Research Article

The Effect of the Employee Stock Ownership Program and Growth on Return On Equity (Case Studies in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2015-2019)

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Abstract: The purpose of this paper to examine the effect of ESOP and growth on financial performance. The financial performance used ROE method with dupont system. 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 and growth. 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.The result of study are the highest average ROE values were in 2015 and 2016 and the lowest average ROE values were in 2019. The average ESOP growth each year is the same. The highest average value of growth was in 2015 and the lowest average value of growth was in 2018. ESOP and Growth simultaneously have a significant effect on ROE. Partial effect of ESOP and Growth on ROE. ESOP has a significant negative effect on ROE. Growth has a negative and insignificant effect on 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.

Keyword: Financial performance, ROE, ESOP, Growth

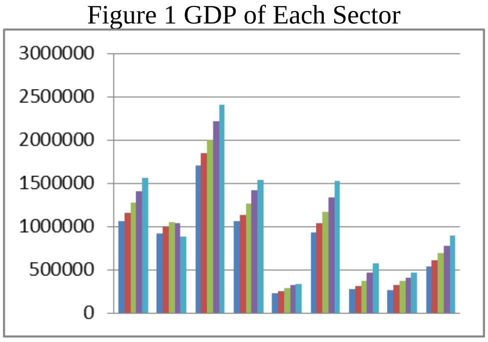
1. Introduction

1.1 Background of the Problem

The Indonesia Stock Exchange is a stock exchange that can provide investment opportunities and sources of financing in an effort to support national economic development. The existence of the capital market is very helpful for economic players in finding alternative funding for business activities as well as investors who want to invest their funds. The number of publicly traded companies listed on the IDX as of March 2021 there are 729 companies consisting of 9 sectors, namely: agriculture, mining, manufacturing, consumer goods, industry, property & real estate, infrastructure & transportation, finance & insurance, and services.

Manufacturing is the largest company listed on the IDX. Manufacturing companies are manufacturing companies that process raw materials into semi-finished or finished goods.

Figure 1 GDP of Each Sector



Source:www.bps.go.id

Manufacturing companies are the most companies listed on the Indonesia Stock Exchange, so that the financial statements of manufacturing companies are considered important to be prepared and reported. There are several financial reports provided, namely income statements, balance sheets, reports of changes in capital, cash flow reports, and notes on financial statements related to financial performance. From this information, investors can assess and choose to invest in companies that have good growth. Financial reports are intended as a means of corporate accountability to interested parties and to predict stock prices, cash flow and future decision-making tools (Darsono and Ashari, 2005). The financial statements produced by the company are inseparable from the preparation process. Policies and decisions taken in the framework of the financial reporting process will affect the assessment of financial performance. (Ujiyantho and Pramuka (2007).

Financial performance shows the company's ability to provide benefits from assets, equity, and debt. Companies that can manage their performance properly and in accordance with company goals are the achievements of the company's work success.Permadi (2012) said that the financial performance appraisal was carried out in order to improve his business in achieving maximum profit and to maintain the company's survival in order to benefit the community. Financial performance is needed by the internal company to be able to find out how their company performance will affect decision making. In assessing financial performance, it can be done by using the Return On Equity (ROE) method.

Return On Equity (ROE) is a ratio that measures a company's ability to generate profits based on its share capital (Hanafi and Halim, 2012; Gonzalez et al., 2019). ROE is used to see the company's development and the company's ability to develop capital from owners and investors. ROE is an important indicator that is often used by investors to assess the level of profitability of a company before investing. Three things must be understood in calculating ROE, namely:The company's ability to generate profits (profitability), The efficiency of the company in managing assets (asets management), and Debt used in doing business (financial leverage).

One of the tools to measure the company's financial performance is the dupont system. According to Keown et al (2005: 86) Dupont analysis is a method used to analyze the profitability of the company and the rate of return on equity. Dupont analysis combines activity ratios with profit margin and shows how these ratios interact to determine the company's profitability (Rangkuti, 2004). The ratios used in the dupont analysis are: net profit margin, total asset turnover, return on investment, return on equity.

A dupont analysis of ROE is required when comparing several company performances in the same industry. This is because the results of the dupont calculation are able to show whether the use of assets to generate sales of the company is greater or less than between companies in the same industry.

Human resources or employees including stakeholders, namely parties who have an interest in the company. Therefore, the company must be able to understand the needs of employees so that job satisfaction is achieved and then can foster commitment to the company. An important factor that encourages employees to commit to the company is compensation or remuneration. Compensation in the form of financial and non-financial. Compensation in the form of finance in the form of salary / wages, allowances, bonuses and company share ownership for employees or what is called the employee stock ownership program (ESOP). ESOP, namely granting rights (options) to employees to buy part of the company's shares within a certain period at a given price level. Meanwhile, non-financial compensation includes employee health and safety (Herdinata, 2005). The purpose of the ESOP is not only as a means for the company to reward its employees, it is also hoped that it can create harmony between the interests of the company's shareholders and the management and employees of the company. (www.ojk.go.id/).

ESOP is expected to be able to solve agency problems that often occur in companies. Agency problem, namely the difference in interests between the owner (principal) of the company and the employee (agent). The costs incurred to solve the agency problem are known as agency costs. One of the ways that can be used to reduce agency costs is by increasing the company's share ownership by the management. This ownership aligns the interests of management with the interests of shareholders (Setyaningrum, 2012).ESOP increases the percentage of inside owners in a company. Based on agency theory, if the new owner really has decision-making authority, efforts will be made to increase shareholder wealth and it is hoped that this will improve financial performance (Isbanah, 2015). ESOP is a step to narrow agency problems and reduce agency cost through the alignment of interests between principal and agent.

The ability of a company to increase the size of the company through increasing assets is said to be the growth of the company. 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 condition of the company can be seen from how the company survives and develops in its position. Growth is expressed as the growth in total assets where the past total assets will describe future profitability and future growth (Taswan, 2003). The growth of a company is how far the company has positioned itself in the overall economic system or for the same industry. The company's rapid growth has resulted in a greater need for funds for expansion. Growth is calculated by the sales growth indicator. High sales growth indicates an increase in the revenue the company gets from selling products in the company's operational activities. The greater the growth, the better the company will be.

Previous research related to growth concluded different results. Kusumajaya's research (2011) states that company growth on stock price changes has a significant positive effect. Meanwhile, the results of research by Primadanti & Eko (2013) state that there is no influence of growth on financial performance.

Based on the description above, the title raised in this study is "The Effect of the Employee Stock Ownership Program and Growth on Return On Equity (Case Studies in Manufacturing Companies Listed on the Indonesia Stock Exchange in 2015-2019)."

1.2 Problem Identification

Good financial performance is able to invite investors to invest their funds in a company. Performance shows the company's ability to provide benefits from the company's assets, equity and debt. However, not all companies know the factors that can improve financial performance.

Financial performance can be affected by many factors. Several previous studies related to financial performance obtained different results, this is the researcher's consideration to examine four factors that can affect financial performance, among others, the Employee Stock Ownership Program and Growth.

1.3 Problem Formulation

1. How is the development of the Employee Stock Ownership Program and Growth in manufacturing companies listed on the Indonesia Stock Exchange?
2. How are the simultaneous effects of the Employee Stock Ownership Program and Growth on Return On Equity in manufacturing companies listed on the Indonesia Stock Exchange?
3. How are the partial effects of the Employee Stock Ownership Program and Growth on Return On Equity in manufacturing companies listed on the Indonesia Stock Exchange?

2. LITERATURE REVIEW

2.1 Basis of Theory

a. Company

Company is any form of business that runs every type of business that is permanent and continuous and which is established, works and is domiciled in the territory of the Republic of Indonesia, for the purpose of obtaining profit and / or profit. (Law Number 3 of 1982).Company is any form of business that is either a legal entity or not, owned by an individual, belonging to a partnership, or belonging to a legal entity, both privately owned and state owned, which employs workers / laborers by paying wages or other forms of remuneration (Law Number 13 of 2003).

The purpose of establishing a company is to make a profit, increase sales, maximize share value, and improve shareholder welfare. Profit is the difference between the income received by entrepreneurs from the sale of goods and services and costs for producing and distributing these goods and services (Jatmiko, 2005).

b. Financial statements

The financial report is a description of the financial condition of a company. The financial report is the final result of recording, which is a summary of the financial transactions that have occurred. According to the Indonesian Institute of Accountants (2012: 5) financial statements are structures that present the financial position and financial performance of an entity. The general purpose of these financial statements for the public interest is the presentation of information regarding financial position, financial performance and cash flow that is useful for making decisions for its users.

Types of financial reports according to Kieso et al (2011: 190), namely:

1. Balance Sheet

Balance sheet as a report that shows the company's financial position, namely assets, liabilities, shareholder equity for a certain period. The balance sheet discloses information regarding the amount and information about the company's resources, liabilities to creditors, and owner's equity owned by the company up to the date of the balance sheet reporting.

2. Income Statement

The income statement is a performance report that measures the success of the company's operational results in a certain period. The income statement provides investors and creditors with the information they need to help them predict the amount, timeliness and uncertainty of future cash flows.

3. Statement of Changes in Equity (Statement of Owners' Equity)

The change in equity report is a report that shows a reconciliation of the opening balance of equity to showing the ending balance of equity. The reconciliation comes from additional investment, operating profit and loss, and distribution of proceeds to the owner (dividend or drawing).

4. Statement of Cash Flow

Cash flow statement as a report that presents cash receipts and disbursements from operating, investing and financing activities. The cash flow statement will show a reconciliation between the beginning and ending cash balances.

5. Notes to Financial Statements (Notes to Financial Statement)

Notes to financial statements as explanations of the values, numbers and other elements contained in the financial statements, including the accounting policies and methods used.

c. *Employee Stock Ownership Program*

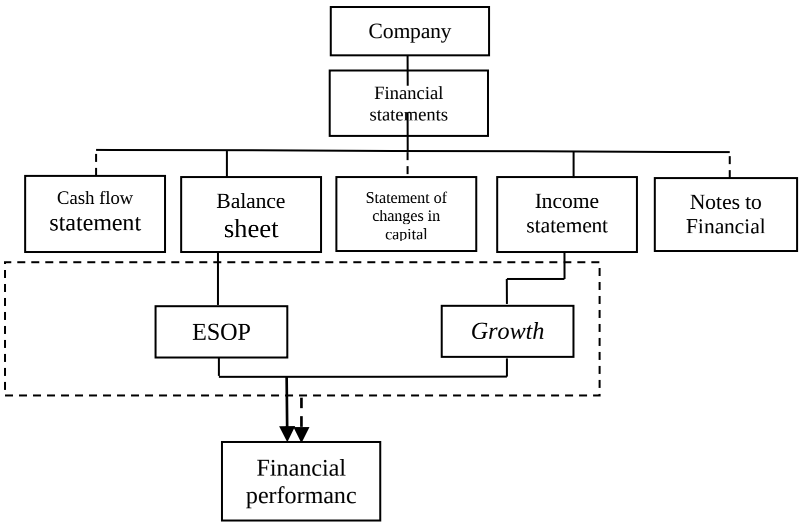
Employee Stock Ownership Program (ESOP) is an employee share ownership program for the shares of the company where the employee works. According to Astika (2009) ESOP is a long-term policycompanies that involve labor psychology in the form of an equity-based (stock) compensation program.

According to Pandansari's (2010) opinion, there are three benefits obtained from using ESOP, namely:

1. Option funds can provide incentives to employees, linked to the prosperity of employees to company value, it will be able to solve agency problems and motivate employees to take actions that can increase company profits.
2. The company can reduce the cost of compensation paid in cash by providing options.
3. The provision of this option can help bind employees to continue working at the company.

d. *Growth*

Nidya (2015) said that growth is a ratio that measures how much the company's ability to maintain its position in the industry and in general economic development. The size of the growth ratio can be seen from sales (sales), earnings after tax (EAT), earnings per share, dividends per share, and market price per share. Growth can be seen from the company's sales growth. Sales growth can be seen from the aspect of marketing, market acceptance of products and services resulting from sales.



e. Financial performance

Financial performance is a measure of the success of managers in running the company. Information regarding financial performance is needed by parties with an interest in the company, for example creditors, the government and the public, especially shareholders. This information is used to determine the suitability of company objectives with the results of the management of the company by managers. Financial performance is one of the factors that shows the effectiveness and efficiency of an organization in achieving its goals. Effectiveness when management has the ability to choose the right goals. Efficiency is defined as the ratio (comparison) between income and expenditure, that is, with certain income obtaining optimal expenditure (Pranata, 2007).

How to calculate financial performance can use return on equity (ROE). Return on Equity represents the return on capital to common stock holders, and is generally considered an important financial indicator for investors (Chen et al, 2005). ROE is obtained by dividing net income by shareholder equity. According to Mardiyanto (2009: 196), return on equity (ROE) is a ratio used to measure the success of a company in generating profits for shareholders. ROE is considered as a representation of shareholder wealth or company value. This ratio is important for shareholders to determine the effectiveness and efficiency of the company's own capital management.

ROE shows the benefits that will be enjoyed by shareholders. The existence of ROE growth shows that the company's prospects are getting better because it means that there is a potential for an increase in the company's profits.

Dupont analysis is done by breaking the return on equity (ROE) into several parts. ROE describes the magnitude of the rate of return obtained by shareholders, by solving ROE, we can find out how a business gets a profit.

Figure 2 Framework

= Simultaneously
= Partially

2.2 Hypothesis:

1. Employee Stock Ownership Program and Growth simultaneously have a significant effect on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange
2. The Employee Stock Ownership Program partially has a significant effect on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange
3. Growth partially has a significant effect on financial performance in manufacturing companies listed on the Indonesia Stock Exchange

2.3 Relation Between Variables

a. Employee Stock Ownership Program

The main problem in companies is that there are differences in objectives and differences in risk between company owners (principal) and company managers (agents) which cause conflicts of interest (Chen & Huang, 2006). With agency theory, employees are given the right to own company shares, which is called the employee stock ownership program (ESOP). The relationship between ESOP and financial performance can be understood with agency theory (Pugh et al, 2005).

OJK Regulation 04 of 2103 states that ESOP is a company program that allows employees to participate in owning shares of the company where they work. The purpose of this program is not only as a means for the company to reward its employees, it is also hoped that it can create harmony between the interests of the company's shareholders and the management and employees of the company. The amount of shares that are allowed to be owned by the company is written in Rule Number IX.A.7 regarding the rights of company employees to obtain up to 10% of the shares offered.

b. *Growth*

The company's rapid growth has resulted in a greater need for funds for expansion. The greater the need for funds for financing, the greater the desire of the company to retain profits. We recommend that a growing company does not distribute its profits as dividends, but is used for company expansion.

Growth used in this research is sales growth. The greater the growth, the better the company will be. If there is an increase in sales, there will also be an increase in profits.

3. Method of Implementation

3.1 Research Object

No.	Research Characteristics	Type
1	Based on the method	Quantitative
2	Based on purpose	Descriptive and verification
3	Based on the type of investigation	Causal
4	Based on the	Does not

	involvement of researchers	interfere with the data
5	Based on the unit of analysis	Organization
6	Based on the implementation time	Panel data

Table 1

3.2. Data analysis technique

Data analysis is the process of systematically searching and compiling data obtained from interviews, field notes, and other materials, so that they can be easily understood, and the findings can be shared with others (Sugiyono, 2013: 244). Data analysis is a process of processing data for the purpose of making the data useful information to answer problems related to research. The data analysis technique used in this research is the panel data model.

Multiple regression analysis of panel data model according to Sugiyono (2010: 277) states that regression analysis is used to predict how the dependent variable will be when the independent variable rises / falls. Regression analysis is used to determine the effect of two or more independent variables on the dependent variable. The general equation for multiple linear regression is:

$Y = a + \beta 1X1 + \beta 2X2$

Description:

Y = *Return On Equity*

A = constant

β1 = Regression coefficient X_1

β2 = Regression coefficient X_2

X1 = ESOP

X_2 = Growth

The data in this study is panel data which is a combination of time series and cross section data, where panel data is a collection of cross section data that is observed simultaneously from time to time (time series).

There are three methods that can be used in panel data regression, namely the Common Effect model (Panel Least Square), the Fixed Effect model and the Random Effect model. In order to determine the right and proper model to interpret, it is necessary to carry out two stages of testing, namely the Chow Test and the Hausman

a. Chow test

Chow test namely to see which model is more appropriate to use between the Common Effect and Fixed Effect models. In this test, the hypothesis is as follows:

H0: The right model is Common Effect

H1: The correct model is Fixed Effect

Decision making criteria:

If the prob. Cross section of chi-square <α 0.05 then H0 is rejected.

If the prob. Cross section of chi-square> α 0.05 then H0 is accepted.

b. Hausman Test

The Hausman test is used to determine the best model between the Fixed Effect or Random Effect models. In this test, the hypothesis is as follows:

H0: The right model is the random effect

H1: The correct model is the fixed effect

Decision making criteria:

If the prob. Cross section of chi-square <α 0.05 then H0 is rejected.

If the prob. Cross section of chi-square> α 0.05 then H0 is accepted

3.3 Hypothesis Test (t test)

Simultaneous hypothesis testing is testing the value of statistical tests carried out to prove whether there is a significant effect of the independent variables (X1 and X2) on the dependent variable (Y) together.

From the F test, the Fcount value will be obtained, which is then compared with the Ftable value. The decisions taken are:

If Fcount Ftable then H0 is accepted≤

If Fcount> Ftable then H0 is rejected

The effect of ESOP and growth simultaneously on financial performance.

H0: β = 0. ESOP and growth simultaneously do not have a significant effect on financial performance.

Ha: At least one variable β ≠ 0. ESOP and growth simultaneously have a significant effect on financial performance.

Partial hypothesis testing is testing the value of statistical tests carried out to prove whether there is an influence between each independent variable (X1, X2) on the dependent variable (Y)

If t count t table Ho is accepted ≤

If t count> t table Ho is rejected

The effect of employee stock ownership program on financial performance.

H01: β1 = 0, ESOP partially has no effect on financial performance.

Ha1: β1 ≠ 0, ESOP partially affects financial performance.

The influence of growth on financial performance.

H02: β2 = 0, *Growth* partially it has no effect on financial performance

Ha2: β2 ≠ 0, *Growth* partially affect financial performance.

4. IV. THE RESULTS ACHIEVED

4.1 Research Objects

The research used in this study is a manufacturing company listed on the Indonesia Stock Exchange during the 2015-2019 period. The sampling technique in this study used a purposive sampling method, namely sampling based on certain criteria. The number of samples studied was 80 companies. Companies as a sample for 5

years, the number of samples used is 400 observational data.

4.2 Data Analysis Technique

4.2.1 Average Variables

	2015	**2016**	**2017**	**2018**	**2019**
ROE	0.15	0.15	0.11	0.10	0.06
ESOP	0.07	0.07	0.07	0.07	0.07
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	1 11	1.11	1.05

Table 2 Average development of variables

4.2.2 Estimation Model

Chow's test is a test to determine the model*Fixed Effet*or Common Effect which is more appropriate to use in estimating panel data. The hypothesis in the Chow test in this study are:

H0: Common Effect Model

H1: Fixed Effect Model

Based on the results of the common effect and fixed effect models, the calculation of the Chow Test in this study is as follows:

F = (6.992347- 1.871340) / (80-1)= 13.64809

1.871340/ ((80.5) - (10-4))

The result of the F count is 13.64809 while the F table value for the numerator 79 and denumenator 316 is 1.321 which means it is smaller than the calculated F value. Thus, H0 is rejected and H1 is accepted, which means that the better regression model is the model with Fixed Effect.

Hausman Test

The Hausman test is a statistical test to determine whether the Fixed Effect or Random Effect model is more appropriate.

The Hausman test in this study was carried out with the following hypothesis:

H0: Random Effect Model

H1: Fixed Effect Model.

The result of Hausman's statistical calculation is57.458097, while the critical value of Chi-Squares with df of

4 at α = 0.05 is 9,488 which means that57.458097>9,488. Thus, it can be concluded that H0 is rejected, which means that the more appropriate model used in this study is the Fixed Effect model.

In the Chow test and the Hausman test that have been done previously, it has been shown that the fixed effect model is more appropriate to be used in predicting the form of regression in this study compared to the common effect or random effect models.

4.2.3 Hypotesis Test

Determination Analysis

Analysis of the coefficient of determination is used to determine the percentage of ESOP and growth on ROE. Based on Table 4.6, it is known that the R-square value is0.367345 means that ESOP and growth simultaneously influence ROE of 36.70%, while the remaining 63.30% is influenced by other variables not examined in this study.

Simultaneous Acceptance and Rejection of Hypotheses

To test the significance of regression parameters simultaneously, the F statistical test is used. The F statistical test basically shows whether all the independent variables included in the model have a simultaneous influence on the dependent or dependent variable.

Based on the results of the F table statistical test of the fixed effect output model, the regression output shows a significance value of 0.000 <0.05 (5%), which means that Ho is rejected. So it can be concluded that ESOP and Growth simultaneously have a significant effect on ROE.

Partial Acceptance and Rejection of Hypotheses

To test the significance of the regression parameters partially used the t statistical test. In Table 4.6 it can be seen that the ESOP has a coefficient of value-0.233465 with t of -3.405548, it means that the ESOP variable affects the dependent variable negatively. Apart from that, the value for Prob. of 0.0007 <0.05 means that Ho is rejected. So it can be concluded that the ESOP partially has a significant effect on ROE.

In Table 4.6 it can be seen that *growth* have coefficients worth -0.002750 with t of -0.271244, it means that the growth variable negatively affects the dependent variable. Apart from that, the value for Prob. equal to 0.7864> 0.05 means that Ho is accepted. So it can be concluded that growth partially has no significant effect on ROE.

4. Conclusion

1. Development of ROE, ESOP, and Growth

The highest average ROE values were in 2015 and 2016 and the lowest average ROE values were in 2019. The average ESOP growth each year is the same. The highest average value of growth was in 2015 and the lowest average value of growth was in 2018.

2. ESOP and Growth simultaneously have a significant effect on ROE.

3. Partial effect of ESOP and Growth on ROE

a. ESOP has a significant negative effect on ROE.
b. Growth has a negative and insignificant effect on ROE.
in their effect on the online Garage sale event.

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