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Effect of Employee Stock Ownership Program, Leverage, Size and Growth to Return on Equity at Manufactur Company

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Abstract: ***Financial performance is a description of Condition Company to assess profitability and return on equity. Financial performance can be influenced by many factors, that is ESOP, leverage, size and growth. The purpose of this paper is to examine the effect of ESOP, leverage, size and growth on financial performance. The financial performance used ROE method with dupont system. The paper includes a conceptual as well as empirical analysis, in which data from a sample of listed manufactur firms for the period from 2011 to 2015. The method of this paper is descriptive and verifikatif, method to describe research variables and explain the relationship between variables with hypothesis testing. Data analysis technique is panel data model, use F test and T test. From the result of this study, it can be concluded that ESOP has a significant effect to ROE, leverage not significant to ROE; size has significant effect to ROE, and growth not significant to ROE. Future research can examine other variables, such as funding policies, ownership structures, intellectual capital and good corporate governance. Researchers can take samples in other sectors, such as financial and insurance sector, service sector, property sector, or industry sector also.***

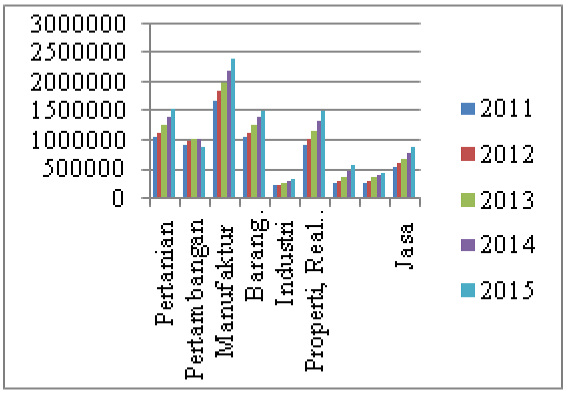
Keywords: ESOP, leverage, size, growth, financial performance, ROE

1. Introduction

Indonesia Stock Exchange is a stock exchange that can provide investment opportunities and financing sources in an effort to support national economic development. The existence of capital markets is very helpful for economic actors in finding alternative funding business activities and also investors who want to invest funds. The number of companies go public listed the BEI on August 10, 2016 there are 532 companies.

The manufacturing sector is a sector that dominates companies listed on the BEI, currently the manufacturing sector consists of 142 companies. The manufacturing sector contributes more Gross Domestic Product (GDP) than other sectors. In Figure 1 can be seen GDP 2015, manufacturing industry accounted for 23.63% or about Rp 2.405.4 trillion to the national GDP of Rp 10,180.84 trillion, so that the manufacturing sector can be said to affect the progress of the national economy. By 2017 the manufacturing sector could grow above 5% as driven by the decline in energy prices and the flow of tax amnesty funds.

Manufacturing companies are the most listed companies in Indonesia Stock Exchange, so the financial statements of manufacturing companies are considered important to be made and reported. The financial statements produced by the company can not be separated from the process of preparation. Policies and decisions taken in the framework of the process of preparing financial statements will affect the assessment of financial performance [17].



Source: www.bps.go.id

Figure 1: GDP of Each Sector

ROE is one important indicator that is often used by investors to assess the level of profitability of the company before making an investment. Three things that must be understood in the calculation of ROE, that are ability companies generate profit (profitability), efficiency of the company in managing assets (asets management), and debt used in conducting business (financial leverage). One tool to measure the company's financial performance is by dupont system. Dupont analysis is a method used to analyze the profitability of firms and the rate of return on equity [7].

Table 1: ROE of Each Sector

Sector	2012 (%)	2013 (%)	2014 (%)	Average (%)
Agriculture	14,11	2,56	4,47	7,05
Mining	19,14	16,48	8,39	14,67
Manufacture	24,10	10,68	24,07	19,62
Consumer Goods	2,55	-3,11	81,99	7,14
Industry	16,15	18,50	18,58	17,74
Property, Real Estate & Construction	7,52	7,38	8,70	7,87
Infrastructure & Transportation	11,27	9,54	5,33	8,71
Financial & Insurance	20,79	21,04	20,27	20,70
Services	15,54	22,35	20,39	19,43

Source: www.bps.go.id

Financial performance can be influenced by many things. The most potential factor in providing a company's competitive advantage is human resources, as well as how to manage other resources to improve performance. An important factor that encourages employees to commit to the company is compensation.

Employee stock ownership program (ESOP) is awarding option to employee for buy part of the company's shares within a certain period at a given price level. While non-financial compensation includes employee health and safety [3]. ESOP is expected to solve the agency problem which often happens in the company. Agency problem is the difference of interest between the owner (principal) company and employee (agent). This ownership equalization management interests with shareholders interest [14].

The choice of sources of funds between corporate funds or corporate debt have the disadvantages and advantages [12]. Debt can be used to control excessive use of free cash flow by the management, so it can reducing unnecessary investments that can increase the value of the company. Companies that use debt will generate interest and can reduce taxes. In addition the company does not share the profits to the lender, what must be done is to pay the loan on time. Companies with low leverage have a smaller risk of loss if economic conditions are declining, but also have lower returns if economic conditions improve. As a matter of fact, firms with high leverage assume considerable risk of loss, but also have the opportunity to gain a high profit.

Financial performance can be affected by firm size. The size of the company as measured from total assets company. Larger firms have greater access to financing sources from multiple sources so that obtaining loans from creditors will be easier as large firms have greater profitability to win the competition or to stay in the industry. On the other hand, small firms are more flexible in uncertainty, because smaller firms react quickly to sudden changes.

Growth is a ratio that can measure how much the company's ability to maintain its position in the industry and in economic development. The state of the company can be seen from how the company survives and develop in its position. Growth is expressed as total asset growth where total assets will reflect future profitability and future growth [11]. Growth is calculated by sales growth indicator. High sales growth shows an increase in revenue earned by the company from product sales in its operational activities.

The main research questions of this paper are :
1) How the development of employee stock ownership program, leverage, size and growth in manufactur company?
2) How the effect of employee stock ownership program, leverage, size and growth simultaneously to return on equity?
3) How the effect of employee stock ownership program, leverage, size and growth partial to return on equity?

The aims of this research is to know the development of employee stock ownership program, leverage, size and growth in manufactur company, and to determine the effect of employee stock ownership program, leverage, size and growth simultaneously and partial to return on equity.

2. Literature Review

2.1 Company

The Company is any form of business that is fixed, continuous, intentionally established, operates and domiciled within the territory of the Republic of Indonesia, the purpose of obtaining profit (Constitution No. 3/1982). The purpose of establishing a company is to earn profits, increase sales, maximize share value, and improve shareholder prosperity. Profit is the difference between income earned by entrepreneurs from the sale of goods and services with the costs of producing and distributing the goods and services [4].

2.2 Financial statements

The financial statements are structures that present the financial position and financial performance in an entity. The general purpose of these financial statements for the public interest is the presentation of information on the financial position, financial performance and cash flows that are useful for making decisions for its users. The various financial reports Balance Sheet, Income Statement, Statement of Ownership Equity, Statement of Cash Flow, And Notes to Financial Statement [8].

2.3 Agency Theory

The agency theory that a company is a collection of contracts between the principal and the manager who takes care of the use and control of the resource [5]. Employee Stock Ownership Program (ESOP) is a share ownership program by an employee over the shares of the company where the employee is employed. The purpose of this program in addition to as a means for companies to give awards to its employees, is expected to also create a harmony of interests between shareholders of the company with the management and employees of the company (Www.ojk.go.id).

2.4 Leverage

Leverage is a measure assets financed by debt [15]. The debt used to finance the asset comes from the creditor, not from the shareholders or investors. One method for measuring leverage is by debt to equity. Debt to Equity Ratio is the ratio used to assess debt with equity. This ratio is calculated by comparing the all of debt, including current debt and equity [6].

2.5 Size

Company size is a scale in which can be classified big or small size of a company [18]. Large (size) of the company can be expressed in total assets, sales and market capitalization. [1] Research for firm size can use benchmark assets. The total assets of a large-value company can be simplified by transforming into logarithms natural (Ln).

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2.6 Growth

Ratio that measures how much a company's ability to maintain its position in the industry and in general economic development [10]. Sales growth can be seen from the aspect of marketing, market acceptance of products and services resulting from sales.

2.7 Financial performance

Financial performance is a measure of success of managers in running a company. Financial performance can be calculated with return on equity (ROE). Return on equity (ROE) is the ratio used to measure the success of the company in generating profit for shareholders. ROE is considered a representation of shareholder value or corporate value. Method to calculated ROE by dupont analysis. Dupont analysis is a method used to analyze the profitability of firms and the rate of return on equity [7]. Using the dupont analysis management can see what factors drive the rate of return on equity, the relationship between net profit margins, asset turnover and debt earnings.

Research Methodology

Research method used is quantitative method. The quantitative method is observable and measurable research because data is a number and analysis using statistics [16]. The methodology in this research is descriptive verification method is a method that aims to describe the research variables as well as explain the relationship between variables studied by testing the hypothesis.

Variable is the factors or symptoms to be studied. Variables are determined by the theoretical foundations and their clarity is confirmed by the research hypothesis [9].

Table 2: ROE of Each Sector

Variabel	Indikator	Skala
Employee Stock Owneship Program (X_1)	Companies that implement ESOP = 1 Companies that do not implement ESOP= 0	Nominal
Leverage (X_2)	$DER = \frac{Debt}{Equity}$	Rasio
Size (X_3)	*Size* = Ln (Total Asset)	Rasio
Growth (X_4)	$Sales\ Growth = \frac{Sales\ this\ year - Sales\ last\ year}{Sales\ last\ year}$	Rasio
Financial Performance (Y)	$ROE = (Net\ profit\ margin\ x\ Total\ asset\ tur$ $- \frac{Debt}{Assets}$	Rasio

The population refers to the entire group of people, event, or things of interest that the researcher wishes to investigate [13]. While, A sample is a subset of the population. It comprises some members selected from it. In other word, some, but not all, element of the population form the sample. The sample in this study are manufacturing companies in Indonesian.

Multiple regression analysis of panel data model according to [16] state regression analysis is used to predict how the state of the dependent variables when the independent variable up / down.

$$Y = a + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$$

There are three methods that can be used in panel data regression that is with Common Effect model (Least Square Panel), Fixed Effect model and Random Effect model. To determine the right model and good for interpretation, it is necessary to do two test stages namely Chow Test and Hausman Test.

3. Result

3.1 Average Development of Variables

In Table 3 can be seen the average development of variables in each year. ROE as the dependent variable calculated using dupont analysis so that ROE is influenced by NPM and ATO. The independent variables consists of ESOP, leverage (proxied with DER), size and growth.

Table 3: Average Development of Variables

	2011	2012	2013	2014	2015
ROE	0.15	0.15	0.11	0.10	0.06
ESOP	0.07	0.07	0.07	0.07	0.07
DER	1.03	0.91	1.12	1.12	1.03
Size	27.89	28.01	28.17	28.26	28.33
Growth	0.23	0.14	0.11	0.10	0.12
NPM	0.05	0.08	0.03	0.05	0.02
ATO	1.20	1.19	111	1.11	1.05

4.2 Effect of ESOP, DER, Size, and Growth to ROE

Determination coefficient analysis is used to know the percentage of ESOP, DER, size and growth to ROE. R-square value of 0.767345 means ESOP, DER, size and growth simultaneously affect the ROE of 76.70%, while the rest of 23.30% influenced by other variables not examined in this study.

4.3 Effect of ESOP to ROE

ESOP has a coefficient -0.233465 with t value -3.405548, so ESOP affects ROE negatively. Probability value 0.0007 < 0.05 means Ho rejected. When the company implemented the ESOP then the company's ROE fell significantly.

The result is due to the fact that the employee's share ownership is limited to a minority, so that employees can not act as the owner of the company, the decision is still made by top management or majority party. In addition, not all employees are entitled to buy ESOP shares, so some employees who have employees' shares have not been able to represent all employees to improve ROE. In the sample research company majority of companies that do not apply ESOP, that is 6 companies that implement ESOP and 74 companies that do not apply ESOP so that result obtained by ESOP have significant negative effect to ROE.

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4.4 Effect of DER to ROE

DER has a coefficient 0.004751 with t value 0.472400, so DER influence positive to ROE. Probability value 0.6370 > 0.05 means Ho accepted. When a company uses debt, it will not affect the ROE.

The results of this paper mentioned that the company use leverage as an investment but its management is not effective so that ROE does not rise significantly.

4.5 Effect of Size to ROE

Size has a coefficient -0.120382 with t value -6.517465, so size affects ROE negatively. Probability value 0.0000 < 0.05 means Ho rejected. The larger the size of the firm, the lower the ROE and significantly.

The result can be due to large company size not supported by good corporate management. Small firms are more flexible in the face of uncertainty, because they respond more quickly to change. Size can not be used as a guarantee that big companies have a good ROE as well.

4.6 Effect of Growth to ROE

Growth has coefficient -0.002750 with t value -0.271244, so growth affects ROE negatively. Probability value 0.7864 > 0.05 means Ho accepted. When growth rises then the ROE decreases but not significant.

This is due to the growing company also the greater the need to manage it, so that the funds owned can not affect the performance of the company.

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