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The Effect of Ownership Structure on Financial Performance Leverage Mediation and Corporate Social Responsibility (Study on Goods and Consumption Industry Sector Companies Listed on the Indonesia Stock Exchange)

Yuliana[1], Siti Aisjah[2], Risna Wijayanti[3]
[1](*Magister Management, Faculty of Economics and Business, Brawijaya University, Indonesia)*
[23](*Department of Management, Faculty of Economics and Business, Brawijaya University, Indonesia)*
**Corresponding Author: Yuliana[1]*

ABSTRACT*:* *This study aims to examine the effect of ownership structure on financial performance mediated by leverage and corporate social responsibility. By using quantitative research methods using the analysis tool Eviews version 10. The sample of manufacturing companies in the goods and consumption industry listed on the Indonesia Stock Exchange (IDX) in 2016-2020 with a total of 11 companies and a total sample of 55 data. Found a significant direct effect of ownership structure on financial performance. The significant indirect effect of the ownership structure is mediated by the leverage variable on the company's financial performance. Corporate social responsibility mediates the relationship of ownership structure to financial performance.*

KEYWORDS–*Leverage, Corporate Social Responsibility, Corporate Value, Ownership Structure*

I. INTRODUCTION

The number of companies in the industry, as well as the current economic conditions have created a tight competition between manufacturing companies. Based on Prompt Manufacturing Index (PMI) data from 2017 manufacturing companies continue to increase and experience expansion. However, when the Covid-19 pandemic struck all over the world, including in Indonesia. The manufacturing industry experienced a significant decline due to the Large-Scale Social Restrictions (PSBB) as a government effort to prevent the spread of Covid-19.

Indonesia's manufacturing Purchasing Managers Index (PMI) in March 2020 was 45.3. Whereas in February, the manufacturing PMI was still above the 50 level, namely 51.0. In the first quarter of 2020, the average manufacturing PMI was 48.8. The weakening still occurred in the second quarter of this year by 26.4. Manufacturing companies are projected to continue to decline in the future, but manufacturing companies in the consumer goods sector are predicted to still have good prospects. Food producers such as Indofood, Unilever and Indofood CBP (INDF, UNVR, and ICBP) have been able to survive (www.kontan.co.id). From the beginning of 2020, the three manufacturing stocks did correct, but not as deep as the Composite Stock Price Index (JCI) which reached 27.63%. Judging from stock prices that are still rising, it shows that the performance of manufacturing companies in the goods and consumption sector is good and generating sufficient profits in the era of the Covid-19 pandemic.

The manufacturing sector index since the beginning of 2020 until the close of trading was corrected by 26.54%. This index reflects the price performance of all stocks in three sectors, namely the Basic and Chemical Industry, Various Industries, and the Consumer Goods Industry. Looking at the movement of shares per sub-sector, the various industrial sectors were seen to decline the most to 41.62%. After that, the basic industry and chemical sectors fell by 33.85% from the beginning of the year. The lowest decline was recorded by the consumer goods sector, up to 16.96% (www.investasi.kontan.co.id).

Company performance is an important thing that must be achieved by every company anywhere because performance is a reflection of the company's ability to manage and allocate its resources (Purbawangsa et al, 2019). Assessment of financial performance must be based on information in the company's financial statements prepared by generally accepted financial accounting principles so that it reflects the actual state of the company within a certain period. Analyzing the company's financial statements aims to assess or evaluate the company's financial performance in an accounting period. One of the ratios that are considered to provide the best information is Tobins' Q. Tobins'Q is used as a measure to determine the market value of a company.

Agency theory is the theoretical basis that underlies the company's business practices that have been used so far. The concentration of shareholder ownership can cause some majority shareholders (high shareholder ownership concentration) to engage in behaviors that can affect the company's performance (Farooque et al, 2019). Majority shareholders may influence the nominations of board members and executives by appointing candidates of their choice for positions on the board of directors and the top executive team. As a result, the company's performance is influenced by the majority shareholders and their interests. Thus, the conflicts between the owners and their agents can be reduced and as a result, the company's performance is increased. The relationship between corporate governance and financial performance has long been studied to ensure corporate effectiveness.

However, empirical findings on the relationship between ownership structure and firm performance are inconclusive, ranging from positive to negative or no relationship at all. In previous research (Waleed et al, 2020; Padmanabha&Ratish 2017) found that the company's ownership structure has a significant negative effect on company performance. In contrast to the research conducted by Mao-Feng, Lynn &Jafar, 2018 which examined companies in Taiwan, the ownership structure has a significant positive effect. Meanwhile, research conducted by (Farooque et al, 2019; Detthamrong et al, 2017) found that ownership structure does not affect company performance. with the inconsistency of the results of previous studies, the researcher re-examined the relationship between ownership structure and financial performance with the renewability of research using the mediating variable of leverage and corporate social responsibility in the Covid-19 pandemic phenomenon with the research time of 2016-2020.

II. Literature Review

2.1 Agency Theory

Agency theory explains how to separate the relationship between the principal and the agent. Agency costs are extra costs that must be incurred to resolve conflicts that arise between shareholders and managers, such as supervision and control costs (Mao-Feng, Lynn &Jafar, 2018). In developing country markets, the existence of type II agent problems, namely conflicts of interest between majority and minority shareholders, is more commonly encountered and researched (Farooque et al, 2019). This results in an acutely asymmetric information environment between controlling owners and other minority shareholders in emerging market economies.

2.2 Legitimacy Theory

Ghozali&Chairi 2007 stated that the thing that underlies the legitimacy theory is the social contract between the company and the community where the company operates by conducting CSR, in return the company gets feedback in the form of legitimacy from the community. The implementation of CSR is then disclosed in the annual report and sustainability report as a form of accountability and transparency of the company's operations. Environmental disclosure is considered useful for restoring, enhancing, and maintaining the legitimacy that has been received (Purbawangsa et al, 2019).

2.3 Trade-Off Theory

Trade-off theory is a theory where the company will be in debt to a certain level of debt, where the tax shields from additional debt are equal to the cost of financial distress (financial distress) Myers (2001). Financial distress costs are the costs of bankruptcy (bankruptcy costs) or reorganization, and agency costs that increase as a result of the decline in the credibility of a company. Trade-off theory has implications that managers will think in terms of trade-offs between tax savings and the cost of financial difficulties in determining capital structure (Navita Singh, 2019). Companies with a high level of profitability will certainly try to reduce their taxes by increasing their debt ratio so that the additional debt will reduce taxes.

The Relationship of the Effect of Ownership Structure on the Company's Financial Performance

When a concentrated group of shareholders elects representatives on the board of directors or executive team, they may be able to control directors and managers. Thus, conflicts between owners and agents are reduced and as a result, company performance is improved. The relationship between ownership structure and financial performance has long been studied to ensure the effectiveness of corporate management in protecting shareholder wealth. However, empirical findings on the relationship between ownership structure and firm performance are inconclusive, ranging from positive to negative or no relationship at all, as documented in previous studies (Umawadee 2017, Waleed et al 2020, Padmanabha&Ratish 2017).

H1: Ownership structure has a significant effect on company performance

The Relationship of the Effect of Ownership Structure on Leverage

A high concentration of ownership can affect decision-making in financing. With a high concentration of ownership, they can monitor and control management more effectively. In agency theory, a high concentration of ownership can minimize agency conflicts that occur. In research conducted by Bajagai (2018), companies with a high concentration of ownership tend to have higher debt than those with a small concentration of ownership.

H2: Ownership structure has a significant effect on Leverage.

The Relationship of the Effect of Leverage on the Company's Financial Performance

The opinion that capital structure has no impact on profitability or firm performance on MM theory is not agreed upon by Kraus and Litzenberger (1973). The results of research by Kraus and Litzenberger (1973) show that there is a positive effect of the debt ratio on the company's profitability. The positive effect is the result of reducing tax costs due to debt made by the company.

H3: Leverage has a significant effect on the company's financial performance.

The Relationship of the Effect of Ownership Structure on Corporate Social Responsibility

According to Purbawangsa et al (2019), the concentration of ownership influences corporate social responsibility. Companies with a high concentration of ownership can control directors and managers so that they can oversee decision-making so that companies invest in CSR as a new strategy that can improve company performance to attract investors.

H4: Ownership structure has a significant effect on corporate social responsibility.

The Relationship of the Effect of Corporate Social Responsibility on the Company's Financial Performance

Corporate social responsibility is a program that shows the responsibility and concern of a company towards the environment. Become an important indicator for investors to evaluate the extent to which the company has achieved its goals. Based on research conducted by Mayang&Noerlaili (2018), corporate social responsibility has a significant effect on the company's financial performance.

H5: Corporate Social Responsibility has a significant effect on the company's financial performance.

Leverage Mediates the Relationship Between Ownership Structure and Company Financial Performance

The ownership structure is related to high/low leverage, high concentration of ownership affects the nomination of CEO selection, the board of directors tends to contribute to investment selection and subsequent company performance. If the CEO prefers low financial leverage and has a strong influence on the board, the firm can invest in low-risk projects, which may be financed by equity financing (e.g., retained earnings), which can result in high profitability (Umawadee et al, 2017).

H6: Leverage Mediates the Relationship Between Ownership Structure and Company Financial Performance

Corporate Social Responsibility Mediates the Relationship Between Ownership Structure and Company Financial Performance

Abdelfattah&Aboud (2020) examined companies in Egypt for the period 2007-2016 with a board of directors, the concentration of ownership, and foreign ownership providing more disclosure of corporate social responsibility. Corporate social responsibility disclosed aims to improve company performance.

H7: Corporate Social Responsibility mediates the relationship between ownership structure and the company's financial performance.

III. METHODOLOGY

The data that will be used in this study is the annual financial and sustainability report data of companies listed in the 2016 to 2020 period which were obtained from the IDX official website (www.idx.co.id). The population of this study is all manufacturing companies in Indonesia that are listed on the Indonesia Stock Exchange (IDX). The total population in this study is 193 companies. A total of 11 manufacturing companies were selected as research samples according to their financial statements. Total final sample (11 X 5) 55 samples. Figure 3.1 shows the research model and the explanation of each operational variable can be seen in Table 3.1.

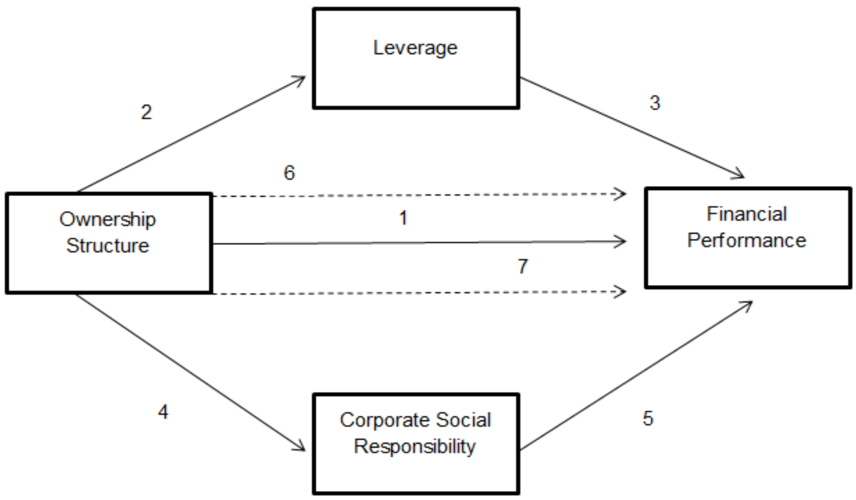

Fig. 3.1 Research model

Table 3.1 Description of Research Variables

No	Variable	Variable Definition	Author
1	Ownership Structure (X)	$Ownership\ Concentration = \frac{\text{Number of Shares 5 Largest Shareholders}}{\text{Number of Shares Outstanding}} \times 100\%$	Farooque et al, 2019
2	Leverage (Y1)	$LEVERAGE = \frac{Total\ Debt}{Total\ Assets}$	Navita Singh, 2020
3	Corporate social responsibility (Y2)	$CSRIj = \frac{\sum Xij}{n}$	Purbawangsa et al, 2019
4	Company Financial Performance (Y3)	$Tobin's\ Q = \frac{(MVE + DEBT)}{TA}$	Waleed et al, 2020

IV. RESULT

In this study, the sample was selected based on the purposive sampling method, namely by taking the research subject not based on strata, random or regional but based on certain goals (Suharsimi, 2006). The purpose of the purposive sampling method is to obtain samples that match the predetermined criteria. The criteria in this research are as follows:

1. The company is engaged in manufacturing the goods and consumption industry sector
2. Companies that report on ownership structure and Corporate Social Responsibility every year
3. Companies that use rupiah currency in their financial statements
4. The company has been listed on the IDX at least since 2014
5. The company publishes financial reports that are complete and according to the needs of researchers to be researched from the period 2015 to 2019

Table 4.1 Sample Selection Procedure

No	Information	Amount
1	Manufacturing companies listed on the Stock Exchange per one year of observation	(193)
2	Manufacturing companies other than the goods and consumption sector	158
3	Companies that do not publish annual reports in a row in 2015-2020	15
4	Companies that do not use rupiah in their financial statements	4
5	Companies that do not have complete data related to corporate social responsibility, leverage, financial performance, and ownership structure	5
Total Sample		11

Source: Data processed, 2021

A total of 11 manufacturing companies were selected as research samples according to their financial statements. Total final sample (11 X 5) 55 samples.

Table 4.2 Regression Results

Variable	Coefficient	t-statistics	Prob (Sig)	Information
The Effect of Ownership Structure on the Company's Financial Performance	0,0235	3,2360	0,023	Significant
Effect of Ownership Structure on Leverage	-0,0005	-0,4064	0,6861	Not significant
The Effect of Leverage on the Company's Financial Performance	-0,2529	-0,2272	0,8213	Not significant
The Effect of Ownership Structure on Corporate Social Responsibility	-0,0010	-0,9065	0,3688	Not significant
The Influence of Corporate Social Responsibility on the Company's Financial Performance	-0,6385	-0,6113	0,5443	Not significant
Leverage Mediates the Relationship Between Ownership Structure and Company Financial Performance	-0,0018 (X1) 0,01255 (Y3)	-1,2874 (X1) 0,4900 (Y3)	0,2053 (X1) 0,6288 (Y3)	Significant
Corporate Social Responsibility Mediates the Relationship Between Ownership Structure and Company Financial Performance	-0,0015 (X1) -0,0010 (Y3)	-1,1746 (X1) -0,0043 (Y3)	0,2469 (X1) 0,9655 (Y3)	Significant

Source: Primary Data Processed, 2021

V. DISCUSSION

5.1 Effect of Ownership Structure on Financial Performance

Testing hypothesis 1 in this study is to test whether the Ownership Structure affects financial performance. The results showed that the coefficient value of 0.023 <0.05 so that hypothesis 1 is accepted, that corporate governance has a significant effect on financial performance.

The concentration of ownership is one of the determinants of corporate governance (Mao Feng et al, 2018). A large concentration of ownership has a greater influence on decision-making in the company. With the large concentration of ownership, the company can minimize agent conflicts that occur by monitoring the actions of managers. So that controlled companies with a high concentration of ownership can provide a competitive advantage so that corporate governance has a significant effect on financial performance. The results of this study are the following research conducted by Waleed et al 2020, Padmanabha&Ratish 2017 and Kowalewski 2015.

5.2 Effect of Corporate Governance on Leverage

Testing hypothesis 2 in this study is to test whether the Ownership Structure affects leverage. The results showed that the coefficient value was 0.6861 > 0.05 so that hypothesis 2 was rejected, that corporate governance has no significant effect on leverage.

The cause of the insignificant effect of Ownership Structure on leverage is suspected that the management, directors, and shareholders of the company can equalize goals in achieving company goals. With the existence of professional management in making financing decisions, they can see objectively so that there is no personal interest from both shareholders and managers. The results of this study are in line with the research of Umawadee et al (2017) who found that Ownership Structure did not affect leverage in Thai companies listed on the Thailand Stock Exchange.

5.3 Effect of Leverage on Financial Performance

The results show that leverage has no significant effect on financial performance.

The reason that leverage does not have a significant effect on financial performance is suspected by the behavior of investors who use the momentum trader method. That is a condition where investors do not think about long-term profits and are more oriented towards short-term profits. With the Covid-19 pandemic, many investors have turned to investing in gold metal rather than investing in stocks. The results of this study are in line with Modigliani & Miller (1958) which states that leverage does not affect the company's financial performance.

5.4 Effect of Ownership Structure on Corporate Social Responsibility

The results show that the ownership structure has no significant effect on corporate social responsibility.

The cause of the insignificant influence of Ownership Structure on corporate social responsibility is alleged because Indonesia's environment as a developing country is still not yet mature in practicing CSR. In general, CSR represents the voluntary development contribution of the company in a sustainable manner. Market and financial dynamics in developed countries are industrial economies, while countries are resource-based (Reed, 2002). Therefore, developing countries are more focused on meeting basic consumer needs rather than focusing on higher levels of CSR and sustainability. This is in line with research (Dina &Noha, 2018) which states that the Ownership Structure has no significant effect on corporate social responsibility.

5.5 Effect of Corporate Social Responsibility on Financial Performance

The results showed that corporate social responsibility had no significant effect on financial performance.

The cause of the insignificant effect of corporate social responsibility on the company's financial performance is alleged because the situation in Indonesia as a developing country is different from developed countries which pay great attention to CSR disclosure. These results illustrate that investors are still not sensitive to the company's implementation of the environment. as well as on CSR disclosure. These results are in line with the research of Afzalur Rashid (2017), Dina and Noha (2018) which states that company managers are not too sensitive in implementing and disclosing CSR.

5.6 Effect of Ownership Structure on Financial Performance by Leverage Mediation

The results of the study indicate that the Ownership Structure has a significant effect on financial performance through leverage.

With the results of this study, it was found that leverage was able to mediate the relationship between Ownership Structure on the company's financial performance. A high concentration of ownership affects the level of the company in taking leverage. Low leverage will increase investor confidence in investing their capital in the company. With low leverage, the profits that investors get will be higher. And proves that with low leverage the company can achieve its goal of enriching stakeholders. The results of this study are in line with research conducted by Umawadee et al. (2017) found that leverage mediates the relationship between corporate governance and the financial performance of Thai companies listed on the Stock Exchange Thailand.

5.7 Effect of Ownership Structure on Financial Performance by Mediation of Corporate Social Responsibility

The results showed that the ownership structure had a significant effect on financial performance through corporate social responsibility.

Ownership structure influences corporate social responsibility decisions. Companies that report corporate social responsibility provide an image of a company that can achieve its goals and cares about the surrounding environment. Investors see that achieving company goals that are profitable for stakeholders or shareholders will encourage investor confidence in the company in managing their investments. The results of this study are in line with research conducted by Purbawangsa et al 2019 which found that corporate social responsibility mediates the relationship between corporate governance and corporate financial performance.

VI. CONCLUSION

This study aims to examine the effect of corporate governance on financial performance through the mediation of leverage and corporate social responsibility. Based on the results of the study, it can be seen that:

1. Ownership structure has a significant effect on the company's financial performance. This shows that a high concentration of ownership can influence every decision taken by the company and has an effect on increasing the company's financial performance.
2. Ownership structure has no significant effect on leverage. Thus, corporate governance does not affect the level of corporate leverage.
3. Leverage has no significant effect on the company's financial performance. Thus, the level of corporate leverage does not affect the company's financial performance.
4. Ownership structure has no significant effect on corporate social responsibility. Thus, corporate governance with a proxy of ownership concentration, high and low ownership concentration does not affect the disclosure and practice of corporate social responsibility.
5. Corporate social responsibility does not affect the company's financial performance. Thus, the disclosure and practice of corporate social responsibility still do not have a significant effect on the company's financial performance.
6. Leverage mediates the relationship between Ownership Structure and the company's financial performance. Thus, leverage can mediate the relationship between Ownership Structure and the company's financial performance. The level of leverage affects the relationship between Ownership Structure and the company's financial performance.
7. Corporate social responsibility mediates the relationship between the Ownership Structure and the company's financial performance. Thus, the practice and reporting of corporate social responsibility influence the relationship between the Ownership Structure and the company's financial performance.

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**Corresponding Author: Yuliana[1]*
[1](Magister Management, Faculty of Economics and Business, Brawijaya University, Indonesia)