

CHAPTER I

INTRODUCTION

A. Research Background

The general affirmation of the title in question is the scope of the assessment to limit the meaning of the sentence in the study. The research in question is entitled "The Influence of Corporate Social Responsibility (CSR) and Dividend Policy on the Strategy of Family Companies in Indonesia". Influence is the power that exists or the power that arises and can shape a person's character, beliefs or actions. Influence has an effect on the character, development or behavior of a person or something or its own effect.

Corporate Social Responsibility is a management concept where a company can integrate social and environmental issues in business operations and interactions with their stakeholders. Corporate social responsibility (CSR) is an organizational concept, especially companies that have responsibilities to consumers, employees, shareholders, communities and the environment in corporate aspects that have an impact on the environment such as pollution, waste, product safety and labor. CSR is not only limited to the concept of environmental fund assistance, but also how the company has employees who do not act discriminatory, and maintain good relations with the company.

Dividend policy is a policy used by companies to structure dividend payments to shareholders leading some researchers to suggest that dividend policy is irrelevant, in theory, because investors can sell part of their stock or portfolio if they need funds. The dividend book is a decision by which the company holds shareholders or dividends in forming profits to finance investments in the future. Strategy is a planning process to make top decisions on an

organization or company in the long term, accompanied by a way or effort to achieve goals. Strategy is also a long-term goal of the company in the utilization and allocation of resources that are important to achieve the goal. Strategy is a process of evaluating the strengths and weaknesses of companies that are divided by the expectations and emphasis that exist in an environment and strategy to decide the product market in a company's way.

A Family Company is a company whose majority of shareholders are a family and the position of the manager is a family. A family company is a person with several members of the same family involved as the main owner or manager, either contemporaneously or over time. A family company is an economic venture or group of companies where two or more family members have an interest in ownership (ownership) and commitment to the continuation of the company.

At this time, very rapidly the lives of people who are involved in the economic world, in the form of financial institutions, manufacturing, services, and others all tend to lead to economic activities. Initially, companies became a place to provide goods and services for humans. Over time, companies have times of change and companies can split financial profits into the social and environmental realms. The role of CSR as part of the company, especially those related to fund management, does not only apply to general companies but also applies to family companies. The evolution of CSR as emphasized by Robinson is that companies are starting to approach CSR as a new strategy to improve the company's image and gain a competitive advantage that can intrinsically increase the company's value. Benlemlih in his research focuses on the relationship between CSR and corporate performance and explores the value of creation related to high CSR scores. It can be seen that the big assumption regarding CSR with fund management can be used as a means of distributing wealth, especially in

companies with a board of directors system that focuses on family ownership. It is common to know based on the Signalling theory of dividends (Bhattacharya, 1979) that the announcement of higher dividend distributions in companies can provide a strong signal about the company's future prospects for prosperity and help build a positive image of the company regarding growth and stability. This stated that Robinson's statement on CSR came as a new strategy to improve the image "even stronger" with the relationship between CSR and dividend policy which simultaneously produced a signal that "supports the prospect of prosperity" for the company. It is also worth noting that dividends are considered the most commonly used payment device in the corporate world. Studying the influence of CSR on dividend policy, one of the most discussed issues in modern corporate finance. Studies on the relationship between CSR and financial performance also prove that social performance increases corporate wealth, thus it is relevant to investigate the distribution of this wealth.

The problem that occurs in the ownership of family members who are certainly better acquainted with the company is compared to the common owners (outside of family members) minorities with the ultimate concept of ownership lies in company ownership and stock ownership. Based on the results of research on corporate stock ownership in nine Asian countries, public companies in Asia have ownership that tends to be concentrated at one point (centralization). As many as 54% of public companies, especially in Asia, are revealed to be owned by their families. A family company is a company that is run by a successor from the beginning who is responsible for the company by the family who processes to control the company to its successor. However, good family companies in the top position of companies in Indonesia include PT Bakrie & Brothers Tbk, PT Indofood Sukses Makmur Tbk, Salim Group, Sinar Mas, Martha Tilaar group and others. Family welfare is a priority.

Therefore, the family company continues to grow so that the welfare of the family can be guaranteed. Decisions in family companies can be explored from managers who come from the family so that the company bureaucracy becomes less complicated, and family companies are still reluctant to hire professional people outside the family. The family has a very strong voice in the dividend discussion of the General Meeting of Shareholders (GMS). Families in the majority of shareholders participate in managing decisions so that families are vulnerable to conflict. Causing the emergence of vulnerable assumptions of exploitation in family companies. Exploitation is an element of shareholders to maximize their own welfare by using control rights. Appropriation can be in the form of excessive salary and bonus rewards or transactions where both parties are able to relate to each other. In this case, the dividend strategy is like two sides of a currency where the means to collect concentrated funds or indications of expropriation. Where a family company with a majority of owners or managers, namely families, takes profits for themselves from the minority side (minority general shareholders). Therefore, the distribution or payment of dividends in a signaling conflict between families and shareholders is not commensurate. As it is known that managers use dividends as a direct signal to the market regarding the company's future results with an increase in dividend payments that serve as an indicator that informs the market about the expected increase in results. Regarding matters with corporate stakeholders, it must also be able to respect explicit and implicit claims with financial and non-financial stakeholders. A high dividend payout strategy demonstrates the company's ability to honor the claims of financial stakeholders. It also signifies that CSR spending is far from spending the company's cash and leads to a better allocation of the company's resources. In Jensen's assumption, large

free cash flow has an excess investment incentive that is not optimal. Likewise, dividend payments help to reduce managers' power over cash and limit them from cash flow diversion.

One of the subjective factors that may affect family companies is the management of CSR funds which is a form of implementation of financial profit distribution in the social and environmental realm, showing that there is an influence of CSR on the company's strategy. The influence in question is the power or effect that has an impact on the company's strategy. CSR which is used as a benchmark in the social and environmental realm makes many companies form sustainable reports to become one of the strategies to attract the attention of investors that are able to have a very good impact on the company's image for the company's strategy to attract investors. In his research, Benlemlih stated that high CSR tends to encourage excessive investment in social and environmental activities.

Based on the results of research on company ownership stocks in nine Asian countries, public companies in Asia have centralized ownership. As many as 54% of public companies, especially in Asia, are revealed by their owners. Family welfare is a priority in family companies. It shows that there is a more prioritized interest in the dissemination of company information that is better known by family members of the owner and manager of the company. Not only that, the influence also reaches on dividend payments by prioritizing the majority vote owners to be prioritized first before general shareholders. Dividends are part of the profits distributed to the company's shareholders which is guided by the company's dividend policy which provides direction on the amount of dividends that must be paid based on the profits obtained from the company. If dividend policy has the function of disciplining and avoiding excessive social investment and preventing managers from wasting cash through high social

spending, then it is highly desirable that there is a "positive relationship" between CSR and dividends simultaneously.

Because CSR is one of the determinants of the company's strategic participation in social or environmental activities to improve the company's image which implicitly strengthens the company's signals, it is likely that there is an influence of CSR on dividend payments for the strategic decisions of family companies at the same time. The thing in question is that we can find out the tendency of family companies in Indonesia to pay dividends in increasing company signals.

In Marwa Samet and Anis' research, to better understand the extent of CSR involvement, we can explain the change in the company's payment policy by answering several related questions:

1. Are companies that participate in social or socially responsible activities more likely to be involved in dividend payment policies?
2. Can CSR performance influence managers' decisions to use dividend payments?
3. Do socially responsible companies see dividend payments as a substitute or complementary payment method?

The question can be used to document the relationship between payment policy and involvement in CSR activities which specifically aims to examine the influence of CSR performance on the level of dividend payment. The first results also show that companies with high CSR performance are more likely to increase their pay rates. In the study, it was even found that CSR performance positively affected the rate of dividend payments, but in the results when required to choose between paying dividends or legitimate buybacks, companies preferred share

buybacks, which stated that companies with high CSR affected dividend payments (high) but for the tendency of companies in the study to buy back company shares more often.

To ensure the relationship between CSR and dividend policies, other research has emerged rapidly. In Cheung's statement, they tested two CSR benchmarks on dividends; companies tend to pay fewer dividends because CSR lowers the cost of equity, encourages companies to invest and hoard cash rather than paying dividends and CSR is a positive NPV that increases dividend payment income (companies with such a strong involvement in CSR activities should be attributed to lower (higher) rates).

The existence of the ownership factor also considers the company's strategic decision (the role of family ownership in emerging markets), by determining that at least one owner or manager who comes from a family member contributes to holding a minimum of 1% of shares in the family company and a maximum of 20% of shares. Emerging markets are generally characterized by weak investor protection and concentrated on family ownership, leading to agency issues between control and minority shareholders due to potential resource expropriation (Latif et al., 2020; Sheikhdkk., 2018). According to the free cash flow hypothesis, dividend payments reduce the takeover of resources under the control of managers. Anneleen et al., also stated that the issue of relevant agency in family companies is a common conflict of interest between active and passive family shareholders. Empirically test whether companies use dividends as an instrument to overcome principal-agents conflicts. According to Amir, the increase that occurred due to CSR spending that is consistent with maximizing the company's value is therefore a response to changing stakeholder preferences arguing that company insiders may seek to overinvest in CSR for their personal benefit, to the extent that it improves their reputation. The hypothetical results support that insiders encourage

companies to invest excessively in CSR when they incur little cost to do so. It can be stated that one of the significant trends in the last decade is the growth of activities related to CSR while the definition of CSR is still different. However, there may be a tendency in emerging markets where families/controlling shareholders cut dividends and channel resources towards CSR activities as a channel or allocation of wealth for their own benefit, resulting in the negative effects of CSR on dividend payments. Since evidence is not available, therefore, the aim of our study was to examine how CSR is related to dividend policies in emerging markets and how family ownership affects these relationships. We focus on the effect of CSR on both the tendency towards dividend payouts and the family corporate strategy.

For the data used in this study, of course, secondary data comes from the continuous reports of family companies in a certain period of time and financial statements to take into account how many shares are outstanding, the dividend payment ratio, and the percentage of family ownership in the company. The data used were 25 family companies in different sectors from a 5-year period (2016-2020) recorded on IDX.

This study was conducted to see how CSR affects dividend policy and how this will further affect the strategic policy of family companies in Indonesia. CSR calculation is carried out by measuring CSR Score based on the division of CSR Score activities recorded in the financial statements issued by the company in order to make it easier to calculate and interpret results that can affect dividend payments or the dividend payment ratio of family companies. It is hoped that this study can help to find out that the high CSR of family companies has an impact on the tendency to pay high dividends or vice versa.

B. Research Problem

Based on the background that has been described, the following problems can be identified:

1. Does CSR influence the decision of the dividend policy strategy of the family company?
2. Does family ownership affect the decision of the family company's dividend policy strategy?
3. Does board size affect the decision of the dividend policy strategy of the family company?

C. Research Objectives

Based on the formulation of the problem above, the objectives of this study are as follows:

1. Knowing the influence of CSR can affect the dividend policy strategy of a family company.
2. Knowing the influence of family ownership can affect the dividend policy strategy of a family company.
3. Knowing the influence of board size can affect the dividend policy strategy of a family company.

D. Research Benefit

By achieving these goals, it is hoped that this research will provide the following benefits:

1. Theoretical Benefits

In this study, the theory is based or tested from the results of research in different places (developed countries and developing countries). This study is to find out that family companies in developing countries that have high CSR scores tend to pay high dividends or vice versa.

2. Practical Benefits

- a. This research can provide investors with information about the positive relationship between CSR and dividend distribution, which is closely related to the movement of managers or directors who take advantage unilaterally in the distribution of wealth.
- b. This research provides information to readers or investors about the relationship between CSR activities and dividend policy as an effort to maintain the influence of the company's strategy to maintain its image.