The International Journal of Business Management and Technology, Volume 7 Issue 1 January-February 2023
ISSN: 2581-3889

Research Article Open Access

Managerial Ownership Analysis, Financial Performance, Profit Management and Military Connection to *Corporate Social Responsibility*

(Empirical Study of Mining Companies Listed on the Indonesia Stock Exchange in 2019-2021)

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Abstract: This study aims to analyze the effect of Managerial Ownership, Financial Performance, Profit Management, and Military Connection on Corporate Social Responsibility in mining companies listed on the Indonesia Stock Exchange. This study uses secondary data obtained from annual reports of mining companies. This research is a quantitative study with multiple linear regression analysis techniques using SPSS V25 software. The population in this study are mining companies listed on the Indonesia Stock Exchange in 2019-2021. The sampling technique in this study used a purposive sampling method and obtained 49 mining companies that met the criteria with 122 data that were used as samples in the study. The results of the study show that financial performance and earnings management have no effect on corporate social responsibility. Meanwhile, managerial ownership and military connection affect corporate social responsibility.

Keywords: Managerial Ownership, Financial Performance, Earnings Management, Military connection, Corporate Social Responsibility.

I. INTRODUCTION

In recent years there has been much discussion about *corporate social responsibility* (CSR) which is rife among the public because many companies are negligent in their responsibilities and cause the community to suffer losses. Social responsibility (CSR) is a program that shows a company's responsibility and concern for its environment (Purbawangsa et al., 2020) . There are companies that are much discussed in the community because they are involved in community demands and lack of corporate social responsibility, one of which is a mining company in Papua, namely PT Freeport Indonesia.

Impact or side effect of *corporate social responsibility* such as environmental pollution, air pollution, soil and water and can also cause a disease. The purpose of corporate social responsibility is to provide benefits to the community, create good relations between the company and the community, and reduce costs. *corporate social responsibility* become an indicator that investors see to evaluate the extent to which the company achieves its goals. There are factors that influence social responsibility, including: managerial ownership, financial performance, earnings management and military connection.

Several factors affect corporate social responsibility, the first factor is managerial ownership, which is a manager owning or holding shares in the company. According to Sembiring (2005) in Rani (2015) Managerial ownership obtains special advantages over *corporate social responsibility* (CSR) costs from other shareholders, the capital ownership structure must play a role in determining the amount of *corporate social responsibility* (CSR) expenditure and management can carry out *corporate programs social responsibility* (CSR) easily, because the level of managerial ownership is getting higher.

The second factor is financial performance, according to Rusdianto (2013) in Niyati and Lubis (2019) financial performance is the result or achievement that has been achieved by company management in carrying out its function of managing company assets effectively for a certain period. Companies that experience successful financial performance tend to have more social responsibility, so the condition of the company's financial resources becomes a benchmark in the practice of *corporate social responsibility* (CSR) in companies (Utpala & Adiwibowo, 2021) . The third factor is earnings management. Earnings management is a profit manipulation activity carried out by management to achieve certain goals. Hamabali (2015) in (Erawati & Sari, 2021a) . The last factor is the military connection. *Military connection* here is a council that has a background as a member of the military or has had military education.

Based on the results of previous studies, the results varied, so the researchers conducted another study by adding different variables and observation periods with the title "Managerial Ownership Analysis, Financial Performance, Profit Management and Military Connection to Corporate Social Responsibility (CSR).

II. LITERATURE REVIEW

1. Stakeholder Theory

Stakeholder theory is a theory which states that a company is not an entity that only operates for its own sake but also provides benefits to its stakeholders (Chariri & Ghozali, 2007) . The stakeholders in question are shareholders, creditors, consumers, government, community, suppliers and other parties who are part of the social environment who participate in the process of achieving company goals. This theory emphasizes stakeholders who have the right to obtain information about company activities that can affect stakeholders. One way for companies to communicate with stakeholders is through disclosure of corporate social responsibility (CSR).

2. Legitimacy Theory

The theory of legitimacy is the thought of carrying out an organizational operation that can be carried out successfully and accepted by society. Legitimacy theory is a potential resource for companies to survive (going concern) (Rizki et al., 2019) . This theory carries out activities in accordance with the norms and boundaries of the surrounding community. However, this theory will also experience a shift in normative values along with changes in social norms in the surrounding environment. This change in social norms signifies the development of human civilization which will be a pressure for corporate legitimacy. This theory is directly related to financial performance (Koloay et al., 2018) .

3. Managerial ownership

Managerial ownership is a condition indicating that a manager owns shares or shareholders in a company and has authority in making decisions in a company. These parties are those who are on the board of commissioners and the company's board of directors (Rivandi, 2020) .

4. Financial performance

The Indonesian Accounting Association (IAI) stipulates that financial performance is a benchmark for a company to exercise full control or not in terms of control and management of business over its resources Sipayung (2014) in Jonathan & Sinaga, (2022) . The ability to manage with the ability to generate profits is the definition of financial performance. Logically, companies with high financial performance will invest in higher quality corporate social responsibility (CSR) activities (Utpala&Adiwibowo, 2021).

5. Profit management

Earnings management is a profit manipulation activity carried out by management to achieve certain goals (Hamabali in Erawati& Sari, 2021a). The company's management conceals earnings management activities to reduce stakeholder suspicion, so the company carries out a corporate social responsibility (CSR) program. To maintain stakeholder relations with management, management is willing to incur costs to expedite the implementation of corporate social responsibility (CSR).

6. Military connections

Military connection is a board that has a background as a member of the military or has military education. Crouch (1975) in Utpala&Adiwibowo (2021) said that in the early 1950s some military officers had involved themselves in various small businesses. So that in connections owned by a privileged military officer. Military background can drive entity governance, where the entity is the management capital that is exercised.

III. INDENTATIONS AND EQUATIONS

1. Population and Sample

The population of this study are 63 mining companies listed on the Indonesia Stock Exchange. This study used a purposive sampling method for sampling. The samples in this study were 49 mining companies with an

observation period of 3 years, the number of samples was 147 with 25 outlier data, so that the final sample of the study was 122 samples.

2. Data

This study uses secondary data in the form of annual financial reports from mining companies listed on the Indonesia Stock Exchange for 2019-2021 obtained from the website www.idx.co.id.

3. Data analysis

The analytical method used in this study is a multiple linear regression analysis model. Multiple linear regression analysis to test the effect of several independent variables on the dependent variable. The test model in this study uses GRI-G4 (Kadek & Sulestiana, 2021) . Which is stated in the equation below:

$$CSRit = \alpha + \beta 1KM + \beta 2ROA + \beta 3ML + \beta 4MCON + \varepsilon$$

Information :

CSRit	: Corporate Social Responsibility (CSR) as measured using the GRI G-4 Index
α	: Constant
β1KM	: Managerial Ownership
β2ROA	: Financial Performance as measured using return on assets (ROA)
β1ML	: Profit Management
β4MCON	: Military Connection measured using a dummy variable
ε	: Standard Error

4. Measurement Variables

Managerial Ownership (KM)

Managerial ownership, namely shareholders from management such as the board of commissioners and directors who actively participate in decision making (Wahidawati,2002 in Erawati & Sari, 2021b) . With the following formula:

$$KM = \frac{total\ saham\ yang\ dimiliki\ manajemen}{total\ saham\ yang\ dimiliki\ beredar}\ X\ 100\%$$

Financial performance

Financial performance is measured by net income compared to total assets (Utpala & Adiwibowo, 2021) with the following formula:

$$ROA = \frac{Laba\ Bersih}{Total\ Aset}$$

Profit management

Earnings management in this study can be measured using the De Angelo model (1986), namely the discretionary accrual method (Yasin, 2020) . This research model with the formula difference in total accruals for periods t and t -1 is the level of discretionary accruals. The De Angelo model uses the following formula (Yasin, 2020):

$$DAit = (TAit - TAit - 1) / Ait - 1$$

Information :

DAit	: Discretionary Accrual of company i to t period
Tait	: company's total accruals i period t
TAit-1	: total accruals of company i period to t-1
Ait-1	: total assets of company i in year t-1

Military Connection

Military connection is measured using a dummy variable, which means a value of 1, namely a board with a military background and a value of 0 for a board that does not have a military background (Benmelech & Frydman, 2014) .

IV. DATA ANALYSIS AND DISCUSSION

1. Descriptive Statistical Analysis

Table 1 Descriptive Analysis Results

Variable	N	*Minimum*	*Maximum*	*Means*	*std. Deviation*
KM	122	0.00	0.96	0.0853	0.22723
ROA	122	-0.32	0.54	0.0466	0.10867
ML	122	-2.92	13,12	0.4564	1.91718
MC	122	0.00	1.00	0.2951	0.45796
CSR	122	0.04	0.59	0.2156	0.12450

Source: Data processed, 2023

The research results above show that there are 122 research samples for 3 years. The interpretation of the table above is as follows:

a. The percentage of managerial ownership variables owned by management with a minimum value of 0.00, a maximum value of 0.96, an average value of 0.0853 and a standard deviation of 0.227. This means that the management's share ownership is relatively small, while the standard deviation value is greater than the average value indicating that management ownership for the sample companies has a relatively large difference.
b. ROA is a calculation of financial performance. The research results above show that the financial performance variable measured using ROA shows an average of 0.0466. This means that the company is able to generate profits of up to 4.66% of the company's total assets. The minimum value of ROA is -0.32, the maximum value of ROA is 0.54 and the standard deviation value is 0.10887.
c. The results of the analysis using descriptive statistics on earnings management (ML) show an average or mean value of 0.4564. The minimum value of earnings management is -2.92. This shows that the smallest value of the company doing earnings management is -292%. The maximum value of earnings management is 13.12 and the standard deviation value is 1.917
d. The results above show the result of the minimum military connection value of 0, the maximum value is 1, the value of the standard deviation is 0.45796 and the average value of the military connection is 0.2951 indicating that the majority of mining companies in 3 periods only have boards with behind the military by 29.51% or relatively few.
e. From the results of the descriptive test above it is known that the average disclosure of corporate social responsibility (CSR) in mining that is included in the IDX is 0.2156 of the total disclosures. The minimum value of CSR is 0.04, the maximum value is 0.59 and the value of the standard deviation is 0.12450. This means that it can be concluded that the level of disclosure of corporate social responsibility included in the IDX is still low.

2. Classical Assumption Test Results

The classic assumption test consists of a normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Based on the data that has been processed in this study, the results of the first statistical test were obtained, namely the heteroscedasticity test, in this study the heteroscedasticity test used Spearman's rho. With a sig value on managerial ownership of 0.700, financial performance of 0.318, earnings management of 0.445 and a military connection of 0.815. Shows that the significant coefficient on all variables is more than 0.05 so that heteroscedasticity does not occur.

Furthermore, the multicollinearity test, based on this test, it is known that the correlation between variables can be seen in the values

tolerance and VIF values. If the tolerance value is > 0.1 and the VIF value is < 10, then multicollinearity does not occur in the regression model. Where the tolerance value of each independent variable shows > 0.10 and the VIF value < 10. So it can be concluded that all the independent variables in this study did not occur multicollinearity.

Then there is the autocorrelation test, this study uses the Durbin-Watson (DW) test. The regression model is said

free from autocorrelation if the DW value is between du and 4-du (du<DW<4-du). Autocorrelation test results on this study shows a DW value of 1.854 where the DW value is greater than the du value and greater than 4-du. It can be concluded that this study is free from autocorrelation.

Lastly is the normality test, in this study using the Kolmogrov-Smirnov with a value of 0.076 and a sig value of 0.081 which means that the research data is normally distributed.

3. Hypothesis testing

Table 2 Results of Multiple Linear Regression Analysis

Variable	B	std. error	t	Sig	Information
Constanta	0.192	0.15	12,957	0.000	
km	0.140	0.049	2,853	0.005	H1 accepted _
ROA	-0.005	0.102	-0.50	0.960	H2 is rejected
ML	-0.010	0.006	-1,689	0.094	H3 is rejected
MC	0.054	0.025	2.175	0.032	H4 accepted _

Source: Data processed, 2023

Based on the table above, the constant is 0.192, the coefficient for Managerial Ownership (KM) is 0.140, the Financial Performance coefficient (ROA) is -0.005, the coefficient for Profit Management (ML) is -0.010 and the Military Connection (MC) coefficient is 0.054. So the regression model equation is:

CSR = 0.192 + 0.140KM - 0.005ROA - 0.010ML + 0.054MC + ε

From the results of the multiple linear regression above, it can be explained as follows:

The constant value is 0.192. This can indicate that the variables of Managerial Ownership, Financial Performance, Profit Management and Military Connection are assumed to be constant or equal to zero, so the magnitude of Corporate Social Responsibility (CSR) is 0.192. The regression coefficient of the Managerial Ownership variable is 0.140, indicating that each Managerial Ownership variable increases by one unit, the value of managerial ownership will increase by 0.140. Conversely, if the value of managerial ownership decreases, the value of Corporate Social Responsibility (CSR) will decrease. The regression coefficient of the Financial Performance variable is -0.005, indicating that each Financial Performance variable increases by one unit, so the Corporate Social Responsibility (CSR) value decreases by -0.005. The regression coefficient of the Profit Management variable is -0.010, indicating that the Profit Management increase variable increases by one unit, so Corporate Social Responsibility (CSR) decreases by -0.010. The regression coefficient of the Military Connection variable is 0.054, indicating that each Military Connection variable increases by one unit, Corporate Social Responsibility (CSR) increases by 0.054.

From the table of multiple linear regression results above, the t test can be explained as follows:

The first hypothesis (H1) is Managerial Ownership. Based on the results of statistical tests, it shows a significance level of 0.005 <0.05. So it can be concluded that Managerial Ownership has an effect on Corporate Social Responsibility (CSR) **H1 is accepted**. The second hypothesis (H2) is Financial Performance. Based on the results of statistical tests showed a significance level of 0.960 > 0.05. So it can be concluded that Financial Performance has no effect on Corporate Social Responsibility (CSR) **H2 is rejected**. The third hypothesis (H3) is Earnings Management. Based on the results of statistical tests showed a significance of 0.094 > 0.05. So it can be concluded that Profit Management has no effect on Corporate Social Responsibility (CSR) **H3 is rejected.** The fourth hypothesis (H4) is Military Connection. Based on the results of statistical tests showed a significance of 0.032 <0.05. So it can be concluded that the Military Connection has an effect on Corporate Social Responsibility (CSR) **H4 is accepted.**

Table 3 Test results for the coefficient of determination

Model	R	R Square	Adjusted R Square	std. Error of the Estimate	f	Sig
1	0.321 [a]	0.103	0.072	0.11992	3,355	0.012

Source: Data processed, 2023

The results of the analysis of the coefficient of determination, the value of the coefficient of determination (Adjusted R Square) of the research model is 0.072. From these results it can be concluded that the magnitude of the

variation in the independent variables influencing financial performance is 7.2% and the remaining 92.8% is influenced by other variables not included in the regression model. Meanwhile, the f test shows a significant value of 0.012. The significant value is less than 0.05. This indicates that the independent variable has a simultaneous effect on the dependent variable. That is, any changes that occur in managerial ownership, financial performance, earnings management, military connection jointly affect Corporate Social Responsibility (CSR).

4. Discussion of Research Results

a. The Effect of Managerial Ownership on Corporate Social Responsibility (CSR)

In this study, managerial ownership influences Corporate Social Responsibility (CSR), meaning that high or low managerial ownership affects Corporate Social Responsibility (CSR) performance.

The results of this study are in line with research conducted by Erawati and Sari (2021) which states that managerial ownership influences corporate social responsibility (CSR). Meanwhile, research conducted by Rani (2015) shows that managerial ownership has no effect on corporate social responsibility (CSR).

b. Effect of Financial Performance on Corporate Social Responsibility (CSR)

In this study, financial performance has no effect on Corporate Social Responsibility (CSR), meaning that high or low financial performance does not affect Corporate Social Responsibility (CSR) performance.

The results of this study are in line with research conducted by Koloay et al (2018) stating that financial performance has no significant effect on corporate social responsibility (CSR). Meanwhile, research conducted by Utpala and Adiwibowo (2021) states that financial performance has a positive effect on corporate social responsibility (CSR).

c. The Effect of Profit Management on Corporate Social Responsibility (CSR)

In this study, earnings management has no effect on Corporate Social Responsibility (CSR), meaning that high or low earnings management does not affect Corporate Social Responsibility (CSR) performance.

The results of this study are in line with research conducted by Erawati and Sari (2021a and b), Yasin, (2020) states that earnings management has no effect on corporate social responsibility (CSR). In contrast, the research conducted by Utpala and Adiwibowo (2021) states that earnings management influences corporate social responsibility (CSR).

4. The influence of the Military Connection on Corporate Social Responsibility

d. The Effect of Military Connection on Corporate Social Responsibility (CSR)

In this study the Military Connection affects Corporate Social Responsibility (CSR), meaning that high or low Military Connection affects the performance of Corporate Social Responsibility (CSR).

The results of this study have the same results as research conducted by Utpala and Adiwibowo, (2021) showing that military connections have an effect on Corporate social responsibility (CSR). Meanwhile, research conducted by Benmelech and Frydman (2014) states that military connections perform better when the industry is depressed.

V. CONCLUSION

Based on the results of the analysis and discussion in the previous chapter, it can be summarized as follows:

1. Managerial Ownership affects corporate social responsibility in mining companies listed on the Indonesia Stock Exchange in 2019-2021. H_1 accepted.
2. Financial Performance has no effect on corporate social responsibility in mining companies listed on the Indonesia Stock Exchange in 2019-2021. H_2 is rejected.
3. Profit Management has no effect on corporate social responsibility in mining companies listed on the Indonesia Stock Exchange in 2019-2021. H_3 is rejected.
4. Military Connection affects corporate social responsibility in mining companies listed on the Indonesia Stock Exchange in 2019-2021. H_4accepted.

Limitations

This study has limitations that need to be considered for future researchers, namely:

1. Researchers only use one type of industry, namely mining. So that it does not represent all public companies.
2. Researchers only use the observation year 2019-2021, so the research results do not reflect the overall condition of the companies.
3. The results showed that the value of Adjusted R Square was 7.2%. This indicates that there may be other variables that have a greater potential influence on Corporate Social Responsibility (CSR).
4. This study only uses 4 independent variables, namely managerial ownership, financial performance, earnings

management and military connections, so this research has not been able to explain other factors that can influence Corporate Social Responsibility (CSR).

Suggestion

Based on the conclusions and limitations of the research above, suggestions given by researchers for further research include:

1. Future researchers are expected to add to the population of companies that will be sampled in the study.
2. Future researchers are advised to look for or add other independent variables that are thought to have a major influence on Corporate Social Responsibility (CSR).
3. Future researchers are advised to increase the period of time in research to get better results.

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