

## CHAPTER V

### CONCLUSION

#### 5.1 Research Conclusion

The discussion and findings of the research examine the determinants of firm value in the companies listed within Indonesia Stock Exchange (IDX) between the years 2015 and 2024. Dependent variable is the firm value which is obtained as the Tobin's Q that is used to indicate the market value of the firm. The four social dimensions included in the independent variables of this research include Workforce, Community, Human Rights and Product Responsibility ( $X_1$ ,  $X_2$ ,  $X_3$ , and  $X_4$  respectively). Industry Type is a moderating variable that will classify the companies into the manufacturing and non-manufacturing industries. Moreover, the control variables (firm size, leverage, and liquidity) are also included in this study to explain the research findings. The hypothesis test analysis was performed by using STATA 17 windows version in a panel regression analysis using Fixed Effect Model. The finer conclusion over the hypothesis test is that of the following:

1. The effect of workforce ( $X_1$ ) on the value of the firm is insignificantly negative, whereas the effect of Community ( $X_2$ ) on the value of the firm is insignificantly positive. These results indicate that when there is a disclosure of the workforce and community initiatives in isolation, it does not produce a significant market value (Tobin's Q) of the entire sample. Workforce and Industry Type however, have a very high significance of positive effect. This shows that the Industry Type manages to moderate the relationship with the positive effect of workforce social performance to the firm value stronger and stronger in some industry types, namely manufacturing.
2. The effect of Human Rights ( $X_3$ ) is negative and significantly so on the firm value. This finding implies that the increase in human rights reported in the sampled companies is related to the reduction in the Tobin's Q. This may be because the expenses involved in adopting and reporting on the large volumes of human rights standards would be burdensome to the market in

the eyes of the market. Moreover, the Human Rights and Industry Type also have a strong negative impact which is to say that the industry context does not counteract, but strengthens this negative relationship.

3. The impact of Product Responsibility ( $X_4$ ) when it is treated as a product responsibility variable is almost positive on firm value. This shows that companies that have good quality and safety products make a better valuation in the market. High product responsibility involves customers and investors viewing the firm as long-term sustainability and reducing the risk, increasing the competitive advantage of the firm. Interestingly, the moderating variable of Industry Type has a negative effect on the relationship between Product Responsibility and firm value which is significantly negative. It means that despite the overall usefulness of product responsibility, its influence can be highly different depending on the industry, in which case in the manufacturing companies the stress of the product quality may entail expenses that the market may judge in a different way.
4. The regression model outcomes of the control variables indicate that Firm Size has negative significant impact on Tobin's Q, and it may be considered that bigger firms in our sample have lower market-to-book value. Concurrently, the influence of Liquidity is very positive, which means that the market values the companies with a higher capacity of settling their short-term debt. Conversely, Leverage does not have a significant impact on firm value. In general, the model indicates that the socially related aspects, when integrated with the industry background and financial regulations, have a complicated and key role in the determination of firm value in the Indonesian market.

## 5.2 Research Limitations

This study has its limitations, which may provide an opportunity to other studies, although it is a valuable piece of information:

1. In this study, the timeframe of ten years (2015-2024) is chosen as it is necessary to ensure data availability on all variables, which leads to the creation of a total amount of 53 sampled companies. Even though the total

observations are 284 firm-years, the imbalance of the panel data could be a hindrance of the generalization of the results to the entire sector across the whole Indonesian stock market. Besides, in this analysis, the moderating factor is only Industry Type in order to test the differences between manufacturing and non-manufacturing companies.

2. The research merely notes certain social and financial attributes but does not consider the other possible governance and environmental variables that may affect firm value. This research has not addressed areas of governance like gender diversity of the board, expertise of the audit committee, and independent commissioners. Moreover, environmental performance scores were not applied as a control or a moderating variable, which could give a more comprehensive picture of the data that ESG has on Tobin's Q.
3. This paper covers only the companies that are listed on the Indonesia Stock Exchange (IDX) collected in the Refinitiv Eikon database. This dependence on a single database and on a particular geographical market might not reflect the different disclosure practices and market responses that appear within other developing or developed stock markets.

### **5.3 Research Implications**

The research is likely to be practical and can be adopted by the parties concerned. The research has the following implications as explained below:

#### **1. Theoretical Implications**

The study contributes greatly to the literature on sustainability in emerging markets as the two theories, Stakeholder Theory and Agency Theory, are combined. In the lens of a Stakeholder Theory, the results verify that exceeding the demands of the external stakeholders, especially consumers with the help of Product Responsibility, represents the best indicator to improve the Q of Tobin. Nonetheless, the work brings on a critical aspect using Agency Theory. The existence of the weakening effect (negative interaction) in Human Rights and Product Responsibility implies the occurrence of the agency costs. It means that in certain areas such as manufacturing the investor might view too much social expenditure as a management entrenchment or a waste of company resources in personal

image to the detriment of increasing shareholder wealth. These results confirm that the context of the industry is what makes the difference between a social action regarded as strategic investment by the stakeholders, and a heavy burden on the agency.

## **2. Firm's Implication**

To the corporate management, the findings imply that there should be a delicate balance in the allocation of social resources such that agency considerations among the investors are not precipitated. Product Responsibility must be one of the key strategic focus areas in firms because it is the most reliable source of market valuation. In the case of manufacturing companies, in particular, the strengthening effect measured in the Workforce dimension can demonstrate that employee welfare is not only a moral requirement but also a strategic resource that can have a valuable impact on the valuation of a firm. On the other hand, companies should be careful about disclosures on Human Rights. Since the interaction coefficient is negative, the management has to make sure that these initiatives are implemented in a highly cost-effective manner. Companies should also convince investors that such social programs are under control and do not risk the profitability of the short term as such programs will make the company appear to be sacrificing short term profitability due to unproductive social agendas.

## **3. Regulatory Implications**

These findings can be used by regulators, including Financial Services Authority (OJK), to improve the reporting standards of ESG in Indonesia. The information indicates that blanket approach to social reporting requirements could be ineffective and can lead to intensification of agency problems in cases where companies are compelled to release high-cost low-value information. That is why regulators are urged to encourage industry-specific disclosure regimes. The attention should be paid to those dimensions that are proved to be value-relevant, like Product Safety and Workforce Welfare. Regulators can contribute to making firms give more transparent indications to the market, easing information asymmetry, and

making social responsibility reporting to be indeed helpful in terms of sustaining the firm and contributing to the general market value.

#### **4. Investors' Implications**

This research explains why investors in the Indonesia Stock Exchange need to do a dual-lens analysis based on the stakeholder and agency viewpoint. Shareholders must examine more than overall ESG ratings and pay attention to social sub-dimensions. Product Responsibility must be considered as one of the leading indicators of competitive capability, as well as long-term value retention of a firm. In estimating the manufacturing industry, investors ought to offer valuation premium to those companies with the best performance in their Workforce since this research demonstrates that it is an effective value enhancer in that domain. But, the adverse relation, which is encountered in the other dimensions, is a caution to the investors to watch over-disclosure or high-cost social programs, which may be a pointer to managerial feebleness. Indonesian market is very receptive to cost-efficiency; therefore, investors should tend to invest in companies that can deliver high social standards without affecting the profit margins.

#### **5.4 Research Recommendation**

To develop sustainable finance literature, future studies must take into account:

1. Further research to broaden the horizons of the sample by encompassing larger portion of the time interval, such as extending the observation to a scope of over 10 years to include more studies of the economic cycles in the Indonesian stock market. This would contribute to reducing the anomalies in the short-term and would offer a better picture of the way in which the workforce and community disclosures affect the firm value in the long-term.
2. Future research it was found that other moderating variables like quality of corporate governance or gender diversity of the board or ownership structure could be included into future study. These factors would be useful in capturing the internal forces that influence the sustainability reporting practice of a firm and how they play out with social aspects such as human rights and product responsibility in the market valuation.

3. Future research on this subject might consider other sub-categories other than those that were studied in this research like the performance of the environment (E) or governance performance (G) pillars to gain a more detailed description of what specific ESG factors actually drive firm value through the lens of Tobin's Q. Future researchers also may consider other measures of firm value, such as Price to Book Value (PBV) or Stock Return, to obtain a more holistic approach to the topic of investor responses to social disclosure.

