opción

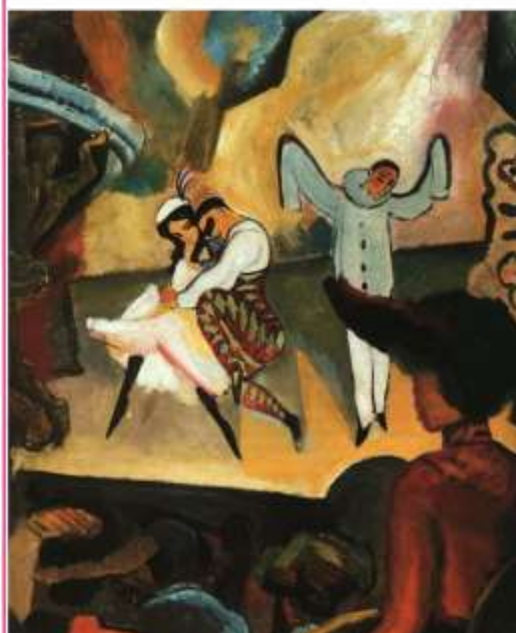
Revista de Antropología, Ciencias de la Comunicación y de la Información, Filosofía, Lingüística y Semiótica, Problemas del Desarrollo, la Ciencia y la Tecnología

Año 35, mayo 2019 Nº 89

Revista de Ciencias Humanas y Sociales

ISSN 1012-1587/ ISSNe: 2477-9385

Depósito Legal pp 198402ZU45



Universidad del Zulia

Facultad Experimental de Ciencias

Departamento de Ciencias Humanas

Maracaibo - Venezuela

Opción, Año 35, No.89 (2019): 366-385
ISSN 1012-1587/ISSNe: 2477-9385

The Impact of Ownership Structure on Corporate Social Responsibility

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Abstract

The prime objective of the current study is to explore the link between ownership structure and corporate social responsibility by using the panel data methodology. Data of 5 years (2012-2016) is collected from the firm's audited account. The findings of the study have shown a strong link between ownership structure and audit fee. In conclusion, the directors' ownership structure of the organization may offer ascent to legitimacy gaps. Distinctive shareholders may request diverse disclosures and the interest is more significant to outsiders, due to the detachment between of administration and holders geographically, hold a high extent of shares.

Keywords: Corporate governance, Corporate Social Responsibility.

Recibido: 10-11-2018 •Aceptado: 10-03-2019

El impacto de la estructura de propiedad en la responsabilidad social corporativa

Resumen

El objetivo principal del estudio actual es explorar el vínculo entre la estructura de propiedad y la responsabilidad social corporativa mediante el uso de la metodología de datos de panel. Los datos de 5 años (2012-2016) se obtienen de la cuenta auditada de la empresa. Los hallazgos del studio han mostrado un fuerte vínculo entre la estructura de propiedad y la tarifa de auditoría. En conclusión, la estructura de propiedad de los directores de la organización puede ofrecer un ascenso a las brechas de legitimidad. Los accionistas distintivos pueden solicitar divulgaciones diversas y el interéses más significativo para los forasteros, debido a que la separación entre la administración y los tenedores geográficos tiene una gran cantidad de acciones.

Palabras clave: gobierno corporativo, responsabilidad social corporativa.

1. INTRODUCTION

Until the late twentieth century, businesses were considered socially responsible where they obeyed the regulations or laws of the land and met the basic needs of their employees and the host community. Everything began in the United States of America in the twentieth century as it became a global phenomenon when corporate organizations in developed countries adopted it as a marketing tool to win customers. How socially responsible corporation is, solely depends on the way and manner the principal actors go about its governance. Excellent corporate governance is the glue that holds an intelligent business practice and guarantees positive working environment management, natural stewardship, community engagements and strong financial performance, which help in restoring certainty and promoting economic growth (Branco & Rodrigues, 2006; Haseeb & Azam, 2015).

Today, corporate social responsibility (CSR) goes far past the old altruism of the past giving cash to great purposes at the end of the budgetary year. Organizations acknowledge the environment around them by participating in their nearby communities. Not only they concern on the quality and uniqueness of their brand names but also on how well they connect to the world (Clarke, 1998; Azam et al., 2016;). Bowen (1953) notes that the objective of corporate social responsibility is to get knowledge regarding the organization's activity to stakeholders and support a positive effect through its activities, which push open interest, by empowering group development and improvement.

Understandably, investors in the company want clear governance rules around the sustainability of its projects. Numerous organizations have looked for the capacity to react to open responsibility requests exterior a coupling legal framework. A fundamental reshaping of company’s core value and the ways in which they conduct business especially in areas outside the reach of the United States and European regulations have begun to transform political and social relationships among major international companies. The people whose resources they extract, the individuals whose area they work on and the civil society frequently remark on the exercises of these marketing organizations such as selling such product at an unreasonable price.

2. LITERATURE REVIEW

Agency theory explains the relationship between managers and shareholders. Agency theory has been characterized as "an agreement under which the principal (s) appoint an agent(s) to perform some administration for their sake which includes decision-making roles" (Jensen & Meckling, 1976: 18). As indicated by Jensen and Meckling, the agency theory gives a framework exposure conduct to corporate governance. Corporate governance instruments are acquainted with the control of the agency issues and guarantee that managers undertaking is shareholders expectations. The number of literature that concentrates on the corporate voluntary disclosure including corporate social responsibility has increased. Agency theory gives a schema to examining financial reporting motivation in the middle of managers and owners of the business. Agency theory along these lines assumes an imperative part of observing managerial advantage that is pushed by a circumstance where control and ownership are separated.

The directors' ownership structure of the organization may offer ascent to legitimacy gaps. Distinctive shareholders may request diverse disclosures and the interest is more significant to outsiders, due to the detachment between of administration and holders geographically, hold a high extent of shares. Directors' ownership is the degree of shares claimed by CEO and executives, and this incorporates their deemed interest. Likewise, ownership plays an essential part in raising the agency issue thus control may be moderated as an after effect of expanding the managerial ownership in place for their enthusiasm to be brought into the record with those of different stakeholders. Thus, when the managerial proprietorship falls, outside shareholders will increase observing the conduct of directors (Jensen &Meckling, 1976).

Moreover, empirical results demonstrate that managerial ownership is adversely identified with disclosure (Dahya & McConnell, 2005). Hadi et al. (2016) analyze the relationship between the extents of regular shares held by CEOs and executive directors with voluntary disclosure. The results find that there is a noteworthy relationship between the rate of shares held by managers and voluntary disclosure.

Managerial ownership is the proportion of shares claimed by CEOs and directors, and this incorporates their esteemed diversions. Likewise, ownership assumes a vital role in raising the organization issue. Along these lines, control may be relieved as a consequence of expanding the managerial proprietorship in place for their enthusiasm to be brought into the record with those of different stakeholders. Thus, when the managerial ownership falls, outside shareholders will develop observing the conduct of managers (Hadi et al., 2016). In the expense of observing by outside shareholders, the director will provide voluntary disclosure Hadi et al. (2016) analyze the ownership structures of Malaysian firms to see whether these structures affect the CSR revelation. The research evaluated whether possession fixation, director ownership or government possession affect corporate social responsibility disclosure. The results of the study demonstrate that two ownership variables, i.e. director ownership and governmental ownership, affected the CSR disclosure of Malaysian firms.

In this way, voluntary disclosure is an option to observing management action. A study by Judge et al. (2003) observes a significant relationship between ownership structure in increased Russia organizations and the voluntary quantity disclosure. An alternate interpretation is that the positions of management get fortified when they expand their ownership. Nonetheless, management could likewise use inside documents to further strengthening their prosperity keeping in mind the end goal is to avoid minority possessions, lessen the information transparency and to cover their performance. On the other hand, voluntary disclosures are expected to increase with the diminishing in managerial ownership. Hadi et al. (2016) find that the level of disclosure organizations is conversely identified with the number of shares held by the ten (10) most essential shareholders.

However, managerial ownership could change the level of information disclosure or change in procedure. Director's interest is a particular case that has a commanding effect on the estimation of the firm. Klein (2002) figured out that CEO ownership was compressed by the number of shares claimed by the CEO. The higher the shares, the more estimation of the organizations will decrease in view of the controlling effects. When the CEO was in full control or acquired control of the firm, he or she may get liberal, and this would prompt a decrease in firm value. Executive ownership may affect CSR disclosure since the CEO can settle on the choices on enormous numbers of the association’s exercises. By definition, the block holder is a shareholder owning many company shares, for the most part is institutional shares (Jensen &Meckling, 1976). Block holders’ ownership is the rate of shares held by significant shareholders (that is, shareholdings of 5 percent or more).

Jensen and Meckling (1976) argue that generous shareholders are relied upon to have both more significant influence and motivators to monitor management as their resources are attached to the company’s performance. Edmans (2008) recommends that dissemination in possession raise the possibilities of clashes between the principal and agent. Agency problems might be moderated by including considerable shareholders in observing or controlling activities that potential cause such issue (Agrawal & Mandelker, 1990). Finally, managers are anticipated to uncover more yearly reports on CSR with a particular end goal to diminish agency costs involved in observing exercises. Chourou et al. (2001) give backing to this forecast in uncovering a relationship between the ownership structure and the reach out of information voluntary revealed by the recorded companies in their studies.

A block holder who is not a representative or manager of the business has an abnormal position in an organization. This shareholder has admittance to more information than those with fewer disclosures, yet they regularly do not have the extensive knowledge of the business (Edmans, 2008). In a few cases, having a noteworthy stake in the company can make the block holder significant. Whether a block holder's inclusion is negative or positive relies on the subject within reach, the knowledge of the financial specialist, and the manner of relationship with the organization. Block holders who are additionally executives, accomplices, or utilized by the organization can help to keep business inside the control of people who know it personally. The responsibility of these shareholders is double in the sense that, working in the business and expanding its esteem for their own particular profit (Chourou et al., 2001). Subjected upon the measure of shares possessed and the acts of these inward block holders, the circumstances might be useful or severe for a business.

2.1. Profitability

Unlike total size, the relationship between profitability and corporate social responsibility is uncertain. A conceivable explanation for a positive relationship between corporate social responsibility disclosure and profitability is that administration has the flexibility and freedom to embrace and disclose broader corporate social projects to shareholders. Profitable organizations reveal social. l information to show prosperity in their commitment to society (legitimize their presence). As indicated by agency theory as well, managers of profoundly gainful companies are inclined to disperse more information on the CSR in order to attain particular good fortune, for example, a continuation of their position and creation of support (Haniffa & Cooke, 2005; Doktoralina et al., 2018).

Profitable companies have a rationale to separate themselves from others less well-performing organizations. In literature, numerous studies conclude that profits have a positive significant relationship with corporate social responsibility disclosure. For example, Haniffa & Cooke (2005) indicate that firm profitability is a vital element that may influence the disclosure level of CSR. Hadi et al. (2016) state that the organizations that have the solid financial condition are more concerned with CSR exposure by outside weights (Soo et al., 2019).

2.2. Leverage

In a highly geared organization, management needs to legitimize its activities to creditors and shareholders. Leverage has been discovered to be an essential informative variable by (Beltratti, 2005). Exceedingly geared organizations reveal more information to guarantee creditors that shareholders and administrators are less inclined to sidestep their agreement claims and also to help creditors. It is argued that problem emerges between shareholders and stakeholders especially creditors when a firm is making an expansive utilization of debt, subsequently firm may take care of this issue by expanding the level of voluntary disclosure including CSR. Imam and Malik (2007) argue that profound leveraged companies are more prone to expand their disclosure to fulfill the needs of debenture holders, trustee and different stakeholders.

2.3. Firm Size

Previous literature has shown a positive relationship between the extents of corporate social responsibility disclosure and firm size. One clarification for the affiliation is that big organizations undertake more exercises and have a more prominent effect on social disclosure.
Larger firms are likewise subjected to more prominent investigation by a different group in the public eye. Accordingly, would be under more pressure to disclose corporate social responsibility (Cowen et al., 1987). It is expected that bigger firms unveil more information on

CSR than smaller companies (Yang et al., 2019). It is on account of the structures of vast firms are a more unpredictable, complex and enormous amount of the transaction; along these lines, more information disclosure is necessary to permit existing shareholders, potential investors and financial analyst to settle on productive investment decision. Agency theory proposes that bigger firms have higher agency cost in relation to a smaller firm (Tahir & Sabir, 2014).

These higher expenses might tend to decrease in voluntary disclosure. For this situation, the better-educated speculators need to utilize less monitoring measures to control the management, and subsequently, expenses are diminished. Total assets are exceptionally essential to either big companies or small organizations in this study, the total asset otherwise called total holding refers to the summation of a fixed asset, current assets, investments and advances as well as intangible assets. The total assets have been utilized in previous studies of corporate governance as well as corporate social responsibility studies. The studies observe a positive relationship exist between firm size and the level of disclosure.

2.4. Firm Age

Firm age has been utilized as an independent variable in previous studies because it has a particular effect on corporate social responsibility disclosure. Firm age is defined as the number of years since the first day of the business operates as a quoted company. Faruq

(2011) utilized firm age among the independent variables in their study. He computed firm age by the natural logarithm of years for the organization in the enterprise. The study indicates a positive relationship between firm age and corporate social responsibility. Mature organizations that have built themselves in the business think that it simple to acquire above-budgeted profit where the company establishes an excellent reputation in the general public eyes. In relation to financial reporting. The justification behind the finding is that older firms tend to have more strategy of achieving higher profit, consequently increase corporate social responsibility disclosure.

3. DATA AND METHODOLOGY

3.1. Data Source

To investigate the link between corporate governance and audit fee the day of variables is punched from the annual reports of companies. Data of four fiscal years (2013-2016) is collected from annual reports of the company. We targeted the entire population of listed firms. However, because of unavailability of data and resource issue, the final sample comprised of 90 firms.

3.2. Methodology

We are using the panel data methodology that means a multidimensional data frequency involving measurements over the period. In panel analysis, when cross-sectional data are pooled into time series, it may result in differences among the different cross-sectional observation, which is captured using dummy variables. The use of a dummy to account for the variations leads to an estimation of either fixed or random effect models. So, we are using pooled OLS in our study.

3.3. Model specification

To measure the impact of ownership structure on CSR we have used the models, which are given below

$$CSR_{it} = \alpha_0 + \alpha MO_{it} + \alpha_2 OC_{it} + \alpha_3 INST_{it} + \alpha_4 FO_{it} + \alpha_5 BH_{it} + \alpha_6 SIZE_{it} + \alpha_7 LEV_{it} + \alpha_8 PROF_{it} + \alpha_9 AGE + \varepsilon_{it} \quad (1)$$

Where, for each company (i) and each year (t); CSR represents the Corporate social responsibility disclosure length for every entity over the time period MO is shareholding of directors, OC is total ownership of individual with more than 5 percent stocks, INST is the total ownership of institutions, FO is foreign ownership, Block holder is a dummy variable which gives zero if there is a bollock holder and zeroes otherwise.

3.4. Pre-test specifications

The research analysis carried out Breusch and PeganLagrangian multiplier (LM) test for the purpose of selecting the most fitting model between random effect and pooled OLS. The results of the test Var (u) =0, Chaibar2 (01) = 0.00 and Probability> Chaibar2=1.00. The results of Breusch and PeganLagrangian multiplier (LM) test shows that the probability value of Breusch and Peganlagrangian multiplier test (1.0000) is not significant. This leads to the non-rejection of the null hypothesis, which means that there is no entity effect in the model. Thus, the test perfectly suggests that pooled OLS is the most efficient and appropriate.

4. ANALYSIS AND DISCUSSION

4.1. Correlation Analysis

Table 1 shows result on the bivariate statistical correlation among all the relevant variables. The correlation table shows that corporate social responsibility is positively and significantly correlated with managerial ownership, institution ownership and foreign ownership whereas negatively related with ownership concentration and controller. The correlation among other independent are moderately okay.

Table1: Correlation Analysis

	CSR	MO	OC	CONT	FO	INST	AGE	SIZE	PROF	EV
CSR	1									
MO	0.4379*	1								
OC	-0.3266**	0.1353*	1							
CONT	-0.3027	-0.1322	0.186	1						
FO	0.3210**	0.2159**	-0.0117*	-0.2914*	1					
INST	-0.0213**	0.2043*	-0.0711*	-0.1492*	1	1				
AGE	0.2123**	0.1442**	-0.2745*	-0.001*	0.0100	-0.1200	1			
SIZE	-0.1343**	0.1342*	-0.2331*	0.0213**	0.1120*	-0.3120	0.3451*	1		
PROF	0.3232*	0.1432*	0.1234*	0.0312**	0.3110*	0.1120	0.1345*	0.2311	1	
LEV	0.3212*	0.1432*	0.1234*	0.0312**	0.3110*	0.1120	0.1345*	0.2311	4.34	1

4.2.Results and Discussion

The prime research objective of this study is to explore the impact of ownership concentration on the firms from the Indonesian Mining industry. To achieve over objectives, we have selected a comprehensive set of variables which include, managerial ownership, ownership concentration, controller, foreign ownership and

Institutional ownership.to achieve the research objectives we have used pooled OLS regression. The findings of the regression test are discussed in table 2. Table 2 shows that ownership, block holder' ownership, profitability, leverage, firm size and firm age jointly explain 76.5% variations in corporate social responsibility disclosure length. The model used in this study is adequate and significance at 1% level of significance.

In addition, the independent variable in relation to corporate social responsibility disclosure shows that the ownership concentration, controller and leverage are in negative whereas managerial ownership, foreign ownership and institutional ownership is in a positive relation with corporate social responsibility. Nonetheless, the results show that the relationship between director ownership and corporate social responsibility disclosure to be positive and not significant while block holder reveal a significant positive association with corporate social responsibility disclosure. Finally, with respect to the control variables, leverage is found to be significant and negatively related to corporate social responsibility disclosure while profitability, firm size and firm age are positive but not significant.

Table 2: OLS Regression results

Dependent Variable: CSR	**(1)**	**Dependent Variable: CSR**	**(1)**
MO	0.623*** (0.039)	OC	- 0.458*** (0.021)

CONT	- 0.327** (0.023)	FO	-0.427** (0.033)
INST	0.78** (0.346)	AGE	0.676* (0.177)
SIZE	0.784 (0.026)	PROF	0.222 (0.006)
LEVERGAE	-0.452** (0.026)	R^2	0.759
Adjusted R^2	0.797	F-statistic	21.553
Prob. (F-Statistics)	0.000	S.E of Regression	0.099
Number of Firms	30		

*, **, *** denote statistical significance the 0.10, 0.05 and 0.01 level respectively

From the control variables aspect, firm age is statistically significant though negatively related with corporate social responsibility disclosure at 1% level of significance. The result implies that 1 unit increase in age of the companies will lead to decrease in CSRD length by 3% while leverage, profitability and firm age are positively related to corporate social responsibility disclosure though statistically not significant.

5. CONCLUSION

From the onset, this study was motivated by the academic curiosity to evaluate, from an accounting point of view, those factors that explain the behavior of CSRD and CG mechanisms in the Indonesian Mining industry. The researcher relied on the available literature, relevant theories to the study (legitimacy and agency theories), and empirical evidence. The directors' ownership structure of the organization may offer ascent to legitimacy gaps. Distinctive shareholders may request diverse disclosures and the interest is more significant to outsiders, due to the detachment between of administration and holders geographically, hold a high extent of shares. The ownership structure and control variables are showing very strong explanatory power (79.9 percent) ofthis phenomenon.

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DEL ZULIA

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Revista de Ciencias Humanas y Sociales

Año 35, N° 89, (2019)

Esta revista fue editada en formato digital por el personal de la Oficina de Publicaciones Científicas de la Facultad Experimental de Ciencias, Universidad del Zulia.
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