

Credibility is Key: How Board Independence Translates ESG Disclosure into Firm Value in Indonesia

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ABSTRACT

This research investigates how Environmental, Social, and Governance (ESG) disclosure on firm value and the moderating role of board independence within a developing economic context. Using Moderated Regression Analysis on 675 firm-year records from non-financial entities listed on the IDX between 2017 and 2023, the findings indicate a favorable correlation between ESG reporting and corporate worth. Furthermore, board independence significantly amplifies this relationship. This highlights that in emerging markets like Indonesia, robust governance is essential to translate sustainability reporting into credible, tangible corporate value. The findings suggest managers should integrate ESG strategies with strong independent oversight, and investors should evaluate governance quality to verify the credibility of a firm's sustainability initiatives.

Keyword: ESG disclosure, Firm value, Board independence, Corporate governance, Emerging market.

Kredibilitas adalah Kunci: Peran Independensi Dewan dalam Mewujudkan Nilai Perusahaan melalui Pengungkapan ESG di Indonesia

ABSTRAK

Penelitian ini menguji dampak Environmental, Social, and Governance (ESG) terhadap nilai perusahaan serta peran moderasi dari independensi dewan pengawas (komisaris independen) di pasar berkembang. Menggunakan Moderated Regression Analysis (MRA) pada 675 observasi perusahaan non-keuangan di Bursa Efek Indonesia (2017-2023), hasil penelitian menunjukkan bahwa pengungkapan ESG berdampak positif terhadap nilai perusahaan. Lebih lanjut, independensi dewan secara signifikan memperkuat hubungan positif tersebut. Hal ini menegaskan bahwa di pasar berkembang seperti Indonesia, tata kelola yang kuat sangat penting untuk mengubah pelaporan keberlanjutan menjadi nilai perusahaan yang nyata dan kredibel. Temuan ini menyarankan agar manajer mengintegrasikan strategi ESG dengan pengawasan independen yang kuat, sementara investor perlu mengevaluasi kualitas tata kelola untuk memverifikasi kredibilitas inisiatif keberlanjutan suatu perusahaan.

Keywords: ESG disclosure, Nilai perusahaan, Independensi dewan, Tata kelola, Pasar berkembang.



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INTRODUCTION

In the contemporary business landscape, firm value is no longer measured solely by financial performance but is increasingly influenced by non-financial factors (Crous et al., 2022). That paradigm shift in investment is marked by investors who now consider sustainability and social responsibility as crucial criteria in their decision-making processes (Wusono & Matusin, 2019; Yulianti & Djatnicka, 2025). Consequently, the concept of firm value has become more holistic, encompassing not only profitability but also the social and environmental impacts of a firm's business operations (de Villiers et al., 2022). This transition signifies a broader understanding of sustainability, which is believed to influence the long-term success of a firm.

Consistent with stakeholder theory, there exists an evident transition demonstrating that corporations are accountable not merely to their investors, but also to broader constituencies (Shin et al., 2022). Stakeholders increasingly demand that companies demonstrate a tangible commitment to sustainability in every aspect of their operations (Hristov et al., 2024). This growing pressure from a wide range of actors has fundamentally altered the expectations placed on modern corporations, moving them towards greater accountability. This global demand for sustainability has been structured through various international initiatives, most notably Sustainable Development Goals (SDGs) become a corporate strategy (Domingo-Posada et al., 2024). Companies are now expected to integrate SDG principles into their operations to meet stakeholder expectations. The push for sustainability championed by the SDGs acts as a vital catalyst for shaping a good corporate reputation, subsequently motivating firms to enhance openness in their reporting practices, primarily via the Environmental, Social, and Governance (ESG).

In the Indonesian context, this global mandate for sustainability disclosure is reinforced by the Financial Services Authority (OJK) Regulation No. 51/POJK.03/2017, which requires public companies to prepare annual sustainability reports. Beyond regulatory compliance, Indonesia provides a theoretically compelling setting to test this model. As an emerging market, Indonesia is characterized by a highly variable quality of corporate governance and a level of ESG adoption that is still in its nascent stages (Rahmaniati & Ekawati, 2024; Safriani & Utomo, 2020; Jeanice & Kim, 2023). Furthermore, emerging markets offer a stricter empirical setting for testing agency and stakeholder theories; due to relatively weak external institutional oversight and investor protection frameworks, the reliance on internal governance mechanisms becomes exceptionally critical (Sinaga et al., 2025). Consequently, ESG is now acts as a primary motivation for corporations to implement more transparent, responsible, and sustainable practices. Ultimately, these efforts are believed to contribute significantly to the creation of long-term corporate value.

However, empirical research on the impact of ESG on firm value has yielded inconsistent findings. These inconsistencies are largely driven by differences in country-specific institutional contexts and varying levels of underlying governance quality. Some studies find that ESG enhances firm value by strengthening reputation and investor trust (Aydoğmuş et al., 2022; Choi et al., 2023; Qureshi et al., 2020), while other research shows a negative impact due to the

associated costs, or even a non-linear relationship that only benefits firms with high ESG (Rastogi et al., 2024; Angir & Weli, 2024). Evidence from emerging markets also suggests that ESG may not have a significant influence on firm value (Atan et al., 2018; Biju et al., 2025). This suggests that without credible oversight, ESG disclosures risk becoming symbolic greenwashing rather than value-enhancing strategies. To address this gap, board independence specifically rather than corporate governance in general emerges as the critical missing mechanism (Choi et al., 2023). Because independent directors are free from management influence, they provide the objective oversight necessary to ensure that disclosed sustainability practices are genuine and aligned with shareholder interests, thereby effectively translating ESG efforts into tangible firm value (Choi et al., 2023).

This paper argues the effectiveness of ESG disclosures in enhancing firm value is contingent upon the firm's governance quality, specifically the role of board independence. Board independence plays a critical role as an objective and critical oversight mechanism for corporate policies, including those related to sustainability (Choi et al., 2023). Board independence ensures that decisions are focused on sustainable objectives of the firm and its various interest groups, instead of immediate administrative benefits. Accordingly, board independence has the potential to amplify the beneficial effect of ESG disclosure on firm value by ensuring sustainability policies are genuinely implemented, enhancing corporate reputation and attracting sustainability-conscious investors (Brinette et al., 2024). This article aims to analyze the effect of ESG disclosure on firm value, specifically examining the moderating role of board independence within the scope of non-financial entities registered with the Indonesia Stock Exchange (IDX) 2017–2023 period.

By achieving this objective, this paper makes three explicit contributions. First, it provides a theoretical contribution to the ESG–value nexus literature by demonstrating that value-enhancing effect of sustainability disclosures is not absolute, but depends significantly on the credibility provided by robust internal governance structures. Second, it offers an empirical contribution to agency theory in the realm of developing economies. It highlights that in environments characterized by relatively weak external investor protections, board independence functions as a vital substitutive mechanism to mitigate agency conflicts and prevent managerial greenwashing. Third, it delivers a practical policy contribution for OJK and IDX by proving that sustainability reporting mandates must be coupled with regulations that strengthen the effective oversight role of board independence. The paper employs a quantitative approach using panel data regression. The remainder of this article is organized as follows: the subsequent section reviews the relevant literature and develops the research hypotheses. This is followed by a detailed explanation of the research methodology. The empirical results and discussion are then presented, and the article concludes by outlining the study's implications, limitations, and suggestions for future research.

Conceptualized by Freeman (1984), stakeholder theory posits that a firm must manage and satisfy the concerns of its entire spectrum of constituents, extending beyond mere investors. These groups encompass employees, customers, suppliers, regulatory bodies, and the surrounding society. In this

context, integrating sustainability principles into corporate strategy is essential to meet the diverse expectations of these stakeholders (Pfajfar et al., 2022). ESG disclosure serves as a primary mechanism for companies to demonstrate their commitment to social and environmental responsibilities, thereby strengthening stakeholder relationships and enhancing corporate reputation (Choi et al., 2023). A strong ESG disclosure signals that a company is well-managed, transparent, and accountable, which can strengthen its market position and ultimately increase firm value (Aydoğmuş et al., 2022; Qureshi et al., 2020).

From this perspective, managing stakeholder relationships does not represent an expense, rather, it constitutes a deliberate capital allocation toward enduring wealth generation (Oyinlola, 2025). By addressing the needs of various stakeholders such as providing a safe working environment for employees, offering sustainable products to customers, and maintaining a positive relationship with the community a firm can build valuable intangible assets like loyalty, trust, and a strong brand reputation (Choi et al., 2023). These assets, in turn, can lead to tangible financial benefits, including reduced operational risks, improved access to capital from socially responsible investors, and enhanced employee productivity (Aydoğmuş et al., 2022). Therefore, stakeholder theory offers a coherent structure for interpreting how a company's dedication to ESG, when effectively communicated, translates into sustainable financial performance and increased corporate value.

Agency theory, portrays the dynamic between shareholders and managers (Jensen & Meckling, 1976). This relationship is often characterized by a conflict of interest, as managers may pursue personal goals that do not align with the shareholders' objective of maximizing value. In the context of ESG, this theory is highly relevant because transparency in sustainability reporting can help mitigate these conflicts (Nuhu & Alam, 2024). Effective governance mechanisms are necessary to ensure that managers' decisions align with long-term stakeholder interests. Board independence is a critical component of this mechanism. Board independence can provide objective oversight, ensuring that ESG disclosures are credible and not merely driven by short-term managerial interests, thus protecting long-term firm value.

Agency conflicts in the context of ESG can arise when managers invest in costly sustainability projects merely to enhance their personal reputation without delivering genuine firm value (Rastogi et al., 2024). Conversely, managers who are overly focused on short-term profits might avoid essential ESG investments, even if those investments are crucial for long-term sustainability and risk mitigation (Nguyen et al., 2025). This is where board independence plays a fundamental role. Board independence acts as an internal monitoring mechanism that mitigates this agency problem by ensuring that all strategic decisions, are objectively evaluated based on their potential to create shareholder value (Lippi & Galavotti, 2024). Thus, Agency Theory provides a strong theoretical justification for why oversight from board independence is necessary to ensure that ESG practices are value-enhancing and not merely a facade that misallocates corporate resources.

Conceptually, stakeholder theory and agency theory complement each other synergistically to provide a robust comprehensive foundation for this study's research model. On one hand, stakeholder theory explains why ESG matters:

fulfilling the environmental and social expectations of diverse stakeholders creates vital intangible assets, such as reputation and trust, which are foundational for long-term value creation (Aydoğmuş et al., 2022; Pfajfar et al., 2022). In contrast, agency theory explains why governance quality determines ESG effectiveness: without stringent oversight, managers may exploit these ESG initiatives for personal gain or engage in symbolic greenwashing, which ultimately destroys shareholder wealth rather than building it (Nuhu & Alam, 2024; Rastogi et al., 2024). Therefore, integrating these two perspectives illustrates that while stakeholder commitment provides the pathway to enhance corporate value, effective agency oversight specifically through board independence is the essential safeguard mechanism ensuring that this ESG pathway is genuinely pursued and financially realized (Choi et al., 2023; Lippi & Galavotti, 2024).

Transparent ESG disclosure is believed to enhance firm value by improving a company's reputation and increasing investor trust (Choi et al., 2023; Mishra et al., 2024). Investors are increasingly focused on long-term stability and responsibility, making sustainability a key consideration (Aydoğmuş et al., 2022). Stakeholder theory supports this view, arguing that firms meeting stakeholder expectations on sustainability issues will benefit from stronger relationships and increased value (Choi et al., 2023). Several studies support this positive relationship. Choi et al. (2023) found that good ESG disclosure is positively affect firm value, particularly when supported by strong governance. Similarly, Qureshi et al. (2020) demonstrated that ESG enhances firm value, especially in industries sensitive to social and environmental issues. The current results indicate that ESG disclosure adds value by increasing market appeal and reducing uncertainty among investors. Accordingly, the first hypothesis is formulated as follows:
H₁: ESG disclosure has a positive effect on firm value.

Board independence plays a crucial role in overseeing and ensuring that ESG disclosures are conducted with high transparency and accountability. According to agency theory, board independence is expected to mitigate possible agency frictions, ensuring that ESG practices accord with the enduring objectives of the firm and its investors, ultimately enhancing firm value (Lippi & Galavotti, 2024). Board independence reduces the likelihood of manipulation in ESG reporting, which can occur when internal oversight is weak (Brinette et al., 2024). Several studies confirm this moderating role. Choi et al. (2023) showed that board independence strengthens the relationship between ESG and firm value by enhancing transparency and accountability. Likewise, Mishra et al. (2024) found that board independence positively moderates the effect of ESG reporting on firm value in India. Based on this, the second hypothesis is proposed:

H₂: Board independence positively moderates the relationship between ESG disclosure and firm value.

The associations among the study's constructs to be evaluated are illustrated in Figure 1 below.

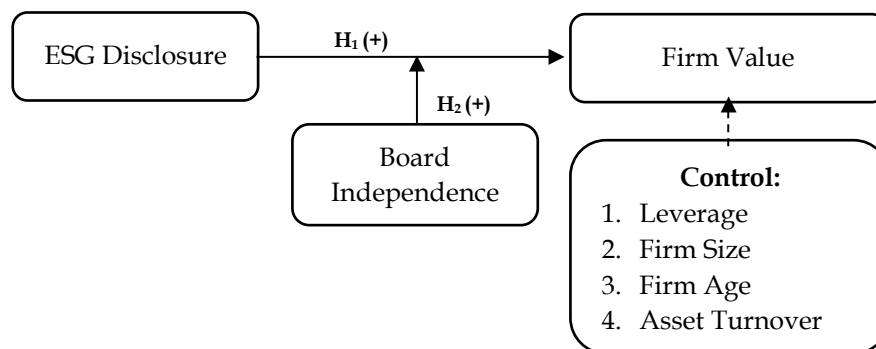


Figure 1. Theoretical Paradigm

Sources: Research Data, 2025

RESEARCH METHODS

This study employs a quantitative approach with an empirical method to test the proposed hypotheses. The research utilizes secondary panel data, collected from non-financial companies listed in Indonesia for the period of 2017–2023. This period was chosen to align with the implementation of the OJK regulation concerning sustainable finance. The population includes all companies listed on the IDX. The sample was selected using purposive sampling with the following criteria: (1) the company is a non-financial entity listed on the IDX from 2017-2023; (2) the company has complete data available in the Bloomberg database for all variables under study.

Firm value refers to the market's perception of a firm's ability to generate wealth for its stakeholders. In this paper, firm value is operationalized through the Market-to-Book Value (MTBV) ratio. MTBV is chosen for its ability to reflect the market's growth expectations potential, which includes intangible factors (A. Almaqtari et al., 2022; Brinette et al., 2024). ESG disclosure refers to a company's reporting on environmental, social, and governance factors. This study measures ESG disclosure using the ESG Score provided by the Bloomberg database. The score reflects the breadth of a firm's ESG data reporting, with values spanning from 0 indicating an absence of disclosure to 100, which represents complete reporting across all applicable indicators (Choi et al., 2023).

Board independence refers to the presence of supervisory board members who have no direct affiliation with the company's management. In the context of Indonesia's two-tier governance system, this specifically refers to the supervisory board responsible for overseeing managerial performance without being involved in daily operations (Ayuningsih & Rosdini, 2022). This study measures board independence by the absolute number of independent members on the supervisory board. This measurement is chosen because it directly reflects the absolute supervisory power of independent members, which is more relevant in Indonesia's governance structure than a simple percentage (Shao, 2019).

To isolate the main effects and increase the model's validity, this study includes four control variables commonly used in previous research (Aydoğmuş et al., 2022; Choi et al., 2023). Firm size is measured as the natural logarithm of the company's total assets (Adhi & Cahyonowati, 2023). Firm age is measured as the

number of years from the company's founding year to the observation year. Leverage is included to account for financial risk and is measured as the ratio of total debt to total assets. Finally, Asset turnover is used to control for operational efficiency, measured as the ratio of total revenue to total assets. The research hypotheses are tested through multivariate regression models, with the inclusion of year, industry, and country fixed effects to control for unobserved heterogeneity and temporal shocks. The regression model was constructed to test the direct influence as well as the interaction effect as follows:

$$\text{Firm Value} = \beta_0 + \beta_1 \text{ESG} + \beta_2 \text{INDIR} + \beta_3 (\text{ESG} \times \text{INDIR}) + \text{Controls} + \epsilon \dots \dots \dots (1)$$

Where: *Firm Value* = Market-to-Book Value (MTBV); β_0 = intercept; ESG = ESG Disclosure Score (Bloomberg); *INDIR* = Board Independence; *ESG × INDIR* = moderating interaction variables; *Controls* = Controls variables (FSIZE, FAGE, FLEV, ATURN); ϵ = error term.

To ensure the robustness of the results and the validity of the OLS estimators, the model underwent classical assumption tests. These tests confirmed that the panel data regression framework is appropriate for the data structure.

RESULTS AND DISCUSSION

The descriptive analysis aims to provide an overview of the data distribution, including the central tendency and dispersion of the observations.

Table 1. Descriptive Statistics

	OBS	MEAN	STD	MEDIAN	MIN	MAX
MTBV	675	3.393	10.369	1.202	0.101	147.004
ESG	675	41.400	11.941	40.710	16.450	75.760
INDIR	675	2.237	0.815	2.000	1.000	5.000
FLEV	675	2.764	2.189	2.150	0.860	26.080
FSIZE	675	7.294	1.175	7.390	3.860	10.270
FAGE	675	39.896	21.620	37.000	4.000	122.000
ATURN	675	0.746	0.582	0.590	-0.190	3.850

Sources: Research Data, 2025

Table 1 presents the descriptive statistics from 675 firm-year observations. The mean value of Firm Value (MTBV) is 3.393, with a large standard deviation of 10.369, indicating significant variation in firm value across the sample firms. The average ESG Disclosure (ESG) score is 41.400 out of a possible 100, with a range from 16.450 to 75.760, which suggests a moderate level of ESG disclosure among Indonesian firms. For the moderating variable, the mean of Board Independence (INDIR) is 2.237, indicating that sample firms have approximately 2 independent supervisors on their board. Regarding the control variables, the average Firm Size (FSIZE) is 7.294. The average Firm Age (FAGE) is approximately 39.9 years, with a wide range from 4 to 122 years, indicating a mix of both new and well-established firms in the sample. The mean for Leverage (FLEV) is 2.764, while Asset Turnover (ATURN) has a mean of 0.746, suggesting that for every dollar of assets, the average firm generates about 74.6 cents in revenue.

As shown in the descriptive statistics, the firm value variable (MTBV) exhibits a highly dispersed distribution, with a maximum value of 147.004 and a standard deviation significantly larger than its mean. This dispersion strongly indicates the presence of extreme outliers within the dataset. To mitigate the potential bias caused by these extreme values and to ensure the robustness of the

regression estimates, the continuous variables, particularly MTBV were winsorized at the 1st and 99th percentiles prior to the main analysis. This data treatment ensures that our empirical findings are not disproportionately driven by a few abnormal observations, thereby yielding more reliable and unbiased results.

Table 2. Baseline Result

	(1) MTBV	(2) MTBV	(3) MTBV
ESG	0.092** (2.19)	0.069* (1.87)	-0.228** (-2.10)
INDIR		2.070*** (3.29)	-3.639* (-1.77)
ESG x INDIR			0.128*** (2.68)
FSIZE	-1.503*** (-2.80)	-1.866*** (-3.28)	-1.816*** (-3.23)
FAGE	-0.039 (-1.60)	-0.042* (-1.76)	-0.039 (-1.63)
ATURN	2.961*** (3.17)	2.576*** (3.21)	2.462*** (3.16)
FLEV	1.347* (1.74)	1.339* (1.76)	1.295* (1.68)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
cons	6.154* (1.78)	5.799* (1.66)	18.744*** (3.19)
r2	0.130	0.152	0.168
r2_a	0.106	0.128	0.142
N	675	675	675

p-values in parentheses

* *p* < 0.1, ** *p* < 0.05, *** *p* < 0.01

Sources: Research Data, 2025

Table 2 displays the results of the moderated regression analysis used to test the hypotheses. Model (1) shows the direct effect of ESG on firm value, while Model (2) includes the main effect of board independence. Model (3) is the full model which includes the interaction term to test the moderation hypothesis (H2). Hypothesis 1 predicted a positive relationship between ESG disclosure and firm value. The result in Model (1) shows that the coefficient for ESG is positive and statistically significant ($\beta = 0.092$, $p < 0.05$). Therefore, H1 is supported. Hypothesis 2 predicted that board independence would positively moderate the relationship between ESG and firm value. As shown in Model (3), the coefficient for the interaction term ESG and Board Independence is positive and highly significant ($\beta = 0.128$, $p < 0.01$). This result provides strong support for H2. Regarding the control variables in the full model, Firm Size (FSIZE) shows a significant negative effect on firm value ($\beta = -1.816$, $p < 0.01$). Asset Turnover (ATURN) has a significant positive effect ($\beta = 2.462$, $p < 0.01$), as does Leverage (FLEV) ($\beta = 1.295$, $p < 0.1$). Firm Age (FAGE) did not show a statistically significant effect. The adjusted R^2 of the full model is 0.142, indicating that the model explains 14.2% of the variance in

firm value. The adjusted R-squared value indicates that the model explains 14.2% of the variance in firm value. While this value is relatively moderate-to-low, it is quite typical for firm valuation studies given the complexity of the stock market. It is important to acknowledge the existence of potential omitted variables; firm value is also heavily influenced by external macroeconomic factors, overall market sentiment, and specific internal corporate strategies that are not captured within the current research model.

The empirical results of this study lend robust support to Hypothesis 1, confirming that ESG disclosure exerts a statistically significant and positive influence on corporate value within the Indonesian capital market context. This outcome aligns closely with the core tenets of Stakeholder Theory, which posits that sustained organizational success is contingent not solely upon delivering returns to shareholders, but more broadly upon a firm's adeptness in managing its obligations to a heterogeneous stakeholder base, spanning employees, consumers, regulatory bodies, and surrounding communities (Mishra et al., 2024; Choi et al., 2023). When a firm openly reports its environmental, social, and governance performance, it responds to escalating stakeholder demands for corporate accountability and responsible conduct. Such candid reporting attenuates the informational gap between the company and its stakeholders, fosters institutional trust, and strengthens reputational capital, intangible assets that the market systematically rewards through premium valuations. These findings echo the conclusions of Choi et al. (2023) and Mishra et al. (2024), both of whom documented that superior ESG disclosure quality is positively recognized and compensated by capital market participants.

Furthermore, the value creation process from transparent ESG disclosure materializes through several concrete financial and operational pathways (Rastogi et al., 2024). Effective disclosure on environmental management can signal greater resource efficiency and lower operating costs, while disclosure on strong social policies can improve human capital by attracting and retaining top talent, thereby fostering innovation and productivity. Moreover, disclosure of robust governance and proactive management of environmental and social issues serves as a powerful risk mitigation tool, and reducing the likelihood of costly regulatory sanctions, which in turn increases resilience during crises (Dogru et al., 2022). This lower risk profile, combined with increased access to a growing pool of capital from sustainability-focused investors, makes the firm a more attractive investment (Qureshi et al., 2020). Therefore, the market's positive valuation reflects a rational assessment that transparent ESG disclosure is not merely an ethical stance but a fundamental indicator of superior management quality and long-term financial resilience.

This idea that ESG disclosure is a hallmark of superior risk management becomes particularly powerful and rings especially true within Indonesia's unique context. Here, the push from stakeholders isn't just an unspoken pressure; it's been formalized into regulations, which effectively raises the bar for corporate accountability (Rahmaniati & Ekawati, 2024). What's more, for an economy with heavy exposure to sensitive sectors like mining, energy, and palm oil, transparent ESG disclosure is far more than a box-ticking exercise to meet global standards (Kusno & Sari, 2026). It's a crucial strategy for managing tangible, material risks

from environmental concerns and relations with indigenous communities to labor practices that frequently draw the scrutiny of international investors. This all confirms the study's finding that, specifically within the context, the capital market rationally rewards firms that use ESG disclosures as a credible mechanism to manage risk and build long-term value.

The most salient contribution of this study emerges from the strong empirical backing for Hypothesis 2, substantiating the indispensable moderating function that board independence performs in the ESG-value relationship. The evidence unambiguously demonstrates that the value-enhancing effect of ESG disclosure intensifies considerably as the count of independent commissioners on the supervisory board increases. This pattern is most compellingly interpreted through the theoretical apparatus of Agency Theory. At the heart of this framework lies the recognition that divergent interests between managerial agents and shareholder principals generate persistent governance tensions (Rastogi et al., 2024). ESG programs, despite their inherent merit, remain vulnerable to cosmetic implementation commonly termed "greenwashing" in the absence of adequate oversight, whereby executives may orchestrate performative disclosures aimed at burnishing their personal standing rather than generating substantive long-run value.

Board independence serves as a vital internal check that directly neutralizes this governance shortfall (Choi et al., 2023). Through impartial and rigorous supervision, independent commissioners verify that ESG commitments are genuinely embedded in the firm's strategic trajectory rather than constituting hollow compliance exercises. This oversight dimension carries particular weight for investors operating in an emerging economy such as Indonesia, where the heterogeneity of governance quality elevates the informational value of board composition. In this setting, a robust independent board structure transmits a verifiable commitment signal to capital markets, assuring investors that reported ESG activities authentically reflect the firm's dedication to durable value creation (Mishra et al., 2024). Consequently, what the market ultimately prices is not ESG disclosure in isolation, but disclosure whose reliability is underwritten by credible independent governance, a conclusion that resonates with and extends the evidence documented by Choi et al. (2023) and Mishra et al. (2024), both of whom demonstrate that unlocking ESG's value-generative capacity requires sound governance architecture.

This role as a credible signal becomes even more pronounced when you look at the unique architecture of corporate governance in Indonesia. Unlike the single-board system common in many Western countries, Indonesia operates on a two-tier model. This places the critical oversight duty on a separate Board of Commissioners, where independent members are legally mandated to act as watchdogs over the management team. This structure is especially vital in a market characterized by concentrated ownership, where family-controlled conglomerates are the norm. In this environment, investors view independent commissioners as the frontline defense for minority shareholders, ensuring that value-creating ESG initiatives are genuinely embedded in strategy and benefit the entire company, rather than just serving the interests of the controlling owners. It's precisely this backdrop that explains why the market in Indonesia places such a

high premium on their oversight, viewing them as the essential ingredient that makes a firm's sustainability story believable and, ultimately, valuable.

However, these findings must be interpreted with a degree of caution. It is important to acknowledge that in the practical reality of developing economy like Indonesia, board independence can sometimes be symbolic or merely a matter of regulatory compliance (tokenism). The presence of unwritten affiliations or the strong influence of controlling shareholders may reduce the actual effectiveness of their objective oversight. Therefore, while board independence demonstrates a positive moderating effect in our model, the substantive effectiveness of these directors in practice may still face real-world constraints.

The analysis of the control variables provides additional context to the determinants of firm value. Firm Size shows a negative and significant relationship with firm value, suggesting that within this sample, the market may perceive smaller firms as having greater growth potential compared to their larger, more established counterparts. Conversely, Asset Turnover shows a strong positive and significant impact, aligning with financial theory that operational efficiency in generating revenue from assets is a key driver of value. Leverage also has a positive and significant effect, indicating that the use of debt financing is viewed favorably by the market, possibly due to tax advantages or as a signal of the firm's financial credibility to lenders. Finally, Firm Age did not demonstrate a statistically significant influence on firm value in the final model.

CONCLUSION

This study provides empirical evidence that ESG disclosure positively affects firm value, and that board independence significantly strengthens this relationship in the Indonesian capital market (675 firm-year observations, 2017–2023). These findings, grounded in stakeholder and agency theories, highlight the importance of credible governance in translating ESG commitments into tangible firm value. For managers, ESG initiatives must be coupled with robust independent oversight; for investors, board independence signals the credibility of sustainability claims; and for regulators such as OJK and IDX, policies should not only mandate disclosure but also reinforce the effective role of independent commissioners. Future research may disaggregate ESG pillars, incorporate additional governance mechanisms such as audit quality or institutional ownership, and conduct comparative industry analyses to yield more nuanced insights into the ESG-value nexus.

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