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THE INFLUENCE OF SOCIAL COST, FAMILY OWNERSHIP, CAPITAL STRUCTURE ON FIRM VALUE

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ABSTRACT

In the time span of 2020-2022, this study aims to collect empirical evidence related to the influence of social costs of family ownership and capital structure on company valuation in the mining sector on the Indonesia Stock Exchange (IDX). The sample consists of 30 data, selected by non-probability sampling method from companies that are continuously listed on the IDX during 2020 to 2022. Data processing is carried out using panel data techniques using Eviews 12 software. This study shows that social cost has a positive effect on firm value, family ownership has a positive and insignificant effect and capital structure has a negative and insignificant effect.

Keywords: *social cost, family ownership, capital structure, firm value.*

1. INTRODUCTION

Competition in the business world requires companies to drive the value of the company for survival so that it can survive and compete with domestic and foreign companies in the hope of providing signals that encourage investors to invest. The thing that supports this competition is the presentation of neat financial reports (Enggar, 2022). Financial reports can reflect the company's financial performance which will affect the high and low value of the company. This business competition is very tight which makes all companies try to optimize their company value. In this increasingly competitive business world, company value is a very special benchmark for shareholders, investors, and the company itself. The higher the value of the company, the more attractive it is in the eyes of investors to invest in the company. How high and low the value of the company can be seen from its share price in the market. Similarly, a decrease in stock price reflects a decrease in the company's value, and conversely (Saputri et al., 2022).

However, the cause of the low value of companies in the mining sector on the IDX for the 2020-2022 period could be influenced by other things that have been felt by all companies. In 2020, March 2 to be precise, with the emergence of Covid-19 (Indonesia.go.id). Covid-19 has a big impact on the world, including Indonesia. The three major impacts of the Covid-19 pandemic are the purchasing power of people towards household consumption which has dropped by 60%, causing investment uncertainty for the long term which has implications for going out of business, and a drastic economic downturn which has caused commodity prices to fall and the cessation of Indonesian exports abroad. This is a very historic moment, which has an impact on state finances, namely tax revenues and conducting the state budget twice for economic recovery in Indonesia (Ekonomi.republika.co.id).

With Covid-19, the demand for companies to take responsibility has increased. The government and other related organizations are requesting that companies participate in efforts to preserve the environment through laws and regulations. Some of the relevant Indonesian regulations are Law No. 32 2009 on Environmental Protection and Management, which contains provisions to require companies to analyze the impact of their actions on the environment and regulate emissions of pollution and/or environmental damage, Law No. 40 2007 on environmental protection and management. For limited liability companies that are required to implement environmental responsibility policies and/or activities and publish related reports, the Financial Services Authority (OJK) has drafted Regulation No. 29/POJK.04/2016, which sets out the requirements for registered companies to file their reports. The report is an annual social and environmental responsibility report. Going forward, companies must also look at and fulfill their social responsibilities. This social cost can be considered as a long-term investment because it helps the company to have a positive reputation in the future, thus increasing the value of the company (Amira & Siswanto, 2022).

Firm value can also be influenced by family firms and their capital structure. High family ownership can increase profits and the company's share price. Family ownership can be seen from the share ownership, which varies greatly, ranging from the number of shares above 50% or below 50% (Cahyadi & Wijaya, 2022). Usually, when individuals own shares in a company, a supervisory system is implemented to mitigate potential problems. This is because the owner and management of the company are one unit so that there is no conflict of interest.

This research aims to analyze the influence of family ownership, capital structure and social costs on the value of mining companies and determine their influence on the value of companies in the mining sector listed on the Indonesia Stock Exchange (BEI) between 2020 and 2022. The results of this research can provide knowledge and useful insights for business decision makers, such as company managers, shareholders and regulators, in managing companies more effectively. In addition, this research is also expected to make an important contribution to the business and management literature, by filling knowledge gaps in the understanding of how these factors interact in an increasingly complex and inclusive business world.

2. RESEARCH METHOD

Agency Theory

Agency theory is a company that uses the best capital structure and tends to have minimal conflict between its shareholders and managers Jensen and Meckling, (1976: 308). Based on this theory, it can be concluded that agency theory there are problems between shareholders and managers, because they have goals and priorities from different parties, but have the same goal of increasing company value.

Signaling Theory

Signaling theory is information that executives have to help shareholders and potential investors make decisions. (Ross, 1977). Based on this theory, it can be concluded that signal theory is related to the signals or instructions given by the company to investors through financial reports that describe the company's progress and efforts to influence investors' decisions regarding the company. Investors in the capital market require correct, appropriate and not overdue information in analyzing and making their investment decisions. This information presents data about the business being conducted, the company's record in the previous period and the strategy planned for the coming period. For those who are making decisions about their investments, the information announced will have a positive or negative impact.

According to Brigham & Houston (2011), the higher the stock price, the higher the company's market value. This is because of the definition of the company's value as its market value, which in turn provides maximum prosperity to shareholders when the company's stock price increases.

According to Mariani & Suryani (2018), social costs are the implementation made by companies that will yield multiple benefits. Initially, socially responsible companies have higher brand reputations and overall better corporate images, whereas businesses with lower performance levels will show less social responsibility. Consequently, customers tend to prefer buying goods or services from businesses with a good reputation as a result of their social responsibility efforts, which in turn helps the community view the business favorably.

According to Patrisia et al. (2019), family ownership of a company is usually documented by the involvement of family members in the highest management levels. Additionally, in family-managed companies, the transmission of knowledge and experience usually occurs from one generation to the next. If the next generation is raised within the company, they will develop trusted relationships with employees and have a long-term perspective on both suppliers and other external parties.

According to (Wijaya et al., 2023), the capital structure of a business involves balancing debt with financing; therefore, debt is a component of a business's capital structure, and this capital structure is crucial for improving its productivity and performance.

The Correlation between Social Cost and Firm Value

Nowadays, environmental issues are an important issue for observation from the state, users and investors. One of the reasons is the reluctance of companies to incur environmental management costs and focus on financial benefits alone. As a matter of public concern, issues such as air pollution, natural resource depletion, waste problems, and product unsuitability are increasingly becoming topics of conversation. Therefore, as a member of a company's interest group, the public demands that companies focus more on the social and environmental consequences and try to reduce them. Companies are required to not only focus on maximizing financial returns during operations, but also consider the positive and negative impacts of their actions on the environment and surrounding communities. With signaling theory, companies are responsible for their environmental duties effectively, which is beneficial for investors (Saputri et al., 2022).

The Correlation between Family Ownership and Firm Value

In family businesses, family members usually serve on the board of directors; the goal is to ensure that the company's performance is achieved, so that the value of the company is also expected to increase (Cahyadi & Wijaya, 2022). In the course of increasing value for the company, disputes arise between managers and shareholders (owners) regarding the interests of managers and shareholders. This is known as the agency problem. Investors often ignore the goals and concerns of managers when they conflict with the main objectives of the company. Since there is no conflict between the interests of managers and the interests of the owners of the company, this agency problem can be avoided by closely monitoring company ownership (Patrisia et al., 2019).

The Correlation between Capital Structure and Firm Value

Firm value is measured by taking into account its price in the stock market to reflect its true value (Cahyadi & Wijaya, 2022). Every organization wants to increase the value of its business because it attracts investors and can generate significant profits in the future. A high rate of return for the company will be generated by an efficient capital structure, while shareholders will benefit. Based on agency theory, what has an influence on the financial position is the capital structure, using debt wisely as a source of funds where the less debt, the higher the value of the company. Meanwhile, according to signal theory, the more optimal capital structure will be a positive signal to the public so that there is an assessment that the company has a low risk of bankruptcy (Wijayaningsih & Yulianto, 2022).

The Research Framework in this study is shown in the figure below.

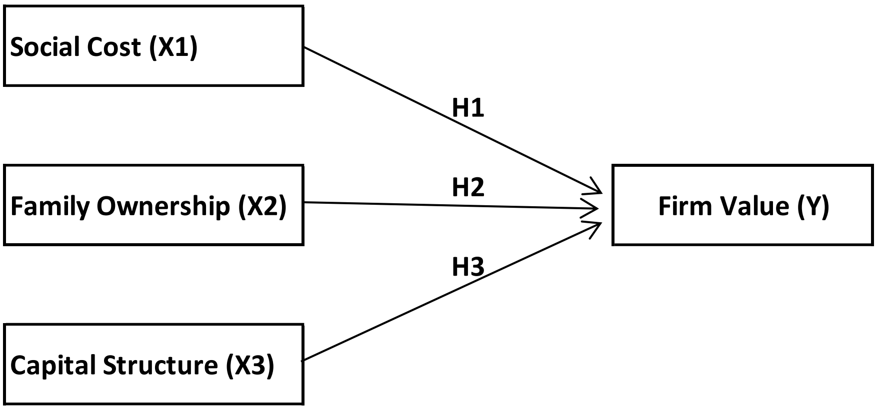

Figure 1 Research Framework

Research Hypothesis
As follows, the hypothesis can be formulated from the model structure that has been described, namely:

Environmental performance is the result of a company's efforts to preserve the environment, with a focus on social costs. A company can report its environmental performance by disclosing the amount of money spent on environmental improvement. Funds are allocated to public facilities, places of worship, healthcare, education and training, natural disaster relief, and nature conservation under the social cost category. Businesses that practice environmental performance, such as socially responsible costs, usually report the results to shareholders in an effort to attract new investors to contribute to the business. Support for this is also reinforced by findings emerging from research conducted by (Mariani & Suryani, 2018) where businesses with lower levels of performance will show less social responsibility. As a result, customers are usually more likely to purchase goods or services from businesses that have a good reputation as a result of their social responsibility efforts, which in turn helps society view the business favorably. With signaling theory, the company is responsible for its environmental duties effectively, which is beneficial to investors (Saputri et al., 2022). Therefore, the formula uses social costs divided by the company's profit / (loss) multiplied by 100 percent (Enggar, 2022). Taking into account the explanation above, the following hypothesis is made:
H1: Social Cost has a positive and significant effect on firm value.

Increasing firm value can be done through optimal financial management in capital structure. A sector is beginning to understand capital structure as a key element in achieving financial sustainability and competitiveness. A company's capital structure is the proportion of debt to equity used to fund its operations. Both business continuity and productivity are enhanced in organizations with a sizeable capital structure. Based on agency theory, what has an influence on

the financial position is the capital structure, using debt wisely as a source of funds where the less debt, the higher the value of the company. Meanwhile, according to signal theory, the more optimal capital structure will be a positive signal to the public so that there is an assessment that the company has a low risk of bankruptcy. Therefore, the formula uses total debt divided by the total capital owned by the company (Ummah & Yuliana, 2023). Taking into account the explanation above, the following hypothesis is made:
H2: Capital Structure has a positive and significant effect on firm value.

The sustainability and longevity of family businesses is evident compared to other forms of businesses because not only is it possible to focus on long-term strategies and capitalize on opportunities and competitive advantages of the founders but also because of family cohesiveness. Therefore, there are fewer conflicts of interest when managers and owners are on the same side, i.e. fellow family members who play an important role in the company and automatically influence short-term and long-term business decisions. This family ownership affects firm value because family members control the company (Cahyadi & Wijaya, 2022). Because there is no conflict between the interests of managers and the interests of the owners of the company, this agency problem can be avoided by closely monitoring company ownership (Patrisia et al., 2019). Therefore, the formula uses all total family-owned shares divided by the total shares outstanding multiplied by 100 percent (Cahyadi & Wijaya, 2022). Taking this explanation into account, the following hypothesis is made:
H3: Family ownership has a positive and significant effect on firm value.

Population and Sampling Techniques
The variables analyzed in this study include one dependent variable, namely firm value (Tobins'Q), and four independent variables, involving social costs, family ownership, and capital structure. This study details the population of all mining companies listed on the Indonesia Stock Exchange, spanning 2020 to 2022. In determining the sample, a purposive sampling method is applied to select data that meets the criteria set by the researcher because not all samples meet the necessary requirements. The sample selection criteria involve mining companies that are continuously listed on the Indonesia Stock Exchange, namely financial statements as of December 31, have records of social costs during the 2020-2022 period, are family-owned companies, and use the Rupiah currency in the preparation of their financial statements. The number of samples processed was 10 companies.

Variables and Measurement Methods

Table 1. Variable Operationalization

Variable	**Measurement**	**Reference**	**Scale**
Firm Value	$Tobin's\ Q \equiv \frac{Total\ Market\ Value + Total\ Book\ Value\ of\ Liabilities}{Total\ Book\ Value\ of\ Assets}$	(Chung & Pruitt,1994)	Ratio
Social Cost	$= \frac{Social\ Cost\ Expense}{Net\ Profit\ (Loss)}$	(Enggar, 2022)	Ratio

Family Ownership	$= \dfrac{Family\ Ownership\ of\ Shares}{Total\ Outstanding\ Shares}$	(Cahyadi & Wijaya, 2022).	Ratio
Capital Structure	$DER = \dfrac{Total\ Liability}{Total\ Equity}$	(Ummah & Yuliana, 2023)	Ratio

3. RESULTS AND DISCUSSIONS

Table 2. Descriptive Statistics
Source: Data Processing Results (2023)

	Y	X1	X2	X3
Mean	7.101375	1.211632	0.225938	0.758375
Median	1.466858	0.006728	0.093550	0.482022
Maximum	55.58431	18.30529	0.630883	4.226509
Minimum	0.058954	-0.369929	4.705880	0.007428
Std. Dev.	15.36755	3.872710	0.238137	1.009009
Skewness	2.552355	3.477046	0.537418	2.294161
Kurtosis	7.805392	14.56844	1.603332	7.446478
Jarque-Bera	61.43732	227.7354	3.882442	51.02982
Probability	0.000000	0.000000	0.143529	0.000000
Sum	213.0413	36.34896	6.778131	22.75126
Sum Sq. Dev.	6848.691	434.9387	1.644569	29.52490
Observations	30	30	30	30

In the findings of the descriptive statistical analysis in Table 2, the dependent variable is firm value, it is found that the average (mean) or median value is 7.101375. The maximum value reaches 55.58431, while the minimum value is 0.058954. The standard deviation for this variable reaches 15.36755. Furthermore, the skewness is found to be 2.552355, close to the value of 0. The kurtosis, which indicates the skewness of the data distribution, has a value of 7.805392, quite far from the usual normality value of 3. The Jarque-Bera measure for normality distribution in this variable is 61.43732. In this study, there is also the first independent variable, namely social cost (X1), with a mean value of 1.211632, median 0.006728. The maximum value reaches 18.30529, and the minimum is -0.369929. The standard deviation is 3.872710, skewness is 3.477046, and kurtosis reaches 14.56844. The Jarque-Bera measure for normality distribution on this variable is 227.7354. The second independent variable, family ownership (X2), has a mean value of 0.225938, median 0.093550. The maximum value reaches 0.630883, and the minimum is 0.000004. The standard deviation is 0.238137, skewness is 0.537418, and kurtosis reaches 1.603332. The Jarque-Bera measure for normality distribution on this variable is 3.882442. The third independent variable, capital structure (X3), has a mean of 0.758375, median of 0.482022. The maximum value reaches 4.22.

Table 3. The Result of Multiple Regression Analysis (Fixed Effect Model)
Source: Data Processing Results (2023)

Cross-section fixed effects test equation:
Dependent Variable: Y
Method: Panel Least Squares
Date: 11/11/23 Time: 01:07
Sample: 2020 2022
Periods included: 3
Cross-sections included: 10
Total panel (balanced) observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.875845	1.891355	0.991799	0.3304
SOC_COST	3.377926	0.405598	8.328270	0.0000
FAM_OWN	6.000512	7.308643	0.821016	0.4191
CAP_STRUCT	-0.294068	1.554451	-0.189178	0.8514

In table 3 above, the Coefficient value on the social cost variable (SOC_COST) is 3.377926 and shows a positive direction. Then the Prob value on the social cost variable (SOC_COST) is 0.000, the number of probabilities is smaller than the significant level of 0.05 or five percent so it can be interpreted that if H1 is accepted, it can be concluded that the social cost variable (SOC_COST) has a positive effect and has a significant effect on firm value (Y). Furthermore, for the family ownership variable (FAM_OWN), the Coefficient value is 6.000512 and shows a positive direction. Then the Prob value on the family ownership variable (FAM_OWN) is 0.4191, the probability number is greater than the significant level of 0.05 or five percent, it means that H2 is rejected, it can be concluded that the family ownership variable (FAM_OWN) has a positive effect and has no significant effect on firm value (Y). Furthermore, for the capital structure variable (CAP_STRUCT), the Coefficient value is -0.294068 and shows a negative direction. Then the Prob number on the capital structure variable (CAP_STRUCT) is 0.8514 so the probability number is greater than the significant level of 0.05 or five percent, it means that H3 is rejected, it can be concluded that the capital structure variable (CAP_STRUCT) has a negative effect and has no significant effect on firm value (Y).

From the test results above, the regression equation can be formulated as follows:

Y =1.875845 + 3.377926 (SOC_COST) + 6.000512 (FAM_OWN) - 0.294068 (CAP_STRUCT) + e

Description:

Y	= Firm Value
SOC_COST	= Social Cost
FAM_OWN	= Family Ownership
CAP_STRUCT	= Capital Structure
e	= error term

Table 4. Conclusions from the Hypotheses Testing
Source: Data Processing Results (2023)

Hypothesis	Hypothesis	Coefficient	Probability Value	Conclusion
H1	Social Cost has a positive and significant effect on firm value.	1.875845	(0.0000 < 0.05)	Accepted
H2	Family Ownership has a positive and not significant effect on firm value.	6.000512	(0.4191 > 0.05)	Rejected
H3	Capital Structure has a negative and not significant effect on firm value.	-0.294068	(0.8514 > 0.05)	Rejected

4. CONCLUSIONS AND SUGGESTIONS

The purpose of this study is to determine and evaluate how capital structure, family ownership, and social costs affect the value of a company. Throughout the 2020-2022 period, mining companies listed on the Indonesia Stock Exchange (IDX) are the subject of observation. To select a research sample of thirty people, a non-probability sampling technique was used with a method namely purposive sampling. The sample met the criteria of ten companies during the three-year observation period, from 2020 to 2022. Microsoft Excel 2013 was used for data management, and Eviews (Econometric Views) Version 12 was used for data analysis. Prior to this, the research hypotheses were assessed, and conclusions were drawn from the findings.

Based on the research findings, social cost affects firm value. Firm value, the independent variable, is significantly and positively affected by the first variable, social cost. This explains how companies with social costs can attract investors because of their concern for the environment and society. It is an attraction for investors because at this time environmental issues are important for the observation of the country and society. Companies that incur social costs can take many social and environmental care actions, such as conducting social services to local communities, distributing COVID-19 personal protective equipment that has occurred in 2020, and other activities. From these social activities, the community as a stakeholder can see which companies care about social and environmental issues, so that it can be a better assessment for the community who will turn into financiers to fund their business. Therefore, a company that focuses on social and environment is a long-term investment for the company itself.

Based on the research findings in relation to the second hypothesis, family ownership has a positive but insignificant effect on firm value. From this we can know that investors, when investing, do not see the ownership of the company. Companies with family ownership, held by their own family and will be held from one generation to another that will continue to develop the company and create full trust, but this is not what investors see. Family-owned companies, where family members serve on the board of directors, aim to ensure performance is achieved so as to increase the value of the company. With this, conflicts between managers and company owners will be avoided because the owners and managers are the same people so there are no differences in interests. With this, the company can improve its performance according to its plan, however, investors see it from other aspects, so family ownership cannot increase firm value.

The research findings of the third hypothesis show that although capital structure has a negative but negligible effect on firm value, the effect is not significant. This explains why investors do not choose to invest based solely on capital structure. A firm's capital structure consists of various funding sources, including equity and debt, which are used to finance investments and operations. The theory of the net operating income approach or the net operating income approach argues that a firm's value is not affected by its capital structure, despite the fact that capital structure can affect a firm's cost of capital and financial risk. According to this theory, net operating income is what determines the value of a company, which is calculated by subtracting operating expenses from operating income. In this approach, interest costs are not taken into account in the calculation of firm value because they are considered financial costs and not operating costs. As a result, capital structure has little effect on the value of a company.

Included in this study are several limitations in analysis and testing, which should be a major concern for researchers in future studies: (1) The independent variables or independent variables used in the study include social costs, family ownership, and capital structure, and are able to explain the dependent variable as much as 78.13% (seventy-eight point thirteen percent); (2) The research sampling was conducted for three years, namely from 2020 to 2022; and (3) The research sample was obtained from companies in Indonesia, especially those operating in the mining sector and listed on the Indonesia Stock Exchange (IDX).

Based on the limitations mentioned above, there are several recommendations that can be given to companies, investors, and creditors. In addition, students or prospective researchers can be recommended as well. With the findings of this study, companies can observe the correlation or cause and effect relationship between independent factors, especially social costs that affect fluctuations in firm value. The causality relationship in question is that social costs used to increase the value of the company can be an added value so as to attract the attention of potential investors who are expected to increase company profits as well in the coming years. Companies are able to increase social costs by carrying out social activities, education, environmental infrastructure and sanitation, religious facilities and infrastructure, health and others. For companies with family ownership, it is hoped that they can increase their share ownership for the family and be held by more family members, so that they can further develop the company, create full trust and ensure company performance is achieved so as to increase company value.

Investors, creditors and potential creditors can understand and learn information regarding the financial status and level of disclosure of corporate social costs, family ownership, and capital structure associated with mining companies and family ownership presented in this study. This is intended to facilitate rational investment and lending decisions and to reduce the likelihood of financial harm. External parties are advised to consider the information they take wisely, so as to avoid information gaps with the company.

For university students or prospective researchers, it is recommended to conduct additional research by including other external variables that are expected to have a greater influence on the dependent variable. Furthermore, it is recommended that further research cover a longer observation period in order to have a larger amount of data and it is hoped that the data distribution will be better. Future research is expected to investigate companies operating in other industries, apart from the mining industry.

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