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ESG DISCLOSURE AND CORPORATE REPUTATION: THE MODERATING ROLE OF GREEN INNOVATION

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A B S T R A C T

This study aims to investigate how Environmental, Social, and Governance (ESG) disclosures affect corporate reputation in the manufacturing sector and how Green Innovation moderates this relationship. ESG is now seen as a symbol of a company's ethical commitment and social responsibility rather than just a reporting tool in the face of public demands for accountability and transparency for sustainable business practices. This study evaluates all listed businesses on the Indonesia Stock Exchange from 2020 to 2024, excluding businesses in the banking and service industries. This quantitative study analyzes secondary data from sustainability reports and annual reports. The study shows that ESG disclosure improves corporate reputation. Environmental and social disclosures are evident, while governance disclosures have no significant impact. Furthermore, ESG disclosure and corporate reputation are more closely related to Green Innovation. The results suggest that implementing Green innovation and transparent ESG information can build corporate reputation.
Keywords: *ESG disclosure, corporate reputation, Green Innovation*

ABSTRAK

Seiring menguatnya desakan publik atas transparansi praktik bisnis berkelanjutan, pengungkapan Environmental, Social, and Governance (ESG) telah bertransformasi dari sekadar kewajiban pelaporan menjadi indikator komitmen etis korporasi. Riset kuantitatif ini mengevaluasi dampak pengungkapan ESG terhadap reputasi perusahaan manufaktur, sekaligus menguji potensi Inovasi Hijau dalam memoderasi hubungan tersebut. Sampel penelitian mencakup perusahaan non-keuangan dan non-jasa yang terdaftar di Bursa Efek Indonesia (BEI) selama rentang 2020–2024. Melalui ekstraksi data sekunder dari laporan tahunan dan laporan keberlanjutan, hasil analisis menunjukkan bahwa transparansi pengungkapan ESG terbukti secara nyata mampu memperkuat reputasi korporasi. Pengungkapan lingkungan dan sosial terbukti memengaruhi reputasi perusahaan, sedangkan pengungkapan tata kelola tidak memiliki dampak yang signifikan. Lebih lanjut, pengungkapan ESG dan reputasi perusahaan lebih erat kaitannya dengan Inovasi Hijau. Hasil penelitian menunjukkan bahwa penerapan Inovasi Hijau dan transparansi informasi ESG merupakan strategi yang dapat membangun reputasi perusahaan.
Kata kunci: Pengungkapan ESG, reputasi perusahaan, Inovasi Hijau

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INTRODUCTION

Reputation is an invaluable asset that a company currently owns and can create more value in the future (Gaillard et al., 2009). Reputation is a key driver of sustainable business performance. Companies with a strong reputation possess unique and valuable resources and competitive advantages that enable them to generate higher than average returns. Companies will enhance their reputation in various ways to reflect their future sustainability (Stan et al., 2020). It is the company's duty to pay attention to the environment and society surrounding the business in order to foster public trust, particularly in operational operations that are thought to not be detrimental to the environment and the surrounding community (Stan et al., 2020). The need for information for stakeholders, particularly for investment decision-making, has

become crucial for companies. Today, investors' information demands extend beyond just the company's economic growth, as reflected in financial reports, to all organizational activities and their impact on other aspects (Singh et al., 2023).

Organizational activities of concern to stakeholders include the company's environmental concerns, the social impacts of its operations, and effective corporate governance systems. Achieving greater levels of openness, better access to finance, risk management and valuation, improved reputation, and increased stakeholder loyalty are important motivators for ESG reporting (Kuzmina et al., 2023). To improve a company's reputation, reduce risks, boost transparency, and influence management philosophy, all of which raise the company's value, sustainability reporting is crucial (Jarboui & Moalla, 2022; Khalil et al., 2022; Sadiq et al., 2020; Seok et al., 2020).

ESG disclosure is becoming more and more crucial. Consequently, companies are pledging to integrate environmental, social, and governance (ESG) impact data into their primary marketing strategy (Chung et al., 2023). In Indonesia, the government explicitly states that industry must participate in environmental protection. Law No. 24 of 2009 concerning responsible environmental management stipulates this. ESG disclosure increases public trust by providing information on how a company's operations affect the environment, accountability, and transparency. A business is held accountable for its internal and external environments when it discloses ESG (Yolles, 2021). Companies that have governance that is directed towards sustainable growth can ensure alignment of interests between them, namely the company, investors, managers, and other stakeholders (Lestari et al., 2024).

The study's findings demonstrate that ESG disclosure is still extremely low in Indonesia due to several factors, including a lack of resources to carry out ESG-standardized disclosures, high consulting fees, a lack of expertise, and a lack of understanding of ESG issues (Nurim et al., 2022). Study Mahmudah et al. (2023) demonstrates that even though environmental and social disclosures are now required, many Indonesian businesses are reluctant to make them because they believe they would be expensive and resource-intensive.

A green innovation plan is one of the strategies that must be put into practice in order to further improve a company's reputation among stakeholders. One tactic used by businesses to lessen the environmental impact of their operations and to engage in environmental responsibility by incorporating it into their strategic plan is green innovation (GI) (Eiadat et al., 2008). GI is a new technological development in products and all production processes that can improve energy efficiency, lower air and water pollution, create eco-friendly products, recycle waste, and manage the environment to sustain business operations (Ar, 2012).

According to Liao et al. (2022), research conducted in China, Green innovation can help a business expand its market share, enhance its reputation, and increase its capacity for sustainable growth. Cavicchi et al. (2022) claimed that because GI necessitates expenditures for research and development (R&D), product safety certification, and other costs associated with environmentally friendly product innovation, environmental policies require multidisciplinary assistance and take time to implement. Mariyamah & Handayani (2019) and Husnaini & Tjahjadi (2021) reveal conflicting findings, with this green innovation having little impact on Indonesian firm value. Conversely, eco-friendly innovation can boost a business's capacity to grow sustainably by improving its manufacturing methods and increasing the rate at which resources are used (Khan & Naeem, 2018).

Even though the amount of research on Environmental, Social, and Governance (ESG) disclosure has increased significantly, the majority of earlier studies still concentrate on how it affects risk, cost of capital, business value, and financial performance (Arduini et al., 2023). Meanwhile, corporate reputation as an

outcome of ESG disclosure remains relatively understudied, particularly in manufacturing companies in Indonesia (Buallay, 2020). The manufacturing industry consists of some divisions with very diverse activities. The manufacturing sector is changing very rapidly, which requires periodic changes in business models, including sustainability strategies (Singh et al., 2026). Stakeholders require not only information about what companies disclose, but also evidence that those commitments are translated into concrete actions. This gap is crucial because ESG disclosure does not automatically indicate that sustainability commitments have been implemented in a company's business activities (Pies & Schultz, 2023). This study provides empirical evidence from manufacturing companies in Indonesia, expanding ESG studies, which have previously focused primarily on financial performance and firm value. Furthermore, this study uses Nasdaq ESG metrics as an approach to measuring ESG disclosure and compares them with Global Reporting Initiative (GRI) based measures through sensitivity analysis.

In this study, Green Innovation (GI) is positioned as a boundary condition that can strengthen the relationship between ESG disclosure and corporate reputation, because green innovation reflects the company's actual implementation through the development of more environmentally friendly products, processes, technologies, and operational practices (Abbas et al., 2026). As a result, this study not only introduces GI as a new variable but also advances the claim that the degree to which ESG disclosure is bolstered by Green Innovation practices determines how much of an impact it has on a company's reputation. This viewpoint enables the study to clarify how and when ESG disclosure can be translated into reputational value, especially in the context of Indonesian manufacturing firms that are closely associated with resource use and social and environmental effects.

This study intends to fill this research gap by analyzing how ESG disclosure affects corporate reputation, looking at how Green Innovation strengthens this relationship, analyzing the impact of each environmental, social, and governance dimension, and performing a sensitivity analysis using GRI-based ESG measurements.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Stakeholder Theory

Organizations are legal entities that must take into account the interests of all stakeholders and customers, according to the fundamental tenet of stakeholder theory. According to this theory, businesses must behave in the best interests of all of their stakeholders, including creditors, shareholders, customers, the government, and society. To better adapt to their environment, companies must also develop competitive advantages. These organizations can manage company resources and contribute to community development, workforce motivation, and corporate branding (Freeman & McVea, 1984).

To deliver value, an organization must be able to manage and retain its stakeholders. Management is carried out by considering stakeholder desires and the organization's benefits. To maximize their interests, stakeholders have the right to obtain information about the company. This is their right, as it will help them make decisions. The amount of information stakeholders need depends on the extent of their information needs. One of the organization's responsibilities to satisfy interest groups' demands is environmental and social protection. Therefore, the concept of stakeholder theory, which is similar to corporate social responsibility, is stakeholder theory. Stakeholder theory explains how to build relationships and create value between a company's interests and various stakeholders, while corporate social responsibility emphasizes benefits for society as a whole. According to stakeholder theory, corporate social responsibility enables companies to generate maximum benefits for society

through employee development, enhanced corporate branding, increased profitability and sales, and customer satisfaction.

Environmental, Social, and Governance

Investors are recognizing the importance of business sustainability, which is driving companies to position ESG as a critical component of their long-term financial decisions (Cornell & Damodaran, 2020). How a company manages ESG has measurable financial consequences, but ESG factors are sometimes referred to as non-financial factors. In general, ESG refers to a set of corporate governance, environmental, and social considerations that can impact a company's ability to execute its business strategy and generate long-term value (Nasdaq, 2019). Because environmental, social, and corporate governance are the three primary components that ESG employs to gauge a company's sustainability, it is known as a benchmark for socially responsible investing (SRI). These three components also include how the business interacts with society and the environment, as well as the internal control systems and practices such as rules, laws, and regulations, that are employed to oversee the business's sustainability. Companies that can understand and connect prospects can use ESG disclosure as a useful strategy, especially for companies with a competitive advantage, especially in cases where others are unaware of the risks or opportunities (Wang et al., 2023).

Green Innovation

New or enhanced goods, procedures, services, and administration are all included in innovation. Environmentally friendly innovation may give businesses a competitive edge and is a crucial component of sustainable development, as business managers have realized. Green innovation tools are goods or methods that have been developed in an eco-friendly way (Agustia, 2020). This category includes technologies that conserve energy, prevent pollution, recycle waste, create eco-friendly products, and manage the environment. Green innovation is the substantial enhancement or development of new goods, services, and systems that might lessen adverse environmental effects, such as resource waste and pollution that can harm the environment and cause natural disasters. This is carried out to fulfill environmental requirements and guarantee the sustainability of enterprises and communities. (Huang & Li, 2018). Innovation that is environmentally friendly is becoming more and more recognized as a crucial tactic for businesses looking to become sustainably competitive (Li et al., 2023).

Company Reputation

According to Gaillard et al. (2009), a company's reputation is an intangible asset that it now possesses and has the potential to generate future value. A company's reputation as a whole, including its intellectual capital, will suffer if it is unable to manage its tangible and intangible assets (Galletta et al., 2023). One important factor driving sustainable performance is a company's reputation. A company's reputation implies that it possesses valuable and rare resources and has advantages over its competitors, which allows it to earn higher-than-average profits. Companies gain reputation by combining financial, management, advertising, and public relations considerations (Jeffrey et al., 2019). A company with a good reputation will generate more benefits, such as increased customer trust and sales, but a company with a bad reputation may face problems and possibly lose customers. In other words, customers will lose trust and switch to other products (Afrin & Rahman, 2023).

ESG Disclosure and Corporate Reputation

According to the stakeholder theory, and maximizing benefits to society by increasing employee motivation, better company branding, increasing profitability and sales, and customer satisfaction (Sands, et al., 2022). As a form of corporate accountability to stakeholders, ESG disclosure demonstrates that companies are not solely focused on financial profit

but also address governance and social and environmental issues, which have become increasingly sought after by investors in recent years (Legrand & Matthew, 2022). ESG disclosure is also considered an effective tool for communicating with investors and helping them determine investment policies (Rau & Yu, 2023).

Companies have a responsibility to improve or repair their reputation in the eyes of the public through the environmental activities they undertake (Mishra & Sant, 2023). Stakeholder theory also helps raise environmental awareness, forcing companies to expand their planning and consider stakeholder needs in their activities. Environmental disclosure improves stakeholder perceptions by demonstrating a company's performance and image as environmentally responsible. For one thing, investors will be more attracted to businesses with a positive image and public trust that they are doing good things for the environment, such as more efficient use of natural resources and production (Rastogi et al., 2023).

Businesses that prioritize social responsibility will gain the public's trust and enhance their reputation, which will increase their market share (Seok et al., 2020). Companies demonstrate social responsibility by disclosing their social performance, thereby gaining public acceptance. This public acceptance is expected to increase the company's interaction with stakeholders, which in turn can enhance the company's reputation or image (Dkhili, 2023).

To ensure that business activities run smoothly and efficiently, corporate governance is a crucial part of a company. They are also responsible for overseeing the company's operational processes. Company leaders must implement principles and ensure they provide transparent information regularly to reduce misunderstandings and monitor to prevent moral deviations, thus ensuring the company's reputation is good. Good corporate governance values have been proven to enhance reputation (Arduini et al., 2023). Due to high investor interest, stock prices will rise, thereby increasing the company's value in the eyes of investors. A company's long-term value increases when it does good things for society and the environment and has good governance (Cornell & Damodaran, 2020).

Prior studies have demonstrated that ESG disclosure improves a company's reputation (Afrin & Rahman, 2023; Arduini et al., 2023; and Samy El-Deeb et al., 2023).

H1: Companies that make more ESG disclosures will improve their reputation.

Green Innovation Strengthening the Impact of ESG Disclosure on Corporate Reputation

ESG disclosure facilitates communication between a business and its stakeholders (Rastogi et al., 2023). The company will strive to disclose information about company actions that can improve stakeholder expectations and perceptions (Wen et al., 2022). ESG disclosure is a tool used to present a corporation in a favorable light by showing that it is concerned about the social and environmental effects of its operations and resource management (Vincentiis, 2022). ESG disclosure will be a firm's attempt to provide thorough information about the company in order to make sure that stakeholders see it favorably when it conducts business operations. This will encourage stakeholder support (Dicuonzo et al., 2022). Supporting the use of products or services, taking part in finances or other types of investment, or building the company's reputation are just a few ways to give stakeholders support and attention (Chininga et al., 2023). ESG disclosure provides insight into how organizations evolve and adapt within complex business ecosystems and changing stakeholder demands (Legrand & Matthew, 2022)

ESG disclosure is essentially information a company conveys to stakeholders regarding how it manages environmental, social, and governance aspects. However, this information has limitations because stakeholders cannot always directly observe whether reported commitments are actually realized in the company's activities. By offering

observational proof through the creation of eco-friendly products, the use of more effective technology, waste and emissions reductions, and sustainability-focused production process enhancements, green innovation closes this gap. Therefore, when a company discloses ESG performance while demonstrating high levels of Green Innovation activity, ESG information becomes more consistent with the company's actions. To meet customer needs, business managers must consider environmental and social concerns when making strategic decisions, including in production and innovation processes. By implementing green innovation, companies can continue to generate profits (Pies & Schultz, 2023). One important strategic tool for creating sustainable development in industry is green innovation. It can help companies carry out production and innovation while maintaining environmental sustainability (Liao et al., 2022). Additionally, ESG and Green Innovation disclosures can lessen the impression that ESG disclosures are only symbolic and boost the trustworthiness of information among stakeholders. Consequently, a company's reputation can be improved, and positive stakeholder reactions strengthened.

By disclosing ESG, businesses hope to show that they are accountable for all the effects of their operations on society and the environment, as well as how they handle those effects. Businesses must select a green innovation approach that is still relevant if they want to keep a competitive edge in their business processes. Preserving environmental sustainability in order to improve the company's sustainable growth and uphold its reputation (Chung et al., 2023).

Companies can address increasing pressure on the environment by employing green innovation strategies, which enable them to create value-added products that meet the needs of today's consumers. This added value will give companies a competitive advantage (Soewarno et al., 2019). Atmariani et al. (2024) claim that green innovation is acknowledged by the ESG concept as an environmental factor that affects a business's financial performance. This shows that adopting green innovation has major advantages and affects how well a business is perceived by the general population. ESG disclosure is bolstered by visible innovative initiatives that show how sustainability is incorporated into company operations in organizations with high GI. Stakeholders will be better equipped to determine if ESG data accurately represents business actions rather than just communication or image-building. Because GI improves the verifiability, consistency, and reliability of ESG information received by stakeholders, the relationship between ESG disclosure and business reputation is therefore greater the higher the Green Innovation. These considerations support the study's hypothesis that Green Innovation increases the impact of ESG disclosure on a company's reputation.

H2: The impact of ESG disclosure on a company's reputation is enhanced by green innovation.

RESEARCH METHODS

Data and samples

This study analyzed secondary data sources from the Indonesia Stock Exchange (IDX), including financial reports, annual reports, and sustainability reports. Since sustainability reports have been required in Indonesia since 2020, this study evaluates all firms listed on the Indonesia Stock Exchange between 2020 and 2024, with the exception of those in the finance and service industries. Companies listed on the Indonesia Stock Exchange that have released sustainability reports, are not losing money, and have complete data for analysis were among the preset criteria

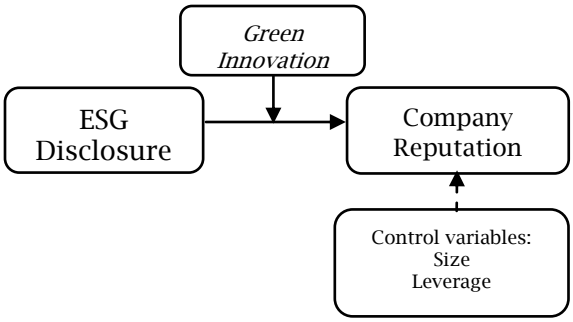


Figure 1.
Research Framework

employed in the purposive sampling process. The study's sample comprised 360 Indonesian publicly traded enterprises.

Operational Variable Measurement and Definition

The Market-to-Book Ratio (MTB), a market-based proxy that represents the market's opinion of a company's value in relation to its book value, is used in this study to measure corporate reputation. Conceptually, corporate reputation is an intangible asset formed from the accumulation of stakeholder perceptions of product quality, trustworthiness, performance, management actions, and the company's ability to meet stakeholder expectations (Ghosh, 2017). A good reputation provides long-term value to a company, such as brand trust, intellectual property, and progress. Conversely, a poor reputation can affect public and stakeholder trust (Deloitte, 2016; Hatane et al., 2021). The market's evaluation of a company's worth in relation to its book value of equity is reflected in MTB. The market's optimistic expectations regarding the company's prospects, earnings potential, and value creation potential, which are not yet fully reflected in book value, may be indicated by a high MTB ratio. Because the company is thought to match investor expectations regarding its prospects, credibility, and ability to create value in the future, a high MTB value suggests that the company has good worth or reputation in the market (Ocak & Findik, 2019; Arora et al., 2021). The market value per share of the business is divided by the book value per share to determine the Market-to-Book (MTB) ratio. Because the study involves secondary data from manufacturing companies and needs a reputation measure that can be collected objectively and consistently across organizations and across periods, MTB was used in this study.

Table 1.
Sample selection

Sample Criteria	Number of companies
Manufacturing firms on the IDX	668
Manufacturers who don't release sustainability reports	564
Companies that suffer losses and are not presented in rupiah currency	32
The quantity of businesses that fit the requirements	72
Observation year	5
Total number of observations	360

ESG disclosure (Environmental, Social, and Governance) is one of the study's independent factors. According to Nasdaq (2019), ESG refers to a set of practices used by businesses to manage corporate governance, social responsibility, and the environment. These practices will ultimately affect the company's capacity to carry out its business plans and generate long-term value. Many big businesses now use ESG as a gauge of their sustainability performance. ESG evaluates economic incentives that promote better management, best practices, and long-term profitability in addition to ethics. The three pillars of ESG disclosure are governance, social, and environmental. Here, "environmental" refers to how the business contributes to climate change through corporate waste management and the greenhouse effect. Human rights, community, labor, and product responsibility make up the social pillar. The company's social disclosure strategy, management, and shareholders make up the governance pillar. ESG disclosure is calculated using disclosures that comply with (Nasdaq, 2019). Businesses that reveal information that satisfies the indicators receive a score of 1, while those that do not receive a score of 0.

New hardware or software about eco-friendly goods or procedures is considered green innovation. This comprises energy-saving, pollution-prevention, waste-recycling, eco-friendly product production, and corporate environment management technologies (Huang & Li, 2018). It is hoped that green innovation can reduce pollution, increase energy efficiency, reduce waste, recycle, and replace limited resources with sustainable ones (Li et al., 2023). In this study, several indicators were used to measure green innovation. Business

activities that met these indicators were scored 1, and those that did not meet these indicators were scored 0. The highest score for this study was 12. The highest indicator scores were collected from all samples and then divided by the total score for all indicators (Grisales et al., 2020).

Leverage and company size are the research's control variables. A company's capacity is measured by its market capitalization, total assets, and total sales. Every company, regardless of size, plays a role in enhancing ESG impact. However, because they are more visible to the public, larger companies attract more attention. Consequently, demands on companies increase as their size increases. Company size in this study is calculated using Ln (Large-Numbered Inventory) of total assets. Leverage is used to calculate how much of its assets are used as collateral for debt. Companies with high levels of leverage prioritize paying their debts to creditors over disclosing ESG related to their business operations. Therefore, companies with significant leverage need to be more careful when reducing and publishing their ESG disclosures. By dividing total debt by total assets, the Debt-to-Assets Ratio (DAR) is calculated.

ANALYSIS AND DISCUSSION

From Table 3, the study used 360 observations. With an average of 0,6302 and a median of 0,6265, the ESG variable showed that the sample companies' level of ESG disclosure averaged roughly 63% of the indicators used. The standard deviation of 0,20191 and the value range of 0,1826–1,0000 show that there is a significant variance in ESG disclosure amongst businesses. Some businesses continue to fall behind in integrating environmental, social, and governance aspects of ESG practices, even though the majority have done so at a moderate to high degree. This indicates that the industrial sector's ESG commitments are still not entirely in line.

The Green Innovation variable has a mean value of 3,7500 and a median of 3,0000. The data distribution is tilted to the right, as evidenced by the difference between the median and mean, even though a small proportion of companies have high levels of green innovation. While the lowest value of 0,0000 indicates that businesses have not yet engaged in green innovation at all, the maximum value of 9,0000 suggests that certain businesses are quite active in the field. The standard deviation of 1,4513, which indicates a large degree of variation, illustrates how disparate businesses' commitments to green innovation are.

The Corporate Reputation variable has a mean value of 2,3100 and a median of 1,9800, indicating that the company's reputation is generally moderate. A value

Table 2.
ESG Disclosure Indicators Based on Nasdaq ESG Reporting Guide 2.0

Environmental (E)	Social (S)	Governance (G)
E1. Emissions of GHG	S1. Ratio of CEO Pay	G1. Diversity on the Board
E2. Intensity of Emissions	S2. Pay Ratio by Gender	G2. Independence of the Board
E3. Utilization of Energy	S3. Employee Attrition	G3. Incentive Compensation
E4. Intensity of Energy	S4. Diversity in Gender	G4. Collective Bargaining
E5. Mix of Energy	S5. Ratio of Temporary Workers	G5. Code of Conduct for Suppliers
E6. Use of Water	S6. Non-Discrimination	G6. Anti-Corruption & Ethics
E7. Operations in the Environment	S7. Rate of Injuries	G7. Privacy of Data
E8. Board for Climate Oversight	S8. International Health and Safety	G8. Reporting on ESG
E9. Oversight and Management of Climate	S9. Forced and Child Labor	G9. ESG Disclosure Procedures
E10. Mitigation of Climate Risk	S10. Human Rights	G10. External Guaranty

Source: Nasdaq, (2019).

higher than the median indicates that a company has an excellent reputation. Differences in financial performance, ESG practices, and market perception of the company can be attributed to a standard deviation of 1,2700 and a maximum value of 6,8500, indicating a fairly wide reputation range. Overall, the data show that ESG, Green Innovation, and Corporate Reputation vary significantly, while SIZE is relatively more concentrated. This variation indicates heterogeneity in company characteristics, which is relevant for examining the relationships between these variables in subsequent analyses.

MtB = 0,1490 + 0,0878ESG + 0,7558DAR + 0,0040SIZE + 0,1955(ESG×GI) +e...(1)

Using Green Innovation (GI) as a moderating variable and the Debt-to-Asset Ratio (DAR) and business size (SIZE) as control variables, this study examines the impact of Environmental, Social, and Governance (ESG) on corporate reputation. The moderated regression model in Table 4 was used to analyze 360 observations. 360 observations were analyzed using the moderated regression model shown in Table 4. The constant value of 0,1490 indicates that the company's reputation has a value of 0,1490 if all independent factors, moderating variables, and control variables have a value of zero. The ESG regression coefficient is 0.0878, and a positive value suggests that corporate reputation is impacted by ESG disclosure. ESG disclosure has a positive and significant impact on a company's reputation, with a likelihood value of 0.045 (<0.05). The control variable DAR has a coefficient of 0.7558, which is significant at the 1% level (Prob. 0,000). Higher DAR is positively correlated with improved company reputation. This suggests that companies that effectively manage their financial structure are more likely to win over stakeholders. This result implies a relationship between a company's funding arrangement and its market valuation. Leverage levels can provide investors with information about a company's funding strategy, its capacity to manage liabilities, and its expectations regarding risks and prospects. When this information is perceived positively by the market, an increase in market valuation relative to book value can be reflected in a higher MTB value. With the coefficient of the ESG and Green Innovation interaction variable of 0,1955 and significant (Prob. 0,000), it is possible to control the relationship between ESG and business reputation by using Green Innovation. This suggests that the implementation of green innovation strengthens the impact of ESG disclosure on corporate reputation; that is, companies

Table 3.
Descriptive Statistics

	ESG	DAR	SIZE	Green Innovation	Company Reputation
Mean	0.6302	0.4600	28.9400	3.7500	2.3100
Median	0.6265	0.4400	28.7600	3.0000	1.9800
Maximum	1	0.8500	32.5000	9.0000	6.8500
Minimum	0.1826	0.1200	26.1000	0.0000	0.6200
Std. Dev.	0,20191	0.1800	1.4500	1.4513	1.2700
Observations	360	360	360	360	360

Source: Data processed by Stata 17, 2026

Table 4.
Hypothesis Testing

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.1490	0.0485	3.08	0.003
ESG	0.0878	0.0524	1.78	0.045
DAR	0.7558	0.1109	6.81	0.000
SIZE	0.0040	0.0017	2.25	0.026
ESG*GI	0.1955	0.0438	4.46	0.000
R-squared	0.5432	Prob(F-statistic)		0.0000
Adjusted R-squared	0.5296	observations		360

Source: Data processed by Stata 17, 2026

with higher levels of green innovation will benefit more from the implementation of ESG than companies with lower levels of green innovation. With a Prob (F-statistic) value of 0,0000, the test findings demonstrate the overall significance of the model. The test findings demonstrate that the models together affect the company's reputation (model fit). 0.5296 is the Adjusted R-squared value. The findings indicate that about 52.96% of the variation in corporate reputation may be explained by variables related to ESG, green innovation, leverage, and firm size. The remaining variation is explained by factors not included in the model.

Companies that make more ESG disclosures will improve their reputation.

This study demonstrates how ESG disclosure can improve a business's standing. This is consistent with the legitimacy theory, which holds that businesses will work to acquire and preserve societal legitimacy by conforming their behavior to accepted social norms, beliefs, and expectations. Businesses can utilize ESG implementation to show that their actions take social responsibility, good governance, and the environment into account in addition to financial benefit. When a business can live up to expectations, companies must improve or enhance their corporate image in the eyes of the public through the environmental activities they undertake (Mishra & Sant, 2023). Descriptive statistics show that the average ESG disclosure for manufacturing companies in Indonesia is 0,6302, meaning more than 50% of the disclosure items required in the ESG assessment have been met. However, the minimum value of 0,1826 and the maximum value of 1,0000 indicate that the level of ESG disclosure still varies across companies. This situation reflects that ESG implementation and transparency in Indonesia's manufacturing sector are not yet fully uniform. ESG disclosure can be viewed as a long-term investment, as information on sustainability practices has the potential to build stakeholder trust and strengthen a company's long-term reputation (Ng et al., 2023).

Stakeholder theory, which highlights a business's capacity to manage its interactions with a variety of stakeholders, including investors, employees, consumers, governments, and communities, is further supported by these findings. Through environmental impact management, employee rights protection, and transparent and accountable governance practices, sound ESG practices reflect a company's concern for stakeholder interests. This concern will increase stakeholder trust and loyalty, which in turn will enhance the company's reputation. Stakeholders perceive businesses that implement sound governance, environmental, and social practices as more responsible and sustainable. Business reputation improves as a result of this positive perception. These results support the notion that a company's commitment to sustainability issues and financial performance create a reputation (Wang et al., 2023). According to the study's findings, environmental disclosure improves stakeholder views by showcasing a company's performance and reputation for environmental responsibility. Investors, for instance, will be drawn to businesses that have a strong reputation and have earned the public's trust by using natural resources in their operations and production in an efficient manner (Kumawat & Patel, 2022). Businesses with strong ESG show that businesses with high levels of ESG disclosure are worth more than businesses with low levels of ESG disclosure (Aprilina et al., 2025)

The study's findings also show that a company's reputation is influenced by how it handles its social and environmental effects in addition to its financial performance. Amid growing public awareness of sustainability issues, companies that do not implement ESG risk facing social pressure, public criticism, and losing stakeholder trust. Conversely, companies that consistently implement ESG risk maintaining a good reputation. Consequently, these results show that a company's reputation is greatly influenced by ESG (Yang et al., 2023). In addition to

enhancing risk management and regulatory compliance, effective ESG implementation contributes to a company's reputation development in a more strategic manner. In the end, a company's reputation can help it in the long run by boosting investor confidence, customer loyalty, and market competitiveness (Luan & Wang, 2023).

This research is in line with research (Afrin & Rahman, 2023; Arduini et al., 2023; Fatemi et al., 2018; Melinda & Wardhani, 2020; Sadiq et al., 2020; Deeb et al., 2023). ESG is also used as a benchmark to assess the moral impact of investing in a company and to project a positive image to capital market investors (Aprilina et al., 2023).

ESG disclosure's impact on a company's reputation can be enhanced via green innovation.

Additionally, the study shows that green innovation can improve the effect of ESG on a company's reputation. According to this research, a company's reputation will benefit more from ESG disclosure and execution if it can also turn its sustainability pledges into real advancements. Therefore, ESG not only communicates a company's commitment to environmental, social, and governance elements, but when it is accompanied by tangible actions through green innovation, its impact on reputation becomes more credible.

These results are in line with stakeholder theory, which highlights that a company's capacity to meet the needs, expectations, and interests of its diverse stakeholders is essential to its corporate sustainability. According to this viewpoint, ESG disclosure is a crucial tool for businesses to convey their dedication to environmental, social, and governance obligations, improving transparency and fortifying stakeholder bonds. However, unless these pledges are backed by concrete actions and successful implementation, ESG disclosure alone might not be enough to elicit favorable reactions from stakeholders. While ESG reflects a company's stated commitment to sustainability, stakeholders are more likely to perceive such commitments as credible and value-enhancing when they are accompanied by substantive sustainability practices. Consequently, ESG initiatives that are merely symbolic may fail to build stakeholder trust, whereas genuine implementation can strengthen stakeholder confidence, enhance corporate reputation, and contribute to long-term firm value (Noronha et al., 2026). Because it represents a company's efforts to incorporate sustainability into its business processes through the creation of more ecologically friendly products, production methods, technology, and resource usage, green innovation is a type of substantive evidence. The company's reputation and social validity are improved by this concrete proof. Businesses that actively develop green technologies in addition to reporting or implementing ESG standards will be seen favorably by stakeholders and the community. Environmentally friendly innovation greatly enhances the impact of ESG on a company's reputation, according to the positive and considerable influence of green innovation as a moderating variable (Singh et al., 2020). In the context of this research, the moderation results further explain that the reputational value of ESG is not automatic, but rather depends on the extent to which these commitments are translated into actions that are perceived and observed by stakeholders. The results also show that companies' ESG commitments to long-term sustainability are manifested in strategic actions oriented toward long-term sustainability, not just in declarations (Aprilina et al., 2025). These results suggest that a company's reputation will be more affected by ESG adoption if it is accompanied by a high degree of green innovation. Therefore, green innovation functions as a tool that converts ESG from merely stated commitments into observable sustainability practices, bolstering societal legitimacy and eventually improving a company's reputation (Luan & Wang, 2023).

The results of this study have significant ramifications for Indonesian manufacturing firms. Businesses must

make sure that these pledges are linked with their innovation goals and business operations in addition to improving the quantity and quality of ESG disclosures. The more concrete the green innovations implemented, the more likely it is that ESG will be perceived as a substantive commitment, rather than merely symbolic. These results show that ESG and green innovation work in tandem to shape a company's reputation, with ESG communicating a commitment to sustainability and green innovation offering tangible proof of that commitment.

According to stakeholder theory, green innovation enables businesses to more effectively satisfy the demands and expectations of diverse stakeholders. Investors are increasingly paying attention to green innovation to demonstrate that businesses are prepared for future environmental and regulatory risks. Businesses that create environmentally friendly products are generally well-regarded by consumers, and governments and the general public view green innovation as concrete evidence of sustainable development. Corporate relationships with stakeholders are strengthened when green innovation is supported by ESG, which enhances the company's credibility. ESG includes initiatives to lessen adverse effects on the environment, enhance social welfare, and successfully manage corporate governance. Companies may continue to produce goods and inventions while preserving environmental sustainability by utilizing green innovation (Liao et al., 2022). Green innovation can significantly improve a company's ability to develop its business sustainably. It can reduce operational costs by saving energy and managing waste, which increases profitability and supports the company's long-term sustainability goals. Companies can avoid environmental threats such as climate change, natural resource shortages, and stricter regulations by adopting green innovation. Companies are more stable in the long term with better risk management. By implementing green innovation, you can improve the company's reputation, community relations, and customer loyalty. Thus, overall ESG initiatives are strengthened by improved social performance and governance (Liet al., 2023).

The findings demonstrate that as a company's degree of green innovation rises, so does the impact of ESG on its reputation. This implies that innovations centered on resource efficiency, environmental protection, and minimizing adverse environmental effects can support ESG performance (Aprilina et al., 2023). Many companies have adopted ESG practices, but some have failed to incorporate them into their innovation strategies. Companies that successfully combine ESG with green innovation will be more likely to stand out from their competitors, as their reputation is based on compliance, in addition to sustainability and innovation. Furthermore, green innovation enables companies to internalize ESG into their business models, making its impact on reputation more consistent and sustainable. Green innovation helps companies reduce environmental impact, improve energy efficiency, and create economic and social value. When these benefits are directly felt by stakeholders, a company's reputation not only improves gradually but also becomes more resilient (Dicuonzo et al., 2022).

Expansion Test

To determine which ESG dimensions have the biggest effects on a company's reputation, expansion testing was done to look at the environmental, social, and governance aspects. Manufacturing businesses are able to assess how much their ESG efforts enhance their brand. In a time when social and environmental responsibility is becoming more and more important, businesses can take strategic steps to control risks, seize opportunities, and satisfy stakeholder expectations. They have to comprehend the significance of every facet of this study.

Environmental responsibility improves a company's reputation, according to Table 5's expansion test

results. A company's reputation is enhanced by information on how its operations affect the environment, including carbon emissions, the use of natural resources, waste management, and other sustainability initiatives. In recent years, the number of businesses needing and opting to share this information has increased in response to market demand for increased environmental awareness. (Yang et al., 2023). In accordance with stakeholder theory, investors place greater trust in transparent disclosure of environmental policies and practices. This is crucial for maintaining good relationships with stakeholders and attracting new investment. Environmental disclosure often gives companies a competitive advantage. They attract consumers who are more concerned about environmental issues because they can differentiate themselves from less transparent competitors (Wang et al., 2022). Studies show that businesses that focus on sustainability and regularly disclose environmental information have better long-term financial performance. This is due to better risk management, reduced costs, and increased market appeal, which can lead to more stable and sustainable revenues. Environmental disclosure helps businesses identify and manage risks associated with increasingly stringent environmental regulations. Companies can avoid government fines or sanctions that could halt their expansion by demonstrating their commitment to complying with regulations and reducing their negative environmental impact (Dkhili, 2023).

The results of the expansion test also show that social interaction helps improve a company's reputation. Social disclosure, also known as societal disclosure, is information provided by companies regarding the social impact of their business operations, including issues such as diversity, employee well-being, corporate social responsibility (CSR), impact on society, ethics, and human rights. According to legitimacy theory, companies must gain support from external parties, such as investors, customers, and communities, to survive and thrive (Santos et al., 2022). By demonstrating that a business adheres to the social values expected by society and other stakeholders, social disclosure increases the support given to the company (Liu et al., 2023). With greater support, businesses can capitalize on opportunities and mitigate risks. This will boost their reputation among stakeholders. Companies can also identify opportunities to improve their internal processes, which can lower costs and increase efficiency. By taking a more structured approach to social factors, companies can operate more efficiently and achieve a better reputation (Wang et al., 2022).

The study's findings suggest that a company's reputation is unaffected by governance disclosure. Corporate governance encompasses all aspects of a company's structure, rules, and practices, including risk management, financial transparency, and current committees. According to stakeholder theory, the study's findings imply that stakeholders might not give corporate governance concerns in Indonesian manufacturing firms much thought, or that disclosures may not meet their expectations of transparency or relevance. In terms of legitimacy theory, this suggests that governance practices and disclosures may

Table 5
Expansion Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Cons	0,2187	0,5565	3,81	0,000
W_ESCORE	0,1782	0,4273	4,17	0,006
W_SSCORE	0,1047	0,0378	2,77	0,003
W_GSCORE	0,0273	0,0392	0,70	0,486
W_DAR	0,8009	0,1172	6,83	0,000
W_SIZE	0,0036	0,0019	1,88	0,062

Source: Data processed by Stata 17, 2026

not provide significant legitimacy or perceived value to the company. This is due to the lack of legal enforcement in Indonesia. This study is consistent with several previous studies showing that corporate governance disclosures are limited to fulfilling administrative requirements and do not impact company performance or activities (Muntaha et al., 2021). Therefore, governance disclosure is not a factor that can influence the improvement or decline of a company's reputation (Difa et al., 2024). Other studies that support the results of this study include stating that ESG is a cost center and has indirect benefits for shareholders (Ionescu et al., 2019) and that ESG is only to maintain the company's reputation to look good or to carry out greenwashing (Chen et al., 2018).

Test of Sensitivity

This study's sensitivity test involved comparing the research regression model test utilizing prior ESG measurements, specifically GRI (Global Reporting Initiative), with the research regression model test employing ESG data in accordance with (Nasdaq, 2019). The results of these two tests will then be compared to determine which value has the greater influence. The value with the greater influence is considered a better model than the value with the smaller influence.

MtB(Model 1)= 0.1490 + 0.0878ESG + 0.7558DAR + 0.0040SIZE + 0.1955 (ESG×GI) +ε (ESG Disclosure Measurement with Nasdaq)

MtB(Model 2)= 0.0192 + 0.0259ESG + 1.1066DAR + 0018SIZE + 0.0037 (ESG×GI) +ε (ESG Disclosure Measurement with GRI)

The test findings clearly demonstrate that Models 1 and 2 have different levels of sensitivity. The ESG variable in Model 1 has a t-statistic of 1,78 with a probability of 0,045 when ESG disclosure is quantified using Nasdaq. ESG is important at the 5% level, according to this result. Additionally, a t-statistic of 4,46 with a probability of 0,000 is produced by the interaction variable between ESG and GI. This result suggests that when ESG disclosure is quantified using the Nasdaq indicator, Green Innovation plays a major moderating impact in enhancing the link between ESG and the dependent variable. Meanwhile, the ESG variable in Model 2, which employs ESG disclosure metrics based on the GRI, has a t-statistic of 0.58 with a probability of 0.563, indicating that the impact of ESG is not statistically significant. The interaction between ESG and GI likewise shows the same outcome, with a probability of 0.941 and a t-statistic of 0.07. Therefore, neither the direct effect of ESG disclosure nor the moderating effect of Green Innovation has demonstrated statistical significance when ESG is measured using the GRI framework. This study shows how sensitive empirical findings are to the ESG measuring methodology (measurement sensitivity). The model's capacity to determine the association between ESG disclosure and the dependent variable may be impacted by variations in the features, extent, and

Table 6.
Sensitivity Test

Variables	Model 1 (Nasdaq)			Model 2 (GRI)		
	Coefficient	t-Statistics	Prob	Coefficient	t-Statistics	Prob.
C	0,1490	3.08	0,003	0,0192	0,15	0,878
ESG	0,0878	1.78	0,045	0,0259	0,58	0,563
DAR	0,7558	6,81	0,000	1,1066	0,10	0,000
SIZE	0,0040	2,25	0,026	0,0018	0,43	0,066
ESG*GI	0,1955	4,46	0,000	0,0037	0,07	0,941
Adjusted R^2	0,5296			0,2778		
Prob(F-statistic)	0,000			0,003		
Number of Obs	360			360		

Source: Data processed by Stata 17, 2026

applicability of ESG disclosure indicators.

Sensitivity testing is performed by examining the goodness of fit and modified R-squared value. The impact of ESG on reputation with the moderating variable Green Innovation using GRI measures (Model 2) is 27.78%, according to Table 6's adjusted R-squared value of 0.2778. The model's goodness of fit is 0.003, indicating that it is an excellent fit. Additionally, Table 6's results show that Model 1's adjusted R-squared value using Nasdaq is 0,5296, indicating that ESG has an impact on a company's reputation, with Green Innovation as a moderating variable using measurements (Nasdaq, 2019) of (52,96%). The model's goodness of fit is 0,000, indicating that it is a good fit.

The results of the sensitivity test conducted in this study by testing using ESG disclosure variables with GRI measurements and tests using ESG variables with (Nasdaq, 2019) showed that the adjusted R-squared value was 52,96%, while in the Model 2 (GRI) test it was 27,78%, which means that the test using ESG variables with measurements (Nasdaq, 2019) had a greater influence value compared to the test using ESG variables with GRI measurements. The results of this sensitivity test also showed that the model using measurements (Nasdaq, 2019) showed better results than the model with ESG disclosure measurements using previous measurements (GRI).

CONCLUSION AND IMPLICATIONS

Conclusion

The research findings indicate that ESG disclosure in manufacturing companies positively impacts the reputation of manufacturing companies in Indonesia. These results show that an essential component of a sustainability plan that has a big influence on stakeholder views is transparency in environmental, social, and governance issues. This is more than just meeting regulatory requirements. ESG disclosure shows that a business is conscious of how its activities affect society, the environment, and moral and responsible governance. With investors, customers, staff, and the local community, this openness fosters credibility, trust, and long-term partnerships. Additionally, the study shows that Green Innovation can increase the impact of ESG disclosure on the reputation of businesses. Compared with information disclosure alone, ESG disclosure supported by concrete environmentally friendly innovation practices will have a greater reputational impact. The results demonstrate that legitimacy and public trust can be built through transparency and sustainability-oriented innovation. The company's enthusiasm for implementing ESG commitments into strategic and operational actions that benefit the environment and society is demonstrated by Green Innovation. The expansion test results also demonstrate that business reputation is positively impacted by environmental and social transparency, but not by governance disclosure. This shows that stakeholders genuinely value social responsibility and environmental understanding. Nevertheless, there is little proof that a company's reputation is greatly impacted by the disclosure of governance components. This implies that without the backing of powerful environmental and social factors, governance might not be able to create favorable reputational judgments on its own.

Implications

ESG disclosure is not only a reporting requirement; it should be an integral component of a company's strategy. Since disclosure of environmental, social, and governance information has been shown to improve reputation, it must be handled methodically, consistently, and using reliable data. To ensure that sustainability commitments are not limited to reporting but are also realized in practice, Green Innovation is a strategic component that enhances the credibility of ESG information. Technology, energy efficiency, waste management, and the creation of more ecologically friendly products should all be included in manufacturing company management's long-term reputation strategy. Given that social and

environmental disclosure has been shown to improve a company's reputation, this study recommends that companies focus more strategically on these areas. Companies should not only concentrate on administrative governance; they must also demonstrate a concrete commitment to social responsibility and managing environmental impacts directly related to society.

LIMITATIONS AND SUGGESTIONS

Limitations

With a sample size of only 360 companies and an empirical research period spanning only 2020 to 2024, the results are insufficient for generalization. Measurement of ESG disclosure and corporate reputation variables relies on secondary data available in sustainability reports or annual reports. As a result, the accuracy and comprehensiveness of the data that businesses reveal are essential. The postponement of sustainability reporting obligations to 2021 has resulted in many companies not yet submitting their sustainability reports in 2020. This study's use of MTB as a stand-in for business reputation is limited because it also accounts for a number of other elements that affect market valuation. Therefore, to assess the consistency of the results, future research could utilize a more direct measure of business reputation based on stakeholder views, reputational rankings, or a corporate reputation index. Additionally, this study does not adequately account for any other external elements that could affect a company's reputation, such as public perception, media exposure, or macroeconomic developments.

Suggestions

Future studies should increase the sample size and incorporate more control factors in order to have a deeper understanding. Future studies are advised to broaden the research object beyond manufacturing businesses to include other sectors like finance and services in order to provide a more complete picture of the impact of ESG on company reputation across multiple industrial sectors. To strengthen the theory development, future studies could include additional variables that may influence corporate reputation, such as ownership structure, audit quality, financial performance, or media exposure.

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