p–ISSN: 2723 - 6609 e-ISSN: 2745-5254
Vol. 5, No. 6 Juny 2024 http://jist.publikasiindonesia.id/

The Effect of CEO Narcissism, Company Size, and Free Cash Flow on Financial Performance through CSR in SOEs on the IDX 2018-2022

Gunawan Hadi Prastiyono[1*], Andini Nurwulandari[2]
Universitas Nasional, Indonesia
Email: prastyohadi17@gmail.com[1*], andinmanajemen@gmail.com[2]

*Correspondence

Keywords: CEO Narcissism; Company Size; Free Cash Flow; Corporate Social Responsibility; Financial Performance.

ABSTRACT

This study aimed to determine the effect of CEO Narcissism, Company Size, and Free Cash Flow through Corporate Social Responsibility (CSR) on Financial Performance in State-owned enterprises Companies. This study uses a quantitative approach with data sources from the Indonesia Stock Exchange (IDX) official website using the Warppls 7.0 application. The research sample data were from 16 state-owned enterprise companies. The test results show that CEO Narcissism has a negative and significant effect on Corporate Social Responsibility (CSR), Company Size has a negative and insignificant effect on Corporate Social Responsibility (CSR), Free Cash Flow has a positive and insignificant effect on Corporate Social Responsibility (CSR), CEO Narcissism is unable to mediate the effect of Corporate Social Responsibility (CSR) on financial performance. Company Size cannot mediate the effect of Corporate Social Responsibility (CSR) on financial performance. Free Cash Flow cannot mediate the influence of Corporate Social Responsibility (CSR) on financial performance. The Total Determination Coefficient in this study is 0.285 or 28.5%. This indicates the model can explain 28.5% of the data's information. Other factors not included in the study model account for the remainder.

Introduction

Indonesia's rapid economic growth has created a dynamic business environment in recent years. The role of State-Owned Enterprises (SOEs) in supporting economic stability and growth is becoming increasingly important (Gao, Gao, Long, & Wang, 2023). The financial performance of SOEs is the focus of attention, considering its impact on sustainability and the contribution of SOEs to national development (Gao et al., 2023). Problems related to the financial performance of state-owned companies in Indonesia have become complex, involving several factors that can affect the company's financial results.

Financial performance is a significant factor for a company to achieve its goals in terms of seeing the performance of a company. According to research conducted by (Onoyi & and Windayati, 2021), financial performance is a description of financial aspects related to the operational conditions of a company, both increasing and decreasing. Therefore, financial performance provides a general picture of the company's results from financial activities that have been carried out. A company's performance can be assessed by analyzing financial reporting ratios, such as profitability ratios (ROA).

Many factors affect a company's financial performance, and one of them is the CEO's role in decision-making. Decisions made by a CEO are more strategic and challenging to analyze, not just operational decisions.

Based on the study's results, the company's size can be used to indicate that larger companies have better financial performance. The larger a company, the better its financial performance. This is due to the company's size, which proper management supports. The research results (Pratiwi, 2020) show that the company's size refers to how big or small a company is.

In agency theory, larger companies have more resources to manage risk and monitor operational activities. Large companies usually have more assets than small companies. This suggests that the size of a company, measured by market capitalization, is positively related to total assets. The larger the company's size (in terms of market capitalization), the greater the number of assets owned.

Research from (Kalbuana, Suryati, & and Pertiwi, 2022) stated that narcissistic CEOs negatively influence a company's financial performance. Such characteristics can hinder the project's success since narcissistic CEOs tend to impose their opinions on employees while monopolizing the decision-making process.

Based on the results of research from (Rofiah et al., 2024), Free Cash Flow Negatively Affects Financial Performance. The Free Cash Flow available in a company has not been adequately utilized. The free cash flow available in a company can be invested in profitable investments to increase operating profits, and thus, the company's Financial Performance will improve.

Method

Research Mindset

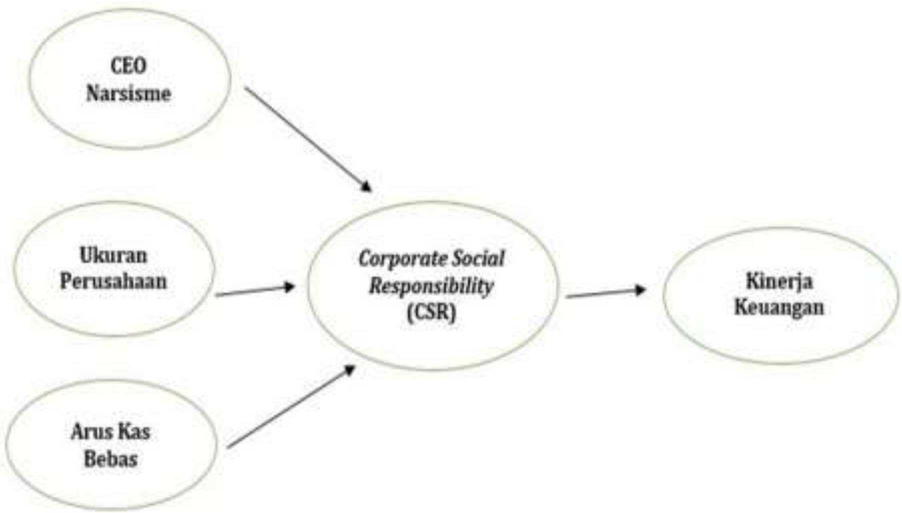

Figure 1
Research Mindset

Research Hypothesis:

H1: CEO Narcissism negatively affects Corporate Social Responsibility (CSR).
H2: Company Size positively affects Corporate Social Responsibility (CSR).
H3: Free Cash Flow positively affects Corporate Social Responsibility (CSR).
H4: CEO Narcissism negatively affects Financial Performance.
H5: Company Size has a positive effect on Financial Performance.
H6: Free Cash Flow negatively affects Financial Performance.
H7: Corporate Social Responsibility (CSR) positively affects Financial Performance.
H8: CEO Narcissism negatively affects Financial Performance through Corporate Social Responsibility (CSR).
H9: Company Size positively affects Financial Performance through Corporate Social Responsibility (CSR).
H10: Free Cash Flow positively affects Financial Performance through Corporate Social Responsibility (CSR).

Data Collection Methods

This study uses a quantitative approach, using secondary data on state-owned companies on the Indonesia Stock Exchange (IDX) for 2018-2022.

Population and Sample

The population in this study is state-owned companies listed on the Indonesia Stock Exchange for 2018 – 2022. The research sample is 16 state-owned companies listed on the Indonesia Stock Exchange under the following conditions:

1. State-owned companies listed on the Indonesia Stock Exchange from 2018 to 2022.

2. Provide Annual Reports published consistently throughout the research period.
3. Companies that experienced fluctuations in financial performance from 2018 to 2022.

Data Analysis Techniques

Data processing in this study uses WarpPLS 7.0 to test research hypotheses in State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) for 2018 – 2022. The similarities of this study are as follows:

CSR = β1CN + β2UP + β3AKB + e (Equation 1)

KK = β1CN + β2UP + β3AKB + β4CSR + e (Equation 2)

Information:

CN = CEO Narsisme

UP = Company Size

AKB = Free Cash Flow

CSR = Corporate Social Responsibility

KK = Financial Performance

Results and Discussion

Table 1
Validity and Reliab Testilitas

Item / Indicator	Loading	*P value*	Keterangan
CEO Narsisme	1	<0.001	valid
Ukuran Perusahaan	1	<0.001	valid
Arus Kas Bebas	1	<0.001	valid
CSR	1	<0.001	valid
Kinerja Keuangan	1	<0.001	valid

Based on the validity test based on loading in Table 1, the above variables have a loading value of > 0.7 and a p-value of < 0.001. Based on the loading value, the data can be concluded to have met the validity requirements.

Table 2
Discriminant Validity Test

Variabel	CEO Narsisme	Ukuran Perusahaan	Arus Kas Bebas	CSR	Kinerja Keuangan
CEO Narsisme	(1)				
Ukuran Perusahaan	0.074	(1)			
Arus Kas Bebas	0.105	0.844	(1)		
CSR	-0.208	0.054	0.096	(1)	
Kinerja Keuangan	-0.349	-0.07	-0.081	0.283	(1)

Table 2 of the Discriminant Test shows that the CEO Narcissism variable has a low correlation with other variables, which shows this is a different construct. Free Cash Flow has a higher correlation with itself (0.844), which indicates strong discriminant validity. Financial Performance negatively correlates with CEO Narcissism (-0.349), which can imply an inverse relationship.

From the table above, it can be concluded that:

1. The discriminant validity of most variables seems to have been good, given the low value outside the diagonal.
2. The negative correlation between CEO Narcissism and Financial Performance can be an interesting one, potentially indicating that higher levels of CEO Narcissism may be associated with poorer financial performance.

Table 3
Validity Test Based on Average Variance Extracted (AVE) and Composite Reliability (CR)

Variable	*Composite Reliability*	*Average Variance Extracted*
CEO Narsisme	1	1
Ukuran Perusahaan	1	1
Arus Kas Bebas	1	1
CSR	1	1
Kinerja Keuangan	1	1

Based on the AVE results in Table 4.3, all AVE values are> 0.5, which means that all indicators have absorbed the variance of each variable valued at 1, meaning it is said to be valid.

Overall Model Fit Testing (Model fit)

Table 4
Model Conformity Test

Mode Fit and quality Indices	Hasil Analisis	Kriteria Fit	Keterangan
Average path Coefficient (APC)	0,16, P < 0,014	P- Value < 0,05	Fit
Average R-*squared* (ARS)	0,152, P < 0,017	P- Value < 0,05	Fit
Average Adjusted R-*squared* (AARS)	0,113, P < 0,044	P- Value < 0,05	Fit
Average block VIF (AVIF)	1,186	Acceptable if < 0,05, Ideally < = 3,3	Fit
Average full collinearity (AFVIF)	2,106	Acceptable if < 0,05, Ideally < = 3,3	Fit
Tenenhaus GoF (GoF)	0,390	Small >= 0,1 medium, >=0,25, large >=0,36	large

Table 4 includes several match and quality indices, analysis results, matching criteria, and corresponding descriptions.

1. The match indices mentioned in the table consist of Average Path Coefficient (APC), Average R-squared (ARS), Average Adjusted R-squared (AARS), Average Block VIF (AVIF), Average Full Collinearity (AFVIF), and Tenenhaus GoF (GoF). The table provides analysis results for each match index, including numeric values and p-values.
2. A p-value less than 0.05 is used as the model fit criterion.

Structural Model / Inner Model Test (Significance Test of Direct and Indirect Influence (Intervening)

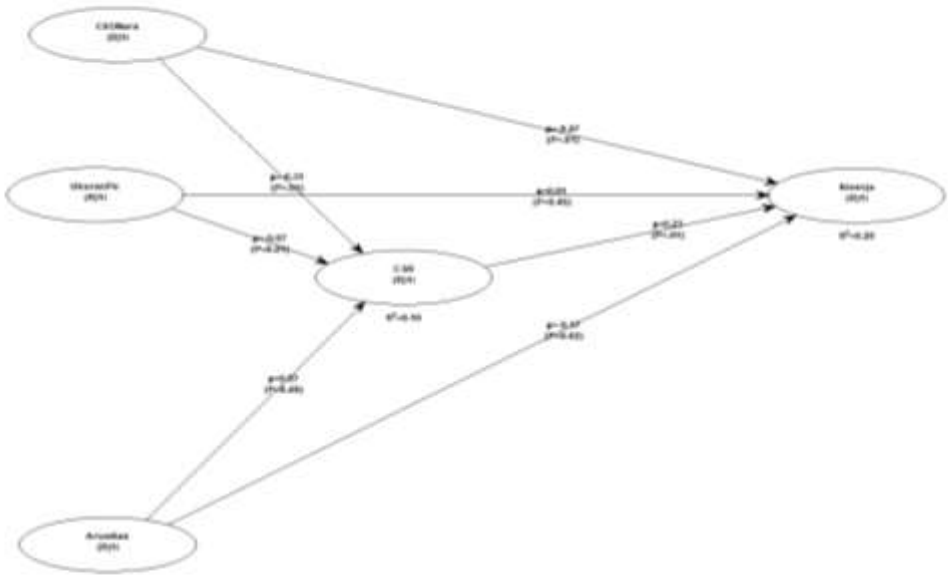

Figure 2
Uji Model Struktural

The similarities of this study are as follows:

Equation 1

CSR = -0,314 CN – 0,066 UP + 0,069 AKB

Equation 2

KK = -0,267 CN + 0,009 UP – 0,172 AKB + 0,226 CSR.

Information:

CN	= CEO Narsisme
UP	= Company Size
AKB	= Free Cash Flow
CSR	= Corporate Social Responsibility
KK	= Financial Performance

Direct Effect

The table below shows the results of the direct influence of the independent variable on the dependent variable in this study:

Table 5
Direct Effect Significance Test

No	Pengaruh	*Path Coefficient*	P-Values	R-Square	Keterangan
1	CEO Narsisme (X_1) -> CSR (Y_1)	-0,314	0,001	0.100	Negatif dan signifikan
2	Ukuran Perusahaan (X_2) -> CSR (Y_1)	-0,066	0,215		Negatif dan tidak signifikan
3	Arus Kas Bebas (X_3) -> CSR (Y_1)	0,069	0,203		Positif dan tidak signifikan
4	CEO Narsisme (X_1) -> Kinerja Keuangan (Y_2)	-0.267	0.001	0.204	Negatif dan signifikan
5	Ukuran Perusahaan (X_2) -> Kinerja Keuangan (Y_2)	0.009	0.454		Positif dan tidak signifikan
6	Arus Kas Bebas (X_3) -> Kinerja Keuangan (Y_2)	-0.172	0.020		Negatif dan signifikan
7	CSR (Y_1) -> Kinerja Keuangan (Y_2)	0.226	0.004		Positif dan signifikan

Regression Equation

a) CSR = -0,314 CEO- 0,066 UP + 0,609 AKB (equation 1)
   R2 = 0,100
b) KK = -0,267 CEO + 0,009 UP - 0, 172 AKB + 0,226 CSR (equation 2)
   R2 = 0,204

In this context, CSR is an intervening variable. While CEO, UP, and AKB are independent variables or variables used to make CSR predictions. In this equation, the coefficient is a number that follows the independent variables. This shows that each independent variable influences the dependent variable, assuming the other variables are fixed.

So, from the given equation, we can interpret the influence of each variable as follows:

Equation 1

1) Chief Executive Officer (CEO):

The coefficient for the CEO is -0.314. This means that every one-unit increase in the CEO variable will lead to a 0.3140.314 unit decrease in CSR, assuming UP and AKB remain.

2) Company Size (UP):

The coefficient for Enterprise Size is -0.066. This means that every one-unit increase in the UP variable will lead to a 0.066-unit decrease in CSR, assuming the CEO and AKB remain.

3) Free Cash Flow (AKB):

The coefficient for AKB is 0.609. This means every one unit increase in the AKB variable will lead to a 0.609 unit increase in CSR, assuming the CEO and UP remain.

Next for the value of R2 is the coefficient of determination. This value indicates how well the independent variable explains the variation in the dependent variable. In this case, the value of R2 = 0.100, which means that about 10% of the variation in CSR can be explained by the CEO, UP, and AKB variables in the regression model. This implies that other factors beyond the variables used in the model can also affect CSR variables but are not described in this equation.

H1: CEO Narcissism negatively and significantly affects Corporate Social Responsibility (CSR).

Research has shown that CEO narcissism significantly negatively impacts Corporate Social Responsibility (CSR). Wardoyo (2023) found that CSR disclosure has a negative or insignificant effect on profit management, often influenced by CEO behaviour.

Research by (Gao et al., 2023) also supports this by showing that CSR disclosure significantly negatively impacts company value. Suaidah (2020) also found a significant negative impact of CSR on the company's financial performance. Therefore, it can be concluded that CEO narcissism, as the company's main characteristic, does have a significant negative impact on CSR.

H2: Company Size has a negative and insignificant effect on Corporate Social Responsibility (CSR).

Several studies have shown that Company Size can positively influence Corporate Social Responsibility. Companies with more excellent resources often have more opportunities to engage in significant CSR initiatives, including contributions to society, environmental conservation, or sustainable business practices.

The results of research conducted by Andira, Andriyanto &; Sumilir (2021) show that company size negatively affects Corporate Social Responsibility (CSR) disclosure. Companies with significant total assets, high stock market values, or large sales volumes tend to be less active in disclosing their CSR activities and programs. Companies with high stock market values or large sales volumes tend to be more pressured to meet investor and shareholder expectations. The main focus is often on revenue growth, profits, and company value.

Companies may be more inclined to allocate resources and attention to efforts that directly contribute to financial performance rather than CSR programs that may be perceived as unimportant "additions."

H3: Free Cash Flow has a positive and insignificant effect on Corporate Social Responsibility (CSR).

The study's results show that free cash flow is the remaining operating cash after deducting investments made by the company in fixed assets and working capital. The remaining cash is to be distributed to shareholders (Inggrawati, 2016). In its distribution, free cash flow often causes conflicts of interest between managers and shareholders.

This study provides empirical evidence from research from (Habib & and Hasan, 2019) that companies with high free cash flow tend to have a greater tendency to carry out CSR initiatives. This can be explained by a more significant financial ability to support social and environmental activities.

H4: CEO Narcissism has a negative and significant effect on Financial Performance.

Research shows that narcissism refers to psychological constructs that include personality traits such as excessive selfishness, self-superiority, lack of empathy, desire to be admired, control and power, and strengthening self-image through external admiration.

The research conducted by Al-Albrow et al. (2019) and (Kalbuana et al., 2022) stated that narcissistic CEOs negatively influence the company's financial performance. Such characteristics can hinder the project's success since narcissistic CEOs tend to impose their opinions on employees while monopolizing the decision-making process.

The results of the study above provide empirical evidence that CEO narcissism has a negative influence on financial performance because CEO narcissism can be used as a guideline for the level of achievement of a company's financial goals. This can explain why a company with a good image can attract investors to invest in the company. Investors and creditors typically look at financial statements to check financial performance and determine how confident a CEO is.

H5: Company Size has a positive and insignificant effect on Financial Performance.

The study's findings show that a company's size can be a benchmark for its financial performance, with larger organizations often showing more robust financial performance. The company's financial performance increases along with its size. This is the result of the work of the right management team that can support the company's size.

The research results of Warianto Rusiti (2016) show that company size refers to how big or small a company is. The amount of assets reported in its financial statements can be used to determine a company's size, which impacts its financial performance.

The size of a company can be determined by the number of assets reported in its financial statements. The greater the total assets, the larger the size of the company. The smaller the number of assets, the smaller the company's size.

H6: Free Cash Flow negatively and significantly affects Financial Performance.

The results showed that the existence of free cash flow can affect a company's financial performance. The research shows that the company's internal funding sources are insufficient to meet investment needs, so the company must obtain additional funds through debt or the issuance of new shares. According to agency theory, companies with free cash flow tend to grow faster than the ideal point for maximizing shareholder wealth.

This is related to financial performance, which also declines, as research conducted by (Mujiburrahman, Kartiani, & and Parhanuddin, 2023) shows that free cash flow hurts financial performance. Jensen (1986) showed that managers can use free cash flow for unprofitable projects, inefficient resource allocation, excessive consumption behaviour, and poorly targeted spending. This provides empirical evidence that excess free cash flow can hurt financial performance.

H7: Corporate Social Responsibility (CSR) positively and significantly affects Financial Performance.

Based on the results of research conducted by (Wa'alin & and Munandar, 2024), which examined the effect of Corporate Social Responsibility on the financial performance of banking companies, where the research sample used was banking companies listed on the IDX during the period 2009-2011. The results of this study show that Corporate Social Responsibility (CSR) has a significant positive effect on the company's financial performance, which is proxied by Return on Assets (ROA) and Return on Equity (ROE).

Companies that develop CSR by improving environmental performance can improve their performance. Companies can do this by showing people that they have taken responsibility for behaviours and decisions that impact people's well-being.

According to research conducted by (Mubarrok, 2017), implementing social responsibility can generate savings and increase a company's profitability. However, environmental disclosure about a company's financial performance is becoming more important today because investors can see how much the company can contribute to the surrounding environment and cannot escape environmental activities. The food and beverage industries are often highlighted as industries that produce much waste, which has a terrible environmental impact.

H8: Corporate Social Responsibility (CSR) cannot mediate the influence of CEO Narcissism on Financial Performance.

The results showed that Corporate Social Responsibility (CSR) cannot mediate the influence of CEO Narcissism on Financial Performance because narcissistic CEOs tend to hurt Corporate Social Responsibility (CSR). That goes hand in hand with agency and self-interest theory: narcissistic CEOs may focus more on fulfilling personal interests and achieving personal goals than the interests of shareholders or society.

Research conducted by (Kalbuana et al., 2022) found that narcissistic CEOs negatively impact a company's financial performance. These traits can hinder project success, as narcissistic CEOs tend to impose their opinions on employees and dominate decision-making.

This can lead to decisions that are detrimental to social and environmental sustainability. In addition, narcissistic CEOs may be less capable or less willing to form good relationships with external parties or the general public. A company's reputation is an important concern for potential investors before investing in it.

H9: Corporate Social Responsibility (CSR) cannot mediate the effect of Company Size on Financial Performance.

The results showed that Corporate Social Responsibility (CSR) cannot mediate the effect of Company Size on Financial Performance because CSR activities can burden a company, meaning that the more excellent CSR issued by a company reduces the company's profit. The results of this study show that CSR disclosure, for the first time, does have a significant impact on market reaction. However, this impact is not always negative.

The research found that the market tends to respond positively to companies with significant CSR disclosures. This response mainly comes in the form of an increase in the share price and liquidity of the company's shares. The results of research conducted by Yulius Ardy Wiranata (2013) explained that the company's size, when measured by total assets, negatively affects financial performance with an insignificant influence. Companies with significant resources often have more opportunities to engage in Corporate Social Responsibility initiatives. However, larger companies often care less about CSR because it is burdensome for a company and considered something less influential on financial performance.

Thus, although first-time CSR disclosure can be considered an additional burden and challenge for the company, it does not necessarily hurt financial performance. Companies that manage CSR will often find that this improves reputation and stakeholder support and provides significant financial and operational benefits.

H10: Corporate Social Responsibility (CSR) cannot mediate the effect of Free Cash Flow on Financial Performance.

The results show that Corporate Social Responsibility (CSR) is unable to mediate the effect of Free Cash Flow on Financial Performance because companies may need to evaluate and improve their financial strategies to ensure healthy free cash flow, despite CSR practices undertaken to encourage investors to be interested in investing their capital. Other things, such as the business side carried out by state-owned companies in the mining, finance, and construction sectors, require effective strategies in carrying out activities to manage free cash flow that can be used properly.

Research conducted by Elena Petrova (2017) explores the effect of free cash flow on the relationship between CSR and financial performance in European companies. The results show that CSR cannot mediate the effect of free cash flow on financial performance. Studies have shown that the relationship between CSR, free cash flow, and a company's financial performance can be complex. CSR can provide long-term benefits not always reflected in short-term financial performance. On the other hand, Free Cash Flow can have a more direct impact on current financial performance. Therefore, sometimes CSR and free cash flow can affect financial performance independently, without one variable mediating the other.

Conclusion

Based on the data obtained and analyzed, conclusions can be drawn from this study, namely CEO Narcissism has a negative and significant effect on Corporate Social Responsibility (CSR), Company Size has a negative and insignificant effect on Corporate Social Responsibility (CSR), Free Cash Flow has a positive and insignificant effect on Corporate Social Responsibility (CSR), CEO Narcissism has a negative and significant effect on Financial Performance, Company Size has a positive and insignificant effect on Financial Performance, Free Cash Flow has a negative and significant effect on Financial Performance, Corporate Social Responsibility (CSR) has a positive and significant effect on Financial Performance, Corporate Social Responsibility (CSR) is unable to mediate

the influence of CEO Narcissism on Financial Performance, Corporate Social Responsibility (CSR) is unable to mediate the influence of Company Size on Financial Performance, Corporate Social Responsibility (CSR) is unable to mediate the effect of Free Cash Flow on Financial Performance.

Bibliography

Gao, Qingzhu, Gao, Liangmou, Long, Dengjie, & Wang, Yuege. (2023). Influence of Narcissistic CEOs on Corporate Social Responsibility (CSR) Choices: The Moderating Role of the Legal Environment. *Psychology Research and Behavior Management*, 3199–3217. https://doi.org/10.47134/pgsd.v1i3.271

Habib, Ahsan, & Hasan, Mostafa Monzur. (2019). Corporate social responsibility and cost stickiness. *Business & Society*, *58*(3), 453–492.

Inggrawati, Rakhel Duami. (2016). *PENGARUH RASIO KEUANGAN TERHADAP HARGA SAHAM (Studi Kasus Pada Industri Manufaktur yang Terdaftar di BEI Tahun 2010-2014)*. Tesis Program Magister Management Universitas Widyatama Bandung.

Kalbuana, Nawang, Suryati, Adelina, & Pertiwi, Chandra Puspa Arum. (2022). Effect of company age, audit quality, leverage and profitability on earnings management. *International Journal of Economics, Business and Accounting Research (IJEBAR)*, *6*(1), 305–315.

Mubarrok, Ujang Syahrul. (2017). *Perumusan Strategi Bisnis Semen Merah Putih Pada PT. Mitra Abadi Lintas Generasi (MALG)*.

Mujiburrahman, Mujiburrahman, Kartiani, Baiq Sarlita, & Parhanuddin, Lalu. (2023). Asesmen Pembelajaran Sekolah Dasar Dalam Kurikulum Merdeka. *Pena Anda: Jurnal Pendidikan Sekolah Dasar*, *1*(1), 39–48.

Onoyi, Nona Jane, & Windayati, Diana Titik. (2021). Pengaruh Ukuran Perusahaan, Good Corporate Governance dan Efisiensi Operasi terhadap Kinerja Keuangan (Studi Kasus pada Bank BUMN yang Terdaftar di Bursa Efek Indonesia Tahun 2016-2020). *Zona Keuangan: Program Studi Akuntansi (S1) Universitas Batam*, *11*(1), 15–28.

Pratiwi, Endang Tri. (2020). Analisis Pengaruh Earning Per Share, Return On Equity Dan Return On Asset Terhadap Harga Saham Pada Indeks Lq45. *Jurnal Ilmiah Akuntansi Manajemen*, *3*(1), 78–91.

Rofiah, Nurul Hidayati, Setyawati, Nelly, Peni, Nur Robiah Nofi Kusumawati, Biddinika, Muhammad Kunta, Fitriah, Fitriah, Subekti, Dewi Ani, & Alghiffari, Eka Kevin. (2024). Professional Development Pembelajaran Berdiferensiasi Bagi Guru Di Sekolah Indonesia Jeddah, Arab Saudi. *Sawala: Jurnal Pengabdian Masyarakat Pembangunan Sosial, Desa Dan Masyarakat*, *5*(1), 1–10.

Wa'alin, Millah Nur, & Munandar, Kukuh. (2024). Upaya Mewujudkan School Well-Being Melalui Pembelajaran Berdiferensiasi pada Peserta Didik Kelas X. *Jurnal Teknologi Pendidikan*, *1*(4), 10.