The Effect of Intellectual Capital (IC), Good Corporate Governance (GCG) And Environmental, Social, And Corporate Governance (ESG) To Firm Value in Public Company in Indonesia

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Abstract. Advancements in technology and evolving socio-economic landscapes have fostered dynamic industrial expansion, streamlining business operations and processes. Within this context, investments in both production capabilities and environmental stewardship are imperative for achieving success in this increasingly sophisticated and efficient industry. Environmental concerns have catalyzed the development of global initiatives such as the Sustainable Development Goals, the Paris Agreement, and programs advocated by the World Economic Forum, promoting the adoption of Green Investment strategies. These investments are centered on preserving natural resources, fostering renewable energy production, and championing environmental sustainability, thereby enhancing stakeholder perception and bolstering company valuation. Researchers are delving into the influence of intellectual capital, Environmental, Social, and Governance (ESG) factors, and sound Corporate Governance practices on the valuation of Indonesian companies listed on the ESG Leader Index, a previously unexplored area. Their objective is to elucidate their role as investment indicators. Through an analysis of panel data spanning three years sourced from the ESG Leader Index encompassing 74 companies from 2020 to 2022, the study examines the correlation between Intellectual Capital (IC), Corporate Governance, ESG factors, and Firm Value (FV). The findings reveal that Intellectual Capital and robust Corporate Governance positively impact the firm value of publicly traded companies in Indonesia. However, Environmental, Social, and Governance factors exhibit no discernible influence on the firm value of such companies. These findings underscore the notion that ESG considerations have yet to significantly factor into investment decisions concerning shares of public companies in Indonesia.

Keywords: *Technological advances, green investment, Intellectual capital, ESG, Firm Value*

1 INTRODUCTION

The latest report from PT. The Indonesian Central Securities Depository (KSEI) in January 2023 reveals a significant increase in Single Investor Identification (SID) over the

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past five years, indicating a surge in capital flow into Indonesian public companies. As a result, these firms are competing fiercely to attract more investments and enhance their firm value. Research suggests a positive correlation between tangible assets and firm value, while intangible assets show a notable negative impact [1], [2]. Interestingly, sustainable growth seems ineffective in moderating the influence of tangible assets but proves effective in mitigating the impact of intangible assets [3]. Conversely, the Ocean Tomo Intangible Asset Market Value Study 2020, focusing on S&P 500 companies from 1975 to 2020, highlights a significant rise in intangible asset ratios, reaching 90% in 2020. This proliferation of intangible assets is evident in the assessment of S&P 500 market capitalization.

In the evolving landscape of global markets, driven by industrial advancements and a shift towards innovation-driven industries, businesses must invest not only in cutting-edge production factors but also in environmental stewardship [4]. The repercussions of industrial expansion, such as Greenhouse Gas (GHG) emissions, require proactive measures to address environmental concerns [5]. This has led companies worldwide to transition from profit-centric models to holistic approaches encompassing profit, people, and planet (Triple P), as evident in global accords like the Sustainable Development Goals, the Paris Agreement, and the World Economic Forum's Green Investment program [6].

Firm value holds significant sway, shaping stakeholders' perceptions and serving as a key indicator of a company's present and future prospects [7]. The surge in JCI's share prices on September 15, 2023, signals a corresponding increase in firm value, sending a strong message to investors. Intellectual capital emerges as a crucial factor in enhancing firm value, especially in the knowledge economy, where intangible assets play a pivotal role in bolstering competitiveness [8]. Corporate governance also plays a vital role, in fostering organizational success by ensuring transparency and accountability. The growing emphasis on environmental, social, and governance (ESG) reporting reflects stakeholders' expectations regarding corporate responsibility, with ESG scores serving as benchmarks for sustainability practices [9]. In essence, investments in intellectual capital, robust corporate governance, and comprehensive ESG practices converge to elevate firm value, indicating a broader shift towards sustainable business practices and responsible corporate behavior.

Moving forward, future research should delve deeper into asset management, human capital, and structural efficiency, utilizing questionnaires to explore dimensions of GCG and ESG for establishing causal correlations. Additionally, extending the duration of this research while maintaining the same methodology could unveil any significant disparities in outcomes over time. Furthermore, as suggested in the findings section, incorporating additional environmentally-focused variables could enhance the comprehensive framework for future investigations.

2 LITERATURE REVIEW

2.1 Grand Theory

Signaling Theory, as conceptualized by Spence in his work on Job Market Signaling, suggests that signals transmitted by the sender contain pertinent information for the recipient, prompting adjustments in behavior based on the received signal [10], [11].

Concerning firm value, Signaling Theory involves management providing signals to investors regarding the company's prospects [11]. For example, when top executives augment their ownership stake in the company, it signals to capital markets that the diversification strategy is aligned with the owners' best interests. Similarly, leaders of young companies in IPOs appoint diverse and prestigious board members to indicate the company's legitimacy to potential investors, illustrating how one party signals quality to another.

Contrarily, Stakeholder Theory posits that companies should not solely pursue their interests but should also benefit all stakeholders, including shareholders, creditors, consumers, suppliers, government, society, analysts, and other parties [12]. This theory underscores ethical and managerial considerations regarding the relationship between stakeholders and intellectual capital [13]. Ethically, stakeholders deserve fair treatment from the organization, and managers are responsible for managing the organization for the benefit of all stakeholders. Managerially, stakeholders' influence on corporate management is seen as a function of their control over the organization's resources [14].

Utilizing the company's potential across human capital (employees), physical assets (capital employed), and structural capital (structural capital) allows the company to create added value. This increased value-added enhances the company's financial performance, thereby improving stakeholders' perception of the company's financial standing.

2.2 Research Variables

Independent Variable

The first part of the study delves into Intellectual Capital, which encompasses various resources owned and managed by a company, ranging from tangible assets to intangible ones such as employee expertise, technological know-how, operational procedures, and client relationships, aimed at enhancing operational efficiency and efficacy. Intellectual capital serves as a strategic asset for companies to manage deliberately, aiming to create additional value and attain competitive advantages, ultimately fortifying the overall value of the company[15]. The strategic allocation of resources, covering both human and structural capital, is indispensable.

The second aspect investigated is Good Corporate Governance (GCG), which serves as a framework regulating the relationship between management and stakeholders in a company, with the goal of enhancing value for all involved parties. It involves regulations and initiatives to refine organizational systems and processes by clarifying the roles, responsibilities, and rights of stakeholders. The principles of GCG, outlined by [16] serve as guidelines for implementing GCG in Indonesian public companies, as outlined in the 2018 BEI corporate governance guidelines version 2.0.

The third aspect explored is Environmental, Social, and Governance (ESG), which are crucial factors in assessing the sustainability and ethical impacts of investment decisions concerning businesses or companies [17]. ESG metrics encapsulate additional dimensions of company performance not readily discernible in financial reports, such as reputation, quality, brand capital, safety, corporate culture, and strategic approaches to asset identification [18]. ESG indicators facilitate the disclosure of non-financial data pertaining to environmental, social, and corporate governance aspects, enabling the evaluation of company management capabilities while minimizing risks [19]. The assessment of the ESG index, based on the ESG leaders index guidelines from BEI

(2020), indicates that the effectiveness of a company in managing ESG factors is inversely proportional to the index size, with a smaller index indicating more effective ESG management [20]. However, contrary to expectations, if a company's share price is high but not complemented by a low ESG tilt factor value, the resulting higher ESG index may suggest poor performance.

Dependent Variable

Firm Value represents a central objective in financial management, as highlighted by. It reflects investors' perceptions of a company's success, closely tied to its share price, as noted by [21]. Enhancing firm value is a significant achievement aligned with the interests of company owners, as it directly correlates with increased shareholder welfare. The evaluation of a company's value is typically based on its share price, where a higher firm value signifies strong company performance [22]. This metric is crucial for shareholders, as it directly impacts their prosperity, with rising share prices indicating greater shareholder wealth. Enterprise Value (EV), synonymous with firm value, serves as a pivotal indicator for investors, offering insight into the overall market assessment of a company. Essentially, EV represents the price potential buyers are willing to pay in the event of a company sale.

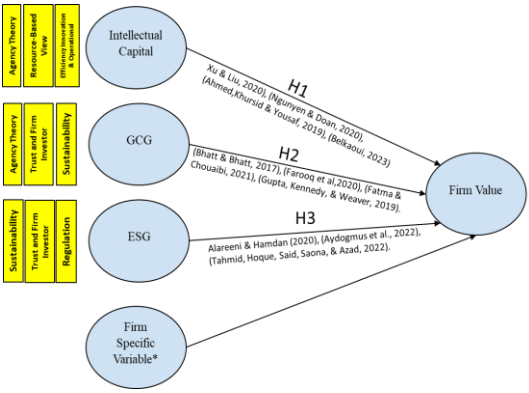

Fig. 1. Research Model

Hypotheses:

H1: Intellectual capital has a significant effect on firm value

H2: Good corporate governance has a significant effect on firm value

H3: ESG has a significant effect on firm value

3 RESEARCH METHOD

3.1 Research Model

The research model employed in this study is causal associative research, aiming to establish relationships between variables including intellectual capital, good corporate governance, and environmental, social, and governance (ESG) factors. With a descriptive method and a quantitative approach, data is collected to analyze people's opinions and numerical data to explain phenomena. The study focuses on publicly traded

companies listed on the Indonesia Stock Exchange that disclosed ESG information from 2020 to 2023. Annual reports, financial data, and ESG scores serve as research data, processed using IBM SPSS 27 Statistics software for analysis. Comparisons with prior studies are made to validate and discuss the findings.

3.2 Population and Sample

This study encompasses 80 publicly traded companies listed on the Indonesia Stock Exchange that disclosed ESG information between 2020 and 2022. Utilizing the entire population, the companies are categorized into 16 industrial sectors, including basic materials, consumer non-cyclical, energy, financials, healthcare, industrials, infrastructures, investment companies, media & entertainment, multi-sector holdings, non-durable household products, property & real estate, retailing, technology, transportation logistics, and transportation infrastructure. Out of the original 80 companies selected as samples, only 77 were included in the analysis. This exclusion was due to four companies conducting initial public offerings (IPOs) after 2020, rendering them ineligible for the sample. These four companies are PT Jayamas Medica Industri Tbk (OMED), PT Bukalapak.com Tbk (BUKA), and PT GoTo Gojek Tokopedia Tbk (GOTO). The research utilizes the entire remaining population and categorizes each based on their size and EAR into 7 models.

Table 1. Model of Data Panel

Model	Total Data	Remaks
Model 1	228	All Data
Model 2	115	Big Size
Model 3	57	Medium Size
Model 4	58	Small Size
Model 5	114	Big EAR
Model 6	57	Medium EAR
Model 7	57	Small EAR

3.3 Data Analysis

The research employs quantitative analysis as its data analysis technique. This approach involves analyzing numerical data and discussing it through statistical tests. Quantitative analysis focuses on testing theories by examining research variables numerically and applying statistical procedures to analyze the data. The methods of data analysis include descriptive statistical tests, classical assumption tests, multiple linear regression tests, and computer-assisted hypothesis testing using SPSS 27.0.

Descriptive statistics refers to statistical methods utilized for analyzing data by presenting or depicting the collected data without aiming to draw universally accepted conclusions or generalizations. The descriptive statistical analysis employed encompasses several measures: firstly, the mean, which denotes the average value of the observed data; secondly, the maximum, representing the highest value observed within

the dataset; thirdly, the minimum, indicating the lowest value observed in the dataset; and finally, the standard deviation, utilized to assess the variability of deviations from the mean value.

The data analysis method employed in this study utilizes panel data, also known as pooled data, resulting in a regression termed a panel data regression model [23]. Panel data integrates information over time (time series) and across individuals or locations (cross-section) [24]. Subsequently, the data underwent processing using statistical tools such as Eviews 13 and Microsoft Office Excel software.

The general model of panel data regression is as follows:

$$FV = \alpha + \beta 1IC + \beta 2ESG + \beta 3GCG + \beta 4SIZE + \beta 5EAR + \varepsilon \quad (1)$$
$$FV = \alpha + \beta 1IC + \beta 2ESG + \beta 3GCG + \beta 4SIZE_{big} + \beta 5EAR + \varepsilon \quad (2)$$
$$FV = \alpha + \beta 1IC + \beta 2ESG + \beta 3GCG + \beta 4SIZE_{middle} + \beta 5EAR + \varepsilon \quad (3)$$
$$FV = \alpha + \beta 1IC + \beta 2ESG + \beta 3GCG + \beta 4SIZE_{small} + \beta 5EAR + \varepsilon \quad (4)$$
$$FV = \alpha + \beta 1IC + \beta 2ESG + \beta 3GCG + \beta 4SIZE + \beta 5EAR_{big} + \varepsilon \quad (5)$$
$$FV = \alpha + \beta 1IC + \beta 2ESG + \beta 3GCG + \beta 4SIZE + \beta 5EAR_{middle} + \varepsilon \quad (6)$$
$$FV = \alpha + \beta 1IC + \beta 2ESG + \beta 3GCG + \beta 4SIZE + \beta 5EAR_{small} + \varepsilon \quad (7)$$

Where:

α	= Constant
FV	= Firm Value
IC	= Intellectual Capital
ESG	= Environmental, Social, & Government
GCG	= Good Corporate Governance
SIZE	= Firm Size
EAR	= Total Equity to Total Asset Ratio
$\beta 1, \beta 2, \beta 3, \beta 4, \beta 5$	= Independent variable coefficient
ε	= error term

Hypotheses Testing

Significance testing is a method utilized to evaluate the validity of hypotheses put forth by researchers. Hypotheses for the T test is Ho (null hypothesis): The independent variable has no effect on the dependent variable, and Ha (alternative hypothesis): The independent variable affects the dependent variable. Decision criteria include: accepting Ho if p-value > 0.05, indicating no effect, and rejecting Ho if p-value < 0.05, indicating an influence.

4 RESULT AND DISCUSSION

4.1 Sample and Procedures

Table 2 Model Description

Model	Total Data	Remaks	Value
Model 1	228	All Data	All Data
Model 2	115	Big Size	31.12 - 35.23

Model 3	57	Medium Size	30.45 - 31.11
Model 4	58	Small Size	26.96 - 30.43
Model 5	114	Big EAR	0.51 - 2.85
Model 6	57	Medium EAR	0.30 - 0.50
Model 7	57	Small EAR	0.04 - 0.29

Based on the information provided in Point 3 (Research Method), the population for this study comprises companies listed on the Indonesia Stock Exchange from 2020 to 2022 and those included in the list of companies receiving ESG ratings on the Indonesia Stock Exchange during the same period, totaling 80 companies. However, six companies underwent an IPO in 2022 and were consequently excluded from the research. Therefore, the final sample consisted of 74 companies listed on the Indonesia Stock Exchange and included in the ESG list from 2020 to 2022. The study adopts seven models: Model 1 utilizes the entire sample, and Model 2 focuses on companies with large sizes, ranging between 31.12 and 35.23. Model 3 includes companies with medium firm sizes, ranging between 30.45 and 31.11. Model 4 comprises companies with small sizes, ranging between 26.96 and 30.43. Models 5, 6, and 7 are based on the equity-to-asset ratio, with Model 5 representing large ratios (0.51-2.85), Model 6 representing medium ratios (0.30-0.50), and Model 7 representing small ratios (0.04-0.29).

Table 3 Statistic Descriptive

	FV	IC	ESG	GCG	SIZE	EAR
Min.	0.10283	-7.877143	11.21000	70.21000	26.95866	0.038686
Max	184.8846	2,954.310	53.10000	98.60000	35.22819	2.852704
Mean	3.607484	39.72153	29.91671	88.95541	31.23397	0.519710
Obs.	222	222	222	222	222	222

Based on the provided data, it is evident that the sampled companies generally exhibit overvalued firm values, with an average Tobin's Q value of 3.61 and notable extremes such as PT Solusi Sinergi Digital Tbk with a minimum value of 0.10 and Bank Jago Tbk with a maximum value of 184.88. Intellectual capital averages at 39.72, showcasing variations like negative values due to losses for companies such as Bank Raya Indonesia Tbk and substantial values indicating competitive advantage, as seen with PT Adaro Minerals Indonesia Tbk. The Environmental, Social, & Governance (ESG) scores have an average of 29.92, ranging from low scores like 11.21 for PT Erajaya Swasembada Tbk to the highest score of 40.00 for PT. Aneka Tambang Tbk, indicating differing performance levels in ESG-related areas. Similarly, Good Corporate Governance (GCG) scores average 88.96, highlighting high trustworthiness among most companies, although variations exist with entities like PT Elang Mahkota Teknologi Tbk classified as fairly trusted. The natural logarithm of total assets reflects an average firm size of 31.23, spanning from small-sized to large-sized companies. Additionally, the equity-to-asset ratio (EAR) averages 0.52, suggesting variations in how assets are funded by equity among companies.

4.2 Data Analysis

In this study, panel data analysis is employed as the data analysis technique. For the model selection test, three tests are utilized: the Chow test, Hausman test, and Lagrange Multiplier test. The outcomes of these model selection tests are as follows:

Chow Test
The Chow test is used to determine which model is better to use, whether the Common Effect Model (CEM) or the Fixed Effect Model (FEM). Following are the Chow test results:

Table 4 Chow Test

Model	Prob.	Decision
Model 1	0.0000	FEM
Model 2	0.0000	FEM
Model 3	0.0000	FEM
Model 4	0.0000	FEM
Model 5	0.0000	FEM
Model 6	0.0000	FEM
Model 7	0.0000	FEM

The table demonstrates that all research models exhibit probability values below 0.1, indicating that the Fixed Effect Model is appropriate for use.

Hausman Test
The subsequent examination is the Hausman test, which aims to determine the superior model between the Fixed Effect Model (FEM) and the Random Effect Model (REM). Below is the table presenting the results of the Hausman test:

Table 5 Chow Test

Model	Prob.	Decision
Model 1	0.0000	FEM
Model 2	0.0000	FEM
Model 3	0.0000	FEM
Model 4	0.0000	FEM
Model 5	0.0000	FEM
Model 6	0.0000	FEM
Model 7	0.0000	FEM

According to the data presented in Table 5, it is observed that models 1, 2, 4, and 6 exhibit probability values exceeding 0.1, indicating the suitability of employing the

Random Effect Model. Conversely, models 3, 5, and 7 display probability values below 0.1, suggesting that the Fixed Effect Model is more appropriate for utilization.

Lagrange Multiplier Test

The subsequent examination is the Lagrange Multiplier test, conducted to determine the appropriate model for implementation, whether it be the Common Effect Model or the Random Effect Model. This assessment was performed solely on models 1, 2, and 6 as indicated by the Hausman test, where these three models were deemed suitable for employing the Random Effect Model. Presented below are the outcomes of the Lagrange Multiplier test:

Table 6. Lagrange Multiplier Test

Model	Breusch-Pagan	Decision
Model 1	0.0000	REM
Model 2	0.0000	REM
Model 4	0.0005	REM
Model 6	0.0001	REM

According to the data presented in the table, the Breusch-Pagan statistic for all three models is less than 0.1, indicating that the Random Effect Model is appropriate for utilization.

Partial Test

Table 7. Partial Test

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
				Sig.			
IC	**0,056**	3,631	1,973	**0,599**	5,969	**0,000**	4,065
GCG	**0,495**	6,074	6,002	3,092	1,631	1,822	4,231
ESG	6,767	2,799	6,708	2,577	3,008	5,782	3,284
Firm Size	0,001	5,694	2,698	2,747	0,007	1,469	1,081
Equity to Asset	5,380	3,510	3,583	0,626	0,972	3,788	1,842

In Model 1, the hypothesis examines the impact of Intellectual Capital, Good Corporate Governance, and Environmental, Social, & Governance (ESG) on Firm Value. Results indicate that Intellectual Capital and Good Corporate Governance significantly affect Firm Value, with significance values below 0.1. However, ESG does not exhibit a significant influence, as its significance value exceeds 0.1. In Model 2, the hypothesis investigates the influence of Intellectual Capital, Good Corporate Governance, and ESG on Firm Value. Findings reveal that Intellectual Capital lacks a significant impact

on Firm Value, with a significance value exceeding 0.1. Conversely, Good Corporate Governance significantly influences Firm Value, with a significance value below 0.1. Similarly, ESG does not demonstrate a significant influence on Firm Value. In Model 3, the hypothesis explores the effect of Intellectual Capital, Good Corporate Governance, and ESG on Firm Value. Results indicate that none of the variables—Intellectual Capital, Good Corporate Governance, or ESG—significantly affect Firm Value, as their significance values surpass 0.1. In Model 4, the hypothesis examines the impact of Intellectual Capital, Good Corporate Governance, and ESG on Firm Value. Findings reveal that Intellectual Capital significantly influences Firm Value, with a significance value below 0.1. However, neither Good Corporate Governance nor ESG exhibits a significant influence on Firm Value. In Model 5, the hypothesis assesses the influence of Intellectual Capital, Good Corporate Governance, and ESG on Firm Value. Results indicate that none of these variables significantly affect Firm Value, as their significance values exceed 0.1. In Model 6, the hypothesis investigates the effect of Intellectual Capital, Good Corporate Governance, and ESG on Firm Value. Findings demonstrate that Intellectual Capital significantly impacts Firm Value, with a significance value below 0.1. However, neither Good Corporate Governance nor ESG shows a significant influence on Firm Value. In Model 7, the hypothesis examines the influence of Intellectual Capital, Good Corporate Governance, and ESG on Firm Value. Results indicate that none of these variables—Intellectual Capital, Good Corporate Governance, or ESG—significantly affect Firm Value, as their significance values surpass 0.1.

Table 8 Summary of Research Result

Variables	1	2	3	4	5	6	7
IC	✓	×	×	✓	×	✓	×
GCG	✓	×	×	×	×	×	×
ESG	×	×	×	×	×	×	×
Firm Size	×	×	×	×	✓	×	×
Equity to Asset	×	×	×	✓	×	×	×

According to the data processed using Eviews 13 (2023) on Table 8, an overview of the research findings reveals that in models 2, 3, and 7, it was observed that intellectual capital, ESG (Environmental, Social, and Governance), GCG (Good Corporate Governance), firm size, and equity to asset ratio do not yield a significant impact on firm value. Consequently, hypotheses 2, 3, and 7 were not supported.

In contrast, in Model 1, it was discovered that intellectual capital and ESG indeed exert a significant influence on firm value, leading to the acceptance of hypotheses 1 and 2. However, GCG, firm size, and the equity-to-asset ratio failed to demonstrate a significant impact on firm value, resulting in the rejection of hypothesis 3. Similarly, in Model 4, it was found that intellectual capital and the equity-to-asset ratio significantly affect firm value, confirming the acceptance of hypothesis 1. Conversely, ESG, GCG, and firm size did not exhibit a significant impact on firm value, thus rejecting hypotheses related to these variables. Model 5, it was observed that intellectual capital, ESG, GCG, and the equity to asset ratio did not yield a significant effect on firm value.

However, firm size emerged as a significant determinant of firm value, leading to the rejection of hypotheses 1, 2, and 3. Lastly, in Model 6, it was revealed that intellectual capital indeed has a significant impact on firm value, supporting hypothesis 1. Conversely, ESG, GCG, firm size, and the equity-to-asset ratio did not demonstrate a significant effect on firm value, resulting in the rejection of hypotheses 2 and 3.

Table 9 Summary of Research Result

Hypotheses	Path	Variable	Hypotheses Statement	Hypotheses Testing Result
H1	IC → FV	Intellectual Capital	Intellectual capital has a significant effect on firm value	Intellectual capital has a positive value and significant effect on firm value H1 accepted and significant 0,056%
H2	GCG → FV	Good Corporate Government	Good Corporate Government has a significant effect on firm value	Good Corporate Government has a positive value and significant effect on firm value H2 accepted and significant 0,0071%
H3	ESG → FV	Environment Sosial Government	Environment Sosial Government has a significant effect on firm value	Environment Sosial Government has not a positive value and not significant effect on firm value H3 rejected.

4.3 Discussion

The research highlights the significant role of intellectual capital (IC) in influencing firm value, as supported by several studies [25], [26]. It delves into components like Human Capital Efficiency (HCE), Structural Capital Efficiency (SCE), and Capital Employed Efficiency (CEE), revealing their contributions to firm value. HCE analysis involves calculating value-added by human capital, emphasizing factors like operating profit and labor productivity. SCE reflects a company's management of intangible assets for innovation and growth, while CEE focuses on leveraging structures and technology for value addition. These factors drive operational efficiency and firm value [27].

The results of this research confirm that good corporate governance (GCG) has a significant positive influence on company value, in line with previous findings by [28], [29]. This research also reveals the importance of investors' consideration of governance mechanisms in making investment decisions. The 2018 IDX Guidelines version 2.0 identifies several main GCG factors influencing investors' share purchase decisions in Indonesia. These include disclosure and transparency, accountability, internal control and risk management, legal and regulatory compliance, commitment to stakeholders, evaluation of the board of directors, business integrity and ethics, as well as capital

structure and shareholder protection. Overall, GCG practices in Indonesia are not only a regulatory obligation, but also a strategic focus for companies in attracting investors. The symbiotic relationship between effective governance and increasing corporate value is proof of the importance of strong and sustainable governance practices.

The study's findings reveal that ESG does not impact firm value across all models examined, contrary to research that demonstrated a significant effect of ESG on firm value [9], [30], [31]. This study concludes that the ESG scores assigned to companies listed on the Indonesia Stock Exchange do not influence their firm value fluctuations. Consequently, investor decisions are not swayed by ESG considerations, reflecting the minimal impact of ESG implementation on firm value. The large companies included in the Indonesia Stock Exchange's ESG index primarily derive their high firm value from their established reputations rather than ESG considerations. Additionally, challenges in the ESG index assessment, such as sectoral generalizations and high implementation costs, contribute to the lack of investor confidence in ESG's financial impact. Furthermore, the ESG index calculation's reliance on market capitalization rather than environmental benefits further diminishes its perceived value in increasing firm value. Overall, the study suggests a lack of awareness and standardization in ESG disclosure practices, hindering its ability to enhance firm value.

5 CONCLUSION AND RECOMMENDATION

5.1 Conclusion

Based on the research results, several interesting findings were found. First, there is a significant relationship between Intellectual Capital (IC) and Enterprise Value in ESG-leading companies on IDX. Effective investment in the development of intellectual resources such as human capital, organizational structure and assets has a significant impact in increasing company value. Second, the implementation of Good Corporate Governance (GCG) also contributes significantly to increasing Company Value in ESG-leading companies on IDX. Strong implementation of GCG, supported by transparency, accountability, and focus on stakeholder interests, plays an important role in increasing Company Value. However, the findings also show that environmental, social, and governance (ESG) factors have no correlation with Enterprise Value in ESG-leading companies on IDX. However, Intellectual Capital management and the implementation of Good Corporate Governance play an important role in increasing Company Value. In conclusion, although ESG is the main focus of corporate social responsibility, environmental, social and governance factors do not show a direct influence in increasing Corporate Value in ESG-leading companies. Further studies may be needed to explore the interaction and implications of ESG factors on Corporate Value in a broader context, considering that its implementation has only been running for three years at IDX.

5.2 Recommendation

Subsequent studies may delve into the intricacies of asset management, human capital, and structural efficiency, employing surveys to investigate dimensions of GCG and ESG for establishing causal relationships. Moreover, extending the duration of this

research while maintaining the same methodology could unveil any significant disparities in outcomes over time. This approach would facilitate an evaluation of the practical implications of these findings. Finally, as suggested in the results section, incorporating additional environmentally focused variables could enhance the comprehensive framework for future investigations.

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