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The Influence of ESG Disclosure and Institutional Ownership on Firm Value with Firm Size as a Moderating Variable (A Case Study of Companies Listed on the Indonesia Stock Exchange in 2018–2024)

Della Gesafhira Sudradjat[1], Neni Maryani[2]

[1,2]Jenderal Achmad Yani University, Indonesia

Email: dellagesafhira_22p086@Ak.ac.unjani.id , neni.maryani@lecture.unjani.ac.id

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Abstract

This research investigates how environmental, social, and governance (ESG) reporting and the presence of institutional investors impact a company's worth, considering company size as a factor that changes this relationship, based on companies listed on the Indonesian stock market (IDX) between 2018 and 2024. A numerical method was used, analyzing 167 data points after removing unusual values, where the variables were quantified using the GRI standard, the proportion of shares held by institutions, the logarithm of the company's total assets, and Tobin's Q ratio. Regression and moderated regression analysis results indicate that ESG reporting and institutional investors have a noticeably positive influence on a company's worth, accounting for 30.6% of the changes in its value. Company size reduces the impact of ESG reporting but boosts the impact of institutional investors, with the model describing 33.9% of a company's worth. The results highlight the need to improve the quality of ESG practices, increase oversight by institutional investors, and promote more studies into the standards of sustainability reporting.

INTRODUCTION

Firm value reflects investors' perceptions of an issuer's fundamental performance and sustainability prospects. Optimising firm value is essential for maintaining market confidence, particularly amid the volatility of the Indonesian capital market. The decline in the Composite Stock Price Index (IHSG) during the August–September 2025 period, driven by macroeconomic pressures and social tensions, demonstrates that firm value is highly sensitive to external factors. (Bisnis, 2025; Liputan6, 2025). Amid this uncertainty, the paradigm for evaluating corporate performance has shifted; profitability is no longer the sole benchmark but is instead integrated with social contributions, environmental impacts, and ethical governance. (Khotimah & Maryani, 2025).

In response to this paradigm shift, Environmental, Social, and Governance (ESG) emerges as a crucial instrument for disclosing non-financial information that is vital for investment risk assessment (Huang et al., 2025; Jayanti et al., 2024). In Indonesia, this urgency is reinforced by the Financial Services Authority regulation POJK No.51/POJK.03/2017, which mandates the preparation of sustainability reports. Although empirical studies note an improvement in reporting quality after the regulation (Harahap & Isgiyarta, 2022), the impact of ESG on firm value still demonstrates discrepancies. Several studies confirm that ESG disclosure can enhance investor sentiment and firm value (Aydoğmuş et al., 2022; Chang & Lee, 2022; Wu et al., 2022). Conversely, other studies find that ESG disclosure has no significant effect, suggesting that the

market may not yet fully appreciate sustainability information as a determining factor in valuation (Angela & Sari, 2023; Syahwallistiana & Yusuf, 2025).

In addition to sustainability factors, governance structure through institutional ownership plays a determining role in monitoring mechanisms. Institutional investors are assumed to possess superior analytical capabilities to mitigate agency conflicts and pressure management to act in the best interests of shareholders (Juliani & Finatariani, 2023). Theoretically, higher institutional ownership is positively correlated with firm value (Wardani et al., 2025). However, empirical findings again reveal inconsistencies. Some researchers report a significant positive effect (Dewi, 2023; Murti et al., 2024), while others conclude that not all institutions perform their monitoring function effectively (i.e., passive), resulting in an inconclusive impact on firm value(Irfani & Sanjaya, 2024; Mora et al., 2023).

The inconsistencies in prior research findings indicate the presence of other contingency variables influencing these relationships, one of which is firm size. Firm size reflects the availability of resources, public visibility, and the regulatory pressures faced by issuers. Large firms tend to have greater capacity for implementing ESG initiatives and attract more stringent institutional monitoring compared to smaller firms (Bangun et al., 2024; Sembiring, 2024). Therefore, firm size is projected to moderate either strengthen or weaken the effects of ESG disclosure and institutional ownership on firm value (Chakkravarthy, 2023; Nel, 2024).

Firm size also influences this dynamic. Large firms tend to possess sufficient resources, greater public exposure, and stronger regulatory pressure, which encourages them to disclose sustainability information (Bangun et al., 2024; Sembiring, 2024). Conversely, smaller firms may face limitations in both disclosure practices and the effectiveness of institutional investor monitoring. Therefore, firm size is considered a moderating variable that may strengthen or weaken the relationship between ESG disclosure and institutional ownership with firm value (Chakkravarthy, 2023; Nel, 2024).

Based on the identified research gap, this study aims to analyse the effect of ESG disclosure and institutional ownership on firm value, as well as to examine the moderating role of firm size in these causal relationships. This study offers novelty by integrating a firm-size moderation model using recent data (2018–2024), which captures the period following the full implementation of POJK No.51/2017 and reflects the latest market dynamics. Focusing on an emerging market such as Indonesia provides important empirical contributions, given its distinct market characteristics compared to developed economies. Specifically, this study addresses research questions regarding the significance of the direct effects of both independent variables on firm value and the effectiveness of firm size in moderating these relationships.

METHODS

This research utilizes a quantitative method with a causal-associative framework to investigate how ESG reporting and institutional investors impact a company's worth, while also considering how company size influences these relationships. The information analyzed is comprised of existing data gathered from yearly reports, sustainability documents, and stock market details sourced from both the official company websites and the Indonesian Stock Exchange (IDX). Microsoft Excel 2019 and IBM SPSS version 27 were employed to analyze the data. The scope of the study encompasses all businesses listed on the Indonesia Stock Exchange

(IDX) from 2018 to 2024, and the selection of the sample involved purposive sampling according to particular requirements.

Table 1
Sample Selection Scheme

No	Description	Number
	Companies listed on the Indonesia Stock Exchange (IDX) during 2018–2024	940
1	Companies that did not publish sustainability reports and annual reports consecutively from 2018–2024	(898)
2	Companies that experienced stock trading suspension status on the Indonesia Stock Exchange (IDX) during 2018–2024	(3)
	Total research sample	39
	Number of periods	7
	Total Firm-year Observations	273

Source: Data processed in 2025

The research variables are defined in the following way: ESG disclosure is evaluated by comparing the number of GRI items that have been disclosed to the total GRI items that can be disclosed. Institutional ownership is assessed by looking at the fraction of shares held by institutions. Firm size is evaluated by taking the natural logarithm of total assets, and firm value is figured out through the Tobin's Q ratio. Data analysis was carried out through different steps which included descriptive statistics, testing classic assumptions like normality, multicollinearity, heteroscedasticity, and autocorrelation, as well as multiple linear regression and Moderated Regression Analysis (MRA) to check how one variable influences another. The t-test was used to evaluate partial effects, while the F-test examined effects that occur at the same time, and the coefficient of determination was used to evaluate how well the model explains the dependent variable. All the analytical steps were carefully organized to make sure that the study could be repeated in the same setting and timeframe. Using the variable definitions and analytical methods, the connections among the variables in this research have been arranged into a conceptual model, as shown in the figure of the research model.

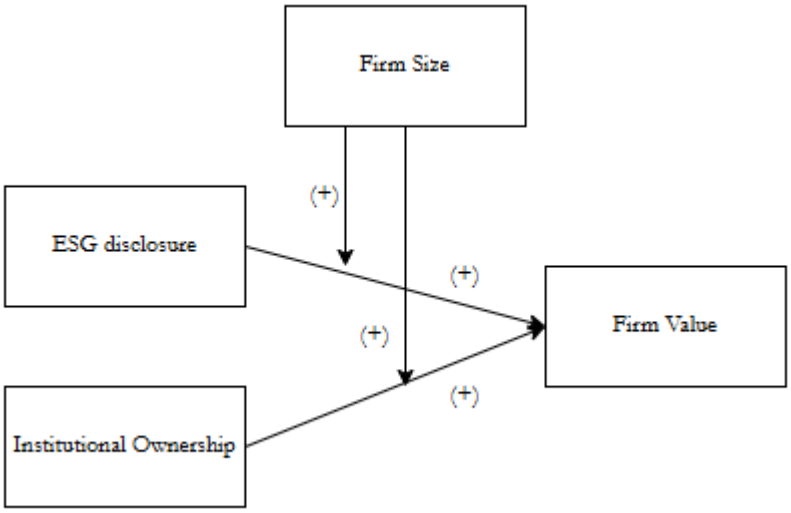

Figure 1
Research model

RESULTS AND DISCUSSION

Research Results

In the initial stage, this study utilized 273 observations as the sample size. However, the results of the normality test indicated that part of the data was not normally distributed and several outliers were identified. Data that did not meet the normality assumption were subsequently removed from the analysis to maintain the validity and reliability of the research findings. After the data screening process, the number of observations that met the analytical criteria was reduced to 167.

Descriptive Statistics

Table 2
Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ESG	167	0.18	0.99	0.5401	0.22968
IO	167	0.70	1.08	0.9105	0.09236
LN_T.ASSET	167	28.56	35.43	31.9334	1.91298
TOBIN Q	167	0.64	1.32	0.9886	0.16277
Valid N (listwise)	167				

Source: Data processed by SPSS (2025)

The findings related to the ESG disclosure variable indicate a lowest value of 0.18 and a highest value of 0.99, with an average value of 0.5401. The Institutional Ownership variable reveals a lowest value of 0.70 and a highest value of 1.08, with an average value of 0.9105. For the Firm Size variable, the lowest value is 28.56 and the highest value is 35.43, resulting in an average value of 31.9334. At the same time, the firm value variable has a lowest value of 0.64 and a highest value of 1.32, leading to an average value of 0.9886.

Classical Assumption Test

Table 3
Classical Assumption Test Results

No	Classical Assumption Test	Result	Decision
1	Data Normality Test	Asymp Sig (2-tailed) value 0.200	Normal distributed data
2	Multicollinearity Test	ESG VIF value; OI; FS = 1.131;2.006;2.030 > 10 ESG Tolerance Value;OI;FS= 0.884;0.499;0.493 <0.1	There is no multicollinearity
3	Heteroskedasticity Test	The dots spread randomly on the scatterplot, and spread under the number 0 on the Y axis	There is no heteroskedasticity
4	Autocorrelation Test	Durbin-Watson value = 1.963 Du<d<4-1.7836 1.7826<1.963<2.2164	There is no autocorrelation

Source: Data processed by SPSS (2025)

The outcomes from the Classical Assumption evaluations show that the regression model satisfies all necessary requirements. The Kolmogorov–Smirnov examination indicates that the data follow a normal distribution, while the test for multicollinearity reveals there are no correlation problems among the independent variables, with all VIF numbers below 10 and Tolerance figures higher than 0.10. The evaluation of heteroscedasticity through a scatterplot illustrates that the leftover values are spread out randomly, confirming the presence of homoscedasticity. Additionally, the Durbin–Watson score of 1.963 is within the acceptable limits, suggesting there is no positive or negative autocorrelation. Together, these findings confirm that the regression model is suitable for additional analysis.

Regression Analysis

Multiple linear regression analysis aims to determine the relationship between the independent variables and the dependent variable**.**

Table 4
Results of the multiple regression analysis and the Moderated Regression Analysis (MRA)

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	2.56E-15	0.07
	ESG	0.255	0.07
	IO	0.255	0.09
	LN_T.ASSET	0.191	0.09
2	ESG Moderate T.Asset	-0.175	0.08
	IO Moderate T.Asset	0.220	0.08

Source: Data processed by SPSS (2025)

Based on the test results presented in Table 6, the multiple linear regression equation employed in this study is as follows:

$$Y= 0.000000000000002563 + 0.255 + 0.255 + 0.191 - 0.175 + 0.220$$

The regression coefficients indicate that a one-unit increase in the ESG score has the potential to increase Tobin's Q by 0.255. Similarly, a one-unit increase in institutional ownership also increases Tobin's Q by 0.255. In addition, firm size exerts a positive influence with a coefficient of 0.191. Conversely, the interaction between institutional ownership and firm size (X1M) yields a negative coefficient of –0.175, suggesting that firm size weakens the effect of institutional ownership on firm value. In contrast, the interaction between ESG and firm size (X2M) produces a positive coefficient of 0.220, indicating that firm size strengthens the effect of ESG on firm value.

Determination Coefficient Test

Table 5
Determination Coefficient Test Results

Model Summary[c]			
Model	R	R Square	Adjusted R Square

1	.553[a]	0.306	0.293
2	.582[b]	0.339	0.318
a. Predictors: (Constant), LN_T.ASSET, ESG, IO			
b. Predictors: (Constant), LN_T.ASSET, ESG, IO, ESG Moderate T.Asset, IO Moderate T.Asset			
c. Dependent Variable: TOBIN Q			

Source: Data processed by SPSS (2025)

Model 1, which consists of the ESG, institutional ownership (KI), and firm size (LN_T.ASET) variables, shows an R Square value of 0.306. This indicates that these three independent variables collectively explain 30.6% of the variation in the dependent variable, Tobin's Q.

Model 2, which incorporates two moderating variables (ESG moderated by total assets and institutional ownership moderated by total assets), demonstrates an improvement in the model's explanatory power. The R Square value increases to 0.339, meaning that this model explains 33.9% of the variation in Tobin's Q. The increase of 3.3% (R Square Change = 0.033) is statistically significant, with an F Change value of 3.977 and a Sig. F Change of 0.021 < 0.05. The Adjusted R Square also rises to 0.318, confirming that the inclusion of moderating variables contributes to enhancing the overall quality of the model.

Hypothesis Testing

Table 6
Hypothesis Testing Results

Coefficients[a]				**ANOVA[a]**			
Model		t	Sig.	Model		F	Sig
1	(Constant)	0	1	1	Regression	23.955	0.000[b]
	ESG	3.677	0.00		Residual		
	IO	2.755	0.01		Total		
	LN_T.ASSET	2.058	0.04	2	Regression	16.489	0.000[c]
2	ESG Moderate T.Asset	-2.19	0.03		Residual		
	IO Moderate T.Asset	2.805	0.01		Total		
a. Dependent Variable: TOBIN Q							
b. Predictors: (Constant), LN_T.ASSET, ESG, IO							
c. Predictors: (Constant), LN_T.ASSET, ESG, IO, ESG Moderate T.Asset, OI Moderasi T.Asset							

Source: Data processed by SPSS (2025)

The t-test outcomes reveal that for Model 1, the significance measures for ESG disclosure, how many shares are held by institutions, and the size of the company are all less than 0.05. This suggests that each of these three factors has an important and notable impact on what the company is worth. As for Model 2, the way ESG and company size affect each other is also important, with a p-value of less than 0.05. This points to the fact that the size of the company lessens the connection between sharing ESG information and the company's worth. Looking at it from another angle, the way institutional ownership and company size interact shows a

significance measure that is also under 0.05, proving that the company's size makes the relationship between institutional ownership and company worth more positive.

The F-test outcomes for Model 1 show an F-statistic of 23.955, paired with a significance measure of 0.000, which backs up the claim that ESG disclosure and institutional ownership have a noticeable and real effect on the company's worth when they are looked at together. Moving on to Model 2, the F-statistic of 16.489, along with its significance measure of 0.000, is still considerably greater than what is needed on the F-table to be meaningful. This signals that putting in the variables that change the relationship does not lower how important the model is overall.

DISCUSSION

The findings of this study affirm that the quality of ESG disclosure, institutional ownership, and firm size collectively shape the market's perception of firm value. Interpreted through the lens of Stakeholder Theory, these results are reasonable: corporate value reflects the extent to which a company fulfils the demands, expectations, and legitimacy requirements of its various stakeholders (Aydoğmuş et al., 2022; Chang & Lee, 2022). In other words, the market evaluates not only future cash flows but also the company's relationships with communities, regulators, customers, and institutional investors.

First, the positive effect of ESG disclosure on firm value indicates that sustainability reporting serves as a communication mechanism that enhances corporate legitimacy (Huang et al., 2025; Wu et al., 2022). Second, institutional ownership is also found to have a significantly positive impact on firm value. From a stakeholder perspective, financial institutions function as influential stakeholders that demand accountability and transparent governance; their monitoring role encourages firms to respond to public expectations and those of other investors (Murti et al., 2024; Wardani et al., 2025).

The moderation analysis reveals nuanced dynamics. The interaction between ESG and firm size is significantly negative, suggesting the presence of a baseline expectation phenomenon within the stakeholder framework: for large firms, ESG practices are often perceived as a minimum requirement rather than a strategic differentiator, meaning that enhanced disclosure does not always translate into increased valuation (Nel, 2024). Conversely, the interaction between institutional ownership and firm size is significantly positive, indicating that institutional monitoring becomes more effective and valuable in firms with high visibility; institutions help balance the broader interests of stakeholders and promote practices that strengthen legitimacy Chakkravarthy, 2023; Murti et al., 2024)

Practically, these results convey a dual message: small and medium-sized firms can gain substantial benefits by improving the quality of their ESG disclosures because the differentiation effect among stakeholders is greater; meanwhile, large firms must focus on substantive ESG practices rather than mere formalities for ESG to remain value-enhancing. Institutional investors, on the other hand, play a crucial role as guardians of stakeholder interests, ensuring that large firms meet standards of accountability and sustainability (Huang et al., 2025; Wardani et al., 2025).

CONCLUSION

This study underscores that firm value is shaped not only by financial performance but also by the firm's ability to respond to stakeholder expectations. The findings indicate that ESG disclosure and institutional ownership contribute to enhancing firm value, suggesting that sustainability transparency and strong monitoring are increasingly viewed as sources of legitimacy

in the market. Firm size also plays an important role, beyond exerting a direct influence on firm value, firm size shapes how stakeholders interpret sustainability efforts. In large firms, ESG practices are often perceived as basic obligations, and thus may not always generate significant added value. Conversely, institutional monitoring becomes more effective in firms with high visibility.

Nevertheless, this study has several limitations. The measurement of ESG relies primarily on the extent of disclosure, which may not fully capture the quality of sustainability practices. Moreover, the study does not differentiate between types of institutional investors, even though their characteristics and investment strategies may influence the effectiveness of monitoring. Future research may consider incorporating more comprehensive ESG quality indicators, differentiating types of institutional investors, and adding variables such as reputation or ESG risk. Practically, firms should strengthen the substantive quality of their sustainability practices, while investors and regulators are encouraged to reinforce monitoring mechanisms to ensure more meaningful accountability.

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