InCAF PROCEEDING OF INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE

Volume 3, 2025, PP: 277-289

The Influence of Environment, Social and Government Score on Firm Value: Foreign Ownership As a Moderation Variable

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Abstract

This study aims to provide empirical evidence of the influence of environmental, social, and governance (ESG) scores on firm value with foreign ownership as a moderating variable. The population in this study are all non-financial companies listed on the Indonesia Stock Exchange and have ESG disclosure scores, and the sample is The selected non-financial companies have ESG scores with complete data according to the variables studied. The observation period is 2021-2023. The test results prove that the ESG disclosure score has a negative effect on company value. The results of further research prove that foreign ownership moderates the environmental, social, and governance (ESG) influence on company value. This research contributes to stakeholder theory and legitimacy theory, where better ESG disclosure will result in better quality of financial reports and legitimize the company as a company that pays serious attention to environmental, social, and reporting. Governance (ESG) as well as foreign ownership increase expectations for better sustainability practices.

Keyword: Environment, Social and Government (ESG), Firm Value, Foreign Ownership

INTRODUCTION

ESG is an important indicator in assessing corporate sustainability and social responsibility (Faller & Knyphausen-Aufseß, 2018; Eccles et al., 2014; Ionescu et al., 2019). In the stakeholder theory explained by Martínez-Ferrero & Frías-Aceituno (2015), company management is responsible for the decision-making process and must consider all or part of the interests of shareholders so that shareholders will give a positive reaction to the company's shares and have an impact on increasing company value. Stakeholder theory states that companies have a responsibility to create value for various stakeholders and provides theoretical justification for the influence of ESG disclosure on company value. In this context, ESG disclosures provide stakeholders with useful information about a company's commitment to sustainability and social responsibility, which can help build their trust and reputation. This can produce various benefits for companies, such as increased access to capital, increased consumer loyalty, and increased employee morale (Tarmuji et al., 2016; Alsayegh et al., 2020)..

The credibility of ESG disclosures is better if the company uses high audit quality, so that audit quality can moderate the influence of ESG disclosures on company value. ESG disclosures are especially important when it comes to pollution from the chemical and petroleum industries, which may have negative impacts on the environment. Companies operating in these industries tend to have higher ESG performance because this performance needs to be improved and protect their reputation; otherwise, this will affect the interests of shareholders. López & Salmones (2017), Hsiao & Kelly (2018) stated Voluntary disclosure or integrated reporting is a good way to communicate to the public or stakeholders about company performance, strategy, and governance so that it has an impact on increasing company value. Currently, most companies, both listed and not, are starting to engage in disclosure. ESG (Yang et al., 2020; Hamed et al., 2022); in addition, ESG disclosure is used by managers as a tool to maximize the relationship between company value and its sustainable growth (Wahba, 2008; Popa et al., 2021).

Previous research examining the effect of ESG disclosure on company value has mostly been studied in developed countries, and there is still limited research conducted in developing capital markets such as Indonesia. This creates a gap in research results that needs to be re-examined on the influence of ESG disclosure practices on company value in different business and capital market environments so as to provide deeper insight into the challenges, opportunities, and impacts of ESG disclosure practices. Other research linking ESG performance and company value uses legitimacy theory. Deegan & Blomquist (2006), Cho & Patten (2007), Hardiyansah et al. (2021), and Noor & Ginting (2022) state that companies have responsibilities and obligations towards society, such as sustainability reports and other non-financial voluntary disclosures. periodically, where non-financial disclosures may be seen as a means of legitimation. The legitimation process can be obtained from the company's perspective as a method for setting expectations, finding indicators related to the external environment, and revealing the level of compliance with policies.

From several previous research results, there are several gaps in the research results. Gaps in the relationship between ESG disclosure and firm value. Some studies show a direct relationship between ESG disclosure practices and company value, while others find that this relationship is not direct. This suggests that other factors, such as corporate reputation, consumer awareness, or industry factors, may mediate the relationship between ESG disclosure and corporate value. Regional and industry gaps. Some studies may focus more on specific markets and industries. This may create gaps in the generalizability of findings, as market and regulatory conditions can vary significantly across regions and industry sectors. Gaps in understanding the mechanisms between ESG disclosure and firm value. Although many studies show a positive relationship between ESG disclosure and firm value, the underlying mechanisms may not always be clearly understood. This creates a gap in understanding of how ESG practices directly or indirectly impact company value.

This research refers to the research of Samy El-Deeb et al. (2023), which uses audit quality variables as research variables. The difference between this research and the research of Samy El-Deeb et al. (2023) is in testing the moderating variable, where this research uses ownership foreign as a moderating variable. Research examining the influence of ownership in moderating ESG and corporate value has not provided consistent evidence. Srivastava & Anand (2023) prove that concentrated ownership has a positive influence in moderating ESG disclosure on company value, which means this research supports the entrenchment hypothesis. Controlling shareholders has an incentive to control company policy, thereby causing information asymmetry, which will affect ESG disclosure. Balaguer et al. (2023) prove that foreign ownership prefers to invest in smaller companies because large companies tend not to be subject to regulations that require environmental disclosure. Different results are proven by Wu et al. (2022), where institutional ownership moderates the relationship between ESG disclosure and firm value

Foreign ownership is used as a moderating variable in explaining the effect of ESG disclosure on company value because foreign ownership can provide a different perspective on environmental, social, and corporate governance (ESG) issues because foreign ownership has diverse interests and is more focused on business practices. that are sustainable or have higher standards regarding ESG so that foreign ownership can moderate the relationship between ESG and value. According to Velte (2020), it is necessary to understand the relationship between institutional investors and ESG and the implications for business practices and regulations. This suggests that companies should pay attention to the role of institutional investors in ESG activities and ensure that the integration of financial and ESG performance indicators becomes increasingly important in investor relations management. The activities of institutional investors have become a key issue in corporate governance from a research, regulatory, and practice perspective. Previous empirical research emphasizes the heterogeneity of institutional investors and finds heterogeneous results (Faller & Knyphausen-Aufseß, 2018; Friede, 2019). Based on previous empirical evidence, this research then tries to test the influence of environmental, social, and governance (ESG) on company value: foreign ownership as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange with an observation period from 2021-2023

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review and Hypothesis Development

Social disclosure in ESG and corporate value are interrelated in the context of Long & Driscoll's (2008) legitimacy theory. Good ESG disclosure can increase a company's legitimacy by strengthening transparency, accountability, reputation, risk management, innovation and regulatory compliance. This in turn can increase firm value by improving stakeholder perceptions of the long-term value and sustainability of the firm. Legitimacy theory suggests that organizations need legitimacy from various stakeholders to survive and develop. Social disclosure in ESG is one way for companies to gain and maintain legitimacy from external stakeholders, such as the general public, investors, governments and NGOs. Through ESG disclosures, companies demonstrate their commitment to transparency and accountability. They provide information about their business practices, social and environmental impacts, and efforts to improve their performance in these areas. This can increase a company's legitimacy by showing that they are not only focused on financial profits, but also care about relevant social and environmental issues (Cho & Patten, 2007).

Elsayed & Paton's (2005) research uses empirical data to explore the relationship between environmental performance and company performance. The research results show that there is a significant relationship between environmental performance and company performance. In other words, companies that have better environmental performance tend to have better financial performance as well. The results of further research prove the importance of environmental performance in creating long-term value for companies. The results provide support for the view that sustainable and environmentally responsible business practices are not only important for environmental sustainability, but can also improve a company's overall financial performance.

Al-Najjar & Anfimiadou (2012) prove that companies that implement environmentally friendly strategies experience an increase in company value as measured through return on assets (ROA), return on equity (ROE), and Tobin's Q. The research results illustrate that environmental initiatives are not only good for environmentally but also financially beneficial for the company. Good environmental policies not only help companies fulfill corporate social responsibilities but also increase the company's value in the market.

Servaes and Tamayo (2013) show that there is no direct relationship between corporate social performance and corporate value. However, this research finds that advertising expenditure is a mediator in the relationship between CSR and company value. Advertising spending is considered a proxy for the visibility of a company's social behavior to investors. Plumlee et al., (2015) show that environmental disclosure has a significant impact on investor decisions. Investors tend to place a higher value on companies that are actively involved in environmental initiatives, even if the information does not provide a clear direct financial benefit. This shows that investors consider environmental aspects as an important factor in making their investment decisions. Dienes et al. (2016) prove that good corporate governance has a positive effect on better environmental reporting practices. The results of this research prove that strong corporate governance can encourage companies to be more responsible for the environment.

Research by Aboud & Diab (2018) shows that there is a positive relationship between environmental performance and company financial performance in the manufacturing sector in Lebanon. This means that companies that have better environmental performance tend to have better financial performance as well. Research by Ionescu et al., (2019) proves that of ESG factors, governance factors have the greatest influence on the company's market value. Furthermore, research by Almeyda & Darmansya (2019) proves that environmental disclosure has a positive effect on stock prices.

Abdelfattah & Aboud (2020) stated that with the ESG index, investors are provided with disclosure of companies whose performance is determined by the ESG characteristics of each company thereby creating incentives for companies to improve their performance in terms of environmental, social and corporate governance in order to meet investor expectations regarding ESG issues. Aydoğmuş et al., (2022) concluded that companies with high ESG performance tend to have higher company value. Empirical findings further prove that high ESG performance has a positive relationship with profitability (ROA and ROE). Companies that prioritize ESG practices reduce operational risk and increase efficiency. Abdi et al., (2022) research shows that there is a positive relationship between ESG disclosure and company value, which means that companies that are more active in disclosing ESG information have higher company value. In the case of Indonesia, a higher ESG score indicates that the company has greater risk and conversely, a lower ESG score means the company has lower risk. From the research results above, the hypothesis proposed is:
H1: ESG disclosure scores have a negative effect on firm value

The role of foreign ownership in moderating the influence of Environmental, Social, and Governance (ESG) on company value can be explained through two theoretical perspectives: agency theory and legitimacy theory. Within the framework of agency theory, the focus is on the relationship between owners (principals) and managers (agents) in the company. In the context of foreign ownership, foreign investors are often thought to have different motivations for local managers due to geographic distance, different ownership structures, and different investment requirements. In this case, foreign ownership can influence corporate decision-making, including decisions related to ESG practices. From an agency theory perspective, the role of foreign ownership in moderating the influence of ESG on company value can occur because foreign investors tend to have higher expectations regarding transparency, accountability, and sustainability. Thus, companies with significant foreign ownership may respond more strongly to ESG factors to meet the expectations of such foreign investors, which in turn may increase the value of the company.

Legitimacy theory suggests that companies tend to try to maintain legitimacy and support from external stakeholders by paying attention to the norms, values, and expectations that exist in their environment. In this context, companies with foreign ownership may face greater pressure to meet ESG standards as they interact with a more varied and diverse global market. From the perspective of legitimacy theory, the role of foreign ownership in moderating the influence of ESG on firm value may occur due to the encouragement to maintain legitimacy in the eyes of global investors and other stakeholders. Companies with foreign ownership may be more inclined to adopt practices that are considered global standards in terms of ESG to gain and maintain their legitimacy in international markets.

Wahba's (2008) research states the importance of considering the interaction between corporate environmental responsibility and financial performance in understanding institutional investor preferences. This shows that institutional investors tend to be more interested in companies that have strong financial performance and implement good environmental responsibility. Research by Wei et al., (2020) proves that institutional investors show proactive trading behavior before public announcements regarding negative environmental events. This behavior is negatively related to announcement returns, indicating that investors may have access to internal information or anticipate upcoming environmental disclosures. Research by Wu et al., (2022) proves that institutional ownership moderates the relationship between ESG disclosure and firm value. Institutional investors tend to have the expertise and resources to monitor and influence management policies that support good ESG performance, which in turn increases company value.

Balaguer et al., (2023) show that there is a significant relationship between foreign ownership and environmental disclosure. More specifically, companies with foreign ownership tend to have better environmental disclosure. Research by Yunhe et al., (2023) proves that companies that have a higher commitment to social responsibility tend to have higher company value. In addition, this research also finds that foreign institutional investors have an important role in moderating the relationship between CSR and company value. Foreign institutional investors tend to give higher assessments to companies that are active in CSR. In addition, this research also shows that the positive impact of CSR on company value is greater when there is greater participation of foreign institutional investors.

Research by Abousamak et al., (2023) proves that foreign ownership has a positive effect on company value. Companies with a higher proportion of foreign ownership tend to have higher market value. The results of further research prove that foreign ownership moderates the influence of ESG on company value. From some previous empirical evidence, the hypothesis proposed is:
H2: Foreign ownership moderates the influence of ESG scores on company value

METHODS

Operational Definition and Variable Measurement

Variabel	Formula	Source
Dependent	Tobin's Q = $\frac{Nilai\ Pasar\ Saham}{Total\ Aset}$	Ismail & El-Deeb (2022), Samy El-Deeb et al., (2023)
Independent	**ESG Score**	Indonesian Stock Exchange (idx.co.id)
Moderasi	Foreign Ownership = $\frac{Number\ of\ Shares\ owned\ by\ Foreigners}{Saham\ Beredar}$	Balaguer *et al.*, (2023), Yunhe *et al.*, (2023)
Control	FSIZE = LN (Total Asset) LEV = $\frac{Debt}{Total\ Asset}$ ROE = $\frac{Net\ Income}{Total\ Equity}$	Konar & Cohen, (2001); Serrasqueiro & MaçÃs Nunes, (2008); Dal Maso et al., (2017); Samy El-Deeb et al., 2023)

This research uses secondary data taken from annual reports from non-financial companies listed on the Indonesia Stock Exchange (BEI). The data used in this research uses annual financial report data for 2021-2023. Secondary data in this research are financial reports of non-financial companies that have ESG scores, publish annual financial reports that are audited and published on the Indonesia Stock Exchange (BEI) via the www.idx.co.id page during the 2021-2023 period.

The regression equation model in this research is presented as follows:

Regression Model for Hypothesis 1:

$$TOBIN'sQ = \beta_0 + \beta_1 ESG_{it} + \beta_2 FSIZe_{it} + \beta_3 ROE_{it} + \beta_4 LEV_{it} + \varepsilon_{it}$$

Regression Model for hypothesis 2:

$$TOBIN'sQ = \beta_0 + \beta_1 ESG_{it} + \beta_2 FOREING_{it} + \beta_3 ESG_{it}{*}FOREING_{it} + \beta_4 FSIZE_{it} + \beta_5 ROE_{it} + \beta_4 LEV_{it} + \varepsilon_{it}$$

RESULT AND DISCUSSION

Research Population and Sample

The research sample was selected using a purposive sampling method. The sample in this research is non-financial companies listed on the Indonesian Stock Exchange. Based on the provisions above, the research sample is as shown in Table 1 below:

Table 1 . Research Sample

Year 2021 - 2023				
Research Sample Companies	**Number of Companies**	**Number of Years**	**Number of Observations**	**Percentage**
Non-financial companies that report ESG and are listed on the Indonesia Stock Exchange (BEI) in 2021-2023	**240**	**3 Tahun**	**720**	**100**
Non-financial companies that do not report ESG and are listed on the Indonesia Stock Exchange (BEI) in 2021			**(240)**	**(33,33)**
Data yang tidak Lengkap	**86**		**(265)**	**(36,80)**
Non-financial companies that meet the research criteria	**156**	**3**	**215**	**29,86**

Descriptive Statistics

The dependent variable is firm value (TobinsQ). The independent variable in this research is the ESG (Environment, Social and Government) variable and uses a moderating variable, namely foreign ownership. The control variables in this research are company size (FSIZE), leverage (LEV), and profitability (ROE). Based on the results of data processing, descriptive statistics from the research data can be seen in table 2 below.

Table 2. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
TOBINS	0.0325	32.0856	1.167644	2.4962496
ESG	3	97	79.374558	17.2982059
FOREIGN	0	0.9250	0.206876	0.2981047
FSIZE	24.5096	33.6552	28.872063	1.8655920
LEV	0.0004	3.2529	0.511004	0.3670094
ROE	-4.9623	2.7588	0.079173	0.5502142

Source: Processed Secondary Data, 2024

The TobinsQ variable has an average value of 1.167644 which describes the market value of equity of 1.17644 times the book value of the assets owned by the company. The standard deviation of the TobinsQ variable is 2.4962496. The environmental disclosure score (ESG) variable has an average value of 79.374558, which means that the average company has an ESG disclosure risk level that is ESG at severe risks. The standard deviation of the ESG disclosure score is 17.2982059. The foreign ownership variable (FOREIGN) has an average value of 0.206876, which means that the average company sampled in this study has foreign ownership of 20.6876 percent. The standard deviation of foreign ownership is 0.2981047. The company size variable (FSIZE) has an average value of 28.872063. The standard deviation of company size (FSIZE) is 1.8655920. The leverage variable has an average value of 0.511004 and a standard deviation of 0.3670094. The profitability variable (ROE) has an average value of 0.079173 and the standard deviation of the ROE variable is 0.5502142.

Hypothesis Testing 1

The first hypothesis testing is aimed at testing the effect of ESG disclosure scores on company value. The test results are presented in Table 3.

The test results on the first hypothesis (1) show that the independent variables and control variables used in this research are able to explain their influence on company value by 18.3% and the remaining 81.7% is explained by other variables not included in the regression model. For testing hypothesis 1, the test results produced a negative regression coefficient of -0.006 with a significance level (σ) below 5%. The test results show that the higher the ESG disclosure score, the lower the company value. The test results prove that companies with high ESG scores show higher ESG risks so that the company value will be smaller. From the test results it was concluded that the first hypothesis was accepted

Table 3. Hypothesis Test Results 1

Variable	**Coefficient**	**t**	**Sig**
Constant	2.860	4.659	0.000
ESG	**-0.006**	**-2.584**	**0.011**
FSIZE	-0.073	-2.986	0.003
LEV	-0.676	-4.762	0.000
ROE	-0.018	-0.155	0.877
R Square	0.207		
Adjusted R Square	0.183		
F	8.682		
Sig.	0.000		

Source: Processed Secondary Data, 2024

Stakeholder theory and legitimacy theory show that a high ESG score can have a negative impact on company value. This is because a higher ESG score indicates the company has a high level of risk regarding ESG disclosure. Meanwhile, from a Legitimacy Theory perspective, a high ESG score provides low social legitimacy to the public, because the company is deemed unable to meet public expectations regarding sustainability.

A good ESG score that tends not to be high increases a company's legitimacy because it shows that the company is committed to the sustainability values expected by society. In the context of Legitimacy Theory, this commitment helps a company maintain positive relationships with the community and improves its brand image. Companies that are seen as socially responsible entities are more likely to gain support from consumers and business partners, which in turn has a positive impact on company value. With good ESG scores, companies meet these demands, attracting not only loyal consumers but also investors who demand sustainability standards. In the perspective of Legitimacy Theory, this shows that the company has gained greater social legitimacy and support, which has a positive impact on company value.

Hypothesis Testing 2

Hypothesis three testing is aimed at proving foreign ownership (FOREIGN) in moderating the influence of ESG disclosure scores on company value as proxied by Tobins Q. The test results are presented in table 4 below.

Table 4. Hypothesis 2 Test Results

Variable	**Coefficient**	**t**	**Sig**
ESG	-0.004	-1.852	0.066
ESG*FOREIGN	**0.003**	**2.099**	**0.037**
SIZE	**-0.068**	**-3.243**	**0.001**
LEV	**-0.394**	**-3.982**	**0.000**
ROE	-0.126	-1.886	0.061
R Square	0.159		
Adjusted R Square	0.136		
F	6.990		
Sig.	0.000		

Source: Processed Secondary Data, 2024

The test results for the second hypothesis (2) show that the independent variable (ESG), moderating variable (ESG* FOREIGN) and control variables used in this research are able to explain their influence on company value by 13.6% and the remaining 86.4% is explained by other variables. not included in the regression model.

Testing the second hypothesis shows a positive and significant regression coefficient at the 5% level. This proves that foreign ownership encourages companies to pay attention to and improve their ESG scores in order to increase company value and attractiveness in the eyes of global investors, thereby increasing company value. From the positive and significant regression coefficient, it can be concluded that the third hypothesis is accepted. Foreign ownership in company ownership can strengthen the positive influence of ESG scores on company value. Some of the reasons underlying this are as follows: (1) Global Standard Expectations: Foreign investors generally have higher ESG standard expectations, especially if they come from countries that prioritize sustainability principles. This encourages companies to maintain or improve ESG scores in order to attract further interest and support from foreign investors, (2) Access to Resources and Knowledge: Foreign investors often bring knowledge of international best practices in sustainability aspects.

This influence allows companies to more effectively implement ESG initiatives that have a positive impact on company value, (3) Higher Level of Monitoring: Foreign investors usually have more attention to transparency and corporate governance. Their presence increases pressure for companies to operate ethically and efficiently, which ultimately strengthens the link between good ESG scores and increased company value, (4) Access to International Capital: Companies that have foreign ownership and high ESG scores tend to attract funding more easily from the international market. This is due to the increasing interest of global investors in sustainable companies. With this additional capital, companies can develop further ESG initiatives that can increase company value in the long term.

Foreign ownership moderates the influence of ESG scores on company value. According to Agency Theory, the relationship between company owners (principals) and managers (agents) contains the risk of conflicts of interest. Managers may tend to prioritize their personal interests or make decisions that are not in line with shareholder interests, including in implementing ESG sustainability programs. In this context, foreign ownership acts as a monitoring and control mechanism that can improve agency relationships and direct management to pay more attention to ESG performance. Legitimacy Theory states that companies strive to gain social acceptance and "legitimacy" from society and stakeholders, including investors, consumers, and governments. Companies that have good ESG scores are often seen as more legitimate or "legitimate" in the eyes of the public, which increases the company's reputation and reduces the social, political, or environmental risks of foreign ownership providing additional encouragement for companies to build a good image and legitimacy through good ESG scores. tall. The combination of these two theories shows that the presence of foreign investors strengthens the positive influence of ESG scores on company value, both through improving governance and corporate social legitimacy.

CONCLUSION

The test results prove that (1) the ESG score has a negative and significant effect, which means that the higher the ESG score indicates the higher the risk of ESG reporting, which has an impact on decreasing company value, and (2) foreign ownership moderates the influence of the ESG score on company value. This shows that foreign ownership strengthens the influence of ESG scores on company value because companies under the supervision of foreign shareholders usually have a greater incentive to disclose ESG performance transparently. The limitation of the research is the relatively short period where the available ESG score data is still relatively short and further research can extend the research period. Theoretical implications include (1) Foreign ownership adds a new dimension to managerial supervision, because foreign investors usually have high expectations of ESG transparency and responsibility, (2) Strengthening Legitimacy where companies must meet society's expectations to gain and maintain social legitimacy. and (3) The role of foreign ownership in strengthening global legitimacy, which increases company expectations to meet international sustainability standards. Practical implications are (1) This research opens up opportunities for further research regarding the role of foreign ownership in strengthening the impact of ESG on company value, (2) development of a combined theoretical framework between Agency Theory and Legitimacy Theory in ESG, (3) Encouraging the use of appropriate moderation models More Comprehensive ESG Research and (4) Empirical testing in Various Countries. Given that ESG regulations and standards vary across countries, this research provides impetus for cross-country studies that can compare the influence of audit quality and foreign ownership on the relationship between ESG and firm value. This comparative research can provide deeper insights into how different regulatory and market contexts influence the moderating effectiveness of audit quality and foreign ownership on the influence of ESG on firm value

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