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THE EFFECT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE DISCLOSURE AND DEBT POLICY ON FIMR VALUE WITH INSTITUTIONAL OWNERSHIP AS A MODERATING VARIABLE IN BASIC INDUSTRY AND CHEMICAL COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study examines the effect of Environmental, Social, and Governance (ESG) disclosure and debt policy on firm value, with institutional ownership as a moderating variable. The research focuses on basic industry and chemical sector companies listed on the Indonesia Stock Exchange (IDX) during 2021-2024. Using a quantitative approach with secondary data from annual reports, sustainability reports, and financial statements, this study employs purposive sampling resulting in 30 companies with 120 observations. Data analysis utilizes panel data regression. The results indicate that ESG disclosure has a positive and significant effect on firm value, while debt policy has a negative effect on firm value. However, institutional ownership cannot strengthen the relationship between ESG and firm value. Conversely, institutional ownership actually weakens the effect of debt policy on firm value. This research provides contributions for company management, investors, and regulators to pay more attention to ESG disclosure as a strategy to enhance firm value, while carefully considering capital structure in the context of institutional ownership.

Keywords : ***Environmental, Social, and Governance (ESG) Disclosure, Debt Policy, Firm Value, Institutional Ownership, Indonesia Stock Exchange***

1. Introduction

The intensifying business competition in today's era requires companies to enhance their dynamic capabilities and adaptability through strategic measures to remain profitable and thrive in the future (Zahra et al., 2022). In attracting investment through stock offerings, competition has also heightened as investors tend to choose companies with good performance. Firm value serves as an important indicator reflecting how investors assess a company's performance and future prospects, generally reflected in stock prices. According to Brigham and Houston (2019), firm value represents the amount potential buyers are willing to pay if the company were sold, while also encompassing the market value of issued securities. Therefore, increasing firm value becomes the primary objective of every business as it directly relates to shareholder welfare. In the context of Indonesia's capital market, the dynamics of the Composite Stock Price Index (IHSG) and daily stock trading volume have become important indicators reflecting investor sentiment and perceptions of firm value. Based on IDX data (2024), daily trading value increased by 19.59% to IDR 12,851 billion in 2024, indicating a recovery in investor interest in market activities after a significant decline in the previous year. However, despite the increase in trading value, the IHSG actually declined to the level of 7,079.91.

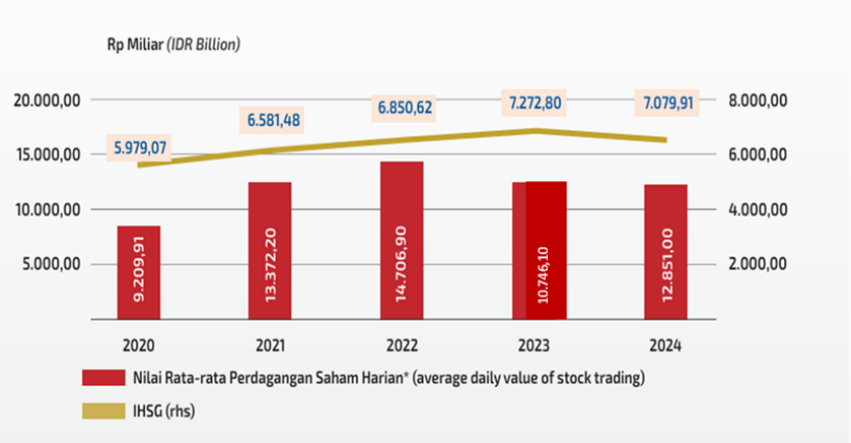

Figure 1.1. JCI Development and Average Daily Stock Trading Value
Source: idxdata (2024)

In today's business world, firm value is no longer determined solely by financial performance. Investors now increasingly consider companies' ability to create sustainable value, encompassing environmental impact management, social responsibility, and good governance practices, known as Environmental, Social, and Governance (ESG). ESG disclosure transparency has become an important aspect as it not only serves as compliance but also contributes to company reputation, trust, and attractiveness in the eyes of investors. Beyond sustainability, company attractiveness is also determined by how companies manage their financial foundation, particularly in debt structure. Debt policy plays an important role as companies need to balance between operational funding needs and the sustainability image expected by investors. Increasingly selective investors not only assess companies' capacity to pay debts but also how debt usage relates to investment efficiency and long-term value creation. Another equally important aspect is the ownership structure that influences the effectiveness of sustainability strategies and financial policies in creating firm value. Institutional ownership serves as a supervisor encouraging management to act more accountably, both in implementing ESG practices and in managing capital structure. Institutional investors generally pay more attention to financial risks as well as sustainability aspects, so the role of institutional investors can strengthen the influence of ESG disclosure and debt policy on firm value.

2. Literature Review

2.1 Agency Theory

Agency theory explains the relationship between company owners (principals) and managers (agents) who are given authority to manage resources and make decisions on behalf of owners. According to Jensen and Meckling (1976), this relationship is prone to conflicts of interest due to different objectives between principals and agents. Managers as agents do not directly bear the risks from decisions made, so they potentially act opportunistically or inconsistently with shareholder interests. In the context of this research, ESG disclosure and debt policy become part of mechanisms to reduce agency conflicts. ESG disclosure increases company transparency, allowing shareholders to assess the extent to which management carries out environmental, social, and governance responsibilities. Similarly, regarding debt policy, managers potentially make overly aggressive financing decisions (over-leverage) for short-term interests, which could conflict with owners' preferences for company stability and sustainability.

2.2 Stakeholder Theory

Stakeholder theory, developed by Freeman (1984), states that company success is determined not only by the ability to generate profits for shareholders but also by the ability to meet expectations of all interested parties (stakeholders), such as employees, customers, suppliers, communities, and government. In this research context, stakeholder theory is relevant to explain the urgency of ESG disclosure as a form of company accountability and communication to its stakeholders. When companies provide complete and relevant ESG information, relationships with stakeholders become stronger, ultimately driving improved reputation, market trust, and firm

value.

2.3 Trade-Off Theory

Trade-off theory, developed by Kraus and Litzenberger (1973), explains that companies will strive to balance tax benefits from debt usage with potential financial costs, such as bankruptcy risk or liquidity pressure. According to this theory, there is an optimal capital structure achieved when the benefits and costs of debt usage are in balance. In this research context, trade-off theory is used to explain how companies rationally determine debt policy. Companies considering the trade-off between tax advantages and bankruptcy risk tend to manage their capital structure carefully to avoid decreasing firm value due to over-leverage.

2.4 Environmental, Social, and Governance Disclosure

Environmental, Social, and Governance (ESG) Disclosure refers to the presentation of information regarding environmental, social, and governance aspects of a company. This disclosure reflects a company's commitment to sustainability practices and transparency in non-financial reporting. ESG Disclosure is measured using the ESG disclosure index calculated based on the following ratio:

$$\text{ESG} = \frac{\text{Number of Company Disclosure Items}}{\text{Total Disclosure Items}} \text{x } 100\%$$

This index measures the extent to which companies disclose ESG-related information in their reports. A higher index value indicates greater transparency regarding the company's sustainability commitments and achievements. The measurement is based on content analysis of annual reports and sustainability reports using predetermined ESG indicators according to Indonesian Financial Services Authority (OJK) Regulation No. 51/POJK.03/2017.

2.5 Debt Policy

Debt policy represents a company's decisions regarding the proportion of operational and investment financing obtained from debt sources. This policy aims to optimize capital structure by considering financial risk, cost of capital, and its impact on profitability and firm value. Debt Policy is measured using the Debt to Equity Ratio (DER):

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}} \text{x} 100\%$$

The Debt-to-Equity Ratio (DER) provides an overview of how much a company relies on debt in its capital structure. A high ratio indicates dependence on external financing, which can increase financial risk. Conversely, an optimal DER can be used to improve capital efficiency, accelerate growth, and support overall firm value enhancement.

2.6 Firm Value (Dependent Variable)

Firm value reflects investors' perception of a company's operational success, typically reflected in its stock price. It represents the amount potential buyers are willing to pay if the company is sold, encompassing the market value of issued securities. Firm Value is measured using Tobin's Q ratio:

$$\text{Tobin's Q} = \frac{(\text{MVE} + \text{Debt})}{\text{Total Assets}}$$

Where:

- MVE = Market Value of Equity (stock price × number of outstanding shares)
- Debt = Total company debt
- Total Assets = Total company assets recorded in financial statements

Interpretation:

- Tobin's Q > 1: Market values the company higher than its total assets, indicating positive growth expectations
- Tobin's Q < 1: Market value is below total asset value, suggesting underperformance or investor skepticism

2.7 Institutional Ownership (Moderating Variable)

Definition: Institutional ownership refers to the proportion of company shares owned by financial institutions

such as insurance companies, banks, pension funds, investment companies, and other organizations with significant investment capacity. Institutional Ownership is measured as:

$$\text{Institutional Ownership} = \frac{\text{Number of Shares Owned by Institutions}}{\text{Number of Outstanding Shares}} x\ 100\%$$

This variable functions as a moderating factor that can strengthen or weaken the relationship between independent and dependent variables. Institutional ownership serves as an external monitoring mechanism for management, as institutional investors typically have greater resources, expertise, and access to information compared to individual investors.

3. RESEARCH METHODS

This study uses a quantitative approach to examine the effect of ESG disclosure and debt policy on firm value, with institutional ownership as a moderating variable. This method was chosen because it can provide objective, measurable, and statistically testable results. The research is descriptive and inferential in nature, using secondary data in the form of financial reports and sustainability reports from basic industry and chemical sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2021 to 2024.

3.1 Sample Selection

The sample determination was conducted using purposive sampling technique with the following criteria:

1. Basic industry and chemical sector companies consistently listed on IDX during 2021-2024
2. Companies publishing complete annual reports and sustainability reports during 2021-2024
3. Companies having complete data related to research variables

Based on the established sample criteria, a selection and filtering process was conducted on the entire initial population, resulting in a final sample of 30 companies from the basic industry and chemical sector. Thus, the total observations analyzed in this study are 120 data points, derived from 30 companies over 4 years of observation period

3.2 Data Analysis

This research uses panel data regression analysis to determine the effect of ESG disclosure and debt policy on firm value, with institutional ownership as a moderating variable. Data analysis was conducted using EViews software through several stages: descriptive analysis, panel data regression analysis, model specification testing, classical assumption testing, regression analysis, and Moderated Regression Analysis (MRA). To quantitatively illustrate the relationship between variables, this study employs two regression models as follows:

- Panel Regression Equation (Main Model):

$$NP = \alpha + \beta_1 ESG_{1it} + \beta_2 DER_{2it} + e$$

- Moderated Regression Analysis (MRA) Equation:

$$NP = \alpha + \beta_1 ESG_{it} + \beta_2 DER_{it} + \beta_3 KI_{it} + \beta_4 ESG * KI + \beta_5 DER * KI + e$$

Where:

NP	= Firm Value
α	= Constant
β	= Regression Coefficient
ESG	= Environmental, Social, and Governance Disclosure
DER	= Debt Policy
KI	= Institutional Ownership
ESG × KI	= Interaction between ESG Disclosure and Institutional Ownership
DER × KI	= Interaction between Debt Policy and Institutional Ownership
e	= Error Term

i = Entity i
t = Time t

These models are designed to assess both the direct effects of ESG disclosure and debt policy on firm value, as well as the moderating role of institutional ownership in strengthening or weakening these relationships.

4. Results and Discussion

4.1 Descriptive Statistics

Table 4.1. Descriptive Analysis Results

	ESG	DER	KI	NP
Mean	0.901500	1.107208	0.651783	1.332275
Median	0.930000	0.968000	0.748000	1.330500
Maximum	1.000000	11.419000	1.000000	2.293000
Minimum	0.460000	-2.868000	0.000000	0.422000
Std. Dev.	0.112157	1.664375	0.314737	0.328927

Source: Eviews software output results

The descriptive statistical analysis shows that the number of data observations is 120 using 4 research instruments. Based on the analysis results, ESG disclosure has a mean value of 0.9015 or about 90.15%, indicating that most basic industry and chemical sector companies during the research period (2021-2024) have been quite consistent in disclosing ESG aspects. The mean value of debt policy is recorded at 1.1072, showing that during the research period, companies in this sector had an average debt of 1.1072 times or 110.72% of their equity. The mean value of institutional ownership is recorded at 0.651783 or about 65.18%, indicating that during the research period, most company shares in this sector are controlled by institutional investors. Firm value proxied by Tobin's Q has a mean value of 1.332275, indicating that the market values companies in this sector about 1.33 times or 133.23% more valuable compared to their asset replacement costs.

4.2 Model Specification Testing

Based on the Chow test, Hausman test, and Lagrange Multiplier (LM) test results, the Random Effect Model (REM) was selected as the best model for this panel data analysis.

Table 4.2. Chow Test Estimation Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	13.049031	(29,87)	0.0000
Cross-section Chi-square	201.244340	29	0.0000

Source: Eviews software output results

Table 4.3. Hausman Test Estimation Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	6.845300	3	0.0770

Source: Eviews software output results

Table 4.4. LM Test Estimation Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	125.9861 (0.0000)	0.702847 (0.4018)	126.6889 (0.0000)

Source: Eviews software output results

4.3 Classic Assumption Test

A classic assumption test was performed to ensure that the panel regression model met the criteria of the Best Linear Unbiased Estimator (BLUE). The tests include normality, multicollinearity, autocorrelation, and heteroscedasticity tests. The results of the normality test with the Jarque-Bera test showed a probability value of < 0.05, so the data was not distributed normally. However, according to Gujarati (2003) and Ghasemi & Zahediasi (2012), in panel data with a large number of observations, the violation of normality did not have a significant effect on the validity of the model, so the analysis could still be performed by parametric methods.

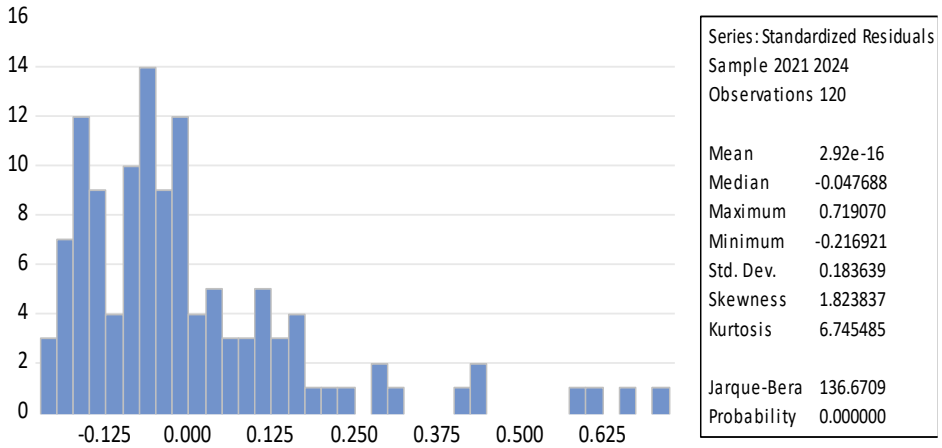

Figure 1.2. Normality Test Results
Source: Eviews software output results

The autocorrelation test was not carried out because this study used panel data, where the cross-section nature is more dominant than the time series (Basuki & Prawoto, 2016). The results of the multicollinearity test showed that the entire value of the correlation coefficient between independent variables was < 0.8, so no indication of multicollinearity was found.

Table 4.5. Multicollinearity Test Results

	ESG	DER	KI	NP
ESG	1.000000	0.149107	0.097998	0.684185
DER	0.149107	1.000000	-0.205768	-0.225533
KI	0.097998	-0.205768	1.000000	0.516385
NP	0.684185	-0.225533	0.516385	1.000000

Meanwhile, in the heteroscedasticity test, the Random Effect model with the Generalized Least Squares (GLS) approach used theoretically has overcome the problem of heteroscedasticity, so the model is considered feasible to use for further regression analysis.

4.4 Hypothesis Testing Results

Based on the panel data regression analysis results using the Random Effect method, the following results were obtained:

Main Effects:

Table 4.6. Results of Equation Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.240298	0.084944	-2.828895	0.0055
ESG	1.500065	0.081692	18.36245	0.0000
DER	-0.026371	0.007109	-3.709625	0.0003
KI	0.382737	0.038327	9.986194	0.0000

Effects Specification	S.D.	Rho
Cross-section random	0.167912	0.8987
Idiosyncratic random	0.056374	0.1013

Weighted Statistics			
R-squared	0.773731	Mean dependent var	0.220559
Adjusted R-squared	0.767879	S.D. dependent var	0.118933
S.E. of regression	0.057301	Sum squared resid	0.380870
F-statistic	132.2210	Durbin-Watson stat	1.360865
Prob(F-statistic)	0.000000		

Source: Eviews software output results

Based on the results of the partial test (t-test) on the panel regression model using *the Random Effect method*, it was obtained that :

1. ESG Disclosure on Firm Value: ESG disclosure variable has a coefficient of 1.500065 with a probability value of 0.0000 (< 0.05), indicating that ESG disclosure has a positive and significant effect on firm value. Hypothesis 1 is accepted.
2. Debt Policy on Firm Value: Debt policy (DER) variable has a coefficient of -0.026371 with a probability value of 0.0003 (< 0.05), showing that debt policy has a negative and significant effect on firm value. Hypothesis 2 is rejected.

The F test is used to determine the co-influence of all independent variables on the bound variables. The results of the simultaneous test showed that the variables of ESG Disclosure, Debt Policy, and Institutional Ownership simultaneously had a significant effect on the Company's Value at a significance level of 5%. In other words, the combination of these three independent variables is able to make a significant contribution in explaining the variation in the Company's Value. This confirms that the regression model used is feasible and valid simultaneously to analyze the relationships between variables.

Based on the estimated panel regression model using the Random Effect method, an Adjusted R^2 value of 0.7679 or 76.79% was obtained. This shows that 76.79% of the variation in Corporate Value can be explained by the variables of ESG Disclosure, Debt Policy, and Institutional Ownership, while the remaining 23.21% is explained by other factors outside the model, such as macroeconomic conditions, government policies, innovation, and operational efficiency. This high Adjusted R^2 value indicates that the regression model has a strong explanatory power and is suitable for analyzing the relationship between ESG Disclosure, Debt Policy, and Institutional Ownership to Corporate Value in companies in the basic and chemical sectors listed on the Indonesia Stock Exchange.

Moderating Effects:

Table 4.7. Moderated Regression Analysis (MRA) Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.264367	0.152110	-1.737996	0.0849
ESG	1.541610	0.159734	9.651135	0.0000
DER	-0.014137	0.006977	-2.026410	0.0451
KI	0.447854	0.227999	1.964279	0.0519
ESG_KI	-0.039117	0.240858	-0.162408	0.8713
DER_KI	-0.075235	0.014601	-5.152621	0.0000

Source: Eviews software output results

1. Institutional Ownership Moderating ESG-Firm Value: The interaction variable between ESG disclosure and institutional ownership has a negative coefficient of -0.039117 with a probability value of 0.8713 (> 0.05), indicating that institutional ownership cannot significantly moderate the relationship between ESG disclosure and firm value. Hypothesis 3 is rejected.
2. Institutional Ownership Moderating Debt Policy-Firm Value: The interaction variable between debt policy and institutional ownership has a negative coefficient of -0.075235 with a probability value of 0.0000 (< 0.05), showing that institutional ownership significantly moderates the relationship between debt policy and firm value, but in a weakening direction. Hypothesis 4 is accepted.

4.5 Discussion

1. Effect of ESG Disclosure on Firm Value

The positive relationship between ESG disclosure and firm value is reflected in several basic industry and chemical sector companies in the research sample. From a Stakeholder Theory perspective, comprehensive ESG disclosure enables companies to build better relationships with stakeholders, from investors, consumers, employees, to the wider community. Transparency in environmental, social, and governance aspects not only enhances reputation but also strengthens social legitimacy. This research finding is consistent with studies by Asante-Darko et al. (2018) who found that ESG disclosure contributes positively to manufacturing company valuation, and research by Siwei and Chalermkiat (2023) which confirms the relationship between ESG quality and financing cost efficiency.

2. Effect of Debt Policy on Firm Value

The regression analysis results show that debt policy has a negative and significant effect on firm value. This indicates that increasing the proportion of debt usage in capital structure actually decreases firm value in the basic industry and chemical sector companies in the research sample. This condition confirms that excessive debt usage is perceived by the market as a factor that increases financial risk and reduces investor confidence. Theoretically, this result is less consistent with Trade-Off Theory which assumes that debt usage at a certain level can increase firm value due to tax benefits (tax shield). Conversely, this research finding is more aligned with Pecking Order Theory, which states that companies tend to prioritize internal financing over debt because excessive debt usage can increase agency costs, bankruptcy risk, and conflicts of interest between managers and shareholders. This finding is consistent with research by Njoku & Lee (2025) showing that leverage usage generally has adverse effects on firm value, particularly long-term debt that increases financial risk.

3. Institutional Ownership as Moderating Variable

The research results show that institutional ownership cannot strengthen the influence of ESG disclosure on firm value. Although theoretically institutional investors have a monitoring function that can strengthen ESG implementation due to pressure on management to improve transparency, governance, and sustainable practices, this mechanism is not yet visible in the context of the basic industry and chemical sector in Indonesia. However, institutional ownership significantly weakens the influence of debt policy on firm value. This can be explained through the Monitoring Hypothesis, where institutional investors have the expertise to assess financial risk more deeply. When companies with high leverage levels receive strict supervision from institutions, the market actually responds more cautiously, causing valuations to tend to decline.

5. Conclusions

Based on the research results conducted on basic industry and chemical sector companies listed on the Indonesia Stock Exchange during 2021-2024, several conclusions can be drawn:

1. ESG disclosure has a positive effect on firm value. The more transparent companies are in conveying information related to environment, social, and governance (ESG), the higher the firm value in the market's eyes. This shows that good ESG practices can enhance investor confidence and company reputation.
2. Debt policy has a negative effect on firm value. The greater the debt used in capital structure, the lower the firm value. This indicates that investors tend to view high debt as a risk, especially in sectors requiring large capital and facing high fluctuations.
3. Institutional ownership does not strengthen the relationship between ESG and firm value. Although theoretically institutional investors can encourage ESG practices, in this industry context, their influence is not significantly visible. ESG has not yet become a main factor in institutional investors' assessment of firm value.
4. Institutional ownership weakens the effect of debt policy on firm value. The presence of institutional investors makes the market more wary of debt risk. They tend to assess companies with high debt more carefully, making the impact of debt on firm value smaller.

5.1 Implications

Theoretical Implications:

1. This research provides contribution to literature development regarding the relationship between ESG disclosure, debt policy, and firm value in the Indonesian capital market context
2. Research findings strengthen Stakeholder Theory in explaining the importance of ESG disclosure for company value creation
3. The study provides empirical support for Pecking Order Theory in the context of basic industry and chemical sectors in Indonesia

Practical Implications:

1. For Company Management: Companies should improve the quality and quantity of ESG disclosure as a strategy to enhance firm value and develop effective communication strategies to convey ESG initiatives to stakeholders
2. For Investors: Research results provide valuable information for investors in making investment decisions, considering ESG disclosure as one factor in assessing company long-term prospects
3. For Regulators: Findings suggest regulators should develop more structured and consistent ESG disclosure standards and consider developing incentives for companies implementing good ESG practices

5.2 Limitations and Future Research

This research has limitations including the relatively short observation period, limited to one industry sector, and the use of secondary data which may have variations in ESG disclosure quality and completeness across companies. Future research is suggested to extend the observation period, involve other industry sectors, consider qualitative aspects in measuring institutional ownership variables, and explore other mechanisms that can moderate the relationship between ESG disclosure and firm value.

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