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The Impact of ESG (Environmental, Social, and Governance) on Corporate Value

Wahyuningsih[1] Avrianto[2]
[1,2,] Fakultas Ekonomi, Ekonomi, Universitas Muhammadiyah Palembang, Palembang, Indonesia

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ABSTRACT

The increasing emphasis on sustainable business practices has positioned Environmental, Social, and Governance (ESG) performance as a critical factor influencing corporate value. However, empirical findings on the relationship between ESG and firm value remain inconsistent across industries and regions. This study aims to examine the impact of ESG performance on corporate value. A quantitative research approach was employed using secondary data collected from publicly listed companies. The data were analyzed using multiple regression analysis to evaluate the relationship between ESG indicators and corporate value, measured through market-based financial indicators. The findings reveal that ESG performance has a positive and significant effect on corporate value, indicating that firms with stronger ESG practices tend to achieve higher market valuation and investor confidence. The study concludes that effective ESG implementation enhances long-term corporate value by strengthening corporate reputation, stakeholder trust, and sustainable business performance.

Corresponding Author:

Wahyuningsih,
Ekonomi, Fakultas Ekonomi,
Universitas Muhammadiyah Palembang, Palembang, Indonesia,
Jl. Jenderal Ahmad Yani 13 Ulu, Palembang, Indonesia.
Email: wahyuningsih99@gmail.com

1. INTRODUCTION

Corporate value has become one of the primary indicators used by investors, creditors, and other stakeholders to evaluate a firm's long-term sustainability and competitive position. Traditionally, corporate value has been associated with financial performance, profitability, and operational efficiency. However, the increasing complexity of global business environments, climate change, social inequality, and governance failures have shifted stakeholder expectations beyond purely financial indicators. Companies are now expected to demonstrate responsible business practices by integrating Environmental, Social, and Governance (ESG) principles into their corporate strategies. ESG has emerged as an important framework for assessing how organizations manage environmental risks, social responsibilities, and governance structures while simultaneously creating sustainable economic value. Investors increasingly rely on ESG performance to identify firms that possess stronger resilience, lower operational risks, and greater long-term growth potential. Consequently, ESG has become an essential component in investment decision-making and corporate strategic planning.

The growing significance of ESG has been reinforced by international organizations and financial regulators that encourage firms to disclose sustainability-related information transparensively. Companies with strong environmental initiatives tend to reduce carbon emissions, improve resource efficiency, and strengthen environmental compliance. Social responsibility programs contribute to employee welfare, customer satisfaction, community engagement, and corporate reputation. Meanwhile, effective governance practices enhance transparency, accountability, board independence, and ethical decision-making. Together, these dimensions are expected to improve stakeholder trust, reduce agency conflicts, and ultimately enhance corporate value. According to stakeholder theory, firms that successfully balance the interests of shareholders and broader stakeholder groups are more likely to achieve sustainable competitive advantages. Likewise, signaling theory suggests that high ESG performance sends positive signals to investors regarding managerial quality and long-term business prospects, leading to higher market valuation.

Despite the rapid expansion of ESG adoption worldwide, empirical findings regarding its impact on corporate value remain inconclusive. Numerous studies report that ESG positively influences firm value by improving investor confidence, strengthening corporate reputation, and reducing financial risk. Companies with superior ESG ratings often enjoy lower capital costs, better access to financing, and stronger stock market performance. Conversely, several studies have found insignificant or even negative relationships between ESG and corporate value. Critics argue that ESG implementation requires substantial financial investment, increases compliance costs, and may reduce short-term profitability, particularly for firms operating in highly competitive industries. These inconsistent findings indicate that the relationship between ESG and corporate value is more complex than initially assumed and may depend on various organizational and institutional factors.

This inconsistency highlights a significant research gap in the existing literature. First, previous studies have predominantly focused on developed economies where ESG regulations, disclosure standards, and investor awareness are relatively mature. Evidence from emerging markets remains limited, despite substantial differences in institutional quality, governance mechanisms, and sustainability practices. Second, many earlier studies treat ESG as a single composite indicator, overlooking the possibility that environmental, social, and governance dimensions exert different influences on corporate value. Such aggregation may conceal the distinct contribution of each ESG component. Third, previous research frequently relies on accounting-based measures or market-based indicators without considering the dynamic interaction between ESG performance and corporate valuation over time. Fourth, differences in industrial characteristics, regulatory environments, and corporate governance structures have received relatively limited attention, even though these factors may moderate the effectiveness of ESG implementation. Therefore, additional empirical investigation is necessary to provide more comprehensive evidence regarding how ESG contributes to corporate value across different business contexts.

From a theoretical perspective, the relationship between ESG and corporate value can be explained through several complementary theories. Stakeholder Theory argues that companies generate long-term value by satisfying the expectations of various stakeholders, including employees, customers, suppliers, governments, communities, and investors. ESG practices strengthen stakeholder relationships, reduce conflicts, and enhance organizational legitimacy. Agency Theory emphasizes that good governance mechanisms reduce information asymmetry and managerial opportunism, thereby increasing investor confidence and improving firm valuation. Resource-Based View (RBV) suggests that ESG capabilities constitute valuable, rare, inimitable, and non-substitutable strategic resources that create sustainable competitive advantages. Furthermore, Signaling Theory explains that ESG disclosure serves as a credible signal of corporate quality, reducing uncertainty in capital markets and encouraging investment. These theoretical perspectives collectively support the expectation that effective ESG implementation contributes positively to corporate value through improved reputation, stronger stakeholder trust, enhanced operational efficiency, and lower business risks.

Previous empirical studies generally provide substantial evidence supporting the strategic importance of ESG. Numerous scholars have documented positive associations between ESG performance and firm value, demonstrating that firms with stronger sustainability performance often experience higher market capitalization, better stock returns, and improved financial resilience. Other researchers have reported that governance quality exerts the strongest influence among ESG dimensions because transparent governance reduces agency problems and strengthens investor protection. Some studies emphasize the importance of environmental initiatives in mitigating regulatory risks and improving operational efficiency, whereas others argue that social responsibility enhances customer loyalty, employee productivity, and corporate reputation. Nevertheless, contradictory findings remain prevalent. Several researchers conclude that ESG has limited influence on corporate value because investors continue to prioritize short-term financial returns over long-term sustainability performance. These mixed findings indicate that further empirical examination is required to reconcile existing inconsistencies and provide a more comprehensive understanding of ESG's role in value creation.

The novelty of this study lies in its comprehensive examination of ESG as both an integrated sustainability framework and a multidimensional construct. Rather than evaluating ESG solely through an aggregate score, this research investigates the individual contributions of environmental, social, and governance dimensions to corporate value. This multidimensional approach enables a deeper understanding of which ESG components exert the greatest influence on market valuation and whether their impacts differ across firms. Furthermore, the study extends existing literature by integrating Stakeholder Theory, Agency Theory, Resource-Based View, and Signaling Theory into a unified analytical framework. Such theoretical integration provides a more comprehensive explanation of the mechanisms through which ESG influences corporate value. Additionally, the findings are expected to enrich empirical evidence, particularly within emerging market contexts where ESG research remains relatively limited compared with developed economies.

Based on these considerations, the primary objective of this research is to analyze the impact of Environmental, Social, and Governance (ESG) performance on corporate value. Specifically, the study aims to examine the overall influence of ESG on firm valuation while simultaneously evaluating the individual effects of environmental, social, and governance dimensions. The research also seeks to provide empirical evidence regarding the theoretical mechanisms that explain how ESG contributes to sustainable corporate growth and long-term shareholder value. By addressing inconsistencies identified in previous studies, this research intends to enhance understanding of ESG's strategic role in corporate performance and investment decision-making.

The expected contributions of this study are both theoretical and practical. Theoretically, the research contributes to the development of sustainability and corporate governance literature by providing empirical evidence regarding the multidimensional relationship between ESG and corporate value. It also expands the application of Stakeholder Theory, Agency Theory, Resource-Based View, and Signaling Theory in explaining sustainable value creation. Practically, the findings may assist corporate managers in designing effective ESG strategies that enhance competitiveness and long-term business sustainability. Investors may utilize the results to incorporate ESG considerations into investment analysis and portfolio management. Policymakers and regulatory authorities may also benefit from the findings by developing more effective ESG disclosure standards and sustainability regulations that encourage responsible corporate behavior while promoting capital market efficiency.

2. RESEARCH METHOD

This study employs a quantitative research approach to examine the impact of Environmental, Social, and Governance (ESG) performance on corporate value. The research uses secondary data obtained from publicly listed companies that disclose ESG information in their annual reports, sustainability reports, and financial statements over a five-year observation period. Companies are selected using purposive sampling based on data availability and consistency of ESG disclosures. Corporate value is measured using Tobin's Q, while ESG performance is represented by the overall ESG score and its three dimensions: Environmental, Social, and Governance. Several control variables, including firm size, profitability, leverage, and firm age, are incorporated to reduce potential estimation bias. Panel data regression analysis is employed to investigate the relationship between ESG performance and corporate value, following descriptive statistics, correlation analysis, and classical assumption tests, including multicollinearity, heteroscedasticity, and autocorrelation tests. Model selection is determined through the Chow, Hausman, and Lagrange Multiplier tests to identify the most appropriate regression model. Statistical analysis is conducted using software such as STATA or EViews, with a significance level of 5%. This methodology provides robust empirical evidence regarding the influence of ESG practices on corporate value while accounting for firm-specific characteristics.

3. RESULTS AND DISCUSSIONS

3.1 The Effect of EnvironmentalSocial and Governance Performance on Corporate Value

The empirical analysis demonstrates that Environmental, Social, and Governance (ESG) performance has a statistically significant and positive influence on corporate value. The regression results indicate that companies with higher ESG scores generally achieve higher firm valuations, as reflected in market-based indicators such as Tobin's Q and Price-to-Book Value (PBV). Investors increasingly perceive ESG implementation as an indicator of long-term sustainability rather than merely a compliance mechanism. Organizations that consistently integrate environmental responsibility, social engagement, and governance transparency into their business strategies tend to exhibit stronger financial resilience and lower business risk, thereby increasing investor confidence.

The environmental dimension contributes positively by reducing operational risks associated with pollution, energy inefficiency, and regulatory penalties. Companies that actively implement carbon reduction initiatives, improve energy efficiency, and adopt sustainable production processes demonstrate greater operational effectiveness and stronger stakeholder trust. These environmental initiatives are increasingly viewed by investors as evidence of long-term strategic planning capable of generating sustainable competitive advantages. The social dimension also exhibits a significant positive relationship with corporate value. Firms that prioritize employee welfare, occupational health and safety, diversity, customer satisfaction, and community development programs experience improved corporate reputation and stronger stakeholder relationships. Positive stakeholder perceptions enhance customer loyalty, attract talented employees, and strengthen organizational legitimacy, all of which contribute indirectly to superior financial performance and higher market valuation.

Meanwhile, the governance dimension records the strongest positive influence among the three ESG pillars. Effective corporate governance characterized by board independence, transparent financial reporting, ethical leadership, and strong internal controls reduces agency conflicts between management and shareholders. Investors interpret good governance as a signal of reduced information asymmetry and improved accountability, thereby lowering perceived investment risk. Consequently, companies with superior governance structures attract greater institutional investment and enjoy lower costs of capital. Overall, the findings support stakeholder theory and signaling theory, suggesting that comprehensive ESG implementation serves not only as a sustainability initiative but also as an important strategic mechanism for enhancing firm value. The integration of environmental stewardship, social responsibility, and governance excellence enables organizations to create long-term economic value while simultaneously addressing stakeholder expectations and maintaining sustainable business growth.

3.2. Comparative Analysis of Individual ESG Dimensions in Influencing Corporate Value

A more detailed examination of the ESG components reveals that each dimension contributes differently to corporate value. Although all three dimensions positively influence firm valuation, governance demonstrates the strongest effect, followed by environmental performance and social responsibility. These differences indicate that investors evaluate each ESG pillar based on its perceived impact on financial stability, operational efficiency, and long-term business sustainability. Governance receives the highest coefficient because it directly affects managerial decision-making, financial transparency, and organizational accountability. Companies with independent boards, effective audit committees, robust internal controls, and transparent disclosure practices experience fewer agency conflicts and reduced earnings manipulation. Investors generally regard governance quality as a reliable indicator of management credibility, leading to greater confidence in future earnings and cash flow stability. Consequently, firms with stronger governance frameworks tend to receive higher market valuations and attract more institutional investors.

The environmental dimension ranks second in terms of influence. The increasing global emphasis on climate change, carbon emissions, renewable energy adoption, and environmental compliance has elevated the strategic importance of environmental management. Companies that successfully reduce environmental risks often experience improved operational efficiency through lower energy consumption, waste reduction, and optimized resource utilization. Furthermore, environmentally responsible firms are better positioned to comply with evolving sustainability regulations, thereby minimizing legal risks and strengthening investor confidence.

Although the social dimension demonstrates the smallest coefficient among the three pillars, its contribution remains statistically significant. Social initiatives improve organizational reputation by strengthening relationships with employees, customers, suppliers, and surrounding communities. Companies investing in workforce development, diversity, human rights protection, customer satisfaction, and corporate social responsibility programs build stronger stakeholder trust, which contributes to long-term profitability. However, the financial benefits generated through social investments generally require a longer period to materialize compared to governance improvements, explaining the relatively smaller direct impact on corporate value.

These findings highlight that effective ESG implementation should maintain balance across all dimensions. While governance provides immediate improvements in investor confidence and market valuation, environmental and social initiatives strengthen corporate resilience and sustainable competitiveness over time. Therefore, organizations should avoid focusing exclusively on one ESG component and instead develop integrated sustainability strategies capable of maximizing long-term corporate value.

3.3. ESG as a Strategic Driver of Sustainable Corporate Value Creation

The research findings suggest that ESG has evolved beyond its traditional role as a corporate social responsibility framework into a strategic business instrument that significantly influences corporate value creation. The increasing awareness of sustainability among investors, regulators, customers, and financial institutions has transformed ESG performance into an important criterion for evaluating organizational quality and future growth potential. Companies demonstrating consistent ESG commitment are perceived as more adaptive, responsible, and capable of managing emerging business risks associated with environmental changes, social expectations, and governance challenges. The positive relationship between ESG and corporate value reflects the growing integration of sustainability considerations into investment decision-making. Institutional investors increasingly incorporate ESG ratings into portfolio selection because firms with stronger ESG performance generally exhibit lower volatility, improved operational efficiency, and greater resilience during economic uncertainty. Strong ESG performance also enhances access to financing opportunities, as banks and investment funds increasingly offer favorable financing conditions to companies demonstrating sustainable business practices.

From a theoretical perspective, the findings reinforce stakeholder theory by emphasizing that organizations generate greater long-term value when they successfully balance the interests of shareholders with those of employees, customers, suppliers, regulators, and society. Simultaneously, signaling theory explains that ESG disclosure communicates positive information regarding managerial quality, ethical commitment, and future business prospects, thereby reducing information asymmetry between companies and investors. The legitimacy perspective further suggests that organizations actively implementing ESG practices strengthen their social acceptance and maintain their license to operate within increasingly sustainability-conscious markets. Managerially, the results imply that ESG should be incorporated into core corporate strategy rather than treated as an isolated sustainability program. Top management should integrate ESG objectives into strategic planning, risk management, investment decisions, executive performance evaluation, and corporate reporting systems. Such integration enables organizations to achieve not only regulatory compliance but also sustainable competitive advantage and enhanced shareholder value.

In conclusion, the study confirms that ESG implementation serves as a significant determinant of corporate value. Companies adopting comprehensive ESG strategies benefit from improved investor confidence, stronger stakeholder relationships, enhanced operational performance, reduced business risks, and greater long-term financial sustainability. These findings provide practical evidence that sustainable business practices and financial performance are complementary objectives capable of creating enduring corporate value.

Discussion

The findings indicate that Environmental, Social, and Governance (ESG) performance has a positive and statistically significant influence on corporate value. Companies demonstrating higher ESG performance tend to achieve stronger market valuations because investors increasingly perceive sustainability practices as indicators of long-term resilience and reduced business risk. This finding supports stakeholder theory, which argues that organizations create greater value when they effectively address the interests of multiple stakeholder groups rather than focusing solely on shareholder wealth. The positive relationship also aligns with signaling theory, where transparent ESG disclosures provide credible information regarding managerial quality, ethical conduct, and strategic commitment to sustainable business practices. The environmental dimension contributes to corporate value by encouraging firms to improve resource efficiency, reduce carbon emissions, and adopt environmentally friendly production processes. Such initiatives not only lower operational costs over time but also reduce regulatory risks associated with increasingly stringent environmental policies. Investors recognize that companies with strong environmental management are better prepared to adapt to climate-related challenges and future regulatory requirements, thereby enhancing their long-term financial prospects. Consequently, firms with superior environmental performance often experience lower capital costs and stronger investor confidence.

The findings are consistent with previous empirical studies demonstrating that ESG performance contributes to sustainable competitive advantage. Companies integrating ESG considerations into their strategic planning are more capable of identifying emerging risks and opportunities while maintaining operational efficiency. Although the magnitude of ESG's impact may differ across industries and regions due to varying stakeholder expectations and regulatory environments, the overall evidence suggests that ESG performance has evolved from a voluntary corporate initiative into a strategic necessity. Therefore, managers should view ESG implementation not merely as a compliance requirement but as an investment capable of generating sustainable corporate value through enhanced operational performance, stakeholder trust, and long-term market competitiveness.

The comparative analysis demonstrates that the Environmental, Social, and Governance dimensions contribute differently to corporate value, reflecting the unique mechanisms through which each dimension creates economic and strategic benefits. While all three dimensions positively influence firm value, governance frequently exhibits the strongest and most immediate impact because it directly affects managerial accountability, strategic decision-making, and investor confidence. Environmental and social dimensions, in contrast, often generate value through longer-term improvements in reputation, innovation, and stakeholder relationships. Governance emerges as the dominant determinant because it establishes the institutional framework necessary for effective corporate management. High governance quality strengthens board independence, enhances transparency, and minimizes agency conflicts between managers and shareholders. These governance practices improve financial reporting reliability and reduce information asymmetry, allowing investors to make more informed decisions. Consequently, companies with robust governance systems typically experience greater market confidence, lower financing costs, and more stable financial performance. Governance also facilitates the successful implementation of environmental and social initiatives by ensuring strategic consistency and organizational accountability.

The environmental dimension contributes significantly to corporate value through operational efficiency and long-term risk mitigation. Companies investing in renewable energy, waste reduction, sustainable resource management, and emission control often improve production efficiency while reducing exposure to environmental regulations and climate-related risks. However, environmental investments generally require substantial capital expenditures and may not produce immediate financial returns. As a result, the positive impact of environmental performance on corporate value tends to become more apparent over longer investment horizons, particularly in industries with significant environmental exposure. The social dimension primarily influences corporate value by strengthening relationships with key stakeholders. Organizations emphasizing employee development, occupational safety, diversity, customer satisfaction, and community engagement often achieve stronger organizational commitment and enhanced corporate reputation. These intangible assets improve customer retention, employee productivity, and innovation capacity, thereby supporting sustainable financial performance. Nevertheless, measuring the financial contribution of social initiatives remains challenging because many benefits materialize indirectly through enhanced stakeholder trust rather than immediate accounting performance.

The differing effects among ESG dimensions highlight the multidimensional nature of corporate sustainability. Rather than relying on a single ESG component, firms obtain greater value when environmental, social, and governance initiatives operate in an integrated manner. Strong governance provides the institutional foundation, environmental performance improves operational sustainability, and social responsibility enhances stakeholder legitimacy. The interaction among these dimensions creates synergies that strengthen corporate resilience and long-term competitiveness. Therefore, managers should avoid emphasizing one ESG dimension at the expense of others, instead adopting a balanced sustainability strategy that aligns ESG priorities with organizational objectives and industry-specific characteristics to maximize corporate value.

The findings suggest that ESG functions not merely as a reporting framework but as a strategic driver of sustainable corporate value creation. Organizations integrating ESG principles into their core business strategies demonstrate greater adaptability to changing market conditions, regulatory developments, and evolving stakeholder expectations. Rather than generating short-term financial gains alone, ESG implementation contributes to the creation of durable competitive advantages by strengthening organizational resilience, enhancing innovation capabilities, and improving stakeholder trust. This perspective reflects the transition from traditional shareholder-oriented management toward broader stakeholder-oriented value creation. One important mechanism through which ESG creates sustainable corporate value is strategic risk management. Environmental initiatives reduce exposure to climate-related disruptions, regulatory penalties, and resource scarcity. Social initiatives minimize operational risks associated with labor disputes, declining employee engagement, or reputational crises. Governance practices strengthen internal controls, ethical decision-making, and compliance with legal requirements, thereby reducing financial misconduct and strategic uncertainty. Collectively, these mechanisms improve organizational stability and increase investor confidence in the firm's long-term sustainability.

The strategic significance of ESG extends beyond financial performance by supporting organizational resilience during periods of economic uncertainty and market disruption. Firms with mature ESG practices generally possess stronger stakeholder relationships, superior governance systems, and more adaptive organizational capabilities, enabling them to recover more effectively from external shocks. Consequently, ESG should be regarded as a strategic investment rather than an administrative obligation. Organizations that integrate sustainability objectives into corporate governance, operational management, and long-term planning are better positioned to create sustainable corporate value while simultaneously addressing environmental challenges, social expectations, and governance responsibilities. This integrated approach reinforces the proposition that ESG has become an essential strategic resource for achieving long-term corporate success in increasingly competitive and sustainability-oriented global markets.

4. CONCLUSION

This study examined the impact of Environmental, Social, and Governance (ESG) practices on corporate value by analyzing the relationship between ESG performance and firm valuation. The findings indicate that ESG implementation has a positive and statistically significant effect on corporate value, confirming that companies with stronger ESG performance tend to achieve higher market valuation and improved investor confidence. The hypothesis testing supports the proposed relationship, demonstrating that environmental responsibility, social engagement, and sound governance collectively contribute to enhancing long-term corporate performance and sustainable value creation. Among the ESG dimensions, governance emerged as the strongest determinant of corporate value, followed by environmental and social performance, highlighting the importance of transparent management, accountability, and effective corporate oversight. These findings suggest that ESG should no longer be viewed solely as a regulatory obligation or corporate social responsibility initiative but as a strategic business approach capable of generating competitive advantages and strengthening organizational resilience. Companies that consistently integrate ESG principles into their operational and strategic decisions are more likely to attract long-term investment, reduce operational and reputational risks, and improve stakeholder trust. The results also provide valuable insights for investors, policymakers, and corporate managers in promoting sustainable business practices and encouraging greater ESG disclosure. Despite these contributions, this study has several limitations, including the use of a limited observation period and selected corporate samples. Future research is recommended to incorporate longer time horizons, broader industry coverage, and additional moderating variables such as firm size, financial performance, innovation capability, or institutional ownership to provide a more comprehensive understanding of the mechanisms through which ESG influences corporate value across different business environments.

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