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THE INFLUENCE OF ESG ON COMPANY VALUE: DOES INSTITUTIONAL OWNERSHIP STRENGTHEN THE RELATIONSHIP?

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Abstract
This study examines the influence of Environmental, Social, and Governance (ESG) disclosure on company value and investigates whether institutional ownership moderates this relationship in banking sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. The study is motivated by the critical role of the banking sector in the Indonesian financial system, accounting for approximately seventy-three percent of total national financial assets, as well as the persistent inconsistency in previous research findings regarding the effect of ESG disclosure on firm value. The sample consists of one hundred and forty-four firm-year observations obtained from banking companies selected using purposive sampling with criteria including the consecutive publication of annual reports and sustainability reports during the observation period. Panel data regression analysis with the Fixed Effect Model was employed to test the proposed hypotheses. The results indicate that ESG disclosure does not have a significant effect on company value, suggesting that sustainability information has not been optimally integrated into investors' valuation assessments in the Indonesian banking sector. Furthermore, institutional ownership does not moderate the relationship between ESG disclosure and company value, implying that institutional investors' supervisory function has not effectively enhanced the credibility or market relevance of ESG information. Among the control variables, firm size has a significant negative effect on company value, while profitability does not significantly influence company value. These findings suggest that investors in the Indonesian banking sector still prioritize traditional financial performance over non-financial sustainability information, and institutional ownership alone is insufficient to strengthen the market response to ESG disclosure.

Keywords: ESG Disclosure, Institutional Ownership, Company Value, Banking Sector, Tobin's Q.

1. Introduction

In an increasingly competitive global business landscape, companies are no longer only required to produce impressive financial performance, but also must innovate and grow sustainably to create added value for all stakeholders (Natasya et al., 2025). Company value has become a key indicator that reflects investors' perception of growth prospects and the level of market confidence in management's ability to manage resources and risks in the future (Azizah & Machdar, 2025). Increasing the company's value is a strategic goal because it is in line with efforts to maximize shareholder welfare, which is often reflected through stock prices in the capital market (Aulia et al., 2026). In Indonesia, the banking sector plays an important role as a key pillar of the financial system and intermediation institutions accounting for around 73% of total national financial assets by 2024 (Aulia et al., 2026). Therefore, the stability and value of banking firms are an important barometer for overall macroeconomic resilience.

Conditions in the Indonesian banking sector during the post-pandemic period show dynamic fluctuations in the company's value. Although the 2022–2023 period is marked by a trend of economic recovery, market uncertainty and global interest rate fluctuations in 2024 again pose challenges to the stability of bank market values (Yuda & Sunarto, 2026; Widhiastuti & Pradnyani, 2026). Data shows that the Price to Book Value (PBV) ratio in large banks, especially State-Owned Enterprises (SOEs), shows significant inequality, for example, some issuers are able to maintain premium valuations while others experience a decline in market perception (Aulia et al., 2026). This shows a striking inequality where some issuers are able to maintain premium valuations while others experience a sustained decline in market perception. Therefore, a deep understanding of the factors driving a company's value in the capital market is crucial for banking management to respond effectively to global economic uncertainty.

The current development of valuations in the capital market confirms that traditional financial performance, such as asset growth or net profit alone, is no longer the sole guarantee for a company's high value in the eyes of investors (Aulia et al., 2026). The fluctuations in value that occur indicate a paradigm shift where investors begin to make deeper adjustments to the company's business model and internal risk management. Market valuations are now more responsive to signals that reflect managerial quality and long-term business sustainability prospects, so banking companies are required to have more effective internal mechanisms in response to global economic uncertainty. This condition creates challenges for bank management in maintaining public trust, considering that the banking industry is very sensitive to market sentiment and stakeholder trust (Yuda & Sunarto, 2026).

The instability of market value experienced by banking entities has serious implications for operational sustainability and competitiveness in the national financial industry. Sharp fluctuations in value, especially when the market ratio is below book value, indicate a negative perception of investors in the company's ability to generate returns commensurate with the capital used. Such unstable valuation conditions can cause companies to lose attractiveness in the capital market, which in turn hinders the bank's ability to attract new investors to increase market capitalization (Dewi & Maryanti, 2023). A sustained decline in market value also risks increasing the cost of capital and making it difficult to access new capital through the issuance of shares or debt because investors view these investments as having higher risks (Dewi & Maryanti, 2023). The impact of this valuation uncertainty also extends to the risk of reputational decline and loss of public trust, which is the most vital asset for the banking industry (Antonetta & Simon, 2026). The glaring disparity in valuations between banking issuers shows that the capital market provides a very selective response, so management is required to rely not only on asset growth alone but also on the effectiveness of internal risk management. The inability of banks to maintain the stability of their value in the eyes of the market will result in a significant decrease in shareholder welfare (Sari et al., 2026). Therefore, in-depth research on the various determinants that affect corporate value is a very important topic to be studied further in order to provide a strategic understanding for the sustainability of the national banking industry.

The urgency of this research is driven by several critical factors. First, the banking sector in Indonesia accounts for approximately 73% of total national financial assets, making its stability and value a critical barometer for overall macroeconomic resilience, yet market valuation fluctuations during the post-pandemic period indicate persistent instability requiring empirical investigation. Second, the glaring disparity in valuations between banking issuers shows that the capital market provides a very selective response to non-financial signals, suggesting that traditional financial performance alone is no longer sufficient to maintain premium valuations (Aulia et al., 2026). Third, the inconsistency of previous research findings regarding the influence of ESG on company value indicates a research gap that needs to be addressed. Some studies demonstrate that ESG disclosure positively influences company value through enhanced investor confidence and legitimacy (Jeanice & Kim, 2023; Azizah & Machdar, 2025; Ngamtampong & Sukprasert, 2025), while others reveal that ESG has a negative effect on company value (Dinianti et al., 2025; Fadhali & Purwanto, 2024), and several researchers have concluded that ESG does not have a significant effect (Hariyanto & Ghozali, 2024; Natasya et al., 2025; Kusumo & Yuyeta, 2025). Fourth, the role of institutional ownership as a moderating variable in the relationship between ESG and company value has not been extensively studied, particularly in the Indonesian banking sector context, where institutional investors serve as professional supervisory mechanisms that can ensure ESG practices reflect genuine sustainability commitment rather than greenwashing strategies. Fifth, the gap between theoretical predictions from signaling theory, stakeholder theory, and legitimacy theory and empirical findings necessitates renewed investigation with more comprehensive research designs and more recent data.

Previous research has shown significant inconsistencies in results regarding the influence of ESG on company value. Previous research has shown positive outcomes, where transparent ESG disclosure has been shown to increase investor confidence, strengthen legitimacy, and increase market value (Jeanice & Kim, 2023; Azizah & Machdar, 2025). In a study in Thailand by Ngamtampong and Sukprasert (2025), it shows that ESG performance is also found to have a positive effect on company value. However, on the other hand, there is literature that shows that ESG has a negative effect on company value (Dinianti et al., 2025; Fadhali & Purwanto, 2024). Meanwhile, several other researchers have concluded that ESG does not have a significant effect on company value (Hariyanto & Ghozali, 2024; Natasya et al., 2025; Kusumo & Yuyeta, 2025). Regarding the role of Institutional Ownership, according to Azizah and Machdar (2025), it was revealed that institutional ownership has a positive influence on increasing the market value of companies. Some previous studies have also shown that institutional ownership makes a positive contribution to increasing the market value of a company (Aulia et al., 2026). Therefore, in this study, institutional ownership is used as a moderation that can strengthen the influence of ESG on company value. Because institutional ownership serves to encourage more effective professional supervision mechanisms for the performance of companies and internal parties (Widhiastuti & Pradnyani, 2026). Through this supervisory function, institutional ownership plays a role in ensuring that ESG disclosure carried out by banks is not just a formality or greenwashing strategy, but a reflection of the company's real sustainability commitment, thereby creating long-term value, and having a positive impact from sustainability transparency on the optimization of the company's market value.

The research gap in this study lies in the limited understanding of how ESG disclosure influences company value in the Indonesian banking sector and how institutional ownership moderates this relationship. While individual studies have examined the direct effects of ESG on firm performance, the moderating role of institutional ownership in strengthening or weakening this relationship remains underexplored. Additionally, most previous studies have focused on the manufacturing sector or used periods before or after the pandemic, leaving a significant gap in knowledge regarding the dynamics of ESG and company value in the banking sector during the economic recovery phase. Furthermore, empirical evidence from the Indonesian banking sector remains limited, particularly in the context of post-pandemic recovery where market valuations are highly responsive to non-financial signals.

The novelty of this research lies in several aspects. First, this study focuses on the Indonesian banking sector during the 2022–2024 period, which represents a unique context characterized by economic recovery, regulatory intensity, and increasing investor attention to sustainability practices. Second, this study develops an integrative model that simultaneously examines the influence of ESG disclosure on company value with institutional ownership as a moderating variable, providing a more comprehensive understanding of the determinants of company value in the banking sector. Third, this study positions institutional ownership as a moderating variable, enabling the examination of whether professional supervisory mechanisms strengthen the relationship between ESG disclosure and company value. Fourth, this study contributes to the limited empirical evidence on ESG and company value in the Indonesian banking sector, providing insights into whether ESG practices are perceived as cost expenses or strategic assets that are positively responded to by the market. Fifth, this study extends the application of signaling theory, stakeholder theory, and legitimacy theory to the context of ESG disclosure and company value in the banking sector.

The purpose of this study is to analyze the influence of ESG Disclosure on corporate value in the banking sector in Indonesia for the period 2022–2024. In addition, this study aims to evaluate the role of institutional ownership in moderating the relationship between ESG disclosure and corporate value. The choice of this goal was driven by the inconsistency of findings from previous studies, where some researchers found significant positive effects while others found negative or insignificant effects. With a re-examination in the most recent period, this study aims to provide information on the extent to which the Indonesian capital market integrates non-financial information into the valuation assessment of banks. With the development of the role of institutional ownership in moderating the relationship between ESG disclosure and corporate values, this study aims to find out if institutional ownership is able to reinforce the positive signals of the bank's sustainability practices thereby increasing the confidence of other investors and ultimately magnifying the positive impact of ESG on the company's market value.

The contribution of this research is multifaceted. From a theoretical perspective, this research contributes to the enrichment of literature on ESG disclosure and company value by proposing and testing an integrative model that links ESG disclosure with company value, incorporating institutional ownership as a moderating variable, extending the application of signaling theory, stakeholder theory, and legitimacy theory to the context of sustainability reporting in the Indonesian banking sector. The findings contribute to the understanding of how specific ESG disclosure components influence company value and how institutional ownership moderates these relationships, providing a more nuanced theoretical framework for analyzing sustainability practices in highly regulated industries. From a practical perspective, this study provides actionable insights for bank management, investors, and regulators in assessing and managing ESG practices and company value. For bank management, the findings provide guidance on which ESG disclosure dimensions are most valued by investors and how institutional ownership can enhance the credibility of sustainability reporting. For investors, the results offer insights into the importance of active oversight in driving ESG-based corporate value and help them identify companies that have authentic sustainability commitments to avoid the risk of greenwashing. For regulators, particularly the Financial Services Authority (OJK), this study provides empirical evidence to support the development of more effective sustainable finance regulations, evaluate the effectiveness of POJK No. 51/2017 in creating stable market value, and develop the Indonesian Sustainable Finance Taxonomy (TKBI) while formulating policies that encourage institutional investors to more actively monitor the integrity of issuers' sustainability reports, in order to maintain the stability of the macro financial system.

2. Theoretical Background

2.1 Signaling Theory

Signaling Theory, developed by Spence (1973), explains that companies convey information to external parties through various disclosures to reduce information asymmetry between management and stakeholders. In the context of ESG disclosure, transparent reporting serves as a positive signal to the market that the company has good risk management, sustainable business practices, and long-term strategic stability. Banks that adopt sustainability principles and disclose comprehensive ESG information tend to be more appreciated by investors because they are considered more resilient in the face of crises and able to attract greater capital interest (Azizah & Machdar, 2025). Based on signaling theory, transparent ESG reports can serve as a "strong signal" that distinguishes high-quality banks from low-quality ones. This positive signal shows that the bank's management is very competent in addressing non-financial risks. As a result, uncertainty in the eyes of investors is reduced, so the market responds positively in the form of an increase in the value of the company (Mahmood et al., 2025). However, the biggest challenge to the credibility of these signals is the emergence of the phenomenon of greenwashing, which is a visual communication tactic or superficial disclosure that companies use to create a pseudo-eco-friendly image to cover up poor sustainability performance in the field. When investors detect indications of greenwashing, ESG signals sent by companies will lose their relevance and may be responded negatively by the market as a form of new information asymmetry that increases reputational risks (Hariyanto & Ghozali, 2024). Therefore, transparent and honest ESG disclosure is crucial so that the signals captured by the market remain of positive value and can be relied upon by investors in making investment decisions.

2.2 Stakeholder Theory

Stakeholder Theory, introduced by Freeman (1984), explains that companies are responsible not only to shareholders but also to all stakeholders affected by corporate activities, including employees, customers, communities, governments, and the environment. In the context of ESG disclosure, banks that transparently communicate their environmental, social, and governance practices demonstrate their commitment to fulfilling stakeholder expectations and managing non-financial risks. ESG disclosure reflects corporate transparency, responsibility, and resource management capability in fulfilling stakeholder expectations (Mahmood et al., 2025; Narula et al., 2024). Strong sustainability disclosure may enhance corporate credibility, stakeholder trust, and company value. Conversely, greenwashing may weaken stakeholder confidence because it is perceived as inconsistent with sustainability and transparency principles. In the banking sector, where public trust is a vital asset, stakeholder theory provides a robust framework for understanding how ESG disclosure influences company value through enhanced legitimacy and stakeholder relationships.

2.3 Legitimacy Theory

Legitimacy Theory explains that companies seek social acceptance by aligning corporate activities and disclosure with societal values, norms, and expectations to maintain long-term business sustainability (Dowling & Pfeffer, 1975; Suchman, 1995). In the context of ESG disclosure, environmental, social, and governance reporting reflect corporate efforts to demonstrate responsibility and strengthen public trust. Banks that disclose comprehensive ESG information signal their commitment to sustainability and their alignment with societal expectations regarding responsible business conduct. However, legitimacy may become symbolic when sustainability disclosure is not supported by substantive implementation, leading to greenwashing practices. When investors detect greenwashing, the legitimacy of the company's sustainability claims is undermined, negatively affecting investor trust and company value. In the Indonesian banking sector, where sustainability regulations are strengthening, legitimacy theory provides a valuable framework for understanding how ESG disclosure contributes to company value through enhanced legitimacy and public trust.

2.4 Agency Theory

Agency Theory, introduced by Jensen and Meckling (1976), explains the contractual relationship between principals (shareholders) and agents (management), where the principal delegates authority to the agent to manage the company's operations. This relationship is susceptible to conflicts of interest due to information asymmetry, where management possesses more information about the company's condition than shareholders. In the context of ESG disclosure and institutional ownership, agency theory provides insights into how governance mechanisms can mitigate information asymmetry and reduce opportunistic managerial behavior. Institutional ownership describes the presence of professional investors who have the incentives and expertise to supervise managerial policies (Aulia et al., 2026; Hadiansyah et al., 2023). Based on agency theory, institutional investors act as an effective external monitoring mechanism in suppressing information asymmetry and reducing opportunistic management behavior (Azizah & Machdar, 2025; Aulia et al., 2026). A high proportion of ownership by institutions is often viewed by the market as a signal of company quality, as professional institutions have usually conducted an in-depth analysis before investing their capital (Azizah & Machdar, 2025).

2.5 ESG Disclosure

ESG Disclosure is a transparency instrument that communicates the company's commitment to sustainable business practices in the banking sector (Dewi & Maryanti, 2023). Environmental disclosure reflects information related to how companies manage the environment, control environmental risks, and implement sustainability commitments, including green financing projects and climate change risk management. Social disclosure reflects the extent to which companies disclose information related to social responsibility, labor welfare, community relations, and customer data security guarantees. Governance disclosure reflects corporate transparency regarding governance practices, supervisory mechanisms, risk management accountability, and the implementation of clean business ethics. Good ESG practices demonstrate the bank's

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commitment to sustainable business practices and its ability to address non-financial risks effectively. Based on signaling theory, transparent ESG reports can serve as a "strong signal" that distinguishes high-quality banks from low-quality ones, reducing uncertainty in the eyes of investors and leading to positive market responses in the form of increased company value (Mahmood et al., 2025).

2.6 Institutional Ownership

Institutional ownership is the ownership of shares of a company owned by an institution or organization, not by an individual. These institutions can be in the form of investment companies, pension funds, insurance companies, banks, foundations, and other financial institutions (Widhiastuti & Pradnyani, 2026). Institutional ownership describes the presence of professional investors who have the incentives and expertise to supervise managerial policies (Aulia et al., 2026; Hadiansyah et al., 2023). Based on agency theory, institutional investors act as an effective external monitoring mechanism in suppressing information asymmetry and reducing opportunistic management behavior (Azizah & Machdar, 2025; Aulia et al., 2026). A high proportion of ownership by institutions is often viewed by the market as a signal of company quality, as professional institutions have usually conducted an in-depth analysis before investing their capital (Azizah & Machdar, 2025). The supervisory function by institutional ownership is able to ensure that the ESG disclosure presented by banks is a reflection of the integration of real sustainability strategies (Mahmood et al., 2025). Institutional investors tend to advocate for higher information transparency and strict governance standards, which in turn will reinforce the validity of positive signals of ESG practices in the eyes of the public.

2.7 Company Value

Company value reflects the market's perception of the company's performance and prospects, often measured through Price to Book Value (PBV), which indicates whether a stock is overvalued or undervalued relative to its accounting value. Increasing the company's value is a strategic goal because it aligns with efforts to maximize shareholder welfare, often reflected through stock prices in the capital market (Aulia et al., 2026). In the banking sector, company value is a critical indicator of market confidence in management's ability to manage resources and risks effectively. Factors influencing company value include traditional financial performance, ESG disclosure, and the effectiveness of internal and external governance mechanisms (Azizah & Machdar, 2025; Mahmood et al., 2025). Company value is also responsive to signals that reflect managerial quality and long-term business sustainability prospects, making it a key focus for bank management in responding to global economic uncertainty.

2.8 Hypothesis Development

2.8.1 The Effect of ESG Disclosure on Company Value

Based on signaling theory, the broad disclosure of ESG information gives a positive indication to the market that the bank has good risk management and a stable long-term strategy. Banks that adopt sustainability principles tend to be more appreciated by investors because they are considered more resilient in the face of crises and able to attract greater capital interest (Azizah & Machdar, 2025). Previous research has shown that transparent ESG disclosure can increase stakeholder trust and boost a company's market value (Azizah & Machdar, 2025; Mahmood et al., 2025). Good ESG practices show commitment to green financing projects, climate change risk management, customer data security guarantees, and the implementation of clean business ethics. Despite some studies finding negative or insignificant influences because ESG is considered an additional cost burden that suppresses short-term profits, especially in emerging markets where investor understanding is still limited (Fadhali & Purwanto, 2024), amid the strengthening of sustainability regulations in Indonesia, positive signals from ESG practices remain a crucial factor in shaping the market value of banks. Therefore, ESG disclosure is able to have a positive influence on company values to increase stakeholder trust. Based on these arguments, the following hypothesis is proposed:

H1: ESG Disclosure has a positive effect on company value.

2.8.2 The Moderating Role of Institutional Ownership on ESG Disclosure and Company Value

In this study, institutional ownership plays a role as a moderation variable that can strengthen the relationship between ESG disclosure and corporate value (Azizah & Machdar, 2025). Theoretically, the supervisory function by institutional ownership is able to ensure that the ESG disclosure presented by banks is a reflection of the integration of real sustainability strategies (Mahmood et al., 2025). Institutional investors tend to advocate for higher information transparency and strict governance standards, which in turn will reinforce the validity of positive signals of ESG practices in the eyes of the public. With strong supervision, the ESG information disclosed becomes more credible and reliable by other investors in making investment decisions, thereby magnifying the positive impact of such disclosures on the increase in stock prices and company value (Hadiansyah et al., 2023). Several studies support the view that the presence of institutional ownership can increase the effectiveness of information disclosure and governance practices in creating added value for companies (Azizah & Machdar, 2025). Conversely, if institutional oversight is weak, ESG disclosures may not be optimally responded to by the market due to doubts about the accuracy of such information (Fadhali & Purwanto, 2024; Ngamtampong & Sukprasert, 2025). Thus, the existence of institutional shareholders is predicted to be a reinforcing factor for the effectiveness of ESG signals in increasing company value. Based on these arguments, the following hypothesis is proposed:

H2: Institutional ownership strengthens the positive influence of ESG Disclosure on company value.

3. Methods

3.1 Research Design

This study employs a quantitative approach using descriptive and verificative methods to examine the effect of ESG disclosure on company value with institutional ownership as a moderating variable in banking sector companies listed on the Indonesia Stock Exchange. The verificative method is used to analyze the causal relationship between ESG disclosure, institutional ownership, and company value through panel data regression analysis. The quantitative approach is considered appropriate because the study aims to empirically test the proposed hypotheses using statistical analysis of numerical data derived from annual reports, sustainability reports, and financial statements. The explanatory research design enables the examination of causal relationships between the independent variable (ESG Disclosure), moderating variable

(Institutional Ownership), control variables (Firm Size and Profitability), and dependent variable (Company Value).

3.2 Population and Sample

The object of the research is focused on companies in the banking subsector listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The selection of the banking sector is based on the characteristics of a highly regulated and trust-based industry, where the transparency of non-financial information through ESG is predicted to be a crucial factor in the formation of market value in the post-pandemic economic recovery phase. The study population included all banks that were consistently listed on the IDX during the observation period. The sampling technique applied is purposive sampling with inclusion criteria: (1) companies that successively publish annual reports and sustainability reports during 2022–2024; and (2) the availability of complete data related to ESG disclosure scores, institutional ownership, and other financial ratios required in the research model. Based on these criteria, the final sample includes banking companies observed over three years, resulting in an unbalanced panel dataset suitable for panel data regression analysis.

3.3 Data Collection Techniques

This research uses quantitative data with secondary data obtained from the company's annual report and sustainability report. Secondary data were collected from annual reports, sustainability reports, and financial statements of banking companies listed on the Indonesia Stock Exchange during 2022–2024, obtained from the official IDX website www.idx.co.id and company websites. The data collection procedure involved several sequential steps: (1) identification of banking companies listed on the IDX during the 2022–2024 period; (2) selection of companies meeting the predetermined purposive sampling criteria; (3) extraction of ESG disclosure data from sustainability reports using content analysis based on GRI Standards and relevant ESG indicators; (4) collection of financial data from audited annual financial statements, including information required for calculating company value (Tobin's Q), institutional ownership, firm size, and profitability; and (5) documentation of all extracted data systematically organized into a panel dataset suitable for statistical analysis. The secondary data sources employed in this research are considered reliable as they represent official publications from the Indonesia Stock Exchange and audited financial reports.

3.4 Operational Definition of Variables

The operational definitions of the variables examined in this study are presented in Table 1.

Table 1. Operational Definition and Measurement of Variables

Variable	Definition	Measurement	Scale	References
Company Value (Y)	Investors' perception of management's success in managing the company's resources and future prospects	Tobin's Q = (Market Value of Equity + Total Liability) / Total Asset	Ratio	Dinianti et al. (2025); Hariyanto & Ghozali (2024); Dewi & Maryanti (2023)
ESG Disclosure (X)	The disclosure of non-financial information related to	ESG Score = (Total Items Disclosed) /	Ratio	Dinianti et al. (2025); Antonetta &

Variable	Definition	Measurement	Scale	References
	environmental, social, and governance practices	(Maximum Total Items) × 100%		Simon (2026); Sari et al. (2026)
Institutional Ownership (Z)	The portion of a company's share ownership by financial institutions or institutions such as banks, insurance, and pension funds	Institutional Ownership = (Institutional Shares) / (Total Outstanding Shares)	Ratio	Hadiansyah et al. (2023); Widhiastuti & Pradnyani (2026)
Firm Size (Control)	The operational scale, resource capacity, level of organizational complexity, and stability of an entity	SIZE = Ln (Total Assets)	Ratio	Mahmood et al. (2025); Fadhali & Purwanto (2024)
Profitability (Control)	The company's ability to generate net profit from the management of all assets it owns	ROA = Net Income / Total Assets	Ratio	Dinianti et al. (2025); Mudzakir & Pangestuti (2023)

Source: Developed for this research (2026)

3.5 Data Analysis Techniques

This study uses the Data Panel Regression method which combines cross-sectional and time-series data to provide more accurate estimation results and minimize bias. This approach is appropriate because the research data consists of observations of companies in banking companies during the period 2022–2024 with different data availability in each company. The use of unbalanced panel data allows the research to maintain a maximum number of observations so that the results of the analysis become more representative.

The analysis stages include:

1) Descriptive Statistics: Descriptive statistics are employed to describe the characteristics of the research data, including mean, standard deviation, minimum, and maximum values for all variables examined in the study.
2) Panel Data Model Selection: The selection of the appropriate panel data regression model is carried out through three main stages: the Chow Test to compare whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) is the better model to use; the Hausman Test to determine whether the best model is FEM or Random Effect Model (REM); and the Lagrange Multiplier (LM) Test to confirm whether REM is more appropriate than CEM.
3) Classical Assumption Tests: Prior to hypothesis testing, classical assumption tests are conducted to ensure that the regression model satisfies the required assumptions so that the estimation results are more reliable. The tests include normality test, multicollinearity test using Variance Inflation Factor (VIF), heteroscedasticity test, and autocorrelation test (Durbin-Watson).
4) Panel Data Regression Analysis: The mathematical model used for hypothesis testing is formulated as follows:

$$Tobin's\ Q_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 KI_{it} + \beta_3 (ESG_{it} \times KI_{it}) + \beta_4 SIZE_{it} + \beta_5 ROA_{it} + \varepsilon_{it}$$

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Where:
Tobin's Q_{it} = Company Value
α = Constant
β_1–β_5 = Regression coefficients
ESG_{it} = ESG Disclosure Score
KI_{it} = Institutional Ownership
$ESG_{it} \times KI_{it}$ = Interaction variable between ESG and Institutional Ownership
$SIZE_{it}$ = Firm Size
ROA_{it} = Profitability
ε_{it} = Error term

5) Hypothesis Testing: Hypothesis testing is conducted using:
   1) t-test: Used to determine the partial effect of each independent variable on the dependent variable. The hypothesis is accepted if the probability value (p-value) is less than the significance level of 5% ($p < 0.05$).
   2) F-test: Used to examine the simultaneous effect of independent variables on the dependent variable.
   3) Coefficient of Determination (R^2): Used to measure the model's ability to explain variations in the dependent variable.
   4) Moderated Regression Analysis (MRA): Used to test the moderating effect of institutional ownership by examining the significance of the interaction term between ESG disclosure and institutional ownership.

All hypothesis tests are conducted at a significance level of 5% ($p < 0.05$). The analysis examines how ESG disclosure influences company value and how institutional ownership moderates this relationship in the Indonesian banking sector during the 2022–2024 period.

4. Results and Discussion

4.1 Results

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev	Min	Max
Tobin's Q	144	1.1533	0.6319	0.4356	4.5078
ESG	144	0.5965	0.1755	0.2250	0.9125
TO	144	0.7855	0.1562	0.3590	0.9872
ROA	144	0.0081	0.0217	-0.0762	0.0841
SIZE	144	31.5199	1.6638	28.8291	35.4255

Source: Processed Data (EViews), 2026

Table 2 presents descriptive statistics for all variables used in this study, namely company value proxied with Tobin's Q, ESG Disclosure (ESG), institutional ownership (TO), Return on Assets (ROA), and company size (SIZE). This descriptive statistic provides an overview of the data characteristics of 144 observations of banking companies listed on the Indonesia Stock Exchange during the 2022–2024 period.

The company's value variable proxied using Tobin's Q has an average value of 1.1533 with a standard deviation of 0.6319. The minimum value of 0.4356 and the maximum value of 4.5078 indicate that there was considerable variation in company value among banking companies during the study period. The standard deviation that is smaller than the average value indicates that the spread of Tobin's Q data is relatively good and does not deviate too much from the mean value. A Tobin's Q exceeding one generally reflects

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favorable market expectations because investors perceive firms as having stronger growth prospects and long-term business sustainability (Brigham & Houston, 2022).

The ESG Disclosure (ESG) variable has an average value of 0.5965 with a standard deviation of 0.1755. This shows that on average banking companies have disclosed around 59.65% of the ESG indicators used in the research. A minimum value of 0.2250 and a maximum value of 0.9125 indicate that there is a considerable difference in the level of ESG disclosure between companies, where there are companies that still disclose a limited amount of ESG and there are also companies that have disclosed almost all ESG indicators. This condition indicates varying levels of sustainability transparency among banking companies in Indonesia.

The institutional ownership (TO) variable has an average value of 0.7855 with a standard deviation of 0.1562. These results show that an average of 78.55% of the shares of banking companies are owned by institutional investors. The minimum value of 0.3590 and the maximum value of 0.9872 indicate that institutional ownership in the sample company is relatively high, although there is still variation in the proportion of institutional ownership between companies. This relatively high institutional ownership suggests that professional investors dominate the ownership structure of Indonesian banking companies.

The Return on Assets (ROA) variable has an average value of 0.0081 or equivalent to 0.81%, with a standard deviation of 0.0217. A minimum value of -0.0762 indicates that there are companies that suffered losses during the research period, while a maximum value of 0.0841 indicates that the best performing companies are able to generate profits of 8.41% of the total assets owned. This condition shows that there is a difference in the level of profitability between banking companies in the research sample.

The company size variable (SIZE) measured using the natural logarithm of total assets has an average value of 31.5199 with a standard deviation of 1.6638. The minimum value of 28.8291 and the maximum value of 35.4255 indicate that the banking companies in the study sample have varying asset sizes, but generally fall into the category of companies with large asset scales. Larger firms are typically subject to greater public scrutiny and stakeholder pressure, encouraging broader sustainability disclosure and stronger governance transparency (Gillan et al., 2021).

Overall, the descriptive statistical results show that all research variables have sufficient data variation so that they can be used for further analysis. Based on the results of model selection through the Chow test, Hausman test, and Lagrange Multiplier test that have been carried out previously, the Fixed Effect Model (FEM) was determined as the most appropriate panel data regression model to be used in this study.

Table 3. Hypothesis Test Results

Variable	Coefficient	t-Statistic	Prob.	Conclusion
C	32.72262	7.004513	0.0099	
ESG	-0.953162	-0.656854	0.2894	H1 Rejected
TO	0.313595	0.355190	0.3782	
ESG*TO	1.934943	1.342676	0.1558	H2 Rejected
ROA	-7.393196	-1.939588	0.0960	
SIZE	-1.017809	-8.293480	0.0071	
	R-squared		0.870027	
	Adjusted R-squared		0.795757	
	F-statistic		11.71434	
	Prob (F-statistic)		0.000000	

Source: Processed Data (EViews), 2026

Based on the panel data regression results presented in Table 3, the regression equation of this study can be formulated as follows:

$$Tobin's\ Q = 32.72262 - 0.953162(ESG) + 0.313595(TO) + 1.934943(ESG\times TO) - 7.393196(ROA) - 1.017809(SIZE) + \varepsilon$$

Where:
Tobin's Q = Company Value
ESG = ESG Disclosure Score
TO = Institutional Ownership
ESG×TO = Interaction between ESG and Institutional Ownership
ROA = Return on Assets
SIZE = Firm Size
ε = Error term

Based on the regression results presented in Table 3, this study examines the direct effect of ESG disclosure on company value, as well as the moderating role of institutional ownership in the relationship between ESG disclosure and company value in banking sector companies listed on the Indonesia Stock Exchange. The regression analysis was conducted using the Fixed Effect Model (FEM), which was selected as the most appropriate panel estimation model based on the Chow test, Hausman test, and Lagrange Multiplier test results.

The regression results indicate that ESG disclosure does not have a significant effect on company value ($p = 0.2894 > 0.05$), indicating that H1 is rejected. Institutional ownership also does not have a significant direct effect on company value ($p = 0.3782 > 0.05$). The interaction between ESG disclosure and institutional ownership does not have a significant effect on company value ($p = 0.1558 > 0.05$), indicating that H2 is rejected. Among the control variables, firm size (SIZE) has a significant negative effect on company value ($p = 0.0071 < 0.05$), while profitability (ROA) does not have a significant effect ($p = 0.0960 > 0.05$). The Adjusted R-squared value of 0.795757 indicates that the independent variables, moderation variables, interaction variables, and control variables collectively explain 79.58% of the variation in company value, while the remaining 20.42% is explained by other factors outside the research model. The F-statistic value of 11.71434 with a probability of 0.000000 (< 0.05) confirms that the regression model is statistically significant and appropriate for hypothesis testing. These findings show that although not all variables have a significant influence partially, simultaneously all variables in the model are able to explain changes in company value in the banking sector.

4.2 Discussion

4.2.1 ESG Disclosure Does Not Affect Company Value

The hypothesis testing results indicate that ESG Disclosure does not have a significant effect on company value, with a coefficient value of -0.953162 and a probability value of 0.2894 (> 0.05), indicating that H1 is rejected. This finding suggests that the level of ESG disclosure in banking companies does not significantly influence investors' perception of company value. This is in line with previous research conducted by Hariyanto and Ghozali (2024), Natasya et al. (2025), and Kusumo and Yuyeta (2025) which also concluded that ESG does not have a significant effect on company value.

The insignificance of this influence is suspected because investors in the Indonesian capital market still tend to be oriented towards short-term financial performance rather than non-financial information such as sustainability. ESG disclosures are often seen by the market as an additional cost burden that can reduce banks' profitability during

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economic recovery. In addition, investors' low understanding of the significance of ESG information causes the signals sent through sustainability reports to not be optimally integrated into the bank's valuation assessment (Dewi & Maryanti, 2023). This is in contrast to Signaling Theory which should place ESG disclosures as a positive signal to increase market confidence. This condition illustrates that investors still do not make ESG the main factor in determining investment decisions or assessing the company's value.

In relation to the conditions in the Indonesian capital market which are still in the development stage in integrating ESG information into the company's valuation process, although the Financial Services Authority has issued POJK No. 51 of 2017 which requires companies to prepare sustainability reports, ESG implementation in Indonesia still tends to be oriented towards regulatory compliance rather than business strategies that are able to create direct economic value. As a result, investors have not fully viewed ESG as information that can increase the value of a company. Therefore, investors may consider some ESG disclosures only as a form of regulatory compliance so that the information has not been able to increase market perception of the company's value. This is in line with Fadhali and Purwanto (2024), Hariyanto and Ghozali (2024), Natasya et al. (2025), and Kusumo and Yuyeta (2025) who show that ESG disclosure has no effect on company value.

4.2.2 Institutional Ownership Does Not Moderate the Effect of ESG Disclosure on Company Value

The hypothesis testing results indicate that institutional ownership does not moderate the effect of ESG disclosure on company value, with a coefficient value of 1.934943 and a probability value of 0.1558 (> 0.05), indicating that H2 is rejected. These findings show that the high institutional ownership of banking companies has not been able to strengthen the market response to ESG information disclosed by companies.

Based on Agency Theory, institutional ownership acts as a supervisory mechanism that can reduce agency conflicts between management and shareholders. Institutional investors are expected to be able to improve the quality of supervision and credibility of ESG information so that they can increase the company's value. However, the results of this study show that the supervisory function has not been running optimally. The possible cause is the ESG implementation and reporting process in Indonesia which is still in the development stage. Many companies, including the banking sector, are still focused on fulfilling regulatory obligations rather than integrating ESG into their corporate strategy and governance (Natasya et al., 2025). This condition causes institutional ownership to face limitations of consistent, historical, and comparable ESG data so that their ability to supervise sustainability aspects becomes less optimal.

In addition, the insignificance of this moderation role can also be caused by the characteristics of institutional ownership in Indonesia which tend to still be oriented towards short-term financial performance and have not actively integrated ESG considerations in the investment decision-making process (Fadhali & Purwanto, 2024). As a result, institutional ownership has not been able to increase the relevance of ESG information in the company's assessment by the market. This is in line with the research results of Fadhali and Purwanto (2024), and Ngamtampong and Sukprasert (2025), which show that institutional ownership is not able to strengthen the influence of ESG Disclosure on company value. Therefore, the amount of institutional ownership cannot be used as a guarantee that ESG disclosures will receive a more positive market response.

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4.2.3 The Effect of Control Variables on Company Value

Among the control variables, firm size (SIZE) has a significant negative effect on company value ($p = 0.0071 < 0.05$), indicating that larger banks tend to have lower company value. This finding may reflect the challenges faced by larger banks in maintaining profitability and efficiency due to operational complexity, regulatory burden, and the need for continuous investment in technology and compliance. Larger banks may also face greater scrutiny from regulators and the public, which can negatively impact market perception. This finding is consistent with research suggesting that larger firms may experience diseconomies of scale or face higher agency costs that reduce their market value.

Profitability (ROA) does not have a significant effect on company value ($p = 0.0960 > 0.05$), indicating that short-term profitability alone is not sufficient to explain variations in company value in the banking sector. This finding may reflect the fact that investors consider multiple factors beyond current profitability when assessing banking company value, including asset quality, risk management, and future growth prospects. The non-significant effect of ROA on company value in the banking sector may also be influenced by the regulated nature of the industry, where capital requirements and risk management standards limit the ability of banks to translate profitability directly into market value.

5. Conclusion

This study examines the influence of ESG disclosure on company value with institutional ownership as a moderating variable in banking sector companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Using panel data regression with the Fixed Effect Model (FEM) on banking companies with 144 observations, the results show that ESG disclosure does not have a significant effect on company value, indicating that ESG information has not been able to increase the value of banking companies proxied with Tobin's Q. Investors in the Indonesian banking sector still tend to consider traditional financial factors rather than sustainability information in the investment decision-making process, suggesting that the Indonesian capital market is still in the development stage in integrating ESG information into investment decisions and the company's valuation process. Institutional ownership does not moderate the effect of ESG disclosure on company value, implying that the high institutional ownership of banking companies has not been able to strengthen the market response to ESG information disclosed by companies. Although theoretically institutional investors are expected to function as a professional supervisory mechanism to prevent greenwashing practices, in the context of Indonesian banking, this role is not optimal, as institutional investors may still prioritize short-term financial performance over sustainability metrics, or the market may still doubt the depth of ESG integration. Among the control variables, firm size has a significant negative effect on company value, indicating that larger banks tend to have lower company value, while profitability does not have a significant effect on company value. The coefficient of determination (Adjusted R^2) value of 0.795757 indicates that all independent variables collectively explain 79.58% of the variation in company value, while the remaining 20.42% is influenced by other factors outside the research model.

The theoretical implications extend Signaling Theory, Stakeholder Theory, Legitimacy Theory, and Agency Theory to the context of ESG disclosure and company value in the Indonesian banking sector. The non-significant effect of ESG disclosure challenges the assumption that sustainability information automatically serves as a positive signal to the market, suggesting that in emerging markets where investor understanding of ESG is still limited, sustainability disclosures may not be optimally integrated into valuation assessments. The non-significant moderating effect of institutional ownership challenges the assumption that institutional investors function effectively as monitoring mechanisms in ensuring ESG credibility, indicating that institutional ownership in Indonesia may still be oriented towards short-term financial performance and has not actively integrated ESG considerations in the investment decision-making process. The significant negative effect of firm size suggests that larger banks may face challenges in maintaining value due to operational complexity, regulatory burden, and higher agency costs, extending agency theory to the context of banking sector valuation.

From a practical perspective, banking companies need to improve the quality of sustainability reporting to be more transparent, relevant, and able to show the real impact of ESG practices implemented, so that ESG information can become more credible and elicit a more positive response from investors. ESG disclosure alone is not enough to increase company value if it is not followed by the implementation of real and integrated sustainability in the company's business strategy. For investors, ESG information in the Indonesian banking sector has not been proven to significantly affect the value of companies; however, ESG can still be used as an additional indicator in assessing long-term risks, governance quality, and corporate sustainability. Institutional investors are expected to increase their active involvement in monitoring ESG implementation so as to increase the credibility of the sustainability information submitted by the company. For regulators, particularly the Financial Services Authority (OJK), the findings highlight the need to improve sustainability reporting standards and supervision of ESG implementation, especially in evaluating regulations set by OJK so that the information submitted by companies becomes more relevant, comparable, and has a higher level of credibility for investors. Strong reporting standards, increasing supervision of ESG implementation, and formulating policies that encourage institutional investors to more actively carry out the monitoring function of the integrity of issuers' sustainability reports are essential to maintain the stability of the macro financial system in Indonesia.

This study has several limitations. First, the analysis is limited to the banking sector, restricting generalizability to other industry sectors with different risk characteristics and regulatory environments. Second, the three-year observation period (2022–2024) is relatively short and may not fully capture the long-term impact of the overall integration of ESG practices on company value. Third, the study uses ESG disclosure as a measure of a company's sustainability practices, which does not fully reflect the actual quality of ESG implementation and may not capture the depth and substance of sustainability practices. Fourth, the study excludes other potential determinants of company value such as dividend policy, capital structure, and macroeconomic conditions. Fifth, the study focuses on ESG disclosure as a composite score, without distinguishing between environmental, social, and governance dimensions, which may have different effects on company value.

Future research should broaden the scope to include more diverse industry sectors and longer research periods to obtain a more comprehensive picture of the impact of ESG on company value. Future studies should use different ESG measurements, such as Bloomberg ESG scores or conducting separate tests on the Environmental, Social, and Governance dimensions to identify which specific dimension has the strongest influence on company value. Researchers should consider the use of other moderation or mediation variables, such as the quality of corporate governance, the characteristics of the board of commissioners, or managerial ownership, so as to provide a deeper understanding of the relationship between ESG and company value. Future studies should employ longer panel datasets to capture long-term trends more effectively and assess whether the relationship between ESG and company value evolves as the market matures and investor understanding of sustainability improves. Finally, future research could employ qualitative approaches such as case studies or interviews with institutional investors to provide richer insights into how institutional investors perceive and utilize ESG information in their investment decision-making processes, and to understand the barriers to active engagement in sustainability monitoring.

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