

**THE EFFECT OF FIRM SIZE AND GOOD CORPORATE GOVERNANCE (GCG)
ON ESG RISK RATINGS (AN EMPIRICAL STUDY OF COMPANIES LISTED
ON THE LQ45 INDEX OF THE INDONESIA STOCK EXCHANGE
FOR THE PERIOD 2020-2023)**



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Abstract

Companies are now expected to operate in an environmentally friendly and sustainable manner. One indicator of a company's efforts to mitigate ESG-related risks is its ESG risk rating. However, many companies are still found to have high or even severe ESG risk ratings. This study aims to analyze the effect of firm size and Good Corporate Governance (GCG) scores based on governance disclosure on ESG risk ratings of companies listed in the LQ45 index of the Indonesia Stock Exchange during the 2020–2023 period, with a total sample of 92 observations. This study employs a quantitative approach using secondary data obtained from LQ45 index company factsheets, company financial statements, and sustainability reports. Multiple linear regression analysis is conducted using SPSS version 31. The sample is selected using a purposive sampling method, resulting in 23 companies. The results indicate that both firm size and Good Corporate Governance (GCG) have a significant negative effect on ESG risk ratings.

Keywords: GCG Disclosure, Firm Size, ESG, ESG Risk Ratings, GRI.

INTRODUCTION

Companies need to consider environmental, social, and governance aspects in order to avoid future financial losses (Liwa, Daromes, & Asri, 2024). These environmental and social issues are important for companies not only to prevent potential future financial losses, but also because they influence firm value (Rahelliamelinda & Handoko, 2024), which in turn affects investor interest in making investment decisions. This argument is supported by the study conducted by (Jayanti et al., 2024) which finds that ESG Risk Ratings have a significant effect on firm value. Investors and the public can obtain information regarding environmental, social, and governance management through annual reports or sustainability reports disclosed by companies. One indicator of environmental, social, and governance performance that investors and the public can observe is the ESG Risk Rating.

Companies listed on the Indonesia Stock Exchange are publicly traded firms that go public with the expectation of gaining benefits such as increasing firm value and improving financial performance (Khan, SikandarShah, & Ahmad, 2020). Companies included in the LQ45 index on the Indonesia Stock Exchange serve as one such example. The LQ45 index consists of stocks with high liquidity and large free-float market capitalization, supported by strong fundamentals and good corporate compliance (IDX, 2024). As companies listed in the LQ45 index, these firms are also expected to increase investor interest and provide better disclosure. This is because stocks included in the LQ45 index are blue-chip stocks that are strictly selected and serve as a primary benchmark for understanding movements in the Composite Stock Price Index (IHSG) (Team Brandcom BRIDS, 2025). The movements of these stocks strongly influence the IHSG, with a correlation of up to 99% (Ilham, Murni, & Maramis, 2020).

Stocks included in the LQ45 index have large market capitalization, indicating that these companies' shares are highly demanded, closely monitored, and carry high expectations from stakeholders regarding the sustainability of corporate operations. On the other hand, companies are also motivated to enhance investor interest and comply with ESG disclosure requirements. ESG Risk Ratings can therefore become an important aspect that companies should pay attention to and strive to reduce. This is consistent with stakeholder theory and legitimacy theory, which posit that corporate operations are influenced by stakeholders. Companies seek to provide better ESG performance as a form of social and environmental responsibility to their stakeholders and to obtain legitimacy (Moussa & Elmarzouky, 2023) and (Yixi & Sharon, 2023).

An example of this phenomenon within the LQ45 index on the Indonesia Stock Exchange can be observed in PT Unilever Indonesia Tbk, which experienced an increase in its ESG Risk Rating for four consecutive years. In 2021, PT Unilever Indonesia Tbk received a low-risk rating of 17.42; in 2022, a low-risk rating of 17.56; in 2023, a rating of 18.80; and in 2024, a low-risk rating of 18.21. Although the ratings remain within the low-risk category, this trend has attracted the researcher's interest for further examination. Based on this phenomenon, the researcher seeks to strengthen the analysis by using data and samples from other companies listed in the LQ45 index.

Table 1.
ESG Risk Ratings of Companies

No.	Code	Company Name	Year	ESG Risk Ratings	Risk Description
1	ADRO	PT. Adaro Energy Tbk.	2020	39,21	High
			2021	39,78	High
			2022	39,74	High
			2023	43,55	Severe
2	ANTM	PT Aneka Pertambangan Tbk	2022	39,94	High
			2023	40,00	Severe
3	CPIN	PT Charoen Pokphand Indonesia Tbk	2022	45,07	Severe
			2023	41,17	Severe
4	UNTR	PT United Tractors Tbk	2020	36,09	High
			2021	35,94	High
			2022	41,32	Severe
			2023	40,00	Severe

Source: LQ45 Index Company Fact Sheet (processed data, 2026)

Table 1 illustrates the ESG Risk Ratings of several companies listed on the LQ45 Index for the 2020-2023 period. The ESG Risk Ratings displayed in Table 1 indicate an increase in ESG Risk Ratings for four consecutive years, particularly for PT Adaro Energy Tbk. Overall, this table also indicates that in 2023, all four companies were in the 5 category, the highest, indicating very high risk.

Several factors can lead to an increase or decrease in ESG Risk Ratings, one of which is company size (Firm Size). According to (Yixi & Sharon, 2023), company size is a scale used to measure the size of a company. According to Yixi & Sharon (2023), the relationship between company size and ESG Risk Ratings is that the larger the company, the better its ESG performance. This is because larger companies have the resources to operate sustainably or invest in more environmentally friendly technologies.

Table 2.
ESG Risk Ratings and Firm Size

No	Code	Company Name	Year	ESG Risk Ratings		Firm Size (Million Rupiah)
1	ADRO	PT. Adaro Energy Tbk.	2020	39,21	<i>High</i>	90.011.988,00
			2021	39,78	<i>High</i>	108.257.990,00
			2022	39,74	<i>High</i>	168.117.731,00
2	ANTM	PT Aneka Pertambangan Tbk	2022	39,94	<i>High</i>	33.637.271,00
			2023	40,00	<i>Severe</i>	42.851.329,00
3	CPIN	PT Charoen Pokphand Indonesia Tbk	2022	45,07	<i>Severe</i>	35.446.051,00
			2023	41,17	<i>Severe</i>	39.847.545,00
			2024	44,48	<i>Severe</i>	40.970.800,00

No	Code	Company Name	Year	ESG Risk Ratings		Firm Size (Million Rupiah)
4	UNTR	PT United Tractors Tbk	2020	36,09	High	99.800.963,00
			2021	35,94	High	112.561.356,00
			2022	41,32	Severe	140.478.220,00
			2023	40,00	Severe	154.028.248,00

Source: LQ45 Index Company Fact Sheet (processed data, 2026)

Based on Table 2, it can be observed that PT Adaro Energy, PT Aneka Tambang, PT Charoen Pokphand Indonesia, and PT United Tractors, on average, experienced an increase in firm size accompanied by an increase in ESG Risk Ratings. This finding is inconsistent with previous studies conducted by (Yixi & Sharon, 2023) and (Vivianita, Roestanto, Juhanes, & Evi, 2022).

Another factor that may influence ESG is Good Corporate Governance (GCG). Corporate governance, or Good Corporate Governance (GCG), is one of the components of Environmental, Social, and Governance (ESG). According to Stakeholder Theory and Legitimacy Theory, companies strive to maintain legitimacy in the eyes of stakeholders. This commitment is demonstrated through the implementation of Good Corporate Governance (GCG) and the disclosure of information as a means of communicating with stakeholders (Susadi & Kholmi, 2021).

Corporate governance practices influence ESG Risk Ratings. Based on the study conducted by (Fujianti, et al., 2024), Good Corporate Governance (GCG) is related to ESG, indicating that GCG has a positive effect on ESG. Sustainalytics (Garz & Volk, 2019) evaluates governance as part of a company's efforts to manage its exposure to ESG-related risks. Therefore, Good Corporate Governance (GCG) is expected to have a significant impact on ESG. This is also supported by the findings of Susadi and (Susadi & Kholmi, 2021), which show a relationship between corporate governance and ESG or sustainability reporting.

However, these findings differ from other studies. Research conducted by (Ardiani, Lindrawati, & Susanto, 2022) finds that Good Corporate Governance (GCG) has a negative effect or no effect at all on ESG or sustainability reporting. Meanwhile, (Erben Yavuz, et al., 2024) reveal that governance affects ESG differently across sectors.

These differences indicate the existence of a research gap in previous studies. This gap raises the question of whether there are indicators that can adequately represent Good Corporate Governance (GCG) in explaining its effect on ESG Risk Ratings. Consequently, this study explores alternative approaches to examine the influence of Corporate Governance (GCG) on ESG Risk Ratings.

Similar research gaps are also found in studies examining the effect of firm size on ESG. (Bolibok, 2024) states that larger firms tend to have lower ESG Risk Ratings. This finding is supported by (Oktapiani & Simatupang, 2024). In contrast, (Gregory, 2024) finds that the positive effect of firm size on ESG is driven by outlier data; without these outliers, the effect becomes negative and insignificant, particularly in the utility sector. Another study by (Herawati, 2024) finds that firm size has no effect on ESG.

Based on the explanations and research gaps identified in previous studies, this research conducts an analysis to identify whether firm size and Good Corporate Governance (GCG) influence ESG Risk Ratings, particularly among blue-chip companies in Indonesia.

REVIEW OF LITERATURE

Stakeholder Theory

Stakeholder Theory posits that companies should consider the interests and expectations of various stakeholders beyond shareholders, such as customers, employees, suppliers, regulators, and society. Companies can enhance their reputation and legitimacy in the eyes of stakeholders by demonstrating a commitment to innovation and corporate growth. This may encourage firms to provide better ESG performance as a form of social and environmental responsibility to stakeholders (Moussa & Elmarzouky, 2023).

According to Stakeholder Theory, companies operate not only to maximize shareholder profits but also to provide benefits to stakeholders. The survival of a company depends on its actions toward stakeholders. Companies strive to enhance their corporate image to gain broader recognition among stakeholders, one way of which is through the implementation of Good Corporate Governance (GCG) and the disclosure of information to communicate with stakeholders (Susadi & Kholmi, 2021)

Legitimacy Theory

Legitimacy Theory encourages companies to fulfill social and environmental responsibilities, which apply to social, economic, and environmental activities. All such activities should be disclosed in corporate sustainability reports (Ardiani, Lindrawati, & Susanto, 2022). Several scholars argue that corporate ESG activities are driven by the needs of various stakeholders and are rewarded with legitimacy (Yixi & Sharon, 2023).

Deegan explains that Legitimacy Theory refers to the concept of a “social contract” between organizations and society. Under this social contract, organizations agree to engage in socially desirable actions in exchange for approval of their objectives and other benefits. If a company fails to meet societal expectations, its legitimacy may be threatened.

The Effect of Firm Size on ESG Risk Ratings

Firm size is closely related to ESG. Based on Stakeholder Theory and Legitimacy Theory, firm size influences ESG because larger companies possess more resources than smaller firms, enabling them to participate more effectively in sustainable operational practices. In the context of Environmental, Social, and Governance (ESG), companies are expected to demonstrate ESG commitment by investing in environmentally friendly technologies (Desvita & Rahma, 2025). Companies seek to obtain or maintain legitimacy through actions aligned with prevailing norms and regulations.

Firm size reflects a company’s capability and experience, indicating its ability to manage investments provided by investors to enhance shareholder wealth (Putra & Wahyuni, 2021). Larger firms continuously strive to maintain or improve legitimacy by engaging in more sustainable economic activities and disclosing them in ESG reports to safeguard their reputation among stakeholders.

Large companies are generally expected by stakeholders to demonstrate better ESG performance. At the same time, they are supported by greater resource availability (Yixi & Sharon, 2023). Due to their higher visibility and scrutiny by stakeholders, large firms face greater external pressure and internal motivation to provide more comprehensive and informative ESG disclosures (Bolibok, 2024).

H1: Firm Size has a negative effect on ESG Risk Ratings.

The Effect of Good Corporate Governance (GCG) on ESG Risk Ratings

Good Corporate Governance (GCG) is one of the indicators of ESG. This relationship can be observed from the definition of ESG Risk Ratings itself, in which one dimension of ESG Risk Ratings assessment is a company's ability to manage governance and ESG-related risk exposure (Garz & Volk, 2019). Based on the study by (Fujianti, et al., 2024), Good Corporate Governance (GCG) is positively associated with ESG.

Research conducted by (Sirait & Fuad, 2024) shows a significant positive effect of Good Corporate Governance (GCG) on ESG. This finding is also supported by studies conducted by (Erben Yavuz, et al., 2024), (Marheni, et al., 2024), and (Husna, Yuhertiana, & Susilowati, 2023)

H2: Good Corporate Governance (GCG) has a negative effect on ESG Risk Ratings.

The Effect of Firm Size and Good Corporate Governance (GCG) on ESG Risk Ratings

Firm size is closely related to ESG. Firm size reflects a company's capability and experience in managing investments provided by investors to enhance shareholder wealth (Putra & Wahyuni, 2021). Larger firms are generally expected by stakeholders to demonstrate better ESG performance, while also benefiting from greater resource availability (Yixi & Sharon, 2023). Studies by (Yixi & Sharon, 2023), (Yixi & Sharon, 2023), (Oktapiani & Simatupang, 2024), (Vivianita, Roestanto, Juhanes, & Evi, 2022) demonstrate a positive relationship between firm size and ESG. In the context of ESG Risk Ratings, a larger firm size is expected to be associated with lower ESG Risk Ratings.

Good Corporate Governance (GCG) is an integral component of ESG. This relationship is reflected in the ESG Risk Ratings framework, where governance represents a company's ability to manage ESG-related risks (Garz & Volk, 2019). Prior studies by (Fujianti, et al., 2024), (Erben Yavuz, et al., 2024), (Marheni, et al., 2024), and (Husna, Yuhertiana, & Susilowati, 2023) support a positive relationship between GCG and ESG.

Based on previous studies examining the partial effects of firm size and Good Corporate Governance (GCG), this study posits that these two variables simultaneously influence ESG Risk Ratings. This assertion is supported by the study conducted by (Oktapiani & Simatupang, 2024), which finds a significant simultaneous effect of firm size and corporate governance on ESG.

H3: Firm Size and Good Corporate Governance (GCG) simultaneously have a negative effect on ESG Risk Ratings.

RESEARCH METHOD

Research Population and Sample

The population in this study was all companies listed on the LQ45 Index on the Indonesia Stock Exchange (IDX) for the 2020-2023 period. This study used a purposive sampling method. Based on the sampling technique used, the researcher determined the sample based on the following criteria:

1. Companies listed on the LQ45 Index on the Indonesia Stock Exchange (IDX) for the 2024 period.
2. Companies listed on the LQ45 Index on the Indonesia Stock Exchange (IDX) for five consecutive years from 2020-2024.
3. Companies that did not have an ESGI Governance Score for four consecutive years.

Table 3.
Sample Selection Using Purposive Sampling

No	Description	Total
1	Companies listed on the LQ45 Index on the Indonesia Stock Exchange (IDX) for the 2020-2023 period.	180
2	Companies that are not listed in the LQ45 Index on the Indonesia Stock Exchange (IDX) for 5 consecutive years from 2020-2023.	(76)
3	Companies that do not have a Governance Score from ESGI for 4 consecutive years	(12)
	Total research sample	92

Source: Data processed in 2026

Based on the sample selection characteristics determined by the researcher, the sample selected was 23 companies listed in the LQ45 index on the Indonesia Stock Exchange for the 2020-2023 period, with a four-year observation period. This resulted in a total sample size of 92.

Variables

This study uses two independent variables: firm size and Good Corporate Governance (GCG), and one dependent variable: ESG Risk Ratings. The following is the operational table for this study:

Table 4.
Operational Variables

Variable	Concept	Indicator	Scale
Independent Variable (X1) Firm Size	Firm Size is a parameter that indicates the size of a business entity. It indicates how large or small the business is in the relevant industry and economy. (Oktapiani & Simatupang, 2024).	$Firm\ Size = Ln(Total\ Assets)$ (Oktapiani & Simatupang, 2024)	Ratio
Independent Variable (X2) Good corporate governance (GCG)	Good Corporate Governance, or GCG, is a set of rules established by management that serve as guidelines for managing and controlling a company. To achieve GCG, a company requires a system, specifically a good corporate governance (GCG) mechanism (Ardiani, Lindrawati, & Susanto, 2022)	$GCG\ Score = \frac{(Governance\ items\ disclosed\ based\ on\ GRI)}{(Governance\ items\ that\ should\ be\ disclosed\ based\ on\ GRI)}$ The calculations have been carried out by the CESGS Dataset Institute of Airlangga University	Ratio

Variable	Concept	Indicator	Scale
		(Harymawan, Putra, Fianto, & Wan Ismail, 2021)	
Dependent variable (Y) ESG Risk Ratings	ESG Risk Ratings are a company risk analysis that calculates how much a company is exposed to ESG risks and its efforts to manage those risks (Garz & Volk, 2019).	ESG Risk Ratings The calculations were conducted by Morningstar Sustainalytics. The document can be accessed through the IDX Factsheet LQ45 page. (Dwijayanti & Jayanti, 2024)	Ratio

Source: Data processed in 2026

Data Analysis Technique

The data collection technique used by the researcher in this study was documentation or documentary study. This study utilized the statistical tool SPSS Version 31. The researcher used multiple regression analysis to analyze the data using the following equation:

$$Y = a + b_1X_1 + b_2X_2 + \varepsilon$$

Description:

Y : Value of the dependent variable (Y), ESG Risk Ratings

a : Constant, the value of Y when variable X is zero

X1 : Value of the independent variable Firm Size

X2 : Value of the independent variable Good corporate governance (GCG)

RESULT AND DISCUSSION

Descriptive Statistics

Table 5.
Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Firm Size	92	16.3890	22.7427	18.830323	1.6641742
GCG	92	.0000	1.0000	.841327	.2802346
ESG Risk Ratings	92	17.42	62.20	32.8360	9.07941
Valid N (listwise)	92				

Source: SPSS 31 Output Results (Data processed 2026)

Based on Table 5 above, the descriptive statistical test shows that the first independent variable, firm size, has a minimum value of 16.3890 and a maximum value of 22.7427, with

an average of 18.830323. The standard deviation is 1.6641742, which is smaller than the average.

Furthermore, the statistical test results for the second independent variable, Good Corporate Governance (GCG), have a maximum value of 1.00 or 100%, a minimum value of 0.00 or 0%, and an average value of 0.841327 or 84.1327%, with a standard deviation of 0.2802346, which is smaller than the average.

Meanwhile, the dependent variable, namely ESG Risk Ratings, shows a minimum value of 17.42, a maximum value of 62.20 with an average value of 32.8360 and a standard deviation of 9.07941, which is smaller than the average.

Classical Assumption Test Results

Data Normality Test

Table 6.
Kolmogorov-Smirnov Test for Data Normality

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		92
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	8.32800252
Most Extreme Differences	Absolute	.079
	Positive	.079
	Negative	-.046
Test Statistic		.079
Asymp. Sig. (2-tailed) ^c		.200 ^d
Monte Carlo Sig. (2-tailed) ^e	Sig.	.167
	99% Confidence Lower Bound	.157
	Interval Upper Bound	.177

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

e. Lilliefors' method based on 10000 Monte Carlo samples with starting seed 2000000.

Source: SPSS 31 Output Results (Data processed in 2026)

Table 6 above shows that the Kolmogorov-Smirnov test, as seen in the Aysmp. Sig. (2-tailed), has a value of 0.200. This value is greater than 0.05, indicating that the residual data in this study is normally distributed.

Multicollinearity Test Results

Table 7.
Multicollinearity Test

Model	Collinearity Statistics		Description
	Tolerance	VIF	
1 (Constant)			
Firm Size	.973	1.027	There is no multicollinearity
GCG	.973	1.027	There is no multicollinearity

Source: SPSS 31 Output Results (Data processed in 2026)

Based on Table 7 above, it can be seen that the tolerance value for the firm size variable is 0.973, while the Good Corporate Governance (GCG) variable is also 0.973. The tolerance values for both independent variables meet the requirement of >0.10 . Furthermore, the VIF value for the firm size variable is 1.027, as is the VIF value for the Good Corporate Governance (GCG) variable. Both variables meet the requirement of a VIF value <10 . Therefore, from these test results, it can be concluded that the data in this study does not exhibit multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test aims to determine whether the regression model exhibits unequal variances.

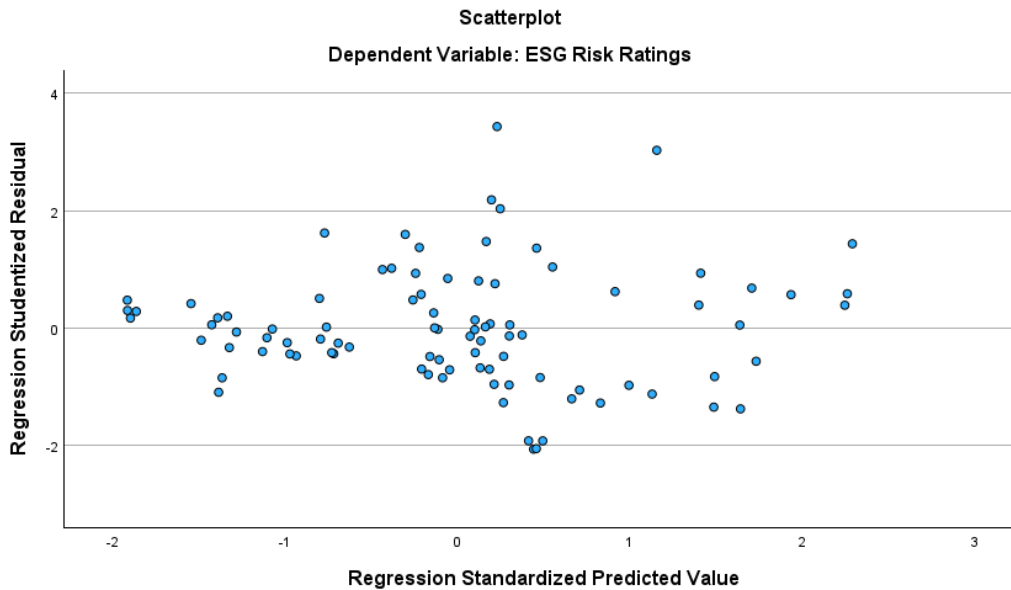


Figure 1.
Scatterplot Graph

Source: SPSS 31 Output Results (Data processed in 2026)

Based on Figure 1 above, it can be seen that the data points are randomly distributed and do not form a clear pattern. They are spread both above and below the 0 mark on the Y-axis. Therefore, it can be concluded that there is no heteroscedasticity problem in this regression model, making it suitable for use.

Autocorrelation Test

Based on the Durbin Watson table for a significance level of $\alpha = 5\%$, number of observations = 92, and number of independent variables of 2, the dU value is 1.7053. The value of $4 - dU$ is 2.2947. The results of the autocorrelation test in this study are as follows:

Table 8.
Autocorrelation Test Results

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.398 ^a	.159	.140	8.42106	2.182

- a. Predictors: (Constant), GCG, Firm Size
b. Dependent Variable: ESG Risk Ratings

Source: SPSS 31 Output Results (Data processed in 2026)

Based on Table 8 above, the Durbin-Watson value is 2.182. This value is compared with the Durbin-Watson table with a significance level of 5%. The comparison shows that the Durbin-Watson value is not less than 1.7053 (dU) and not more than 2.2947 (4 - dU). Therefore, this test indicates the absence of autocorrelation in this regression model.

Hypothesis Test Results

Coefficient of Determination (R²) Test

Table 9.
Coefficient of Determination Analysis

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.398 ^a	.159	.140	8.42106

- a. Predictors: (Constant), GCG, Firm Size
b. Dependent Variable: ESG Risk Ratings

Source: SPSS 31 Output Results (Data processed in 2026)

Based on the results of the coefficient of determination test in Table 9 above, the adjusted R-square value was 0.140 (14%). This indicates that the independent variables firm size and Good Corporate Governance (GCG) in this study influence the dependent variable ESG Risk Ratings by 14%. While the remaining 86% (1 – 0.140) is explained by variables other than the independent variables in the study.

Simultaneous Hypothesis Testing (f-Test)

Table 10.
Simultaneous Hypothesis Testing (F-Test)

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1190.286	2	595.143	8.392	<,001 ^b
Residual	6311.362	89	70.914		
Total	7501.648	91			

- a. Dependent Variable: ESG Risk Ratings
b. Predictors: (Constant), GCG, Firm Size

Source: SPSS 31 Output Results (Data processed in 2026)

Based on Table 10 above, the F-value is 8.392 with a significance level of 0.001, which is less than 0.05. The calculated F-value of 8.392 is greater than the F-table value of 3.099. Based on these two criteria, it can be concluded that this regression model is feasible, and that Firm Size and Good Corporate Governance (GCG) variables simultaneously significantly explain changes in ESG Risk Ratings.

Partial Hypothesis Test (t-Test)

Table 11.
Partial Hypothesis Test (t-Test)

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	66.793	10.081		6.626	<.001
Firm Size	-1.425	.538	-.261	-2.651	.009
GCG	-8.460	3.193	-.261	-2.650	.010

a. Dependent Variable: ESG Risk Ratings

Source: SPSS 31 Output Results (Data processed in 2026)

Based on Table 11 above, the t-table value with a significance level of $(\alpha/2; n-k-1)$ is 1.98698. With $df = n-k-1$ degrees of freedom, where n = number of data points and k = number of independent variables, $df = 92-2-1 = 89$, resulting in a t-table value of 1.98698.

The firm size variable (X1) in Table 11 above shows a calculated t-value of -2.651 and a t-table value of 1.98698. Therefore, $|t\text{-count}| > t\text{-table}$ is met. The significance level of 0.009 is less than 0.05. Therefore, it can be concluded that firm size has a negative effect, as seen from the negative value in the coefficient of determination and is significant for ESG Risk Ratings.

The Good Corporate Governance (GCG) variable (X2) in table 11 above shows a t-count of -2.650 and a t-table value of 1.98698. Therefore, $|t\text{-count}| > t\text{-table}$ is met. With a significance result of 0.010, which is smaller than 0.05. Therefore, it can be concluded that the Good Corporate Governance (GCG) variable has a negative effect, seen from the negative value in the coefficient of determination and is significant on ESG Risk Ratings.

The Effect of Firm Size on ESG Risk Ratings

The results of this study indicate that firm size has a negative and significant effect on ESG Risk Ratings. In other words, an increase in firm size reduces ESG risk, and vice versa. This can be observed from the significance level of 0.009, which is lower than the confidence level of 0.05. These findings are consistent with the study conducted by (Yixi & Sharon, 2023), which states that larger companies tend to have better ESG disclosure. Therefore, Hypothesis 1 is accepted.

Based on these results, it can be concluded that larger companies, or companies with higher firm size values, possess more resources and are better prepared to meet stakeholder expectations and maintain their legitimacy in society. This encourages companies to engage in better and more sustainable operational activities and to invest in environmentally friendly technologies, resulting in lower or more favorable ESG Risk Ratings for larger firms, just like the. This is in line with stakeholder theory and legitimacy theory.

Firm size reflects a company’s capability and experience, indicating its ability to manage investments provided by investors to enhance their wealth (Putra & Wahyuni, 2021) The findings of this study are also in line with prior research conducted by (Vivianita, Roestanto, Juhanes, & Evi, 2022), (Oktapiani & Simatupang, 2024), (Roestanto, Vivianita, & Nurkomalasari, 2022).

The Effect of Good Corporate Governance (GCG) on ESG Risk Ratings

The results of this study show that Good Corporate Governance (GCG) has a negative and significant effect on ESG Risk Ratings. In other words, an improvement in Good Corporate Governance (GCG) reduces ESG risk, meaning that higher GCG values lead to lower or more favorable ESG Risk Ratings, and vice versa. This is evidenced by a significance level of 0.010, which is lower than the confidence level of 0.05. These findings are consistent with the study conducted by (Sirait & Fuad, 2024), which demonstrates that Good Corporate Governance (GCG) has a positive and significant effect on ESG. Therefore, Hypothesis 2 is accepted.

The findings suggest that corporate governance practices that are well implemented, sustainable, and transparent, while prioritizing stakeholder interests and maintaining corporate legitimacy, have a positive impact on ESG Risk Ratings. This relationship is inherent in the concept of ESG Risk Ratings, where one of its assessment dimensions is a company's ability to manage governance and ESG-related risk exposure (Garz & Volk, 2019). This is in line with stakeholder theory and legitimacy theory.

The results of this study are consistent with previous research conducted by (Fujianti, et al., 2024), (Erben Yavuz, et al., 2024) (Marheni, et al, 2024), dan (Husna, Yuhertiana, & Susilowati, 2023), all of which find that Good Corporate Governance (GCG) has a positive and significant effect on ESG.

The Effect of Firm Size and Good Corporate Governance (GCG) on ESG Risk Ratings

The results of this study indicate that both firm size and Good Corporate Governance (GCG) have a negative and significant effect on ESG Risk Ratings. In other words, increases in firm size and Good Corporate Governance (GCG) reduce ESG risk, meaning that higher values of both variables lead to lower or more favorable ESG Risk Ratings, and vice versa. This is evidenced by a significance level of 0.001, which is lower than the confidence level of 0.05; Hypothesis 3 is accepted.

These findings suggest that well-implemented, sustainable, and transparent corporate governance practices that prioritize stakeholder interests and maintain corporate legitimacy—particularly when supported by adequate resources—have a positive impact on ESG Risk Ratings. However, the simultaneous influence of firm size and Good Corporate Governance (GCG) explains only 14% of the variation in ESG Risk Ratings, while the remaining 86% ($1 - 0.140$) is explained by other variables not included in this study. These results are consistent with the findings of (Oktapiani & Simatupang, 2024).

The researcher speculates that this relatively low explanatory power may be due to the use of a relatively simple proxy for Good Corporate Governance (GCG), namely a GCG score based solely on disclosure items, rather than more comprehensive governance scores assessed by experts or independent institutions specializing in corporate governance evaluation.

Research Limitations

The limitations encountered in the research process are as follows:

1. There are many other independent variables that may influence the dependent variable but were not examined in this study.
2. This study covers only one index, namely the LQ45 index, which consists of blue-chip stocks from large companies across various sub-industries with a very limited sample size.

Therefore, the findings may not be generalizable to smaller companies or newly listed (IPO) firms.

3. The sample size is limited due to budget constraints and difficulties in obtaining ESG Risk Rating data from Morningstar Sustainalytics. Consequently, the study could not incorporate control variables such as sub-industry classification and others.
4. The study uses a relatively simple proxy for the Good Corporate Governance (GCG) variable, namely a GCG score based on the number of disclosed items, which may result in less in-depth findings.

CONCLUSION

This study examines the effect of Firm Size and Good Corporate Governance on ESG Risk Ratings for companies listed on the LQ45 index of the Indonesia Stock Exchange from 2020 to 2023. Based on the analysis and theoretical discussion, it can be concluded that:

1. Firm size has a negative and significant effect on ESG Risk Ratings.
2. Good Corporate Governance (GCG) has a negative and significant effect on ESG Risk Ratings.
3. Simultaneously, Firm Size and Good Corporate Governance (GCG) have a significant negative effect on ESG Risk Ratings.

Recommendations

Based on the conclusions of the research results discussed above, the following recommendations can be made:

1. This research is limited to blue-chip companies or elite stocks, namely stocks listed on the LQ45 index. Therefore, future research is recommended to explore stocks listed on other indices or much smaller companies.
2. This research only used two variables: firm size and Good Corporate Governance (GCG). Therefore, future research is recommended to explore other variables: capital expenditure, industry type, company age, Green Innovation, and other variables that may influence it. Furthermore, it is recommended to extend the research period to obtain more comprehensive results.

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