



## **The Effects of Good Corporate Governance and Corporate Social Responsibility on Manufacturing Firms' Financial Performance**

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### **Abstract**

The purpose of this research is to examine the effect of Good Corporate Governance and Corporate Social Responsibility on the financial performance of manufacturing companies in the food & beverage sub-sector listed on the Indonesia Stock Exchange. The population used is the financial statements of all manufacturing companies in the Food & Beverage Sub-sector listed on the Indonesia Stock Exchange in 2017-2019, as many as 28 companies. The sample selection technique used purposive sampling. The sample in the study became 20 financial statements of manufacturing companies in the Food & Beverage Sub-sector listed on the Indonesia Stock Exchange for the 2017-2019 period. This study's data collection was carried out using the documentation method on the financial statements of manufacturing companies listed on the Indonesia Stock Exchange and meeting the sampling criteria. [www.idx.co.id](http://www.idx.co.id). The study results found that Good Corporate Governance (GCG) has a positive and significant effect on financial performance. Meanwhile, Corporate Social Responsibility (CSR) has no significant effect on financial performance.



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## **1 Introduction**

The financial performance of a company can describe the state of a company (Arsyad et al., 2021). With good company performance, the company will be favored by potential investors and vice versa. Financial performance determines specific indicators that can measure a company's success in creating profits (Wijaya, 2019). In measuring and evaluating the company's financial performance, it is necessary to establish a clear statement of the objectives to be achieved in order to obtain the expected results. The Ministry of Industry (Kemenperin) noted that throughout 2018 the food and beverage industry was able to grow by 7.91 percent or exceed the national economic growth of 5.17 percent. Furthermore, the food industry is one of the sectors that support the increase in the value of the national investment, which in 2018 fell to Rp56.60 trillion. ([www.antaraneews.com](http://www.antaraneews.com)). The share price of consumer issuer PT Mayora Indah Tbk (MYOR) rose 0.50% to the level of Rp2,030/unit ahead of trading Tuesday (7/01/2020). Currently, the valuation of the Price to Earning (P/E) ratio

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of the shares coded MYOR is 31.23 times with a market capitalization value of Rp 45.39 trillion. Unfortunately, in the past week, the stock of this food and beverage producer was still down 1.46%. Today, foreign market players recorded buying actions of Rp 1.47 billion in all markets. ([www.cnbcindonesia.com](http://www.cnbcindonesia.com)).

The export performance of the manufacturing industry in February 2020 rose 17.11 percent compared to February 2019. The food industry sector became the largest foreign exchange contributor of the total export value of the processing industry in January-February 2020, which reached US\$4.7 billion. The food industry is also the largest contributor to the achievement of the export value of the processing industry in February 2020, which was recorded at US\$2.45 billion or 22.26 percent. ([www.business.com](http://www.business.com)). From the phenomenon above, it can be concluded that there were fluctuations in stock prices in the 2018-2020 period in food and beverage manufacturing companies. Stock price fluctuations can lead to reduced investor confidence to invest or invest. Based on the frequent stock price fluctuations, This can be influenced by company performance and macro-economic factors. The company's performance is reflected in operating profit and net income per share, as well as several ratios that describe the company's financial performance (Adriani, 2020).

Factors that affect the company's financial performance include Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR). In Indonesia, the implementation of GCG has been regulated in Bapepam Regulation Number VIII.G.2, 2002, and the obligation to disclose CSR has been regulated in the Law of the Republic of Indonesia. No.40 of 2007. Both GCG and CSR are likely to impact the Company's Financial Performance. The practical implementation of GCG and CSR can improve the company's financial performance. GCG aims to provide progress on the financial performance of a company. GCG is one of the strategies set by a company or financial institution to achieve optimal performance or results. It is also useful to measure cooperation between all work structures within a company or a financial institution that has been going well or not yet (Imron et al., 2018). The implementation of GCG is important because it is one of the determining factors that can attract capital inflows (Sumanti & Poputra, 2014; Nurfadila, 2020).

The basic principles of GCG aim to progress a company's financial performance (Erdianty & Bintoro, 2015). The better corporate governance owned by a company, it is expected that the better the performance of a company (Sarafina & Saifi, 2017). Good Corporate Governance is one of the key elements in increasing economic efficiency, including relationships between company management, the board of directors, shareholders, and other stakeholders (Firmansyah & Idayati, 2021). Research result (Hediono & Prasetyaningsih, 2019; Hadyan & Andhaniwati, 2021) found that GCG affects the company's financial performance. (Suryanto & Refianto, 2019) found that the better corporate governance a company has, the better the company's performance is expected to be. Good Corporate Governance is one of the key elements in increasing economic efficiency, including relationships between company management, the board of directors, shareholders, and other stakeholders. However, the results of this study do not support the results (Sari, 2013), who found that GCG did not affect financial performance.

**H1:** Good Corporate Governance (GCG) has an effect on the company's financial performance.

CSR or corporate social responsibility is an action taken by the company as a form of corporate responsibility towards the social and environmental environment in which the company's activities are located (Murdifin et al., 2019). (Rahmawati et al., 2017) argues that Corporate Social Responsibility is the commitment of the company or the business world to contribute to sustainable economic development by paying attention to corporate social responsibility and focusing on the balance between attention to economic, social, and environmental aspects. Corporate Social Responsibility is a concept that is expected to provide an alternative to breakthroughs in community empowerment (Suryani, 2018). One aspect that has also become a topic of discussion in Corporate Social Responsibility is environmental issues that continue to be in the spotlight. Currently, there is an increase in business in terms of environmental management and preservation in the business world. The disclosure of corporate environmental and social responsibility aims to show the public about its social activities and their impact on the community (Sari & Rani, 2015). Research result (Suciwati et al., 2017; Ludfi & Firdaus, 2017) found that Corporate Social responsibility affects the company's financial performance. The wider the CSR disclosure made by the company, the more comprehensive the information received by stakeholders and shareholders. Widespread disclosure will provide positive signals to stakeholders and shareholders and raise

the confidence of these parties to accept the company's products to increase profits (Gunawan & Yuanita, 2018). Whereas (Wati, 2016) found that Corporate Social Responsibility does not affect the company's financial performance

## H2: Corporate Social Responsibility affect the company's financial performance

This research refers to research that has been conducted by (Situmorang & Simanjuntak, 2019), which examines the effect of Good Corporate Governance (GCG) on financial performance. This study develops the variable Corporate social responsibility (CSR) with consideration of the relationship between Good Corporate Governance (GCG) and Corporate social responsibility (CSR), which has a close relationship with CSR as we can see in the application of GCG principles, namely Responsibility. In order to realize these principles, CSR is implemented as a form of social responsibility towards the environment in which the company operates. Both Good Corporate Governance (GCG) and Corporate social responsibility (CSR) have reciprocal relationships that form functions that can increase company value and improve social performance and financial performance in the long term.

## 2 Research Method

The quantitative approach is research based on the philosophy of positivism to examine a particular population or sample and take random samples by collecting data using instruments, and the data analysis is statistical. To estimate and predict the results of hypotheses related to the phenomenon under study. The population used are all Food & Beverage Sub-sector manufacturing companies listed on the Indonesia Stock Exchange in 2017-2019, as many as 28 companies. The sampling technique used was purposive sampling. Samples are taken based on specific considerations. The sample in this study was 20 financial statements of manufacturing companies in the Food & Beverage Sub-sector listed on the Indonesia Stock Exchange for the 2017-2019 period. The data collection in this study was carried out by using the documentation method on the financial statements of manufacturing companies listed on the Indonesia Stock Exchange and meeting the sampling criteria. The way to do this is by collecting the company's annual financial statements obtained through [www.idx.co.id](http://www.idx.co.id).

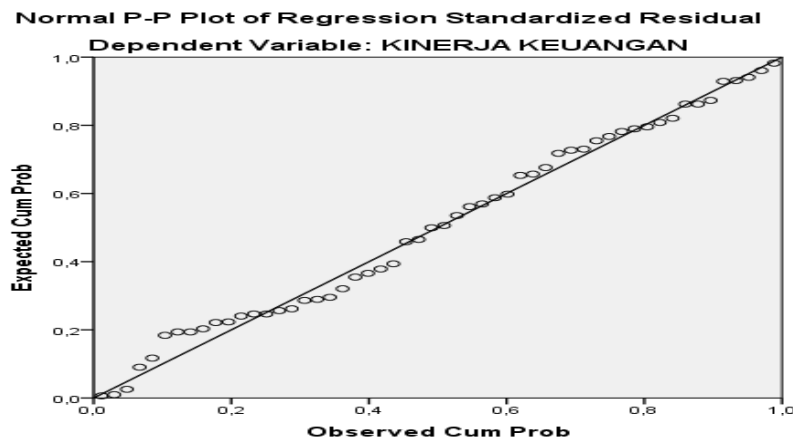
**Table 1. Research Sample**

No.	Sample Criteria	Amount	Note:
1	Manufacturing companies in the food and beverage sub-sector listed on the Indonesia Stock Exchange in the period 2017-2019	28	
2	Companies that do not publish complete financial statements during the 2017-2019 period	(8)	<ul style="list-style-type: none"> <li>- Three Pillars of Prosperous Food Tbk</li> <li>- Mulia Boga Raya Tbk</li> <li>- Mayor Indah Tbk</li> <li>- Sekar Laut Tbk</li> <li>- Siantar Top Tbk</li> <li>- Sentra Food Indonesia Tbk</li> <li>- Garudafood Putra Jaya Tbk</li> <li>- Pratama Abadi Nusa Industri Tbk</li> </ul>
3	companies experiencing suspension/delisting during 2017-2019	-	
<b>Number of samples studied</b>		<b>20</b>	
<b>Number of research samples during 2017-2019 = 20x 3 years</b>		<b>60</b>	

### 3 Result and Discussion

#### Result

Figure 1 shows the results of the normality test of the data with the normal probability plot graph test, indicating that the data in the study is feasible to use and is said to be normal as seen from the data that spreads around the line.



Furthermore, the results of the heteroscedasticity test using the Glejser test can be seen in the following table 2:

**Table 2. Heteroscedasticity test results**

Model		Unstandardized Coefficients		Standardized		
		B	Std. Error	Coefficients Beta	T	Sig.
1	(Constant)	0.058	0.054		1.075	,287
	GCG	,134	,135	,135	,995	,325
	CSR	-,066	0.047	-,192	-1,411	,164

a. Dependent Variable: ABRESID

Based on the table 2, it is known that the independent variable, namely Good Corporate Governance (GCG) has a sig value. 0.325 is greater than 0.05 and the Corporate Social Responsibility (CSR) variable has a sig value. 0.164 is greater than 0.05. Thus, it can be concluded that the Good Corporate Governance (GCG) variable has heteroscedasticity and the Corporate Social Responsibility (CSR) variable is free from heteroscedasticity. Then, to test whether in the regression model there is a correlation between the independent variables or not. The multicollinearity test was carried out by looking at the tolerance and VIF values. The data is free from multicollinearity if the tolerance value is  $> 0.10$  and  $VIF < 10$ . The results of the multicollinearity test can be seen in the following table 3:

**Table 3. Multicollinearity test results**

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	GCG	,995	1.005
	CSR	,995	1.005

Based on table 3, it is known that the tolerance value is known that the tolerance value of the GCG (X1) and CSR (X2) variables is 0.995, which is greater than 0.10. Meanwhile, the value of VIF GCG (X1) and CSR (X2) which is 1.005 is smaller than 10.00. Thus it can be concluded that there is no multicollinearity. The autocorrelation test was conducted to test whether a linear regression model had a correlation between the t-period confounding error and the t-1 error (previous). If it happens, it means that there is an autocorrelation problem. A good regression model must be free from autocorrelation. The most widely used autocorrelation test is the Durbin-Watson method. The results of the autocorrelation test can be seen in the following table 4:

**Table 4. Autocorrelation Test**

Model	Durbin-Watson
1	1,446

Based on table 4, the results of autocorrelation using the Durbin Watson (DW) test show that the DW value is 1.446, the DL value is 1.485, the DU value is 1.638, 4-DL is 2.515 and 4-DU is 2.362. By looking at the existing provisions that the value of  $DW < DL$  ( $1,446 < 1,485$ ) it can be concluded that there is an autocorrelation in the regression model. The coefficient of determination test aims to measure how far the model's ability to explain the variation of the dependent variable is. The value of the coefficient of determination is between zero and one. The results of the R2 test can be seen in the following table 5.

**Table 5. Coefficient of Determination Test (Test – R2)**

Model	R	R Square	Adjusted R Square
1	.425a	.149	,10390

Source: SPSS processed data (2021)

Based on table 5 shows the results of R2 that is equal to 0.181 or 18.1% the magnitude of financial performance is influenced by the variables of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR). While 82% of financial performance is influenced by variables outside the research conducted. The F-test is used to test the effect of the independent variables consisting of Good Corporate Governance (X1) and Corporate Social Responsibility (X2) simultaneously affect the dependent variable Financial Performance (Y). The independent variable is declared to have a significant effect simultaneously if the value of  $F_{count} > F_{table}$  or significance  $< 0.05$ . The following is a table of simultaneous test results:

**Table 6. Simultaneous Test Results (Test F)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,122	2	,061	5,630	,006b
	Residual	,551	51	0.011		
	Total	,672	53			

The results of the study found  $F_{calculated} > F_{estimated}$ , namely  $5,630 > 3,160$  with a significance value of 0.006 means Corporate Governance (X1) and Corporate Social Responsibility (X2) simultaneously affect the dependent variable Financial Performance (Y). The t-test aims to determine the effect of Good Corporate Governance and Corporate Social Responsibility on financial performance. The following is a table of partial test results of the study:

**Table 7. Partial Test Results (t-test)**

Model		Unstandardized Coefficients		T	Sig.
		B	Std. Error		
1	(Constant)	0.048	,086	,554	,582
	GCG	,241	0.075	3,231	,002
	CSR	,146	,216	,677	,301

a. Dependent Variable: Financial Performance

Based on the table 7, the regression equation formed in this regression test is:

$$Y = 0.048 + 0.241X_1 + 0.146X_2$$

The constant value is 0.048. This indicates that, if the independent variables (GCG and CSR are zero (0)), then the value of the dependent variable (financial performance) is 0.048 units. The GCG regression coefficient (b1) is 0.241 and is positive. This means, the value of the Y variable will increase by 0.241 if the value of the X1 variable increases if the other independent variables are fixed. The coefficient with a positive sign indicates that there is a unidirectional relationship between the GCG variabel variables(X1) with financial performance variable (Y). The better the company's GCG, the financial performance will increase. CSR regression coefficient (b2) is 0.146 and is positive. This means, the value of the Y variable will increase by 0.146 if the value of the X2 variable increases if the other independent variables are fixed. The positive coefficient indicates that there is a unidirectional relationship between the CSR variable (X2) and the financial performance variable(Y). The better the company's CSR, the financial performance will increase.

## Discussion

This study found that Hypothesis 1 is accepted; GCG has a positive and significant financial performance. That is, H1 is accepted, Thus, it can be concluded that Good Corporate Governance partially has a significant effect on its financial performance. These results find that GCG can bridge the conflicts of interest of managers in the company. The number of boards of commissioners in a company can give meaning to financial performance. The corporate governance mechanism should work together to have a significant influence on the company's financial performance. The results of this study support the results of the study (Hediono & Prasetyaningsih, 2019), and (Hadyan & Andhaniwati, 2021) found that Good Corporate Governance (GCG) affects the company's financial performance. The better corporate governance owned by a company, the better the performance of a company is expected. Good Corporate Governance is one of the key elements in increasing economic efficiency, which includes a series of relationships between company management, the board of directors, shareholders, and other stakeholders (Suryanto & Refianto, 2019). However, the results of this study do not support the results (Sari, 2013), who found that GCG did not affect financial performance. This study also found that Hypothesis 2 was rejected; CSR had no significant effect on financial performance. For the CSR variable (X2), the count is 0.677, and a significant value is 0.501. The count < table is 0.677 > 2.002 and the significant value is 0.501 or > 0.05. That is, H02 is rejected, and Ha2 is accepted. Thus, it can be concluded that Corporate Social Responsibility (CSR) (X2) partially has a significant effect on its financial performance.\

These results find that CSR disclosure in companies Manufacturing Food & Beverage Sub-sector listed on the Indonesia Stock Exchange is still relatively low. This can be seen from the items disclosed in the company's annual report, as measured by the Global Reporting Initiative (GRI). There are indications that these companies have not considered that the disclosure of social responsibility will provide a positive value for the company, but is still limited to fulfilling obligations to the government to carry out and disclose CSR activities following Law No. 40 of 2007 concerning Limited Liability Companies which requires companies that have a direct impact on the environment to carry out CSR activities. The results of this study support the study's results (Wati, 2016), and (Rahmawati et al., 2017) found that Corporate Social Responsibility does not have a significant effect on the company's financial performance. However, this result is opposite to the result(Suciwati et al., 2017) and (Ludfi & Firdaus, 2017) found that Corporate Social responsibility affects the company's financial performance. The wider the CSR disclosure made by the company, the more comprehensive the information received by stakeholders and shareholders. Widespread disclosure will provide positive signals to stakeholders

and shareholders and raise the confidence of these parties to accept the company's products to increase profits (Gunawan & Yuanita, 2018).

#### 4 Conclusion

Hypothesis 1 is accepted, indicating that the variable Good Corporate Governance (GCG) has a positive and significant effect on financial performance. Hypothesis 2 is rejected, indicating that the variable Corporate Social Responsibility (CSR) has no significant effect on financial performance. The suggestions given by the researcher for these limitations are adding indicators to measure the variables studied, using indicators that many previous researchers have studied so that the data obtained are more valid and reliable, to strengthen the theory and research results obtained.

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