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# Corporate Social Responsibility as a Moderator of Good Corporate Governance with Company Performance

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The author(s) declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.



## Abstract

**Purpose:** This study examines the influence of Corporate Social Responsibility (CSR) as a moderating variable in the relationship between Good Corporate Governance (GCG) and corporate financial performance in manufacturing companies listed on the Indonesia Stock Exchange.

**Research Design and Methodology:** This quantitative study uses CSR, GCG, and Financial Performance (proxied by Financial Discretionary) as research variables. The sample comprises 23 manufacturing companies listed on the Indonesia Stock Exchange from 2020 to 2022. Data were analyzed using descriptive statistics and moderated regression analysis with the assistance of SPSS 25.0. Classical assumption tests were conducted before hypothesis testing to validate the data.

**Findings and Discussion**: The findings indicate that corporate social responsibility has a substantial impact on corporate financial performance. Moreover, CSR significantly moderates the relationship between Good Corporate Governance and economic performance. The results suggest that the presence or absence of CSR practices affects how GCG impacts a company's financial outcomes, indicating that CSR plays a critical role in strengthening or weakening governance structures.

**Implications:** The study contributes to the theoretical understanding of CSR's strategic role and provides practical insights for corporate managers and regulators. Enhanced CSR practices foster stakeholder trust and enhance governance effectiveness, leading to improved financial results.

## Introduction

Companies continually strive to maintain their competitive advantage in an increasingly competitive business environment, thereby enhancing firm value. Firm value plays a critical role as an indicator of a company's success in generating shareholder wealth. The higher the firm value, the greater the shareholders' prosperity, often reflected through increasing stock prices. Fama & French (2004) emphasize that optimizing firm objectives can be achieved through the effective execution of financial management functions, where each financial decision affects others and, consequently, the firm's overall value. Enterprise Value (EV), also known as firm value, is considered a vital concept by investors, as it indicates how the market perceives the company as a whole. (Silvia Indrarini, 2019). However, companies also operate within broader social and environmental contexts to maximize shareholder value. Over time, accounting practices have become increasingly centered on the interests of capital owners, prompting companies to exploit natural and social resources without adequate regard for sustainability, particularly in extractive industries such as mining. (Agustine, 2014). In response to growing public awareness of corporate impacts, businesses are now expected to make positive contributions to their surrounding communities. This shift has evolved into Corporate Social Responsibility (CSR), which represents a financial commitment to social and environmental causes as part of a broader sustainability agenda.

Recent observations of manufacturing companies in Indonesia reveal a noticeable decline in financial performance. Based on the researcher's observation (2022), four major issues underlie this trend. First, declining stock prices reflect reduced investor confidence, driven by perceptions that companies are no longer reliable in their dividend distributions—a key indicator for investment decisions. Second, the inability of managerial ownership to effectively mitigate agency costs. Managerial ownership in Indonesian manufacturing firms tends to be low, failing to align management's interests with those of shareholders, which increases agency costs that burden the company. Third, the weak performance of internal auditors is another contributing factor. The number of auditors employed is insufficient to address the complexity of company operations, resulting in suboptimal internal control. Fourth, the independent board of commissioners has not effectively performed its supervisory function. As one of the pillars of corporate governance, the board's inability to enforce proper oversight has led to internal management imbalances. These issues underscore the urgent need to strengthen governance structures and enhance control mechanisms to achieve more effective financial outcomes. The identified practical challenges highlight the importance of evaluating corporate governance frameworks holistically, particularly in sectors such as manufacturing, where operational complexity often necessitates more rigorous oversight and accountability systems. Despite these internal challenges, CSR practices in Indonesia's manufacturing sector are progressing positively. The researcher's observations (2022) suggest that many companies have successfully implemented CSR programs. These initiatives have helped improve public and investor trust, contributing to a stable perception of firm value even when financial performance is under strain. CSR activities have evolved beyond mere ethical obligations; they now serve as strategic tools to enhance corporate image, legitimacy, and social acceptance. As such, CSR has the potential to moderate the relationship between corporate governance and firm performance by reinforcing stakeholder confidence and mitigating reputational risks. This is particularly relevant in environments where regulatory frameworks and institutional controls remain weak. Companies can enhance their long-term sustainability and market positioning by maintaining consistent CSR engagement. In this context, CSR is not only a reactive measure but also a proactive strategy to bolster the effectiveness of governance mechanisms. Understanding how Corporate Social Responsibility (CSR) moderates the effect of Good Corporate Governance (GCG) on firm performance, especially in structurally complex sectors such as manufacturing, is therefore essential. These observed phenomena provide a compelling rationale for a more integrated analysis of governance practices, CSR initiatives, and corporate performance within the Indonesian manufacturing landscape.

Academic attention toward the relationship between Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), and firm performance has grown considerably in recent years. According to Weil et al., as cited in Yasser (2011), Corporate governance can be interpreted in narrow and broad terms. In a narrow sense, it refers to the relationships among managers, the board of directors, and shareholders. In a wider context, corporate governance encompasses laws, regulations, and voluntary private-sector practices that enable firms to attract capital, operate efficiently, generate profits, and fulfill their legal and societal obligations. Within corporate management, GCG serves as a fundamental framework for executing managerial functions with professionalism and accountability. Firm performance reflects how wisely a company utilizes its resources to achieve organizational goals. (Yasser, 2011). Practical performance evaluation indicates the company's commitment to managing its resources efficiently. In this regard, GCG is expected to create added value by improving firm performance and enhancing firm value, ultimately benefiting shareholder wealth. (Amanti, 2012). Meanwhile, CSR has evolved in Indonesia since the 1990s, following the introduction of the sustainable development concept by the World Business Council for Sustainable Development (WBCSD), which integrates economic, environmental, and social elements. (Bambang & Melia, 2013). Despite increasing operational costs, CSR has a positive impact on investor and public perception by enhancing corporate reputation and firm value. (Widyanti & Prasetiono, 2014). Amanti (2012) and Benny (2012) further assert that CSR drives consumer loyalty and investor interest. While extensive research has examined the individual effects of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) on firm performance, a critical gap remains in understanding the moderating role of CSR within the GCG-performance relationship, particularly in developing economies. Prior studies have treated GCG and CSR as distinct constructs that influence firm outcomes. For instance, found that board composition and ownership structure significantly impact firm value; they did not consider how CSR might strengthen these governance mechanisms. Similarly, v but did not examine its moderating potential. Empirical findings on the direct relationship between GCG and firm performance have also been mixed, often contingent on industry characteristics and governance environments (Naciti, 2019). Most theoretical frameworks have yet to incorporate CSR as a strategic amplifier of governance effectiveness fully. This oversight is particularly pronounced in the manufacturing sector, where environmental and social concerns are increasingly scrutinized. Therefore, this study addresses the theoretical and empirical gap by proposing a more integrated framework—positioning CSR not merely as a direct influencer of performance but as a moderator that may strengthen the governance–performance link and enhance long-term stakeholder value.

This study presents a novel perspective by examining the moderating role of Corporate Social Responsibility (CSR) in enhancing the relationship between Good Corporate Governance (GCG) and firm performance—an area that remains underexplored in the current literature, particularly within the context of Indonesian manufacturing firms. Unlike prior studies that treat GCG and CSR as separate drivers of performance, this research integrates both constructs into a unified analytical framework, positioning CSR not merely as a standalone factor but as a strategic moderator that enhances the effectiveness of governance practices. The originality of this study lies in its empirical focus on the interplay between governance structures—such as board oversight, managerial ownership, and audit quality—and CSR disclosure, which collectively contribute to sustainable corporate performance. By examining this interaction, the research aims to uncover how well-executed CSR practices can amplify the positive effects of GCG on firm outcomes. Therefore, the primary objective of this study is to analyze the influence of CSR on financial performance, the impact of GCG on firm performance, and the moderating effect of CSR in the relationship between GCG and firm performance among manufacturing companies listed on the Indonesia Stock Exchange. This integrated approach addresses theoretical and empirical gaps. It provides actionable insights for investors, regulators, and corporate decision-makers who seek to align governance and social responsibility with their long-term performance goals.

## Literature Review

*Agency Theory*

One of the fundamental theoretical foundations closely related to corporate governance is Agency Theory. According to Coleman (2007)The principal faces two primary concerns: selecting competent managers and addressing moral hazard issues. The principal is responsible for providing appropriate incentives to the agent to ensure that decision-making aligns with the interests of stakeholders. Jensen & Meckling (1979) Further explain that the separation between ownership and control in corporations creates vulnerabilities to agency problems. Sutedi (2011) Asserts that agency theory suggests corporations should be managed to create a win-win solution for both shareholders and managers, thereby ensuring that corporate governance practices are positively reflected in market sentiment. Agency theory conceptualizes the internal relationship within a firm as a contractual arrangement in which the owner (principal) delegates operational authority to an agent to act in the principal's best interest. However, conflicts often arise in practice due to misalignment between the principal's and the agent's interests. Given the authority vested in agents, they may act opportunistically to pursue their gains while neglecting the principal's objectives. This misalignment is often exacerbated by asymmetric information, where agents can access more information than principals about the firm's operations and prospects. Eisenhardt (1989) Outlines three human behavioral assumptions underlying agency theory: individuals are generally self-interested, possess bounded rationality concerning future outcomes, and are inherently risk-averse. Agency theory serves as a core concept within corporate governance, aiming to mitigate potential agency conflicts and reinforce investor confidence in receiving returns on their investments. It fosters accountability between principals and agents, ensuring that performance and reporting practices are transparent and aligned with the corporation's overarching goals.

*Stakeholder Theory*

Stakeholders encompass all internal and external parties who are either influenced by or exert influence upon a company, whether directly or indirectly. As such, stakeholders include not only internal entities such as employees and managers but also external parties such as government bodies, competitors, local communities, international organizations, non-governmental organizations (NGOs), environmental advocacy groups, minority groups, and other entities whose existence can significantly impact and be impacted by corporate activities and policies. (Harangozó & Zilahy, 2015). This broad definition of stakeholders implies that companies must pay careful attention to stakeholder interests, as stakeholders play a crucial role in shaping and responding to corporate decisions and actions. Neglecting stakeholder concerns may result in public backlash, protests, or resistance, potentially undermining the company's legitimacy in the eyes of society. (Vanclay & Hanna, 2019). Therefore, stakeholder management becomes crucial in ensuring the sustainability and social acceptance of corporate operations. Rooted in the fundamental assumptions of stakeholder theory, the relationship between a company and its social environment is inextricably linked. Businesses must maintain stakeholder legitimacy and incorporate stakeholder interests within corporate policies and decision-making processes. This alignment fosters goodwill and cooperation, supporting the achievement of long-term organizational goals, such as operational stability and the assurance of going concern. As Adams (2002) and Hadi (2013) Emphasized, integrating stakeholder considerations into corporate governance is essential for maintaining legitimacy and ensuring sustainable corporate performance.

*Good Corporate Governance*

Kaen, as cited in Sabrinna & Adiwibowo (2010) States that corporate governance concerns the issue of who should control the operations of a corporation and why such control is necessary. The term "who" refers to the shareholders, while "why" is related to the existence of relationships between shareholders and various parties who have interests in the company. This is summarized by Sutedi (2011), who defines corporate governance as a system for managing and controlling a company to create value for all stakeholders. Based on the explanation, it can be stated that corporate governance is understood as a set of regulations that govern the relationships between shareholders, company management (executives), creditors, government, employees, and both internal and external stakeholders about their rights and responsibilities, thereby creating added value for all interested parties (stakeholders). To implement the principles of Good Corporate Governance systematically and sustainably, the National Committee on Governance Policy (2006) established the core principles of Good Corporate Governance. The five key principles of Good Corporate Governance, as outlined in the General Guidelines of Good Corporate Governance, include Transparency, Accountability, Responsibility, Independence, and Fairness.

***Good Corporate Governance Structure.*** This study adopts the structure of Good Corporate Governance as proposed by Retno & Priantinah (2012), which includes three main components: the Independent Board of Commissioners (IBC), the size of the Board of Directors (BOD), and the Audit Committee (AC). Each element is described in detail below.

***Independent Board of Commissioners (IBC)***. The Independent Board of Commissioners refers to the proportion of independent commissioners within a company's supervisory board. As noted by Joseph (2010), the board of commissioners is expected to oversee the performance of the board of directors, ensuring that their actions align with the interests of shareholders. Therefore, the independent board of commissioners represents the number of independent commissioners of a company. In this study, the size of the independent board of commissioners is measured as follows:

$$IBC = \text{Number of Independent Commissioners in the Company}$$

***Size of the Board of Directors (BOD).*** The board of directors is the corporate body responsible for setting policies and strategies. According to the Indonesian General Guidelines for Good Corporate Governance, the number of board members should be aligned with the company's complexity, while maintaining efficiency in decision-making processes. (Wardhani & Joseph, 2010). Triwahyuningtias & Muharam (2012) explain that the board of directors is responsible for managing the company, whereas the board of commissioners serves a supervisory role. Shareholders appoint both through the General Meeting of Shareholders (GMS), which represents the interests of the shareholders. The roles of directors and commissioners are essential for the effective implementation of Good Corporate Governance. Chapra & Basri (2008) Further argues that the board of directors must be able to formulate strategies to ensure the business operates effectively and efficiently amid internal and external turbulence. Directors cannot perform effectively if they prioritize their interests over those of their stakeholders. Therefore, members of the board of directors must possess high moral standards and the technical competence to support their roles. The selection of board members should be based on professional standards and qualifications. In this study, the size of the board of directors is measured by the number of board members within the company during period t, including the Chief Executive Officer (CEO) (Wardhani & Joseph, 2010).

Size of Board of Directors = Total Number of Directors in the Company during Period t

***Audit Committee.*** According to Widyanti & Prasetiono (2014)The audit committee is a professional and independent operating body established by the board of commissioners. Its primary task is to support and strengthen the supervisory function of the board of commissioners. The total number of audit committee members measures the audit committee. According to the Circular Letter of the Board of Directors of the Jakarta Stock Exchange No. Kep-339/BEJ/07-2001 dated July 21, 2001, the membership structure of the audit committee must comply with the following requirements:

1. The audit committee must consist of at least three members.
2. One independent commissioner serves as the chairman.
3. The other members must be independent external parties.
4. At least one member must have expertise in accounting and/or finance.

Research conducted by DeFond & Francis (2005) Found that appointing audit committee members with accounting expertise positively impacts the market, unlike the appointment of members lacking such expertise, which receives no significant response. This finding suggests that appointing audit committee members with relevant backgrounds or experience in accounting enhances the committee's effectiveness. (Wardhani & Joseph, 2010). Similarly, research by Ervina Joice Kustaman & Rasyid (2013) Demonstrated that the GCG mechanism, using the audit committee and audit quality as proxies, significantly and positively influences bond ratings. The Audit Committee is measured as follows:

AC: Number of Auditors within the Company

***Corporate Social Responsibility.*** Febriyanti (2021) defines CSR as a modern accounting concept characterized by the transparent disclosure of a company's social activities. Such transparency involves financial information and the disclosure of environmental and social impacts resulting from corporate activities. Law No. 40 of 2007, Article 74, Paragraph (1) on Limited Liability Companies, mandates that companies engaging in business activities involving natural resources must implement social and environmental responsibility. Corporate Social Responsibility (CSR) refers to an organization's responsibility for the impact of its decisions and activities on society and the environment. This responsibility is demonstrated through transparent and ethical behavior aligned with sustainable

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development and societal welfare. It must reflect stakeholders' expectations, comply with applicable laws and international norms of behavior, and be integrated into the company's overall strategy (ISO 26000, 2007).

The philosophy underpinning CSR, which forms the core of business ethics, is that a company is legally and economically responsible to its shareholders and a broader range of stakeholders. These stakeholders include customers, employees, communities, owners or investors, government agencies, suppliers, and competitors. CSR is thus defined as a business commitment to contribute to sustainable economic development through cooperation with employees, their families, local communities, and society, thereby achieving the company's social objectives. Companies must maintain good relationships with their stakeholders by addressing their needs and expectations, especially those who control vital resources such as labor, markets, and supply chains. (Chariri & Ghozali, 2007). The application of Corporate Social Responsibility (CSR) within companies is expected to encompass both a financial commitment to shareholders and a social commitment to other stakeholders, as CSR is an integral part of the company's long-term business strategy. Gray et al., as cited in Chariri & Ghozali (2007)Support this view by asserting that a company's survival depends on the continuous support of its stakeholders, which must be continually earned and maintained. Therefore, social disclosure is a form of dialogue between a company and its stakeholders.

Corporate Social Responsibility (CSR) disclosures—often referred to as social disclosure, corporate social reporting, social accounting, or corporate social responsibility—are measured using the Global Reporting Initiative (GRI) indicators. According to Yaparto et al. (2013)CSR is measured based on 81 GRI-G4 indicators. Each company's disclosure index is calculated as the percentage of disclosed items over the total applicable items using the following formula:

$$\boldsymbol{CSRDI_j} = \frac{\boldsymbol{\Sigma x_{ij}}}{\boldsymbol{n_j}} \mathbf{x\ 100\%}$$

CSRDIj= Corporate Social Responsibility Disclosure Index
nj = Total number of CSR disclosure criteria applicable to company j ($n_j \leq 81$)
Xij = 1 if the item is disclosed; 0 if not disclosed

*Financial Performance*

The measurement of a company's financial performance is typically conducted using financial ratios. These ratios reflect changes in a company's financial condition and its capacity to manage assets, thereby enhancing firm value. The firm value represents investor perception of the company's ability to manage its resources effectively. The more investors buy a company's stock, the higher its price will rise, increasing the firm's value. Thus, fluctuations in stock prices determine how investors perceive the company's overall value. Financial performance is a key indicator for assessing the effectiveness of management decision-making. Management interacts with both internal and external environments through the use of information, which is summarized in the company's financial statements. Various metrics are used to evaluate a firm's financial performance.

Based on the explanation, financial performance is understood as the level of achievement in assessing the quality of managerial decision-making. In this study, financial performance is proxied by Return on Assets (ROA), which measures a company's ability to generate profit using its total assets, precisely, earnings before interest and taxes (EBIT). The formula used, as proposed by Sutrisno (2009), is:

$$ROA = \frac{EBIT}{total\ assets} \times 100\%$$

ROA = Return on Assets
EBIT = Earnings Before Interest and Taxes
Total Assets = Total assets of the company in period t

Corporate Social Responsibility (CSR) represents a company's commitment to addressing the social and environmental impacts of its operations and activities. CSR is not only a moral or regulatory obligation but is increasingly regarded as a strategic tool for creating added value, enhancing corporate image, and building stakeholder trust. Financial performance reflects the company's ability to generate profits and manage its resources efficiently, ultimately influencing firm value and investor decision-making. Based on stakeholder theory, companies that actively engage in CSR initiatives are more likely to gain support and legitimacy from various stakeholders, including communities, investors, regulators, and customers. Such support often translates into greater trust, loyalty, and preference for the company's products or services, positively affecting its financial outcomes. Maryanti & Fithri (2017) Found that CSR activities enhance public trust in a company's financial performance. Similarly, Siagian & Hadiprajitno (2013) Emphasized that Good Corporate Governance, when combined with CSR, positively impacts a firm's sustainability and profitability. Warda (2013) Additionally, a significant positive relationship was discovered between CSR disclosure and firm performance.

***$H_1$:** Corporate Social Responsibility has a significant effect on Financial Performance.*

Good Corporate Governance (GCG) is critical in determining a company's ability to generate profit and manage resources efficiently. As a governance mechanism, GCG is designed to align the interests of management and stakeholders by establishing a system of accountability, transparency, and control. Strong governance practices enable managers to optimize the use of corporate resources, which in turn supports improved profitability and financial outcomes. Therefore, the better the governance structure within a company, the more likely it is to achieve superior financial performance. From the stakeholder theory perspective, corporate governance reflects the level of trust stakeholders place in an organization. A well-implemented GCG framework enhances internal management and strengthens external perceptions of credibility and reliability. Stakeholders' trust in a company's governance structure often correlates with their trust in its financial performance. Empirical findings support this theoretical linkage. Hariyati & Oliviani (2013) found that implementing GCG principles directly and significantly affects a company's financial performance. Similarly, Adeusi et al. (2013) reported that GCG has a significant influence on banking performance, particularly in terms of Return on Assets (ROA), a key financial indicator. Noviawan & Septiani (2013) also confirmed the significant effect of GCG—specifically, board size and institutional ownership—on financial performance. Additionally, Maryanti & Tjahjadi (2013) demonstrated a positive relationship between GCG and manufacturing firms' financial performance on the Indonesia Stock Exchange.

***H*$_2$*:** *Good Corporate Governance has a significant effect on Financial Performance.*

This study investigates the interaction between Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), and financial performance. GCG is a structural mechanism designed to enhance corporate management's transparency, accountability, and efficiency, directly influencing a company's financial outcomes. According to Siagian & Hadiprajitno (2013)Implementing sound corporate governance practices has a positive impact on firm performance by aligning managerial decision-making with the interests of stakeholders. In parallel, CSR is increasingly recognized as a strategic tool that enhances a company's reputation and stakeholder trust. Maryanti & Fithri (2017) Found that CSR activities significantly improve public confidence in a firm's financial performance. From a stakeholder theory perspective, companies that actively engage in corporate social responsibility (CSR) are perceived as more responsible and trustworthy, thereby strengthening consumer confidence in their financial practices. (Warda, 2013). This trust extends beyond corporate image and influences stakeholders' perception of governance quality. Hence, CSR may serve as a moderating variable that enhances the effectiveness of GCG in improving financial performance. When CSR is paired with governance mechanisms, the CSR practices have a synergistic effect that boosts corporate legitimacy and stakeholder engagement, ultimately leading to improved financial outcomes.

***H*$_3$*:** *Corporate Social Responsibility significantly moderates the relationship between Good Corporate Governance and Financial Performance.*

## Research Design and Methodology

This study employs a quantitative research design, utilizing a causal associative approach, to examine the relationship between Good Corporate Governance, Corporate Social Responsibility, and Financial Performance. This design aims to determine the direct and moderating effects between variables through statistical analysis. The research identifies whether Corporate Social Responsibility significantly moderates the influence of Good Corporate Governance on a company's financial performance. The population of this study comprises manufacturing companies in the food and beverage subsector and the chemical subsector listed on the Indonesia Stock Exchange (IDX) during the observation period from 2020 to 2022. According to Sugiyono (2013), A population refers to a specific area of objects or subjects that share certain qualities and characteristics, as defined by the researcher, to be studied and conclusions drawn from. A total of 28 companies were identified as the population. The sampling method used in this research is purposive sampling, which involves selecting samples based on specific criteria. The criteria established for the sample selection are: (1) the company must have published annual reports (listed on the IDX) during the 2015–2017 observation period, and (2) the company must have complete data required for this study. Based on these criteria, 23 companies met the requirements and were included as research samples. Five companies were excluded from the sample due to delisting or incomplete data, including four from the food and beverage sub-sector (CAMP, CLEO, HOKI, PCRA) and one from the chemical sub-sector (MDK).

The data collection technique used in this study is documentation. This involves collecting secondary data that has already been recorded and published in the form of annual financial reports of manufacturing companies listed in the aforementioned sub-sectors for the period from 2015 to 2017. These documents were obtained through the Indonesian Capital Market Directory (ICMD), IDX Statistics, the IDX Investment Gallery at the Faculty of Economics, Universitas Muslim Indonesia, and the official website of the Indonesia Stock Exchange (www.idx.co.id). All data were collected to meet the indicators and requirements of the research variables. The data analysis method used consists of descriptive and inferential statistical analyses. Inferential analysis was conducted using moderated regression analysis (MRA) with the assistance of SPSS version 25.0. Before hypothesis testing, classical assumption tests were performed to ensure the validity and reliability of the data. Furthermore, the operational definitions of the variables in this study are clearly defined using specific indicators, as summarized in Table 2, which outlines each variable and its respective measurement criteria.

**Table 1.** Research Variable Operations

| Variable | Definition | Indicator | Source |
|---|---|---|---|
| **Financial Performance (Y)** | Financial performance refers to a company's level of achievement in evaluating the quality of its managerial decision-making. It is proxied using Return on Assets (ROA). | ROA = Earnings Before Interest and Tax (EBIT) / Total Assets | Sutrisno (2009) |
| **Good Corporate Governance (X)** | Corporate governance refers to a set of rules governing the relationships among shareholders, management, creditors, the government, employees, and other stakeholders, with the goal of creating value. | GCG = (Number of Independent Commissioners + Board of Directors Size + Audit Committee) / 3 | Bahmi (2018) |
| **Corporate Social Responsibility (Z)** | Corporate Social Responsibility is the process of communicating the social and environmental impacts of an organization's economic activities to specific stakeholder groups and society at large. | $CSRDI_j = (\Sigma x_{ij} / n_j) \times 100\%$ (1 = disclosed, 0 = not disclosed; $n_j \leq 81$ items) | Yaparto et al. (2013) |

## Findings and Discussion

### *Findings*

The results of this study are based on the processing of 69 financial report data points related to the variables of Good Corporate Governance, which is measured using the Number of Independent Commissioners, Board of Directors Size, and Audit Committee; the variable of Corporate Social Responsibility; and the variable of Financial Performance. The total of 69 financial report data points was obtained by multiplying the total sample, which consisted of 23 companies listed on the Indonesia Stock Exchange, comprising 13 manufacturing companies in the food and beverage sub-sector and 10 companies in the chemical sub-sector, by the 3-year observation period: 2015–2017. The Good Corporate Governance variable ranges from a minimum value of 2.00 to a maximum value of 5.00, with a mean value of 3.17. The Financial Performance variable shows a minimum value of -16.82, a maximum value of 52.67, and a mean value of 7.45. Meanwhile, the Corporate Social Responsibility variable shows a minimum value of 0.04, a maximum value of 0.42, and a mean value of 0.10.

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**Table 2.** Descriptive Statistics Test Results

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| GCG | 69 | 2.00 | 5.00 | 3.1739 | 0.82170 |
| Financial Performance | 69 | -16.82 | 52.67 | 7.4535 | 10.72037 |
| CSR | 69 | 0.04 | 0.42 | 0.1086 | 0.06935 |
| Valid N (listwise) | 69 | | | | |

***Source:*** *SPSS Output, 25.0, 2022*

*Moderated Linear Regression Analysis*

Moderated linear regression analysis was conducted to examine the functional relationship between several independent variables and the dependent variable (Y) simultaneously. The results of the test using SPSS revealed the following moderated linear regression equation:

**Table 3.** Summary of Hypothesis Testing Results

| No | Hypothesis | Hypothesis Statement | B | Sig. Value | Conclusion |
|---|---|---|---|---|---|
| 1 | H2 | CSR → FP | -49.999 | 0.008 | Accepted |
| 2 | H1 | GCG → FP | 1.722 | 0.266 | Rejected |
| 3 | H3 | CSR → GCG → FP (Moderation) | -14.021 | 0.011 | Accepted |
| 4 | $R1^2$ | | | 0.109 | |
| 5 | $R2^2$ | | | 0.101 | |

***Source:*** *Processed Data (2022)*

## *Discussion*

*Corporate Social Responsibility on Financial Performance*

The findings of this study indicate that Corporate Social Responsibility (CSR) has a negative regression coefficient, suggesting that CSR may hurt financial performance. This means that when the level of CSR disclosure is low, it contributes to a decline in a company's financial performance. In practice, many companies often neglect their social responsibilities toward the community. One of the most common CSR-related issues that can lead to decreased financial performance is environmental degradation from operational activities. The greater the environmental damage caused by a company's operations, the more likely it is to erode investor interest and reduce the confidence of other stakeholders in its financial health. Despite the negative direction of the relationship, partial testing results show that CSR has a statistically significant effect on financial performance. This highlights CSR as a determining factor in the quality of a company's financial outcomes. The significance of this effect can be interpreted as an indication that insufficient CSR practices—particularly when social and environmental responsibilities are not transparently disclosed—tend to diminish public trust. When CSR disclosure is minimal, stakeholders may question the company's accountability and sustainability, which can impact their perceptions of its financial performance. Observations from the frequency table show that CSR disclosures among the sampled companies were generally low, reinforcing that insufficient CSR communication may lead to negative stakeholder responses.

These findings align with agency theory, which explains the relationship between principals (owners) and agents (managers) in the management of the firm. In the context of this theory, the significant effect of CSR on financial performance can be understood as a result of how healthy agents fulfill their responsibilities to stakeholders. When CSR is neglected, agency problems may arise due to conflicting interests between management and shareholders. The negative impact observed in this study suggests that CSR, as managed by agents, may fail to deliver expected value to shareholders if poorly implemented. As such, low CSR performance and limited transparency in disclosure reduce the firm's perceived accountability, which in turn lowers stakeholder trust and ultimately affects its financial performance. Hence, from an agency theory perspective, CSR is significant in determining financial outcomes, but in this case, it has a negative effect due to insufficient implementation and reporting. The results of this study are consistent with previous research conducted by Hamdani and Maesaroh (2014), which found a significant influence of corporate social responsibility (CSR) on financial performance. Similarly, Maryanti & Fithri (2017) confirmed that CSR significantly affects corporate financial outcomes. These studies underscore the importance of CSR in shaping stakeholder perceptions and financial value, thereby reinforcing the findings of the present research. However, unlike some findings that suggest a positive effect of CSR when well executed, this study highlights the detrimental consequences of underreporting or failing to implement effective CSR programs.

*Good Corporate Governance on Financial Performance*

The findings of this study reveal that Good Corporate Governance (GCG) exhibits a positive regression coefficient, indicating a positive correlation between GCG and improved financial performance. This suggests that higher levels of GCG are associated with better financial outcomes for companies. Strong financial performance results from high-quality management practices, where effective use of resources is key. To achieve such high outputs, companies must manage their resources efficiently, which can be facilitated by implementing robust corporate governance structures. However, the partial analysis suggests that GCG does not have a significant impact on financial performance. This indicates that GCG alone may not be the sole determinant of a company's financial success. The lack of a substantial effect of GCG on financial performance may be attributed to the ineffectiveness of some governance mechanisms, as measured by the number of independent commissioners. In the sample, many companies had low numbers of independent commissioners, with some having only one or two. Only a tiny percentage had three or more. This suggests that the performance of independent commissioners in overseeing and controlling the company is still suboptimal. The limited role of independent commissioners as an essential indicator of good governance may explain the lack of significant impact on financial performance.

The size of the board of directors, another key component of GCG, was found to be insufficient in driving financial performance. Companies with smaller boards comprising only three to four directors were prevalent in the sample. This may explain the lack of effective decision-making and the failure to implement effective governance strategies. Conversely, while a larger board size may provide better representation and more diverse input, it may still not directly enhance financial performance. The audit committee, another essential element of GCG, did not make a significant contribution to financial performance. In the sample, most companies had small audit committees, typically consisting of three to four members. This limited committee size could hinder the audit committee's ability to effectively oversee the company's financial activities, thereby limiting its potential to optimize financial performance.

The findings of this study are supported by agency theory, which emphasizes the delegation of authority between agents (managers) and principals (shareholders). According to this theory, the lack of significant impact can be explained by the inadequate division of responsibilities between management and shareholders. The findings suggest that GCG, managed by agents (managers), may not be sufficiently developed to enhance financial performance. In other words, GCG has not been fully implemented in a manner that contributes to improving financial performance, meaning that shareholders may not benefit from enhanced financial results despite the presence of effective governance structures. Therefore, in light of agency theory, while GCG is appreciated as a positive factor, its effectiveness in enhancing financial performance remains limited due to its insufficient implementation within the companies observed. The results of this study align with prior research conducted by Siagian & Hadiprajitno (2013), which found that the size of the independent commissioners and audit committees did not significantly affect a company's financial performance. Similarly, Hamdani & Maesaroh (2014) found that Good Corporate Governance did not significantly impact companies' financial performance. Furthermore, the findings of Fitriani & Hapsari (2015) reinforce the earlier conclusions that GCG, when measured by the size of independent commissioners and audit committees, does not significantly influence financial performance.

*The Moderating Role of Corporate Social Responsibility on the Relationship Between Good Corporate Governance and Financial Performance*

The findings of this study reveal that Corporate Social Responsibility (CSR) has a negative regression coefficient when moderating the relationship between Good Corporate Governance (GCG) and Financial Performance. This indicates that CSR, in its current implementation, weakens rather than strengthens the influence of GCG on financial performance. In other words, CSR has not effectively supported GCG in improving the firm's financial outcomes. Poor financial performance may often stem from weak corporate governance, and when compounded by inadequate social responsibility practices, the situation becomes even more severe. Companies with low levels of CSR engagement tend to experience reduced stakeholder confidence, undermining the positive impact of governance structures that foster accountability and efficiency. The partial test results further confirm that CSR significantly moderates the relationship between GCG and financial performance, yet in a negative direction. This implies that low levels of CSR disclosure act as a driving force that diminishes the strength of GCG, ultimately leading to a decline in financial performance. CSR's significant and negative moderating effect may be attributed to insufficient transparency in social and environmental disclosures, adversely affecting public trust in corporate governance mechanisms. Poor CSR practices can erode stakeholder confidence not only in the company's social accountability but also in the integrity of its governance system. Consequently, this decline in trust directly influences the firm's financial standing as stakeholders begin to disengage from supporting the organization.

The lack of CSR disclosure can be detrimental from a stakeholder perspective, particularly in manufacturing firms. When companies fail to demonstrate accountability for the environmental and social impacts of their operations, stakeholders—especially the community—may respond negatively to the company's products or services. The community is a critical stakeholder group that can either enhance or diminish a firm's financial performance through its perception and behavior toward the company's outputs. Therefore, firms should focus on profit maximization and prioritize robust CSR disclosure as a strategic tool for enhancing legitimacy and sustaining stakeholder support.

These findings are supported by agency theory. According to this theory, the relationship between agents (managers) and principals (owners) is structured through the delegation of decision-making authority. The significant negative effect observed in this study is attributed to the failure of agents to meet stakeholder expectations through Corporate Social Responsibility (CSR), which subsequently undermines the perceived quality of governance. The reduction in stakeholder trust resulting from poor CSR practices reflects a breakdown in the agency relationship, where managers fail to act in the best interests of both shareholders and other stakeholders. As a result, diminished CSR performance leads to lower stakeholder appreciation for financial results, and this is further exacerbated when governance mechanisms are not robustly enforced. In this context, CSR does not function as a value-enhancing moderator but rather as a factor that exposes the inefficiencies of GCG and contributes to a decline in financial performance. These findings are consistent with previous research by Fitriani and Hapsari (2015), who found that CSR and GCG, when assessed simultaneously, have a significant impact on financial performance, mainly when measured using Return on Assets. Their findings align with the present study in that CSR is significant in the GCG–– financial performance dynamic. However, the current study expands on their work by highlighting the negative consequences of weak CSR disclosure, suggesting that the effectiveness of CSR as a moderating variable is highly dependent on the quality and transparency of its implementation.

## Conclusion

This study examined the influence of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange. It further explored the moderating role of CSR in the relationship between GCG and financial performance. The findings demonstrate that CSR has a significant influence on financial performance, whereas GCG does not show a statistically significant effect. Moreover, CSR significantly moderates the relationship between GCG and financial performance in a negative direction, indicating that low levels of CSR disclosure can weaken the effectiveness of governance in improving financial outcomes. These results provide insights into the interaction and impact of CSR and GCG on financial performance, particularly within the context of publicly listed manufacturing firms.

The value of this research lies in its contributions to both theoretical understanding and practical applications in the fields of corporate governance and sustainability reporting. The study's originality stems from its integrated examination of CSR as an independent predictor and a moderating variable that shapes the effectiveness of governance mechanisms. Practically, the study implies that corporate leaders and financial managers should view CSR as a strategic tool that enhances stakeholder trust and complements governance efforts. Companies are encouraged to enhance their CSR disclosures to reinforce the credibility of their GCG practices and achieve better financial results. The findings provide policymakers and regulators with a foundation for refining CSR-related standards and governance codes, thereby aligning corporate practices more closely with stakeholder expectations.

The measurement of CSR is based solely on disclosure in annual reports, which may be subjective and may not fully capture the scope of a company's social activities. This creates a potential gap between actual CSR practices and reported information. Additionally, the study focuses on a limited sample from specific subsectors within manufacturing over a three-year period. Future research could address these limitations by incorporating direct assessments of CSR activities, expanding the sample to include different industries, and utilizing longitudinal data over extended periods. Further studies could also explore other moderating variables or alternative indicators of governance quality to deepen the understanding of how CSR and GCG jointly influence financial performance. These directions would enhance the robustness and generalizability of findings in this increasingly critical area of corporate research.

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