EVALUATING THE EFFECTS OF CORPORATE GOVERNANCE AND CSR ON FIRM VALUE IN AN EMERGING MARKET: INSIGHTS INTO INFORMATION QUALITY

Salmah Pattisahusiwa [*], Annisa A. Lahjie [**], Agus I. Kesuma [*], Mega Norsita [*]

* Faculty of Economics and Business, Mulawarman University, Samarinda, Indonesia
** *Corresponding author*, Faculty of Economics and Business, Mulawarman University, Samarinda, Indonesia
Contact details: Mulawarman University, Kampus Gunung Kelua, Samarinda 75117, East Kalimantan, Indonesia

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Abstract

This research examines how corporate governance (CG) and corporate social responsibility (CSR) affect firm value in Indonesia, emphasizing the importance of information quality. Ordinary least squares (OLS) and two-stage least squares (2SLS) estimations of a Cobb-Douglas model were applied to 83 firms listed on the Indonesia Stock Exchange (IDX) (2007–2022). The findings show that the stronger CG and CSR initiatives improved information quality, which in turn enhances firm value. Firms excluded by CSR criteria limit the sample. Strengthening CG oversight and tightening governance and CSR disclosure regulations would improve information quality. One of the few studies linking CG and CSR through a firm's financial information quality, providing empirical evidence from a developing-country context. The research shows information quality mediates the CG-CSR-firm value relationship and offers policy-relevant recommendations to strengthen governance and disclosure.

Keywords: CG, CSR, Information Quality, Firm Value, OLS, 2SLS

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1. INTRODUCTION

The Asian financial crisis in 1997, along with numerous high-profile global corporate scandals, spotlighted corporate governance (CG) as a critical issue in Indonesia (Julyanti & Suparman, 2022). In developed countries like Indonesia, inadequate CG practices have often prompted internal reforms in corporate management (Sari et al., 2022). In response, the Indonesian government founded the National Committee on CG in 1999 to promote and strengthen the principles of good corporate governance (GCG). Despite ongoing efforts, CG practices in Indonesia have not yet met the expected levels of effectiveness (Asian Corporate Governance Association [ACGA], 2023), motivating further reforms aimed at strengthening governance frameworks, combating corruption, improving the overall business climate, and promoting sustainable economic development.

The determinants affecting CG practices differ among nations, with key challenges in developing

countries, including concentrated ownership structures, underdeveloped capital markets, weak institutional environments, and poor investor protection that hinder effective implementation of CG practices (Iwasaki et al., 2022). In Indonesia, Hartono et al. (2023) identified several weak aspects of CG, including majority ownership by small family groups, lack of oversight from independent directors, inadequate audit and board committees, and the absence of competent market-based institutions. These deficiencies often lead to principal-agent conflicts, stemming from misaligned interests between company owners (principals) and corporate managers (agents) (Pinheiro et al., 2024). Additionally, control is often resident by wealthy and influential families who exert significant influence over corporate ownership, further complicating governance dynamics (Wulandari et al., 2022). Unlike agent conflict in developed countries, which frequently occurs between owners and managers (e.g., the UK, the USA), agent conflicts in emerging markets, such as Indonesia, frequently occur between controlling and minority shareholders.

The prospect of greater firm value can prompt managers to pursue their own interests by misusing firm resources and confidential information. Increasing disclosure frequency may, paradoxically, encourage selective negotiation or trading based on private information, resulting in imbalances in information quality between managers and shareholders, and eventually leading to conflicts of interest (Borch, 2022). To minimize the risk of managerial self-interest undermining firm value, CG mechanisms are essential for aligning management actions with shareholders' interests and ensuring transparent value communication (Muslim & Setiawan, 2021). To enhance information quality, managers can exercise disclosure discretion through proper GCG and corporate social responsibility (CSR) disclosures as a strategy to improve transparency and business communication. CSR investment and disclosure of corporate social performance serve as complementary disclosures alongside annual reports, which can help reduce information asymmetry (Hamrouni et al., 2022). Over time, CSR practice has increasingly been framed through a shareholder-centric lens, with investors prioritizing financial returns. Embracing a shareholder-oriented CSR approach enables firms to communicate social commitments effectively while fulfilling societal obligations and pursuing financial benefits (Dow & Shi, 2025).

This study concentrated on the impact of the interplay between CG mechanisms, CSR, and accountable information quality on firm value. It acknowledges that additional variables may influence this relationship. To address potential specification errors, control variables such as firm size and industry type are incorporated. Consequently, the research questions formulated from this issue are:

RQ1: How do corporate governance mechanisms and corporate social responsibility influence the quality of information?

RQ2: In what way does the interplay between corporate governance mechanisms, corporate social responsibility, and the information quality influence firm value?

The adopted framework identifies CG mechanisms as being influenced by factors such as board size, the proportion of independent directors, and ownership structure, including institutional, managerial, and public ownerships. To achieve a more comprehensive understanding of CSR, both the CSR disclosure index (CDI) and CSR value added (CVA) are employed as assessment tools. Although these relationships are supported by existing literature, applying them within this context is novel and contributes new insights to academic discussions.

The interplay of CG, CSR, and information quality through asymmetrical information is recognized as a significant challenge for developing countries, including Indonesia, making research aimed at addressing these issues particularly valuable (Shahwan, 2025; Husnaini & Basuki, 2020). The findings of this study will enhance awareness and deepen understanding of the relationship between CG, CSR, and asymmetrical information among the relevant population. Despite Indonesia's success in attracting foreign direct investment, the country still faces substantial obstacles, including tax evasion, corruption, bribery, nepotism, cronyism, and limited transparency (Paranata, 2025; Susilo, 2023). These issues hinder the promotion of fiduciary and moral responsibilities among firms towards stakeholders, which should be founded on transparency, accountability, fairness, and honesty (Vickneswaran, 2025).

The remainder of the paper is organized as follows. Section 2 initially provides a review of pertinent literature, which informs the development of a research framework and the formulation of hypotheses. Section 3 describes the research methodology. Section 4 presents the results. Section 5 gives the presentation and discusses the analysis and findings. Finally, Section 6 concludes the study with a summary of key findings, an acknowledgment of its limitations, and proposed directions for future research.

2. LITERATURE REVIEW

The agency theory, as initially conceptualized by Berle and Means (1932), views the firm as a contract between the shareholders (principals) who delegate decision-making authority to executive managers (agents). Building on this foundation, Jensen and Meckling (1976) further developed the theory by framing the relationship between owners and executive managers as one that inherently involves conflict of interests and agency costs. Managers responsible for leading the firm are typically appointed to serve shareholder interests (Wu & Jin, 2022); however, their actions may not always align with those interests. To resolve potential conflict, internal CG mechanisms, including board oversight and ownership arrangements, play a crucial role in aligning managerial actions with shareholder interests (García-Sánchez et al., 2022; Schäuble, 2019).

Given Indonesia's implementation of a two-tier board structure, there is a clear separation of roles between the board of directors (BoDs) and the board of commissioners (BoCs) within the organizational framework. The BoDs serve as the primary decision-making body, but an excessively large BoCs can

create communication obstacles and make it harder to monitor and control managerial behavior, thereby worsening agency conflicts (Yermack, 1996). Abdullah and Tursoy (2023) present empirical evidence that larger boards are associated with poorer decision quality and lower firm value, reinforcing the view that smaller boards tend to be more effective. The composition of the board plays a pivotal role in CG mechanisms because it helps oversee and constrain managers' self-interested action, reducing agency costs (Jin et al., 2022). Consequently, many firms have increased the proportion of independent directors on their boards (Yekini et al., 2015).

Ownership structure has been known as one of the most extensively studied indicators of CG (Puni & Anlesinya, 2020) and has received significant attention from financial scholars over the years (Queiri et al., 2021). When managers are also part of the firm's ownership, their interests are more likely to align with those of the shareholders. In this context, managerial ownership is considered a tool for mitigating agency conflicts between managers and the firm's owners (Abdelnour, 2023; Din et al., 2021).

However, in countries with highly concentrated ownership structures, such as Indonesia, being one example, managerial shareholders can give rise to conflicts between majority and minority investors, which may reduce firm value (Pandey & Sahu, 2021; Basheer et al., 2021). Conversely, broader public ownership, increased monitoring by external shareholders (individuals who are non-controlling shareholders), coupled with stronger financial transparency, allows external (individuals with non-controlling) shareholders to exert greater oversight, which can improve firm performance and market valuation (Guizani & Abdalkrim, 2022). Institutional investors, because of their large shareholding and constrained ability to exit, typically participate more actively in managerial decisions than non-institutional shareholders (Din et al., 2021; Ullah et al., 2021).

According to Huang et al. (2022), CSR functions as an extension of efforts to promote effective CG, aiming to improve accountability and transparency to support long-term firm sustainability. Firm managers need to implement CG strategies that preserve an economically sustainable balance among different stakeholder groups (Jan et al., 2022). Maintaining that balance and deterring managerial self-interest relies on key stakeholder-management practices, including stakeholder mapping and performance monitoring, conducting constructive negotiation, and implementing structured stakeholder analysis (Rouse et al., 2025; Ohnishi, 2022).

In developing countries like Indonesia, CSR and robust CG have become key business strategy priorities as shareholders and other stakeholders increasingly assert their rights and influence over corporate behavior (Aryanta et al., 2025). While CSR cannot replace the government's role in providing public services and infrastructure, targeted CSR initiatives, especially by listed firms with a governance framework, can contribute meaningfully to economic development (Doli & Ghozali, 2024). For firms, CSR can yield financial advantages, including greater shareholder wealth, easier access to new markets, improved relationships with financial markets, enhanced transparency, and higher firm value (Arian et al., 2023).

Arora and Bhandari (2017) emphasize that information asymmetry as an indicator for information quality is crucial within the context of CSR. When information asymmetry is substantial, shareholders often lack the capacity, incentive, or informational access required to discipline managerial behavior (Roudaki et al., 2017). Such monitoring deficiencies can increase agency costs and permit earning managerial practices, ultimately undermining firm value (Rehman et al., 2022). Boards of commissioners and BoDs that meet regularly improve information quality by narrowing information asymmetries and enabling more effective processing of large volumes of data and information. Therefore, this enables investors to more accurately evaluate the firm's future value prospects. Accordingly, because CG mechanisms reduce information gaps and thereby support firm value, information quality functions as the primary mediator through which governance practices affect firm value. Previous studies have confirmed that information asymmetry measured through forecast dispersion and forecast error is negatively associated with information quality (Yu et al., 2025; Palmon et al., 2024). Forecast dispersion reflects the range of analysts' earnings per share (EPS) forecasts, indicating disagreement among capital market analysts (Kim & Leonardy, 2023), while forecast error refers to the deviation of observed values from predicted EPS (Devos et al., 2019).

Awareness of the role of CSR in developing countries remains limited (Hasana & Sisdianto, 2025), including among firms listed on the Indonesia Stock Exchange (IDX), where managers frequently encounter challenges in evaluating CSR activities from an economic perspective (Lu et al., 2021). Focusing on the economic implications of CSR, this study employs a CSR engagement measure that integrates both accounting and non-accounting indicators, aligning with methodologies used by Weber (2008) and Hackston and Milne (1996). CSR is measured using two indicators: the CDI and CVA. The CDI summarizes indicators that reflect the interests of various stakeholder groups based on CSR activities disclosed in annual reports. Meanwhile, CVA is determined through discounted cash flow analysis (Weber, 2008). Firm value added represents the remaining economic worth generated by the firm after accounting for social and environmental externalities produced by its activities. While several performance measures exist to evaluate company expenditures and revenues across different periods (Manogna & Mishra, 2022), firm value indicators such as Tobin's Q are used to assess the firm's potential to generate future earnings (Chancharat & Kumpamool, 2022; Ishaq et al., 2021). As noted by Butt et al. (2023), Tobin's Q serves as a dynamic proxy for firm valuation, synthesizing historical performance metrics and market-implied expectations of future returns.

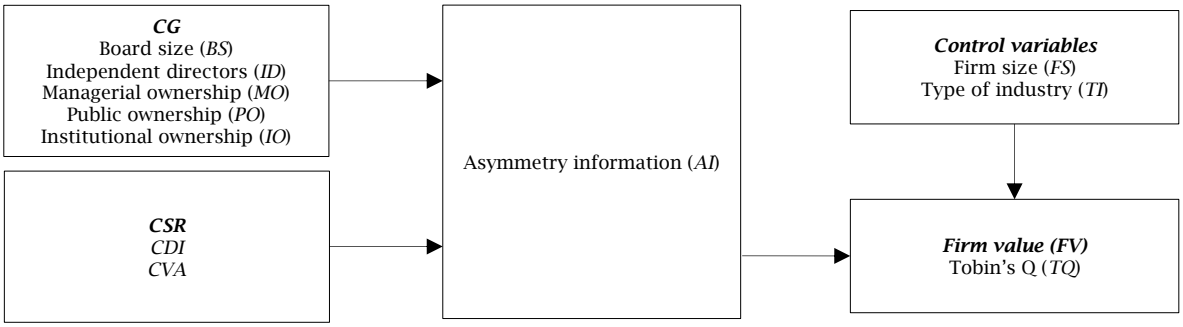
3. RESEARCH FRAMEWORK

3.1. The research framework

Drawing from existing literature, a research framework was established, employing a multi-theoretic approach grounded in agency theory,

stakeholder theory, and resource-based view (RBV). This framework seeks to explore the interconnections among CG mechanisms, CSR, and quality information, as well as how these relationship impacts firm value among Indonesian listed firms. It forms the basis of this study and is illustrated in Figure 1 below.

Figure 1. Research framework



3.2. Hypotheses development

The following hypotheses, tested using ordinary least squares (OLS) estimates, reveal varying perspectives on the effect of CG mechanisms and CSR on information quality, as presented below:

H1a: Board size (BS) had a significant negative effect on forecast dispersion (FD).

H1b: Independent directors (ID) had a significant negative effect on forecast dispersion (FD).

H1c: Managerial ownership (MO) had a significant positive effect on forecast dispersion (FD).

H1d: Public ownership (PO) had a significant negative effect on forecast dispersion (FD).

H1e: Institutional ownership (IO) had a significant negative effect on forecast dispersion (FD).

H1f: CSR disclosure index (CDI) had a significant negative effect on forecast dispersion (FD).

H1g: CSR value added (CVA) had a significant negative effect on forecast dispersion (FD).

H2a: Board size (BS) had a significant negative effect on forecast error (FE).

H2b: Independent directors (ID) had a significant negative effect on forecast error (FE).

H2c: Managerial ownership (MO) had a significant positive effect on forecast error (FE).

H2d: Public ownership (PO) had a significant negative effect on forecast error (FE).

H2e: Institutional ownership (IO) had a significant negative effect on forecast error (FE).

H2f: CSR disclosure index (CDI) had a significant negative effect on forecast error (FE).

H2g: CSR value added (CVA) had a significant negative effect on forecast error (FE).

The following hypotheses, tested using two-stage least squares (2SLS) estimates, reveal varying perspectives on the effect of CG mechanisms and CSR on information quality, as presented below:

H3a: Board size (BS) had a significant negative effect on forecast dispersion (FD).

H3b: CSR value added (CVA) had a significant negative effect on forecast dispersion (FD).

H4a: Managerial ownership (MO) had a significant positive effect on forecast error (FE).

H4b: CSR value added (CVA) had a significant negative effect on forecast error (FE).

The following hypotheses, tested using OLS estimates, reveal varying perspectives on the effect of CG mechanisms, CSR, and information quality on firm value, as presented below:

H5a: Board size (BS) had a significant negative effect on Tobin's Q (TQ).

H5b: Independent director (ID) had a significant positive effect on Tobin's Q (TQ).

H5c: Managerial ownership (MO) had a significant negative effect on Tobin's Q (TQ).

H5d: Public ownership (PO) had a significant positive effect on Tobin's Q (TQ).

H5e: Institutional ownership (IO) had a significant positive effect on Tobin's Q (TQ).

H5f: CSR disclosure index (CDI) had a significant positive effect on Tobin's Q (TQ).

H5g: CSR value added (CVA) had a significant positive effect on Tobin's Q (TQ).

H5h: Forecast dispersion (FD) had a significant negative effect on Tobin's Q (TQ).

H5I: Forecast error (FE) had a significant negative effect on Tobin's Q (TQ).

The following hypotheses, tested using 2SLS estimates, reveal varying perspectives on the effect of CG mechanisms, CSR, and information quality on firm value, as presented below:

H6a: Managerial ownership (MO) had a significant negative effect on Tobin's Q (TQ).

H6b: CSR disclosure index (CDI) had a significant positive effect on Tobin's Q (TQ).

H6c: CSR value added (CVA) had a significant positive effect on Tobin's Q (TQ).

3.3. Data and study estimations

Simultaneous-equation specifications are estimated in EViews 11 via OLS and 2SLS. 2SLS is used to control for reciprocal causation and endogenous relationships linking CG, CSR, information quality, and firm value, while OLS serves as the baseline specification. The combined use of OLS and 2SLS approaches in analyses of CG, CSR, and information quality has been adopted in previous research (Liu, 2024; Wang et al., 2022). Data were obtained via documentary review, comprising datasream and firms' annual financial reports for 2007–2022, retrieved from the IDX official website (https://www.idx.co.id/id). This study employed

purposive sampling to select firms that met three criteria: 1) availability of complete data throughout the observation period (2007–2022); 2) companies that remained listed throughout the observation period; 3) exclusion of firms in the fourth sector (banking). Banks were excluded because they are governed by distinct CG rules under Bank Indonesia Regulation No. 8/14/PBI/2006 on GCG standards for the Indonesian banking sector. The IDX listed 825 firms in 2022 and 956 firms in May 2025. Using these criteria, our initial 2007 to 2022 IDX sample (825 firms) was reduced to 126 firms for analysis. Then, an additional 38 companies were excluded due to outliers, which must be removed from the sample (Silvi, 2018). Since natural logarithms are undefined for non-positive values, five firms were dropped from the sample, resulting in 83 firms and 1,328 firm-year observations for the Cobb-Douglas log-linear analysis.

The study specifies and estimates a system of simultaneous-equation models for focal variables, specified as follows:

$$AI_t = f_t(BS_t, ID_t, MO_t, PO_t, IO_t, CDI_t, CVA_t, FS_t, TI_t;\ FV_t = f_t(AI_t, FS_t, TI_t) \quad (1)$$

4. RESEARCH RESULTS

4.1. Descriptive statistics

Table 3 shows that the board size of the sampled firms meets the minimum requirement of two directors as stipulated by IDX regulations. The majority of firms (98%) comply with the IDX rule mandating at least 30% independent directors. Regarding managerial ownership, the high coefficient of variation (CV) indicates a wide variation in managerial ownership structures across Indonesian firms.

High coefficients of variation in both forecast error (*FE*) and forecast dispersion (*FD*) point to substantial information asymmetry between managers and stakeholders (e.g., investors and analysts). Additionally, both variables display highly positive skewness values, indicating the presence of overestimation. Both the standard deviation and the coefficient of variance of Tobin's Q are relatively high, indicating substantial cross-firm variability in market valuations. The control variable firm size indicates that, on average, total assets of companies engaged in GCG practices amounted to IDR 22.215 billion, and the high CV reflects significant differences in firm size across the sample.

Table 3. Descriptive statistics and sample characteristics

Data subset	*Mean*	*Median*	*SD*	*CV*	*Kurtosis*	*Skewness*	*Min*	*Max*
CG								
BS	5.00	5.00	1.99	0.37	0.37	0.65	1.00	15.00
ID	42%	40%	12%	0.29	3.93	1.60	0%	100%
MO	2%	0%	7%	3.78	44.61	5.99	0%	73%
PO	34%	34%	21%	0.61	-0.26	0.51	0%	95%
IO	24%	12%	28%	1.17	-0.25	0.96	0%	100%
CSR								
CVA	12.045	4.143	24.922	2.07	30.42	4.85	-26.796	191.357
CDI	0.62	0.63	0.16	0.26	-0.45	-0.09	0.24	1.00
Firm characteristics								
FS (Billion IDR)	21.888	10.210	40.724	1.86	25.08	4.28	267	413.297
AI								
FE	0.61	0.03	5.14	8.50	513.66	20.27	146.21	0
FD	18.64	1.14	218.59	11.72	1.120.04	32.56	7.563.42	0
FV								
TQ	1.50	0.87	2.25	1.50	24.83	4.41	-5.93	22.87

Source: Authors' elaboration using EViews version 11.

4.2. The results of OLS and 2SLS about the effects of corporate governance mechanisms and corporate social responsibility on information quality

Table 4 presents OLS estimates, highlighting several significant findings. Firstly, there is a positive association between managerial ownership and forecast dispersion and error at the 1% and 5% significance level, corroborating hypotheses *H1c* and *H2c*, respectively. Contrary to expectations set by hypothesis *H2d*, public ownership shows a positive and significant relationship with forecast dispersion at 5% level. Furthermore, institutional ownership is found to have a negative and significant impact on both forecast dispersion and forecast error at the 5% level, supporting hypotheses *H1e* and *H2e*. Additionally, the CVA indicator is negatively and significantly linked to both forecast dispersion and forecast error at the 1% level, aligning with hypotheses *H1g* and *H2g*. The CDI also shows a negative and significant association with forecast error at the 1% level, consistent with hypothesis *H2f*.

Turning to Table 5, which 2SLS estimates, two CG mechanisms significantly affect information asymmetry. Managerial ownership shows a positive and statistically significant relationship with forecast error at the 1% level, it does not align with hypothesis *H4b* regarding the positive impact of managerial ownership on forecast error.

4.3. The results of OLS and 2SLS about the effects of corporate governance mechanisms, corporate social responsibility, and information quality on firm value

As reported in Table 6, independent directors have a significantly positive effect on Tobin's Q, with significance at the 5% level, supporting hypothesis *H5b*. Regarding ownership structure, managerial ownership is significantly associated with Tobin's Q at the 1% level, providing evidence for hypothesis *H5c*. However, the results do not support

the hypotheses *H5d* and *H5e*. Additionally, the analysis indicates that CDI and CVA are significantly related to Tobin's Q at the 5% level, confirming hypothesis *H3f*. Furthermore, both information quality proxies, measured by forecast dispersion and forecast error, show a significant association with Tobin's Q at the 1% significance level, supporting hypotheses *H5f* and *H5g*. Collectively, these findings suggest that increased CSR disclosure and enhanced information quality are materially linked to a firm's market, even after controlling for relevant variables.

Table 4. OLS estimates: Effects of CG mechanisms and CSR on information quality

Variable	FD_t	FE_t
Constant	1.55079 (2.00705)	-7.84560 (2.59711)
BS_t	-0.31674	-0.18007
	(0.18103)	(0.23526)
ID_t	0.14012	-0.12607
	(0.14798)	(0.19371)
MO_t	0.01354***	0.01908**
	(0.00920)	(0.01205)
PO_t	0.10304**	0.04603
	(0.04708)	(0.06189)
IO_t	-0.10530**	-0.08165**
	(0.01653)	(0.02140)
CDI_t	-0.22035	-0.32273
	(0.14088)	(0.18246)
CVA_t	-0.14496***	-0.20778**
	(0.04018)	(0.05276)
FS_t	0.74133	2.89761
	(0.82245)	(1.06673)
TI_t	-0.69836	-0.58279
	(0.12131)	(0.15695)
F-statistic	13.8561	6.52993
R^2	0.09669	0.04658
Jarque-Bera (JB) statistic	461.186	199.797
Prob. (JB)	0.00000	0.00000
Likelihood ratio-statistic	665.494	438.370

*Note: This table presents the OLS coefficient estimates of the model analyzing the impact of CG mechanisms and CSR on information asymmetry. All variables are expressed in their natural logarithmic form. Variable definitions are provided in Appendix, Table A.1. Significance levels are designated as: *** p < 0.01, ** p < 0.05, * p < 0.10.*

Table 5. 2SLS estimates: Effect of CG mechanisms and CSR on information quality

Variable	FD_t	FE_t
Constant	2.18388 (1.74472)	-5.04703** (2.16817)
BS_t	-0.41840	-
	(0.18154)	-
MO_t	-	0.01995*
	-	(0.01195)
CVA_t	-0.18162**	-0.21433**
	(0.03817)	(0.05015)
FS_t	0.65108	1.94500**
	(0.73739)	(0.92211)
TI_t	-0.69616	-0.53800
	(0.11968)	(0.15295)
F-statistic	16.1252	8.93034
R^2	0.05225	0.02872
JB statistic	502.183	214.787
	0.00000	0.00000

*Note: This table presents the OLS coefficient estimates of the model analyzing the impact of CG mechanisms and CSR on information quality. All variables are expressed in their natural logarithmic form. Variable definitions are provided in Appendix, Table A.1. Significance levels are designated as: *** p < 0.01, ** p < 0.05, * p < 0.10.*

Table 6. OLS estimates: Effects of CG mechanisms, CSR, and information asymmetry on firm value

Variable	*TQ*
Constant	3.39039*** (1.30391)
BS_t	-0.16079
	(0.11734)
ID_t	0.29497**
	(0.09595)
MO_t	-0.01352**
	(0.00598)
PO_t	-0.15789***
	(0.03141)
IO_t	-0.01201***
	(0.01093)
CDI_t	0.17383**
	(0.09126)
CVA_t	0.02596**
	(0.02628)
FD_t	-0.06035***
	(0.01909)
FE_t	-0.09941***
	(0.01489)
FS_t	-1.41043
	(0.53377)
TI_t	-0.31347**
	(0.08030)
F-statistic	12.0162
R^2	0.10229
JB statistic	126.275
Prob. (JB)	0.00000
Likelihood ratio-statistic	615.232

*Note: The table reports the OLS coefficient estimates for the model analyzing the impact of CG mechanisms and information asymmetry on firm value. All variables are expressed in their natural logarithmic form. Variable definitions are provided in Appendix, Table A.1. Significance levels are designated as: *** p < 0.01, ** p < 0.05, * p < 0.10.*

Table 7 reports the 2SLS estimates. After addressing potential endogeneity, both CDI and CVA remain positively and significantly associated with Tobin's Q at the 5% level. The finding provides support for two hypotheses, *H6b* and *H6c*. Regarding control variables, both OLS and 2SLS estimations indicate that firm size and industry classification significantly affect Tobin's Q, supporting the robustness of these results.

Table 7. 2SLS estimates: Effects of CG mechanisms, CSR, and information quality on firm value

Variable	*TQ*
Constant	4.73990*** (1.26444)
MO_t	0.03470**
	(0.03118)
CDI_t	0.24069**
	(0.09371)
CVA_t	0.07333**
	(0.03603)
FS_t	-2.07799**
	(0.09292)
TI_t	-0.15412**
	(0.09292)
F-statistic	4.91284
R^2	0.01487
JB statistic	204.577
Prob. (JB)	0.00000

*Note: The table reports the OLS coefficient estimates for the model analyzing the impact of CG mechanisms, CSR, and information quality on firm value. All variables are expressed in their natural logarithmic form. Significance levels are designated as: *** p < 0.01, ** p < 0.05, * p < 0.10.*

Table 8 further examines 2SLS estimates, revealing that CVA is inversely and significantly related to both forecast dispersion and forecast error at the 1% level, supporting hypotheses *H3b* and *H4b*. Regarding control variables, results from both OLS and 2SLS models indicate that firm size significantly affects only the forecast error, whereas industry type significantly affects forecast dispersion and forecast error.

Table 8. Hypothesis testing: Effects of CG mechanisms and CSR on information asymmetry

Variable	*OLS estimation*				*2SLS estimation*			
	FD		*FE*		*FD*		*FE*	
BS	NI	*H1a* rejected	NI	*H2a* rejected	NI	*H3a* rejected		
ID	PI	*H1b* rejected	NI	*H2b* rejected				
MO	PS	*H1c* accepted	PS	*H2c* accepted			PS	*H4a* accepted
PO	PS	*H1d* rejected	PS	*H2d* rejected				
IO	NS	*H1e* accepted	NS	*H2e* accepted				
CDI	NI	*H1f* rejected	NS	*H2f* accepted				
CVA	NS	*H1g* accepted	NS	*H2g* accepted	NS	*H3b* accepted	NS	*H4b* accepted
FS	PI		PI		PI		PS	
TI	NI		NI		NI		NI	

Note: PS = positive and significant, NS = negative and significant, PI = positive and insignificant, NI = negative and insignificant impact, respectively.

Table 9. Hypothesis testing: Effects of CG mechanisms, CSR, and information quality on firm value

Variable	*OLS estimation*		*2SLS estimation*	
	TQ		*TQ*	
BS	PI	*H5a* rejected		
ID	PS	*H5b* accepted		
MO	NS	*H5c* accepted	PS	*H6a* rejected
PO	NS	*H5d* rejected		
IO	NS	*H5e* rejected		
CDI	PS	*H5f* accepted	PS	*H6b* accepted
CVA	PS	*H5g* accepted	PS	*H6c* accepted
FD	NS	*H5h* accepted		
FE	NS	*H5i* accepted		
FS	NS		NS	
TI	NS		NS	

Note: PS = positive and significant, NS = negative and significant, PI = positive and insignificant, NI = negative and insignificant impact, respectively.

5. DISCUSSION OF THE RESULTS

5.1. Effect of corporate governance mechanisms and corporate social responsibility on information quality

As the supervisory body charged with oversight of management, the BoCs has a crucial role in safeguarding the interests of shareholders and other stakeholders through the dissemination of accurate and objective information. Employing forecast dispersion as a proxy of information asymmetry, both OLS and 2SLS estimation reveal no significant relationship between board size and forecast dispersion and error. The finding aligns with Cheng and Courtenay (2006), who contend that sheer board size is not the key driver. Instead, effective oversight and stronger non-financial information (e.g., CSR performance) hinges on boards with a majority of independent directors.

The OLS results reveal a null association between the presence of independent directors and information asymmetry. This finding implies that, despite formal independence, independent directors in Indonesian firms may face practical constraints, such as limited authority, close ties to management, appointment practices, and broader institutional norms that may undermine independent directors' ability to reduce information asymmetry. In Indonesia's highly regulated sectors, firms often cultivate government links and routinely appoint former military officers or senior officials, active or retired, to the BoCs or to positions labeled as independent directors (Yakin & Hermawan, 2024; Yulianti, 2023). Such appointments can compromise de facto independence and diminish an independent director's perceived capacity to hold managers as agents accountable to the majority and minority shareholders. To unpack these mechanisms, future studies may combine causal strategies with direct proxies of director connectedness or qualitative evidence on appointment and board effect.

The involvement of independent directors in addressing the interests of minority shareholders, who hold less than 5% of outstanding shares, can potentially detract from the company's primary objective of maximizing value for principal shareholders, such as company founders and their family members. The OLS estimation reveals a statistically significant positive relationship between managerial ownership and forecast dispersion and error. While using 2SLS estimation, there is a notable association between increased managerial ownership and greater forecast error. This implies that managers may leverage their share ownership to pursue private objectives, thereby entrenching their position at the expense of transparency and disclosure.

Complementary OLS estimates reveal that a higher level of public ownership corresponds with increased forecast dispersion. This pattern suggests that public investors are generally less involved in CG, rendering them less effective at curbing managerial opportunism or enhancing disclosure. Instead, these types of investors focus on monetary returns, such as dividends or capital gains. This behavior might be attributed to the substantial costs that small-scale shareholders encounter in acquiring and processing information (Shafi, 2021). Collectively, these findings highlight divergent government effects associated with ownership structures. Concentrated managerial ownership may engender incentive conflict, thereby degrading information quality, while public ownership often signals limited investor engagement and monitoring.

The OLS estimates reveal a robust, negative association between institutional ownership and measures of information asymmetry, forecast dispersion, and forecast error. These findings imply that institutional investors play an important governance role in actively monitoring management and promoting the practices of GCG to reduce information frictions and strengthen investment value. Consistent with prior studies, the findings indicate that institutional ownership plays a critical governance role by reducing information asymmetry and protecting stakeholder interests (Ling et al., 2021; Sakawa & Watanabe, 2020; Widhiadnyana & Ratnadi, 2018).

Previous research has indicated that the presence of non-financial information, like sustainability reports alongside financial reports, is significantly correlated with forecast accuracy (Hsiao et al., 2024; Lee, 2017; Garrido-Miralles et al., 2016). Both OLS and 2SLS estimates corroborate these findings, demonstrating that CVA is significantly and negatively associated with both measures of information asymmetry. The evidence suggests that public disclosure of CSR and financial information enhances the quality of firm-related information, particularly in firms and countries characterized by high financial opacity. In such contexts, financial analysts appear to rely more heavily on non-financial information (e.g., CSR disclosures) when forecasting future firm value.

Across 2SLS specifications, firm size is positively and significantly related to forecast dispersion. This counterintuitive finding suggests that, notwithstanding their greater visibility, larger firms may experience elevated information frictions due to operational complexity or more heterogeneous analyst coverage, which may necessitate the adoption of more robust CG practices. This study also reveals a significant association between industry type as a control variable and both forecast dispersion and forecast error, suggesting that the industry classification used may not fully reflect each sector's political and social sensitivity.

5.2. Corporate governance mechanisms, corporate social responsibility, and information quality: Effects on firm value

The OLS estimates, which reveal no significant relationship between board size and Tobin's Q, imply that an increasing number of directors (larger boards) may not enhance firm value. Research in organizational behavior indicates that larger groups can experience coordination and decision-making inefficiencies (Jao et al., 2022; Gersick & Hackman, 1990), which may offset the potential benefits of adding directors and weaken board oversight. In the Indonesian context, this dynamic, combined with heterogeneity in director skills, infrequent board meetings, or weak director independence, may explain why larger boards do not translate into improved monitoring or higher Tobin's Q.

The OLS estimates indicate that the presence of independent directors is positively associated with firm valuation, Tobin's Q. This result is consistent with a monitoring mechanism whereby independent board members reduce agency costs and incentivize management decisions that enhance firm valuation. The pattern may be partly explained by the fact that economists and finance experts comprise 51% of independent directors in our sample, although their effectiveness may be constrained by weak owner-manager separation and an underdeveloped legal system (Wijayati, 2015). The positive association remains robust to 2SLS estimation and a range of controls, suggesting the relationship is not driven solely by omitted-variable bias or reverse causality.

The OLS estimation reveals a significant negative effect of managerial ownership on Tobin's Q. This pattern is consistent with an alignment to entrenchment shift: beyond a certain ownership threshold, managers may extract private benefits, control resources, or pursue self-serving strategies that erode firm value and harm minority shareholders (Wijayati, 2015).

The OLS estimates indicate a negative effect of public ownership, individual shareholders owning less than 5%, on Tobin's Q. This association likely stems from issues related to monitoring and incentive alignment. Dispersed retail investors often encounter collective-action and information asymmetry challenges, which hinder their effective participation in long-term strategy planning and corporate oversight. Consequently, such investors may prioritize short-term monetary benefits, such as dividends and capital gains, rather than engaging deeply with CG and sustainable growth initiatives.

This behavioral pattern can be largely attributed to the substantial costs incurred by small shareholders in acquiring and processing relevant information, as discussed by Cholakova and Clarysse (2015). The high financial and cognitive demand associated with analyzing complex corporate disclosure and market data serves as a significant barrier to entry for these shareholders. As a result, their capacity to make informed decisions and influence CG is considerably restricted. Addressing these informational and participatory barriers is crucial for promoting more effective shareholder engagement and ensuring alignment between diverse shareholder interests and long-term firm strategies. Enhancing transparency and reducing information processing costs could empower small shareholders to play a more active role in firm oversight, ultimately contributing to improved governance outcomes and firm performance.

CDI exhibits a significant positive relationship with Tobin's Q across OLS and 2SLS estimations; by contrast, it identifies CVA as the sole factor significantly affecting firm valuation. These findings suggest that the CSR performance and investment activities of Indonesian firms can function as complementary strategies to enhance shareholder wealth. While engaging in CSR involves opportunity costs associated with resource allocation, such initiatives help cultivate a positive reputation among stakeholders. This reputation effect can lead to cost efficiencies across various firm strategies, thereby contributing to increased firm value. Overall, the results underscore the strategic importance of integrating CSR initiatives with firm investment activities to maximize long-term shareholder value.

According to the OLS estimation for information quality, proxied by information asymmetry measures (forecast dispersion and forecast error), indicate that are significantly and negatively associated with Tobin's Q. Overall, the findings suggest that despite IDX-listed firms disclosing CG and CSR activities (e.g., through sustainability reports), stakeholders continue to face substantial information asymmetry regarding firms' operating costs and activities.

Findings suggest that larger firms attract greater stakeholder attention to their GCG and CSR efforts, contributing to higher firm value. As Campbell and Shang (2021) state, firm size is a multidimensional construct that extends beyond mere visibility. Additionally, large firms typically possess greater financial resources, enabling them

to invest more readily in GCG and CSR initiatives. These resources' advantages may further underpin the positive relationship between firm size, stakeholder perception, and firm valuation. These insights highlight the strategic significance of firm size in shaping perceptions of CSR and CG, ultimately contributing to enhancing firm value.

Finally, the study uncovers a significant negative effect of firm size and firm valuation, indicating that industry-specific operational and product characteristics may influence the nature of this relationship. These results suggest that, when accounting for industry context, the roles of firm size and visibility in relation to CG practices vary significantly. This underscores the importance of industry considerations in understanding how firm size affects valuation and stakeholder perceptions, emphasizing that the effects of size are not uniform across different industries.

6. CONCLUSION

The findings imply that Indonesian firms would benefit from appointing more independent directors with relevant expertise, since such directors can strengthen CG practices. However, the impact of these appointments varies depending on the firm's ownership structure. For instance, firms with managerial ownership, many of which are family-owned, tend to prioritize the interests of controlling (majority) shareholders, often at the expense of minority shareholders. Conversely, firms with widespread public ownership generally exhibit limited engagement with CG policies beyond their pursuit of financial returns. In contrast, institutional ownership demonstrates a strong motivation to monitor managerial decisions, actively promoting GCG practices to safeguard and enhance the value of their investments.

The low quality of corporate information, as evidenced by high levels of information asymmetry between managers (agents) and firm owners (principals), indicates that despite the Indonesian government's regulation mandating CSR disclosure, stakeholders continue to encounter significant information gaps about the costs and benefits associated with CSR initiatives. This persistent asymmetry ultimately undermines the firm's valuation. Moreover, mandatory disclosure requirements for GCG and CSR have not eliminated information asymmetry, which adversely affects firm valuation. These findings carry significant implications for companies listed on the IDX. CG reforms are necessary to address the excessive control exercised by family-owned and tightly held business groups, which can adversely affect firm value. The government should assume a more proactive role in implementing policies that promote improved CG standards, such as mandating the appointment of at least one truly independent director on the BoCs, an individual with no affiliation to corporate management. Such a measure would help enhance board independence, improve oversight, and ultimately contribute to greater firm value and investor confidence.

The absence of a standardized reporting framework for GCG and CSR practices results in inconsistencies and operational inefficiencies for stakeholders, who are compelled to allocate extra time and financial resources to reporting, analyzing, and verifying processes. To address these challenges, managers should enhance the quality and comparability of CSR disclosures, ensuring they more accurately represent the interests of shareholders and other stakeholders. Improving reporting standards would facilitate better stakeholder understanding, promote transparency, and support more effective decision-making.

The study has several limitations. Reliance on secondary data restricted the evaluation of two-tier board practices among Indonesian listed firms (e.g., shareholder views and perceptions of executives and BoCs). The final sample was limited to 83 listed firms, about 10% of the population, because many firms were excluded by the CSR-based selection criteria reflecting mandatory requirements introduced in 2007.

From the Indonesian context, future research should examine board characteristics (directors' skill, qualifications, and backgrounds) and their influence on the CG, CSR, and quality information relationship to provide a fuller view of governance mechanisms. Studies should also investigate other ownership types to better understand how CG, CSR, and information quality interrelate.

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APPENDIX

Table A.1. Operational variable adopted in the study

No.	*Construction*	*Variable*	*Proxy*	*Unit*	*Data sources*
1	CG mechanisms	*BS*	The logarithm (log) of the number of members BoCs	Decimal	Annual report
		ID	The percentage of member independent directors	Percentage	Annual report
		Ownership structure	The percentage of shareholders by *PO*	Percentage	Annual report
			The percentage of shareholders by *MO*	Percentage	Annual report
			The percentage of shareholders by *IO*	Percentage	Annual report
2	CSR	CSR value added	*CVA*	IDR billion	Annual report
		CSR disclosure index	*CDI*	Decimal	Annual report
3	Asymmetry information	*AI*	*FE*	Decimal	Datastream database and annual report
			FD	Decimal	Datastream database and annual report
4	Firm value	*FV*	*TQ*	Decimal	Annual report
5	Control variables	*FS*	Natural log of total assets (*FS*)	Decimal	Annual report
		TI	*TI*	N/A	Annual report