

The Implementation of CSR and GCG in Improving Financial Performance

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ABSTRACT. The aim of this research is to examine the implementation of CSR and GCG in improving financial performance in the consumer goods industry sector in 2015-2019. The research method approach uses deductive, quantitative types and descriptive properties. The number of consumer goods industrial sector companies listed on the Indonesia Stock Exchange (IDX) are 53 companies and the sample that meets the criteria according to purposive sampling is 12 companies. Data analysis used SEM with PLS approach model. PLS analysis was carried out with SmartPLS 3.0 software. The conclusion from the results indicate (CSR) has a negative effect while (GCG) shows a positive direction and have a significant impact on (ROE). The magnitude of this factor is 14%, through the adjusted R² value, while the 86% could be explained as from other unexamined variables.

Keywords: Corporate Social Responsibility, Good Corporate Governance, Return on Equity.

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INTRODUCTION

A company is an organization where resources are processed to create goods or services for customers. The main objective of every company is to earn a sustainable profit. In the effort of meeting such objective, companies need to be able to use their resources optimally. One of the resources owned by the company in the financial sector could be seen from the amount of profit created by the company.

By using their profits, the company could fulfill its obligations in implementing Corporate Social Responsibility (CSR). CSR is a management procedure for companies that aims to achieve a more normal and more open management for all users of its financial statements. The use of CSR has been considered as a long-term investment by companies, where they expect the CSR that they carried out could indirectly affect the increase in consumers loyalty to the company. The implementation of CSR could minimize the possibility of the company not being accepted by its surrounding environment, which in turn affects their operational activities (Raningsih & Artini, 2018).

Next, in maintaining stability and in increasing consumer loyalty, Good Corporate Governance (GCG) must be carried out in the company's financial sector. By implementing

Good Corporate Governance, the company has carried out financial capabilities that support the improvement of various management relationships, such as with: shareholders, the board of commissioners, and others. GCG is a system that controls, manages and monitors a business control process in order to increase the company value. In addition, it is also a way of showing care and attention to stakeholders, employees and their surrounding society (Tunggal, 2012: 24). In implementing GCG, companies are required to have good performance so that they are able to generate added value that could give profits to shareholders or company owners.

The implementation of CSR and GCG could not be separated from the role of the company’s Chief Executive Officer (CEO). The long-term role of the CEO in a company is to maintain the stability of the policies taken by the company. Additionally, the CEO’s long-term performance should be able to align the company policies in decision making, so that it is in accordance with the interests of stakeholders without compromising the company’s goals in improving company performance.

The change of CEO is also expected to give a new performance impact that could align the company’s objectives in improving their performance towards the surrounding environment with a well-managed and well-implemented CSR. For a clearer presentation, the supporting information regarding the above explanation is presented in Table 1.

Table 1. Phenomenon Data

NO	KODE	PERUSAHAAN	TAHUN	ROE	GCG				CSR
					KI	KM	KIP	KA	
1	INDF	PT. <u>Indofood Sukses Makmur TBK</u>	2015	10.88%	0.5007	0.0002	0.3750	6	0.143
			2016	14.30%	0.5007	0.0002	0.3750	8	0.121
			2017	13.28%	0.5007	0.0002	0.3750	7	0.143
			2018	12.39%	0.5007	0.0002	0.3750	5	0.143
			2019	12.99%	0.5007	0.0002	0.3750	7	0.143
2	ULTJ	PT <u>Ultra Java Milk Industry & Trading Company Tbk</u>	2015	18.67%	0.3709	0.1790	0.3333	3	0.044
			2016	20.22%	0.3709	0.1149	0.3333	3	0.044
			2017	17.37%	0.3973	0.3384	0.3333	3	0.044
			2018	14.97%	0.3629	0.3451	0.3333	3	0.044
			2019	18.60%	0.3638	0.3601	0.5000	3	0.044
3	MYOR	PT <u>Mayora Indah Tbk</u>	2015	24.03%	0.3293	0.0011	0.6000	7	0.176
			2016	22.13%	0.5907	0.2522	0.6000	6	0.199
			2017	22.19%	0.5907	0.2522	0.6000	7	0.143
			2018	20.57%	0.5907	0.2522	0.6000	5	0.132
			2019	20.57%	0.5907	0.2522	0.6000	6	0.132

Source : Secondary Data, processed in 2021

Table 1 shows: (1) There was no increase in independent commissioners at INDF but there was a change in ROE in 2015-2016. (2) In ULTJ company, managerial ownership decreased but ROE increased in 2015-2016. (3) CSR implementation increased in MYOR but ROE decreased in 2015-2016.

Based on the above explanation, the researchers are interested in identifying the effect of CSR and GCG implementation in improving the financial performance of companies, especially the consumer goods industry. The problems that will be discussed are: How does Corporate Social Responsibility affect Return on Equity, How does Good Corporate Governance affect Return on Equity, How does Corporate Social Responsibility and Good Corporate Governance affect Return on Equity. This research aims to determine

the relationship between Corporate Social Responsibility and Good Corporate Governance against Return on Equity.

LITERATURE REVIEW

The researchers took several supporting theories, such as: (1) Wibisono (2007) stated that CSR is an ongoing commitment from companies to act ethically and to contribute towards the economic development of the local community or the wider community, as well as to improve the standard of living of employees and their families. The benefits of implementing CSR that the companies could gain are as follows: a) increased sales and market share, b) stronger their trademark position, c) increased value of their company image, d) improved ability to motivate, retain, and engage employees, e) lowered operational costs, f) increased company appeal towards investors and financial analysis, which in turn could increase the share value. The implementation of CSR could minimize the possibility of the company not being accepted by its surrounding environment, which in turn affects their operational activities. In general, the customers' trust towards CSR could be defined as the customers' expectations that the company, as the sponsor of the CSR programs, are willing to carry out obligations and fulfil promises with honesty, good will, and non-opportunistic motives. (2) Tunggal (2012) stated that Good Corporate Governance is a system that regulates, manages and supervises a business control process to increase the stock value. Good Corporate Governance (GCG) could also be a way to eliminate management engineering efforts. With the establishment of regulations regarding the companies' obligation to disclose certain information in a mandatory way (mandated disclosure) and voluntary way (voluntary disclosure), it is hoped that the quality of the published financial reports would be better and more transparent. (3) Kasmir (2012) stated that Return On Equity (ROE) is a ratio to measure net profit after tax divided by own capital. This ratio shows the efficiency of the use of own capital. The higher this ratio, the better. This means that the position of the owner of the company is getting stronger, and vice versa.

METHODS

The researchers chose to use the data from consumer goods industry companies listed on the Indonesia Stock Exchange in the 2015-2019 period. The company data was collected in May 2021. The method used was quantitative approach. The population used by the researchers was 53 consumer goods industrial companies listed on the Indonesia Stock Exchange. The sampling technique used was purposive sampling, with a total of 12 companies that met the criteria and the total number of samples for the 5-year current period is 60 samples. This type of research used secondary data obtained from financial reports and annual reports of the consumer goods industry companies in the 2015-2019 period and historical data downloaded from the IDX website.

Next, the operational variables of this research are identified as follows: (1) CSR, serves to measure the companies' contribution towards their social and environmental responsibilities. The indicators contained in CSR are the number of disclosures divided by the total number of criteria. (2) GCG, serves to measure the companies' ability to control their business in order to improve financial performance. The indicators contained in GCG are managerial ownership, institutional ownership, independent commissioners, and audit committee meetings. (3) ROE, serves to measure net profit after tax divided by own capital. The indicator contained in the ROE is net profit after tax divided by total equity. Finally, at the data analysis technique stage, the researchers used Partial Least Square (PLS) which is a Structural Equation Modeling (SEM) with an approach based on variance or component based structural equation modeling. PLS-SEM data analysis used several tests as follows:

1. Descriptive statistical test, to describe the object under study in general.
2. Measurement model analysis (outer model) through;
 - a. Convergent validity, which is a measurement model with reflective parameters that could be seen from the parameter relationship with the construct score.
 - b. Discriminant Validity, which is a measurement model that is measured based on cross loading with the construct comparing the square root of the average variance (AVE).
 - c. The reliability test, which was carried out to prove the accuracy, consistency and determination of the instrument in order to measure the constructs, which was carried out with composite reliability and *conbrach* alpha tests.
3. Analysis of the structural model (inner model) with;
 - a. R-square to describe the effect of specific exogenous constructs against the effect of endogenous constructs.
 - b. F-square to determine the accuracy of the model
 - c. Hypothesis testing with *boothstraping* to generate value for each link path used to examine the hypothesis.

RESULTS AND DISCUSSION

1. Descriptive Statistics Test

The results of this test described the amount of observational data consisting of 60 data through 12 samples in 5 periods 2015-2019, as further described in the Table 2.

Table 2. Descriptive Statistics

Variabel	Minimum	Maximum	Mean	Std. Deviation
CSR	0.033	0.220	0.092	0.058
KI	0.051	0.980	0.619	0.217
KM	0.000	0.380	0.089	0.119
KIP	0.300	0.667	0.413	0.095
KA	1.000	13.000	5.400	2.776
ROE	0.005	0.318	0.133	0.066

Source : Secondary Data, processed in 2021

CSR has a minimum score of 0.033 as obtained from PT. Kino Indonesia, Tbk and maximum score of 0.220 from PT. Wismilak Inti Makmur, Tbk.

KI has a minimum score of 0.051 as obtained from PT. Wismilak Inti Makmur, Tbk in 2019 and a maximum of 0.980 from PT. Sekar Laut, Tbk in 2016.

KM has a minimum score of 0.000 as obtained from PT. Indofood Sukses Makmur, Tbk in 2016 and a maximum score of 0.380 from PT. Wismilak Inti Makmur, Tbk from 2017 - 2019.

KIP has a minimum score of 0.300 as obtained from PT. Mandom Indonesia, Tbk in 2017-2018 and a maximum score of 0.667 from PT. Kino Indonesia, Tbk in 2015.

KA has a minimum score of 1 as obtained from PT. Mandom Indonesia, Tbk in 2015 and a maximum score of 13 from PT. Mandom Indonesia, Tbk in 2016 & 2018.

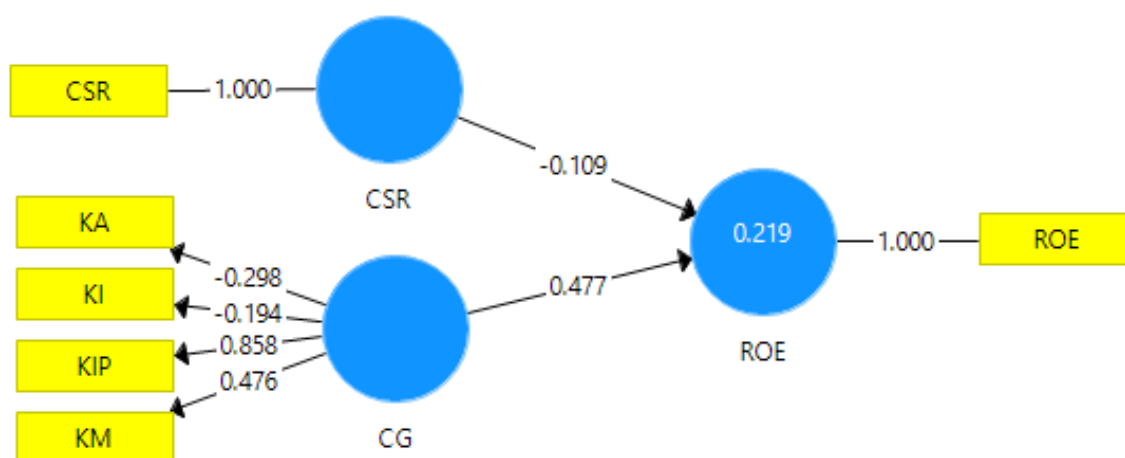
ROE has a minimum score of 0.005 as obtained from PT. Sekar Bumi Tbk in 2019 and a maximum score of 0.318 from PT. Mandom Indonesia, Tbk in 2015.

2. Measurement Test (Outer Model)

a. Convergent Validity

The following is the result of the measurement test (Outer Model). The loading factor for each latent variable is > 0.7 towards the targeted variable. Figure 1 shows a schematic image of the outer model obtained from the results of the PLS Algorithm calculation.

Figure 1. Outer Loading Scheme



Source: Secondary Data, processed in 2021

Through the results of this test, variable data that has a loading factor below (< 0.7) can be ignored, thus the results of the next outer loading are obtained as shown in the table below.

Table 3. Outer Loading Test

MATRIX	CSR - X1	GCG - X2	ROE - Y
CSR	1,000		
KIP		1,000	
ROE			1,000

Source: Secondary Data, processed in 2021

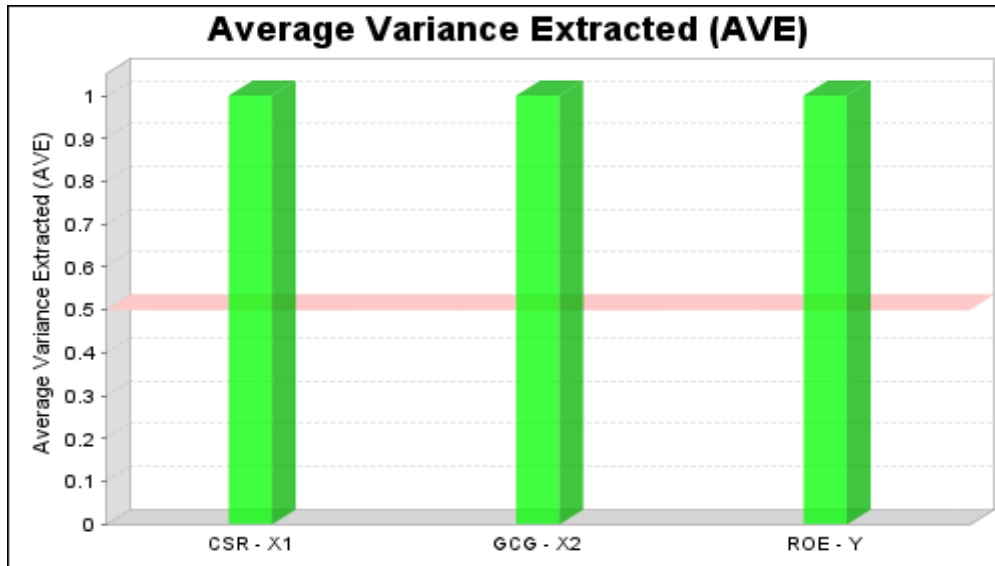
The outer loading results in Table 3 are 1,000 for each variable at the outer loading value of > 0.7 . Hence, it could be concluded that the outer loading value of each variable has met the requirements.

b. Discriminant Validity

This test reviews and compares discriminant validity and the square root of AVE. The measurement model is measured based on cross loading with the construct. If the relationship

between latent constructs estimates the parameters very well compared to other constructs. If the number is higher than the correlation number between the constructs, until good discriminant validity is achieved (if AVE > 0.5) this is the AVE size achievement for each parameter:

Figure 2. Discriminant Test



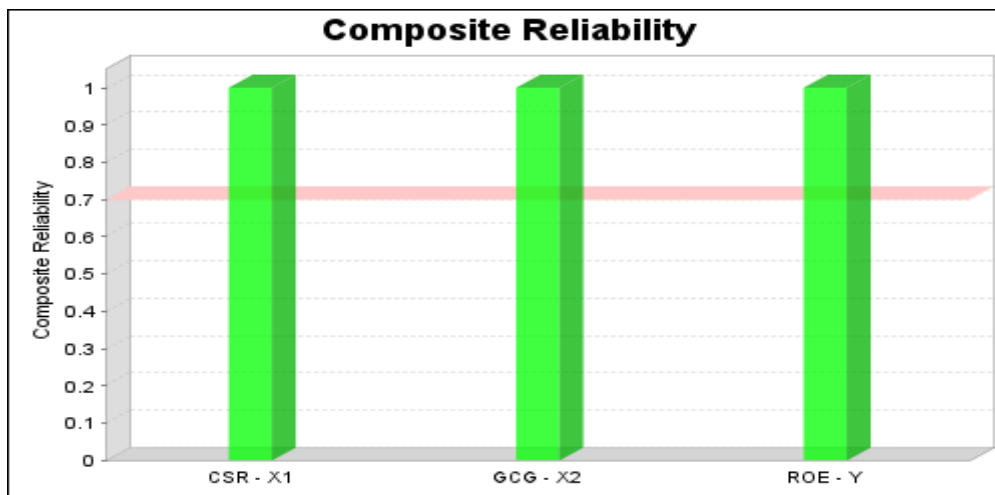
Source: Secondary Data, processed in 2021

From the results of the AVE measurement, it could be seen that all variables have met the requirements because they have a number that is > the specified rule of thumb, which is 0.5.

c. Reliability test

In order to determine the composite reliability, if the CR number > 0.7, it could be concluded that the construct has high or reliable reliability, and if CR number > 0.6, it could be considered as quite reliable.

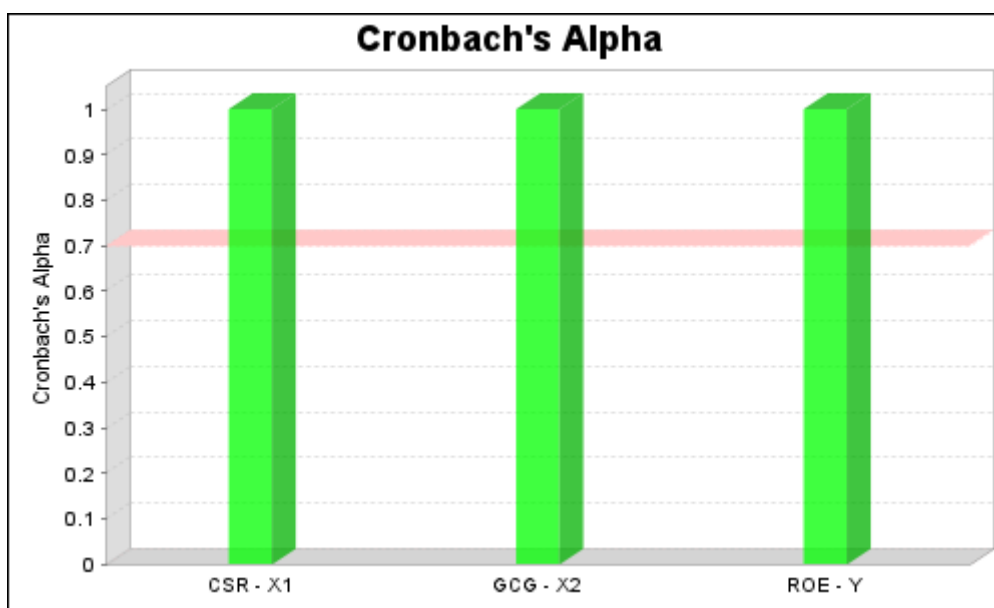
Figure 3. Composite Reliability Test



Source: Secondary Data, processed in 2021

The results of the composite reliability measurement showed that all latent variables have a CR > 0.7, meaning that the variables are appropriate and feasible to be used as the tested variables to review its impact on the dependent latent variable, which is the company value. For the reliability test, it was strengthened by the presence of Cronbach's alpha, namely the stability of each tested response. CA is said to be good if >0.6. As for the achievement of the CA measure, it could be seen as follows:

Figure 4. Cronbach's Alpha Test



Source: Secondary Data, processed in 2021

The results of the measurement in figure 4 could be reviewed for each latent variable with a Cronbach Alpha value > 0.6 then it is considered to be good.

3. Structural Model Analysis (Inner Model)

Next, the results of the Inner Model test using R-square, to determine the variance of the dependent variable that can be described by variations of the independent variable, in understanding the substantive effect among variables, are as follows:

Tabel 4. R-Square

MATRIX	R Square	R Square Adjusted
ROE - Y	0.169	0.14

Source: Secondary Data, processed in 2021

The R-square indicator value of 0.169 shows the amount of influence of the latent variable CSR, GCG with ROE. Adjusted R-square is 0.140 or 14%, while 86% is explained to be outside variables that are not examined. Furthermore, the F-Square test is used to assess the relative effect of the independent variable on the dependent variable. The achieved size of the inner model using PLS is as follows:

Tabel 5. F-Square

MATRIX	CSR - X1	GCG - X2	ROE - Y
CSR - X1			0.001
GCG - X2			0.204
ROE - Y			

Source: Secondary Data, processed in 2021

From the test results, it can be seen that CSR has a value of < 0.02 (weak effect), and CG has a value of > 0.15 (medium effect).

4. Hypothesis Test (Bootstrapping)

Hypothesis testing is carried out based on the results of the Inner Model test including the R-square output. In order to see if there is a hypothesis that can be accepted or rejected, the significance number between the constructs and the p-value are shown. Such number could be seen from the bootstrapping achievement. The rule of thumb for this study used a significant level of p-value 0.05 (5%). The study hypothesis figures can be reviewed in the Table 9. The results of the hypothesis test in this study indicate that:

Tabel 6. Bootstrapping Test

PATH COEFISIEN	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
CSR - X1 -> ROE - Y	-0.026	-0.026	0.112	0.229	0.819
GCG - X2 -> ROE - Y	0.412	0.394	0.114	3.624	0.000

Source: Secondary Data, processed in 2021

The results of the CSR test have a path coefficient value of -0.026 with a p-value of 0.819 >0.05 indicating that CSR has a negative and insignificant effect on ROE. This is in accordance with previous research, such as: Rinata, PD (2019) in manufacturing companies and Khasanah, ID, & Sucipto, A. (2020) in the basic materials and chemical industry sectors. However, another researcher, Lusmeida, H. (2020), showed different result, which is that CSR has a positive effect on financial performance.

CONCLUSION

This study concludes that CSR has a negative and insignificant effect on ROE. This is because CSR activities carried out by the company, which consist of social activities such as: scholarships, donations in the field of health and work safety, environmental conservation, waste treatment, construction of houses of worship and schools and others, could require quite a high cost while not directly contribute to the company's operational activities and sales. Moreover, the uncertain rate of return, of which also takes a long time, could cause the company profits to decline.

Meanwhile, GCG has a significant effect because GCG with independent commissioners can optimize the companies' financial performance by providing supervision, reducing fraudulent practices that may be carried out by company managers. Furthermore, since independent commissioners are a component of commissioners who are not bound by

management, board of commissioners, and controlling shareholders, their role would be able to reduce agency conflict within the company, hence affecting the financial performance.

Based on the results of the study, it is suggested that companies, especially in the consumer goods industry sector, should make evaluations to improve their financial performance. This should be done in order to attract more investors to invest their funds. Additionally, companies should implement more appropriate CSR in order to contribute more directly to their operational activities and evaluations. Next, in implementing GCG as a corporate strategy, companies need to execute it better and more consistently. Lastly, for further researchers who want to do re-research, it is recommended that they add or change other independent variables outside of the already-researched variables, so that the results obtained can be more developed.

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