

CHAPTER I

INTRODUCTION

1.1 Background

The fundamental purpose behind corporate strategy and financial management is maximum shareholder wealth on an ongoing basis which is essentially achieved by targeting a steady upward increase in the Firm Value of the company. The market-based measure of this value, specifically, the Tobin's Q, is the most appropriate measure of this value especially in the modern capital market where a high Tobin's Q value implies that the market is giving a premium implying that it believes in the future growth of the company. Most importantly, value of intangibles like reputation, brand equity, human capital, and good relationship with stakeholders is capitalized to a great extent through this premium (Servaes & Tamayo, 2014). The issue facing corporate managers in the current environment is how to discover and prioritize investments that can effectively nurture and sustain this value premium of intangibility to build and maintain competitive advantage and financial stability in the long term.

This is a strategic imperative that has triggered the globalization of finance and sustainability, characterized by the emergence and subsequent growth of Environmental, Social, and Governance (ESG) criteria. What started as voluntary Corporate Social Responsibility (CSR) actions has quickly turned into an enforced analytical model of evaluating the risk of doing business and competitive differentiation. The basis of this development has been the incredible growth of Socially Responsible Investing (SRI) in which institutional investors have developed a systematic approach to screening and including ESG performance in deciding how to allocate capital. Investors have now realized that better ESG practices are not just any ethical action, but an obvious sign of reduced operating risk, increased operating efficiency, and decreased cost of capital (Alareeni & Hamdan, 2020). As a result, a strong ESG activity leads to the direct stabilisation and improvement of the Tobin's Q on the firm.

The economic relevance of ESG is best demonstrated by the market performance during macroeconomic stresses. The first significant finding is as a result of this, the apparent financial strength of high-ESG-rated companies in times of extreme volatility. As an example, a systematic review of literature examining events such as the 2008 Financial Crisis and the recent COVID-19 pandemic has consistently found that high-rated social capital and overall ESG firms were not stock price depreciated as severely and recovered sooner than low-rated companies (Wijaya et al., 2024). This fact indicates that ESG competence serves as an important financial shock absorber. This dynamic is important in the Indonesian context as evidenced when the performance of the liquid benchmark LQ45 index, which shows the performance of high capitalization stocks, is compared to specialized ESG oriented indices such as the Sri-Kehati Index. The quantitative confirmation of the argument that sustainability is one of the important determinants in triggering better market returns or mitigation of volatilities on the Indonesia Stock Exchange (IDX), can be achieved by analyzing the movements of these indices (Ning et al., 2025).

The reward of resilience in the market, however, is usually accompanied by its rapid and harsh penalties in its failure, especially in the large Social (S) pillar. The second important observation is that this is a direct and immediate destruction of intangible value brought about by social mismanagement. Market trust is inseparably connected with the Social pillar that represents how a firm interacts with its staff, customers, suppliers and communities (Alshurafat et al., 2023). The failures here, which can take the form of idiosyncratic risk, bring a direct erosion on the premium capitalized in the Tobin's Q. To use an example, a large clothing company (as a representative of the Manufacturing industry) that has been caught on camera committing reported labor rights abuses or unacceptable working conditions (as associated with the Workforce and Human Rights aspects) loses its reputation on the spot. The risk is translated into actual loss of money in terms of disruption of the supply chain, threats of boycotts and eventual losses in the stock price (Ning et al., 2025). Likewise, in the case of a large service provider (which is the Non-Manufacturing industry), customer data privacy or product safety (Product Responsibility) negligence results in huge regulatory penalties, huge litigation

expenditures, and the unregainable loss of customer trust, which is the most vital intangible asset that makes companies so valuation-seeking in the market.

Although it had evident financial implications on such social failures, the Social (S) dimension is the most empirically unclear and least well understood pillar of the ESG framework. When other studies have only used one and aggregated Social score, the empirical data is very conflicting. Although there are studies of a large scale that provide the evidence of the relatively positive effect of the aggregated S score on Firm Value (Yu & Xiao, 2022), there are also many other studies that present the non-significant findings (Mikolajek-Gocejna, 2024) or even present the negative (Abdi et al., 2020; Prabawati & Rahmawati, 2022). This general deficiency of the literature creates a gap of great methodological interest: the totality of the Social score is too wide and too heterogeneous to point effectively at what particular social investments actually create values, and which ones the market merely regards as costs of doing business.

The overwhelming failure to reach an agreement in the literature concerning the aggregate Social (S) score demands a specific methodological adaptive alteration. The inherent weakness is that the different activities, including ensuring the safety of employees as opposed to community philanthropy, are homogenous inputs. In order to solve this important methodological shortfall, the study will take a granular and disaggregated strategy of isolating the four key social sub-pillars which make up the S dimension, which are well defined by significant data providers such as Refinitiv Eikon: Workforce (X_1), Community (X_2), Human Rights (X_3), and Product Responsibility (X_4).

The rationale behind this division is that each of the sub-pillars represents a radically distinct investment objective with a dissimilar impact on the value chain of the firm. The Workforce investment (X_1) is in fact, a human capital strategy. It is concentrated on the enhancement of the productivity, minimization of turnover expenses, and promotion of the internal balance (Aouadi & Marsat, 2018). By achieving good workforce management, a firm gives a positive signal to the market that its core value creation mechanism, which is its people, is being optimized hence lessening operational risk. Investment in Product Responsibility (X_4) on the other

hand, is a consumer based approach. It also seeks to minimize the greeting of litigation, provide safety of products, and gain brand loyalty. In a world where a product failure can spread like wildfire and ruin market share in a few hours, excels it this sub-pillar is a direct shield of the firm Tobin's Q.

In addition, the Community (X_2) and Human Rights (X_3), sub-pillars deal with the larger social license of the firm to operate. Community investment provides a goodwill buffer that cushions the firm in the event of a localized crisis, and compliance with the Human Rights principles will make sure that the firm can gain access to the global supply chains and investment portfolios with a strong emphasis on ESGs. These variables as separated variables give this research more vivid and actionable indicators of specific value creation, which enable managers to realize what social lever actually drives the needle on the valuation of firms in the Indonesian market. Other recent empirical findings have strongly affirmed this disaggregated perspective, whereas the aggregate studies tend to offer yucky results, some studies that disaggregate the social pillar have confirmed the presence of positive and significant individual impacts of these four sub-pillars on Tobin's Q (Bhaskaran et al., 2025).

Recent empirical developments strongly support this disaggregated point of view. Although aggregated studies do not provide meaningful results, the studies disaggregating the social pillar have managed to verify that there are positive and significant individual effects of these four different social sub-pillars on the Tobin's Q (Bhaskaran et al., 2025). Moreover, even the local studies in the Indonesian setting have indicated that the effectiveness of the CSR investments differ widely in terms of its dimensions, which confirms the need to move beyond the generalized S score when examining the Indonesia Stock Exchange (IDX)(Alshurafat et al., 2023). This approach helps the study to shift away on whether CSR is relevant or not and poses the question as to which social investment is most relevant to market-valued.

This contextual hypothesis is always upheld by empirical evidence. It has been shown that the positive effect of ESG is much higher in sectors with a high concentration on intangible assets or those that use fewer resources that are more

consumer-facing, which is mostly classified as Non-Manufacturing (Ning et al., 2025; Rossi et al., 2021). When this moderating effect is not considered, it would result in incorrect and broad generalized conclusions that will blur the actual motivation of Firm Value in various economic sectors. Thus, to establish whether the positive association between the disaggregated social dimensions ($X_1 - X_4$) and the Firm Value is substantially reinforced or repressed comparing the Non-Manufacturing and Manufacturing sectors on the IDX, the Industry Type is necessary.

Moreover, the urgency of the current research is substantially supported by the inclusion of the Industry Type (Z) into the study as a moderating factor. This has a deep logical rationale, which implies that the effect of social aspects on firm value is not homogenous across each industrial sector. The manufacturing industries, with their labor-intensive types of operations and with more socio-environmental footprint to view, typically classified as high-profile sectors, experience significantly high legitimacy pressures than do the non-manufacturing or service-oriented sectors (low-profile) (Lauren et al., 2023). Occupational Health and Safety and social waste management are some issues that are used as key variables in the investor valuation in the manufacturing context.

On the other hand, market evaluation can shift more to product accountability and data confidentiality in the service sector. Such structural differences often cause conflicting empirical results in the event the type of industry is disregarded. An example of this is that large social investment may be seen as a simple cost burden in those industries with low profit margins and as a competitive strategic advantage in those industries that place a strong emphasis on brand reputation. Using a dissection by the companies according to their industry (manufacturing vs. non-manufacturing), the present study will give a closer map on how the Indonesian market responds to social activity and some business specific cases. It aligns with the hypothesis of the authors of the study by Sopian et al. (2018), who conclude that Corporate Social Responsibility (CSR) disclosure effectiveness heavily depends on the firm-specific factors, and the industry type can be taken as one of the most influential determinant factors in the perception of the market.

An empirical study must have enough statistical strength to be considered statistically robust, and to avoid the risk of the so-called omitted variable bias, this study includes three key control variables, Firm Size, Financial Leverage, and Liquidity. The three variables are also not added only due to the procedure factor but the strategy to isolate the actual impact of the social aspects on the value of firms, in a way that the actual relation looked at is not blurred by the enabling financial nature of the companies.

First, it is a mandatory inclusion of Firm Size taken under the Visibility and Resource Hypothesis. The larger companies usually have more adequate funds and human resources to invest in larger social disclosures and sustainability projects. Furthermore, the bigger the company, the bigger the public and regulatory exposure, as determined by Wijaya et al. (2024), which in most cases results in increased pressure to adhere to social norms. And in the absence of a size factor, any observed positive correlation between social dimensions and firm value may be easily explained by the size of the company itself firm valuation will be greater due to its market dominance and resources, not its particular social achievements. This study has neutralized the scale effect by adjusting size (usually natural logarithm of total assets) to zero.

Second, Financial Leverage is incorporated to consider the capital structure of the firm and the financial risk that it has. The justification of the same goes deep into the Trade-off Theory and the Agency Theory. Investors and creditors will perceive social spending in a different perspective in line with the obligations of the firm in terms of debts. A highly leveraged company- with a high debt ratio- might be regarded as taking a huge risk when venturing on social projects because such investments can be viewed as risky distortion of cash flows that should be in other areas such as debt repayment and interest payments. On the other hand, in the case of a financially healthy company having low leverage, social investments are perceived to be a strategic addition to the intangible value and reputational capital in the long run. Hence, leverage should be managed to ensure that the financial risk profile does not confound the findings of a firm.

Third, this study brings Liquidity as an essential control variable to indicate the short-term financial flexibility of the firm. The concept of liquidity is used as a proxy to the spare capacity or the slack resources of the firm. Companies that have a high liquidity status tend to have an edge in financing social projects without compromising their operations demands in the day to day affairs. To the market, a liquid firm that makes investments in the workforce or the community would be perceived to be conducting the action out of strength, compared to a firm that lacks liquidity that tries to do the same, which would be regarded as a question mark as to whether the firm is sustainable in its operations. The introduction of liquidity will help the model to differentiate between social investments as a result of financial prosperity and those which may be under a financial burden on the entity.

This study combines these disaggregated social elements ($X_1 - X_4$), the moderating effect of Industry Type (Z) and the three part, tripartite control system (Size, Leverage, and Liquidity) to create one, overarching econometric model. This methodology aims at addressing the long-standing empirical gap and the noisiness that had afflicted past ESG studies in Indonesia. This section of the background gives the material logical connection between the extensive stakeholder theory to the particular empirical examination, which explains why this particular model is the most intricate and can adequately explain the complexities wrought by the Indonesia Stock Exchange (IDX).

Although the discussion on the social responsibility and the value of the firm has been widely undertaken, this study stands strategically with several elements of novelty that has not been adequately explored in the context of Indonesia capital market. The originality is the disaggregated social pillar approach. The huge proportion of past literatures, as summarized in the review by Sopian et al. (2018), are apt to see CSR as a single accumulative score. Contrarily, this study breaks the social aspect into four very specific independent variables, that is, Workforce, Community, Human Rights, and Product Responsibility. Through this, this study can be able to capture the market anomalies such as why investors may be positively receptive to workforce investments and at the same time doubtful of community philanthropy spending in some industries.

The second novelty is related to the use of Industry Type as a moderating variable. This study does not simply aim at finding linear cause and effect correlations. This study recognizes the sectoral complexities that are inherent in the Indonesia Stock Exchange (IDX) by the inclusion of a moderating variable. This is essential, as the nature of the manufacturing industry that is highly controlled in the physical operations is definitely of different social legitimacy standards, than the service or trade industry. In the absence of this moderating variable, the interpretation of the effects of social investment would be biased and would not give appropriate strategic advice to the management of the corporations.

Moreover, this study has merits related to coverage and methodology of data. The ten-year dataset (2015-2024) will be used to ensure that the trends are captured in the long-term, such as how the ESG investment awareness shift in Indonesia was transformed in the pre-pandemic and the post-pandemic period. The use of the Refinitiv Eikon ESG Score database is very credible and objective. Compared to self-assessments, which are usually subjective methods, the methodology used by Refinitiv is grounded on hard data and public disclosure, which means that the findings of this research will have international acknowledged validity. Unbalanced Panel Data is also used to show methodological urgency. Following the recommendations of the economic methodology literature, including Venter et al. (2017), the given approach will enable the researcher to use all the available information on companies listed on the IDX without the need to delete samples with missing data in some years. This will guarantee that the findings of the research are an accurate reflection of the market reality as it is and not distorted by overly strict sample selection bias.

This study has been catalyzed by the phenomenon that has been known as the empirical gap and this is the inconsistency in previous studies. This research will offer a solution to the existing debate by combining the arguments of the Stakeholder Theory, which focuses on the management of relationships, and the Legitimacy Theory, which lays stress on social acceptance. The most critical issue is that companies need to decide whether social investments that they make are indeed being rewarded by the market in terms of higher firm value or rather considered to be cost inefficiency.

In accordance with the whole description of the phenomena, gaps in the research and theoretical urgency outlined, this study considers it appropriate to investigate the phenomena further with the help of a comprehensive scientific study. Thus, the study is carried out on the title: **“The Impact of Social Dimensions on Firm Value with Industry Type as a Moderating Variable: Evidence from Companies Listed on the Indonesia Stock Exchange”**

1.2 Research Problem

The problem formulation for this research is outlined as follows:

1. Does workforce practices on firm value as measured by Tobin’s Q?
2. Does community engagement on firm value as measured by Tobin’s Q?
3. Does human rights practices on firm value as measured by Tobin’s Q?
4. Does product responsibility on firm value as measured by Tobin’s Q?
5. Does industry type moderate the relationship between workforce practices and firm value as measured by Tobin’s Q?
6. Does industry type moderate the relationship between community engagement and firm value as measured by Tobin’s Q?
7. Does industry type moderate the relationship between human rights practices and firm value as measured by Tobin’s Q?
8. Does industry type moderate the relationship between product responsibility and firm value as measured by Tobin’s Q?

1.3 Research Objectives

Drawing from the previously stated research problem, the objectives of this study are outlined as follows:

1. To determine the strength of workforce practices on firm value using the Tobin’s Q.
2. To evaluate how the community engagement affects firm value based on the Tobin’s Q.
3. To investigate how practices related to human rights affect firm value based on the Tobin’s Q.

4. To establish the effect of product responsibility on the firm value in terms of Tobin's Q.
5. To test the moderating influence of industry type on the workforce practices and firm value as indicated by the Tobin's Q.
6. To examine whether the industry type is a moderator of the relationship between community engagement and firm value as calculated by Tobin's Q.
7. The research question to be answered is to examine how the industry type moderates the relationship between human rights practices and firm value in terms of the Tobin's Q.
8. To test the moderating role played by the industry type on the relationship between product responsibility and firm value as depicted by the Tobin's Q.

1.4 Research Benefits

1.4.1 Theoretical Benefits

The study helps in the comprehension of the influence of the Corporate Social responsibility (CSR) practices specifically on the disaggregated social aspects such as Workforce, Community, Human Rights and Product Responsibility on the firm value (Tobin's Q) of the Indonesian listed companies. Hopefully, the results will give a constructive insight into the concept of socially responsible business practices in developing world economies such as Indonesia where the economic landscape is rapidly changing and stakeholder expectations in the industry are increasingly becoming significant.

1.4.2 Practical Benefits

1. To Researchers or Students The research is anticipated to enlarge the literature insight to the researchers or students on the influence of disaggregated social dimensions (Workforce, Community, Human Rights, and Product Responsibility) on firm value, namely by emphasizing Industry Type as a key moderating technique in the Indonesian capital market.
2. To Companies and Managers It is believed that the study results will give managers helpful guidelines on making strategic choices of resource allocation to social projects. Companies can turn social practices into

strategic value-creation engines by finding out which social dimensions, e.g. Product Responsibility, directly lead to increased market value.

3. To Government and Regulators The results of the study are likely to be used as a guide and reference by policymakers, including Financial Services Authority (OJK) and Indonesia Stock Exchange (IDX) in the development and revision of policies regarding the disclosure of social responsibility. This guarantees that the corporate reporting standards will encourage companies to address serious social practices that are relevant to the social agendas and economic competitiveness.
4. To Investors The results of the investigation are likely to be used as the background to investment decision-making as it will offer a more in-depth insight into the way social performance influences the valuation of firms in different industries. These insights can be used by investors to determine the companies that consider social responsibility as part of their operations and understand that the intensity of such effects will depend on the industry of that particular firm.

1.5 Scope of Research

The research is limited to certain samples and variables to reduce the possibility of ambiguity in the interpretation of the research findings. The study is called incorporates a number of important variables. Workforce, Community, Human Rights and Product Responsibility are the main independent variables (X), and the dependent variable (Y) is Firm Value in terms of the Tobin's Q. Also, Industry Type (Manufacture and non-Manufacture) is incorporated as a moderating variable in the study, and Firm Size, Leverage, and Liquidity are used as control variables to enhance the robustness of the study. This research sample is comprised of companies that were listed on the Indonesia Stock Exchange (IDX) within the period of observation (2015 to 2024).

1.6 Writing Systematics

This thesis is structured into five chapters, each of which is systematically arranged as follows:

CHAPTER I INTRODUCTION

The chapter provides the background of the study, research problem formulation, research objectives, research benefits, research scope and the entire systematics of the writing.

CHAPTER II LITERATURE REVIEW

This chapter gives the theoretical background that applies to the research, a literature review of some past studies and development of research hypothesis and the conceptual framework that will inform the analysis.

CHAPTER III RESEARCH METHODOLOGY

The chapter describes the research design, the population and sample selection, the nature and sources of the data, the method of the data collection, the operationalization of the variables, and the manner in which data would be analyzed.

CHAPTER IV ANALYSIS AND DISCUSSION

In this chapter, the results of the study are provided along with the analysis and discussion. It also compares the findings with the available theories or benchmarks and the degree at which the research hypotheses are supported.

CHAPTER V CONCLUSION

This chapter is the summary of the key conclusions of the research findings. It also gives implications of the research, its limitations and gives suggestions and recommendations on the future research.