

THE IMPACT OF CEO SUCCESSION AND CORPORATE GOVERNANCE ON CLIMATE CHANGE DISCLOSURE

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Abstract

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This study examines how chief executive officer (CEO) succession and corporate governance shape climate change disclosure (CCD). The relevance of this research arises from the increasing regulatory and stakeholder demand for credible climate-related reporting and the limited evidence on how internal governance dynamics determine disclosure behavior. Using 1,097 firm-year observations from manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2020 and 2023, this study employs panel regression, complemented by coarsened exact matching (CEM) and generalized least squares (GLS) to ensure robustness. The results reveal contrasting effects between the two variables as CEO succession demonstrates a significantly negative impact on CCD, indicating that leadership transitions may disrupt disclosure practices and reduce a firm's attention to climate-related reporting. The corporate governance index (CGI) exhibits a significant positive effect on CCD, suggesting that firms with stronger governance structures are more committed to transparent climate disclosure. These findings highlight the differing roles of leadership stability and governance quality. Moreover, CCD is significantly and positively associated with firm performance, indicating that transparent climate reporting enhances profitability and stakeholder confidence.

Keywords: CEO Succession, Climate Change Disclosure, Corporate Governance, Firm Performance

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1. INTRODUCTION

Climate change has become a critical global concern as its impacts have become more severe (Maji et al., 2025). Greenhouse gas (GHG) emissions generated by economic activities are a major driver of climate change, leading stakeholders to increasingly pressure companies to reduce and disclose emissions from their operations and supply chains (Xhindole et al., 2025). This phenomenon has intensified extreme weather events such as storms, floods, heat waves, and heavy rainfall, resulting in

significant damage to ecosystems and socio-economic systems (Khalifa et al., 2024). The risks associated with climate change have emerged as a central concern and major challenge for businesses in this century (Maji & Kalita, 2022). Investors are increasingly incorporating climate-related risks into their portfolios and pressuring corporate managers to ensure greater transparency and risk management (Wali Ullah et al., 2024). Companies are adopting climate change mitigation strategies that help them use energy and resources more efficiently while strengthening their

competitive position (Abd-Elhaleim et al., 2025). Climate change remains an important issue, and it has become one of the major challenges that companies must address within the corporate social responsibility (CSR) context (Dahmen & Chouaibi, 2024). Firms must demonstrate their commitment to environmental protection by reducing carbon emissions that contribute to climate change (Octavio & Setiawan, 2025b).

Public awareness of climate change issues continues to rise and has attracted significant attention to the role of corporate GHG emissions in driving global warming (Githaiga, 2025; Mateo-Márquez et al., 2020). Indonesia, as the largest developing country in Southeast Asia, is particularly vulnerable to the adverse impact of climate change (Cahyono et al., 2024; Hossain et al., 2025; Itan et al., 2025). It is also the world's eighth-largest GHG emitter; it has also engaged in global initiatives such as the Paris Agreement and the Kyoto Protocol. Through the Paris Agreement, participating nations commit to mitigating climate change by restricting global warming to below 2°C and striving for a more ambitious target of 1.5°C compared to pre-industrial levels (Rahmatika et al., 2024). Indonesia, as a member of the Association of SouthEast Asian Nations, demonstrated its commitment to this global effort by formally ratifying the agreement through Law No. 16/2016, showing its dedication to actively contributing to climate impact reduction (Octavio & Setiawan, 2025b). Signatory countries are expected to work collectively in enforcing policies and taking concrete actions to lower GHG emissions, strengthen climate resilience, and support inclusive, sustainable development (Octavio & Setiawan, 2025a). Indonesia also ratified the Kyoto Protocol and demonstrated a strong commitment to reducing carbon emissions by 29% by 2030 (Houten & Wedari, 2023). Indonesia shows an increasing need to strengthen its carbon disclosure practices as a G20 member (Wahyuningrum et al., 2025).

Chief executive officers (CEOs) play a crucial role in shaping their firm's involvement in social activities, which are also influenced by various organizational factors (Khan et al., 2020). The CEO stands at the core of processing and communicating information, making key decisions, and allocating resources across the organization while navigating various internal and external constraints (Brick & Qiao, 2024). It plays a decisive role in the development and implementation of organizational approaches to climate change, while also overseeing the firm's participation in strategic initiatives such as carbon management and disclosure (Cahyono et al., 2024). This leadership role is essential for addressing climate-related challenges such as GHG emissions, guiding corporate participation in strategic programs, such as carbon initiatives, and overseeing the firm's overall environmental responses (Elsayih et al., 2021).

Preparation for CEO succession is essential for maintaining organizational stability and ensuring that the firm continues to move toward its strategic objectives (Minanurohman et al., 2025). CEO succession represents a significant change that influences both organizational outcomes and strategic directions (Liu & Xue, 2020). Such an event is regarded as a critical point in the life cycle of a firm because of the substantive and symbolic

significance associated with the CEO's role (Gull et al., 2021). Changes in the CEO and top management commonly affect an organization's capacity to adjust to environmental challenges (Ren et al., 2023). Newly appointed CEO commonly strive to gain legitimacy from key stakeholders such as the board of directors, investors, financial institutions, and the media to strengthen and secure their leadership position within the firm (Liu & Atinc, 2021).

Corporate governance refers to the systems and practices used to guide and oversee a firm, helping to create a transparent environment that supports strong social performance (Hunjra et al., 2025). It serves as a means to strengthen the company's overall foundation (Yopie & Robin, 2023). Ullah and Kamal (2022) highlight that corporate governance mechanisms need to be established as corporate governance is a key driver of disclosure levels, both in terms of overall transparency and for different types of disclosure (Harun et al., 2020). Firms can achieve their objectives, protect shareholders' rights, and ensure compliance with legal requirements (Feng et al., 2020). The main objective of implementing corporate governance is to optimize firm value while simultaneously considering the interests of stakeholders (Worokinasih & Zaini, 2020). A good corporate governance reflects the characteristics and integrity of its members, which ultimately determines the effectiveness of governance practices (Purwoaji et al., 2025).

Prior research has examined the relationship between CEO succession and various organizational outcomes, such as environmental, social, governance (ESG) performance (Cambrea et al., 2024), firm innovation (Liu & Xue, 2020), audit fees in cases of CEO succession from male to female (Gull et al., 2021), and CSR activities (Liu, 2020). Previous research (Liu et al., 2018) examined the role of corporate governance as a moderating variable in the relationship between product market competition and firm performance. Other research (Ciftci et al., 2019) examined the role of corporate governance in influencing firm performance. Despite these contributions, there is still a lack of research that explicitly links CEO succession and corporate governance to climate change disclosure (CCD), leaving this area underexplored because most studies have concentrated on broader ESG dimensions or traditional governance outcomes, whereas CCD remains a relatively recent and specialized area of inquiry.

Addressing this gap is crucial because CEO succession and corporate governance index (CGI) represent two critical internal factors that shape the extent of CCD. CEO succession frequently triggers changes in the strategic direction and disclosure priorities, which may result in either reduced transparency or the adoption of new sustainability practices. Simultaneously, corporate governance establishes oversight mechanisms that can safeguard disclosure quality and consistency, even during leadership transitions. Investigating these two factors together provides a more comprehensive understanding of how leadership dynamics and governance structures influence corporate climate transparency, which regulators, investors, and society increasingly demand.

This research contributes to addressing an unexplored area in prior studies by examining the relationship between CEO succession, CGI, and CCD. The final sample consisted of 1,097 firm-year observations from manufacturing firms publicly listed on the Indonesia Stock Exchange (IDX) from 2020 to 2023. We focus on Indonesia's manufacturing sector because of its significant environmental impact and strategic role in the national economy. It is one of the largest emitters and energy users; this sector is facing increasing pressure from stakeholders to enhance environmental transparency. Focusing on this industry enables a deeper analysis of how leadership transitions and governance mechanisms influence CCD practices. All data were obtained from annual and sustainability reports published by firms. The findings reveal that CEO succession is significant and negatively associated with CCD, whereas corporate governance shows a significant and positive effect, indicating that leadership changes may disrupt disclosure practices, whereas strong governance structures help safeguard transparency. Robustness tests using coarsened exact matching (CEM) and generalized least squares (GLS) confirm the reliability of the results.

This study contributes to the literature in several ways. First, it investigates how CEO succession affects CCD, showing that leadership transitions may disrupt or enhance corporate transparency practices. This result extends upper echelon theory (UET), which emphasizes that executive characteristics and decision-making styles strongly influence organizational outcomes, including sustainability reporting. Second, this study highlights the role of corporate governance in shaping CCD, demonstrating that strong governance structures can safeguard disclosure quality and consistency during leadership changes. Analyzing these two internal factors together, this research enriches the limited literature that has rarely connected CEO succession and corporate governance directly with CCD. Finally, the findings provide practical implications for regulators, investors, and boards by underscoring the importance of both leadership stability and governance mechanisms in ensuring reliable CCD, particularly within the context of developing countries such as Indonesia.

The remainder of this paper is organized as follows. Section 2 reviews the relevant literature on CEO succession, CGI, and their relationship with CCD, followed by the development of the research hypotheses. Section 3 explains the data collection process, sample selection, and methodology used in the study. Section 4 presents the empirical results and discusses their implications for theory and practice. Section 5 concludes the paper by summarizing the main findings.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Climate change disclosure

Climate change refers to a transformation in the global climate system that results either directly or indirectly from human activities that alter atmospheric composition (Mondal & Bauri, 2024). Climate change has become one of the most urgent

and widespread global issues, affecting not only the environment but also economic and social stability (Paoloni et al., 2025). It has evolved from being viewed purely as an environmental issue to becoming a significant challenge to the sustainable development of businesses (Bauri et al., 2024). As climate change increasingly influences how firms operate and shape their strategic decisions (Wali Ullah et al., 2024), companies are compelled to disclose related information to uphold accountability, minimize information asymmetry, and manage stakeholder perceptions (Saha & Khan, 2024).

Climate change is one of the most significant environmental and social challenges in the twenty-first century (Dietz et al., 2020). Companies face mounting pressure from diverse stakeholders to disclose their climate change strategies, including the risks and opportunities involved, so that such information can be integrated into stakeholders' decision-making processes (Mateo-Márquez et al., 2020). CCD has become a vital mechanism through which firms can enhance transparency, strengthen their reputation, and foster trust and support from stakeholders (Li et al., 2024). CCD can help firms prevent reputational damage, draw investor interest, and set themselves apart from competitors (Dahmen & Chouaibi, 2024).

CCD includes information regarding regulatory, physical, and other risks and opportunities associated with climate change, including GHG emission intensity, energy consumption, participation in emission trading schemes, corporate governance strategies to address climate change, and performance against GHG reduction targets (Cotter & Najah, 2011). CCD enables companies to convey their carbon performance to investors and stakeholders, thereby responding to the increasing demand for transparency from various stakeholder groups seeking to understand the climate impacts of corporate activities (Dutta & Dutta, 2021; Toukabri, 2024).

2.2. Chief executive officer succession

Chief executive officer succession represents a critical juncture in a firm's development, as leadership transition significantly influences a company's direction by aligning organizational resources with environmental dynamics and driving strategic changes aimed at enhancing firm performance (Cambrea et al., 2024). The selection of a CEO is among the most consequential decisions an organization can make (Cumming et al., 2024), as it requires careful planning to ensure business continuity, guarantee a seamless transfer of authority, and uphold the firm's core values and long-term vision (Ossa-Cardona, 2024). CEO succession rarely occurs by chance, as firms tend to replace their leaders when strategic transformation is required (Liu & Atinc, 2021). Effective succession planning allows firms to choose leaders who can maintain their businesses and drive future growth (Datta & Mukherjee, 2024).

CEO succession constitutes a pivotal stage in a firm's lifecycle, where organizations often face the decision to maintain family control or appoint a professional executive from outside the family (Amore et al., 2021). When the successor is appointed from outside the firm, even if they

possess experience within the same industry, substantial cognitive differences are likely to exist compared to the former CEO. Bringing in an external CEO introduces fresh insights that often lead to major strategic shifts within the organization (Liu & Xue, 2020). The newly appointed CEO also brings a distinct managerial style, personal characteristics, and cognitive biases that shape organizational decision-making and performance (Brick & Qiao, 2024). Boards of directors must exert considerable effort to address and overcome potential barriers to successful CEO succession (Liu, 2020).

CEO succession is an essential mechanism for advancing a firm's sustainable development (Yin et al., 2023). A newly appointed CEO must restore the company's reputation, gain the confidence of both internal and external stakeholders regarding organizational transformation, instill urgency and focus on performance and financial discipline, and foster commitment among employees and stakeholders (Rigolini et al., 2021). CEO succession can be grouped into three primary categories. Relay succession refers to a planned leadership transition in which potential successors are identified and gradually prepared to assume the CEO's role. Second, competitive succession occurs when several internal candidates compete for the position, with the most capable being appointed. The third type, interim succession, occurs when a CEO leaves unexpectedly or when a temporary appointment is required to evaluate a potential permanent successor (Zhao et al., 2024).

2.3. Corporate governance index

Corporate governance describes the set of rules, practices, and procedures that guide how a company is managed and controlled (Yopie & Robin, 2023). Corporate governance is crucial for businesses because it helps reconcile conflicts of interest between owners and managers, while also strengthening managerial accountability through mechanisms such as board and supervisory oversight (Xuan Ha & Thi Tran, 2022). It seeks to balance the interests of various shareholders and stakeholders, and has been shown to play a significant role in shaping a company's commitment to CSR (Rees & Rodionova, 2015). The primary goal of corporate governance mechanisms is to promote transparency in business operations and align managerial interests with those of stakeholders to enhance overall organizational value and management quality (Arora & Bodhanwala, 2018; Chou et al., 2011). Strong corporate governance not only safeguards shareholder interests but also shapes the organization's culture and the roles employees perform, and its quality is reflected in transparent practices, ethical decisions, effective risk management, and clear accountability (Balilah et al., 2025; Singhania et al., 2025). Companies that demonstrate strong governance tend to earn greater stakeholder trust, which in turn improves investor perceptions and leads to more positive market responses (Itan et al., 2025).

Corporate governance plays a vital role in fostering investor confidence and enhancing a company's overall performance (Ullah & Kamal, 2022). Effective corporate governance mechanisms rely on impartial assessments of management

performance (El-Chaarani et al., 2022). The main purpose of corporate governance is to guide and regulate the board's behavior, serving as a supervisory tool to ensure that management's actions are aligned with maximizing shareholder value (Jebran & Chen, 2023). It can be inferred that the quality of corporate governance largely depends on the characteristics and capabilities of the board members (Purwoaji et al., 2025). Corporate governance is essential in this regard because it helps build a stable economic environment, attracts investment, protects stakeholder interests, and promotes ethical business conduct (Habib et al., 2025). These factors help build trust, encourage transparency, and support more responsible decision-making (Suhardjo et al., 2024).

2.4. The role of the chief executive officer's succession in climate change disclosure

Upper echelon theory posits that the manager's backgrounds and characteristics influence a company's strategic decisions, organizational outcomes, and overall performance (Hambrick & Mason, 1984). The essence of UET emphasizes that top executives' various characteristics, such as age and career experience, can shape their strategic and structural decisions, which in turn directly influence a firm's strategic direction and overall performance (Ting et al., 2015). CEO succession is a significant and often change-initiating event that affects a firm's strategic orientation (Behr & Fehre, 2019). UET also highlights the crucial role of top management as key decision-makers, which is reflected in CEO succession decisions (Chen et al., 2016; Ismail et al., 2023).

CEO succession is one of the most crucial events in a firm's life because of the substantive and symbolic importance of the CEO position, and it is widely regarded as a key mechanism for organizational learning and adaptation (Zhang & Rajagopalan, 2004). CEO succession often occurs following periods of weak performance or as part of efforts to enhance future growth, and its impact is typically reflected through shifts in organizational morale, corporate culture, and financial outcomes (Beatw & Zajac, 1987; Schepker et al., 2017). The newly appointed CEO seeks approval from key stakeholders, including the board, investors, financial intermediaries, and the media, to justify their leadership (Liu & Atinc, 2021). This often leads to strategic changes due to cognitive differences with the outgoing CEO, especially when the successor comes from outside the firm or industry, bringing fresh perspectives in line with UET, which emphasizes how leaders' cognitive traits shape strategic decision making (Liu & Xue, 2020).

Long-tenured CEO are often associated with higher quality voluntary and mandatory disclosures, as they typically possess extensive experience that enhances decision-making (Mnif & Znazen, 2024). Their deep understanding of the company, extensive experience, and strong social relationships enable them to implement effective sustainability strategies, make well-informed decisions, and maintain consistent CSR initiatives (Saha et al., 2023). CEO experience provides a broader perspective on strategic issues, such as climate change, but the success of CSR initiatives ultimately depends on

their personal values, as leaders with weaker social responsibility orientations may alter the firm's CSR direction (Brick & Qiao, 2024; Elsayih et al., 2021). The event of CEO succession can have wide-ranging impacts not only on outgoing and incoming leaders but also on other organizational members, as it may disrupt established values and behavioral norms, creating a sense of uncertainty and instability within the organization (Hutzschenreuter et al., 2012). The difficulty of adapting the organization to a new leader's values increases the challenges that the new leader faces in their early years as a CEO (Georgakakis et al., 2025). Frequent leadership changes made solely to pursue minor performance improvements could lead to organizational instability. If this pattern persists, firms would likely become reluctant to initiate leadership transitions, and stakeholders might perceive such changes with concern rather than optimism. Therefore, negative feedback is likely to exist within the dynamic relationship between CEO succession and firm performance (Giambatista et al., 2005). Based on these findings, we hypothesized the following:

H1: The chief executive officer succession has a negative and significant effect on climate change disclosure.

2.5. The relationship between the corporate governance index and climate change disclosure

Agency theory focuses on the relationship between principals and agents, where agents are entrusted with managing the principal's interests and making decisions that benefit them (Jensen & Meckling, 1976). Corporate governance functions as a monitoring mechanism to reduce information asymmetry between management and shareholders, while improving financial reporting quality through specific variables that support this relationship (Velte, 2023). The primary aim of corporate governance is to ensure transparency in business operations, align management's interests with those of shareholders, protect shareholders' rights, and ultimately increase the value for all stakeholders (Arora & Bodhanwala, 2018; Hassan et al., 2016). Good corporate governance can also serve as a system to oversee management, minimize conflicts of interest, and create a positive perception among investors (Worokinasih & Zaini, 2020).

Good corporate governance is designed to ensure that companies consider the interests of various stakeholders, including the communities in which they operate, and that their boards remain accountable to both the company and its shareholders (Jizi et al., 2014). The implementation of good corporate governance practices can significantly improve a firm's environmental performance, attract investment, ensure sound management and administration, particularly for publicly listed companies, protect the rights of investors and other stakeholders, build trust in financial markets, and strengthen overall business competitiveness (Kock et al., 2012; Purwoaji et al., 2025). Strong corporate governance practices can positively influence the financial reporting process by enhancing the accuracy and reliability of accounting information disclosed to the market (de Almeida & Dalmácio, 2015). Companies with high-quality corporate governance are more likely to

incorporate climate change considerations into their business strategies and sustain a long-term commitment to managing climate-related risks and opportunities across all operations (Elsayih et al., 2018). Based on these findings, we hypothesized the following:

H2: Corporate governance index has a positive and significant effect on climate change disclosure.

2.6. The consequence of climate change disclosure on firm performance

According to stakeholder theory, a company should satisfy all stakeholders, not only shareholders. Therefore, firms seek to demonstrate their accountability to stakeholders through various forms of disclosure and social responsibility initiatives to enhance financial performance (Ngu & Amran, 2024; Ratts & Benedek, 2024). Maji and Kalita (2022) highlight that environmentally responsible companies are more likely to gain the trust and confidence of their stakeholders, ultimately contributing to better financial performance. Investors generally prefer transparency and tend to avoid uncertainty. The transparency of CCD information helps to reduce doubts about potential environmental risks and minimizes information asymmetry. This transparency enables stakeholders to view corporate actions as credible signals, providing investors with a stronger basis for making informed investment decisions (Gahramanova & Furtuna, 2023; Vestrelli et al., 2024). Disclosing climate change information can also support the way companies may have a beneficial impact on their performance (Bedi & Singh, 2024). Based on these findings, we hypothesized the following:

H3: Climate change disclosure has a positive and significant impact on firm performance.

3. RESEARCH METHODOLOGY

3.1. Sample and procedure

This study employs a quantitative research approach, and the sample for this research comprises manufacturing companies listed on the IDX for the four-year period from 2020 to 2023. We focus on these companies for several reasons: First, according to Financial Services Authority (*Otoritas Jasa Keuangan*, OJK) Regulation No. 51/POJK.03/2017, companies are required to begin reporting sustainability reports no later than the 2020 fiscal year. However, due to the COVID-19 pandemic, the implementation was postponed until 2021. Second, many manufacturing firms in Indonesia still exhibit low environmental awareness, which leads to pollution and unnecessary resource losses owing to inefficient equipment use (Sakina & Dou, 2025). The manufacturing sector was chosen for analysis because of its considerable environmental footprint and unique approach to reporting (Gahramanova & Furtuna, 2023). According to Ahsan (2024), this industry ranks among the highest contributors to carbon emissions and is widely regarded as one of the most challenging sectors to govern from a sustainability perspective. Supporting this view, Podrecca et al. (2024) identified manufacturing as a key driver of climate change, primarily due to the unsustainable

exploitation of natural resources. The sector heavily depends on water, raw materials, and energy, which not only depletes these vital resources but also disrupts the ecological balance. These adverse effects are further intensified by the substantial amount of waste produced during the manufacturing process. Concerns over environmental sustainability in manufacturing have gained global attention and are largely influenced by rising stakeholder and consumer expectations. Climate change poses significant risks to this sector through two primary pathways: physical and transitional. Physical risks refer to the growing threat of extreme weather conditions such as heat waves, storms, cyclones, and floods (Bauri et al., 2024). A specific issue for manufacturing is heat stress, which reduces workforce productivity and accelerates machinery wear, ultimately hindering industrial output and contributing to broader economic slowdowns (Song et al., 2025). Sayuti et al. (2024) highlighted that prominent manufacturing firms are often under

stakeholder pressure concerning their environmental and social responsibilities. Many of these companies are striving to increase transparency, particularly regarding their carbon emissions, to improve public perception, mitigate legal exposure, and attract favorable reactions from the market. Considering the sector's heavy involvement in pollution-intensive activities, manufacturing firms are urged to prioritize investments in clean technologies, adopt energy-saving initiatives, and establish sustainable supply chain practices. These measures are expected to enhance their ESG performance, thereby contributing to better overall corporate outcomes (Tang et al., 2025). The sample comprises 477 firm observations. After multiplying by the four-year observation period from 2020 to 2023 and removing observations with missing or invalid data, we obtain a final sample consisting of 1,097 observations. The sample selection criteria and sample distributions are presented in Table 1.

Table 1. Sample selection criteria

Criteria	No.
Manufacturing companies listed on IDX	477
Manufacturing companies listed on IDX after 2023	(34)
Total data sample after being multiplied by a four-year period of observation (2020–2023)	1,772
Total data sample of the company without a sustainability report for a certain period	(675)
Total final sample	1,097

3.2. Model specification

To investigate the relationship between CEO succession, CGI, CCD, and the firm's performance.

Therefore, the three empirical models are specified as follows in Eqs. (1)–(3).

$$CCD_{it} = \beta_0 + \beta_1 CEOSUC_{i,t} + \beta_2 LEV_{i,t} + \beta_3 FAGE_{i,t} + \beta_4 INTENS_{i,t} + \beta_5 QUICK_{i,t} + \beta_6 CR_{i,t} + \beta_7 INV_{i,t} + YEAR_FE + \varepsilon \quad (1)$$

$$CCD_{it} = \beta_0 + \beta_1 CGI_{i,t} + \beta_2 LEV_{i,t} + \beta_3 FAGE_{i,t} + \beta_4 INTENS_{i,t} + \beta_5 QUICK_{i,t} + \beta_6 CR_{i,t} + \beta_7 INV_{i,t} + YEAR_FE + \varepsilon \quad (2)$$

$$FP_{it} = \beta_0 + \beta_1 CCD_{i,t} + \beta_2 LEV_{i,t} + \beta_3 FAGE_{i,t} + \beta_4 INTENS_{i,t} + \beta_5 QUICK_{i,t} + \beta_6 CR_{i,t} + \beta_7 INV_{i,t} + YEAR_FE + \varepsilon \quad (3)$$

All variables, along with their definitions and sources of data, are detailed in Table 2.

3.3. Study variables and measurement

Climate change disclosure (*CCD*) is the dependent variable in this study. *CCD* reflects the extent to which firms communicate their responses and strategies regarding climate-related issues. The measurement follows the framework of the Task Force on Climate-Related Financial Disclosures (TCFD), which includes four key categories: governance, strategy, risk management, metrics, and targets. Each disclosure item is scored as 1 if disclosed and 0 otherwise, and the total score forms the *CCD* index. This approach provides a structured way to assess a firm's transparency on climate-related matters, as adapted from (Alshahrani et al., 2024).

The first independent variable is CEO succession (*CEOSUC*), which represents leadership change within a firm. It is measured using a dummy variable that takes the value of 1 if a new CEO is appointed during the year of observation, and

0 otherwise (Cambrea et al., 2024). The second independent variable is the corporate governance index (*CGI*), which evaluates the quality of a company's governance structure. *CGI* is calculated as the sum of binarized governance attributes that capture key aspects of governance mechanisms, including board size measured by the total number of directors, board diversity measured by the number of female directors, independent board membership measured by the proportion of independent and non-executive members, audit committee size measured by the number of its members, and audit firm type categorized as 1 if audited by a Big 4 firm and 0 otherwise (Purwoaji et al., 2025).

The outcome of *CCD* is firm performance, measured using two accounting-based indicators, return on assets (*ROA*) and return on equity (*ROE*). *ROA* is calculated as net income divided by total assets, reflecting how efficiently a firm utilizes its assets to generate profits. Meanwhile, *ROE* is computed as net income divided by shareholders' equity, indicating the firm's ability to generate returns for its investors. Together, these measures

provide a comprehensive view of the profitability and operational effectiveness of a firm.

This study included several control variables to account for firm-specific characteristics that may influence the *CCD* level. Leverage (*LEV*), measured as total liabilities divided by total assets, reflects a firm's financial risk exposure. Firm age (*FAGE*) was measured as the natural logarithm of the number of years since the company's establishment, representing organizational maturity and stability. Industry intensity (*INTENS*) is a dummy variable equal to 1 for firms in environmentally sensitive sectors such as materials, energy, and utilities, and 0 otherwise. Quick ratio (*QUICK*) and current ratio (*CR*) capture liquidity, calculated respectively as (current assets minus inventories)

divided by current liabilities, and current assets divided by current liabilities. Inventory (*INV*), measured as total inventory divided by total assets, indicates a firm's operational structure and asset composition. Together, these control variables provide a comprehensive picture of the firm characteristics that may independently affect disclosure decisions. This study applied winsorization to continuous variables to minimize the impact of extreme values, which may bias the analysis. Winsorization limits excessively high or low observations to predetermined thresholds, allowing all data points to remain in the dataset while reducing their influence. This method improved the reliability of the results by preventing outliers from distorting the overall findings.

Table 2. Variable definitions

<i>Variable name</i>	<i>Measurement</i>	<i>Data source</i>
<i>Dependent variable</i>		
Climate change disclosure (<i>CCD</i>)	The average score of all 11 disclosed items of corporate governance (G1 and G2), strategy (S1, S2, and S3), risk management (R1, R2, and R3), and metrics and targets (M1, M2, and M3).	Sustainability report
<i>Independent variables</i>		
CEO succession (<i>CEOSUC</i>)	A dummy variable equal to one if there was a change in the name and surname of the CEO, and zero otherwise.	Annual report
Corporate governance index (<i>CGI</i>)	<i>CGI</i> is calculated as the sum of binarized governance attributes that capture key aspects of governance mechanisms. These attributes include: 1) board size, measured by the total number of directors on the board; 2) diversity of the board, measured by the number of female directors; 3) independent board membership, measured by the number of independent and non-executive members; 4) size of the audit committee, measured by the number of its members; and 5) audit firm type, categorized as 1 if audited by a Big 4 firm and 0 if not.	Annual report
<i>Outcome of CCD: Firm performance</i>		
Return on assets (<i>ROA</i>)	Net income divided by total assets.	Annual report
Return on equity (<i>ROE</i>)	Net income divided by total equity.	Annual report
<i>Control variables</i>		
Leverage (<i>LEV</i>)	Total liabilities divided by total assets.	Annual report
Firm age (<i>FAGE</i>)	The natural log of the number of years since the firm was incorporated.	Annual report
Intensive sector (<i>INTENS</i>)	A dummy variable assigned a value of 1 for firms in the materials, energy, and utilities sectors, and 0 for firms in all other sectors.	Annual report
Quick ratio (<i>QUICK</i>)	Current assets minus inventory divided by current liabilities.	Annual report
Current ratio (<i>CR</i>)	Current assets divided by current liabilities.	Annual report
Inventory (<i>INV</i>)	Inventory divided by total assets.	Annual report

4. EMPIRICAL RESULTS

4.1. Descriptive statistics

Table 3 presents the descriptive statistics, including the mean, standard deviation, and minimum, median, and maximum values for all variables used in this study. The dependent variable, *CCD*, has a mean value of 0.128 with a standard deviation of 0.184, indicating that the overall *CCD* level among the sampled firms is relatively low, meaning that most firms still provide limited information regarding their environmental performance and climate-related initiatives. For the independent variables, CEO succession shows a mean of 0.119 and a standard deviation of 0.324, suggesting that CEO transitions occur in only a small proportion of the observed firms. *CGI* has a mean of 3.221 and a standard deviation of 1.006, indicating moderate variation in corporate governance quality across firms. Some companies demonstrate stronger governance practices, such as better oversight and

transparency, while others show relatively weaker implementation. The outcome of the firm performance, *ROA*, and *ROE* have mean values of 0.016 and 0.036, respectively, indicating low profitability levels among the sampled firms. Regarding the control variables, *LEV* has a mean of 0.885, implying that, on average, firms finance approximately 88.5% of their total assets through debt, whereas *FAGE* has an average of 33.764 years, suggesting that the majority of firms in the sample are mature and well established. The *INTENS* shows a mean of 0.248, indicating that approximately 24.8% of firms operate in environmentally intensive industries such as energy, materials, and utilities. The liquidity ratios also reveal that firms maintain relatively strong short-term financial positions, with a mean *QUICK* of 2.170 and a *CR* of 3.202, reflecting their ability to meet short-term obligations. Finally, *INV* has a mean of 1.235 and a relatively high standard deviation of 17.838, indicating considerable differences in inventory management across firms.

Table 3. Descriptive statistics results

Variables	N	Mean	Std. dev.	Minimum	Median	Maximum
CCD	1097	0.128	0.184	0.000	0.000	1.000
CEOSUC	1097	0.119	0.324	0.000	0.000	1.000
CGI	1097	3.221	1.006	0.000	2.000	5.000
ROA	1097	0.016	0.447	-9.498	-0.002	4.693
ROE	1097	0.036	1.042	-19.472	0.002	21.972
LEV	1097	0.885	5.634	-0.871	0.256	117.384
FAGE	1097	33.764	18.962	2.000	20.000	117.000
INTENS	1097	0.248	0.432	0.000	0.000	1.000
QUICK	1097	2.170	6.819	-0.897	0.582	165.733
CR	1097	3.202	8.143	0.000	1.037	170.757
INV	1097	1.235	17.838	0.000	0.057	354.458

4.2. Pearson correlation

Table 4 presents the Pearson correlation results for all variables in this study. CEO succession shows a negative but insignificant correlation with *CCD*, indicating that CEO succession does not notably influence *CCD*. *CGI* shows a positive and significant correlation with *CCD* at the 1% level, suggesting that firms with stronger corporate governance practices tend to provide more extensive climate-related disclosures. *CCD* also has positive correlations with *FAGE* and *INTENS* at the 1% level, implying that older firms and those operating in environmentally intensive sectors are more likely to disclose climate-related information. Meanwhile, *LEV* shows a negative and

significant correlation with *CCD* at the 10% level, indicating that firms with higher leverage tend to disclose less information about climate change. For liquidity and operational control variables, *QUICK* shows a negative but insignificant correlation with *CCD*, suggesting no meaningful relationship between liquidity and disclosure levels. *CR* has a negative and significant correlation at the 10% level, while *INV* shows a negative and significant correlation at the 1% level, indicating that firms with higher current ratios and inventory levels tend to provide less climate-related disclosure. Overall, the correlation coefficients were relatively low, indicating no serious multicollinearity among the variables.

Table 4. Pearson correlation matrix

Variables	CCD	CEOSUC	CGI	LEV	FAGE	INTENS	QUICK	CR	INV
CCD	1.000								
CEOSUC	-0.032 (0.295)	1.000							
CGI	0.281*** (0.000)	-0.006 (0.852)	1.000						
LEV	-0.059* (0.051)	0.009 (0.772)	-0.076** (0.011)	1.000					
FAGE	0.167*** (0.000)	0.032 (0.297)	0.210*** (0.000)	0.055* (0.071)	1.000				
INTENS	0.085*** (0.005)	0.016 (0.587)	-0.074** (0.014)	-0.048 (0.112)	0.032 (0.290)	1.000			
QUICK	-0.013 (0.657)	-0.064** (0.035)	-0.053* (0.077)	-0.349*** (0.000)	-0.111*** (0.000)	0.047 (0.121)	1.000		
CR	-0.057* (0.058)	-0.087*** (0.004)	-0.063** (0.037)	-0.355*** (0.000)	-0.119*** (0.000)	0.037 (0.223)	0.902*** (0.000)	1.000	
INV	-0.097*** (0.001)	-0.120*** (0.000)	0.027 (0.372)	0.051* (0.089)	0.001 (0.978)	-0.043 (0.155)	-0.162*** (0.000)	0.019 (0.538)	1.000

Note: *p*-values in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

4.3. Regression

Table 5 presents the regression results examining the effect of CEO succession on *CCD*. The findings show that CEO succession has a negative and significant relationship with *CCD* at the 10% level, with coefficients of 0.031 and 0.030 across the models. This indicates that firms experiencing CEO succession tend to disclose less climate-related information, possibly because of leadership transitions that create strategic uncertainty and a short-term focus on internal restructuring. According to UET, organizational outcomes such as strategic choices and performance are partially determined by the background characteristics of top executives, indicating that leadership changes can influence how firms approach sustainability and disclosure activities (Hambrick & Mason, 1984).

The *CGI* exhibits a strong positive and statistically significant relationship with *CCD* at the 1% level, with coefficients of 0.048 and 0.049. This supports agency theory, which posits that

effective governance mechanisms serve as monitoring tools to reduce the information asymmetry between managers and shareholders. The primary objective of corporate governance is to safeguard shareholders' interests and enhance their overall wealth (Hassan et al., 2016). Stronger governance structures enhance transparency and accountability, encouraging management to disclose more climate-related information to demonstrate responsible stewardship and mitigate agency conflict. Overall, the results imply that while CEO succession may temporarily weaken a firm's disclosure orientation due to leadership transitions, corporate governance mechanisms can play a compensatory role by maintaining managerial discipline and ensuring consistent communication of environmental performance.

The implications of these findings are relevant for various stakeholders. For regulators, the results emphasize the importance of promoting leadership stability and effective governance structures to ensure consistent climate-related reporting during management transitions. For boards of directors,

the findings highlight the need to strengthen governance mechanisms that can uphold disclosure quality regardless of leadership changes, ensuring that transparency and accountability remain intact. For investors, the evidence provides valuable insights into how CEO transitions and corporate governance

quality influence disclosure practices, helping them to better assess a firm's sustainability performance and long-term risk profile. Overall, these findings underscore the significance of leadership continuity and strong governance frameworks for maintaining credible and transparent climate communication.

Table 5. Regression results

Variables	(1)	(2)	(3)	(4)
	CCD	CCD	CCD	CCD
CEOSUC	-0.031* (-1.95)	-0.030* (-1.89)		
CGI			0.048*** (7.78)	0.049*** (8.00)
LEV	-0.032*** (-4.49)	-0.032*** (-4.37)	-0.020*** (-3.16)	-0.020*** (-3.02)
FAGE	0.002*** (4.90)	0.002*** (5.13)	0.001*** (3.29)	0.001*** (3.58)
INTENS	0.032** (2.35)	0.034** (2.56)	0.041*** (3.10)	0.044*** (3.37)
QUICK	0.009** (2.02)	0.008* (1.69)	0.009** (2.04)	0.007 (1.64)
CR	-0.010*** (-4.43)	-0.009*** (-4.09)	-0.008*** (-3.95)	-0.008*** (-3.62)
INV	-0.092*** (-2.67)	-0.098*** (-2.82)	-0.097*** (-2.89)	-0.106*** (-3.14)
_cons	0.111*** (6.85)	0.073*** (3.52)	-0.039* (-1.92)	-0.100*** (-3.59)
Year fixed effects	No	Yes	No	Yes
r ²	0.056	0.074	0.116	0.138
r ² _a	0.050	0.065	0.111	0.130
N	1097	1097	1097	1097

Note: t-statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

4.4. Regression (Consequence of climate change disclosure on firm performance)

Table 6 presents the regression results for the effect of CCD on firm performance, measured by ROA and ROE. The results reveal that CCD has a positive and highly significant influence on both performance indicators at the 1% level, with coefficients ranging from 0.062 to 0.130. This indicates that firms with higher levels of climate-related disclosure tend to achieve stronger financial outcomes, demonstrating that environmental transparency can create tangible economic benefits. From the perspective of stakeholder theory, these findings suggest that enhancing firm performance requires meeting stakeholder expectations and that CCD can support this effort by

providing information they value (Ghose et al., 2025). Firms can reduce information asymmetry by openly communicating their environmental performance, strengthening relationships with stakeholders, and attracting long-term investments. Enhanced disclosure also signals a firm's commitment to sustainable practices, which can lead to an improved reputation, customer loyalty, and better access to resources. The evidence supports the view that environmental transparency is not merely a compliance exercise but a strategic tool that aligns corporate objectives with stakeholder expectations. Prioritizing climate-related disclosure, firms can enhance both social legitimacy and financial performance, illustrating that sustainability and profitability are mutually reinforcing goals.

Table 6. Regression results of the impact of climate change disclosure on firm performance

Variables	(1)	(2)	(3)	(4)
	ROA	ROA	ROE	ROE
CCD	0.062*** (5.07)	0.063*** (5.07)	0.127*** (3.37)	0.130*** (3.47)
LEV	-0.103*** (-5.80)	-0.103*** (-5.83)	-0.043** (-2.18)	-0.041** (-2.10)
FAGE	0.001*** (3.89)	0.001*** (3.90)	0.001 (1.13)	0.001 (1.02)
INTENS	-0.000 (-0.04)	-0.000 (-0.04)	-0.001 (-0.03)	-0.002 (-0.08)
QUICK	0.007*** (3.01)	0.007*** (3.00)	0.008* (1.80)	0.009* (1.95)
CR	-0.006*** (-3.67)	-0.006*** (-3.64)	-0.004 (-1.62)	-0.005* (-1.68)
INV	0.096*** (4.42)	0.094*** (4.35)	0.074 (0.97)	0.081 (1.08)
_cons	0.033*** (2.62)	0.021 (1.09)	0.008 (0.31)	0.074 (1.34)
Year fixed effects	No	Yes	No	Yes
r ²	0.238	0.241	0.014	0.017
r ² _a	0.233	0.234	0.008	0.008
N	1097	1097	1097	1097

Note: t-statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

4.5. Robustness analysis

4.5.1. Coarsened exact matching

Table 7 presents the results of the CEM regression, used to confirm the robustness of the main findings. Specifications (1) and (2) show a consistent negative and statistically significant relationship between CEO succession and *CCD*. Because CEO play a crucial role in shaping a firm's strategy and performance, researchers have consistently examined the factors that influence their decision-making (Cambrea et al., 2024), making leadership transitions a particularly important moment to observe. In specification (1), which includes control variables, the coefficient for CEO succession is 0.030 with a t-value of 1.77

(significant at 10%), while specification (2), which adds year fixed effects, reports a coefficient of 0.029 with a t-value of 1.74 (significant at 10%). These results support *H1*, indicating that CEO succession reduces *CCD*. This pattern suggests that leadership changes may interrupt ongoing reporting routines, shift managerial priorities, or create temporary uncertainty within the firm, leading to fewer climate-related disclosures. The new CEO may also need time to understand existing sustainability practices or to focus on short-term operational adjustments during the transition. The consistent significance across both models strengthens the conclusion that leadership transitions can weaken a firm's attention to climate-related reporting in the short term.

Table 7. Robustness test: Coarsened exact matching

Panel A: Matching summary		
Description	CEO succession = 1	Non-CEO succession = 0
All	966	131
Matched	931	131
Unmatched	35	0
Panel B: Regression result		
Variables	(1)	(2)
	CCD	CCD
<i>CEOSUC</i>	-0.030* (-1.77)	-0.029* (-1.74)
<i>LEV</i>	-0.038** (-2.51)	-0.038** (-2.58)
<i>FAGE</i>	0.001*** (4.80)	0.002*** (5.09)
<i>INTENS</i>	0.033*** (2.59)	0.036*** (2.78)
<i>QUICK</i>	0.012 (1.34)	0.012 (1.35)
<i>CR</i>	-0.012* (-1.71)	-0.012* (-1.85)
<i>INV</i>	-0.085* (-1.85)	-0.088* (-1.92)
_cons	0.117*** (6.48)	0.080*** (2.85)
Year fixed effects	No	Yes
F	7.233	7.041
r ² _a	0.040	0.054
N	1062	1062

Note: t-statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

4.5.2. Generalized least squares

Table 8 reports the results of the GLS regression, where specifications (1) and (2) examine the effect of CEO succession on *CCD*, while specifications (3) and (4) include the *CGI*. Both specifications (1) and (2) show a negative and statistically significant relationship between CEO succession and *CCD*. In specification (1), which includes control variables, the coefficient for CEO succession is 0.004 with a t-value of 3.37 (significant at 1%), and after controlling for year fixed effects in specification (2), the coefficient remains 0.004 with a t-value of 5.52 (significant at 1%). This means that companies that experience CEO succession tend to disclose less information related to climate change. This finding indicates that leadership changes can disrupt the consistency of environmental reporting, as new CEOs often focus on internal restructuring or operational adjustments rather than voluntary disclosure.

Specifications (3) and (4) include the *CGI* to test its influence on *CCD*. The results showed that *CGI* had a positive and statistically significant relationship with *CCD*. In specification (3), the coefficient for *CGI* is 0.040 with a t-value of 42.44 (significant at 1%), and in specification (4), after including year fixed effects, the coefficient increases to 0.047 with a t-value of 79.48 (significant at 1%). These findings suggest that firms with stronger governance systems are more committed to transparent, climate-related reporting. The primary purpose of corporate governance mechanisms is to ensure transparency in managerial actions and align their interests with those of stakeholders to enhance overall value (Arora & Bodhanwala, 2018). Overall, the results indicate that while CEO succession may weaken *CCD*, strong corporate governance, as captured by *CGI*, helps enhance the quality, depth, and consistency of climate-related reporting.

Table 8. Generalized least squares results

Variables	(1)	(2)	(3)	(4)
	CCD	CCD	CCD	CCD
CEOSUC	-0.004*** (-3.37)	-0.004*** (-5.52)		
CGI			0.040*** (42.44)	0.047*** (79.48)
LEV	-0.041*** (-27.56)	-0.032*** (-24.60)	-0.021*** (-12.28)	-0.017*** (-6.35)
FAGE	0.002*** (40.51)	0.002*** (42.93)	0.001*** (34.39)	0.001*** (33.48)
INTENS	0.019*** (25.69)	0.025*** (18.45)	0.032*** (24.79)	0.037*** (18.95)
QUICK	0.015*** (26.45)	0.013*** (27.01)	0.010*** (20.63)	0.010*** (31.10)
CR	-0.011*** (-42.28)	-0.011*** (-42.48)	-0.008*** (-26.08)	-0.008*** (-26.61)
INV	-0.044*** (-13.84)	-0.061*** (-16.79)	-0.068*** (-22.97)	-0.088*** (-28.30)
_cons	0.095*** (64.99)	0.047*** (9.59)	-0.029*** (-12.71)	-0.111*** (-16.33)
Year fixed effects	No	Yes	No	Yes
N	1042	1042	1042	1042

Note: t-statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

5. CONCLUSION

The study demonstrates that CEO succession and CGI have significant but contrasting effects on CCD, based on 1,097 firm-year observations from 477 manufacturing firms listed on the IDX from 2020 to 2023. The findings reveal that CEO succession is significant and negatively affects CCD, indicating that leadership transitions reduce consistency in climate-related reporting. CGI shows a significant and positive influence on CCD, suggesting that firms with better governance practices are more transparent and accountable for their environmental disclosures. Furthermore, CCD has a positive and significant impact on firm performance, implying that transparent disclosure not only enhances stakeholder trust but also contributes to improved profitability and corporate reputation. Robustness checks using CEM and GLS confirm the stability of these results across model specifications.

This study contributes to the growing literature on sustainability and corporate governance by providing empirical evidence that leadership

changes and governance structures jointly shape environmental disclosure behavior and financial outcomes. The findings support UET and agency theory, demonstrating that executive characteristics and governance mechanisms influence corporate decision-making related to climate accountability. The results also highlight the strategic value of environmental transparency as a tool to balance stakeholder interests and strengthen long-term firm performance.

However, this study had several limitations. The analysis was limited to manufacturing firms in Indonesia, which may restrict the generalizability of the findings to other sectors or countries. CCD measurement using TCFD-based indicators focuses on disclosure presence rather than depth or quality. Future studies should expand this analysis by including non-manufacturing industries, applying more detailed disclosure metrics, and exploring moderating factors such as CEO characteristics, board diversity, and ownership structure to better understand how leadership and governance interact in shaping corporate environmental transparency.

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APPENDIX. CLIMATE CHANGE DISCLOSURE INDEX

CCD	Definition
Climate change disclosure	<p>A. Governance (GOV):</p> <p>1. Board oversight: Describe the board's oversight of climate-related risks and opportunities (G1).</p> <p>2. Management's role: Describe management's role in assessing and managing climate-related risks and opportunities (G2).</p>
	<p>B. Strategy (STR):</p> <p>3. Risks and opportunities: Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term (S1).</p> <p>4. Impact on organization: Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning (S2).</p> <p>5. Resilience of strategy: Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario (S3).</p>
	<p>C. Risk management (RM):</p> <p>6. Risk ID and assessment processes: Describe the organization's processes for identifying and assessing climate-related risks (R1).</p> <p>7. Risk management processes: Describe the organization's processes for managing climate-related risks (R2).</p> <p>8. Integration into overall risk management: Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management (R3).</p>
	<p>D. Metrics and targets (MT):</p> <p>9. Climate-related metrics: a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process (M1).</p> <p>10. Scope 1, 2, and 3 GHG emissions: Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks (M2).</p> <p>11. Climate-related targets: Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets (M3).</p> <p>Each item, if present, is set to 1, and 0 otherwise.</p>