

ESG, Corporate Governance, and Firm Value in Emerging Markets

ESG, Corporate
Governance, and
Firm Value

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ABSTRACT

Firm value remains a critical research focus as rising sustainability pressures and growing investor attention to ESG practices continue to shape market assessments of corporate performance. This study investigates the effect of environmental, social, and governance practices on firm value, with Corporate Governance, particularly audit committee size, as a mediating variable in Indonesian publicly listed companies from 2018 to 2023. Using a quantitative approach with Partial Least Squares–Structural Equation Modeling (PLS-SEM), the research examines the interplay between ESG, governance mechanisms, and value creation. The results reveal that ESG has a significant positive impact on Tobin's Q, highlighting its role as a value-creation strategy. In contrast, audit committee size shows negative effect on firm value, emphasizing that effectiveness matters more than the number of members. Mediation analysis indicates that the audit committee weakens the relationship between ESG and firm value through a suppressor effect, suggesting that ineffective governance may reduce the credibility of ESG benefits. These findings are discussed within the frameworks of stakeholder theory, signaling theory, and the resource-based view, reinforcing that sustainable value creation requires ESG to be integrated with effective governance mechanisms.

Keywords: ESG, Audit Committee, Firm Value, Stakeholder Theory, Sustainable Value Creation, Emerging Market.

ABSTRAK

Meningkatkan tekanan sustainability dan perhatian investor terhadap praktik ESG terus membentuk penilaian pasar terhadap kinerja perusahaan sehingga nilai perusahaan menjadi aspek yang penting. Penelitian ini menelaah pengaruh praktik environmental, social, and governance terhadap nilai perusahaan dengan corporate governance khususnya ukuran komite audit, sebagai variabel mediasi pada perusahaan publik di Indonesia periode 2018–2023. Dengan pendekatan kuantitatif menggunakan Partial Least Squares–Structural Equation Modeling (PLS-SEM), penelitian menguji keterkaitan ESG, mekanisme tata kelola, dan penciptaan nilai. Hasil analisis menunjukkan bahwa ESG berkontribusi positif signifikan terhadap Tobin's Q, mengindikasikan peran ESG sebagai strategi pencipta nilai. Sebaliknya, ukuran komite audit berpengaruh negatif signifikan terhadap nilai perusahaan, menekankan pentingnya efektivitas dibandingkan sekadar jumlah anggota. Uji mediasi memperlihatkan bahwa komite audit memperlemah hubungan ESG dengan nilai perusahaan melalui efek suppressor, menunjukkan bahwa tata kelola yang tidak efektif dapat mengurangi kredibilitas manfaat ESG. Temuan ini didiskusikan dengan landasan

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INTRODUCTION

Firm value remains a central focus in financial and accounting research, as it represents the ultimate measure of corporate performance observed by investors, creditors, and other stakeholders. Firm value reflects not only the long-term profitability prospects of a company but also the market's perception of its risk and public legitimacy (Nguyen, 2025). The changing global business landscape driven by climate crises, sustainability regulations, and increasingly socially responsible investor preferences underscores the continued relevance of studying the determinants of firm value (Bagh et al., 2024; Velte, 2025).

ESG has become a key driver of firm value by lowering operational risks and strengthening corporate reputation and legitimacy (Hunjra et al., 2024; Akhter & Hassan, 2024). Although ESG research has expanded globally, empirical results remain inconsistent, with studies reporting positive, negative, or insignificant effects (Thompson et al., 2022; Nwaigwe et al., 2022; Toumi et al., 2022; Khunkaew et al., 2023; Oware & Worae, 2023; Ali et al., 2025; Al-Shaer et al., 2025; Duong & Nguyen, 2025). The debate surrounding ESG has also intensified within discussions of sustainability and corporate responsibility (Dipierro et al., 2025). Investor interest in ESG continues to grow, driven by expectations of regulatory compliance, operational efficiency, and enhanced reputation (Fan et al., 2024). However, literature gaps persist, as findings on ESG's financial impact remain mixed (Feng & Wu, 2023; Chacon et al., 2024; Morri et al., 2024). Some research reports a positive relationship between ESG and firm value, while others highlight negative or insignificant effects due to potential overinvestment in sustainability initiatives (Al-Dhamari et al., 2022; Kakinuma, 2025). ESG appears to function more reliably as a risk-mitigation mechanism rather than a guaranteed source of value creation (Cornell & Damodaran, 2020).

ESG practices have become a global necessity, extending into developing and informal economies, such as China and India (Chininga et al., 2024; Khalid et al., 2024). Regulatory pressures and investor awareness are driving companies to adopt ESG policies, given the potential link to financial performance (Whelan et al., 2018). ESG can enhance firm value by reducing costs associated with energy, electricity, and water usage (Henisz et al., 2019; Shahab et al., 2022). Stock markets favor companies with lower energy intensity (Jadiyappa & Krishnankutty, 2022; Ardia et al., 2023). Companies gain social legitimacy by responding to environmental issues (Alam & Hossain, 2024). Compliance with ESG practices can enhance stakeholders' perceptions (Amoako et al., 2024). ESG refers to how companies integrate these issues into their business models (Chamberlain et al., 2025). A strong ESG reputation can protect companies from financial consequences arising from impaired legitimacy Information asymmetry related to ESG is a critical issue for companies in developing countries (Kayani et al., 2024; Rastogi et al., 2024).

Corporate Governance (CG) plays a central role in linking ESG to firm value by ensuring that ESG initiatives are implemented effectively rather than symbolically. Strong governance, such as an independent board, helps monitor ESG investment decisions to ensure they generate real long-term benefits (Beji et al., 2021). The audit committee, as a key CG mechanism, oversees both financial and non-financial reporting (Sahu et al., 2025) and has been shown to reinforce the positive impact of ESG disclosure on firm value (Fuadah et al., 2022). Thus, CG functions as a mediating channel through which ESG contributes to higher firm valuation. The contribution of this study lies in examining the ESG–CG–firm value nexus in Indonesia, where empirical evidence remains limited

relative to developed countries, despite rising interest in ESG across Southeast Asia (Ngamtampong & Sukprasert, 2025). This research addresses this gap by evaluating whether CG enhances the influence of ESG on firm value.

This study enhances the theoretical literature by integrating stakeholder theory and signaling theory to explain how ESG affects firm value and how corporate governance mediates this relationship. The findings can guide managers in designing ESG strategies aligned with effective governance, while investors, who increasingly consider climate risks may use them to assess the credibility of ESG commitments. Regulators such as OJK, which requires sustainability reporting (POJK Number 51 of 2017), may also benefit in strengthening policy implementation (Pástor et al., 2021; Bolton & Kacperczyk, 2021; Bolton & Kacperczyk, 2023). Socially, this research highlights the role of ESG in promoting accountability amid climate-related risks that affect economic growth and corporate responsibility (Benedetti et al., 2021; Zhou & Wu, 2023; Ardia et al., 2023). The study aims to examine the influence ESG can on firm value both directly and through corporate governance, which acts as a key mechanism enhancing transparency, credibility, and the impact of ESG.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Corporate Governance and Firm Value

Stakeholder Theory explains that a company is not only responsible to its shareholders, but also to all of its stakeholders, including the community, the government, and the environment (Freeman, 1984; Halik & Astuti, 2025; Muna & Lestari, 2025; Prasetyaningsih et al., 2025). This theory states that the practice of corporate social responsibility is a form of commitment to fulfilling the interests of various parties (Adib et al., 2025). Social responsibility is a business obligation to contribute to social welfare and environmental preservation, not merely to pursue profit (Yulianthi, 2025). The theory emphasizes that good sustainability performance is considered to reflect attention to all stakeholders (Simatupang et al., 2025).

Governance mechanisms, such as the proportion of independent directors, institutional ownership, and audit quality, have been shown to enhance firm value by curbing managerial opportunistic behavior (Beji et al., 2021). Empirical studies in France show that gender diversity on the board of directors, as one aspect of corporate governance, influences firm value through enhanced legitimacy (Hassan et al., 2025). Other studies indicate that strong governance improves the efficiency of resource allocation, thereby enhancing profitability and firm valuation (Velte, 2025). Good corporate governance mitigates conflicts of interest, enhances transparency, and builds investor confidence. CG has a significant positive effect on Tobin's Q meaning that a larger audit committee increases market confidence (Karim et al., 2024). As a result, the market responds with higher firm valuation.

H1: Corporate governance has a significant effect on firm value.

ESG and Audit Committee

ESG represents a form of corporate responsibility toward stakeholders, including investors, regulators, communities, and employees (Freeman, 1984). By balancing the interests of stakeholders and shareholders, companies can sustain long-term sustainable development (Yin & Xu, 2025). By implementing ESG practices, companies meet stakeholder expectations, thereby enhancing legitimacy and ultimately strengthening firm value. However, the success of ESG in addressing stakeholder demands depends on the quality of corporate governance. Strong corporate governance ensures that stakeholder interests are effectively integrated into corporate strategy (Freeman, 1984).

Positive stakeholder perceptions can mitigate the negative impact of environmentally damaging actions and compromises in social legitimacy, as an ESG reputation fosters favorable perceptions that may reduce vigilance and continuous monitoring from stakeholders (Singh & Arora, 2025). Executives must give equal attention to the interests

of all stakeholders, and when conflicts of interest arise, they should manage them to achieve an optimal balance for the company (Jilani & Chouaibi, 2025).

H2: Environmental, social, and governance has a significant effect on the audit committee.

ESG and Firm Value

The Resource-Based View (RBV) provides a foundation for understanding how firms create and sustain competitive advantages by leveraging internal resources that are valuable, rare, and difficult to imitate (Thamrin et al., 2025; Suwandana, 2025). Within this framework, innovation capability is considered a strategic asset that strengthens organizational competitiveness through creativity, knowledge, and continuous improvement (Sipayung, 2025). Performance evaluation also plays a key role by enabling firms to identify, develop, and maximize their unique internal capabilities, such as employee skills, innovative capacity, and managerial expertise, which collectively contribute to long-term superiority (Zebua, 2025).

In the context of this study, RBV directly relates to ESG, corporate governance, and firm value. ESG can be interpreted as a bundle of intangible strategic resources, including corporate reputation, stakeholder trust, and environmental or social capital that competitors cannot easily replicate. These ESG-driven resources enhance legitimacy and help firms secure long-term market advantages. Meanwhile, CG functions as an internal coordinating mechanism that ensures ESG resources are deployed efficiently. Effective governance prevents misallocation or overinvestment in ESG initiatives and ensures that ESG practices create measurable value rather than becoming symbolic or superficial (Barney, 1991). RBV emphasizes that both resources and capabilities are critical for firm survival and growth (Yin & Xu, 2025). Thus, ESG represents the strategic resource, CG acts as the capability that manages and channels this resource, and together they contribute to strengthening firm value in alignment with RBV principles.

The Relationship between ESG, Corporate Governance, and Firm Value ESG is regarded as a strategic capability that enhances legitimacy and reduces risk, thereby having a positive effect on firm value (Bagh et al., 2024). Several studies in Southeast Asia indicate that companies with high ESG scores exhibit better financial performance due to their ability to attract sustainability-conscious institutional investors (Ngamtampong & Sukprasert, 2025). However, some studies have found mixed or negative results due to high implementation costs associated with ESG initiatives, leading to overinvestment (Kakinuma, 2025). ESG sends a positive signal to the market (Signaling Theory) (Mahmood et al., 2025). The research findings show that ESG disclosure has a positive impact on firm value, indicating that a company's ESG contributions enhance firm value.

H3: Environmental, social, and governance has a significant effect on firm value

Corporate Governance as a Mediator

Corporate governance plays a critical role in ensuring that ESG initiatives translate into tangible improvements in firm value. Strong ESG engagement typically encourages firms to reinforce their governance frameworks, such as through more comprehensive sustainability reporting, the creation of dedicated ESG committees, or enhanced disclosure practices that improve transparency and accountability (Beji et al., 2021). However, ESG initiatives that are not supported by effective governance structures often fail to deliver real value and may instead become symbolic or superficial, an issue highlighted in studies identifying ESG activities as potential window dressing when governance quality is weak (Hassan et al., 2025). Evidence from international research demonstrates that sound corporate governance increases the reliability of ESG signals, prompting more favorable market reactions and boosting investor confidence (Nguyen, 2025).

Empirical findings further show that governance strengthens the relationship between ESG disclosure and firm value by reducing information asymmetry, improving monitoring of non-financial performance, and supporting more accountable decision-making processes (Fuadah et al., 2022; Sahu et al., 2025). In this way, corporate governance functions as a key mediating mechanism that channels the benefits of ESG toward higher firm valuation. When governance is strong, ESG practices become credible, well-structured, and value-enhancing; conversely, weak governance undermines the effectiveness of ESG initiatives, limiting their ability to contribute to firm value.

H4: Corporate Governance mediated the effect of environmental, social, and government on firm value.

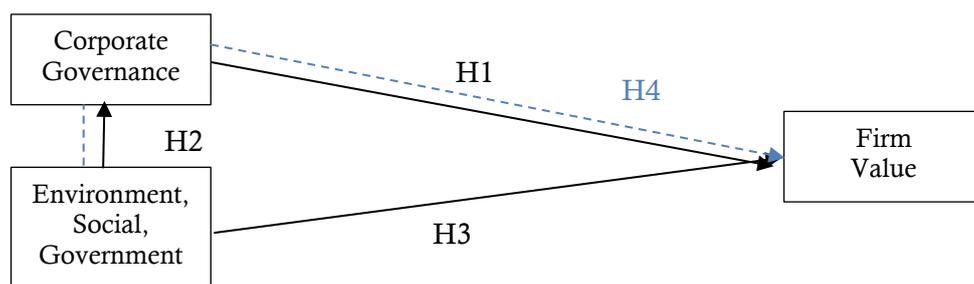


Figure 1. Research Framework

Figure 1 illustrates the conceptual research framework that explains the relationships among environmental, social, and governance (ESG) factors, corporate governance, and firm value. The framework shows that ESG directly influences firm value, reflecting the role of sustainability practices in enhancing market perception and long-term performance. In addition, ESG is assumed to influence corporate governance, indicating that stronger sustainability engagement encourages improvements in governance structures and oversight mechanisms. Corporate governance, in turn, has a direct effect on firm value by enhancing transparency, accountability, and investor confidence. Furthermore, corporate governance functions as an intermediary mechanism through which ESG contributes indirectly to firm value, suggesting that the effectiveness of ESG in creating value depends on the quality of governance practices within the firm.

RESEARCH METHODS

This study employs a quantitative method using Partial Least Squares – Structural Equation Modeling (PLS-SEM) in SmartPLS 4.0 software. This research focuses on determining the influence of ESG and the audit committee on firm value, and on the mediating role of corporate governance. The population consists of all publicly listed companies in Indonesia that issued sustainability reports based on the Global Reporting Initiative (GRI) standards during the period 2018–2023. GRI framework has a significant global influence and is adopted by 96% of the world’s largest companies (G250) (Papa et al., 2022). The sampling technique used is purposive sampling, with the following criteria: Companies listed on the Indonesia Stock Exchange (IDX), companies that published GRI-based sustainability reports either consistently or inconsistently during the observation period, resulting in unbalanced panel data, and availability of data on ESG disclosure, corporate governance, firm value (Tobin’s Q), and control variables (firm size, firm age). This approach is consistent with ESG studies in emerging markets, which often use companies that issue sustainability reports as the basis for sample selection (Abdi et al., 2022).

The variables in this study are measured using established quantitative indicators to ensure accuracy and comparability across firms. The independent variable, ESG (X1), is

assessed using the company's ESG disclosure score based on the Global Reporting Initiative (GRI) standards, calculated as the ratio of disclosed indicators to the total required indicators with dummy scoring (1 = disclosed, 0 = not disclosed) (Bagh et al., 2024). The mediating variable, Corporate Governance (CG), is measured through audit committee size, defined as the number of committee members responsible for overseeing financial, non-financial, and ESG reporting processes (Fuadah et al., 2022). The dependent variable, firm value (Y), is proxied by Tobin's Q, calculated as (Market Value of Equity + Total Liabilities) / Total Assets, reflecting market assessments of firm performance and growth prospects (Aydoğmuş et al., 2022). Two control variables are included: firm size, measured as the natural logarithm of total assets to capture differences in company scale (Mendiratta & Kumar, 2025; Tarigan et al., 2025), and firm age, measured as the number of years since establishment or IPO, acknowledging that older firms typically possess more mature governance structures and experience (Karim et al., 2024).

Data analysis was conducted using SmartPLS 4.0. PLS analysis is selected because it is capable of handling complex models with latent variables, unbalanced panel data, and does not require normally distributed data (Hair et al., 2014). The analytical procedures include descriptive statistics, tests for multicollinearity, effect size assessment, R² evaluation, Q² predictive relevance, and hypothesis testing.

RESULTS

The data analysis was conducted using bootstrapping in PLS 4.0. This study will explain the analysis from variables: Environmental, Social, and Governance (ESG), Firm Size (FS), Firm Age (FA), Firm Value (FV) and Corporate Governance. Generating descriptive statistics of the research variables, as presented in Table 1 below:

Table 1. Descriptive Statistics

Name	Mean	Observed min	Observed max	Standard deviation
ESG	0.429	0.000	1.000	0.195
Firm Size	28.686	0.000	35.315	4.135
Firm Age	33.295	0.000	128.000	21.578
Firm Value	399.039	0.000	178340.487	6635.915
Corporate Governance	3.579	0.000	15.000	1.337

Based on Table 1, the ESG variable (X) has a mean value of 0.429 and a standard deviation of 0.195. The Corporate Governance Size variable (M) has a mean of 3.579 with a standard deviation of 1.337. The Firm Size variable (FS) has a mean of 28.686 and a standard deviation of 4.135. The Firm Age variable (FA) has a mean of 33.295 and a standard deviation of 21.578. The Tobin's Q (FV) as variable (Y) has a mean of 399.039 and a standard deviation of 6,635.915.

The collinearity assessment test is conducted to determine the presence or absence of multicollinearity among the research variables. This test is based on the inner Variance Inflation Factor (VIF) value, where a value < 5.00 indicates acceptable collinearity (Hair et al., 2014). Table 2 shows that all inner VIF values for the independent variables fall below 5.00, confirming the absence of multicollinearity.

Table 2. Inner Variance Inflation Factor Values

Path	VIF
Corporate Governance-> Firm Value	1.082
ESG -> Corporate Governance	1.000
ESG -> Firm Value	1.094
Firm Age -> Firm Value	1.101
Firm Size -> Firm Value	1.156

Table 3 shows the effect size (f²) results indicate that all relationships in the model fall within the small category. The influence of Corporate Governance on Firm Value (FV)

shows an f^2 value of 0.002, while the effect of ESG on AC is 0.027. The direct effect of ESG on FV is also small, with an f^2 value of 0.014. Additionally, the control variables Firm Age (FA) and Firm Size (FS) record f^2 values of 0.000 and 0.001, respectively, both classified as small. These findings suggest that each variable contributes only minimally to changes in Firm Value within the model.

Table 3. Effect Size (f^2) Values

Path	f-square	Result
Corporate Governance-> Firm Value	0.002	Small
ESG -> Corporate Governance	0.027	Small
ESG -> Firm Value	0.014	Small
Firm Age -> Firm Value	0.000	Small
Firm Size -> Firm Value	0.001	Small

Table 4 shows that the cross-validated redundancy (Q^2) test is conducted to assess the predictive relevance of the independent variables on the dependent variable (Joseph F. Hair et al., 2017). This test is based on the Q^2 value, which is obtained through the blindfolding procedure. A model is considered to have predictive relevance if the Q^2 value > 0 . Conversely, if the Q^2 value is < 0 , the independent variables are said to lack predictive relevance for the dependent variable. The Q^2 values for each dependent variable are presented in the following table:

Table 4. Cross-validated Redundancy (Q^2) Values and R Square

Variable	SSO	SSE	Q^2 (=1-SSE/SSO)	Result	R Square	Adjusted R Square
Corporate Governance	1865	1818.599	0.025	Low	0.026	0.026
ESG	1865	1865.000	0.000	Low		
Firm Age	1865	1865.000	0.000	Low		
Firm size	1865	1865.000	0.000	Low		
Firm Value	1865	1842.047	0.012	Low	0.017	0.015

The R^2 results indicate that the model has low explanatory power. Table 4 shows that the Corporate Governance variable shows an R Square of 0.026, meaning only 2.6% of its variation is explained by ESG. Similarly, Firm Value (FV) records an R Square of 0.017, indicating that ESG, Corporate Governance, Firm Size, and Firm Age collectively explain just 1.7% of the variation in firm value. The adjusted R Square values for AC (0.026) and FV (0.015) also confirm the low predictive capability of the model.

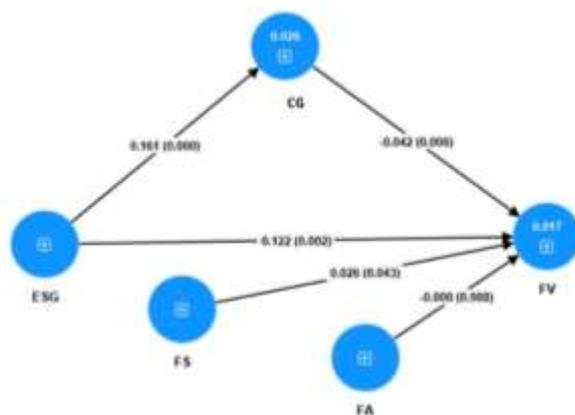


Figure 2. SmartPLS Output

Table 5. Results of Direct Effects Testing in the Inner Model

Direct Effects	Inner Weight	T-statistic	P-value	Description
Corporate Governance-> Firm Value	-0.042	2.763	0.006	Significant
ESG -> Corporate Governance	0.161	6.400	0.000	Significant

Direct Effects	Inner Weight	T-statistic	P-value	Description
ESG -> Firm Value	0.122	3.099	0.002	Significant
FA -> Firm Value	0.000	0.016	0.988	Non Significant
FS -> Firm Value	0.026	2.026	0.043	Significant
ESG -> CG -> Firm Value	Coeff=- 0.007	2.383	0.017	Significant

Figure 2 and Table 5 show that ESG (X) has a significant positive effect on Tobin's Q (FV) (Y). The direct path yields a coefficient of 0.122, with a t-statistic of 3.099 and a p-value of 0.002, confirming that higher ESG scores are associated with higher firm value. Corporate Governance (M) also has a significant direct effect on Tobin's Q, with a coefficient of -0.042, a t-statistic of 2.763, and a p-value of 0.006, indicating a negative relationship. The mediation analysis further shows that ESG influences Tobin's Q through Corporate Governance, with an indirect effect coefficient of -0.007 and a p-value of 0.017. This means that Corporate Governance functions as a mediator, but its influence weakens the positive impact of ESG on firm value. ESG increases firm value directly and indirectly, although the mediation effect operates as a suppressor due to its negative sign.

DISCUSSION

The test results indicate a positive effect of ESG on Tobin's Q. Specifically, a one-unit increase in ESG practices leads to a 0.122-unit increase in Tobin's Q. This finding is consistent with Stakeholder Theory, which posits that ESG engagement enhances corporate legitimacy and reputation, thereby attracting investors and increasing market value (Freeman, 1984). This result is also consistent with global studies showing that ESG disclosure significantly enhances firm value (Al-Dhamari et al., 2022); Saha et al., 2024). From a managerial standpoint, this finding reinforces the importance of positioning ESG as a strategic investment rather than a compliance exercise. Prior literature shows that ESG acts as a strategic capability that reduces long-term risk exposure and enhances legitimacy (Bagh et al., 2024).

ESG is regarded as a value-creating strategy, not just compliance. The market values companies that are proactive in addressing sustainability issues. Following the adoption of ESG practices by developed countries, developing countries are rapidly investing to compete with advanced markets, which is expected to have a significant impact on global ESG practices (Martins, 2022); Jain & Tripathi, 2023). The finding is also supported by evidence from global studies (Kim & Kim, 2024; Husain et al., 2025; Singh & Das, 2025; Singh & Kumar, 2025). Research in Thailand by Ngamtampong and Sukprasert (2025) which shows that ESG disclosure contributes to value creation rather than serving solely as regulatory compliance.

The findings show that Corporate Governance has a negative relationship with Tobin's Q, indicating that a larger committee is associated with lower firm value. Although audit committees are intended to strengthen oversight and reduce agency problems, an oversized committee can become less effective due to coordination difficulties and free-rider behavior (Al-Mamun et al., 2014). This explains why some governance indicators have produced mixed effects on firm value across countries and sectors. For example, while independent directors, institutional ownership, gender diversity, and audit quality have been shown to enhance firm value by improving oversight and legitimacy (Beji et al., 2021; Hassan et al., 2025; Velte, 2025), these benefits materialize only when governance mechanisms are implemented substantively rather than symbolically. In practice, the committee's effectiveness matters more than its size, as expanding membership without improving oversight quality may result in a structure that is formal in appearance but contributes little to actual governance performance.

The indirect effect of ESG on Tobin's Q through Corporate Governance is significant but negative, indicating that while ESG directly increases firm value, its influence is reduced when channeled through the audit committee, reflecting a suppressor-type mediation. This outcome aligns with the view that certain governance structures may function more as formalities or "box-ticking" mechanisms that fail to reinforce the

credibility of ESG practices and may even create additional costs (Velte, 2025). Prior research also shows that effective governance, such as greater board independence or gender diversity, can strengthen the ESG–firm value relationship. However, when governance mechanisms operate symbolically rather than substantively, they can dampen this relationship, as seen in studies on CSR disclosure in Vietnam and the influence of female leadership in Indonesia.

The significant positive effect of ESG on Tobin's Q strengthens the theoretical foundations of Stakeholder Theory and Signaling Theory by showing that ESG practices enhance legitimacy, reduce information asymmetry, and attract sustainability-oriented investors. At the same time, the negative effect of Corporate Governance on firm value highlights that governance effectiveness drives value creation, consistent with prior studies showing that oversized committees reduce monitoring efficiency due to coordination problems and free-rider behavior. These results emphasize that ESG should be treated as a strategic investment aligned with long-term competitiveness rather than compliance, especially as firms in developing countries increasingly adopt ESG to keep pace with global markets.

CONCLUSION

The study concludes that ESG plays a significant and value-enhancing role for firms, reinforcing core assumptions of Stakeholder Theory, Signaling Theory, and the Resource-Based View by demonstrating that sustainability practices strengthen legitimacy, provide credible signals of long-term commitment, and function as strategic capabilities that improve market valuation. In contrast, the negative effect of Corporate Governance on firm value reveals that governance structures do not automatically translate into effective oversight, supporting the view that excessively large committees may suffer from coordination issues, free-rider behavior, and symbolic functioning that erodes stakeholder trust and weakens the credibility of governance signals. The significant but negative indirect effect further shows that ESG's contribution to firm value is diminished when filtered through ineffective governance mechanisms, highlighting the theoretical importance of governance quality rather than structural form. These findings enrich the theoretical discourse by illustrating that ESG operates as a strategic asset capable of enhancing firm value, but its full benefits depend on governance mechanisms that are substantive, credible, and aligned with stakeholder expectations.

In practice, managers should treat ESG as a strategic route to value creation rather than a mere compliance task; regulators are encouraged to emphasize the substantive effectiveness of governance mechanisms rather than their size or formality; and investors should consider ESG in decision-making while evaluating whether accompanying governance structures are genuinely effective or only symbolic. Future research may broaden the scope of corporate governance by incorporating elements such as board independence, diversity, ownership patterns, and audit quality to determine whether these factors reinforce or dilute the ESG–firm value link. Comparative studies across countries or sectors would also be valuable, particularly given differing findings in Malaysia, Thailand, Indonesia, and Singapore; such analyses could help assess whether the ESG–value relationship holds consistently across regions or industries. Because ESG effects often unfold over time, future work could apply dynamic analytical approaches, such as System GMM, Difference-in-Differences, or lagged Tobin's Q to better capture long-term influences and reduce endogeneity concerns. Additional mediating or moderating variables, including green innovation, ESG disclosure quality, or the involvement of female executives, would further clarify mechanisms that may shape ESG outcomes. Finally, qualitative or mixed-methods designs could deepen understanding of how ESG is practiced internally, helping to distinguish authentic implementation from greenwashing.

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