CHAPTER 1

INTRODUCTION

1.1 Background

In an increasingly competitive business world, companies are required to not only focus on financial profit, but also to maximize the firm's value. Firm's value is an important indicator that reflects investors' views on the company's performance and future prospects. Increasing firm value is often in line with increasing stock prices, which is one way for investors to assess the company's growth potential and sustainability. When firm value increases, this not only reflects good performance but also increases investor confidence, which in turn can attract more investment (Rasyid et al. 2022).

The phenomenon of stock price fluctuations in the capital market shows that a firm's value can be influenced by various external and internal factors. For example, in early 2023, several companies experienced a decline in stock prices, while others, especially in the food and beverage sector, showed positive growth. This shows that a firm's value can fluctuate based on market perceptions of the company's performance and prospects. Therefore, it is important for companies to understand the factors that influence their value, including Corporate Social Responsibility (CSR) and capital structure (Margini & Eny Kusumawati, 2023).

One of the factors that influences the firm's value to be sustainable is the Corporate Social Responsibility (CSR) program. CSR is a concept that emphasizes that companies have responsibilities towards consumers, employees, shareholders, communities, and the environment in all aspects of their operations (Firda &

Efriadi, 2020). There are two views on CSR, some companies consider it an expense or cost, while others see it as an investment that can provide benefits in the future, especially for companies that realize the importance of social activities reflected in their sustainability reports (Dila Maharani, 2024).

CSR is one of the approaches adopted by many companies to demonstrate their commitment to social responsibility. In Indonesia, regulations regarding CSR disclosure are regulated in various laws that emphasize the importance of CSR in the context of sustainable development. CSR disclosure aims to meet the interests of stakeholders which generally consist of companies, government, and society (Eni Indriani et al, 2022). CSR includes various initiatives that aim to increase the positive impact of the company on society and the environment, as well as build good relationships with stakeholders. In the energy sector, where environmental and social impacts are very significant, the implementation of CSR is becoming increasingly important.

If a company continuously discloses social responsibility, the market will give a positive appreciation reflected in the increase in stock prices and the increase in the company's value. Although the CSR program requires expenditures that can reduce income and reduce profit levels, the implementation of this program can improve the company's image and increase consumer loyalty (Nurul Dzikir, 2020). Involvement in CSR is expected to build a good reputation for the company, which in turn can reduce marketing costs, increase sales, and improve investor perceptions (Al-Issa et al, 2022). Thus, CSR can function as an effective marketing tool for companies (Maharani et al, 2024).

On the other hand, capital structure is a crucial aspect in corporate management related to how the company finances its operations and investments.

An optimal capital structure is needed to maximize the value of the company (Fajriana et al, 2016). The ideal capital structure is one that can maximize the company's stock price with a lower debt ratio than the equity ratio to maximize Earning Per Share (EPS) (Brigham and Houston, 2011). In the context of energy companies, which often require large investments and have high risks, choosing the right capital structure is very important to achieve good performance.

Firm’s value is often measured through stock price and market value, which reflect investors' perceptions of the company's performance and future prospects. Company value can be seen from net capital divided by the total number of shares in existence. High company value indicates good performance achievement and indicates shareholder prosperity which is the main goal of company owners (Ningrum, 2022). However, energy sector companies contribute significantly to environmental damage due to activities such as drilling and excavation which can cause problems such as landslides and air pollution. Although there has been a Regulation of the Minister of Social Affairs of the Republic of Indonesia concerning the Social and Environmental Responsibility of Business Entities, there are still many companies that have not consistently implemented the principles of Corporate Social Responsibility (CSR) (Dila Maharani, 2024).

To increase the influence of CSR on company value, it needs to be supported by moderating variables. Moderating variables are variables that can strengthen or weaken the relationship between independent and dependent variables that are expected to measure the impact of CSR on the company's financial performance (Kartini, 2020). In addition, company size also plays an important role in determining company value. Company size, which is often measured by total assets or total revenue, can affect the company's ability to invest in CSR programs and optimal capital structure. Larger companies tend to have better access to resources and capital so that they can more easily implement CSR initiatives that have a positive impact. Thus, company size not only contributes to financial stability but can also strengthen the relationship between CSR and company value and create synergies that are beneficial to all stakeholders.

Margini et al (2023) research found that CSR and capital structure have a positive effect on firm value, but firm size does not moderate the effect. (Bintana et al, 2023) also found a positive effect of CSR and capital structure, while (Simanjuntak et al, 2020) showed that CSR had no effect, but capital structure and profitability had a positive effect. Another study by (Puspitasari et al, 2019) found that Corporate Social Responsibility Disclosure had a positive and significant effect on Firm Value. Rifani Akbar Sulbahri (2021) and (Indarti et al, 2021) emphasized the importance of CSR and intellectual capital, while (Sari et al, 2020) found that firm size and CSR had a positive effect in the food and beverage sector. Based on the results of previous studies on the effect of CSR and capital structure on firm value with firm size as a moderating variable, there was inconsistent results, thus motivating researchers to conduct this study.

The focus of this study is the influence of CSR and capital structure on firm value with firm size as a moderating variable which has several differences with previous studies. By focusing on the energy sector, this study provides a new contribution that is relevant in a specific industry context, while many previous studies cover more diverse sectors, such as banking and food and beverages. In addition, this study has a more recent period, namely 2020-2023, so it is able to analyze market dynamics that are more relevant and reflect current conditions. This study also explores firm size as a moderating variable which aims to understand more deeply how firm size can affect the relationship between CSR, capital structure, and firm value.

1.2 Problem Formulation

1. Does CSR have a significant effect on firm's value of energy sector?
2. Does capital structure have a significant effect on firm's value of energy sector?
3. Does company size moderate the effect of CSR on firm's value in the energy sector?
4. Does company size moderate the effect of capital structure on firm's value of energy sector?

1.3 Research Objectives

To obtain empirical evidence:

1. The effect of CSR on firm's value of energy sector.
2. The effect of capital structure on firm's value of energy sector.
3. The effect of company size as a moderation variable on CSR on firm's value of energy sector.
4. The effect of company size as a moderation variable on capital structure on firm's value of energy sector.

1.4 Benefits of Research

1. For academics as a reference for further research on CSR, capital structure, and firm's value in the energy sector.
2. For practitioners as a guide in decision making related to CSR implementation and capital structure management.

1.5 Writing Systematics

This research is divided into five chapters consisting of: Chapter one Introduction, Chapter two Literature Foundation, Chapter three Research Method, Chapter four Analysis and Discussion, and Chapter five Conclusion.

Chapter one contains the Introduction, which includes the background of the research, problem formulation, research objectives, research benefits, and writing systematics. This chapter will explain the reasons for conducting research on the Influence of Corporate Social Responsibility and Capital Structure on Company Value with Company Size as a Moderating Variable in Energy Sector Companies on the Indonesia Stock Exchange in 2020-2023.

Chapter two contains the Theoretical Foundation, which explains the basic concepts underlying this research, including sustainability accounting theory, carbon emission reporting, and relevant frameworks. In addition, this chapter also contains a review of relevant previous studies to strengthen the arguments and focus of the research.

Chapter three contains the Research Method, which explains the methods used in this study. This chapter includes an explanation of the research variables, population and samples to be used, types and sources of data, data collection methods, and data analysis techniques to be used to answer the research problem formulation.

Chapter four contains Analysis and Discussion, which explains the research results in detail and relates them to the research objectives. This chapter includes testing and analysis of the data obtained, as well as a discussion related to the results of hypothesis testing. The discussion is based on the theory that has been described in chapter two, as well as the actual conditions that developed during the research.

Chapter five is the Closing chapter, which contains conclusions from the research results, suggestions for related parties, and research limitations. The conclusion provides a brief overview of the results of the research, while suggestions are intended for academics, practitioners, and further researchers who are interested in developing further research related to CSR, capital structure and company value. This chapter also contains an evaluation of the limitations of the research faced.