

## **Strategic Synergies: ESG Performance, Political Connection, and Audit Committees in Enhancing Company Value**

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**Abstract:** *This study examines the impact and implications of Environmental, Social, and Governance (ESG) performance, political connections, and audit committees on firm value in companies listed on the Indonesia Stock Exchange for the 2019–2023 period, with a total sample of 90 observations. The study employs a panel data regression method using the weighted least squares (WLS) model. The findings indicate that ESG performance and audit committees have a positive and significant effect on firm value, while political connections negatively impact firm value. This study is expected to encourage the adoption of good ESG practices and audit committee governance while also serving as a consideration for companies in evaluating the cost-benefit of political connections. Future research is recommended to expand the sample size, use ESG data from multiple sources, examine the individual effects of ESG pillars, conduct studies in other developing countries, and explore alternative firm value measurements and qualitative approaches.*

**Keywords:** *ESG performance, Political connection, Audit committee, Company value*

**Abstrak—** *Penelitian ini menelaah pengaruh dan implikasi kinerja Environmental, Social and Governance (ESG), koneksi politik dan komite audit terhadap nilai perusahaan pada perusahaan yang terdaftar pada Bursa Efek Indonesia periode tahun 2019-2023 dengan jumlah sampel penelitian sebanyak 90 sampel penelitian. Penelitian ini menggunakan metode regresi data panel dengan menggunakan weighted-least square (WLS) model. Hasil penelitian ini menunjukkan bahwa kinerja ESG dan komite audit berpengaruh positif dan signifikan terhadap nilai perusahaan. Sementara koneksi politik memberikan pengaruh yang negatif terhadap nilai perusahaan. Penelitian ini diharapkan dapat mendorong penerapan praktik ESG dan komite audit yang baik, serta dapat menjadi bahan pertimbangan perusahaan dalam menelaah cost-benefit dari koneksi politik yang dijalin oleh perusahaan. Disarankan agar penelitian selanjutnya dapat menambah sampel penelitian, menggunakan data ESG dari berbagai sumber lain, meneliti pengaruh pilar ESG secara terpisah, meneliti pada negara berkembang lain serta menggunakan pengukuran nilai perusahaan yang berbeda dan pendekatan kualitatif.*

**Kata Kunci:** *Kinerja ESG, Koneksi politik, Komite Audit, Nilai perusahaan*

## **1. Introduction**

Globalization has opened the door for companies to access global markets more easily. This means companies have the opportunity to expand market share, increase revenue, and diversify risks, but it also increases competition between companies. Companies that cannot compete in global markets may experience a decline in market share and company value. Based on data from CNBC Indonesia Research (2023), company value in Indonesia (IHSG) is valued lower compared to other countries such as Malaysia, China, South Korea, Australia, and Japan. This is reflected in the value trend of net trading foreign investors, which declined from 2022 to 2023. According to data from the Indonesian Stock Exchange (IDX, 2024), it was recorded that IDR 362 trillion of foreign capital left the Indonesian stock market until April 2024. This phenomenon indicates that the Indonesian market has experienced significant fluctuations, with foreign capital outflows and declining company valuations compared to regional peers. A decline in company value may negatively impact company operations and even national economic conditions.

In this era, companies are valued more than their financial performance, when sustainability, transparency, and good governance are highly valued. The significance of non-financial aspects in evaluating long-term investment risks and possibilities is becoming increasingly apparent to investors (Sahlian et al., 2023). Like in other nations, non-financial aspects like political connection, environmental, social, and governance (ESG) performance, and audit committee efficacy are becoming more widely acknowledged as crucial in assessing a company's worth in Indonesia.

Businesses focusing on ESG issues may be more valuable in the international market. Effective ESG implementation is regarded as one of the business's benefits that can affect the company's value. Bocken and Geradts (2020) claim that putting ESG into practice is a difficult task that takes a lot of cost and effort and that the effects take time to show up in improved business performance. A company's short-term financial goals may be hampered by the cost trade-offs arising from ESG implementation efforts' intricacy. These factors cause many businesses to be wary about embracing ESG.

Indonesia is ranked 77th out of 156 nations by the statistics organization World Economics (2023), indicating that the country's ESG implementation is still considered deficient. "ESG is good for everyone" has not yet become a value that some companies in Indonesia believe in. Companies are more inclined to stick with their current business practices even though they understand how important it is to practice ESG because it is still unclear how ESG performance would affect its financial performance (Bocken & Geradts, 2020).

The impact of ESG performance on firm value has been extensively studied in America, Europe, Asia, and Africa, among other world regions (Ademi & Klungseth, 2022). Nevertheless, the disparate studies' findings provide contradictions and discrepancies. While some studies indicate that ESG performance has a negative impact on firm value, other studies demonstrate that it has a beneficial effect. This paradox makes it more difficult for businesses to adopt ESG practices and alter their business strategy. To provide organizations with greater confidence to modify their business operations by incorporating ESG concepts, this research will investigate the impact of ESG performance on company value in Indonesia.

To guarantee the quality of released financial reports, efforts can also be performed to enhance oversight through the audit committee (Alodat et al., 2023). By releasing POJK-55/POJK.04/2015 regarding the Formation and Implementation Guidelines for the Work of Audit Committees, the Financial Services Authority (OJK) encourages businesses to strengthen the efficacy of audit committees with strict and independent audit practices to ensure the preparation of financial reports by applicable standards. The goal of the audit committee's performance as part of sound corporate governance is to preserve investors' faith in the management team's performance and to uphold transparency, both of which will promote a rise in the company's value.

The audit committee is a very useful tool. Management widely uses it to evaluate the organization properly and take appropriate actions to increase productivity and effectiveness. Audit committees are an important component of good governance, supporting risk assessment, compliance, and fraud detection, so they are considered important for the survival and improvement of company performance (Fariha et al.,

2022). Therefore, audit committee performance can be considered a relevant research area and problem.

Political issues are another factor in determining company value, especially in 2024 when Indonesia holds a General Election to elect the President, Vice President, and parliament who will occupy positions in various government institutions. Given that government policies and political stability are major factors in determining a nation's business climate, political concerns and ties can majorly impact a company's worth. Investors may become less engaged in investing due to political instability, such as abrupt changes in government or political upheaval, which can induce uncertainty. Strong political ties can also help a company gain preferential access to government contracts, subsidies, or more advantageous rules, all of which can raise the company's value. Thus, a firm's market value and investor perceptions are influenced by political stability and the company's political connections (Islam et al., 2023).

Because of the benefits that businesses can receive, the political ties between the government and the business community can affect the value of a company. Numerous instances from different nations demonstrate the connection between political relations and business performance, which is supported by other earlier study findings. According to (Najaf, 2021) research conducted in Malaysia, political connections enhance a company's effectiveness and, thus, its worth. According to (Afego, 2023) research conducted in Africa, stock market reactions are significantly influenced by the outcome of national elections. In the meantime, (Joni, 2023) in Indonesia found that business investment was negatively impacted by political ties made through the Board of Commissioners.

The existing literature presents conflicting findings regarding the impacts of Environmental, Social, and Governance (ESG) performance and political connections on firm value, highlighting a significant gap the current study aims to address. For instance, some studies, such as those by Tahmid et al. (2022) and Hwang et al. (2021), suggest that strong ESG performance positively influences firm value by fostering stakeholder trust and enhancing corporate reputation. Conversely, other research indicates that excessive focus on ESG initiatives can lead to increased costs that may

detract from profitability, suggesting a nuanced relationship where the benefits of ESG are contingent upon the level of investment and the specific context of the firm. Similarly, while political connections are often viewed as a double-edged sword, with some studies indicating that they can provide firms with access to resources and favorable regulations, others argue that such ties can lead to higher agency costs and lower financial performance due to potential conflicts of interest and corruption risks. This inconsistency in findings underscores the need for a more contextualized understanding of these relationships, particularly in emerging markets like Indonesia. The current study addresses these unresolved issues by focusing on a specific timeframe (2019-2023) and Indonesia's unique political and economic landscape, thereby providing a clearer picture of how ESG performance and political connections interact to influence firm value. By integrating audit committee effectiveness into the analysis, the study further enriches the discourse, offering insights into how governance mechanisms can mitigate the potential downsides of political affiliations while enhancing the positive impacts of ESG initiatives.

Based on these discoveries, this study focuses on the intricate relationships between Environmental, Social, and Governance (ESG) performance, political connections, and the effectiveness of audit committees in influencing company value, specifically within the Indonesian context from 2019 to 2023. This period is particularly significant due to the dynamic market conditions in Indonesia, the problem we address as declining company valuations compared to regional peers, necessitating a deeper understanding of the factors that can enhance firm value. The political connection variable was chosen because each country has a different political and government landscape, which is considered unique. This study is anticipated to present the most recent findings regarding the impact of political ties on corporate value in 2024, coinciding with the rise of the democratic party in Indonesia. Additionally, as global emphasis on sustainability and corporate governance intensifies, Indonesian companies must adapt to these expectations to remain competitive. It is crucial to explore how non-financial factors like ESG performance and audit committee effectiveness contribute to long-term viability. This research aims to enhance the knowledge and advancement of

sustainable and value-added business practices in Indonesia by integrating audit committee variables, focusing on the Indonesian context, adapting prior research, and being relevant to the democratic party.

## **2. Theoretical Framework and Hypothesis Development**

### *2.1. ESG Performance and Company Value*

There are two points of view on the influence of ESG performance on company value. The first view examines the costs of ESG activities and how they can impact a company's value. Companies can benefit from lower costs when improving performance by implementing ESG. However, company profits will decrease when companies invest in ESG activities beyond the maximum value of benefits that can be obtained. The second perspective highlights how ESG activities strengthen relationships with stakeholders so that they can add company value. By implementing ESG practices in the company's business operations, management can strengthen relationships with stakeholders, thereby increasing the company's reputation and value. ESG practices can also help companies attract qualified individuals and improve team competencies (Tahmid et al., 2022).

Many theories, like the resources-based view theory, value creation theory, cost-of-capital reduction theory, and stakeholder theory, can describe how ESG performance affects a company's value (Ademi & Klungseth, 2022). Value creation theory and the resource-based view theory both contend that a company's competitive advantage is positively impacted by ESG performance. Stakeholder theory, on the other hand, holds that stakeholders view better ESG performance favorably since it fosters confidence and raises market values (Cheng et al., 2023). Regarding ESG performance, agency theory can be used to explain the motivation of company executives to implement ESG practices. Management integrates ESG considerations into business practices to increase stakeholder trust, affecting company value. Thus, management hopes to get incentives from strategic choices that increase share value (Liu & Wu, 2023; Nyakurukwa & Seetharam, 2023).

Tahmid et al. (2022) found that good ESG performance can raise a company's value by fostering stakeholder confidence, accountability, and transparency. (Hwang et al., 2021) discovered that strong ESG performance fosters stakeholder trust, which supports organizations' ability to sustain strong financial and market performance even under challenging circumstances like the COVID-19 epidemic. Based on those various theories and research results above, the first research hypotheses are proposed as follows:

*H1: ESG performance has a positive effect on company value*

## *2.2. Political Connections and Corporate Values*

The business world considers the relationship between business people and politics normal. Political connections are considered a double-edged sword because they can be a valuable resource and cause higher agency problems. According to (Belghitar et al., 2019), companies with political connections tend to have a larger long-term debt composition, have significant amounts of excess cash, and provide lower-quality financial reporting than companies without political connections. Yudhanti and Tjahjadi (2021) stated that political connections can improve accounting quality because political connections can be the focus of increased mass media monitoring so that it can provide stronger supervision. Companies with political connections have larger market share and leverage but worse financial performance than those without political connections. The strength of political connections, economic development, and corruption in a particular country also influence these differences (Faccio et al., 2010).

Several theoretical studies can explain the relationship between political connections and their influence on company value. According to agency theory, political connections can increase firm value by helping monitor firm operations, providing low interest rates, and obtaining capital from external sources. On the other hand, political connections cause high agency costs, which can have a negative impact on company value (Najaf & Najaf, 2021). According to social capital theory, interpersonal relationships (political connections) create "value" over individuals who can provide certain resources and desired outcomes (Tang et al., 2022). This aligns with

resource dependence theory, which explains that companies with political connections find it easier to access government-controlled public resources to increase company value (Najaf & Najaf, 2021). According to rent-seeking theory, politically connected entrepreneurs can enjoy the benefits of access to resources and knowledge, have close ties to the government, and make deals with politicians and bureaucrats that can increase the value of their companies. Institution change theory highlights how political connections can help businesses overcome the inadequacy of the legal system and the slowdown in financial development, thereby promoting business growth and increasing enterprise value (Tang et al., 2022).

According to these theories, a positive correlation between political ties and company value was found in several research findings. For example, Ganguly (2023) indicates that companies with political ties typically perform better than those without; Tang et al. (2022) indicate that political ties particularly ties to the military, are associated with a significant increase in stock prices when a military-political affiliate holds office. Based on these findings and the theory put forth above, the second hypothesis proposed in this study is as follows:

*H2: Political connection has a positive effect on company value*

### *2.3. Audit Committee Performance and Company Value*

Along with increasing official regulations in various countries, audit committees are now a widely used company governance technique worldwide. Numerous studies' findings demonstrate how crucial the audit committee is to raising a company's worth and financial performance. However, only the audit committee's performance and efficacy will allow this. The audit committee needs to meet certain requirements to impact the performance and value of the firm; its mere existence cannot ensure the committee's efficacy or performance. The audit committee possesses several distinct attributes: size, independence, and meeting intensity. To safeguard stakeholder interests through management oversight, the audit committee's efficacy and performance are more important (Rahman & Ali, 2022).

According to Bazhair (2022), the relationship between audit committee performance and company value can be explained by agency and resource dependence

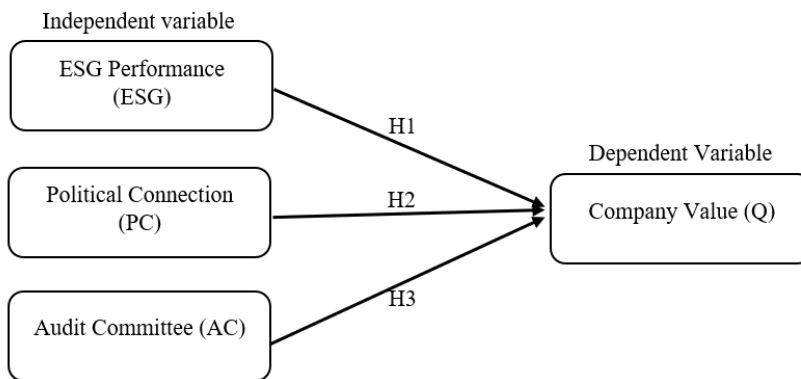
theories. According to agency theory, management, who are the guardians of company resources, have a motive to pursue their personal goals at the expense of shareholder wealth, so audit committees were created to help monitor management's self-interested behavior. According to resource dependence theory, audit committees can help companies attract valuable resources from the external environment to improve company performance and value.

The research findings of Alodat et al. (2023) revealed that the audit committee had a positive and significant influence on corporate performance, which is consistent with those theories above. This aligns with the findings of studies carried out by Rahman and Ali (2022) and Alzeban (2023). In light of the aforementioned theories and research findings, the third research hypothesis proposed is as follows:

*H3: Audit committee performance has a positive effect on company value*

The research model proposed in this research is as follows:

Figure 1.  
Research Model



### 3. Research Method

The population of this research is companies listed on the Indonesian Stock Exchange. The number of samples in this study was determined using the method of purposive sampling, as explained in Table 1. The period of this research is 2019-2023. This research data is secondary data from various sources.

ESG scores from the ESG rating agency MSCI represent ESG performance data. MSCI was chosen because (1) MSCI provides historical data from 2019 to 2023, and (2) the public can access ESG score data from MSCI through its official website. Regarding ESG data, the study relies on the MSCI ESG score as the sole source due to its comprehensive methodology and widespread recognition in the investment community. The MSCI ESG rating system evaluates companies based on environmental, social, and governance factors, providing a standardized measure that facilitates comparisons across firms. This choice allows for a consistent assessment of ESG performance, which is essential for the study's objectives. However, relying solely on MSCI's score presents potential limitations, such as the risk of overlooking nuances in ESG practices that other rating agencies, like Sustainalytics or S&P Global, may capture. Additionally, the MSCI score may not fully reflect local contexts or specific industry challenges, which could lead to an incomplete understanding of how ESG performance influences firm value in the Indonesian setting. Thus, while using the MSCI ESG score provides a solid foundation for the analysis, it is important to acknowledge these limitations and the potential need for a more multifaceted approach in future research.

Table 1.  
Research Sample Criteria

Criteria	2019	2020	2021	2022	2023	Total
Population	659	710	766	823	902	3.860
Registered on the IDX after January 01, 2019	(55)	(106)	(162)	(219)	(298)	(840)
Have been listed as Securities on the Special Monitoring Board for a period of years <i>t</i>	0	0	(13)	(83)	(124)	(220)
Not included in the MSCI ESG Rating and Climate Index company list	(590)	(587)	(572)	(501)	(460)	(2.710)
Total	14	17	19	20	20	90

Note: processed by author (2024)

MSCI uses a seven-scale rating system: CCC (poor), B, BB, BBB, A, AA, and AAA (best). In this research, the ESG performance measurement scale is quantified in

Table 2.  
ESG Rating Measurement Scale

MSCI ESG Score	CCC	B	BB	BBB	A	AA	AAA
Scale	1	2	3	4	5	6	7

Source: (Ademi & Klungseth, 2022)

Data regarding political connections and audit committee performance were obtained manually from each company's annual report downloaded from the company website or the Indonesia Stock Exchange (IDX) website. The political connection measurement is a dummy variable that gives 1 if the company has political connections and 0 if it does not. Data is collected manually by recording the names of executives/commissioners, names of company directors/directors, and political affiliation information contained in the director profile and commissioner profile sections in the annual report. A company is considered to have political connections if a director or commissioner is a member of parliament, a government organization/institution, the military, or a particular political party.

Measuring audit committee performance uses an audit committee criteria matrix, including criteria for size, independence, ability, obligations to hold meetings, and implementation of duties and responsibilities. The audit committee criteria matrix used refers to the research matrix of Al-Ahdal and Hashim (2022) with adjustments to several specific criteria listed in the Financial Services Authority (OJK) Regulation Number 55/POJK.04/2015 concerning the Establishment and Guidelines for Implementing the Work of the Audit Committee (Appendix 1). The selection of these criteria is based on several considerations. First, this criteria matrix is more comprehensive because it combines criteria from research results and specific criteria listed in regulations related to audit committees. Second, this criteria matrix measures the audit committee's performance in terms of its characteristics and implementation of its duties. Third, this criteria matrix is easy to access and measure so that the results of the influence of the criteria can be seen more easily.

Measuring company value uses Tobin's Q ratio. According to Arofah and Khomsiyah (2023), measuring company value using Tobin's Q will produce a more comprehensive value in measuring company value. The choice of Tobin's Q as the sole

measure of company value in this study is justified by its ability to capture the market's expectations of a firm's future growth relative to its asset base. Tobin's Q, defined as the ratio of the market value of a firm to the replacement cost of its assets, provides a comprehensive view of how investors perceive a company's value of its underlying assets, making it particularly useful in assessing firms in dynamic markets like Indonesia. One of the key advantages of Tobin's Q is that it incorporates both tangible and intangible assets, reflecting the value of a company's growth potential and competitive advantages, which is crucial when evaluating the impact of ESG performance and political connections.

The author processed Tobin's Q data based on data in the company's annual financial report, while data related to share value transactions was obtained from the IDX website. According to (Ningrum, 2021), the formula for calculating Tobin's Q is as follows:

$$Tobin's\ Q = \frac{MVE + BVD}{BVA}$$

where MVE is market value equity (market capitalization value), i.e., closing price times the number of shares outstanding, BVD is the book value of total debt, and BVA is the book value of total assets.

Researchers process panel data. Panel data, or longitudinal or time series data cross-sectional, is a type of observational data collected at multiple points in time for multiple unit cross-sectional differences. These data allow researchers to assess changes in individual units over time. Panel data also allows for increased technical accuracy compared to other observational data sets due to the large sample size of repeated measures and the ability to control for unobserved effects.

To ensure data validity, data collection was carried out by two researchers independently (double rating). This is done to ensure accuracy and eliminate data ambiguity. Data processing in this research uses panel regression (regression panel method). The panel regression method is similar to the usual linear regression method. However, it considers the effects of panel-level characteristics such as time, location, industry sector, or other applicable factors, as well as effects common to all panel

members in this study, namely ESG performance, political connections, and committee audit. Measurement and operational variable definition as described in Table 3.

Table 3.  
Operational Variable

	Variable	Description	Measurement
Q	Company value	value that represents the market's perception of the company (Ningrum, 2021)	Tobin's Q ratio
ESG	ESG performance	assessing a company based on the performance of Environmental, Social, and Governance aspects (Ademi & Klungseth, 2022)	ESG scores from the ESG rating agency MSCI
PC	Political connection	political connections are anything related to politics and government in society (Najaf, 2021)	a dummy variable is measured by giving 1 if the company has political connections and 0 if it does not. A company is considered to have political connections if a director or commissioner is a member of parliament, a government organization/institution, the military, or a particular political party.
AC	Audit Committee	a committee formed by the Board of Commissioners to assist in the implementation of its duties and functions	Matrix 10 criteria audit committee (Appendix 1)

Note: processed by author (2024)

The equation model in this research is as follows:

$$Q = \alpha + \beta_1 ESG_{it} + \beta_2 PC_{it} + \beta_3 AC_{it} + e_{it}$$

#### 4. Results and Discussion

Before the data processing stage, which involves conducting panel data regression, the descriptive statistical data analysis stage is first carried out. The summary results of descriptive statistical data are presented in Table 4.

Table 4.  
Descriptive Statistic of Research Variables

Variable	N	Mean	Std. Dev	Min.	Max.
Q	90	2.03	2.16	0.70	14.41
ESG	90	3.81	1.26	1	6
PC	90	0.49	0.50	0	1
AC	90	9.41	0.91	7	10

Note: processed by author (2024)

The Chow test, Hausman test, and Lagrange multiplier test were used to determine the most appropriate panel data regression model. The test results show that the random-effect model is the most appropriate model for this research, as summarized in Table 5. Next, the classical assumptions of panel data regression were tested. The results of classical assumption testing are in Table 6.

Table 5.  
Model Determination Test Result

Test type	Test Result	
	<i>p-value</i>	Fit Model
Chow test	0.0000	Fixed-effect model
Hausman test	0.1851	Random-effect model
Lagrange Multiplier test	0.0000	Random-effect model

Note: processed by author (2024)

Table 6.  
Classical Assumption Test Result

Test type	Test Result	Conclusion
Heteroscedasticity Test	<i>p-value</i> 0,0000 < 0,05	Heteroscedasticity occurs
Multicollinearity Test	VIF value 1,15 < 10	There is no multicollinearity
Autocorrelation Test	<i>p-value</i> 0,0560 > 0,05	There is no autocorrelation

Note: processed by author (2024)

The results of the classical assumption test show data heteroscedasticity, so it is necessary to improve the model to overcome this problem. Ademi and Klungseth

(2022) state that improvements to classical assumptions can be made by the weighted-least square (WLS) model.

Table 7.  
Result of panel data regression test with the WLS model

Variable	Coefficient	Std. error	z-value	p-value
ESG	0.050	0.0199865	2.52	0.012
PC	-0.322	0.0711128	-4.53	0.000
AC	0.097	0.0358652	2.69	0.007
Constant	0.227	0.3074359	0.74	0.461

Note: processed by author (2024)

Using the WLS model, heteroscedasticity improvement can be done by giving a weight to each independent variable value inversely proportional to the error variance. (STATA, 2024) explains that the WLS model can overcome problems in categorical data analysis where the independent variables are categories and the dependent variables are continuous or quantities that can be averaged. The WLS model determines estimates by treating categories as one observation and the dependent variable as the average value of the category. The results of the panel data regression test with the WLS model are presented in Table 7. Hypothesis testing results are as in Table 8.

The regression results of the study reveal significant coefficients for ESG performance and audit committee effectiveness, indicating a positive relationship with company value, while political connections exhibit a negative impact. The positive coefficient for ESG performance suggests that firms in Indonesia that actively engage in sustainable practices and demonstrate strong governance are likely to enhance their market value. This finding aligns with the growing global trend where investors increasingly favor companies prioritizing ESG criteria, as these firms are perceived to be better managed and more resilient to risks. For instance, Indonesian companies in sectors such as palm oil and mining, which face scrutiny over environmental practices, can leverage strong ESG performance to improve their reputations and attract foreign investment, ultimately leading to higher valuations.

Conversely, the negative coefficient associated with political connections implies that firms with strong ties to political entities may face skepticism from investors, potentially due to concerns over governance issues, corruption, or misalignment of interests. This is particularly relevant in the Indonesian context, where political affiliations can sometimes lead to perceptions of favoritism or unethical practices, which may deter investment. For example, companies that rely heavily on political connections for regulatory advantages might find that such strategies backfire, leading to reputational damage and decreased investor confidence.

The impact of audit committee effectiveness further underscores the importance of robust governance structures in enhancing firm value. Effective audit committees can ensure transparency and accountability, which are critical in building stakeholder trust. In practice, Indonesian firms that prioritize the establishment of competent audit committees may not only comply with regulatory requirements but also differentiate themselves in a competitive market, thereby enhancing their overall valuation. These findings highlight the need for Indonesian companies to adopt best practices in ESG and governance, as these factors increasingly become determinants of success in local and global markets.

Based on the results of the panel data regression test using the WLS method, the results of the regression equation for this research model are formulated as follows:

$$Q = 0,227 + 0,050 ESG_{it} + (-0,322)PC_{it} + 0,097AC_{it} + e_{it}$$

Table 8.  
Hypothesis Test Result

Variable	Coefficient	p-value	Conclusion	Hypothesis
ESG Performance (ESG)	0,050	0,012	ESG performance has a positive effect on company value	H1 is accepted
Political connections (PC)	-0,322	0,000	Political connection has a negative effect on company value	H2 is rejected
Audit Committee (AC)	0,097	0,007	The audit committee has a positive effect on company value	H3 is accepted

Note: processed by author (2024)

This research examines the influence of ESG performance, political connections, and audit committees on company value in companies listed on the IDX from 2019 to 2023. Good ESG performance refers to business practices that pay attention to Environmental, Social, and Governance aspects in a balanced and sustainable manner. The criteria for assessing good ESG performance relate to how companies can integrate sustainability practices in these three aspects. Examples of sustainable practices in the environmental aspect include efficient management of waste and carbon emissions, conservation of natural resources and energy, compliance with environmental regulations, and initiatives to reduce negative environmental impacts. Examples of social sustainability practices can include employee welfare and fairness in the workforce, involvement in local communities and philanthropic programs, fairness in relationships with suppliers and customers, and compliance with human rights and international social standards. Meanwhile, examples of sustainability practices in the governance aspect can include transparency in financial reporting and company policies, independence of the board of directors and effective supervision, compliance with regulations and corporate governance standards, as well as prevention of conflicts of interest and ethical business practices.

The results of this research show that ESG performance has a positive effect on company value. This research provides empirical evidence that companies with good ESG performance have higher scores. This is based on a resource-based view (RBV) theory, value-creation theory, and stakeholder theory. Resource-based view (RBV) theory emphasizes the importance of a company's internal resources, including a good ESG reputation, in creating long-term competitive advantage. By delivering good ESG performance, companies can leverage these resources to improve their financial performance and market valuation (Ademi & Klungseth, 2022). From the perspective of the RBV, the positive relationship between ESG performance and company value suggests that firms that effectively leverage their resources to implement sustainable practices can create a competitive advantage. This aligns with the notion that intangible assets, such as a strong reputation for corporate social responsibility, can significantly contribute to a firm's overall value. In the Indonesian context, companies that invest in

ESG initiatives improve their operational efficiencies and enhance their attractiveness to investors, reinforcing RBV's assertion that unique resources can lead to superior performance. According to value-creation theory, ESG practices and reputation are used in effective strategic planning to attract investors and increase interest in buying shares and investing. With good ESG performance, companies can create added value for all stakeholders and, ultimately, for investors (Tahmid et al., 2022). Stakeholder theory can explain that companies that pay attention to the interests of all stakeholders, including the environment, society, and corporate governance, will create long-term value for the company. In this context, a good ESG reputation or performance is considered an effort to build good relationships with stakeholders, which investors will ultimately value more highly (Rahi et al., 2022). The results of this research are in line with the results of research conducted by Ademi and Klungseth (2022), Tahmid et al. (2022), Nekhili et al. (2021), and Wu et al. (2023).

According to Ramadhan et al. (2023), the following steps can be taken to improve a company's ESG performance, including integrating ESG into a business strategy where ESG must be an integral part of the company's business strategy, not just a social responsibility. Apart from that, improving ESG performance can be done by training employees about the importance of ESG and how each individual can contribute to achieving the company's ESG goals. Companies may also need to be able to collaborate with external parties such as financial institutions, government institutions, and non-governmental organizations to support ESG initiatives. Companies must also increase transparency in ESG reporting to stakeholders to build trust and accountability. And finally, companies are expected to be able to adopt technology and sustainable innovation to reduce environmental impacts and increase operational efficiency. By paying attention to good ESG criteria and implementing steps to improve ESG performance, companies can obtain long-term benefits in the form of operational sustainability, stakeholder trust, and added value for the company.

Political connections refer to relationships between a company and political parties or governments that can provide access to external benefits such as favorable regulations, government contracts, or subsidies. Although they can help companies gain

certain resources and benefits, political connections can also pose risks, such as conflicts of interest, reputation costs, and corporate instability. In this study, political connections are measured by the presence of members of parliament, members of government organizations/institutions, the military, or certain political parties on the company's directors or commissioners.

The results of this research indicate that political connections have a negative influence on company value. The results of this research can be explained by agency theory. According to agency theory, political connections can increase firm value by helping monitor firm operations, providing low interest rates, and obtaining capital from external sources. However, political connections cause high agency costs, negatively impacting company value (Najaf, 2021). According to Belghitar et al. (2019), political connections can weaken corporate governance, leading to agency problems where management interests do not match the interests of shareholders. Politically connected executives may prioritize personal or political gain over the company's long-term health and engage in self-serving behavior. Although political connections can bring external resources such as regulation or favorable contracts, these benefits come at the cost of reducing the quality of corporate governance and increasing agency costs, ultimately eroding firm value. Thus, despite the potential benefits, the negative consequences of political relationships can significantly damage a company's financial health and value. The results of this research are in line with research conducted by Joni et al. (2023), Bartlett et al. (2023), and Islam et al. (2023).

According to Ganguly et al. (2023), political connections in a company can have negative costs and impacts, such as reputation and legal costs, that may arise due to involvement in corrupt practices or nepotism related to political connections. Political connections can also cause agency costs because political connections can create a conflict of interest between company management and shareholders. (Bartlett, 2023) explains that to reduce the negative effects of political connections, companies must maintain transparency and ensure that the political connections the company has are by applicable regulations and business ethics. In addition, companies must strengthen corporate governance by ensuring the independence of the audit committee and board

of directors and implementing good governance practices. Companies must also implement a strict internal monitoring system to prevent corrupt practices and nepotism related to political connections. And finally, the company's top management needs to encourage a corporate culture of integrity and commitment to high business ethics to reduce risks related to political connections. By taking these steps, it is hoped that companies can reduce the negative impact of political connections and ensure that their political connections do not harm the company financially or its reputation.

The audit committee is important to maintaining the integrity, transparency, and quality of the company's financial reporting. Companies can ensure effective supervision, regulation compliance, and increased stakeholder trust with an audit committee. The criteria used in this study to evaluate the audit committee's performance are as follows: independence, competence, obligation to hold meetings, and orderly execution of duties and responsibilities. For the audit committee to be independent in its work, it must be separate from the management of the company; members of the audit committee must also possess sufficient knowledge and expertise in the areas of accounting, auditing, and corporate governance; the audit committee must also meet regularly to discuss the company's financial reports, internal and external audits, and carry out its duties and responsibilities in compliance with applicable laws and regulations, as well as offer helpful suggestions for improvement.

The audit committee raises the company's worth according to the study's findings. This is consistent with agency theory, which holds that shareholders use the audit committee to ensure management decisions align with shareholder interests. Agency theory implies that the audit committee increases the company's value by lowering agency conflicts between shareholders and management. Moreover, stakeholder theory emphasizes the importance of addressing the needs and expectations of various stakeholders, including investors, customers, and the community. The positive impact of audit committee effectiveness on firm value underscores the necessity for firms to maintain transparency and accountability, which are critical for building stakeholder trust. This is particularly relevant in Indonesia, where stakeholder engagement is essential for navigating complex regulatory environments and societal expectations.

According to Kaawaase et al. (2021), an independent and qualified audit committee enhances transparency and accountability in financial reporting, thereby mitigating the likelihood of errors and deviations. As a result, stakeholders and investors will feel more confident, raising the organization's value. The audit committee's enforcement of stringent accounting laws and standards enhances the company's sustainable growth and financial integrity. In addition, the audit committee helps the business make better, more strategic decisions by evaluating and managing the risks it faces (Nguyen, 2022). A strong internal control environment, lower agency costs, and ultimately higher market and investor value for the company are all benefits of having an efficient audit committee. The performance and value of the organization will benefit from the audit committee's efficacious performance in this role (Alodat, 2023).

According to Bazhair (2022), the audit committee's performance can be improved by establishing clear and structured work guidelines for the audit committee, including duties, responsibilities, and work procedures that must be followed. In addition, it is necessary to provide regular training to audit committee members to increase their understanding of corporate governance, audit, and risk. The audit committee must also interact actively with external auditors to ensure good coordination in the audit process. Regular evaluations of the audit committee's performance need to be carried out to identify areas of improvement and ensure that the committee operates effectively. Finally, there is a need for transparency in reporting the results of audit committee meetings to the board of directors and other stakeholders to eliminate information asymmetry.

Overall, the results of this study align with global patterns in ESG adoption, where there is a growing recognition of the importance of sustainable practices in driving long-term value. The negative influence of political connections on firm value further illustrates the divergence from global patterns, where political ties are often viewed as a means to access resources and favorable conditions. In contrast, the findings suggest that in Indonesia, such connections may lead to skepticism and reduced investor confidence, reflecting a broader global trend where the integrity of corporate

governance is increasingly scrutinized. However, they also highlight Indonesian firms' unique challenges in balancing political affiliations with the need for ethical governance. As global trends evolve towards greater accountability and sustainability, Indonesian companies must navigate these complexities to enhance their competitiveness and align with international best practices in corporate governance.

## **5. Conclusion, Implication, and Limitations**

### *5.1. Conclusion*

This research examines the influence of ESG performance, political connections, and audit committees on the value of companies listed on the Indonesia Stock Exchange from 2019 to 2023. The results show that ESG performance and the audit committee have a positive effect on company value, while political connections have a negative effect. The results of this research can provide a new perspective on factors that influence company value.

The findings of this study have significant implications for academic discourse, policy frameworks, and business practices in Indonesia, particularly in corporate governance and sustainability. From a policy perspective, the negative impact of political connections on firm value underscores the need for regulatory reforms that promote transparency and accountability in corporate governance. Policymakers could consider implementing stricter guidelines on political affiliations and lobbying activities to mitigate potential conflicts of interest and enhance investor confidence. Additionally, fostering an environment that encourages ESG adoption through incentives or support for sustainable practices could drive broader compliance and integration of these principles across industries.

The study highlights practical strategies for businesses to leverage ESG performance and governance structures to enhance market value. Companies should prioritize integrating ESG criteria into their core business strategies, ensuring that sustainability is not merely a compliance obligation but a fundamental aspect of their operational ethos. This could involve investing in employee training on ESG principles, enhancing transparency in reporting, and actively engaging with stakeholders to build

trust and credibility. Furthermore, firms should strengthen their audit committees by ensuring they are composed of members with diverse expertise and a strong understanding of corporate governance, which can lead to more effective oversight and risk management.

By adopting these strategies, Indonesian companies can improve their market valuations and contribute to a more sustainable and responsible business environment. Aligning corporate practices with ESG standards and robust governance frameworks can position firms favorably in the eyes of investors, ultimately fostering long-term growth and resilience in an increasingly competitive global market. These findings serve as a call to action for policymakers and business leaders to prioritize sustainable practices and ethical governance as essential components of corporate strategy in Indonesia.

### *5.2. Implication and Limitation*

The research's implications for businesses are that it clearly shows how ESG performance enhances corporate value, encouraging businesses to adapt their operations to align with ethical and sustainable business practices. The study's findings can also be used as a guide by businesses aiming to improve the efficiency of their audit committees to maintain good corporate governance procedures. In addition, businesses may consider this study's findings when evaluating the costs and benefits of the political connections they have acquired. Businesses must apply the precautionary principle to lower potential risks associated with their political connections.

Future research should consider a more qualitative approach to address the identified limitations and enhance the understanding of the interplay between ESG performance, political connections, and audit committee effectiveness. Conducting in-depth interviews with audit committee members could provide valuable insights into their perceptions of governance challenges and the practical implications of their roles in enhancing company value. Such qualitative data could reveal the nuances of decision-making processes and the specific strategies employed to navigate the complexities of corporate governance in the Indonesian context. Additionally, exploring political risk management practices within firms could shed light on how

companies mitigate the potential downsides of political connections, offering a more comprehensive view of the risks and benefits associated with such affiliations.

Furthermore, comparative studies across different emerging markets would be beneficial in generalizing the findings of this research. Researchers can identify common patterns and unique challenges companies face in various regions by examining how ESG performance and political connections influence firm value in diverse contexts. This could involve analyzing countries with similar economic structures or regulatory environments, allowing a richer understanding of how cultural, political, and economic factors shape corporate governance practices. Such comparative analyses could also highlight best practices and innovative approaches to ESG integration and political risk management, ultimately contributing to developing a more robust theoretical framework that encompasses the complexities of corporate governance in emerging markets. By pursuing these avenues, future research can provide deeper insights and practical recommendations for firms seeking to enhance their value in an increasingly interconnected and scrutinized global landscape.

This research is limited to 90 research samples of companies listed on the IDX for the 2019-2023 period. Therefore, the suggestion for further research is to increase the number of research samples to obtain more in-depth research results. Additionally, this study uses single ESG data published by the MSCI ESG index rating. So, for further research, it is recommended that data be published by other ESG rating agencies, such as Sustainalytics, S&P Global, Bloomberg, Thompson & Reuters. The author also suggests examining the influence of the ESG pillars separately so that the influence of each component can be known on company value. This research uses Tobin's Q as a measurement of company value, so the author suggests using other measurements such as the Price-to-Earnings ratio (PER), the Price-to-Book Value ratio (PBV), and the Price/Sales ratio (P/S ratio). Finally, this research uses a quantitative approach to examining the influence of political connections and audit committees on company value. Therefore, it is recommended that further research use a qualitative approach to obtain more comprehensive and in-depth research results.

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## Appendix

### Matrix audit committee performance criteria

No.	Criteria	Checklist	
		Yes	No
1.	The company has formed an audit committee.	_____	_____
2.	The Audit Committee consists of at least 3 (three) members from Independent Commissioners and parties from outside the Issuer or Public Company.	_____	_____
3.	The Audit Committee is chaired by an Independent Commissioner.	_____	_____
4.	The Audit Committee is required to have at least 1 (one) member with an educational background and expertise in accounting and finance.	_____	_____
5.	Committee members continuously improve their competence through education and training.	_____	_____
6.	Issuers or Public Companies have an Audit Committee charter.	_____	_____
7.	The Audit Committee Charter is published on the Issuer or Public Company Website.	_____	_____
8.	The Audit Committee holds regular meetings at least 1 (one) time in 3 (three) months.	_____	_____
9.	Audit Committee meetings can be held when attended by more than 1/2 (one-half) of the total number of members.	_____	_____
10.	The Audit Committee is obliged to prepare an annual report on the implementation of the Audit Committee's activities which are disclosed in the Issuer's or Public Company's Annual Report.	_____	_____

Source: (Al-Ahdal & Hashim, 2022) and Financial Services Authority (OJK) Regulation Number 55/POJK.04/2015 regarding the Establishment and Guidelines for Implementing the Work of the Audit Committee

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