Management of Sustainable Development Sibiu, Romania, Volume 10, No.2, December 2018

sciendo

10.2478/msd-2019-0011

MANAGERIAL OWNERSHIP, CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND CORPORATE PERFORMANCE

Dian Agustia, Wiwiek Dianawati, Dwi Indah R.A

Faculty of Economic and Business, Universitas Airlangga, Indonesia, dian.agustia@feb.unair.ac.id

ABSTRACT: The main objective of this study is to prove empirically the impact of good corporate governance on corporate performance with corporate social responsibility disclosure as an intervening variable on manufacturing companies listed on the Indonesia Stock Exchange (ISX) of the 2013-2015. The sample chosen used purposive sampling method and 56 companies were obtained. The path analysis method was used as the analysis technique which was solved by gradual regression analysis, with a significant value of 5%. The results of this study show that (1) managerial ownership effected on corporate social responsibility disclosure. (2). Corporate social responsibility disclosure has an effect on corporate performance. (3) Managerial ownership does not affect corporate performance, and (4) corporate social responsibility disclosure mediates the impacts of managerial ownership against corporate performance.

KEYWORDS: managerial ownership, corporate social responsibility disclosure, corporate performance

1. INTRODUCTION

The corporate governance system consists of (1) various regulations that explain the relationship between shareholders, managers, creditors, government and other stakeholders; various mechanisms that directly or indirectly enforce these rules or the so-called internal and external corporate governance mechanisms. The GCG mechanism, among others, includes managerial ownership. According to Khan et al (2013), managerial ownership allows managers to dominate the company and decide which strategies and policies the company will take because in this case the manager also acts as a shareholder. The research of Jo and Harjoto (2011) showing that managerial ownership has a positive effect on CSR. This means that if managerial ownership increases then the width of CSR of the corporate disclosure will rise as well. However, in a study conducted by Razak and Mustapha (2013), no relationship was found between managerial ownership and CSR. The similar thing happened in the research conducted by Khan et al. (2013) which also shows no relationship between managerial ownership and CSR.

Mahoney and Roberts (2007), as cited by Razak and Mustapha (2013), states that the CSR practice not only enhances the corporate performance but also to attract the positive responses of the investors. This suggests that investors consider that corporate social information is as important as financial information, and they take social information into a consideration in the decision-making process. Obviously, CSR can be regarded as a form of corporate responsibility to improve social disparity and environment damage caused by the corporate operational activities. The more accountability forms that the company does to its environment, the more the corporate image increases. Investors are more interested in companies that have a good image in the community, because of the better the corporate image, the higher the consumer loyalty. So, in the long run, the corporate sales will improve and corporate profitability will also increase. If the company runs smoothly, then the corporate stock value will also boost.

Statement of the Problem

Based on the background of the study, statement of the problem formulated by the researchers is as follows: Do corporate social responsibility disclosure mediate the influences of managerial ownership on corporate performance?

Research Purpose

This research is expected to provide explanations related to CSR disclousure in Indonesia by means of examination as follows: giving evidence that CSR disclousure mediates the influence of managerial ownership on corporate performance.

2. LITERATURE STUDY

Agency Theory (Jensen and Meckling, 1976) describe the agency relationships as a connection between the company owner (principal) and the agent by delegating the decision-making authority to the agent. The existence of a relationship between the agent and principal can trigger a conflict of interest where the owner is more interested in maximizing the returns and the price of the securities of the investment; while the agent has wide psychological and economic needs, that includes maximizing the compensations. The Signaling is theory emphasizes the importance of information released by the company against the investment decisions of the party outside the company. The signal theory indicates the presence of asymmetrical information between the company management and the parties concerned with the information. Therefore the signal theory emphasizes that the company will tend to present a complete information to obtain a better reputation than a company that does not disclose which will eventually attract investors and the corporate performance will increase.

2.1. Managerial Ownership

Managerial ownership is defined as the percentage of shares held by the management who actively participate in corporate decisions including the commissioners and directors. According to Khan et al (2013), managerial ownership allows managers to dominate the company and decide which strategies and policies the company will take because in this case the manager also acts as a shareholder.

2.2. Corporate Social Responsibility (CSR) Disclousure

CSR is the corporate commitment to act ethically and contribute to the sustainable economic development and to improve the life quality of the employees and their families, local communities and the broader community (World Business Council on Sustainable Development - WBCSD cited by Mardikanto, 2014: p. 93). In its activities, every company will interact with its social environment. The consequences of such interactions require reciprocity between the company and its social environment which has the implications for the emergence of social impacts on the corporate operations on its environment. The company will communicate about the social and environmental impacts of economic activities in the form of CSR disclosure. CSR disclosure is a process of communicating the company's operations in producing products that are valued from economic, environmental, labor, human rights and social aspects (Global Reporting Initiative).

2.3. Corporate Performance

Performance is a description of the achievement level of implementing corporate activities inrealizing the organization goals, objectives, mission and vision of the contained in the strategic planning of a company. Relatively the corporate stock price in the industry is a reflection of the corporate performance achievement.

3. HYPOTHESIS DEVELOPMENT:

3.1. Managerial Ownership on Corporate Social Responsibility Disclosure

In a study conducted by Murwaningsari (2009) shows that managerial ownership has a positive significant influence to CSR; in line with the research of Jo and Harjoto (2011) showing that managerial ownership has a positive effect on CSR. This means that if managerial ownership increases then the width of CSR of the corporate disclosure will rise as well. However, in a study conducted by Razak and Mustapha (2013), no relationship was found between managerial ownership and CSR. The similar thing happened in the research conducted by Khan et al. (2013), which also shows no relationship between managerial ownership and CSR.

H1 = Managerial ownership positively affects corporate social responsibility disclosure.

3.2. Corporate Social Responsibility Disclosure to Corporate Performance

Lajili and Zeghal (2006) cited by Murwaningsari (2009) found that companies that disclose more human capital information have a better financial performance compared to companies that slightly disclose the information. Murwaningsari (2009) and Jo and Harjoto (2011) found that CSR disclosure has a significant positive effect on corporate performance, which is a proxy with Tobin's Q. Retno and Priantinah (2012) showed a positive influence of CSR disclosure on corporate performance.

H2 = Corporate social responsibility disclosure positively affects corporate performance.

3.3. Managerial Ownership on Corporate performance

Murwaningsari (2009) found that managerial ownership had a significant positive effect on Tobin's Q. The research by Jo and Harjoto (2011) shows that insider ownership positively affects Tobin's Q. Retno and Priantinah (2012) showed a positive influence of CSR disclosure on Tobin's Q. This demonstrates that good GCG implementation and CSR disclosure may enhance the corporate reputation. However, this is not in line with Douma et al. (2002) in which the researchers did not find the effect of managerial ownership on corporate performance.

H3 = Managerial ownership positively affects corporate performance.

4. RESEARCH METHODS

4.1. Operational Definition Variabel:

Managerial ownership

Managerial ownership (insider ownership) is the proportion of shareholders from the management who actively participate in corporate decisions (directors and commissioners). The proportion of managerial ownership is the number of shares held by the management within the company. This can be calculated by the following formula:

$$\text{Managerial Ownership} = \frac{\text{Number of Shares Owned by the Management}}{\text{Outstanding Total Shares}}$$

Corporate Performance

Company performance is measured using Tobin's Q (Klapper et al 2002). Tobin's Q calculations are tailored to the financial transactions of the companies in Indonesia which are included in this study with the following formula:

$$\text{Tobin's Q} = \frac{Market\ Value\ of\ Equity + Debt}{\text{TA}}$$

Explanation: 1. MVE = The closing price of the final yearbook multiplied by the number of outstanding ordinary shares; 2. Debt = The book value of total debt; 3. TA = The book value of total assets

Corporate Social Responsibility Disclosure

Disclosure of social responsibility checklist is conducted using 78 disclosure items; as used by Murwaningsari (2009) and Sembiring (2006). The items are classified into 7 categories with 78 disclosures namely, the environment (13 items), energy (7 items), worker's health and safety (8 items), other things about labor (29 items), products (10 items), community involvement (9 items), and general (2 items). CSRD is measured using a dichotomous approach. If CSR is disclosed it will be assigned a value of 1, and if it is not disclosed it will be assigned a value of 0. The entire value of each item will be estimated to be the result of the overall assessment of each corporate (Haniffa & Cooke, 2005). The formula for calculating CSR disclosure index is as follows:

$$\text{CSRD} = \frac{\Sigma\,\text{Xij}}{\text{Nj}}$$

Explanation: 1. CSRD: Corporate Social Responsibility Disclosure Index of j corporate; 2. Xij: Number of items of corporate disclosure j (dummy variable); 3. Nj: Number of disclosure item (78 items)

4.2. Population and Sample

The population in this study was all the manufacturing companies that have gone public as listed on the IDX. The study period was in 2013-2015. The purposive sampling method was used in this study. Based on the purposive sampling criteria this study used the entire target population during the 2013-2015. Number of Companies selected: 56 companis as sampel this study.

4.3. Data Analysis Technique

The research used the path analysis which was solved by using the hierarchical regression (gradual regression). The regression equation used was:

Regression equation (1): **CSRD = α + β1MO + e**

Regression equation (2): **CP = α + β3CSRD + β4MO + e**

Explanation: 1. CSRD = Corporate Social Responsibility Disclosure; 2. CP = Corporate Performance; 3.MO = Managerial Ownership; 4. α = The constants of the regression equation; 5.e = Residual or prediction error

Furthermore, to see the effect of the independent variables partially to the dependent variable then t-test and calculation of determination coefficient were conducted

5. RESULTS AND DISCUSSIONS

The model analysis in this research was done by using path analysis, which was solved by using hierarchical regression (gradual regression). The results of examined the effects of the independent variables consisting MO and CSRD against CP. The comprehensive explanation is as follows:

Table 1. Regression Feasibility Test

Dependent Variables	CSRD		CP	
	B	Beta	B	Beta
(Constant)	-1,411		-0,638	
MO	0,447	0,154	-0,563	-0,097
CSRD			1,698	0,267
Correlation coefficient (R)	0,178		0,367	
Coefficient of Determination (R^2)	0,032		0,135	

Source: Data Processed

It can be seen in Table 1, The coefficient of CSRD variable of 0.267, which means that when the CSRD is upgraded one unit then the CP will increase by 0.267. The MO variable coefficient is -0.097, which means that when the MO is upgraded one unit then the CP will decrease by 0,097. On the contrary, when the MO is lowered one unit then the CP will increase by 0.097 with the assumption that other variables are constant. The MO variable coefficient is 0.154, which means that when the MO is upgraded one unit then the CSRDP will increase by 0,154. The value of R^2 or the coefficient of determination of the second equation with the dependent variable of company performance is 0,135. This means that changes in company performance variables caused by managerial ownership (MO) and Corporate Social Responsibility Disclosure (CSRD) are 0.135 or 13.5%. While the rest that is 0.865 or 86.5% are influenced by other variables outside the independent variables used in the study.

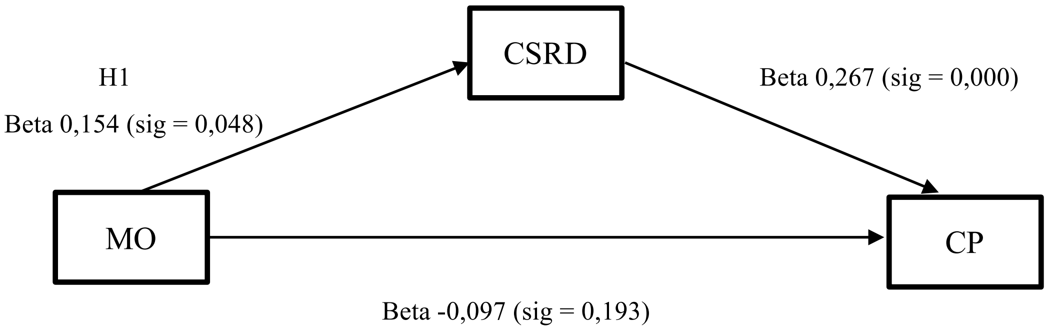
Table 2. T-test Hypothesis

	Dependent Variables of CSRD			Dependent Variables of CP		
	Beta	**T**	**Sig**	**Beta**	**t**	**Sig**
MO	0,154	1,989	0,048	-0,097	-1,307	0,193
CSRD				0,267	3,598	0,000

Source: Data Processed

Based on the statistical tests, the t-test method has a confident level of 95%. The first regression result in Table 2 shows the value of the t-test on MO is 1.989 with a significant level of 0.048. The significant value of the t-test on MO is smaller than 0.05; therefore, the hypothesis is supported by the empirical data, it can then be said that managerial ownership has a positive effect on corporate social responsibility disclosure. The second regression results, the value of the t-test of CSRD is 3.598 with a significant level of 0.000. The significant value of the t-test of CSRD is smaller than 0.05; therefore, the hypothesis is supported by the empirical data, it can then be said that the CSRD has a positive effect on company performance. The value of the t-test of MO is -1.307 with a significant level of 0.193. The significant value of the t-test of MO is greater than 0.05; therefore, the hypothesis is not supported by the empirical data, it can then be said that managerial ownership does not affect corporate performance. Figure 1 is path analysis test Results from the study.

Figure 1. Path Analysis Test Results



The path analysis test results show the existence of indirect influence between managerial ownership against company performance; corporate social responsibility disclosure is able to mediate the managerial ownership against company performance. The ability of corporate social responsibility disclosure in mediating managerial ownership against company performance is completely mediation because managerial ownership against company performance is not significant. If corporate social responsibility disclosure mediates managerial ownership against company performance and the direct influence of managerial ownership against corporate performance is also significant then its nature is partial mediation.

The results also show that there is no direct effect of managerial ownership on corporate performance. This means that with managerial ownership has not yet proven to able to enhance corporate performance directly. Therefore, the existence of corporate social responsibility can bridge the manager in improving company performance.

5.1. Positive Effect of Managerial Ownership against Corporate Social Responsibility Disclosure

The test results with a significant of 0.05 indicate that the regression coefficient value is 0.154 with a T value of 1.989 and significant value of t-test of 0.048. As a result, H^1 which states that managerial ownership has a positive effect against corporate social responsibility disclosure is accepted. This is in accordance with the statement of Gray et al. (1988) quoted by Murwaningsari (2009) that corporate managers will disclose social information in order to enhance the corporate image, although managers must sacrifice resources for the activity.

As revealed by Oliveira and Ferreira (2011) a manager has the motivation to disclose private information voluntarily because the company expects the information to be interpreted as a positive signal about the corporate performance and reduce asymmetric information. This means that if the managerial ownership increases then corporate social responsibility disclosure conducted by the company will become more plentiful.

5.2. Positive Effect of Corporate Social Responsibility Disclosure on Corporate Performance

Based on the test results, the regression coefficient value shows 0.267 with a T value of 3.598 and a significant t-test value of 0.000; therefore, H3 stating that CSR disclosure has a positive effect on the corporate performance is accepted. This is in accordance with the statement of Lajili and Zeghal (2006) quoted by Murwaningsari (2009) that companies that disclose more on human capital information have a better performance compared to companies that disclose the information slightly. Information published as an announcement will provide a signal for investors in making investment decisions. If the announcement contains a positive value, it is expected that market participants will react. This signal is expected to be positively received by the market so as to affect the performance of the company. This provides motivation for companies to disclose through annual reports that they are better than other companies that do not disclose.

5.3. Positive effect of managerial ownership against company performance

The test results show the regression coefficient value of -0.097 and a significant t-test value of 0.193 therefore, H^4 stating that managerial ownership positively affects the corporate performance is rejected. This is possible because the manager as a shareholder would prefer to increase his/her personal wealth rather than improving the overall performance of the company as is the basic assumption of the agency theory. The results of this study are in line with Douma et al. (2002) which concludes that managerial ownership does not affect corporate performance. The results of this study are not in line with Murwaningsari's (2009) study which found that managerial ownership affects significantly positive against Tobin's Q.

6. CONCLUSION

This study shows that managerial ownership positively affects corporate social responsibility disclosure. In addition, this study shows that managerial ownership has no effect on corporate performance but, corporate social responsibility disclosure. The study also found that corporate social responsibility disclosure is able to mediate the effect of managerial ownership against company performance but is not able to mediate the effect of independent commissioners against corporate performance.

BIBLIOGRAPHY

1. Darmawati, D., Khomsiyah, & Ayu, R. G. (2005). Hubungan Corporate Governance dan Kinerja Keuangan. *Jurnal Riset dan Akuntansi Indonesia*, *8*(1).
2. Douma, S., George, R., & Kabir, R. (2002). Foreign and Domestic Ownership, Business Groups and Firm Performance: Evidence from a Large Emerging Market. *Centre for Economic Research Discussion Paper* No. 104, Tilburg University.
3. Effendi, M. A. (2008). *The Power of Good Corporate Governance "Teori dan Implementasi".* Jakarta: Salemba Empat.
4. Esa, E, & Mohd Ghazali, N.A (2012). Corporate Social Responsibility and Corporate Governance in Malaysian Government-Linked Companies. *Journal of Corporate Governance, 12*(3), 292-305
5. Jo, H.& Harjoto, M.A. (2011). Corporate Governance and Firm Value: The Impact of Corporate Social Responsibility. *Journal of Business Ethics, 103*(3), 351-383
6. Isnanta, R. (2008). Pengaruh Corporate Governance dan Struktur Kepemilikan Terhadap Manajemen Laba dan Kinerja Keuangan. *Jurnal Riset Akuntansi, 6*(2), 140-149.
7. Jensen, M.C. &Meckling, W.H (1976). Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure. *Journal of Financial Economics, 3*(4), 305-360.
8. Khan, A., Muttakin, M. B, &Siddiqui, J. (2013). Corporate Governance and Corporate Social Responsibility Disclosure: Evidence From Emerging Economy. *Jornal Business Ethics, 114*(2), 207-223.
9. Klapper, L, F., &Love. I. (2002). *Corporate Governance, Investor Protection, and performance in emerging markets.* World Bank Research Working Paper No 2818, diakses dari SSRN: https://ssrn.com/abstract=303979
10. Murwaningsari, Etty. (2009). Hubungan Corporate Governance, Corporate Social Responsibility dan Corporate Financial Performance Dalam Satu Continuum. *Jurnal Akuntansi dan Keuangan*, 11(1), 30-41
11. Nuswandari, C.(2009). Pengaruh Corporate Governance Perception Index terhadap Kinerja Perusahaan Pada Perusahaan Yang Terdaftar Di Bursa Efek Jakarta. *Jurnal Bisnis dan Ekonomi, 16*(2), 70-84.
12. Razak, S. E. A, & Mustapha, M. (2013). Corporate Social Responsibility Disclosure and Board Structure: Evidence from Malaysia. *Jurnal Teknologi, 64*(3), 73-80.
13. Retno, R. D. M.,. & Priantinah, D. (2012). Pengaruh Good Corporate Governance dan Pengungkapan Corporate Social Responsibility terhadap Nilai Perusahaan. *Jurnal Nominal, 1*(1), 84-103
14. Sembiring, E. R. (2006). Karakteristik Perusahaan dan pengungkapan Tanggung Jawab Sosial: Studi Empiris Pada Perusahaan yang Tercatat di Bursa Efek Jakarta. *Jurnal Maksi.6*(1), 69-85.
15. Windah, G. C., & Andono, F. A. (2013). Pengaruh Penerapan Corporate Governance terhadap Kinerja Keuangan Perusahaan.terhadap Kinerja Keuangan PerusahaanHasil Survei The Indonesian Institute Perception Governance (IIGC) Periode 2008-2011. *Jurnal Ilmiah Mahasiswa Universitas Surabaya, 2* (1).
16. Wulandari, N. (2006). Pengaruh Indikator Mekanisme *Corporate Governance* Terhadap Kinerja Perusahaan Publik Di Indonesia. *Fokus Ekonomi, 1* (2), 120-136.