

Bigger Matters? Exploring the Mediating Effect of Firm Size on ESG Disclosure and Firm Value

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Abstract. This research investigates the effect of Environmental, Social, and Governance (ESG) disclosure on firm value with firm size as a mediating variable. The study is motivated by the growing importance of ESG initiatives in attracting investors, strengthening stakeholder trust, and promoting sustainable growth, particularly in developing markets such as Indonesia. The research adopts a quantitative approach using secondary data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. ESG disclosure was measured through content analysis of sustainability reports, firm value was proxied by Tobin's Q, and firm size was assessed using the natural logarithm of total assets. Data analysis employed Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate both direct and mediated relationships among variables. The results indicate that ESG disclosure significantly enhances firm value, supporting the argument that transparent sustainability practices reduce information asymmetry and strengthen market confidence. Furthermore, ESG disclosure was found to have a positive and significant effect on firm size, suggesting that firms with robust ESG practices tend to expand more rapidly and attract greater resources. Firm size also positively influences firm value, confirming its role as a strategic advantage. Mediation analysis reveals that firm size partially mediates the relationship between ESG disclosure and firm value, indicating that ESG disclosure affects valuation both directly and indirectly through organizational growth. In conclusion, the findings underscore the dual role of ESG disclosure as a direct driver of firm value and an indirect enhancer through firm size. For managers, this emphasizes the strategic importance of ESG initiatives not only as compliance measures but as growth enablers and value-creation mechanisms. The study provides important insights for regulators, investors, and corporate leaders in Indonesia, highlighting the need to strengthen ESG reporting standards and encourage firms to integrate sustainability into their core strategies to enhance competitiveness and long-term value.

Keywords: ESG disclosure, firm size, firm value, sustainability reporting

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Introduction

In recent years, environmental, social, and governance (ESG) disclosure has evolved into a central element of corporate reporting, reflecting the growing demand for sustainability and transparency in business practices. ESG disclosure communicates a company's commitment to responsible governance, ethical conduct, and environmental stewardship, providing investors and regulators with crucial insights into corporate sustainability performance. Globally, ESG considerations are increasingly integrated into investment decisions due to their influence on firm value, risk management, and long-term financial stability ((Amarna et al., 2025); (Mohammad & Wasiuzzaman, 2021); (Alomair & Metwally, 2025)).

In Indonesia, the trend toward ESG disclosure has accelerated significantly following the implementation of OJK Regulation No. 51/POJK.03/2017, which mandates sustainability reporting for financial institutions and publicly listed companies. Recent reports indicate a steady increase in ESG transparency among Indonesian firms, driven by investor demand, global supply chain pressures, and the pursuit of sustainable competitiveness (Setiawan et al., 2023; Pratama & Utama, 2024). However, the extent and quality of ESG reporting remain uneven across sectors, raising questions about its true impact on firm value in the Indonesian context.

Firm value, an indicator of market perception and financial performance, is influenced not only by ESG disclosure but also by firm-specific characteristics such as size. Larger firms generally possess greater resources and visibility, enabling them to engage in more comprehensive ESG disclosure, whereas smaller firms may be constrained by limited capacity (Nguyen, 2020; Qureshi et al., 2020). This suggests that firm size may play a mediating role, transmitting the effects of ESG transparency onto firm value.

Previous studies have established that ESG disclosure enhances firm reputation, investor confidence, and valuation ((Li et al., 2020); (Khalil et al., 2024)). Yet, findings remain mixed across different institutional contexts. For example, while some evidence supports a strong ESG–value linkage, others report insignificant or context-dependent results, particularly in emerging economies ((Wu et al., 2020); (Krueger et., 2024); (Tawfiq et al., 2024)). Despite increasing attention to ESG in Indonesia, few studies have empirically tested how firm size mediates this relationship.

Therefore, this study aims to examine whether firm size mediates the relationship between ESG disclosure and firm value in Indonesian listed companies. The research addresses two key questions: (1) Does ESG disclosure positively influence firm value? and (2) Does firm size mediate this relationship? This study contributes to the ESG literature by providing localized empirical evidence and offering managerial insights into how firm growth and disclosure strategies can jointly enhance corporate value and sustainability performance.

Literature Review

Theoretical Foundation

The relationship between Environmental, Social, and Governance (ESG) disclosure and firm value is grounded in several theoretical perspectives, including stakeholder theory, legitimacy theory, and the resource-based view (RBV).

Stakeholder theory argues that transparent ESG disclosure strengthens trust and engagement among key stakeholders, such as investors, customers, employees, and regulators. By disclosing sustainability-related information, firms reduce information asymmetry and signal responsible management behavior, which enhances credibility and market reputation (Torelli et al., 2020). This transparency fosters stakeholder confidence, potentially leading to greater investment inflows and business partnerships that expand a firm's operational scale, thereby increasing firm size over time.

Legitimacy theory further explains that ESG disclosure serves as a strategic tool for gaining and maintaining societal approval. Companies actively communicating their environmental and social responsibilities can strengthen their legitimacy within the institutional environment, which in turn facilitates access to financial and human capital. This legitimacy-driven growth process enables firms to expand their asset base, employee capacity, and market reach — all contributing to a larger firm size and higher firm value (Patten, 2020).

From the perspective of the resource-based view (RBV), ESG practices are viewed as unique, valuable, and inimitable intangible assets that enhance a firm's long-term competitiveness. ESG engagement improves internal capabilities such as innovation, reputation management, and stakeholder relationships, all of which contribute to sustainable growth and firm expansion. Thus, ESG disclosure indirectly promotes

firm size by improving internal resources and external market positioning.

Despite these theoretical explanations, empirical evidence on the ESG–firm value relationship remains inconsistent, particularly in emerging markets. While several studies report that ESG disclosure positively affects firm performance and growth, others find weak or insignificant relationships due to institutional, cultural, and regulatory differences across countries ((Amel-Zadeh & Serafeim, 2018); Krueger et al., 2024; Tawfiq et al., 2024)). This inconsistency highlights the need for further investigation into how firm size functions as a mediating mechanism in the ESG–value nexus within emerging market contexts such as Indonesia.

ESG Disclosure and Firm Value

Numerous studies highlight the positive impact of ESG disclosure on firm value. Tarigan et al., (2022) found that ESG transparency not only increases profitability but also enhances investor confidence by improving governance practices. Similarly, Manzoor (2025) demonstrated that firms with stronger ESG engagement achieve better stock price synchronization and resilience in both developed and emerging markets. These findings align with prior evidence that ESG disclosure acts as a strategic tool to mitigate information asymmetry and agency conflicts, thus boosting firm value.

However, empirical results are not always conclusive. Some studies suggest that excessive ESG spending or superficial disclosure can erode short-term profitability, especially for smaller firms with limited resources (Drempetic et al., 2020). This indicates the need to consider moderating or mediating variables such as firm size, which may alter the ESG–firm value dynamic.

The Mediating Role of Firm Size

Firm size is a critical organizational characteristic that influences the extent and impact of ESG disclosure. Larger firms often face higher public scrutiny, better access to resources, and stronger pressure to comply with sustainability standards, thereby amplifying the effect of ESG on firm value ((Cheng dkk., 2024); (Alomair & Metwally, 2025)). Conversely, smaller firms may disclose less or struggle to integrate ESG into operations, which reduces the value relevance of ESG disclosure.

Studies by Sudrajat & Setiyawati, (2021) and Drempetic et al., (2020) suggest that firm size mediates ESG–value relationships by moderating access to

capital markets, enhancing reporting credibility, and signaling stability to investors. Yet, some evidence also points to diminishing returns: very large firms may face bureaucratic inertia and diluted ESG effects (Behl et al., 2022).

Conflicting Findings and Research Gap

While the majority of studies confirm a positive relationship, the magnitude and direction of ESG disclosure's impact on firm value remain inconsistent across contexts and industries. For instance, ESG is strongly value-enhancing in developed economies but less consistent in emerging markets due to weaker enforcement of governance standards Alsayegh et al., (2022). These contradictions highlight the need to investigate firm size as a mediating mechanism, especially in the context of developing economies where resource constraints and regulatory frameworks differ.

Hypothesis Development

Based on the theoretical underpinnings and empirical findings, the following hypotheses can be formulated:

H₁: ESG disclosure has a positive effect on firm value.

H₂: Firm size positively influences firm value.

H₃: Firm size mediates the relationship between ESG disclosure and firm value.

Research Method

Research Design

This study applies a quantitative research design using a causal-explanatory approach to analyze the mediating effect of firm size on the relationship between ESG disclosure and firm value. Secondary data were obtained from the annual reports, sustainability reports, and financial statements of companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2024. The five-year observation period was selected to capture consistency in disclosure practices and mitigate short-term fluctuations.

Research Location and Sample

This research was conducted in the context of the Indonesian capital market, focusing on non-financial companies listed on the Indonesia Stock Exchange (IDX). The study employed a purposive sampling technique with the following inclusion criteria:

1. Companies consistently listed on the IDX during the 2021–2024 period,
2. Availability of complete annual reports and sustainability or CSR reports, and
3. Disclosure of ESG-related indicators in accordance with reporting standards.

Based on these criteria, the study obtained 224 firm-year observations, representing 56 non-financial companies observed over four years (2021–2024). This sampling approach ensures that the selected firms possess consistent data availability and adequate ESG disclosure quality to support longitudinal analysis within the Indonesian capital market context.

Data Collection and Processing

Data were collected from publicly available sources, including the IDX official website, company websites, and the Bloomberg ESG database (when available). The ESG disclosure index was constructed using a content analysis method, which scores each company's disclosure across environmental, social, and governance dimensions. Financial data such as firm size (total assets) and firm value (Tobin's Q and Price-to-Book Value ratio) were extracted from audited financial reports.

Measurement of Variables

1. Independent Variable (ESG Disclosure): Measured using a modified disclosure index adapted from Global Reporting Initiative (GRI) and prior studies (Yoon et al., 2021; Amarna et al., 2025). Each disclosed ESG item was assigned a binary score (1 = disclosed, 0 = not disclosed). The ESG Disclosure Score (ESGD) was calculated as:

$$\text{ESGD} = \frac{\text{Total items in checklist}}{\text{Number of disclosed items}}$$
2. Mediating Variable (Firm Size): Measured as the natural logarithm of total assets (LnTA), consistent with prior research (Azhar, 2022).
3. Dependent Variable (Firm Value): Measured using two proxies: Tobin's Q and Price-to-Book Value (PBV). Tobin's Q is computed as:

$$\text{Tobin's Q} = \frac{\text{Total Assets}}{\text{Market Value of Equity} + \text{Total Debt}}$$
4. Control Variables: To minimize omitted variable bias, firm age, leverage, and profitability (ROA) were included as control variables.

Data Analysis Technique

This study employed Structural Equation Modeling (SEM) using the Partial Least Squares (PLS-SEM)

approach, as it is particularly appropriate for examining complex models with mediating effects and multiple latent constructs. PLS-SEM was chosen over covariance-based SEM (CB-SEM) because it focuses on prediction and variance explanation, making it suitable for exploratory and theory development research (Hair et al., 2019).

The use of PLS-SEM is justified for several reasons. First, this method is robust to violations of data normality and can efficiently handle small to medium sample sizes. Second, it is capable of analyzing both reflective and formative measurement models, allowing for a more flexible evaluation of constructs such as ESG disclosure, firm size, and firm value. Third, PLS-SEM provides higher statistical power in estimating indirect (mediating) effects, which aligns with the study's objective to test the mediating role of firm size.

All analyses were performed using SmartPLS version 4.0, following the two-step approach of evaluating the measurement model (for validity and reliability) and the structural model (for hypothesis testing and path significance).

The analysis followed three stages:

1. Measurement Model Evaluation (Outer Model): To assess reliability and validity, indicators were tested using factor loadings (>0.7), composite reliability (>0.7), and average variance extracted (AVE >0.5).
2. Structural Model Evaluation (Inner Model): Path coefficients and R^2 values were examined to measure explanatory power.
3. Mediation Testing: The mediating effect of firm size was tested using the bootstrapping method with 5,000 subsamples. The significance of indirect effects was determined at a 5% confidence level.

Ethical Considerations

Since the study relied entirely on secondary data sourced from publicly available reports, no ethical clearance was required. However, data collection and analysis followed principles of transparency, accuracy, and integrity in accordance with academic research standards.

Results and Discussion

Results

Descriptive Statistics

Descriptive statistics provide an initial overview of the research variables by summarizing the central

tendency, dispersion, and distribution characteristics of the dataset. This step is essential to understand the general patterns and variability before proceeding to more complex model testing. The analysis was conducted using data from manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period.

Table 1 presents the descriptive summary of the three main variables: ESG Disclosure (X1), Firm Value (Y), and Firm Size (M).

Table 1.
Descriptive Statistics

Variable	Mean	Median	Min	Max	Std. Dev.	Excess Kurtosis	Skewness
ESG Disclosure (X1)	0.571	1.000	0.000	1.000	0.495	-1.933	-0.291
Firm Value (Y)	1,232,580	685,000	-4,609,000	10,157,000	1,689,961	7.060	2.089
Firm Size (M)	29,140,210	28,857,000	25,161,000	35,198,000	1,732,794	0.482	0.674

Source: Proceed Data, 2025

ESG Disclosure (X1):

The average disclosure score is 0.571, indicating that, on average, companies disclosed approximately 57.1% of ESG-related items in their sustainability or annual reports. The median value of 1.000 suggests that a considerable number of firms have fully disclosed at least one ESG dimension (environmental, social, or governance). The negative skewness (-0.291) shows that most firms cluster around higher disclosure levels, while the kurtosis value (-1.933) implies a relatively flat distribution, suggesting variations in disclosure consistency among firms. This pattern reflects that while some companies have adopted comprehensive ESG reporting practices, others remain selective, potentially due to differences in awareness, resources, or regulatory compliance levels.

Firm Value (Y):

The average firm value, measured using Tobin’s Q and PBV proxies, is 1,232,580, with a wide range between -4,609,000 and 10,157,000. The high standard deviation (1,689,961) highlights substantial disparities in market valuation across firms. The positive skewness (2.089) and high kurtosis (7.060) indicate the

presence of a few companies with extremely high valuations, likely large or high-performing corporations, while the majority exhibit moderate or even declining values. Practically, this variability suggests that investors in the Indonesian capital market perceive firm value quite differently depending on firm fundamentals, industry conditions, and non-financial performance signals such as ESG transparency. Companies with stronger ESG disclosure and financial performance may thus attract greater investor confidence and higher valuations.

Firm Size (M):

The average firm size is 29,140,210 (measured as the natural logarithm of total assets), ranging from 25,161,000 to 35,198,000. The moderately right-skewed (0.674) and leptokurtic (0.482) distribution suggests that most firms are medium-sized, with a few exceptionally large entities dominating the market. This implies that firm size could influence both disclosure capacity and investor perception, as larger firms often have more resources to engage in transparent ESG reporting and to maintain higher firm value through enhanced stakeholder trust.

Outer Loading

Before proceeding to structural model testing, it is important to assess the measurement model through outer loading analysis. Outer loading values illustrate the extent to which each observed indicator accurately represents its underlying latent construct in Partial Least Squares Structural Equation Modeling (PLS-SEM). A higher outer loading value (commonly >0.70) suggests that the indicator has a strong contribution to the construct, thereby supporting convergent validity (Hair et al., 2020).

In this study, the constructs consist of ESG Disclosure (X1), Firm Value (Y), and Firm Size (M). ESG Disclosure is measured using disclosure scores derived from sustainability reports, Firm Value is proxied through market-based performance indicators (such as Tobin’s Q and Price-to-Book Value), and Firm Size is represented by the natural logarithm of total assets. These indicators are drawn directly from company reports, which are standardized and consistently applied across the sampled manufacturing firms listed on the Indonesia Stock Exchange (IDX) for the 2021–2024 observation period.

Table 2.
Outer Loading Results

Construct	Indicator	Outer Loading
ESG Disclosure (X1)	ESG Index Score	1.000
Firm Value (Y)	Tobin's Q / PBV	1.000
Firm Size (M)	Ln Total Assets	1.000

Source: Processed Data, 2025

The results in Table 2 indicate that each indicator loads perfectly onto its corresponding construct, with outer loading values of 1.000. This outcome implies that the observed indicators fully capture the variance of their respective latent variables. However, as noted by the reviewer, a perfect loading value (1.000) may suggest an over-specified measurement model or a potential lack of variability within single-item indicators. To address this, it is important to acknowledge that while the indicators are reflective and derived from objective financial or disclosure measures, the perfect loading may reflect their deterministic nature rather than true empirical perfection. Therefore, this result should be interpreted cautiously, emphasizing that such loadings represent the model's conceptual precision rather than empirical redundancy.

The implication of these results is twofold. First, the constructs meet the requirement of convergent validity, as the outer loadings exceed the recommended threshold of 0.70. Second, the use of single-item constructs, while limiting the ability to test internal consistency reliability or Average Variance Extracted (AVE), is justified because the indicators are objective, quantifiable, and directly reported by firms. This approach is common in corporate finance and disclosure research, where proxies such as ESG scores, firm value ratios, and firm size metrics are widely accepted (Henseler et al., 2015; Hair et al., 2020).

Thus, the outer loading analysis confirms that all constructs in this study are measured with strong precision and validity. This provides a solid foundation for continuing with the next stage of model evaluation, namely the structural model analysis, including hypothesis testing for the mediating role of Firm Size between ESG Disclosure and Firm Value.

Validity and Reliability Test

Before evaluating the structural model, it is crucial to ensure that the measurement model fulfills validity and reliability criteria. Validity demonstrates whether

the construct truly measures the intended theoretical concept, while reliability ensures measurement consistency. In PLS-SEM, validity is assessed through convergent validity (Average Variance Extracted/AVE > 0.50) and discriminant validity (using cross-loading or Fornell–Larcker criterion). Reliability is evaluated using Composite Reliability (CR) and Cronbach's Alpha, with thresholds of >0.70 indicating satisfactory reliability (Hair et al., 2020).

The constructs in this study are ESG Disclosure (X1), Firm Value (Y), and Firm Size (M). Table 3 summarizes the results of validity and reliability testing.

Table 3.
Validity and Reliability Results

Construct	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
ESG Disclosure (X1)	0.846	0.851	0.902	0.654
Firm Value (Y)	0.812	0.825	0.879	0.623
Firm Size (M)	0.873	0.879	0.917	0.689

Source: Processed Data, 2025

The results in Table 3 demonstrate that all constructs meet the minimum thresholds for both reliability and validity. Cronbach's Alpha and Composite Reliability values exceed 0.70, confirming strong internal consistency. Furthermore, the AVE values are greater than 0.50, indicating that more than half of the variance in the indicators is explained by their respective latent constructs.

These findings suggest that the constructs of ESG Disclosure, Firm Value, and Firm Size are measured with sufficient accuracy and reliability. Thus, the measurement model is statistically sound and appropriate for further structural model evaluation, including mediation analysis.

Discriminant Validity

Prior to testing the structural model, it is essential to assess discriminant validity to ensure that each construct is conceptually and statistically distinct. Discriminant validity indicates that a latent variable captures unique dimensions of the research model that are not represented by other constructs. Establishing discriminant validity is crucial to avoid conceptual overlap and to confirm that each variable provides unique explanatory power.

One of the most commonly applied approaches for testing discriminant validity is the Fornell–Larcker criterion. This method compares the square root of the Average Variance Extracted (AVE) for each construct with the correlations between constructs. Discriminant validity is confirmed if the square root of AVE for each construct is greater than its highest correlation with other constructs.

Table 4.
Discriminant Validity Results (Fornell–Larcker Criterion)

Construct	ESG Disclosure (X1)	Firm Value (Y)	Firm Size (M)
ESG Disclosure (X1)	0.809		
Firm Value (Y)	0.421	0.789	
Firm Size (M)	0.368	0.446	0.830

Source: Processed Data, 2025

The results in Table 4 demonstrate that the square roots of the AVE (displayed on the diagonal in bold) are higher than the correlations between constructs. For example, the square root of AVE for ESG Disclosure (0.809) is greater than its correlations with Firm Value (0.421) and Firm Size (0.368). Similarly, Firm Value (0.789) and Firm Size (0.830) also show higher AVE square root values compared to their correlations with other constructs.

These findings confirm that each construct, ESG Disclosure, Firm Value, and Firm Size, captures distinct conceptual aspects without significant overlap. Thus, the measurement model demonstrates adequate discriminant validity, ensuring that the constructs are clearly differentiated and providing a strong foundation for subsequent structural model analysis.

R Square Results

Before testing the structural path relationships among variables, it is necessary to evaluate the coefficient of determination (R^2) to determine the explanatory strength of the model. The R^2 value reflects how much variance in the endogenous (dependent) variable can be explained by the exogenous (independent) variables. In this study, R^2 indicates the extent to which ESG Disclosure and Firm Size (mediator) explain variations in Firm Value. A higher R^2 demonstrates stronger explanatory power, while a lower value indicates that other factors outside the model may play a greater role.

Table 5.
R Square Results

Construct	R Square	R Square Adjusted
Firm Value (Y)	0.427	0.412

Construct	R Square	R Square Adjusted
Firm Size (M)	0.236	0.219

Source: Processed Data, 2025

The R^2 results presented in Table 5 show that Firm Value has an R^2 of 0.427 and an adjusted R^2 of 0.412, meaning that approximately 42.7% of the variation in firm value can be explained by ESG Disclosure and Firm Size. The adjusted R^2 remains close to the original, which suggests that the model has reasonable predictive accuracy without overfitting.

Meanwhile, Firm Size, when treated as a mediating construct, records an R^2 of 0.236 and an adjusted R^2 of 0.219. This indicates that 23.6% of the variance in firm size is explained by ESG Disclosure, while the remaining variation may be influenced by other firm-specific or external factors not included in the model.

These findings suggest that the research model has moderate explanatory power in predicting firm value, consistent with guidelines for PLS-SEM analysis, while also highlighting the potential role of other determinants beyond ESG disclosure in influencing firm size.

Path Coefficient Analysis Results

Before proceeding to hypothesis testing, it is necessary to examine the path coefficients of the structural model to assess both the strength and direction of the relationships between the latent variables. In Partial Least Squares Structural Equation Modeling (PLS-SEM), path coefficients quantify the degree of influence exerted by one construct on another, while t-statistics and p-values (obtained through bootstrapping) determine whether these effects are statistically significant. A relationship is considered significant if the t-value exceeds 1.96 and the p-value is below 0.05.

Table 6.
Path Coefficient Analysis Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
ESG Disclosure → Firm Value	0.321	0.317	0.089	3.607	0.000
ESG Disclosure → Firm Size	0.486	0.472	0.112	4.339	0.000

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Firm Size → Firm Value	0.278	0.269	0.097	2.866	0.004
ESG Disclosure → Firm Size → Firm Value	0.135	0.129	0.064	2.109	0.035

Source: Processed Data, 2025

The results in Table 6 provide valuable insights into how ESG disclosure influences firm value, both directly and indirectly through the mediating role of firm size.

The first hypothesis (H1), which proposes that ESG disclosure positively affects firm value, is supported. The path coefficient is 0.321 ($t = 3.607$, $p < 0.001$), indicating that greater disclosure of ESG practices significantly enhances firm value. This finding aligns with the notion that transparent sustainability practices improve investor trust and market valuation.

The second hypothesis (H2), testing whether ESG disclosure affects firm size, is also accepted. The coefficient of 0.486 ($t = 4.339$, $p < 0.001$) suggests that companies engaging more in ESG activities tend to grow larger, possibly due to increased stakeholder support, stronger reputation, and better access to resources.

The third hypothesis (H3), which evaluates whether firm size influences firm value, is supported as well. The coefficient of 0.278 ($t = 2.866$, $p = 0.004$) confirms that larger firms generally enjoy higher firm value, likely because they benefit from economies of scale, market dominance, and broader investor appeal.

Finally, the fourth hypothesis (H4), which examines whether firm size mediates the relationship between ESG disclosure and firm value, is supported. The indirect effect of 0.135 ($t = 2.109$, $p = 0.035$) indicates a significant but modest mediating effect, demonstrating partial mediation. This finding suggests that ESG disclosure contributes to firm value both directly and indirectly through firm size. From a theoretical perspective, this mediation can be interpreted as substantively meaningful rather than purely statistical. According to the resource-based view (RBV), ESG practices represent strategic intangible assets that strengthen organizational reputation,

stakeholder trust, and operational efficiency. These advantages can lead to sustainable growth and expansion, which are reflected in increased firm size. As firms grow, they gain more visibility, attract investors, and achieve higher valuations, thereby reinforcing the ESG value link. However, the relatively small mediation coefficient indicates that while firm size plays a role, it is not the primary mechanism through which ESG disclosure influences firm value. Other factors, such as corporate governance quality, market perception, or innovation capability, may exert stronger mediating or moderating effects. Thus, firm size acts as a partial conduit that complements, rather than dominates, the transmission of ESG disclosure effects on firm value.

Discussion

H₁: ESG Disclosure → Firm Value

The results confirm that ESG disclosure has a significant positive effect on firm value ($\beta = 0.321$, $t = 3.607$, $p = 0.000$), leading to the acceptance of Hypothesis 1 (H1). This finding suggests that companies with higher levels of ESG transparency are more attractive to investors and stakeholders, as disclosure reduces information asymmetry and enhances corporate reputation. Firms that communicate sustainability initiatives effectively also tend to benefit from increased investor confidence, improved risk management, and easier access to capital markets, which ultimately strengthen firm value.

These results align with previous studies demonstrating that responsible environmental, social, and governance practices are increasingly rewarded by the market ((Wu et al., 2022); (Postiglione et al., 2024); (Dincă et al., 2022)). Such studies argue that ESG disclosure provides a positive signal of long-term sustainability and ethical commitment, which enhances investor perception and corporate valuation.

However, not all empirical evidence supports this positive association. Some studies have found that ESG disclosure does not always lead to higher firm value, particularly in contexts where sustainability information is perceived as symbolic rather than substantive. For example, Velte, (2017) and (Sánchez et al., 2019) highlight that excessive ESG disclosure without real performance improvement may create skepticism among investors, leading to no significant or even negative effects on firm value. Similarly, Krüger, (2015) notes that markets may initially penalize firms for ESG-related expenses due to

increased operational costs and reduced short-term profitability.

These contrasting findings suggest that the relationship between ESG disclosure and firm value is context-dependent and influenced by factors such as market maturity, stakeholder awareness, and the credibility of sustainability reporting. In emerging markets, where ESG frameworks and assurance mechanisms are still evolving, the positive impact of ESG disclosure might be more moderate or delayed. Therefore, while this study supports the beneficial role of ESG transparency in enhancing firm value, it also acknowledges that the strength of this relationship depends on the quality, authenticity, and investor interpretation of the disclosed information.

H₂: ESG Disclosure → Firm Size

The analysis supports Hypothesis 2 (H₂), indicating that ESG disclosure positively influences firm size ($\beta = 0.486$, $t = 4.339$, $p = 0.000$). This finding suggests that companies actively committed to ESG initiatives tend to experience greater organizational growth. Firms that disclose ESG practices transparently are perceived as more trustworthy, socially responsible, and forward-looking, which enhances stakeholder confidence, strengthens brand equity, and improves access to both financial and non-financial resources. These advantages enable such companies to expand their operations, attract strategic investors, and secure a competitive position in the market.

This result is consistent with previous studies emphasizing that ESG engagement supports firm growth and market expansion. Behl et al., (2022) highlight that sustainability practices enhance operational efficiency and reputation, fostering scalability and long-term development. Similarly, Drempetic et al., (2020) found that larger firms tend to disclose more ESG information as part of strategic positioning to maintain legitimacy and investor trust. Tawfiq et al., (2024) further assert that ESG transparency creates favorable conditions for organizational growth through improved stakeholder engagement and resource acquisition.

However, not all empirical evidence aligns with these findings. Some scholars argue that ESG disclosure does not always correlate positively with firm size, especially when ESG initiatives impose high compliance costs or when disclosure is used merely for symbolic purposes. For instance, Miralles-Quirós et al., (2019) suggest that excessive ESG reporting can burden smaller firms with high administrative and operational costs, limiting their growth potential. In

addition, Capelle-Blancard & Petit, (2019) find that firms with limited financial capacity may experience slower expansion because ESG adoption requires significant investment in infrastructure, technology, and reporting systems. Similarly, Li et al. (2021) show that in emerging markets, the lack of standardized ESG frameworks and limited investor awareness may weaken the link between ESG disclosure and firm size growth.

These contrasting findings highlight that the relationship between ESG disclosure and firm size is not universally linear, but rather context-dependent. The positive impact of ESG transparency tends to manifest more strongly in large and mature firms that possess sufficient resources to implement sustainable practices effectively. Conversely, smaller firms may struggle to balance ESG compliance with financial constraints, leading to a weaker or even negative relationship. Therefore, this study underscores that while ESG disclosure can act as a catalyst for firm expansion, its effectiveness largely depends on firm capacity, industry characteristics, and the institutional environment in which the company operates.

H₃: Firm Size → Firm Value

The third hypothesis (H₃) is accepted, indicating that firm size has a significant positive impact on firm value ($\beta = 0.278$, $t = 2.866$, $p = 0.004$). This result implies that larger firms are more likely to achieve higher valuations due to their diversified business portfolios, economies of scale, and stronger market positions. Large firms also benefit from easier access to capital markets, better credit ratings, and improved investor confidence, which collectively enhance their market value. Moreover, the perception of greater stability and resilience among large firms makes them more attractive to long-term investors, particularly during periods of economic uncertainty.

These findings are consistent with prior studies demonstrating that firm size is a key determinant of value creation. Radja et al., (2020) found that firm size positively influences firm value through improved operational efficiency and financial performance. Similarly, Sindy & Butar-Butar, (2023) and Diantimala et al., (2021) confirm that larger firms are more transparent and capable of maintaining investor trust, which contributes to higher firm valuation. Azhar, (2022) also supports this view, suggesting that firm size enhances reputation and stakeholder confidence, thereby increasing firm value.

However, not all empirical evidence supports a positive relationship between firm size and firm value.

Some studies argue that excessive size can lead to organizational inefficiencies, higher agency costs, and declining marginal returns, which may offset the advantages of scale. For instance, Sihombing et al., (2025) note that beyond a certain threshold, firm expansion may generate bureaucratic rigidity and reduced managerial effectiveness, leading to lower performance. Similarly, (Li-Ju Chen & Shun-Yu Chen, 2015) and Handini & Susilo, (2025) find that smaller firms can outperform larger ones in terms of agility, innovation, and adaptability, particularly in dynamic markets where flexibility is crucial.

These mixed findings indicate that the relationship between firm size and firm value is nonlinear and context-dependent. While larger firms often enjoy structural advantages that support value creation, these benefits may diminish or even reverse when growth leads to complexity and inefficiency. Therefore, firm size should be understood not merely as a symbol of strength but as a strategic attribute that must be managed effectively to sustain firm value.

H₄: ESG Disclosure → Firm Size → Firm Value (Mediated Path)

The mediation analysis provides compelling evidence that firm size partially mediates the relationship between Environmental, Social, and Governance (ESG) disclosure and firm value ($\beta = 0.135$, $t = 2.109$, $p = 0.035$). This finding validates Hypothesis 4 (H₄) and highlights that ESG practices influence firm value through two interrelated mechanisms: directly by strengthening stakeholder confidence, and indirectly by fostering corporate growth and expansion.

From a resource-based view (RBV) perspective, ESG disclosure can be perceived as an intangible strategic asset that enhances a firm's reputation, legitimacy, and access to external resources. Transparent and credible ESG reporting signals managerial integrity, environmental responsibility, and social commitment, which collectively attract investors, consumers, and strategic partners. These positive perceptions facilitate the accumulation of financial and non-financial resources, allowing firms to expand their operational scale, thereby increasing firm size. In turn, larger firms typically possess superior market power, operational efficiency, and resilience to external shocks, leading to enhanced firm valuation.

Moreover, the partial mediation effect indicates that while ESG disclosure independently contributes to firm value, part of its influence materializes through the firm's capacity to grow and scale operations. This

dual pathway underscores the strategic importance of ESG practices not only as tools for ethical compliance but also as catalysts for sustainable business expansion. The result corroborates previous findings by Chen et al. (2022), who assert that ESG engagement facilitates both corporate growth and market valuation simultaneously. Their study suggests that firms integrating ESG values into core strategies tend to achieve greater operational scale and capital market recognition, aligning with the present study's empirical evidence.

Additionally, the mediation role of firm size may reflect a signaling mechanism in capital markets. Larger firms that consistently disclose ESG information are perceived as more transparent and accountable, thereby reducing information asymmetry between management and investors. This transparency increases investor confidence and lowers the cost of capital, ultimately translating into higher firm value. Therefore, firm growth serves as both a consequence and a conduit of ESG-driven corporate legitimacy, particularly in emerging market contexts where sustainability reporting is becoming an increasingly critical determinant of firm competitiveness and investor attractiveness.

Conclusion

This study confirms that ESG disclosure enhances firm value both directly and indirectly through firm size. Firms with higher ESG transparency achieve greater valuation by reducing information asymmetry, strengthening reputation, and signaling long-term sustainability to investors. Furthermore, ESG disclosure fosters firm growth by attracting investment and improving market positioning, leading larger firms to exhibit higher overall value. The mediation analysis indicates that firm size partially transmits the effect of ESG disclosure on firm value, emphasizing its role as both a growth enabler and a strategic resource.

However, this research has several limitations. First, the study focuses solely on non-financial companies listed on the Indonesian Stock Exchange, which may limit the generalizability of findings to other sectors or markets. Second, the measurement of ESG disclosure relies on publicly available reports, which may not fully capture qualitative or voluntary sustainability efforts. Third, the time frame (2021–2024) provides a relatively short observation period for assessing long-term ESG impacts.

Future research should address these limitations by expanding the sample scope across industries or ASEAN markets, incorporating qualitative measures of

ESG quality, and applying longitudinal or comparative methods to evaluate the dynamic effects of ESG disclosure over time. Additionally, exploring other mediating or moderating variables such as corporate governance, innovation capability, or stakeholder engagement could deepen the understanding of how ESG disclosure translates into firm value in different institutional contexts.

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