

CORPORATE GOVERNANCE AND COMPANY VALUE: AN INVESTIGATION INTO THE ROLE OF ACGS SCORE

Kevin Chanry, Sylviana Maya Damayanti, Uke Marius Siahaan
Program Studi Magister Administrasi Bisnis, Institut Teknologi Bandung
Email : kevin.chanry@gmail.com, sylvianamaya@sbm-itb.ac.id,
ukesiahaan@sbm.itb.ac.id,

Abstract

This study investigates the complex relationships between Good Corporate Governance (GCG) scoring, specifically the ASEAN Corporate Governance Scorecard (ACGS) score and company value. The ACGS score, a standardized measure of corporate governance, is used to assess the performance of publicly traded companies in Indonesia from 2017 to 2020. The study reveals a significant negative impact of the ACGS score on firm value, suggesting that while the ACGS score provides a standardized measure of corporate governance, it may not fully capture the nuances of individual company practices. The checkbox-based nature of the ACGS score might be seen as a mere compliance requirement rather than a true reflection of the company's corporate governance performance. However, when control variables are introduced, the effect of the ACGS score on firm value weakens and becomes insignificant. This suggests that the firm value is influenced more by financial performance compared to corporate governance performance. The study concludes that while the ACGS score can provide some insights into a company's corporate governance performance, its impact on firm value can be overshadowed by other factors. Therefore, a comprehensive approach that considers various control variables is necessary to accurately assess firm value.

Keywords: *Corporate Governance; ACGS Score, Agency Problems; Firm Value; Financial Performance*

Abstrak

Studi ini menyelidiki hubungan yang kompleks antara kinerja Good Corporate Governance (GCG), khususnya melalui skor ASEAN Corporate Governance Scorecard (ACGS) dan nilai perusahaan. Skor ACGS, suatu ukuran standar dari tata kelola perusahaan, digunakan untuk menilai kinerja perusahaan yang diperdagangkan secara publik di Indonesia dari tahun 2017 hingga 2020. Studi ini mengungkapkan dampak negatif yang signifikan dari skor ACGS terhadap nilai perusahaan, menunjukkan bahwa meskipun skor ACGS memberikan ukuran standar dari tata kelola perusahaan, namun tidak sepenuhnya menangkap nuansa praktik perusahaan. Dasar penilaian dengan model kotak centang dari skor ACGS mungkin dilihat sebagai persyaratan kepatuhan semata bukan refleksi sejati dari kinerja tata kelola perusahaan perusahaan. Namun, ketika variabel kontrol diperkenalkan, pengaruh skor ACGS terhadap nilai perusahaan melemah dan

menjadi tidak signifikan. Hal ini menunjukkan bahwa nilai perusahaan lebih dipengaruhi oleh kinerja finansial dibandingkan dengan kinerja tata kelola perusahaan. Studi ini menyimpulkan bahwa meskipun skor ACGS dapat memberikan beberapa wawasan tentang kinerja tata kelola perusahaan suatu perusahaan, dampaknya terhadap nilai perusahaan bisa ditutupi oleh faktor lain. Oleh karena itu, pendekatan yang komprehensif yang mempertimbangkan berbagai variabel kontrol diperlukan untuk menilai nilai perusahaan dengan akurat.

Kata kunci: Tata Kelola Perusahaan; Skor ACGS; Masalah Agensi; Nilai Perusahaan; Kinerja Finansial

1. INTRODUCTION

Corporate governance has gained significant attention from regulators and investors in the Asia-Pacific region since the late 1990s. This scrutiny can be attributed to the identification of corporate governance as a crucial factor that contributed to the Asian Financial Crisis in 1997. The recognition of corporate governance's role in the crisis has underscored the need for improved practices in the region (Zhuang et al., 2001).

Capital market regulators in East Asia have been advocating for significant corporate governance reforms in the region. However, there have been challenges to reform or enhance corporate governance practices, primarily due to resistance and indifference from managers and company owners. These stakeholders argue that the costs of adopting good corporate governance practices outweigh the resulting benefits (Kim et al., 2012; Wei & Yermack, 2011). Furthermore, investors in the region may not fully appreciate or differentiate among firms in terms of the quality of corporate governance practices, making it difficult to reward firms that improve their governance practices (Buchanan et al., 2015; Kim et al., 2012).

Corporate governance has also received increasing attention in Indonesia, with a specific focus on enhancing the quality of corporate governance practices among firms. The Indonesian government has taken initiatives such as establishing the Indonesia Stock Exchange (IDX) Corporate Governance Guidelines in 2012 and the Financial Services Authority (OJK) Corporate Governance Roadmap 2014-2019 to improve transparency, accountability, and fairness in listed companies (Baysinger & Hoskisson, 2019; Ghozali, 2018; Tarazi & Trinugroho, 2018).

In recent years, corporate governance has become a crucial issue in Indonesia and other countries in the Asia-Pacific region. Regulators, investors, and academics emphasize the importance of good governance practices, arguing that they are essential for enhancing transparency, accountability, and fairness in business operations. However, resistance from managers and company owners, lack of awareness among investors, and weak enforcement mechanisms present significant challenges in implementing and enforcing these practices (Kim et al., 2012; Wei & Yermack, 2011).

Empirical studies have examined the relationship between corporate governance and firm performance in the Indonesian context. Some studies have found a positive relationship between corporate governance practices and firm performance, suggesting that companies with good governance practices tend to have better financial performance (Lukas & Basuki, 2015). However, other studies have yielded mixed or inconclusive results, highlighting the need for further research to understand the complex relationship between governance and performance (Budiman et al., 2017; Yuliwati & Firmansyah, 2018).

Shleifer & Vishny (1997) posit that robust corporate governance serves as an assurance for investors, promising them a satisfactory return on their investments. Globalization and internationalization have also had an impact on corporate governance practices in Indonesia and the Asia-Pacific region, with the increasing presence of foreign investors and multinational corporations leading to greater awareness and adoption of global standards and practices (Nwankwo et al., 2018; Yigitbasioglu & Velamuri, 2018).

A fundamental question for businesses today is whether good governance practices can lead to improved firm value. For this study, firm value' will be assessed based on Tobin's Q - a commonly used indicator of public perception of a firm's net worth. While some studies, such as Gompers et al. (2003) and Black et al. (2006), have found a positive relationship between improved governance practices and increased market valuation, others like Bhagat et al. (2008) suggest the costs of implementing good governance practices may overshadow the benefits. Additionally, the unique characteristics of the Indonesian market, such as concentrated ownership and family control, may curtail the effectiveness of shareholder activism in promoting good governance practices as highlighted by Claessens & Fan (2002).

Given these complexities, there's a pressing need to understand the intricate relationship between governance practices and firm value in the Indonesian context. This thesis aims to delve into the impact of Good Corporate Governance (GCG) performance, as measured by the ASEAN Corporate Governance Scorecard (ACGS), on firm value. While the ACGS may not fully encapsulate the entirety of a company's GCG, it is a widely utilized tool that provides a valuable perspective. Therefore, it is crucial to investigate the correlation between ACGS score and firm value, as measured by Tobin's Q. By conducting this examination, this research seeks to uncover the challenges and opportunities present in promoting good

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1 Good Corporate Governance

Good Corporate Governance (GCG) plays a pivotal role in shaping the success of companies and potentially their market valuation. It is a system, process, and set of regulations that govern relationships among various stakeholders within a company, including shareholders, board of commissioners, and board of directors (Sedarmayanti et al., 2020). This study aims to explore the potential relationship

between GCG, as measured by the ASEAN Corporate Governance Scorecard (ACGS), and company valuation, particularly in the Indonesian context

With the evolution of corporate governance theories over time, the importance of GCG in a company's success has become increasingly clear. Not only does GCG facilitate effective oversight, but it also enables companies to utilize resources efficiently, providing the right incentives for high-ranking officials and management to align with the goals of shareholders and stakeholders.

Regulations such as Law No. 40 of 2007 on Limited Liability Companies and POJK No. 21 / POJK.04 / 2015 mandate public companies to disclose GCG information in their annual reports and to comply with guidelines that govern different aspects of corporate governance. These guidelines encompass five aspects, eight principles, and twenty-five recommendations (Ferriyanto & Ghozali, 2021; Suryawan, 2018).

Furthermore, in line with ASEAN community initiatives on Corporate Governance, Indonesia has adopted the ACGS as an evaluation tool for assessing the quality of GCG implementation. This tool not only aligns Indonesia with regional governance practices but also presents an alternative measure to re-evaluate the effectiveness of GCG, particularly after the global financial crisis that raised questions about the GCG's capacity to deliver its intended benefits (Siddiqui, 2014).

2.2. GCG & Asean Corporate Governance Scorecard (ACGS)

Effective corporate governance is critical for fostering investor confidence and driving economic growth (Shleifer & Vishny, 1997). However, assessing the quality of corporate governance in firms can be a complex task. One approach that has gained prominence is the use of corporate governance scorecards. These are evaluation tools that measure a company's adherence to established corporate governance principles and practices (Arora & Bodhanwala, 2018).

One such scorecard is the ASEAN Corporate Governance Scorecard (ACGS). Developed to assess corporate governance performance of publicly listed companies (PLCs) in six participating ASEAN member countries, the ACGS provides a rigorous methodology benchmarked against international best practice, including the Organisation for Economic Co-operation and Development's (OECD) principles of corporate governance (OECD, 2015).

The ACGS plays a pivotal role in the investment decision-making process of foreign investors and external fund managers, by providing comparable information about the corporate governance of PLCs across ASEAN (ADB, 2014). Moreover, it assures foreign investors that the region prioritizes robust corporate governance. This assurance is crucial given the historical context of the Southeast Asian financial crisis in 1997, which vividly demonstrated the negative impact of poor corporate governance on investor confidence and foreign investment levels (Claessens, Djankov, & Lang, 2000).

In Indonesia, the adoption of the ACGS is part of a broader process of corporate governance reform. Recognizing the need to align with international best practices, the country has developed a corporate governance roadmap based on OECD's

principles, covering areas such as the corporate governance framework, protection of shareholder rights, role of stakeholders, disclosure and transparency, and board responsibilities (Suryanto, 2016).

Since the development of this roadmap, the Financial Services Authority (OJK) has issued new regulations and amendments to existing ones to comply with international standards, including the ACGS. This scorecard is used to measure improvements in the implementation of corporate governance in Indonesia and gauge the impact of corporate governance reforms (Ramli & Setiany, 2011).

However, the implementation of good corporate governance in Indonesia is still a work in progress. According to the OJK's 2017 assessment, Indonesia was behind Thailand, the Philippines, Singapore, and Malaysia in terms of GCG implementation (OJK, 2017). The Asian Corporate Governance Association (ACGA) echoed these findings in their 2018 report, ranking Indonesia 12th with a score of 34, trailing behind the Philippines (ACGA, 2018)

H1. The ACGS Score has a positive influence on Firm Value

Table 1 - 2018 Corporate Governance Score Rankings

ACGA Market CG Score		
Market	Total (%)	Key CG reform themes and questions
1 Australia	71	Bank governance needs overhaul, time for a federal ICAC
2 HongKong	60	Going backwards on DCS, about to go forwards on audit regulation
3 Singapore	59	Going backwards on DCS, reform direction reflects contradictory idea
4 Malaysia	58	Can new government rid the system of corruption and cronyism?
5 Taiwan	56	Moving forward, yet piecemeal reforms hinder progress
6 Thailand	55	Moving forward, yet corruption and decline in press freedom are concerns
7 India	54	Bank governance needs overhaul, new audit regulator disappoints
8 Japan	54	Heavy focus on soft law needs to be balanced with hard law reforms
9 Korea	36	Stewardship code gaining traction, but sadly so in DCS
10 China	41	Reinforcement of Party Committees raises numerous questions
11 Philippines	37	CG reform low on the government's priorities, direction unclear
12 Indonesia	34	CG reform low on the government's priorities, direction unclear

2.3. Asymmetric Information & Agency Theory

The foundations of good corporate governance (GCG) lie in the principles of agency theory and the issue of asymmetric information. Agency theory is predicated on the idea that in modern corporations, ownership and control are often separated, leading to potential conflicts of interest between owners (shareholders) and managers (agents) (Jensen & Meckling, 1976). This separation of ownership and control could lead to asymmetric information, where managers may possess

more or better information about the state of the corporation than the shareholders, which could lead to agency problems (Eisenhardt, 1989).

Shareholders delegate the management of the corporation to professionals who have a superior understanding of the business (Sutedi, 2012). However, this delegation creates an environment in which managers, acting as agents for shareholders, might act in their own best interests rather than those of the shareholders. GCG mechanisms are designed to mitigate such agency problems by aligning the interests of managers with those of shareholders (Zarkasyi, 2008). Therefore, the primary goal of GCG is to ensure that managerial actions are directed toward enhancing the company's sustainable performance, thereby increasing the company's value and protecting the interests of all stakeholders (Widyasari, 2013).

By providing more information than what is required by the regulatory body, the issue of information asymmetry between management and external parties can be mitigated. This practice of corporate responsibility towards stakeholders is advantageous and beneficial for the company as it enhances both financial and non-financial performance (Mishra & Suar, 2010). Companies that excel in voluntary disclosure tend to have a positive image, which ultimately improves firm performance (Adel, Hussain, Mohamed, & Basuony, 2019). They also experience higher stock returns, thereby increasing value (Abdelfattah & Aboud, 2020).

By implementing GCG, corporations seek to establish a system of checks and balances that address these agency problems and reduce the level of asymmetric information. For instance, a well-structured board of directors, clear ownership structure, and robust auditing process are all components of good governance that help ensure management accountability and transparency (Shleifer & Vishny, 1997). These practices allow shareholders and other stakeholders to have a clearer view of the company's performance and decision-making process, reducing information asymmetry and the potential for agency conflict.

In the context of company valuation, the existence of good corporate governance can play a significant role. When companies are transparent and adhere to established governance practices, they reduce the risk and uncertainty that come with agency conflicts and information asymmetry. This can enhance investor confidence, potentially leading to a higher valuation of the company. As suggested by (Purbopangestu & Subowo, 2014), a strong corporate governance structure can increase company value. The premise is that better governed firms are more likely to make decisions that maximize shareholder value, thereby leading to higher firm valuation (Gompers, Ishii, & Metrick, 2003)

2.4. Firm Valuation

The concept of corporate valuation revolves around estimating the economic value of a company, often based on its current and future earning capacity, assets, and market positioning. Multiple methodologies exist for firm valuation, including the Discounted Cash Flow (DCF) model, Price/Earnings (P/E) multiples, and others (Damodaran, 2012). In the context of this thesis, we will primarily focus on Tobin's Q as a measure of corporate value.

Tobin's Q, a ratio developed by Nobel laureate James Tobin, is a significant indicator of a company's market value relative to the replacement cost of its assets. It is calculated as the market value of a corporate (the current share price multiplied by the total number of outstanding shares) divided by the replacement cost of the corporate's assets. A Tobin's Q ratio greater than 1 suggests that the market values the corporate at more than the cost of its assets, which could be due to factors like the corporate's intangible assets, future growth potential, or market sentiment. Conversely, a Tobin's Q ratio less than 1 could indicate that the firm is undervalued or facing challenges.

Good Corporate Governance (GCG) can play an essential role in corporate valuation. High governance standards are believed to promote efficiency, reduce risk, and, consequently, potentially enhance firm value (Gompers, Ishii, & Metrick, 2003). Well-governed corporate are often associated with better financial performance, more accurate and timely information disclosure, and overall higher trust from investors, which can translate into higher company valuation (Bhagat, Bolton, & Romano, 2008).

It is important to mention that the perception of corporate value can also be influenced by the company's engagement in activities beyond financial performance, such as Corporate Social Responsibility (CSR). (Hadi, 2011) and (Purbopangestu & Subowo, 2014) argued that effective CSR can increase a company's value by improving its reputation and relationship with stakeholders, suggesting an additional link between corporate behavior, governance, and valuation.

H2. Both the ACGS Score and Financial Performance have a positive influence on Firm Value

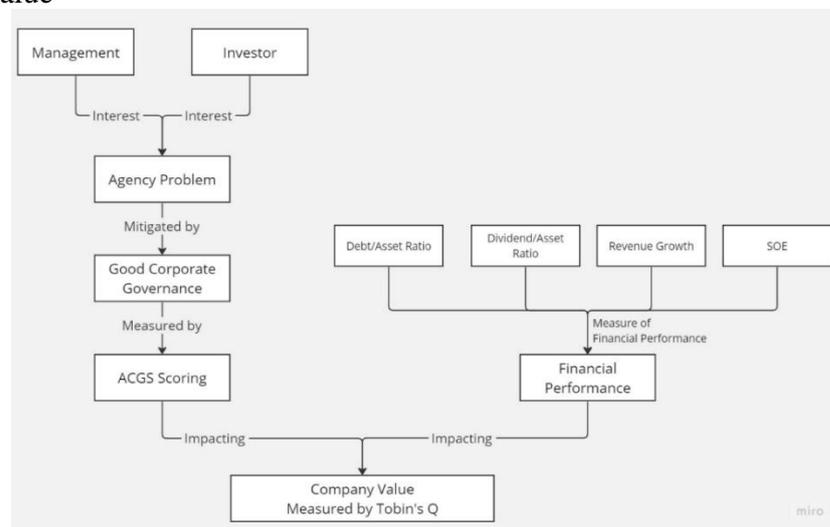


Figure 1 - Conceptual Framework

* Corresponding author's e-mail: kevin.chanry@gmail.com
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3. RESEARCH METHOD

The research design for this study is shaped around a quantitative approach, specifically employing a moderated regression analysis within a repeated cross-sectional design framework. This choice is driven by the study's main objective: to investigate the potential relationship between Good Corporate Governance (GCG), as indicated by the ASEAN Corporate Governance Scorecard (ACGS) score, and company value measured by Tobin's Q, while considering the moderating variable.

The moderated regression analysis allows for the examination of how the relationship between GCG and company value changes under the influence of the moderating variable. This approach provides a more nuanced understanding of the dynamics between these variables. The repeated cross-sectional design, on the other hand, involves collecting data at multiple points in time, but from different samples within the same population. This design is particularly useful for observing changes over time and can provide a more robust understanding of the relationship between GCG, company value, and the moderating variable.

In this study, the variables under consideration include an independent variable, a dependent variable, a moderating variable, and control variables. The ACGS score acts as the independent variable, offering a quantifiable measure of GCG in Indonesian companies. Meanwhile, the dependent variable is the company value, proxied by the Tobin's Q. The moderating variable, which will be specified based on the research context, is introduced to examine its influence on the relationship between the ACGS score and company value.

In addition to these, control variables are introduced into the study to account for other factors that may potentially influence company value. These include Debt to Asset ratio, Dividend % to Total Asset, Revenue Growth, and a binary variable indicating whether the company is a state-owned enterprise or not. Incorporating these control variables can help ensure that the observed relationship between the ACGS score and company value is not confounded by these additional factors.

The study adopts a cross-sectional design, analyzing each year individually due to the varying samples available for different years. Cross-sectional studies are prevalent in financial research as they offer a snapshot of the variables at a specific point in time. In this context, a cross-sectional design provides the advantage of accommodating the dynamic nature of the Indonesian public companies that comprise the study's sample.

While the time-series analysis could provide insights into the long-term trends and evolution of corporate governance practices, the focus of this study is to examine the concurrent relationship between ACGS scores and company values within specific years. This approach allows the study to handle the potential variability in the sample composition across different years, thereby catering to the uniqueness of each year's data.

Overall, the chosen quantitative, moderated regression analysis within a repeated cross-sectional research design is suitable for this study as it aligns with the research objectives and the nature of the available data. By facilitating a robust statistical examination of the data, this research design supports the study's aim to

contribute to the understanding of the relationship between corporate governance and firm value in the context of Indonesian publicly traded companies.

The primary sources of data for this research are archival, deriving from the ASEAN Corporate Governance Scorecard (ACGS) records maintained by the Indonesian Institute for Corporate Directorship (IICD), and financial databases like Bloomberg.

The ACGS scores (CG_SCORE) serve as the independent variable, reflecting the quality of corporate governance practices of publicly traded companies in Indonesia. These scores are obtained from the IICD, a reputable and independent organization that evaluates corporate governance practices among Indonesian firms.

The ACGS scoring system used by the IICD is comprehensive and thorough. It is based on two levels of assessment. The first level includes five sections, each addressing a different aspect of corporate governance:

- **Rights of Shareholders:** This section covers basic shareholder rights, rights related to significant corporate decisions, the right to participate and vote in general shareholder meetings, the function of markets for corporate control, and the facilitation of ownership rights by all shareholders.
- **Equitable Treatment of Shareholders:** This includes shares and voting rights, notice of AGM, prohibition of insider trading and abusive self-dealing, related party transactions by directors and key executives, and protection of minority shareholders.
- **Role of Stakeholders:** Covers the rights of stakeholders, mechanisms for employee participation, and the communication of concerns about illegal or unethical practices.
- **Disclosure and Transparency:** Covers transparent ownership structure, quality of annual reports, disclosure of related party transactions, directors and commissioners' dealings in shares, external auditor and auditor report, medium of communications, timely filing of reports, company website, and investor relations.
- **Responsibilities of the Board:** Encompasses board duties and responsibilities, board structure, board processes, people on the board, and board performance

Table 2 - ACGS (Composition & Structure of Level 1)

Components	Number of Items	Weightage (%)
Part A: Rights of Shareholders	25	10%
Part B: Equitable Treatment of Shareholders	17	15%
Part C: Roles of Stakeholders	21	10%
Part D: Disclosure and Transparency	41	25%
Part E: Responsibilities of the Board	75	40%
Total	179	100%

The second level of assessment involves additional points awarded for additional reporting. This comprehensive scoring system allows for a nuanced understanding of the governance practices of Indonesian companies.

On the other hand, the dependent variable, company value, is represented by Tobin's Q (TOBINS_Q). Tobin's Q, as a ratio of a firm's market value to its book value, reflects the market's expectation of a firm's growth potential and its intangible assets. It is often used as a measure of a firm's investment opportunities and the efficiency of its investment decisions. A higher Tobin's Q suggests that the market perceives the firm to have valuable growth opportunities or efficient investment strategies, which can lead to higher firm value in the future (Yermack, 1996).

In terms of the control variables, they are included in the model because they are known to influence firm value. Debt to Asset ratio (DEBT_TO_ASSET), Dividend paid to Total Asset (DIVIDEND), Revenue Growth (REV_GROWTH), and Firm Ownership (SOE) are all important financial indicators that can affect a firm's profitability, risk level, and growth potential, thereby influencing its value. For instance, a firm with a high Debt to Asset ratio may be perceived as riskier, which could lower its value. Conversely, a firm with high Revenue Growth may be seen as having strong growth potential, which could increase its value (Moeller, Schlingemann, & Stulz, 2005); (Masulis, Wang, & Xie, 2007).

The study will focus on publicly traded companies in Indonesia for which both ACGS scores information are available. This ensures the completeness and appropriateness of the data, allowing the research to provide a robust answer to the research question. The time period for the analysis will be defined based on the availability of data.

The data collection methods for this study are designed to gather accurate, reliable, and comprehensive data that directly answer the research question. This approach, combining the ACGS scores from the IICD with financial data from Bloomberg, will provide a rich and detailed dataset, ensuring the study's findings are robust and meaningful.

The concept of corporate valuation revolves around estimating the economic value of a company, often based on its current and future earning capacity, assets, and market positioning. Multiple methodologies exist for firm valuation, including the Discounted Cash Flow (DCF) model, Price/Earnings (P/E) multiples, and others (Damodaran, 2012). In the context of this thesis, we will primarily focus on Tobin's Q as a measure of corporate value.

Table 3 - Definition of Variables

Variables	Definition
<i>Firm Value measure</i>	
TOBINS_Q	Tobin's Q defined as the ratio of the market value of the firm's equity and debt to replacement cost of capital stock
<i>CG Performance measure</i>	
CG_SCORE	ASEAN Corporate Governance Scorecard (ACGS) score, reflecting the quality of corporate governance practices of publicly traded companies in Indonesia. It is a comprehensive score based on a firm's adherence to standards and practices of corporate governance.
<i>Control Variable</i>	

* Corresponding author's e-mail: kevin.chanry@gmail.com
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DEBT_TO_ASSET	A ratio that measures the extent to which borrowed funds support the firm's assets. It indicates the financial risk of a firm, with a higher ratio suggesting higher risk.
DIVIDEND	The amount of dividends paid to shareholders compared to total asset. It reflects a firm's profitability and its policy of returning profits to shareholders.
REV_GROWTH	The percentage change in a firm's revenue from one period to the next, indicating the firm's growth potential.
SOE	Dummy variable for state-owned enterprise (SOE). It takes value of one if the firm is state-owned and otherwise zero.

The analytical approach for this research will employ a moderated regression analysis within a repeated cross-sectional framework. This method involves conducting separate regression analyses for each stage of the study. The first stage involves running a regression with the ACGS score (independent variable) and Tobin's Q (dependent variable) directly. The second stage introduces control variables into the regression model. This approach is particularly useful when the impact of the independent variable on the dependent variable may be influenced by the introduction of control and moderating variables.

Moderated regression analysis allows for the observation of changes in the relationship between the ACGS score and firm value with the introduction of control and moderating variables. This method provides a snapshot of the relationship between corporate governance scores and firm value at different stages, offering insights into how this relationship may be influenced by other factors.

This approach is advantageous for several reasons. Firstly, it allows for the inclusion of a larger number of companies in the analysis, enhancing the generalizability of the findings. Secondly, it enables the examination of changes in the relationship between corporate governance scores and firm value with the introduction of control variables, providing insights into potential trends or shifts.

The data analysis method for this research will be enhanced by the introduction of two regression models, each with a different measure of company value as the dependent variable. This approach is designed to provide a more comprehensive understanding of the relationship between corporate governance scores and firm value.

The first model is:

$$TOBINS_Q = \beta_0 + \beta_1CG_SCORE + \varepsilon$$

In this model, Tobin's Q serves as the dependent variable. It is a widely used measure of firm value in empirical corporate finance research, as it captures the market's expectation of a firm's growth potential and profitability.

The second model is:

$$TOBINS_Q = \beta_0 + \beta_1CG_SCORE + \beta_2CONTROL_VARIABLES + \varepsilon$$

In this model, Tobin's Q is still the dependent variable, but now we introduce control variables into the equation. The control variables represent other factors that may influence firm value, such as debt to asset ratio, dividend payout, revenue growth, and state ownership. By introducing these variables, we can examine how

the relationship between the ACGS score and Tobin's Q is influenced when these factors are taken into account.

The use of two different regression models in these stages allows for a more nuanced understanding of firm value. While Tobin's Q aims to measure firm value, the introduction of control and moderating variables provides a different perspective and may yield different insights. This approach is supported by the research of Baron & Kenny (1986), who introduced the concept of mediator and moderator variables in understanding the relationship between independent and dependent variables.

The diagram on Figure 2 explains the process of analysing method. The process starts with data collection where author gather ACGS Score, Financial Performance, and Firm Value. This data is then pre-processed to clean and prepare it for analysis. The cleaned and processed data is then subjected to sequential regression analysis. Two models are used in this analysis. The first model is $TOBINS_Q = \beta_0 + \beta_1ACGS + \epsilon$ and the second model is $TOBINS_Q = \beta_0 + \beta_1ACGS + \beta_2CONTROL_VARIABLES + \epsilon$. The results from these models are then interpreted to draw conclusions.

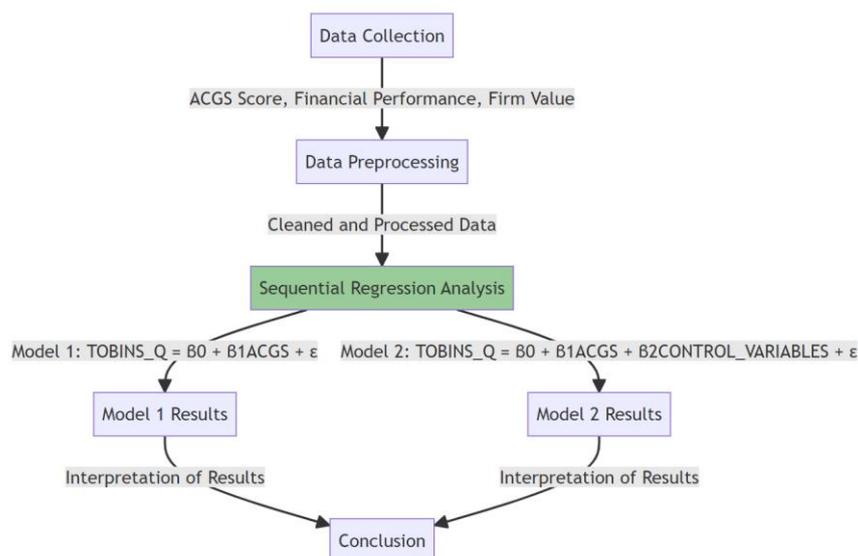


Figure 2 - Data Analysis Method

4. ANALYSIS AND RESULT

The dataset under study spans four years, from 2017 to 2020, and encompasses an increasing number of companies each year, starting from 100 in 2017 and reaching 200 by 2020.

In terms of firm value measures, Table 4 shows that there are observable trends over the years. Tobin's Q, which is a ratio comparing the market value of a company to its asset value, has shown an overall increase. The mean value rose from 1.786 in 2017 to 2.464 in 2020. This trend suggests that the market value of these companies has been growing faster than the value of their assets. Similarly, the median values also demonstrated a consistent upward trend.

* Corresponding author's e-mail: kevin.chanry@gmail.com
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Turning to the measure of corporate governance performance, the Corporate Governance (CG or ACGS) scores, there was a consistent improvement over the years. Both the mean and median CG scores increased from 2017 to 2020. This trend suggests that the companies in the study have been enhancing their corporate governance practices over time.

The control variables in the study, which include Debt to Asset ratio, Dividend, Revenue Growth, and a binary variable indicating whether the company is a state-owned enterprise (SOE), showed varied trends. The mean Debt to Asset ratio increased significantly from 54.331 in 2017 to 70.311 in 2020, indicating an increase in the companies' leverage. However, the median values remained relatively stable, suggesting that the increase in leverage might be driven by a subset of companies.

Table 4 - Descriptive Analysis

Variables	2017		2018		2019		2020	
	<i>n</i> = 100		<i>n</i> = 199		<i>n</i> = 199		<i>n</i> = 200	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
<i>Firm Value measure</i>								
TOBINS_Q	1.786	1.183	2.598	1.256	2.138	1.234	2.464	1.270
<i>CG Performance measure</i>								
CG_SCORE	63.057	63.152	67.872	66.926	68.071	66.979	69.564	67.887
<i>Control Variable</i>								
DEBT_TO_ASSET	54.331	52.170	62.063	52.980	51.535	50.740	70.311	50.740
DIVIDEND	1.547	0.130	2.071	1.000	2.279	0.750	1.503	0.065
REV_GROWTH	31.515	12.125	51.194	9.820	3.219	2.960	8.028	-4.655
SOE	0.040	0.000	0.126	0.000	0.126	0.000	0.120	0.000

The mean dividend values fluctuated over the years, peaking in 2019 and decreasing in 2020. The median values, however, remained relatively low, indicating that a large number of companies might not be paying high dividends.

The mean Revenue Growth showed significant fluctuations, with a peak in 2018 and a decrease in 2020, suggesting a decrease in revenue for that year. The median values also showed fluctuations, indicating varying revenue growth rates among the companies. Lastly, the mean values for the SOE variable remained relatively low, indicating that a small proportion of the companies were state-owned.

The influence of ACGS Score on Firm Value

The relationship between the ACGS score and firm value is examined through a repeated cross-sectional analysis using Tobin's Q, as presented in Table 5. Surprisingly, the findings reveal a significant and negative relationship, indicating

that the introduction of the ACGS as a measure of corporate governance performance does not necessarily contribute to added value from an investor's perspective. Therefore, based on these findings, we reject H1, which proposed that the ACGS Score has a positive influence on Firm Value.

Table 5 - Result of Repeated-Cross Section Analysis of Tobin's Q on ACGS

Variable	2017	2018	2019	2020
Adjusted R2	0.21%	1.15%	2.68%	1.63%
F-Stat	1.2121	3.309*	6.448**	4.295**
C	3.2109	5.553	4.277	5.652
t-value	2.445**	3.348***	4.966***	3.598**
CG_SCORE	-0.0226	-0.044	-0.031	-0.046
t-value	-1.1010	-1.819*	-2.539**	-2.072**

The ACGS, being a checkbox-based measure, may not accurately reflect the true corporate governance performance of a company. As Dallas (2017) points out, corporate governance is a complex system of rules, practices, and methods that are influenced by a variety of factors, including the views of business leaders, investors, and academics. A checkbox-based measure like the ACGS may not capture these complexities, and as a result, may be seen as a costly and ineffective effort by investors who may not fully understand the analysis done in ACGS. In other hand, checkbox-based measure also open possibility to greenwashing practice, that are negatively impacting company performance (Du, 2015).

In addition, the ACGS score, while providing a standardized measure of corporate governance, may not fully capture the nuances of individual company practices. Each company operates within a unique context, with specific challenges and opportunities that may not be adequately reflected in a standardized score (Oncioiu, et al., 2020). This could potentially explain the negative relationship between the ACGS score and firm value, as investors may perceive a high ACGS score as an indication of a one-size-fits-all approach to corporate governance that does not necessarily translate into increased firm value.

Furthermore, the negative relationship between the ACGS score and firm value could also be indicative of a misalignment between the ACGS's measures of good corporate governance and the factors that investors consider important in assessing firm value. For instance, the ACGS places a strong emphasis on compliance with regulations and standards, while investors may place a higher value on factors such as strategic decision-making, risk management, and innovation, which are not directly measured by the ACGS.

Finally, the negative relationship between the ACGS score and firm value raises questions about the effectiveness of the ACGS as a tool for improving corporate governance practices. If companies that score highly on the ACGS do not necessarily achieve higher firm values, this could discourage companies from investing in improvements to their corporate governance practices, undermining the ACGS's goal of promoting good corporate governance.

* Corresponding author's e-mail: kevin.chanry@gmail.com
<http://openjournal.unpam.ac.id/index.php/JABI>

The influence of ACGS Score and Control Variable on Firm Value

The introduction of control variables into the analysis significantly alters the relationship between the ACGS score and firm value. When considering these variables, the influence of the ACGS score weakens and becomes statistically insignificant. This finding is evident in the repeated cross-sectional analysis of Tobin's Q on ACGS and control variables, as presented in Table 6. These results align with the prevailing practice where financial performance takes precedence over corporate governance performance. Therefore, based on these findings, we reject H2, which proposed that both the ACGS Score and Financial Performance have a positive influence on Firm.

Table 6 - Result of Repeated-Cross Section Analysis of Tobin's Q on ACGS and control variable

Variable	2017	2018	2019	2020
Adjusted R2	63.37%	50.64%	55.76%	55.91%
F-Stat	35.251***	41.631***	3.338***	51.474***
C	2.3328	4.664	4.320	2.343
t-value	2.872***	3.762***	4.843***	2.061**
CG_SCORE	-0.0139	-0.050	-0.017	-0.008
t-value	-1.0843	-2.690***	-1.239	-0.487
DEBT_TO_ASSET	0.0006	0.025	-0.017	0.013
t-value	0.1552	14.046***	-2.185**	15.639***
DIVIDEND	-0.0071	-0.089	-0.041	-0.095
t-value	-0.1597	-1.249	-1.313	0.605
REV_GROWTH	0.0105	-0.0002	-0.006	-0.0005
t-value	12.956***	-0.476	-1.489	-0.397
SOE	-0.6142	-0.033	-0.497	-0.769
t-value	-0.8905	-0.042	-0.868	-1.065

This phenomenon can be explained by the fact that investors and other stakeholders often prioritize financial performance when assessing firm value. This is supported by the research of Laili, Djazuli, & Indrawati (2019), who found that corporate social responsibility and firm size had a significant impact on financial performance and, in turn, firm value. Their study also found that corporate governance did not directly affect financial performance and value, suggesting that its influence may be overshadowed by other factors.

In conclusion, while the ACGS score can provide some insights into a company's corporate governance performance, its impact on firm value can be overshadowed by other factors. Therefore, a comprehensive approach that considers various control variables is necessary to accurately assess firm value. This is in line with the findings of Kumar & Firoz (2022), who found that better ESG disclosures practices positively and significantly affect company financial performance. Their study suggests that better corporate governance disclosures can improve a company's financial performance and create a good image, credibility,

* Corresponding author's e-mail: kevin.chanry@gmail.com
<http://openjournal.unpam.ac.id/index.php/JABI>

and promote corporate ethical practices. However, these benefits may not translate into increased firm value if other factors, such as the company's size, leverage, Book Value to Market Value, age, growth, ownership, and industry, are not taken into account.

This perspective is further supported by the research of (Haat, Rahman, & Mahenthiran (2008), who argue that corporate governance mechanisms do not guarantee a more transparent company by disclosing more information and that transparency is not the market's main concern in assessing firm performance. Thus, while corporate governance practices such as those measured by the ACGS score can contribute to firm value, they are not the sole determinants of it.

5. CONCLUSION & RECOMMENDATION

In the preceding chapters of this paper, we have embarked on an in-depth exploration of corporate governance mechanisms in the context of publicly traded companies in Indonesia. We have leveraged the ASEAN Corporate Governance Scorecard (ACGS) as a standardized measure to assess the corporate governance performance of these companies. Our analysis spanned the period from 2017 to 2020, providing a comprehensive view of the governance landscape during this time. In this final chapter, we will distil the key findings from our investigation, draw conclusions, and propose recommendations for future research and practical applications.

Our analysis revealed a significant negative impact of the ACGS score on firm value. This direct relationship suggests that the ACGS score, while providing a standardized measure of corporate governance, may not fully capture the nuances of individual company practices.

This significant negative impact indicates that the introduction of the ACGS does not necessarily add firm value from an investor's perspective. The checkbox-based nature of the ACGS score might be seen as a mere compliance requirement rather than a true reflection of the company's corporate governance performance. This could lead to a situation where the ACGS score becomes a costly and ineffective measure of corporate governance.

However, when control variables are introduced, the effect of the ACGS score on firm value weakens and becomes insignificant. This suggests that the firm value is influenced more by financial performance compared to corporate governance performance. This aligns with the findings of (Kumar & Firoz, 2022); (Oncioiu, et al., 2020); (El-Chaarani, Abraham, & Skaf, 2022); & (Ying, M., & Shan, 2021).

In conclusion, while the ACGS score can provide some insights into a company's corporate governance performance, its impact on firm value can be overshadowed by other factors. Therefore, a comprehensive approach that considers various control variables is necessary to accurately assess firm value. The significant negative impact of the ACGS score on firm value when regressed directly, and its subsequent insignificance when control variables are introduced, underscores the higher importance of financial performance compared to corporate governance performance when assessing firm value.

Based on our findings, we recommend that companies consider adopting a progress-based reporting standard for reporting corporate governance performance. This approach could provide a more accurate and comprehensive assessment of a company's corporate governance performance, taking into account the unique context of each company and providing a more nuanced understanding of its corporate governance practices.

Future research might find it interesting to compare the same company with corporate governance performance measured by ACGS and other progress-based corporate governance performance measures. This could provide valuable insights into the effectiveness of different corporate governance reporting standards.

Furthermore, companies should be aware of the potential for greenwashing practices and strive to provide accurate and transparent information about their environmental impact. This can help to build trust with investors and the public, and potentially enhance company performance.

Finally, regulatory bodies could consider introducing more detailed guidelines for integrated reporting, as suggested by (Lipunga, 2015). This could help to improve the quality of sustainability reporting and promote better corporate governance practices.

In conclusion, while the ACGS score provides a useful measure of corporate governance performance, it is important to consider its limitations. Adopting a nuanced approach that integrates various factors, including financial performance, can provide a more accurate assessment of firm value and foster better corporate governance practices.

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