

How ESG Disclosure and Political Connections Effect Firm Value? Evidence on Indonesia Non-Financial Companies

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ABSTRACT

This study examines the effect of environmental, social, and governance (ESG) disclosure, along with political connection, on firm value. The sample consists of non-financial companies listed on the Indonesia Stock Exchange during the period 2019 to 2023. The research sample was determined using purposive sampling, based on specific criteria, resulting in 145 observations from 29 companies. Data analysis was conducted using panel regression techniques for hypothesis testing, processed with EViews 12 software. The findings reveal that ESG disclosure and political connection simultaneously have a significant effect on firm value. However, the partial analysis indicates that only environmental disclosure has a significant negative impact on firm value. These results implies that companies should exercise caution when disclosing environmental information, as it can trigger a negative response from investors who perceive it as a cost burden. Meanwhile, social disclosure, governance disclosure, and political connection partialy show no significant effect on firm value. Furthermore, it is recommended to examine other independent variables, such as financial aspects that have the potential to influence firm value. Practical suggestion of this research is companies should adpot more operational and strategic approach in managing environmental costs that need to be integrated into long-term business strategies and linked directly to efficiency improvement.

Keywords: environmental, firm value, governance, political connection, social

INTRODUCTION

The growth of the business globally have driven intense competition among companies in their efforts to achieve their goals (Difa & Larasati, 2024). Essentially, a company's purpose is generating profits from product quality and services, while simultaneously maximizing its value to attract investors (Adiputra & Hermawan, 2020; Liputan 6, 2020). A crucial indicator of a company's performance is its value, both in securing venture capital and demonstrating public trust in the company (Firmansyah et al., 2021; Hardiningsih et al., 2024).

A positive and strong firm value may build trust and confidence among investors, demonstrating stability and promising growth potential, thus encouraging investors to continue investing in the company (Amaliah & Candra, 2024). The knowledge of what aspects that influence firm value and the criteria investors use to assess a company is crucial for companies to enhance and maintain their value.

Referring to stakeholder theory, which states that companies are responsible for meeting the needs of all stakeholders, not just shareholders (Hardiningsih et al., 2024). Furthermore, this theory aims to support company management in maximizing firm value through its operational activities while minimizing potential losses for all stakeholders (Prayogo et al., 2023). The presence of non-financial companies plays a significant role in driving Indonesia's economic growth through job creation, technological development, and increasing the competitiveness of national industries.

Furthermore, non-financial companies are also involved in non-financial reporting, which includes information on Environmental, Social, and Governance (ESG) issues. This reporting provides stakeholders with information beyond general financial performance, such as sustainability practices and social responsibility activities. The selection of non-financial companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period as research objects was based on several reasons, namely because non-financial companies have characteristics directly related to environmental and social impacts that are more directly visible compared to financial companies. Indonesia is also one of the developing countries with the ability to optimize and increase its corporate value, but its implementation of ESG disclosure is still low. In addition, non-financial companies also comprise 11 of the 12 sectors in the IDX-IC classification, thus providing a broader and more representative sample coverage for the study.

Sustainability performance, a non-financial factor that can influence firm value, is gaining increasing attention (Sholekha & Astuti, 2024). This demonstrates that an entity's success is measured not only by profit but also by managing the impact of its operations as part of its responsibility to stakeholders (Hardiningsih et al., 2024). According to a survey conducted by KPMG (2017), demand for ESG reporting in Indonesia will continue to increase. This is reinforced by the issuance of POJK 51 and additional provisions of OJK Letter No. S-264/D.04/2020 requires public companies to prepare sustainability reports, so ESG disclosure is no longer merely a supplement to financial reports (Rahmaniati & Ekawati, 2024). Research conducted by (Fuadah et al., 2022; Sadiq et al., 2020) found that ESG disclosure has a significant positive effect on firm value. However, this finding contradicts research (Kartika et al., 2023; Rohendi et al., 2024), which found that ESG disclosure had no effect on firm value.

Measurement of firm value can be done in several indicators, such as: Price to Book Value (PBV), Economic Value Added (EVA), Price to Earnings Ratio (PER), and Tobin's Q Ratio. In this study, firm value is measured using Tobin's Q, because it is dynamic, provides forward-looking insight, and a fair assessment of the company's market valuation that includes tangible and intangible assets, and takes into account the company's management capabilities in terms of strategic planning and efficient resource allocation (Kwon et al., 2023). Thus, Tobin's Q is the best indicator for measuring firm value.

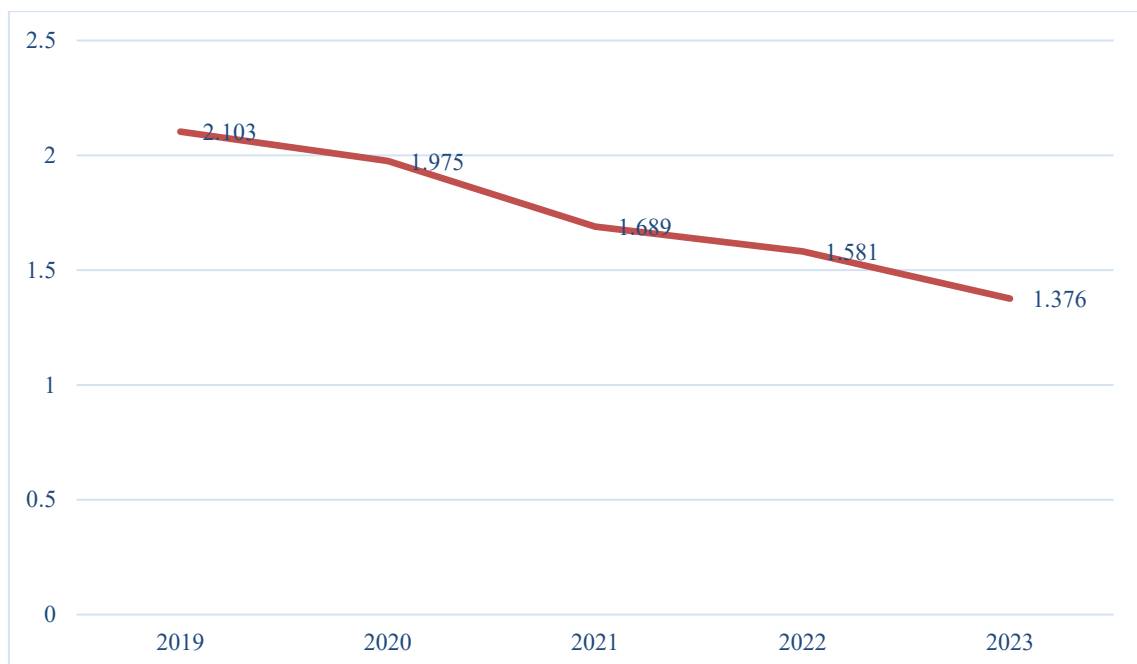


Figure 1
Firm Value for Non-Financial Companies 2019-2023
Source: Annual Report, processed by authors, 2024

Based on Figure 1, the value of non-financial companies in Indonesia has shown a decline for five years of study. In 2019, the firm value reached 2,103, then decreased in 2020 to 1,975. This was due to the significant impact of the COVID-19 pandemic, resulting in a decline in stock prices, particularly cyclical stocks, or issuers that are vulnerable to business cycles and closely tied to economic conditions. This led to a decline in firm value. The decline in firm value continued into 2021, with a value of 1,689. This was due to the decline in several stock sectors, namely industry, energy, transportation and logistics, consumer goods, property and real estate, and infrastructure. In 2022, the firm value continued to decline, reaching 1,581. This decline occurred because in 2022, Indonesia faced the highest inflation in seven years and weakened global economic growth due to the prolonged Russia-Ukraine war, which caused potential disruptions to the global supply. The decline continued into 2023, with the company's value reaching 1,376, its lowest value in five years. This occurred because industrial sector share prices declined, resulting in declining company performance despite an increase in market capitalization in 2023.

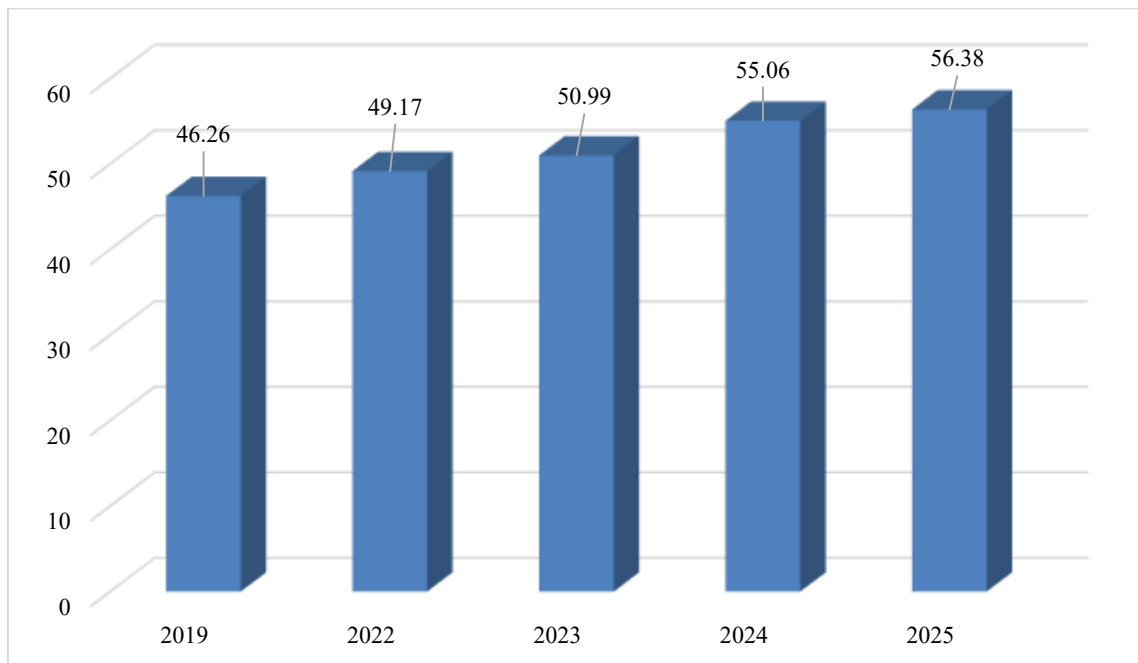


Figure 2

ESG Score in Non-Financial Companies Listed in Indonesia Stock Exchange 2019-2023

Source: LSEG Workspace, 2024

Figure 2 shows an increase in ESG scores from 2019 to 2023. In 2019, companies' ESG disclosures were recorded at 46,26. Then, in 2020, this increased to 49,17. The increase continued in 2021, reaching 50,99 and 55,06 in 2022. This increase was also seen in 2023, when the ESG score reached 56,38. This graph shows that non-financial companies in Indonesia are paying increasing attention to ESG issues year after year. This is in line with increasing investor awareness and regulatory requirements related to environmental and social responsibility. This growth is reflected in the increasing number of companies publishing their sustainability reports. The company's commitment to sustainability is reflected through comprehensive ESG disclosure, in line with global efforts to address climate change, implement a circular economy, and preserve biodiversity.

Understanding the factors that influence firm value and the criteria investors use to assess a company is crucial for a company to continuously improve and maintain its value. One factor receiving increasing attention is sustainability performance, a non-financial aspect that can impact firm value (Sholekha & Astuti, 2024). Stakeholders now demand that companies provide non-financial information regarding the impact of their value-creating activities on the environment and society. This is reinforced by the issuance of POJK 51 and additional provisions in OJK letter No. S-264/D.04/2020 dated November 4, 2020, requiring public companies to prepare sustainability

reports, thus making ESG disclosure no longer merely a supporting financial report (Rahmaniati & Ekawati, 2024).

This study analyses ESG aspects as independent variables, consisting of three pillars: the environmental pillar, the social pillar, and the governance pillar. The first independent variable analysed is the environmental pillar. The environmental crisis has prompted the development of ideas about responsible investment and a sustainable economy as alternative economic benchmarks. Environmental issues caused by companies, such as greenhouse gas emissions, water management, and air pollution, have become a concern for all countries. Based on these conditions, companies must maintain the balance of ecosystem habitats because their activities are located in residential areas or even adjacent to biodiversity areas (Hardiningsih et al., 2024).

According to Firmansyah et al. (2021), a company's strategy of disclosing environmental aspects demonstrates its commitment to sustainability considerations for the future as part of corporate responsibility. From an investor's perspective, environmental disclosure allows them to assess a company's potential future risks and opportunities, thereby reducing investment risk. This aligns with research (Difa & Larasati, 2024; El-Deeb et al., 2023) which states that environmental disclosure has a positive effect on firm value. However, this contradicts research by Angela & Sari (2023), which found that environmental disclosure does not significantly affect firm value, as environmental actions and projects take longer to complete before their results can impact firm value. The second independent variable analysed was the social pillar. Social issues are currently a more serious consideration for stakeholders. Investors and financial analysts use social information to assess social performance and calculate future social risks a company may face (Muslichah, 2020). According to Hardiningsih et al., (Hardiningsih et al., 2024), companies must build a positive image and strengthen their position in the public eye to attract public attention. Social disclosure is a crucial factor in increasing firm value because it balances internal and external interests. This is evident in the increase in corporate social responsibility activities, which is directly proportional to the level of shareholder trust, which impacts profitability, reputation, and share price value.

Research from (Aydoğmuş et al., 2022; Yordudom & Suttipun, 2020) shows that social disclosure has a positive effect on firm value. However, this contrasts with research by Zaneta et al., (2023), which found that social disclosure has a significant negative effect on firm value. If a company fails to disclose social information, it will incur higher costs to handle public complaints and suffer a negative public reputation. The third independent variable analysed was the Governance pillar. Business expansion into the non-financial sector has the potential to cause negative impacts, such as human rights violations, inadequate working conditions, and disputes with local communities. This situation highlights challenges in corporate governance, particularly related to ownership structure, board composition, and internal control mechanisms. Therefore, implementing effective governance is key to ensuring company operations are conducted in accordance with business ethics (Inawati & Rahmawati, 2023). Furthermore, due to the nature of companies that can significantly impact the Indonesian economy, the Financial Services Authority (OJK) issued Regulation No. 21/POJK.04/2015 concerning the implementation of public company governance, which requires all companies operating in Indonesia to implement governance to enable informed decision-making, increase productivity, and foster a positive work culture (Kurniasari & Bernawati, 2020).

Corporate governance principles play a crucial role in ensuring that management decisions align with shareholder interests and the company's long-term goals. This is crucial because investors expect companies to consistently increase their market value, reflecting operational success and strategic foresight (Saraswati et al., 2024). Research (Abdi et al., 2022; Viduranga & Fernando, 2022) found that governance disclosure has a positive effect on firm value. However, this finding contradicts research by Wangi & Aziz (2023), who found that governance disclosure has no effect on firm value, as it is a commonly published disclosure by many companies and therefore does not increase firm value. Another aspect that can influence firm value is political connections (Momon et al., 2021). Indonesia has adopted a multi-party-political system since the post-New Order era, resulting in many political elites serving in top company management to secure government contracts (Supatmi, 2022). This phenomenon is further reinforced by the

increasing market value of companies with political connections to the winning party and the president, particularly large corporations and state-owned enterprises (Wati et al., 2019).

In recent decades, news reports on bureaucratic corruption linking the government, companies, and political parties have increasingly appeared in the public sphere. This further indicates the existence of political connections within companies (A. Maulana & Wati, 2019). Thus, political connections have a significant impact on sustainability disclosures and corporate value (Faisal et al., 2021). This aligns with studies (Idris et al., 2020; Patriarini, 2020), which suggest political connections have a positive influence on corporate value. However, this differs from research (Sadjiarto et al., 2024; Sholekha & Astuti, 2024), which found no effect on corporate value. This study aims to examine the influence of Environmental, Social, and Governance (ESG) disclosure, political connections, and firm value in non-financial companies listed on the Indonesia Stock Exchange (IDX). Unlike most previous studies that examine ESG disclosure simultaneously and produce inconsistent findings, this study examines each aspect of ESG disclosure separately and adds the variable of political connections as a key differentiator.

LITERATURE REVIEW

Stakeholder theory states that companies need to maintain good relationships with stakeholders in every activity to achieve their goals, namely increasing firm value and stakeholder welfare (Khomsiyah et al., 2024). Similarly, ethical behavior and corporate responsibility to maximize stakeholder welfare can increase firm value. Stakeholder theory aims to support company management in increasing firm value through every activity undertaken (Prayogo et al., 2023). Handoyo & Anas (2024) state that stakeholder theory is crucial for achieving long-term company success, as stakeholder support and approval are essential for maintaining operational continuity and driving company development, thereby increasing firm value.

Stakeholder theory explains that a company's focus is not limited to achieving financial profit for shareholders alone but also considers the impact of social, environmental, ethical, and sustainability aspects in every decision-making process and operational implementation (Khomsiyah et al., 2024). Thus, companies can expand their reach, improve company performance, and potentially increase firm value (Felicia et al., 2022). In its implementation, this theory emphasizes the importance of management reporting relevant information to stakeholders. Disclosure of company information is a crucial aspect in maintaining good relationships with stakeholders.

Stakeholder theory can also be used to analyze power relations and decision-making processes within political and social institutions, emphasizing the importance of managing stakeholder relationships to effectively achieve company goals (Saraswati et al., 2024). Political stakeholders play a crucial role in influencing company performance because they can provide companies with market information (Najaf & Najaf, 2021). Referring to stakeholder theory, companies strive to build strong relationships and connections with favored communities or profiles for the benefit of the company. Through connections with influential parties, companies can gain various benefits, thereby increasing firm value (Tarmizi & Brahmana, 2022).

Firm Value

Firm value is one of the factors that encourage investors to invest because it acts as a benchmark for the success of company management and credibility among the public (Yuliana & Agus Munandar, 2023). Acting as an important indicator, firm value also reflects the financial health and operational efficiency of the company comprehensively, so that it can present the welfare of shareholders (Ishak et al., 2024; Saraswati et al., 2024). In addition, firm value can also be interpreted as the long-term market value of the company which is expected to provide profits to meet stakeholder expectations (Faisal et al., 2021). High firm value not only reflects current performance, but also the company's prospects and the company's ability to build market trust (Momon et al., 2021). When firm value increases, this not only attracts investors' attention to invest but also has the potential to increase shareholder prosperity (Bandiyono, 2019). This situation fosters investor and creditor confidence in continuing to support capital flows and debt financing, enabling companies to optimize resource management in the hope of achieving future profits

(Firmansyah et al., 2021). Therefore, company management must pay attention to firm value as an indicator of success (Felicia et al., 2022).

Tobin's Q is a ratio that consistently describes a company's value over time and serves as a market-based measure that reflects investors' views on a company's net worth (Mutiah & Rusmanto, 2023). In addition, this measurement not only describes the company's current profitability but also reflects its future growth potential (F. Zhang et al., 2020). Tobin's Q plays an important role in understanding a company's growth opportunities and is useful in strategic decision-making, especially regarding asset expansion, divestment, and potential mergers and acquisitions (C. Zhang, 2024). Tobin's ratio is considered more rational and superior because it includes a liability component in its calculation, reflects the company's overall assets, indicates market sentiment, describes the company's intellectual capital, and able to overcome problems in estimating the level of profit or marginal costs (Prayogo et al., 2023; Suretno et al., 2022). The reason this study uses the Tobin's Q ratio is because, according to Saraswati et al., (2024), this ratio uses accounting and financial data such as stock market value, which aims to observe cost efficiency activities and investment decisions in increasing the company's net value for investors. According to (Melinda & Wardhani, 2020; Suretno et al., 2022).

Environmental Disclosure

Environmental disclosure is one of the pillars of ESG, demonstrating a company's impact on the environment and its responsibility to protect it (Handoyo & Anas, 2024). Environmental disclosure is crucial because it provides information on a company's environmental management, both past, present, and future (Utomo et al., 2020). The relevance of environmental disclosure is increasingly significant, given that environmental issues are often a pressing concern, particularly in relation to climate change, which can impact people worldwide. Environmental information encompasses a company's activities in exploiting nature for its operations, which can sometimes cause environmental damage (Firmansyah et al., 2021). Therefore, various environmental disclosure policies have been introduced to regulate corporate decisions and actions regarding the environment, while also assessing their impact on the company's financial performance.

Environmental disclosure is considered an effort to mitigate regulatory pressure, as companies strive to provide environmental disclosure to safeguard future investment opportunities. In published reports, environmental disclosure can be presented as a form of corporate response or concern to environmental issues in society, gaining recognition within the operational environment (Melinda & Wardhani, 2020). Companies that implement environmentally friendly practices will fulfill ethical and legal obligations while enhancing competitiveness and stakeholder relations (Handoyo & Anas, 2024).

Social Disclosure

The social pillar focuses on a company's actions related to social issues (Prabawati & Rahmawati, 2022). Social disclosure is the public disclosure of information regarding a company's efforts towards human well-being. This is a crucial aspect because community well-being can significantly impact a company's sustainability (Muslichah, 2020). Social disclosure aims to demonstrate to the public the company's social activities and their impact on society (Felicia et al., 2022). In its implementation, social disclosure examines how a company builds relationships with employees, suppliers, customers, and the communities in which it operates. This includes the company's responsibility for the products and services it offers, its treatment of communities and employees, its commitment to diversity and respect for human rights throughout the supply chain (Fuadah et al., 2022).

Social disclosure also demonstrates a company's operational activities, which is crucial for stakeholders, including investors, financial analysts, the government, and the public, as it provides a snapshot of how the company treats internal and external parties (Firmansyah et al., 2021; Muslichah, 2020). To achieve this goal, companies communicate their social responsibility to external parties through social disclosures that prioritize ethical values, employee trust, and respect for human rights (Fuadah et al., 2022). Therefore, companies need to expand their social

responsibility because this can build relationships between the company and the community (Melinda & Wardhani, 2020).

Governance Disclosure

Governance is a crucial pillar that requires attention because it relates to a company's transparency in providing information to stakeholders (Xaviera & Rahman, 2023). Governance disclosure is the disclosure of non-financial information in the annual report containing information about corporate governance that can assist stakeholders in decision-making (Felicia et al., 2022). According to Hardiningsih et al., (2024), governance disclosure serves as a guide for managing a company professionally by integrating the principles of independence, equality, fairness, accountability, and openness. This disclosure focuses on how the company evaluates its compliance with applicable regulations and its efforts to implement sustainable business practices (Fuadah et al., 2022). Governance disclosure demonstrates a company's efforts to build leadership that implements good governance principles. This is evident in the board structure and division of authority, the compensation system for top management, the audit system, internal controls, and the protection of the rights of majority and minority shareholders (Suretno et al., 2022). Governance disclosure will encourage companies to create optimal corporate governance mechanisms, thereby increasing stakeholder trust in the company (Firmansyah et al., 2021).

Political Connections

Political connections are relationships established between companies and politicians with the aim of gaining benefits in the form of preferential treatment (Tarmizi & Brahmana, 2022). A company is considered politically connected if at least one of its leaders, majority shareholders, or their relatives has a history of or currently holds a position as a high-ranking state official, member of parliament, or official in a ruling party (Momon et al., 2021). Political connections can also be identified by direct government ownership of the company (Pratama, 2022). Furthermore, political connections are intangible assets in the form of relationships that play a crucial role in enhancing a company's ability to gain government support, thus creating a competitive advantage (Faisal et al., 2021). Therefore, companies with political connections tend to have easier access to resources and opportunities that other companies do not have (Hardiningsih et al., 2024). Political connections can also influence the decision-making process and the outcomes of those decisions, as companies utilize political connections as a means to withstand pressure from the public and international parties (Widaryanti & Abdullah, 2024). Many companies build relationships with political parties through party members who also hold positions or have significant interests in the company (Maulana & Wati, 2019). Furthermore, according to (Faccio, 2006), a company can be categorized as having political connections if:

1. One of its shareholders controlling at least 10% of the shares, its high-ranking officials, such as members of the board of commissioners and board of directors, is a member of a political party, a member of parliament, a government official, including military officials, or has close ties to political officials, either directly or through family or friendship.
2. One of its high-ranking officials, such as members of the board of commissioners and board of directors, is also a former member of parliament or government official, including military officials.
3. State-owned enterprises

Relationship Environmental Disclosure and Firm Value

Environmental disclosure is a pillar that provides information about a company's environmental management, both past, present, and future (M. N. Utomo et al., 2020). Companies need to implement environmental disclosure because this aspect informs stakeholders about the company's responsibilities when addressing environmental issues in the environment where the company operates (Hardiningsih et al., 2024). Environmental disclosure also serves as a tool for investors to consider investment decisions, as it illustrates the company's potential long-term performance, which can positively impact share prices (Felicia et al., 2022; Prabawati & Rahmawati, 2022). Environmental disclosure demonstrates that a company is aligned with

prevailing societal values and norms. The more comprehensive the information disclosed, the more relevant it is to investors, thus increasing the company's value (Rinsman & Prasetyo, 2020).

Through environmental disclosure, a company can not only improve its position but also build a positive image in the community, ultimately resulting in a competitive advantage (Hardiningsih et al., 2024). The positive influence of environmental disclosure on firm value is evidenced by research (Mutiah & Rusmanto, 2023; Suretno et al., 2022). Research by Suretno et al., (2022) suggests that the more comprehensive the disclosure of information about a company's environmental responsibilities, the more positive the investor response to the company, thereby increasing its value. Based on theoretical analysis and previous study findings, the following research hypothesis is proposed:

H₁: Environmental disclosure has a positive influence on firm value.

Relationship Social Disclosure and Firm Value

Social disclosure is the publicized provision of information regarding a company's efforts to improve human welfare, encompassing both internal and external stakeholders (Muslichah, 2020). Social disclosure by a company is one way to enhance its image. This demonstrates that the company functions not only as an institution pursuing financial success but also as a good citizen (Angela & Sari, 2023). For investors, information about a company's social activities is an important indicator, as this aspect demonstrates the company's more certain future potential (Firmansyah et al., 2021). Furthermore, social disclosure may enhance public trust, corporate image, and community support, ultimately impacting performance and firm value (Prayogo et al., 2023). This is supported by research (El-Deeb et al., 2023; Felicia et al., 2022), which demonstrates that social disclosure has a positive and significant impact on firm value. Research by Felicia et al. (2022) suggests that social disclosure is expected to encourage investors in making investment decisions, thereby increasing firm value. Referring to theoretical studies and previous research findings, the following research hypothesis is formulated:

H₂: Social disclosure has a positive impact on firm value.

Governance Disclosure and Firm Value

Governance disclosure is the presentation of information regarding the division of management duties and the company's procedures for addressing and analyzing risks and problems (Sedyasana & Wijaya, 2024). Through this disclosure, investors can obtain clear information about the company's governance structure, decision-making process, and internal control system (Hardiningsih et al., 2024). Governance disclosure will encourage companies to develop optimal governance procedures, thereby increasing stakeholder credibility (Firmansyah et al., 2021). By implementing effective governance practices, companies could create long-term value by meeting stakeholder expectations and interests, ultimately positively impacting firm value (Prayogo et al., 2023).

Companies that implement governance disclosure are viewed as providing adequate protection and transparency for investors. This condition drives share prices upward, which in turn impacts firm value (Hardiningsih et al., 2024). This finding in line with research from (Angela & Sari, 2023; S. D. Utomo & Machmuddah, 2024), which suggests that governance disclosure has a positive and significant effect on firm value. Based on theoretical and previous studies, the following research hypotheses are formulated:

H₃: Governance disclosure has a positive effect on firm value.

Political Connections on Firm Value

Political connections describe a company's relationship with powerful political figures within the political system, which can influence business decisions, resource allocation, or the social dynamics of individuals, groups, or entities (Hardiningsih et al., 2024). Companies establish political connections to facilitate their operations and provide investors with security for their investments, which is expected to increase firm value (Ligita & Muazaroh, 2020; Momon et al., 2021). Through political connections, companies can obtain privileges beneficial to their

sustainability, such as lower taxes, obtaining government contracts, and less stringent regulatory oversight (Faccio, 2006).

These privileges can improve company operations, potentially resulting in increased profits. A significant increase in profits can drive up stock prices, ultimately leading to increased firm value (Nurfitri & Nugrahanti, 2022). Therefore, investors will choose to invest in companies with political connections over those without (Patriarini, 2020). The positive influence of political connections on firm value has been demonstrated in research (Bandiyono, 2019; Nurlaela et al., 2024). Investors still consider political connections when investing, as evidenced by the increase in a company's stock price based on its relationship with the ruling party (Bandiyono, 2019). Referring to theoretical studies and previous research findings, the research hypothesis is as follows:

H₄: Political Connections has a positive effect on firm value.

RESEARCH METHOD

This study employs quantitative methods, with a population comprising non-financial companies listed on the Indonesia Stock Exchange (IDX). The sample size was 145 companies. The study spanned the five years 2019 to 2023. Secondary data was used, drawn from company annual reports and the LSEG Workspace. The research variables consist of the dependent variable, firm value, and the independent variables, environmental disclosure, social disclosure, governance disclosure, and political connections. Measurements for each variable are presented in Table 1. The analysis technique used is panel data regression. Prior to hypothesis testing, descriptive statistical analyses were conducted on a nominal and ratio scale, including mean, maximum, minimum, and standard deviation. The researchers then conducted normality, multicollinearity, and heteroscedasticity tests. The regression equation used in this study is as follows:

$$FV = \alpha + \beta_1 ED_{1it} + \beta_2 SD_{2it} + \beta_3 GD_{3it} + \beta_4 PC_{4it} + \epsilon$$

when: FV = Firm value, ED = Environmental disclosure, SD = Social disclosure, GD = Governance disclosure, and PC = Political connection.

Table 1
Operationalization of Research Variables

Variables	Proxy	Indicator and Source
Dependent Variables: Firm Value (Y)	Tobin's Q	$\frac{MVS + TD}{TA}$ (Melinda & Wardhani, 2020; Suretno et al., 2022)
Independent Variables: Environmental Disclosure (X ₁)	LSEG Score (ED)	LSEG Score based on emission, resource use, and innovation. (Melinda & Wardhani, 2020; Suretno et al., 2022)
Social Disclosure (X ₂)	LSEG Score (SD)	LSEG Score based on human rights, product responsibility, workforce, and community. (Melinda & Wardhani, 2020; Suretno et al., 2022)
Governance Disclosure (X ₃)	LSEG Score (GD)	LSEG Score based on human rights, product responsibility, workforce, and community. (Melinda & Wardhani, 2020; Suretno et al., 2022)
Political Connection (X ₄)	1 if the company has political connections, such as members of parliament, high-	(Hardiningsih et al., 2024)

	ranking government officials, or political parties.	
	0 if companies that have no political ties.	

The following are the sampling criteria determined by the researcher, it shows in Table 2:

1. Non-financial companies listed on the Indonesia Stock Exchange for the 2023 period.
2. Non-financial companies consistently listed on the Indonesia Stock Exchange for the 2019-2023 period.
3. Non-financial companies listed on the Indonesia Stock Exchange for the 2019-2023 period that have a LSEG score for the 2019-2023 period.

Table 2. Sample Determination Based on Criteria

No.	Sample Selection Criteria	Total
1	Non-financial companies listed on the Indonesia Stock Exchange for the 2023 period	802
2	Non-financial companies inconsistently listed on the Indonesia Stock Exchange for the 2019-2023 period	(236)
3	Non-financial companies listed on the Indonesia Stock Exchange for the 2019-2023 period with a LSEG score	(528)
4	Companies with data outliers	(9)
Number of samples meeting the criteria		29
Number of research observations for the 2019-2023 period (29 x 5)		145

Descriptive Statistics

Referring to the descriptive statistics in Table 3, the mean score for the company's value with a Tobin's Q ratio is 1.13283. This indicates that the company can generate profits with a rate of return relevant to the acquisition price of its assets. A Tobin's Q score above 1 indicates a company's success in managing its assets and has the potential for high investment growth. Political connections are measured using a dummy variable. A score of 1 indicates that the company has political connections, such as being a member of parliament, a high-ranking government official, or a political party, while a score of 0 indicates that the company has no political connections. Referring to Table 3, it is found that of the 145 companies, 15.86% or 23 data did not have political connections, while 84.4% or 122 data did.

Table 3. Descriptive Statistics of Ratio Scale

Variable	Mean	Std. Dev.	Min.	Max.
FV	1,1328	0,3685	0,3420	2,3625
ED	45,657	23,912	0,1316	88,654
SD	57,905	9,6311	95,832	95,832
GD	49,175	5,0260	94,674	94,674

Table 4. Descriptive Statistics Nominal Scale

Variable	Valid 0		Valid 1	
	Freq.	%	Freq.	%
PC	23	15,86%	122	84,14%

Table 5. Chow Test Result

Effect Test	Stat.	d.f.	Prob.	Conclusion
Cross-Section Chi-square	219.95	28	0.0000	Fixed Effect Model

Table 6 Hausman Test Result

Effect Test	Stat.	d.f.	Prob.	Conclusion
Cross-Section Chi-square	16.36	4	0.0026	Fixed Effect Model

Table 7 Regression Test Result

Research Variable	Firm Value	
	Coef.	Prob.
C	1.736100	0.0000
ED	-0.005891	0.0067
SD	-0.004368	0.0655
GD	-0.001106	0.6089
PC	-0.032110	0.7567
Adjusted R ²	0.786160	1.132839
F-Statistic	0.725063	0.368504

Table 7 shows the results of direct testing on the variables of firm value, environmental disclosure, social disclosure, governance disclosure, and political connections. Hypothesis 1 expects that environmental disclosure (ED) has a positive effect on firm value (FV). However, the test results indicate that environmental disclosure has a negative effect on firm value, with a probability value of 0.0067 and a negative regression coefficient. Therefore, the first hypothesis is not proven. Hypothesis 2 states that social disclosure (SD) has a positive effect on firm value (FV). The research findings indicate that social disclosure has no effect on firm value, with a probability value of 0.0655 and a negative regression coefficient. Therefore, this finding does not support the second hypothesis.

Hypothesis 3 expects governance disclosure (GD) to have a positive effect on firm value (FV). The results show that governance disclosure has no effect on firm value, with a probability value of 0.6089 and a negative regression coefficient. Therefore, the third hypothesis is not supported. Hypothesis 4 states that political connections (PC) have a positive effect on firm value (FV). However, the test results show that political connections have no effect on firm value, with a probability value of 0.7567 and a negative regression coefficient. Therefore, these results do not support the fourth hypothesis. Based on the test results in Table 7, the adjusted R-squared value is 0,7861, or 78,61%. This value indicates that the independent variables—environmental disclosure, social disclosure, governance disclosure, and political connections—can explain 78,61% of the dependent variable, firm value, while the remaining 21,39% is explained by other variables outside the study.

DISCUSSIONS

Environmental Disclosure on Firm Value

The data analysis results indicate that environmental disclosure has a negative impact on firm value. This finding is inconsistent with the hypothesis in this study but is relevant to previous studies (Fahad & Busru, 2020; Felicia et al., 2022; Margana & Wiagustini, 2024), which stated that environmental disclosure negatively impacts firm value. Felicia et al. (2022) argued that the more

companies provide environmental disclosure, the lower the company's value. This is because investors perceive an additional financial burden to address the environmental impacts of the company's business activities. Furthermore, Sumarta et al. (2023) revealed that environmental disclosure has the potential to increase scrutiny and criticism from stakeholders, which can negatively impact a company's reputation and ultimately reduce consumer trust and firm value.

This situation indicates that environmental disclosures do not always receive a positive response from investors. This is due to the significant increase in costs associated with implementing high levels of environmental disclosure, potentially reducing profits and triggering a negative market response. Consequently, stock prices tend to decline as investors perceive an additional financial burden to address the environmental impacts of a company's business activities, ultimately potentially reducing the company's value (Felicia et al., 2022). Furthermore, Gunawan & Ayu (2023) revealed a tendency for investor skepticism towards companies that actively engage in environmental disclosure. This skepticism arises because environmental disclosure is perceived as an image strategy. This situation has the potential to reduce investment interest, as evidenced by the 2023 stock performance of PT Global Mediacom Tbk (BMTR), which experienced a 7.74% decline, even becoming a top loser, despite the company having implemented ESG principles and being listed among the IDX ESG Leaders.

Social Disclosure on Firm Value

The analysis found that social disclosure has no effect on firm value. The findings of this study do not align with the proposed hypothesis but are relevant to previous research (Adriani & Parinduri, 2024; Angela & Sari, 2023; Kawi & Natalylova, 2022; Muslichah, 2020; Oktaviana et al., 2025). Findings by Jeanice & Kim (2023) revealed that in developing countries, including Indonesia, consumers are generally less concerned about corporate social responsibility and are unwilling to spend more simply because a company makes social disclosures. Furthermore, social disclosure has become a common practice among many companies, so high levels of social disclosure do not automatically correlate with increased firm value (Atahau & Kausar, 2022).

Governance Disclosure on Firm Value

Data analysis results indicate that governance disclosure has no effect on firm value. This finding is inconsistent with the researcher's hypothesis, but aligns with previous research (Adriani & Parinduri, 2024; Felicia et al., 2022; Tahmid et al., 2022; Zaneta et al., 2023). Investors in developing countries tend to focus more on financial aspects, so governance disclosure is not a determinant of firm value (Prabawati & Rahmawati, 2022). Furthermore, Wangi & Aziz (2023) explain that governance disclosure has become a common practice among many companies, so high levels of governance disclosure do not automatically correlate with increased firm value.

Political Connections on Firm Value

The data analysis results indicate that political connections have no effect on firm value. This research finding is not relevant to the researcher's hypothesis but is relevant to previous studies (Kholid & Rahmawati, 2023; Sadjarto et al., 2024; Sulastri & Sari, 2021). According to Sholekha & Astuti (2024), investors tend to view political connections as a factor that provides no clear benefits to companies. This is due to the low quality of political connections, which cannot provide access to critical resources or business opportunities. Furthermore, Maulana & Vernando (2022) emphasize that politicians are no longer able to exploit government positions to facilitate company operations, as governance becomes more effective, limiting the abuse of power.

CONCLUSION AND SUGGESTION

Based on analysis and discussion, it can be concluded that environmental disclosure has a partial negative effect on firm value. Meanwhile, social disclosure, governance disclosure, and political connections have no partial effect on firm value in non-financial companies. A limitation of this study is the 24% outlier data that had to be removed because it did not meet the normality test requirements. Other limitation of this study may potential selection bias because only 29 out of 802 companies met the LSEG availability criteria. Therefore, the authors offer several

recommendations for future researchers to expand the sample by including companies in the financial sector. Furthermore, it is recommended to examine other independent variables, such as financial aspects that have the potential to influence firm value. Practical suggestion of this research is companies should adopt more operational and strategic approach in managing environmental costs that need to be integrated into long-term business strategies and linked directly to efficiency improvement.

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