DO ESG-RELATED GOVERNANCE DISCLOSURES IMPROVE FIRM'S FINANCIAL PERFORMANCE IN INDONESIA?

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ABSTRACT

This study endeavors to scrutinize the causality between the transparency of information within the governance pillar of sustainability performance by corporations and their financial outcomes, measured using Tobin's Q. Adopting a quantitative methodology, the research utilizes an inferential statistical testing model to analyze 275 samples derived from non-banking entities listed on the Indonesia Stock Exchange over the period from January 1, 2017, to 2021. The findings elucidate that management dedication and sustainability strategies exert a considerable adverse effect on the financial performance of companies. Conversely, the efficacy of shareholder structures appears to exert no substantial influence on financial outcomes. These results imply the critical need for corporations to meticulously consider governance aspects when devising their strategic plans. An efficacious strategy is pivotal for fostering exemplary governance practices, thereby enabling the organization to judiciously orchestrate sustainability initiatives in alignment with stakeholder perceptions.

Keywords: *Governance; Tobin's Q; Environmental; Social; Indonesia*

ABSTRAK

Studi ini berusaha untuk meneliti kausalitas antara transparansi informasi dalam pilar tata kelola kinerja berkelanjutan oleh perusahaan dan hasil keuangan mereka, diukur menggunakan Tobin's Q. Mengadopsi sebuah metodologi kuantitatif, penelitian menggunakan model pengujian statistik inferensial untuk menganalisa 275 sampel yang berasal dari entitas nonperbankan yang terdaftar di Bursa Efek Indonesia dari periode 1 Januari 2017 hingga tahun 2021. Temuan ini menjelaskan bahwa dedikasi manajemen dan strategi keberlanjutan memberikan dampak buruk yang cukup besar terhadap kinerja keuangan perusahaan. Sebaliknya, efektivitas struktur pemegang saham tampaknya tidak memberikan pengaruh besar terhadap hasil keuangan. Hasil-hasil ini menyiratkan kebutuhan penting bagi perusahaan untuk mempertimbangkan aspek tata kelola dengan cermat ketika merancang rencana strategis mereka. Strategi yang efektif sangat penting untuk mendorong praktik tata Kelola yang patut dicontoh, sehingga memungkinkan organisasi untuk mengatur inisiatif berkelanjutan secara bijaksana dan selaras dengan persepsi pemangku kepentingan.

Kata kunci: Pemerintahan; *Tobin's Q*; Lingkungan; Sosial; Indonesia

Klasifikasi JEL: G11; G12; G14

1. INTRODUCTION

The discourse regarding Environmental, Social, and Governance (ESG) has attained global prominence, catalyzed by a burgeoning public consciousness of green investment. This awareness accentuates the significance of a corporation's reputation concerning its ESG performance, concurrently augmenting investor inclination towards such investments (Adi Chandra & Sacipto,

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2020). The practice of disclosing ESG information has surfaced as a novel paradigm, entailing the dissemination of details regarding a company's commitment to environmental responsibility, societal contributions, and governance principles. Investors perceive these disclosures as indicative of the future valuation of a company (Buallay et al., 2020). Nelson's (2017) investigation delineates that the principal motivation for companies to articulate their ESG achievements is the preservation of their societal and investor-oriented reputation. Beyond reputational benefits, ESG disclosure is deemed pivotal for assessing a company's cognizance of its non-financial performance, aiming to preclude future scandals that could engender financial repercussions (Minutolo et al., 2019).

In Indonesia, there has been a significant adoption of ESG principles, evident in the establishment of the ESG Microsite. This collaborative initiative involves the Indonesia Stock Exchange (IDX), Indonesia Securities Guarantee Clearing House (KPEI), Indonesia Central Securities Depository (KSEI), supported by the Financial Services Authority (OJK). Additionally, the introduction of the SRI-Kehati Index aligns with Sustainability and Responsible Investment standards, as documented by Handoko (2021) in 2021. Moreover, the Indonesian government has officially endorsed this concept by issuing Financial Services Authority Regulation number 51/POJK.03/2017, mandating Public Companies to publicly report on the sustainability of their business operations.

ESG disclosure is anticipated to align with the principles of Good Corporate Governance (GCG), thereby engendering positive ramifications for the corporation (Ningwati et al., 2022). Consequently, investors with a predilection for green investment are necessitated to comprehend the interrelation between a company's disclosure of its ESG performance and its economic performance indicators. Broadly, ESG serves as a critical metric capable of elucidating a corporation's ability to discern its long-term returns and risks through the prisms of environmental sustainability, social impact, and adherence to robust business governance principles (Chin, 2022). In particular, the Governance aspect within ESG underscores the efficacy with which corporations execute internal management processes that are both effective and sustainable, thereby aligning with corporate objectives (Worokinasih & Zaini, 2020).

Tobin's Q is a commonly used ratio delineating a company's market valuation relative to its book value, and is conventionally employed as a barometer for assessing corporate financial performance. This assessment entails the valuation of stock as elucidated by Dzahabiyya et al. (2020), who categorize three echelons of Tobin's Q values: values less than 1, indicative of underestimation and sluggish investment growth; values equal to 1, suggestive of average valuation with stagnant investment growth; and values exceeding 1, denoting overvaluation and a high potential for investment growth. Presently, the Governance pillar of ESG, alongside a company's Tobin's Q value, has emerged as pivotal for corporations endeavoring to fulfill societal and investor expectations regarding social responsibility, environmental conservation, and the transparent and accountable management of risks. This endeavor aims to cultivate trust and ensure public confidence in making investments (Alviansyah & Adiputra, 2021).

Several scholarly studies have been conducted to scrutinize the causality between ESG disclosures—encompassing both the aggregate score of ESG and the scores for each of the ESG pillars—and company performance, as measured by Tobin's Q. The outcomes of these studies are heterogeneous, with findings illustrating positive, negative, and neutral impacts of the Governance pillar's value on Tobin's Q. Specifically, research evidencing a positive correlation includes studies by Giannopoulos et al. (2022), Buallay (2019), Mohammad and Wasiuzzaman (2021), and Aydogmus et al. (2022). Conversely, studies indicating a negative relationship comprise those conducted by Lubis and Rokhim (2021) and Ningwati et al. (2022). Meanwhile, Khoury et al. (2023) and Ersoy et al. (2022) reported investigations that found no significant correlation between the value of the Governance pillar and Tobin's Q. This diversity in findings

underscores the complex and multifaceted nature of the connection among ESG disclosures and company financial performance.

The heterogeneity in results among research studies can be attributed to the complexity of the research methodology, the scope of the sample size, and the selection of variables. Giannopoulos et al. (2022) explored the linkage of the aggregate ESG score, Return on Assets (ROA), and Tobin's Q, uncovering a positive relationship. Similarly, Buallay (2019) and Aydogmus et al. (2022) investigated the relationship between the comprehensive score for ESG and each score for ESG pillar with Tobin's Q, identifying a favorable relationship of the aggregate ESG value and the Governance pillar's value with Tobin's Q. Mohammad and Wasiuzzaman (2021) analyzed the connection between the aggregate ESG score, the score of the Environment ESG pillar's, and the corporation's competitive advantage relative to Tobin's Q, finding positive relationships among these variables. In contrast, studies by Lubis and Rokhim (2021) and Ningwati et al. (2022), which utilized the aggregate ESG score as an independent variable, reported negative outcomes. Conversely, Khoury et al. (2023) and Ersoy et al. (2022) considered both the aggregate ESG score and the scores or each ESG pillars, revealing a positive association between the combined ESG value, the environmental, and the social pillars with Tobin's Q, whereas the governance pillar's value did not show a significant influence on Tobin's Q. This variance underscores the nuanced dynamics underpinning the interplay between ESG disclosures and financial capacity measures.

Diverging from the aforementioned studies that incorporate the aggregate score of ESG as an independent variable, this investigation exclusively focuses on the individual value of the governance pillar within ESG as the independent variable. The rationale behind emphasizing the governance pillar stems from the observed paucity of literature and research specifically addressing the discrete components of ESG Governance. This focus also considers the pivotal role of sound corporate governance in influencing earnings management, which, in turn, impacts investment decisions (Lim & Siregar, 2021). Furthermore, this study distinguishes itself by utilizing data from Refinitiv, unlike previous research by Lubis and Rokhim (2021); Buallay (2019); Mohammad and Wasiuzzaman (2021); and Aydogmus et al. (2022), which relied on Bloomberg, and Giannopoulos et al. (2022), which obtained data from the Thomson Reuters Eikon database. This study seeks to examine the adverse impact of disclosing information related to the ESG Governance pillar on corporate performance, as measured by Tobin's Q, akin to similar inquiries conducted by Buallay (2019), Aydogmus et al. (2022), Khoury et al. (2023) and Ersoy et al. (2022).

Drawing upon Stakeholder Theory, which was first introduced by the Stanford Research Institute (SRI) in 1963 and later refined by Freeman, this framework posits that stakeholders—be they organizations, groups, or individuals—are not only influenced by, but can also influence, organizational objectives (Lindawati & Puspita, 2015). Given stakeholders' considerable impact on a company, it is anticipated that companies will proactively address the myriad needs emanating from their stakeholders (Almagtome et al., 2020), including the demand for disclosure of information that can influence corporate performance (Dumanauw & Suaryana, 2021). A robust relational dynamic between the firm and its stakeholders, as envisaged by this theory, is believed to underpin long-term success (Peng & Isa, 2020). This causality is predicated on the premise that stakeholders' desire for exemplary corporate governance will drive management to undertake comprehensive efforts to enhance governance practices (Madona & Khafid, 2020). Such endeavors to refine corporate governance, once communicated to stakeholders, are posited to wield a positive impact on the firm's future valuation (Lindawati & Puspita, 2015). Accordingly, the disclosure of ESG performance, encompassing the Governance pillar, is anticipated to augment corporate value over time. Research by Peng et al. (2020) implies that reporting on ESG activities

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can serve as a strategic endeavor by companies to create value and affirm their commitment to ESG performance to investors.

In this investigation, the governance pillar will be scrutinized by disaggregating its constituent dimensions, namely management commitment, shareholder structure effectiveness, and corporate social responsibility (CSR) strategy. The investigation will examine how these dimensions influence corporate performance, which will be measured using Tobin's Q. The detection of an inverse relationship may suggest the imperative for corporations to meticulously integrate ESG considerations within their strategic planning processes. Such an alignment posits that a well-conceived corporate strategy can engender exemplary governance practices. Furthermore, corporations are likely to enact more targeted CSR initiatives by taking into account stakeholder perceptions. Ultimately, a robust corporate strategy is anticipated to enhance corporate performance and augment company value by transmitting affirmative signals to stakeholders. Therefore, this study aims to ascertain the inverse impact of the executive management commitment, shareholder structure effectiveness, and CSR strategy on company financial performance. This research has the potential to provide valuable insights for corporations regarding the disclosure of ESG governance pillars, potentially influencing investor decision-making processes. From an academic perspective, this study aims to furnish a compendium of scholarly references, thereby facilitating further inquiry within the domain of sustainability accounting.

2. RESEARCH METHOD

This study was conducted within the framework of the positivistic paradigm, employing a quantitative methodology that leverages inferential statistics for analysis. The positivistic paradigm, a philosophical construct derived from the notion of "positivity," emphasizes the empirical observation of phenomena as they manifest in reality and are perceptible as tangible entities (Qadri & Najiha, 2021). This paradigm advocates for an empirical approach to knowledge, positing that all that is measurable with certainty and objectivity can be quantitatively assessed (Teruni et al., 2022). Utilizing a quantitative approach, this research applies inferential statistical techniques to analyze, estimate, and draw conclusions about the characteristics or attributes of a population from sampled data (Qadri & Murwaningsari, 2023). Accordingly, this study employs existing data and factual evidence to forecast future occurrences, interpreting the results through the lens of extant scholarly literature. The data amassed for this investigation comprise secondary sources, encompassing financial reports, annual reports, sustainability reports, and ESG governance pillar value data from 2017 to 2021. This data was obtained from corporate reports accessible on the official web page of the Indonesia Stock Exchange (IDX) and the respective websites of the companies in question.

Table 1. Purposive Sampling Results

Criteria	Total
Companies listed on the IDX after January 1, 2017 to December 31, 2021	546
Non-financial companies listed on the IDX after January 1, 2017 to December 31, 2021	(91)
IDX indexed non-financial companies that publish sustainability reports, financial reports, and annual reports during the period 2017 to 2021	(400)
Number of company samples used in the study	55
Research period	5
Total Research Sample	**275**

Source: Researchers Analysis.

Table 2. Details of ESG-Related Governance Pillar

Pillar	Variables	Descriptions
Governance	Management Commitment	The variable refers to the company's commitment and performance in implementing best practice corporate governance principles. The management commitment consists of thirty-two indicators that encompass a range of governance and executive compensation policies and practices. These indicators include the functions and policies of the board, such as the establishment of corporate governance and various board committees (nomination, audit, and compensation). It further delves into the structure and policies regarding the board's size, independence, and experience, along with executive compensation performance, both general and in relation to ESG criteria.
	Effectiveness of Shareholder Structure	The effectiveness of shareholder structure reflects a company's ability to treat shareholders fairly and employ measures to prevent hostile takeovers, outlined through seventeen indicators. These indicators include policies for shareholder rights, equal voting rights, shareholder engagement, diverse voting rights, voting caps, minimum share requirements for voting, majority requirements for director elections, shareholder votes on executive compensation, public access to corporate statutes, veto power or golden shares, state-owned enterprise characteristics, unlimited authorized capital (blank check authority), preemptive rights, company cross-shareholding, fair price provisions, and expanded constituency provisions for wider stakeholder interests.
	Corporate Social Responsibility (CSR) Strategy	CSR strategy embodies the integration of financial, social, and environmental considerations into daily corporate decision-making processes. It is articulated through 25 indicators, including the formation of a CSR Sustainability Committee, adherence to the Global Compact, stakeholder engagement, and compliance with Global Reporting Initiative (GRI) guidelines. Moreover, it encompasses commitment to the United Nations Principles for Responsible Investment (UNPRI) and the Sustainable Development Goals (SDGs), covering areas such as poverty alleviation, health and well-being, gender equality, sustainable energy, economic growth, reduced inequalities, climate action, and partnerships for goals.

Source: https://workspace.Refinitiv.com/web

Information pertaining to the ESG governance pillar's value was retrieved from the refinitiv database, a methodological choice also adopted by Khoury et al. (2023). The sample for this study included 275 company-years, selected through the purposive sampling technique based on specific requirements: (1) companies listed on the IDX from January 1, 2017, to December 31, 2021; (2) non-financial companies listed on the IDX within the same timeframe; and (3) non-financial companies indexed on the IDX that have released sustainability reports, financial reports, and annual reports throughout the period from 2017 to 2021. Consequently, a selection of 55 non-financial companies was compiled for the time frame spanning from 2017 to 2021, adhering to these specified criteria. The sampling results are displayed in Table 1.

This study delineates three separate types of variables: dependent variables, independent variables, and control variables, which constitute the focal points of the research (Nasution, 2017). The dependent variable, defined as the variable influenced by one or more other variables within the scope of this investigation, is represented by Tobin's Q. This metric quantifies the proportion of a company's market value relative to its total assets, serving as a proxy for firm valuation. The independent variable, positioned as the influencer within the research framework, encapsulates the metrics within the ESG governance pillar of a company, as shown in Table 2. The criteria for these metrics are derived from the Refinitiv financial site. Subsequently, the proportion of metrics assigned a value of 1 (indicating reporting by the concerned company) is calculated against the

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totality of available metrics.

In instances where certain metrics are absent on Refinitiv, a manual evaluation is conducted using information from financial reports, annual reports, and sustainability reports. The specifics of each metric, as stipulated by Refinitiv, are detailed subsequently. This study employs control variables to scrutinize the dynamics between dependent variables and its predictors. The details of how to measure variables utilized in this study are resumed in Table 3. Utilizing the variables delineated previously, this investigation scrutinizes the association between the company's performance in the Governance pillar within the ESG framework and its Tobin's Q.

Table 3. Operational Definition of Variables

Variable	Formula	Sources
Tobin's Q (TQ)	$\frac{\text{MV + Liabilities}}{\text{Total Assets}}$	Dzahabiyya et al. (2020)
Management Commitment (MAN)	$\frac{\text{Total Management Commitment Variable is 1}}{\text{Grand Total of Management Commitment Variables}}$	Refinitiv Database
Effectiveness of Shareholder Structure (SHR)	$\frac{\text{Total Effectiveness of Shareholder Structure Variable is 1}}{\text{Grand Total of Effectiveness of Shareholder Structure Variables}}$	Refinitiv Database
CSR Strategy (CSR)	$\frac{\text{Total CSR Strategy Variable is 1}}{\text{Grand Total of CSR Strategy Variables}}$	Refinitiv Database
Environmental Performance (ENV)	Refinitiv Scores on Environmental Performance	Refinitiv Database
Social Performance (SOC)	Refinitiv Scores on Social Performance	Refinitiv Database
Total Asset Turnover (TATO)	$\frac{\text{Sales}}{\text{Total Assets}}$	Supardi et al. (2018)
Asset Growth (AGW)	Total Asset compared to T-1	Machado and Faff (2018)
Firm Size (SIZE)	LnTotal Assets	Irawan et al. (2022)
Debt to Equity Ratio (LEV)	$\frac{\text{Total Debt}}{\text{Total Assets}}$	Supardi et al. (2018)
Earnings per Share (EPS)	$\frac{\text{Net Income}}{\text{Common Shares Outstanding}}$	Almira and Wiagustini, (2020)
Book to Market Ratio (BM)	$\frac{\text{Book value of equity}}{\text{Market value of equity}}$	Araújo and Machado (2018)
Cash Turnover (CTO)	$\frac{\text{Sales}}{\text{Average Cash}}$	Amanda (2019)
Firm Age (AGE)	Age of the company	IDX Database
Firm Sector (IND)	Dummy variable based on sector on the IDX	IDX Database
Accounts Receivable Turnover (ARTO)	$\frac{\text{Net Credit Sales}}{\text{Average Account Receivables}}$	Amanda (2019)

Source: Researchers Analysis.

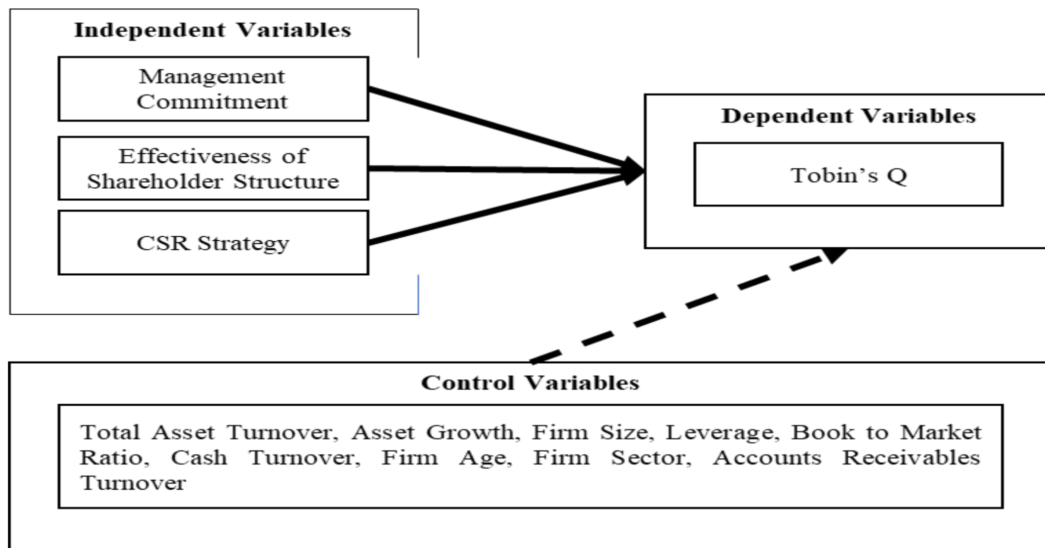

Figure 1. Conceptual Framework

Source: Researchers Analysis.

While extensive research has explored the nexus between ESG metrics and business performance, investigations specifically focusing on how the Governance pillar's influence on a firm's Tobin's Q remain scarce. Accordingly, this study is structured within the conceptual framework depicted in Figure 1. The causality testing within this analysis is conducted employing the formula outlined subsequently.

$$TQ_{it} = \alpha_{it} + \beta_1 MAN_{it} + \beta_2 SHR_{it} + \beta_3 CSR_{it} + \beta_4 TATO_{it} + \beta_5 AG_{it} + \beta_6 SIZE_{it} + \beta_7 LEV_{it} + \beta_8 BM_{it} + \beta_9 CTO_{it} + \beta_{10} AGE_{it} + \beta_{11} IND_{it} + \beta_{12} ARTO_{it} + \varepsilon_{it}$$

In the model, Tobin's Q (TQ_{it}) serves as the dependent variable, representing the market valuation for company *i* at time *t*. Independent variables encompass a spectrum of corporate governance, financial performance, and social responsibility factors for company *i* in period *t*, which include management commitment (MAN_{it}), shareholder structure effectiveness (SHR_{it}), CSR Strategy (CSR_{it}), environmental performance (ENV_{it}), social performance (SOC_{it}), total asset turnover ($TATO_{it}$), asset growth (AG_{it}), firm size ($SIZE_{it}$), leverage (LEV_{it}), book-to-market (BM_{it}), cash turnover (CTO_{it}), firm age (AGE_{it}), firm sector (IND_{it}), and accounts receivable turnover ($ARTO_{it}$). Each coefficient (β) represents the strength and direction of the influence exerted by these variables on the company's market valuation as measured by Tobin's Q.

The analysis begins with selecting the appropriate regression estimation method from three widely recognized approaches: the Common Effect Model (CEM), which integrates cross-sectional and time series data without regard to study specifics (Muamal et al., 2022); the Random Effect Model (REM), addressing error correlation due to temporal changes (Ghozi & Hermansyah, 2018); and the Fixed Effect Model (FEM), which incorporates dummy variables to control for unobserved heterogeneity (Amaliah et al., 2020). Classical assumption tests are then performed to ensure the regression analysis meets essential criteria: normality, homoscedasticity, lack of multicollinearity, and lack of autocorrelation. Normality tests confirm the residual distribution's adherence to normalcy (Buallay et al., 2020), relying on the Central Limit Theorem for samples exceeding 30 (Kwak & Park, 2019). Multicollinearity tests isolate independent variable effects, with a tolerance value near 1 and a Variance Inflation Factor (VIF) limit of 10 indicating no multicollinearity (Nur'aidawati, 2018). Heteroscedasticity tests examine variance consistency (Prena & Muliyawan, 2020), and autocorrelation tests, using the Wooldridge Test, assess correlations between sequential residual periods (Mardiatmoko, 2020). The causality testing employs the Three-Stage Least Squares (3SLS) method for precise analysis in the presence of

multiple control variables and endogeneity assumptions (Liu et al., 2023).

3. RESULTS AND DISCUSSION

Within the framework of the model, Tobin's Q serves as a pivotal metric, esteemed for its role in gauging the market's perception of company performance and its intrinsic value. This metric encapsulates a company's ability to generate shareholder wealth and underscores its competitive position within the market landscape. Moreover, the model adopts a comprehensive stance by integrating an extensive array of independent variables, each contributing distinct facets to the evaluation process. These variables collectively embody a holistic approach to scrutinizing corporate governance, financial robustness, and social responsibility, thereby enriching the analytical depth of the model. Management commitment, shareholder structure effectiveness, and CSR strategy emerge as pivotal components within the domain of corporate governance, serving as barometers of executive stewardship and ethical conduct. Concurrently, the inclusion of environmental and social performance metrics accentuates the burgeoning significance of sustainability considerations in contemporary financial analysis. This reflects a paradigm shift towards responsible investing and underscores the imperative for companies to adopt environmentally and socially conscious practices. Additionally, the incorporation of financial performance indicators, such as total asset turnover, firm size, and leverage, augments the model's efficacy in discerning operational efficiency and risk management prowess. These metrics furnish invaluable insights into a company's operational agility, capital structure dynamics, and adeptness in navigating market fluctuations. Therefore, by covering a diverse spectrum of variables, this model provides a comprehensive framework for dissecting the various determinants in this study.

The statistical summary provided in Table 4 reveals insights into the dataset under examination, as detailed in Table 3. For the dependent variable, Tobin's Q (TQ), the analysis indicates a maximum observed value of 22.233 and an average of 1.989, suggesting a prevalent tendency among the sample firms to be valued by the market at levels exceeding their assets' book value. The independent variable, Management Commitment (MAN), is characterized by an average score of 0.420 and a maximum of 0.706, reflecting the degree of executive dedication within these organizations. In exploring the effectiveness of Shareholder Structure (SHR) and Corporate Social Responsibility (CSR) strategies, the mean values are reported at 0.433 and 0.300, respectively, with their peaks at 0.938 and 0.926. These values indicate a varied implementation of shareholder engagement practices and CSR activities among the firms studied. The analysis extends to encompass the Environmental (ENV) and Social (SOC) dimensions of the ESG framework as control variables. The Environmental Performance (ENV) averages at 0.191 with a standard deviation of 0.131, while Social Performance (SOC) shows a slightly higher mean of 0.243 and a tighter standard deviation of 0.101, suggesting a moderate but consistent integration of ESG factors across the sample.

Furthermore, the research incorporates nine additional control variables to enrich the analysis. Total Asset Turnover (TATO), which measures the efficiency of asset utilization in generating sales, has an average value of 0.750. Asset Growth (AG) displays a range that includes a minimum value of -0.708, highlighting instances of asset reduction or negative growth among certain firms. The Leverage ratio (LEV), with an average of 0.853 and a notably high standard deviation of 1.099, underscores the substantial variation in financial leverage across the companies in the sample. This comprehensive statistical evaluation provides a nuanced understanding of the factors influencing market valuation, reflecting both the commitment of management and the operationalization of shareholder and CSR strategies within the context of environmental and social governance.

The variability in Earnings Per Share (EPS) is pronounced, as evidenced by a substantial standard deviation of 811.291, indicating significant fluctuations across the firms studied. In contrast, the Book to Market (BM) ratio demonstrates a degree of stability within the sample, underscored by a relatively low standard deviation of 0.165. The Cash Turnover (CTO) metric, reflecting the efficacy with which companies transform cash holdings into revenue, recorded a peak value of 203.599. This suggests that certain firms within the sample achieve notably high rates of cash conversion. In addition, the age of the firms (AGE) spans from 7 to 34 years, with an average standing at approximately 23.382 years, pointing to a moderate level of establishment among the entities analyzed. The industry (IND) variable, displaying a standard deviation of 3.344, captures the heterogeneity of the sectors represented in the sample.

Table 4. Descriptive Statistics Test Results

Variables Code	Obs	Mean	Std. Dev.	Min	Max
TQ	275.000	1.989	2.337	0.000	22.233
MAN	275.000	0.420	0.148	0.000	0.706
SHR	275.000	0.433	0.215	0.000	0.938
CSR	275.000	0.300	0.269	0.000	0.926
ENV	275.000	0.191	0.131	0.000	0.525
SOC	275.000	0.243	0.101	0.000	0.489
TATO	275.000	0.750	0.594	0.010	3.954
AG	275.000	0.114	0.212	-0.708	1.676
LEV	275.000	0.853	1.099	0.000	6.643
EPS	275.000	335.189	811.291	-872.160	6197.670
BM	275.000	0.047	0.165	-1.673	0.500
CTO	275.000	15.246	21.857	0.270	203.599
AGE	275.000	23.382	9.127	7.000	34.000
ARTO	275.000	12.270	16.449	0.001	129.700
IND	275.000	5.273	3.344	1.000	11.000

Source: STATA Output in 2023.

Analytical results pertaining to model selection are comprehensively laid out in Table 5. The application of the initial Chow test, aimed at determining the suitability between the fixed effect model and the common effect model, results in a probability value distinctly less than 0.050 (p-value = 0.000). This result significantly supports the preference for the fixed effect model over the common effect model. Following this result, the Hausman test, which evaluates the comparative applicability of the random effect model against the fixed effect model, similarly endorses the fixed effect model as the more fitting choice due to its probability value falling below the 0.05 benchmark. These tests collectively reinforce the adoption of the fixed effect model as the optimal framework for analyzing the influence of various factors on the financial metrics of the companies within the sample.

The conclusive phase of the model selection process incorporated the Lagrange Multiplier Test to juxtapose the common effect model with the random effect model. This evaluation culminated in a decisive probability value of 0.000, which unequivocally favors the random effect model for subsequent analysis. As a result, based on the aggregate evidence derived from the triad of diagnostic tests, the random effect model is adjudged the most suitable framework for conducting regression analysis within the scope of this research. Subsequent to the determination of the random effect model as the preferred analytical framework, a series of diagnostic evaluations are undertaken to ensure compliance with the four fundamental classical

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assumptions essential for robust regression analysis. These assumptions encompass the normal distribution of residuals (normality), the absence of multicollinearity among independent variables, uniform variance of residuals across observations (homoscedasticity), and the nonexistence of serial correlation in the error terms (autocorrelation).

The methodological rigor and analytical veracity of the regression results in this research are contingent upon a series of procedural steps designed to ensure the integrity of the analytical process. The assessment of normality, leveraging the Central Limit Theorem, posits that datasets with sample sizes exceeding 30 are presumed to satisfy normal distribution criteria, a principle supported by Kwak and Park (2019). The evaluation for multicollinearity, as measured by the variance inflation factor (VIF), resulted in values beneath the established threshold, corroborating the absence of significant linear correlations among the regression model's independent variables. Conversely, the heteroscedasticity test, as evidenced by a p-value below the 0.050 benchmark, revealed the presence of heteroscedasticity, thereby indicating that the model does not fulfill the particular homogeneity of variance prerequisite. The autocorrelation test as the last test also produces a probability value below 0.050, which is 0.016. This suggests the presence of positive autocorrelation which can potentially impact the validity of the regression results. Researchers employ the Three Stage Least Square (3SLS) technique for testing causality between ESG-related governance disclosures and financial performance. The regression findings are displayed in Table 5.

In Table 5, the P-value associated with the Management Commitment (MAN) variable is recorded at 0.043, which is beneath the critical threshold of 0.050, indicating that the MAN variable exerts a statistically significant influence on the dependent variable Tobin's Q (TQ). The coefficient of -2.188 suggests that an increment by one unit in the Management Commitment indicator precipitates a decline in Tobin's Q by -2.188 units. Consequently, this observation corroborates the initial hypothesis positing a discernible negative effect of the Management Commitment component within the Governance pillar on the firm's Tobin's Q metric. This inverse relationship implies that the firm's endeavors in upholding and executing corporate governance practices, exemplified by the augmentation of board members, may engender financial obligations for the entity. These obligations, aimed at compensating the increased board composition, could potentially detriment the company's financial standing in the short term.

The research finding, as indicated by the statistically significant P-value associated with the Management Commitment (MAN) variable, offers a compelling insight into the intricacies of corporate governance within the framework of agency theory. Agency theory elucidates the potential conflicts of interest between managers (agents) and shareholders (principals), especially regarding the allocation of company resources and strategic decision-making. The negative correlation between the Management Commitment and Tobin's Q underscores a critical aspect of this theory — the financial implications of corporate governance practices on the firm's valuation. The decrement in Tobin's Q with an increase in Management Commitment suggests that efforts to enhance corporate governance, such as expanding the board of directors, can incur significant costs. These costs, borne by the company to accommodate additional board members, embody the financial trade-offs entailed in bolstering governance structures. From an agency theory perspective, this situation highlights the tension between principals' desire for maximizing shareholder value and agents' maneuvers to align corporate practices with governance standards, which may not yield immediate financial returns.

Table 5. Model Selection Results

	Results	CEM	FEM	REM
Chow	Prob > F = 0.000		v	

Hausman	Prob > chi2 = 0.038	v	
Lagrange Multiplier	Prob > chibar2 = 0.000		v

Source: STATA Output in 2023.

Table 6. Three Stage Least Square Regression Results

TQ	Coefficient	z-statistics	Probability
MAN	-2.188	-1.720	0.043
SHR	0.927	1.230	0.109
CSR	-1.476	-2.560	0.006
ENV	2.858	1.750	0.040
SOC	9.253	3.680	0.000
TATO	1.270	5.270	0.000
AG	0.071	0.120	0.451
LEV	-0.052	-0.440	0.329
EPS	0.000	-2.050	0.020
BM	0.257	0.350	0.364
CTO	0.020	3.330	0.001
AGE	-0.019	-1.300	0.097
ARTO	0.009	1.270	0.103

Source: STATA Output in 2023.

This observed negative impact resonates with the agency theory's premise on information asymmetry and the potential for managerial actions to diverge from the principal's financial objectives. In the pursuit of enhanced governance, managers might prioritize long-term stability and stakeholder trust over short-term financial metrics, such as Tobin's Q. This prioritization, while beneficial for the company's long-term prospects and ethical standing, may not align with shareholders' immediate return expectations. Furthermore, the financial obligations arising from governance practices, as reflected in the Management Commitment's adverse effect on Tobin's Q, exemplify the costs of reducing agency conflicts. These costs, inherent in the efforts to mitigate the information gap and align interests between shareholders and management, highlight the complexities of implementing effective corporate governance mechanisms.

This analysis demonstrates that specific management dimensions within the principles of corporate governance may engender adverse perceptions towards the company, influencing the company's valuation as reflected in Tobin's Q. It suggests the necessity for corporations to discern and address factors contributing to negative perceptions to enhance the constructive perception of their corporate governance practices. In contrast, the Shareholder Structure Effectiveness (SHR) variable, with a P-value of 0.109, exceeds the established significance threshold of 0.050, indicating its impact on the dependent variable Tobin's Q is not statistically significant. Consequently, the hypothesis positing a significant negative influence of the Shareholder Structure Effectiveness variable within the Governance pillar on the company's Tobin's Q value is not supported by empirical evidence.

The Shareholder Structure Effectiveness (SHR) variable, indicative of a company's efficacy in equitably managing its shareholders and implementing strategies to avert takeovers, does not exhibit a discernible impact on the Tobin's Q value. This result underscores the premise that shareholders are not the solitary influencers of Tobin's Q value, highlighting a broader spectrum of stakeholders beyond shareholders alone. Consistent with stakeholder theory, which advocates for a company's obligations to a wide array of stakeholders, the lack of a significant correlation between the Shareholder Structure Effectiveness and Tobin's Q underscores the potential influence of other stakeholder groups, such as employees, customers, and the broader community, on the company's valuation as represented by Tobin's Q.

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The absence of a significant effect of the SHR variable on Tobin's Q challenges the conventional wisdom that places shareholders at the core of a company's financial health and prospects. This outcome aligns with the broader principles of stakeholder theory, which posits that a company's responsibilities extend beyond its shareholders to include a variety of stakeholders such as employees, customers, and the community at large. Agency theory provides a theoretical framework to analyze this phenomenon, as it delineates the potential conflicts of interest between shareholders (principals) and managers (agents). While shareholders may prioritize financial returns, the management's actions, influenced by a broader stakeholder perspective, can lead to decisions that do not directly translate into immediate financial gains represented by metrics such as Tobin's Q.

This divergence highlights the complexities of corporate governance, where the strategic emphasis on stakeholder inclusivity and corporate social responsibility may not always align with the traditional shareholder-centric model aimed at maximizing shareholder value. Moreover, the agency theory highlights the information asymmetry between shareholders and managers, suggesting that managers may have more comprehensive insights into the company's strategic direction, including its stakeholder engagement and social responsibilities. This information advantage allows managers to make decisions that they deem beneficial for the company's long-term sustainability and stakeholder relations, even if these decisions do not have a straightforward or immediate positive impact on the company's market valuation as measured by Tobin's Q.

In the realm of corporate governance, companies are entrusted with the duty to discern and accommodate the diverse expectations of various stakeholder groups. While governance practices centered on shareholder interests retain their pertinence, it is imperative for organizations to adopt a more inclusive perspective that encapsulates a wider array of considerations. By adopting a comprehensive governance strategy that integrates sustainability and addresses the multifaceted concerns of stakeholders, firms can cultivate significant long-term value. The empirical analysis concerning the Corporate Social Responsibility (CSR) variable revealed a notable correlation with the Tobin's Q (TQ) variable, albeit with a negative coefficient of -1.476. This result suggests that a unitary increment in CSR activities correlates with a decrease of 1.476 in the TQ value, affirming the hypothesis that CSR strategies within the governance framework exert a detrimental effect on a firm’s market valuation as indicated by Tobin's Q.

The Corporate Social Responsibility (CSR) strategy, conceived as a fundamental component of the governance structure, delineates the firm's commitment to the integration of economic, social, and environmental considerations into its strategic decision-making framework. Empirical analysis of this variable reveals a notable negative correlation with Tobin's Q, suggesting that the financial ramifications of implementing CSR initiatives may not align with the enhancement of firm value, as posited in the seminal works of Ningwati et al. (2022). This perspective echoes Milton Friedman's theoretical contention that CSR activities, by diverting resources away from the firm’s core profit-oriented objectives, might not directly contribute to the firm's market valuation. The inference drawn highlights the necessity for firms to judiciously manage and possibly earmark specific funds for CSR endeavors that might not directly correlate with immediate financial outcomes but are aimed at broader, long-term societal and environmental benefits.

Agency theory offers a pertinent lens through which to interpret the research outcomes vis-à-vis the broader industrial landscape, highlighting the inherent conflicts of interest between shareholders (principals) and managers (agents), especially in the realm of Corporate Social Responsibility (CSR) initiatives. The empirical evidence indicating a negative correlation between CSR strategy adoption and firm value may be illustrative of a divergence between the financial aspirations of shareholders and the social and environmental commitments undertaken by

corporations. According to Shintya-Devi and Krisna-Dewi (2019), agency theory posits that agents, endowed with superior information relative to principals, may act in self-serving manners. This informational asymmetry enables managers to leverage their privileged knowledge for personal or strategic advantage, potentially at the expense of shareholders' interests. Specifically, managers might allocate organizational resources towards CSR activities without adequately assessing their impact on the firm's financial performance, thus potentially detracting from the principal's financial objectives.

The empirical outcomes regarding the three independent variables are congruent with the research conducted by Lubis and Rokhim (2021) and Ningwati et al. (2022). Lubis and Rokhim (2021) elucidated that ESG disclosures within the Indonesian context manifest a negative correlation with corporate performance. This phenomenon is attributed to the delay in realizing the benefits from ESG initiatives, suggesting that the fruits of such endeavors are predominantly long-term. Further specificity is provided by Ningwati (2022), who elucidates a statistically significant negative relationship between ESG disclosures and the Tobin's Q metric, reinforcing the proposition posited by Friedman (1970) concerning the potential for ESG commitments to impede corporate efficiency in the short term.

These findings collectively explain the complex dynamics between corporate efforts towards social and environmental stewardship and operational efficiency. While ESG practices reflect a company's commitment to broader societal and environmental responsibilities, the initial impact on operational efficiency might be adverse, highlighting a temporal discrepancy between the implementation of such practices and the realization of their benefits. The research underlines the need for a nuanced understanding of ESG investments, advocating for a balanced perspective that recognizes the potential for short-term efficiency trade-offs against the backdrop of long-term gains in corporate value and societal welfare.

4. CONCLUSION

This study conclusively demonstrates that the variables of Management Commitment and CSR Strategy exert a negative significant impact on Tobin's Q, whereas the Shareholder Structure Effectiveness variable does not have a significant impact on Tobin's Q. The lack of significance in the latter finding could be attributed to the balanced shareholder structure, which diminishes the direct influence of shareholders on company performance. Consequently, shareholders with predominant control are unable to significantly influence the decision-making process or the strategic direction that determines firm value. From a rational perspective, the influence of shareholders on firm value is particularly significant in areas such as dividend policy and investment decisions. The main aim of this research is to explore the negative associations between each dimension of the ESG Governance Pillar—Management Commitment, Shareholder Structure Effectiveness, and CSR Strategy—and corporate performance, as gauged by Tobin's Q. Disaggregating these variables facilitates a nuanced understanding of their respective impacts within the broader framework of corporate governance. A negative association underscores the necessity for corporations to carefully consider ESG factors in strategic planning. Integrating ESG factors into corporate strategy can result in leading to superior governance practices. Notably, an effective corporate strategy positively influences not only company performance but also enhances corporate value. By adopting comprehensive approaches to governance and CSR strategies, companies can communicate positive signals to stakeholders, bolster their reputation, and generate sustainable value.

This investigation's contributions are twofold: for corporations, it identifies key ESG governance components that may influence investment decisions; for the academic realm, it offers valuable insights for sustainability accounting research. Nevertheless, this research is not without

its limitations. Constraints on data collection timeframes restricted the sample to the period between 2017 and 2021, rendering the data potentially outdated. This period coincides with the onset of formal sustainability reporting among Indonesian companies, following the enactment of Financial Services Authority Regulation number 51/POJK.03/2017, mandating public disclosure of business sustainability. Additionally, the analysis encounters methodological challenges, including tendencies towards autocorrelation and heteroscedasticity, warranting further scholarly attention.

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