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THE EFFECT OF EXTERNAL AUDIT QUALITY, RELATED PARTY TRANSACTIONS, POLITICAL CONNECTIONS, ESG PERFORMANCE AND INDEPENDENT ASSURANCE ON SUSTAINABILITY REPORTING ON FIRM VALUE

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ABSTRACT

This research is based on the importance of companies knowing the factors that can affect the value of the firm in accordance with the development of the times so that the company can continue to survive in success in the long term. This study combines factors related to the company's non-financial performance, including sustainability performance such as ESG performance and the use of independent assurance in sustainability reports as well as other non-financial performance such as the quality of external audits, related party transactions, and political connections to determine the influence of these factors on the firm's value. The method used in this study is a panel data regression analysis method using e-views 9 with a sample of companies in the energy and basic materials sectors listed on the Indonesia Stock Exchange (IDX) in 2021-2023. The results of this study show that the quality of external audits, related party transactions, political connections, environmental performance (ESG_Environment), social performance to employees (ESG_Social Employees) and the use of independent assurance in sustainability reports have no effect on firm value while, social performance to the community (ESG_Social Community) and governance performance (ESG_Governance) have a positive effect on firm value.

KEYWORDS	*Firm value, Sustainability Factors, Non-Financial Factors, Energy Sector and Basic materials Sector*

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INTRODUCTION

Firm value is formed from a long process through a series of activities and decisions taken by the company. Understanding the trends in factors that affect firm value and the criteria used by investors to assess a company is important so that the company can continue to increase and maintain value and gain the trust of investors and other related parties. A company's value is often associated with its stock price, where an increase in stock price indicates investors' perception of an increase in company value. In addition, an increasing share price also illustrates an increase in investor confidence in the company's current performance and future prospects. Some cases of loss of investor confidence characterized by a decline in the company's share price include the case of financial statement manipulation committed by PT Garuda Indonesia, the case of alleged environmental violations committed by PT RMK *Energy* and the case of a decline in the share price of PT SBT Fast Food after being protested by its employees. These events show that there are many factors that can affect firm value, both from factors related to financial performance and non-financial performance, including sustainability performance. Therefore, this study seeks to combine factors related to non-financial performance including sustainability performance owned by companies that have been carried out by previous researchers in order to further comprehend the understanding of what factors can affect firm value.

Non-financial factors that can affect firm value include external audit quality. Audit quality is considered one of the factors that can have an impact on firm value because investors (shareholders) until now still depend on and require audited financial reports as a basis for determining their investment decisions, so that audits conducted by external parties are important to do because they can increase the confidence of users of financial statements in the truth of the values presented by management in the report (Nurasiah & Riswandari, 2023). A quality audit can ultimately help improve the quality of decision making by shareholders or other *stakeholders*. Companies that have high audit quality can minimize the risk of audit failure so as to prevent fraud and excessive use of *earnings management* by the company, thereby increasing investor confidence and other stakeholders and are expected to increase company value.

Furthermore, transactions with related parties carried out by the company are things that need attention in connection with efforts to increase transparency and gain the trust of *stakeholders* which is ultimately reflected in the company's share price (Hendratama & Barokah, 2020). There are two views regarding related party transactions, the first view considers that related party transactions can increase firm value because they are considered efficient transactions while the second view considers related party transactions are closely related to opportunistic behavior and *agency problems* arising from the possibility of related parties taking over company resources to increase their own interests and charging the remaining losses to minority shareholders who are not involved in related party transactions (Wulandari et al., 2022). Previous research produces different research results (Ashrafi et al., 2020; Hendratama & Barokah, 2020; Ismail et al., 2022) state that *related* party transactions such as *related party sales* have a negative effect on firm value while (Anggala & Basana, 2020; Diab et al., 2019) state that *related* party transactions do not affect firm value. According to Tambunan (2017), related *party* sales and related party purchases have a positive effect on firm value and Rasheed (2023) states that related party transactions have a positive effect because they can increase company efficiency. The inconsistency of existing views and research results related to transactions with related parties needs to be a concern for company management regarding how companies need to manage their related party transactions properly in order to continue to gain *stakeholder* trust.

Companies that have political connections are considered to affect firm value because political connections are closely related to the political conditions of a country that can affect economic stability and performance, thus becoming a factor that affects stock price movements and investment returns. This is a basic consideration for investors in making investment decisions (Pratama & Setiawan, 2019). In Indonesia, the movement of stock prices of politically affiliated companies in Indonesia will follow the fate of the ruling government (Ika, 2020). Companies that have political connections can get easier access to funding and favorable regulatory conditions for their business activities because they have a competitive advantage that other companies do not necessarily have, namely support from the government (Chung et al., 2019). This competitive advantage encourages investors' desire to choose companies that have political connections when investing, because it is believed that political relations can provide additional benefits for the company.

Along with the increasing interest of investors and the awareness of the global community on issues related to sustainability, investors' views on corporate value have begun to change. Investors began to consider how company management manages the *Environmental, Social, Governance (ESG)* aspects of the company (Adhi, 2023). ESG performance that is increasingly considered by stakeholders makes companies need to increase their efforts and focus on sustainability aspects in order to produce good and optimal sustainability (ESG) performance (Aydogmus, 2022). Good ESG performance can provide public legitimacy in the form of increased trust, support, and acceptance from various stakeholders towards a company so that it is expected to increase the company's success in the long term. The preparation of sustainability reports as a form of transparency on ESG performance carried out by companies has become *mandatory* in Indonesia, especially for Financial Services Institutions (FSIs), Issuers, and Public Companies after the Financial Services Authority (OJK) Regulation Number 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies. As a medium of communication and information related to economic, social, environmental performance and even corporate governance, the information contained in the sustainability report must be information that reflects the actual state of the company so that it can be relied on by users of the report and can reduce information asymmetry. *Greenwashing* behavior raises stakeholders' concerns about the quality of sustainability reports. To be able to ensure reliability and erode the concerns of these stakeholders, the use of *independent assurance* of a company's sustainability report can make stakeholders trust the information contained in the report more. The use of *independent assurance* is an effort made by companies to ensure transparency and reliability of their sustainability reports in the eyes of stakeholders (Thompson, 2022), so as to increase the trust of investors and other stakeholders which in turn can increase the value of the company.

Based on the background that has been mentioned, the author is interested in conducting re-research by combining several variables that are considered to affect the firm's value, including the quality of external audits, related party transactions, and political connections, including other non-financial factors related to sustainability issues, namely ESG performance and the use of independent assurance in sustainability reports as conducted by the previous researcher, Nurasiah and Riswandari (2023) related to the quality of external audits, Hendratama and Barokah (2020) related to related party transactions and Chung et al (2019) related to political connections, Aydogmus (2022) related to ESG performance and Thompson (2020) related to the use of independent assurance to find out more comprehensively what factors can affect the firm's value. The difference between this study and the previous study is that this study seeks to more comprehensively explain the factors that are considered to affect the firm's value, both from sustainability issues such as ESG performance which is measured using ESG scores published by independent institutions such as CSRHub and the use of independent assurance in sustainability reports which are still rarely used by companies in Indonesia as well as from other non-financial factors that are considered to be including the quality of external audits, transactions with related parties and political connections.

This study uses *energy* and *basic material* sector companies listed on the Indonesia Stock Exchange (IDX) for 2021-2023 as research objects. *Energy* and *basic materials* sector companies were chosen because both types of sectors have a high dependence on natural resources in their operational activities, and can have a significant impact, especially on the environment and are prone to conflict with the community. In addition, companies belonging to these two sectors are generally in a strict regulatory environment and have a high level of operational and financial complexity because they are related to long-term projects, so it is expected to provide a more comprehensive picture of the factors that can affect company value.

RESEARCH METHOD

Research is conducted by testing hypotheses to obtain empirical evidence regarding the effect of external audit quality, related party transactions, political connections, ESG performance consisting of environmental performance (*ESG_Environment performance*), social performance (ESG_Social *Community Performance* and ESG_Social *Employee Performance*), and governance performance (ESG_Governance Performance) as well as *independent assurance* on sustainability reports on firm value. This study uses quantitative data in the form of secondary data obtained from financial reports, annual reports, and sustainability reports of *energy* and *basic materials* sector companies listed on the Indonesia Stock Exchange (IDX) for 2021-2023, data from third parties such as CSRHub institutions and news articles.

This study uses a sampling technique using purposive sampling method and uses unbalanced data. The sampling criteria are as follows:

1. *Energy* and *basic material* sector companies listed on the Indonesia Stock Exchange (IDX) in 2021-2023;
2. *Energy* and *basic materials* sector companies that publish complete financial reports, annual reports and sustainability reports for the 2021-2023 period both on the company's official website and the IDX;
3. *Energy* and *basic materials* sector companies fully assessed for Environmental, Social, Governance performance by CSRHub
4. Companies that have sales transactions with related parties

Table 1 Operational Definition and Measurement of Variables

Variables	**Measurement**
Company Value	Price to Book Value Ratio Source: Hendratama and Barokah (2020)
External Audit Quality	*Dummy* variable 1 = If the company is audited by the Big 4 Public Accounting Firm (KAP) and its affiliates 0 = If the company is audited by KAP other than Big 4 and its affiliates Source: Nurasiah and Riswandari (2023)
Related Party Transactions	Ratio of sales to related parties as measured by sales to related parties divided by total assets Source: (Hendratama and Barokah, 2020)
Political Connections	*Dummy* variable 1 = If the company's majority shareholder is the government and/or if the company's top officer (President Commissioner) has political connections 0 = if the majority shareholder of the company is not the government and if the top officer (President Commissioner) of the company does not have political connections Source: Ika (2020)
Environmental, Social, Governance (ESG) Performance	ESG score/rating published by rating agency CSRHub which consists of 4 (four) categories and each represents 3 (three) pillars of ESG performance, namely the environment category which represents environmental performance, the community/society and employees category which represents social performance, and the governance category which represents governance performance.
Independent assurance on Sustainability Report	*Dummy* variable 1 = If a company's sustainability report uses independent assurance services 0 = If a company's sustainability report does not use independent assurance services Source: Thompson (2022)
Firm size	*Firm size* = Ln (Total Assets) Source: Harymawan (2020)
Liquidity	Current Ratio

Variables	Measurement
	Source: Harymawan (2020)
Leverage	Debt to Asset Ratio Source: Hendratama and Barokah (2020)

The data analysis method used is the panel data regression method with the help of *E-views 9 software*, one of the three approaches will be selected between the *Common Effect Model* (CEM), *Fixed Effect Model (*FEM), or *Random Effect Model* (REM) method by conducting the Chow test, Hausman test, and Lagrangge-Multiplier (LM) test. The Chow test is used to compare methods between CEM and FEM, the Hausman test compares methods between REM and FEM, and the LM test compares methods between CEM and REM. Furthermore, the classical assumption test and the F test and T test will be conducted.
The regression analysis model in this study is:

$$\mathbf{NP_{it} = \alpha + \beta 1KAE_{it} + \beta 2RPT_{it} + \beta 3KP + \beta 4EN\_SCORE_{it} + \beta 5C\_SCORE_{it} + \beta 6EM\_SCORE_{it} + \beta 7G\_SCORE_{it} + \beta 8IA_{it} + \beta 9FSZ_{it} + \beta 10LQT_{it} + \beta 11DAR_{it} + e_{it}}$$

RESULT AND DISCUSSION

Based on the results of *purposive sampling*, *the* number of samples that match the criteria for each year is obtained, namely in 2021 as many as 24 companies, in 2022 as many as 38 companies, and in 2023 as many as 44 companies so that the total suitable samples for these 3 (three) years are 106 companies. The descriptive statistical analysis test results for this study are as follows:

Table 2 Descriptive Statistical Test Results

Variables	**N**	**Minimum**	**Maximum**	**Mean**	**Standard Deviation**
NP	106	-4,10506	32,62409	2,44357	4,88656
RPT	106	0,00005	1,00726	0,20717	0,25023
EN_SCORE	106	32	67	50,30189	7,52415
C_SCORE	106	38	70	52,26415	6,87619
EM_SCORE	106	23	79	54,78302	9,50188
G_SCORE	106	28	70	48,38679	8,06116
FSZ	106	27,52607	32,76456	30,68664	1,30830
LQT	106	0,34252	9,44517	2,01417	1,39806
DAR	106	0,05544	1,35267	0,45283	0,21547

Source: Data processed (*E-views 9)*

The Model Selection Test results are as follows:

Table 3 Chow Test and Hausman Test Results

Chow Test				
Effect Test	**Statistic**	**d.f.**	**Prob.**	**Conclusion**

Cross-section F	37,167600	(45,49)	0,0000	FEM
Cross-section Chi-Square	377,270470	45	0,0000	
Hausman Test				
Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**	**Conclusion**
Cross-section random	20,699237	11	0,0366	FEM

Source: Data processed (*E-views* 9)

The chow test results show that the probability of Cross-section F is 0.0000 below the value of 0.05, it can be concluded that based on the chow test results the most appropriate panel data model is the *Fixed Effect Model* (FEM) and needs to be continued with the hausman test. The hausman test results show that the probability value of the cross-section random is 0.0210 where the amount is less than 0.05 so it can be concluded that the selected model is the *Fixed Effect Model* (FEM).

Classical Assumption Test Results

The model selected for this study is the Fixed Effect Model (FEM) which uses the OLS approach. Napitupulu et al. (2021: 120) explain that in panel data regression with the OLS method, the relevant classical assumption tests are multicollinearity test and heteroscedasticity test. The following are the results of the classical assumption test for this study:

Table 4 Multicollinearity Test Results

	KAE	**RPT**	**KP**	**EN SCORE**	**C SCORE**	**EM SCORE**	**G SCORE**	**IA**	**FSZ**	**LQT**	**DAR**
KAE	1	-0,05	0,09	0,35	0,47	0,39	0,36	0,09	0,41	0,19	-0,06
RPT	-0,05	1	0,07	-0,21	-0,33	-0,24	-0,33	0,10	-0,29	0,12	-0,07
KP	0,09	0,07	1	-0,13	-0,11	-0,11	0,00	-0,03	0,20	-0,10	0,26
EN_SCORE	0,35	-0,21	-0,13	1	0,75	0,60	0,43	0,13	0,21	0,17	-0,15
C_SCORE	0,47	-0,33	-0,11	0,75	1	0,81	0,68	0,24	0,47	0,17	-0,12
EM_SCORE	0,39	-0,24	0,11	0,60	0,81	1	0,68	0,23	0,42	0,10	0,09
G_SCORE	0,36	-0,33	0,00	0,43	0,68	0,68	1	0,35	0,42	0,14	0,04
IA	0,09	0,10	-0,03	0,13	0,24	0,23	0,35	1	0,18	0,00	-0,04
FSZ	0,41	-0,29	0,20	0,21	0,47	0,42	0,42	0,18	1	0,03	0,14
LQT	0,19	0,12	-0,10	0,17	0,17	0,10	0,14	0,00	0,03	1	-0,53
DAR	-0,06	-0,07	0,26	-0,15	-0,12	0,09	0,04	-0,04	0,14	-0,53	1

Source: Data processed (E-views 9)

Based on the table above, it can be seen that the correlation coefficient value between variables <0.85, it can be concluded that it is free of muticollinearity or passes the multicollinearity test (Napitupulu et al., 2021: 141).

Table 4 Heteroscedasticity Test Results

Variables	**Glesjer Probability**
KAE	0,5640
RPT	0,6743
KP	0,2534
EN_SCORE	0,5560
C_SCORE	0,8873

EM_SCORE	0,4196
G_SCORE	0,8681
IA	0,9684
FSZ	0,1595
LQT	0,4023
DAR	0,1023

Source: Data processed (*E-views* 9)

Based on the table above, it can be seen that the Prob value. glejser heteroscedasticity test for all variables> 0.05, it can be said that the regression equation model does not experience heteroscedasticity or passes the heteroscedasticity test.

The results of the Hypothesis Test with the FEM Model are as follows:

Table 5 Hypothesis Test Results

Variables	**Prediction Direction**	**Coeffi-cient**	**Prob./Sig.***	**Conclusion**
C		88,63873	0,00025	
Independent Variable				
KAE	+	0,899514	0,32775	H1 rejected
RPT	-	0,351236	0,43640	H2 rejected
KP	+	0,975458	0,25020	H3 is rejected
EN_SCORE	+	-0,090944	0,02520	H4a is rejected
C_SCORE	+	0,134624	0,01155	**H4b accepted**
EM_SCORE	+	-0,075805	0,01595	H4c rejected
G_SCORE	+	0,094312	0,03905	**H4d accepted**
IA	+	-0,045969	0,48235	H5 is rejected
Control Variables				
FSZ		-3,150619	0,00020	
LQT		0,272156	0,20230	
DAR		12,94595	0,00070	
Adjusted R-Square			0,946466	
Probability F-Stat			0,000000	

Source: Data processed (*E-views* 9)

The Determination Coefficient Test based on the table above shows that the Adjusted R-squared (R2) value is 0.946466 or 94.6466%. This value indicates that the independent variables consisting of External Audit Quality (KAE), Related Party Transactions (RPT), Political Connections (KP), *ESG_Environment* Performance (EN_SCORE), *ESG_Social Community* Performance (C_SCORE), *ESG_Social Employee* Performance (EM_SCORE), ESG-Governance Performance (G_SCORE), *Independent assurance* (IA) and control variables, namely *Firm size (*FSZ), Liquidity (LQT) and Leverage (DAR), are able to explain the dependent variable Company Value (NP) by 94.6466%, while the remaining 5.3534% (100 - adjusted R Square value) is explained by other variables not included in this research model.

The F test based on the table above shows that the probability value of the F-statistic is 0.000000 less than 0.05, then Ho is rejected and Ha is accepted, meaning that External Audit Quality, Related Party Transactions, Political Connections, *ESG_Environment* Performance, *ESG_Social Community Performance, ESG_Social Employee* Performance, ESG_Governance Performance and *Independent assurance* on sustainability reports simultaneously affect Company Value.

The T test is conducted to determine whether there is a partial influence of the independent variable. The decision in this study will be based on a significance value or alpha of 5%. The following is an explanation of the T test results.

The Effect of External Audit Quality on Firm Value

Based on the results of the study, it is concluded that external audit quality has no effect on firm value, so the first hypothesis is rejected. This is not in line with agency theory which says that quality audits can increase investor confidence in financial reports, reduce information asymmetry, and prevent fraud. The study shows a mismatch with signal theory which says that quality audits can be used by companies as a positive signal regarding the company's reliability and credibility which can increase stakeholder confidence. These findings are also different from previous research by (Haa & Minhb, 2020; Nurasiah & Riswandari, 2023; Wijaya, 2020) which state that audit quality has a positive effect on firm value. The results of this study are consistent with the results of research by (Lestari & Roshinta, 2022; Meirini & Khoiriawati, 2021) which state that audit quality has no effect on firm value. Investors and stakeholders may not consider the quality of external audits with the presence of KAP Big 4 as the main credibility factor in company valuation. This can be caused by the increasing recognition of KAP-KAP that is not affiliated with the Big 4 but has partnered and become a member of various KAPs that have been operating globally / internationally and doubts about the quality of Big 4 audits revealed in several cases of financial statement manipulation. The ownership structure of companies in the energy and basic materials sector may also reduce significant consideration of external audit quality by investors because generally in this sector it is owned by parties who have majority ownership so that they can control company resources and information asymmetry becomes less significant.

The Effect of Related Party Transactions on Firm Value

Based on the research results, it is concluded that related party transactions proxied by sales to related parties have no effect on firm value so that the second hypothesis (H2) is rejected. The results of this study are not in line with agency theory which considers related party transactions as a potential agency problem because they can be used for personal gain, reduce investor confidence, and harm minority shareholders. In addition, it is not in accordance with the signaling theory which states that the amount of related party transactions with very large or disproportionate related parties can provide negative signals to the market, thereby reducing stakeholder confidence. This study also does not support previous findings by Hendarama and Barokah (2020) and Zimon (2021)which show the negative impact of related party transactions on firm value. The results of this study are consistent with the results of (Abigail & Dharmastuti, 2022; Anggala & Basana, 2020;

Roselina & Kanti, 2022) which state that related party transactions do not affect firm value. Regulations in Indonesia that require the treatment of related party transactions in accordance with the *arms-length* principle and adequate disclosure in the financial statements may explain why investors do not consider related party transactions as a significant valuation factor for firm value. In addition, companies in the *energy* and *basic materials* sectors typically engage in complex transactions with multiple related parties. As this is common, investors may be accustomed to this practice and do not consider it as a major valuation factor for the value of the Company.

The Effect of Political Connection on Firm Value

Based on the results of the study, it shows that political connections have no effect on firm value, so the third hypothesis (H3) is rejected. The results of this study are not in line with *resource dependence theory* which states that organizations can use political mechanisms to create an environment that supports their interests, thereby gaining a competitive advantage and increasing investor confidence in firm value. In addition, it is also not in line with *signaling theory* which states that companies can use their political connections as a signal that the company has a competitive advantage that can increase the desire and trust of investors and stakeholders regarding company sustainability. The results of this study are also inconsistent with the results of previous studies by (Abdel-Fattah et al., 2020; Ika et al., 2021; Ismail et al., 2022; Pratama & Setiawan, 2019), which show that political connections can have a positive impact on firm value by generating competitive advantages that companies without political connections do not have. The results of this study are consistent with research conducted by (Fitriana & Muslim, 2023), which states that political connections have no effect on firm value. This may be due to the perception that political connections do not provide clear concrete benefits to the company and whether political connections can increase company stability. In addition, the 1998 reforms that emphasized transparency and sound business practices have strengthened institutions in Indonesia, making it more difficult for companies to gain special advantages through political connections. Political connections that do not have a significant impact can also be caused by the quality of relationships from political connections that do not provide important access to resources or significant business opportunities for the company. Thus, investors do not see the company having a competitive advantage as something that can increase confidence in future business continuity.

The Effect of Environmental Performance (ESG_ *Environment* Performance) on Company Value

Based on the results of the study, it shows that environmental performance has no effect on firm value, so the fourth hypothesis part a (H4a) is rejected. This research is not in line with *stakeholder theory* and *legitimacy theory* which indicate that good environmental performance can build positive relationships between companies, investors, and other stakeholders. Based on *stakeholder theory* and *legitimacy theory* how companies are responsible for environmental performance can be an indicator that the company considers the interests of other parties so that with good environmental performance it can give a positive impression and establish a good relationship between the company and its stakeholders. In addition, the results of this study are not in line with signaling theory which states that companies can use optimal environmental performance as a positive signal to stakeholders that the company has been able to manage its environmental risks. These results are also different from the research of (Azahra & Hasnawati, 2024; Yu & Xiao, 2022) which show that environmental performance has a positive influence on firm value because it increases the positive perception of stakeholders. This study is in line with research by (Arlita, 2019; Soedjatmiko et al., 2021) which shows that environmental performance has no effect on firm value. Investors tend not to consider environmental performance in their valuation because the impact is slow to be felt and the large costs that need to be incurred by the company to increase its commitment to environmental performance can reduce the company's short-term profits making investors less interested in improving environmental performance. In addition, companies in the *energy* and *basic materials* sectors are sensitive to environmental regulations, so this may have been anticipated by the market and investors. This means that even if firms improve their environmental performance, the direct impact on firm value in the short term may be limited as the market has already priced in the implications of regulation and other environmental factors.

The Effect of Social Performance to the *Community* (ESG_ *Social Community* Performance) on Company Value

Based on the research results, it is known that social performance to the community (ESG_Social *Community* Performance) has a positive effect on firm value so that the fourth hypothesis part b (H4b) is accepted. The results of this study are in line with stakeholder theory and legitimacy theory which state that optimal social performance to the community can give a positive impression of the company. High or optimal management of social performance to the community can be an indicator that the company has considered the interests of other parties which in turn can give a positive impression and establish good relations between the company and its stakeholders. In addition, the results of this study are in line with signaling theory which states that companies can use optimal social performance to their communities as a positive signal to stakeholders that the company has been able to manage its social risks and can increase business sustainability so as to increase stakeholder confidence in the company due to a positive impression of the company.

This research is consistent with the results of research by Aydogmus (2022), Yu (2022), and Mendez (2023) which show that corporate social performance has a positive effect on firm value. Good management of social performance to the community can increase stakeholder satisfaction, affect the company's reputation, and make the company more accepted in society. In addition, optimal management of social performance to the community can also reduce social risks such as legal, operational, and reputational risks, which can arise from stakeholder complaints because in the *energy* and *basic materials* sector, the operations of companies in this sector often have a negative impact on the surrounding community if not managed properly. Good social performance to the community also helps companies gain permission and support from governments and local communities, streamlining operations and supporting strategic partnerships that support growth and innovation. By building a positive reputation and good relationships with stakeholders, companies can increase their long-term value by gaining continued acceptance, trust and support.

The Effect of Social Performance to Employees (ESG_ *Social Employee* Performance) on Company Value

Based on the research results, it is known that social performance to employees (ESG_Social *Employee* Performance) has no effect on firm value so that the fourth hypothesis part c (H4c) is rejected. The results of this study are not in line with *Stakeholder Theory* and *Legitimacy Theory* where based on *Stakeholder Theory* and *Legitimacy Theory* how the company is responsible for its social performance can be an indicator that the company considers the interests of other parties so that with good social performance it can give a positive impression and establish a good relationship between the company and its stakeholders. In addition, the results of this study are inconsistent with the results of research conducted by Aydogmus (2022), Yu (2022), and Mendez (2023) which state that corporate social performance should be able to positively affect firm value through stakeholder satisfaction and corporate reputation. In addition, the results of this study are not in line with signaling theory which states that companies can use ESG performance or in this case social performance to their optimal employees as a positive signal to stakeholders that the company has been able to manage its social risks and can improve business sustainability.

This research is in line with the research of (Azahra & Hasnawati, 2024; Xaviera & Rahman, 2023) which states that social performance has no effect on firm value. Social performance to employees has no effect on firm value can occur due to several things, namely the lack of appreciation of non-financial aspects or corporate sustainability performance for corporate social performance to employees because the impact of this performance tends to be seen in the long term so that it is slow to be felt by investors. In addition, in the energy and *basic materials* sectors, which are more vulnerable to economic factors such as global demand, commodity prices and operational efficiency, investors still focus on financial performance. In developing countries, prospective employees have not been able to selectively choose jobs related to which companies have good social performance management arrangements and policies towards employees because there are still many of them who need employment, this makes the employees themselves as stakeholders involved not too focused on the social performance given by the company over them. In addition, stakeholders such as communities and consumers have not fully realized the importance of corporate social performance in choosing products and only focus on product availability and price (Xaviera, 2023). In addition, challenges in communication and limitations in conveying information about corporate social performance can also reduce the effectiveness of companies' efforts to increase their value.

The Effect of Governance Performance (*ESG_Governenace* Performance) on Firm Value

Based on the research results, it is known that governance performance (ESG_Governance) has a positive effect on firm value, so the fourth hypothesis part d (H4d) is accepted. Corporate governance performance has a positive impact on firm value in accordance with *stakeholder theory* and *legitimacy theory*, which emphasize the importance of meeting the expectations and interests of various parties involved and managing the interests of all stakeholders to increase trust and relationships with investors and other stakeholders. In addition, the results of this study are in line with signaling theory which states that companies can use information about ESG performance, in this case high or optimal governance performance, as a positive signal to stakeholders that the company has been able to manage its governance-related risks well. The results of this study are in line with Aydogmus (2022), Yu (2022), and Xaviera (2023) who state that corporate governance performance has a positive effect on firm value. This can occur because stakeholders want transparency to reduce information asymmetry and ensure company compliance with shareholder interests (Xaviera, 2023). Companies with good governance are considered capable of aligning the interests of shareholders and company management (Prabawati & Rahmawati, 2022). Companies that focus on improving governance and producing good governance practices will receive added value from investors because the company is considered to have been able to adjust the interests of the company's stakeholders with the interests of the company's own management.

The Effect of *Independent assurance* on Sustainability Report on Company Value

Based on the results of the study, it is known that *independent assurance* in sustainability reports has no effect on firm value, so the fifth hypothesis (H5) is rejected. The results of this study are not in accordance with *legitimacy theory* which states that the use of *independent assurance* services in sustainability reports can increase investor and stakeholder confidence in the information presented, thereby avoiding making wrong investment decisions, strengthening company legitimacy and ultimately increasing their value through increased trust from these investors and stakeholders. In addition, this study is not in line with *signaling theory* which says that the use of *independent assurance* can be used by companies as a positive signal regarding the company's reliability and credibility which can increase stakeholder confidence. The results of this study are inconsistent with the results of research conducted by (Friske et al., 2023; Harymawan et al., 2020; Thompson et al., 2022) which state that the use of *independent assurance* in sustainability reports has a positive effect on firm value because it can reduce information asymmetry between companies and report users so as to increase the trust of report users in sustainability reports that have been guaranteed by *independent assurance*.

The results of this study are in line with studies by Rahmansyah (2015) and Aprilia (2021) which show that *external /* independent *assurance has* no effect on firm value and Anisa (2023) which states that the use of external assurance to improve the quality of sustainability reports has no impact on increasing firm value.

This may occur because investors still consider financial performance as the main parameter in assessing and determining company value, while they do not fully appreciate non-financial performance. Therefore, the use of *assurance* services to verify non-financial performance information in sustainability reports has not been a significant factor in the assessment of firm value by investors. Another reason is that there is sufficient trust from investors in the information presented in the sustainability report because the company's own internal parties have conducted assurance. In addition, the absence of regulations requiring sustainability reports to be guaranteed by external parties indicates that the use of independent *assurance* services is not yet something important and significant so that the impact will be felt if the company does not guarantee its sustainability report so that it can make investors pay less attention to the use of *independent assurance in* the company's sustainability report.

CONCLUSION

Based on the results of data analysis that has been carried out, it can be concluded that the quality of external audits, transactions with related parties, and political connections, environmental performance (*ESG_Environment*), social performance to employees (ESG_Social *Employee*) and the use of *independent assurance* in sustainability reports have no effect on firm value. While social performance to the community (ESG_Social *Community* and corporate governance performance (ESG_Governance) have a positive effect on firm value.

The results of this study have several significant managerial implications. First, this study is expected to enrich the literature in accounting by contributing to further understanding of how external audit quality, transactions with related parties, political connections, ESG performance, and the use of *independent assurance* in sustainability reports can affect firm value. This implication also provides direction for further research on factors that affect firm value. Second, this study highlights the importance of improving social performance to the community as it can enhance the company's reputation and help the company to increase strategic partnerships that can benefit its operations and governance performance within the company to meet the expectations of investors and other stakeholders regarding transparency and reduction of information asymmetry, with the aim of increasing their trust and ultimately, increasing the company's value. Third, for investors and other stakeholders, this study provides a tool to evaluate factors that could potentially affect a company's valuation before they make investment or policy decisions.

This study has a number of limitations, including some companies that have not published financial, annual, and sustainability reports until May 31, 2023 and have not fully published the required reports and have not been fully assessed for ESG performance by the CSRHub Institute so that these companies are eliminated from sampling in this study.

Suggestions for future research include further research can consider using additional data sources that are more comprehensive, especially related to political connection variables, to ensure more accurate results related to the influence of political connections on companies. Second, using ESG performance assessments from external institutions such as Bloomberg, Refinitiv, or other sources that have conducted ESG performance assessments of companies with a wider scope so as to increase the number of companies that can be sampled in the study, so that the results are more representative. Third, for better relevance to current conditions, future research is recommended to add other more relevant independent variables, so as to provide a better understanding of the factors that affect the value of the company today.

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