

The Influence of External Mechanisms of Good Corporate Governance (GCG) and Environmental, Social and Governance (ESG) Sustainability on Firm Values

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Abstract

This study aims to analyze the influence of external mechanisms of good corporate governance (GCG) and environmental, social and governance (ESG) sustainability on firm value in LQ-45 companies. The research method used in this study is a quantitative method using a purposive sampling technique in LQ-45 companies from 2021 to 2023. The results of the study show that the external GCG mechanism does not have a significant effect on firm value and ESG has a negative effect on firm value. This indicates that even though the company has implemented good GCG principles, this may not be enough to improve market perception of the company.

Keyword: External GCG Mechanism, ESG, and Firm Value

INTRODUCTION

In the context of contemporary economic globalization, the assessment of a company has undergone a significant transformation. No longer just focused on financial performance, corporate value now encompasses broader dimensions, involving aspects of governance and sustainability. Good Corporate Governance (GCG) and Environmental, Social, and Governance (ESG) have emerged as fundamental frameworks in redefining value creation strategies in the modern business ecosystem (Esan et al., 2022).

In Indonesia, the implementation of GCG and ESG, especially in companies listed in the LQ-45 index, is a major concern for investors and other stakeholders. GCG, as a set of rules and practices that ensure ethical and transparent corporate management, has external mechanisms such as oversight from regulators and audit quality. Research by Musfiyana & Inayah (2022) shows that these external mechanisms play an important role in encouraging companies to implement good GCG practices. In addition, Chen (2020) found that the audit quality of large public accounting firms consistently increases firm value.

Good Corporate Governance in a company is expected to improve financial performance, so that the transaction costs incurred by the company are reduced and the profits obtained can increase. This shows that Good Corporate Governance has a positive influence on the value of the company. This is supported by the results of research Kenada Sari et al. (2023) which shows that Good Corporate Governance has a positive influence on the value of the company because good governance can reduce the company's expenses.

The purpose of Good Corporate Governance, according to the Forum for Corporate Governance in Indonesia FCGI (2001), is to create added value for all stakeholders. Increasing the value of the company will follow the increase in value, which will benefit shareholders and company owners. Supporting this explanation are the results of previous studies which revealed that GCG has a positive effect on company value. The results of the study Lestari & Zulaikha

(2021) show that Good Corporate Governance has a positive effect on company value. This statement shows that corporate governance is very good because it can reduce costs incurred and obtain large profits, making the company able to maintain good corporate value.

Good Corporate Governance (GCG) has two types of mechanisms, namely internal and external. External GCG mechanisms refer to factors outside the company that can influence the company's behavior and performance. One important external mechanism is audit quality. Audit quality is often measured using a dummy variable, where 1 represents firms audited by a Big Four public accounting firm (KAP) and 0 represents firms audited by a non-Big Four KAP. The use of this dummy variable is based on the assumption that Big Four accounting firms generally have better reputations, greater resources, and higher quality standards compared to non-Big Four accounting firms. Therefore, companies audited by the Big Four KAPs are considered to have higher audit quality (Yanti, 2018). Name of the auditor in charge in Indonesia EY (Ernst & Young Indonesia) KAP Purwantono, Sungkoro & Surja, Deloitte Indonesia KAP Imelda & colleague, KPMG Indonesia KAP Siddharta Widjaja & colleague, PwC KAP Tanudiredja, Wibisana, Rintis & colleague. Research on the influence of Good Corporate Governance on firm value has been widely conducted, but there are still very few studies examining the influence of external mechanisms of Good Corporate Governance, especially audit quality on firm value. (Revina et al., 2021).

Environmental, Social, and Governance (ESG), on the other hand, covers three main dimensions: environmental, social, and governance. ESG sustainability refers to a company's ability to manage these three aspects to achieve a balance between profitability and social responsibility (Kopita & Petrou, 2024). ESG has evolved from a social responsibility concept to a crucial business strategy. A meta-analysis study by Putu et al. (2024) shows a strong negative correlation between ESG performance and corporate financial performance, through mechanisms such as continuous innovation, risk management, and reputation enhancement. Good corporate governance, or good corporate governance, is a concept that emphasizes how important it is for investors to get the information they need promptly, accurately, and appropriately. In addition, it shows that the company has an obligation to disclose all information about the company's financial performance accurately, timely and openly (Schäuble, 2018). Investor interest and global awareness of non-financial risks such as environmental and social responsibility, are driving companies to increase their focus and report on their performance in the environmental, social and governance (ESG) category (Aydoğmuş et al., 2022).

The application of ESG principles can exacerbate the problem of information asymmetry between companies and stakeholders. For example, investors who do not have adequate access to relevant ESG information or who have different views on ESG issues can cause uncertainty and higher transaction costs in the investment decision-making process. (Kopita & Petrou, 2024). The application of ESG (Environmental, Social, Governance) principles has significant implications for a company's financial performance, both in the short and long term. Violations of environmental regulations or workers' rights can result in fines, lawsuits and reputational damage that negatively impact a company's bottom line. In the long term, companies with a poor ESG profile risk losing customers, employees and face challenges in adapting to changes in the business environment. Relevant ESG information is an important predictor of future financial performance. Investors who ignore ESG factors risk missing out on profitable investment opportunities and face higher risks of losses. Therefore, transparency in ESG reporting and consideration of ESG factors in investment decision-making are becoming increasingly crucial in an increasingly complex business world (Derrin et al., 2023).

Based on previous research Finrely (2024) it shows that the implementation of ESG score can have a negative impact on company value. This reflects that companies in Indonesia have not made the implementation of ESG a top priority, so that efforts to improve ESG can actually reduce the value of the company. There are still few companies that get good ESG ratings. This shows that many issuers prioritize activities that generate short-term profits rather than investing

in sustainable ESG practices. The costs associated with implementing ESG are still high, and companies may not have adequate accounting standards to facilitate ESG disclosure. This makes it difficult to communicate ESG efforts to the public. This explanation is in line with research Putu et al. (2024) which states that ESG score has a negative impact on companies because of the large costs that must be incurred to implement ESG and the small profits obtained, causing the company's value to decrease. Companies are unable to reduce expenses because the profits obtained are only small and the ESG costs are too large.

The implementation of GCG and ESG principles is not without challenges. ESG-focused companies often face additional costs, such as administrative costs, audits, and negotiations with suppliers that meet ESG standards (Derrin et al., 2023). In addition, focusing on social and environmental aspects in ESG can trigger conflicts with other stakeholders. However, the long-term benefits of ESG implementation, such as improved reputation and reduced risk, may outweigh these costs. GCG mechanisms can be categorized into internal and external. This research focuses on external mechanisms, particularly audit quality. High audit quality can increase investor confidence and reduce information risk, thereby contributing to increasing firm value. (Barnhart & Rosenstein, 1998).

Firm value is a fundamental concept that reflects the total stakeholder perception of the success of a business entity, both from a financial and non-financial perspective. Comprehensively, firm value is not only measured by financial performance alone, but also includes external mechanisms of good corporate governance (GCG) and environmental, social and governance (ESG) sustainability. Measuring firm value is a strategic instrument for companies to assess the effectiveness of resource management, optimize performance, and build stakeholder trust.

In the context of modern economics, firm value is determined by the complexity of interacting internal and external factors. Internal factors include management quality, business strategy, product innovation, and good corporate governance, while external factors include market conditions, competitive environment, regulation, and global economic dynamics. Companies that successfully build value do not only focus on achieving short-term profits, but are also able to create sustainable competitive advantages that provide long-term benefits for all stakeholders.

Firm value is an assessment of a company based on various factors, including financial performance, business prospects and risk (Esan et al., 2022). Further research is needed to deeply understand the dynamics of firm value creation, especially in the context of the relationship between external GCG mechanisms, ESG performance, and firm value. The significant differences between audit mechanisms (Big Four versus Non-Big Four) and ESG scores open up opportunities for further research. Based on the discussion above, the purpose of this study is to test the external influence of good corporate governance (GCG) and environmental, social and governance (ESG) sustainability on firm value.

This study examines the influence of external mechanisms of good corporate governance (GCG) and environmental, social, and governance (ESG) sustainability on firm value. Previous studies have shown that companies with good corporate governance (GCG) experience increased firm value and can reduce costs incurred, while environmental, social, and governance (ESG) sustainability can actually reduce firm value which causes the company to be unable to reduce costs incurred due to the large cost of implementing ESG. However, the influence of external mechanisms of good corporate governance (GCG) on firm value has not been widely studied.

This research is expected to provide information that can provide enlightenment regarding good external corporate governance and how investors view ESG of companies in Indonesia. So that this research can help investors to make better investment choices by looking at the external mechanism aspects of good corporate governance (GCG) and environmental, social and governance (ESG) sustainability.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Literature Review and Hypothesis Development

Transaction Cost Theory

In institutional economics, transaction cost theory was systematically developed by Ronald Coase in 1937 and updated by Baumol (1986). Beyond conventional production costs, this theory investigates the complexity of costs involved in economic activities. Transaction cost theory, first proposed by Ronald Coase and later developed by Williamson (2000), focuses on the costs incurred by the company to carry out transactions, both with external parties (such as suppliers, customers, or third parties) and internally (within the organization).

Transaction Cost Theory is a comprehensive analytical framework that explains the dynamics of economic institutions through the perspective of transaction costs. This theory argues that every economic exchange is not only determined by direct production costs, but also by hidden costs inherent in the transaction process, such as information search, negotiation, contracting, and monitoring mechanisms (Williamson, 1981). The core of this theory lies in the understanding that economic and organizational structures are basically designed to minimize transaction costs. Williamson (1981) identified several critical variables that affect transaction complexity, namely the level of transaction complexity, environmental uncertainty, frequency of economic interactions, specifications of assets involved, and human behavioral factors that include bounded rationality and the tendency to act opportunistically. The significance of transaction cost theory in explaining the complexity of economic relationships goes beyond conventional approaches. It provides an analytical framework for understanding why organizations choose certain forms of coordination, how they design contract mechanisms, and how they manage risk in every economic interaction, from the micro to the macro level.

External Mechanism of Good Corporate Governance (GCG)

Good Corporate Governance (GCG) has two types of mechanisms, namely internal and external. External GCG mechanisms refer to factors outside the company that can influence the company's behavior and performance. One important external mechanism is audit quality. Independent external auditors play an important role in examining financial reports, providing objective opinions, and detecting potential irregularities that may occur in the company's financial management. Audit quality is often measured using a dummy variable, where 1 represents firms audited by a Big Four public accounting firm (KAP) and 0 represents firms audited by a non-Big Four KAP. The use of this dummy variable is based on the assumption that Big Four accounting firms generally have better reputations, greater resources, and higher quality standards compared to non-Big Four accounting firms. Therefore, companies audited by the Big Four KAPs are considered to have higher audit quality (Yanti, 2018).

Corporate governance mechanisms refer to the systems, principles, and processes used to manage and oversee a company. The main objective of corporate governance is to ensure that the company is managed properly, transparently, and accountably, so as to protect the interests of all stakeholders, including shareholders, employees, customers, and the community (Kenada Sari et al., 2023).

Environmental, Social and Governance (ESG)

Environmental, Social, and Governance (ESG) is a broad framework that incorporates sustainable responsibilities and practices into contemporary business strategies and operations. The impact of an organization's activities on ecosystems including carbon emissions management, energy efficiency, waste management, natural resource conservation, and climate change mitigation. The environmental dimension encourages businesses to use environmentally friendly technologies, reduce carbon footprints, and support sustainable development (Eccles, 2019).

On the social side, the social dimension concentrates on the company's relationship with internal and external stakeholders. This includes employment practices, employee welfare,

inclusion and human rights, occupational safety, and social responsibility. The social component encourages companies to create an inclusive, fair and supportive work environment for human resource development while helping the people and communities around their operations (Whelan et al., 2021).

Governance includes the internal systems and procedures used to make decisions, such as business ethics, transparency, accountability, board composition, management compensation structure, shareholder rights, and regulatory compliance. A well-managed business prevents corruption, protects investor interests, and ensures good risk management through a strict system of internal supervision and control (Whelan et al., 2021).

To implement ESG, a holistic and integrated approach is required that involves all levels of the organization in the process of developing sustainable strategies and practices. This requires commitment from top leadership, investment in innovation and technology, human resource development, and transparent systems for reporting and measuring performance. According to Khan et al. (2016) global reporting initiatives such as the Global Reporting Initiative (GRI), Board of Sustainability Accounting Standards (SASB), and United Nations Sustainable Development Goals (UN SDGs) have provided comprehensive guidelines for organizations to implement and measure ESG performance.

Firm Value

Firm value is an investor's perception of a company and is often associated with stock prices. The greater the firm value of a company, the more wealth the company owner has (Putu et al., 2024). Maximizing company value is a long-term goal of the company to increase shareholder welfare. The measurement in this study uses Tobin's Q. Assessing the company's value with Tobin's Q is fair, namely by providing the most relevant information, which consists of several elements of debt and share capital, company assets, common stock, and equity (Prabawati & Rahmawati, 2022). According to Eugene F. Brigham (2015) firm value is the present value of all expected future profits recalculated at a certain discount rate.

External Mechanism of GCG and Firm Value

The external GCG mechanism is a mechanism that is influenced by external factors of the company, such as: Investors, Auditors, Creditors, Institutions that validate legality. The external mechanism in the study Revina et al. (2021) uses earnings quality as a dummy measurement and has not been the focus in previous studies. Since audit quality is not included in internal mechanisms, audit quality is included in external corporate governance mechanisms. In corporate governance there are two mechanisms, namely internal and external mechanisms (Barnhart & Rosenstein, 1998). Research Marini & Marina (2017), Lestari & Zulaikha (2021), and Kenada Sari et al. (2023) states that GCG has a positive effect on company value. This shows that the company is able to reduce the costs incurred so that the profits obtained are large, so the company's value increases.

H1: External Mechanism of GCG has a positive effect on firm value

Environmental, Social and Governance (ESG) and Firm Value

Environmental, social and governance (ESG) is a measurement tool for company operations that is used by most investors who care about the environment so they can evaluate investment potential. Several previous studies have explained that most ESG impacts have a negative effect on firm value. Research result Derrin et al. (2023), Putu et al. (2024), Finrely (2024), and Prabawati & Rahmawati (2022) found a negative relationship between ESG and firm value. This shows that ESG implementation has not been a top priority for the company, which can reduce firm value. Prabawati & Rahmawati (2022) research states that companies should consider increasing information and compliance with environmental and social aspects of the company to increase its value. ESG is a corporate standard consisting of environmental, social, and governance standards

for business and investment practices. Companies that implement ESG principles integrate and apply ESG principles into their corporate policies (Putu et al., 2024).

H2: Environmental, social and governance (ESG) has a negative effect on firm value

METHODS

Population and Sample

This study uses a quantitative descriptive design. The type of data in this study is quantitative in the form of secondary data sourced from the Indonesia Stock Exchange (www.idx.co.id) and the company's annual report. The population in this study was all stock indexes and annual reports of companies used for 45 companies during 3 years of observation. The sample in this study was determined using the purposive sampling method and obtained 26 company samples.

Table 1. Sampling Results

No.	Sampling Determination Criteria	Number of Companies
1.	LQ-45 companies listed on the IDX 2021-2023	45
2.	LQ-45 companies that did not survive during the 2021-2023 period	17
3.	LQ-45 companies that were outliers	2
4.	Total companies used as samples	26
5.	Year of observation	3 years
6.	Number of data used (4x5)	78

The data table shows the results of sample determination based on the selection criteria applied to LQ-45 companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 period. Of the total 45 LQ-45 companies listed during the period, 17 companies were eliminated because they did not survive during the observation period, so they could not be used as research samples. Furthermore, there were 2 companies identified as outliers and were also removed from the sample to maintain the validity of the analysis.

After the selection process, the number of companies used as samples in this study was 26 companies. Considering the observation period of 3 years (2021-2023), the total number of data used in the analysis was 78 data (calculated as 26 companies multiplied by 3 years of observation). These results indicate that the sample selection process was carried out systematically to ensure the quality and relevance of the data in this study.

Multiple Regression Analysis

A multiple linear regression model is a linear regression model that includes several independent variables or predictors. This model is usually used in research involving one dependent variable and more than one independent variable. The multiple linear regression formula used in this study is as follows:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Information :

Y : Dependent variable
 A : Constants
 $\beta_1 \beta_2$: Regression coefficient
 X_1, X_2 : Independent variables
 Error : Error

RESULT AND DISCUSSION

The model of the form of analysis implemented in this study is multiple linear regression analysis. Then we get an SPSS output result which is presented in table 2 as follows, namely:

Table 2. Descriptive Stastical Test Result

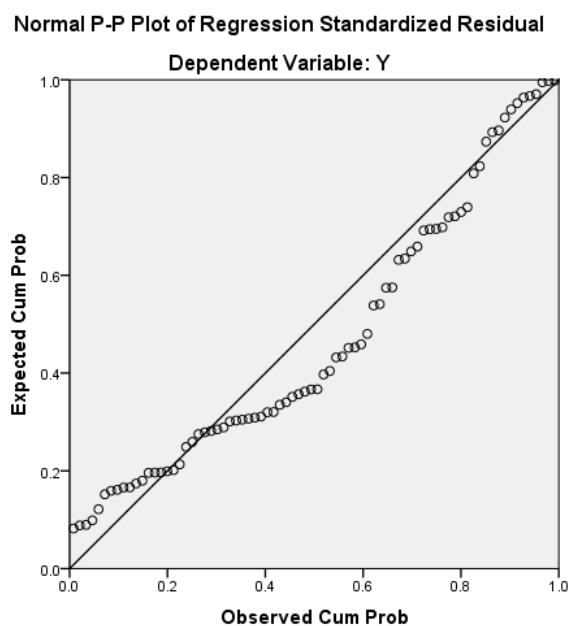
	Residuals Statistics^a				
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.0896	2.0314	1.4609	.19389	78
Residual	-.97550	2.06799	.00000	.69201	78
Std. Predicted Value	-1.915	2.942	.000	1.000	78
Std. Residual	-1.391	2.949	.000	.987	78

a. Dependent Variable: Y

This table illustrates the descriptive statistical characteristics of the predicted and residual values in the regression model with the dependent variable Y. In the "Predicted Value" section, the minimum value is 1.0896, the maximum value reaches 2.0314, with an average of 1.4609 and a standard deviation of 0.19389, based on a total sample of 78 observations. This shows that the distribution of predicted values is relatively spread around the average. Minimum residual value is -0.97550 and the maximum is 2.06799, the average value is 0.00000 with a standard deviation of 0.69201. This shows that the standard deviation has a value that is greater than the average value, which means that the residuals in this study are uneven because the difference between one data and another is too high. The standard data of predicted values shows a minimum value of -1.915 and a maximum of 2.942, an average value of 0.000 with a standard deviation of 1.000. This shows that the standard deviation has a smaller value than the average value, which means that the standard prediction value in this study is uneven because the difference between one data and another is not too high.

The standard residual data shows a minimum value of -1.391 and a maximum of 2.949, an average value of 0.000 with a standard deviation of 0.987. This shows that the standard deviation has a value that is greater than the average value, which means that the standard residual in this study is uneven because the difference between one data and another is high. These results show poor results, because each variable has a standard deviation that is greater than the mean. So this condition shows that data deviation is high.

In addition to descriptive statistical tests, classical assumption tests were also carried out, namely normality and autocorrelation. The classical assumption test consists of a normality test in the form of a plot in Figure 1 and an autocorrelation test in this study presented in Table 3. The following normality plot is presented in Figure 1:

Figure 1. Normality Plot Test Results

Based on the plot above, we can see the points follow the diagonal line so that the residual values are normally distributed. Thus, the assumption of normality for the residuals in the regression analysis is met. Then for the autocorrelation test in this study is presented in table 3, as follows:

Table 3. Autocorrelation Test Result

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.270 ^a	.073	.048	.70118	1.892

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y

The autocorrelation test of this study uses Durbin Watson to describe the pattern of relationships between residual errors. Based on the output results of table 3, it can be seen that the Durbin Watson value of the model is 1.892, compared to the Durbin Watson Table value, namely DL: 1.5801, DU: 1.6851, it can be concluded that in the regression model there is no positive autocorrelation or negative autocorrelation so that it is free from autocorrelation. Based on the results of the normality and autocorrelation tests, it can be seen that the research data has passed the normality and autocorrelation tests. The correlation coefficient (R) value of 0.270 indicates a weak relationship between the independent variables (X1 and X2) and the dependent variable (Y). The R Square value of 0.073 indicates that only 7.3% of the variation in the dependent variable Y can be explained by the independent variables X1 and X2, while the remainder (92.7%) is influenced by other factors outside the model.

The Adjust R Square value for testing all companies is 0.048. This value indicates that the variability of the dependent variable that can be explained by the variability of the independent variable is 4.8%. This means that the independent variables in this study are very limited in explaining the variation of the dependent variable, only 4.8%. While the remaining 95.2% is explained by other variables outside the model.

Table 4. F Test Results

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.895	2	1.447	.049 ^b
	Residual	36.874	75	.492	
	Total	39.769	77		

a. Dependent Variable: Y

b. Predictors: (Constant), X2, X1

Based on table 4, it can be concluded that H0 is rejected and H1 is accepted. This can be seen from the calculated F value of 2,944. While the significance value produced is 0.049, which is smaller than the probability of 0.05, which means that the model test is feasible to be used in the study. From the table, the Sum of Squares Regression value of 2.895 with degrees of freedom (df) 2 produces a Mean Square value of 1.447. Meanwhile, the Sum of Squares Residual value of 36.874 with df 75 produces a Mean Square residual value of 0.492. The total Sum of Squares value is 39.769 with a total degree of freedom of 77.

The test results show an F value of 2.944 with a significance (p-value) of 0.049. Because the p-value < 0.05, this regression model is significant at the 95% confidence level. This shows that

simultaneously, the independent variables (X1 and X2) have a significant effect on the dependent variable (Y).

Thus, the regression model used in this study can be considered capable of explaining significant variations in the dependent variable based on the independent variables included in the analysis.

The next stage is to conduct multiple regression analysis to determine the effect of two or more independent variables on the dependent variable. The results of the multiple regression analysis in this study are presented in table 5 as follows:

Table 5. T-Test Results

Coefficients ^a						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1						
(Constant)	3.076	.750		4.100	.000	
X1	.239	.306	.089	.779	.438	
X2	-.022	.009	-.276	-2.416	.018	

a. Dependent Variable: Y

Based on the table of T-Test Results, it can be seen that the constant (intercept) has a B value of 3.076 with a significance value of 0.000, which means it is significant at a 95% confidence level. External Good Corporate Governance (GCG) (X1) has an unstandardized beta value of 0.239 and a significance value of 0.438 > 0.05, it can be concluded that external Good Corporate Governance (GCG) (X1) does not have a significant effect on the company value variable (Y) so it can be concluded that H1 is not supported. This shows that Good Corporate Governance (GCG) (X1) does not have a significant effect on company value (Y). Variable X1 has a regression coefficient (B) of 0.239 with a standard error of 0.306. The t-statistic value for X1 is 0.779 with a significance (p-value) of 0.438. Since the p-value > 0.05, X1 does not have a significant effect on Y at the 95% confidence level. The standardized Beta coefficient for X1 is 0.089, indicating that the effect of X1 on Y is relatively small compared to X2.

Furthermore, the test results show that Environmental, Social, and Governance (ESG) score (X2) has an unstandardized beta value of -0.022 and a significance value of 0.018 < 0.05 meaning that X2 has a significant effect on Y at a significance level of 5%, it can be concluded that Environmental, Social, and Governance (ESG) score (X2) has a significant effect on the company value variable (Y) so that it can be concluded that H2 is supported. This shows that an increase in Environmental, Social, and Governance (ESG) will result in a decrease in company value (Y). Variable X2 has a regression coefficient (B) of -0.022 with a standard error of 0.009. The t-statistic value for X2 is -2.416 with a significance (p-value) of 0.018. Since the p-value < 0.05, X2 has a significant effect on Y at the 95% confidence level. The standardized Beta coefficient for X2 is -0.276, indicating that X2 has a negative and greater effect on Y than X1.

In general, the interpretation of the results shows that of the two independent variables tested, only X2 has a significant influence on the dependent variable Y. The negative coefficient value on X2 also indicates that an increase in X2 tends to decrease the value of Y.

Discussion

The Influence of External Good Corporate Governance (GCG) Mechanisms on Company Value

Based on the previous regression test value, it was obtained that the GCG value did not have a significant influence on the company value. In other words, the first hypothesis of the study was rejected. The results of the study revealed a complex phenomenon related to the influence of

external mechanisms of Good Corporate Governance (GCG), especially through audit quality, on company value which showed an insignificant relationship. This study is in line with the research of Marini & Marina (2017) which showed that GCG with the audit committee proxy had no effect on company value. This study is in line with the research of Musfiyana & Inayah (2022) which shows that the functions of Independent Commissioners and Audit Committees are limited to formalities, not directly involved in controlling and supervising the company, this is what causes the proportion of the Audit Committee and Independent Commissioners not to affect Company Value. This finding contradicts various literatures that have so far assumed a direct relationship between external governance mechanisms and company valuation. The insignificance of this relationship indicates that the presence of external auditors, both from big four and non-big four public accounting firms, does not necessarily have a direct impact on the perception of company value in the capital market.

The Influence of Environmental, Social, and Governance (ESG) on Firm Value

Based on the results of the previous regression test, it was obtained that the ESG value has a significant negative effect on the Company's value so that Hypothesis 2 is supported. This shows that the higher the ESG disclosure score, the lower the firm value. The results of this study are also in line with the transaction cost theory where high ESG practice implementation costs have the potential to reduce short-term financial performance, which in turn has an impact on investor perceptions of the firm value. Because by carrying out environmental responsibilities properly, the company will create a good and environmentally friendly corporate image from the investor's perspective. Substantial investment in sustainable initiatives, such as the development of environmentally friendly technologies, comprehensive social programs, and strengthening governance, requires significant resource allocation that can put pressure on the company's cost structure. This study is in line with research Derrin et al. (2023), Putu et al. (2024), Finrely (2024), and Prabawati & Rahmawati (2022) in their research which shows that Environmental, Social, and Governance (ESG) Scores have a negative effect on company value. In this study, ESG score disclosure cannot be used as a factor to increase company.

CONCLUSION

External Good Corporate Governance (GCG) Mechanisms do not have a significant effect on firm value. This indicates that the implementation of external GCG does not directly affect the market's assessment of the company. Environmental, Social, and Governance (ESG) Score has a negative effect on firm value. Although ESG scores are often considered as indicators of good performance, in the context of this study, an increase in ESG scores is actually associated with a decrease in firm value, which may reflect different market perceptions of the initiative. Overall, these findings suggest that although GCG and ESG have important roles, other more complex factors need to be considered in understanding the dynamics of firm value.

The implication of these findings suggests that even if companies implement GCG principles, the effectiveness of their implementation may vary depending on the company's internal capacity to adapt these policies to local and international conditions, reducing the real impact on company value. Furthermore, the implication of this study suggests that the high cost of implementing ESG programs is not offset by short-term financial benefits, thus depressing company profitability. Investors may see a trade-off between ESG investments and financial performance, especially in emerging markets where awareness of sustainability is still limited. Thus, investors do not pay much attention to Environmental, Social, and Governance (ESG). Furthermore, the decrease in company value associated with an increase in ESG scores suggests that while companies that focus on good environmental, social, and governance practices are often lauded in the context of sustainability, the market may not fully recognize or appreciate such initiatives in terms of financial value.

Suggestion

Even though GCG does not show a significant influence, companies still need to maintain and improve good governance practices as part of regulatory compliance and best practice. It is necessary to pay special attention to ESG implementation considering that this variable has been proven to have a negative impact on company value. Improving transparency and quality of ESG reporting to provide more comprehensive information to stakeholders. Developing a more integrated sustainability strategy that takes environmental, social and governance aspects into account holistically. Then, for further research, consider adding moderating or intervening variables that may strengthen or weaken the relationship between GCG and Company Value. Extending the research period to get a more comprehensive picture of the influence of these variables. Using alternative proxies or measurements for GCG variables that may better reflect corporate governance practices. Conduct analysis on different industry sectors to see if there are differences in influence between sectors. Using more complex analysis methods such as SEM (Structural Equation Modeling) to capture more complex relationships between variables.

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