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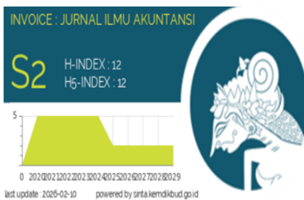

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Audit Quality Moderating Managerial Ownership and ESG Disclosure Effects on Firm Value in Non-Cyclical Consumer Firms

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ABSTRACT

This study examines the effect of managerial ownership and Environmental, Social, and Governance (ESG) disclosure on firm value, with audit quality as a moderating variable, in consumer non-cyclical firms listed on the Indonesia Stock Exchange during the 2021–2024 period. Grounded in agency theory and signaling theory, this research addresses inconsistencies in prior literature regarding the value relevance of ownership structure and sustainability disclosure in emerging markets. Using a quantitative approach with purposive sampling, 45 firms were selected, resulting in 180 firm-year observations. The data were analyzed using Moderated Regression Analysis (MRA) after passing classical assumption tests. The results reveal that managerial ownership has a significant negative effect on firm value, indicating the presence of managerial entrenchment that outweighs the alignment effect. ESG disclosure is also found to negatively affect firm value, suggesting that investors may perceive sustainability initiatives as short-term cost burdens rather than value-enhancing strategies. Furthermore, audit quality does not moderate the relationship between managerial ownership and firm value, implying limited effectiveness of external monitoring in mitigating ownership-related agency conflicts. However, audit quality significantly strengthens the relationship between ESG disclosure and firm value by enhancing the credibility of sustainability information. This study contributes to the literature by integrating governance, sustainability, and assurance perspectives within a unified framework and provides empirical evidence from an emerging market context, highlighting that the value implications of ESG disclosure depend on information credibility and institutional settings.

1. Introduction

At the global level, investment trends are increasingly oriented toward long-term value creation rather than short-term profitability. This phenomenon is also evident in Indonesia, where investor participation continues z grow significantly. Data from KSEI in 2024 shows that the number of investors reached 14,871,639, representing an increase of 22.22% compared to 12,168,061 in the previous year, and further increased to 15,161,166 in January 2025. This growth reflects a shift in public behavior toward productive investment, driven by financial service digitalization, improved financial literacy, and easier access to capital markets. These developments highlight the growing importance of company value in guiding investment decisions in both global and local contexts.

Company value is commonly measured using the Price to Book Value (PBV) ratio, which reflects how the market evaluates a company's book value (Endri & Fathony, 2020). Firms with PBV values greater than one are considered to have strong growth prospects because their market value exceeds their book value (Dharma et al., 2023). However, empirical evidence indicates fluctuations in company value,

particularly in the consumer non-cyclicals sector. For instance, PT Japfa Comfeed Indonesia Tbk experienced a decline in PBV from 1.53% in 2021 to 1.37% in 2024, while PT FKS Food Sejahtera Tbk decreased from 1.12% to 0.93% over the same period. Interestingly, this decline in company value is not always accompanied by reduced investor interest, suggesting that investors consider broader factors beyond short-term financial indicators.

This phenomenon indicates that investors increasingly evaluate non-financial aspects such as corporate governance, reputation, and sustainability practices. Supporting this view, companies like PT Akasha Wira International Tbk experienced an increase in company value from 2% in 2021 to 2.37% in 2024, reinforcing the argument that company value is influenced by various strategic factors.

From a theoretical perspective, company value is influenced by both external and internal factors. External factors include macroeconomic conditions, regulations, and industry dynamics (Salim & Wahyuni, 2020), while internal factors encompass ownership structure, management quality, and commitment to sustainability practices. This study focuses on two key internal factors: managerial ownership and Environmental, Social, and Governance (ESG) disclosure.

Managerial ownership is considered an important corporate governance mechanism that can reduce agency conflicts between managers and shareholders (Solikhah et al., 2022). When managers hold company shares, they act not only as agents but also as principals, aligning their interests with those of shareholders. This alignment is expected to encourage decisions that enhance company value. However, corporate governance practices in Indonesia still face challenges, as indicated by the Asian Corporate Governance Association report, which ranks Indonesia 12th in Asia. This suggests that the effectiveness of managerial ownership in improving company value has not yet reached its optimal level.

In situations of low managerial ownership, managers tend to prioritize personal interests, such as short-term bonuses, over long-term sustainability (Pramukti & Ibrahim, 2025). Conversely, higher managerial ownership can promote long-term orientation because managers also benefit from increases in stock value (Indra et al., 2025; Sapna et al., 2025). Previous research by Morck further indicates that managerial ownership within the range of 5–25% has the strongest influence on enhancing company value.

In addition to governance mechanisms, ESG disclosure has emerged as a critical factor for global investors (Kiran et al., 2024). ESG reflects a company's commitment to sustainable business practices, encompassing environmental, social, and governance dimensions. Modern investors no longer focus solely on profitability but also consider corporate social and environmental responsibility (Muyiwa-Ajayi et al., 2024). In Indonesia, ESG-related issues are highly relevant, as evidenced by the national waste volume reaching 27 million tons per year in 2024, with approximately 14.3 million tons remaining unmanaged. Much of this waste originates from household consumption, closely linked to products in the consumer non-cyclicals sector.

The consumer non-cyclicals sector plays a vital role because it produces essential goods widely consumed by society. However, its production and distribution activities have significant environmental impacts, leading to increasing public expectations for corporate transparency and accountability in sustainability practices.

Despite the growing importance of managerial ownership and ESG disclosure, inconsistencies remain in the literature regarding their influence on company value. Moreover, prior studies have not sufficiently explored the role of monitoring mechanisms that may strengthen or weaken these relationships. One such mechanism is audit quality.

Audit quality plays a crucial role in enhancing the credibility of financial statements and reducing the risk of information

manipulation. High-quality audits increase investor confidence in the integrity of corporate disclosures, thereby potentially strengthening the relationship between governance mechanisms, sustainability practices, and company value. However, the role of audit quality as a moderating variable in the relationship between managerial ownership, ESG disclosure, and company value remains underexplored, particularly in the context of the consumer non-cyclicals sector in Indonesia.

Based on the identified gaps, this study formulates the research problem as follows: how does audit quality moderate the relationship between managerial ownership and ESG disclosure on company value? Accordingly, the objective of this study is to examine the moderating role of audit quality in the relationship between managerial ownership, ESG disclosure, and company value.

Theoretically, this study contributes to the development of corporate governance and sustainability literature by integrating audit quality as a moderating variable within the framework of firm value. Practically, the findings are expected to provide insights for policymakers, investors, and corporate managers in improving governance practices, enhancing transparency, and strengthening sustainability strategies. The novelty of this study lies in the integration of managerial ownership, ESG disclosure, and audit quality within a single empirical model, particularly in the underexplored context of Indonesia's consumer non-cyclicals sector.

2. Literature Review

2.1 Conceptual and Theoretical Foundations

2.1.1 Company Values

Company value is a reflection of investors' perception of the performance and future prospects of a business entity which is reflected in its share price in the capital market (Criaco et al., 2014). The higher the company's value, the higher the level of investor confidence in the company's operational sustainability and ability to create long-term profits. In the development of the Indonesian capital market, the increase in the number of investors reported by PT Kustodian Sentral Efek Indonesia shows that investment decisions are no longer solely based on financial performance, but also consider governance and sustainability aspects. This is in line with the view that a company's value is not only shaped by financial factors but also by non-financial factors such as ownership, transparency, and commitment to sustainable business practices as described in modern corporate value theory by Suhartini et al. (2024).

In the context of the consumer non-cyclicals sector which has stable characteristics because its products are still needed in various economic conditions, the company's value has become very sensitive to market confidence. The stability of demand in this sector makes investors focus more on the quality of the company's management rather than just short-term profit fluctuations.

2.1.2 Agency Theory

The theory of agency put forward by Kasbar et al., (2023) explained that the relationship between the company owner and management has the potential to cause a conflict of interest due to the difference in purpose between the principal and the agent. The owner expects an increase in the company's value in the long term while the management may be oriented towards personal interests or short-term goals (Heriyah., 2026). This conflict causes agency costs that can reduce the company's efficiency if not managed properly.

In this study, agency theory is the foundation for understanding how managerial ownership and audit quality play a role in reducing these conflicts. The presence of supervisory mechanisms such as quality external audits is able to reduce information asymmetry between management and shareholders so that the decisions taken become more aligned with the interests of investors as explained by Saputra & Masyhuri, (2025).

2.1.3 Managerial Ownership

Managerial ownership is the proportion of company shares owned by the management. According to the theory of the coordination of interests by Rahma et al. (2023) Increased shareholding by managers will encourage management to act more carefully in making decisions because they share the risks as owners. This is ultimately expected to be able to increase the company's value through improving performance and operational efficiency.

However, the relationship between managerial ownership and company value is not always linear. At a certain level of ownership, management can gain so much power that it has the potential to carry out unsupervised opportunistic actions as described in the entrenchment theory by Waseem et al. (2023). Therefore, an additional supervisory mechanism is needed that is able to ensure that managerial ownership really functions as a tool for aligning interests.

2.1.4 ESG Disclosure

Environmental, Social and Governance disclosure is a form of corporate transparency related to environmental, social and governance responsibilities. According to Febriantoko et al. (2025) ESG practices have a positive relationship with financial performance and company value because they are able to improve reputation and reduce non-financial risks. In the consumer non-cyclicals sector, ESG is becoming increasingly important because companies interact directly with consumers and the public, so that social legitimacy becomes a strategic factor.

ESG disclosures also serve as a signal to investors that the company has a commitment to sustainability as described in the signaling theory by Jean et al. (2021). Transparent ESG information is able to increase market confidence and attract institutional investors who increasingly consider sustainability aspects in their investment decisions.

2.1.5 Audit Quality

Audit quality reflects the auditor's ability to detect and report material errors in financial statements as described by Hanafi et al. (2026). High-quality audits increase the credibility of the information conveyed by the company, thereby reducing uncertainty for investors. In the context of ESG disclosure, audit quality also plays a role in ensuring that the information presented is not purely symbolic but truly reflects the company's sustainability practices.

In this study, audit quality is seen as an external mechanism that is able to strengthen the effectiveness of internal governance such as managerial ownership and increase the reliability of ESG information delivered to the public.

2.2 Review of Empirical Studies

Company value has been widely examined as a key indicator reflecting investor perceptions of firm performance and future prospects. Recent empirical evidence indicates that company value is no longer solely determined by financial performance but is increasingly influenced by non-financial factors such as governance structures, ownership composition, and sustainability practices (Suhartini et al., 2024). This shift is particularly relevant in emerging markets such as Indonesia, where the growth in investor participation reported by PT Kustodian Sentral Efek Indonesia reflects a broader consideration of ESG-related information in investment decisions. However, prior studies tend to emphasize general sectors and often overlook specific industry characteristics, such as the relatively stable demand structure found in the consumer non-cyclicals sector.

Agency theory provides an important foundation for understanding governance mechanisms within firms. Empirical studies by Kasbar et al. (2023) highlight that conflicts between principals and agents can reduce firm efficiency due to misaligned objectives. Supporting this Saputra and Masyhuri (2025) find that effective monitoring mechanisms, including high-quality audits, play a significant

role in reducing information asymmetry and aligning managerial decisions with shareholder interests. Nevertheless, many prior studies examine governance mechanisms in isolation, limiting a comprehensive understanding of how multiple mechanisms interact simultaneously.

Managerial ownership has also been extensively studied as a governance mechanism. Empirical findings suggest that increased managerial shareholding can align interests between managers and shareholders, thereby improving firm performance and value (Rahma et al., 2023). However, other studies reveal a non-linear relationship, where excessive ownership may lead to managerial entrenchment and opportunistic behavior (Waseem et al., 2023). This inconsistency indicates that managerial ownership alone may not be sufficient to ensure optimal governance outcomes, especially without complementary monitoring mechanisms.

Furthermore, ESG disclosure has emerged as a critical determinant of firm value in recent literature. Studies by Febriantoko et al. (2025) demonstrate that ESG practices positively influence financial performance and enhance firm reputation, particularly in sectors with high public exposure such as consumer non-cyclicals. ESG disclosure also functions as a signaling mechanism to investors, indicating a firm's commitment to sustainability (Jean et al., 2021). Despite this, prior empirical research often treats ESG disclosure as an independent determinant, without sufficiently considering how its credibility may depend on external assurance mechanisms.

Audit quality is another important factor that strengthens the reliability of corporate information. According to Hanafi et al. (2026), high audit quality enhances the credibility of financial reporting and reduces investor uncertainty. Empirical evidence suggests that audit quality not only improves financial transparency but also ensures that ESG disclosures reflect substantive practices rather than symbolic actions. However, limited studies have examined the moderating role of audit quality in the relationship between governance mechanisms and firm value, particularly within specific sectors.

Overall, prior empirical studies provide valuable insights into the determinants of firm value, yet they remain fragmented. There is still limited integration of managerial ownership, ESG disclosure, and audit quality within a single framework, especially in the context of the consumer non-cyclicals sector.

2.3 Identification of the Research Gap

Based on the review of prior studies, several research gaps can be identified. First, although company value has been widely studied, there is limited empirical evidence focusing specifically on the consumer non-cyclicals sector, which has unique characteristics in terms of demand stability and investor expectations. Second, previous studies tend to examine managerial ownership and ESG disclosure separately, without integrating both variables within a comprehensive governance framework. This creates a limitation in understanding how internal and external governance mechanisms jointly influence firm value. Third, while audit quality has been recognized as an important factor in enhancing information reliability, its role as a moderating variable in the relationship between managerial ownership, ESG disclosure, and firm value remains underexplored.

Most studies focus on its direct impact rather than its interactive effects. Finally, inconsistencies in prior findings—particularly regarding the relationship between managerial ownership and firm value (Rahma et al., 2023; Waseem et al., 2023)—suggest the need for additional variables that can explain these variations. Therefore, this study addresses these gaps by integrating managerial ownership, ESG disclosure, and audit quality within a unified framework in the consumer non-cyclicals sector.

2.4 Development of the Conceptual Framework

This study develops a conceptual framework that integrates internal governance,

external transparency, and assurance mechanisms in explaining firm value. Managerial ownership represents an internal governance mechanism that aligns the interests of managers and shareholders, potentially enhancing firm value through improved decision-making (Rahma et al., 2023). However, its effectiveness may vary depending on the presence of other control mechanisms due to the risk of managerial entrenchment (Waseem et al., 2023). ESG disclosure reflects a firm's commitment to sustainability and transparency, which can enhance reputation and attract investors, thereby increasing firm value (Febriantoko et al., 2025).

As suggested by signaling theory (Jean et al., 2021), ESG information serves as a positive signal to the market regarding the firm's long-term prospects. Audit quality functions as an external monitoring mechanism that enhances the credibility of both financial and non-financial information (Hanafi et al., 2026). In this study, audit quality is proposed to strengthen the effectiveness of managerial ownership and ESG disclosure by ensuring that reported information is reliable and free from material misstatements. Thus, the conceptual framework posits that managerial ownership and ESG disclosure influence firm value, while audit quality moderates these relationships by enhancing information credibility and reducing agency conflicts

2.5 Hypotheses or Research Propositions

Based on the conceptual framework and prior empirical findings, the following hypotheses are proposed:

H1: Managerial ownership has a positive effect on firm value.

This hypothesis is supported by the alignment of interests perspective, which suggests that increased managerial ownership encourages better decision-making and enhances firm performance (Rahma et al., 2023).

H2: ESG disclosure has a positive effect on firm value.

ESG disclosure improves corporate reputation and reduces non-financial risks, thereby increasing investor confidence and firm value (Febriantoko et al., 2025; Jean et al., 2021).

H3: Audit quality moderates the relationship between managerial ownership and firm value. High audit quality strengthens monitoring mechanisms, reducing agency conflicts and enhancing the positive impact of managerial ownership (Saputra & Masyhuri, 2025; Hanafi et al., 2026).

H4: Audit quality moderates the relationship between ESG disclosure and firm value.

Audit quality enhances the credibility of ESG information, ensuring that disclosures reflect actual practices and increasing their impact on firm value (Hanafi et al., 2026).

3. Research Methods

The research methodology section explains how the study is designed and conducted to answer the research questions and achieve the research objectives. This study employs a structured and systematic methodological framework to ensure transparency, rigor, and replicability. The alignment between research design, data collection, and analytical techniques is emphasized to produce credible and reliable findings.

3.1 Research Design

This study uses a quantitative approach with a type of causality associative research that aims to analyze the relationship between managerial ownership and ESG disclosure on company value with audit quality as a moderation variable (Akbar et al., 2023). The quantitative approach was chosen because this study focuses on hypothesis testing through the analysis of numerical data obtained from the company's financial statements and sustainability reports. This design is appropriate to examine causal relationships and test the proposed hypotheses systematically.

3.2 Research Context and Setting

The study focuses on consumer non-cyclicals firms listed on the Indonesia Stock

Exchange (IDX) over the 2021–2024 period. This sector is selected due to its relatively stable demand characteristics, which reduce volatility bias and allow clearer identification of governance and ESG effects on firm value. Moreover, emerging market settings such as Indonesia provide a relevant context to examine deviations from findings in developed markets.

3.3 Population and Sample / Research Participants

The population includes all consumer non-cyclicals firms listed on the IDX. A purposive sampling technique is applied with the following criteria: (1) firms consistently publishing annual and/or sustainability reports during 2021–2024, (2) availability of data on managerial ownership, ESG disclosure, and audit characteristics, and (3) firms not experiencing delisting during the observation period. Based on these criteria, 45 firms were selected, resulting in 180 firm-year observations.

3.4 Data Sources and Data Collection

This study uses secondary data collected from annual reports, sustainability reports, and financial statements obtained from official company websites and the IDX database. Market-based data, including stock prices, are used to measure firm value. The use of publicly available data ensures objectivity and replicability.

3.5 Measurement of Variables and Research Instruments

To improve measurement transparency, each variable is operationalized as follows:

- **Firm Value (Dependent Variable)**
  Measured using **Tobin's Q**, calculated as: *(Market value of equity + book value of debt) / total assets*. Tobin's Q is widely used as it reflects market-based investor perception and future growth expectations.
- **Managerial Ownership (Independent Variable)**
  Measured as the percentage of shares owned by directors and commissioners relative to total outstanding shares. This proxy captures the alignment versus entrenchment effect in agency theory.
- **ESG Disclosure (Independent Variable)**
  Measured using an ESG disclosure index based on content analysis of sustainability reports. The index is constructed by scoring disclosed items across environmental, social, and governance dimensions using a dichotomous approach (1 = disclosed; 0 = not disclosed), then aggregated into a composite score.
- **Audit Quality (Moderating Variable)**
  Measured using a dummy variable, where 1 indicates firms audited by Big Four audit firms and 0 otherwise. This proxy is commonly used to reflect audit credibility and monitoring effectiveness.
- **Control Variables**
  To reduce omitted variable bias, this study includes firm size (log of total assets), leverage (total debt to total assets), and profitability (ROA) as control variables.

The study employs panel data regression with Moderated Regression Analysis (MRA) to test interaction effects. The baseline model is specified as follows:

$$\text{Firm Value} = \beta_0 + \beta_1 MO + \beta_2 ESG + \beta_3 AQ + \beta_4 (MO \times AQ) + \beta_5 (ESG \times AQ) + \beta_6 Controls + \varepsilon$$

The use of MRA is justified as it enables direct testing of moderating effects, particularly the role of audit quality in strengthening or weakening the relationship between independent variables and firm value. Panel data regression is preferred over cross-sectional analysis because it captures both cross-sectional and time-series variations, improving estimation efficiency.

To enhance econometric rigor, several additional tests are conducted:

- **Robustness Checks**:
  Alternative proxies are employed, such as Price-to-Book Value (PBV) for firm value and alternative ESG scoring approaches, to ensure consistency of results.
- **Endogeneity Handling**:
  Potential endogeneity issues, such as reverse

causality and omitted variable bias, are addressed by:

1) using lagged independent variables,
2) applying fixed effects models to control for unobserved heterogeneity, and
3) conducting sensitivity analysis to ensure result stability.

These approaches strengthen the causal interpretation of the findings.

3.6 Data Analysis Techniques

The data analysis method used is moderation regression analysis, which aims to test the role of audit quality in strengthening or weakening the influence of managerial ownership and ESG disclosure on company value. Before hypothesis testing, the data is first analyzed using descriptive statistical tests to describe the characteristics of the research variables. Hypothesis testing is carried out using multiple linear regression analysis combined with the Moderated Regression Analysis approach to identify the role of moderation variables in the relationships between variables.

3.7 Validity, Reliability, and Trustworthiness

To ensure the robustness of the findings, this study applies classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests. These tests are conducted to ensure that the regression model meets the feasibility requirements and produces unbiased and reliable estimates.

3.8 Ethical Considerations

This study uses secondary data obtained from publicly accessible sources such as company reports and capital market platforms. Therefore, it does not involve direct interaction with human participants. However, ethical considerations are maintained by ensuring proper data usage, accurate reporting, and avoidance of data manipulation to uphold academic integrity.

3.9 Research Procedure

The research procedure begins with identifying the research problem and developing hypotheses based on theoretical and empirical literature. The next stage involves collecting secondary data from relevant sources, followed by data processing and analysis using statistical techniques. The results are then interpreted to answer the research questions and draw conclusions regarding the role of managerial ownership, ESG disclosure, and audit quality in influencing company value.

3.10 Methodological Limitations

This study has several limitations, including reliance on secondary data, which depends on the availability and completeness of company disclosures. In addition, the use of specific proxies for variables such as ESG disclosure and audit quality may not fully capture all dimensions of the constructs. The focus on the consumer non-cyclicals sector also limits the generalizability of the findings to other sectors.

4. Results and Discussion

4.1 Research Results

4.1.1 Sample Description and Descriptive Statistics

This study employs a purposive sampling technique on non-cyclical consumer sector companies listed on the Indonesia Stock Exchange during the period 2021–2024 that consistently publish sustainability reports. Based on the sample selection criteria, a total of 45 companies were obtained, resulting in 180 firm-year observations. Descriptive statistical analysis was conducted to provide an overview of the research variables, namely Company Value (PBV), Managerial Ownership (MO), ESG Disclosure (ESG), and Audit Quality (AQ). The results are presented in Table 1.

Table 1. Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Hours of deviation
PBV	180	-0,0537	44,8570	3,5873	6,9077
MO	180	0,000	0,5338	0,3060	0,9317
ESG	180	0,0618	0,8247	0,4638	0,1738
QA	180	0	1	0,62	0,486

Source: Processed data, 2026

The results indicate that company value (PBV) has a mean of 3.5873, with a maximum value of 44.8570 and a minimum value of -0.0537. Managerial ownership (MO) has an average of 0.3060, indicating that management owns approximately 30.6% of company shares on average. ESG disclosure (ESG) shows a mean of 0.4638, reflecting a moderate level of sustainability disclosure. Audit quality (AQ) has a mean value of 0.62, indicating that 62% of the companies are audited by high-quality auditors.

4.1.2 Data Quality and Preliminary Analysis

Before conducting the main analysis, a series of classical assumption tests were performed to ensure the validity and robustness of the regression model.

4.1.2.1 Normality Test

The Kolmogorov–Smirnov test yielded a significance value of 0.000, indicating that the data are not normally distributed. However, based on the Normal P–P Plot, the residuals are distributed closely along the diagonal line. Therefore, the normality assumption is considered acceptable.

4.1.2.2 Autocorrelation Test

Table 2. Autocorrelation Test Results

Indicator	Value
Durbin–Watson	0.964

Source: Processed data, 2026

The Durbin–Watson value of 0.964 is lower than the upper bound (4 – dU = 2.20993), indicating that the regression model does not exhibit autocorrelation.

4.1.2.3 Multicollinearity Test

Table 3. Multicollinearity Test Results

Variable	Tolerance	VIF
MO	0.995	1.005
ESG	0.836	1.196
AQ	0.832	1.202

Source: Processed data, 2026

All variables have tolerance values above 0.10 and VIF values below 10, indicating that there is no multicollinearity in the model.

4.1.2.4 Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

Variable	Sig.
MO	0.615
ESG	0.874
AQ	0.821

Source: Processed data, 2026

All significance values exceed 0.05, indicating the absence of heteroscedasticity. Thus, the model satisfies the homoscedasticity assumption.

4.1.2.5. Main Analytical Results

Hypothesis testing was conducted using Moderated Regression Analysis (MRA). The results are presented in Table 5.

Table 5. Moderated Regression Analysis Results

Variable	Coefficient (B)	t-Statistic	Sig.
Constant	5.093	49.521	0.000
MO	-0.306	-6.580	0.000
ESG	-5.779	-22.063	0.000
AQ × MO	0.074	1.542	0.125
AQ × ESG	3.716	23.841	0.000

Source: Processed data, 2026

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The regression model is formulated as follows:

PBV = 5.093 − 0.306(MO) − 5.779(ESG) + 0.074(AQ × MO) + 3.716(AQ × ESG)

4.1.2.6. Hypothesis Testing Results (Key Findings)

Based on Table 5, the results of hypothesis testing are as follows:

1. Managerial ownership (MO) has a significant negative effect on firm value (PBV) (Sig. = 0.000).
2. ESG disclosure (ESG) has a significant negative effect on firm value (PBV) (Sig. = 0.000).
3. Audit quality (AQ) does not moderate the relationship between managerial ownership and firm value (Sig. = 0.125).
4. Audit quality (AQ) significantly moderates the relationship between ESG disclosure and firm value (Sig. = 0.000).

4.1.2.7. Model Evaluation

Coefficient of Determination

Table 6. Coefficient of Determination

R	R Square	Adjusted R Square
0.937	0.877	0.875

Source: Processed data, 2026

The Adjusted R^2 value of 0.875 indicates that 87.5% of the variation in firm value can be explained by managerial ownership, ESG disclosure, and the interaction effects of audit quality. The remaining 12.5% is explained by other variables not included in the model.

4.2 Research Discussion

4.2.1 Interpretation of Key Findings

The empirical results indicate that managerial ownership has a significant negative effect on firm value. This finding suggests that increasing the proportion of shares owned by management does not necessarily enhance market valuation. From the perspective of agency theory, managerial ownership is expected to align the interests of managers and shareholders by reducing agency conflicts and encouraging managers to make decisions that maximize shareholder wealth (Kasbar et al., 2023; Rahma et al., 2023; Raithel & Schwaiger, 2015). However, the negative relationship observed in this study indicates that managerial ownership may instead lead to managerial entrenchment.

Entrenchment theory explains that when managers hold substantial ownership stakes, they may gain excessive control over corporate decisions, which can weaken external monitoring and allow opportunistic behavior (Waseem et al., 2023). In such situations, managers may prioritize personal interests, such as maintaining their positions or avoiding risky investments, rather than pursuing strategies that maximize firm value. This condition may reduce investor confidence and ultimately lower the market valuation of the firm.

Similarly, ESG disclosure is found to have a significant negative effect on firm value. Although ESG practices are theoretically expected to improve corporate reputation and long-term sustainability, the market may interpret sustainability initiatives as additional costs that reduce short-term profitability. In emerging markets where ESG practices are still developing, investors may also question the credibility of sustainability disclosures, particularly when they are not supported by strong verification mechanisms (Sheehan et al., 2023).

Furthermore, the results show that audit quality does not moderate the relationship between managerial ownership and firm value. This indicates that external audit mechanisms may not significantly influence how managerial ownership affects corporate governance dynamics. However, audit quality significantly moderates the relationship between ESG disclosure and firm value. This suggests that credible assurance mechanisms play an important role in strengthening the reliability of sustainability information and improving investor confidence.

4.2.2. Comparison with Previous Studies

The negative relationship between managerial ownership and firm value contrasts

with the traditional prediction of agency theory, which argues that managerial shareholding aligns the interests of managers and shareholders (Kasbar et al., 2023). However, the findings are consistent with the entrenchment perspective proposed by Waseem et al. (2023), which suggests that excessive managerial ownership can reduce governance effectiveness and negatively affect firm performance.

This result is also supported by Moradi et al. (2022), who found that concentrated managerial control may reduce investment efficiency and ultimately weaken firm value. Similarly, Suhartini et al. (2024) highlight that governance mechanisms such as ownership structure may not always improve firm value unless they are supported by strong monitoring systems.

The negative relationship between ESG disclosure and firm value in this study is consistent with the findings of Sheehan et al. (2023), who argue that ESG initiatives do not automatically generate financial benefits when they are not integrated into the company's strategic objectives. While many studies report positive relationships between ESG disclosure and firm value, the results of this study suggest that investors may respond cautiously to sustainability disclosures when the economic benefits are not clearly visible.

In terms of moderating effects, the significant role of audit quality in strengthening the relationship between ESG disclosure and firm value supports the argument that assurance mechanisms enhance the credibility of corporate disclosures. This finding is consistent with Chelsya (2025), who emphasizes the importance of audit assurance in increasing investor trust in sustainability reporting.

4.2.3 Theoretical Contributions

This study contributes to the development of corporate governance and sustainability literature by providing new insights into the complex relationship between managerial ownership, ESG disclosure, audit quality, and firm value. First, the findings challenge the traditional assumption within agency theory that managerial ownership always aligns the interests of managers and shareholders. Instead, the results support the entrenchment theory perspective, which suggests that excessive managerial control may reduce firm value.

Second, the study extends the application of signaling theory in the context of sustainability reporting. ESG disclosure is generally expected to function as a positive signal regarding a company's commitment to responsible business practices (Jean et al., 2021). However, the findings suggest that such signals may not be effective unless supported by credible assurance mechanisms.

Third, this research also reinforces the relevance of legitimacy theory in explaining corporate sustainability practices. Companies often disclose ESG information to gain legitimacy from stakeholders and society (Jeong & Kim, 2019). However, the results indicate that legitimacy through disclosure alone may not be sufficient to increase firm value without reliable verification mechanisms such as high-quality audits.

4.2.4 Practical and Policy Implications

The findings of this study provide important implications for corporate managers, investors, and policymakers. For corporate managers, the results indicate that increasing managerial ownership alone is not sufficient to enhance firm value. Companies should ensure that ownership structures are supported by effective governance mechanisms to prevent managerial entrenchment.

For companies implementing ESG practices, the findings highlight the importance of integrating sustainability initiatives into core business strategies rather than treating them as symbolic disclosures. When ESG activities are strategically aligned with corporate objectives, they are more likely to generate long-term economic benefits and improve market perceptions.

From a regulatory perspective, policymakers should strengthen regulations

related to sustainability reporting and audit assurance to improve transparency and credibility. Strengthening audit quality standards and encouraging independent verification of ESG disclosures can enhance investor confidence and support sustainable investment decisions.

4.2.5 Integration with the Research Gap

This study addresses several research gaps identified in the literature. Previous studies have often examined managerial ownership, ESG disclosure, and audit quality separately, limiting the understanding of how these factors interact in influencing firm value. By integrating these variables within a single empirical framework, this study provides a more comprehensive perspective on the determinants of firm value. Furthermore, the study contributes to the limited empirical evidence on the moderating role of audit quality in sustainability reporting. While prior research has primarily focused on the direct impact of ESG disclosure on firm performance, this study demonstrates that the credibility of ESG information—enhanced through high-quality audits—plays a critical role in shaping investor perceptions. In addition, the focus on the consumer non-cyclicals sector provides new insights into industries characterized by relatively stable demand but increasing sustainability pressures.

4.2.6 Acknowledgement of Study Limitations

Despite its contributions, this study has several limitations that should be considered when interpreting the results. First, the analysis focuses only on companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange, which may limit the generalizability of the findings to other sectors or countries.

Second, ESG disclosure is measured based on information reported in corporate reports, which may not fully reflect the actual implementation of sustainability practices. Differences in reporting standards and disclosure quality may also affect the accuracy of ESG measurements.

Finally, the proxy used to measure audit quality may not capture all dimensions of audit effectiveness. Future research may consider alternative proxies or incorporate additional governance variables to provide a more comprehensive understanding of the relationship between governance mechanisms, sustainability practices, and firm value.

5. Conclusion

5.1 Summary of Key Findings

This study aims to examine the effect of managerial ownership and ESG disclosure on firm value, with audit quality as a moderating variable in consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange. The findings indicate that both managerial ownership and ESG disclosure have a significant negative effect on firm value. This suggests that higher managerial ownership does not necessarily enhance market perception and may instead reduce firm value due to the entrenchment effect. Similarly, ESG disclosure is not fully appreciated by investors, as it is still perceived as a cost that can suppress short-term financial performance.

Furthermore, audit quality is found to be unable to moderate the relationship between managerial ownership and firm value. However, audit quality significantly moderates the relationship between ESG disclosure and firm value. High-quality audits enhance the credibility of sustainability information, thereby reducing negative investor perceptions of ESG practices.

5.2 Theoretical Contributions

This study contributes to the development of agency theory and legitimacy theory by providing empirical evidence that managerial ownership may lead to entrenchment rather than alignment of interests, particularly in the context of emerging markets. Additionally, the findings challenge the assumption within legitimacy theory that ESG disclosure always generates positive market responses, showing that such disclosures may

instead be viewed skeptically when not supported by credible assurance mechanisms.

Moreover, this study extends prior literature by emphasizing the moderating role of audit quality as a credibility-enhancing mechanism, particularly in strengthening the relationship between ESG disclosure and firm value. This highlights the importance of integrating governance, sustainability, and assurance perspectives within a unified analytical framework.

5.3 Practical and Policy Implications

The results of this study provide important implications for corporate managers, investors, and regulators. For managers, the findings suggest that increasing managerial ownership alone is not sufficient to enhance firm value and should be accompanied by strong governance mechanisms to mitigate entrenchment risks. For companies, ESG practices should not only focus on disclosure but also on the quality and credibility of the information presented. Engaging high-quality auditors can improve investor trust and reduce skepticism toward sustainability reporting.

For policymakers and regulators, these findings highlight the need to strengthen regulations related to ESG reporting and audit assurance to ensure transparency and reliability. Enhancing standards for sustainability reporting and audit quality can support better market valuation and investor confidence.

5.4 Limitations of the Study

This study has several limitations that should be considered when interpreting the findings. First, the research focuses only on consumer non-cyclicals sector companies listed on the Indonesia Stock Exchange, which may limit the generalizability of the results to other sectors or countries. Second, ESG disclosure is measured based on available reporting, which may not fully capture the actual implementation of sustainability practices.

Additionally, the study uses a specific proxy for audit quality, which may not comprehensively reflect all dimensions of audit effectiveness. These limitations may influence the extent to which the findings can be generalized across different contexts.

5.5 Directions for Future Research

Future research is recommended to expand the scope by including other sectors or conducting cross-country comparisons to enhance generalizability. Further studies may also incorporate alternative measurements of ESG performance, such as ESG ratings or third-party assessments, to better capture the quality of sustainability practices.

In addition, future research can explore other moderating variables, such as institutional ownership, board characteristics, or regulatory environments, to better understand the dynamics influencing firm value. Employing different methodological approaches, such as longitudinal or mixed-method studies, may also provide deeper insights into the relationship between governance, sustainability, and firm performance.

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