

Literature Review: The Effect of Environmental, Social, Governance Disclosure on Cash Holding

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Abstract: *This research aims to systematically examine the literature regarding influence environmental, Social and Governance (ESG) disclosure of company cash holding policies amidst uncertain global economic conditions. Using the Systematic Literature Review method with a chronological approach, this study analyzed 11 main articles from reputable databases published in the range 2020 to 2025. The results of the review revealed a dichotomy of findings reflecting the opposition between two main perspectives: Agency Theory, which shows that ESG transparency reduces information asymmetry and thus decreases cash requirements, and the Precautionary Motive, which views ESG commitments as drivers of cash accumulation for sustainable investment and future regulatory compliance. In addition, governance characteristics such as gender diversity and board size efficiency were identified as strategic determinants in determining the effectiveness of liquidity policies. This research concludes that ESG plays a dual role as a monitoring tool as well as a value protection instrument, and suggests the use of a global ESG score database for future research on specific industrial sectors in Indonesia.*

INTRODUCTION

Facing economic conditions fraught with uncertainty, a company's ability to maintain liquidity is a vital aspect in minimizing financial risk while ensuring operational sustainability. This uncertainty is reflected in various macroeconomic dynamics in recent years, such as increasing inflationary pressures that impact production costs and public purchasing power, high interest rate policies that tend to increase borrowing costs, and exchange rate fluctuations that affect financial market stability and investment activity (De Vito & Gómez, 2020). These changes in the economic environment not only increase the uncertainty of a company's cash flow but also increase the possibility of limitations in obtaining external funding due to the high cost of capital and the cautious attitude of financial institutions in disbursing credit.

In response to these conditions, cash holding policy has become a strategic decision in corporate financial management. This policy reflects management's considerations in determining

the amount of cash and cash equivalents held to support operational activities, finance investments, and act as a cushion against economic shocks. However, the amount of cash held needs to be managed optimally, as excessive cash accumulation can lead to inefficiencies and reduce the effectiveness of the company's asset utilization. Furthermore, high levels of cash holdings have the potential to trigger conflicts of interest between management and shareholders, where managers may use these funds for personal gain or less productive expenditures (Harahap & Widiastuty, 2024).

With the growing demand for non-financial transparency, Environmental, Social, and Governance (ESG) disclosure has become a global standard over the past decade for enhancing accountability and mitigating long-term risks. In Indonesia, ESG implementation is strengthened through Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, which requires public companies to prepare sustainability reports in stages. ESG disclosure serves as a strategic communication tool to reduce information asymmetry between management and external parties. Through greater transparency, companies are expected to build a positive reputation, increase investor confidence, and expand access to funding sources in the capital market (Indonesia Stock Exchange, 2025).

Despite growing attention to the relationship between ESG and cash policy, existing empirical research still shows significant inconsistencies. Some studies find a negative relationship, where good ESG practices increase transparency, thereby reducing the need for companies to hold large amounts of cash (Tsendsuren et al., 2021 . Alhares et al., 2023) On the other hand, there is research that shows the opposite result, namely a positive relationship, arguing that companies committed to ESG require larger cash reserves to finance sustainable investments, such as green technology, and to address future regulatory compliance (Dengas et al., 2025 .Yang & Susanto, 2020)

Based on these conditions, this study aims to examine the extent to which previous studies have addressed the influence of Environmental, Social, and Governance (ESG) disclosure on corporate cash holding policies, both in the global and domestic market contexts. Through this study, it is hoped that research gaps that have not been widely explored can be identified, particularly regarding the differences in findings between the Agency Theory perspective and the precautionary motive in liquidity management. This study is also expected to provide readers with insights in determining the direction of further research, particularly in developing sustainable financial policies. To maintain the quality of the study, this study focuses on 11 articles obtained from reputable databases such as ScienceDirect and other accredited accounting journals as credible reference sources.

METHOD

This study attempts to search for articles in reputable journal databases such as *Science Direct* , *Applied Economics Letters* , and *Frontiers in Environmental Science* using the keywords “ ESG ”, “ environmental ”, “ social ”, “ governance ”, “ cash holding ”. From the search results, 11 articles were selected that were deemed most relevant to discussing the impact of ESG disclosure on corporate cash policies.

The methodology used in this writing is a literature review. The review process was conducted by first reviewing articles published between 2020 and 2025 to assess theoretical developments, then discussing more recent articles to capture the current dynamics in sustainable finance policy. The first stage was to identify articles through a database search, then identify each finding to map *research gaps* for future research.

Table 1. Main articles that are the material for this *literature review* :

No.	Writer	Article Title	Year	Journal
1	Atif et al.	The effect of corporate environmental, social and governance disclosure on cash holdings: Life-cycle perspective	2022	<i>Business Strategy and the Environment</i>
2	Tsendsuren et al.	The effect of corporate environmental responsibility and religiosity on corporate cash holding decisions and profitability	2021	<i>Sustainable Development</i>
3	Mahwiyah et al.	Environmental Responsibility And Company Life Cycle On Cash Holding With Geographical Diversification As Moderation Variable	2024	<i>Jurnal Ekonomi</i>
4	Indah Ningtyas	The Impact of Corporate ESG Disclosure on Cash Holdings: Moderating the Influence of Financial Uncertainty	2024	Jurnal transparan
5	Yang & Susanto	Corporate social responsibility and cash holding: evidence from trucking firms	2020	<i>Applied Economics Letters</i>
6	Kusumawardani et al.	Corporate governance's policy on the impact of cash holding in Indonesia	2021	<i>Universal Journal of Accounting and Finance</i>
7	Qu & Zhang	Environmental, Social, and Corporate Governance (ESG), Life Cycle, and Firm Performance: Evidence from China	2023	<i>Sustainability</i>
8	Gao et al.	Does ESG always improve corporate performance? Evidence from firm life cycle perspective	2023	<i>Frontiers in Environmental Science</i>
9	Putri & Widiastuty	The Influence of Corporate Governance Characteristics on Cash Holding	2024	<i>Journal of Applied Accounting and Taxation</i>
10	Alhares et al.	Environmental, Social, And Governance Disclosure Impact On Cash Holdings In OECD Countries	2023	<i>Journal of Governance and Regulation</i>
11	Maharani et al.	The Impact of ESG Disclosure on Indonesian Stock Exchange ESG Leaders' Cash Holdings	2025	<i>Review of Integrative Business and Economics Research</i>

RESULT AND DISCUSSION

Number of Articles Aspect

Based on the results of systematic identification of various international and national journal databases, there are 11 primary articles that serve as the study material in this literature review. The journals used as reference sources are dominated by Scopus- indexed international publications with high *impact factors* , such as *Business Strategy and the Environment* , *Sustainability* , *Sustainable Development* , *Applied Economics Letters* , and *the Journal of Governance and Regulation* . In addition, this review is also strengthened by articles from accredited national journals and university journals such as *the Journal of Economics* , *the Journal of Applied Accounting and Taxation* , and *the Review of Integrative Business and Economics Research* . Chronologically, the reviewed literature is dominated by cutting-edge research between 2020 and 2025 , indicating that the topic of integrating ESG aspects into liquidity policy is a rapidly developing academic discourse post-global pandemic.

Aspects of the Discussion Theme of the Article

The themes raised in the eleven articles analyzed demonstrate a wide diversity of factors influencing corporate liquidity policies, particularly those related to non-financial transparency. Several studies, such as Atif et al. (2022), Tsendsuren et al. (2021), and Alhares et al. (2023), highlight the importance of Environmental, Social, and Governance (ESG) disclosure as an external oversight instrument capable of minimizing information asymmetry while reducing agency costs. Furthermore, corporate governance issues are also a major concern, with studies by Harahap & Widiastuty (2024), and , Kusumawardani et al. (2021) investigating the influence of board characteristics, such as size, independence, and gender diversity, on cash holding policies determined by management. Furthermore, financial uncertainty is identified as a moderating variable in this relationship, as explained by Ningtyas (2024), who found that conditions of high

uncertainty encourage companies to increase cash reserves. On the other hand, the link between ESG and company performance is also a focus of studies, as demonstrated by Gao et al. (2023) and Qu & Zhang (2023), which reveal that ESG practices contribute to improved performance by reducing risk and strengthening corporate reputation. In the context of emerging markets, studies Maharani et al. (2025) and Mahwiyah et al. (2024) emphasize the implementation of environmental and social responsibility in companies listed on the Indonesia Stock Exchange and its implications for cash holding policies. Finally, the study Yang & Susanto (2020) broadened the scope of the discussion by examining a specific industrial sector, namely transportation, and found that corporate social responsibility (CSR) activities also influence the management of a company's operational cash flow.

Aspects of the Method Used

methodology used in these 11 articles consistently applies a quantitative approach with panel data regression analysis to capture inter-firm dynamics. To ensure estimation accuracy and address endogeneity bias, Atif et al. (2022) as well as Alhares et al. (2023) Using the *Two-Stage Least Squares* (2SLS) and *Propensity Score Matching* (PSM) techniques, the *Fixed Effect Model* (FEM) and the *Random Effect Model* (REM) were used. dominate research in Indonesia and China, as conducted by Mahwiyah et al. (2024), Kusumawardani et al. (2021), Yang & Susanto (2020), Gao et al. (2023), and Qu & Zhang (2023) with the help of *Stata* and *E-views* software. In addition, research Ningtyas (2024), Maharani et al. (2025), and Harahap & Widiastuty (2024) using multiple linear regression analysis and ANOVA difference test to measure the influence of independent variables on the company's cash ratio. The Sobel test and Bootstrap approaches are also applied by Gao et al. (2023) to test the mediation effect

Important Findings Aspects

Based on the previous discussion themes, a review of the key findings from the eleven literatures reveals differing results reflecting the conflict between the Agency Theory perspective and the precautionary motive in corporate cash policy. Several studies, such as Atif et al. (2022), Tsendsuren et al. (2021), Alhares et al. (2023), and those Maharani et al. (2025) on the environmental aspect, show a significant negative relationship between ESG and cash holdings. These results indicate that increased transparency through ESG disclosure can strengthen a company's trust and reputation, thereby facilitating access to external funding sources and ultimately reducing the need to hold large amounts of cash. However, other research groups, namely Ningtyas (2024), Mahwiyah et al. (2024), Yang & Susanto (2020), and those Maharani et al. (2025) on the social dimension, found the opposite result, namely a positive effect of ESG on cash holdings. These findings indicate that companies with a strong commitment to ESG practices tend to hold more cash in anticipation of sustainable investment needs, such as the development of environmentally friendly technologies, and to meet future regulatory obligations.

Furthermore, considering governance factors as part of the ESG dimension, research focusing on the governance aspect Harahap & Widiastuty (2024) reveals that gender diversity on the board of directors contributes significantly to increasing cash holding levels, which is associated with the tendency of female directors to be more cautious in decision-making to maintain the stability of the company's liquidity. On the other hand, Kusumawardani et al. (2021) it finds that excessively large board sizes actually create coordination problems that result in inefficiencies, thus encouraging excessive cash accumulation as a consequence of agency problems. More broadly, Qu & Zhang (2023) it also Gao et al. (2023) provides evidence that ESG plays a role in improving company performance while reducing financial risk. However, Maharani et al. (2025) it confirms that although ESG has an influence on cash policy, the company's fundamental factors remain the main determinant in liquidity management. Overall, these findings indicate that ESG has developed into a strategic factor influencing cash holding policies, both in

the context of global and domestic markets.

CONCLUSION

It can be concluded that ESG plays a dual role as a monitoring tool that suppresses cash flow and a precautionary instrument that increases cash for sustainable investments. Board characteristics such as gender diversity and board size efficiency have been shown to be determining factors in the effectiveness of such liquidity policies. Future research is recommended to evaluate the impact of mandatory disclosure regulations specifically on the energy sector in Indonesia and utilize a global ESG score database for greater estimation accuracy.

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