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Proceedings of the 6th International Conference on Tourism, Economics, Accounting, Management, and Social Science (TEAMS 2021)

PREFACE

Om Swastyastu, Assalamualaikum Wr.Wb. Syalom, Namo budaya,
Salam Harmoni, best wishes for all of us.

Good afternoon, and welcome to the 6th TEAMS (International Conference on Tourism, Economics, Accounting, Management and Social Science)

The most honorable, Dean of FE Undiksha, Universitas Kristen Petra, Universitas Nusa Cendana, and Universitas Palangka Raya.
The most honorable, the keynote speakers: Prof. Alex Hermenau, Dr. Evan Lau Poh Hock, Dr. Nyoman Dini Andiani, Dr. I Gusti Ayu Purnamawati, Prof. Dr. Naswan Suharsono.

All delegates and committees,

This TEAMS seminar is an annual activity that has entered its 6th year of implementation. In this sixth year of implementation, the theme is Sustainable Economy and Responsible Tourism. The choice of this theme fits perfectly with the current situation.

The development of tourism, to some extent, has collided the needs for modern development with preserving nature, culture, and heritage. How then could a sustainable economy be moving a line with the efforts in minimizing the negative impacts of tourism? As researchers, how do we answer the challenges?

This conference is a perfect place to share ideas, disseminating research findings, conducting collaboration regarding the topic of the conference. Hopefully, we can all learn something from each other, to answer the challenges and to gain solutions.

Without further ado, and as asked by the committee, please allow me to officially open this

seminar.

Thank you and have a nice discussion.

Om. Santih-santih-santih Om

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The Effect of Sales Growth and Independent Commissioner's Supervision on Financial Performance: The Moderating Role of Corporate Social Responsibility

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ABSTRACT
Various studies on sales growth and supervision of independent commissioners on financial performance have been carried out and based on agency theory. Agency theory explains that agents must act following the principal's wishes. Sales growth and supervision of independent commissioners are needed to improve financial performance to meet the principal's wishes. On the other hand, stakeholder theory explains that it is not enough for companies only to fulfill the principal's wishes but must also pay attention to stakeholders' interests. The company can realize its concern for stakeholders through Corporate Social Responsibility (CSR) activities. Based on these two theoretical perspectives, the researchers conducted this study to examine whether CSR activities can affect the relationship between sales growth and independent commissioner's supervision on financial performance. The study was conducted on 59 manufacturing companies listed on the IDX (Indonesian Stock Exchange) for 2018-2020. This study uses multiple linear regression panel data. The study results prove that the higher the sales growth and the supervision of independent commissioners, the higher the financial performance. Related to the moderating role of CSR, it is proved that the increase in financial performance due to increased sales growth will weaken in companies with extensive CSR activities. Furthermore, significant CSR activities can strengthen the independent commissioner's supervisory relationship to financial performance. The results of this study are expected to be used by the management of growing companies to be more careful in carrying out CSR activities. In addition, researchers suggest that companies with high independent commissioner supervision carry out many CSR activities.

Keywords: *Agency theory, Corporate Social Responsibility, Financial performance, Independent commissioner, Sales growth, Stakeholder theory.*

1. INTRODUCTION

In Indonesia, many companies have gone public. As of October 2020, 709 companies have been officially listed on the IDX. Investment opportunities in Indonesia are increasing along with the number of companies formally listed on the IDX. According to US News, it is proven that in 2021, Indonesia ranked second for the world's best country to invest in. Investors need to know and assess the extent of the company's ability to generate profits in making investment decisions. Financial performance is one of the indicators that investors can use to evaluate the company's success. Improved financial performance reflects that the company generates more significant profits for it. Investors will surely like companies with good, stable, and tend to increase performance.

Several factors can affect financial performance. These factors include sales growth [1], [2], size [3], [4], leverage [5], [6], firm age [7], [8], shareholder's equity [9], [10] and the supervision of independent commissioners [11], [12]. Among the factors above, it is evident that sales growth and supervision of independent commissioners mostly have consistent results in influencing financial performance so that they become the focus of this research. Empirical evidence shows that the higher the sales growth, the higher the financial performance. Increasing sales growth can help companies to reduce production costs [13], [14], [15] and have sufficient funds to expand their business [16], [17].

In addition to sales growth, empirical evidence states that the higher the supervision of independent commissioners, the higher the financial performance. Independent commissioners act as deputy principals who oversee the performance of agents. The supervision of an independent commissioner can make agents work following the principal's wishes [18], [19]. Through the supervision of independent commissioners, the transparency and objectivity of the company can be increased [12], [20].

The above phenomenon about relationship between sales growth and independent commissioner's supervision on financial performance proves the existence of agency theory which explains that agents must act following the principal's wishes. Sales growth and supervision from independent commissioners are needed so that agents try to improve financial performance to meet the principal's wishes [21]. Diversely, stakeholder theory explains that corporate responsibility fulfills the principal's wishes and pays attention to stakeholders' interests [22]. Therefore, the phenomenon of Corporate Social Responsibility (CSR) emerged as a form of company concern for the community and the surrounding environment. CSR is an activity carried out by companies voluntarily to improve the welfare of stakeholders [23]. Based on the above background, this study aims to prove whether CSR activities play a role in influencing the relationship between sales growth and independent commissioner supervision on financial performance.

2. LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

2.1. Agency Theory

Reference [24] explains that there is a separation of ownership (principal) and management (agent) in a company. Principal delegates authority to the agent in decision making. This delegation of authority causes a conflict of interest between the principal and agent, called an agency conflict [20]. The principal demands agents to improve the company's financial performance. When the principal wants the company to generate large profits, the agent prioritizes his interests [25]. Therefore, the manager as an agent must be closely monitored by the principal. The principal will recruit an independent commissioner to conduct an objective supervisory function on the agent's performance. Supervision from an independent commissioner can make agents act following the wishes of the principal [26]. In fulfilling the principal's wishes, agents can maximize profits through sales growth.

2.2. Stakeholder Theory

Stakeholder theory explains that the company's task is fulfilling the wishes of shareholders and the interests of all stakeholders [27]. The company's stakeholders include employees, managers, customers, suppliers, the government, and the community. In other words, stakeholder theory aims to meet the expectations of all those interested in the business [28]. Different expectations of stakeholders will encourage companies to develop CSR activities. CSR activities can be in the form of support of social activities, community development, and reducing environmental problems due to company activities. The company's involvement in CSR activities can help companies to gain support from stakeholders [29]. This support is essential to ensure the sustainability and success of the company.

2.3. Financial Performance

Financial performance is one indicator to assess the success of a company. Investors can find out the achievements of management in running the company for a certain period through financial performance. According to [30], financial performance can describe the company's condition in managing its resources. Examining the financial statements of a company can be used to analyze its financial performance [31]. Most financial performance measurements can be divided into two categories, accounting-based measurement and market-based measurement [32]. Good financial performance will increase investor interest in the company. Therefore, companies must pay attention to their financial performance to ensure the survival of the company.

2.4. Sales Growth

Sales growth is an increase in sales that occurs from year to year. Sales growth can indicate the level of consumer demand for the company's products [33]. Companies that experience sales growth means that the company's products are accepted by the market and successfully compete with competitors [14]. The company can increase its efficiency and productivity through sales growth. By knowing how high the sales growth rate is, the company can predict the profits to be received. Companies can set profit targets so that they have a clear direction in achieving goals.

2.5. Independent Commissioner Supervision

Independent commissioner supervision is supervision carried out by commissioners outside the company and do not have any relationship with company management. The presence of independent commissioners as supervisors plays a vital role in implementing good corporate governance because the supervision carried out on management can run more objectively and transparently [18]. Without an independent commissioner, the supervisory function will be less effective [34]. This situation is because the board with insider domination tends to prioritize personal interests above the principal's interests [35]. Therefore, it is necessary to supervise independent commissioners who can better protect the principal's interests.

2.6. Corporate Social Responsibility

CSR is a form of concern to the community and the surrounding environment. According to Law Number 40 of 2007 article 1 number 3 about Limited Liability Companies, CSR is the company's commitment to contribute to sustainable development to improve the quality of life and the environment, both for the company, the local community, and society in general. CSR teaches that companies operate to gain profit and improve social welfare [36]. The form of CSR activities carried out by the company can be reforestation, infrastructure development, scholarships, and increasing transparency. CSR activities are based on the principle of triple bottom lines. It means, in pursuing profit, the company must continue to pay attention to the interests of the community and the surrounding environment. When carrying out CSR activities, the company will gain a competitive advantage by increasing its market share and corporate image [37].

2.7. The effect of sales growth on financial performance

Agency theory explains that agents must act following the wishes of the principal [24]. The principal desires maximum return on investment in the company. The agent is responsible for fulfilling the principal's wishes through sales growth. High sales growth indicates that the company has a competitive advantage, thereby increasing the company's opportunities for business expansion [38]. The success of business expansion can expand the company's reach in marketing its products [16]. High sales growth indicates that more company products are being sold. Increasing sales volume can optimize the level of productivity and efficiency of the company [2]. The company will do mass production due to high market demand so that it can reduce production costs. Reducing production costs will help the company to improve its financial performance. This situation is in line with previous research, which found that the higher the sales growth, the higher the financial performance [1], [13], [15]. It can be hypothesized as follows:

H1: Sales growth has a positive effect on financial performance.

2.8. The effect of independent commissioner supervision on financial performance

According to agency theory, the separation of ownership and management can lead to competing interests between agents and principals. Supervision from independent commissioners can encourage agents to act following the wishes of the principal [18]. Independent commissioners can carry out supervision in a more objective, transparent, and impartial manner. They will supervise agents not to abuse power and commit fraud that can harm the principal [20]. This supervision will make agents try to improve their performance in fulfilling the wishes of the principal [39]. With the supervision of an independent commissioner, the principal's goal of obtaining profits is more secure. This situation is in line with previous research, which found that the higher the supervision of independent commissioners, the higher the financial performance [40], [41], [42]. It can be hypothesized as follows:

H2: The supervision of independent commissioners has a positive effect on financial performance.

2.9. The influence of CSR activities on financial performance

People cannot separate company activities from their relationship with stakeholders according to stakeholder theory [29]. Stakeholder support can help the company to maintain its existence. Efforts that companies can make to pay attention to stakeholders are to carry out CSR activities. The company's involvement in CSR activities shows that the company cares about the interests of stakeholders [43]. Regular CSR activities will give a positive impression to the company in the long term. The credibility and reputation of the company will get better in the eyes of stakeholders to create positive reciprocal relationships [25]. For example, employee productivity increases, consumers become loyal, and suppliers are committed to providing the highest quality raw materials for companies with CSR activities [23]. With this reciprocal relationship, it is expected to assist the company in facilitating operational activities and reducing legal issues to improve financial performance [44]. This case is in line with previous research, which found that the greater the CSR activities, the higher the financial performance [45], [46], [47].

On the other hand, [48] and [49] state that firms will have a competitive disadvantage when firms invest in CSR activities. Competitive disadvantage occurs because the company has to bear the costs to the government or individuals. CSR activities can be a burden because they consume company time and resources. This situation is supported by [50], which states that the company's responsibility is to generate profits. The company only has responsibilities to shareholders, not to the public or society. This statement is in line with previous research, which found that the greater the CSR activities, the lower the financial performance [51], [52], [53]. It can be hypothesized as follows:

H3: CSR activities affect financial performance.

2.10. The role of CSR activities in influencing the sales growth relationship with financial performance

Higher sales growth can improve financial performance because it will generate greater profits. The relationship between sales growth and financial performance will be stronger when the company carries out CSR activities. Consumers will trust and appreciate companies with more excellent CSR activities than companies with more minor CSR activities [37]. The company will have a competitive advantage that will generate sales profits from consumer sensitive to social issues [54]. Consumers tend to buy products where part of the profits are used for social and environmental purposes, such as funds for infrastructure development, scholarships, and programs to preserve the environment. This competitive advantage has a positive impact on the company because it will build a good image in the eyes of stakeholders [55].

On the other hand, CSR activities weaken the relationship between sales growth and financial performance. Extensive CSR activities can be an additional cost for the company [52]. Companies with high sales growth can reduce production costs. However, the company will reduce the benefits of lowering production costs due to the additional costs of CSR activities. Involvement in CSR activities will only provide negative returns for the company [53]. This situation is because the company's only responsibility is to make a profit. The company has no obligation to the community or the surrounding environment. Based on the explanation above, the conclusion is that CSR activities can influence the relationship between sales growth and financial performance. It can be hypothesized as follows:

H4: CSR activities moderate the relationship between sales growth and financial performance.

2.11. The role of CSR activities in influencing the independent commissioner's supervisory relationship with financial performance

The higher the supervision of the independent commissioner, the higher the financial performance because it can guarantee the principal's goal to achieve profit. The independent commissioner's supervisory relationship with financial performance will be more assertive in companies involved in CSR activities. Companies can carry out CSR activities as a form of concern for stakeholders [32]. Through CSR activities, the company will be monitored both internally and externally. Stakeholders will monitor the company's performance from outside. This involvement helps the company to build good relationships with stakeholders. Thus, the company will gain trust, which can improve its reputation. This case is because the company has proven its concern for all operational aspects, including economic, social, and environmental elements [56]. Based on the explanation above, the conclusion is that the increase in financial performance caused by the supervision of independent commissioners will be higher in companies with extensive CSR activities. It can be hypothesized as follows:

H5: CSR activities strengthen the independent commissioner's supervisory relationship to financial performance.

3. METHOD

3.1. Model of Analysis

Based on the research model in Figure 1 below, hypothesis testing in this study uses the multiple linear regression analysis methods of panel data with the following equation:

$$ROA_{i,t} = \alpha + \beta 1GROWTH_{i,t} + \beta 2KI_{i,t} + \beta 3CSR_{i,t} + \beta 4GROWTH_{i,t}{*}CSR_{i,t} + \beta 5KI_{i,t}{*}CSR_{i,t} + \beta 6SIZE_{i,t} + \beta 7SE_{i,t} + e \quad (1)$$

Description:

$ROA_{i,t}$ = Return on Asset
α = Constant
β1, β2, β3, β4, β5, β6, β7 = Coefficient
$GROWTH_{i,t}$ = Sales Growth
$KI_{i,t}$ = Independent Commissioner’s Supervision
$CSR_{i,t}$ = Corporate Social Responsibility
$GROWTH_{i,t}{*}CSR_{i,t}$ = Growth Interaction and CSR
$KI_{i,t}{*}CSR_{i,t}$ = KI Interaction and CSR
$SIZE_{i,t}$ = Firm Size
$SE_{i,t}$ = Shareholder’s Equity
e = error

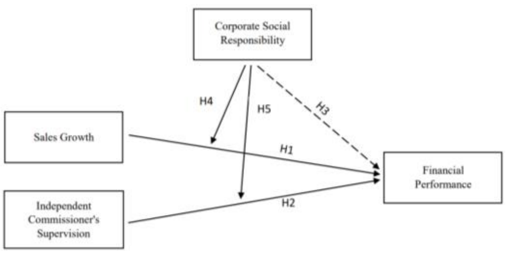

Figure 1 Research Model

3.2. Variable Operational Definition

Based on equation one above, this study has six variables, financial performance, sales growth, supervision of independent commissioners, CSR, size, and shareholder's equity. The financial performance variable is proxied through ROA calculated by the ratio between net income after tax and total assets [22]. The sales growth variable is measured using the ratio of the increase in sales to the previous year's sales. The increase in sales is the difference between this year's sales and the last year's sales [57]. The supervision of independent commissioners is measured using the ratio of the number of independent commissioners to the total number of commissioners [41]. CSR activity is a dummy variable where 0 for CSR activities is below average, and 1 for CSR activities is above average. The moderate CSR activity of the company is calculated based on the ratio of CSR activities carried out with 91 indicators issued by Global Reporting Initiative (GRI) 4 [23]. The size variable is computed using the natural logarithm of total assets [58], while the shareholder's equity variable is calculated using total assets minus total liabilities [9].

3.3. Types, Sources, and Techniques of Data Collection

The type of data in this study is quantitative data in the form of numbers and numerals. This study uses secondary data sourced from the company's annual report. The company's annual report is obtained through idx.co.id or the official website of each company. The data collection technique used in this research is the documentation technique. The documentation technique is carried out by collecting annual report data and sustainability reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2018-2020.

3.4. Research Sample

The study was conducted on 193 manufacturing companies listed on the IDX for 2018-2020. This study uses purposive sampling in determining the sample criteria. The sample criteria in this study are as follows:

1. Manufacturing companies that publish complete financial and annual reports for 2018-2020.
2. Manufacturing companies with positive net income and total assets.
3. Manufacturing companies that present financial statements in rupiah.
4. Manufacturing companies that present the required information in full (sustainability report and good corporate governance).

Based on the above criteria, there are 59 companies which meet the criteria and become the object of research.

4. RESULTS & DISCUSSION

4.1. Descriptive statistics

In this section, this study will explain descriptive data for each variable. This study processed data from 59 companies for three years so that the number of data processed was 177 data. Based on Table 1 above, we can see that financial performance has an average of 0.0815, which means the company can get a profit of 8.15% of the total assets owned. The average sales growth was 0.0401, which means that the company's sales increased by 4.01% from the previous year. The average proportion of independent commissioners is 0.4149, which means that the independent commissioners owned by a company are 41.49% of the total members of the board of commissioners. Companies that carry out CSR activities below the average have an average financial performance of 0.0624, which means the company can get a profit of 6.24% of the total assets owned. Meanwhile, companies that carry out CSR activities above the average have an average financial performance of 0.1026, which means the company can get a profit 10.26% of the total assets owned. Thus, the conclusion is that companies that carry out CSR activities above the average have higher financial performance than companies that carry out CSR activities below the average.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	177	0.0004	0.4630	0.0815	0.0815
Sales Growth	177	-0.4768	0.8589	0.0401	0.1818
Independent Commissioners	177	0.2857	0.8333	0.4149	0.0994
Financial Performance and CSR					
- CSR Below Average	93	0.0005	0.2587	0.0624	0.0815
- CSR Above Average	84	0.0004	0.4630	0.1026	0.0833
Valid N (listwise)	177				

4.2. Analysis Results and Discussion

Table 2. Hypothesis Testing Results

Model	Coefficient	Std. error	t-ratio	p-value	
Constant	−0.151706	0.040774	−3.721	0.0003	***
GROWTH	0.078981	0.010760	7.340	8.57e-012	***
KI	0.138310	0.025950	5.330	3.11e-07	***
CSR	−0.098408	0.020798	−4.732	4.68e-06	***
GROWTH*CSR	−0.065864	0.024751	−2.661	0.0085	***
KI*CSR	0.331040	0.050279	6.584	5.54e-010	***
SIZE	0.005303	0.001458	3.637	0.0004	***
SE	0.000000	0.000000	−9.210	1.24e-016	***

The test results in selecting panel data regression models show the results of fixed effects and a heteroscedasticity phenomenon. Thus, research data must be processed using Weighted Least Squares (WLS). The results of processing using WLS are shown in Table 2.

Based on the results of hypothesis testing in Table 2 above, H1, which states that sales growth positively affects financial performance, is accepted. This statement means that the higher the sales growth, the higher the financial performance. The results of this study confirm the existence of agency theory which explains that agents must fulfil the principal's wishes [26]. The company can achieve the principal's desire to obtain the maximum profit through sales growth. This case is in line with research conducted by [1], [2], [14], which explain that the increase in financial performance occurs because sales growth can optimize the productivity and efficiency of the company. That way, the company can achieve economies of scale so that the company can maximize the profits received, which will impact improving financial performance [59].

Based on Table 2 above, H2, which states that the supervision of independent commissioners has a positive effect on financial performance, is accepted. It means that the higher the supervision of independent commissioners in a company, the higher the financial performance. The results of this study support previous research conducted by [41], [60], [61], which stated that the objective supervision of independent commissioners plays an essential role in realizing good corporate governance. In line with agency theory, independent commissioners act as mediators between agents and principals [18]. Supervision from independent commissioners makes agents act following the principal's wishes so that the effectiveness of improving financial performance is more guaranteed [19].

Based on Table 2, H3, which states that CSR activities affect financial performance, is accepted negatively. It means, the greater the CSR activities carried out by the company, the lower its financial performance. The results of this study support the research conducted by [51], [52], [53], which explain that the decline in financial performance occurs because CSR activities will become a burden for the company. According to [50], the company's responsibility is to generate profits. The company has no obligation to fulfill the interests of stakeholders.

Based on Table 2, H4, which states that CSR activities moderate the relationship between sales growth and financial performance, is accepted negatively. This situation means that CSR activities can weaken the relationship between sales growth and financial performance. Companies that invest in CSR activities will experience a competitive disadvantage [48], [49]. This case happens because CSR activities in companies with high sales growth will only be an additional cost that can reduce company profits [52].

Based on Table 2, H5, which states that CSR activities strengthen the supervisory relationship of independent commissioners on financial performance, is accepted. This situation means an increase in financial performance because the supervision of independent commissioners is more excellent in companies that carry out CSR activities. Supervision from an independent commissioner can ensure the fulfillment of the interests of the principal [26]. Coupled with the company's involvement in CSR activities, the company will improve the reputation and trust of stakeholders [32]. Consequently, the company can maintain good relations with principals and stakeholders [27], [62]. This study supports the existence of stakeholder theory which explains that companies can improve their financial performance by paying attention to the wishes of stakeholders.

5. CONCLUSION

This study proved that the higher the sales growth and the supervision of independent commissioners, the higher the financial performance. This study found that the greater the company's CSR activities, the lower the financial performance. Regarding the role of moderation, this study found that extensive CSR activities in a company will weaken the increase in financial performance caused by sales growth. This study also succeeded in finding the role of CSR activities that could strengthen the rise in financial performance caused by the supervision of independent commissioners. Furthermore, the results of this study are expected to help the management of growing companies be more careful in making decisions on CSR activities because CSR activities can reduce financial performance. In addition, companies with high independent commissioner supervision are advised to pay more attention and carry out many CSR activities because CSR activities can improve the company's financial performance.

The limitations of this study are that researchers cannot study all manufacturing companies listed on the IDX for 2018-2020 because some manufacturing companies do not disclose complete annual reports and use currencies other than rupiah.

AUTHORS' CONTRIBUTIONS

Conceptualization, experimental design & data collection by NA. Writing manuscript, analysis & interpretation data by DK. Theoretical framework & manuscript revision by YJC. All authors have read and approved the final manuscript.

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