



## ESG Reporting and Firm Value: A Systematic Literature Review of Sustainability Disclosure Strategies

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### ABSTRACT

This study employs a Systematic Literature Review (SLR) approach to synthesize empirical evidence on how Environmental, Social, and Governance (ESG) factors shape corporate value, drawing on scholarly works published from 2021 to 2025. A search on Google Scholar via Publish or Perish using the keyword "ESG AND firm value" yielded 35 final articles meeting all inclusion criteria. Narrative synthesis produced three principal findings. First, Among the studies under review, six out of ten consistently demonstrated that firms with higher ESG scores achieve greater market value, a finding supported by statistical significance. Second, considerable variation exists in ESG measurement proxies from rating-agency scores (Refinitiv, Bloomberg) to disclosure indices and ESG risk scores with industry-calibrated ESG Materiality Scores proving more informative than generic aggregates. Third, contextual factors including capital market development, ownership structure, industry characteristics, and temporal horizon significantly moderate the ESG firm value relationship. These findings carry important implications for managers designing ESG strategies and for investors integrating ESG considerations into investment decisions

## **INTRODUCTION**

The prominence of Environmental, Social, and Governance (ESG) factors has grown substantially within global business and investment conversations. Growing awareness of sustainability and corporate responsibility has prompted many companies to embed ESG principles into their operations and long-term strategies, driven in large part by increasing expectations from various stakeholder groups. Global data indicate that total ESG based investment assets surpassed USD 35 trillion in 2020 and are projected to increase significantly through the mid 2020s (Aydoğmuş et al., 2022). Behind this trajectory lies the simultaneous pull of stricter regulatory landscapes, transformed consumer sensibilities, and an expanding consensus within the institutional investment community that a firm's performance on environmental, social, and governance dimensions offers substantive insight into its long-run viability and organizational resilience. Companies functioning in a wide range of market contexts spanning established economies in Western Europe and North America to high growth emerging markets such as Indonesia and India have progressively embraced structured ESG disclosure as an integral part of their corporate reporting frameworks.

Firm value represents investors' perception of corporate achievement and is commonly measured through financial proxies such as Tobin's Q and Price-to-Book Value (PBV). Research within the ESG domain consistently demonstrates that companies exhibiting strong ESG performance are more likely to command premium market valuations, as their ability to mitigate potential risks, strengthen brand reputation, and develop durable competitive advantages becomes increasingly recognized by investors (Chang & Lee, 2022; Kim et al., 2024). Three theoretical frameworks provide the underpinnings for this relationship. Drawing on Stakeholder Theory (Freeman, 1984), scholars argue that firms which genuinely address the interests of a broad stakeholder constituency, rather than focusing exclusively on shareholder returns, cultivate greater legitimacy and institutional trust, which ultimately accrues to market valuation. According to Spence (1973), Signaling Theory suggests that when firms voluntarily disclose ESG information, they send a credible signal to the market reflecting sound governance practices and a long-term orientation toward value, which in turn helps narrow the information gap between managers and external stakeholders. Agency Theory, as developed by Jensen and Meckling (1976), further highlights how the governance pillar of ESG serves to align managerial incentives, strengthen internal monitoring, and reduce agency-related costs that would otherwise erode firm value.

Notwithstanding the proliferating body of ESG research, the empirical record remains marked by pronounced inconsistency. A portion of studies document robust positive associations between ESG performance and firm value (Rahayu & Sanjaya, 2024; Seok et al., 2024; S. Wu et al., 2022), others find negative effects (Prabawati & Rahmawati, 2022) and several report no consistent relationship (Behl et al., 2022; Mendiratta et al., 2023). This variability stems from several sources: cross-national differences in institutional environments (particularly between developed and developing capital markets), heterogeneity

in ESG measurement approaches ranging from composite agency scores to individual E, S, and G pillar indices, and the incorporation of varying sets of moderating constructs including ownership structure, enterprise scale, technological dynamism, and industry type (Kong et al., 2023; Zhou et al., 2025). Furthermore, no systematic literature review has yet comprehensively synthesised the most recent empirical evidence for the 2021–2025 period. This gap in the literature provides strong justification for a Systematic Literature Review capable of delivering an integrated perspective on the direction, magnitude, and contextual factors that moderate the ESG firm value relationship.

This study aims to consolidate empirical findings regarding the influence of ESG on firm value over the period 2021–2025, employing a structured Systematic Literature Review (SLR) approach. Specifically, the study addresses three principal research questions: (RQ1) What is the predominant direction of ESG's effect on firm value in the recent empirical literature? (RQ2) How do differences in ESG measurement approaches, whether through overall scores or separate Environmental, Social, and Governance dimensions, influence the link between ESG performance and firm value? (RQ3) Which contextual factors moderate or mediate the ESG firm value relationship? Theoretically, This study advances a more nuanced comprehension of the pathways through which ESG influences firm value by consolidating empirical evidence across diverse studies and contextual settings. On a practical level, the results offer concrete direction for corporate strategists developing ESG initiatives, institutional investors incorporating ESG considerations into valuation processes, and regulatory authorities aiming to establish more robust sustainability disclosure frameworks.

## LITERATURE REVIEW

### Stakeholder Theory

The theoretical foundation laid by Freeman (1984) through Stakeholder Theory contends that corporate accountability is inherently multidimensional, obligating organizations to recognize and respond to the legitimate concerns of diverse stakeholders such as their employees, clients, surrounding communities, upstream and downstream partners, public agencies, and the broader natural world. The theory posits that durable organisational success hinges on a firm's capacity to identify, engage, and reconcile the diverse and often competing interests of these stakeholder groups. Within the ESG paradigm, Stakeholder Theory furnishes a coherent rationale for why robust ESG practices, encompassing environmental responsibility, social engagement, and transparent governance, tend to broaden a firm's legitimacy, deepen public trust, and strengthen reputational capital (Kim et al., 2024; Seok et al., 2024). These reputational and legitimacy gains are subsequently reflected in elevated market valuations, given that investors and consumers typically assign a valuation premium to enterprises perceived as meaningfully contributing to sustainability outcomes.

### Signaling Theory

Spence (1973) established that, under conditions of information asymmetry, informed parties will endeavour to transmit credible signals to less-informed

counterparts in order to reduce uncertainty and differentiate themselves from lower-quality actors. In financial markets, firms with superior performance and prospects tend to voluntarily disclose additional information including non-financial ESG reports as a positive signal to investors (Angir & Weli, 2024; Mahmood et al., 2025). Comprehensive, high-quality ESG disclosure signals that a firm is managed responsibly, is oriented toward long-term value creation, and carries lower business risk. In doing so, it reduces the informational distance between management and the investment community, bolsters investor confidence, and ultimately contributes to higher market valuations.

### **Agency Theory**

Jensen and Meckling's (1976) foundational work on agency relations addresses the structural tension that emerges when decision-making authority is delegated by a principal to an agent whose preferences and incentives may diverge from those of the principal. In the corporate governance context, misalignment between managerial interests and shareholder welfare generates agency costs, encompassing monitoring expenditures, bonding arrangements, and residual efficiency losses, all of which ultimately diminish firm value. Within the ESG framework, the Governance (G) dimension assumes particular importance as a mechanism for reinforcing board oversight, promoting disclosure transparency, and constraining opportunistic managerial behaviour, thereby reducing the agency cost burden borne by shareholders (Choi et al., 2024; Z. Wu et al., 2023).

### **Environmental, Social, and Governance (ESG)**

Environmental, Social, and Governance (ESG) constitutes a multidimensional evaluative construct designed to capture a corporation's performance and accountability across three non-financial domains. The Environmental (E) dimension addresses a firm's management of its ecological impact, encompassing greenhouse gas emissions, energy consumption patterns, waste reduction strategies, and adaptation to climate-related risks. The Social (S) dimension pertains to a firm's stewardship of its relationships with human stakeholders, including workforce conditions, occupational safety standards, diversity and inclusion initiatives, community engagement, and supply-chain social accountability. The Governance (G) dimension refers to the structural and procedural framework through which corporate decisions are made, covering aspects such as board composition and independence, the reliability of financial and non-financial disclosures, measures to prevent corruption, and systems designed to safeguard the rights of shareholders (Aydoğmuş et al., 2022; Chang & Lee, 2022).

### **Firm Value**

Firm value reflects the capital market's prospective evaluation of a company's ability to generate sustainable returns and serves as a fundamental criterion in investment decision making. Conceptually, it integrates investor expectations regarding growth prospects, profitability trends, and business continuity. In the finance literature, firm value is measured using a variety of

proxies, most notably Tobin's Q which relates market value to the book value of assets as well as Price-to-Book Value (PBV), Market-to-Book Ratio (MBR), and share price or market capitalisation as direct reflections of investor valuation (Meini & Setijaningsih, 2024; Rahayu & Sanjaya, 2024). The dominance of Tobin's Q in ESG-related firm value studies can be attributed to its strength in measuring the premium that capital markets place on intangible, non-financial attributes such as ESG performance (Aydoğmuş et al., 2022; Prabawati & Rahmawati, 2022). Beyond market-based measures, some studies also employ profitability indicators Return on Assets (ROA) and Return on Equity (ROE) are employed as supporting measures of financial performance, founded on the premise that greater profitability serves as a primary factor propelling the appreciation of market value (Tahmid et al., 2022; Yu & Xiao, 2022).

## **METHODOLOGY**

### **Research Design**

A Systematic Literature Review (SLR) serves as the methodological foundation of this study, enabling a rigorous, transparent, and reproducible synthesis of empirical evidence concerning the nexus between ESG performance and firm value. The SLR approach was chosen because of its well-established capacity to minimise subjective selection bias, maintain procedural clarity throughout the review process, and generate syntheses that can be scrutinised and replicated by independent researchers.

Article identification and selection were carried out using the PRISMA 2020 protocol (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) as a systematic guide, currently the most widely adopted and internationally endorsed reporting protocol for systematic reviews. The review was operationalised in three sequential phases: (1) pre-review planning, encompassing the formulation of research questions and selection criteria; (2) the review itself, covering search execution, screening, and data extraction; and (3) synthesis, reporting, and dissemination of findings.

### **Database and Search Strategy**

The literature search was executed using the Google Scholar database via the Publish or Perish application using the keyword string "ESG AND firm value" for the period 2021–2025, yielding an initial pool of 500 articles. From these, 219 titles were read and screened for topical relevance, and 69 articles were selected to advance to the subsequent screening stage.

### **Criteria for Including and Excluding Studies**

Eligibility criteria were established prior to the commencement of screening in order to prevent post-hoc selection bias. These criteria were constructed to ensure that articles admitted to the final synthesis possess thematic relevance, methodological rigour, and sufficient comparability.

Table 1. Criteria for Including and Excluding Articles in the Selection Process

No.	Inclusion Criteria	Exclusion Criteria
1	Published between 2021 and 2025	Books, theses/dissertations, conference proceedings, or editorials/opinion pieces
2	Explicitly examines the effect of ESG on firm value	Studies addressing CSR only, without explicit mention of ESG
3	Peer-reviewed journal article (indexed)	Does not include a measurable firm value proxy as the dependent variable
4	Uses empirical/quantitative data	Duplicate articles or revised versions of the same study
5	Full text available (open access or accessible)	Full text unavailable or inaccessible
6	Written in English or Indonesian	Data unavailable for methodological verification

### Selection Process (PRISMA)

Of the 219 titles initially screened, 69 articles passed the title-screening stage. Abstract screening reduced this to 57 articles, and following full-text eligibility assessment, 35 final articles were retained for synthesis.

#### Identification

The first stage involved a systematic literature search on Google Scholar via Publish or Perish. The keyword query "ESG AND firm value" applied to the 2021–2025 period returned an initial pool of 500 articles, which were exported in CSV format for further processing.

#### Title Screening

From the 500 identified articles, titles were manually reviewed to exclude those clearly unrelated to ESG or firm value. This stage yielded 219 articles whose titles were deemed relevant for abstract reading.

#### Abstract Screening

The 219 title screened articles were then evaluated against the pre defined inclusion and exclusion criteria at the abstract level. Articles that did not meet the criteria including non-peer-reviewed publications, studies without quantitative empirical data, and those lacking a measurable firm value proxy were excluded at this stage, resulting in 69 articles advancing to the full-text eligibility assessment.

#### Full-Text Eligibility

The 69 articles that passed the abstract screen were accessed and read in full. At this stage, 34 articles were removed owing to one or more disqualifying conditions: inaccessibility of the full text, absence of quantitative empirical methodology, or inability to identify an explicit firm value variable. The remaining 35 articles constituted the definitive analytical corpus for the SLR.

These 35 articles were subsequently subjected to data extraction and narrative synthesis to address the three principal research questions (RQ1, RQ2, and RQ3).



Figure 1. PRISMA Flow Diagram of the Article Selection Process

### Data Extraction

Data extraction was carried out using a structured extraction table developed specifically for this study. For each article in the final sample, the information extracted from each source encompassed: (a) article identification elements, including author names, publication year, article title, journal title, and the corresponding volume, issue, and page references; (b) study context: country/region of sample, industry sector, data period, sample size; (c) methodological design: analytical method, data source, and estimation technique; (d) variable operationalisation: ESG proxy used, ESG data source, and firm value proxy; (e) principal findings: direction of effect, coefficient and significance level, and any moderating or mediating variables tested; and (f) theoretical grounding: theoretical framework(s) employed.

### Data Synthesis

Given the substantial heterogeneity in study design, analytical methods, geographic contexts, and proxies across the sampled articles, synthesis was conducted narratively following the guidelines of Popay et al. (2006). This approach was adopted because statistical meta-analysis was not feasible owing to the diverse units of measurement and methodological frameworks involved. Narrative synthesis was conducted along three dimensions corresponding to the research questions: (1) grouping findings by the direction of ESG's effect on firm value; (2) analysing ESG measurement variation and its impact on the consistency of findings; and (3) identifying contextual factors that moderate or mediate the ESG–firm-value relationship.

## RESULT AND DISCUSSION

### Article Selection Results

The article selection procedure the present Systematic Literature Review was conducted in accordance with the PRISMA 2020 protocol. A keyword-based search on Google Scholar, combining “ESG” and “firm value” for the publication window 2021–2025, initially produced 500 candidate records. These were progressively refined through sequential screening for duplicates, title relevance, abstract compliance, and full-text eligibility, ultimately yielding 35 articles that all studies that fulfilled the inclusion criteria were subsequently included in the analytical synthesis.

Among the 35 final articles, the distribution by publication year reveals a notable growth trend: 12 articles from 2022, 6 from 2023, 10 from 2024, and 7 from 2025; no articles from 2021 satisfied the inclusion criteria. This pattern signals an accelerating level of academic attention to the ESG–firm-value nexus in recent years, consistent with intensifying global regulatory and investor pressure on sustainability practices.

By country or region of the sample, China features as the most frequently studied geographic context with 9 articles (25.7%), followed by multi-country studies with 8 articles (22.9%), Indonesia with 8 articles (22.9%), South Korea with 3 articles (8.6%), the European Union with 3 articles (8.6%), India with 2 articles (5.7%), and one article each from Australia (2.9%), Nigeria (2.9%), Africa (2.9%), and ASEAN-6 (2.9%).

Table 2. Characteristics of Reviewed Articles

Characteristic	Category	n	%
Publication Year	2022	12	34.3%
	2023	6	17.1%
	2024	10	28.6%
	2025	7	20.0%
Country/Region	China	9	25.7%
	Indonesia	8	22.9%
	Multi-country	8	22.9%
	South Korea	3	8.6%
	European Union	3	8.6%
	India	2	5.7%
	Australia / Nigeria / Africa / ASEAN	4	11.4%
Analytical Method	Panel Regression (FE/RE)	22	62.9%
	OLS / GLS	6	17.1%
	GMM / IV-2SLS	5	14.3%

Characteristic	Category	n	%
ESG Proxy	SEM-PLS / Path Analysis	5	14.3%
	ESG Score / Rating (Refinitiv/Bloomberg/KCGS)	22	62.9%
	ESG Disclosure (content analysis/GRI)	8	22.9%
	ESG Risk (RepRisk/Sustainalytics)	3	8.6%
	ESG Materiality (SASB/TOPSIS)	2	5.7%
Firm Value Proxy	Tobin's Q	28	80.0%
	ROA / ROE	7	20.0%
	Market-to-Book / PBV	6	17.1%
	Market Capitalization (ln)	2	5.7%

Note: Several articles employ more than one proxy; therefore, total percentages may exceed 100%.

### **RQ1 ? : What is the predominant direction of ESG's effect on firm value in the recent empirical literature?**

#### **Positive Effect of ESG on Firm Value**

A substantial majority of the studies examined, specifically 21 out of 35 articles representing 60.0% of the total sample, consistently demonstrate that superior ESG performance exerts a positive and statistically significant influence on firm value, thereby providing compelling empirical evidence in support of the theoretical frameworks advanced by Stakeholder Theory (Freeman, 1984) and Signaling Theory (Spence, 1973). Collectively, these studies establish that ESG commitment generates long-run corporate value by enhancing investor trust, mitigating informational uncertainty, and reinforcing firm reputation.

Wedajo et al., (2024) applied a Generalised Cross-Lagged Panel Model (GCLM) to 652 Chinese firms over the period 2013–2019 and found the findings reveal that Bloomberg ESG scores yield a significant positive impact on Tobin's Q ( $\beta = 0.009$ ;  $p < 0.05$ ) with persistent long-run effects confirmed through impulse-response analysis. Aydoğmuş et al., (2022) a study encompassing 1,720 firms across 39 nations found that stronger ESG Combined Scores were positively linked to meaningful improvements in both Tobin's Q ( $\beta = 0.008$ ;  $p < 0.01$ ) and ROA ( $\beta = 0.049$ ;  $p < 0.01$ ), offering empirical backing for the stakeholder theory proposition that organizations effectively addressing the varied needs of their stakeholders tend to receive greater market valuation.

Brighi et al. (2025), employing IV-2Step GMM on a sample of 10,212 firms from 42 countries (2002–2021), a positive and statistically significant effect of the LSEG ESG Score on Tobin's Q was established in the findings ( $\beta = 0.1014$ ;  $p < 0.01$ ). This is consistent with Mahmood et al. (2025), among European firms, Bloomberg ESG Disclosure Scores were found to relate positively and significantly to Tobin's Q, with System GMM estimations yielding 1% level

significance alongside positive coefficient values spanning all ESG subdimensions without exception.

From Asian contexts, Chang & Lee, (2022), based on hierarchical linear modeling conducted among 87 South Korean corporations, ESG was found the results demonstrated a meaningful positive association with Tobin's Q ( $\beta = 0.308$ ;  $p < 0.001$ ) within a one year lag period, thereby providing empirical validation for Signaling Theory. In the Indonesian context, Rahayu & Sanjaya (2024), Employing SEM-PLS on a sample of 90 IDX ESG Leaders Index firms, the findings indicate that ESG performance indirectly elevates firm value by first improving profitability (ROA), with the mediation pathway yielding a significant indirect effect of 0.342 ( $p = 0.000$ ). Safitri et al., (2025), Drawing on a sample of 100 manufacturing firms traded on the Indonesia Stock Exchange between 2019 and 2023, the data suggest that companies with robust ESG performance consistently achieve markedly elevated firm value ( $\beta = 0.227$ ;  $t = 5.253$ ;  $p = 0.000$ )

Meini & Setijaningsih, (2024) comparing Indonesia and Singapore, found that ESG significantly and positively affects Market-to-Book Value ( $\beta = 0.08$ ;  $p = 0.002$ ), with a stronger effect in Indonesia than in Singapore consistent with Signaling Theory in emerging market contexts. From South Korea, Choi et al., (2024) and Kim et al., (2024) the findings further support a favorable association Corporate reputation emerges as a partial mediator linking ESG practices to firm value, whereas governance mechanisms contribute positively as moderating variables that amplify the strength of this connection.

### **Negative or Insignificant Effects**

Ten articles (28.6%) report a negative ESG effect on firm value, while a further 4 articles (11.4%) yield mixed results depending on the ESG proxy or sub-pillar employed. These inconsistent findings are generally explicable through the lens of Agency Theory (Jensen & Meckling, 1976), which frames ESG expenditure as unproductive cost, as well as through differences in institutional context and the maturity of ESG regulation across countries.

Xaviera & Rahman, (2024), evidence drawn from 194 Indonesian non-financial firms spanning 2018–2022 indicates that higher ESG scores are associated with lower Tobin's Q values ( $\beta = -0.0095$ ;  $p < 0.01$ ), implying that Indonesian investors have yet to recognize ESG commitment as a value-enhancing strategy, perceiving it instead as a cost imposition. Similar findings were reported by Angir & Weli, (2024), Findings from a path analysis of 109 Indonesia Stock Exchange companies demonstrated a statistically significant inverse relationship between ESG disclosure and Tobin's Q (coefficient =  $-0.5122$ ;  $p = 0.032$ ). Prabawati & Rahmawati, (2022) when examining 184 corporations from six ASEAN economies over a decade (2010–2019), evidence emerged that both aggregate ESG ratings and the individual Environmental and Social pillars negatively and significantly influenced Tobin's Q, with the Governance pillar alone failing to reach statistical significance.

Regarding ESG controversies, Wu et al., (2023), an empirical investigation involving 883 Chinese companies, employing a two-step GMM estimation,

revealed that higher ESG controversy scores are associated with a statistically significant decline in both Tobin's Q and the Market-to-Book Ratio at the one percent significance level. Brighi et al. (2025), Supporting evidence indicates that controversies surrounding ESG practices lead to a notable decline in firm value, estimated at approximately 4.23%.

Table 3. Summary of the Direction of ESG's Effect on Firm Value

Direction of Effect	Representative Studies
(+) Positive Significant	Aydoğmuş et al., (2022); Wedajo et al., (2024); (Chang & Lee, (2022); Mahmood et al.,(2025); Safitri et al., (2025)
(-) Negative Significant	Eriandani & Winarno, (2024); Prabawati & Rahmawati, (2022); Prayogo et al., (2025); Wu et al., 2023; Xaviera & Rahman, (2024)
(ns) Not Directly Significant	Rahayu & Sanjaya, (2024) – mediated by ROA; Igbinovia & Agbadua, (2023) – moderated by firm advantage
Mixed (proxy/dimension dependent)	Behl et al., (2022) – negative short-term, positive long-term; Yu & Xiao, (2022) – unstable G dimension

**RQ2 ? : How do differences in ESG measurement approaches, whether through overall scores or separate Environmental, Social, and Governance dimensions, influence the link between ESG performance and firm value?**

#### **ESG Scores from External Rating Agencies**

The most widely used measurement category is the ESG score from external rating agencies, featured in 22 articles (62.9%). The principal providers are Refinitiv/LSEG, Bloomberg ESG Disclosure Scores, and national rating agencies such as the Korea Institute of Corporate Governance and Sustainability (KCGS) and Sino-Securities. Studies using Refinitiv ESG scores tend to find positive associations in developed market contexts (Europe, South Korea, the US) but negative results in emerging markets such as Indonesia. Wedajo et al., (2024) conducted a robustness check using three different ESG sources (Bloomberg, Huazheng, and CNRDS) and the favorable influence of ESG on Tobin's Q was consistently observed regardless of the data source employed, indicating that the results are robust and not dependent on any single data provider.

#### **ESG Disclosure Based on Content Analysis**

Eight articles (22.9%) employ content-analysis-based ESG disclosure measures, generally drawing on GRI (Global Reporting Initiative) standards or domestic regulations. Fuadah et al. (2022) employed a scoring framework derived from GRI G4 guidelines, which was administered to the annual and sustainability disclosures of publicly traded companies in Indonesia. Angir & Weli, (2024) the study employed a measurement index derived from OJK Circular Letter No. 16/SEOJK.04/2021, which represents the earliest Indonesia-

specific regulatory framework for ESG assessment identified within this SLR corpus. Findings from this category display greater variability than those using rating-agency ESG scores. Studies conducted in Indonesia that rely on content analysis methods predominantly reveal either negative or statistically insignificant associations, a pattern that may stem from the relatively low quality and lack of uniformity in ESG disclosure practices characteristic of developing nations.

### **ESG Risk and ESG Materiality**

Three articles employ ESG Risk Scores as the primary variable a construct that is conceptually distinct from ESG performance or disclosure. Eriandani & Winarno, (2024) used the Sustainalytics ESG Risk Rating, where higher scores reflect greater risk exposure. All three studies consistently find that ESG risk or controversies negatively affect firm value, confirming that ESG risk management is a critical value driver. Aras & Hacıoglu Kazak, (2022) firms' market valuations, particularly when assessed through Tobin's Q, are more powerfully explained by ESG scores tailored to sector-specific materiality than by standardized ESG indices like the Refinitiv ESG Combined Score.

### **Variation in Firm Value Proxies**

Tobin's Q emerges as the most widely adopted proxy for firm value, appearing in 28 out of 35 articles (80.0%), which firmly establishes its dominant position within the existing literature. However, several studies find that the choice of proxy influences results. Li et al., (2025) found that ESG disclosure positively and significantly affects Tobin's Q ( $p < 0.001$ ) but is non-significant for ROE. These findings underscore the need for careful consideration of the firm value proxy employed when interpreting results.

### **Effects by ESG Dimension (E, S, G)**

Analysis of individual ESG sub-dimensions provides more granular insight into which dimension most strongly contributes to firm value. Twenty articles in this review examine E, S, and G components separately.

### **Governance (G) Dimension**

The Governance dimension displays the most inconsistent pattern of the three ESG dimensions. On the one hand, Aydoğmuş et al., (2022) the governance dimension demonstrated a statistically significant positive relationship with both Tobin's Q ( $\beta = 0.004$ ;  $p < 0.05$ ) and return on assets ( $\beta = 0.031$ ;  $p < 0.01$ ) across the global sample examined. Seok et al. (2024) found that ESG\_G exerts the largest effect on firm value ( $\beta = 0.739$ ;  $p < 0.01$ ) in the US context. On the other hand, Tahmid et al., (2022) statistically significant inverse relationship ( $p < 0.1$ ) was identified between the Governance Pillar Score and firm performance in the European context, suggesting that the configuration of corporate boards and the formulation of CSR-oriented strategies are insufficient conditions for financial improvement. This inconsistency indicates that the effectiveness of the governance dimension is highly context-dependent.

### **Environmental (E) and Social (S) Dimensions**

The Environmental and Social dimensions also yield context dependent findings. In developed market contexts, the Social Pillar Score positively and significantly affects firm value, while the Environmental Score also exhibits a positive effect. Behl et al., (2022), in a longitudinal study of the Indian energy sector, found a consistent pattern across all dimensions: negative effects in the first two periods that subsequently turn positive in the third period, confirming that ESG investment is long-term in nature. Arifah, (2024) found the following contribution ordering for Indonesian firms: Environmental ( $\beta = 0.411$ ) > Governance ( $\beta = 0.400$ ) > Social ( $\beta = 0.307$ ) in relation to Tobin's Q.

### **RQ3 : Which contextual factors moderate or mediate the ESG firm value relationship?**

#### **Capital Market Development (Developed vs. Emerging Markets)**

The most consistent factor explaining heterogeneity in findings is the distinction between developed and emerging capital markets. Studies in developed markets (Europe, South Korea, the US, Australia) predominantly find a positive ESG effect on firm value, while studies in emerging markets (Indonesia, Nigeria, ASEAN) more frequently report weak, non-significant, or negative relationships. Meini & Setijaningsih, (2024) explicitly confirm this distinction: the impact of ESG is stronger in Indonesia than in Singapore because, in emerging markets, ESG still functions as a strong differentiating signal (consistent with Signaling Theory), whereas in more mature markets, ESG has become a baseline investor expectation.

#### **Ownership Structure and Firm Type**

Ownership structure proves to be a significant contextual factor. Wu et al., (2022) institutional ownership was found to strengthen the association between ESG performance and firm value ( $\beta = 0.281$ ;  $p < 0.01$ ), suggesting that institutional investors function as amplifying mechanisms that enhance the value-generative effects of ESG engagement. Li et al., (2025) private firms appear to reap measurable financial gains from strong ESG performance, a benefit that does not extend to their state-owned counterparts, whose valuation dynamics are shaped more decisively by political considerations than by investor-driven sustainability criteria.

#### **Industry Characteristics**

Industry characteristics substantially moderate the ESG-firm-value relationship. Chang & Lee, (2022) found ESG to be more effective in industries with low concentration (high competition), where ESG serves as a differentiation tool, and in industries with high growth, where ESG creates new business opportunities. Seok et al., (2024) the influence of ESG on firm value was found to be substantially more pronounced within environmentally sensitive industries ( $\beta = 1.245$ ;  $p < 0.01$ ) compared to the broader general sample ( $\beta = 0.337$ ). Zheng et al., (2025) In non-heavily polluting industries, ESG was shown to have a meaningful positive impact, while no significant effect was observed among heavily polluting counterparts.

### **Moderating and Mediating Variables**

This review identifies a diverse range of moderating and mediating variables that enrich understanding of the transmission mechanism from ESG to firm value. Moderating variables confirmed as significant include: institutional ownership (Wu et al., (2022)), corporate governance score (Choi et al., 2024; Wu et al., 2023), cash holdings (Ahmed & Abu Khalaf, 2025), business strategy (Xaviera & Rahman, 2024)), and industry sensitivity (Kim et al., 2024; Seok et al., 2024). Identified mediation mechanisms include profitability/ROA (Rahayu & Sanjaya, 2024; Safitri et al., 2025), customer satisfaction (Seok et al., 2024), analyst attention, media attention (Zheng et al., 2025), and corporate reputation (Kim et al., 2024).

### **Temporal Dynamics**

The temporal dimension has been identified by multiple researchers as a critical factor in examining how ESG practices influence firm value. Behl et al., (2022) utilizing a four-wave cross-lagged panel SEM framework, the findings indicate that ESG performance bears a negative association with firm value in the short run, which gradually reverses to become positive by the third wave – evidence that the financial rewards of ESG engagement are inherently long-term and cannot be expected immediately. Wedajo et al., (2024) further confirm through impulse-response analysis that ESG effects persist over up to six future periods.

## **CONCLUSION AND RECOMMENDATION**

This study synthesises 35 empirical articles (2021–2025) on ESG's effect on firm value. Three principal conclusions emerge.

First (RQ1), 21 studies (60%) confirm a positive ESG–firm value relationship, supporting Stakeholder and Signaling Theory. However, 10 studies (28.6%) report negative effects, mainly from emerging markets like Indonesia, where Agency Theory remains relevant.

Second (RQ2), ESG proxy selection materially affects findings. Standardised rating scores yield more consistent results in developed markets, while the industry calibrated ESG Materiality Score substantially outperforms generic ESG scores in explaining firm value.

Third (RQ3), five key moderating forces are identified: capital market development, ownership structure, industry characteristics, governance and profitability variables, and time horizon as ESG's positive impact typically materialises only after several investment periods.

Theoretically, The nexus between ESG and firm value resists a one-size-fits-all theoretical explanation, as different frameworks prove salient in different contexts: Stakeholder Theory tends to hold in developed economies, Agency Theory better accounts for dynamics in emerging markets, Trade-off Theory illuminates the near-term cost burden of ESG adoption, while the Resource-Based View elucidates how ESG initiatives generate enduring competitive advantage.

Practically, managers should treat ESG as a long-term strategic investment rather than a compliance burden. Investors in developed markets may use high ESG scores as a screening criterion, while those in emerging markets should weigh institutional context and avoid relying solely on generic ESG scores.

## SUGGESTION

This study has three limitations: (1) reliance on a single database (Google Scholar); (2) narrative rather than statistical meta-analysis due to study heterogeneity; and (3) a restricted time window (2021–2025).

For future research, five directions are recommended: (1) quantitative meta-analysis with broader database coverage (Scopus, WoS, EBSCO); (2) longitudinal studies testing non-linearity and threshold effects; (3) cross-provider ESG score consistency comparisons (Refinitiv, Bloomberg, MSCI, Sustainalytics); (4) post-OJK-regulation longitudinal studies in Indonesia and ASEAN to verify whether the negative ESG firm value pattern has shifted; and (5) mixed-method studies integrating investor perception surveys with market data to explain why ESG is underpriced in emerging markets.

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