



Analysis of the Relationship between Environmental, Social, and Governance (ESG) and Firm Value: A Systematic Review of Empirical Evidence in Indonesia

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Abstract

Background: ESG is an essential non-financial factor that can influence firm value; however, the evidence in Indonesia shows mixed results because ESG activity measurements are not standardized, the market remains varied, and disclosure is not evenly distributed, so a generalizable conclusion is not available.

Objective: This research seeks to systematically review empirical evidence on the effect of ESG on firm value by emphasizing the analysis in the Indonesian context.

Methods: This work utilizes a Systematic Literature Review (SLR) in line with PRISMA guidelines. In March 2025, exhaustive searches were conducted on Scopus, ScienceDirect, and Google Scholar (limited to Scopus-indexed or peer-reviewed sources only), and tailored Boolean search combinations were used. Out of 487 identified records, 20 empirical studies on Indonesian and internationally benchmarked listed companies satisfied the inclusion criteria.

Results: Among the 20 studies reviewed, 6 Indonesian studies found ESG–firm value effects to be positive, 3 negative, and 4 insignificant; heterogeneity is explained by industry sector, the life cycle stage of the firm, and the quality of ESG disclosure. International benchmark studies (n = 10) showed a positive and largely consistent impact, attributable to stronger regulatory frameworks and greater investor ESG awareness in developed and more mature emerging markets, which reduce firm-level risks.

Conclusion: The impact of ESG on firm value is context-dependent, and Indonesia needs standardized disclosure, ESG assurance, and investor education to harness its positive impact on firm value.

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INTRODUCTION

In recent years, as the nature of business has become more dynamic, companies have had to shift their focus beyond financial profit and now have to consider the environmental, social, and governance consequences of their activities (Battaglia et al., 2025; Yolanda et al., 2025). In the context of Indonesia, Otoritas Jasa Keuangan (OJK) and Indonesia Stock Exchange (IDX) have gradually implemented sustainability reporting requirements as investors and other stakeholders have come to realize that non-financial performance is important. and yet, such regulation is non-existent in several countries, where sustainability remains a choice yet has become integral to a long-term strategy — one that can be a double-edged sword for the reputation, competitiveness, and longevity of a business.

Partly as a reaction to these demands, Environmental, Social and Governance (ESG)

criteria evolved into an all-encompassing framework for evaluating corporate non-financial performance. The three pillars of ESG include broadly recognized dimensions — environmental, pertaining to the management of resources, emissions, and ecological impact by companies. The second component is the social aspect, which focuses on how the company deals with employees, consumers, and the community. Third, the governance dimension, which deals with transparency, integrity, and decision-making structure of the company (Santamaria et al., 2021). These three dimensions collectively create a more complete view of companies and their sustainable and responsible practices.

ESG is no longer seen as a charitable endeavor or administrative task. Instead, ESG is now considered a strategic instrument — capable of influencing investor perception, building stakeholder trust, and ultimately increasing company value — with firm value typically measured in Indonesian empirical studies through Price-to-Book Value (PBV) and Tobin's Q (Kulova & Nikolova-Alexieva, 2023).

Company value is an important indicator that reflects investor perceptions of a company's long-term prospects and performance. In modern financial theory, company value is determined not only by financial performance, but also by non-financial factors that affect a company's risk, reputation, and operational sustainability (Wulandari & Istiqomah, 2024). In this regard, ESG is considered capable of reducing long-term risk, increasing investor confidence, and strengthening the company's legitimacy in the eyes of stakeholders (Lin, 2024).

A number of international studies show that the implementation of ESG has a positive relationship with company value (Tahmid et al., 2022; Yoon et al., 2018). In countries with mature capital markets — such as South Korea, Malaysia, and European economies — ESG has been integrated into mainstream investment decision-making, underpinned by mandatory sustainability reporting standards (e.g., EU Non-Financial Reporting Directive) and a high level of institutional investor ESG literacy. These structural conditions create a reinforcing cycle: companies implement ESG strategically, institutional investors price it positively, and regulators reward compliant firms with lower cost of capital (Kim et al., 2024; Wong et al., 2021). This explains why the ESG–firm value link in mature markets tends to be positive and significant, an important contrast with the Indonesian evidence reviewed below.

However, empirical findings in developing countries, including Indonesia, show mixed and inconsistent results. Some studies find that ESG has a positive effect on company value, while others show a negative or even insignificant effect (Kartika et al., 2023; Xaviera & Rahman, 2023). These differing results indicate contextual factors that influence ESG effectiveness: industry sector characteristics, ESG disclosure quality, ownership structure, firm life cycle stage, the ESG proxy used (e.g., ESG score vs. ESG disclosure index), and the firm value measure employed (PBV vs. Tobin's Q). This study maps these moderating factors systematically, covering Indonesian evidence from 2018–2025 across multiple sectors and ESG proxies, to identify where and why ESG creates — or fails to create — firm value in the Indonesian context.

In Indonesia, ESG implementation is still in a transitional phase. Regulatory development is accelerating — OJK Regulation No. 51/POJK.03/2017 mandates sustainable finance reporting for financial sector entities, and IDX introduced the ESG Leaders Index in 2021 — yet compliance at the company level remains largely symbolic and compliance-oriented rather than genuinely strategic (Atmadya, 2025; Trisnowati et al., 2023). In addition, the level of investor literacy and awareness of ESG is also relatively varied, so that ESG has not yet become a major consideration in assessing company value. This condition potentially explains why the relationship between ESG and company value in Indonesia has not shown a consistent pattern (Trisnowati et al., 2023).

The inconsistency of these empirical findings indicates a research gap that needs to be examined more systematically. Specific ESG challenges in Indonesia include: (1) the absence of a mandatory, standardized ESG rating system comparable to Bloomberg ESG or MSCI ESG; (2) limited third-party ESG assurance, reducing report credibility; and (3) heterogeneous sectoral exposure, with mining, plantation, and financial sectors dominating listed firms, each with fundamentally different ESG risk profiles. Most previous studies have been empirical in nature, focusing on different periods, sectors, and ESG proxies, making it difficult to draw comprehensive conclusions about the relationship between ESG and company value in Indonesia. Therefore, an approach is needed that can synthesize existing research results in a structured and critical

manner.

A Systematic Literature Review (SLR) is an appropriate method to address this need, as it helps researchers to identify, evaluate, and synthesize empirical findings in a systematic and transparent manner. Through an SLR, the relationship between ESG and company value can be analyzed more thoroughly, including the contextual factors that influence the variation in research results.

Based on this background, this study aims to systematically examine the relationship between ESG and company value, focusing on empirical evidence from Indonesia. This study is expected to contribute theoretically to enriching the ESG literature in developing countries and to provide practical implications for companies, investors, and regulators in optimizing the role of ESG as a strategic instrument for creating company value.

METHOD

To investigate the empirical evidence on Environmental, Social, and Governance (ESG) and firm value in Indonesia, a systematic literature review (SLR) approach was utilized in this study. The SLR method was selected as it enables the systematic, transparent, and replicable identification, evaluation, and synthesis of literature, enabling conclusions that are broader than a typical narrative review can provide. This study searched three academic databases: Scopus, ScienceDirect, and Google Scholar, for articles published between 2018 and 2025, as these are more relevant to the latest ESG practices in Indonesia.

We performed a literature search using combinations of keywords in both Indonesian and English. In Indonesian, these keywords were "ESG," "nilai perusahaan," "sustainability performance," and "ESG disclosure." On the other hand, the English keywords used were "ESG (Environmental, Social, and Governance)," "firm value," "Indonesian capital market," and "Indonesian listed companies." To obtain specific and relevant literature, these keywords were combined using the Boolean operators AND and OR.

The selection of literature involved transparent inclusion and exclusion criteria. Inclusion criteria included empirical research articles discussing ESG and firm value in Indonesia, published in reputable journals or peer-reviewed proceedings, in English or Indonesian, and published between 2018 and 2025. Conversely, literature that was irrelevant to the topic, non-empirical in nature (such as editorials or opinions), or that only discussed ESG globally without a focus on Indonesia was excluded.

The selection process was carried out in stages following the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines. The following is a PRISMA flow diagram that illustrates the literature selection process from the identification to the inclusion stage:

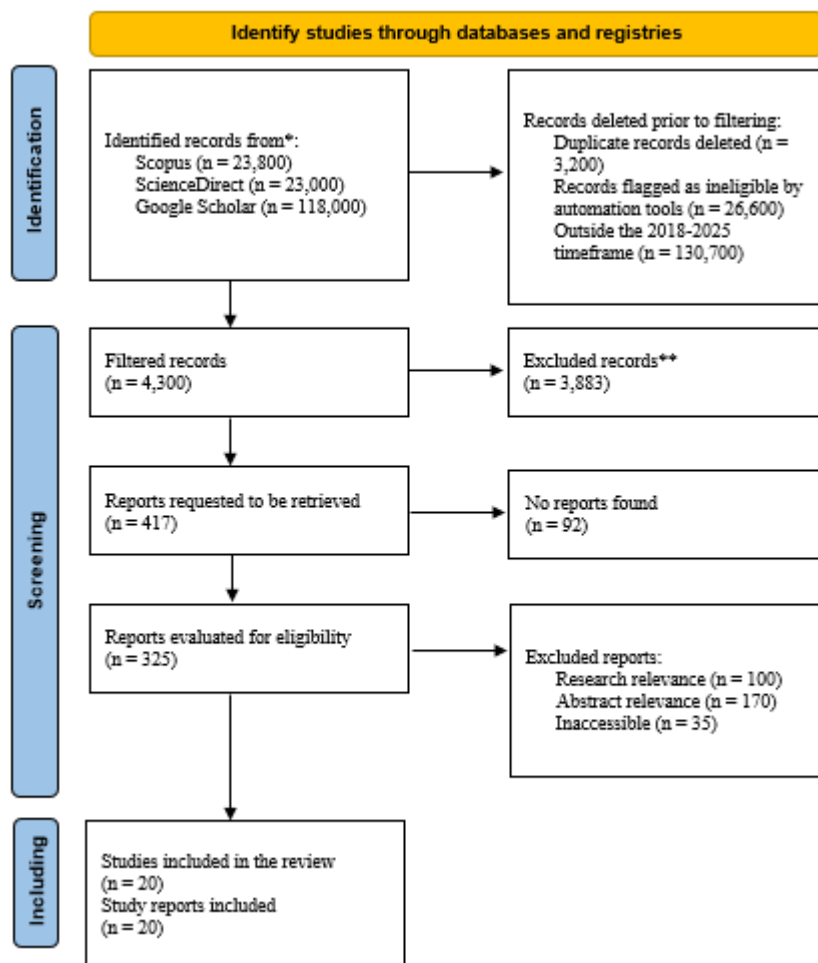


Figure 1. PRISMA Diagram

RESULTS AND DISCUSSION

Results

Table 1. Literature Review Relationship Between ESG and Firm Value

Author & Year	Research purposes	Research methods	Results
Yoon (2018)	Analyzing whether Corporate Social Responsibility (CSR) measured using ESG (Environmental, Social, Governance) scores has a significant effect on company market value (firm value) in developing countries, especially Korea.	The method used is quantitative research with empirical analysis using company data in Korea.	CSR (ESG) has a positive and significant impact on firm value. However, this influence varies depending on company characteristics. For companies in environmentally sensitive industries, the influence of CSR is lower, and corporate governance practices negatively impact firm value. Corporate governance only significantly increases firm value in chaebol companies, while it has no significant effect in non-chaebol companies.

Author & Year	Research purposes	Research methods	Results
Wong (2021)	Analyzing the impact of Environmental, Social, and Governance (ESG) certification on firm value in Malaysian companies and examining the benefits of ESG for stakeholders.	This quantitative research used data from Malaysian companies with ESG certification. Firm value was measured using Tobin's Q and the cost of capital. The analysis used statistical/regression methods to examine the effect of ESG certification on firm value.	ESG certification has been shown to lower a company's cost of capital and significantly improve Tobin's Q. These results suggest that ESG certification increases firm value. This finding is consistent with research in developed countries and demonstrates that CSR/ESG disclosure also benefits firm value in developing countries like Malaysia.
Zhang (2020)	Analyzing the influence of the interaction between Corporate Social Responsibility (CSR) measured by ESG (Environmental, Social, Governance) and green innovation on firm value from the perspective of information disclosure in listed companies in China.	This quantitative study used data from publicly traded companies in China. CSR was measured through ESG (environmental, social, and governance) disclosures, green innovation was measured through the company's green innovation activities, and firm value was analyzed using quantile regression to examine the impact of different levels of firm value (low, medium, and high).	(1) Green innovation can increase company value at medium and high levels. (2) Only environmental and social disclosure has a positive effect on company value, while governance has no significant effect. (3) The interaction between green innovation and social disclosure shows a substitution effect on company value, and this effect weakens as company value increases. This study recommends that the government direct green funds to companies experiencing capital constraints to support CSR and green innovation.
Aydoğmuş (2022)	Analyzing the influence of ESG (Environmental, Social, Governance) performance on firm value and company profitability using large-scale datasets.	This quantitative research uses company data with ESG scores. ESG is measured through a combined ESG score and scores for each dimension (Environment, Social, and Governance). Firm value and profitability are analyzed using statistical/regression	The combined ESG score has a positive and significant effect on firm value. The Social and Governance scores also have a positive and significant effect on firm value, while the Environment score has no significant effect on firm value. However, the combined ESG score and

Author & Year	Research purposes	Research methods	Results
		methods to examine the relationship between ESG and corporate financial performance.	the Environment, Social, and Governance scores all have a positive and significant effect on firm profitability. These findings indicate that investing in high ESG performance provides financial benefits to companies in terms of both firm value and profitability.
Behl (2022)	Analyzing the relationship between ESG (Environmental, Social, Governance) scores and firm value in the energy sector in India and testing for bidirectional causality and autoregression effects between ESG and firm value.	This quantitative research uses data from energy sector companies in India. The analytical method used is cross-lagged panel structural equation modeling (SEM) with four observation periods (four-wave panel) to examine the dynamic relationship between ESG disclosure and firm value over time.	The results show that the relationship between ESG and firm value is not bidirectional, both overall and for each ESG dimension. The autoregressive (AR) effect is stable. A negative relationship was found in the first two lag periods (the first and second lags) and a positive relationship in the final lag period (the last lag). This finding implies that the benefits of ESG on firm value require time (a lag period) to be positively reflected.
Chang (2022)	Analyzing the influence of ESG (Environmental, Social, Governance) activities on firm value by considering industrial characteristics such as industrial concentration and industrial growth rate in companies in South Korea.	This quantitative study used sustainability report data from 87 companies in South Korea for the period 2002–2020. ESG was measured based on ESG information in the sustainability reports. The analysis was conducted using an empirical approach with a multi-level analysis model to examine the effect of ESG on firm value and the moderating role of industry characteristics (industrial	ESG has a positive effect on firm value. Furthermore, industry characteristics moderate the relationship between ESG and firm value. Industry concentration and industry growth rate are shown to strengthen or weaken the influence of ESG on firm value. These results indicate that the industry environment plays a significant role in determining the effectiveness of a company's ESG strategy in enhancing firm value.

Author & Year	Research purposes	Research methods	Results
		concentration and industrial growth rate).	
Dincă (2022)	Analyzing the relationship between ESG (Environmental, Social, Governance) performance as a non-financial sustainability measure to firm value in the global automotive industry which is undergoing major changes related to electrification and sustainability.	This quantitative research used data from 131 publicly listed automotive companies from various countries over a six-year period. ESG was measured using E, S, and G scores. Structural Equation Modeling (SEM) was used as the analytical method to examine the influence of each ESG dimension on company value.	The research results show a mixed effect of ESG on company value. Environmental and Governance scores have a certain influence on company value, while Social scores show inconsistent or inconclusive results. These findings suggest that not all ESG dimensions have the same impact on company value in the automotive industry. The research findings are useful for investors, investment managers, and automotive company executives in making strategic decisions related to ESG.
Li, Wu (2022)	Analyzing the influence of ESG (Environmental, Social, Governance) performance on firm value in listed manufacturing companies in China and testing the role of ownership structure as a moderating variable in the relationship between ESG and firm value.	This quantitative research uses data from publicly listed Chinese manufacturing companies. ESG is measured using the Sino-Securities ESG Rating. Ownership structure is measured through four aspects: ownership concentration, equity balance, executive ownership, and institutional ownership. The analysis uses regression methods to examine the influence of ESG on firm value and the moderating effect of ownership structure.	(1) ESG performance has a positive and significant effect on firm value. (2) Executive ownership and institutional ownership have a positive and significant effect on firm value, while ownership concentration and equity balance do not have a significant effect. (3) Executive ownership and institutional ownership significantly moderate the relationship between ESG and firm value, while ownership concentration and equity balance do not have a significant moderating effect. These results indicate that certain ownership structures can strengthen the influence of ESG on increasing firm

Author & Year	Research purposes	Research methods	Results
Quintiliani (2022)	Analyzing the relationship between ESG (Environmental, Social, Governance) scores with firm value and firm performance as measured by levered free cash flow, ROE, current ratio, quick ratio, and company share price.	This quantitative research uses panel data from 115 European-listed companies from 2016 to 2020. ESG is measured using Bloomberg ESG disclosure scores. The analytical method used is panel data linear regression to examine the relationship between ESG and company value and performance.	value. The results of the study indicate a positive and significant relationship between ESG scores and firm value and firm performance. ESG impacts share price increases and financial performance indicators (ROE, free cash flow, liquidity ratios). These findings indicate that ESG disclosure increases stakeholder awareness of company performance and supports the positive relationship between ESG and firm value.
Tahmid (2022)	Analyzing the impact of ESG (Environmental, Social, Governance) initiatives on firm value and firm performance in European companies and clarifying differences of opinion on whether ESG enhances or burdens firm value.	The quantitative research used 12 years of panel data (2008–2020) from 180 listed companies across 22 European countries and 10 economic sectors. ESG was measured using the Thomson Reuters ESG Score. The analysis method used the Fixed Effects GLS (Generalized Least Squares) to examine the impact of ESG on company value and performance.	The research results show that ESG initiatives have a positive impact on corporate value and performance. Companies in the European Union tend to focus more on ESG aspects, particularly social aspects, as they have the greatest impact on corporate performance, followed by environmental and governance aspects. These findings underscore the importance of ESG in corporate strategy and effective resource allocation.
Jeanice (2023)	Examining the impact of Environmental, Social, and Governance (ESG) implementation on the value of companies in Indonesia listed on the Indonesia Stock Exchange.	This quantitative research uses panel data. The sample consists of 45 companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2020 period. Firm value is measured by Return on Equity (ROE) and Price to Book Value (PBV),	The ESG variable has a negative and significant effect on Return on Equity (ROE) and does not affect company value as measured by simplified Tobin's Q. The results indicate that the company's ESG performance was still low during the study period, thus not being

Author & Year	Research purposes	Research methods	Results
		while ESG is measured using the ESG index. The analysis was conducted using a panel model after corrections for violations of classical assumptions.	able to increase company value. Companies need to improve ESG performance in order to improve company performance and value in the future.
Kartika (2023)	To determine the effect of Environmental, Social, and Governance (ESG) disclosure on company value in public companies listed on the Indonesia Stock Exchange (IDX) for the 2017–2021 period.	Quantitative research. Samples of companies listed on the Indonesia Stock Exchange (IDX) for the 2017–2021 period were selected using purposive sampling. Data were analyzed using multiple linear regression.	The results of the study show that ESG disclosure does not have a strong (insignificant) effect on company value in companies listed on the IDX for the 2017–2021 period.
Narula (2023)	Develop a conceptual framework that explains the relationship between ESG (Environmental, Social, Governance) practices and firm value creation by considering company and industry specific factors.	This qualitative research, consisting of a conceptual study and a conceptual literature review of previous research on ESG and firm value, develops a theoretical model linking ESG to firm value creation through several key channels of influence.	The research produces a conceptual framework showing that ESG influences firm value through three main channels: (1) capital allocators (investors and capital providers), (2) stakeholders, and (3) corporate sustainability reporting tools. ESG is positioned as a strategic non-financial factor that plays a crucial role in maximizing firm value and long-term wealth. This study confirms that sustainability is a key driver of long-term value creation, particularly post-pandemic, and opens up further research on ESG in a multi-actor environment.
Xaviera (2023)	Empirically testing the influence of ESG (Environmental, Social, Governance) performance and each of its components on	Quantitative research using hypothesis testing. The sample consisted of 227 companies listed on the Indonesia Stock Exchange (IDX) during	Aggregate ESG performance does not significantly impact firm value. Environmental performance has a significant negative impact on firm value,

Author & Year	Research purposes	Research methods	Results
	company value with the company life cycle as a moderating variable in companies listed on the Indonesia Stock Exchange (IDX).	the 2017–2021 period, using a purposive sampling method. Data were analyzed using multiple linear regression.	social performance has no significant impact, and governance performance has a significant positive impact on firm value. The firm life cycle moderates the relationship between ESG and firm value. ESG has no significant impact at the introduction and shake-out/decline stages. ESG has a significant positive impact at the growth stage, while at the maturity stage, it has a significant negative impact on firm value.
Kim (2024)	Analyzing the relationship between ESG (Environmental, Social, Governance) practices and firm value, and testing the role of corporate reputation as a mediating variable and industry sensitivity in this relationship in Korean companies.	This quantitative study uses panel data from 145 Korean companies from 2014 to 2021. Panel data analysis is used to examine the influence of ESG on firm value, the mediating role of corporate reputation, and differences in influence across industries.	The results of the study show that ESG practices significantly increase company value. Corporate reputation acts as a mediator between ESG and company value, meaning that ESG enhances reputation, which in turn increases company value. The effect of corporate reputation on company value varies across industries (industry sensitivity). These findings underscore the importance of ESG as a strategy to increase company value and strengthen stakeholder trust.
Mauliddin (2024)	Analyzing the influence of leverage, profitability, and Environmental, Social, and Governance (ESG) on company value in companies that disclose ESG in	Quantitative research. The population was all companies that disclosed ESG in 2022, using a saturated sampling technique. Secondary data was analyzed using multiple linear regression with SPSS	The results of the study indicate that leverage (DER) has no effect on firm value (PBV). Profitability (ROE) significantly influences firm value (PBV). ESG performance also significantly influences firm value (PBV).

Author & Year	Research purposes	Research methods	Results
	2022.	version 26 and classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity).	
Rahat (2024)	Analyzing the influence of ESG (Environmental, Social, Governance) profiles and ESG controversies on firm valuation in companies in emerging markets.	This quantitative research uses data from non-financial companies in 16 developing countries over 11 years. Firm value is measured using Tobin's Q and Enterprise Value to Sales (EV/S). ESG is measured using the ESG score and ESG controversies (RepRisk index). The analysis method uses fixed effects panel regression and robustness tests based on geographic region and company size.	The results show that ESG scores are positively related to firm value. Lagged ESG scores influence Tobin's Q, while current ESG scores influence EV/S. Conversely, ESG controversies (RepRisk) negatively impact firm value on both the fundamental measure (Tobin's Q) and the multiplier (EV/S). The results remain consistent across geographic subsamples and firm sizes.
Brighi (2025)	Analyzing the impact of ESG performance and ESG controversies on firm value and firm risk and testing whether strong ESG can mitigate the negative impact of adverse ESG events.	This quantitative research uses international panel data from LSEG, covering 10,212 companies in 42 countries from 2002 to 2021. The analysis method uses panel regression, controlling for firm heterogeneity and fixed effects for time, sector, and geography. The main variables are ESG score, ESG controversies, firm value, and firm risk.	The results show that ESG controversies significantly lower company value and increase risk levels. However, companies with high ESG scores are able to moderate these negative impacts, particularly in reducing risk. ESG has been shown to play a significant role in risk management and protecting corporate value. The effects of ESG are heterogeneous, stronger in highly valued companies, and vary depending on the severity of the controversy. These findings underscore the importance of ESG as a strategy for protecting corporate reputation and finances in the

Author & Year	Research purposes	Research methods	Results
			global market.
Cheng (2024)	Analyzing the impact of ESG information disclosure and ESG scores on firm value in the Chinese market, and comparing their impact before and after the COVID-19 pandemic.	This quantitative research used corporate data in China. The analysis method used was a fixed-effects panel regression model, controlling for corporate attributes. Firm value was measured using enterprise multiples, while ESG was measured through ESG disclosure and ESG scores.	The results show that ESG disclosure significantly increases firm value, and this effect is even stronger after the COVID-19 pandemic. ESG scores only significantly impacted firm value after the pandemic. Of the three ESG dimensions, only the Environmental score significantly impacted firm value, while the Social and Governance scores showed no significant impact.
Fakhriansyah (2025)	Analyzing the influence of Environmental, Social, and Governance (ESG) disclosure on company value in mining sector companies listed on the Indonesia Stock Exchange for the 2018–2023 period.	Quantitative research. The sample consisted of mining sector companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2023 period. Data analysis used SPSS 24 software to examine the relationship between ESG disclosure and firm value.	The research results show that ESG disclosure has a positive effect on the value of mining sector companies in Indonesia. ESG disclosure contributes 27.4% to company value. Although its impact is less than 50%, the implementation of ESG disclosure is expected to serve as a guideline for sustainable development, taking into account environmental, social, and governance aspects.

Discussion

The SLR results indicate that the relationship between Environmental, Social, and Governance (ESG) and firm value tends to be positive globally, but is not always consistent across countries, sectors, and time periods. Most international studies Yoon (2018); Wong (2021); Quintiliani (2022); Tahmid (2022); Rahat & Nguyen (2024); Brighi (2025) find that ESG performance or disclosure can increase firm value by reducing risk, enhancing reputation, and increasing investor confidence.

However, research results in Indonesia show a more diverse and inconclusive pattern. Some studies find a positive effect of ESG on firm value Mauliddin (2024); Fakhriansyah (2025), while others find a negative or insignificant effect (Jeanice & Kim, 2023; Kartika et al., 2023; Xaviera & Rahman, 2023).

Empirical evidence from Indonesian research on the relationship between ESG and firm value is not yet consistent and still exhibits three main patterns: a negative or insignificant effect, a positive effect, and an effect dependent on certain moderating variables. Several studies have found that ESG has not been able to convincingly increase firm value. Jeanice (2023) showed that

ESG has a negative effect on Return on Equity (ROE) and no significant effect on firm value as measured by Tobin's Q, a finding attributable, at least in part, to the low ESG disclosure quality and depth among IDX-listed companies during the 2018–2020 period, when the ESG index score used was constructed from self-reported data without third-party assurance.

Similar results were found by Kartika (2023), who concluded that ESG disclosure did not significantly affect the value of public companies on the Indonesia Stock Exchange during the 2017–2021 period. Kartika (2023) measured ESG disclosure using a binary scoring approach (presence/absence of disclosure items), which may not capture variation in disclosure depth and therefore underestimates ESG's true signal value to investors.

Furthermore, Xaviera (2023) found that aggregate ESG performance did not significantly affect firm value, and the environmental dimension even negatively impacted firm value at the mature stage of the firm's life cycle. Xaviera (2023) use of multiple linear regression with company life cycle as a moderator is methodologically valuable, but the absence of endogeneity controls (e.g., instrumental variables or GMM) limits causal inference. These findings can be explained by several factors, including the low quality and depth of ESG disclosure in Indonesia, companies still viewing ESG as a cost center rather than a strategic investment, and investors' tendency to focus more on short-term financial performance than on long-term sustainability.

However, more recent research has provided evidence that ESG has a positive and sector-specific impact on firm value in Indonesia. Mauliddin (2024) found that ESG performance significantly impacts company value as measured by Price to Book Value (PBV) — importantly, PBV-based results may differ from Tobin's Q-based results because PBV reflects book-value accounting, while Tobin's Q incorporates market expectations of future cash flows; the consistent positive result using PBV in Mauliddin (2024) suggests ESG signals are at least partially priced in book-value terms in Indonesia.

Furthermore, Fakhriansyah (2025) demonstrated that ESG disclosure positively impacts company value in the mining sector. ESG disclosure is especially material to investors in the mining sector given the mining sector's high environmental risk exposure: companies that proactively disclose environmental and social management practices in turn signal lower tail-risk, which directly translates to higher valuations. Such a sector-specific finding contrasts with cross-sector studies documenting no significant average effect, and supports the idea that ESG value-relevance is strongest where environmental and social risks are most substantial. These results suggest that the market has increasingly come to recognize the relevance of ESG, particularly in sectors where there is a high level of environmental risk.

Additionally, research in Indonesia also highlights the role of moderating variables on the relationship between ESG and firm value. The research by Xaviera (2023) revealed the heterogeneity of ESG's effect across different stages of the corporate life cycle. The relationship is positive at the growth stage, negative at the maturity stage, and insignificant at both the introduction and decline stages. This result means that the impact of ESG on firm value is not universal, but rather highly firm-specific. In general, ESG could serve as a branding strategy for growing enterprises to attract investors, while the short-term advantages of implementing ESG are outweighed by its costs, thereby diminishing firm value in mature enterprises. Overall, this implies that the relationship between ESG and firm value is highly context-dependent, and empirical evidence from Indonesia supports that unique contextual factors, particularly firm life cycle stages, influence the relationship.

International Benchmark Evidence

Compared to Indonesian empirical findings, the pattern in international empirical findings shows a more consistent tendency that supports the positive effect of ESG on firm value. Yoon (2018), studying Korea and Malaysia, and Kim (2024) found that ESG performance positively and significantly affected firm value, especially for chaebols, which are large family-controlled conglomerates. Meanwhile, Wong (2021) in Malaysia showed that ESG certification — serving in this case as an international comparison standard — could lower the cost of capital and increase firm value as measured by Tobin's Q. These results suggest that ESG is seen by investors as a positive signal of corporate quality, conveying stability, transparency, and long-term business sustainability in nations with more developed corporate governance systems and ESG regulation.

In China and India, similar findings were reported but with time lags. Zhang (2020) suggested that the social dimension and the role of institutional ownership contribute to the value-added function of ESG. Behl (2022), the latter studying India, demonstrated the long-term influence of ESG through a lagged effect, whereby ESG exhibited a negative effect in the initial period but a positive effect in the subsequent period. Furthermore, Cheng (2024) found that the influence of ESG, especially the environmental dimension, was more pronounced in the period following the COVID-19 pandemic. These results lend support to the idea that the benefits of ESG do not immediately manifest as firm value, and it takes time for the market to price in the effects. Weak or even negative ESG effects documented in Indonesia, primarily during 2018–2021, may be partly attributable to this temporal lag, suggesting an important insight for Indonesia: the lagged-effect pattern means that future longitudinal studies extending to and after 2025 may reveal more consistent positive effects as ESG matures in the Indonesian market.

Evidence from Europe Quintiliani (2022) Tahmid (2022) exhibits a uniformly positive ESG–firm value link, attributed to the European regulatory landscape (NFRD, SFDR, EU Taxonomy), which mandates standardized ESG reporting, leveling the playing field and increasing comparability and investor confidence. Unlike in Europe, Indonesia does not have a similarly comprehensive regulatory ecosystem, which represents the most important structural difference explaining the differential ESG–firm value results.

Overall, results in emerging markets seem to corroborate the value-boosting, risk-mitigating power of ESG. Rahat and Nguyen (2024) showed that ESG scores have positive effects on Tobin's Q and Enterprise Value to Sales (EV/S), but that ESG controversies have proven detrimental to company value. Furthermore, Brighi (2025) found that ESG can reduce risk and protect shareholder value from the deleterious effect of ESG controversies. Overall, international evidence indicates a more strategic perspective of ESG as an instrument of value creation for companies, primarily in countries with more robust regulations, heightened investor awareness, and more established capital markets than Indonesia.

In summary, the Systematic Literature Review (SLR) results show that the relationship between ESG and firm value in Indonesia differs from that observed in other countries. In Indonesia, the direction of ESG's impact on firm value is still mixed — that is, ESG may have a positive, negative, or insignificant effect. This reflects the fact that the maturity level of ESG is still too low in both company implementation and market perception. In Indonesia, investors still view ESG as a likely cost center that puts short-term financial performance at risk. Furthermore, ESG regulations and reporting standards are still evolving, and as a result, the long-term impact of ESG on firm value remains neither consistent nor predictable.

On the contrary, ESG and firm value tend to have a relatively positive and statistically significant relationship in other developed and more mature emerging markets. There is a higher level of ESG maturity in these countries, rooted in stronger regulation, greater clarity in reporting requirements, and heightened awareness among investors. ESG is regarded as a strategic investment that will improve an organization's standing, mitigate risk, and create sustainable value. Hence, the effect of ESG on long-run firm value in other countries is generally stronger and more stable.

These disparities in findings underscore that the ESG–firm value relationship is context-dependent and not universally generalizable. It is shaped largely by capital market maturity, ESG disclosure quality and consistency, level of investor literacy and awareness, and regulatory and government policy support. In order for ESG to be more effective, three conditions are necessary: (1) strong and harmonized regulation (alignment of OJK/IDX with IFRS Sustainability Standards), (2) standardized reporting, and (3) market education, so that ESG can serve as an instrument that creates long-term value rather than merely a reporting requirement.

Research Agenda

To address the research gaps identified in this review, future works on ESG and firm value in Indonesia would benefit from: (1) standardized ESG data sources — studies should adopt ESG scores that are internationally comparable (e.g., Bloomberg ESG, Refinitiv/LSEG ESG) rather than self-constructed indices to enable cross-study comparability; (2) ESG controversies — all Indonesian studies included in this review did not examine negative ESG events (controversies),

which international evidence Brighi (2025) and Rahat (2024) showed to substantially reduce firm value; (3) endogeneity controls — future studies should use instrumental variable (IV) approaches, difference-in-differences (DiD) designs (e.g., using POJK 51/2017 as a policy shock), or dynamic panel GMM estimators to establish causal rather than correlational ESG–value relationships; and (4) sector-level analyses — given the heterogeneous sectoral composition of IDX, sector-specific SLRs (mining, banking, manufacturing) would likely provide more operationally actionable insights than pooled analyses.

CONCLUSION

From the results of the available literature that has been analyzed, it can be concluded that the relationship between ESG and firm value is not uniform (consistent), especially in Indonesia. Empirical research provides evidence that the effect of ESG on firm value remains inconsistent, i.e., positive, negative, or neutral, which is moderated by industry sector and the maturity of the business entity and the quality of ESG disclosure. In contrast, research results in other countries tend to reflect a more stable and favorable relationship, as ESG has already been embedded in business strategies and has received regulatory support and investor expectations have matured. This means ESG is not just a reporting obligation but a strategic tool with varying potential to add firm value depending on the institutional context, capital markets, and the company's willingness to implement it at a substantive level.

In practice, these findings imply that Indonesian companies must improve the quality of ESG implementation and disclosure so that it is not only symbolic (compliance-based) but integrated with long-term business strategy. From an investor perspective, these results provide insight that ESG may actually be a driver — not just a corollary — of risk and value in certain sectors with high environmental and social risk. At the same time, regulators and policymakers should promote clearer, more consistent, and more quantifiable ESG reporting standards, and strengthen oversight and market education. In this way, ESG can be reframed as a strategic investment with the potential to generate sustainable competitive advantage and a sustained flow of value over time.

From this review, we propose three highly measurable and actionable policy and practice recommendations: 1) Minimum ESG Disclosure Standard — OJK and IDX jointly develop a mandatory ESG disclosure template based on GRI Standards and IFRS Sustainability Disclosure Standards (issued by the ISSB) and require all IDX-listed companies to disclose a minimum set of quantitative ESG metrics (e.g., GHG emissions, energy intensity, employee turnover, board independence ratio) starting from 2027 with gradual implementation phases beginning with LQ45 index constituents; 2) Independent ESG Assurance — regulatory guidelines designed to ensure ESG reports of companies in high-impact sectors (mining, plantation, energy) receive at least limited assurance by accredited third-party providers beginning in 2026, improving disclosure reliability and investor confidence; and 3) ESG Rating Adoption — IDX and OJK jointly work with an ESG rating agency (Bloomberg, MSCI, or Refinitiv/LSEG) to publish standardized ESG scores of IDX-listed companies, which will be used as proxies in academic research, reducing the heterogeneity issue and enabling institutional investors to systematically integrate ESG into portfolio construction.

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AUTHOR CONTRIBUTION STATEMENT

Dedi Hartono provided conceptualization of the study, research design, literature synthesis and writing of the manuscript as the corresponding author. This work includes a

contribution on developing the conceptual framework, substantive literature review and SLR analytical framework refinement from Wisnu Mawardi. Sugeng Wahyudi aided in identifying and validating the research methodology, supervised the research process, and rigorously revised the manuscript to maintain academic quality. All authors have read and approved the final manuscript, and agree to be accountable for all aspects of the work.

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