

ESG Performance and Firm Value – Do Busy Directors Help?

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ABSTRACT

ESG is an important issue companies encounter when conducting business. The implementation of ESG with good performance will lead the company to be more prosperous and attractive to investors. This study examines how busy directors affect the increase in the value of companies that have good ESG performance within a sample of 41 public companies in Indonesia during the years 2017-2021. Data were obtained from Thomson Reuters and the companies' annual reports. By using ESG score as a proxy for ESG performance variables and the percentage of busy directors' presence in public companies, we can determine their influence on firm value. Panel data regression in e-views shows a positive and significant influence between ESG performance and firm value, and there is no significant effect between busy directors and firm value. Furthermore, we also find that the influence of busy directors as a moderator weakened the positive impact of ESG performance on firm value.

SARI PATI

ESG merupakan isu penting dalam menjalankan bisnis perusahaan. Penerapan ESG dengan kinerja yang baik diyakini akan membuat perusahaan semakin makmur dan diminati oleh investor. Penelitian ini mempelajari bagaimana busy director mempengaruhi peningkatan nilai perusahaan yang memiliki kinerja ESG yang baik dengan menggunakan data 41 perusahaan publik di Indonesia selama tahun 2017-2021. Data diperoleh dari Thomson Reuters dan laporan tahunan perusahaan. Dengan menggunakan data ESG score sebagai proksi variabel kinerja ESG dan presentase keberadaan busy director pada perusahaan publik, pengaruhnya terhadap nilai perusahaan dapat diketahui. Regresi data panel pada E-views menunjukkan hasil adanya pengaruh yang positif dan signifikan antara kinerja ESG dan nilai perusahaan dan terdapat pengaruh yang tidak signifikan antara busy director dengan nilai perusahaan. Selanjutnya juga ditemukan adanya pengaruh busy director sebagai pemoderasi yang memperlemah dampak positif kinerja ESG terhadap nilai perusahaan.

INTRODUCTION

The financial market in Indonesia continues to grow today. The Financial Services Authority (OJK) notes a significant increase of 92.7% in the number of investors in the capital market throughout 2021. The value of a firm is one of the considerations for investors when they want to make investments. Fatemi et al. (2018) convey that, in the past two decades, many companies, especially multinational corporations, have intensively implemented ESG to enhance their reputation. The increasing interest of global investors and awareness of environmental aspects causes companies to focus more on non-financial aspects (Aydoğmuş et al., 2022). In line with the increasing demands of global investors, company managers and leaders should start considering the implementation of ESG as a long-term investment effort that plays a role in enhancing the firm's value. Khan (2022) advises businesses to run their operations by paying attention to the rights of the community and not harming the environment. The implementation of ESG usually discloses sustainability reporting, which has become a central concept for stakeholders to emphasize economically, socially, and environmentally sustainable practices and has been implemented in recent decades (Swarnapali, 2020).

Fatemi et al. (2018) find that a company's strength in implementing ESG is in line with the increase in firm value; the stronger it is, the better the firm's value. The implementation of ESG is believed to make companies more prosperous and sought after by investors. Sustainable investment in the Indonesian capital market continues to increase from year to year. Faruq et al. (2021), based on the website investor.id, state that there has been a significant and continuous increase in asset under management (AUM) value over the past seven years focusing on companies that apply ESG. This significant increase occurred from 2017 to 2021, indicating that investors prefer and trust companies that have implemented ESG principles in their business activities.

A firm's value can reflect how its business activities are run. Companies that pay more attention to environmental aspects indirectly try to maintain the sustainability of their business. Therefore, the implementation of ESG in environmental aspects is one of the guarantees to investors that the company will continue to operate. From a social standpoint, investors can assess a company's relationship with external stakeholders such as the community, suppliers, media, and others. If these relationships run smoothly, social problems can be avoided, and the sustainability of the company will be guaranteed. From a governance standpoint, investors who are owners sometimes do not have direct control over the operations of a company. Shareholders tend to be scattered and do not have the ability to directly monitor and control the actions of managers. This condition can harm a company's performance (Siagian et al., 2013). Good implementation of ESG, especially regarding governance, can help investors minimize investment risks.

To implement ESG principles in a company, stakeholder participation is required to determine the governance structure and integrate it with other ESG factors. Stakeholder expectations can shape a company's image, leading the company to adjust its management methods to match the existing social and environmental standards to attract investors (Yu et al., 2018).

One of the roles of busy directors is to supervise the management team to guarantee adherence to established rules and regulations, thereby safeguarding investors from potential financial losses. Cooper and Uzun (2022) find that presence of busy outside directors is believed to help strengthen the concept and implementation of ESG for the company. They use hypothesis testing on reputation theory and overcommitment theory. Their research reveals that the presence of busy directors has a positive impact on ESG performance due to the reputation, experience, and involvement of busy directors in supporting the company's ESG performance. Busy directors

have the function of supervising management and maintaining the company's compliance with applicable regulations. The indirect influence of busy directors can be seen through their oversight of ESG performance. If busy directors leverage their reputation and experience to enhance oversight and involvement in strengthening the concept and performance of ESG, the positive impact of ESG performance will be reinforced by the presence of busy directors and will increase the company's value. Well-supervised, busy directors who perform effective oversight can make the company more transparent, ethical, and compliant with applicable rules. However, Sun and Yu (2022) argue that directors or independent directors who are too busy will have a negative impact on their job performance, as effective and efficient oversight requires a lot of investment of time and energy.

In previous studies, the topic of ESG and firm value is extensively researched with various measurement methods. Some studies examine the three components of ESG separately, while others use overall ESG scores. Aydoğmuş et al. (2022) find that ESG scores have a positive impact on firm value; however, when it is examined individually, the environmental aspect does not have a significant relationship with firm value. Research related to the involvement of busy directors in companies is also carried out. Cooper and Uzun (2022) examine the relationship between busy outside directors and ESG performance in a company, revealing a positive association between busy outside directors and ESG performance. So far, most studies on ESG performance, busy directors, and firm value (Cooper & Uzun, 2022; Fatemi et al., 2018; Yoon et al., 2018) have focused on the direct impact of ESG on firm value. However, this research contributes to understanding the indirect influence of busy directors on the relationship between ESG performance and firm value, particularly in Indonesia. It aims to investigate whether this indirect influence can enhance firm value based on reputation and experience theories or, conversely, diminish firm value based

on overcommitment theory or even have no influence at all.

Literature Review and Hypothesis Development

Agency Theory

The concept of agency theory focuses on recognizing the dynamic of an agency relationship in which one individual assumes the role of the principal and assigns tasks and responsibilities to another individual, known as the agent. Within this relationship, various shortcomings can arise as a result of the agent's tendency towards opportunistic behavior or acting in their own self-interest (Mallin, 2013). An agent may not act in the best interests of the principal and has the potential to abuse their power for money or other gains without considering the risks faced by the principal. Under agency theory, information asymmetry occurs under which the principal and agent do not have equal access to information.

In practice, this condition causes the principal to be in a less advantageous position, because the agent has more information. Such information asymmetry can lead to conflicts known as agency conflicts, which result in agency problems that decrease the value of the company (Ruan & Tian, 2011). From an agency standpoint, in situations in which ownership is spread out among numerous shareholders, there exists a potential danger of managers prioritizing their own interests over the interests of the owners. To address this concern, the development of corporate governance mechanisms primarily revolve around minimizing or resolving conflicts that may arise between managers and shareholders in the context of widely held companies (Grosman et al., 2019). Corporate governance mechanisms are designed to monitor managers and reduce agency costs in a company (Switzer et al., 2017).

Stakeholder Theory

Stakeholder theory encompasses a broader range of individuals and groups beyond shareholders. By solely prioritizing shareholders, the primary focus is

on the preservation or enhancement of shareholder value. However, when a wider group of stakeholders including employees, creditors, customers, suppliers, government, and the local community are considered, the company could fail to notice them, because it only focuses on shareholder value. Nevertheless, many companies strive to maximize shareholder value while also focusing on the interests of a broader group of stakeholders. One reason for prioritizing shareholders over other stakeholders is that they are the residual claimants, since they receive the profits left over after other stakeholders, such as loan creditors, have received their due (Mallin, 2013).

Firm Value

The primary objective of a company is to optimize its value, which directly influences the level of prosperity experienced by its shareholders (Ben Fatma & Chouaibi, 2021). A company's reputation is universally acknowledged as its most valuable asset, and businesses consistently strive to enhance their reputation (Rudyanto & Pirzada, 2020). The value of a company can be created by calculating the external net benefits of the internal and external aspects of stakeholders related to the company's business process. The increase or decrease in the value of the company depends on the positive or negative net externalities. A high stock price usually indicates that a company has good value due to its good performance (Onasis, 2016). Usually, as the stock price increases, it reflects a higher valuation of the company, which serves as an indicator of the company's future prospects (Ryangga et al., 2020). When making investment choices, investors need to take into account companies that exhibit strong performance and possess favorable firm value (Ben Fatma & Chouaibi, 2021). A high firm value provides information that makes it easier for investors to perceive lower investment risks (Siagian et al., 2013).

ESG Performance

The consideration of environmental, social, and governance (ESG) issues is of utmost importance when pursuing sustainable development. The OJK

through POJK No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Institutions, Issuers, and Public Companies also issued a regulation that requires companies to produce a sustainability report to complement their annual company report as an integral part. The company's responsibility is to conduct business in an ethical and trustworthy manner and to prioritize engagement with the community through company disclosure procedures (Swarnapali, 2020). The sustainability report is often referred to as the triple bottom line, which includes profit, people, and the planet. If a company wants to continue sustainably and generate more profit, the company must pay attention to the welfare of the community (people) and maintain environmental sustainability (for the planet). ESG performance is an indicator that investors are concerned about in addition to the company's financial indicators. ESG performance utilizes environmental, social, and governance criteria to assess a company's contribution to sustainable economic development. It evaluates the extent to which a company integrates these factors into its operations and practices.

Environmental factors. Investors devote greater attention to long-term social and environmental risk issues by considering a company's environmentally friendly performance. The implications of environmental performance are that the company pays more attention to energy use, waste management, or pollution caused by its business operations. The dedication of a company to environmental sustainability will yield positive outcomes not only for the company itself but also for the environment. The company gains sustainability in their business if the environmental conditions are solid and supportive.

Social factors. Companies should not only pursue profit but also consider social issues. A good business has acceptable social policies that are communicated well to the community. Businesses that engage in inadequate social

activities face potential risks, such as the inability to renew financing arrangements due to the impact of ethical investment policies (Simpson & Taylor, 2013). Social aspects are related to external parties such as the community, society, suppliers, buyers, media, and other entities with which it has relationships, both directly and indirectly. This is a factor that needs to be considered in the social criteria of ESG.

Governance Factor. Kim et al. (2012) state that a business corporation is allowed to obtain larger external capital to help its business grow. Individuals who have funds can invest in the company and automatically become owners of the company. Investors benefit if the company also generates good profits. However, in managing the company, investors are usually not involved and do not have direct control. This condition allows managers who manage the company to take advantage of investors. Managers who actively participate in the day-to-day operations of a company possess more comprehensive information compared to dispersed shareholders (Siagian et al., 2013). Therefore, governance is needed to align the interests of the company and the owners to avoid conflict. Governance can help companies manage resources effectively and efficiently. Moreover, governance can also have a positive impact on companies such as improving performance, accessing external funding, obtaining relatively low-cost capital, reducing poverty by increasing social responsibility, and improving compliance with existing regulations.

Busy Directors

Indonesia adheres to a two-tier board structure, which is the separation of the two functions of the board as the board of directors as a manager (agent) and the board of commissioners as a supervisor. Internal mechanisms are highly focused on the role of the board of commissioners (two-tiers system) as a monitoring mechanism, with principles, rules, regulations, and incentives for agents as the main component of governance

(PUGSPI, 2022). Companies are managed by two entities consisting of the board of directors as the company's management unit and the board of commissioners as the company's supervisory unit. The board of directors is responsible for its management role and the board of commissioners is responsible for its supervisory role to shareholders through the GMS (PUGKI, 2021).

In managing and supervising a company, an unbiased party or someone without any interest in the company is needed. Therefore, companies usually appoint independent directors or commissioners to run their corporate governance system. Independent commissioners are considered more competent in objectively supervising the actions of management, and their independence also helps reduce the moral hazard problem of managers (Switzer et al., 2017). In Indonesia, busy directors are known as board of commissioners who oversee the company's activities. Busy directors are commissioners who hold multiple positions or responsibilities in several companies. The busy schedule of busy directors can create two conditions for a company. Firstly, it can provide additional experience from other companies. This experience is expected to strengthen the supervision of ESG practices and produce good ESG performance in the company. Secondly, the supervision function may decrease due to the director being too busy with responsibilities in other companies, which means their responsibility in supervising the implementation of ESG will be reduced.

Hypothesis Development

In the research model, Figure 1 represents the relationship between ESG performance and firm value, and furthermore, how the presence of busy directors moderates the relationship between ESG performance and firm value. The model also uses control variables such as board size, firm size, firm age, and leverage, which were obtained from the company's annual reports.

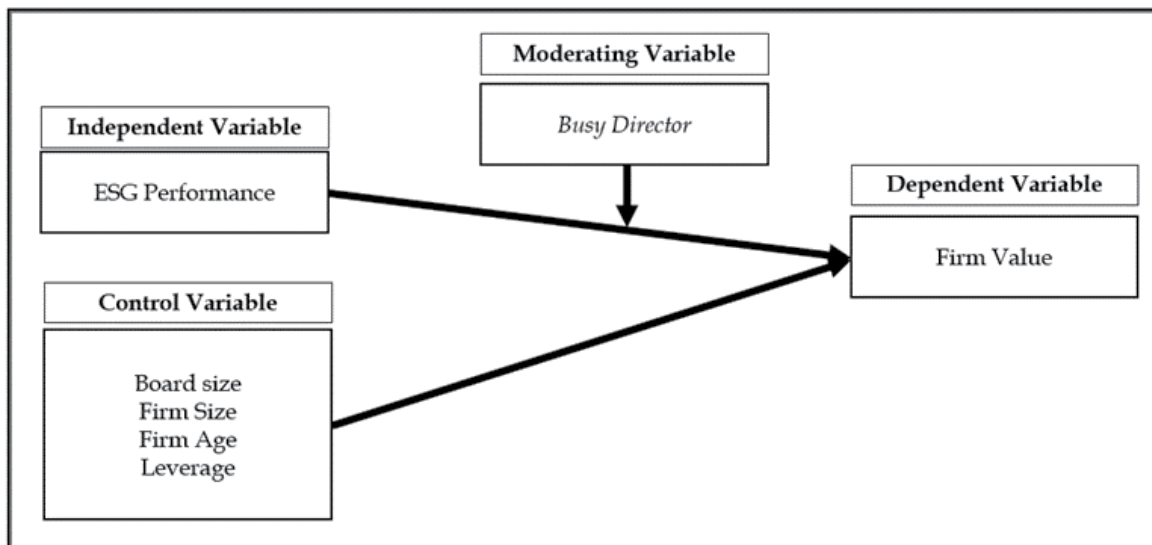


Figure 1. Research Framework

ESG Performance and Firm Value

One of the primary goals of a company is to maximize its value, which directly influences the level of prosperity experienced by its shareholders (Ben Fatma & Chouaibi, 2021). Companies that implement superior governance practices tend to exhibit higher company valuations. (Siagian et al., 2013). Research on ESG toward firm value has various results and uses different proxies to measure the variables. ESG performance can be measured by using scores or agency ratings that can result in different rankings due to differences in the measurement framework (Widyawati, 2021).

ESG performance, which is proxied by ESG strength and ESG concern, has a positive and negative influence on firm value (Fatemi et al., 2018). This is because ESG strength measurement uses positive components, and ESG concern measurement uses negative components from the KLD MSCI dimension, which should not be combined because they represent different constructs (Mattingly & Berman, 2006); Widyawati, 2021). Liu et al. (2022) find that ESG does not fully have a positive impact on firm performance, because the focus of the study was on companies in the energy sector. Of the three pillars of ESG, environmental performance has a negative impact on company performance. Aydoğmuş et al. (2022) also find a positive and significant relationship between ESG

scores and firm value, because demonstrating corporate social responsibility initiatives has a beneficial and significant effect on the company's market value. ESG practices continue to be aligned with stakeholder needs. However, both corporate and financial crises as well as academic research conducted in the last 20 years have revealed that the impact of ESG practices on financial performance is not entirely favorable (Saygili et al., 2022). Based on this explanation, this research wants to re-examine the relationship between ESG performance and firm value with the following hypothesis:

H₁: ESG performance has a positive effect on firm value.

Busy Director, ESG Performance, and Firm Value

Following up on the ESG agenda and objective, good corporate governance focuses on a board of directors that functions to protect the interests of stakeholders (Cooper & Uzun, 2022). In Indonesia, the board structure is mandated to use a dual board system, in which the board of commissioners plays a crucial role in minimizing agency problems so that shareholders can achieve maximum wealth (Afriani Utama & Utama, 2019). Busy directors, in this case the board of commissioners, play a role in carrying out this agenda. In accordance with agency theory, this perspective anticipates that busy directors are not effective monitors and

might not prioritize the best interests of the agent (Cooper & Uzun, 2022).

The experience of busy directors in holding responsibilities in multiple companies can contribute to overseeing the implementation of ESG practices in a company and produce good ESG performance. In line with the findings of Cooper and Uzun (2022), busy outside directors have a positive impact not only on the total ESG score but also on individual ESG components. Good practice in implementing ESG will create good company value (Fatemi et al., 2018). Withisuphakorn and Jiraporn (2018) reveal a positive impact of busy directors on firm value, while Cashman et al., (2012) find a negative impact of busy directors on firm value. Therefore, this study will not directly test busy outside directors with ESG but will attempt to indirectly test the role of busy directors in the effect of ESG performance on firm value. If a positive effect is found between busy directors and firm value, then the positive effect between ESG performance and firm value will be strengthened by the presence of busy directors and vice versa. Based on the explanation, the following hypotheses are formulated:

H2: Busy directors have a positive effect on firm value.

H3: Busy directors strengthen the positive effect of ESG performance on firm value.

RESEARCH DESIGN

Sample and Data Collection

This research focuses on publicly listed companies on the Indonesia Stock Exchange (IDX). Data was obtained from IDX, Thomson Reuters, and the companies' respective websites. The research uses panel data with a research period of five years, from 2017 to 2021. Using predetermined sampling criteria, 205 observations were applied from a total of 41 companies. The data will be processed using the statistical software Eviews 12 to display the descriptive statistics, classical assumption tests, and regression analysis. This research uses purposive sampling, which is a non-random sampling method based on certain

considerations. The criteria are as follows: Publicly listed companies on the Indonesia Stock Exchange from 2017-2021, companies with consecutive annual reports from 2017-2021, Companies with ESG score data for five consecutive years from 2017-2021, and companies with complete data needs.

Empirical Model

The testing conducted in this study uses a multiple regression model. The analysis is carried out to see the effect of ESG performance and busy directors toward firm value using several control variables that can prevent bias in the study. The regression model that can be used is as follows:

Model 1 (Hypothesis 1 dan 2):

$$PBV_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 BD_{it} + \beta_3 BSZ_{it} + \beta_4 FSZ_{it} + \beta_5 FAGE_{it} + \beta_6 LEV_{it} + \varepsilon$$

Model 2 (Hypothesis 3):

$$Firm\ Value_{it} = \alpha + \beta_1 ESG_{it} + \beta_2 BD_{it} + \beta_3 ESG_{it} * BD_{it} + \beta_4 BSZ_{it} + \beta_5 FSZ_{it} + \beta_6 FAGE_{it} + \beta_7 LEV_{it} + \varepsilon$$

where:

ESG	: ESG performance
BD	: Busy Directors
PBV	: Firm value using <i>price to book value</i> (PBV)
BSZ	: Board Size
FSZ	: Firm Size
FAGE	: Firm Age
LEV	: Leverage
i	: Company Indicator
t	: time t
α	: intercept
β	: variable coefficient

Definition and Variable Measurement

Firm Value

Firm value is the perception of investors toward a company, often associated with the stock price. Every company strives to demonstrate the best performance to attract investors for investment purposes. A high stock value in the market

indicates that a company has good value and the ability to generate higher profits (Ben Fatma & Chouaibi, 2021). In this research, firm value is measured using the market-to-book ratio or price-to-book value (PBV) ratio (Ben Fatma & Chouaibi, 2021).

ESG Performance

ESG is one of the indicators that affect a company’s long-term performance. The scores used to measure ESG performance are obtained from Thomson Reuters agency ratings. ESG performance can be measured with a score from 1 to 100 for each company. The scoring system ranges from 0 to 100, with 100 representing the highest or strongest score, while 0 indicates the lowest. The primary ESG issues are categorized into three distinct areas: environmental, social, and governance performance. The database encompasses a minimum of 70 indicators. These are further divided into three dimensions: preparedness (evaluation of management systems and policies), disclosure (transparency regarding ESG issues), and both quantitative and qualitative performance (Cooper & Uzun, 2022).

Busy Directors of Board of Commissioners

Busy directors are directors who hold two or more director positions (Cooper & Uzun, 2022). In Indonesia, a company is usually managed by two units: the company’s management units, such as the Board of Directors, and the company’s supervisory unit, the Board of Commissioners. The measurement of busy directors is determined by calculating the percentage of commissioners who hold multiple positions in relation to the total number of commissioners.

Board Size

The board of directors serves as the supreme decision-making entity responsible for effectively managing the company with a focus on profitability. An effective corporate governance system can be achieved through the dynamic composition and establishment of the board of directors (Fariha et al., 2022). Large-sized boards of commissioners

tend to have more experience and skills, making it easier to handle many critical issues related to sustainable performance practices (Kouaib et al., 2020). In this study, the board of commissioners is measured by the number of commissioners listed in the company’s annual report.

Firm Size

Mookung Kim (2022) mentions that firm size can control financial performance and firm value. Firm size reflects the company’s size that can be measured based on nominal size, such as the total assets or sales value.

Leverage

In addition to issuing shares, companies also finance themselves through debt. High debt without a corresponding increase in assets will bring greater risk to the company. Growing companies are quite vulnerable to the risk of increased debt. The size of the debt-to-total-asset ratio of a company will automatically increase the potential risk to the company. Companies with low ESG scores are considered riskier, meaning they face environmental and social obligations, for which the company ultimately increases the probability of default (Apergis et al., 2022).

Table 1. Summary of Variable Measurements

Variable	Proxy
Busy Director	Percentage of commissioners who have concurrent positions compared to the total board of commissioners
Firm Value	Price-to-book value
ESG Performance	ESG Score Thomson Reuters
Board Size	Total board of commissioners
Firm Size	Natural logarithm total asset
Firm Age	Natural logarithm FirmAge
Leverage	Total debt divided by total assets

RESULTS AND DISCUSSION

Descriptive Statistics

First result descriptive statistics shows that the PBV variable has a skewness value exceeding 2. However, each variable has a normal distribution if the skewness value falls within the range of -2 to 2. Therefore, the researcher performed data winsorization using the 5th and 95th percentiles, ensuring that all variables have a normal distribution. Table 2 show that, from 205 observational data, the average value of the dependent variable PBV is 2.623. This result indicates that the average stock price in Indonesia is still evaluated higher compared to its book value. The independent variable ESG performance

has an average score of 48.82, indicating that ESG performance in Indonesian companies is relatively moderate in meeting ESG criteria. The busy director variable is at 0.331, meaning that 33.1 percent of those on the Board of Commissioners in Indonesia hold more than two positions.

Panel Data Regression Analysis

Based on the panel data regression results using the fixed effect model, the first model in Table 3 shows that ESG performance has a positive and significant impact on firm value. The p-value is 0.078 with a significance level of 10%. This result is consistent with previous studies conducted by Aydoğmuş et al. (2022), Fatemi et al. (2018),

Table 2. Descriptive Statistics of the Variables (n = 205)

	PBV	ESG	BD	BSZ	FSZ	FAGE	LEV
Mean	2.623	48.827	0.331	6.380	31.808	3.760	0.516
Median	1.784	49.172	0.286	6.000	31.580	3.829	0.475
Maximum	9.251	88.091	1.000	15.000	35.084	4.682	0.945
Minimum	0.653	8.162	0.000	3.000	29.206	2.565	0.126
Std. Dev.	2.220	20.059	0.294	2.360	1.298	0.434	0.225
Skewness	1.764	0.013	0.783	0.760	0.711	-0.628	0.211
Kurtosis	5.470	1.911	2.741	3.541	3.214	3.312	1.904
Observations	205	205	205	205	205	205	205

Tabel 3. Regression Results Fixed Effect Model

	PANEL 1 : Dependent Variable PBV		PANEL 2 MODERASI : Dependent Variable PBV	
	Model 1		Model 2	
C	-5.902		-5.817	
	(1.673)		(1.668)	
ESG	0.001*		0.003**	
	(0.001)		(0.001)	
BD	-0.079*		0.112	
	(0.053)		(0.140)	
ESG*BD	-		-0.003*	
			(0.002)	
BSZ	-0.196**		0.020**	
	(0.008)		(0.008)	
FSZ	0.183***		0.174***	
	(0.066)		(0.066)	
FAGE	0.288		0.328	
	(0.254)		(0.255)	
LEV	-0.397**		-0.413***	
	(0.153)		(0.153)	
Observasi	205		205	

Note: The standard error is placed under the variable coefficient.

and Wu et al. (2022), which show a positive relationship between ESG performance and firm value; therefore the first hypothesis is accepted. This means that, if Indonesian companies have good and improving ESG performance, their firm value also increases. Companies in Indonesia have started to consider ESG issues as important for their sustainability. Additionally, good ESG performance can be an added value that generates a high reputation in the eyes of investors who are concerned about ESG-related issues. Therefore, it can be concluded that good ESG performance is one of the criteria used by investors to determine their investment choices in Indonesian companies.

The p-value for the busy director variable is 0.079 at the significant level of 10%, with a negative coefficient. This indicates that busy directors have a direct negative impact on firm value. This differs from the study by Withisuphakorn and Jiraporn, (2018), who find a positive relationship between busy directors and firm value. This study aligns with the findings of Cashman et al. (2012), who found a negative impact between busy directors and firm value, suggesting that the theory of overcommitment occurs in Indonesia. If a company has a relatively high proportion of busy directors, it can lead to a decrease in the quality of supervision over its operational activities, which can result in a decline in firm value. Therefore, the second hypothesis is rejected, because busy directors have a negative impact on firm value.

In the second model, the impact of ESG performance is not significantly different from the first model. However, the coefficient for a busy director becomes positive and insignificant. Nevertheless, this indicates the presence of an interaction effect between ESG performance and busy directors that affects firm value. This shows that the p value ESG*BD demonstrates interaction at significance level of 10%, which is 0.071 with a negative coefficient. This can imply that the presence of busy directors can be considered a moderating variable, but its interaction actually

weakens the influence of ESG performance on firm value. Therefore, hypothesis three is rejected.

The value of R-squared in the second model is 0.8316, which means that each independent variable explains the dependent variable quite strongly, accounting for 83.16%, while the remaining percentage is explained by other variables.

MANAGERIAL IMPLICATION

The results show that the positive impact of ESG performance on firm value can increase confidence for company management. Furthermore, having good ESG performance in their business operations contributes to sustainable business and an increasing firm value. This can be achieved by improving ESG performance among all stakeholders, accompanied by effective monitoring by supervisory bodies. Companies can also consider appointing non-busy directors to ensure effective oversight functions without compromising the positive impact of ESG performance.

Furthermore, investors in Indonesia should not only focus on financial aspects when making investment decisions. Investors should also consider non-financial aspects, similar to global investors who already take ESG issues into account. This contributes to the development and advancement of the Indonesian capital market. Non-financial aspects, such as ESG performance, provide added value that can lead to higher firm value in the future and benefit investors.

The findings of this research also provide input for the academic field, suggesting that the presence of busy directors in Indonesia may not effectively fulfill their roles, thus not significantly impacting firm value. This is different from busy directors in other countries who contribute to improving ESG performance based on their reputation and experience.

CONCLUSION

This study aimed to examine the impact of ESG performance on firm value, with the busy director

as a moderating variable. Based on the testing results using observations of public companies in Indonesia from 2017 to 2021, we found a significant and positive influence of ESG performance on firm value. The results indicate that companies with good ESG performance tend to have higher firm value. Companies that are aware of sustainability issues in their business operations not only focus on financial performance but also on ESG performance. A high ESG performance score creates a positive reputation for the company, leading to an increase in firm value.

On the other hand, busy directors have a negative impact on firm value. Consistent with the theory of overcommitment, when individuals hold multiple responsibilities simultaneously, the supervisory function becomes less effective and can lead to a decline in ESG performance, thereby affecting firm value. The theory of reputation does not apply in this research, as the presence of busy directors does not increase firm value but rather decreases it. Therefore, it can be concluded that busy directors serve as a moderating variable that is believed to weaken the positive impact of ESG performance on firm value.

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