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Corporate governance and corporate social responsibility on financial performance in manufacturing companies at the Indonesian stock exchange

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ABSTRACT

This research aims to determine the influence of corporate governance and social responsibility on financial performance in manufacturing companies listed on the Indonesia Stock Exchange (BEI). The population in this study was 18 companies obtained using a purposive sampling method in automotive sub-sector manufacturing companies during the 2020-2022 period and based on predetermined criteria, a sample of 14 manufacturing companies listed on the Indonesia Stock Exchange was obtained. The total sample data for the 2020-2022 period is 42 samples. The analysis method used is multiple linear analysis with the help of SPSS software. The research results show that governance and corporate social responsibility have a positive and significant influence on the financial performance of manufacturing companies listed on the Indonesian Stock Exchange in 2020-2022.

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INTRODUCTION

Financial performance is a general description of the financial condition of a company over a certain period of time (Kamatra & Kartikaningdyah, 2019). This performance is very important for assessing the company in the future. Businesses can view their financial performance by analyzing their financial statements, which include position and profit and loss. To measure financial performance, companies can use financial ratios, analytical tools. One way to assess financial performance is to carry out financial analysis, which is an analysis of the company's financial reports. Financial analysis usually uses elements of the balance sheet and income statement to assess a company's profitability ratios (Fahmi, 2015).

In terms of maintaining the company's survival in the long term, profitability shows whether the company has good prospects for the future. In this research, the profitability ratio chosen is Return On Assets (ROA). This is done because Return On Assets (ROA) focuses on the company's ability to gain profits in overall operations. Return On Assets (ROA) is used when companies measure their ability to earn profits from their total assets. Factual phenomena in

several manufacturing companies in the automotive sub-sector, such as the BOLT company in 2021, ROA (6%) decreased by 4% in 2022 and IMAS in 2021 (5%) decreased by 1% in 2022 (www.idnfinancials.com, 2023). Based on the table, it shows that the BOLT, BRAM, GDYR, and IMAS companies indicate that the assets owned by the companies are not optimally used to generate returns. From the above phenomenon, it can be concluded that the ROA value of issuers in automotive sub-sector manufacturing companies is experiencing a slowdown in financial performance.

The company's level of profitability determines its policy for calculating profits. Profitability ratios can be calculated by comparing various elements in the income statement or balance sheet. This can be done over a period of time. Profitability can be used as a standard for assessing the success of an organization in using working capital efficiently to produce a certain expected level of profit (Cao et al., 2019). For companies, the issue of profitability is more important than profit because large profits can show that the business is working efficiently. Therefore, companies must pay attention to how to increase profits and profitability. Profitability is the ability of a company to generate profits (Kasmir, 2014). This factor is very important because if a company wants to survive, it must be in a profitable condition. Without profits, it will be difficult for a business to obtain capital from outside.

The object of this research is a manufacturing company that produces goods en masse through an organized and structured production process (Chakroun & Salhi, 2020). Manufacturing companies usually have large and complex production facilities, and employ a trained and skilled workforce. Manufacturing companies are also divided into several sub-sectors, one of the sub-sectors that researchers took was the automotive sub-sector because this sub-sector is said to have unique challenges, such as intense competition, rapid technological change, and the need for continuous innovation (Yana Fajriah & Edy Jumady, 2022). Therefore, this sub-sector is a company that can adapt quickly to market and technological changes so that it is able to generate high profits (ROA).

Of course, there are various factors that can cause a company's ROA value to fluctuate, such as external company factors in the form of market reactions to the company's financial performance, inflation or rising interest rates. Then there are also internal company factors, these include financial reports, institutional ownership, managerial ownership, independent commissioners (Ullah et al., 2019). From the several factors above, researchers are interested in taking the internal side of the company, namely governance and corporate social responsibility.

Corporate governance is a mechanism for directing and controlling a company so that the company's operations run in accordance with the expectations of stakeholders (Tangngisalu et al., 2023). Corporate governance can create added value for all interested parties (stakeholders), namely in the form of protection for shareholders in getting back their investment fairly and with high value, a control mechanism is needed to minimize problems that arise between the two parties. Companies can carry out supervision to help equalize the interests of both parties by using Good Corporate Governance (GCG) mechanisms (Mahrani & Soewarno, 2018).

With the existence of corporate governance, companies are required to implement effective and better systems in business management that are based on the principles of good governance. Corporate governance mechanisms include many things, for example audit committees and institutional ownership (Handayani & Rahayu, 2019). With the existence of a corporate governance mechanism, it is hoped that monitoring of company managers can be more effective so that it can improve the company's financial performance. Independent commissioners with high professionalism will produce more objective decisions and can supervise managers effectively.

Thus, the decisions taken are not only in the interests of certain parties, where managers only act in the interests of the company and other stakeholders in improving financial performance. According to (Jumady et al., 2022), an important element in the effectiveness of a board of commissioners is having independent commissioners. Therefore, a large number of

independent commissioners in the decision-making process will be more objective, thereby improving financial performance. The existence of independent commissioners can influence the ROA of a company. Independent commissioners can help ensure that company policies and strategies are taken carefully and based on the long-term interests of the company. Independent commissioners can also help prevent conflicts of interest and unethical business practices, so that if everything goes well, the ROA will be higher. The higher the ROA, the more efficient the company will be in managing its assets.

Regarding the relationship between the variables above, previously there have been several researchers who have conducted research but the results still vary, such as researchers (Sutisna, 2020) and (De Lavanda & Meiden, 2022) found that governance has a significant negative effect on financial performance (ROA), In contrast to researchers (Yesica et al., 2020) and (Larasati et al., 2017) proved that governance has a significant positive effect on financial performance (ROA) and found that governance does not have a significant effect on financial performance (ROA).

The second independent variable in this research is Corporate Social Responsibility (CSR). Corporate Social Responsibility (CSR) has become one of the strategies carried out by companies to improve the company's image, where its implementation can affect the company's financial performance. If a company can show its responsibility and concern for the external environment well, it can improve the company's image in front of the public. This shows that companies, in managing their business, not only fulfill the interests of stakeholders, but also need to pay attention to the interests of stakeholders through implementing CSR. By implementing CSR in the company, it is hoped that it can provide benefits in the future.

Corporate social responsibility is not only limited to caring for the environment, but also to all stakeholders including employees, customers, creditors, shareholders and communities. Corporate social responsibility or what is called corporate social responsibility (CSR) can be said to be a belief that managers, in carrying out the function of organizing and managing a business, will make decisions based on maximizing social and economic interests. Corporate Social Responsibility (CSR) is a tool that companies can use to avoid conflict between the company and the environment (Yesica et al., 2020).

Implementing CSR is important to prevent social and environmental losses resulting from company operational activities. In order to increase a company's ROA through CSR, companies must ensure that their CSR programs are well integrated into their business strategy. Companies must also ensure that CSR programs cover various aspects that are relevant to their business and have a positive impact on the community and environment around them. Because companies that have a strong and well-integrated CSR program will have a higher ROA, this is due to an increase in the company's image in the eyes of consumers and society, operational improvements, and increased efficiency and innovation.

Previously, many researchers had also conducted research related to CSR on financial performance (ROA), but the results varied, such as those conducted by (Yesica et al., 2020) and (Larasati et al., 2017) prove that CSR has a positive and significant effect on financial performance (ROA), in contrast to researchers (De Lavanda & Meiden, 2022) and (Ghozali, 2018) who found that CSR had a significant negative effect on performance. Financial performance (ROA), while Nana Sutisna (2020) found that CSR did not have a significant effect on financial performance (ROA).

Based on the background description above, the problem formulation in this research is: 1) Does corporate governance influence financial performance?; 2) Does corporate social responsibility affect the financial performance of manufacturing companies listed on the Indonesian Stock Exchange?

The benefits obtained from this research are increasing researchers' knowledge about Corporate Governance and Corporate Social Responsibility, especially regarding the influence of Corporate Governance and Corporate Social Responsibility on company financial performance in

manufacturing companies. Becomes a reference, especially in the field of financial management, and encourages further research through the addition or revision of other variables not included in this research.

Financial performance measurements used in this research is profitability. Profitability is the company's ability to generate profits with all the capital working in it. The high or low financial performance of a company can be measured using financial ratios, one of which is Return on Assets (ROA). Return on Assets according to Kasmir (2014) is a ratio that shows the return on the number of assets used in the company. In addition, ROA provides a better measure of a company's profitability because it shows management's effectiveness in using assets to generate income.

Corporate governance is the arrangement of checks, balances, and initiatives a company needs to minimize and manage conflicts of interest between insiders and external share politics. The goal is to prevent one group from taking over the cash flows and assets of one or more other groups (Adel et al., 2018). Corporate governance is a method carried out in a company to achieve good results and produce maximum value for the interests of investors and is based on applicable laws. Good Corporate Governance is related to effective decision making built through organizational culture, values, systems, various processes, policies and organizational structures which aim to achieve profitable, efficient and effective business in managing risks and responsible by taking into account the interests of stakeholders (Chakroun & Salhi, 2020).

Good Corporate Governance (Hamdani, 2016) is a process and structure implemented in running a company, with the aim of increasing shareholder value in the long term by paying attention to all stakeholders. (Mahrani & Soewarno, 2018) the existence of GCG is absolutely necessary for companies. The existence of GCG is necessary because a good governance system can help build stakeholder trust and ensure that all stakeholders are needed equally. The governance in this research is proxied by independent Commissioners. According to (Diantari & Ulupui, 2016), independent commissioners are members of the board of commissioners who come from outside the company whose position is the same as other members of the board of commissioners, namely as a supervisory body and providing advice to the directors.

Corporate social responsibility (CSR) is an organization's responsibility for the impact created by its decisions and activities on society and the environment, through transparent and ethical behaviour (N. Lestari & Lelyta, 2019). Corporate Social Responsibility (CSR) is a form of action that begins with considering company ethics which is focused on developing the economy and the way the company is run, either in whole or only in part, has a positive impact on the company and the surrounding environment. In other words, CSR is a form of company responsibility towards its workers and the resources used in its business processes. Apart from business activities and seeking profits, companies must also be responsible in the economic life of the region where the company feels that CSR care for the environment is very much taken into account (Yuan et al., 2023).

CSR is basically very important to apply to companies, because by carrying out CSR activities the company will have a positive impact, because companies that implement CSR activities will be able to attract consumer attention to the company's products so that it can influence the company's image among consumers (Sylvia et al., 2022). Corporate social responsibility is a commitment from the company to implement ethical behavior and contribute to sustainable economic development. The analysis content contains disclosure of social responsibility, which consists of: economics, environment, employment, human rights, society, responsibility for company activities (Pinheiro et al., 2023).

The Corporate Social Responsibility (CSR) variable in this research is measured using the Corporate Social Disclosure Index (CSDI) measure. There are 91 CSR indicators based on the Global Reporting Initiative (GRI) Index. Standards consist of four dimensions, namely, general dimensions, economic dimensions, environmental dimensions and special dimensions. Then, to calculate the number of Corporate Social Disclosures (CSD), the company will give a score of 1 to

each indicator that the company has disclosed in the annual report and sustainability report, and give a score of 0 if the company does not disclose it.

RESEARCH METHOD

The population in this research is the financial reports of manufacturing companies listed on the Indonesia Stock Exchange (Automotive Company Sub-Sector for the 2020-2022 Period). There are 18 automotive sub-sector manufacturing companies listed on the Indonesia Stock Exchange. Meanwhile, the sample is part of the total number of characteristics possessed by the population. So the sampling technique used in this research is purposive sampling. According to Sugiyono (2017) purposive sampling is a technique for determining samples based on certain criteria. The criteria for determining the sample in this study are presented in the following table.

Table 1. Criteria Sampling

No	Criteria	Number of Companies
1	Number of Manufacturing Companies in the Automotive Sub Sector Registered on the IDX in 2020 – 2022	18
2	Automotive sub-sector manufacturing companies that do not issue financial reports for 2020-2022	(4)
3	Company financial reports that have complete data related to research variables	14
	Number of Data Samples	14 x 3 years = 42 Sample data

The technique used to collect data in this research is the documentation method, namely by collecting, recording, reviewing secondary data in the form of financial reports of manufacturing companies published on the IDX via IDX (Indonesia Stock Exchange) as well as from sharing supporting books, journals and sources. others related to corporate governance (X1), Corporate Social Responsibility (X2) and financial performance (Y).

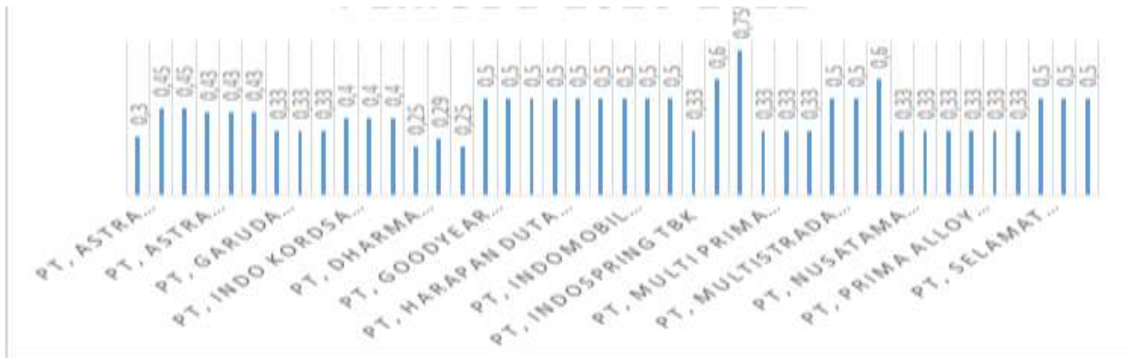
Inferential statistical analysis was carried out using multiple regression analysis which was carried out to determine the extent to which the independent variables influenced the dependent variable. In multiple regression there is one dependent variable and more than one independent variable. In this research, the dependent variable is financial performance (Y), while the independent variables are corporate governance (X1) and corporate social responsibility (X2). The basic model of multiple linear regression from this research can be formulated as follows:

$$ROA = \alpha + \beta 1CG + \beta 2CSR + e$$

RESULTS AND DISCUSSIONS

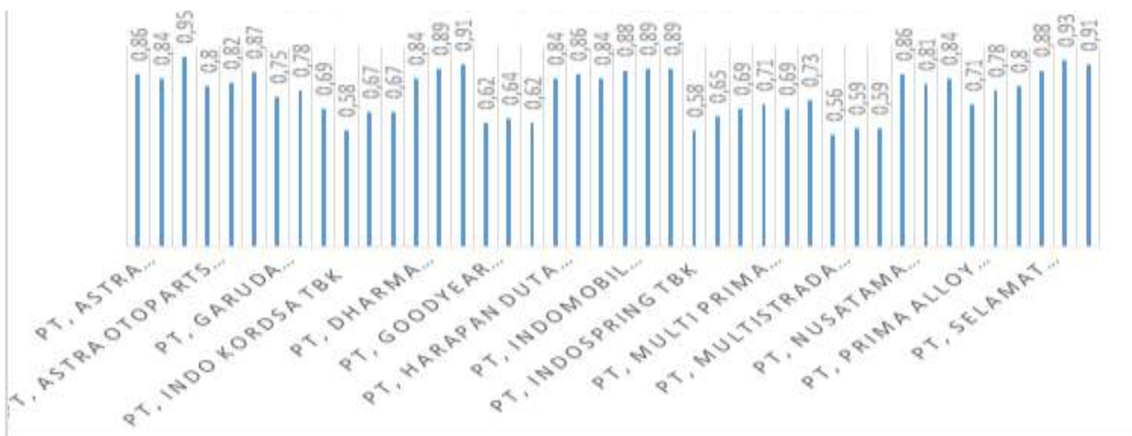
Descriptive Statistics

Corporate governance is measured by calculating the value of the INDEP ratio in manufacturing companies listed on the IDX for the 2020-2022 period, which can be seen in Graft 1 below:



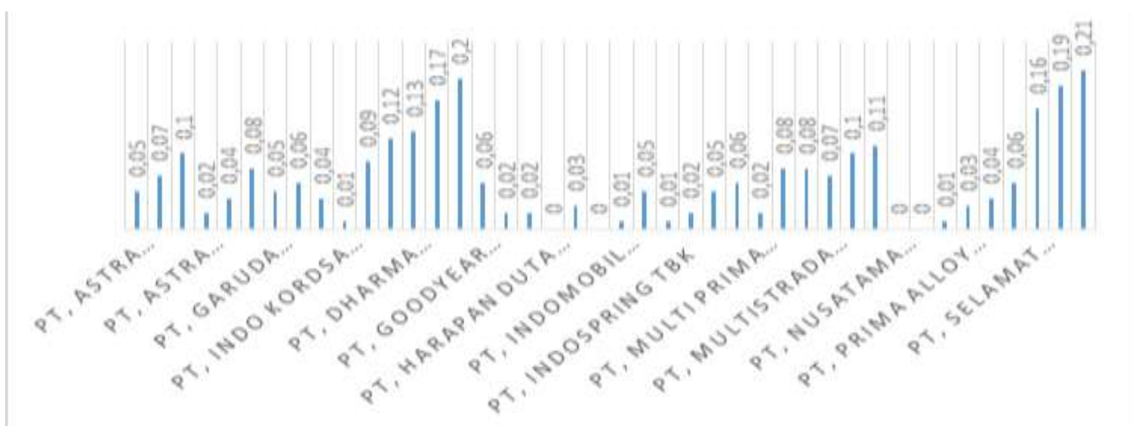
Graft 1. Corporate Governance Ratio (2020-2022)

Corporate social responsibility is measured by calculating the value of the CSDI ratio in manufacturing companies listed on the IDX for the 2020-2022 period.



Graft 2. Corporate social responsibility Ratio (2020-2022)

The company's financial performance is measured by calculating the value of the ROA ratio in manufacturing companies listed on the IDX for the 2020-2022 period, which can be seen in Graft 3 below:



Graft 3. Company Financial Performance Ratios

Table 2. Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.365	.064		2.572	.051
	Corporate Governance	.379	.038	.161	2.608	.021
	Corporate social responsibility	.127	.085	.241	3.495	.043

a. Dependent Variable: Financial Performance

Based on table 3 above, a multiple linear regression equation model can be obtained, where the beta value is taken from Unstandardized Coefficients as follows:

$$Y = 2.365 + 0.161\ X1 + 0.241\ X2 + \varepsilon$$

From the results above it can be explained as follows: (a). Constant = 2.365, which means a constant value, without any governance and social responsibility variables or assumed to be equal to zero, the financial performance value is (Y = 2.365), (b) The coefficient has a positive sign indicating that the governance variable is in the same direction as financial performance. (c) The coefficient X2 ($\beta 2 = 0.127$) shows that the social responsibility has a positive and significant effect on financial performance. If the social responsibility variable is increased by one unit, financial performance will increase by 12.7%. The direction of the regression coefficient is positive, indicating that responsibility is in the same direction as financial performance.

Table 3. Coefficient of Determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.237[a]	.561	.774	.59962

a. Predictors: (Constant), Corporate social responsibility, Corporate Governance
b. Dependent Variable: Financial Performance

Based on the results of table 4 above, it shows that the coefficient of determination (R2) can be seen in the R Square value of 0.561 or 56.1%. So it is said that the influence of financial performance can be caused by corporate governance and responsibility while the remaining 43.9% is caused by other variables not examined in this research, such as capital structure variables, current ratio, retained earnings and so on.

Discussion

The Influence of Corporate Governance on Financial Performance in Manufacturing Companies

Hypothesis 1 proposed partially is H1: Good Corporate Governance has a significant positive effect on Financial Performance in Manufacturing Companies on the IDX. In statistical testing, what can be seen is that the tcount value of 2.608 is greater than the ttable value of 2.0227 with the significance obtained being 0.021, which is smaller than 0.05. Then Ho1 is rejected and Ha1 is accepted. This means that the governance variable (X1) has a positive and significant effect on financial performance (Y). Apart from that, the influence of corporate governance on financial performance can be seen from the comparison of the INDEP ratio value which is used to measure corporate governance with the ROA ratio value which is used to see how well financial performance is. The INDEP ratio value obtained by several companies tends to be in line with the ROA ratio value, this means that the higher the corporate governance ratio value, the better its financial performance.

(Mahrani & Soewarno, 2018) explained through their research that the presence of independent commissioners on the board of commissioners is needed as a monitoring mechanism that can mediate conflicts of interest. The greater number of independent commissioners who are

not affiliated with the company will make the decision-making process more objective and impartial to certain interests so as to improve financial performance.

Based on the results of calculating the value of the governance ratio and statistical testing, it can be seen that the use of the formula/proxy in the corporate governance variable is appropriate, because it can measure the value of the INDEP ratio in manufacturing companies. This shows that the formula/proxy proposed by (Larasati et al., 2017), that good corporate governance has a significant positive effect on a company's financial performance. However, these results are not in accordance with previous research conducted by (De Lavanda & Meiden, 2022) which stated that corporate governance has a negative and significant effect on financial performance. The results show that businesses behave more ethically with more independent boards, more female members and interested committees. The results show that corporate governance mechanisms are very important for companies' participation in social responsibility and long-term financial performance (Pinheiro et al., 2023) and (Aboud & Yang, 2022).

The Influence of Corporate Social Responsibility on Financial Performance in Manufacturing Companies

The second hypothesis proposed partially is H2: Corporate Social Responsibility has a significant positive effect on Financial Performance in Manufacturing Companies on the IDX. In statistical testing, it can be seen that the tcount value of 3.495 is greater than the ttable value of 2.0227 with the significance value obtained being 0.043, which is smaller than 0.05. So Ho2 is rejected and Ha2 is accepted. This means that the responsibility (X2) has a positive and significant effect on financial performance (Y). Influence of corporate social responsibility on financial performance can be seen from the comparison of the CSDI ratio value which is used to measure corporate social responsibility with the ROA ratio value which is used to see how well financial performance is. The CSDI ratio value obtained by several companies tends to be in line with the ROA ratio value, this means that the higher the corporate social responsibility ratio value, the better its financial performance.

Stakeholder theory can explain the relationship between social responsibility and financial performance. The company is committed to carrying out social responsibility activities in order to achieve legitimacy status and improve the company's reputation. A good company reputation is an important factor for a company, because it plays an important role in building consumer loyalty relationships so that it can contribute to the company's business in the long term (Pinheiro et al., 2023). Stakeholder theory also explains that companies are responsible for all forms of their activities because they can have social and environmental impacts in the area the company is located. Good relations between the company and the community can produce support from the community (Yuan et al., 2023).

Based on the results of calculating the corporate social responsibility ratio value and statistical testing, it can be seen that the use of the formula/proxy in the corporate social responsibility variable is appropriate, because it can measure how big the CSDI ratio value is in manufacturing companies. This shows that the formula/proxy proposed by (I. P. Lestari et al., 2018) is appropriate. The results of this research are also in line with research conducted by (Fathony et al., 2020; Kamatra & Kartikaningdyah, 2019), stating that corporate social responsibility has a significant positive effect on company financial performance. However, these results are not in accordance with previous research conducted by (De Lavanda & Meiden, 2022; Ghozali, 2018) which stated that corporate social responsibility (CSR) has a negative and significant effect on financial performance.

CONCLUSION

This research aims to examine the influence of corporate governance and social responsibility on the financial performance of manufacturing companies listed on the IDX. Based on the research results described previously, a conclusion can be drawn that: 1) Corporate governance (Good Corporate Governance) has a significant positive effect on the financial performance of manufacturing companies on the IDX. This means that the greater the value of the corporate governance ratio, the better its financial performance. 2) Corporate Social Responsibility has a significant positive effect on financial performance in manufacturing companies on the IDX. This means that the greater the value of the corporate social responsibility ratio, the better its financial performance.

It is hoped that the results of this research can help and add academics' knowledge of corporate influence governance and corporate social responsibility on financial performance. Research can also be used as a guide or reference in conducting research on the same theme. then for investors it is hoped that it will be useful for investors better understand and be critical of corporate implementation governance and disclosure of corporate social responsibility in assessing the performance of a company so that it can become consideration before making an investment decision.

This research has limitations that can be taken into consideration by future researchers, as follows: 1) the research period used was only 3 years, namely 2020 to 2022. 2) the sample of companies used was only 14 companies in the automotive subsector, this was due to assessing CSR carried out by companies takes a long time. Suggestions, further research is expected to extend the research period in order to obtain better and more comprehensive research results and not limit it to just the automotive subsector.

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