



# Corporate Governance, ESG Strategy, and Company Performance in Indonesia Amid the Trade War

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**Abstract.** This study aims to analyze the role of corporate governance in Indonesia in aligning *Environmental, Social, and Governance* (ESG) strategies with firm performance amid the dynamics of the global trade war. The research is motivated by the increasing uncertainty in international trade, particularly the U.S.–China trade war, along with domestic regulatory pressures such as Indonesia’s Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 mandating sustainability reporting. Employing a *Systematic Literature Review* (SLR) with the PRISMA protocol, the study reviewed 30 articles published between 2018 and 2025 sourced from Scopus, Web of Science, ScienceDirect, Emerald Insight, Taylor & Francis, and Google Scholar. The findings reveal that corporate governance plays a dual role: (1) as a facilitator that enables effective ESG integration to cope with external pressures such as trade wars, and (2) as a mediator or moderator in the relationship between ESG and firm performance. Strong governance mechanisms such as board independence, audit committees, institutional ownership, and gender diversity enhance ESG transparency, strengthen market legitimacy, and improve corporate resilience. Conversely, weak governance may diminish the benefits of ESG initiatives on performance. This study contributes to the literature by integrating the context of trade wars, ESG, and corporate governance into a comprehensive framework, while also offering practical implications for regulators and firms to reinforce governance in response to global challenges.

**Keywords:** ESG, corporate governance, firm performance, trade war, Indonesia.

## 1 Introduction

Over the past five years, global business dynamics have been shaped by two major trends: the escalation of international trade wars and the growing urgency of Environmental, Social, and Governance (ESG) adoption. Together, these factors create both challenges and opportunities for companies, including those in Indonesia.

The trade war between the United States and China, which began in 2018 and persisted for several subsequent years, has disrupted the stability of global supply chains. Fajgelbaum et al. [1] show that the trade war increased import costs, reduced output, and disrupted supply chains, creating a domino effect for developing countries integrated into international trade networks, including Indonesia. This finding is

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reinforced by Fan [2], who observed that firms with high exposure to global markets experienced a significant decline in operational performance at the height of the trade war. Rising tariffs, trade barriers, and shifting investment flows have forced Indonesian firms to become more adaptive in their operational and business strategies. These conditions were further exacerbated by the COVID-19 pandemic (2020–2022), which amplified economic uncertainty, weakened demand, and undermined firms' competitiveness in international markets. Such dynamics illustrate that trade uncertainty can suppress firm performance, compelling firms to seek sustainable adaptive strategies.

At the same time, global sustainability demands have encouraged firms to integrate ESG principles into their business strategies. Following the UN Sustainable Development Goals (SDGs) 2030 and the Paris Agreement commitments, international investors have increasingly emphasized ESG transparency in investment decisions. In Indonesia, the Financial Services Authority (OJK), through Regulation No. 51/POJK.03/2017, mandated sustainability reporting for financial institutions, issuers, and public companies starting in 2019. This regulation marked a new era of transparency and accountability in corporate ESG practices in Indonesia. However, the effectiveness of ESG in improving firm performance does not occur automatically. Rahmadini and Hartanti [3] found that while ESG positively influences financial performance, its impact may weaken when ESG controversies such as environmental or social scandals damage corporate reputation. This underscores that the quality of ESG implementation critically determines outcomes. Literature on ESG suggests that ESG practices serve as a source of resilience in navigating external shocks. Recent research published in ScienceDirect (2024) found that increasing trade barriers and tariffs encouraged exporters to strengthen ESG engagement as a strategy to maintain market legitimacy and investor trust. This implies that trade wars can act as a driver of ESG adoption, rather than merely a barrier to performance.

Nevertheless, the effectiveness of ESG in enhancing performance is not always direct. Corporate governance plays a pivotal role in determining whether ESG strategies generate both financial and non-financial benefits. Governance not only serves as a control mechanism but also functions as an enabler that ensures ESG integration into business strategies. Corporate governance has emerged as a key element in sustaining business continuity. Recent studies demonstrate that strong governance mechanisms such as board independence, audit committees, institutional ownership, and transparent reporting correlate positively with firm performance. Moreover, governance facilitates the successful integration of ESG into business strategies. Thus, governance acts not only as a control mechanism but also as a facilitator for firms in responding to global pressures, including trade wars. Recent research by Walkomaroh, Ruhayat, and Sugiyanto [4] found that Good Corporate Governance (GCG) strengthens the relationship between green intellectual capital and sustainable performance among ESG leaders listed in Indonesia. Accordingly, governance may serve as both a mediator and a moderator in the ESG and performance relationship.

Emerging evidence also shows that corporate governance practices in Indonesia are increasingly linked to ESG integration. Novita Dwiana Sari, Rida Rahim, and Fajri Adrianto [5] found that female directorship, board size, and digital transformation significantly influence ESG disclosure levels among companies listed on the IDX. This

indicates that governance mechanisms both in terms of structural aspects and technological adaptation enhance sustainability transparency. Similarly, Muazaroh, Lestari, and Purnama Sari [6] emphasized that gender diversity and more proportionate board sizes improve the quality of ESG disclosure while positively affecting corporate performance and risk management. Together, these findings highlight that governance is not merely a compliance instrument but also a catalyst for ESG success in driving superior performance.

From a financial performance perspective, an open-access study in *Procedia Computer Science* [7] reported that ESG-based portfolios in Indonesia achieved better Sharpe ratios compared to the LQ45 index. However, the study also revealed trade-offs in the form of lower financial performance due to relatively high implementation costs and opportunity costs. This enriches the discussion by suggesting that ESG integration requires effective governance to optimize financial outcomes. This finding is reinforced by Tiyas Kurnia Sari and Nadhira Fitriani [8], who observed that board characteristics such as independent commissioners, board size, and gender diversity significantly affect ESG disclosure in Indonesia. Hence, governance emerges as an institutional factor that substantially facilitates ESG integration.

Beyond Indonesia, international literature also provides evidence of ESG's role in addressing global uncertainty. Liu [9] found that ESG performance moderates the effect of economic policy uncertainty on firms' financing constraints, indicating that firms with higher ESG scores can access financing more easily despite uncertain conditions. This finding is highly relevant in the context of trade wars, where external pressures act as a catalyst for firms to strengthen ESG implementation. Within the Indonesian context, it implies that strong governance is essential to ensure ESG success in fostering resilient corporate performance amid global trade uncertainty.

Despite these developments, literature on emerging markets, including Indonesia, remains scarce in simultaneously integrating three aspects: trade wars, corporate governance, and ESG–performance alignment. Yet, Indonesia's increasing integration into global supply chains and regulatory pressures such as OJK's sustainability reporting mandate since 2019 make this context highly relevant for further exploration. Therefore, this study aims to examine how corporate governance in Indonesia facilitates ESG strategy integration amid trade war dynamics and to what extent such mechanisms influence firm performance. Furthermore, it investigates whether governance serves as a mediator or moderator in the ESG–performance relationship, particularly under the external pressures of the past five years.

## **2 Literature Review**

### **2.1 Trade Wars, Global Uncertainty, and ESG**

Trade wars and global policy uncertainty are external factors that exert significant impacts on firms. Fajgelbaum et al. [1] found that import tariffs during the U.S.–China trade war increased production costs, reduced output, and disrupted global supply chains. Similarly, Fan [2] reported that firms with high international exposure experienced notable declines in operational performance.

In such conditions, ESG is perceived as an adaptive strategy to maintain competitiveness and sustainability. Wu et al. [10] found that firms with higher ESG scores tend to demonstrate stronger export intensity because they are more capable of innovating and accessing financing. Xu [11] added that trade tariffs encourage exporters to strengthen ESG practices as a competitive response.

However, the effects of external pressures on ESG are not always positive. Saharti et al. [12] observed that geopolitical risks weaken ESG performance, while Zu [13] found that economic policy uncertainty also negatively affects ESG. Interestingly, other studies have yielded contrasting findings. Liu et al. [14] and Tan et al. [15] demonstrated that trade policy uncertainty may drive firms to increase ESG engagement as a means to mitigate risks and safeguard firm value. This suggests that firms' responses to external pressures are strongly influenced by internal factors, particularly corporate governance mechanisms.

## **2.2 Corporate Governance and ESG**

The literature emphasizes that corporate governance plays a vital role in driving ESG engagement. Aguilera et al. [16] stressed that governance serves as a key enabler of ESG integration into corporate strategies. Velte [17] further found that gender diversity within boards enhances ESG performance. In Indonesia, Husna et al. [18] revealed that Good Corporate Governance (GCG) practices in state-owned enterprises including board size, the proportion of independent commissioners, and audit committee activity positively affect ESG disclosure and firm performance. Saraswati [19] similarly demonstrated that board structure and ownership influence ESG scores among Indonesian firms. These findings align with global evidence, such as Krueger et al. [20], who concluded that well-governed firms are better able to manage ESG risks and enhance long-term profitability.

External governance mechanisms also play an important role. Handayati et al. [21] showed that the quality of external auditors (particularly Big Four firms) moderates the ESG–performance relationship, underscoring that governance extends beyond internal mechanisms to include external monitoring.

## **2.3 Governance as Mediator and Moderator**

Beyond its direct role in promoting ESG, governance can also function as a mediator or moderator in the ESG–performance relationship. Qurniasih et al. [22] demonstrated that GCG strengthens the effect of ESG disclosure on firm value in Indonesia. This finding aligns with Tondang and Wedari [23], who revealed that ESG disclosure, governance, and financial performance collectively influence dividend policy.

Other studies highlight governance as a moderator. Andriansyah et al. [24] found that GCG reinforces the relationship between environmental and social performance and firms' financial performance. Similarly, Puspita Sari [25] reported that independent commissioners, gender diversity, and board meeting frequency improve ESG ratings. Moreover, some studies suggest that ESG disclosure itself can act as a moderator. Hajriati et al. [26] showed that ESG disclosure moderates the relationship between

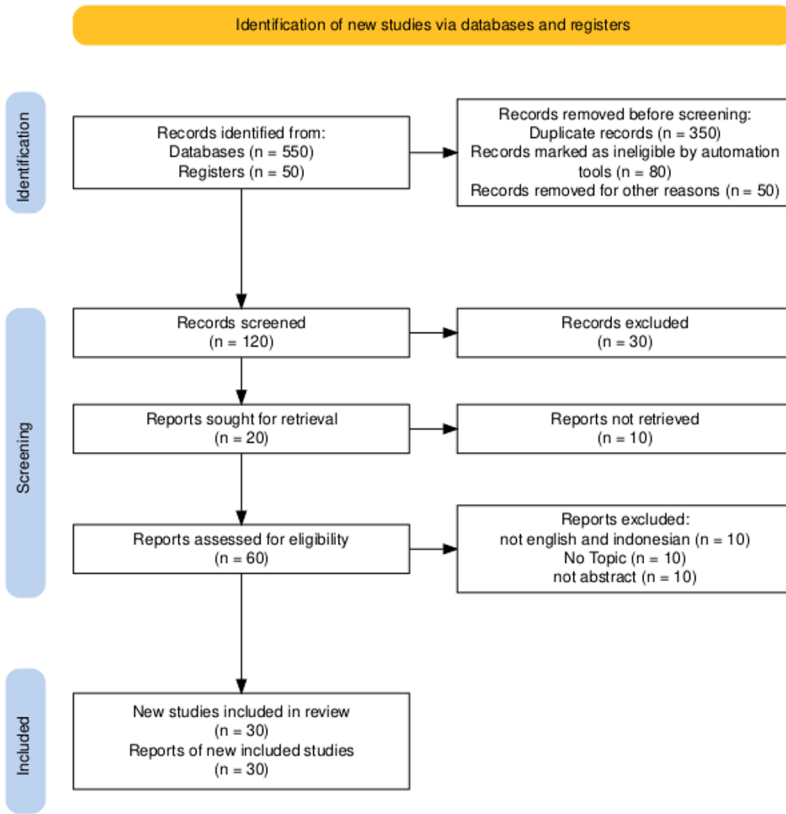
financial constraints, political connections, and corporate tax aggressiveness. This indicates that ESG and governance may operate in a reciprocal manner—governance enhances ESG effectiveness, while ESG disclosure, in turn, reinforces governance mechanisms in regulating corporate behavior.

### 3 Methodology

The literature search process was conducted systematically following the PRISMA guidelines. A comprehensive search was carried out across six major databases: Scopus, Web of Science (WoS), ScienceDirect (Elsevier), Emerald Insight, Taylor & Francis Online, and Google Scholar as a complementary source. The search strategy employed a combination of English and Indonesian terms reflecting the three core themes of this study: (1) external pressures/trade wars (e.g., “trade war,” “trade policy uncertainty,” “geopolitical risk”), (2) corporate governance (e.g., “corporate governance,” “board structure,” “audit committee,” “ownership structure”), and (3) ESG and firm performance (e.g., “ESG,” “sustainability,” “firm performance,” “financial performance,” “kinerja perusahaan,” “pengungkapan ESG”).

The initial search across all databases yielded approximately 600 entries. After removing duplicates and conducting preliminary screening based on titles and abstracts (to assess relevance to the combined themes of trade war/policy uncertainty, governance, ESG, and performance), the sample was reduced to around 120 articles. Full-text screening was then conducted using the following inclusion criteria: (i) published between 2018 and 2025; (ii) addressed the relationship between corporate governance, ESG, and firm performance and/or incorporated the context of external pressures (trade war, policy uncertainty, geopolitical risk); (iii) included empirical studies, systematic reviews, or relevant working papers; and (iv) were accessible for verification. Articles focusing exclusively on one variable without linking to performance, non-scholarly works, or publications prior to 2018 were excluded. This process yielded 30 final articles deemed eligible for synthesis listed in full in the Literature Review Table (Appendix/Chapter II) drawn from the aforementioned sources (Scopus, WoS, ScienceDirect, Emerald, Taylor & Francis, Google Scholar).

Analysis of the 30 selected articles was conducted using narrative thematic synthesis and evidence mapping. Each article was coded according to key variables (governance indicators such as board size, board independence, audit committee, auditor quality; ESG indicators; financial and non-financial performance measures), study context (country, data period), methodology (quantitative/qualitative), and findings relevant to RQ1 (how governance facilitates ESG integration under trade war/policy uncertainty) and RQ2 (whether governance acts as a mediator/moderator in the ESG–performance relationship). The synthesis results are presented in three formats: (1) thematic summaries, (2) an evidence table (reference, research focus, method, findings), and (3) an evidence map highlighting research gaps specific to the Indonesian context.



**Figure 1.** Conceptual Framework

## 4 Results

Through the PRISMA-based selection process, 30 scholarly articles that met the inclusion criteria were identified for further analysis. To provide a comprehensive overview of the reviewed literature, Table 1 presents a synthesis of the articles by source and main findings.

**Table 1.** Model Summary

No.	Reference	Research Focus	Key Findings
1	Fajgelbaum, P., Goldberg, P. K., Kennedy, P., & Khandelwal, A.	Impact of the U.S.–China trade war	Trade war reduced output and firm performance in developing countries.
2	Fan, J.	Supply chain exposure due to trade war	Firms faced tariff surges and trade barriers that suppressed performance.

No.	Reference	Research Focus	Key Findings
3	Xu, L., Huang, Y., & Zhang, H.	Trade tariffs & ESG adoption	Import tariffs encouraged firms to integrate ESG for market legitimacy.
4	Liu, H.	Trade policy uncertainty (TPU) & ESG	TPU improved ESG performance for firms with high tariff exposure.
5	Aguilera, R. V., Judge, W. Q., & Terjesen, S.	Governance & ESG	Board structure, audit committees, and institutional ownership strengthen ESG.
6	Velte, P.	Board diversity & ESG	Board diversity improves ESG transparency and firm performance.
7	Husna, N., Yuhertiana, I., & Susilowati, D.	ESG disclosure & SOE performance	GCG enhances the effectiveness of ESG disclosure on firm performance.
8	Puspita Sari, R.	Governance & ESG rating	Independent commissioners, board size, and gender diversity affect ESG scores.
9	Al Amosh, H., Mansor, N., & Ahmad, A.	ESG & resilience	Firms with strong ESG are more resilient to crises and global pressures.
10	Salehi, M., et al.	Audit committee & ESG disclosure	Audit committees improve ESG disclosure quality.
11	Nugroho, A. Y., & Kohardinata, C.	Governance–ESG–stock prices	Governance mediates the relationship between ESG and stock prices.
12	Qurniasih, E., et al.	ESG disclosure & firm value	Governance mediates the influence of ESG disclosure on firm value.
13	Fanani, Z., Prabowo, H., & Wulandari, E.	Governance & ESG disclosure	Governance strengthens ESG's impact on financial performance.
14	Handayati, Y., et al.	ESG, governance & Big Four audits	Big Four audits reinforce the impact of ESG on firm outcomes.
15	Citradewi, A.	Board meeting intensity & ESG	Meeting intensity is more important than board size for ESG effectiveness.
16	Andriansyah, Y., Wibowo, H., & Sutopo, J.	GCG & ESG performance	Board independence and audit committees strengthen the ESG–performance link.
17	Naciti, V.	Board structure & sustainability	Governance reinforces the ESG–performance relationship.

No.	Reference	Research Focus	Key Findings
18	Hajriati, L., Firmansyah, D., & Putri, S.	ESG disclosure & tax risk	ESG disclosure moderates the governance–external relationship.
19	Rahmadini, R., & Hartanti, D.	ESG controversies	ESG positively affects performance but weakens under controversies.
20	Zu, L.	Geopolitical risks & ESG	Geopolitical risks reduce ESG practice quality.
21	Muazaroh, N., Lestari, P., & Purnama Sari, D.	Gender diversity & board size	Board diversity improves ESG disclosure quality.
22	Tondang, F., & Wedari, L.	ESG, GCG & dividend policy	ESG disclosure, governance, and performance influence dividend policy.
23	Walkomaroh, E., Ruhiyat, A., & Sugiyanto, T.	GCG & green intellectual capital	GCG strengthens the link between green IC and sustainable performance.
24	Sugiarto, D., Puspani, N., & Fathia, S.	ESG & IDX-listed stocks	ESG's social factors significantly affect stock performance.
25	Saharti, N., Utami, D., & Hidayat, A.	Geopolitical risks & ESG disclosure	GPR suppresses ESG disclosure quality.
26	Frias-Aceituno, J. V., Rodríguez-Ariza, L., & Garcia-Sanchez, I. M.	Board & sustainability reporting	Active boards enhance ESG transparency.
27	Aras, G., & Crowther, D.	Governance & sustainability	Governance is a prerequisite for ESG to generate economic value.
28	Buallay, A.	ESG reporting & firm performance	ESG's link to ROA, ROE, and Tobin's Q varies depending on governance.
29	Nasih, M., Harymawan, I., Paramitasari, Y., & Handayani, A.	ESG disclosure & firm value in ASEAN	Governance amplifies ESG disclosure's effect on firm value.
30	Tan, W., Shen, H., & Wen, J.	Trade policy uncertainty & ESG performance	TPU drives ESG performance improvements in certain sectors.

## 5 Discussion

### 5.1 RQ1: Corporate Governance in Indonesia as a Facilitator of ESG Integration Amid Trade War Dynamics and Its Impact on Firm Performance.

The literature review indicates that global trade war dynamics, particularly the U.S.–China conflict, exert significant pressures on firms in developing economies, including Indonesia. Companies have faced rising tariffs, trade barriers, and supply chain disruptions, all of which negatively impacted output and performance [1, 2]. Under such conditions, Environmental, Social, and Governance (ESG) practices have been positioned as adaptive strategies to preserve market legitimacy and build investor trust [11, 14]. However, the effectiveness of ESG does not operate in isolation; it is heavily influenced by corporate governance.

International studies highlight that board structures, gender diversity, audit committees, and institutional ownership function as enablers that strengthen ESG integration [16, 17]. Research in the Indonesian context reflects similar findings: firms with strong governance mechanisms tend to achieve higher-quality ESG disclosure and sustain performance even under external pressures [18, 25]. Thus, governance assists Indonesian firms not only in complying with regulations such as the OJK's sustainability reporting mandate (2019), but also in transforming ESG into a resilience instrument to navigate trade wars.

These findings suggest that corporate governance has two primary functions in the ESG–trade war context. First, governance acts as a control mechanism that ensures ESG is not merely symbolic or a form of greenwashing, but genuinely implemented as a business strategy. For example, independent boards of directors and audit committees encourage greater transparency and accountability, thereby helping firms sustain investor confidence during periods of global uncertainty [17, 29]. Second, governance serves as an enabler that integrates ESG into firms' adaptive strategies. Companies with stronger governance are better positioned to leverage ESG as an instrument for long-term competitiveness, particularly in international markets where sustainability is increasingly emphasized [16, 18]. Al Amosh et al. [28] further confirmed that firms with higher ESG scores exhibited greater resilience against external shocks, including the pandemic and trade pressures.

In the Indonesian setting, governance plays an even more critical role due to domestic regulations such as OJK Regulation No. 51/POJK.03/2017 mandating sustainability reporting. To comply, public firms must not only report ESG but also align governance mechanisms to ensure effective ESG integration. Puspita Sari [25] found that governance dimensions—such as independent commissioners, board size, and gender diversity—significantly affect ESG scores. This underscores governance as an institutional prerequisite for ESG to enhance firm performance.

In summary, regarding RQ1, corporate governance in Indonesia plays a strategic role in facilitating ESG integration as a response to trade wars. Governance ensures compliance, prevents symbolic practices, and enables ESG to deliver tangible contributions to firm resilience and performance.

## 5.2 RQ2: Corporate Governance as a Mediator or Moderator in the ESG–Performance Relationship.

The literature also reveals that corporate governance not only facilitates ESG integration but also functions more deeply as both a mediator and a moderator in the relationship between ESG and firm performance.

As a mediator, governance acts as a channel transmitting ESG's influence on performance. Nugroho and Kohardinata [30] showed that governance affects stock prices through social performance, a component of ESG. Similarly, Qurniasih et al. [22] found that governance mediates the relationship between ESG disclosure and firm value. Fanani et al. [31] further emphasized that governance quality is a critical determinant of whether ESG disclosure translates into financial benefits.

As a moderator, governance influences the strength or direction of the ESG–performance relationship. Handayati et al. [21] found that high-quality audits (Big Four) amplified the positive impact of ESG on firm outcomes. Citradewi [32] highlighted that board meeting intensity mattered more than board size, indicating that governance processes—not just structures—enhance ESG's effect on performance. Similar findings by Andriansyah et al. [24] and Naciti [33] demonstrated that governance elements such as board independence, gender diversity, and meeting frequency reinforce the positive ESG–performance relationship.

Taken together, these findings indicate two key forms of governance influence. Governance as Mediator: ESG impacts performance indirectly through governance mechanisms. Firms with high ESG scores but weak governance often fail to convert sustainability practices into market value or financial performance [30, 22]. Conversely, strong governance internalizes ESG into business processes, ensuring positive financial and reputational outcomes. Governance as Moderator: Governance shapes the strength of ESG's effect on performance. High-quality governance amplifies ESG benefits, while weak governance may dilute or even negate ESG's positive impact [21, 32].

In the Indonesian context, these insights are particularly relevant. Although many public companies are mandated to produce sustainability reports under OJK Regulation No. 51/POJK.03/2017, the effectiveness of such reports in enhancing performance largely depends on governance quality. Husna et al. [18] showed that governance strengthens ESG's effectiveness for state-owned enterprises, highlighting governance as a decisive factor for ESG's tangible benefits.

Therefore, addressing RQ2, governance serves a dual role in the ESG–performance nexus: as a mediator, it channels ESG's effects through improved managerial, social, and disclosure quality; and as a moderator, it determines the extent to which ESG translates into improved performance. Ultimately, governance ensures that ESG contributes meaningfully to corporate resilience and competitiveness, particularly amid external pressures such as trade wars.

## 6 Conclusion

Based on the Systematic Literature Review (SLR) of 30 articles collected from major databases such as Scopus, WoS, ScienceDirect, Emerald, Taylor & Francis, and Google Scholar, this study highlights several key findings. First, corporate governance in Indonesia plays a critical role as a facilitator in integrating Environmental, Social, and Governance (ESG) principles into corporate business strategies. Sound governance enables firms to navigate global dynamics, such as trade wars, by ensuring that ESG practices extend beyond regulatory compliance to serve as strategic instruments for maintaining legitimacy, enhancing investor confidence, and strengthening competitiveness and resilience.

Second, corporate governance is also shown to play a dual role as both a mediator and a moderator in the ESG–performance relationship. As a mediator, governance acts as a channel through which ESG affects firm performance, primarily by improving managerial processes, social responsibility, and disclosure quality. As a moderator, governance determines the strength of ESG’s influence on performance: strong governance amplifies ESG’s positive impact, whereas weak governance may diminish or even nullify its benefits. Consequently, governance should be positioned as a key factor ensuring that ESG contributes meaningfully to both financial and non-financial performance, particularly amid global pressures such as trade wars.

Based on these conclusions, several recommendations can be proposed. First, for future research, it is suggested to conduct empirical studies using both quantitative and qualitative approaches with data from Indonesian firms. This is important to directly test the role of governance as a mediator and moderator in the ESG–performance relationship, and to provide more contextualized evidence compared to literature-based findings. Second, for companies, long-term investments in strengthening corporate governance are required, particularly in the areas of transparency, accountability, and board diversity. Firms should also establish dedicated sustainability committees and engage high-quality external auditors to ensure that ESG integration goes beyond mere reporting formalities and delivers strategic benefits for corporate performance. Third, for regulators, it is recommended to expand the scope of ESG regulations beyond public companies to also include large private firms that have significant social and environmental impacts. Existing regulations, such as OJK Regulation No. 51/POJK.03/2017, could be reinforced with governance quality evaluations and more detailed practical guidelines, making ESG reporting more standardized, measurable, and comparable across firms. Additionally, the government may consider providing incentives or recognition to companies that successfully integrate ESG substantively into their governance frameworks.

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