

Governance Mechanisms, Sustainability Reporting, and Investor Confidence: The Mediating Role of Information Risk

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ABSTRACT

Purpose – This study examines the role of corporate governance mechanisms in reducing information risk and enhancing investor confidence through sustainability reporting. The topic is important as increasing ESG disclosure requirements and market expectations have intensified the need for transparent and credible corporate reporting to mitigate information asymmetry in emerging markets.

Design/methodology/approach – Research employs a quantitative approach using panel data from 35 firms listed in the Indeks SRI-KEHATI over the period 2018–2024, resulting in 245 observations. Panel data regression is used to analyze the effect of governance mechanisms on information risk, while Structural Equation Modeling (SEM-PLS) is applied to examine direct and mediating relationships among variables.

Finding/Results – The results indicate that governance mechanisms significantly reduce information risk, particularly through independent commissioners, board size, and institutional ownership. Furthermore, information risk plays a significant mediating role in strengthening investor confidence, as lower information asymmetry leads to higher market trust.

Originality/Value – This study provides empirical evidence on the mediating role of information risk in the relationship between governance mechanisms and investor confidence within the context of sustainability reporting. The findings highlight that effective governance and transparent ESG disclosure are not only regulatory requirements but also strategic tools to enhance market credibility and investor trust in emerging markets.

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1. Introduction

The practice of sustainability reporting has become a crucial element in informing stakeholders about a company's non-financial performance. Regulation of the Indonesian Financial Services Authority (OJK) through POJK No. 51/POJK.03/2017 requires financial services companies and certain issuers to prepare and publish sustainability reports periodically as part of the Good Corporate Governance (GCG) principles, which emphasize the importance of transparency and accountability (Goerzen et al., 2025);(Ab Aziz et al., 2025). This shows that transparency and accountability in environmental, social, and governance disclosures are not only a moral responsibility, but also a strategic regulatory obligation in creating long-term value for the Company (Elamer & Boulhaga, 2024);(Ma et al., 2025).

However, the implementation of sustainability reporting in Indonesia still faces various challenges. One of these is the imbalance between the quality of ESG disclosure and investor expectations, which ultimately creates information asymmetry that impacts investor confidence (Zheng, 2024);(Hajek & Munk, 2024). Information risk refers to the imbalance in access to material information that investors need to make rational decisions. In the context of the Indonesian capital market, inadequate or inaccurate sustainability information can increase market uncertainty, reduce liquidity, and increase stock price volatility (Aldoseri & Melegy, 2023);(Wang et al., 2023). Therefore, the quality of governance in the preparation of sustainability reports is crucial to ensure that the reports submitted are truly credible, accurate and unbiased (Villiers & Dimes, 2021);(Salehi et al., 2023).

Previous research in developed countries shows that companies with good governance and quality ESG disclosures tend to experience reduced information risk and increased investor confidence (Fu & Jia, 2025);(Abideen, 2025). However, most of these studies focus on the context of the United States and the European Union, which have different regulatory and market structures than Indonesia (Nguyen & Duong, 2025). Several local studies have indeed discussed the influence of ESG on company value, but not many have systematically examined the role of governance mechanisms in sustainability reporting as a determinant of information risk and investor confidence (Mattunruang & Asmirawati, 2023);(Gidage et al., 2025).

Effective corporate governance, such as a high proportion of independent commissioners, the existence of an active audit committee, and the dominance of institutional ownership, is believed to be able to strengthen the accountability and quality of sustainability report disclosures (Lajmi & Yab, 2021);(Oyerogba et al., 2024). The existence of a board of directors that functions independently also helps reduce the potential for manipulation in reports, which ultimately can reduce information risks and increase credibility in the eyes of investors (Akinsola et al., 2025);(Mismiwati et al., 2025). In this context, a quality sustainability report is not only a corporate communication tool, but also a strategic instrument in building a positive signal to the market, in accordance with signal theory (Naz et al., 2025);(Elamer & Boulhaga, 2024).

Despite this growing urgency, research in Indonesia integrating aspects of governance mechanisms, sustainability reporting quality, information risk, and investor confidence remains very limited. This opens up a research opportunity to fill this gap in the academic literature. This study offers novelty by examining the causal relationship between corporate governance and investor confidence through the mediation of information risk based on data from companies included in the Sri Kehati Index, an index representing companies oriented towards environmental and social sustainability. Furthermore, the methodological approach

used includes an integration of panel data regression models and Structural Equation Modeling (SEM) to capture the complex simultaneous relationships between variables (Nyantakyi et al., 2023);(Ma et al., 2025).

The urgency of this research is increasingly relevant given the increasing global attention to ESG transparency and market pressure on accountability in non-financial reporting (García-Sánchez et al., 2021);(García-Sánchez et al., 2021). In Indonesia, institutional investors are starting to consider sustainability factors in their investment strategies, but still face limited access to accurate and reliable information (Abideen, 2025). This condition emphasizes the importance of reform in sustainability reporting governance practices to create a more inclusive, transparent, and efficient capital market.

This study advances the literature by moving beyond the conventional direct relationship between corporate governance and investor confidence, and instead conceptualizes information risk as the central transmission mechanism through which governance quality and sustainability reporting jointly shape market responses. Unlike prior studies that treat governance and ESG disclosure as independent determinants, this research develops an integrated explanatory framework in which governance structures enhance the credibility of sustainability reporting, thereby reducing information asymmetry and ultimately strengthening investor confidence.

The core contribution of this study lies in reframing governance not merely as a structural monitoring system, but as an information-quality enhancing mechanism, where its effectiveness is evaluated based on its ability to reduce information risk. By positioning information risk as a substantive mediating construct rather than a statistical intermediary, this study offers a more nuanced and mechanism-based explanation of how transparency and accountability translate into market trust, particularly within the context of emerging markets characterized by higher uncertainty and weaker information environments.

2. Literature Review & Hypothesis Development

2.1 Governance and Information Risk

Governance structure plays an important role in creating an effective oversight system for managerial practices and the quality of information conveyed to stakeholders (Villiers & Dimes, 2021);(Salehi et al., 2023). According to the Signal Theory introduced by Spence (1973), strong governance provides a positive signal to investors that the company is managed in a transparent and accountable manner (Naz et al., 2025);(Elamer & Boulhaga, 2024). One important element of good governance is the proportion of independent commissioners on the board, which can reduce conflicts of interest and improve oversight. Furthermore, institutional ownership tends to closely monitor management because they have significant financial interest (Lajmi & Yab, 2021);(Oyerogba et al., 2024).

Busman et al. (2018) states that strong governance can reduce information asymmetry between management and investors. When available information is limited or biased, information risk increases. This information risk directly impacts the cost of capital, stock volatility, and investor uncertainty (Hajek & Munk, 2024);(Aldoseri & Melegy, 2023). Therefore, companies with good governance structures tend to have lower information risks, as well as providing a basis for increasing market confidence (Gidage et al., 2025).

H1. Corporate governance mechanisms have a significant negative effect on information risk.

2.2 ESG Disclosure and Investor Confidence

Disclosure of sustainability information covering environmental, social, and governance (ESG) aspects has become common practice in modern corporate reporting (Goerzen et al., 2025);(Ab Aziz et al., 2025). Eccles et al. (2014) He states that consistent and accurate ESG disclosures provide significant informational value to investors. ESG disclosures are considered to reflect a company's commitment to sustainable business practices and long-term risk management (Fu & Jia, 2025);(Ma et al., 2025).

Zadeh et al. (2018) Institutional investors are increasingly considering ESG quality in their investment decisions. Investor confidence increases when they believe a company has low risk exposure to social and environmental issues and high operational transparency (Nyantakyi et al., 2023). In the context of capital markets, investor confidence is reflected in increased liquidity, decreased bid-ask spreads, and increased stability of stock returns (Moussa & Elmarzouky, 2024);(Feng et al., 2024).

H2. Information risk has a significant negative effect on investor confidence.

2.3 The Mediating Role of Information Risk

A number of studies have explored the relationship between governance, ESG disclosure, and investor confidence Cormier & Magnan (2015) revealed that information risk plays a significant mediating role in the relationship between sustainability disclosure and firm market value. Hummel & Schlick (2015) also shows that information risk affects market perceptions of a company's credibility, especially when sustainability reports are used as a basis for decision-making by investors (Hajek & Munk, 2024).

Reducing information risk allows investors to evaluate risks and returns more accurately without incurring additional information costs (Takona, 2024);(Chali et al., 2022). Thus, companies that are able to convey complete and reliable ESG information can build long-term trust among shareholders and new investors (Zimon et al., 2022) Corporate governance influences information risk, and this risk in turn shapes investors' perceptions of the company.

H3. Corporate governance mechanisms have a significant positive effect on investor confidence.

2.4 Corporate Governance and Sustainability Disclosure

Various studies in the last decade have explored the relationship between governance and sustainability disclosure García-Sánchez et al. (2021) emphasizes the importance of board mechanisms in ensuring the quality of ESG disclosures. Meanwhile, Lins et al. (2017) found that companies with high ESG performance have greater investor confidence, especially during times of crisis. However, most previous studies have not explicitly integrated the mediating role of information risk, particularly in developing countries like Indonesia, which have different market and regulatory characteristics (Nguyen & Duong, 2025). The research lies in the simultaneous examination of governance mechanisms, information risk, and investor confidence in the context of companies included in the Sri Kehati Index, which are consistently viewed as highly sustainable. Furthermore, the use of a SmartPLS-based Structural Equation Modeling (SEM) approach allows for a more comprehensive analysis of complex relationships.

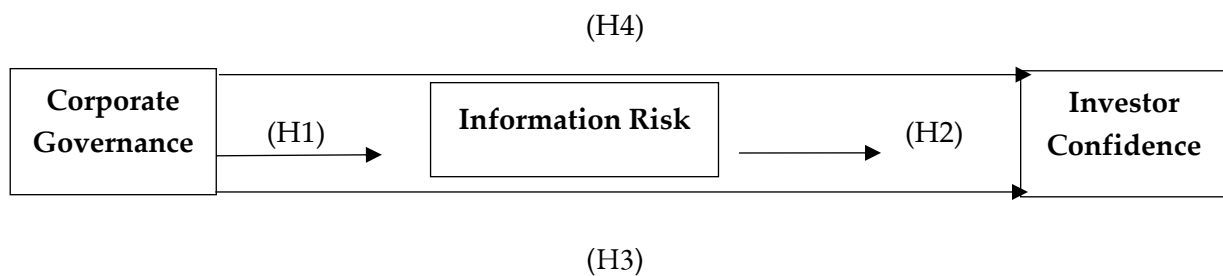
H4. Information risk significantly mediates the effect of governance on investor confidence.

Conceptually, this study argues that corporate governance, sustainability reporting, information risk, and investor confidence operate as a coherent and interdependent mechanism rather than isolated constructs. Governance mechanisms enhance the credibility, reliability, and transparency of sustainability disclosures, which directly reduces information

asymmetry embedded in the market. This reduction in information risk serves as a critical interpretive signal for investors, shaping their perception of firm credibility and long-term viability.

In this integrated framework, information risk functions as the pivotal linkage that translates internal governance quality into external market trust. Without a reduction in information risk, the effectiveness of governance structures and ESG disclosures becomes substantially weakened. Therefore, this study positions information risk not only as a mediator but as a core explanatory mechanism that aligns internal corporate processes with external investor responses, especially in emerging markets where information opacity is more pronounced.

Figure 1. Theoretical Framework



3. Methodology

3.1 Variable Operational Definitions

The operational definition of variables is formulated to ensure clarity, consistency, and precision in understanding the concepts used in this study. By defining each variable operationally, this research minimizes potential misinterpretation and ensures that the measurement process aligns with the research objectives. The variables examined in this study consist of corporate governance, information risk, and investor confidence, each of which plays a crucial role in explaining the relationship between governance mechanisms and market response in companies listed in the Sri Kehati Index.

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. In this study, corporate governance is measured using several indicators, including the proportion of independent commissioners, board size, the number of independent audit committee members, and institutional ownership. These indicators reflect the effectiveness of oversight and monitoring mechanisms in reducing agency conflicts and improving transparency. A higher level of corporate governance quality indicates stronger control over management actions and better disclosure practices.

Information risk represents the level of uncertainty faced by investors due to information asymmetry between the company and the market. In this study, information risk is measured using two alternative proxies. First, the bid-ask spread is used to capture market-based information asymmetry, where a higher spread indicates greater uncertainty and lower market efficiency. Second, the ESG score is utilized as an inverse proxy of information risk. A higher ESG score reflects better transparency and disclosure quality, which implies lower information risk. To ensure consistency in interpretation, ESG scores are transformed into an information risk measure, where higher values indicate higher levels of risk.

Investor confidence reflects the level of trust and positive perception investors have toward a company's performance and transparency. In this study, investor confidence is measured using three indicators: stock liquidity, stock returns, and price volatility. Stock liquidity indicates the ease with which shares can be traded in the market, while stock returns reflect

the financial benefits obtained by investors. Price volatility represents the stability of stock prices, where lower volatility indicates higher confidence. These three indicators collectively provide a comprehensive measure of investor confidence in the capital market.

3.2 Sample, Data Types, and Data Sources

The sample used in this study consists of companies listed in the Sri Kehati Index on the Indonesia Stock Exchange during the period 2018–2024. The Sri Kehati Index represents companies with strong environmental, social, and governance (ESG) performance, making it a relevant sample for examining the relationship between governance, information risk, and investor confidence.

This study employs a purposive sampling technique with several selection criteria, including companies that are consistently listed in the Sri Kehati Index during the observation period, have complete ESG disclosures, provide corporate governance data, and have available market-based data such as stock prices, trading volume, and bid–ask spread. Based on these criteria, a total of 35 companies were selected, resulting in 245 firm-year observations (Nguyen & Duong, 2025).

The data used in this research is secondary data. According to (Akinsola et al., 2025), secondary data refers to data obtained indirectly through intermediary sources that have been previously collected and documented. In this study, the data is sourced from annual reports, sustainability reports, and financial statements published by companies, as well as market data obtained from the Indonesia Stock Exchange (IDX) and Bloomberg databases.

The data collection technique applied in this study is documentation. This method involves collecting and reviewing company reports and financial documents relevant to the research variables. The use of documentation ensures that the data utilized is reliable, verifiable, and consistent with the requirements of financial and market-based analysis (Elamer & Boulhaga, 2024).

3.3 Data Analysis Technique

Based on the research problem and the hypotheses proposed, this study employs several data analysis techniques to test the relationships among variables.

Analysis of Information Risk

To measure information risk using market-based indicators, the bid–ask spread is calculated using the following formula:

$$\mathbf{Bid - Ask Spread} = \frac{\mathbf{Ask Price - Bid Price}}{(\mathbf{Ask Price + Bid Price})/2} \dots\dots\dots(1)$$

A higher bid–ask spread indicates a higher level of information asymmetry and greater information risk in the market.

To measure information risk using ESG performance, the following transformation is applied:

$$\mathbf{Information Risk (ESG) = 100 - ESG Score} \dots\dots\dots(2)$$

This transformation ensures that higher values consistently represent higher information risk.

Analysis of Investor Confidence

To measure investor confidence, the following indicators are used:

- **Stock Liquidity**

$$Liquidity = \frac{Trading\ Volume}{Shares\ Outstanding} \dots\dots\dots(3)$$

- **Stock Return**

$$Return = \frac{P_t - P_{t-1}}{P_{t-1}} \dots\dots\dots(4)$$

- **Price Volatility**

$$Volatility = Standard\ Deviation\ of\ Returns \dots\dots\dots(5)$$

Higher liquidity and returns indicate stronger investor confidence, while higher volatility reflects lower confidence.

Panel data regression is used to analyze the effect of corporate governance on information risk. The Fixed Effect Model (FEM) is applied to control for unobserved heterogeneity across firms. Control variables such as firm size, leverage, and profitability are included to reduce omitted variable bias. To examine both direct and mediating relationships, this study employs Structural Equation Modeling using Partial Least Squares (SEM-PLS). This method is used to test the relationship between corporate governance, information risk, and investor confidence simultaneously. The SEM-PLS analysis includes evaluation of the outer model (validity and reliability) and the inner model (path coefficients and hypothesis testing) using bootstrapping techniques. The measurement model is evaluated using convergent validity (loading factor > 0.70), composite reliability (> 0.70), and average variance extracted (AVE > 0.50). Discriminant validity is assessed using the HTMT criterion.

4. Result and Discussion

An initial descriptive analysis was conducted to examine the data characteristics and distribution levels among companies included in the Sri Kehati Index for the 2018–2024 period. A total of 245 observations from 35 companies over seven years revealed significant variability, particularly in stock liquidity and institutional ownership. This indicates differences in governance practices and structures across companies. For example, the average proportion of independent commissioners reached 45.12%, with a standard deviation of 7.24. Meanwhile, the ESG score averaged 71.34 on a scale of 100, but with a low minimum of 40.55, indicating inconsistencies in sustainability disclosure.

Table 1. Descriptive Statistics of Research Variables

Variables	Average	Minimum	Maximum	Std. Deviation
Independent Board of Commissioners (%)	45.12	30.05	59.89	7.24
Size of the Board of Commissioners	6.15	3	9	1.52
Number of Independent Audit Committees	2.43	1	4	0.83

Variables	Average	Minimum	Maximum	Std. Deviation
Institutional Ownership (%)	48.67	11.07	78.99	16.33
ESG Score	71.34	40.55	99.98	14.25
Bid-Ask Spread	0.053	0.0102	0.0999	0.021
Stock Liquidity	504,782	10,212	999,998	221,041
Stock Price Volatility	0.113	0.021	0.198	0.034
Stock Returns	0.085	-0.098	0.297	0.073

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

Estimation results using the Fixed Effects Model (FEM) based on the Hausman test indicate that three of the four governance indicators significantly reduce information risk. The proportion of independent commissioners, board size, and institutional ownership are statistically proven to reduce the level of information asymmetry, as measured by the bid-ask spread and the quality of ESG disclosure.

Table 2. The Impact of Governance on Information Risk

Independent Variables	Coefficient	t-Statistic	p-value
Independent Board of Commissioners	-0.018	-2.87	0.005 **
Size of the Board of Commissioners	-0.022	-3.21	0.002 **
Number of Independent Audit Committees	-0.010	-1.94	0.053
Institutional Ownership	-0.013	-2.45	0.015 *

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

These findings indicate that companies with strong governance structures tend to send positive signals to the market. This is in line with signaling theory by Spence (1973) and supported by findings Bushman et al. (2004), This study demonstrates that governance functions as a control tool against information asymmetry. The results indicate that governance mechanisms, particularly the proportion of independent commissioners on the board, play a significant role in reducing information risk faced by investors. The higher the percentage of independent commissioners on the board, the stronger the oversight function over management, thereby encouraging information transparency and reducing information asymmetry.

This is reflected in the significant negative coefficient on the independent commissioner variable ($\beta = -0.018$; $p = 0.005$). Furthermore, a proportional board size ($\beta = -0.022$; $p = 0.002$) contributes to governance effectiveness by allowing for a diversity of perspectives and a more optimal division of tasks in maintaining transparency. Institutional ownership has also been shown to significantly reduce information risk ($\beta = -0.013$; $p = 0.015$), indicating that the presence of institutional shareholders encourages more credible disclosure practices due to their long-term interests. Overall, strong governance can minimize information uncertainty in the market.

Table 3. The Impact of Information Risk on Investor Confidence

Mediating Variables	Coefficient	t-Statistic	p-value
Skor ESG	0.021	3.12	0.002 **
Bid-Ask Spread	-0.037	-4.05	0.000 **

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The results show that a high ESG score significantly contributes to increased investor confidence. The positive coefficient between the ESG score and investor confidence ($\beta = 0.021$; $p < 0.01$) indicates that transparent and high-quality sustainability disclosures provide a positive signal to a company's prospects, reflected in increased liquidity, stable returns, and reduced stock price volatility. Conversely, a larger bid-ask spread negatively impacts investor confidence ($\beta = -0.037$; $p < 0.001$).

A high spread reflects high information risk and information asymmetry in the market, leading to investor hesitation in making investment decisions. This uncertainty reduces market participation and increases the cost of capital. These findings confirm that information risk is an important mediating factor, and effective ESG disclosure can be a key strategy in building credibility and sustainable investor confidence in the capital market.

The structural relationship analysis using Structural Equation Modeling (SEM) with SmartPLS 4 reinforces the previous findings. The model results indicate that corporate governance has a significant effect on information risk ($\beta = -0.365$, $p < 0.001$), and information risk has a significant negative effect on investor confidence ($\beta = -0.411$, $p < 0.001$). Furthermore, corporate governance also has a direct positive effect on investor confidence ($\beta = 0.138$, $p = 0.033$).

Table 4. SEM SmartPLS Structural Model Results

Connection	Path Coefficient	t-value	p-value
Governance → Information Risk	-0.365	6.23	0.000 **
Information Risk → Investor Confidence	-0.411	7.02	0.000 **
Governance → Investor Confidence	0.138	2.13	0.033 *

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The findings of this study provide strong support for the theoretical framework grounded in signaling theory (Spence, 1973), and ESG disclosure literature, while also offering a more nuanced explanation of the mechanism through which corporate governance influences investor confidence. Rather than merely confirming direct relationships, this study demonstrates that governance effectiveness operates primarily through its ability to reduce information risk arising from information asymmetry. In this context, Dhaliwal et al. (2011) ESG disclosure functions not only as a reporting practice but as a strategic signaling mechanism that conveys credibility and transparency to the market.

A key insight emerging from this study is that not all governance mechanisms contribute equally to shaping investor confidence. Mechanisms that directly enhance transparency and disclosure quality such as independent oversight and institutional monitoring play a more substantial role than purely structural arrangements. This finding suggests that investors in

sustainability-oriented firms prioritize the reliability and clarity of information over formal governance configurations, highlighting the importance of substance over structure.

Furthermore, this study advances the literature by positioning information risk as a central mediating mechanism rather than a peripheral variable by Hummel and Schlick (2016). Information risk acts as a transmission channel through which governance quality and Eccles et al. (2014) ESG disclosure are translated into market responses. When companies successfully reduce information risk through high-quality disclosure and transparent governance practices, they are able to generate stronger investor trust, reflected in improved market confidence and reduced uncertainty. Conversely, weak information environments diminish the effectiveness of governance mechanisms, even when formal structures appear adequate.

These findings are particularly relevant in emerging market contexts, where information asymmetry is typically higher and institutional environments are still evolving. In such settings, governance and sustainability reporting should not be viewed merely as compliance tools, but as strategic instruments for mitigating uncertainty and strengthening market credibility. This reinforces the argument that the true effectiveness of corporate governance lies in its capacity to enhance information quality and reduce opacity in the market.

A deeper examination of the results reveals that not all governance mechanisms exert equal influence on information risk reduction, highlighting the importance of functional effectiveness over structural presence. Independent commissioners and institutional ownership demonstrate stronger effects because they directly enhance monitoring intensity and demand higher disclosure quality. In contrast, audit committee structures, while formally important, appear less effective when not supported by active oversight practices.

This suggests that in emerging markets, governance effectiveness is behaviorally driven rather than structurally determined, where the credibility of information depends more on how governance actors perform their roles than on the mere existence of governance mechanisms. Consequently, firms that prioritize substantive transparency practices are more successful in reducing information risk compared to those relying on symbolic compliance. Furthermore, the findings imply that sustainability-oriented firms operate within a credibility-sensitive environment, where investors place greater emphasis on the reliability of ESG information rather than its volume. This reinforces the argument that governance and sustainability reporting must be aligned strategically to reduce uncertainty and enhance investor trust.

The mediating role of information risk emerges as the central pillar of this study's contribution. Rather than acting as a passive intermediary, information risk actively shapes how governance signals are interpreted by the market. The results demonstrate that even strong governance structures fail to significantly enhance investor confidence in the absence of reduced information risk, indicating that transparency quality is the primary channel through which governance becomes economically meaningful. This finding shifts the analytical focus from governance structures to information environments, suggesting that the true value of governance lies in its ability to minimize uncertainty, improve disclosure credibility, and facilitate informed decision-making among investors.

This study offers broader implications for theory, practice, and policy. Theoretically, it contributes by redefining the role of corporate governance within an information-based framework, emphasizing that governance effectiveness should be evaluated based on its impact on information risk reduction rather than structural attributes alone. Practically, the findings suggest that firms should prioritize transparency-oriented governance practices and high-quality ESG disclosures as strategic tools to enhance market credibility and attract long-

term investors. Companies that fail to manage information risk effectively may face higher capital costs and reduced investor trust, regardless of their formal governance structures. From a policy perspective, regulators in emerging markets should strengthen ESG disclosure standards and enforcement mechanisms to reduce information asymmetry and improve market efficiency. This is particularly critical in environments where institutional frameworks are still evolving and investor protection remains limited.

5. Conclusion and Suggestion

This study concludes that the effectiveness of corporate governance in enhancing investor confidence is fundamentally contingent upon its ability to reduce information risk. Governance mechanisms, when aligned with high-quality sustainability reporting, function as instruments that improve information transparency, reduce asymmetry, and strengthen market trust. More importantly, this study establishes that information risk is not merely a mediating variable but the core mechanism through which governance and ESG disclosure translate into investor confidence. This finding provides a more comprehensive understanding of how internal corporate processes are transformed into external market outcomes, particularly in emerging markets characterized by higher uncertainty and weaker information infrastructures.

From a theoretical perspective, this study reinforces signaling theory by demonstrating that transparent sustainability reporting and strong governance structures provide positive signals to investors, particularly in emerging markets. Empirically, it contributes to the literature by integrating governance mechanisms, ESG disclosure, and investor behavior within a single framework, highlighting the mediating role of information risk. Economically, the results imply that companies can improve market credibility, increase liquidity, and reduce stock price volatility by strengthening governance and enhancing the quality of sustainability disclosure. These findings are particularly relevant within the regulatory framework of Otoritas Jasa Keuangan, where sustainability reporting has become a strategic component of corporate accountability.

6. Limitations and Future Research

This study also identifies several limitations. First, the sample is limited to firms listed in the Indeks SRI-KEHATI, which may restrict the generalizability of the findings to broader markets or non-ESG oriented firms. Second, the reliance on secondary data introduces potential bias related to the quality and consistency of ESG disclosures. Third, the measurement of information risk using bid-ask spread and ESG-based proxies, while widely accepted, may not fully capture the multidimensional nature of information asymmetry. These limitations are primarily methodological rather than errors, suggesting that alternative measurements, extended datasets, or mixed-method approaches could provide deeper insights.

Future research is encouraged to expand the scope by incorporating cross-country comparisons, additional governance variables, and alternative proxies of information risk. Integrating qualitative approaches or behavioral perspectives may also enhance the understanding of how investors interpret sustainability information. Overall, this study emphasizes that strengthening governance and sustainability reporting is not only a regulatory necessity but also a strategic pathway to achieving a more transparent, efficient, and sustainable capital market.

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