CHAPTER I

INTRODUCTION

A. Background

Rapid changes in economic conditions followed by high innovation can be a condition that gives rise to the development of adaptive business strategies to be able to maintain the company's competitive advantage. Companies that are able to maintain their competitive advantage can indirectly create higher firm value for stakeholders compared to their competitors Sunarsih (2017). According to Dj et al., (2012), if the firm value is high, the share price will be higher and shareholder prosperity will also increase.

However, in this research, the author's focus is more on the phenomenon of falling stock prices. Indirectly gives the signals that there is a decline in firm value. Mining companies were chosen as research objects because the phenomenon of mining company share price movements is very volatile and tends to decline in recent years. One of the drastic declines in mining company share prices occurred in mid-2023. As reported by Setiawati (2023) on the CNBC Indonesia website, it showed that the share prices of 11 mining companies on the Indonesian Stock Exchange dropped drastically and movements reached up to -1.65%. One of the companies that experienced a decline in share prices was PT Adaro Energy Indonesia, which in April 2023 had reached Rp. 3,100, decreasing to Rp. 2,040 on May 31, 2023. The fall in mining company share prices was partly caused by inflation that occurred in China in June 2023, the decline was proximately in the consumer price index to 0%. This condition has a big influence on the share prices of mining companies in Indonesia because China is the largest coal consumer in the world. This condition definitely becomes a concern for mining business due to the phenomenon of falling company share prices that have occurred in recent years.

The success of a company is determined by the high value of the company. Firm value is the price that must be paid by someone who wants the company Brigham & Houston (2011). The high value of the company will make the market confident about the firm's performance at that time or in the future. Investors consider company value to be crucial because firm value can describe many things, such as firm’s performance, achievements, and public trust in the company (Kurniawan, 2018).

Therefore, companies must start implementing things that can increase firm’s value. Guarantees that the firm’s value will grow sustainably must be balanced with attention to the environmental sector. Therefore, corporate social responsibility will add value to firm’s value because firm’s value can also be influenced by the non-financial sector. There are several aspects to measure company value, namely PER, PBV, and Tobin's Q. In Mazida & Purwantini (2020) research, it measured firm’s value uses Tobin's Q, thus this research also use Tobin's Q. The Tobin's Q ratio is considered better than the tool another measure, because measurement with Tobin's Q needs to include capital, debt and all company assets (Wulandari & Widyawati, 2020). There are several factors that can influence the firm’s value. One of which is the social responsibility factor or what is more often known as CSR (Corporate Social Responsibility).

The definition of CSR according to Fathina (2022), CSR is a company in carrying out its business operations is not only concerned with itself but must be in line with ethical values, comply with applicable legal regulations and company activities that prioritize social and environmental aspects or in other words prioritize the interests of stakeholders (other interested parties). In the Al-Qur'an, it is also explained in surah Al-A’raf 56:

وَلَا تُفْسِدُوا فِي الْأَرْضِ اإِصْلَبَعْدَ احِهَ وَادْعُوهُ خَوْفًا وَطَمَعًا ۚ إِنَّ

رَحْمَتَ اللَّهِ قَرِيبٌ مِنَ الْمُحْسِنِينَ

Meaning:

"And do not cause damage on the earth, after (Allah) has repaired it and pray to Him with fear (it will not be accepted) and hope (it will be granted). Indeed, Allah's mercy is very close to those who do good."

According to Elkington (1997), companies must apply the triple bottom line concept, where the company is said to have good performance if the company is able to achieve profits followed by achieving social and environmental aspects around the company. However, there are some companies that are still reluctant to apply this concept when carrying out company business activities. Quoted from Kompasiana.com (2011), PT Lapindo Brantas, where mud victims experienced property losses and lost their homes due to gas exploitation. At that time, many residents had to be rushed to hospital, while the company focused on saving their assets Ramadhani & Hadiprajitno (2012). Careless dumping of waste and forced land clearing (forest burning) are some of the causes of environmental damage by mining companies.

Companies that are able to find opportunities should realize that currently, companies maximize performance not only for the interests of shareholders but also stakeholders (Daniri & Hakim, 2009). CSR is no longer just a discourse but has become an urgency so that companies in carrying out their business activities are not only responsible for achieving profits for investors but are also responsible for social and environmental aspects around the company as regulated by Law of the Republic of Indonesia No. 40 Year 2007 on Limited Liability Companies (BKPM).

The company will disclose information that is considered to increase the value of the company. Companies believe that the more CSR activities they disclose, the more value they will add to the company because the market reacts positively to companies that carry out CSR, which is shown through an increase in the company's share price (Hutabarat & Siswantaya, 2018). Although much research has been conducted on CSR, the results still show some inconsistencies. In research by Candra & Cipta (2022), Adiputra & Hermawan (2020), and Ammarwaty et al., (2021), it is suggested that Corporate Social Responsibility (CSR) has a positive influence on firm’s value. However, there are several contradictory studies, such as research by Muawanah & Hayati (2019) and Sabatini & Sudana (2019) which is said that CSR has a negative effect on firm’s value. Differences in samples and study years may be the cause of the differences.

The next factor that influences firm’s value is firm size. Firm size is considered to be able to influence the company's market value because the larger the company's scale is, the easier it is for the company to obtain funding sources from both creditors and investors. Research conducted by Satria Bagaskara et al., (2021), states that firm size will provide a positive signal for investors, thus influencing their interest in investing capital in the company.

Firm size is the size of the company seen from the size of its equity value, sales value or asset value (Riyanto, 2008). Large companies tend to be easily recognized by the public and the information provided is easier to access, allowing investors to obtain information to analyze the firm’s performance when investing. When a large company has total assets with a fairly large asset value, it is able to attract investors to invest in the company (Suwardika & Mustanda, 2017).

The size of the company can be reflected through several indicators, namely funding in terms of equity, sales, and total company assets. According to Riyadi (2019), the higher total assets of a company reflect the maturity of a company. Companies that have reached their maturity stage tend to have positive cash flows which enable the company to excel in its financial performance. Based on these conditions, it suggests that the larger the firm size, the easier it will be for the company to obtain funding sources from investors Rudangga & Sudiarta (2016). Similar to CSR research, in the firm size variable there are inconsistencies in the research results. As in the research of Kusna & Setijani (2018), Pratama & Wiksuana (2016), and Mazida & Purwantini (2020), they concluded that the results show that firm size has a significant positive effect on firm's value. In contrast, in research by Wufron (2017) and Adiputra & Hermawan (2020), they are advised that firm size has a negative influence on firm's value.

In research by Adhi & Cahyonowati (2023), it is stated that company value can also be influenced by Environmental, Social and Governance (ESG). ESG is a non-financial indicator that covers several aspects of social sustainability capabilities and corporate governance. These non-financial factors can also be indicators for investors in assessing a company. The research from Setyaningrum (2022), it is stated that The Association of Chartered Accountants explains that ESG is able to support firm's performance, identify the level of risk and business innovation and support long-term business sustainability. It can be interpreted that if a company is able to improve ESG, it will provide an advantage for a company.

In measuring firm's value, many researchers use ESG disclosure to determine the influence of ESG on investor decisions. ESG is considered to be one of the factors that can increase firm value because of the factors inherent in ESG which consist of environmental, social, and governance which can influence investor ethics in making investment decisions. Research by Melinda & Wardhani (2020), Fuadah et al., (2022), and Adhi & Cahyonowati (2023), it proves that there is a positive influence between ESG on firm's value. This shows that companies with high ESG will have better firm's value when compared to companies with lower ESG disclosures. Therefore, the researcher intends to see whether the ESG disclosure which is a moderating variable can influence the relationship between CSR and firm size with firm value.

This research refers to research conducted by Mazida & Purwantini (2020) regarding the influence of Corporate Social Responsibility (CSR) and Firm Size on Firm’s Value. The similarities between this research and previous research lie in the two independent variables used, namely the CSR variable and the firm size variable and the research media used both refer to mining companies in Indonesia.

The difference between this research and Mazida & Purwantini (2020) research is the difference in the moderating variables used. Previous research used earnings management as a moderating variable, while this research introduces a new variable as a moderator, namely ESG disclosure. The reason for adding the ESG disclosure moderating variable is because ESG disclosure is one of the factors that can influence a firm’s value in the eyes of investors. The existence of the ESG variable is also expected to be able to moderate the relationship between CSR and firm’s value because CSR and ESG have similar aspects, namely how companies demonstrate their responsibility for the impacts caused by the company's business activities by preserving the environment and social responsibility to society (Lutkevich, 2024).

Another difference is the research period. Previous research used data from mining companies registered on the IDX from 2008 - 2018, while this research will focus on the current conditions of mining companies in the 2020 - 2022 period. The determination of this period is based on phenomena that occur related to mining companies considering that in recent years, the share prices of mining companies have moved very fluctuating and are very sensitive to being influenced by certain conditions. Apart from that, mining companies are one of the industries whose business practices are in direct contact with natural resources. Indonesia, with its abundant natural resources and mining areas, attracts many investors into it, making the mining industry one of the industries that is relied upon for state income (Faroja, 2024). From another point of view, mining companies do not always have a positive impact but are also considered to have a negative impact. This is due to environmental damage caused by mining activities and quite a lot of losses caused to the environment and parties around the mining area. Therefore, mining companies are currently trying to improve their negative image through corporate CSR programs.

Based on the explanation above, researchers are interested in conducting research with the title "The Influence of Corporate Social Responsibility Disclosure and Firm Size on Firm Value with ESG Disclosure as a Moderating Variable in Mining Companies Listed on the Indonesia Stock Exchange in 2020 - 2022."

B. Problem Formulation

Based on the background above, the formulation of this research problem is as follows:

1. Does Corporate Social Responsibility disclosure have a positive effect on the value of mining companies?
2. Does firm size have a positive effect on the value of mining companies?
3. Does the ESG disclosure moderate the relationship between Corporate Social Responsibility disclosure and Firm Value?
4. Does the ESG disclosure moderate the relationship between Firm Size and Firm value?

C. Research Goal

Based on the problem formulation, this research was conducted with the aim of testing and gaining knowledge about:

1. To empirically test the influence of Corporate Social Responsibility disclosure on the value of mining companies.
2. To empirically test the effect of Firm Size on the value of mining companies.

3. To empirically test the influence of ESG disclosure as a moderating variable in the relationship between Corporate Social Responsibility disclosure and Firm Value.
4. To empirically test the influence of ESG disclosure as a moderating variable in the relationship between Firm Size and Firm Value.

D. Benefits of Research

The benefits that the author hopes to gain from this research include the following:

1. Company Goes Public:
   This research is expected to become one of the company's considerations in determining the company's direction or in making decisions.
2. Benefits for investors:
   This research is expected to enable to add/ provide information for investors in making investment decisions.
3. Benefits for education:
   This research is expected to improve knowledge and provide benefits for further research.
4. Benefits for society:
   This research is expected to provide additional public understanding about Corporate Social Responsibility, Firm Size, and ESG