sector for the 2020-2023 period. Rohendi et al. (2024) found that ESG disclosure did not have a direct significant effect on company value, but had a significant effect when mediated by competitive advantage.

Based on the theoretical foundations of Signaling Theory and Legitimacy Theory, as well as the dominant empirical research results showing a positive effect, albeit with varying levels of significance, this study proposes the following hypothesis:

H₁: *ESG Disclosure Has a Positive and Significant Effect on the Firm Value in the Manufacturing Sector Listed on the Indonesia Stock Exchange.*

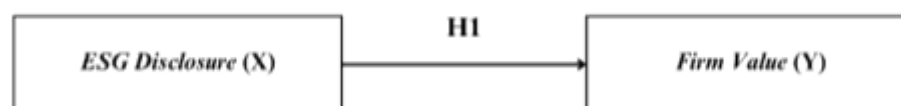


Figure 1. Conceptual Framework

METHODOLOGY

This study uses a quantitative approach with an explanatory method that aims to test the causal relationship between ESG disclosure and firm value in the manufacturing sector that listed on the Indonesia Stock Exchange. This approach was chosen to test the research hypothesis using numerical data that can be measured objectively and analyzed using statistical techniques.

The research population consists of all manufacturing companies listed on the Indonesia Stock Exchange as of October 12, 2025, totaling 123 companies. The sampling technique used purposive sampling with the following criteria: manufacturing companies listed on the main board that have published annual financial reports along with complete ESG disclosures in 2024. Based on these criteria, 35 companies were selected as the research sample. The selection of the main board was based on financial stability, regulatory compliance, and better reporting quality.

The research variables consist of ESG Disclosure as the independent variable and Firm Value as the dependent variable. ESG Disclosure is measured using the Global Reporting Initiative (GRI) Standards, which cover Environmental (GRI 300), Social (GRI 400), and Governance (GRI 200). The measurement is carried out by giving a score of 1 for items that are disclosed and 0 for those that are not disclosed, then calculating the average score. Company Value is measured using Tobin's Q ratio with the formula: $(\text{Stock Market Value} + \text{Total Debt}) / \text{Total Assets}$, where the stock market value is based on the closing price on December 30, 2024.

The research data is secondary data sourced from annual financial reports and company sustainability reports obtained through the Indonesia Stock Exchange website and the companies' official websites. Data analysis techniques include: first, descriptive statistical analysis to describe the characteristics of the data; second, classical assumption tests covering normality tests, linearity tests (Test for Linearity), and heteroscedasticity tests; third, simple linear regression analysis with the model $Y = a + bX + e$; fourth, significance testing through t-tests and the coefficient of determination (R^2). Data processing uses SPSS software to ensure the accuracy of the analysis results.

RESEARCH RESULT

Descriptive Statistical Analysis

Descriptive statistical analysis was conducted to provide an overview of the characteristics of the research data, which included the variables of ESG Disclosure and Firm Value. Based on data processing of 35 manufacturing companies listed on the Indonesia Stock Exchange with main board criteria, the results are presented in Table 1.

Table 1. Descriptive Statistical Analysis Results

Variable	N	Min.	Max.	Mean	Std. Deviation
ESG Disclosure	35	0.67	1.00	0.9026	0.09901
Firm Value	35	0.01	1.34	0.4563	0.27942

Source: Data Processed By Researcher, 2025

Based on Table 1, the ESG Disclosure variable shows a minimum value of 0.67 and a maximum of 1.00 with an average of 0.9026 or 90.26%. These results indicate that the level of ESG disclosure in manufacturing companies listed on the main board is relatively high. The standard deviation of 0.09901 indicates a relatively good level of consistency in ESG disclosure between companies. A mean value greater than the standard deviation ($0.9026 > 0.09901$) indicates that the ESG Disclosure data is homogeneous and there is no extreme variation between the sample companies.

The Firm Value variable, measured using Tobin's Q, shows a minimum value of 0.01 and a maximum of 1.34, with an average of 0.4563. A Tobin's Q average value of less than 1 indicates undervaluation of manufacturing companies in Indonesia, where the market value of the company is lower than the book value of its assets. The standard deviation of 0.27942 shows that the variation in firm value is quite diverse among the samples, but with a mean greater than the standard deviation, the data is still categorized as homogeneous.

Classical Assumption Test

Before performing simple linear regression analysis, a series of classical assumption tests were conducted. The classical assumption tests performed included normality tests, linearity tests, and heteroscedasticity tests.

The normality test was performed to test whether the residual variables in the regression model were normally distributed. Based on the Normal P-Plot graphical analysis, the residual data points are scattered relatively close to the diagonal line and tend to follow the direction of the diagonal line, indicating that the regression model residuals are normally distributed. This result is reinforced by the Kolmogorov-Smirnov test, which shows a significance value greater than 0.05, thus fulfilling the normality assumption.

A linearity test was conducted to determine whether the relationship between the ESG Disclosure variable and Firm Value was linear. The results of the linearity test using the Test for Linearity showed a Deviation from Linearity significance value of 0.655, which was greater than 0.05. This result indicates that there was no significant deviation from linearity, so the linearity assumption was fulfilled and the linear regression analysis could be continued.

A heteroscedasticity test was conducted to examine whether there was variance inequality in the residuals of the regression model. The Glejser test results show a significance value for the ESG Disclosure variable of 0.628, which is greater than 0.05. These results indicate that there is no heteroscedasticity in the regression model or that the variance of the residuals is homogeneous. Thus, all classical assumption tests have been met and the regression model is suitable for further analysis.

Simple Linear Regression Analysis

Simple linear regression analysis was conducted to examine the effect of ESG Disclosure on Firm Value. Based on the results of data processing using SPSS, the following regression equation was obtained:

$$Y = 0.142 + 0.348X$$

Where Y is Firm Value, X is ESG Disclosure, the constant (a) is 0.142, and the regression coefficient (b) is 0.348. The regression equation can be interpreted as follows: the constant value of 0.142 indicates that if ESG Disclosure is zero, then Firm Value will be 0.142. The ESG Disclosure regression coefficient of 0.348 indicates that every one-unit increase in ESG Disclosure will increase Firm Value by 0.348 units, assuming other variables remain constant. A positive regression coefficient indicates a direct relationship between ESG Disclosure and Firm Value.

Hypothesis Testing

Hypothesis testing was conducted using the t-test (partial test) to determine whether ESG Disclosure had a significant effect on Firm Value. The t-test results show a t-value of 0.714 with a significance value of 0.480. Based on the testing criteria with a significance level of $\alpha = 0.05$, the significance value of 0.480 is greater than 0.05, indicating that ESG Disclosure does not have a significant effect on Firm Value. Thus, the research hypothesis (H1), which states that ESG Disclosure has a positive and significant effect on Firm Value, is rejected. Although the regression coefficient shows a positive relationship, the effect is not statistically significant at a 95% confidence level.

Table 2. T-test Results (Partial Test)

Variable	Coefficient	Calculated t	Sig.	Decision
Constant	0,142	0,321	0,750	-
ESG Disclosure	0,348	0,714	0,480	H1 Rejected

Source: Data Processed By Researcher, 2025

Coefficient of Determination

The coefficient of determination (R^2) is used to measure the extent to which ESG Disclosure variables explain variations in Firm Value. The analysis results show an R value of 0.123, indicating a very weak relationship between ESG Disclosure and Firm Value. The R Square (R^2) value of 0.015 or 1.5% shows that the ESG Disclosure variable can only explain 1.5% of the variation in Company Value, while the remaining 98.5% is explained by other variables outside the research model. The Adjusted R Square value of -0.015, which is negative, indicates that the regression model is not fit or suitable for predicting the dependent variable.

Table 3. Determination Coefficient Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,123	0,015	- 0,015	0,28146

Source: Data Processed By Researcher, 2025

Based on the statistical test results, it can be concluded that although there is a positive relationship between ESG Disclosure and Firm Value as indicated by the positive regression coefficient, the effect is not statistically significant. This finding indicates that in the Indonesian capital market, particularly in the manufacturing sector, ESG disclosure has not become a significant determining factor in influencing firm value.

DISCUSSION

The results of hypothesis testing in this study show interesting findings that contradict most of the existing literature. Although the regression coefficient shows a positive relationship, statistical testing proves that ESG Disclosure does not have a significant effect on Firm Value in the manufacturing sector listed on the Indonesia Stock Exchange in 2024. These findings indicate that the research hypothesis stating that ESG Disclosure has a positive and significant effect on Firm Value should be rejected. The results of this study are in line with the findings of Negara et al. (2024), who found that although ESG Disclosure has a positive effect on firm value in Indonesia, the effect is not significant. The consistency of these findings is also confirmed by the research of Hutauruk et al. (2025), which states that ESG Disclosure does not have a significant effect on firm value in the banking sector in Indonesia, as well as the research of Yeye and Egbunike (2023) on manufacturing companies in Nigeria, which shows a positive but insignificant effect.

The insignificant effect of ESG Disclosure on Firm Value in the context of the Indonesian capital market can be explained through a comprehensive theoretical perspective. From the point of view of the Signaling Theory proposed by Spence (1973), ESG disclosure should function as an effective signaling mechanism to reduce information asymmetry between management and investors. However, in the reality of the Indonesian capital market, the signals provided through ESG disclosure do not seem to have been fully captured or responded to significantly by investors. This phenomenon can be explained by several fundamental contextual factors. First, investors in the Indonesian capital market still tend to have a short-term orientation that focuses more on traditional financial performance indicators such as profitability, profit growth, and dividends, rather than long-term sustainability factors. This is in line with the characteristics of emerging capital markets, which tend to be more volatile and speculative.

Second, investor awareness and literacy regarding the importance of ESG in creating long-term value is still limited. Unlike capital markets in developed countries, as studied by Li et al. (2024) in China and Desai (2024) in India, where institutional investors have a more sophisticated understanding of ESG factors, investors in Indonesia are still in the learning and adaptation stage regarding the concept of sustainability. Third, there are issues of credibility and quality of ESG disclosure that vary between companies. Although the level of ESG disclosure in this study shows a high average (90.26%), investors may find it difficult to distinguish between companies that have genuine ESG commitments and companies that only engage in greenwashing or window dressing to comply with POJK No. 51/POJK.03/2017 without substantive implementation.

From the perspective of Legitimacy Theory proposed by Dowling and Pfeffer (1975), high ESG disclosure in this study can be interpreted more as an effort to gain social legitimacy and meet regulatory requirements than as a reflection of substantial sustainability practices. Deegan (2002) explains that companies often engage in social and environmental disclosure as a legitimacy strategy to respond to external pressures, but this is not always followed by fundamental changes in business practices. In the Indonesian context, where regulatory enforcement is still relatively weak and stakeholder monitoring mechanisms are not yet optimal, there is a possibility that ESG disclosure is more ceremonial than substantive. This condition causes the market to not give a significant premium valuation to companies with high levels of ESG disclosure due to skepticism about the quality and credibility of the information disclosed.

The very low coefficient of determination in this study has important theoretical implications. The finding that ESG Disclosure can only explain 1.5% of the variation in Firm Value confirms that the value of manufacturing companies in Indonesia is more dominantly influenced by other fundamental factors. Research by Ananda and Lisiantara (2022) and Agatha and Irsad (2021) shows that factors such as profitability, capital structure, sales growth, dividend policy, and company size have a more decisive influence on company value. In the context of the manufacturing sector, which is capital-intensive and oriented towards operational efficiency, investors tend to pay more attention to a company's ability to generate profits and cash flow than to non-financial aspects such as ESG disclosure.

The undervaluation reflected in the average Tobin's Q value of 0.4563 in this study provides an important context for understanding the findings. A Tobin's Q value of less than one indicates that the market values manufacturing companies lower than their book value, reflecting fundamental challenges in the Indonesian manufacturing industry. These challenges include intense global competition, dependence on imported raw materials, exchange rate fluctuations, and suboptimal productivity. In such conditions, efforts to increase company value through ESG disclosure alone are insufficient without fundamental improvements in operational and financial performance.

The differences between the findings of this study and previous studies that found a significant effect can be explained by several contextual and methodological factors. Li et al.'s (2024) study in China with a large sample (1,024 companies) and a long research period (2011-2021) found a significant effect because the Chinese capital market has undergone a significant transformation in ESG awareness and has more sophisticated institutional investors. Similarly, Desai's (2024) study in India with 940 companies showed significant results because the Indian capital market has more mature ESG regulations and stricter enforcement. Research by Angir and Weli (2024) and Sari et al. (2025) in Indonesia found a significant effect using a more heterogeneous sample across sectors and a longer research period, which allowed for greater variation in detecting the effect of ESG.

The characteristics of the sample in this study, which only includes 35 manufacturing companies with main board criteria and uses a cross-sectional approach in 2024, may have limitations in capturing sufficient variation to detect significant effects. However, the selection of samples based on the main board criteria actually provides a unique contribution because these companies have better reporting quality and higher financial stability. The finding that even in companies with the best quality, ESG Disclosure does not have a significant effect on firm value provides a strong indication that the problem lies not in the quality of disclosure, but in market perception and response to ESG information.

However, the positive relationship between ESG Disclosure and Firm Value provides important indications for future developments. The positive regression coefficient shows that there is potential for ESG disclosure to increase firm value if supported by more conducive conditions. These conditions include increased investor awareness and literacy regarding the importance of ESG, strengthened regulatory enforcement to ensure the quality and credibility of ESG disclosure, the development of independent verification mechanisms to reduce greenwashing practices, and market education on the relationship between ESG practices and long-term financial performance.

These findings also confirm the argument made by Wedajo et al. (2024) that the impact of ESG on company value is highly dependent on the industry context and market characteristics. In emerging capital markets such as Indonesia, where the institutional infrastructure to support sustainable investment is still in the development stage, the impact of ESG on company value may take longer to be observed significantly. Serafeim and Yoon (2023) also explain that market reactions to ESG information are greatly influenced by ESG rating levels and the level of agreement between rating agencies, which in Indonesia is still in the early stages of development.

The theoretical implication of this study is the need to develop a more contextual theory to explain the relationship between ESG Disclosure and Firm Value in emerging capital markets. Signal Theory and Legitimacy Theory, which originate from the context of developed capital markets, may need to be adapted to take into account the unique institutional, cultural, and structural factors in emerging capital markets. This study confirms the mixed findings in the ESG literature and opens opportunities for further research exploring the mechanisms and boundary conditions under which ESG disclosure can have a significant impact on firm value in Indonesia.

CONCLUSIONS AND RECOMMENDATIONS

This study aims to analyze the effect of ESG Disclosure on Firm Value in the manufacturing sector listed on the Indonesia Stock Exchange in 2024. Based on the analysis of 35 manufacturing companies with main board criteria, this study found that ESG Disclosure does not have a significant effect on Firm Value, even though it shows a positive relationship. This finding indicates that the research hypothesis stating that ESG Disclosure has a positive and significant effect on Firm Value must be rejected. The results of the study show that the level of ESG disclosure in manufacturing companies is relatively high, with an average of 90.26%, but this disclosure has not had a significant impact on company market valuation, as reflected in the average Tobin's Q ratio of only 0.4563.

The insignificant effect of ESG Disclosure on Firm Value can be explained by several factors. First, investors in the Indonesian capital market still tend to focus more on short-term financial performance indicators than long-term sustainability factors. Second, investor awareness and literacy regarding the importance of ESG in creating long-term value is still limited. Third, there are issues of credibility and quality of ESG disclosure that make it difficult for investors to distinguish between genuine ESG commitments and greenwashing practices. Fourth, high ESG disclosure is driven more by regulatory compliance motives than by substantive commitments to sustainability. Fifth, the value of manufacturing companies is more dominantly influenced by fundamental factors such as profitability, capital structure, and operational efficiency.

The findings of this study make an important contribution to the literature on financial management and sustainability accounting by confirming mixed findings in the relationship between ESG Disclosure and Firm Value, particularly in emerging capital markets. This study also provides empirical evidence that the Signaling Theory and Legitimacy Theory originating from the context of developed capital markets may need to be adapted to take into account the unique institutional, cultural, and structural factors in the Indonesian capital market. Although ESG Disclosure does not have a significant effect, the positive direction of the relationship indicates that there is potential for an increase in influence in the future if supported by more mature market conditions and higher investor awareness.

Based on the research findings, there are several recommendations that can be implemented by various parties to improve the effectiveness of ESG disclosure in creating corporate value. For manufacturing companies, a more comprehensive strategy is needed in implementing ESG practices that not only focus on disclosure but also on substantial improvements in ESG performance. Companies need to integrate ESG aspects into their core business strategies and decision-making processes, rather than treating them as mere reporting obligations. Improving the quality of ESG disclosure through independent verification and the adoption of credible international reporting standards can help build investor confidence and differentiate companies from greenwashing practices. In addition, companies need to proactively communicate how ESG practices contribute to long-term financial performance through effective investor relations and corporate communication.

For regulators and policymakers, it is necessary to strengthen enforcement of the quality and credibility of ESG disclosure to ensure that the information provided by companies truly reflects substantive sustainability practices. The development of more specific and measurable ESG disclosure standards for the manufacturing sector can help improve the comparability and relevance of ESG information. The Financial Services Authority needs to consider developing clearer incentive and disincentive mechanisms to encourage companies not only to disclose but also to implement substantive ESG practices. In addition, a massive education and outreach program is needed for investors on the importance of ESG in long-term investment assessments to improve market literacy and awareness.

For investors and financial analysts, these research findings indicate the need for a more holistic approach in assessing companies by not only relying on ESG disclosures but also conducting in-depth analysis of the quality of ESG practice implementation and its impact on long-term business risks and opportunities. Institutional investors can act as catalysts for change by actively engaging with companies to encourage better ESG practices. Developing capabilities in ESG analysis and integration is important for investors to be able to identify companies with genuine ESG practices that have the potential to create long-term value.

For academics and researchers, this study opens up opportunities for further research with several methodological refinements. Subsequent studies could use panel data with a longer time span, for example, a period of five to ten years, to capture the temporal dynamics of the impact of ESG Disclosure on Firm Value. The addition of control variables such as profitability, leverage, company size, and ownership structure can improve the accuracy of the model and explain a greater proportion of the variation in firm value. Further research is also recommended to use lag effects by using the previous year's ESG Disclosure to predict the current year's firm value, as the impact of ESG on market valuation takes time and can overcome the problem of reverse causality. Exploring mediation and moderation mechanisms, such as the role of audit quality, corporate governance structure, or investor characteristics, can provide a deeper understanding of the conditions under which ESG Disclosure can have a

significant impact on firm value. Comparative research across sectors or countries can also provide insights into the contextual factors that influence the effectiveness of ESG disclosure.

ADVANCED RESEARCH

This study has several limitations that need to be acknowledged and may provide opportunities for future research. First, the use of a cross-sectional approach with single-year data (2024) limits the ability to capture the temporal dynamics and time lag effect of ESG disclosure on company value. Second, the relatively limited sample size (35 companies) may reduce the statistical power and generalizability of the findings. Third, this study does not include control variables such as profitability, leverage, company size, and ownership structure that could increase the explanatory power of the model. Fourth, this study does not explore mediation and moderation mechanisms that could explain the relationship between ESG disclosure and firm value.

Further research should use a longitudinal design with panel data covering a period of five to ten years, expand the cross-sector sample, include comprehensive control variables, use more sophisticated ESG measurements such as ESG ratings from international institutions, disaggregate ESG dimensions, explore mediating and moderating variables, and adopt a mixed-methods approach that combines quantitative analysis with in-depth interviews with investors and practitioners to understand the gap between ESG disclosure and market perceptions, which can contribute more substantively to the literature and provide more concrete practical implications.

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