

## The Effect of Enterprise Risk Management and Environmental Performance Toward Corporate Social Responsibility Disclosure (CSRD): Study in Mining Sector

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### ABSTRACT

The population is 47 Mining companies in IDX 2016-2018. Have PROPER rating and published annual report. The purpose to examine the effect of enterprise risk management(ERM) and environmental performance (EP) toward CSR Disclosure. Data were obtained from 63 samples and used sample selection method, purposive sampling method and IBM SPSS 26. The analysis statistic used is multiple linear regression analysis method. The ERM used COSO ERM Framework to disclosure 108 items, EP used PROPER rating represent in 5 ranking and CSRD used GRI G4 CSR index consisting 91 items, 3 categories. The study result shows that ERM have positive and significant effect on CSRD, while EP does not have significant affect on CSRD.

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## **INTRODUCTION**

The idea of CSR has garnered interest from all around the world, gaining significance and acceptance on a worldwide scale. Recently, there has been an increase in pressure on businesses to take action and acknowledge their social and environmental responsibilities. Whether businesses that promote sustainable economic, social, and environmental growth may gain a competitive advantage and boost company value by implementing CSR disclosure and strategies has grown in popularity as a result of this (Jenkins, 2009). The connection between corporate social responsibility (CSR) and development in the mining sector has not always been clear-cut, the mining industry has attempted to reposition itself globally since the 1992 United Nations Conference on Environment and Development in Rio by participating in a variety of multilateral programs that demonstrate how mining can and does contribute to sustainable development (Frederiksen, 2018). Regardless of a variety of factors influence CSR disclosure, this study attempts to determine how CSR disclosure and environmental performance for mining companies listed on the Indonesia Stock Exchange relate to enterprise risk management between 2016 and 2018. The 91 elements on The GRI G4 checklist are used to assess annual reports of corporations for this reason.

The Indonesian constitution guarantees every citizen's right to a safe and healthy environment, which is regarded as a fundamental human right. Additionally, the Ministry of Environment and Forestry has published certain regulations pertaining to specific enterprises, particularly the coal mining industry, the gold and copper ore mining industry, the thermal power generating industry, the geothermal business, additionally to the oil and gas industry. The Indonesian Government has continued to concentrate on forestry and peatland sustainability and conservation issues in recent years, nevertheless, especially in reaction to the 2015 Southeast Asia haze disaster (Dawborn et al., 2017) The COSO Board ordered and published the Enterprise Risk Management–Integrated Framework in 2004 in line with its primary goal of reducing environmental risk. The publication has become widely accepted by enterprises in their efforts to control risk over the past ten years. Enterprise risk management is crucial for every company (The Institute of Internal Auditors, 2004) states that any endeavor, whether for profit or not, that aims to increase value for its stakeholders.

Risk must be controlled to a level that is as low as is practically possible for enterprise risk management. While the incorporation of CSR into mining operations must be viewed as a means of achieving amity between the mining industry's interested parties, the government, and society, it is also a social investment that enables business growth and enhances the reputation of the company. CSR and environmental management: one of the core tenets of CSR is respect for the environment (Vintró & Comajuncosa, 2010). To increase business performance, (Naseem et al., 2020) underlined the significance of CSR adoption and ERM system deployment for businesses. These actions allow businesses to incorporate socially and environmentally responsible conduct into regular business operations. Additionally, by actively participating in CSR initiatives, a

company's managers are given the opportunity to analyze risks related to both investing and non-investing stakeholders holistically rather than separately. The findings of environmental performance studies on CSR disclosure are inconsistent. How much a corporation discloses its CSR will depend on its environmental performance (Sarfranz et al., 2018), (Vintró & Comajuncosa, 2010), (Ramadhani & Meylani, 2016). Companies will benefit from increased environmental performance. More investors will become interested in a company's annual report if its environmental performance is strong (Yendrawati & Tarusnawati, 2013). Nevertheless, some research showed no connection between CSR disclosure and environmental performance (Wijaya, 2012), (Djuitaningsih & Bakrie, 2018) (Sukasih et al., 2017)

The Ministry of Environment has been implementing the Corporate Performance Rating Assessment Program in Environmental Management (PROPER) since 2002 to evaluate how effectively businesses in Indonesia are adhering to environmental legislation. As in previous studies, the new study will measure environmental performance using the company's PROPER Rating, which is an indicator of how well the PROPER program has been implemented, and enterprise risk management using the COSO ERM Integrated framework. Examining actual data on the correlation between CSR disclosure is the goal of this study, environmental performance, and business risk management. The choice of mining industry businesses as the study's subject is not without justification or validity. According to numerous studies, mining operations always carry a high danger of causing significant environmental harm to the area and its residents. Therefore, it is imperative that the company fully understand and properly apply concepts of CSR disclosure, environmental performance, and enterprise risk management.

## **LITERATURE REVIEW**

### **Stakeholder Theory**

An organization's Participants in an organization are "those groups without whose support the organization could not survive." Customers, employees, suppliers, political organizations, environmental organizations, neighborhood associations, media outlets, financial institutions, governmental organizations, and more all fall under this category. To sustain the long-term health and prosperity of the business, this viewpoint contends that every group at work needs to be considered and satisfied. As a rationale for the practical explanation of corporate levels of environmental disclosure, stakeholder theory (Ullmann, 1985) is applied. Because the empirical studies have not taken into account the connection between company strategy and the decision to practice social responsibility, Ullmann (1985) came to the conclusion that past research's models for corporate social responsibility are inadequate.

Therefore, The success of a business depends on how successfully it controls all of its stakeholder interactions, with shareholders constituting a sizable portion of this group. The stakeholder theory explains how stakeholders interact with the information they are given. CSR efforts should lead to better relationships with shareholders, suppliers, creditors, and other stakeholder groups. (Sun *et al.*, 2010).

### **Legitimacy Theory**

"A broad sense or presumption that an entity's acts are preferable, right, or appropriate within some socially formed system of norms, values, beliefs, and definitions is known as legitimacy," wrote (Suchman, 1995) In order to fulfill their social contract and ensure their existence in a chaotic and uncertain environment, organizations produce voluntary disclosure of social and environmental information. Legitimacy theory serves as an explanation for this conduct. (Suchman, 1995) defined legitimacy as a gauge of how society feels about a firm and its operations. He also underlined that legitimacy is dependent on the standards of conduct and values that a society respects. According to Lindblom (1993), who is on the same side, When an organization's values align with those of the vast majority of a society, legitimacy occurs. By using morality to help explain the concept of legitimacy, Maurer (1971) said that legitimacy entails a "justification" process whereby an organization tries to convince its peers or superior systems that it has a legitimate reason to exist.

The legitimacy theory is one of the ideas used to justify entity incentives for voluntarily reporting their social and environmental responsibility reports (Luo *et al.*, 2013). Citing Gray *et al.* (1995), this theory proposes that an entity is a unit of the social itself. Gaining the community's trust is necessary, businesses should publicly acknowledge their social and environmental responsibility. When legitimacy is attained, the business can carry on with its activities since the firm has demonstrated that it complies with social standards, societal conditions, and the environment.

### **Corporate Social Responsibility Disclosure ( CSR Disclosure)**

Hendriksen (1991) defines disclosure as number of information needed for optimal operational of efficient capital market. There are two disclosures, namely disclosures that are mandatory, this disclosure of information that must be disclosed by the companies based on certain regulations or standard, and there are voluntary disclosure, which is disclosure of information exceeds the minimum requirements of the regulations applicable. Corporate social responsibility (CSR) disclosure, according to Sembiring (2003), is the process of informing interested parties and the public about the results of an organization's economic, social, and environmental activities. Almost all the companies around the world do the sustainability reports with using reporting standards proposed by GRI (Global Reporting Initiative). CERES (Coalition for Environmentally Responsive Economics) established GRI in 1997 which is an organization that is pay attention to sustainability and climate change with support from UNEP (United Nations Environment Program).

In accordance with GRI G4's reporting guidelines, 91 indicators fall into three categories: economic/financial indicators (environmental indicators, social performance indicators, and economic performance indicators).

### Enterprise Risk Management

The board of directors, management, and other employees of a company collaborate to create an enterprise risk management system (ERM) methodology. Its goal is to recognize occurrences that could potentially have an impact on an entity and manage risks in line with their risk tolerance. A fair level of certainty regarding the accomplishment of entity goals is what this procedure seeks to deliver (The Institute of Internal Auditors, 2004). No matter their size, all organizations, including governmental and non-profit ones, must follow the enterprise risk management principles of coordinating risk with performance and also strategy. Although some small until medium-sized businesses may apply enterprise of risk management principles differently than large businesses, they are nonetheless relevant to all business sizes. (The Institute of Internal Auditors, 2004).

ERM is significant because, at its core, every organization—profit or nonprofit—exists to create value for its constituents. Management decisions affect value in all operations, from creating strategy to running the business on a daily basis (IIA, 2004). In all areas of an organization's operations, from strategy development through operations, value is produced through knowledgeable and motivated management choices. The value that businesses produce for their owners as well as other stakeholders, such the neighborhood and society at large, can be destroyed in absolute or relative terms if they fail to detect and effectively manage the risks that they face from internal or external sources. From both a business unit level and an entity level perspective, management generates a portfolio view. ERM considers all organizational activities at all levels, including business unit processes as well as enterprise-level, divisional, or subsidiary procedures. The ERM framework is made up of eight interconnected parts, and entity goals can be seen in reference to four categorie(s): operational, strategic, compliance, and reporting.

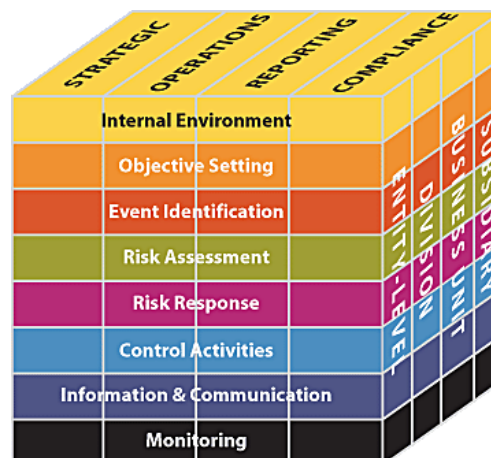


Figure 1. The COSO ERM Cube

### **Environmental Performance**

An environmental management system's environmental performance can be measured and evaluated based on environmental goals, objectives, and policies. Controlling environmental elements has an impact on environmental performance as well. (ISO 14004, from ISO 14001). Environmental performance was described by Ikhsan (2008) as a business' operations that directly affect the surrounding natural environment. While environmental performance, according to Suratno et al. (2006: 8), refers to how well a corporation performs in protecting the environment. Bawley and Li (2000) state that According to Clarkson, Peter M., Yue Li, Gordon D. Richardson, Florin P. (2006: 7), environmental performance is " based on whether they participate in the National Pollution Release Inventory Program and whether they belong to a certain industry." Given that quotation, it is possible to conclude that environmental performance is a performance that can be demonstrated by industry members by reporting their performance to the Ministry of Environment for related programs. Consequently, the environmental performance encompasses all business actions and endeavors that focus on the entity's performance in maintaining the surrounding environments and report it to interested parties.

### **Hypothesis Enterprise Risk Management affected CSR Disclosure**

Enterprise Risk Management process enables a firm to better understand the collective risk in all business activities, allows for better resource allocation, and increase capital efficiency and return on equity (ROE) by identifying and managing not only the downside risks (the negative ones – the threats) but also the upside risks (the positive ones – business opportunities; Callahan & Soileau, 2017). The suggestion also come from Florio and Leoni (2017) that increased market and accounting-based performance are linked to better ERM process implemented in a firm. Farrell and Gallgher (2015) confirmed a similar finding, which connected a higher value of firms with a developed ERM procedure. In the other hand, CSR can influence risk management practices because the knowledge gained through a good CSR program can leads to more robust risk identification and treatment (Lu et al., 2022)

#### **H1: Enterprise Risk Management is positively affects CSR Disclosure**

### **Environmental Performance affected CSR Disclsosure**

Environmental performance is measurable result of an environmental management system, which is related to the control of environmental aspects, as well as assesment of environmental performance absed on environmetal policies, environmental object and environmental targets (ISO 14004, from ISO 14001). The environment performance suggests that increasing CSR disclosure will come after higher environmental performance. Environmental performance has a significant impact on CSR disclosure, according to studies by Al-Tuwaijri et al. (2004), Clarkson et al. (2008), (Asmeri et al., 2017), and others, which lends weight to this claim.

#### **H2: Environmental Performance positively affect CSR Disclosure**

## METHODOLOGY

This research is quantitative research by applying descriptive statistics to find out the description of the data obtained. This study several computation techniques, Classic Assumption Test, and hypothesis test using several computational techniques with the IBM SPSS 26 analysis tool.

## RESULT AND DISCUSSION

This study uses 2(two) types of variables, independent variable or explanatory variables and dependent variables. The Independent Variables in this study are certain condition which include Enterprise Risk Management (X1) and Environmental Performance (X2), meanwhile Dependent Variable is CSR Disclosure (Y). The CSR Disclosure uses GRI G4 Index of Social responsibility disclosure, which consists of 91 items in categories - economics, environmental, and social. The score from each category of information of sustainability report to determine the final score for each company.

The following formula will be applied to the measurement:

$$CSRI_y = \frac{\sum XK_y}{ny}$$

Explanation:

$CSRI_y$  = Corporate Social Responsibility Index of y company

$XK_y$  = Total item disclosed by the company

1 = If category of Sustainability Report K

0 = If category of Sustainability Report K is not disclosed

$ny$  = Total item for y company

$ny$  = 91

The COSO ERM Framework serves as the foundation for Enterprise of Risk Management (ERM) available, there are 108 items ERM disclosure and it is using ratio as scale and the formula is:  $ERM \text{ disclosure} = \frac{\text{total item revealed}}{108} \times 100\%$

Environmental performance has been utilized in prior studies on social responsibility disclosure to clarify variations when corporate social responsibility is disclosed To assess a The Corporate Performance Rating Assesment Program in Environmental Management (PROPER), developed by the Ministry of the Environment Republic of Indonesia, measures a company's environmental performance. The companies ranked in five categories according to the rank performance system (5) difference color. The highest is five (5) for gold color, four (4) for green, three (3) for blue color, two (2) for red color, and one (1) for black color.

**Table 1. Significance Test of Individual Parameters**

Model		Unstandardized		Standardize		
		Coefficients	Std. Error	Beta	t	Sig.
1	(Constant)	-0,323	0,100		-3,248	0,002
	X1_ERM	0,827	0,171	0,522	4,852	0,000
	X2_PROPE	0,032	0,019	0,185	1,713	0,092
	R					
	R <sup>2</sup>					0,363
	F Count					17,100
	Sig. F					0,000 <sup>b</sup>

The F statistical test result is displayed in the test above with a F value computed at 17.100 and a significance level (sig) of 0.000. Since the significance level is smaller than 0.05, the regression model can be used to forecast CSR disclosure. Table 6 display a R square value of 0.363, or 36.3%. This figure demonstrates that Environmental Risk Management and PROPER, while the remaining 63.7% (100% - 36.3%) can be accounted for by additional factors outside of the research model.

The significance level for enterprise risk management is 0.000 0.05, and the positive t coefficient is 4.852, as shown by the statistical t test result in the table above. This outcome demonstrates how Enterprise Risk Management has an impact on CSR disclosure, the conclusion is **Hipotesis 1 can be affected (Ha1 accepted)**. This findings in line with (Zhg et al., 2014) Zhang et al.. (2013), that in both year investigated and examined the relation between risk management and corporate social responsibility. (Valizadeh & Barzegar, 2015), (Sami RM Musallam, 2018), both found risk management have significnat effect on corporate social responsibility disclosure, (Naseem et al., 2020) uncovered and emphasized the need of CSR adoption and the deployment of ERM systems for businesses in order to increase corporate performance. This is because it allows businesses to include socially and environmentally responsible conduct into regular business operations. A corporation should use resources effectively and efficiently while creating goals and a plan while keeping an acceptable level of risk, according to the COSO-ERM Integrated Framework. As a result, company profitability and market returns will increase.

Environmental Performance (PROPER) affects the CSR disclosure. The hypothesis test for the relationship between the environmental performance (PROPER) variable and CSR disclosure yields a significant value of 0.092, more than 0.05, and a favorable t value of 1.713. This means that environmental performance (PROPER) has negative efect on CSR disclosure. Thus, **Hipotesis 2 is rejected (Ha2 rejected)**. The test's findings are consistent with those of (Sukasih et al., 2017), who discovered that proper grading had no impact on how environmental performance was measured or how corporate social responsibility was disclosed. (Djuitaningsih & Bakrie, 2018) and (Wijaya, 2012) research have a result of environemental performance did not give significant

influence towards CSR disclosure. Also with (Purnomo, n.d.)(2012) asserted that market participants in Indonesia are still not completely utilizing the annual report because they only frequently pay attention to and act based on the statistics in relation to the revenue of the business. The market may believe that a company with good environmental performance is causing significant environmental contamination as a result of its operational activities when it discloses numerous environmental-related activities. Additionally, when a company with good environmental performance makes disclosures about a poor environment, the market may eventually react negatively. Given that the business is required to take a number of environmental measures that can negatively affect corporate earnings, The market might view this disclosure's presence as a waste of money. Furthermore, this kind of thinking could cause traders to respond unfavorably.

## **CONCLUSIONS AND RECOMMENDATIONS**

Corporate social responsibility disclosure is positively correlated with business risk management. Some points of reason that cause enterprise risk management can affect CSR disclosure adopting an integrated risk management approach is more likely to function as a vehicle for risk reduction, improving the CSR performance of businesses. Adopting ERM not only reduces risk but also boosts business performance by utilizing all opportunities and resources available, especially in mining companies that should wisely process their resources. The disclosure of corporate social resources is unaffected by the environmental performance (PROPER) variable. The none significant effect on environmental performance can occur because there is only small amount of mining companies that follow the PROPER program. From 47 mining companies, only 21 companies that follow and have PROPER rating from ministry of environment. Market participants in Indonesia may take offense if a business's environmental performance is evaluated along with disclosure of the company's environmental practices. When businesses engage in numerous environmental initiatives, the public may believe that they are significantly contributing to environmental damage through their business operations.

## **ADVANCED RESEARCH**

The number of observations should be increased in order to produce a more varied collection of results, it is anticipated that future research will include the time periods taken, reports documents, and disclosure papers for ERM and CSR

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