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The Effect of Environmental Social Governance Disclosure and Capital Structure on Company Value in Mining Sector Companies Listed on the Indonesian Stock Exchange

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Abstract: This study aims to evaluate the effect of "Environmental, Social, and Governance (ESG) disclosure and capital structure on firm value". The research object includes companies listed on the IDX during the period 2020 to 2023. The approach used is quantitative with a causal research design, and sample collection is done through purposive sampling method, resulting in 80 companies as research objects. The information used in this analysis comes from the Indonesia Stock Exchange website (www.idx.ac.id). The data analysis process was carried out using SPSS version 29 software, which includes "descriptive statistical analysis, classical assumption testing, and multiple linear regression analysis" to test the relationship between variables. The findings reveal that ESG disclosure, assessed through the ESG index, does not significantly impact firm value. In contrast, the capital structure, represented by the Debt to Equity Ratio (DER), has a significant and positive impact on firm value.

Keyword: Environmental Social Governance (ESG) Disclosure; Capital Structure; Company Value; Mining Sector Companies.

INTRODUCTION

Currently, companies not only focus on profits, but also need to run operations that pay attention to relationships with society and the environment (Triyani et al., 2020). Concerns about climate change are increasing because of its broad and risky impacts on life and future generations (Amin & Taufiq, 2023). Therefore, climate change mitigation measures are needed at various levels of society (BMKG, 2023). This challenge encourages global and domestic investors to support the implementation of Environmental, Social, Governance (ESG) strategies in business activities, along with increasing awareness of global warming and extreme climate change (Martha & Khomsiyah, 2023).

The concept of ESG is now an important focus for institutional and individual investors (Kim & Li, 2021). The UN's principles of responsible investment also encourage investors to pay attention to ESG aspects in assessing company performance (Pandey , A., 2022). Investing in companies that implement ESG can improve image and trust, having a positive impact on the company (Anggraini & Wahyudi, 2022).

The mining sector is a key component of the global economy because it provides vital natural resources for various human needs. From coal for power plants to metals for the technology industry, the existence and sustainability of this sector has a significant impact on various aspects of life. Even though it is the backbone of various countries that have a lot of natural wealth, mining activities are often a source of controversy due to the serious environmental impacts and social conflicts that sometimes arise.

Investors not only evaluate Environmental, Social, and Governance (ESG) disclosures, but also examine a company's capital structure as part of an overall company value assessment. Because this factor is an important funding function for management to support the company's performance and operations (Rahmadani et al., 2022). By maximizing capital structure design, companies can improve their financial performance and have the potential to enhance the company's value (Paramitha, 2024).

This study utilizes the "price-to-book value (PBV)" ratio to evaluate a company's value. A high PBV indicates a strong level of investor confidence in the company. However, not all companies want a high PBV, because share prices that are too high can reduce investor interest. In order to keep share prices affordable and increase market liquidity, several companies choose to carry out stock splits. The ideal share price must be balanced, not too high or too low, in order to avoid negative perceptions among investors.

Previous research shows mixed results regarding various factors that influence company value, including capital structure. Therefore, this study focuses on exploring the influence of "Environmental, Social, Governance (ESG) disclosure and capital structure on company value, especially in mining companies listed on the IDX for the 2021-2023 period". This study seeks to offer a comprehensive insight into the various factors affecting company value within that context.

METHOD

This research adopts a quantitative research design to explore the interrelationships between several variables and empirically test the hypothesized claims through statistical analysis. This research endeavors to comprehend the effect of disclosure of ESG (Environmental, Social, and Governance) aspects and capital structure as variables that affect firm value, which is used as the main variable observed. The object of this research includes companies engaged in the mining sector and listed on the Indonesia Stock Exchange during the period 2020 to 2023.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Descriptive Statistical Analysis is a method used to describe or present data systematically and easily understood without making further inferences or conclusions. The main purpose of this analysis is to provide an overview of the characteristics of existing data through the use of simple statistical measures.

Table 1. Summary Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ESG (X1)	80	0.50427	0.98291	0.7127137	0.13360197
Struktur Modal (X2)	80	0.05045	2.98077	1.0454095	0.67247202
Nilai Perusahaan (Y)	80	0.18888	3.63887	0.7715063	0.51739339
Valid N (listwise)	80	-	-	-	-

Multicollinearity Test

This test is designed to assess the degree of collinearity between independent variables in a regression model. To detect multicollinearity if the "VIF value is greater than 10", this indicates high multicollinearity.

Table 2. Multicollinearity Diagnostics

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)	-	-
ESG (X1)	0.927	1.079
Struktur Modal (X2)	0.927	1.079

Since the tolerance is above 0.1 and the VIF is below 10, the analysis values in Table 2 indicate that there is no multicollinearity problem. This implies that there is no excessive correlation between the variables under investigation, which can potentially compromise the reliability of the regression analysis. In other words, there is no indication of problematic multicollinearity among the variables under study.

Data Normality Test

Many statistical techniques require normally distributed data. If our data doesn't fit this assumption, the results may be incorrect. One method used to test normality is the Kolmogorov-Smirnov (K-S) Test, which tests whether the data comes from a certain distribution, either normal or another distribution. If "the p value obtained is greater than 0.05", then the data can be considered to follow a normal distribution.

Table 3. Results of the Normality Test 1

Test	Unstandardized Residual
N	80
Asymp. Sig. (2-tailed)	0.008*

The Kolmogorov-Smirnov test, as presented in Table 3, reveals that the residual values do not conform to a normal distribution, as evidenced by the asymptotic significance level of 0.008, which is less than the 0.05 significance threshold. Because the data is not normally distributed, data processing needs to be carried out, one of which is using the Monte Carlo method. The Monte Carlo test checks if the residuals are normally distributed, especially when there's extreme data. The results of this test are shown in the table.

After carrying out the Monte Carlo test, the results in table 4 show Asymp. Sig. (2-tailed) namely 0.201, which means the residual value is > 0.05 (0.201 > 0.05). Thus, the data can be considered normally distributed because the normality test is carried out on residual values, not on each variable. So, this study can be continued.

Table 4. Results of the Normality Test 2

One-Sample Kolmogorov-Smirnov Test	Unstandardized Residual
N	80
Monte Carlo Sig. (2-tailed)	.201

Source: Personal processed data, SPSS 29 (2024)

Multiple Regression Analysis

The regression analysis results are summarized in the table below.

Table 5. Outcomes of the Multiple Regression Analysis

Model	Unstandardized Coefficients	Standardized Coefficients		
	B	Std. Error	Beta	t
1				
(Constant)	.531	.299		1.777
ESG (X1)	.739	.428	.191	1.725
Capital Structure (X2)	-.274	.085	-.356	-3.219

Source: Processed data, SPSS 29 (2024)

An interpretation of the regression equation is provided below:

$\mathbf{Y = 0.531 + 0.739}X_1 - \mathbf{0,274}X_2 + and$

The constant value in the equation is 0.531. So it is assumed that the independent variable (disclosure environmental social governance (ESG) and capital structure) value is 0 or no increase, then the estimated value of the dependent variable, namely company value (Y), is 0.531.

Coefficient value of the disclosure variable environmental social governance (ESG) in that equation is 0.739. Consequently, a one-unit increment in ESG disclosure is anticipated to result in a 0.739 increase in company value.

The capital structure variable has a coefficient of -0.274. So it can be assumed that if there is a unit increase in the capital structure, the value of the company value will experience a decrease, namely 0.274.

Coefficient of Determination Test (R2)

Simply put, R^2 describes how well the regression model reduces prediction error compared to the mean of the dependent variable (Ghozali, 2018). The R^2 value ranges from 0 to 1, this can be ascertained from the adjusted R-squared coefficient.

Table 6. R-squared Values

Model Summary^n	
Model	Adjusted R Square
1	.104

Source: Processed data, SPSS 29 (2024)

The adjusted R-squared tells us how much of the variation in firm value is accounted for by the two variables, namely "ESG disclosure and capital structure". The figure of 10.4% indicates that 10.4% of the variation of the two factors contributes to firm value, the remaining 89.6% of the variation in firm value is explained by other factors outside the scope of this study.

Simultaneous Test (F Test)

The simultaneous F test is used to evaluate whether this model is appropriate for application in the research. This model test is feasible if F count > F table. We use the F-test to see if all the independent variables together influence the dependent variable. Apart from being used to test the significance of regression models simultaneously, it has several other uses in statistical analysis, namely for "Model Feasibility Testing". The acceptance or rejection of the hypothesis is determined by considering the significance level and the F-statistic. "If the significance value <0.05 and F count> F table then the hypothesis (H0) is accepted", and vice versa "if the significance value> 0.05 and F count < F table then the hypothesis (H0) is rejected". The outcomes of the F-test are tabulated below:

Table 7. Simultaneous Test Results (F Test)

Model		F	Say.
1	Regression	5.575	.005b
	Residual		
	Total		

Source: Personal processed data, SPSS 29 (2024)

According to table 7, the F test results show that the independent variable has a calculated F value of 5.575. For F table = F (k; n-k) = F(2;78) then the F table value is 3.11. The F test results show 5.575 > 3.11, namely F count > F table. For the significance value, the value obtained is 0.005, where 0.005 < 0.05. It can be concluded that the independent variables, ESG disclosure and capital structure, collectively have a significant impact on the dependent variable, company value. This regression model is thus deemed appropriate for the analysis.

Effect of Disclosure *Environmental Social Governance* ESG on Company Value

The significance level of 0.089, as reported in Table 7, is greater than the 0.05 significance level. This finding suggests that there is a lack of statistical evidence to support a significant influence of ESG disclosure on firm value. Therefore, the first hypothesis (H1) is rejected.

This shows that shareholders consider investment in environmental practices and disclosures to be more important than maximizing corporate value (Buallay, 2019). This empirical evidence does not support the hypothesis stating that ESG disclosure performance has a positive effect on the value of companies listed on the Indonesia Stock Exchange in the 2020-2023 period. The lack of ESG impact on company value can be attributed to the fact that many companies in Indonesia have not yet been able to adopt sustainability practices or disclose this information to the public. The execution of ESG in Indonesia is still in the developing stage and has not been implemented in all companies, so ESG disclosure is not yet a primary consideration for potential investors. From a signal theory perspective, ESG has not been considered a strong signal by investors. Meanwhile, from the perspective of legitimacy theory, ESG does not provide sufficient legitimacy to increase company value. However, with increasing awareness regarding sustainability, the role of ESG in the future is expected to become increasingly significant in determining company value.

The findings of this research analysis support the findings of Fiki Kartika, et al (2023) and Rahmahnisa Gema Qurani (2023) who also found no significant impact of ESG on firm value. However, the research results differ from Anna Melinda, et al (2020) and Muhammad Tektona & Idrianita Anis (2024) who found a positive relationship.

Effect of Capital Structure on Company Value

The results presented in Table 7 show that capital structure significantly affects firm value, but with a negative value. The significance level of 0.002 is smaller than the significance level of 0.05, which leads to the acceptance of the second hypothesis (H2).

This situation illustrates that a higher degree of leverage exposes the company to greater financial risk, especially with regard to long-term debt obligations. This has the potential to increase the company's cost of capital, which in turn can reduce the company's value. This decrease in value occurs because the use of capital structure, especially debt, has not been managed optimally, this can adversely affect the quality of the company's operations and diminish its perceived value.

From the viewpoint of signal theory, a high capital structure can be viewed as a negative signal to the market, as it signifies increased financial risk. This elevated level of debt can lead to higher costs of capital, which can ultimately diminish the company's valuation. The findings of this research demonstrate that capital structure negatively and significantly affects company value, suggesting that the market may interpret a high capital structure as a sign of financial instability or the company's ineffective debt management.

From the standpoint of legitimacy theory, excessive reliance on debt can undermine a company's credibility in the view of stakeholders. Thus, companies need to manage their capital structures carefully to ensure they not only meet their financial needs but also maintain their legitimacy and reputation in the marketplace. This study's findings reveal that a high capital structure negatively affects company value, potentially indicating stakeholders' concerns regarding the company's capacity to manage debt risks and sustain financial stability.

The findings of this study support research from Risma & Suparno (2021) and Putri Zafirah Nabila Amro & Nur Fadjrih Asyik (2021), showing that capital structure has a significant impact on company value. However, these results differ from the study by Heni Tri Mahanani & Andi Kartika (2022), who found no such relationship.

CONCLUSION

Based on the results of the analysis conducted, the conclusions of this study are as follows: 1) The first hypothesis (H1) proposed in the study was rejected because the significance value for H1 is 0.089 (greater than 0.05). This indicates that ESG disclosure does not have a significant impact on firm value in mining sector companies listed on the IDX during the specified period. 2) The acceptance of the second hypothesis (H2) is attributed to the significance level of 0.002, which is less than the 0.05 significance level. This indicates that capital structure has a significant influence on firm value in mining sector companies listed on the IDX during the specified period.

These results indicate that ESG disclosure, although often considered important in modern business practices, does not necessarily have a direct impact on firm value, especially in the mining sector during the study period. Instead, capital structure has a more significant role, suggesting that the management of corporate debt and equity in this sector has direct implications for firm value. Non-optimal use of capital structure can increase risk and cost of capital, thus negatively impacting firm value.

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