

## CHAPTER I

### INTRODUCTION

#### A. Research Background

Today, many companies have been increasingly concerned on sustainable aspect in considering long-term investment. Many companies implement a sustainable approach which not only benefits financially but also has a positive impact on the environment and surrounding communities. Environmental Social and Governance (ESG) is among the concepts that are increasingly gaining attention among several companies. ESG is a company standard that includes three concepts, namely Environmental, Social and Governance, in which the company integrates and implements policies that are in line with these three components.<sup>1</sup>

However, the implementation of ESG in Indonesia has not yet run optimally. This is because there are still many companies that have not been able to implement the concept of sustainability or disclose information about this to the public domain.<sup>2</sup> With the issues of climate change, human rights, equality and business ethics increasingly in the spotlight, ESG represents an increase in awareness and social and environmental responsibility among investors and companies. ESG has become a tool used by investors to select investments that align with their values. Moreover, Indonesia is a country with abundant water resources, both rivers, lakes and other waters. Of all the wealth owned by the Indonesian state, one of which is the mining sector which is the most promising to manage.<sup>3</sup>

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<sup>1</sup> Farhan Aziz And Anis Chariri, 'Pengaruh Lingkungan, Sosial, Dan Tata Kelola (Esg) Pengungkapan Dan Kinerja Lingkungan Terhadap Pengembalian Saham', .

<sup>2</sup> Machillah Afany Durlista And Ickhsanto Wahyudi, 'Pengaruh Pengungkapan Environmental, Social Dan Governance (Esg) Terhadap Kinerja Perusahaan Pada Perusahaan Sub Sektor Pertambangan Batu Bara Periode 2017-2022', *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (Mea)* 7, No. 3 (9 September 2023): 210–32, <https://doi.org/10.31955/Mea.V7i3.3327>.

<sup>3</sup> Jeanice, Sung Suk Kim, 'Pengaruh Penerapan Environment Social, and an, Governance Terhadap Nilai Perusahaan Di Indonesia' Volume 7 Nomor 2, April 2023 (1 April 2023), <https://doi.org/DOI> : <https://doi.org/10.33395/owner.v7i2.1338>.

However, the mining sector is also often affected by social and corporate governance issues such as communities around mining areas, employee welfare and work safety. Applying, ESG in the minning sector is necessary. Good ESG in the mining industry can have a positive impact on a company's stock price. Investor increasingly view companies that prioritize ESG as more stable and less risky entities, thereby increasing investor confidence and potentially increasing demand for the company's shares.<sup>4</sup> Companies that actively implement ESG experience an increase in stock value. The role of ESG in improving the company's reputation, as well as strengthening stakeholder trust.<sup>5</sup>

Although ESG can increase stakeholder trust and improve a company's internal performance, its impact on the stock market is still considered negative, possibly due to the high costs incurred for these ESG initiatives, which can affect short-term profitability.<sup>6</sup> However, ESG can improve a company's reputation and attract investors. A study by Setyaningsih and Surya revealed that companies with high ESG scores tend to experience increased stock prices<sup>7</sup>. This is due to the characteristics of the industry sector and market conditions. Implementing ESG practices can reduce company risk and attract long-term investors, there by reducing stock price volatility.<sup>8</sup>

Beside ESG, Corporate Social Responsibility (CSR) is another factor that can influence stock price. It has the potential to influence stock prices by improving the company's reputation and attracting more investors. CSR affects stock prices because companies that are active in CSR tend to attract investors because they show good business ethics and concern for the environment and society. Mien Thuy et al indicated that CSR committees are often considered as positive managerial

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<sup>4</sup> Mariel S. Palomeque, Kevin Brady, Estefanie Martens, 'ESG Trends On The Mining Industry. Are We Prepared?', *4th-7th May 2022*, N.D., 1–6.

<sup>5</sup> Yiming Zhang And Guoyu Mao, 'Study Of The Impact Of Esg Performance On The Financial Performance Of Mining Companies', *Frontiers In Business, Economics And Management* 15, No. 1 (15 May 2024): 126–33, <https://doi.org/10.54097/Mrbw8f75>.

<sup>6</sup> Fahreza Aditama, 'Analisis Pengaruh Environment, Social, Governance (Esg) Score Terhadap Return Saham Yang Terdaftar Di Index Idx30', *Contemporary Studies In Economic, Finance And Banking* 1, No. 4 (9 December 2022): 592–602, <https://doi.org/10.21776/Csefb.2022.01.4.05>.

<sup>7</sup> Wulan Setyaningsih And Riyan Surya Wibowo, 'Does Earning Per Share Contribute To The Effect Of Esg Score On Share Price Of Mining Sector Companies?' 1, No. 1 (2024).

<sup>8</sup> Wulan Setyaningsih And Riyan Surya Wibowo, 'Does Earning Per Share Contribute To The Effect Of Esg Score On Share Price Of Mining Sector Companies?' 1, No. 1 (2024).

indicators that can lead to increased stock prices in the market.<sup>9</sup> Supporting Mien Thuy et al's study, Az-Zahra et al found that CSR possesses a positive impact on stock prices, indicating that investors are more supportive of companies that actively engage in social responsibility.<sup>10</sup> However, CSR in this case indicates that investors tend to value information related to company performance more, so that it can increase the company's stock price and attract investors to invest. Indonesian investors are more focused on short-term profits and tend to make daily stock transactions, which can obscure the long-term impact of CSR.<sup>11</sup> Therefore, the impact of CSR often cannot be felt in the short term since investors tend to pay more attention to financial performance that is more directly visible to stock prices.<sup>12</sup>

Moreover, financial performance affect share price. The financial position of a company is a key factor in determining how well it performs. Investors use financial performance analysis to make more informed investment decisions, with the hope of reaping the benefits of rising stock market prices over time. However, financial performance can strengthen or weaken the relationship between ESG, CSR and stock prices. If financial performance is not good, investors' view that ESG will decrease stock price or even ESG has no impact. On the other hand, better financial performance can increase relationship between ESG, CSR and stock prices.

Although previous studies related to the influence of ESG, CSR, and financial performance on stock prices have been widely conducted, the results of previous studies have been inconsistent. Some studies indicated that ESG, CSR and financial performance have a positive influence on stock prices, but other studies have no

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<sup>9</sup> Cao Thi Mien Thuy Et Al., 'From Corporate Social Responsibility To Stock Price Crash Risk: Modelling The Mediating Role Of Firm Performance In An Emerging Market', *Sustainability* 13, No. 22 (13 November 2021): 12557, <https://doi.org/10.3390/Su132212557>.

<sup>10</sup> Nabila Az-Zahra, Muhammad Su'un, And Asri Ady Bakri, 'Pengaruh Pengungkapan Corporate Social Responsibility Dan Good Corporate Governance Terhadap Harga Saham Pada Perusahaan Sub Sektor Kelapa Sawit Yang Terdaftar Di Bursa Efek Indonesia, Periode 2018-2022' 6, No. 4 (2023).

<sup>11</sup> Sandi Dwi Prasetyo And Dhiona Ayu Nani, 'Pengaruh Pengungkapan Corporate Social Responsibility Terhadap Harga Saham (Studi Empiris Pada Perusahaan Perkebunan Sub Sektor Sawit Yang Terdaftar Di Bursa Efek Indonesia Periode 2017 -2019)', *Accounting Global Journal* 5, No. 2 (31 October 2021): 123–51, <https://doi.org/10.24176/Agj.V5i2.6230>.

<sup>12</sup> Agus Setyo Utomo, 'Pengaruh Csr, Roi, Roe Terhadap Harga Saham Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia', *1 Januari 2019* Vol. 4 No. (N.D.): Hal 82-94.

influence. Moreover, research related to ESG, CSR and financial performance, especially research in the mining sector listed on the Jakarta Islamic Index, is still relatively limited. Additionally, to ensure whether financial performance may strengthen or weaken the relationship between ESG, CSR and stock prices, this study attempt to put financial performance as moderating variables. Therefore, this study examines the influence of ESG and CSR on stock prices in mining companies listed on the Jakarta Islamic Index. This study will also investigate how far financial performance moderates the relationship between ESG CSR and stock prices.

### **B. Research Questions**

1. Does ESG have an influence on stock price reactions in mining companies?
2. Does Corporate Social Responsibility (CSR) have an influence on stock price reactions in mining companies?
3. Does financial performance strengthen the relationship between ESG and stock price reactions?
4. Does financial performance strengthen the relationship between Corporate Social Responsibility (CSR) and stock price reactions?

### **C. Research Objectives**

This study examines to what extent ESG, CSR affect stock price. Specifically, this study investigate as follows.

1. To analyze the influence of ESG on stock price reactions in mining companies listed in Jakarta Islamic Index.
2. To analyze the influence of Corporate Social Responsibility (CSR) on stock price reactions in mining companies listed in Jakarta Islamic Index.
3. To determine financial performance as a moderating variable whether strengthen or weakening in the relationship between ESG and stock price reactions.
4. To determine financial performance as a moderating variable whether strengthen or weakening in the relationship between CSR and stock price reactions.

**D. Significance of the research****1. Theoretical Significance contribution**

This research can help develop a more comprehensive theory on moderating financial performance in the relationship between ESG, CSR, and stock prices.

**2. Practical Significance contribution**

This study is expected to provide valuable insights for investors with regard to investment decisions before their investment in the mining sector. For companies, this study is expected to enhance company's awareness on the importance of implementing ESG and CSR in order to increase stock prices through financial performance.

**3. Governance Significance Regulation contribution**

This study is expected to assist the government enhance the awareness of company in implementing of ESG and CSR through its policy.

