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Factors Affecting Corporate Value of Mining Sector in Indonesia Stock Exchange

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Abstract- Globalization has an impact on the rapid pace of the world economy which requires companies to be able to adapt by improving the quality and performance of the firm in order to have good corporate value in the free market. Firm value is reflected in the stock market price. Firm value is measured using Tobin's Q ratio. This study examines profitability as proxied by ROE, corporate social responsibility, and foreign ownership. This research was conducted in mining sector companies listed on the IDX in 2017-2019. A population of 42 companies and a sample of 21 companies with a total of 63 observations selected using purposive sampling method. The data analysis technique used is multiple linear regression test. This study shows the results that profitability, corporate social responsibility, and foreign ownership have a positive effect on firm value..

Keywords: profitability, corporate social responsibility, foreign ownership, firm value

I. Introduction

The era of globalization has an impact on the rapid development of the world economy that is currently happening. To be a firm that is able to follow the development of the world economy is certainly the goal of every firm. This increases the competition between companies to improve the quality and performance of the firm in order to have good corporate value in the free market. The value of the firm is reflected in the stock market price, because investors' assessment of the firm can be observed through the movement of the firm's stock price which is transacted on the stock exchange. A high stock price makes the firm value also high and the level of market confidence is not only in the firm's current performance but also in the firm's future prospects. (Damayanthi, 2019). The stock price index is an indicator that shows the movement of stock prices in a period. The mining firm stock price index for the last five years has experienced a significant movement, in 2019 the mining firm stock price index decreased by 24.2% compared to 2018. This shows that the share price of mining companies is still unstable and also reflects the value of the firm. unstable mining sector.

Quoted from Damayanthi (2019), disclosure of Corporate Social Responsibility, Good Corporate Governance, and foreign ownership can affect firm value. Inastri (2017) found that the implementation of Good Corporate Governance has a positive and significant effect on firm value, however the disclosure of Corporate Social Responsibility has no positive and insignificant effect on firm value. Ayem & Boe (2019) found that profitability has a positive effect on firm value and foreign ownership has a negative effect on firm value. Meanwhile Thaib & Dewantoro (2017) found that profitability has a negative and insignificant effect on firm value, this means that the profits of a firm have no effect on firm value. Previous research has shown consistent results that good corporate governance has a positive effect on firm value, but inconsistencies in the results of previous studies regarding the variables of Corporate Social Responsibility, profitability, and foreign ownership are the reason researchers use this variable.

In their efforts to build a good corporate image, business people often forget the business ethics that must be applied in their firm. Social and environmental aspects are one of the important business ethics applied in the firm, but firm controllers pay less attention to these aspects. There are several factors that can affect firm value, namely non-financial and financial factors. One of the non-financial factors that can affect firm value is disclosure of Corporate Social Responsibility (CSR) and financial factors that can affect firm value, namely profitability (Soewignyo, 2020). Firm value is strongly influenced by the size of the profitability generated by the firm. Profitability is the ability of a firm to generate profits for a certain period (Endri & Fathony, 2020). Companies with a higher level of profitability will provide investors with a higher return opportunity (Oktaviani et al., 2019). High profitability indicates good firm prospects, so that investors will respond positively to these signals and in the end can increase firm value (Hirdinis, 2019).

Indra Wijaya & Putu Wirawati (2019) found that profitability has a positive effect on firm value of all companies listed on the IDX in 2013-2016. But different from Thaib & Dewantoro (2017) found that profitability has a negative and insignificant effect on firm value, this means that the profits of a firm have no effect on firm value. When a business is run only to obtain optimal profit without paying attention to ethical values and moral principles, it will pose a risk to the firm's sustainability. As the number of companies develops, social inequality and environmental damage around the firm can occur. This raises awareness to reduce the negative impacts that can occur, one of which is by carrying out Corporate Social Responsibility activities, which are then abbreviated as CSR. In line with the stakeholder theory which explains that the firm is responsible to all stakeholders, namely parties who have an interest in the firm such as employees, society, competitors, other business entities, and foreign companies, the existence of CSR shows that the firm is not limited to maximizing profits for the benefit of shareholders. only but more broadly, namely for stakeholders (Oubihi & Elouidani, 2016). The legitimacy theory explains that the practice of disclosing corporate responsibility must be implemented in such a way that the firm's activities and performance can be accepted by the community. The firm will get legitimacy from the community through this disclosure which will have an impact on the firm's survival. CSR activities have been regulated in the laws of the State of Indonesia, namely in Law Number 40 of 2007 which regulates Limited Liability Companies that carry out their business activities in the field and / or are related to natural resources, are obliged to carry out social and environmental responsibility (Anjani & Astika 2018).

Mining sector companies are companies whose management activities cannot be separated from the exploitation of natural resources and have a direct impact on the surrounding environment (Mabey et al., 2020). In accordance with the statement stated in Law Number 4 of 2009 which regulates Mineral and Coal Mining, namely the existence of general mining activities in Indonesia has an important role in meeting the needs of many people and providing real added value to the national economy. When viewed from the conditions in Indonesia, mining activities such as extracting non-renewable natural resources in the form of valuable minerals from the earth's layer which have been going on for a long time have caused enormous environmental impacts. There have been several cases of environmental damage that have occurred in Indonesia, one of which is the action of PT Freepot Indonesia by dumping mining waste into the upstream area of the Ajkwa River, Mimika Regency, Papua with improper storage of tailings along the river, causing environmental pollution. According to the Supreme Audit Agency, the losses suffered reached Rp. 185 trillion, with details of losses in the upstream area of Rp. 10.7 trillion, the estuary of Rp. 8.2 trillion, and the Arafura Sea of Rp. 166 trillion.

Based on the phenomenon that occurs, mining sector companies are required to implement CSR programs in the form of programs that show concern and form of corporate responsibility towards parties who have the right to get the impact of these CSR activities (Ansu-Mensah et al., 2021). CSR extends corporate responsibility beyond its traditional role to provide financial reports to owners of capital especially shareholders. This expansion is made with the assumption that the firm has broader responsibilities than just seeking profit for shareholders. Anjani & Astika (2018) found that CSR disclosure has a positive effect on the corporate value of 31 companies that won the Indonesia Sustainability Reporting Award (ISRA) in 2013–2016. Meanwhile Inastri (2017), found that CSR disclosure has a negative effect on firm value which means that the size of the CSR disclosure made by the sample companies is not able to influence the increase in firm value and even tends to decrease firm value, this shows that investors (the market) have not accepted the firm's CSR disclosure content good because investors think that the allocation of firm resources to its social activities is not closely related to the firm's core business and there is a negative view of investors on the content of the firm's CSR disclosures because the information provided is still not informative and relevant to the actual facts.

Environmental-based performance disclosure information in the firm's annual report is an important indicator for investors before investing their funds, including foreign investors (Lindman et al., 2020). Foreign ownership in a firm is one of the most important concerns regarding environmental performance disclosures. Based on the concept of stakeholder theory and signal theory, multinational companies or companies whose shares are mostly owned by foreigners see the legitimacy advantage coming from their stakeholders over the firm's market share that can provide long-term existence. Foreign ownership of companies in Indonesia is considered to increase the firm's CSR disclosure. Many foreign investors are eyeing the conditions in Indonesia's territory which they think are profitable, for example the mining sector (Damayanthi, 2019). Damayanthi (2019) stated, foreign ownership also tends to bring about a culture of high discipline so that resources within the firm are forced to comply with firm regulations. Different from Ayem & Boe (2019) which states that foreign ownership has a negative effect on firm value.

This study examines profitability as proxied by ROE, corporate social responsibility, and foreign ownership. This research was conducted in mining sector companies listed on the IDX in 2017-2019. This can be seen from the variables of this study, Profitability (X1), Disclosure of Corporate Social Responsibility (X2), Foreign Ownership (X3), and Firm Value (Y). Then the proposed hypothesis is as follows:

H1: Profitability has a positive effect on firm value.

H2: Disclosure of Corporate Social Responsibility has a positive effect on firm value.

H3: Disclosure of Corporate Social Responsibility has a positive effect on firm value.

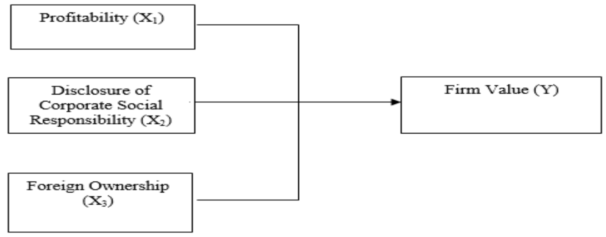

Fig 1. Conceptual Framework

II. METHODS

This research uses a quantitative approach. This research was conducted at mining companies listed on the Indonesia Stock Exchange (IDX) by accessing www.idx.co.id. The choice of this site is because the IDX website has historical records related to the complete financial statements of publicly traded companies. The mining firm was chosen because it is an industrial business that has an impact on the environment around the firm it stands, in its operations it is directly related to broad interests so that investors will pay attention to how the value of the firm is. The population in this study are mining companies listed on the Indonesia Stock Exchange for the 2017-2019 period. The sample of this study was taken by purposive sampling method with criteria such as mining companies listed on the Indonesia Stock Exchange (BEI) 2017-2019, publishing complete financial reports and carrying out CSR disclosures during 2017-2019, not experiencing losses during 2017-2019, and have foreign investors during 2017-2019. The data collection method used in this study was the non-participant observational method

Firm value is measured by Tobin's Q ratio. Tobin's Q ratio is calculated as the market value of a firm divided by the replacement value of the firm's assets. If the Tobin's Q ratio is getting higher, it shows that the firm has the prospect of a better growth rate (Damayanthi, 2019).

$$Q = \frac{(EMV+D)}{(EBV+D)} \quad \text{.....(1)}$$

Q = Firm value
EMV = Market value of equity (closing price x number of shares outstanding)
EBV = Book value of total equity (total assets-total debt)
D = Book value of total debt

Profitability is chosen because it can affect the value of the firm, because high profits will increase the firm's return on its shares. This study proxies profitability using ROE, namely by dividing net profit after tax with the owner's own equity (Dewi & Dewi, 2017).

$$ROE = \frac{Earning\ After\ Tax}{Owner's\ equity} \quad \text{.....(2)}$$

The final result of the disclosure obtained is then calculated the index using the Social Responsibility Disclosure Index (CSRDI) proxy (Anjani & Astika 2018).

$$CSRDI = \frac{\sum Xi}{n} \quad \text{.....(3)}$$

CSRDI : *Corporate Social Responsibility Disclosure Index*
$\sum Xi$: Number of Disclosures
n : CSRDI Disclosure Items

The structure of foreign ownership in this study is measured by the percentage of shares owned by foreign investors in the form of ownership by foreign companies including ownership of organizations, social institutions, banks, individuals, and foreign governments listed in the financial statements of the year concerned (Damayanthi, 2019).

$$\text{Foreign ownership} = \frac{\text{Total share ownership by foreign parties}}{\text{Number of shares outstanding}} \times 100\% \quad \text{.....(4)}$$

The data analysis technique used in the study was multiple linear regression with SPSS

$$Y = \alpha + \beta X_1 + \beta X_2 + \beta x_3 + \varepsilon \quad \text{.....(5)}$$

Y = The value of the firm

α = Constant
X1 = Profitability
X2 = CSR disclosure
X3 = foreign ownership
β = Regression coefficient
ε = Error

III. RESEARCH AND DISCUSSION

A. Regression Analysis Results

Table 1. Results of Regression Analysis

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	8.557	.378		22.648	.000		
	ROE	.342	.119	.256	2.877	.005	.608	1.645
	CSR	.379	.130	.290	2.919	.005	.490	2.042
	FOREIGN SHARES	.592	.126	.427	4.700	.000	.587	1.705
Adjusted R Square : .671								

Primary Data, 2021

Based on data in Table 1, the equation can be made as follows:
$Y = 8{,}557+0{,}342X_1 +0{,}379X_2 +0{,}592X_3$

A constant value of 8.557 indicates that if the value of all independent variables, namely profitability, corporate social responsibility, and foreign ownership, is amended to be zero, then the value of the dependent variable, namely firm value, is 8.557 units. The value of the profitability regression coefficient (X1) which is proxied with ROE has a value of 0.342, this shows that if the profitability increases by 1 unit, it will cause an increase in the firm value of 0.342 assuming the other independent variables are zero. The value of the CSR regression coefficient (X2) gets a value of 0.379, this shows that if CSR increases by 1 unit it will cause an increase in firm value of 0.379 assuming the other independent variables are zero. The regression coefficient value of foreign ownership (X3) gets a value of 0.592, this shows that if foreign ownership increases by 1 unit, it will cause an increase in firm value of 0.592, assuming the other independent variables are zero. Adjusted R Square is 0.671. This value can be interpreted that 67.1% profitability, CSR disclosure, and foreign ownership simultaneously affect firm value while 32.9% is influenced by other variables.

B. Simultaneous testing (F test)

Table 2. F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	108,757	3	36,252	47,323	,000[b]
	Residual	49,794	59	,766		
	Total	158,551	62			

Primary Data, 2020

Based on table 2, it is known that the F Test value in the sig table is 0,000. The sig value is 0.000 <0.05, so as the basis for decision making in the F test, it can be concluded that profitability, CSR disclosure, and foreign ownership are appropriate for use in the regression model. This result means that all independent variables, namely profitability, corporate social responsibility, foreign ownership are able to provide predictions or explanations for the phenomenon of the value of mining companies listed on the Indonesia Stock Exchange in 2017-2019

Profitability on firm value

Profitability has a positive coefficient value of 0.342 with a significance level of 0.005 <alpha (0.05). The test results indicate that profitability has a positive effect on firm value so that it can be concluded that **H1 is accepted**. This means that the greater or the higher the profitability of the firm, the more the firm value will be increased. The effect of profitability is proxied by return on equity or by the rate of return on equity invested by shareholders (Fajaria, 2018). Through the use of equity owned by the firm, it will have an impact on profits, so that this advantage will attract the attention of investors. The higher the profitability of the firm will give a positive signal to investors. The high profitability of a firm will attract investors to invest in the firm, so it can increase firm value (Tahu & Susilo, 2017). The results of this study are also in line with the signal theory which emphasizes the importance of information issued by the firm on investment decisions from outside the firm and the stakeholder theory which states that a firm is not an entity that only operates for its own interests, but must provide benefits to all its stakeholders. shares, creditors, consumers, suppliers, government, society, analysts, and other parties (Setiyorini & Kartika, 2018)

Corporate Social Responsibility on Firm Value

Corporate Social Responsibility has a positive coefficient value of 0.379 with a significance level of 0.005 < alpha (0.05). The test results state that Corporate Social Responsibility has a positive effect on firm value, so it can be concluded that **H2 is accepted**. The results of this study confirm the stakeholder theory and the legitimacy theory explaining the relationship between CSR reports on firm value. The stakeholder theory explains that the firm is responsible for all stakeholders, namely parties who have an interest in the firm such as employees, society, competitors, other business entities, and foreign companies, with the existence of CSR, it shows that the firm is not limited to maximizing profits for the interests of shareholders only but more area again, namely for stakeholders. The legitimacy theory explains that the practice of disclosing corporate responsibility must be implemented in such a way that the firm's activities and performance can be accepted by the community. The firm will get legitimacy from the community through this disclosure which will have an impact on the firm's survival (Hafez, 2016). The implementation of CSR by companies is a positive signal for investors or stakeholders because investors or stakeholders tend to be more interested in companies that have a positive image in the eyes of the wider community in order to ensure the sustainability of the firm (Retno, 2017). The results of this study have proven that mining companies whose firm activities are in direct contact with the environment still care about social responsibility programs and have disclosed them in annual reports which will have an impact on the firm's image in the eyes of investors and the public (Chen & Lee, 2017). Investors will be more interested in companies that have a good image (Chung et al., 2018).

Foreign Ownership on Firm Value

Foreign ownership has a positive coefficient value of 0.592 with a significance level of 0.000 < alpha (0.05). The test results indicate that foreign ownership has an effect on firm value so that it can be concluded that **H3 is accepted**. This shows that the more foreign investors in a firm, the firm value will increase. Foreign ownership also tends to bring about a culture of high discipline so that resources in the firm are forced to comply with firm regulations. The results of this study confirm the concept of stakeholder theory and signal theory, multinational companies or companies whose majority of shares are owned by foreigners see the legitimacy advantage coming from their stakeholders on the firm's market share that can provide long-term existence (Park, 2019). The theory of legitimacy underlies that if a firm has contracts with foreign stakeholders both in ownership and trade, the firm will be better and disciplined so that it will increase the value of the firm (Nofal, 2020). Companies that have foreign ownership usually receive better training in accounting from overseas parent companies and have more efficient information systems. Foreign ownership also tends to bring about a culture of discipline and high efficiency (Rely & Arsjah, 2018).

IV. CONCLUSION

Profitability has a positive effect on firm value in the mining sector companies for the period 2017-2019; Corporate Social Responsibility (CSR) has a positive effect on firm value in mining sector companies for the 2017-2019 period and foreign ownership has a positive effect on firm value in mining sector companies for the 2017-2019 period.

Stakeholders of the firm in using firm value should think about the amount of assets and net profit after corporate tax to find out the causes and effects that occur in firm value. Stakeholders of the firm in using the aspect of firm value should think about the CSRDI assessment to find out the causes and effects that occur in firm value. Stakeholders of the firm in using the aspect of firm value should think about how the number of foreign ownership of shares is to determine the causes and effects that occur in firm value.

This study only has an adjusted R square value of 67.1%. This research in the independent variable can only explain the effect of the dependent variable by 67.1%. Furthermore, it is expected to be able to use other variables in assessing the factors that affect firm value.

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