From ESG Disclosure Quality to Investment Decisions: The Valuation Transmission Mechanism in Indonesia's Capital Market

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ABSTRACT

This study examines the effect of ESG disclosure quality on investment decisions, both directly and indirectly through firm value (Tobin's Q) in the Indonesian capital market. Using a quantitative explanatory approach, an ESG disclosure quality index is developed through text analysis based on GRI Standards and POJK 51/2017. The sample consists of 130 observations of non-financial IDX-listed companies issuing sustainability reports during 2020–2023. The results show that ESG disclosure quality positively influences investment decisions, while firm value has a stronger effect on investor responses. The findings indicate a partial valuation transmission mechanism, where ESG disclosure quality affects investment decisions directly through transparency and indirectly through market valuation.

Kata Kunci: ESG disclosure quality; valuation transmission mechanism; firm value; Tobin's Q; investment decisions; Indonesia capital market.

Dari Kualitas Pengungkapan ESG ke Keputusan Investasi: Mekanisme Transmisi Valuasi di Pasar Modal Indonesia

ABSTRAK

Penelitian ini menguji pengaruh kualitas pengungkapan ESG terhadap keputusan investasi secara langsung maupun tidak langsung melalui nilai perusahaan (Tobin's Q) di pasar modal Indonesia. Menggunakan pendekatan kuantitatif eksplanatori, indeks kualitas ESG disusun berdasarkan analisis konten sesuai Standar GRI dan POJK 51/2017. Sampel penelitian terdiri dari 130 observasi perusahaan non-keuangan yang terdaftar di BEI dan menerbitkan sustainability report periode 2020–2023. Hasil menunjukkan bahwa kualitas pengungkapan ESG berpengaruh positif dan signifikan terhadap keputusan investasi, sedangkan nilai perusahaan memiliki pengaruh yang lebih kuat. Temuan ini menunjukkan adanya mediasi parsial (valuation transmission mechanism), di mana kualitas pengungkapan ESG memengaruhi keputusan investasi secara langsung melalui transparansi serta secara tidak langsung melalui valuasi pasar. Penelitian ini menegaskan pentingnya peningkatan kualitas dan kredibilitas pelaporan ESG untuk mendukung pengambilan keputusan investasi yang lebih informasional di pasar berkembang.

Keywords: *Kualitas pengungkapan ESG; mekanisme transmisi valuasi; nilai perusahaan; Tobin's Q; keputusan investasi; pasar modal Indonesia.*

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Environmental, Social, and Governance (ESG) reporting has transitioned from a voluntary ethical discourse to a fundamental analytical component in financial markets. Investors are progressively utilizing ESG information to assess companies' long-term viability, exposure to non-financial risks, and ability to generate sustainable value (Agliardi et al., 2023; Hou et al., 2022). This transition is bolstered by the proliferation of sustainability reporting standards and assurance practices, increased stakeholder demands for transparency and accountability, and regulatory measures that redefine ESG disclosure as a fundamental aspect of corporate responsibility (Khamisu & Paluri, 2024; Kohl et al., 2022). In alignment with worldwide reporting trends, the proportion of corporations issuing sustainability-related disclosures is increasing in both established and emerging nations (KPMG, 2022). A crucial empirical inquiry arises: does the quality of ESG disclosure influence market valuation and investment allocation decisions via a valuation transmission mechanism, rather than serving only as a symbolic compliance exercise?

Indonesia offers a unique and theoretically significant context for investigating this subject, as sustainability reporting has been institutionalized under regulatory compulsion. The Financial Services Authority Regulation No. 51/POJK.03/2017 mandates that issuers and public enterprises adopt sustainable finance principles and provide sustainability information (Otoritas Jasa Keuangan [OJK], 2017). Following the implementation of this rule, the quantity of enterprises producing sustainability reports has significantly risen, indicative of both regulatory demands and heightened stakeholder expectations (Effendi & Resosudarmo, 2022). Nevertheless, an increase in reporting volume does not inherently result in enhanced decision usefulness. Previous evidence suggests that the quality of ESG disclosures is inconsistent among companies and industries, with environmental disclosures being identified as the weakest aspect, and materiality and completeness exhibiting significant variability (Wahyuningrum et al., 2024). Related research indicates that compliance may be incomplete and that disclosure techniques are often characterized by symbolic or "box-ticking" methods rather than meaningful incorporation into strategy and governance (Afanasiev & Shash, 2023; Febriantoko et al., 2025). These patterns provide a critical market-oriented inquiry: whether enhanced ESG reporting quality in Indonesia is acknowledged and valued by investors, consequently influencing firm valuation and investment distribution.

From a market standpoint, the quality of ESG disclosures may affect investor behavior via at least two channels. Disclosure quality can directly affect investment decisions by mitigating information risk and enhancing investor trust, especially when ESG information is regarded as reliable, material, and relevant for decision-making (Zhang & Zhang, 2024). Secondly, the quality of ESG disclosures can indirectly affect investment decisions by influencing firm value, which reflects the market's collective evaluation of a firm's future potential and risk characteristics. Firm value, typically represented in market-based valuation metrics like Tobin's Q, encapsulates investors' aggregate assessment of available information, encompassing non-financial indicators pertaining to governance efficacy, sustainability risk management, and stakeholder legitimacy (Wang et al.,

2022; Landry, E., et al., 2021). Consequently, value functions as a transmission mechanism: the quality of ESG disclosures influences market valuation, which in turn directs capital allocation decisions.

Notwithstanding comprehensive investigations into ESG implications, three research gaps persist prominently. Initially, empirical evidence regarding the ESG–firm value relationship is inconsistent and seems contingent upon regulatory frameworks and market maturity, indicating that ESG information is not uniformly valued and that its relevance to valuation may hinge on the credibility of disclosures, the rigor of enforcement, and the sophistication of investors (Biju et al., 2025; Suharto et al., 2025; Wang et al., 2022). Secondly, previous research primarily focuses on direct correlations between ESG disclosure and market outcomes, but fewer studies explicitly examine mechanisms—specifically, whether firm value acts as the conduit via which the quality of ESG disclosure influences investment decisions. Mechanism testing is crucial since it elucidates how ESG information translates into economic significance, rather than simply assessing its correlation with outcomes. Third, research from emerging nations with obligatory ESG reporting is few, and Indonesia presents a particular unresolved question: whether investors distinguish the quality of disclosures under a reporting obligation where practices may still be compliance-driven (Wahyuningrum et al., 2024).

This study tackles these deficiencies by developing and evaluating a valuation-transmission (mediation) framework wherein the quality of ESG disclosure influences investment decisions both directly and indirectly via business value. The framework incorporates three synergistic theoretical viewpoints. Signaling theory asserts that robust ESG disclosure serves as a reliable indicator of exceptional governance and risk management, thereby diminishing information asymmetry and enhancing market valuation (Spence, 1973; Wang et al., 2022). Stakeholder theory posits that companies that adeptly manage stakeholder interactions and publicly disclose these activities are more likely to attain legitimacy and reputational advantages, which can enhance their valuation (Freeman, 1984). Behavioral finance suggests that investors may depend on prominent market indicators, such as business value, as heuristics to integrate fragmented information, including ESG signals, thus influencing capital allocation (Agliardi et al., 2023; Zhang & Zhang, 2024). The study is directed by the following research question: (RQ1) Does the quality of ESG disclosure influence firm value among Indonesian listed non-financial companies? (RQ2) Does corporate value affect investment decisions in the Indonesian capital market? (RQ3) Does company value moderate the relationship between ESG disclosure quality and investment decisions, while also permitting a direct effect of ESG disclosure quality on investment decisions? The study has three objectives: to assess the valuation relevance of ESG disclosure quality; to investigate whether firm value forecasts investment decision outcomes; and to determine if firm value mediates the impact of ESG disclosure quality on investment decisions through a partial mediation mechanism. This study enhances the current understanding by elucidating the conditions under which ESG disclosure quality gains economic significance within a mandatory reporting framework and by detailing the process through which ESG information

influences investment allocation via valuation-based mechanisms in an emerging market.

As illustrated in Figure 1, the model specifies both a direct effect of ESG disclosure quality on investment decisions (H4) and an indirect effect through firm value (H1–H3), thereby testing a partial mediation mechanism.
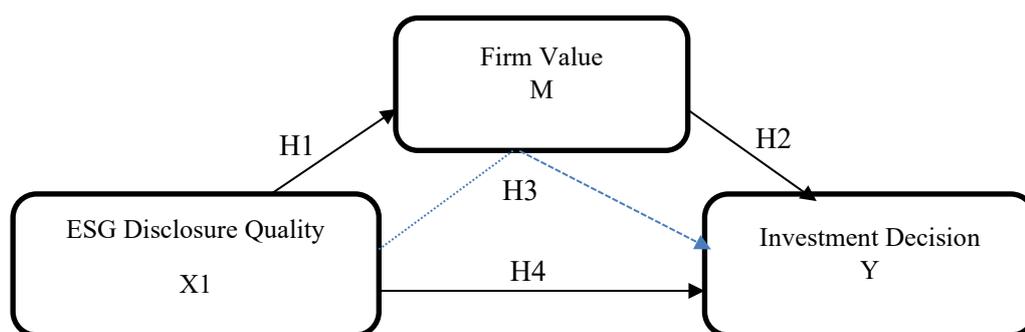

Figure 1. Conceptual framework of the study

Source: Research Data, 2025

The paradigm posits that superior ESG disclosure quality elevates business value by augmenting openness and credibility, thus diminishing information asymmetry and bolstering investor confidence (H1). A greater company value, indicative of the market's collective evaluation of the firm's potential and risk, is anticipated to promote investment decisions (H2). Thus, firm value is posited to convey the influence of ESG disclosure quality on investment decisions through an indirect (mediated) mechanism (H3). Moreover, the quality of ESG disclosure is anticipated to have a direct positive influence on investment decisions, extending beyond the valuation channel, in accordance with partial mediation (H4).

Utilizing signaling theory, superior ESG disclosure can diminish information asymmetry by offering reliable and actionable information concerning organizations' risk management, governance efficacy, and long-term strategic direction. Comprehensive, significant, and consistent ESG disclosure enhances investors' perception of the firm's management quality and reduces its vulnerability to regulatory, operational, and reputational risks. Consequently, the market is anticipated to incorporate this knowledge into the firm's valuation, as evidenced by market-based metrics of firm worth. Consequently, the research posits:

H1: ESG disclosure quality positively affects firm value.

Firm value signifies the market's collective evaluation of a company's future potential and risk characteristics. From a stakeholder-centric viewpoint, elevated firm value may indicate stakeholder legitimacy and less perceived risk, suggesting that the firm is regarded as financially stable, strategically resilient, and capable of maintaining performance over time. Investors frequently utilize valuation indicators as significant signals in capital allocation choices, especially in scenarios where information frictions are substantial. Thus, companies with elevated market valuations are anticipated to garner increased investment interest.

H2: Firm value positively affects investment decisions.

The quality of ESG disclosure is anticipated to indirectly affect investment decisions through corporate value. High-quality ESG disclosure enhances transparency and trust, leading the market to assign better valuations, which subsequently informs investors' capital allocation decisions. This mechanism illustrates a valuation-transmission process whereby ESG disclosure initially influences firm value (the market reaction) and subsequently informs investment decisions (the allocation response). This valuation transmission mechanism is anticipated to be especially pertinent in a developing market characterized by diverse disclosure credibility. Moreover, the quality of ESG disclosure may directly influence investment decisions beyond the valuation mechanism, aligning with partial mediation, since certain investors may interpret ESG information as an independent indicator of legitimacy and risk mitigation. Accordingly:

H3: Firm value partially mediates the relationship between ESG disclosure quality and investment decisions (indirect effect).

H4: ESG disclosure quality positively affects investment decisions (direct effect).

RESEARCH METHOD

This research utilizes a quantitative explanatory approach to examine the direct and indirect impacts of ESG disclosure quality on investment decisions via firm value in the Indonesian capital market. The observation period extends from 2020 to 2023, although the primary empirical analysis is performed at the company level (cross-sectional), in accordance with the SPSS OLS estimation detailed in the Results section (i.e., N = 130 observations). To characterize firms' reporting behavior over the observation period, ESG disclosure quality and financial metrics are extracted from annual and sustainability reports and subsequently transformed into firm-level variables for hypothesis testing.

The population consists of firms listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. The study concentrates on non-financial firms; hence, entities within the financial sector (e.g., banks, insurance companies, and other financial institutions) are omitted due to their distinct reporting structures, regulatory frameworks, and financial ratios, which are not comparable to those of non-financial industries. Purposive sampling is employed to select firms that (i) consistently submit sustainability and annual reports from 2020 to 2023, and (ii) furnish comprehensive information necessary for the formulation of ESG disclosure and financial variables.

Table 1 presents the sequential sample screening. The screening identifies 130 qualifying firms. Significantly, Table 1 presents the count of firms, rather than firm-year observations. The final analytical dataset comprises 130 non-financial enterprises, each possessing comprehensive ESG disclosures and financial data necessary for regression analysis. Companies with insufficient ESG indicators or no financial data are excluded to prevent biased estimations resulting from data deficiencies.

Table 1. The following criteria were applied in determining the final research sample:

No	Sampling Criteria	Number of Firms	Remarks
1	Public companies listed on IDX during 2020–2023	820	Total population
2	Companies that published annual and sustainability reports consecutively (2020–2023)	240	Based on OJK and GRI databases
3	Companies with complete ESG disclosure data (environmental, social, governance)	178	ESG completeness screening
4	Companies with available financial data (Tobin's Q, ROA, investment ratio)	165	Firms with valid financial indicators
5	Companies with missing or incomplete data eliminated	(−35)	Eliminated due to data gaps
Final Sample	**130**	—	Eligible for regression analysis

Source: Research Data, 2025

The final sample comprises 130 non-financial enterprises suitable for regression analysis. Table 1 presents the number of firms kept at each screening stage, therefore not reflecting firm-year observations. Companies with insufficient ESG disclosure or lacking accounting and market data were removed to ensure accurate assessment.

Table 2. Operational Definition and Measurement of Variables

Variable	Definition	Measurement / Proxy	Reference
ESG Disclosure Quality (ESGQ_i)	Extent and quality of ESG disclosure aligned with GRI Standards and POJK 51/2017	Content analysis index: disclosed item = 1, not disclosed = 0; aggregated and normalized to 0–1	Wahyuningrum et al. (2024); GRI (2020); OJK (2017)
Firm Value (FV_i)	Market-based valuation of a firm	Tobin's Q = (Market Value of Equity + Book Value of Debt) ÷ Total Assets	Wang et al. (2022); Suharto et al. (2025)
Investment Decision (INV_i)	Investment intensity / capital allocation	CAPEX ÷ Total Assets *(CAPEX definition must be specified)*	Cahyono et al. (2024)
Firm Size (SIZE_i)	Scale of firm operations	ln(Total Assets)	Prior ESG–finance studies
Leverage (LEV_i)	Dependence on debt financing	Debt-to-Equity Ratio (DER) **or** Total Liabilities ÷ Total Assets *(choose one and be consistent)*	Prior ESG–finance studies

Source: Research Data, 2025

This study employs a path-analytic mediation approach to assess the presented hypotheses (H1–H4), with company value serving as the mediating variable. The model evaluates partial mediation by assessing both the indirect channel (ESG disclosure quality → firm value → investment choice) and the

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direct pathway (ESG disclosure quality → investment decision). The subsequent regression equations are computed :

Model 1 (Firm Value equation; H1):
$$FV_i = \alpha_1 + \beta_1 ESGQ_i + \beta_2 SIZE_i + \beta_3 LEV_i + \varepsilon_1$$

Model 2 (Investment equation; H2, H4; and mediation H3):
$$INV_i = \alpha_2 + \beta_4 ESGQ_i + \beta_5 FV_i + \beta_6 SIZE_i + \beta_7 LEV_i + \varepsilon_2$$

Where FV_i denotes firm value (Tobin's Q), $ESGQ_i$ denotes ESG disclosure quality, INV_i denotes investment decision (CAPEX/Total Assets), $SIZE_i$ denotes firm size, LEV_i denotes leverage, and ε is the error term. The **indirect (mediated) effect** is captured by the product $\beta_1 \times \beta_5$, while the **direct effect** is captured by β_4.

This research predominantly utilizes secondary data sourced from annual reports, sustainability reports, and financial databases (IDX, Bloomberg, Refinitiv, and EMIS). Focus group talks with investors, analysts, and practitioners serve exclusively as ancillary inputs to interpret the quantitative findings and do not constitute a component of hypothesis testing.

Data Analysis Techniques

The data analysis occurs in two phases. Initially, descriptive statistics (mean, minimum, maximum, and standard deviation) are calculated to encapsulate the distribution of all variables. Secondly, hypothesis testing is performed via multiple linear regression via the Enter method in SPSS 26.0. Before estimate, classical assumption diagnostics are conducted, encompassing assessments of residual normality, multicollinearity (tolerance and VIF), and heteroscedasticity. Statistical inference is assessed at the 5% significance level ($\alpha = 0.05$) through p-values and confidence intervals.

Mediation is evaluated within the partial mediation paradigm by analyzing both the direct influence of ESG disclosure quality on investment decisions (β_4) and the indirect effect via firm value ($\beta\_1 \times \beta\_5$). Mediation is evidenced when the indirect effect is statistically significant. To enhance inference, the indirect effect ought to be assessed through bootstrapped confidence intervals (e.g., PROCESS Macro in SPSS); this method is favored as it offers robust inference for mediated effects independent of the normality assumption of the indirect-effect sampling distribution (Preacher & Hayes, 2008). If bootstrapping is not utilized, the publication must clearly specify the alternative method employed (e.g., Sobel test) and present the relevant statistics.

RESULTS AND DISCUSSION

This research utilizes 130 observations of non-financial corporations listed on the Indonesia Stock Exchange. The dependent variable is the investment choice, with ESG disclosure quality and firm value (Tobin's Q) as the primary predictors. The analysis utilized multiple linear regression (Enter technique) in SPSS 26.0.

The model demonstrates significant explanatory capability. The regression analysis reveals R=0.905, R^2=0.818, corrected R^2=0.816, and a standard error of the estimate of 5.745. This signifies that the quality of ESG disclosure and business value jointly account for 81.8% of the variance in investment choice results. The comprehensive model is statistically significant, F(2,127)=303.856, p<0.001,

indicating that the predictors collectively offer substantial explanatory insights for investment-related outcomes in the Indonesian capital market.

Table 3.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905[a]	.818	.816	5.74538

[a] Predictors: (Constant), Firm Value (Tobin's Q), ESG disclosure quality

Source: Research Data, 2025

The findings indicate that the model aligns effectively with the data and that both predictors are pertinent to decision-making. From the standpoint of signaling theory, robust explanatory power aligns with the notion that superior transparency diminishes uncertainty and information asymmetry in markets, thereby enhancing the informativeness of corporate signals to investors (Spence, 1973). In emerging markets, where external verification and comparability can be inconsistent, the significance of disclosure quality is heightened, since investors may utilize disclosure as an indicator of governance quality and long-term risk management capability (Bilyay-Erdoğan, 2022).

The estimated regression model can be expressed as:

$$INV = 5.108 + 0.311(ESGQ) + 0.594(FV)$$

Table 4. ANOVA[a]

Sum of Squares	df	Mean Square	F	Sig.
20060.220	2	10030.110	303.856	.000[b]
4456.273	127	33.009		
24516.493	129			

[b] Predictors: (Constant), Firm Value (Tobin's Q), ESG Disclosure Quality

Dependent Variable: Investment Decision

Source: Research Data, 2025

The coefficient for ESG disclosure quality (B=0.311; p=0.003) is positive and statistically significant, suggesting that superior ESG disclosure correlates with enhanced investment choice outcomes. This indicates that companies offering comprehensive and reliable ESG information are likely to receive more positive investment reactions. This outcome corresponds with signaling theory: superior disclosure can diminish information asymmetry and establish a trust premium, especially when investors perceive ESG reporting as indicative of a firm's long-term focus and risk management proficiency (Spence, 1973; Wang et al., 2022). Empirically, the conclusion aligns with research indicating that ESG disclosure can affect investor behavior when deemed decision-useful and credible (Bilyay-Erdoğan, 2022; Zhang & Zhang, 2024).

The estimated regression model can be expressed as:

$INV = 5.108 + 0.311(ESGQ) + 0.594(FV)$

Table 5. Coefficients[a]

Mode	Predictor	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
1	(Constant)	5.108	2.248	—	2.272	.025
1	ESG Disclosure Quality	0.311	0.101	0.325	3.071	.003
1	Firm Value (Tobin's Q)	0.594	0.106	0.592	5.588	.000

Dependent Variable: Investment Decision
Notes: a. Predictors: (Constant), ESG Disclosure Quality, Firm Value (Tobin's Q)
Source: Research Data, 2025

The coefficient for ESG disclosure quality is positive and statistically significant (B=0.311; p=0.003). This suggests that companies with superior ESG disclosures are typically linked to more favorable investment decision results. Analyzed through the lens of signaling theory, this outcome substantiates the notion that the quality of ESG disclosures serves as a credible market signal: more comprehensive and decision-relevant disclosures can diminish information asymmetry and perceived risk, thereby enhancing investor confidence and propensity to invest (Spence, 1973; Wang et al., 2022). This finding aligns with previous data indicating that ESG disclosure influences investor behavior when regarded as credible and informative rather than merely symbolic (Bilyay-Erdoğan, 2022; Zhang & Zhang, 2024).

Firm value (Tobin's Q) has a positive and statistically significant correlation with investment decisions (B=0.594; p<0.001), demonstrating a greater standardized effect (β=0.592) compared to ESG disclosure quality (β=0.325). The pronounced valuation effect can be elucidated through stakeholder theory: an elevated firm value may signify the market's collective evaluation that the firm is proficiently managing stakeholder relationships, governance standards, and long-term sustainability risks, thus bolstering legitimacy and anticipations of sustainable performance (Freeman, 1984; Agliardi et al., 2023). Investors seem to react more significantly to the results of sustainability and governance reflected in market valuation than to transparency alone. This pattern aligns with research indicating that valuation measurements might act as a crucial conduit for the economic significance of sustainability signals (Wang et al., 2022; Suharto et al., 2025).

Collectively, our findings indicate that the quality of ESG disclosure has significant economic implications via a valuation transmission mechanism (partial mediation), wherein market valuation serves as a crucial interpretive signal for investors. The concurrent importance of ESG disclosure quality and company value aligns with a mechanism functioning through two complimentary pathways. A direct pathway functions through transparency and credibility, aligned with signaling theory, in which the quality of ESG disclosures directly

influences investor evaluations and capital distribution. An indirect pathway functions via market valuation, aligned with stakeholder legitimacy and market evaluation, where superior ESG disclosure quality correlates with increased firm value, hence influencing investment decisions. This explanation corresponds with behavioral finance, which posits that investors often depend on prominent heuristics, such as valuation indicators, to streamline intricate information processing, especially when non-financial information varies in quality. In this setting, Tobin's Q serves as a pragmatic heuristic that consolidates fragmented information, including ESG-related data, and informs capital allocation decisions (Agliardi et al., 2023; Zhang & Zhang, 2024). Nonetheless, the value transmission mechanism ought to be validated via a rigorous indirect-effect test (e.g., bootstrapped confidence intervals for a×b); thus, the current evidence is construed as indicative of partial mediation rather than conclusive confirmation.

The results substantiate the perspective that the quality of ESG disclosure is not simply a compliance measure but is linked to investment-relevant outcomes. The Indonesian environment is particularly enlightening as sustainability reporting is obligatory, although the quality of disclosure varies among enterprises. The favorable ESG disclosure coefficient indicates that investors assess the quality of disclosures, reinforcing the notion that the quality of reporting, rather than merely the quantity, influences market behavior. This enhances emerging-market ESG literature by demonstrating that the quality of disclosure can be valued and can affect investment results, even within a required framework, contingent upon investors' perception of the disclosure's credibility. The pronounced influence of firm value suggests that valuation is pivotal in converting ESG-related knowledge into investing results. The findings indicate that the market incentivizes enterprises whose ESG-related activities and disclosures lead to enhanced valuation, prompting investors to react to this valuation signal. The empirical pattern substantiates a valuation transmission interpretation, wherein the quality of ESG disclosure influences investment outcomes partially through its correlation with market-based valuation (Tobin's Q), subsequently affecting investment decisions. This interpretation is especially pertinent in an emerging market where the credibility of disclosures might differ significantly among firms, rendering value a crucial and effective summary signal for investors when evaluating diverse ESG information.

CONCLUSION

This study demonstrates a favorable correlation between the quality of ESG disclosure and company value (Tobin's Q) in influencing investment decisions, based on 130 observations of non-financial listed companies on the Indonesia Stock Exchange. The results align with the theoretical framework of the study: from a signaling theory standpoint, superior ESG disclosure seems to improve transparency and diminish information asymmetry; from a stakeholder theory viewpoint, firm value represents the market's collective evaluation of legitimacy and long-term potential; and from a behavioral finance perspective, investors may depend on prominent valuation indicators when converting diverse sustainability information into capital allocation choices. The pronounced impact of firm value indicates that valuation is pivotal in determining investment outcomes, aligning

with a valuation transmission mechanism (partial mediation) whereby the quality of ESG disclosure directly and indirectly affects investment decisions through market valuation. Notwithstanding these contributions, the study is constrained by its firm-level design within the 2020–2023 reporting period and the lack of a formal bootstrapped indirect-effect test; subsequent research could broaden the temporal scope, implement formal mediation methodologies, and integrate alternative investment proxies and robustness assessments to elucidate how the quality of ESG disclosure translates into economic significance via valuation-based mechanisms in emerging markets.

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