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The Role of ESG Factors and Governance in Enhancing Sustainability Reporting Quality and Investment Attractiveness

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Abstract
In today's business landscape, Environmental, Social, and Governance (ESG) factors have become central to evaluating corporate sustainability and long-term financial value. Global investors are increasingly prioritizing companies that integrate ESG principles into their strategic frameworks and reporting systems. However, the effectiveness of ESG implementation relies heavily on governance quality, which ensures that sustainability practices are not merely symbolic but embedded into corporate accountability structures. This study aims to explore the role of ESG factors and corporate governance mechanisms in improving the quality of sustainability reporting and enhancing a company's investment attractiveness. Employing a qualitative approach with a literature review method, the research draws insights from 10 peer-reviewed academic sources published between 2019 and 2025. These studies were analyzed through content analysis and thematic synthesis to identify key patterns, strategies, and institutional practices linking ESG performance with investor behavior and disclosure quality. The findings reveal that firms with strong ESG integration and transparent governance tend to produce more credible, comprehensive sustainability reports. Such reports contribute to increased investor confidence, enhanced reputational capital, and access to green financing. In the Indonesian context, regulatory frameworks such as the Financial Services Authority's Regulation No. 51/POJK.03/2017 have helped institutionalize ESG reporting, although variability in report quality persists. This study contributes to stakeholder and signaling theory by demonstrating how ESG practices serve as strategic tools for aligning corporate objectives with market expectations.

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INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG) principles have become central to global business and investment discourse (Prayitno et al., 2024). Climate change, social inequality, and corporate governance crises have prompted investors, regulators, and civil society to scrutinize corporate sustainability and social responsibility more critically (Kumar & Sharma, 2019). ESG is no

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longer merely a matter of ethics but is now a vital metric used to assess a company's long-term viability and investment potential (Abady & Hidayah, 2025). With the increasing demand for transparency from capital markets and stakeholders, the quality of sustainability reporting has become increasingly critical in reflecting a company's ESG performance.

Environmental, Social, and Governance (ESG) is an assessment framework used to evaluate a company's sustainability performance and ethical impact in environmental, social, and governance domains. Over the past five years, ESG has become a crucial pillar in modern business and global investment strategies. The environmental component covers areas such as carbon emissions, waste management, and resource conservation; the social component includes labor rights, community engagement, and diversity; while governance encompasses transparency, corporate ethics, and leadership structure (Rismanto, 2024). ESG is no longer seen merely as a corporate responsibility obligation but rather as a strategic factor that enhances business competitiveness, builds stakeholder trust, and reduces long-term operational risks.

In practice, ESG integration has gained traction in financial investment strategies, where investors increasingly consider not only financial returns but also the environmental and social impact of their portfolios. Research by Rismanto (2024) demonstrates that ESG-based investment decisions contribute to greater portfolio stability, minimize exposure to systemic risks, and support long-term business sustainability (Rismanto, 2024). The study, which employed a multimethod approach—including secondary data analysis, ESG scoring assessments, portfolio simulations, and expert interviews—found that companies with high ESG scores tend to be more resilient during global economic disruptions. ESG practices are also becoming regulatory requirements in many countries, urging companies to disclose sustainability performance transparently. As a result, understanding and implementing ESG is now a strategic necessity for companies operating in the era of sustainable business.

ESG factors are strongly correlated with investment attractiveness, particularly as institutional investors now prioritize non-financial risks in their decision-making processes (PINEM & Bidhari, 2024). Companies that perform well in ESG dimensions tend to have better access to funding, more stable stock performance, and a positive corporate image in the eyes of the public and shareholders (Imanuel, 2024). Furthermore, high-quality sustainability reports reflect corporate accountability and the ability to manage long-term strategic issues such as carbon emissions, ethical supply chains, and labor rights (Putra, 2024; Sundari, 2024).

On the other hand, corporate governance plays a fundamental role in ensuring that ESG implementation is not superficial but embedded within corporate strategy and operational policy (Alfiiani, 2025). Effective governance includes managerial transparency, board independence, and robust internal controls. Strong ESG performance often depends on sound governance, where accountability and regulatory compliance are key to building trust in sustainability disclosures. In this context, good governance practices strengthen the relationship between ESG reporting and investor preferences.

The relevance of ESG and governance in the Indonesian context has intensified following the implementation of regulatory requirements from the Financial Services Authority (OJK) concerning sustainability reporting. Public companies are required to disclose their non-financial performance as part of their social responsibility obligations. However, the quality and consistency of ESG reporting remain highly variable, creating information asymmetry that affects investor confidence. Thus, it is essential to evaluate how ESG and governance can help improve the quality of sustainability reports and ultimately enhance investment attractiveness.

The urgency of this research lies in the growing need for deeper insights into how ESG and corporate governance are integrated within credible and strategic sustainability reporting. As

stakeholder pressure increases for companies to adopt sustainable business practices, firms are expected not only to fulfill formal disclosure obligations but also to demonstrate substantive and measurable ESG performance (Putra, 2024). This study responds to the need for a more accountable ESG disclosure model that supports high investment competitiveness.

Previous studies have shown that ESG disclosure positively affects investment efficiency and corporate reputation. Bidhari (2024) concluded that companies with high ESG scores are more likely to attract long-term investors. Meanwhile, Imanuel (2024), in a study of ASEAN property firms, observed that consistent ESG reporting impacts firm value on the Sustainalytics Index. However, further exploration is needed on how the synergy between ESG and internal governance enhances the quality of sustainability reporting and market trust.

Based on the above background, this research aims to analyze the role of ESG and corporate governance factors in improving sustainability reporting quality and investment attractiveness. The study is expected to contribute both theoretically and practically to the advancement of sustainable reporting practices and ESG-based investment decision-making in Indonesia.

METHOD

This study adopts a qualitative research approach, specifically using the literature review method (library research). This approach is suitable for conducting an in-depth analysis of theoretical concepts and empirical findings from previous research related to Environmental, Social, and Governance (ESG) factors and corporate governance in enhancing the quality of sustainability reporting and investment attractiveness. A qualitative literature study allows the researcher to build a comprehensive understanding from multiple academic perspectives and identify patterns, trends, and relationships among relevant variables (Moelong, 2018; Zed, 2018).

Data Sources

The data used in this study are secondary data obtained from scholarly journal articles, accredited national and international publications, academic books, conference proceedings, and official reports from financial institutions and market regulators. All references were selected purposively based on their relevance to the research topic—namely ESG, corporate governance, sustainability reporting, and investment attractiveness—and were published within the last five years (2019–2024). Key sources were retrieved through academic databases such as Google Scholar, DOAJ, Garuda, and SINTA.

Data Collection Technique

The data collection was carried out through a systematic literature search using keywords such as “ESG disclosure,” “sustainability reporting,” “corporate governance,” “investment attractiveness,” and related terms. This process involved identifying relevant literature, reviewing the content of selected publications, assessing their methodological quality, and organizing the findings into thematic matrices. Each selected article was analyzed based on its contribution to understanding the relationship between ESG practices, report quality, and investor perceptions (Ridwan et al., 2021).

Data Analysis Method

This study employs a descriptive qualitative content analysis method. The analysis was conducted through detailed interpretation of the content of previously published studies to identify key themes, core variables, and recurring theoretical trends. The analytical process also included thematic synthesis to develop a conceptual model explaining how ESG and corporate governance

contribute to the improvement of sustainability report quality and investment appeal. This approach is expected to provide a strong theoretical foundation and practical recommendations for enhancing ESG-based disclosure practices (Creswell & Poth, 2016; Krippendorff, 2018).

RESULT AND DISCUSSION

These articles were screened from over 50 academic literature reviews using the following criteria: topic relevance, methodological accuracy, and recency (2019–2025). Each article makes an empirical or conceptual contribution to the understanding of the relationship between ESG, corporate governance, sustainability reporting, and investor interest.

Table 1. Literature Review

No	Authors (Year)	Title	Main Focus
1	Spankulova & Aben (2025)	*Integration of ESG Principles into the Sustainable Development Strategy of Kazakhstan*	Examines ESG and governance standards in national policy to boost investment attractiveness
2	Moidhin Nabi (2025)	*Predictive Analytics in ESG Investment Evaluation Using NLP of Sustainability Reports*	Uses natural language processing to assess ESG impact on investment decisions
3	Sahut et al. (2024)	*Predicting Corporate Credit Ratings Using the Content of ESG Reports*	Assesses how ESG content affects creditworthiness and investment perceptions
4	Kim & Li, (2021)	*Implementation of ESG Practices in Corporate Financial Management*	Explores how corporate governance mediates ESG integration in Russian firms
5	Novakova (2025)	*Reporting of Taxonomic Indicators and GHG Emissions by Construction Firms*	Examines ESG indicators in sustainability reports and implications for financial stability
6	Zhytar (2025)	*Global Trends and Challenges in Implementing ESG in Corporate Financial Strategies*	Evaluates ESG performance and corporate strategy alignment
7	Omar & Ilham (2025)	*The Role of ESG Investment in Attracting Global Investors*	Links ESG metrics to global investor behavior and trust
8	Takiullin (2024)	*Financial Statement Analysis of US Energy Firms: ESG Context*	Assesses ESG and governance in ExxonMobil, Chevron, and Occidental
9	Manulang & Soeratin (2024)	*ESG Disclosure and Corporate Value*	Correlates sustainability disclosure quality with firm valuation

No	Authors (Year)	Title	Main Focus
10	Paliienko & Diachenko (2024)	*Green Indices and Their Role in ESG Implementation*	Investigates the effect of ESG reporting on sustainable development and investor attraction

The selected literature reveals an increasingly sophisticated and empirical body of knowledge regarding the role of Environmental, Social, and Governance (ESG) factors and corporate governance in enhancing sustainability reporting and investment attractiveness. A comprehensive analysis of the ten reviewed studies underscores the complex, interrelated, and strategic nature of ESG practices in modern business operations and financial evaluations.

Spankulova and Aben (2025) provide a macro-level exploration of ESG integration in Kazakhstan's national sustainable development framework. Their study highlights how institutionalized ESG principles—particularly when combined with governance reforms—contribute not only to better sustainability disclosure but also to an improved investment climate. They argue that national-level policy commitment to ESG strengthens reporting consistency and aligns corporate disclosures with international expectations, thereby increasing investor confidence in emerging markets (Spankulova et al., 2025).

Complementing this, Moidhin Nabi (2025) applies natural language processing (NLP) techniques to sustainability reports from 150 publicly listed companies. His research introduces a novel predictive analytics approach that correlates textual data in ESG reports with investment attractiveness. This demonstrates that not only the presence but also the depth and clarity of ESG disclosure significantly influence investor decision-making. By extracting patterns in corporate narratives, the study proves that machine-readable ESG content—especially when aligned with standardized metrics—offers predictive power regarding capital flows (Nabi, 2025).

Sahut et al. (2024) advance this line of thought by examining the predictive capacity of ESG content on credit ratings. They find that firms with strong governance mechanisms and consistent ESG disclosure tend to receive more favorable credit assessments. The study establishes that ESG reports serve as a signaling device in financial markets, influencing how credit institutions assess long-term solvency and operational resilience (Hajek et al., 2024).

Meanwhile, Kim & Li, (2021) examines how ESG is embedded within corporate financial governance in Russian enterprises. She emphasizes that governance is not a passive support for ESG—it is the operational engine that ensures ESG initiatives are systematic, measurable, and ethically governed. Her research stresses the importance of aligning board-level governance with ESG strategy to avoid the pitfalls of greenwashing and symbolic disclosure (Kim & Li, 2021).

In the construction sector, Novakova (2025) evaluates how firms report on taxonomic indicators and greenhouse gas emissions. Her study shows that transparent and comprehensive environmental reporting enhances not only regulatory compliance but also capital access. She identifies a positive correlation between high ESG transparency and investor trust, particularly among environmentally conscious stakeholders (Novakova, 2025). This finding is echoed by Zhytar (2025), who investigates global patterns and challenges in ESG adaptation within corporate strategies. Zhytar reveals that while ESG integration faces cultural and regulatory barriers across countries, firms that fully integrate ESG into financial planning gain long-term strategic advantages (Zhytar, 2025).

Omar and Ilham (2025) focus on ESG investment's influence on global investor behavior. They reveal that sustainability performance has become a key determinant in portfolio selection for international investors, particularly institutional ones. The study underscores that ESG performance

increasingly functions as a proxy for future-oriented corporate strategy and reputational capital (Omar & Ilham, 2025).

Takiullin (2024) provides a case-based financial analysis of ExxonMobil, Chevron, and Occidental Petroleum. He reveals how governance failures or strong ESG alignment directly affect investor perception, especially in environmentally sensitive sectors such as energy. His analysis shows that strong ESG reporting can mitigate sectoral risk and improve firm-level competitiveness (Takiullin, 2024).

Two Indonesian studies (Manulang & Soeratin, 2024; Paliienko & Diachenko, 2024) delve deeper into the corporate disclosure landscape. Manulang and Soeratin demonstrate that ESG disclosure in annual and sustainability reports positively affects firm valuation, especially when governance structures are transparent and stakeholder-oriented. Paliienko and Diachenko extend this by analyzing green indices and their signaling effects in sustainable economic development. They argue that ESG indices not only guide investor attention but also serve as benchmarks that enforce reporting discipline.

Taken together, these studies form a compelling body of evidence that ESG and governance are not merely peripheral considerations but central pillars of strategic business planning, sustainable financial performance, and capital market attractiveness. High-quality ESG reporting—especially when underpinned by sound governance frameworks—not only fulfills compliance obligations but also fosters trust, resilience, and long-term stakeholder value.

Discussion

Environmental, Social, and Governance (ESG) factors have emerged as essential dimensions of corporate strategy, particularly in the context of sustainability reporting and long-term investment decision-making. In the Indonesian corporate landscape—where regulatory demands for sustainability disclosures are growing—integrating ESG considerations into corporate governance is not only a regulatory necessity but also a strategic move to enhance reporting credibility, investor trust, and market competitiveness. This research evaluates the role of ESG components and governance mechanisms in improving the quality of sustainability reports and the investment attractiveness of firms.

ESG Integration and Sustainability Reporting Quality

High-quality sustainability reporting requires more than just disclosing data—it demands transparency, comparability, materiality, and accountability. The integration of ESG factors into the reporting process ensures that environmental risks (such as carbon emissions and waste), social metrics (like labor standards, community engagement), and governance structures (including board oversight and risk controls) are systematically addressed. Companies that embed ESG into their core reporting frameworks—such as the GRI (Global Reporting Initiative) or TCFD (Task Force on Climate-related Financial Disclosures)—tend to produce reports that are more comprehensive, decision-useful, and aligned with international standards.

In Indonesia, listed firms such as Bank Rakyat Indonesia (BRI) and Unilever Indonesia have shown progress by embedding ESG disclosures into their annual sustainability reports. Their practices reflect a shift from symbolic disclosure to substantive integration—backed by ESG-related KPIs, risk assessments, and stakeholder engagement strategies. These reports have garnered higher ESG ratings by agencies such as MSCI and Sustainalytics, indicating improved reporting quality and accountability.

Corporate Governance and Its Influence on ESG Reporting

Corporate governance plays a pivotal role in shaping the quality and integrity of sustainability disclosures. Board diversity, independence, ESG committees, and executive remuneration linked to ESG goals are governance mechanisms that enhance the rigor of sustainability practices. Firms with stronger governance are more likely to adopt transparent ESG disclosures, conduct third-party assurance, and engage with stakeholders on material sustainability issues.

Empirical evidence supports this relationship. A study by Frias-Aceituno et al. (2013) found that companies with robust governance structures tend to provide more detailed and credible sustainability reports (Frias-Aceituno et al., 2013). In the Indonesian setting, SOEs and large-cap firms with active sustainability committees—such as PT Pertamina—have demonstrated a clear alignment between governance maturity and sustainability report credibility. Moreover, the Financial Services Authority (OJK)'s Regulation No. 51/POJK.03/2017 has mandated public companies to submit sustainability reports, reinforcing the governance obligation to oversee ESG disclosures.

ESG Disclosure and Investment Attractiveness

ESG performance and reporting quality are increasingly influencing investor behavior, particularly among institutional investors seeking long-term, risk-adjusted returns. Investors view transparent ESG disclosures as proxies for effective risk management, reputational resilience, and ethical corporate conduct. High-quality sustainability reporting attracts ESG-oriented investors, improves firm valuation, and enhances access to green financing instruments, including green bonds and ESG mutual funds.

A practical example is the listing of Indonesia's first sovereign green sukuk, which attracted global ESG investors due to its transparent use-of-proceeds framework and third-party verification. Similarly, companies with superior ESG scores in Indonesia have observed lower capital costs, enhanced stock liquidity, and inclusion in sustainability indices such as IDX ESG Leaders.

Theoretical and Practical Contributions

Theoretically, this study contributes to stakeholder theory and legitimacy theory by demonstrating how ESG and governance mechanisms enhance corporate transparency and align business conduct with societal expectations. It also reinforces signaling theory, where high-quality sustainability reports serve as credible signals to investors regarding a firm's long-term strategic orientation and ethical standards.

Practically, the research provides actionable insights for corporate leaders, regulators, and investors:

1. For firms: Strengthening ESG integration and governance oversight enhances reporting quality and capital access.
2. For regulators: Implementing mandatory assurance and harmonized ESG disclosure frameworks increases comparability and reliability.
3. For investors: ESG disclosures serve as key inputs in portfolio screening, risk assessment, and engagement strategies.

CONCLUSION

This study concludes that ESG factors, when supported by robust corporate governance, play a significant role in enhancing the quality of sustainability reporting and increasing a firm's investment attractiveness. Effective ESG reporting reflects transparency, long-term vision, and ethical business conduct, all of which are increasingly valued by global investors. ESG-aligned companies not only comply with regulatory mandates but also signal risk resilience and strategic foresight, positioning themselves competitively in capital markets.

Practical Suggestions

Companies are advised to establish dedicated ESG or sustainability committees within their governance structures to ensure consistent oversight. Regulatory bodies should enforce harmonized reporting standards such as GRI or TCFD and mandate third-party assurance for sustainability disclosures. Investors are encouraged to incorporate ESG scores and report quality into their risk assessment and screening processes.

Research Recommendations

Future studies should adopt mixed methods or case study approaches to investigate ESG reporting practices at the firm level, especially in emerging markets. Research could also explore how cultural, regulatory, and sector-specific contexts influence the depth and credibility of ESG disclosures. Longitudinal studies assessing the correlation between ESG performance and investor behavior over time would further enrich this field.

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