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Managerial ownership and firm value: The role of corporate social responsibility

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ABSTRACT

This study examines the effect of managerial ownership on firm value with corporate social responsibility disclosure as a mediating variable. The population in this study are companies listed on the Indonesia Stock Exchange (IDX) and listed as LQ45 from 2017 to 2019. This study used a purposive sampling technique and 28 companies with a research period of 3 years, so that 84 samples were obtained. The data analysis techniques of this study used multiple linear regression analysis and statistical hypothesis testing with SPSS. The results show that managerial ownership has a positive effect on firm value. Furthermore, managerial ownership has a positive effect on Corporate Social Responsibility. Meanwhile, Corporate Social Responsibility has a positive effect on firm value.

Introduction

The long-term goal of the company's priority is to increase firm value. It can prosper the shareholders. Firm value reflects the company's assets as seen from the company's securities. According to Wirawan et al. (2020), the firm value reflects the company's equity and book value, both in the form of the market value of equity, the book value of total debt, and the book value of total equity. The higher the company's stock price, the higher the investor's a good assessment of the company (Elgergeni et al., 2018). In addition, firm value is also a comparison tool for investors to make investment decisions. Companies with good performance will attract investors to invest so that the stock price will increase. If the share price increases, the firm value will also increase, so that the prosperity of shareholders also increases (Buchanan et al., 2018).

Firm value is related to the implementation of good corporate governance and under applicable regulations. It makes investors give a positive response to the company. It is intended to produce financial statements that contain quality earnings information and increase the company's value. Several good corporate governance mechanisms can affect firm value, including managerial ownership managerial (Trafalgar & Africa, 2019). Managerial ownership is the ownership of the shareholders, who are also the management of the company. They are actively involved in the company's decision-making. Managers play an important role because they carry out planning, organizing, directing, monitoring, and making decisions in their business operations (Haniffa & Cooke, 2005). In addition, they are also tasked with supervising and reviewing long-term implementation, which is ultimately disclosed as information for stakeholders. This complete information provides a positive signal; accordingly, investors will be more interested in investing in having an impact on increasing firm value.

Several phenomena occur in companies that ultimately experience a decrease in profit or loss, which is commonly referred to as financial distress, which impacts decreasing firm value. According to CNBC TV news, retailer fashion of "forever 21 Inc" filed for bankruptcy on September 29, 2019, due to not being able to compete, mainly due to the onslaught of E-commerce entering the business. Likewise, a company engaged in beauty salon and spa filed for bankruptcy in January 2019. The mattress company from Kentucky US filed for bankruptcy in January 2019 due to changes in market pressures and consumer expectations that made the company unable to compete, so the company experienced financial difficulties.

Based on this phenomenon, a manager must determine the goals in financial decision-making. The prosperity of the owner of the company can increase if there is the right financial decision. The application of managerial ownership also benefits companies in making corporate decisions by disclosing corporate social information Kiliç et al. (2015). It allows companies to direct their attention and resources towards CSR initiatives (Trafalgar & Africa, 2019). For companies, the strategy to create firm value is vital to pay attention to CSR, integrate social and environmental concerns into business operations through interactions with company stakeholders Park et al. (2014). Oh and Kim (2016) also explained that CSR initiation has a positive effect on firm value. It is due to the implementation of CSR as a mechanism to achieve communication and corporate social responsibility to stakeholders and create a good reputation for the company.

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CSR involvement plays an essential role in the relationship between corporate social responsibility and financial performance (Pu, 2018). Gao and Han (2020) explain that managerial ownership can increase firm value. The existence of managerial ownership makes managers increasingly seek to improve the expansion of social responsibility disclosure. It will be a strategy for the company to run a business for the prosperity of the shareholders while adjusting the norms in society, which will impact the company's reputation (Huang & Boateng, 2013). Based on the legitimacy theory, the company has a social contract with stakeholders in the company's CSR. In addition, CSR involvement will be an inherent business strategy within the company to maintain and improve competitiveness through reputation and loyalty to product brands that will enhance the company's reputation (Nekhili et al., 2017). These two things will be the company's competitive advantage that will be difficult for competitors to imitate.

Based on several previous studies, there are still inconsistencies in the research results research on managerial ownership affecting CSR. Chintrakarn et al. (2016); Jiraporn and Chintrakarn (2013) proved that managerial ownership positively affects CSR implementation, while Helfaya and Moussa (2017) confirmed that managerial ownership negatively affects CSR strategy. Miotto et al. (2020) stated that share ownership by management could reduce agency conflict. Managers' increasing share ownership is expected to make managers act according to the principals' wishes because managers will be motivated to improve their business performance (Saona et al., 2020). Managers can change investors' confidence in making investment decisions by providing credible and transparent information to stakeholders to build trust and company reputation. Despite the inconsistencies in previous researches, Gao and Han (2020); Faisal et al. (2020); Huang and Boateng (2013) explained that managerial share ownership has a positive effect on firm value. Ilmi et al. (2017); Trafalgar and Africa (2019) proved that managerial share ownership does not affect firm value. High managerial share ownership is committed to improving the effectiveness of the company's performance and reputation. It can provide positive information to investors.

Relatively, few studies based research examining the firm value associated with managerial ownership and firm value. Therefore, there are three reasons for developing the model in this study. First, some previous literature only investigated managerial share ownership, directly affecting firm value and obtaining inconsistent results. Second, the phenomenon of social responsibility (CSR) issues is quite popular in Indonesia because investors are starting to consider investment decisions by identifying industries that are sensitive to the environment. This study expands the literature and becomes a novelty by proposing that managerial stock ownership can increase firm value through CSR implementation. Third, this study focuses on the LQ45 index listed companies on the Indonesia Stock Exchange. Companies listed on the LQ45 index have special criteria; thus, competition between companies is very tight in attracting investors to invest their capital.

Literature Review

Legitimacy Theory

Legitimacy theory focuses on the concept of a social contract. The concept of legitimacy is useful for studying the interactions between companies and their environment. Miotto et al. (2020) state that organizations or companies continue to strive to equate the perception that actions taken by an entity are actions that are desired, appropriate, or follow the system of norms, values, and beliefs that apply in society with social values in the company's business activity system. If there is harmony between the existence of the company and the existing value system in society and the environment, it can be said that legitimacy has been obtained (O'Donovan, 2000). In the legitimacy theory perspective, a company will voluntarily report its activities if management considers what society expects (Chintrakarn et al., 2016). Explicit agreements between business institutions (internal stakeholders) and the public (external stakeholders) who have good relations will influence or be influenced directly or indirectly by various company decisions, policies, and operations. Legitimacy theory states that going concerned and company growth depends on the company's ability to balance the diverse interests of stakeholders. If the company can balance the interests of its stakeholders, then the company will receive sustainability support to increase market share growth, sales, and profits (Li & Xia, 2018).

Agency Theory

In agency theory, the interests of management and shareholders are often in conflict, so that there can be a conflict between the two or can be called as agency problems (Leland, 1998). It is because managers and principals have different goals to fulfill their interests. Conflict of interest between managers and shareholders can be minimized by an oversight that can align these interests (Nekhili et al., 2017). However, the emergence of this supervisory mechanism causes costs called agency costs. One point of agency theory is the conflict resolution hypothesis which states that companies implement CSR activities to reduce conflict (agency problems) between managers and other parties, including stakeholders. In addition to meeting the stakeholders' interests, the company must also be socially and environmentally responsible where the company runs its business, which can increase the firm value. Thus, it will create agency cost reduction (Plumlee et al., 2015).

Managerial Ownership

Managerial ownership is the percentage of shares owned by management who actively participate in company decisions, including commissioners and directors (Galbreath, 2017). According to Bhagat and Bolton (2013), managerial ownership allows managers to dominate the company and decide which strategies and policies the company will take. In this case, the manager also acts as a shareholder.

Corporate Social Responsibility (CSR)

CSR is a company's commitment to act ethically and contribute to sustainable economic development, such as the quality of employees or the community around the company (Lu et al., 2019), as well as the incorporation of environmental and social aspects such as the application of energy-efficient technology and so forth (Withisuphakorn & Jiraporn, 2019). According to Alsaadi (2021) the main feature of CSR is a three-dimensional framework, namely human responsibility, environmental responsibility, and responsibility for the products produced. Therefore, CSR reporting is very strategic in initiating stakeholder opinions to significantly improve the company's reputation (Liu & Lu, 2019). The disclosure aims to signal to stakeholders that the company has integrated CSR in every aspect of its operations. It is expected to have positive implications for its reputation in the capital market. Thus, it is agreed that CSR disclosure and implementation strategies are multidimensional concepts oriented to various stakeholder groups, such as investors, regulators, employees, customers, communities, or the environment.

Firm Value

Firm value is a condition that a company has achieved as an illustration of public trust in the company after going through activities for several periods since the company was established up to now (Safitri et al., 2019). The firm value is measured by Tobin's Q, which reveals how much value the company creates based on its assets. Its value is based on the present value of expected future cash flows, discounted at the required rate of return, which is adjusted for risk (Chen & Lee, 2017a). Tobin's Q determines how effective management is in utilizing its economic resources and revealing CSR (Gamayuni, 2015).

The Effect of Managerial Ownership on Firm value

In agency theory, agency problems include managers who are motivated by themselves and do not run the company according to the shareholders' wishes (principals). Minimizing agency problems can be done by maximizing of managerial ownership (Saona et al., 2020). Managerial ownership causes management to directly impact their decisions because the proportion of managers' ownership makes them become managers and shareholders of the company (Bhagat & Bolton, 2013). Oh and Kim (2016), explained that managerial ownership effectively overcomes agency conflicts to align the interests of managers and shareholders to increase firm value. Furthermore, Huang and Boateng (2013) showed in their empirical results that greater managerial ownership could encourage management performance to improve company performance, increasing investor confidence so that the firm value automatically also increases Gao and Han (2020) and Faisal et al. (2020), found a positive effect between managerial ownership and company performance, increasing the company reputation. Therefore, the hypothesis is proposed as:

H_1: Managerial ownership has a positive effect on firm value

Effect of Managerial Ownership on Corporate Social Responsibility

In agency theory, managerial ownership can reduce agency problems because the manager's performance will improve and increase share ownership (Bhagat & Bolton, 2013). The large percentage of share ownership indicates this by the company's management. Of course, managers who have company shares will align their interests as managers with their interests as shareholders (Chintrakarn et al., 2016). The greater the managerial ownership in the company, the more productive the manager's actions are in maximizing firm value. One of the managers' strategies to increase firm value is to implement corporate social responsibility programs. CSR can be used as an entrenchment strategy with managers (Jiraporn & Chintrakarn, 2013). It is because of monitoring from shareholders, so managers satisfy stakeholders by promoting CSR. Thus, company managers will disclose social information to attract investors and bridge information between companies and stakeholders, ultimately improving the company's image. Based on this description, the hypothesis is proposed as:

H_2: managerial ownership has a positive effect on corporate social responsibility disclosure

Corporate Social Responsibility on Firm value

Corporate social responsibility is a strategy carried out by companies to satisfy the stakeholders. Corporate social responsibility is also a social responsibility to the company's environment so that companies not only increase company profits financially but also for holistic, institutional and sustainable socio-economic development. In this context, CSR has the power to contribute towards maximizing reputational revenue potential (Liu & Lu, 2019). It will make stakeholders, especially the community, assume that the company has good business ethics so that its image will also be good.

Chi et al. (2020) and Wirawan et al. (2020) agreed that CSR disclosure improves a company's reputation and financial performance, with its ability to attract foreign investors from greater customer satisfaction to company products and loyalty from committed employees. It is in line with the research results of Park et al. (2014), that the ethical practices of CSR and philanthropy can create and foster customer confidence that the organization has adhered to high ethical standards and cares about the welfare of society, which in turn has an impact on the company's image. Khojastehpour and Johns (2014), also explained that if customers are aware of the ethical implications of organizational behavior, customers will ensure that the organization will maintain certain quality standards and maintain and even increase the firm value. In line with research from Cui et al. (2018) which presents empirical evidence that CSR activities help reduce the company's information asymmetry, thus CSR initiation can reduce conflicts of interest between managers and non-investment stakeholders which will impact improving the company's image. Based on this description, the hypothesis is proposed as follows:
H_3: Corporate Social Responsibility has a positive effect on firm value

Research Method

Population and Sample

This study focuses on companies listed on the Indonesia Stock Exchange (IDX) and listed as LQ45. The selection of companies is based on the availability of annual reports from 2017 to 2019, which are presented on the IDX or the company's website. The purposive sampling method was used as a sampling technique. Based on the criteria, the sample consists of 28 LQ45 companies listed on the IDX. The total sample is 84 LQ45 companies. Hypothesis testing in this study used multiple regression analysis techniques with IBM SPSS 25.

Variable and Measurement

Managerial ownership

Managerial ownership is the proportion of shareholders from management who actively participate in company decisions, such as directors and commissioners. The proportion of managerial ownership is the number of shares owned by management in the company (Galbreath 2017), calculated by the following formula;

$$managerial\ ownership = \frac{number\ of\ shares\ owned\ by\ the\ management}{outstanding\ total\ shares}$$

Corporate social responsibility

CSR disclosure is an effort made by the company to account for the balance between economic business interests and the interests of the company's social environment (Helfaya & Moussa, 2017). CSR disclosure aims to bridge the interests of the company and participating stakeholders to improve the performance and image of the company. CSR in this study used the CSR index or CSRI (Haniffa & Cooke, 2005; Hamdani et al., 2020). The CSR index measurement instrument used in this study refers to the grouping of CSR information into categories: environment, energy, labor, products, community involvement. The formula for calculating CSRI is as follows:

$$CSR\ Indeks = \frac{\sum \mathrm{Xi}}{n}$$

Firm value

This study was measured by using Tobin's Q. Tobin's Q is the company's market value divided by the exchange rate of its assets (Waddock et al., 1997). Measurements using Tobin's Q will assess various aspects viewed by internal and external parties, including investors. This value expresses how much weight is created by the company based on its assets. Buchanan et al. (2018) explain that Tobin's Q is used to determine how effective management is in utilizing its economic resources. The formula to calculate firm value is as follows;

$$Tobin's\ Q = \frac{Market\ Capitalization}{Total\ Aset}$$

Results and Discussion

Hypothesis Testing

Table 1. Descriptive Statistics

Items	N	Minimum	Maximum	Mean	Std. Deviation
MO	84	0.00	4.83	0.13	0.59
CSR	84	0.10	0.67	0.36	0.17
FV	84	0.57	18.40	2.55	3.38
Valid N (listwise)	84				

Source: Processed data (2020)

Table 2. Hypothesis Testing Model 1

Model	Multicollinearity		Heteroscedasticity	Unstandardized	T	Sig.
	Tolerance	VIF		B		
(Constant)			.017	.055	9.033	.000
MO	.960	1.041	.006	.005	3.536	.001
Dependent variable: CSR						
Normality Test Statistic ,186. Asymp. Sig. (2-tailed) ,177. F test 7.588. P-value ,000. R Square ,329.						

Source: Processed data (2020)

Table 3. Hypothesis Testing Model 2

Model	Multicollinearity		Heteroscedasticity	Unstandardized	T	Sig.
	Tolerance	VIF		B		
(Constant)			.228	.053	2.976	.005
MO	.985	1.015	.702	.687	2.147	.037
CSR	1.000	1.000	.157	.153	2.113	.040
Dependent variable: FV						
Normality Test Statistic ,107 . Asymp. Sig. (2-tailed) ,770. F test 3.195. P-value ,000. R Square ,176.						

Source: Processed data (2020)

The results of the Kolmogorov-Smirnov test showed Asymp. Sig (2-tailed) is more than 0.05, meaning that model 1 and model 2 in this study have a regression model with a normal distribution. Classical assumption test consists of multicollinearity test and heteroscedasticity test. The results showed that all variables had tolerances above 0.10 and VIF values below 10. It indicates that model 1 and model 2 of this study do not have symptoms of multicollinearity. The heteroscedasticity test shows a number above 0.05 so that neither model 1 nor model 2 has heteroscedasticity.

Furthermore, the R-Square value in model 1 shows 32.9% and 17.6% for model 2. It means that in model 1, managerial ownership affects Corporate Social Responsibility (CSR) only by 32.9%, and other variables influence the remaining 67.1%. In model 2, managerial ownership and Corporate Social Responsibility (CSR) affect the firm value by 17.6%, and other variables influence the remaining 82.4%.

Sobel Test

Testing the indirect relationship between managerial ownership and firm value was conducted to determine the mediating variable. The test was carried out with the Sobel test to determine whether the corporate social responsibility variable mediates the effect of managerial ownership on firm value. This test can be done with an online calculator, the Sobel Test for the Significance of Mediation Calculator. The intervening variable can mediate if the z value > 1.96, which can be seen from the results of the online Sobel calculator test in the statistical Sobel test, with a significance < 0.05 (5%) seen from the results of the online Sobel calculator test in the two-tailed probability section.

The results of the Sobel Test for the Significance of Mediation Calculator indicate that the significance value of the indirect effect of the corporate social responsibility mediation test on the relationship between managerial ownership and firm value is 0.032590913 (<0.05). It can be concluded that the corporate social responsibility variable mediates the effect of managerial ownership on firm value. Furthermore, it can be seen whether the mediation includes full mediation or partial mediation. Testing the mediating role of corporate social responsibility on managerial ownership and firm value can be concluded as partial mediation. It is called partial mediation because the independent variable, namely managerial ownership, positively affects the dependent variable of firm value (Table 3). The effect of managerial ownership on firm value also has an indirect effect;

namely, the independent variable represented by managerial ownership positively affects the dependent variable (firm value) through the mediating variable (corporate social responsibility).

Discussion

The first hypothesis of this study states that managerial ownership has a positive effect on firm value with a significance value of 0.037 < 0.05. In comparison, the value of the coefficient is positive, namely 2.147. Thus, H1 is supported. In line with Oh and Kim (2016), higher managerial ownership will align the interests between managers and shareholders because managers will directly feel the benefits of every decision they make. In addition, the managerial and the shareholder will optimize the performance and image of the company because by increasing the company's performance, the income as a shareholder will increase. In the end, the welfare of other shareholders will also increase (Bhagat & Bolton, 2013). Saona et al. (2020); Huang and Boateng (2013) asserted that following agency theory, where management is a party contracted and delegated by shareholders could work in the interests of shareholders without any agency conflict. The agent also generates profits for the company's operations.

The second hypothesis of this study states that managerial ownership has a positive effect on corporate social responsibility. This study indicates that the coefficient is positive, namely 3.536, and the significance value is 0.001 < 0.05, so it can be concluded that managerial ownership positively affects corporate social responsibility. Thus, H2 is supported. The higher the number of managerial shareholdings in a company, the more managers will disclose CSR (Elgergeni et al., 2018). The higher managerial ownership in the company causes managers to seek more significant CSR investments to gain stakeholder recognition. Galbreath (2017) also added that company managers are more focused on increasing company profits, benefits managers, and company owners, including disclosing corporate social responsibility. It is in line with the results of research from Helfaya and Moussa (2017), Ioannou and Serafeim (2017), and Kiliç et al. (2015) that managerial ownership has a positive effect on Corporate Social Responsibility disclosure.

The third hypothesis of this study is that CSR disclosure has a positive effect on firm value. This study indicates that the coefficient is positive, namely 2.113, and the significance value is 0.040 < 0.05, so it can be concluded that CSR disclosure has a positive effect on firm value. Thus, H3 is supported. The higher corporate social responsibility disclosure in a company will increase firm value. Chen and Lee (2017b) showed that companies that invest more in CSR could increase firm value, thus positively impacting firm value. The positive effect parameter value indicates that the sample LQ45 companies have implemented and disclosed Corporate Social Responsibility programs that create a symbiotic relationship of mutualism between companies and stakeholders in the long term (Nguyen et al. 2020). In principle, Corporate Social Responsibility positively affects firm value if its implementation follows effective and efficient rules and targets. Chen et al. (2017) confirmed that companies with high firm values can be seen that these companies have high investments in CSR. It causes an increase in firm value and has a beneficial impact on its stock returns. The results of this study are in line with the research carried out by (Lee et al., 2020; Ryu, 2019).

Based on the test of corporate social responsibility on managerial ownership and firm value, it can be concluded that there is a significant mediating effect of managerial ownership on firm value through corporate social responsibility. It can be interpreted that companies with higher managerial ownership have higher CSR to optimize the company to obtain better firm value. The higher the managerial ownership, the manager makes optimal efforts to show performance, including CSR performance. It gains stakeholder confidence so that the company's shares are increasingly well absorbed in the stock market, and further, it will increase the firm value.

Conclusion

This study aims to determine managerial ownership on firm value with CSR as a mediating variable. The results of this study indicate that: (1) managerial ownership has a positive effect on firm value; (2) managerial ownership has a positive effect on corporate social responsibility (CSR); (3) corporate social responsibility (CSR) has a positive effect on firm value. In addition to having a theoretical contribution, the results of this study also have a practical contribution. This study contributes to accounting theory related to the influence of managerial ownership on CSR and firm value by providing empirical evidence about the relationship between the variables studied in the Indonesian context. This finding supports the application of legitimacy and agency theory. Analyzing the effect of managerial ownership, CSR on firm value has several policy implications, namely that companies must be more organized in managing environmental and social programs. Companies need to create better approaches and policies related to the implementation of CSR programs. These results are beneficial to various parties, including managers, researchers, and regulators. For managers, these findings indicate that to legitimize the company's products and services in the eyes of stakeholders, companies need to carry out environmental and social activities, then disclose and socialize these activities. For researchers, this study contributes to the literature analyzing the effects of managerial ownership, CSR, and firm value. Finally, the findings of this study are useful for regulators who wish to develop social and environmental reporting guidelines. Furthermore, this research has practical implications for companies to increase awareness and corporate social and environmental issues. CSR disclosure meets the information needs of stakeholders and has a good impact on the company, such as increasing the firm value. The theoretical implication of this research is that the implementation of CSR (social and environmental) is a form of manager responsibility in reducing the agency conflict gap. The implementation of CSR is also an effort by the company to increase the firm value.

This study also has some limitations that provide an initiative for future research. This study only examines LQ45 companies listed on the IDX, wherein the sample size obtained is relatively tiny. Future researches should increase coverage by reviewing more companies, such as all companies listed on the Indonesia Stock Exchange. Also, future research needs to develop this research by using different models, such as good corporate governance, corporate social responsibility (CSR) performance, and environmental performance as moderating variables.

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