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ESG Disclosure, Competitive Advantage and Firm Value: Evidence from IDX ESG Leaders

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ABSTRACT

Firm value reflects the market's assessment of a company's current performance and long-term business prospects. As stakeholder attention toward corporate sustainability intensifies, firms are increasingly expected to generate long-term value by balancing financial returns with environmental, social, and governance (ESG) responsibilities. This study examines the effect of ESG disclosure on firm value, as well as the mediating role of competitive advantage in this relationship. ESG disclosure is measured using the 15-item assessment criteria established by the Indonesia Stock Exchange (IDX), firm value is proxied by Tobin's Q and competitive advantage is measured using relative market concentration, with firm size included as a control variable. Using a purposive sampling technique, balanced panel data were collected from 16 companies listed in the IDX ESG Leaders Index during the 2020–2023 period. Data were analyzed using panel data regression and the Sobel test. The empirical findings reveal that ESG disclosure has a significant negative short-term effect on both competitive advantage and firm value, whereas competitive advantage exerts a significant positive effect on firm value. Furthermore, competitive advantage significantly mediates the relationship between ESG disclosure and firm value. These findings suggest that rather than treating ESG reporting merely as a compliance obligation, companies should strategically integrate sustainability initiatives into their core business operations to build lasting competitiveness and enhance long-term firm value.

Keywords: ESG Disclosure; Firm Value; Competitive Advantage; ESG Leaders; Tobin's Q

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INTRODUCTION

Firm value remains a central concern in corporate finance because it reflects the market's assessment of a company's current performance and prospects. In recent years, this assessment has increasingly incorporated non-financial information, particularly environmental, social, and governance (ESG) disclosure. ESG disclosure is no longer viewed merely as a voluntary reporting practice, but also as a strategic signal of transparency, accountability, and long-term orientation. By reducing information asymmetry and strengthening stakeholder trust, ESG disclosure may shape investor perceptions and ultimately influence firm value (Aydoğmuş et al., 2022; Wu et al., 2022; Jafar et al., 2024). This value is an important indicator for investors in assessing the company's performance and growth prospects (Widarwati et al., 2023).

Despite its growing relevance, empirical evidence on the relationship between ESG disclosure and firm value remains mixed. Several studies report that stronger ESG disclosure, or ESG performance improves firm value by enhancing legitimacy, lowering perceived risk, and strengthening market confidence (Aydoğmuş et al., 2022; Wu et al., 2022; Behl et al., 2022). However, other studies suggest that the benefits of ESG may not be immediately reflected in market valuation, particularly in emerging markets where sustainability implementation often requires substantial financial and managerial resources and where institutional support is still developing (Behl et al., 2022; Fujianti et al., 2024). This inconsistency indicates that the effect of ESG disclosure may not always be direct and may instead operate through strategic intermediate mechanisms.

One potential mechanism is competitive advantage. From the perspectives of stakeholder theory and the resource-based view, ESG disclosure can create value when sustainability-related practices are translated into firm-specific capabilities such as reputation, operational efficiency, stakeholder loyalty, and strategic differentiation. These capabilities may strengthen a firm's competitive advantage, which in turn may improve firm value. This issue is particularly relevant for companies included in the IDX ESG Leaders Index, where ESG commitment is expected to be high, but market valuation outcomes may still vary across firms and sectors. Therefore, this study examines the effect of ESG disclosure on firm value, the effect of ESG disclosure on competitive advantage, the effect of competitive advantage on firm value, and the mediating role of competitive advantage in the relationship between ESG disclosure and firm value.

LITERATURE REVIEW

ESG Disclosure and Firm Value

Firm value reflects investors' expectations regarding a company's ability to generate sustainable future returns. From signaling theory, ESG disclosure can reduce information asymmetry by communicating that the company is committed to responsible governance, environmental stewardship, and social accountability. From stakeholder theory, transparent ESG disclosure can also strengthen legitimacy and improve relationships with investors, regulators, customers, and society, thereby supporting long-term value creation (Freeman, 1984; Spence, 1973).

Recent empirical studies generally suggest that ESG disclosure or ESG performance can positively affect firm value. Firms with stronger ESG disclosure may benefit from lower

perceived risk, improved reputation, and greater investor confidence, which can enhance market valuation (Aydoğmuş et al., 2022; Wu et al., 2022; Jafar et al., 2024). However, the market may not always reward ESG investment immediately, particularly in emerging markets where implementation costs are high and ESG benefits may take longer to materialise (Behl et al., 2022). Therefore, the direction and magnitude of this relationship should be tested in the context of IDX ESG Leaders firms.

H_1: ESG disclosure significantly affects firm value.

ESG Disclosure and Competitive Advantage

Competitive advantage refers to a firm's ability to develop and sustain superior strategic positioning relative to competitors through unique resources, capabilities, and strategic choices (Barney, 1991; Porter, 1985). The resource-based view argues that firm-specific resources generate superior outcomes when they are valuable, rare, difficult to imitate, and effectively organised. In this context, ESG disclosure may reflect and reinforce strategic assets such as reputational capital, stakeholder trust, operational discipline, and long-term strategic orientation.

Prior studies indicate that ESG disclosure can strengthen competitive advantage by improving transparency, enhancing legitimacy, and increasing customer and investor trust (Mohammad & Wasiuzzaman, 2021; Rabaya & Saleh, 2022; Rohendi et al., 2024). ESG-oriented firms may also develop stronger reputational assets and better stakeholder relationships, which can support sustainable differentiation. However, if ESG implementation is not aligned with the firm's core strategy or requires excessive short-term resource allocation, it may temporarily weaken competitive positioning (Behl et al., 2022; Fujianti et al., 2024). Accordingly, this relationship should be tested empirically.

H_2: ESG disclosure significantly affects competitive advantage.

Competitive Advantage and Firm Value

Competitive advantage is closely associated with a firm's ability to maintain superior performance, preserve market position, and generate sustainable economic returns. Firms with stronger competitive advantage are generally better positioned to withstand market volatility, protect profitability, and signal stronger long-term prospects to investors. In line with signaling theory, superior competitiveness can be interpreted by investors as evidence of strategic resilience and future earning capacity.

Empirical evidence supports the argument that competitive advantage contributes positively to firm value. Stronger competitive positioning can improve financial performance, increase investor confidence, and raise market valuation (Rohendi et al., 2024). Competitive advantage is also considered an important driver of business sustainability and long-term shareholder wealth.

H_3: Competitive advantage significantly affects firm value.

The Mediating Role of Competitive Advantage

The relationship between ESG disclosure and firm value may be better understood through an indirect mechanism rather than a purely direct effect. ESG disclosure can strengthen legitimacy, reduce information asymmetry, and improve stakeholder trust, but these benefits become economically meaningful when they are converted into strategic capabilities that enhance competitiveness. In other words, ESG disclosure may create value when it helps firms build differentiation, operational efficiency, reputational strength, and stronger stakeholder relationships.

Recent studies increasingly acknowledge that ESG-related practices may influence firm value through strategic channels such as reputation, information quality, and competitive advantage (Rabaya & Saleh, 2022; Rohendi et al., 2024). If ESG disclosure improves competitive positioning and competitive advantage subsequently enhances firm value, then competitive advantage should function as a mediating variable in the ESG disclosure–firm value relationship.

> H_4: Competitive advantage mediates the relationship between ESG disclosure and firm value.

METHODOLOGY

Sampling Design and Data Collection

This study investigates the relationship between ESG disclosure and firm value, mediated by competitive advantage, using a quantitative descriptive and verification approach. Secondary data were collected from corporate documents, including sustainability reports and annual reports, alongside relevant academic literature on sustainability. A purposive sampling method was employed to select a final sample of 16 companies listed in the IDX ESG Leaders Index on the Indonesia Stock Exchange during the 2020–2023 period, spanning sectors such as energy, primary consumer goods, non-primary consumer goods, finance, property and real estate, and infrastructure.

Measurement

The independent variable in this study is ESG disclosure, measured using the ESG assessment indicators established by the Indonesia Stock Exchange (IDX), following Rabaya and Saleh (2022). Each of the three dimensions (environmental, social, and governance) comprises 5 disclosure items, resulting in a total of 15 evaluated indicators. A dichotomous scoring method is applied, where a score of 1 is assigned if a firm discloses a specific item and 0 otherwise. The ESG disclosure score is then calculated by dividing the total number of disclosed items by the maximum possible score of 15.

The dependent variable, firm value, is proxied by Tobin's Q, following Aydoğmuş et al. (2022). Tobin's Q provides a comprehensive market-based valuation metric that reflects both current performance and investors' expectations of future growth prospects.

The mediating variable, competitive advantage, is proxied by the firm's relative market concentration, following Rabaya and Saleh (2022). Relative market concentration is calculated as the ratio of a company's total sales to the total sales of its respective industry sector, reflecting the firm's market dominance and the effectiveness of its competitive strategy in

maintaining or expanding market share. Nonetheless, relying solely on relative market concentration entails certain methodological limitations. Because it is a revenue-based market share indicator, it primarily captures scale-driven market positioning and external sales dominance rather than internal, intangible sources of competitive advantage, such as technological innovation, operational efficiency, or brand equity. Despite this limitation, relative market concentration remains an appropriate and objective proxy in emerging market contexts due to the availability and standardization of audited financial reporting across listed firms.

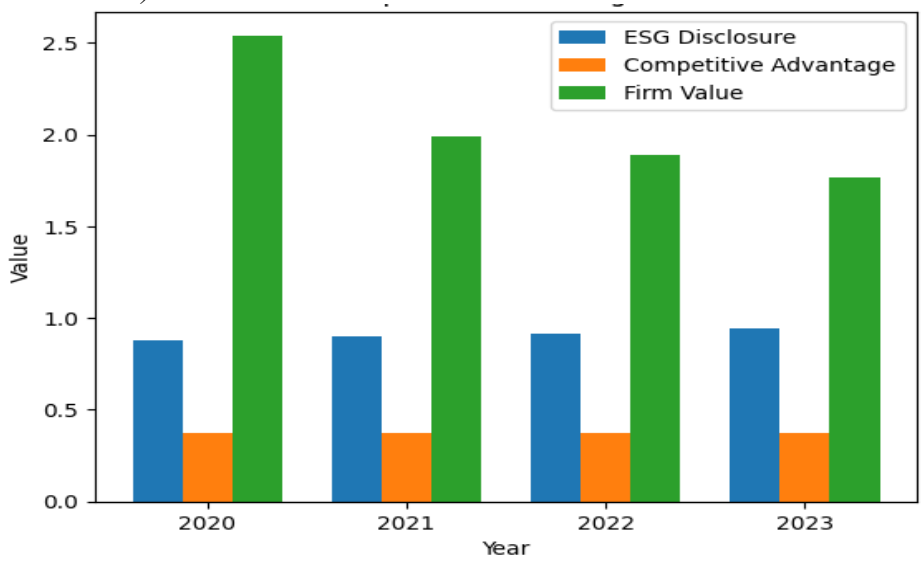
Finally, firm size (SIZE) is included as a control variable to account for differences in operational scale, financial capacity, and resource availability across firms that may independently influence both competitive positioning and market valuation. Firm size is measured using the natural logarithm of total assets

FINDINGS

Descriptive Analysis

The descriptive results, as shown in Figure 1, indicate that the average ESG disclosure score of IDX ESG Leaders firms during 2020–2023 is relatively high, suggesting that the sampled firms generally demonstrate strong transparency in environmental, social, and governance practices. Across ESG dimensions, the social dimension records the highest average score, followed by environmental and governance dimensions. Sectoral analysis further indicates that the energy and primary consumer goods sectors exhibit relatively stronger ESG disclosure, whereas the property and real estate sector records comparatively lower disclosure levels. These findings suggest that although the sampled firms are classified as ESG Leaders, the quality and consistency of disclosure still vary across sectors.

Figure 1
Trends in ESG Disclosure, Competitive Advantage, and Firm Value of IDX ESG Leaders (2020–2023)



Source: Research Data, 2025

The descriptive statistics also show that the average competitive advantage, proxied by the relative market concentration ratio, remains relatively stable during the observation period. However, the average level indicates that not all firms maintain a strong dominant market position. Meanwhile, firm value, measured using Tobin's Q, shows a declining trend over the study period. This pattern suggests that stronger ESG disclosure alone does not automatically translate into higher market valuation in the short term, particularly under changing macroeconomic and industry conditions.

Measurement Model Assessment

The regression results indicate that ESG disclosure has a significant negative effect on firm value, meaning that higher ESG disclosure is associated with lower Tobin's Q in the sampled firms during the observation period. Thus, H_1 is supported in terms of statistical significance, although the direction of the relationship is negative rather than positive.

The results also show that ESG disclosure has a significant negative effect on competitive advantage. Therefore, H_2 is supported, but the direction of the effect suggests that higher ESG disclosure is associated with lower competitive advantage in the short run.

Furthermore, competitive advantage has a significant positive effect on firm value, indicating that firms with stronger market positioning tend to have higher market valuation. Accordingly, H_3 is supported.

Table 1

Regression Results of ESG Disclosure, Competitive Advantage, and Firm Value

Variables	Model 1	Model 2	Model 3	Model 4
ESGD	-0.6894	-0.4239	-	-0.1019
CA	-	-	1.1916	1.1645
SIZE	-1.0771	0.1749	-0.6065	-0.5906
Constant	Yes	Yes	Yes	Yes
Year Dummies	No	No	No	
Adjusted R^2	0.0844*	0.0975**	0.7686*	0.7635*

Notes: *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively.
Model 1–2: Random Effects (RE); Model 3–4: Fixed Effects (FE)

Finally, the mediation test indicates that competitive advantage significantly mediates the relationship between ESG disclosure and firm value. Because ESG disclosure negatively affects competitive advantage while competitive advantage positively affects firm value, the indirect effect suggests that competitive advantage acts as a significant mediating mechanism in the relationship between ESG disclosure and firm value.

DISCUSSION

The findings of this study provide important insights into the relationship between ESG disclosure, competitive advantage, and firm value in the context of companies included in the IDX ESG Leaders Index.

First, the results show that ESG disclosure has a significant negative effect on firm value. This finding indicates that, in the observed period, higher ESG disclosure is associated with lower market valuation. This result is in contrast with prior studies, such as Aydoğmuş et al. (2022),

Wu et al. (2022), and Jafar et al. (2024), which generally find a positive relationship between ESG disclosure and firm value through improved transparency, reduced risk, and enhanced investor confidence.

However, the present finding is consistent with Behl et al. (2022), which suggests that ESG investments may impose short-term financial burdens and reduce firm value in the early stages of implementation. In the context of emerging markets such as Indonesia, investors may still priorities short-term financial performance over long-term sustainability outcomes. ESG implementation often requires substantial investment in environmental technology, governance systems, and social program, which may temporarily reduce profitability and efficiency, leading to lower firm valuation. Therefore, the negative relationship observed in this study reflects a short-term cost perspective rather than a rejection of ESG value in the long run.

Second, ESG disclosure is found to have a significant negative effect on competitive advantage. This result suggests that ESG initiatives do not automatically translate into stronger competitive positioning, particularly in the short term. This finding is not aligned with previous studies, such as Mohammad and Wasiuzzaman (2021), Rabaya and Saleh (2022), and Rohendi et al. (2024), which argue that ESG disclosure enhances competitive advantage through improved reputation, stakeholder trust, and strategic differentiation.

Instead, this study indicates that ESG implementation may initially weaken competitive advantage when firms allocate significant resources to sustainability initiatives that are not yet fully integrated into their core business strategy. This interpretation is supported by Behl et al. (2022) and Fujianti et al. (2024), which highlight that ESG practices may reduce operational efficiency in the short term if they are not aligned with firm capabilities. In the context of IDX ESG Leaders firms, the pressure to maintain high ESG standards may increase operational complexity and cost, thereby temporarily reducing competitive positioning before long-term benefits are realized.

Third, the results indicate that competitive advantage has a significant positive effect on firm value. This finding is consistent with prior studies, such as Rohendi et al. (2024), which demonstrate that firms with stronger competitive positioning tend to achieve higher firm value. Competitive advantage enhances firm performance, strengthens market confidence, and signals better prospects to investors. This result confirms that competitive advantage remains a critical determinant of firm value, even in the context of ESG-oriented firms. Firms that can maintain strong market positioning, efficiency, and strategic differentiation are more likely to convert internal capabilities into higher market valuation. Therefore, competitive advantage plays a central role in linking operational performance and investor perception.

Fourth, the mediation analysis shows that competitive advantage significantly mediates the relationship between ESG disclosure and firm value. This finding is consistent with Rohendi et al. (2024) and Rabaya and Saleh (2022), which emphasize that ESG disclosure affects firm value indirectly through strategic mechanisms such as competitive advantage, reputation, and operational efficiency. The mediation result suggests that ESG disclosure alone is not sufficient to enhance firm value. Instead, ESG-related initiatives must be effectively transformed into strategic capabilities that strengthen competitiveness. In other words, ESG disclosure becomes economically meaningful when it contributes to value creation through improved efficiency, innovation, and differentiation. This finding highlights the importance of aligning sustainability practices with core business strategy to ensure that ESG investments generate long-term competitive benefits.

Overall, the findings of this study indicate that the impact of ESG disclosure on firm value is context-dependent and time-sensitive. While ESG disclosure may impose short-term costs and reduce both firm value and competitive advantage, it has the potential to create long-term value when it is integrated into the firm's strategic capabilities. Therefore, firms should not treat ESG disclosure merely as a compliance requirement but as a strategic tool to build sustainable competitive advantage and enhance long-term firm value. These findings contribute to the literature by providing evidence from emerging markets, where ESG implementation may exhibit different dynamics compared to developed markets.

CONCLUSION

This study finds that ESG disclosure has a significant negative effect on firm value and a significant negative effect on competitive advantage among firms included in the IDX ESG Leaders Index during 2020–2023. In contrast, competitive advantage has a significant positive effect on firm value. The mediation analysis further confirms that competitive advantage significantly mediates the relationship between ESG disclosure and firm value. These findings indicate that while ESG disclosure may impose short-term strategic and financial pressures, competitive advantage remains a critical mechanism through which sustainability-related initiatives influence market valuation.

From a practical perspective, managers should not approach ESG disclosure solely as a reporting or compliance obligation. Instead, ESG initiatives should be integrated into the firm's core business strategy so that sustainability efforts contribute directly to innovation, operational efficiency, cost management, and market differentiation. For regulators, the findings suggest that stronger ESG disclosure frameworks should be accompanied by policy support that helps firms convert sustainability commitments into long-term competitiveness rather than short-term compliance costs.

This study is limited by the relatively small sample of 16 firms in the IDX ESG Leaders Index and using relative market concentration as a proxy for competitive advantage. Future studies may extend the sample period, compare ESG Leaders and non-ESG firms, and incorporate alternative measures of competitive advantage such as market share growth, innovation capability, or profitability-based strategic indicators.

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CONFLICT OF INTEREST STATEMENT

The authors declare that there are no conflicts of interest regarding the publication of this study.

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