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IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY AND GOOD CORPORATE GOVERNANCE ON FIRM VALUES IN THE MINING SECTOR

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Abstract: The objective of this research is to investigate the effects of the mining industry's adoption of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR), as represented by the audit committees, independent commissioners, and board of directors, on company value. The study's secondary data sources were the annual reports and sustainability reports of mining businesses that were listed between 2018 and 2020 on the Indonesia Stock Exchange. Ten mining industry enterprises made up the sample, which was chosen using purposive sampling. Multiple linear regression analysis was employed to test the sample. The study's findings show that implementing CSR significantly and favourably affects a company's value. On the other hand, the application of GCG through the proxy of the board of directors has an insignificant and negative impact on firm value, independent commissioners have a large and positive impact on firm value, and audit committees have a positive and insignificant impact on firm value.

Keywords: corporate social responsibility, good corporate governance, firm value, mining sector

INTRODUCTION

One of the primary goals of a company is to enhance its firm value. Companies with a short-term orientation tend to prioritize profit maximization without considering social responsibility and often overlook the inherent risks associated with their business activities. To achieve this long-term goal, companies need to be aware of their responsibilities not only to economic aspects (especially towards shareholders) but also to all stakeholders, including

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society and the environment (Pramono et al., 2022). Today, investors view a healthy company not only from its economic performance but also from how the company addresses social concerns and environmental sustainability.

Corporate Social Responsibility (CSR) guides companies to shift their focus from a single bottom line to a triple bottom line approach, as proposed by Elkington (1998), which includes profit, people, and the planet. This shift is driven by the understanding that financial performance alone is insufficient to ensure sustainable firm value growth, Particularly when a corporation fails to consider the social and environmental consequences of its commercial operations (Rokhlinasari, 2016; Fajriah & Jumady, 2022). This research examines mining firms listed on the Indonesia Stock Exchange (IDX), recognizing these entities as part of the extractive industry sector, which is known for its substantial impact on both social and environmental dimensions. Due to the nature of their operations, which often lead to significant ecological and societal challenges, it is imperative for these companies to engage in CSR initiatives.

According to Law No. 40 of 2007 on Limited Liability Companies, Article 74, paragraph 1, businesses that engage in activities involving natural resources are obligated to uphold social and environmental responsibilities. This regulation highlights the necessity for such companies to consider the broader impact of their operations beyond mere profitability, ensuring they contribute positively to society and the environment. Through the effective implementation of CSR, Corporate entities have the ability to cultivate a favourable perception among the general population, particularly in the mining industry, which often faces high social and environmental risks. Effective CSR practices can enhance a company's reputation and public trust, as well as increase stakeholder support, ultimately contributing to the stability and growth of firm value. To measure the implementation of CSR in mining companies, this study uses the Global Reporting Initiative (GRI) index, which covers performance disclosure topics in economic, environmental, and social aspects.

Furthermore, enhancing firm value also requires sound governance and risk management, generally known as Good Corporate Governance (GCG). The implementation of GCG is a key prerequisite for mining companies listed on the IDX to ensure that their business is conducted transparently, fairly, and responsibly. GCG is also seen as an effective means of protecting against interpersonal conflicts of interest among shareholders and management, as well as minimizing agency costs (Farida et al., 2019; Worokinasih & Zaini, 2020). More broadly, GCG aims to regulate the relationships among all stakeholders so that their interests are proportionally met. In other words, the implementation of GCG can instill confidence in investors, as the company is perceived to be committed to managing risks that could harm the company in a more integrated and effective manner (Nurhidayanti et al., 2023).

In this case, the board of directors and the board of commissioners are chosen by the shareholders at the General Meeting of Shareholders (GMS). The board of directors, on behalf of the management, is in charge of supervising and controlling the business's assets and activities. As part of sound corporate governance, the board of commissioners, which includes independent commissioners, supports management performance supervision. The audit committee provides further support for this oversight in order to guarantee accountability and openness in the financial management reports that management prepares. These three components—the Board of Directors, Independent Commissioners, and Audit Committee—collectively contribute to effective corporate governance. Good governance can increase investor and stakeholder trust, reduce operational and legal risks, and build a strong public reputation and confidence, all of which are crucial for enhancing the firm's market value.

This research is prompted by the discrepancies noted in previous studies, particularly in terms of how CSR influences firm value. Some studies have reported that CSR activities positively impact firm value, indicating that engaging in responsible business practices can boost a company's market reputation and financial outcomes. However, the varied results in the existing literature highlight the ongoing debate and the need for additional research to better understand the true effect of CSR on firm value, such as those by Masruroh & Makaryanawati (2020); Karina & Setiadi (2020) & Pramono et al., (2022). Previous research, including those conducted by Afifah et al. (2021) and Yuvianita et al. (2022), discovered the lack of impact of CSR on firm value. In addition to the discrepancies in previous studies concerning CSR, there are also differing results regarding the effect of GCG on firm value. In this research, the researcher uses three proxies for GCG implementation: the Board of Directors, Independent Commissioners, and the Audit Committee. Previous research by Aryanto & Setyorini (2019) found that Independent commissioners appear devoid of any substantial impact on a firm's value, suggesting their governance role may not directly influence financial performance or market valuation. In contrast, the audit committee does impact firm value, emphasizing the importance of their responsibilities in financial oversight, ensuring regulatory compliance, and maintaining the integrity of financial reporting, which are crucial for enhancing the firm's market standing and investor confidence. Additionally, Nurhidayanti et al. (2023) stated that the board of directors and audit committee do not affect firm value, but independent commissioners do. Meanwhile, research by Munifah et al. (2022) showed that the board of directors, independent commissioners, and audit committees all affect firm value.

This research is prompted by the observed phenomena and inconsistent findings in prior studies, leading to an investigation into the effects of CSR and GCG on the firm value of mining companies listed on the IDX.

METHOD

This research examines mining companies listed on the IDX during the 2018-2020 period. Data were gathered from the sustainability reports of mining companies to observe the disclosure of CSR (X1) and from annual reports to observe proxies for GCG (X2). Additionally, data collection was aided by the websites of mining companies and the official IDX website (www.idx.co.id).

The research identified 63 mining companies as the population, utilizing a nonprobability sampling approach with purposive sampling as the technique. The criteria are as follows: (1) Mining companies that disclosed Good Corporate Governance in their annual reports between 2018-2020; (2) The GCG disclosure relates to the Board of Directors, Independent Commissioners, and Audit Committee; (3) Mining companies that disclosed sustainability reporting between 2018-2020. Following the purposive sampling approach, the study identified 10 mining companies as the sample, with observations spanning from 2018 to 2020. This resulted in a total of 30 data points, reflecting three years of observations for each company.

The dependent variable is the value of the firm, indicative of the investors' perception of a company's success and potential, frequently mirrored in its stock price. This valuation is intimately linked to the firm's market performance and the confidence it inspires in investors. Firm value is evaluated using Tobin's Q, which is a ratio comparing the market value of the firm to the replacement cost of its assets, calculated as follows:

$$Tobin's\ Q = \frac{Total\ Market\ Value + Total\ Book\ Value\ of\ Debt}{Total\ Book\ Value\ of\ Assets}$$

In this research, CSR is utilized as the first independent variable (X1) and is assessed through the Corporate Social Responsibility Disclosure Index (CSRDI), which follows the 2016 GRI Standards. This index comprises 136 distinct items that should be disclosed in a company's Sustainability Report. The CSRDI score is determined by a straightforward method: a score of 1 is given for each item disclosed, and a score of 0 is assigned if the item is not mentioned in the report. Subsequently, the items found in the Sustainability Report are totalled and incorporated into the CSRDI calculation formula as follows:

$$SRDI = \Sigma xii/nj$$

Description:
SRDI = Sustainability Report Disclosure Index.
∑ xii = Number of items disclosed by the Company
nj = Expected number of items (136 items for the 2016 GRI Standards)

GCG is examined as another independent variable in this research. An evaluation of its influence is conducted by examining indicators such as the makeup and responsibilities of the board of directors, the existence of independent commissioners, and the effectiveness of the audit committee. The measurements carried out as follows:

$$BoD = \Sigma total\ number\ of\ board\ of\ directors$$

Composition of Independent Commissioners based on IDX Regulations, dictate that companies must appoint independent commissioners to their board, specifying that these independent members must make up at least 30% of the entire board of commissioners.

$$IC = \frac{Independent\ Commissioner}{Total\ Board\ of\ Commissioners} \times 100\%$$

Total Number of Audit Committee

$$AC = \Sigma total\ number\ of\ audit\ committees$$

The study collects data using a documentation method, which sustainability reports and analyzing annual on the IDX for the years 2018 through 2020. This approach allows for a detailed review of the companies' financial and environmental disclosures. To analyze the data, the study employs descriptive statistical techniques, which include conducting classical assumption tests to ensure the reliability of the statistical methods used. Additionally, iterative hypothesis testing is conducted using multiple regression analysis, where the F test and t-test are used to evaluate the overall model and the statistical significance of individual variables.

RESULTS

Data Description

In this study, data for analysis comes from sustainability and annual reports published on the websites of IDX-listed mining companies for the period from 2018 to 2020. The descriptive statistics derived from this data are detailed in Table 1 below with the number of observations (N) from this study being 30 data samples:

Table 1 Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Deviation
CSR	30	0,2	0,7	0,491	0,123
Board of Directors	30	3	12	6,3	2,2
Independent Commissioner	30	25	60	38,9	7,0
Audit Committee	30	3	7	3,9	0,8
Firm Value	30	0,9	25,3	6,765	7,552

Classical Assumption Test Results

To evaluate the normality of the data distribution, utilize the Kolmogorov-Smirnov test. A sig 5% (0.05) is applied for this test. When the p-value (Sig.) it suggests data meets the normality assumption, indicating a normal distribution (Ghozali, 2018). The outcomes of the test are presented in Table 2, offering a comprehensive overview of how well the data adheres to the normality requirement.

According to normality test results based on Table 2, which employed the Kolmogorov-Smirnov method, the Asymptotic Significance (2-tailed) value is 0.137> 0.05. This implies the data set for the study follows a normal distribution.

Table 2 Normality Test Results

		Unstandardized Residual
N		30
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	3.29287063
Most Extreme Diffrences	Absolute	.140
	Positive	.140
	Negative	-.101
Test Statistic		.140
Asymp.Sig.(2-tailed)		.137[c]

To identify multicollinearity within the research model, one must examine both VIF and tolerance. If the VIF value is < 0.10 and tolerance > 10.00, it can be concluded that there are no symptoms of multicollinearity among the independent variables (Ghozali, 2018).

Table 3 Multicollinearity Test Results

Variable	Collinearity Statistics	
	Tolerance	VIF
CSR	0,374	2,671
Board of Directors	0,250	4,007
Independent Commissioner	0,257	3,897
Audit Committee	0,224	4,460

Table 3 shows the VIF value is < 10 and that the tolerance values for the audit committees, board of directors, independent commissioners, and corporate social responsibility > 0.10. This indicates in the independent variable there's no evidence of multicollinearity.

The measuring instrument used to detect autocorrelation uses the Durbin-Watson (D-W) test. This Durbin-Watson test is used with the provision dU < dw < (4-dU). The dU and dL values can be obtained from the D-W. With n = 30, and k = 3, the dL value is obtained = 1.18; dU value = 1.734; 4–dL value = 2.82 and 4-dU value = 2.261. The results of this test are shown below:

Table 4 Autocorrelation Test Results

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.900	0,809	0,779	3,54653	1,833

Table 4 displays a D-W statistic of 1.833. A d-W test is employed to assess whether autocorrelation exists in the residuals of the regression model. With the D-W value falling between 1.734 and 2.261, it is evident does not demonstrate signs of autocorrelation.

To determine the presence of heteroscedasticity in this research, the Glejser test is employed. Heteroscedasticity, which occurs when the spread of the residuals varies across different levels of the predictor variables, can compromise the validity of the regression analysis. The Glejser test indicates that heteroscedasticity is not a concern if the significance > 0.05. and, a p-value above 0.05 implies that the residuals exhibit constant variance, thereby meeting the assumption of homoscedasticity (Ghozali, 2018).

Table 5 Heteroscedasticity Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5,231	3,983		1,313	0,201
CSR	-0,045	0,107	-0,134	-0,422	0,677
Board of Directors	0,000	0,255	0,000	-0,001	0,999
Independent Commissioner	0,003	0,177	0,006	0,016	0,988
Audit Committee	-0,039	0,141	-0,113	-0,276	0,785

a. Dependent Variable: AbsRes

Glejser test results provided in Table 5 reveal sig. value for the variables are 0.677, 0.999, 0.988, and 0.785, respectively. Since all these values are > 0.05, it indicates that there is no evidence of heteroscedasticity.

Results of Multiple Linear Regression Analysis

The aim of utilizing multiple linear regression analysis is to assess the correlation between one dependent variable and multiple independent variables. This method aids in discerning how fluctuations in the dependent variable correlate with alterations in the independent variables. Multiple linear regression analysis has been utilized for hypothesis testing. The outcomes of this analysis are summarized and presented in Table 6:

Table 6 Multiple Linear Regression Test Results

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3,052	5,678		0,537	0,596
CSR	0,351	0,153	0,327	2,293	0,031
Board of Directors	-0,325	0,363	-0,156	-0,895	0,379
Independent Commissioner	0,858	0,252	0,587	3,402	0,002
Audit Committee	0,278	0,200	0,256	1,389	0,177

Based on Table 6, The equation can be interpreted as follows:

$$Y = 3{,}052 + 0{,}351X_1 - 0{,}325X2_2 + 0{,}858X2_3 + 0{,}278X2_4$$

The regression results reveal that CSR efforts significantly contribute to the company's value. Specifically, a one-unit enhancement in CSR efforts is associated with an increase of 0.351 units in firm value, suggesting that firms engaging more in CSR activities can expect a proportional rise in their market valuation, provided other variables are stable. The analysis shows that a larger Board of Directors is associated with a decrease in firm value. Specifically, each additional board member results in a reduction of 0.325 units in the company's value, indicating that expanding the Board could potentially have a negative effect on the firm's market worth, assuming other conditions remain unchanged. The presence of Independent Commissioners positively affects the company's value. Specifically, each unit increase in Independent Commissioners correlates with a 0.858 unit increase in firm value, emphasizing the positive role that independent oversight plays in enhancing the firm's market value. The results indicate that expanding the Audit Committee is positively correlated with an increase in firm value. Specifically, each additional Audit Committee member results in a 0.278 unit rise in the company's value, highlighting the importance of an effective audit function in enhancing firm valuation.

Hypothesis Testing Results

Evaluation criteria for hypothesis testing are as follows: a sig. < 0.05 rejection hypothesis (H0) and acceptance (H1), suggesting a meaningful combined effect of the independent variables on the dependent variable. If the sig. > 0.05, H0 maintained, and the H1 is rejected, these findings suggest that the independent factors lack a statistically significant concurrent influence on the dependent variable.

Table 7 F-test results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1334.520	4	333.630	26.525	.000[b]
Residual	314.447	25	12.578		
Total	1648.967	29			

Based on the F-test results displayed in Table 7, the analysis yielded an F-value of 26.525 and a sig. level 0.000, < 0.05. This finding suggests that the combined impact of CSR, the Independent Commissioners, the Audit Committee, and the Board of Directors on the firm value is highly significant.

When interpreting t-test results, a sig. partial effect of the independent variables on the dependent is confirmed if the calculated t-value surpasses the critical t-value or if the sig. < 0.05. This implies that each independent variable, when evaluated separately, has a meaningful impact on the dependent variable. The subsequent section presents:

Table 8 T-test results

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3,052	5,678		0,537	0,596
CSR	0,351	0,153	0,327	2,293	0,031
Board of Directors	-0,325	0,363	-0,156	-0,895	0,379
Independent Commissioner	0,858	0,252	0,587	3,402	0,002
Audit Committee	0,278	0,200	0,256	1,389	0,177

The t-test results as shown in Table 8. The results show that CSR has a significant (0.031) and positive effect (0.352) on firm value, leading to the rejection of H0 and acceptance of H1. GCG, as proxied by the proportion of the Board of Directors, has an insignificant (> 0.05) and negative effect (-0.325) on firm value, and rejection of H2. Moreover, GCG, as proxied by the composition of Independent Commissioners, has a significant (0.002) and positive effect (0.858) on firm value, and acceptance of H3. Lastly, GCG, as proxied by the number of Audit Committee members, has an insignificant (0.117) but positive effect (0.278) on firm value, and rejection of H4.

DISCUSSION

Impact of Corporate Social Responsibility on Firm Value

The multiple linear regression analysis indicates that CSR has a regression coefficient. of 0.351 and sig. 0.031 < 0.05. This result confirms that CSR positively and significantly influences firm value. It suggests that as mining companies improve their CSR disclosures in sustainability reports, there is a corresponding rise in the company's value. This finding aligns with previous studies, such as those by Masruroh & Makaryanawati (2020); Karina & Setiadi (2020) & Pramono et al. (2022).

Companies that implement CSR and ensure transparent disclosure of CSR information through sustainability reporting receive positive responses from investors. This, in turn, enhances investor confidence and can lead to an increase in the company's stock price, which is a key indicator of firm value (Lee, 2019). The more CSR information is disclosed, the more it can improve the company's reputation, attract investor interest, and add value to investment decisions, ultimately benefiting the company's value (Cheung et al., 2013; Kim et al., 2014). Furthermore, CSR implementation can lead to favourable assessments from investors by reducing risks and conflicts between employees and the community (Waddock & Graves, 1997; Kim et al., 2014; Lee, 2019). By committing to strategic measures that create a conducive work environment and build harmonious relationships with the community, companies can motivate employees and gain strong community support, thus minimizing risks and enhancing the company's reputation in the eyes of investors.

This is consistent with stakeholder theory, which posits that a company's existence and business activities require support and good relationships with stakeholders. By implementing CSR, mining companies take responsibility not only for their own interests (profit-seeking) but also for benefiting all related stakeholders. CSR implementation represents a form of dialogue and strategy for managing stakeholder needs better, leading to their support and trust in the company's activities aimed at improving performance and profitability, ultimately increasing firm value (Putri & Raharja, 2013; Rokhlinasari, 2016; Zain et al., 2021). Thus, a company's survival is closely linked to stakeholder support, making it essential for companies to align their business activities with stakeholder expectations and needs through sustainable CSR strategies.

Impact of Good Corporate Governance on Firm Value

Impact of Board of Directors Composition on Firm Value

The results from the multiple linear regression analysis show GCG variable, measured by the size of the Board of Directors, has a coef. of -0.325 and sig. of 0.379 > 0.05. This outcome suggests that the size of the Board of Directors negatively influences firm value without reaching statistical significance. Therefore, increasing the number of Board members does not notably impact the capability of mining companies to boost their stock prices or improve their firm value. This result contrasts with previous studies by Sella et al., (2019); Rosalina et al., (2021); Munifah et al., (2022), which found a positive and significant impact of Board of Directors composition on firm value.

According to agency theory, the composition of the Board of Directors affects firm value due to its role in ensuring that management performs effectively and protects shareholder interests. The Board of Directors is essential in GCG, as it ensures that management and subordinate parties fulfill their duties in line with the company's objectives, thereby reducing the likelihood of conflicts of interest.

However, this variable has a negative and insignificant impact on firm value if it does not perform its role and responsibilities effectively, possibly due to competence limitations, conflicts of interest, or dominance by other parties, such as top management or majority shareholders. A larger Board of Directors might bring diverse opinions or suggestions, potentially leading to ineffective communication and decision-making, more complex monitoring systems, and increased agency costs, which could ultimately destabilize the company and affect its value in the eyes of investors (Nurhidayanti et al., 2023).

Impact of Independent Commissioners Composition on Firm Value

The findings from the multiple linear regression analysis demonstrate that the GCG variable, represented by the number of Independent Commissioners, shows a regression coefficient. of 0.858 and sig. 0.002 < 0.05. the result highlights that the presence of Independent Commissioners positively and significantly influences firm value. Independent Commissioners who adhere to high standards of professionalism, independence, and accountability help to alleviate agency issues and lower agency costs, thereby enhancing the overall value of the firm. This is consistent with research by Munifah et al. (2022); Nurhidayanti et al. (2023).

According to agency theory, Independent Commissioners are part of the Board of Commissioners who do not have financial, managerial, ownership, or familial ties with the company, which could interfere with their ability to act independently (Gusriandari et al., 2022). Independent Commissioners are crucial in GCG as they can mediate conflicts between management and shareholders and oversee management to focus on adding firm value (Umardani & Trisnaningsih, 2023). Independent Commissioners are the highest internal control mechanism and are responsible for overseeing top management policies. If the composition of Independent Commissioners meets legal requirements, it can optimize oversight of top management and internal control functions, minimizing conflicts of interest and promoting firm value.

Impact of Audit Committee Composition on Firm Value

The multiple linear regression analysis reveals that the GCG variable, indicated by the number of members in the Audit Committee, has a regression coefficient. 0.278 and sig. 0.117 > 0.05. This outcome implies that although there is a positive association between the number of Audit Committee members and firm value, this relationship is not statistically significant. The size of this variable is not significant on the firm value based on the data analyzed. The results suggest that while an increased number of Audit Committee members may improve firm company value, the effect is not significant. The Audit Committee plays a crucial role in overseeing financial practices and reporting, which can contribute to enhanced transparency, reliable financial reporting, and regulatory compliance. This should positively impact firm value by increasing investor and stakeholder confidence. However, despite its potential to increase firm value, the impact in this study appears to be modest. A higher number of Audit Committee members is seen as meeting the minimum standard of good corporate governance, and investors may not consider it a key factor in valuing the company for investment decisions (Puspa et al., 2021). This finding contrasts with previous studies by Aryanto & Setyorini (2019), Rosalina et al., (2021), and Munifah et al., (2022), which significant and positive impact of Audit Committee composition on firm value.

According to agency theory, the Audit Committee plays a role as one of the pillars supporting the Board of Commissioners to ensure GCG, focusing on oversight and transparency related to financial reporting and regulatory compliance. However, the insignificance of the Audit Committee composition in this study may be due to the formation of sample companies being solely for regulatory compliance and avoiding sanctions, rather than for effectively enforcing good corporate governance. Nonetheless, the Audit Committee remains important for maintaining an adequate oversight system in line with GCG regulations.

Conclusion

The implementation of Corporate Social Responsibility (CSR) has a positive and significant impact on firm value. By implementing CSR, mining companies not only fulfill their own profit-seeking interests but also strive to benefit all related stakeholders. The commitment to building good relationships with various stakeholders can positively impact the company's reputation through support and trust from investors, employees, the community, and the environment where the company operates. Ultimately, strong trust and support for the company's existence enhance investor confidence and lead to an increase in the company's stock price, serving as an indicator of firm value.

In this study, Good Corporate Governance (GCG) was proxied by three components: the composition of the Board of Directors, Independent Commissioners, and the Audit Committee. The results indicate that the composition of the Board of Directors has a negative and insignificant impact on firm value. An increased number of Board members can lead to numerous opinions and suggestions that may render communication and decision-making ineffective, complicate the monitoring system, and increase agency costs, ultimately destabilizing the company and affecting its value in the eyes of investors. Furthermore, the Board of Directors may have a negative and insignificant impact on firm value if it does not effectively perform its roles and responsibilities due to competence limitations, conflicts of interest, or dominance by other parties, such as top management or majority shareholders.

On the other hand, the composition of Independent Commissioners has a positive and significant impact on firm value. Independent Commissioners who perform their duties professionally, uphold independence and accountability, can reduce agency problems and minimize agency costs, thereby enhancing firm value.

Lastly, the composition of the Audit Committee has a positive but insignificant impact on firm value. While the presence of the Audit Committee should positively contribute to firm value by increasing investor and stakeholder confidence, the increase in value observed in this study is not significant. The number of Audit Committee members is considered a minimum standard of good corporate governance, and thus investors may not view it as a crucial factor in assessing firm value for investment decisions.

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