CHAPTER I

INTRODUCTION

1.1.Background Problem

The value of an enterprise could be interpreted as the price a potential buyer would be willing to pay if the enterprise were sold (Alfayerds & Setiawan, 2021). An enterprise's value is reflected in its share price, supply and demand from the capital markets, and the public's assessment of its financial performance. High company value is perceived as high profitability since profitability reflects the investment returns where enterprise profits have become an important part of deciding the dividend distributions. High enterprise value can affect the market response because investors will assume that the company has a good operational performance. The enterprise's image in the eyes of stakeholders is very important. Maintaining a good image in front of stakeholders, especially investors, is one of the strategies to survive in the business world, as it directly affects a company's performance in the market (Anggraeni, 2015).

As time goes by, managers not only focus on the economic benefits but also consider the sustainability of the environment, which is why currently, many stakeholders consider environmental aspects in the operational activities of a company. According to BNP Paribas Global Survey, investor interest in ESG-based products has increased by 20% since the Covid-19 pandemic. Moreover, 79% of respondents agreed that the social aspect would positively impact the long-term investment of its risk management fund (Sari, 2021). Most investors, especially the younger generation, are interested in sustainable investment in the hope that companies and business activities can manage natural resources in an environmentally friendly way and protect the welfare of human resources (Nurmutia, 2022). Nowadays, Indonesian citizens are also aware of environmental issues A survey conducted by Katadata Insight Center (KIC) in 2021 says that customers are willing pay more for eco- friendly products (Alika, 2021). Besides that, ESG stocks are also higher than usual. Based on Bloomberg data reported by the Indonesian Business Daily, the SRI KEHATI index has increased 59.25% from its lowest point in 2020 due to the pandemic until the end of the year. The increase was higher than IHSG, which increased 51.84% in the same period (Noviani & Tari, 2021). It shows that investors are more interested in investing and value companies that pay attention to ESG (Environmental, Social and Environmental) aspects of Corporate Governance in their business activities.

Climate change prevention is one of the world's most important issues in applying ESG. The impacts of climate change have been felt, such as increased temperatures on earth, rising sea levels, extreme weather, etc. According to (Dunne, 2019), Indonesia was stated as fourth largest country that produces greenhouse gas emissions that the sources come from deforestation, peat forest fires, and burning fossil fuels for energy in 2015. To respond this case, Indonesia signed Paris Agreement on the United Nations Working Convention on Climate Change as a form of Indonesia's commitment to reduce carbon emissions in

2016. The purpose of this agreement is to limit the temperature global average below 2 degrees Celsius to 1.5 degrees Celsius compared to with pre-industrial times (Joyomenggolo, 2021).

In 2019, the worst annual forest and land fire since 2015 burned 1.6 million hectares of forest and land, equivalent to 27 times the area of DKI Jakarta (Greenpeace, 2020). According to estimates from The Copernicus Atmosphere Monitoring Service (CAMS), emissions carbon as a result of the 2019 forest and land fires in Indonesia reached 708 mtCO2e or nearly double emissions from wildfires in the Brazilian Amazon on same year (Jong, 2019). Forest and land fire 2019 also causing millions of people to be forced to breathe toxic air from combustion residue land and 919,516 people affected by Upper Respiratory Tract Infection (URTI) disease (Rosmayanti, 2020). To shows seriousness in reducing emission carbon, President Jokowi ratified Presidential Regulation No. 98 of 2021 (Perpres 98 Year 2021) regarding the Implementation of Carbon Economic Value for Achieving Nationally Determined Contribution Targets and Control of Greenhouse Gas Emissions in National Development (PR 98/2021) on October 29, 2021 (Arma Law, 2021). For Indonesia’s climate change policies, PR 98/2021 has become a game-changer, especially in the Government's effort to regulate carbon trading system and develop a sustainable green economy. PR 98/2021 becomes important legal bases for the Government's efforts to meet Indonesia's Nationally Determined Contribution (NDC), which is 29% independently and 41% with international collaboration by 2030. PR 98/2021 was signed by President Joko Widodo before he left for

Glasgow to attend the 2021 United Nations Climate Change Conference (COP 26). Climate change Summit The 26th Conference of The Parties/ COP26 took place on October 31 - November 12, 2021, in Glasgow, Scotland, which was a continuation of the Paris Agreement in 2015 to determine steps in preparing decarbonization targets (Ramadhan, 2021). At the 26th Conference of Parties in Glasgow, President Jokowi stated that carbon market and carbon price must be the part of handling the climate change issue. An economic, transparent carbon ecosystem, integrity, inclusive, and equitable must be created (CNN Indonesia, 2021). Indonesia's efforts in reducing carbon emissions can also be seen from the implementation of the carbon tax on July 1, 2022 (Kementrian Keuangan, 2022).

The efforts from various parties to prevent any climate changes by decreasing carbon emissions will make companies reduce carbon emissions/greenhouse gases from their business operation. Companies are required to reduce their carbon emission as long as they still meet the market demand, so the emission of carbon produced will be less to meet the market demand that keeps increasing. The lower carbon emission will increase carbon performance (Yan et al., 2020). Carbon Performance describes the activities of companies to reduce their carbon emission when running their managerial activities. Carbon performance is positively correlated with market value, so investors in the capital market will include carbon performance when making investment decisions. Investors are not only concerned about the economic benefits of companies like before but also pay attention to climate change issues and the social benefits of enterprises (Ziping & Genzhu, 2018). At the same time, carbon performance involves the company's carbon reduction and even climate change strategy.

The company's responsibility for the environment is closely related to the company's business sustainability. In order to implement the Triple Bottom Line principle, namely Planet, People (society), and Profit, the company must be able to provide clear accountability in this regard. One form of accountability the company can carry out is to present related information through transparency in the annual report to inform stakeholders and be considered in assessing the company to remain sustainable (Anggraeni, 2015). Companies that disclose carbon emissions and have a green strategy tend to increase public trust in the company and increase intangible assets and firm value. Companies are expected to be transparent when disclosing more information in the annual report, including environmental disclosure. The active disclosure of carbon information by companies signals actively fulfilling social responsibility in the eyes of investors. Which virtually increases their recognition among consumers and investors and thus improves their competitiveness in the market (Yan et al., 2020).

Factors about the impact of carbon performance and carbon information disclosure on firm value are already being discussed and tested in past research. Research conducted by Yan et al. (2020) showed that carbon performance and carbon information disclosure would have a more significant positive impact on corporate value. Research results from Ziping & Genzhu (2018) said that carbon performance positively correlates to the company's value in the capital market.

Research conducted by Natasha (2022) shows that carbon performance has positive effect on firm value. Meanwhile research conducted by Busch et al (2022) shows that carbon performance effect negative on performance financial performance short-term and long-term financial performance. The research conducted by Alfayerds & Setiawan (2021) showed that carbon emission disclosure has a positive effect on firm value. The next research conducted by Hardiyansah et al (2021) shows that carbon emission disclosure had a positive and significant effect on firm value. Meanwhile, research conducted by Rachmawati (2021) showed that carbon emission disclosure does not affect firm value. The study by Asyifa & Burhany (2022) showed that carbon emission disclosure has a negative impact on firm value.

Based on the description above, the researcher is motivated to do this research because, first, various previous studies on carbon performance and carbon emission disclosure still show inconsistency. Second, there are still no studies that combine the effect of carbon performance and carbon emission disclosure on value companies in Indonesia. Third, there is a phenomenon that both the international community and the Indonesian people are pushing the movement to reduce carbon emissions. This encourages researchers to research the effect of carbon performance and carbon emission disclosure on enterprise value using objects in Indonesia. Researchers will conduct testing in 2016-2021 to make the results obtained more relevant and up-to-date.

1.2.Research Problem

In 2015, Indonesia produces greenhouse gas emissions that the sources come from deforestation, peat forest fires, and burning fossil fuels for energy (Dunne, 2019). To respond this case, Indonesia signed Paris Agreement on the United Nations Working Convention on Climate Change as a form of Indonesia's commitment to reduce carbon emissions in 2016.

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1. Does the carbon performance affect the firm value?
2. Does the carbon emission disclosure affect the firm value?

1.3.Research Objectives

This study aims to test and provide empirical evidence regarding the effect of carbon performance and carbon emission disclosure on firm value on companies listed on IDX 2016-2021.

1.4.Research Contribution

1. **Theoretical contribution**

   The results of this study are expected to be references and contributing theories regarding the influence of carbon performance and carbon emission disclosure on company value considering that there has been no research that combining the effect of carbon performance and carbon emission disclosure on company value using the object of research in Indonesia.

2. **Practical contribution**

   This research is expected to encourage companies to be able to improve carbon performance and disclose carbon emission. In addition, the results of this study are expected to be additional information for investors to consider carbon performance and carbon emission disclosure in making investment decisions.

3. **Regulator contribution**

   The results of this study are expected to support POJK No 51/POJK.03/2017 that requires Financial Services Institutions, Issuers, and Public Companies to implementing sustainable finance.

1.5.Writing Systematic

CHAPTER I	**INTRODUCTION**
	Chapter I is the introduction of the research that consist of: research background, research problem, research objective, research contribution, and writing systematic
CHAPTER II	**THEORITICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT**
	Chapter II is the literature review of the research that consists of grand theory, empirical study, and logical reasoning of carbon performance, carbon information disclosure, and firm value as the basis of hypothesis development and research model.
CHAPTER III	**RESEARCH METHODOLOGY**
	Chapter III is the research methodology used in the research that consist of type of research, research object, population and sample, technique of data collection, measurement of variables, technique of data analysis, and hypothesis testing

CHAPTER IV **DATA ANALYSIS AND DISCUSSION**

Chapter IV is the data analysis and discussion, which includes descriptive statistics, classical assumption test, hypothesis testing, and discussion of research results.

CHAPTER V **CONCLUSIONS**

Chapter V is the conclusion, which includes conclusion, limitation, and suggestion.