

CORPORATE GOVERNANCE AND FIRM'S VALUE: AN EMPIRICAL STUDY IN LISTED COMPANIES IN THE EMERGING MARKET

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Abstract

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The incorporation of corporate governance (CG) in Indonesian society necessitates consideration of the socio-cultural values that exist and evolve within individual lives. The foundation of the Indonesian state, Pancasila, embodies the socio-cultural ideals of the Indonesian people. The five CG-relevant Pancasila principles are divinity, human rights, nationality, leadership, and social welfare. Pancasila corporate governance (PCG) is CG that incorporates Indonesian cultural values. The association between PCG and firm value (FV) is investigated in this study. Up to 66 samples were collected for the years 2009 through 2018 after the sample was chosen based on specific criteria. The declaration of the five Pancasila principles serves as a proxy for PCG. Tobin's Q serves as a gauge for a company's worth. Multi-regression analysis was employed in data analysis. This study concluded that while nationality and divinity had no effect on FV, human rights, leadership, and social welfare did have a substantial impact on FV. The single most important factor in the creation of corporate governance is the national culture and values. It stems from national cultures and beliefs that permeate the community and have an impact on relationships within it. It is expected to be a norm in the neighborhood.

Keywords: Divinity, Human Rights, Nationality, Leadership, Public Welfare, Firm's Value

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1. INTRODUCTION

A nation's degree of economic growth can be determined by the volume of stock transactions that take place in capital market activity (Tan & Shafi, 2021). Positive information on the rate of economic growth drives up stock trades in the capital market. The rise in stock transactions suggests that more shares are being bought and sold, which raises the share capitalization of the business. The firm value (FV) is described by its stock capitalization. The company's constant goal is to raise the shares' market value. The stock's market value demonstrates the company's growth in the marketplace. The company's performance, both financial and non-financial, can be the source of this appreciation (Wati & Prapanca, 2022).

Because it serves as a gauge for the market's evaluation of the business overall, FV is a crucial idea for investors (Ahmad et al., 2022). FV may be thought of as the view of investors. Investment opportunities and the stock's market price both have a significant impact on FV. Share prices rise as investments give managers a positive indication of potential future growth. FV will rise in tandem with increasing stock prices (Ahmad et al., 2022). There are both external and internal factors that affect FV. The basic performance is one example of an internal component. The underlying performance is explained by financial ratios (Ahmad et al., 2022). External factors include general economic conditions. Indicators used to explain economic conditions are inflation rate, exchange rate, interest rate, and composite stock price index (Gitagia et al., 2020; Abdulkarim, 2023).

The elements that signal theory explains impact FV. According to Machmuddah et al. (2020), this theory describes how information released in the capital market might impact a company's stock price. The published material is considered to contain information content under certain circumstances. On the other hand, information is said to have little information content if it has no effect on the stock price. According to signal theory, investors respond instantly to information that is available in the capital market. Information asymmetry is a problem in signal theory (Yulianto et al., 2023). When information is not evenly distributed in the capital market, it is referred to as information asymmetry. Some parties are better informed than others, and some parties lack knowledge altogether. Parties with a lot of information conduct fraud as a result of knowledge asymmetry. Individuals with a wealth of information tend to be wealthy, whereas those without it tend to be poor.

Management and stakeholders have a conflict of interest, which the agency theory explains by showing that they are more inclined to pursue their own interests (Bai et al., 2023; Younas, 2022). The goal of management is to advance their interests at the expense of stakeholders' interests. All stakeholder interests should be considered by management, according to stakeholders. Consequently, a system is required to lessen conflicts of interest so that management may appropriately serve the interests of stakeholders. One tool that can be utilized to lessen conflicts of interest is corporate governance, CG (Younas, 2022).

GC is a concept that the corporation uses to make sure all stakeholder interests are satisfied. Transparency, accountability, independence, responsiveness, and fairness are the five guiding principles of the CG system (Bui & Krajcsák, 2024).

Numerous earlier investigations have demonstrated that the use of CG has an impact on FV. Previous studies' contradictory findings were reported (Bui & Krajcsák, 2024; Premavari & Utami, 2020). The inconsistent outcomes demonstrate that CG has not been successful in reducing management-stakeholder conflicts of interest and generating value for stakeholders (Azizah et al., 2021). This results from Indonesia's CG's poor implementation (Saptono & Purwanto, 2022). Due to both internal and external obstacles, the adoption of CG in Indonesia has not been proceeding smoothly (Hartono et al., 2023). Internal variables include the dedication of leaders and staff, the absence of examples from leaders, the company culture's lack of support for the implementation of CG principles, and inefficient internal control systems. Law enforcement, regulations, and legal instruments are examples of external forces. The ownership structure, audit committees, board of commissioners, and independent commissioners — indicators of the CG mechanism's measurement in Indonesia — cause additional issues. Implementation issues plague each of these indicators, including unclear processes for selecting the board of commissioners, the age and background of the board, the process for selecting members of the audit committee, concentrated ownership, and more (Sa'diyah & Halibi, 2022; Tugiantoro et al., 2022; Salim et al., 2022).

The inconsistent findings of earlier studies prompted the quest for other parameters related to FV. It has to do with the values and culture that surround business operations. Next, in order to grow CG, the organization needs to instill values and a culture that are derived from the community's social culture. The community's social culture encompasses social values related to knowledge, social structure, technology and living accommodations, economics, religion, and the arts (Merdeka.com, 2020). The five components of Pancasila — divinity, justice and civilization, unity, leadership and mutual collaboration, and mutual welfare — comprise the social culture of Indonesia.

The successful implementation of the CG principles — transparency, accountability, responsibility, independence, and fairness — requires strong support and dedication from all management levels. In a developing society, socio-cultural values function as a medium for fostering good accountability, information sharing for all members of the community, independence from outside influences on attitudes, unity, consensus-building deliberation, appropriate taste, mutual respect, cooperation, and welfare (Lu & Wang, 2021; Aleqdat, 2022). The socio-cultural system has demonstrated its ability to adapt and thrive over time. Therefore, this study will examine and analyze the internalization of cultural values in CG implementation (Kelpczarek, 2023; Mukhtaruddin et al., 2020). The order of community cultural values becomes the norm to regulate the order of people's lives.

To make CG buildings easier to adopt and attain, Indonesian cultural values gathered in

Pancasila and used to CG can construct structures with an Indonesian feel (Mukhtaruddin et al., 2020). As a result, the company's primary goal of ensuring the well-being of its stakeholders can be successfully met. The only changes that have occurred are at the regulatory level, notwithstanding changes in time, space, organizational structure, and human resources. On the whole, nonetheless, CG's distinctiveness is well applied. This indicates that the nation's lofty ideals are never truly forgotten and that they always find a place in people's hearts (Berutu et al., 2023). The fundamental structure of the Indonesian state, Pancasila, is how these lofty ideals are embodied in Indonesia. The five precepts of Pancasila include the recognition of Indonesia's noble values concerning human rights, such as respecting religious life, treating just and civilized people, preserving the integrity of the Indonesian state, and emphasizing consensus-building and deliberation in decision-making processes to enhance public welfare. Forty-five elements of the national cultural values make up the five precepts of Pancasila. Pancasila corporate governance (PCG) is the name of the Pancasila-based CG framework. The creation of CG mechanisms based on Pancasila will raise investors' views of the business and boost FV.

Parties interested in the company can learn useful information from the good corporate governance (GCG) design, which is based on cultural values that emerge in society. Stakeholders exchange shares in the relevant company in response to this information in a good manner. This demonstrates how the information content of GCG, which is based on national cultural norms, affects readers' responses. The idea that information released by a business affects stakeholder investment behavior is supported by signal theory.

This paper is divided into six sections. An overview of the subject is explained in Section 1, which serves as an introduction. Section 2 reviews the literature and develops hypotheses in response to pressing questions. The research methodology, including population and sample, variable, and technique analysis, is covered in Section 3. The study data and the outcomes of the hypotheses testing are explained in Section 4. The hypothesis result is discussed in Section 5. The conclusion drawn from the earlier debate is covered in Section 6.

2. LITERATURE REVIEW

2.1. Signaling theory

Ross developed a signal theory for the first time in 1977. According to this theory, management is more informed about the company, and when they share this knowledge with prospective investors, the stock price of the company rises (Ross, 1977). The primary premise is that different stakeholders receive different information. Information asymmetry between management and stakeholders is demonstrated via signal theory. Managers must thus use the issuance of financial reports as a means of informing stakeholders. The information that gives users of business reports signals is suggested by signal theory. Signals can take the kind of advertisements or other content that highlights the company's superiority over rival businesses

(Puspitaningtyas et al., 2022; Nyagadzo et al., 2021). The information content of the GCG design, which is founded on societally developing cultural values and delivering positive news to stakeholders, is explained by this idea. The developed GCG design is more easily implemented and is well-received by management at all levels. By influencing stakeholders' investment decisions, this knowledge raises the share price and FV. As a result, stakeholders receive a signal from this information.

This signal theory has developed as a result of this research. The corporation can execute good governance by adopting the social and cultural values that are present in the lives of the people. It becomes social life's norm. Adopting these social and cultural norms will enable effective government implementation. As a result, the application of CG founded on these socio-cultural values becomes useful information, influencing the way investors view the business.

To improve accountability, transparency, liability, and responsiveness, this theory was previously used to explain the application of governance by examining governance mechanisms with indicators of independent counsels of commissioners, ownership structures, and audit committees. Ensuring that the interests of all stakeholders are met is its aim. Thus far, implementing governance through such processes has not resulted in a well-executed governance framework. The execution of governance serves the same goal as the social and cultural values that permeate everyday life.

2.2. Corporate governance and Indonesia social culture

As mentioned by Bhaumik et al. (2019) and Pucheta-Martínez et al. (2020), CG is an essential part of the market economic system. CG has a high correlation with trust in a country's business climate and the companies that use it. CG encourages the growth of a favorable business climate and healthy competitiveness. Therefore, CG adoption by Indonesian companies is expected to support government efforts to implement CG regulations throughout the nation and is essential for encouraging steady and sustainable economic growth. According to Bui and Krajcsák (2024), CG is a framework that directs and controls the organization to generate value for stakeholders. The Organization for Economic Co-operation and Development (OECD) identifies justice, accountability, openness, independence, and responsibility as the guiding values of CG. To ascertain the indications of its procedures, the GCG's implementation is still being discussed. Thus far, the mechanism indicators employed have not provided a robust means of ensuring that the interests of stakeholders are upheld. Therefore, the way the GCG is applied needs to be improved. The company's CG development considers the national principles to improve CG implementation. The nation's noble ideals are a system of rules that define good and bad judgment, as well as what is right and wrong. A traditional community built them (Berutu et al., 2023).

The principles that emerged inside the society became the Republic of Indonesia's ideology, or

Pancasila, the foundation of the state. The fundamental ideology of the Indonesian state is known as Pancasila. The formulation and guidelines for the nation and state that apply to all Indonesians are known as Pancasila. These include the following: 1) belief in One Supreme God, which carries seven points of cultural values; 2) just and civilized humanity, which carries ten points; 3) Indonesian unity, which carries eight points; 4) Democracy guided by wisdom in deliberation and representation, which carries ten points; and 5) Social justice for all Indonesians, which carries eleven points. The company's operations are examined using the 45 Pancasila items, and the results are given as information reflecting Pancasila's points of view. These actions approach and reflect Pancasila ideas, even if they have nothing to do with them. Using information disclosure, each of the Pancasila precepts is examined as previously said. Out of the 45 Pancasila items, 44 disclosure items can be implemented for the disclosure of company activity information. These include seven disclosure items for the first principle, ten disclosure items for the second principle, seven disclosure items for the third principle, ten disclosure items for the fourth principle, and ten disclosure items for the fifth principle.

2.3. Firm value

Maximizing wealth is the company's primary objective (Ahmad et al., 2022; Setiawan et al., 2020). Because maximizing FV also entails maximizing shareholder prosperity, which is the primary objective of the organization, maximizing FV is crucial. According to Bui et al. (2023), FV is the market value of outstanding securities and business equity. FV is a term used to characterize how investors view a company's success, and it is frequently linked to stock prices. The FV is likewise high due to high stock prices. A high FV will encourage the market to have faith in the company's future potential as well as its present success. FV shows the market value and FV can provide maximum shareholder prosperity if the share price increases. The higher the share price, the higher the prosperity of shareholders.

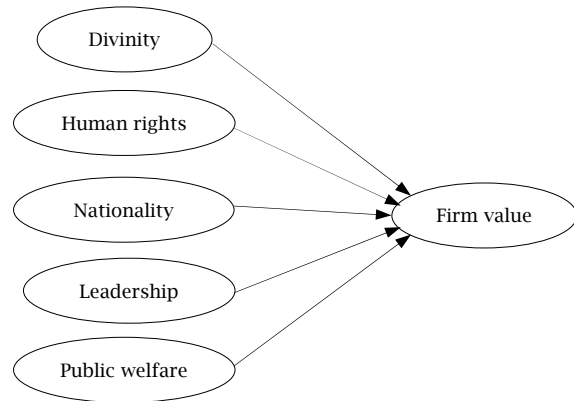
FV can also be viewed by examining the market value or book value of the business based on its equity, meaning that the stock price of the company reflects FV (Malini et al., 2021; Suhadak et al., 2019). Because the stock market price is thought to be a representation of the true value of the company's assets, the market price of company shares generated between buyers and sellers when a transaction occurs is called the company's market value. The stock market value indicator, which forms FV, is heavily impacted by investment opportunities. To raise the FV, the presence of investment prospects may indicate that the business will continue to grow in the future.

Tobin's Q is one of the ratios used to calculate the market value of the company. The reason this ratio is thought to offer the most information is that Tobin's Q takes into account all aspects of debt, share capital, and total assets. The fact that all of the company's assets are listed indicates that it does not just target investors who purchase shares, but also creditors who serve as a source of funding

(Hermanto & Aryani, 2022; Machokoto & Marozva, 2022). A high Tobin's Q suggests promising future times for the business.

The framework of this research can be formulated in Figure 1.

Figure 1. Theoretical framework



2.4. Hypotheses development

The established state is the earthly manifestation of human aspirations, according to the divinity (DIV) principle. This DIV concept has to do with one's beliefs. Although they may or may not be, DIV guidelines teach being truthful and following the values. When this DIV guideline is put into practice, employees at work receive constant oversight from God Almighty. Accountability and transparency are increased when DIV is incorporated into the CG system (Senoga, 2023; Christanti et al., 2023; Ga et al., 2022). When heavenly information is revealed, the market receives positive information. As a result, the market responds favorably to this information and raises FV. It is possible to formulate the first hypothesis:

H1: Divine information disclosure has an impact on firm value.

The human rights (HR) concept includes the importance of capital awareness and conduct that respects human dignity as members of a civilized society. Consequently, the goal of laws and policies, particularly those pertaining to HR, must be to uphold human dignity. The way a business treats its employees is a factor in HR. The organization takes employee rights and responsibilities very seriously. Each employee in the organization receives equitable and polite treatment (Mulgund, 2022). Fairness and responsiveness are increased when the HR component of CG procedures is implemented (Sherman, 2021). The disclosure of this information affects FV by providing investors with positive information. One could formulate the second hypothesis, which is:

H2: Human rights information disclosure has an impact on firm value.

Values of religion, class, group, ethnicity, and race are included in the nationality (NAT) aspect. Human nature is reflected in their diversity. Unity in diversity is the idea that needs to be fostered; the right of every person, group, ethnicity, race, and religion to fulfill their full potential in life. Accountability and independence are increased by

the CG mechanism's deployment of the NAT component (Alshabibi et al., 2022; Khairunnisa & Siregar, 2022). The release of NAT data fosters unity and togetherness, which is beneficial information for investors and raises their perceptions and FV. The third hypothesis was formulated as:

H3: Nationality information disclosure has an impact on firm value.

The democratic system that the leader created is connected to the leadership (LEA) component. A sense of unity, respect, cooperation, harmony, and consensus-building are examples of this democratic system in action; everyone contributes and helps one another. High levels of accountability and independence are produced when the CG mechanism incorporates the LEA component (Cikaliuk et al., 2020; Eze et al., 2020; Earsakul, 2019). When LEA material is disclosed, investors respond, which has an impact on FV. It is possible to formulate the fourth hypothesis:

H4: Leadership information disclosure has an impact on firm value.

Mutual justice is a key component of public welfare (PW) and equality (Sugden, 2022; Li & Wang, 2020). Justice in this case pertains to everyone who has a stake in the business. Fair treatment is required for the management, staff, society, nation, environment, and other living things. The business ought to create the idea of triple-bottom-line reporting. Fairness, openness, and responsiveness are valued more when PW elements are incorporated into CG processes (Sugianto et al., 2019; Adeyemi, 2019). Investors can benefit from the disclosure of PW information. Data responds to this data and has an impact on FV. It is possible to formulate the fifth hypothesis:

H5: Public welfare information disclosure has an impact on firm value.

3. RESEARCH METHODOLOGY

3.1. Sample

The sample selection used purposive sampling using certain criteria. Based on these criteria, there were 66 companies registered on the Indonesian Stock Exchange for a 10-year observation period, 2008-2019.

3.2. Variable operations and measurements

Variable operations and measurements are provided as follows.

Disclosure on Pancasila corporate governance (PCGD): The variables in this study are the five commandments of Pancasila. The divinity aspect is addressed in the first principle, the human rights aspect is addressed in the second, the national aspect is addressed in the third, the leadership aspect is addressed in the fourth, and public welfare is addressed in the fifth principle. For each of the five principles of PCG, there are 44 disclosure elements. The checklist is starting to take shape. Each item in the company's annual report will be checked, and if the company discloses it, it will receive a score of 1, and if not, it will receive a score of 0.

Firm value: FV is indicated by the price of the company's shares and bonds in the capital market. The measurement of FV is measured in a ratio, namely the value of Tobin's Q (Cardao-Pito, 2022).

Table 1. Variable measurement (Part 1)

<i>Variable</i>	<i>Items</i>	<i>Measurement</i>
<i>Divinity (DIV)</i>	<ol style="list-style-type: none"> 1. Details regarding the religious leader of the company. 2. Data on religiously-based employee statistics. 3. Information about places of worship available at work. 4. Information about religious holidays to be observed. 5. Details on business support for the building of places of worship. 6. Details regarding the incorporation of religion into the business's strategic strategy. 7. Details about places of worship in the vicinity of the business (Mukhtaruddin et al., 2020). 	Index = Total items are disclosure / Total items
<i>Human rights (HR)</i>	<ol style="list-style-type: none"> 1. Data on professional development programs found in business reports. 2. Details regarding the pay and compensation structure. 3. Information about nondiscriminatory equal rights and obligations. 4. Information about rewards and penalties. 5. Details regarding the development of staff capability. 6. Information about how to resolve conflicts with coworkers or unionized staff. 7. Information about working together with other businesses. 8. Where to file a complaint or get a legal assistant against injustice and unrighteousness. 9. How to join or support Indonesian and international humanitarian organizations. 10. Details on how to join the Indonesian Red Cross or show support (Mukhtaruddin et al., 2020). 	Index = Total items are disclosure / Total items
<i>Nationality (NAT)</i>	<ol style="list-style-type: none"> 1. Data regarding the number of Indonesian nationals employed by the company. 2. The currency and language used in company reports are Indonesian. 3. Details about events honoring national holidays. 4. Details about business executives from different tribes and religions. 5. Details about the company's involvement in charitable endeavors related to disasters. 6. Details regarding the company's adherence to global regulations. 7. Notify the army and police about the company's participation (Mukhtaruddin et al., 2020). 	Index = Total items are disclosure / Total items

Table 1. Variable measurement (Part 2)

Variable	Items	Measurement
Leadership (LEA)	<ol style="list-style-type: none"> 1. Details about the recruiting procedure for workers who give Indonesian people an opportunity. 2. Details on how decisions are made through discussion and agreement. 3. Details regarding the duties and job descriptions of firm executives. 4. Details regarding reports and the judgments of public accounting firms. 5. Details regarding how many community complaints were investigated. 6. Details on the policy of the organization regarding leave entitlements. 7. Information on the existence of the government, employers, and labor unions as tripartite cooperation institutions. 8. Information about the existence of the government, employers, and labor unions as bipartite cooperation institutions. 9. Details on collaborating with houses of worship. 10. Details about collaborating with organizations or Parliament members (Mukhtaruddin et al., 2020). 	Index = Total items are disclosure / Total items
Public welfare (PW)	<ol style="list-style-type: none"> 1. Details about how businesses participate in the community. 2. Details regarding the company's recycling efforts for garbage. 3. Details about business operations on the community's economic development. 4. Details about how to acknowledge the inventiveness and originality of staff members. 5. Details about corporation taglines like efficiency, simplicity, extortion, gratuities, nepotism, collusion, and corruption. 6. Details regarding taxes, dividends, alms, and charitable contributions. 7. Details on the availability of a leadership circular letter outlining the policies for utilizing resources in the workplace. 8. Details on a circular letter outlining the company's theft-related sanctions. 9. Details about awards available to human resources employees who complete regular responsibilities. 10. Details about collaborating with the Director General of Intellectual Property/Copyright institutions (Mukhtaruddin et al., 2020). 	Index = Total items are disclosure / Total items
Firm value (FV)		Tobin's Q = ((Market value equity + Debt) / Total assets)

The research model is processed by multiple regression analysis. The research model is as follows:

$$FV = \alpha + \beta_1 DIV + \beta_2 HR + \beta_3 NAT + \beta_4 LEA + \beta_5 PW + \varepsilon \quad (1)$$

where, *FV* = Firm value, *DIV* = Divinity, *HR* = Human rights, *NAT* = Nationality, *LEA* = Leadership, *PW* = Public welfare, ε = errors.

Control variable: The size of the company controls this study model. Total assets serve as a proxy for company size. Three categories of sample companies are established: major, medium, and small companies. Whether this study model is better suited for large, medium, or small company sizes is determined by this control variable.

4. RESULTS

The results of the analysis and testing of research data for as many as 66 samples for ten years can be seen in Table 2:

Table 2. Result of data testing

Variable	β	T	Prop-value	Conclusion
<i>DIV</i>	-2.205	-2.979	0.003	<i>H1</i> accepted
<i>HR</i>	-1.641	-2.328	0.020	<i>H2</i> accepted
<i>NAT</i>	0.171	0.195	0.846	<i>H3</i> rejected
<i>LEA</i>	3.016	3.538	0.000	<i>H4</i> accepted
<i>PW</i>	1.756	2.015	0.044	<i>H5</i> accepted
F prop-value			0.000	
α			4.936	
R ²			0.047	

Source: The result of data processing, 2022.

Table 1 indicates that the independent factors, which include the disclosure of *DIV*, *HR*, *NAT*, *LEA*, and *PW* features, have a 4.7 percent potential to

explain the variation in the dependent variable (*FV*). Other variables not included in this study have an impact on the remaining 95.3 percent. These findings suggest that the variables of *DIV*, *HR*, *NAT*, *LEA*, and *PW* have extremely limited capacity to adequately explain variations in *FV*.

The value of the F prob-value is $0.000 < 0.05$. This indicates that *FV* is significantly impacted by *PCG*, which is made up of *DIV*, *HR*, *NAT*, *LEA*, and *PW*. Hence, investors respond positively to *PCG* disclosure, which has an impact on *FV*.

The regression equation model of this study is as follows:

$$FV = 1.870 - 2.205DIV - 1.641HR + 0.171NAT + 3.016LEA + 1.756PW \quad (2)$$

According to the regression equation above, *FV* is 1.870 in the absence of the impact of disclosure of features of *DIV*, *HR*, *NAT*, *LEA*, and *PW*. This shows that the value of the shares of the corporation included in the study, *FV*, is higher than its share value without any impact from the disclosure variables of *DIV*, *HR*, *NAT*, *LEA*, and *PW* aspects. The *DIV* and *HR* variable disclosure features have a negative coefficient. This implies that *FV* will be smaller the higher the *DIV* and *HR* aspect disclosure. Conversely, there is a positive coefficient for the variable of the disclosure of *NAT*, *LEA*, and *PW* features. This implies that *FV* increases with more disclosure of *NAT*, *LEA*, and *PW* elements.

A substantial impact of *DIV* aspect disclosure on *FV* is indicated by the significance value of $0.003 < 0.05$ for *DIV* aspect disclosure. The hypothesis *H1* is accepted. A substantial influence on the disclosure of *HR* aspects on *FV* is indicated by the significance value of $0.020 < 0.05$ for the disclosure of *HR* aspects. The hypothesis *H2* is accepted. The significance value of $0.846 > 0.05$ for the revelation of the *NAT* component indicates

that there is no significant impact of the disclosure on FV. The hypothesis *H3* is rejected. A significant influence on FV is indicated by the revelation of LEA features, as indicated by a significance value of $0.000 < 0.05$. The hypothesis *H4* is approved. A substantial impact of PW aspect disclosure on FV is indicated by the significance value of $0.044 < 0.05$ for PW aspect disclosure. The hypothesis *H5* is approved.

The size of the company affects the research model. The testing results are displayed in Table 3.

Table 3. Control variable result

<i>Company size</i>	<i>Adjusted R²</i>
Big company	0.207
Medium company	0.214
Small company	-0.208

Source: The result of data processing, 2022.

These findings indicate that in large organizations, the variables *DIV*, *HR*, *NAT*, *LEA*, and *PW* account for 20.7 percent of the FV; additional variables not included in this study account for the remaining 79.3 percent. These factors account for 21.40 percent of the FV in medium-sized businesses; the remaining 78.6 percent is explained by additional variables not covered in this study. These factors and *PW* account for -20.8 of the FV in small businesses; additional variables not included in this study account for the other 79.2 percent. Therefore, it may be said that medium-sized businesses are better suited for this study model.

5. DISCUSSION

The results are discussed in this portion based on the theory and earlier study, which was based on the hypotheses testing in the preceding section. The following are discussed.

The hypothesis *H1* test found that FV is significantly impacted by the company's annual report disclosing *DIV* information. *H1* is accepted. The company's religious environment is described in the *DIV* information disclosed (Shao et al., 2023; Amin et al., 2021). Every employee in the organization believes that God is constantly watching over them and everything they do. It must so constantly abide by the laws that have been established, including those established by God, the business, and the government. Consequently, information should be disclosed honestly, responsibly, and in line with the truth. When this information is disclosed, investors are given good information, which causes them to respond. Signal theory is consistent with this outcome. Users of the information can make sense of the information that the company discloses. The transactions that users make reflect their response to the information. This indicates that a shift in the company's stock transactions that reveal this information occurs when knowledge regarding the *DIV* practice within the company becomes available. When this information is disclosed, investors are given good information, which causes them to respond. Signal theory is consistent with this outcome. Users of the information can make sense of the information that the company discloses. The transactions that users make reflect their response to the information.

This indicates that a shift in the company's stock transactions that reveal this information occurs when knowledge regarding the *DIV* practice within the company becomes available.

Regarding the publication of *DIV* information, the regression coefficient is negative. This indicates that a fall in FV results from a company's annual report disclosing more *DIV* information. Investor sentiment becomes more negative the more *DIV* information the business provides. The firm fears that it may become a religiously based company due to the increased sharing of *DIV* information. Religion-based companies sometimes have an intense, radical, doctrinaire, religious sect-hard, and extremely inflexible way of understanding things (Allen, 2022; de Graaf & van den Bos, 2021). Investors respond negatively to this information because of this fear, which lowers FV.

The study's findings are consistent with Desiyanti and Kassim (2020), Lu and Wu (2020), and Zolotoy et al. (2019), who discovered that an area's religious views positively impact FV and company performance. Research by Hassan and Kayser (2019), Kim and Yoon (2022), and Geng et al. (2022) has shown that religious convictions affect stock price and FV. The stock price risk is indicative of FV. In the meantime, studies by Barro and McCleary (2022) and Al Fozaie (2023) claimed that religious convictions evolved into a conduit for economic growth. A strong economy will lead to greater capital market activity and improved financial value. Businesses with their headquarters situated in areas with strong levels of religious belief will see abnormalities in their financial reporting and financial development (Amissah & Świerczyńska, 2021; Hofmann & Schwaiger, 2020).

The hypothesis *H2* test demonstrates that FV is impacted by the company's annual report's disclosure of *HR* information. *H2* is accepted. The release of *HR* data demonstrates a fair polite humane culture within the organization. Every employee in the organization thinks their presence is acknowledged, their rights are upheld, and there is no prejudice based on their state, religion, or race. Every employee in the organization follows the set procedures and works with a strong feeling of familial duty. At work, everyone feels secure and at ease. The company's performance, as well as the performance of each employee, is both increased in this highly responsible and motivated work environment (Martin-Ortega et al., 2022; Lopatta et al., 2023; Macchi & Bernaz, 2021). Investors respond to information that is disclosed in this way because it gives them favorable information. Signal theory is consistent with this outcome. For users, the disclosure of *HR* information has significant implications. The transactions that users make reveal their responses. This indicates that adjustments are made to the company's stock transactions as a result of information about *HR*'s recognition being disclosed in the annual report.

Regarding the disclosure of *HR* data, the regression coefficient is negative. This indicates that a decline in FV results from a company's annual report disclosing more *HR* information. Investor opinion becomes more negative the more *HR* information the business exposes. Because the company's operations prioritize the preservation of *HR*, the reader interprets the high exposure of *HR*

information as a shift in the company's orientation from profit-seeking to non-profit-making companies. Investors respond badly to this information because of this view, which lowers FV. Giuliani et al. (2021) and Tjondro et al. (2022) reported different results, stating that the stock price of businesses with substantial HR infractions was negatively impacted.

The hypothesis *H3* test found that there is no impact on FV from the company's annual report disclosing NAT information. *H3* is rejected. The culture of national integrity and unity inside the organization is reflected in the disclosure of NAT information. Every employee in the company thinks that the business is an extension of their life, providing them with a means of support and money. A strong feeling of NAT fosters a sense of unity in the advancement of the business. Every person has a strong commitment to the organization since individual aspirations and corporate goals are identical. When NAT information is disclosed, investors receive good information, which causes them to respond to the information.

The knowledge about NAT has no appreciable impact on FV. This can be attributed to the company's global operations, which surpass temporal and spatial limitations. There are business dealings both within and between continents. The outcome defies the assumptions of signal theory. The company's disclosed information is meaningless to the people who use it. It indicates that changes in the company's stock transactions are unaffected by the availability of information about NAT. The findings of Saputra (2019) indicated that the NAT of the board of directors and the board of commissioners had a substantial impact on FV, which contrasts with the findings of Zakaria et al. (2021). Sutrisno and Mohamad (2019) found that foreign nationals who hold board positions significantly impact the success of their companies.

The hypothesis *H4* test demonstrates that FV is impacted by the company's annual report's publication of LEA information. *H4* is accepted. The manner, mindset, and conduct of the company's leaders are outlined in the disclosure of LEA information. Democratic, transparent, courteous, and respectful leaders foster a positive work environment where everyone in the organization performs their duties with full awareness, zeal, and passion. When such information is disclosed, investors are given good information, which influences their response. Signal theory is consistent with this outcome. Users of the information can make sense of the information that the company discloses. This indicates that changes in the company's stock transactions are a result of the knowledge about LEA style within the organization.

The disclosure of LEA information has a positive regression coefficient. This indicates that a higher level of leadership information disclosed in the annual report of the company results in a higher FV. Investor perception is positively correlated with the extent to which the company provides LEA information. It is becoming easier to coordinate and communicate as a result of the increased disclosure of LEA information, which reveals more and more information about company leaders. Because of how simple it is to coordinate and communicate, investors respond favorably to this information, increasing the company's worth. According to Ali

and Abbasi (2022), Ghardallou (2022), Acemoglu et al. (2019), organizations that adopt a democratic culture have greater financial success.

Businesses that combine several LEA philosophies are more effective during periods of stagnation, which suggests that employers should support staff members who have a variety of philosophies. In the presence of both a democratic and laissez-faire approach, businesses focused on the global market have greater financial success. The company's worth and share price rise as a result of its financial performance. The research of Mukhtasar et al. (2021) and Mwakajila and Nyello (2021) also revealed a similar thing, stating that FV and company performance are influenced by LEA style.

The hypothesis *H5* test demonstrates that FV is impacted by the company's annual report's disclosure of PW information. *H5* is accepted. The disclosure of PW information demonstrates the company's care for the well-being of stakeholders, including the social environment and employees (Assegaf & Rifqi, 2022; Fluerbaey & Ponthiere, 2021). Positive information is disclosed about PW to investors, causing them to respond favorably to the information. Signal theory is consistent with this outcome. Information consumers interpret disclosures of PW, and these disclosures impact users' behavior. The transactions that users conduct reveal their response to the information. This indicates that stock transactions of firms that release PW information change as a result of the information's existence.

Regarding the publication of PW information, the regression coefficient is positive. This indicates that a rise in FV results from a greater disclosure of PW information in the company's annual report, and vice versa. The company's existence is encouraged by the social milieu in which it is located, as seen by the high disclosure of PW information, which demonstrates the company's concern for those who have an interest in it. Investors respond favorably to this company's concern, which is significant information, and FV rises as a result.

The study's findings are consistent with Rounok et al. (2023), Duan et al. (2023), Delvina and Hidayah (2023), and Maaloul et al. (2023), which assert that a company's reputation is enhanced when it shows concern for the well-being of parties with an interest in the business, including shareholders, employees, and the community. The company's stock price rises as a result of this enhanced reputation, which also raises FV. Meanwhile, the distribution of the held portfolio determines the welfare measure, according to Korzhenevych and Bröcker (2020). Investors get incentives on their investments if they have a diverse portfolio of assets. A fall in stock prices results in the loss of their investment if the asset portfolio consists solely of local stocks. Subsidies are therefore ineffective. The findings of this investigation, however, conflict with those of Keles et al. (2023), who presented empirical proof that high social performance — which is associated with shared welfare — has a detrimental impact on stock prices. This indicates that an increasing number of businesses are realizing their social responsibilities; market players see this as bad news and the stock prices of listed businesses — particularly in

the information and communication technology (ICT) and utilities sectors — have declined. An increased emphasis on corporate social responsibility (CSR) practices relating to the environment (e.g., emission ratio restrictions, environmental effect monitoring and reduction). Italian investors are therefore more concerned with the near term because this CSR approach allows businesses to cut costs.

6. CONCLUSION

The information on divinity, human rights, leadership, and public welfare that is disclosed is the information that is contained in the company's annual report, according to the analysis and discussion conducted in the previous section. Investors' reactions to share transactions are influenced by this knowledge regarding DIV, HR, LEA, and PW, which raises the FV. In the meantime, it is not necessary to reveal any information about NAT. International competition, free commerce, and mutual collaboration among nations ensure that the national principles espoused by businesses are devoid of knowledge. The FV is not increased by this NAT information because it does not affect investors' reactions to share transactions.

PCGD tracks the disclosures made in the annual report. It is thought that the corporation engages in a number of PCG-related actions that are not disclosed in the report, obstructing the collection of information and degrading the accuracy of the data processing outcomes. A solid grasp of linguistics is necessary to measure PCGD using disclosure phrases that the corporation

conducts and publishes through yearly reports. These words must have meanings that are comparable to Pancasila's ideas.

To make the impact of the CG mechanism's implementation more apparent, it is proposed that future researchers examine the mechanism's implementation directly while taking into account the sociocultural characteristics of the Indonesian people as represented in Pancasila. completion of the PCGD's disclosure items while considering feedback from a range of stakeholders, including academics, investors, stock exchange-listed businesses, the Financial Services Authority, and the Pancasila Ideology Development Agency. The subsequent study aims to categorize the research findings according to the company's age, sample industry, and size. To produce superior study outcomes, this must be done.

The study's contribution to academic advancement in the area of culture in society life must be taken into consideration when evaluating GCG as a tool for raising stakeholder intentions within the organization. It is crucial for the advancement of academics. The GCG theory ought to be customized to the customs and traditions of a particular nation. The findings of this study are crucial for companies implementing GCG since they should be tailored to the customs of the nation in question. The results of this study contributed to the literature on finance by demonstrating that the GCG principles ought to be developed through cultural adoption in society. The GCG tenets ought to be more robust and practical.

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