

The Influence of Corporate Social Responsibility, Managerial Ownership, and Firm Size on Firm Performance: Evidence From Manufacturing Companies in Indonesia

I Gede Adiputra^{1*)}, Henryanto Wijaya²⁾ and Azhar Affandi³⁾

^{1,2)} Faculty of Economics and Business of Tarumanagara University, Jakarta, Indonesia

³⁾ Faculty of Economics and Business of Pasundan University, Bandung, Indonesia

*Corresponding Author. E-Mail: gedeaa@fe.untar.ac.id

ABSTRACT

The main objective of this research is to explore and determine the effect of Good Corporate Governance, Managerial Ownership, and Firm Size that affect Firm Performance. We used the sample from financial statements of manufacturing companies engaged in Food and Beverages which are listed on the Indonesia Stock Exchange with 70 observations from the years 2014 to 2018. Samples were taken using the purposive sampling method. Multiple linear regression model with panel data was used in this study as analysis method. The results showed that corporate responsibility has negative and significant effect on Firm Performance, while Managerial Ownership and Firm Size have positive but not significant on Firm Performance. It can be concluded that this study is consistent to the agency theory predictions.

Keywords: *Corporate Social Responsibility, Managerial Ownership, Firm Size, Firm Performance*

1. BACKGROUND

Competition among companies today in various fields is growing rapidly. Among the existing companies, many are able to grow and develop in accordance with the fields of business they are running. With the increasingly fierce competition, companies must be able to anticipate and be demanded to face the competition in order to make the company better and superior compared to others. An increasing number of companies in various fields encourage them to strive to improve their performance. With an increase in performance, the firm is able to achieve the goals set.

Corporate Social Responsibility must be applied by the Company. Corporate Social Responsibility in Indonesia has now been enacted through the Law Number 40 Year 2007 concerning the Limited-Liability Companies. Corporate Social Responsibility is an organizational responsibility both internal and external to the organization. Internal responsibility is a responsibility which is directed to shareholders, employees, that can be realized as profitability and company growth, while external responsibility is in this case related to regulations such as the role of the organization in terms of tax payments and three roles in providing employment. Corporate Social Responsibility is a responsibility that is shown sincerely and voluntarily by an agency or organization that is integrated to social and environmental issues related to the commercial activities of the body or organization and with all its relation to various stakeholders.

The ownership structure in a company is one indicator that can affect the increase and decrease in Firm Performance.

Managers are expected to meet the interests of owners, so that managers may hopefully be motivated to be better in their performance. An increase in ownership by firm management, by involving managers to have a portion of shares of the corporate, can improve Firm Performance.

The size of a firm can show the development of a company. The size of the firm according to Ferri and Jones (in Juniarti, 2014) is defined as the size of the company that may be assessed from total assets that exist in the year-end balance sheet. Large companies have a large amount of total assets, so that external stakeholders such as investors, creditors, and other users of financial information will be more interested in large companies than small companies.

Based on previous studies on Corporate Social Responsibility, Managerial Ownership and Firm Size on Firm Performance, the results of the studies are still inconsistent and diverse, so researchers are interested in conducting further research on these three variables and developing the results of those previous studies.

2. LITERATURE STUDY

In a company, a dispute between a principal and an agent can occur due to excess of cash flow. Excess cash flow is usually invested in things that does not relate with the firm's main activities. This occurrence leads to differences in interests between shareholders and management. Shareholders prefer high-risk investments that produce high return while management prefers investments with lower risk.

Meanwhile in the research conducted by Masdupi (2005), several alternatives that could be done in reducing agency

problems were suggested. The first step is increasing the insiders' ownership. The firm will increase the share of management ownership to help align the manager's current position with the shareholders, so that they will act in accordance with the shareholder's wishes. By increasing the percentage of ownership, the managers' motivation will rise and it will improve their performance and they become responsible for increasing shareholder's wealth.

2.1 Firm Performance

Gozali (2012) defined performance as the level of achievement of the activities carried out by the firm to be able to meet the objectives of the company whose measurements are based on certain standards. In addition, Sucipto (2003) defined Firm Performance as a tool to measure the firm's success in its ability to generate profits by determining certain measures. With the assessment of Firm Performance, the effectiveness of the firm's operations can be known. Financial statements are generally used to present the firm's performance which is very useful for various interested parties such as investors, creditors, and other users in determining the firm's opportunities in the future. The ratio used to assess Firm Performance in this study is Return on Equity (ROE).

In addition, Sabrina (2010) stated that the assessment of Firm Performance is an assessment of the effectiveness of the firm's operations on a regular basis, both within a firm and as part of the firm for setting standards and targets that have been set. The efficiency of a firm can be measured by using its own capital which can produce the benefits shown in return on equity (ROE). Return on Equity (ROE) is a ratio that measures net income compared to total equity. The use of own capital to create profits can improve firm efficiency which is characterized by the higher level of Return on Equity. The purpose of ROE is to see the amount of profit generated by the firm using equity owned in measuring the firm's return and effectiveness (Sabrina, 2010).

2.2 Corporate Social Responsibility

Marketing expert Philip Kotler with Nancy Lee (2005) defined Corporate Social Responsibility as a commitment to improve community welfare through business policy practices and with the involvement of company resources. Corporate Social Responsibility (CSR) is the voluntary integration by business organizations on social and environmental issues in the organization's commercial activities and in its relations with various stakeholders.

By the implementation of Corporate Social Responsibility (CSR), companies are not only faced with responsibilities based on one single standard, which is the value of the firm as indicated by financial conditions, but the responsibility becomes broader, namely triple bottom lines. In this case, the other bottom lines is building the firm's image through the environment. The sustainability of a firm will be supported if the firm pays special attention to social responsibility through social and environmental dimensions.

Rustiarini's research (2010), found that the disclosure of Corporate Social Responsibility influences firm value. Kusumadilaga (2010) said that the disclosure of Corporate Social Responsibility can increase the firm's stock price, which in turn will increase the value of the firm. The research results of Jo and Harjoto (2007) also found that the disclosure of Corporate Social Responsibility has positive effect on firm value. According to Benjamas Janamrungs and Panya Issarawornrawanich (2015), companies with higher Corporate Social Responsibility records thus have higher ROA, therefore showing a far efficiency use of assets. Furthermore, an increase in investment resulting in the Corporate Social Responsibility program can be realized in the short-term, which is two years on average after investment. According to this script, it can be hypothesized as follow:

H1: Corporate Social Responsibility influences Firm Performance.

2.3 Managerial Ownership

Downes and Goodman (in Murwaningsari, 2009) stated that managerial ownership is the owner of the firm which is a shareholder in a firm that participates in corporate decision making.

Ownership of shares by managers will make the firm's performance better. The manager will feel that he/she owns the firm by the ownership of these shares and not as a paid employee. The greater proportion of share ownership will make managers more active in meeting the interests of shareholders who are self-interested. The ownership of shares by managers is predicted to make managers more consistent in carrying out company activities, so that there is a balance between the interests of managers and shareholders that can improve Firm Performance (Indarti and Extaliyus, 2013).

According to Jensen and Meckling (in Murwaningsari, 2009: 24), managers who have share ownership can reduce agency conflict. Insiders who have a part of the firm's shares will benefit from decisions made directly and if the decisions made are wrong, then the insiders must also be prepared to face the risks directly. The ownership of shares owned by managers can be used as incentives that can drive Firm Performance.

Indarti and Extaliyus (2013) in a study about the Effect of Corporate Governance Perception Index, Ownership Structure and Firm Size on Financial Position stated that ownership has significant influence on Firm Performance. Puniyasa and Triaryati (2016) in the study about the Effect of Good Corporate Governance, Ownership Structure and Intellectual Capital on Firm Financial Performance Included in the Corporate Governance Perception Index, stated that there is positive and significant relationship between Managerial Ownership and Firm Performance. Sheikh, Wang, Khan (2013) in a study about The Impact of Internal Attributes of Corporate Governance on Firm Performance stated that managerial ownership has negative influence on Firm Performance. However, Darwis (2009) in his Corporate Governance research on Firm Performance

stated that managerial ownership has no effect on Firm Performance. Based on the description above, the research hypothesis is:

H2: Managerial Ownership influences Firm Performance

2.4 Firm Size

Firm size is an indicator used to see the size of the total value of assets in a firm. Firm size can also act as an indicator to the magnitude of the firm in improving financial performance. Investors will pay more attention to companies with larger size. Pervan and Visic (2012) stated that there are many advantages possessed by large companies, one of which is more market power, being able to determine higher prices hence they can obtain higher profits.

The greater the size of the firm, the firm is considered to have more stable conditions and the firm will have high commitment to continue improving its performance. Large companies in supporting their performance have great financial strength as well, but on the other hand, companies will face greater agency conflicts. Large assets in the firm are usually a concern for the community, so that in carrying out corporate financial reporting, firm should be more careful. With good performance from all lines of the firm, financial reporting can also be done well.

In Indonesia according to the National Standardization Agency (2014) group size companies are divided into three criteria, namely are:

a. Small company

Companies that have net profit of Rp 50,000,000 - Rp 500,000,000.00 or have annual sales of Rp 300,000,000 - Rp 2,500,000,000.00 (excluding land and buildings where the business is founded).

b. Intermediate Company

Companies that have net profit of IDR 500,000,000.00 - IDR 10,000,000,000.00 or have annual sales of IDR 2,500,000,000.00 - IDR 50,000,000,000.00 (excluding land and buildings where the business is founded).

c. Large companies

Companies that have net profit of more than Rp 10,000,000,000.00 or have annual sales results of more than Rp 50,000,000,000.00 (excluding land and buildings where the business is established).

Fachrudin (2011) in his analysis of the Influence of Capital Structure, Firm Size and Agency Cost on Firm Performance, stated that Firm Size does not have much effect on firm growth. Ehikioya (2009) in a study of Corporate Governance Structure and Firm Performance in Developing Economies: Evidence from Nigeria, stated that Firm Size has important influence on Firm growth rate. Indarti and Extaliyus (2013) in a study on the Effect of Corporate Governance Perception Index, Ownership Structure and Firm Size on Financial Performance, stated that Firm Size

does not heavily affect Firm's growth. So, the hypothesis can be developed as follow:

H3: Firm Size influences Firm Growth.

3. METHODOLOGY

In this study, Samples consists of 14 companies with 5 time periods, so there are 70 observations. The sampling technique uses Non-Probability Sampling namely Purposive Sampling Method. Samples were taken from the financial statements at the end of the year during 2014-2018 period.

According to Sabrinna (2010), Firm Performance can be calculated by using firm's operational measures. The firm's operational size is measured by using Return on Equity to measure the firm's level of financial performance.

$$\text{Return on Equity} = \frac{\text{Net Profit}}{\text{Total Equity}}$$

Disclosure of Corporate Social Responsibility (CSR) is the disclosure of information related to the ethics of financial statements. This disclosure can be accessed through the firm's Annual Report. Corporate Social Responsibility (CSR) is measured through the The Global Reporting Initiative (GRI) content index, in its measurement GRI assesses the five disclosure topics, namely: Economic, Environmental, Labor Performance, Human Rights, Social, and Product.

Managerial Ownership is the ownership of shares by managers in terms of the division of shareholders who actively participate in management decisions. According to Murwaningsari (2009) managerial ownership is measured by the proportion of share ownership owned by managers.

$$\text{Managerial Ownership} = \frac{\text{Number of Management Shares}}{\text{Number of Outstanding Common Shares}}$$

The size of the firm is the size of the total assets in a company that is on the year-end balance sheet. Brigham and Houston (in Juniarti, 2014) stated that Firm Size can be measured using the natural logarithm of the company's total assets. The conversion from the natural logarithm is aimed at avoiding differences in the size of the firm that is too large or too small, so that it will make the total asset data normally distributed.

Firm Size = Log (Total Assets)

4. RESEARCH RESULTS

The panel data model used is the random effect model, with the following results:

Table: 1. Results of Multiple Regression Analysis with Random Effects

Dependent Variable: ROE				
Total panel (balanced) observations: 70				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.020356	0.507461	3.118754	0.0092
CSR	-0.049374	0.006836	-2.572	0.0216
Mgt Onwer	18.46734	15.78345	1.114847	0.2620
Size	0.010574	0.026480	0.363639	0.7181
Effects Specification			S.D.	Rho
Cross-section random			0.097166	0.7577
Idiosyncratic random			0.054945	0.2423
Weighted Statistics				
R-squared	0.202036	Mean dependent var	0.031407	
Adjusted R-squared	0.139039	S.D. dependent var	0.061217	
S.E. of regression	0.056802	Sum squared resid	0.122604	
F-statistic	3.207060	Durbin-Watson stat	0.992011	
Prob(F-statistic)	0.033774			

Source: EViews version 9 data processing results

Based on the results of Table 1 above, the following research model is obtained as follow:

$$\text{ROE} = 2.020356 - 0.049374 \text{ CSR} + 18.46734 \text{ Mgt Onwer} + 0.010574 \text{ Size} + e$$

Whereas:

ROE	= Firm Performance
C	= intercept
CSR	= Corporate Social Responsibility
Mgt Owner	= Managerial Ownership
Size	= Firm Size
e	= Error

Based on the results of data analysis, Corporate Social Responsibility has significantly negative impact on firm's financial performance, with a P-value of 0.0216. This result is in line with the research of Indarti and Extaliyus (2013), of which they examined the Effect of Corporate Social Responsibility, Ownership Structure and Firm Size on Financial Performance. The result stated that Corporate Social Responsibility has significant influence on financial performance. This outcome is distinctive from the research conducted by Jo and Harjoto (2007), who found that the disclosure of Corporate Social Responsibility has positive effect on firm value.

Managerial ownership has positive and not significant effect on Firm Performance. In Muntiah's research (2014) regarding the Effect of Corporate Governance Mechanisms on Firm Performance (Study of Manufacturing Companies Listed on the Indonesia Stock Exchange Period 2010-2012), managerial ownership has positive but not significant effect

on Firm Performance. Then Girianti (2016) in the study on the Effect of Corporate Governance Perception Index, Ownership Structure, Firm Size and Intellectual Capital on Financial Performance, concluded that managerial ownership does not have significant effect on corporate financial performance.

Firm Size has positive but not significant effect on Firm Performance. In the research conducted by Indarti and Extaliyus (2013) regarding the Effect of Corporate Governance Perception Index, Ownership Structure and Firm Size on Financial Performance, they concluded that Firm Size does not have significant positive effect on Firm Performance. In addition, Fachrudin (2011) in his research on the Effect of Capital Structure, Firm Size, and Agency Cost on Firm Performance, stated that Firm Size does not have significant effect on Firm Performance.

Through the F-test of Corporate Social Responsibility, managerial ownership and firm size, these variables simultaneously and significantly influence Firm Performance with significance (P-value) of 0.033774.

5. CONCLUSION AND SUGGESTION

5.1 Conclusion

Corporate Social responsibility has negative and significant impact on the performance of manufacturing sector

companies engaged in Food and Beverage which are listed on the Indonesia Stock Exchange.

Managerial ownership has positive but not significant effect on the performance of manufacturing sector companies engaged in Food and Beverage which are listed on the Indonesia Stock Exchange.

The size of the firm has positive but not significant effect on the performance of manufacturing sector companies engaged in Food and Beverage which are listed on the Indonesia Stock Exchange.

Corporate social responsibility, managerial ownership and Firm Size simultaneously have significant influence on Firm Performance.

5.2 Suggestion

Companies are advised to further enhance the implementation of corporate governance based on these factors in order to increase investors' confidence, so that Firm Performance becomes more optimal and has positive impact on firm's survival.

Future studies may calculate Firm Performance by using Return on Assets, Return on Investment, and Net Profit Margin to determine whether there are differences in research results if different methods of calculating financial performance are used. Further researchers are also advised to expand the research data by using all companies in the Corporate Governance Perception Index score listed on the Indonesia Stock Exchange and to extend the research period in order to acquire better explanation on the research variables.

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PENUGASAN

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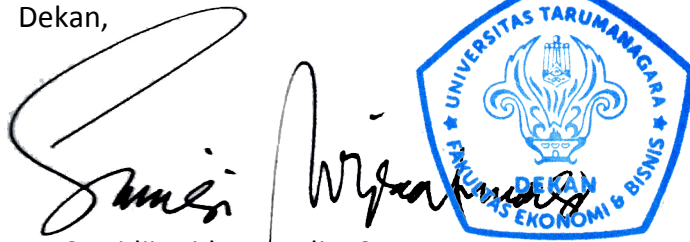
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