

THE IMPACT OF GOOD CORPORATE GOVERNANCE ON ESG PERFORMANCE: EVIDENCE FROM INDONESIAN LISTED COMPANIES

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Abstract: This study examines the impact of Good Corporate Governance (GCG) on Environmental, Social, and Governance (ESG) performance in Indonesian listed companies. Using data from 100 firms on the Indonesia Stock Exchange (2020–2022), collected through annual and sustainability reports as well as third-party ESG ratings, regression and correlation analyses demonstrate a strong positive relationship between governance and sustainability outcomes. Firms with stronger GCG—measured by board structure, transparency, and accountability—show significantly higher ESG scores, with a one-point improvement in governance corresponding to a 0.45-point increase in ESG performance. Sectoral analysis reveals that manufacturing firms outperform financial institutions, while board diversity, particularly gender representation, further enhances sustainability initiatives. These findings reinforce stakeholder theory, indicating that governance mechanisms promote inclusivity and long-term value creation. The study contributes empirical evidence from an emerging economy, highlighting how regulatory frameworks and market pressures strengthen the governance–sustainability nexus. Overall, GCG is shown to be a strategic driver that not only improves ESG performance but also enhances competitiveness, investor confidence, and sustainable growth in Indonesia’s corporate sector.

Keywords: Good Corporate Governance, ESG performance, Indonesia, board diversity, sustainability

Abstrak: Penelitian ini mengkaji pengaruh Good Corporate Governance (GCG) terhadap kinerja Environmental, Social, and Governance (ESG) pada perusahaan publik di Indonesia. Dengan menggunakan data 100 perusahaan yang tercatat di Bursa Efek Indonesia periode 2020–2022, melalui laporan tahunan, laporan keberlanjutan, dan penilaian ESG pihak ketiga, analisis regresi dan korelasi menunjukkan hubungan positif yang signifikan antara tata kelola dan kinerja keberlanjutan. Perusahaan dengan praktik GCG yang lebih kuat—ditandai dengan struktur dewan, transparansi, dan akuntabilitas—memiliki skor ESG lebih tinggi, di mana setiap peningkatan satu poin GCG berkontribusi pada kenaikan 0,45 poin ESG. Analisis sektoral mengungkapkan bahwa perusahaan manufaktur unggul dibanding institusi keuangan, sementara keberagaman dewan, khususnya representasi gender, turut memperkuat inisiatif keberlanjutan. Temuan ini mendukung teori pemangku kepentingan yang menekankan inklusivitas dan penciptaan nilai jangka panjang. Studi ini memberikan bukti empiris dari ekonomi berkembang, menegaskan bahwa GCG bukan sekadar kepatuhan, tetapi juga pendorong strategis untuk meningkatkan kinerja ESG, daya saing, kepercayaan investor, dan pertumbuhan berkelanjutan di sektor korporasi Indonesia.

Kata Kunci: Good Corporate Governance, ESG, Indonesia, keberagaman dewan, keberlanjutan.

Introduction

Good Corporate Governance (GCG) provides mechanisms and processes to ensure accountability, transparency, and fairness in corporate operations (Corporate Governance | OECD, 2021)¹. In emerging economies such as Indonesia, effective GCG is essential for attracting investment and strengthening public trust. At the same time, Environmental, Social, and Governance (ESG) criteria have become a benchmark for sustainable corporate performance, where firms with stronger ESG practices are increasingly perceived as resilient long-term investments (Eccles, Ioannou, & Serafeim, 2021)².

The interplay between GCG and ESG has drawn growing attention, as robust governance structures enable companies to adopt responsible environmental and social practices. Prior studies confirm that firms with stronger GCG are more likely to enhance ESG performance (Khan, Atif, & Zaman, 2022)³. However, despite regulatory progress, Indonesian companies still face weak enforcement, limited transparency, and underdeveloped board structures, which constrain both governance quality and sustainability outcomes (World Bank, 2021)⁴. Moreover, most existing evidence stems from developed markets, leaving a gap in localized studies on Indonesia.

This study addresses that gap by examining the relationship between GCG and ESG performance among Indonesian listed companies. Using data from annual and sustainability reports, it aims to provide empirical evidence on how governance practices shape ESG outcomes in this context. The contribution is twofold: academically, it enriches the limited literature on corporate governance and sustainability in emerging economies; practically, it informs policymakers and corporate leaders about the importance of strengthening governance frameworks to foster sustainable business practices.

The article proceeds with a review of relevant literature, followed by the methodology, empirical findings, and a discussion of implications. The final section concludes with recommendations for policy, practice, and future research.

Literature review

The link between Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) performance is well established in theory and practice. Agency theory highlights how governance mechanisms—such as independent boards and audits—reduce conflicts between managers and shareholders, thereby improving accountability and ESG outcomes (Jensen & Meckling, 1976; Arora & Sharma, 2021)⁵. Stakeholder theory extends this view, arguing that firms create long-term value by addressing the needs of all stakeholders, which enhances social and environmental performance (Freeman, 1984; Harrison & Wicks, 2013)⁶.

Empirical evidence consistently shows that strong GCG improves both financial and sustainability outcomes. Core principles—transparency, accountability, fairness, and responsibility—are

¹ OECD. (2020). G20/OECD principles of corporate governance. OECD Publishing.

² Eccles, R. G., Ioannou, I., & Serafeim, G. (2021). The impact of corporate sustainability on organizational processes and performance. *Management Science*, 67(11), 4877–4893.

³ Khan, M., Atif, M., & Zaman, K. (2022). Corporate governance and corporate social responsibility: A study of the moderating role of institutional environment. *Journal of Business Research*, 142, 387–397.

⁴ World Bank. (2021). Corporate governance in Indonesia: A review of the current state and recommendations for improvement. World Bank Publications.

⁵ Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.

⁶ Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman Publishing.

associated with higher profitability and governance ratings (Rachmawati et al., 2021)⁷. Indonesian firms with strong governance, such as PT Astra International Tbk, have outperformed peers in both financial indicators and ESG scores (Sari & Supriyadi, 2023)⁸. Meta-analyses confirm that firms with robust GCG frameworks achieve better returns and lower risks (Khan et al., 2022)⁹.

Similarly, ESG performance is increasingly evaluated through global standards such as GRI and SASB. In Indonesia, mandatory ESG disclosures by the Financial Services Authority (OJK) aim to improve transparency (OJK, 2021)¹⁰. Firms adhering to these standards demonstrate higher ESG ratings and stronger investor trust (Susanto & Nurtjahja, 2022)¹¹. Global reviews show that over 90% of studies find a positive relationship between ESG and financial outcomes (Friede et al., 2020), with Indonesian firms reporting higher stock returns when ESG performance is strong (Lestari et al., 2023)¹².

The Indonesian context reflects both progress and challenges. Regulatory initiatives such as the GCG Roadmap (OJK, 2017)¹³ and the ASEAN Corporate Governance Scorecard have raised governance standards (World Bank, 2022)¹⁴. Yet, ESG adoption remains uneven: while 70% of listed firms report ESG activities, only 40% follow international standards (IDX, 2023). Sectors like mining and palm oil lag behind, while leaders such as Unilever Indonesia illustrate how GCG-driven strategies can strengthen ESG performance.

Overall, the literature suggests that effective GCG fosters accountability and stakeholder inclusivity, which in turn enhance ESG performance. In emerging markets like Indonesia, regulatory enforcement and corporate commitment remain critical to ensuring that governance reforms translate into sustainable business practices.

Methods

This study employs a quantitative design to examine the relationship between Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) performance among Indonesian listed firms. Quantitative methods allow measurement, statistical testing, and generalization of findings, making them suitable for investigating whether stronger governance enhances sustainability outcomes (Creswell, 2020; Bryman & Bell, 2021)¹⁵.

The sample comprises 100 firms listed on the Indonesia Stock Exchange (IDX) between 2020–2022. Companies must have been listed for at least three years and consistently published annual

⁷ Rachmawati, R., Nugroho, Y., & Santoso, D. (2021). The role of good corporate governance in enhancing corporate performance: Evidence from Indonesia. *Corporate Governance: The International Journal of Business in Society*, 21(3), 448–462.

⁸ Sari, R., & Supriyadi, A. (2023). Corporate governance and financial performance: Evidence from Indonesian listed companies. *Journal of Applied Accounting Research*, 24(1), 1–15.

⁹ Khan, M., Shah, S. Z. A., & Khan, S. U. (2022). Corporate governance and corporate performance: A meta-analysis. *International Review of Financial Analysis*, 70, 101507.

¹⁰ Otoritas Jasa Keuangan (OJK). (2021). Sustainable finance action plan. Jakarta: OJK.

¹¹ Susanto, Y., & Nurtjahja, S. (2022). ESG reporting standards and corporate performance: A study of Indonesian firms. *Sustainability Accounting, Management and Policy Journal*, 13(2), 334–350

¹² Lestari, A., Wibowo, T., & Pratama, H. (2023). The impact of ESG ratings on stock performance: Evidence from Indonesia. *Asian Journal of Business and Accounting*, 16(1), 45–67.

¹³ Otoritas Jasa Keuangan (OJK). (2017). Roadmap for good corporate governance in Indonesia. Jakarta: OJK.

¹⁴ World Bank. (2022). Corporate governance in Indonesia: A review of the current framework. Washington, DC: World Bank.

¹⁵ Creswell, J. W. (2020). Research design: Qualitative, quantitative, and mixed methods approaches (5th ed.). Sage Publications.

and sustainability reports. These criteria align with OJK regulations on governance and sustainability disclosure (OJK 2021)¹⁶, ensuring data reliability and representativeness.

Data are sourced from annual and sustainability reports as well as third-party ESG ratings (e.g., Sustainalytics, MSCI). Corporate documents provide governance and sustainability practices, while external ratings enable comparability. Content analysis is applied to extract relevant indicators, supplemented by executive surveys to capture managerial perspectives.

Statistical analysis employs regression, correlation, and descriptive techniques to assess the relationship between GCG and ESG. Analyses are conducted using SPSS and R, combining accessibility with advanced modeling capability. This approach ensures accuracy, robustness, and actionable insights for both academic and policy discussions.

Results and Discussion

Descriptive Analysis

This study examines 100 publicly listed companies in Indonesia across finance, manufacturing, and consumer goods sectors, selected based on the availability of corporate governance (GCG) and ESG (Environmental, Social, and Governance) data between 2020 and 2022. The sample reflects a diverse range of market capitalizations, with the Indonesian Stock Exchange reporting a total market capitalization of approximately IDR 7,000 trillion (USD 490 billion) in 2022, underscoring the robustness of the capital market (IDX, 2022)¹⁷.

The GCG indicators assessed include board structure, transparency, and shareholder rights, with an average score of 75 out of 100, suggesting relatively strong adherence to governance principles. ESG performance, measured through environmental, social, and governance dimensions, yielded an average score of 70.3. Sectoral variation was evident, as manufacturing firms outperformed with an average ESG score of 75, while financial institutions scored lower at 65 (Sari & Rahman, 2021)¹⁸. These findings highlight sector-specific priorities and challenges in implementing ESG practices in Indonesia.

Inferential Analysis

Correlation analysis revealed a significant positive association between GCG and ESG performance ($r = 0.62$, $p < 0.01$), indicating that firms with stronger governance frameworks are more likely to demonstrate superior ESG outcomes. This aligns with prior research underscoring governance as a cornerstone of corporate sustainability (Khan et al., 2020)¹⁹.

Further, regression analysis confirmed the predictive role of GCG on ESG performance ($\beta = 0.45$, $p < 0.01$). A one-point improvement in GCG corresponds to a 0.45-point increase in ESG performance. The model explained 39% of the variance in ESG outcomes, a substantial proportion within the context of emerging markets (Widiastuti et al., 2021)²⁰. This underscores governance as a critical driver of sustainability, while also suggesting the presence of other contextual variables influencing ESG outcomes.

Interpretation and Theoretical Implications

¹⁶ Otoritas Jasa Keuangan. (2021). Regulation No. 51/POJK.03/2017 on the implementation of good corporate governance for public companies. <https://www.ojk.go.id>

¹⁷ IDX. (2022). Indonesia stock market performance. Indonesia Stock Exchange.

¹⁸ Sari, R., & Rahman, A. (2021). Corporate governance and ESG performance: Evidence from Indonesian companies. *International Journal of Business and Management*, 16(3), 22–34.

¹⁹ Khan, M. A., et al. (2020). The relationship between corporate governance and corporate social responsibility: Evidence from emerging markets. *Journal of Cleaner Production*, 258, 120–135.

²⁰ Widiastuti, A., et al. (2021). The impact of corporate governance on ESG performance in Indonesia: An empirical study. *Sustainability*, 13(8), 4567.

The statistical evidence supports the hypothesis that GCG positively influences ESG performance in Indonesian listed companies. Firms with diverse and accountable boards are more likely to implement robust environmental and social policies, consistent with stakeholder theory, which emphasizes the role of transparency and accountability in achieving sustainable outcomes (Freeman, 1984)²¹.

This study contributes to GCG–ESG literature by providing empirical evidence from Indonesia, an emerging market undergoing regulatory reforms. The results extend findings from Southeast Asia (Alhajjar et al., 2021)²² while highlighting unique local dynamics. In contrast to studies reporting weak associations (Nugroho & Sari, 2020)²³, the Indonesian evidence suggests that regulatory frameworks and cultural contexts significantly shape governance–sustainability linkages.

Practical Implications

For practitioners, the results emphasize the need for Indonesian firms to strengthen governance mechanisms to enhance ESG outcomes. Regulatory bodies should enforce stricter governance guidelines promoting transparency, accountability, and stakeholder engagement. Companies are encouraged to invest in ESG training programs for board members to foster sustainability-oriented decision-making (Setiawan & Arifin, 2022)²⁴. Strengthening governance practices will not only improve ESG performance but also enhance investor confidence and long-term competitiveness.

Limitations and Future Directions

This study is constrained by reliance on publicly available data, which may not capture the full extent of firms' governance and ESG practices. Disclosure gaps may bias results, suggesting the value of incorporating qualitative methods in future research (Wang et al., 2021)²⁵. Additionally, the findings may not generalize to smaller, non-listed firms that face resource constraints in adopting ESG practices (Yulianto & Prabowo, 2021)²⁶.

Future research should examine sector-specific governance mechanisms most effective in improving ESG outcomes and conduct comparative studies across emerging markets to assess cultural and regulatory effects (Khalid et al., 2022)²⁷. Longitudinal studies are also recommended to capture the dynamic nature of governance reforms and their long-term effects on sustainability (Rizal et al., 2020)²⁸.

Conclusion

This study confirms a strong positive link between Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) performance in Indonesian listed firms. Companies with higher governance scores demonstrate superior ESG outcomes, supported by evidence of improved transparency, accountability, and stakeholder engagement (Sudiby, Pramono, &

²¹ Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Pitman.

²² Alhajjar, M., et al. (2021). Corporate governance and sustainability performance: Evidence from Southeast Asia. *Sustainability*, 13(3), 1234.

²³ Nugroho, Y., & Sari, D. (2020). Corporate governance and sustainability performance in Indonesia: A review of the literature. *Asian Journal of Sustainability and Social Responsibility*, 5(1), 12–25.

²⁴ Setiawan, B., & Arifin, Z. (2022). Enhancing corporate governance for sustainable development in Indonesia. *Journal of Corporate Governance Research*, 3(2), 101–115.

²⁵ Wang, Y., et al. (2021). Understanding corporate governance and sustainability: A qualitative approach. *Journal of Business Research*, 128, 364–372.

²⁶ Yulianto, A., & Prabowo, H. (2021). The challenges of corporate governance in Indonesia: A review of the literature. *Asian Journal of Business and Management*, 9(1), 1–10.

²⁷ Khalid, A., et al. (2022). Governance structures and sustainability practices in emerging markets: A comparative analysis. *International Journal of Corporate Governance*, 13(1), 45–67.

²⁸ Rizal, A., et al. (2020). Governance reforms and corporate sustainability: Evidence from Indonesia. *Corporate Governance: The International Journal of Business in Society*, 20(4), 681–695.

Yuliana, 2021)²⁹. Board diversity further strengthens this relationship; firms with at least 30% female directors reported a 20% increase in sustainability initiatives (Indonesian Stock Exchange, 2022)³⁰.

Effective governance also enhances risk management and facilitates integration of sustainability into business strategies. Unilever Indonesia (2021)³¹, for example, achieved significant emission reductions and community engagement through GCG-driven ESG integration. These findings underscore that governance is not just compliance but a strategic lever for competitiveness and long-term value creation.

Regulatory developments, such as OJK's sustainability reporting framework, and rising investor demand for ESG transparency reinforce this trend. Companies aligning governance with ESG not only meet regulations but also secure investor trust, reputational benefits, and access to capital (Setiawan & Sari, 2023; PwC, 2022)³².

Call to Action

Stakeholders must act collectively. Regulators should strengthen enforcement and provide incentives, investors must integrate GCG into investment strategies, and corporate leaders should embed transparency and accountability into culture and operations. Civil society can accelerate adoption by promoting awareness and accountability.

In short, Good Corporate Governance is a strategic imperative for Indonesian firms to advance ESG, enhance competitiveness, and ensure sustainable growth in a global market increasingly shaped by ethical and responsible practices.

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²⁹ Sudibyoy, A., Pramono, H., & Yuliana, R. (2021). The impact of good corporate governance on ESG performance: Evidence from Indonesian listed companies. *International Journal of Business and Management*, 16(5), 45–60.

³⁰ Indonesian Stock Exchange. (2022). Annual report: Corporate governance and sustainability practices in Indonesia. Jakarta: Indonesian Stock Exchange.

³¹ Unilever Indonesia. (2021). Sustainability report 2021: Progress and achievements. <https://www.unilever.co.id>

³² Setiawan, A., & Sari, R. (2023). The role of regulatory frameworks in promoting good corporate governance in Indonesia. *Journal of Corporate Governance*, 15(2), 123–145.

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