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# The Effect of Environmental, Social, Governance, and Sustainable Growth Rate on Firm Value with Foreign Ownership as a Moderating Variable: Evidence from IDX ESG Leaders

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**ABSTRACT:** This study investigates the effect of Environmental, Social, and Governance (ESG) disclosures and Sustainable Growth Rate (SGR) on firm value, with foreign ownership as a moderating variable. The research focuses on 10 companies listed in the IDX ESG Leaders index from 2015 to 2023, resulting in 90 panel data observations. Firm value is proxied by the Price-to-Earnings (P/E) ratio, and the analysis employs panel data regression using the Fixed Effect Model (FEM) with heteroskedasticity-robust standard errors. The results show that ESG disclosures (environmental, social, and governance dimensions) and foreign ownership do not have a significant direct effect on firm value, while SGR has a significant negative effect. Furthermore, foreign ownership significantly moderates the relationship between SGR and firm value, but does not moderate the effect of ESG disclosures. These findings suggest that, in the short term, ESG practices are not yet fully recognized by investors in the Indonesian capital market, while growth management remains a critical determinant of firm value. The study contributes to the ESG literature in emerging markets and offers practical recommendations for enhancing sustainability strategies and investor trust.

**KEYWORDS-**ESG Disclosure, Sustainable Growth Rate, Firm Value, Foreign Ownership, IDX ESG Leaders, Indonesia Stock Exchange

## I. INTRODUCTION

In the modern business environment, companies are expected not only to achieve profitability but also to ensure operational sustainability through the implementation of Environmental, Social, and Governance (ESG) principles. In Indonesia, the relevance of ESG has grown significantly, particularly following the launch of the IDX ESG Leaders index by the Indonesia Stock Exchange (IDX), which evaluates companies based on ESG performance, transaction liquidity, and financial stability. This index serves as a guide for investors seeking companies committed to sustainability and good governance, while promoting greater transparency in corporate disclosures.

Although ESG has been a prominent topic in global investment research, studies focusing on the relationship between ESG performance and firm value in the Indonesian context remain limited, especially for companies already included in the IDX ESG Leaders index. Previous research has often examined ESG in relation to financial performance indicators such as Return on Assets (ROA) or Return on Equity (ROE), but less frequently with valuation metrics like the Price-to-Earnings (P/E) ratio, which reflects market perceptions of a company's future earnings potential.

**Figure 1. IDX ESG Leaders Performance**

Furthermore, the Sustainable Growth Rate (SGR) — the maximum rate at which a firm can grow without external financing — is a critical but underexplored variable in ESG studies. While sustainable growth is theoretically aligned with long-term value creation, its interaction with ESG practices in determining firm value remains ambiguous. In addition, the role of foreign ownership as a moderating factor offers another dimension, as foreign investors often demand higher transparency, robust governance, and sustainable business models.

This study aims to address these research gaps by examining the direct effects of ESG disclosures and SGR on firm value, as well as the moderating role of foreign ownership, using panel data from companies listed in the IDX ESG Leaders index between 2015 and 2023. The findings are expected to provide theoretical enrichment for ESG literature in emerging markets and practical insights for policymakers, investors, and corporate managers in enhancing sustainability strategies and value creation.

## II. LITERATURE REVIEW

Sustainability considerations are increasing-ly embedded into the valuation models used by global capital markets. Environmental, Social, and Governance (ESG) metrics capture a firm's capacity to manage systemic risks such as cli-mate change, resource scarcity, and social li-cense to operate while sustaining long-term prof-itability. In efficient markets, credible ESG per-formance can serve as a signal of lower non-diversifiable risk, improved operational resili-ence, and enhanced stakeholder trust, all of which can translate into lower cost of capital and higher valuation multiples.

Environmental performance reflects a com-pany's ability to mitigate environmental impacts and adapt to climate-related risks, potentially influencing investor confidence in its long-term viability. Social performance captures how effectively a firm manages relationships with employees, customers, and communities, which can affect brand equity, market reach, and operational sta-bility. Governance performance demonstrates the robustness of oversight and decision-making pro-cesses, which can limit agency costs and safe-guard shareholder interests. Based on these con-siderations, it is expected that higher ESG per-formance will be positively associated with firm value.

Alongside ESG, the Sustainable Growth Rate (SGR) is a financial metric indicating how rapidly a firm can expand without jeopardizing its capital structure. When growth is supported by profitability and prudent financial manage-ment, it can enhance market expectations of fu-ture cash flows. However, excessive or unsus-tainable growth may raise perceptions of risk, offsetting potential valuation benefits. Therefore, the direction of SGR's effect on firm value de-pends on the market's assessment of the balance between growth potential and risk exposure.

Foreign ownership can influence the mar-ket's interpretation of both ESG and SGR sig-nals. Investors with global exposure often de-mand higher disclosure quality, stricter govern-ance, and strategic discipline aligned with inter-national standards. Their presence can amplify the positive effects of credible ESG practices and financially sustainable growth, but may also re-duce the impact of initiatives perceived as lack-ing substance.

From this reasoning, the study proposes the following hypotheses:

1. H1–H3: Environmental, Social, and Gov-ernance performance each have a positive influ-ence on firm value.
2. H4-H5: Sustainable Growth Rate and For-eign Ownership has a significant relationship with firm value, with the direction depending on the market's perception of growth quality.
3. H6–H9: Foreign ownership moderates the relationship between each of the ESG compo-nents, SGR, and firm value, strengthening the impact when performance signals are credible and financially sound.

## III. METHODS

This study adopts a quantitative research approach utilizing a panel data regression model to examine the impact of Environmental, Social, and Governance (ESG) disclosures and the Sustainable Growth Rate (SGR) on firm value, with foreign ownership acting as a moderating variable.

The research model is conceptually grounded in stakeholder theory, agency theory, and signaling theory, which collectively frame the rationale behind the assumed relationships among variables. ESG disclosures (comprising environmental, social, and governance aspects) are treated as independent variables that reflect the firm's commitment to sustainability, transparency, and ethical practices. Meanwhile, SGR represents the company's internal growth capacity without relying on external financing, serving as another independent variable that reflects the long-term financial health and efficiency of the firm.

Firm value, as the dependent variable, is measured using the Price-to-Earnings Ratio (P/E), which captures investor perception of the company's earnings potential and overall market valuation. The selection of P/E as a proxy is particularly relevant for this study, as it reflects both profitability and market sentiment—two factors that are presumed to be influenced by sustainability practices and growth efficiency.

The model also incorporates foreign ownership as a moderating variable, which is hypothesized to influence the strength or direction of the relationship between ESG/SGR and firm value. The presence of foreign investors often implies higher expectations for transparency, governance quality, and financial discipline. Therefore, foreign ownership may amplify or dampen the influence of ESG and SGR, depending on the context and investor preferences.

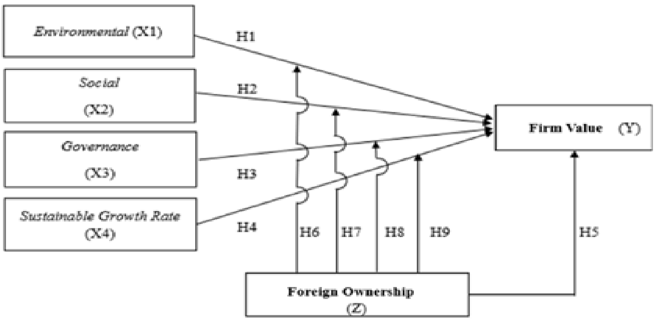


**Figure 2. Research Model**

Figure 2 visually illustrates the full research framework by showing the direct effects of ESG dimensions and SGR on firm value, as well as the interaction effects introduced by foreign ownership. This diagram serves to clarify the structure of hypotheses tested and the analytical approach employed in the empirical analysis. It provides readers with a comprehensive overview of how the variables are theorized to interact within the study.

**Population and Sampling**

The target population comprises companies listed in the IDX ESG Leaders Index from 2015 to 2023. The research focuses on 10 firms that consistently appear in the index during the observation period. The unit of analysis is firm-year data. The sample was selected using purposive sampling, with criteria including data availability for ESG disclosures, financial performance, and ownership structure over nine consecutive years. The final dataset includes 90 observations (10 companies × 9 years).

**Data Collection and Analysis**

Data were collected from companies' annual reports and sustainability reports, accessed through the official website of the Indonesia Stock Exchange and each company's investor relations page. ESG disclosure scores were constructed based on content analysis, while financial indicators were extracted directly from the reports.

1. Firm Value (Y): Measured using the Price-to-Earnings (P/E) Ratio.
2. Environmental, Social, and Governance Disclosure (X1, X2, X3): Quantified using a disclosure checklist adapted from the Global Reporting Initiative (GRI) standards.
3. Sustainable Growth Rate (X4): Calculated as ROE × (1 – dividend payout ratio).
4. Foreign Ownership (Z): Measured as the percentage of shares held by foreign investors.
5. Interaction Terms (X1Z to X4Z): Used to capture the moderating effects of foreign ownership on the relationship between each independent variable and firm value.

The study employs the Fixed Effect Model (FEM), selected based on the Chow and Hausman tests, to control for heterogeneity across firms. EViews 12 software was used for all estimations under heteroskedasticity-robust standard errors.

In this study, the independent variables used are Environmental Disclosure (X1), Social Disclosure (X2), Governance Disclosure (X3), and Sustainable Growth Rate (X4), while the dependent variable is Firm Value (Y). Foreign Ownership (Z) is included as a moderating variable, along with the interaction terms (X1Z, X2Z, X3Z, X4Z).

The multiple linear regression model employed in this study is structured as follows:

$P/E = \alpha + \beta1\ ENV + \beta2\ SOC + \beta3\ GOV + \beta4\ SGR + FO + \beta5\ ENV{*}FO + \beta6\ SOC{*}FO + \beta7\ GOV{*}FO + \beta8\ SGR{*}FO + e$

Notes:

P/E = Price Earning Ratio
α = Constant
β = Coefficient of Determination
ENV = Environmental Disclosure
SOC = Social Discloseure
GOV = Governance Disclosure
FO = Foreign Ownesrship
e = Error term

## IV. RESULT

This section presents the descriptive and inferential results of the panel data regression using the Fixed Effect Model (FEM). The focus is on interpreting the estimated coefficients, significance levels, and the support or rejection of research hypotheses.

### Descriptive Statistical Test Results

Descriptive quantitative statistical analysis involves several techniques, such as assessing data central tendency (mean) and evaluating data dispersion through measures like range, variance, and standard deviation.

**Tabel 1. Descriptive statistics**

| Variabel | Mean | Median | Std. Dev | Min | Max |
|---|---|---|---|---|---|
| Firm Value (Y) | 20.07 | 16.10 | 13.73 | 1.33 | 88.63 |
| Environmental (X1) | 26.34 | 27.57 | 17.80 | 0.48 | 64.84 |
| Social (x2) | 37.11 | 37.48 | 12.32 | 8.56 | 58.07 |
| Governance (X3) | 77.36 | 78.60 | 9.41 | 47.80 | 93.62 |
| Sustainable Growth Rate (X4) | 6.63 | 7.12 | 5.63 | - 14.64 | 26.22 |
| Foreign Ownership (Z) | 0.41 | 0.34 | 0.28 | 0.09 | 0.98 |

**Source:** Output of Eviews Version 12, 2025

The average value of firm value (P/E ratio) is 19.93, with the highest value recorded by PT Jasa Marga Tbk (JSMR) at 67.06 in 2020, and the lowest by PT Bank Negara Indonesia (Persero) Tbk (BBNI) at 1.33 in 2023. The Environmental Disclosure (X1) variable has a mean of 26.97, ranging from a minimum of 1.33 (CTRA, 2015) to a maximum of 64.84 (UNVR, 2019). The Social Disclosure (X2) has an average of 39.02, with values ranging from 8.56 (CTRA, 2015) to 58.07 (TLKM, 2021). Governance Disclosure (X3) averages 77.63, with a low of 47.80 (CTRA, 2016) and a high of 93.62 (TLKM, 2020). Meanwhile, SGR (X4) records a mean of 6.44, with a minimum of –14.64 (UNVR, 2023) and a maximum of 26.22 (JSMR, 2023).

### Inferential Results and Hypothesis Testing

The regression model yields an R-squared of 0.3098, implying that approximately 30.98% of the variation in firm value can be explained by the independent variables and their interactions. The adjusted R-squared is 0.2321, indicating a reasonably good model fit given the number of variables.

**Tabel 2. Moderation Regression Analysis**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 4.69 | 23.68 | 0.20 | 0.84 |
| Environmental | - 0.24 | 0.21 | - 1.11 | 0.27 |
| Social | - 0.16 | 0.53 | - 0.30 | 0.76 |
| Governance | 0.69 | 0.46 | 1.49 | 0.14 |
| Sustainable Growth Rate | - 2.29 | 0.49 | - 4.67 | - |
| Foreign Ownership | 104.21 | 57.72 | 1.81 | 0.08 |
| Environmental x Foreign Ownership | 0.50 | 0.37 | 1.36 | 0.18 |
| Social x Foreign Ownership | - 0.79 | 0.91 | - 0.87 | 0.39 |
| Governance x Foreign Ownership | - 1.64 | 0.96 | - 1.71 | 0.09 |
| Sustainable Growth Rate x Foreign Ownership | 2.94 | 1.01 | 2.91 | 0.00 |

**Source:** Output of Eviews Version 12, 2025

- Environmental Disclosure (X1) has a regression coefficient of –0.24 and a p-value of 0.27, indicating an insignificant and negative effect on firm value.
- Social Disclosure (X2) shows a coefficient of –0.16 with a p-value of 0.76, also indicating no significant impact on firm value.
- Governance Disclosure (X3) has a positive coefficient of 0.69 with a p-value of 0.14, indicating a weak and statistically insignificant relationship.
- Sustainable Growth Rate (X4) presents a coefficient of –2.29 and a highly significant p-value (< 0.01), suggesting a strong negative relationship with firm value.
- Foreign Ownership (Z) has a coefficient of 104.21 with a p-value of 0.08, indicating a positive but statistically insignificant effect.

Interaction Effects (Moderating Role of Foreign Ownership)

- Environmental Disclosure × Foreign Ownership has a coefficient of 0.50 (p = 0.18), showing no significant moderating effect.
- Social Disclosure × Foreign Ownership yields a coefficient of –0.79 (p = 0.39), indicating an insignificant and negative interaction.
- Governance Disclosure × Foreign Ownership gives –1.64 (p = 0.09), suggesting a marginal but statistically insignificant interaction.
- Environmental Disclosure × Foreign Ownership reveals a coefficient of 2.94 (p = 0.00), indicating a statistically significant moderating effect, meaning foreign ownership strengthens the negative relationship between SGR and firm value.

Overall, the results confirm that only SGR (X4) and its interaction with foreign ownership (X4Z) significantly influence firm value. ESG components (X1, X2, X3) and foreign ownership (Z) do not have a direct statistically significant impact, although some interaction terms suggest directional tendencies.

**The Effect of Environmental Disclosure (X1) on Firm Value**

The regression analysis reveals that the En-vironmental Disclosure variable (X1) does not have a statistically significant effect on firm val-ue, as measured by the Price to Earnings Ratio (P/E). Although the direction of the relationship is negative, this effect lacks sufficient statistical strength to support generalization. These results indicate that environmental transparency, while commendable, has not been consistently translat-ed by the Indonesian capital market into a mean-ingful valuation metric. This suggests that inves-tors may not yet fully consider environmental information when evaluating firms, possibly due to symbolic compliance, greenwashing practices, or limited understanding of long-term environ-mental impacts. This finding contrasts with sig-naling theory, which posits that enhanced disclo-sure sends positive signals to investors. Moreo-ver, it diverges from international studies show-ing a positive link between environmental per-formance and market value. In the Indonesian context, especially for firms in the IDX ESG Leaders Index, the limited investor responsive-ness highlights the need for more substantive and measurable disclosures to foster investor confi-dence.

**The Effect of Social Disclosure (X2) on Firm Value**

Social Disclosure (X2) also does not signifi-cantly influence firm value, based on the regres-sion analysis. Despite theoretical expectations grounded in stakeholder and legitimacy theories, the Indonesian market does not appear to price in social initiatives when evaluating firms. This may be due to the symbolic nature of social re-ports, their lack of quantifiable indicators, and the short-term financial focus of domestic inves-tors. These results align with local studies that argue social aspects are seen more as ethical ob-ligations than value-creating strategies. There-fore, firms should improve the quality of social disclosures by providing measurable outcomes and linking them to business performance to gain stronger market recognition.

**5.3. The Effect of Governance Disclosure (X3) on Firm Value**

Governance Disclosure (X3) similarly does not show a statistically significant effect on firm value. While good corporate governance is ex-pected to reduce agency problems and enhance investor trust, the Indonesian capital market seems indifferent to governance-related infor-mation. This may stem from the formalistic na-ture of disclosures, insufficient enforcement, and investor skepticism about the practical imple-mentation of governance principles. Investors tend to focus on financial indicators, and without strong regulatory pressure or clear evidence of governance effectiveness, governance reports are not seen as critical valuation inputs. This gap highlights the importance of strengthening not just the quantity but the credibility of governance disclosures.

**5.4. The Effect of Sustainable Growth Rate (X4) on Firm Value**

Interestingly, the Sustainable Growth Rate (SGR) has a significant yet negative effect on firm value. This suggests that rapid internal growth, while seemingly beneficial, may raise investor concerns about over-expansion, financial strain, or operational inefficiency. High SGRs could be interpreted as aggressive strategies lack-ing long-term financial stability. In Indonesia's developing capital market, investors may associ-ate high SGRs with increased risk rather than value creation. This result underscores the need for firms to communicate growth strategies in conjunction with sound financial management and corporate governance practices.

**5.5. The Effect of Foreign Ownership (Z) on Firm Value**

Foreign Ownership (Z) has a moderately significant positive effect on firm value. The presence of foreign investors is perceived to en-hance firm credibility, bring in international best practices, and improve overall governance expec-tations. While the effect is not overwhelmingly strong, it is sufficient to suggest that foreign in-vestors play a constructive role in shaping market perceptions of firm value, particularly within the ESG Leaders segment. Nonetheless, their influ-ence may be constrained if they remain passive shareholders or are underrepresented in strategic decision-making.

### 5.6. The Moderating Effect of Foreign Owner-ship (Z) on the Relationship between En-vironmental Disclosure (X1) and Firm Value

The interaction between Environmental Dis-closure and Foreign Ownership is significant at a 10% level, indicating a modest moderating ef-fect. While foreign investors may appreciate en-vironmental initiatives, their influence is limited unless they actively engage in governance or strategic planning. The result partially supports signaling theory but also reflects the passive na-ture of many foreign shareholders in Indonesia's market.

### 5.7. The Moderating Effect of Foreign Owner-ship (Z) on the Relationship between So-cial Disclosure (X2) and Firm Value

The study finds no significant moderating effect of Foreign Ownership on the relationship between Social Disclosure and firm value. Sur-prisingly, the coefficient direction is negative, suggesting that foreign investors may view social initiatives as cost centers rather than value driv-ers. This could stem from a preference for finan-cial performance over non-financial metrics, or from a lack of clear, standardized reporting in the social domain.

### 5.8. The Moderating Effect of Foreign Owner-ship (Z) on the Relationship between Gov-ernance Disclosure (X3) and Firm Value

Lastly, the moderating role of Foreign Own-ership on the relationship between Governance Disclosure and firm value is not statistically sig-nificant. This implies that governance infor-mation is either evaluated independently of own-ership structure or that foreign investors do not exert sufficient influence to alter its impact. Giv-en the passive behavior of many foreign share-holders and the often formalistic nature of gov-ernance reporting, this result is not unexpected.

### 5.9. The Moderating Effect of Foreign Owner-ship (Z) on the Relationship between Sus-tainable Growth Rate (X4) and Firm Value

The interaction term between Sustainable Growth Rate (SGR) and Foreign Ownership (X4Z) shows a statistically significant and posi-tive coefficient. This result confirms that foreign ownership significantly moderates the relation-ship between SGR and firm value. Specifically, the presence of foreign investors amplifies the positive impact of sustainable growth rate on firm value. It suggests that firms with high SGR and substantial foreign ownership are more likely to be perceived positively by the market, possi-bly due to better access to capital, stricter per-formance monitoring, and greater investor confi-dence in growth sustainability

## CONCLUSIONS

This study examined the impact of Envi-ronmental, Social, and Governance (ESG) disclo-sures and Sustainable Growth Rate (SGR) on firm value, with foreign ownership as a moderat-ing variable. Using panel data analysis on IDX ESG Leaders Index firms from 2015 to 2023, the findings highlight that SGR has a significant negative effect on firm value, while ESG compo-nents do not significantly influence valuation.

Importantly, foreign ownership was found to significantly moderate the relationship between SGR and firm value, underscoring its role in am-plifying market perception of sustainable growth. These results emphasize the nuanced role of ownership structure in shaping how sustainability and growth indicators are evaluated by the market.

Overall, the study contributes to the litera-ture by integrating financial sustainability and ownership context into the ESG-value frame-work, providing implications for managers, in-vestors, and policymakers in emerging markets.

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