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The Impact of Managerial Ownership on Sustainability Accounting

Donny Teguh Santoso Junias*, Raden Setyo Budi Suharto, Meyulinda Aviana Elim
Department of Accounting
Kupang State Polytechnic
Kupang, Indonesia
*tsjdonny@gmail.com

***Abstract*—The purpose of this research was to examine the effect of company ownership on the use of funds for sustainability accounting purposes. Hypothesis testing is conducted to determine the role of company ownership concerning the company's strategic objectives through environmental-social accounting financing. The analysis method uses pure-moderated regressions analysis. The research data uses the company's financial statement data listed on the Indonesia Stock Exchange and the 2015-2019 Corporate Performance Appraisal Program in Environmental Management – Gold Class (Gold PROPER). The results of the study explain that managerial ownership has a positive and significant effect on sustainability accounting. The existence of managerial ownership has an important role in intervening in the use of free cash flow for the benefit of social-environmental sustainability. Free cash flow is not only used for the benefit of returns from shareholders but is also used for the benefit of social-environmental sustainability as a strategic decision of the company.**

Keywords—sustainability accounting, free cash flow, managerial ownerships, social-environment sustainability

I. Introduction

Sustainability accounting is one of the most important parts to be resolved by the managerial because of the tendency of inaccurate information for the owner and stakeholders. Corporate financial losses can be caused by financing to overcome environmental impacts such as the availability of natural resources and environmental damage. In connection with these conditions, sustainability development is needed to overcome the social-environmental accounting crisis. The important role of managerial ownership can be used as an alternative solution to paying more attention to the problem of sustainable development as an important part of social responsibility in the economic process of the company.

The purpose of this study is to examine the effect of company ownership on the use of funds for sustainability accounting purposes. This test is to find out how much the role of company ownership is related to the strategic objectives of the company through social environmental financing. This study departs from the impact of socio-economic problems related to corporate social responsibility on environmental impacts caused by economic activities undertaken by the company. Thus, the urgency of this research is the need for further study regarding the problems of social-environmental accounting information related to strategic decision making by company ownership.

II. Literature Review

A. *Legitimacy Theory, Stakeholder Theory and Agency Theory*

Organizational legitimacy is part of the trust of the community and also the identity of the company. Legitimacy theory explains the benefits or potential resources of a company related to going concern, which is a management system oriented to alignments with the community, government, individuals, and community groups. For this reason, the company's operational activities must be congruent with the expectations of the community [1].

Corporate responsibility is not only measured on economic indicators in the financial statements but also takes into account the social dimensions of internal and external stakeholders. The study in stakeholder theory explains that companies must also pay attention to the social community (stakeholders) in addition to being accountable to the owners (shareholders) [1].

The link between stakeholder theory and legitimacy theory suggests that companies should reduce the expectation gap with the public to increase the legitimacy of the community. The company's reputation can be obtained by balancing the main objectives of economic measurement with the social measurement as a form of concern and alignment with social problems [1].

The perspective of agency theory explains that the existence of ownership structures should be able to reduce conflicts of interest between owners and managers [2-4]. Managers with better information about the business environment will carry out strategies that are in line with regulations made by the government so that it will reduce the potential for failure of the company's operations. Managerial ownership should have the authority to improve company performance through company finances in the interests of the company that will reduce agency costs and improves the welfare of all shareholders.

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B. Sustainability Accounting, Free Cash Flow and Managerial Ownership

Sustainability or Green Accounting can be asses from the perspective of the value of belief in phenomena, reality, objects, individual actions, or corporate transactions relating to activities that are universal to social life. This is due to the relationship between the company's economic activities and human behavior that is social in nature [5]. This means that each company's activities will also affect the decisions of those who also feel the social impact of the company's economic activities. Thus sustainability accounting also includes social accounting, financial accounting, economic accounting, and environmental accounting. The purpose of doing sustainability accounting is to present economic accounting information, social accounting information, and also an environmental accounting information system which is a unit that can be utilized by stakeholders to assess/evaluate company performance and also make economic decisions related to investment decisions, managerial decisions, or other strategic decisions for the company [5].

Developing countries are also faced with key issues such as environmental protection and efforts to improve the country's economy, and the problem of declining environmental quality is one of the crucial social problems relating to social responsibility by both the company and the government. Sustainability accounting can also be interpreted as environmental accounting and economic resource accounting, which will have an impact on the consequences of environmental costs that must be borne by the company/government and the need for further analysis related to economic activities [6,7]. These environmental costs are disclosed in the company's annual financial statements, including research and development costs and capital expenditure for the intended environmental purposes. The main objective is to present accounting information relating to total assets and capital expenditure for the benefit of social responsibility issues. The scope of sustainability accounting includes the estimation of environmental expenditure/costs, capitalization of environmental expenditure, expenditure on environmental obligations by companies [6,8,9]. Estimation of environmental expenditure/costs includes costs related to production activities and also research and development costs, which are classified in investment capital, operating costs, development research costs, planning, and administrative costs, and environmental maintenance/repair costs. The capitalization of environmental expenditure is adjusted to the cost of improving welfare (benefits), the cost of increasing the capacity and efficiency of the company, as well as the cost of work safety and assets. While expenditure obligations include expenditure obligations or compensation for the impact of environmental damage, costs involving related parties in overcoming environmental problems that are presented in the company's financial statement notes [6].

Companies that present financial disclosures related to environmental responsibility are closely related to low company ownership (managerial and institutional), low financial performance, high total assets, while companies with good financial performance will present reports relating to environmental expenditure. Companies should not only prioritize themselves on profit targets but also need to prioritize social responsibility specifically in their business environment, thereby reducing the potential for business gaps, especially related to environmental and social impacts [2]. Therefore, the role of the government is very much needed in regulating policies or decision making related to the intended environmental management issues. One of the programs implemented by the government is the Corporate Performance Appraisal Program in Environmental Management (PROPER) which is intended to control and supervise the industries in Indonesia so that they are more concerned with the environmental conditions in which they occupy the company's business land. The phenomenon that occurs illustrates that not all companies comply with the regulations referred to in the PROPER program.

Companies tend to incur environmental costs by considering the cost of Corporate Social Responsibility is solely long-term for the company without looking at the short-term impacts, especially those directly related to the sustainability of the business environment. This CSR tends to be used as a management strategy for the sake of protecting the company's name in the long run and is even considered as part of the company's investment activities. On the other hand, high managerial ownership is very vulnerable to the misuse of company information for the benefit of personal gain due to the strength and authority possessed to allocate company resources [2-4]. Managerial ownership is the proportion of share ownership by management (directors and commissioners). In this case, managerial share ownership is considered to be able to overcome agency conflicts, because it can align the interests of shareholders with managers. This is because management will share in the benefits directly of the decisions taken, and will also share the risk of the wrong decisions they make [1].

III. METHODOLOGY

The analysis method uses pure-moderated regression analysis with SPSS application. The research data uses secondary data obtained from financial reports published and listed on the Indonesia Stock Exchange and Corporate Performance Appraisal Program in Environmental Management – Gold Class (Gold PROPER) data by the Ministry of Finance of the Republic of Indonesia. The sample data uses a purposive sampling method-pool data in 2015-2019. Statistical testing to test the research hypothesis which states that there is an influence of management ownership on the use of social-environmental responsibility funds (Ha). The following empirical research model is used:

$$SUSC = a + b\ MOWN*FCF + e \quad (1)$$

Note: a = constant; b = regression coefficients; FCF = free cash flow; MOWN = managerial ownership; SUSC = sustainability cost; e = error.

IV. Results and Discussion

The results of the statistical analysis shown in Table 1 show that the data used in this analysis were normally distributed (the significance of the K-S test was 0.448). Thus, further statistical testing can be continued.

TABLE I. STATISTIC ANALYSIS

Statistic Result		
Statistical Test	***Coefficients***	***Value / Significant***
Total observation data		11
Kolmogorov-Smirnov Test		0.862 / 0.448
Constant (t-test)	1.989	5.675 / 0.000
FCF*MOWN (t-test)	0.079	4.380 / 0.002
F-test		19.186 / 0.002
R-Square		0.681
Adjusted R-Square		0.645

The t-test results showed a constant coefficient of 1,989 and a significant value of 0,000, meaning that companies listed on ISX and PROPER made sustainability responsibility one of the important factors in their operations in overcoming the socio-environmental accounting crisis, besides being profit-oriented. This is following the theory of legitimacy which explains that alignments to the interests and expectations of the community will confirm the existence and sustainability of the company's business.

The pure moderation coefficient of managerial ownership to free cash flow shows coefficient of 0.079 and significant at 0.002. This means that the existence of managerial ownership can intervene in the use of free cash flow for the benefit of social-environmental sustainability. Free cash flow is not only used for the benefit of returns from shareholders but can also be used for the benefit of social-environmental sustainability as a strategic decision of the company. The results of this analysis are also able to explain stakeholder theory about legitimacy theory and agency theory in which managerial parties not only pay attention to their interests but also pay attention to the interests of other external parties, especially community interests, because of reducing the potential for conflicts of interest. Thus the company can show that the company's presence is not only oriented to economic profit but also oriented to social and environmental perspectives as a form of corporate concern.

Testing the determinant factor with the F-test showed a significant value of 0.002 at an F value of 19.186. Likewise, the adjusted R-square value was 0.645 (or 64.5%). These results indicate that the statistical model used can explain the resolution of agency problems by utilizing free cash flow funds for the sake of sustainability accounting. This means that free cash flow can be used by managerial parties for social-environmental interests rather than for their benefit. The role of managerial ownership is very important in increasing the existence and business strategy of the company in placing free cash flow funds for the benefit of environmental and social sustainability.

V. Conclusion and Recommendation

The implication of this research, it can be concluding that sustainability responsibility was the important factors in overcoming the socio-environmental accounting crisis. This fact can explain that sustainability accounting will confirm the existence of company's business.

In other side, the existence of managerial ownership can be interfering free cash flow for the benefit of social-environmental sustainability. The role of managerial ownership is very important in increasing the existence and business strategy decision of the company in placing free cash flow funds for the benefit of environmental and social sustainability.

For next researchers, they can do research by using other class of PROPER data (green and blue class) company as the data thus providing better and more accurate analysis result.

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