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The Effect of Good Corporate Governance on Company Performance with Corporate Social Responsibility as a Moderating Variable

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Abstract

The purpose of this study was to determine the effect of Good Corporate Governance on Company Performance with Corporate Social Responsibility as a Moderating Variable. This research is an Empirical Study of Manufacturing Companies Listed on the IDX for the 2017-2022 Period. The method used in this research is quantitative method. Empirical analysis can involve collecting company financial data, including Good Corporate Governance practices that may be measured by certain methods (such as accruals or other qualitative methods), as well as Company Performance data that can be calculated and Corporate Social Responsibility data as a Moderating Variable. After the data is collected, statistical analysis such as linear regression may be used to test the relationship between Good Corporate Governance variables on Company Performance with Corporate Social Responsibility As A Moderating Variable. The results of this study indicate that Good Corporate Governance practices have a negative effect on financial performance, Corporate Social Responsibility has a positive effect on financial performance, simultas Good Corporate Governance and Corporate Social Responsibility have a significant effect on financial performance.

Keywords: Good Corporate Governance, Corporate Social Responsibility, Financial Performance.

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Introduction

One of the conditions faced by public companies in Indonesia is that there are still weaknesses in managing the company. This is indicated by the weakness of accounting standards and regulations as well as shareholder accountability and the widening of the structure in the process of inefficient management of the company, causing the company's performance

cannot run optimally. As an effort to overcome the weaknesses that occur in many companies in Indonesia, business people in Indonesia have agreed to implement Good Meanwhile, CSR has no significant effect on firm value.(Lestari, 2021) The definition of GCG varies and does not prevent the Indonesian state from learning and implementing it. In the context of economic recovery, the Indonesian government and the International Monetary introduced and planned the concept of GCG as a healthy corporate governance procedure. In brief, there are four main components applied in this concept, namely fairness, transparency, accountability, and responsibility (Sutedi, 2013: 2). (Mahdiana & Amin, 2020) Good corporate governance is a concept proposed to improve company performance through supervision or monitoring of management performance and ensuring management accountability to stakeholders based on a regulatory framework (Nasution and Setiawan, 2007).

Therefore, to implement good corporate governance, companies need to establish an independent board of commissioners and an audit committee. The board of commissioners is the core of corporate governance which is tasked with ensuring the implementation of corporate strategy, overseeing management in managing the company and requiring accountability. This audit committee is an effort to improve the way the company is managed, especially how to supervise company management. The concept of agency theory according to Anthony & Govindarajan, 2011 is the relationship or contact between principal and agent. Agency theory assumes that each part is motivated by its own self-interest so that it can lead to conflicts between principal and agent. In this case, the Fiskus acts as a Principal and Corporate Taxpayer as an Agent who complies with applicable tax regulations (Sinaga et al., 2021). Every company has a goal to seek profit (profit) as much as possible for the company and if the company has been able to achieve this goal, it is considered to have a good company performance. (Rosalinda et al., 2022) Financial performance is the level of success achieved by the company so as to obtain good financial management results. Performance is the result of work that can be achieved by a person or group of people in a company in accordance with their respective authorities and responsibilities in an effort to achieve organizational goals illegally, not against the law and not against morals and ethics. For this reason, an analysis of the performance carried out by the company is very important, not only for stakeholders but also for the company itself. For companies engaged in the public sector, if the company does not have good performance, it can affect the stock market and shareholders.

The company's awareness of the importance of performance appraisal also cannot ignore the matter of the image of a company that is often displayed in the mass media if it has a bad connotation, it can clearly interfere with the smooth operation of the company and is not conducive to increasing productivity. Today began to realize that every company in this case business actors cannot develop if they turn a blind eye to actions that do not know the status and condition of the environment in which they carry out business activities. Thus, the form of implementation in its responsibility towards the company's social environment needs to be done. Corporate Social Responsibility (CSR) is not only a responsibility, but also an obligation that should be implemented. Corporate Social Responsibility (CSR) is a form of obligation that must be carried out and made its role as a business and must be made part of a business policy. (Sinaga et al., 2021). As information disclosure, CSR and all company activities have become an obligation to be disclosed to the public. In disclosing activities in the annual report related to social responsibility, everyone can see how the company runs a business, especially for companies whose business sector is related to the environment and how earnings management behavior works in maximizing profits. Company performance is always the focus in the business world. For stakeholders, whether shareholders, creditors, or the company's own management, an in-depth understanding of a company's performance is essential in making investment decisions and business strategies. During competitive capital market dynamics and rapid economic changes, evaluating company performance is not a simple task. Therefore, it is necessary to have indicators that can provide an accurate picture of the company's performance.

One important indicator in this case is the ratio of earnings to cost of equity capital (Setiawan & Daljono, 2013).

Literature Review

Corporate Governance

According to David Crowther and Shahla Seifi in their book Corporate Governance and International Business (2011) explain that corporate governance can be considered an environment of trust, ethics, moral values, and confidence - synergistically, the efforts of all constituent components, namely stakeholders, including governments, the public, professionals, professionals, service providers, and the corporate sector. One consequence of this concern for the actions of organizations, and the consequences of those actions, has been an increasing concern with corporate governance. According to David Crowther and Shahla Seifi in their book Corporate Governance and International Business (2011) explain that corporate governance can be considered an environment of trust, ethics, moral values, and confidence - synergistically, the efforts of all constituent components, namely stakeholders, including governments, the public, professionals, professionals, service providers, and the corporate sector. One consequence of the concern for the actions of organizations, and the consequences of those actions, has been an increasing concern with corporate governance.

Independent Commissioner

The board of commissioners is responsible for ensuring that the company has carried out social responsibility and considered the interests of various company stakeholders as well as monitoring the effectiveness of the implementation of good corporate governance (Nasution and Setiawan, 2007). The measurement of the structure of the independent board of commissioners is carried out by calculating the proportion between the total independent board of commissioners and the total members of the board of commissioners (Veronica and Utama, 2005).

Audit Committee

The audit committee serves as a mediator of two parties to weigh and as a liaison for different views between management and auditors to achieve the final balance, so that the report is more accurate (Suaryana, 2005). Measurement of the audit committee variable by considering the number of members of the audit committee of the sample company. Data regarding the number of audit committees is obtained from the financial statements in the notes to the financial statements and the company's annual report (Veronica and Utama, 2005).

Audit Quality

According to Palestin (2006), company management as an agent requires third party audit services that have a reputation for high credibility so that the level of trust of the company's external parties (one of which is the principal) in its accountability is higher, and vice versa, the company's external parties need third party audit services to convince themselves that the reports presented by company management can be trusted as a basis for decision making. According to Simanjuntak (2008), audit quality is a systematic and independent examination to determine activities, quality, and results in accordance with planned arrangements and whether these arrangements are implemented effectively and in accordance with objectives. Audit quality is a characteristic or description of audit practices and results based on auditing standards and quality control standards which are a measure of the implementation of the duties and professional responsibilities of an auditor. Audit quality relates to how well a job is done compared to predetermined criteria. Audit quality is the probability that the auditor when

auditing the client's financial statements can find violations that occur in the client's accounting system and report them in the audited financial statements, where in carrying out this task the auditor is guided by auditing standards and the relevant public accountant code of ethics. According to Watkins et al (2004), audit quality is the likelihood that the auditor will find and report material misstatements in the client's financial statements. Based on the Public Accountant Professional Standards (SPAP) audits carried out by auditors are said to be of good quality, if they meet the auditing requirements or standards.

Corporate Social Responsibility

Corporate Social Responsibility is an organization, especially (not only) companies, which to all stakeholders, including consumers, employees, shareholders, communities, and all aspects of the environment, is a concept that shows various forms of responsibility. For Johnson in Hadi (2011), Corporate Social Responsibility (CSR) is defined as "how a company manages its business processes and has a positive impact on society as a whole." The proposed definition is essentially based on the obligation to manage the company in a way that has a positive impact on the company itself and the environment. For Fox et all, (2002) corporate commitment and ethical corporate behavior contribute to sustainable economic development while improving the quality of life of employees and their families, communities, and society at large. Reducing behavior, the company's awareness of the importance of performance appraisal also cannot ignore the matter of the image of a company that is often displayed in the mass media if it has a bad connotation, it can clearly interfere with the smooth operation of the company and is not conducive to increasing productivity. Today is beginning to realize that every company, in this case business actors, cannot develop if they turn a blind eye to actions that do not know the status and condition of the environment where they carry out business activities. Thus, the form of implementation in its responsibility to the company's social environment needs to be done. Corporate Social Responsibility (CSR) is not only a responsibility, but also an obligation that should be implemented. Corporate Social Responsibility (CSR) is a form of obligation that must be carried out and made its role as a business and must be made part of a business policy. (Nanda Miranda, 2021). As information disclosure, CSR and all company activities have become an obligation to be disclosed to the public. In disclosing activities in the annual report related to social responsibility, everyone can see how the company runs a business, especially in companies whose business sectors are related to the environment and how earnings management behavior works in maximizing financial performance can be known, whether earnings management or otherwise.

Company Performance

To determine the standardization of achievements obtained by the organization in accordance with the vision and mission adopted, it is necessary to have satisfactory performance. "Performance is: (1) the process or manner of performing, (2) a notable action or achievement, (3) the performance of a player or other entertainment" (Goyal in Rahmasari, 2011). Ariani (2013) explains that company performance is something that the company produces within a certain period by referring to predetermined standards. Company performance is a result that can be measured and determined by showing the empirical conditions of the company from various specified measures. Business performance refers to how much a company is oriented towards market and profit goals.

Hypothesis Development

Schipper (1989), "earnings management aims to intervene in the external financial reporting process with the aim of achieving personal interests (not just facilitating neutral process flow)". Earnings management increases (decreases) the currently reported profits of the units for which the administrator is responsible, without increasing (decreasing) long-term

economic profitability. For this reason, every choice of reporting method or commonly known as the accounting method shows that there is a large influence exercised by management in preparing a financial report, behavior that is often carried out to manipulate information in the form of disclosure of a financial report with the aim of creating a good perception of financial performance among investors.

H1: Earnings Management Practices Have a Negative Influence on Financial Performance

Companies that disclose more extensive CSR say that they have spent some of their money on addressing environmental problems. According to Stakeholders theory, external stakeholders such as society, including consumers, and the wider community also have the right to be considered by the company to maintain its continuity. It is understood that companies also pay attention to stakeholders other than investors through CSR. A situation like this will further increase public confidence in the company's performance.

H2: CSR disclosure has a positive effect on financial performance.

According to Francis Hutabarat (2020;01), analysis of a company's financial performance suggests that all companies have the aim of fighting for maximum company profits. The financial manager of each company should ensure that the company has good performance by eliminating earnings management practices that are intended to achieve company goals. To reduce earnings management practices, it should only be done through a paradigm shift by managers, so that information disclosure is a form of accountability, where managers previously intervened and influenced the information in financial reports. One of the disclosures of information is CSR, CSR disclosure can influence the reduction of profit management practices because more information for stakeholders is a form of company responsibility to stakeholders because CSR is used as an effort to maintain losses.

H3: CSR disclosure can moderate the influence of Earnings Management on Financial Performance.

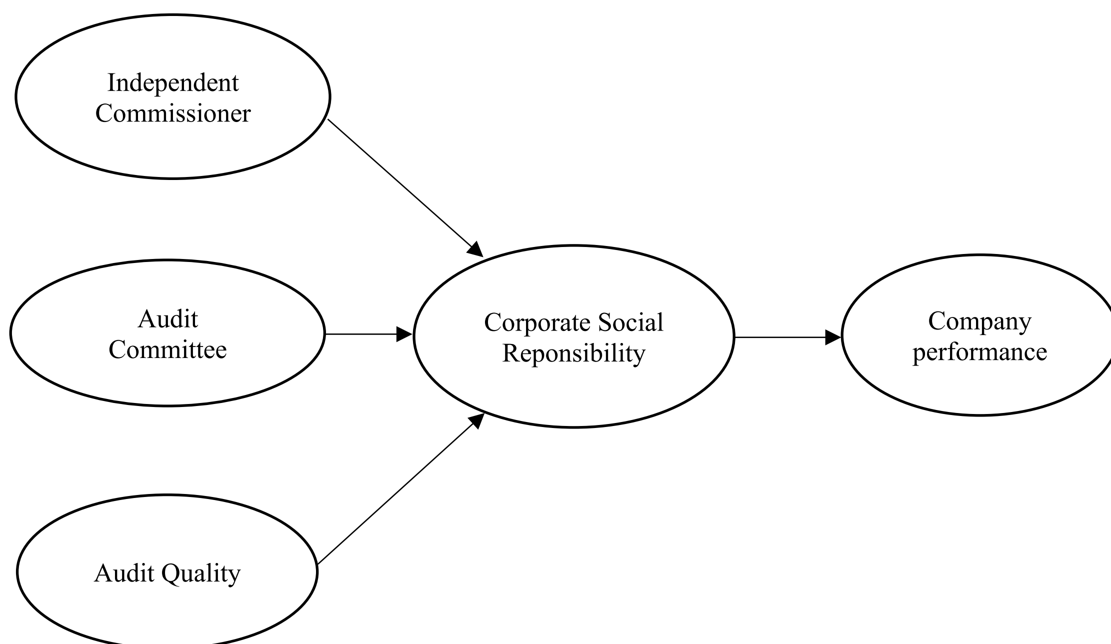

Figure 1. Conceptual Framework

Research Method

The population in this study refers to manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the 2017-2022 period. Sample determination was carried out using a purposive sampling method with the following criteria:

1. The company must have issued audited financial reports for the 2017-2022 period.
2. The company must have a financial year ending on December 31. The goal is to ensure consistency in the timing of financial reporting.
3. Companies must use the rupiah currency in their financial reports.
4. The company must not experience losses during the observation period because negative profit figures are considered irrelevant.
5. The company must have complete data regarding the variables needed in this research.

This research uses the pooled data method, which combines data from cross sections and time series. Based on this pooled data method, the total number of observations obtained was 120 observations (46 samples multiplied by 3 periods). The sample selection results can be found in the following table:

Table 1. Research Sample Selection Results

Infomation	Total
Companies listed on the IDX in the 2017-2022 period	145
Companies that do not issue audited financial reports during the 2017-2022 period	(15)
Companies that do not have a financial year ending December 31	(4)
The company uses currencies other than the Rupiah currency	(11)
Companies that experience losses	(40)
The company does not have complete required data	(29)
Sample (Company)	45
Total observations (data) during the 5 year research period (pooled data)	120

Data analysis technique

The analytical method used in this research is Moderate Regression Analysis (MRA). MRA is an analytical approach that provides a basis for maintaining sample integration and controlling the influence of moderating variables (Ghozali, 2009). This approach was chosen because this research was designed to test the interaction of the independent variable on the dependent variable and was moderated by the moderated variable.

Normality test

The normality test is intended to test whether the noise or residual variables in the regression model are normally distributed. As is known, the t-test and F-test assume that the residual values follow a normal distribution. Violation of this assumption will invalidate the small sample statistical test. (Ghozali, 2016). The residual normality test of the Kolmogorov Smirnov (KS) method is to determine whether an original sample is from a population that has a specific data distribution or follows a specific statistical distribution. A statistical distribution that is often tested is using the KS test with the assumption of a Normal Distribution.

Classic Assumption Test Multicollinearity Test

The purpose of the multicollinearity test is to test whether there is a correlation between the independent variables of the regression model. Multicollinearity can be seen from the correlation matrix between independent variables. The model is said to not have a multicollinearity problem if the correlation coefficient between the independent variables is < 0.8, conversely if the correlation coefficient between the independent variables is > 0.8 then the model has a multicollinearity problem.

Heteroscedasticity Test

The purpose of the heteroscedasticity test is to test the inequality of variance in the residuals of the regression model from one observation to another. If the variances are different, this indicates that the variance is not uniform. Conversely, if the variance is constant, then homoscedasticity. With good research, non-uniform dispersion should not occur (Ghozali, 2016). This test uses the Spearman rank test to detect significance in the table. If the significance value is greater than 0.05, it means that heterogeneous dispersion does not occur.

Autocorrelation Test

Autocorrelation testing is to see the relationship that occurs between members of a series of observations arranged at different times in a time series. The aim is to test whether there is a relationship between confounding errors in period t of the regression model. If so, it means there is autocorrelation (Ghozali, 2016). If there is a correlation, it means there is an autocorrelation problem. This is usually done with a periodic time-based data series or regression. The test used to detect autocorrelation is the Runs Test. If the Runs Test Significance value is greater than the significance level, then autocorrelation does not occur and vice versa.

Partial Hypothesis Testing

To test each variable's influence individually, the t statistical test is used. According to (Ghozali, 2016), the t test statistic basically shows how the influence of individual independent variables explains variations in the dependent variable. Testing at a significance of 0.05 (α=5%). Approval or rejection of the hypothesis is based on the following criteria:

- If the significant value is > 0.05 then the hypothesis is rejected (the regression factor is not significant). This means that the independent variable may not have a significant influence on the dependent variable.
- If the significance value is 0.05 then the hypothesis is accepted (significance regression coefficient). This means that the independent variable has a partially significant effect on the dependent variable.

Simultaneous Hypothesis Testing

Based on (Ghozali, 2016), the statistical F test basically shows whether all the independent or independent variables contained in the model have the same influence on the dependent variable. The test was run at a significant level of 0.05. Rejection or acceptance of the hypothesis according to the following criteria:

- If the significance value is 0.05 or smaller, then all independent variables (good corporate governance) influence the dependent variable (financial performance) simultaneously.

- If the significance value is greater than 0.05 then all independent variables (good corporate governance) do not influence the dependent variable (financial performance) simultaneously.

Coefficient of Determination Test

In testing the coefficient of determination or if you look at the table, the R2 (R Square) column aims to test the suitability of a model in research that can measure the ability of a variable to explain the distribution of the dependent variable. The value of the coefficient of determination is then explained in the form of a percentage (%) to explain how much influence each independent variable has. The larger the value obtained, the stronger the variable is in explaining the relationship, but if the value obtained is very small then the ability of an independent variable is very limited in explaining the relationship. The coefficient of determination value generally ranges from 0 to 1.

Result and Discussion

Descriptive statistics

Description of data through its presentation can be powerful information in finding relationships between variables. Through descriptive statistical analysis of a series of observations, the maximum value, mean, and standard deviation were obtained.

Table 2. Desriptive Statistic

	N	Min	Max	Mean	Std. Deviation
DAC	51	-.42	.09	-.0585	.10685
CSR	51	.21	.57	.3396	.09320
ROA	51	.00	21.19	3.5159	4.09907
Valid N (listwise)	51				

From the presentation of table 2 above, it is found that the good corporate governance variable (X1) has a minimum value of -0.42, the maximum value is 0.09, while the average value (mean) is -0.0585 for the good corporate governance variable and the standard deviation value. (Std. Deviation) 0.10685, if seen above, the standard deviation number is greater than the mean (average) value, this shows that the data variation is quite high. The corporate social responsibility (CSR) disclosure variable was found to have a minimum value of 0.21, a maximum value of 0.57, and a mean value of 0.3396 with a standard deviation value of 0.09320. In this CSR disclosure variable, the data variation is relatively small because the standard deviation value is smaller than the mean value. The Financial Performance variable has a minimum value of 0.00, while the maximum value is 21.19 and the average value is 3.5159 with a standard deviation value of 4.09907. Shows that the data variation is quite high because the mean value is smaller than the standard deviation value.

Normality Test Results

This test uses the Residual Normality test or the non-parametric Kolmogorov-Smirnov (K-S) test. The aim is to find out if the data is normally distributed or not. This means that to check the distribution of this research data it can be in accordance with a normal population, by looking at the profitability value greater than 0.05 which means it can be said to be normal and vice versa if it is below 0.05 then the data does not have a normal distribution.

Table 3. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		51
Normal Parameters[a,b]	Mean	.3188339
	Std. Deviation	3.93207581
Most Extreme Differences	Absolute	.183
	Positive	.183
	Negative	-.125
Kolmogorov-Smirnov Z		1.307
Asymp. Sig. (2-tailed)		.066

a. Calculated from data.

The normality test results obtained from the SPSS 20 output show an asymp.sig value of 0.066, this value is higher than 0.05 (α=5%), which shows that the regression equation in this study is normally distributed.

Multicollinearity Test Results

This test aims to determine whether there is a correlation between independent variables (Independent). Even if there is a correlation, it can be said that there is a problem with the data used in the sense that the data used has multicollinearity.

Table 4. Collinearity Statistics

Tolerance	VIF
.901	1.110
.901	1.110

The results of the multicollinearity test show that all independent variables have the same value at Tolerance of 0.901 and VIF of 1.110, indicating that there are no symptoms of multicollinearity in all independent variables. This means that all independent variables have a VIP value < 10 and tolerance > 0.1.

Heteroscedasticity Test Results

In this test, the aim is to find out from one observation to another that there is an inequality in the variance of the residuals in the regression model. Usually, the heteroscedasticity test uses the Glejser test. Which is if the independent variable has a significance value greater than that determined in the research significance level.

Table 5. Collinearity Statistics

Model	Standardized Coefficients	t	Sig.
	Beta		
(Constan)		-.060	.952
DAC	.075	.519	.606
CSR	.270	1.862	.069

To determine whether there is heteroscedasticity in the Glejser test, if the test shows a significance result of <0.05 (alpha value), then the regression model can be said to be heteroscedastic. Likewise, if the results of the heteroscedasticity test have a significance value > 0.05 (alpha value), then the conclusion is homoscedasticity (no heteroscedasticity occurs). In the table presented above, the significance level is 0.606 for the good corporate governance variable and 0.069 for the CSR disclosure variable, so it can be seen that all independent variables have a significance value of more than the alpha value (0.05), meaning that the

regression model in this study does not have heteroscedasticity.

Autocorrelation Test Results

Autocorrelation testing aims to test in a linear regression model whether there is a correlation between the confounding error in the current year (period t) and the confounding error in the previous year (period t-1). In this research, the test used is the Runs Test. Runs Test testing is intended if the significance value is greater than the alpha value (α) or research significance level, which means there is no autocorrelation in the linear regression model.

Table 6. Collinearity Statistics

	Unstandardized Residual
Test Value[a]	-.87788
Cases < Test Value	25
Cases > = Test Value	26
Total Cases	51
Number of Runs	20
Z	-1.837
Asymp. Sig. (2-tailed)	.066

In table 6, the value of Asymp. Sig obtained a value of 0.066. This means that this value shows the value of Asymp. Sig > α value (0.05), thus the conclusion in this study is that the linear regression model does not have any symptoms of autocorrelation. Hypothesis test

Good corporate governance practices have a negative impact on financial performance.

From the calculation results obtained, the significance value of good corporate governance (X) on financial performance (Y) is 0.125 > 0.05 with a calculated t value of 1.563 < 2.010 (t table) so it can be concluded that Ho is accepted and H1 is rejected. This means that the equation has no effect and is not significant between earnings management variables on financial performance.

CSR Disclosures Have a Positive Influence on Financial Performance.

From the calculations obtained, the significance value of CSR Disclosure (Z) on financial performance (Y) is 0.001 < 0.05 with a calculated t value of 3.624 > 2.010 (t table) so it can be concluded that Ho is rejected and H1 is accepted. This means that there is a significant positive influence between the CSR Disclosure variable on financial performance.

Simultaneous Significant Influence of good corporate governance and CSR Disclosure on Financial Performance.

From the results of the F statistical test, it is known that the calculated F value is 6.699 with a significance value of 0.003. Then it can be concluded that the significance value is 0.003 < 0.05 with a calculated F value of 6.699 > 3.179 (F table) which shows that all independent variables, namely good corporate governance, and CSR disclosure, have a significant effect simultaneously (simultaneously) on Financial Performance (dependent).

The influence of good corporate governance on financial performance is moderated by CSR disclosure

Table 7. Moderated Regression Analysis Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-2.700	2.501		-1.080	.286
DAC	9.174	18.546	.241	.495	.623
CSR	19.915	7.205	.413	2.764	.008
DAC*CSR	-21.605	65.562	-.155	-.330	.743

a. Dependent Variable: ROA

The SPSS output produced in the MRA test shows a significant value of β3 (good corporate governance *CSR Disclosure) of 0.743 > 0.05, which means the figure shows no significance and a significant value of β2 (Moderation) of 0.08 which shows that the CSR Disclosure variable can only be a predictor. (independent). The condition for a variable to moderate is the significance value of β2 > 0.05 and β3 > 0.05.

Coefficient of Determination Testing

The resulting value in the Adjusted R Square table is 0.186 which is a percentage of 18.6%. These results show that the influence of the independent variable (X) on the dependent variable (Y) is only 18.6%, which means that there are still 81.4% of other variables that can influence financial performance variables that are not considered in this research.

Concluding

From the results of research carried out through steps such as collection, data processing, regression analysis and interpretation of analysis results in the results chapter and discussion of the influence of good corporate governance on financial performance variables and CSR (Corporate Social Responsibility) disclosures which moderate these two variables. then the conclusion is:

1. The independent variable (good corporate governance) does not have a significant influence on the dependent variable (financial performance). These results indicate that it is possible that management in carrying out earnings management practices will not have a significant impact on the company's financial performance if the measurement uses the return on total assets (ROA) ratio.
2. The test results show that the CSR (Corporate Social Responsibility) disclosure variable has a significant impact on financial performance as measured by ROA. In this case, it can be explained that company activities which are oriented towards community and environmental empowerment are rarely persuasive in introducing the company. So that these social responsibility activities can be responded positively by the community and related parties to the company which can support long-term profit generation.

CSR (Corporate Social Responsibility) disclosure as a moderator cannot moderate the influence of the variable’s good corporate governance and financial performance. This shows

that CSR disclosure has not been able to moderate the relationship between earnings management and financial performance and can only act as a predictor variable aimed at the results of the regression table. Based on the research results and conclusions, researchers can provide the following suggestions:

- Good corporate governance practices do not have a significant effect on financial performance. Therefore, practices involving intervening, manipulating, and changing financial reports from the actual situation should no longer occur and change the paradigm towards transparency of the information provided according to the actual situation.
- - CSR disclosure has a positive and significant effect on financial performance. For this reason, companies need to improve their performance by managing existing assets and capital for activities that can improve the company's financial performance so that the company can continue to increase corporate social responsibility in terms of corporate sustainability, achieve excellent company performance, and instill investor confidence in the company.
- - CSR disclosure cannot moderate the influence of good corporate governance on financial performance. So, companies should implement the principle of transparency because even though the annual report includes CSR disclosures, there are still earnings management practices that are unlikely to have a significant impact on performance.

Researchers who carry out further research on the same topic should perfect the limitations of this research, for example the sample was developed for the ARA competition in a different year, the research variables are further developed, for example investment decisions and financial leverage, apart from that, if you are still using financial performance variables, you should use measurement. other finances, for example Tobins'q.

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