The Effect of Employee Stock Ownership Program (ESOP) and Regulatory Factors on the Quality of Implementation of Corporate Governance

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Abstract. This study aims to determine the effect of Employee Stock Ownership Program (ESOP) and regulatory factors on the quality of corporate governance implementation. this research is quantitative research using primary data. The population in this study is public companies in Indonesia which are included in the ranking of the Indonesian Institute for Corporate Governance (IICG) during the 2013-2017 period as many as 156 companies. The sampling technique in this study used purposive sampling, so that a total of 55 observations were obtained consisting of 11 companies over 5 periods. The analytical tool used is the analysis of multiple linear regression tests, t test, F test and coefficient of determination (R^2) using the SPSS software application. The results of the study show that partially that the Employee Stock Ownership Program (ESOP) does not influence the quality of corporate governance implementation, while regulatory factors is affect the quality of corporate governance implementation. The results of the study simultaneously show that the Employee Stock Ownership Program (ESOP) and regulatory factors influence the quality of corporate governance implementation.
Keywords - Employee Stock Ownership Program (ESOP); Regulatory Factors; Quality of Corporate Governance Implementation

I. Introduction

Indonesia is a developing country that is a destination for investment in shares. Stocks provide a high level of profit so it can be said that shares are one of the most popular securities in the capital market. Hartono (Hartono & Wibowo, 2014) states, shares can be offered in many ways including sold to shareholders, sold through ESOP to employees, sold to single buyers, additional shares through dividends that are not shared, offered privately or to the general public. The company's operational activities can run because of a cooperation contract between the owner of the company and the employee. The relationship between the owner of the company and employees often causes agency problems due to differences in interests of each party. Agency theory explains the right solution to limit agency problems. As a form of corporate concern in employee welfare can be done in the form of rewards (awards) which one of the effective efforts can be realized by implementing the Employee Stock Ownership Program (ESOP).

Employee Stock Ownership Program (ESOP) is a program that gives employees the option to own company shares at a fixed price and at a fixed time (Martani et al., 2016) . In Indonesia, this program is known as the share ownership program for employees (PKSK). Compensation for the company is an appreciation for employees through its contribution to the company's operational activities. The application of ESOP is expected to produce a positive effect in the form of increasing productivity and profitability of a company through increasing employee commitment.

The concept of corporate governance is a corporate response that arises because of the limitations of agency theory in solving agency problems and is a control system for the company. The existence of corporate governance practices (corporate governance) is needed to ensure that the company runs well (Pengaruh Corporate Governance Preception Index (CGPI), Struktur Kepemilikan, dan Ukuran Perusahaan Terhadap Kinerja KeuanganIndarti & Extaliyus, 2013).

The issue of corporate governance in Indonesia began to emerge in 1998 after the onset of the ongoing crisis. Many parties revealed that the length of the crisis recovery process was caused by the weak implementation of corporate governance practices in Indonesia. Since then, significant attention has begun to be given by the government to corporate governance practices in Indonesian companies (Setyaningrum, 2012). *Corporate governance will be useful to make it easier to obtain capital and have a positive influence on stock prices. On the other hand, corporate governance can maintain companies from unhealthy business conditions.*

The World Bank and the Organization for Economic Co-operation and Development (OECD) have made an important contribution in developing the principles of corporate governance in several countries (including Indonesia) and have even implemented the implementation of corporate governance at the company level. The ranking of the implementation of corporate governance in Indonesia on companies listed on the Jakarta Stock

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Exchange (JSX) has been held annually by The Indonesian Institute for Corporate Governance (IICG) under the name Corporate Governance Perception Index (CGPI) since 2001.

According to Setyaningrum (2012), ESOP is a form of managerial ownership that functions to support the formation of corporate governance because one of the mechanisms of internal corporate governance is managerial ownership where employees act as employees as well as being owners of the company. The benefits to the company are an increase in employee perspective, where employees no longer only care about profitability but also the value of the company. This can affect the development of corporate governance that can be observed through the implementation of five basic principles including transparency, accountability, responsibility, independence, and fairness. Aside from the implementation of the 5 basic principles, the company also needs the inauguration of an independent party regarding its corporate governance to obtain the title of trust from external parties.

The implementation of good corporate governance or what is called Good Corporate Governance is a concept that emphasizes the importance of presenting information that is true, accurate, and timely. SOE Minister of State Regulation Number: PER-01 / MBU / 2011(PER — 01 /MBU/2011, 2011) concerning the Implementation of Good Corporate Governance in State-Owned Enterprises emphasizes the obligation for SOEs to implement GCG consistently and sustainably while taking into account applicable regulations and norms. From the explanation that has been disclosed, the researcher took the title "The Effect of Employee Stock Ownership Program (ESOP) and Regulatory Factors on the Quality of Implementation of Corporate Governance".

II. Methods

A. Research approach

The research method used is a quantitative approach. Quantitative approach is a collection of research data in the form of statistics and analysis. Researchers choose to use a quantitative approach because the sample used is in the form of numbers to test the established statistical hypotheses.

B. Research variables and operational definition variables

Tabel 1. Variabel penelitian dan definisi operasional

No	Variable Name	Variable Type	Measurement	Sources
1.	*Employee Stock Ownership Program*	Independen	Companies participating in the ESOP program = 1, non ESOP = 0	(Setyaningrum, 2012)
2.	Regulatory factors	Independen	BUMN company category = 1, non BUMN = 0	(La Ode Bone, 2013)
3.	Quality of corporate governance implementation	Dependen	CGPI = (15% X Self Assessment) + (25% X Complete Documents) + (12% X Papers) + (48% X Observation)	(Setyaningrum, 2012

Source: Processed data

C. Population and samples

Based on the explanation above, the population in this study are public companies in Indonesia that are included in the 2013-2017 IICG ranking of 156 companies. The selection of sampling techniques in this study using purposive sampling, the sampling criteria that have been determined based on the policy of the researcher, so that a sample of 11 companies was obtained during the study period of 5 years.

D. Analysis techniques
1. Descriptive statistics analysis

    Descriptive statistics are statistics that function to describe the object under study through sample or population data as they are without intending to make generally accepted conclusions (Sugiyono., 2012).

2. Classical assumption test analysis
    a. Normality test

        Normality test is a test to find out whether the population data is normally distributed or not by means of graph analysis and statistical tests (One-Sample Kolmogrove Smirnove). Decision making with criteria if Asymp. Sig (2-tailed)> 0.05 then the data is normally distributed, whereas if Asymp. Sig (2-tailed) <0.05 then the data are not normally distributed.

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b. Multicollinearity

Multicollinearity testing uses the value of Variance Inflation Factor (VIF) and tolerance. Common data analysis is used to show the presence of multicollinearity with the VIF value> 10 or tolerance value <0.10 (Ghozali, 2012).

c. Heteroscedasticity

The basis for decision making is said to be heteroscedasticity that is if there is no clear pattern, and the points spread above and below the number 0 on the Y axis, then there is no heteroscedasticity (Ghozali, 2012).

d. Autocorrelation

To find out whether or not there is autocorrelation, a Durbin-Watson (DW) test can be performed as follows: (1) If the DW value is below -2 (DW <-2) then the data experiences a positive autocorrelation; (2) If the DW value is between -2 and +2 (-2 <DW <+2) then autocorrelation does not occur; (3) If the DW value is above +2 (DW> +2) then a negative autocorrelation occurs. In this study the autocorrelation test is performed using the Durbin Watson Test, which can be said to occur autocorrelation if the Durbin Watson value is less than 5(Santoso, 2012).

e. Multiple Linear Analysis

Multiple linear regression analysis or also called multipleregression analysis is an analysis used to find out the regression equation that connects between dependent variables with more than one independent variable (Sugiyono., 2012).

3. Hypothesis test
   a. T test (partial test)

   The criteria for making decisions on this t test are:
   1. If the probability (sig)> 0.05 (α) or t <t table, the hypothesis is rejected.
   2. If the probability (sig) <0.05 (α) or tcount> t table then the hypothesis is accepted.

   b. F test (simultaneous test)

   The F test simultaneously has the following significance level: t <from α = 0.05 (Sig t <α), then Ho is rejected and Ha is accepted. The significance level t> of α = 0.05 (Sig t <α), then Ho is accepted and Ha is rejected.

   c. Determinant coefficient

   With the coefficient of determination (R square) it can be seen how far the ability of the model in explaining the variation of the dependent variable.

III. Findings and Discussion

A. **Data analysis test results:**
  1. Classic Assumption Test Results
     a. Normality Test

		Unstandardized Residual
N		55
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	3,51967464
Most Extreme Differences	Absolute	,095
	Positive	,095
	Negative	-,094
Kolmogorov-Smirnov Z		,704
Asymp. Sig. (2-tailed)		,705

Test distribution is Normal

Data sekunder diolah Judging from the results obtained using the Kolmogorov-Smirnov test shows that the Asymp Sig value of 0.705 is more than 0.005 or 5% so that the data can be said to be normal.

     b. Multicollinearity

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Table 2. Multicollinearity test results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	84,771	,802		105,697	,000		
	ESOP	1,866	1,906	,131	,979	,332	,955	1,047
	Faktor regulasi	2,203	1,029	,286	2,141	,037	,955	1,047

a. Dependent Variable: Quality of corporate governance implementation

The output test results above show there is no tolerance value of more than 0.10 and the VIF value is below the value of 10 which means that there is no multicollinearity. So it can be said that between the independent variables (ESOP (X1) and regulatory factors (X2)) do not interfere with or influence each other

c. Heteroscedasticity
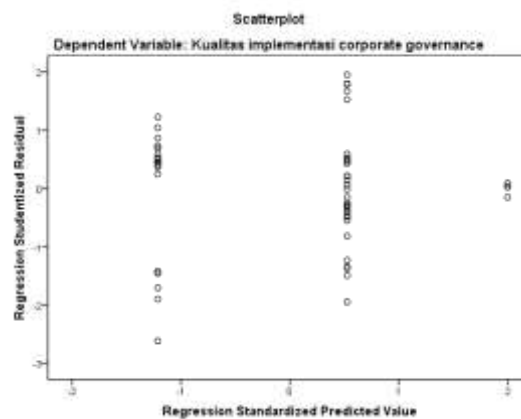
Figure 2. Heteroscedasticity test results

The picture above shows the data does not spread and the points form a clear pattern. So that it can be said there are symptoms of heteroscedasticity.

d. Autocorrelation

Table 3. Autocorrelation test results

Model Summary[b]

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
						R Square Change	F Change	df1	df2	Sig. F Change	
dimension0	1	,339[a]	,115	,081	3,58672	,115	3,367	2	52	,042	,517

a. Predictors: (Constant), Faktor regulasi, ESOP
b. Dependent Variable: Quality of corporate governance implementation

Based on the test results above shows that the Durbin-Watson value is between -2 and +2 (-2 <0.517 <+2), it can be concluded that there is no autocorrelation.

e. Multiple Linear Regression Analysis

Table 4. Test results of multiple linear regression analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF

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1 (Constant)	84,771	,802		105,697	,000		
ESOP	1,866	1,906	,131	,979	,332	,955	1,047
Faktor regulasi	2,203	1,029	,286	2,141	,037	,955	1,047

a. Dependent Variable: Quality of corporate governance implementation

The multiple linear regression equation is obtained as follows:
$$Y = 84{,}771 + 1{,}866\,X1 + 2{,}203\,X2 + e$$

The conclusions of the resulting regression equation model are:
- Constant values of 84,771. The value of this constant indicates that the KICG value of 84.777 if the value of all independent variables 0.
- The ESOP variable (X1) has a regression coefficient of 1.866, which shows that every increase in one ESOP variable will result in an increase in KICG of 1,866.
- Regulatory factor variable (X2) has a regression coefficient of 2.203, which indicates that any increase in one variable of regulatory factors will result in an increase in KICG of 2.203.

2. Hypothesis test results
   a. Uji t (secara parsial)

Table 5. T Test results (partially)

Model	t_{hitung}	Sig.	Keterangan
Employee Stock Ownership Program (ESOP)	0,979	0,332	H0 ditolak
Faktor regulasi	2,141	0,037	H0 diterima

- Based on the table above, it can be seen partially the results of hypothesis testing, namely:
- ESOP variable has no effect on KICG with a significance value of 0.332, where with a regression coefficient of 1.866 and a significance value of $0.332 < \alpha = 5\%$. The results of this study indicate that the first hypothesis stating that ESOP affects KICG is rejected, so it can be stated ESOP has no effect on KICG.
- Regulatory factor variables influence KICG with a significance value of 0.037, where the regression coefficient is 2.203 and the significance value $0.037 < \alpha = 5\%$. The results of this study indicate that the second hypothesis stating that regulatory factors influence KICG is accepted, so it can be stated that regulatory factors influence KICG.

   b. F test (simultaneously)

Table 6. F test results (simultaneously)

ANOVA[b]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	86,636	2	43,318	3,367	,042[a]
	Residual	668,958	52	12,865		
	Total	755,594	54			

a. Predictors: (Constant), Faktor regulasi, ESOP
b. Dependent Variable: Quality of corporate governance implementation

Based on the table above, the significance level is smaller than the determined α (0.05), which is 0.042, indicating that the ESOP and regulatory factors together influence the KICG. This means that a third hypothesis is accepted stating ESOP and regulatory factors influence KICG.

   c. Determinant coefficient

Model Summary[b]

Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
						R Square Change	F Change	df1	df2	Sig. F Change	
dimension0	1	,339[a]	,115	,081	3,58672	,115	3,367	2	52	,042	,517

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a. Predictors: (Constant), Faktor regulasi, ESOP
b. Dependent Variable: Quality of corporate governance implementation

Based on table 4.8 which shows an R square value of 0.115. So it can be said that the independent variable consisting of ESOP and regulatory factors influences 11.5% on the quality of corporate governance implementation and as much as 88.5% is influenced by other variables not examined.

A. Discussion

Based on the results of the analysis and testing conducted using research data adjusted to previous research can be explained as follows:

1. Effect of Employee Stock Owners Program (ESOP) on the Quality of Corporate Governance Implementation.
   a. Based on the test results in this study, it shows that the ESOP variable does not affect the quality of the implementation of corporate governance, which means that there is no effect of increasing productivity and profitability of a company through increasing employee commitment if the company implements or does not apply the ESOP.
   b. The selection of samples consisting of 11 SOE and non-SOE companies in 2013-2017 shows that not many companies have implemented the ESOP program because the majority of SOE company shares are owned by the Government, while non-SOE companies not implementing the ESOP program can be caused by not applying Initial Public Offering (IPO) of shares on a stock exchange or creating an ESOP replacement program, etc. The few companies that implement the ESOP program can cause a lack of effectiveness in decision making on programs that will be applied to companies that can affect improvements in corporate governance.

2. The Influence of Regulatory Factors on the Quality of Corporate Governance Implementation.

   Based on the test results in this study, it shows that the variables of regulatory factors affect the quality of the implementation of corporate corporate governance, which means that if the company applies a regulatory factor in this case is a State-Owned Enterprise (SOE) in implementing corporate governance with tighter control able to increase efforts in implementing corporate governance.

   In accordance with SOE Ministerial Regulation Number: PER-01 / MBU / 2011 concerning the Implementation of Good Corporate Governance in State-Owned Enterprises stresses the obligation for SOEs to implement GCG consistently and sustainably while taking into account the provisions and applicable norms.

3. Effect of Employee Stock Ownership Program (ESOP) and Regulatory Factors on the Quality of Implementation of Corporate Governance.

   Based on the test results in this study, it shows that there is a simultaneous or joint effect between the independent variable Employee Stock Ownership Program (ESOP) and regulatory factors on the dependent variable quality of corporate governance implementation. The implementation of ESOP is expected to be able to produce a positive influence in the form of increasing productivity and profitability of the company through increasing employee commitment. This can be used as a basis for decision making on programs to be implemented by the company as well as information material about actions that can affect the company's image by improving corporate governance.

IV. Conclusion

Based on the research results of the Effect of Employee Stock Ownership Program (ESOP) and Regulatory Factors on the Quality of Implementation of Corporate Governance with a sample of 11 companies with a research period of five periods namely 2013-2017 on public companies developed by The Indonesia Institute for Corporate Governance (IICG)). Based on the formulation, research objectives, theoretical basis and through the process of testing, data analysis and discussion. Then the results of this study can be concluded as follows:

1. Based on tests conducted partially stated that the ESOP variable has no effect on the quality of the implementation of corporate governance, which means that there is no effect of increasing productivity and profitability of a company through increasing employee commitment if the company implements or does not apply the ESOP. This can result in the lack of effectiveness of the company in making decisions on the programs that will be implemented in the company.

2. Based on tests conducted partially stating that the variable regulatory factors affect the quality of the implementation of corporate governance, which means that if the company applies a regulatory factor in this

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case is a State-Owned Enterprise (SOE) in implementing corporate governance with more control tight will be able to improve efforts to implement governance in the company.

3. Based on testing that has been done on the model studied shows that the tested model explains that there is a simultaneous or joint effect between the independent variable Employee Stock Ownership Program (ESOP) and regulatory factors on the dependent variable the quality of corporate governance implementation.

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Suggestion

Based on the results of the conclusions and limitations of the study, the suggestions that researchers can put forward are as follows:

1. It is necessary to expand the number of samples studied by increasing the length of the study period so that it is expected to provide even more accurate research results.
2. Adding variables that have not been studied that are expected to provide information about variables that are more influential on the quality of the implementation of corporate governance, because there are indications that other variables have a greater influence.
3. Choosing different research objects in order to obtain diverse results in research.

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