

Corporate Governance Quality's Moderating Effect on Profitability, ESG Disclosure, and Green Innovation

Maristiana Ayu. Ms^{1*}, Ani Pujiati², Ade Sandra Dewi³

Universitas Sang Bumi Ruwa Jurai, Lampung, Indonesia^{1,2,3}

maristiana@saburai.ac.id^{1*}, anipujiati@saburai.ac.id², adesandradewi@saburai.ac.id³



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Abstract

Purpose: The impact of ESG disclosure and profitability on green innovation is examined in this study, with the moderating role of corporate governance quality assessed among publicly listed companies in Indonesia.

Research Methodology: Quantitative approach was employed, and panel data from 19, the analysis was conducted on the Sri-Kehati Index over the 2020–2024 period, employing moderated panel data regression techniques.

Results: The study found that ESG disclosure and profitability positively influence green innovation, with this relationship being reinforced by the quality of corporate governance. Consequently, the ability of ESG practices and financial performance to foster green innovation was shown to rely on robust governance mechanisms.

Conclusions: The impact of ESG disclosure and profitability on green innovation was found to be moderated and enhanced by the quality of corporate governance.

Limitations: Several limitations were identified, including the limited number of samples, the relatively short observation period, and the use of index-based disclosure measurements, which might not entirely reflect the actual effectiveness of sustainability practices.

Contributions: This study contributes to the literature by showing that the impact of ESG disclosure and profitability on green innovation is strengthened by corporate governance quality. The application of Resource-Based View, Legitimacy, and Agency Theories is extended to emerging markets, and practical implications are provided for investors and policymakers.

Keywords: *Corporate Governance Quality, ESG Disclosure, Green Innovation, Profitability*

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1. Introduction

The increasing impact related to climate change and ecological pressures means that companies can no longer operate with conventional approaches. In increasingly transparent markets, increasing attention is being paid by the public and investors to how the environment is protected and how long-term risks are managed by companies. Two common metrics are used to assess this commitment: Environmental, Social, and Governance (ESG) disclosure and profitability levels. On the other hand, a company's ability to produce green innovations is a clear indicator that this commitment is truly realized in practice, not just in statements.

In Indonesia and many other developing countries, ESG disclosure practices are still uneven. Some companies provide comprehensive information, while others only provide minimal data ([Chen, Fan, & Fan, 2023](#); [Hahn, & Kühnen, 2013](#)). The difficulty in assessing which companies are truly committed to sustainability and which are merely following trends is caused by this imbalance. A positive impetus for the enhancement of companies' innovation capacity, particularly environmentally friendly innovation, can be provided by a higher level of ESG disclosure ([Ruan, Yang, & Dong, 2024](#); [Widoretno, Choirunnisa, & Nur, 2025](#)). The greater the transparency with which a company's performance is disclosed, the easier it becomes for it to be evaluated by the public, and, ultimately, encouragement is provided for the company to improve its sustainability practices.

ESG disclosure is not utilized as a reporting tool but is also regarded as a catalyst through which the generation of green innovation within the company is accelerated. The stronger the commitment of the company to ESG transparency, the greater the opportunities for green innovations that can enhance operational efficiency, minimize environmental risks, and strengthen the company's position in sustainable global competition. This indicates that green innovation is positively influenced by transparent ESG disclosure, as demonstrated in previous research ([Ding, Li, & Zhao, 2024](#); [Li, & Rasiah, 2024](#)). On the other hand, [Ruan et al. \(2024\)](#) dan [Ma, Feng, Yin, and Chang \(2025\)](#) negative influence is observed due to cost effects, managerial behavior effects, and incentive distortion effects that arise when greater focus is placed by companies on reporting and building an image in the short term.

More information on the influence of green innovation on profitability has been provided by [Liu, Feng, and Liu \(2024\)](#) and [Zhang, Ma, and Zhang \(2025\)](#). In the long term, profitability is regarded as a determining factor that provides financial impetus for investment in sustainable innovation, particularly in companies exhibiting strong profitability ([Novitasari & Tarigan, 2022](#)). Due to the large capital requirements, lengthy processes, and result uncertainties associated with green innovation, greater capability and readiness to take risks are generally exhibited by companies with strong profit performance ([Holzner, & Wagner, 2022](#); [Wang, Ma, Dong, & Zhang, 2023](#); [Wang et al., 2023](#)). Flexibility is afforded to them to fund Research and Development (R&D), implement environmentally friendly technologies, and undertake structural changes. However, green innovation is not automatically realized by high profits; some companies continue to maintain traditional business practices that generate quick profits but do not support sustainability ([Wang, & Ahmad, 2024](#); [Wedari, & Alfian, 2024](#)).

The mixed findings from prior research, showing both positive and negative links between ESG disclosure and profitability on green innovation, are interpreted as indicative of inconsistencies in corporate behavior and strategic approaches. The orientation of companies towards long-term goals is ensured by the Quality of Corporate Governance (CGQ) ([Batool, Mohsin, & Alwadi, 2025](#); [Iqbal, 2024](#); [Song, & Ma, 2025](#); [Yorsalina, & Widiastuty, 2025](#)). Profitability and ESG disclosure can be directed to genuinely support environmentally friendly innovation through the implementation of strong governance mechanisms, such as the presence of an independent board of commissioners, an effective audit committee, and a robust internal oversight system. With quality governance, policy consistency is increased, the potential for moral hazard is reduced, and strategic decisions related to green innovation are enabled to be implemented more optimally. The gaps in previous research are addressed by considering the role of corporate governance quality as a moderating variable that influences the relationship between ESG disclosure and profitability toward green innovation.

The aim of this research is to examine how the relationship between ESG disclosure and green innovation is strengthened or weakened by corporate governance quality, as well as how the relationship between profitability and green innovation is influenced by corporate governance quality. Insights are intended to be provided regarding whether strong governance enables the more strategic utilization of profitability for environmental innovation. In addition, contributions are made to the development of literature on the relationship between ESG disclosure, profitability, and green

innovation, particularly in the context of emerging markets in Indonesia. Furthermore, guidance is provided on how ESG transparency and profitability can be directed to enhance green innovation, especially when corporate governance is strong, and on how investors can be assisted in understanding that ESG disclosure, profitability, and corporate governance is regarded as an important indicator for assessing the potential for green innovation and the long-term value of the company.

2. Literature Review and Hypotheses Development

The Resource-Based View (RBV) is grounded in the theoretical concept proposed by [Wedari and Alfian \(2024\)](#), emphasized that competitive advantage is derived from a company's long-term internal resources rather than from its size or market position, and strategic value is provided to the company through these resources. The relationship between profitability and green innovation is examined based on this theory. The legitimacy theory was developed by [Dowling and Pfeffer \(1975\)](#), the relationship between ESG disclosure and the building of legitimacy to carry out green innovation is emphasized, while high social expectations are created by profitability, and the legitimacy of companies using profits for green innovation is maintained. The moderating role of governance quality is highlighted in strengthening legitimacy pressures that are adjusted to community expectations, enabling the implementation of innovation in a more substantive and non-symbolic manner.

Agency Theory [Jensen and Meckling \(2019\)](#) it is emphasized that green innovation can be encouraged by ESG disclosure and profitability only when monitoring mechanisms are established that are capable of suppressing managers' opportunistic behavior, reducing information asymmetry, and ensuring that company resources are genuinely allocated to environmentally oriented innovation activities.

2.1 ESG Disclosure

ESG disclosure refers to the communication of a company's performance in environmental, social, and governance aspects. This disclosure serves as a mechanism for reporting the company's ESG activities, outcomes, and impacts to stakeholders, thereby enhancing transparency and accountability in these critical areas, which is intended to demonstrate to investors, the public, and regulators that environmentally friendly, socially responsible business practices are being implemented and that good governance is maintained by the company ([Ningwati, Septiyanti, & Desriani, 2022](#); [Temalagi, Darmawati, & Amiruddin, 2025](#); [D. Wang & Wang, 2025](#)). Green innovation is driven by transparent ESG disclosure, thereby creating a superior and competitive business strategy, and an increase in company value is expected to result.

2.2 Profitability

Profitability is defined as the extent to which profit is generated from a company's operational activities over a given period. A company's ability to achieve financial performance, efficiency, and competitiveness is demonstrated by profitability. High profitability is reflected by the availability of adequate financial resources, which can then be utilized by the company to invest in long-term sustainability and innovation projects ([Batool et al., 2025](#); [Mingxia Liu, Liu, & Feng, 2024](#); [Maldonado-Guzmán & Pinzón-Castro, 2022](#)).

2.3 Green Innovation

Green innovation is characterized as sustainability-oriented innovation that improves operational efficiency, enhances corporate reputation, drives long-term profitability, and attracts investor interest. Furthermore, mitigation of various business risks and the provision of tangible benefits to all stakeholders and the environment are facilitated by green innovation. Therefore, greater success can be achieved by companies that implement green innovation. Sustainability, competitiveness, profitability, and investor trust are increased through green innovation ([Niu, Yan, & Tan, 2024](#); [Tang, Tong, & Chen, 2024](#)).

2.4 Quality Corporate Governance

Corporate governance quality is defined as the level of effectiveness of a company's management systems, structures, and mechanisms in ensuring that management decisions are executed transparently, accountably, responsibly, independently, and fairly. Better management of the company and a lower risk of conflicts of interest between management and shareholders are associated with higher governance quality. More credible ESG disclosures and the effective encouragement of green innovation implementation are ensured by good governance quality. Furthermore, company profits can be managed more effectively for sustainable investment. Confidence is gained by investors and stakeholders that the company is operated transparently, accountably, and with a long-term orientation when governance is strong. Thus, corporate governance quality is regarded as a reinforcement and strategic guide, ensuring that ESG disclosures and profitability truly result in sustainable green innovation and have a broad impact on the company ([X. Liu, Huang, Su, & Zhou, 2024](#); [Riyanti & Murwaningsari, 2023](#)).

2.5 Hypotheses Development

2.5.1 The Effect of ESG disclosure on Green Innovation

ESG disclosure refers to the communication of a company's environmental, social, and governance performance through sustainability reports, providing transparency and accountability to stakeholders, with the aim of ensuring transparency to investors and the public, reducing information asymmetry, and strengthening management accountability for environmental and social impacts. Changes through green innovation are induced by ESG transparency, as managers are pressured to refrain from engaging in activities that are detrimental to company operations. Competitive advantages are generated by green innovations produced through greenwashing, as revealed in research conducted by [Ding et al. \(2024\)](#), [Liu and Lyu \(2022\)](#), [Ruan et al. \(2024\)](#), and [Zheng, Feng, Jiang, and Chang \(2023\)](#) proved that ESG disclosure or environmental information disclosure can increase green innovation. Likewise, in the research of [Auranisha, Ibrahim, and Darmadi \(2025\)](#), [Zulianto and Aisjah \(2025\)](#), [Audina, Achyani, and Trisnawati \(2026\)](#), [Hendra, Hudzafidah, Wilamsari, and Suharsono \(2026\)](#). The condition of companies in Indonesia has also been shown to demonstrate that ESG disclosure exerts a positive effect on green innovation, although no effect on company value is observed. Based on the explanation above, the following hypothesis is proposed:

H₁: ESG disclosure positively influences the development and implementation of green innovation within organizations

2.5.2 The Effect of Profitability on Green Innovation

The disclosure of ESG practices is observed to positively influence the development and implementation of green innovation within organizations. Strategic benefits for both the company and stakeholders in the Indonesian market are generated through this synergy, making green innovation not only an environmental responsibility but also a profitable business opportunity. Healthy profitability ensures that sufficient internal funding is made available for investments in green innovation, including the development of environmentally friendly products and processes. Consequently, companies with higher profitability generally exhibit greater capacity and motivation to support green initiatives ([Liu, Liu, & Feng, 2024](#)).

Several studies have proven that profitability is influenced by green innovation ([Liu, Feng, & Liu, 2024](#); [Zhang, Ma, & Zhang, 2025](#)). However, to form green innovation, high profitability is required ([Asni & Agustia, 2022](#)). In addition, in the long term, profitability becomes a determining factor that provides financial impetus for companies to invest in sustainable innovation, especially in companies that have strong profitability [Novitasari and Tarigan \(2022\)](#). Thus, green innovation is positively influenced by high profitability, which is transformed into a greater driving force and resource for sustainable innovation.

H₂: Profitability positively contributes to the advancement and adoption of green innovation within organizations

2.5.3 The Influence of Corporate Governance Quality on Green Innovation

Increased disclosure of social and environmental sustainability is encouraged by strong corporate governance, such as an effective board structure and stable institutional ownership. The development of green innovation is indirectly supported by this, as stakeholders are reassured of the company's commitment to sustainable and environmentally friendly business practices ([Meiani & Sisdianto, 2024](#)). Research conducted by [Lai and Sohail \(2022\)](#), It was demonstrated in a study conducted in China that the independence of the board of directors exerts a positive effect on green innovation and environmental innovation. It is shown by this study that pollution is reduced and green innovation is increased through executive strategic decisions under good governance. Conducted by [Makpotche, Bouslah, and M'Zali \(2024\)](#), It was revealed in a study conducted across 45 countries that the profitability of green product innovation is increased through improvements in governance quality, including dimensions such as management strategy and shareholder rights. Green innovation is supported by effective governance, and a company's environmental performance is positively impacted as a result. These findings are also consistent with research conducted by [Liu, Yaacob, Ma, and Ding \(2025\)](#), which highlights the role of good governance as a key driver in supporting green innovation globally. Likewise, research conducted by [Mubarak, Holiawati, and Sugiyanto \(2024\)](#) and [Iqbal \(2024\)](#) proves the same thing: that the implementation of good and effective governance improves sustainable performance and maximizes benefits green innovation. Based on the explanation above, a hypothesis can be formulated, namely:

H₃: The quality of corporate governance positively influences the development and implementation of green innovation within organizations

2.5.4 Corporate Governance Quality (CGQ) Moderates the Impact of ESG Disclosure on Green Innovation

The moderating role of corporate governance quality in the relationship between ESG disclosure and green innovation demonstrates that the positive influence of ESG disclosure on green innovation can be strengthened by high-quality corporate governance. It is shown that transparency, accountability, and more strategic and sustainable decision-making are increased through good governance, thereby encouraging companies to implement green innovation more seriously ([Iqbal, 2024](#)). It has been shown in studies conducted in Indonesia and Association of Southeast Asian Nations (ASEAN) that ESG disclosure may not optimally drive green innovation without the support of quality governance. Guidance and oversight of sustainability strategies, including green innovation, are provided by effective governance with an active Board of Commissioners and an adequate composition of independent committees ([Astari, Purnamawati, & Werastuti, 2025](#)). In addition, good governance increases investor and stakeholder confidence, which provides incentives for companies to invest in green innovation. Another study also showed that good governance disclosure in ESG is associated with stronger green innovation performance, because well-managed companies tend to have greater resources and initiatives to adopt green technology and sustainable practices ([Wiguna, Hariyani, & Safitri, 2023](#)). Some studies, such as [Ghinizzini, Galavotti, and Tibiletti \(2025\)](#) and [Abdelmoneim and El-Deeb \(2024\)](#), suggest that when the quality of corporate governance is better, the positive effect of ESG disclosure on green innovation is usually strengthened, because good governance ensures that disclosure becomes a real action, not just a mere statement. Greenwashing prioritizes resource allocation and increases oversight and accountability. Drawing from the foregoing discussion, the following hypothesis is formulated:

H₄: Corporate Governance Quality (CGQ) serves as a moderating factor in the relationship between ESG disclosure and green innovation

2.5.5 Corporate Governance Quality (CGQ) moderates the Impact of profitability on Green Innovation

Excess resources to finance environmentally friendly R&D, low-carbon technology, and energy efficiency are provided by high profitability, resulting in a positive effect of profitability on green innovation. Opportunistic behavior by managers is reduced through strong corporate governance quality, as reflected in an effective audit committee and transparent shareholder oversight, ensuring

that profitability is ultimately directed towards long-term projects, including green innovation, rather than for managerial benefit. It is demonstrated that the relationship between profitability and green innovation is strengthened by quality corporate governance ([Khan, Johl, Kumar, & Luthra, 2023](#); [Salihi, Ibrahim, & Baharudin, 2024](#)). Building on the preceding discussion, the following hypothesis is proposed:

H₅: Corporate Governance Quality (CGQ) moderates the relationship between profitability and green innovation

Figure 1 illustrates the conceptual framework, showing ESG disclosure influencing profitability and green innovation, profitability affecting green innovation, and Corporate Governance Quality (CGQ) moderating both ESG disclosure green innovation and profitability green innovation relationships. Hypothesized paths are indicated by arrows connecting the constructs.

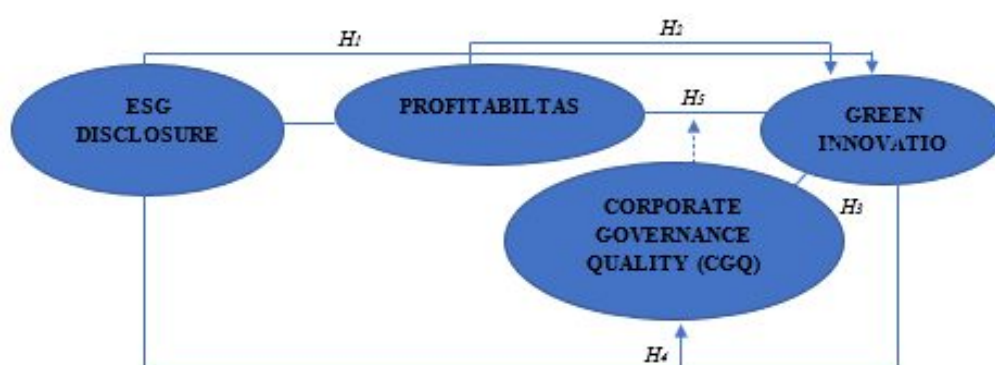


Figure 1. Framework of thought

3. Research Methodology

Sample this study consisted of 19 companies designated as Sri Kehati (Indonesian Heartland Index) firms, observed over a five-year period from 2020 to 2024, yielding a total of 95 panel data observations. These companies were categorized into 13 industry sectors on the Indonesia Stock Exchange (IDX). The sampling established to include companies whose corporate sustainability reports, annual reports, and financial reports had been published for the 2020–2024 period, and companies that had been included in the Sri Kehati group on the IDX during the same period. The types of data used in the study consisted of secondary data, company financial reports, and financial statements. Sustainability data published by the companies from 2020 to 2022 were prepared in accordance with the 2016 GRI standard, whereas data from 2023 to 2024 were prepared in accordance with the 2021 GRI standard. These data were obtained from Yahoo Finance and the companies' annual report websites.

The independent variable, ESG disclosure, was sourced from companies' sustainability reports and measured by the proportion of disclosed environmental, social, and governance indicators relative to the total ESG disclosure index, based on GRI 300, GRI 400, and GRI 2/102 standards ([Manulang & Soeratin, 2024](#)). Environmental disclosure is calculated as the ratio of disclosed items to the total index. Profitability, the next independent variable, is defined as the ability to generate profits from operational activities and is measured using ROA, which also reflects the level of green innovation ([Khan et al. \(2023\)](#) and [Cheng, Lin, and Yang \(2025\)](#) with the following Formula 1 as follows:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \quad (1)$$

Green innovation is dependent variable, which is defined as innovation carried out by companies to reduce environmental impact, increase resource efficiency, or produce more environmentally friendly products or processes. Measurement indicators for green innovation are formulated based on the green innovation composite index, which is derived from the averages of Green Patent (GP), Green R&D (GRD), Green Technology Adoption (GTA), Green Product Process (GPP), Green Disclosure Score (GDS), and Green Finance (GF) ([Feng, Wang, & Liang, 2021](#); [S. Li, Li, Zhao, Zhang, & Xue, 2022](#)). Which is Formula 2 as follows :

$$GreenInnovationIndeks = \frac{GP + GRD + GTA + GPP + GDS + GF}{6} \quad (2)$$

Corporate governance quality (CGQ), the moderating variable, is defined as the extent to which GCG principles are implemented. It is measured by averaging the ratios of Board of Commissioners size (UDK), Independent Commissioners (KI), Audit Committee (KA), and Institutional Ownership (KP) ([Cheung, Jiang, Limpaphayom, & Lu, 2008](#); [Siagian, Siregar, & Rahadian, 2013](#)), which is Formula 3 as follows :

$$CGQ = \frac{UDK_{ratio} + KI_{ratio} + KA_{ratio} + KP_{ratio}}{4} \quad (3)$$

In this study, a control variable was included to manage or neutralize external influences, this approach enables the relationship between the independent and dependent variables to be examined with greater clarity and accuracy, and to enhance the validity of the model. The control variable used is company size (Firm Size) ([Ruan et al. \(2024\)](#)), which is Formula 4 as follows:

$$FirmSize = Ln(TotalAsset) \quad (4)$$

The moderated regression equation model in hypothesis testing, according to [Hayes \(2017\)](#), is Formula 5 without moderation

$$GI = \beta_0 + \beta_1 ESGDisc + \beta_2 Prof + \beta_3 FSize + \beta_4 CGQc + \epsilon \quad (5)$$

Formula 6 as a moderation analysis model (MRA)

$$GI = \beta_0 + \beta_1 ESGDisc + \beta_2 Prof + \beta_3 CGQ + \beta_4 (ESG * CGQ) + \beta_5 (Prof * CGQ) + \beta_6 FSIZE + \epsilon \quad (6)$$

GI = Green Innovation
ESG Disc = ESG disclosure
Prof = Profitability
F Size = Company Size

4. Results and Discussions

The analysis was conducted on panel data processed using EViews 12, comprising 95 observations from 19 companies over a five-year period. The results of the model testing and classical assumption checks are summarized in Table 1 as follows:

Table 1. Results of the classical model and assumption tests

Model Testing and Classical Assumption Tests	Test Results	Information
Model Testing		
Chow Test	Probability value of $0.0000 < 0.05$	FEM selected models
Hausman Test	Probability value of $0.0000 < 0.05$	Selected Model FEM (Fixed Equation Model).
Classical Assumption Tests		
Normality Test	Probability & Jarque-Bera of 0.1896 and JB 3.325 shows >0.05	Means the data is normally distributed.
Multicollinearity Test	The correlation between the variables ESG, Prof, F Size, CGQ, ESG*CGQ and Prof*CGQ has a value <0.9 , this proves that there is no multicollinearity (Ghozali, 2021)	Multicollinearity does not occur.
Heteroscedasticity Test	Based on the Glejser test ESG = 0.076, Prof = 0.074, F size = 0.098 CGQ = 0.547, ESG*CGQ = 0.091 and Prof*CGQ = 0.0931, this means the residual value > 0.05	This means that there is no heteroscedasticity
Autocorrelation Test	$du < dw < 4-du$ shows dw results before moderation is $1.74 < 2.14 < 2.26$ and after moderation $1.76 < 2.21 < 2.26$	There is no autocorrelation either before or after moderation.

The hypothesis testing was conducted using a moderating regression analysis to examine the direct effects of ESG Disclosure, Profitability, and Company Size on Green Innovation and to evaluate the moderating role of Corporate Governance Quality (CGQ). The results of the moderating regression analysis are presented in Table 2.

Table 2. Results of the moderating linear equation test

Test Results before Moderation	Test Results before Moderation
$GI = \beta_0 + \beta_1 \text{ESG Disc} + \beta_2 \text{Prof} + \beta_3 \text{F Size} + \beta_4 \text{CGQ} + \epsilon \dots$	
$G1 = 2.94 + 0.06 \text{ESG Disc} + 0.03 \text{Prof} + 2.03 \text{F Size} + 4.105 \text{CGQ} + \epsilon \dots$	
with probability results: ESG = 0.03, Prof = 0.04, F Size = 0.04 and CGQ = 0.0000 which means below 0.05 (< 0.05)	
Hypothesis 1	The probability shows $0.03 < 0.05$, which means that ESG Disclosure has a positive effect on Green Innovation (hypothesis proven).
Hypothesis 2	Probability shows $0.04 < 0.05$ which means that profitability has a positive effect on Green Innovation (Hypothesis proven).
Hypothesis 3	The probability shows $0.000 < 0.05$, which means that the quality of corporate governance has a positive effect on Green innovation (Hypothesis proven)

Test Results before Moderation	
Control Variable	The control variable for company size (F size) proves that it has a positive influence on green innovation means that large companies are able to carry out environmentally friendly innovations
R2 (R Square)	The R Square value is 0.581 (58.1%), which means that the ESG variable Disclosure, Profitability and company size influence green innovation by 58.1%, and 41.9% is influenced by other factors.
Test Results after Moderation	
$GI = \beta_0 + \beta_1 ESGDisc + \beta_2 Prof + \beta_3 CGQ + \beta_4 (ESGCGQ) + \beta_5 (ProfCGQ) + \beta_6 FSIZE + \epsilon \dots\dots$	
$G1 = 1.33 + 4.58EsgDisc + 0.08Prof + 2.24CGQ + 5.41EsgCGQ + 0.11ProfCGQ + 1.62FSize + \epsilon \dots\dots$	
With probability results of ESG Disc = 0.0002, Prof = 0.0085, F Size = 0.012, CGQ = 0.0072, ESGCGQ = 0.0002 and ProfCGQ = 0.0482 which means below 0.05 (< 0.05)	
Hypothesis 4	The probability shows $0.0002 < 0.05$ which means that Corporate governance quality (CGQ) moderates the influence of ESG disclosure to green innovation (hypothesis proven).
Hypothesis 5	The probability shows $0.0482 < 0.05$ which means Corporate governance quality moderates the effect of profitability on green innovation
R2 (R Square)	The R square value after moderation is 0.778 or 77.8%, which means that ESG Disclosure, Profitability and Company Size have an influence. green innovation After moderation, 77.8% and 22.2% were influenced by other factors, this provides evidence of the Quality variable. Corporate governance an strengthen the relationship between ESG variables disclosure and profitability against green innovation and there was an increase in the influence value of 19.7% after moderation.

To describe the characteristics of the research variables, descriptive statistical analysis was performed. The descriptive statistics provide information regarding the average values of each variable used in the research model. The results of the descriptive statistical analysis are presented in Table 3.

Table 3. Descriptive statistical data

Mean/average-average	
Esg	0.415 or 41.5%, which means that ESG disclosure is in the medium category but tends to be low.
Profitability	6.85% shows the average profitability of 19 companies in the medium category
Company Size (FSize)	33.03% shows that on average the company is categorized as a large company.
CGQ	0.834% shows that the quality composite index corporate governance on average is in the high category
Green Innovation	0.474% shows that the level green innovation in the moderate category tending to be moderate

To address this, a shift in sustainability strategy is required, from mere reporting compliance to technology-based innovation. ESG should be integrated into the long-term R&D agenda, the role of corporate governance in making green innovation investment decisions should be strengthened, and collaboration with research institutions and technology partners should be encouraged. Furthermore, regulatory support and investor preferences need to be directed not only towards quality disclosure but also towards the substantive performance of green innovation, so that the SriKehati Index can be utilized as a driver of transformation toward green innovation and sustainable development in the Indonesian capital market ([Nadifah, Dahlan, & Handoyo, 2025](#)).

4.1 Discussion

The results of Hypotheses 1 to 3, which examined the moderating role of corporate governance quality on the effects of ESG disclosure and profitability, with company size controlled, indicated that all three hypotheses exerted a positive effect on green innovation ([Aliyyah, & Musa, 2024](#); [Ruan, Yang, & Dong, 2024](#); [Wang, & Wang, 2025](#); [Yorsalina, & Widiastuty, 2025](#)). These findings indicate that sustainability transparency, the availability of financial resources, and effective governance mechanisms can encourage companies to develop environmentally friendly innovations sustainably.

In the results of the tests for Hypotheses 4 and 5, the role of corporate governance quality as a moderating variable was examined, and evidence was provided that the influence of ESG disclosure and profitability on green innovation is strongly moderated by corporate governance quality. This finding indicates that corporate governance quality functions as a variable through which the impact of ESG disclosure and profitability on green innovation is strengthened, meaning that ESG transparency and financial performance can be optimized through good governance to effectively promote green innovation ([Iqbal, 2024](#); [Liu, Yaacob, Ma, & Ding, 2025](#); [Lu, 2021](#); [Ningsih, Yulianingrum, & Relyza, 2025](#)).

In the context of green innovation strategy, [Lin, Cheah, Azali, Ho, and Yip \(2019\)](#) and [Aldieri and Vinci \(2019\)](#) it is shown that company size plays a role in the dynamics of green innovation and is considered an important structural factor in green innovation by utilizing firm size as a control variable. It is indicated that firms with larger asset scales possess stronger resources, greater innovation capacity, and experience higher legitimacy pressures to develop environmentally friendly innovations.

5. Conclusions

5.1 Conclusion

The study's findings show that corporate governance quality moderates and strengthens the effect of ESG disclosure and profitability on green innovation. It is shown that a greater impact on green innovation is exerted by ESG disclosure and profitability when they are implemented under quality corporate governance. From the Resource-Based View, corporate governance quality is regarded as a mechanism through which resources and capabilities are managed, modifying ESG disclosure and profitability. Optimal resource allocation for environmentally friendly innovation investments, which are considered highly valuable in the long term, is facilitated by effective governance. Based on the theory of legitimacy, the credibility of ESG disclosures is increased by quality corporate governance, resulting in effects that are not merely symbolic but are reflected in actual implementation through the internalization of green innovation.

Simultaneously, from an agency theory perspective, agency conflicts are mitigated through quality corporate governance, ensuring that company profitability is directed toward long-term strategic decisions, including investment in green innovation. It is thereby demonstrated that strong governance harmonizes the interests of management and shareholders in creating sustainable value. From an empirical perspective, an empirical contribution to the development of Indonesian capital market literature is provided by this research, proving that the influence of ESG disclosure and profitability on green innovation in public companies is strengthened by corporate governance quality. These

findings confirm that ESG inclusivity and financial performance as drivers of green innovation are highly dependent on corporate governance, while also expanding the application of Resource-Based View, Legitimacy Theory, and Agency Theory in the context of emerging markets. Practically, implications are provided by the results of this study for issuers to strengthen governance in ESG strategies, for investors in assessing company credibility and sustainability, and for regulators in formulating integrated ESG and corporate governance policies to encourage a sustainable and competitive Indonesian capital market.

5.2 Research Limitations

The limitations of this study are associated with the sample size and the duration of the observation period, particularly for companies included in the Sri-Kehati Index and those measured using disclosure index-based metrics, which may not fully capture the substantive quality of sustainability implementation.

5.3 Suggestions and Directions for Future Research

Further research be conducted so that both the period and the scope of the sample can be expanded, allowing for a larger and more representative dataset to be analyzed. In addition, more comprehensive ESG measurements should be developed, encompassing a wider range of environmental, social, and governance indicators, in order to capture the quality and effectiveness of sustainability practices more accurately. These improvements are intended to enable a deeper and more nuanced understanding of the relationships between ESG disclosure, profitability, corporate governance quality, and green innovation outcomes.

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Author Contributions

The conceptualization, study design, data collection, statistical analysis, manuscript drafting, and final revision were contributed by MA conceptualization, data collection, manuscript drafting, and revision were contributed by AP study design, data collection, revision, and supervision were contributed by ADS the final manuscript has been read and approved by all the authors.

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