Analysis Of The Application Of Good Corporate Governance (GCG) And Corporate Social Responsibility (CSR) To The Company's Financial Performance (Case Study On Banking Companies For The Period 2016-2020)

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ABSTRACT

This study aims to determine the influence of Good Corporate Governance consisting of managerial ownership, institutional ownership, independent board of commissioners, audit committee and Corporate Social Responsibility on the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period. This research method uses a deductive-inductive method with a population of banking companies listed on the Indonesia Stock Exchange. The sampling technique uses purposive sampling with secondary data used in the form of annual reports of banking companies which can be accessed through the website www.idx.co.id the 2016-2020 period. The data analysis techniques used are descriptive analysis, a classical assumption test consisting of a normality test, an autocorrelation test, a multicholinearity test and multiple regression analysis. The results of this study managerial ownership, institutional ownership, independent board of commissioners, audit committee and Corporate Social Responsibility partially (t-test) have no effect on the financial performance of banking companies (ROE). Based on the F test, GCG and CSR have a significance value of 0.022 < 0.05 which simultaneously affects the financial performance of banking companies.

Keywords: Financial Performance, Corporate Social Responsibility, Managerial Ownership, Institutional Ownership, Independent Board Of Commissioners, Audit Committee.

INTRODUCTION

Companies today face a variety of challenges and requirements in implementing standards of responsible business practices. The form of corporate responsibility to all stakeholders, including consumers, employees, shareholders, society and the environment, there are various forms that are both directly related to the operational aspects of the company from various economic, social and environmental perspectives.

Measuring financial performance is one of the important things for management as a process of evaluating and planning company goals in the future. Financial performance can be improved on the basis that the company is able to operate optimally and meet profit targets. The profits that have been earned can be used to increase the value and growth of the company and can distribute dividends to shareholders.

Related to Good Corporate Governance Budiati (2012) explained that it initially emerged from the response of shareholders who considered their position and position to be in danger of being misplaced. The emergence of the concept of commissioner involvement as one of the discussions on the implementation of Good Corporate Governance to guarantee and secure shareholder rights is caused by illegal corporate disgrace that occurs in expansive companies in Indonesia and other countries[1]. Wahyudi Prakarsa in (Agoes & Ardana, 2006) Good Corporate Governance can be a management instrument that controls the relationship between administration, officers, leaders, shareholders and other partners, this relationship is used to achieve and set company goals, which are realized in the form of rules. The system needed to achieve and control the execution that the company will carry out in the future. [2]

Bambang Rudito & Famiola (2019) said that Corporate Social Responsibility (CSR) is basically a company's need to be able to connect with the surrounding community as part of the community as a whole. Demands for companies to adjust to the environment and obtain social benefits within the framework of trust [3]. Corporate Social Responsibility is also a concept of the company's commitment to advancing the welfare

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of the surrounding community through trade arrangements and the provision of corporate resource contributions. [4]

Financial performance is often described as the condition of the company along with the results that have been achieved by the company in a period of financial statements. On the other hand, financial performance is a factor that companies and organizations can use to show effectiveness and efficiency in achieving their vision and mission. Assessment of the performance of a company can be done by analyzing its financial statements. In this study, financial performance was measured using Return On Equity (ROE).

This research was conducted in order to answer the formulation of the following problems: 1) Partially the influence of managerial ownership, institutional ownership, audit committee, independent board of commissioners, and Corporate Social Responsibility on the financial performance of banking companies (ROE) in 2016-2020. 2) Simultaneously influence of managerial ownership, institutional ownership, audit committee, independent board of commissioners, and Corporate Social Responsibility to the financial performance of banking companies (ROE) in 2016-2020.

1. Theoretical Foundations and Hypothesis Development

2.1 Agency Theory

(Eisenhardt, 1989) states that "agency theory is emphasized to address two problems that can occur in organizational relationships". First of all, organizational problems that arise when the desires or goals of the principal and the agent conflict with each other and make it difficult for the principal to confirm whether the agent has done something right. Second, the issue of sharing in opportunity arises where principals and agents have different attitudes towards opportunity. In organizational relations, there is a central relationship between the owner (principal), especially the shareholders and the controlling party (agent), especially the director of the company.

2.2 Theory of Legitimacy

The theory of legitimacy is a condition or status that exists when a company's value system is aligned with the value system of a larger social system to which it belongs. Any actual or potential difference between the two value systems puts the company's legitimacy at risk. The company feels legitimized in its existence and activities through social disclosure (Ghozali & Chariri, 2007).

The theory of legitimacy explains that companies must ensure that what they do in their business activities is acceptable to their communities. This means that the company must comply with the regulations and standards set by the environment when carrying out business activities. is considered lawful and acceptable to outside parties. A business acquires legitimacy when its existence and performance are recognized by the society and the environment in which it operates (Nor Hadi, 2011).

2.3 Good Corporate Governance

Good Corporate Governance can be a system used to regulate and control companies in order to expand company values for all stakeholders. Determination of *Good Corporate Governance* (Managerial Ownership, Institutional Ownership, Independent Board of Commissioners and Audit Committee) can be through the following means:

a. Measurement of the value of *Good Corporate Governance* through managerial ownership can be calculated as follows:

$$\textbf{X1 :} \text{ Managerial Ownership} = \frac{number\ of\ shares\ owned}{Total\ share\ outstanding}\ x\ 100$$

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b. Pengukuran nilai Good Corporate Governance melalui kepemilikan institusional dapat dihitung sebagai berikut :

c. Pengukuran nilai Good Corporate Governance melalui dewan komisaris independen dapat dihitung sebagai berikut :

d. Pengukuran nilai Good Corporate Governance melalui komite audit dapat dihitung sebagai berikut :

2.4 Corporate Social Responsibility is essentially an effort to account for the activities of the company or organization continuously for the impact caused by the choices and activities that have been taken and carried out by the organization, where the impact will definitely be felt or affect interested parties, especially the community and the environment. CSR calculation can be done with CSR Index 78 items as follows:

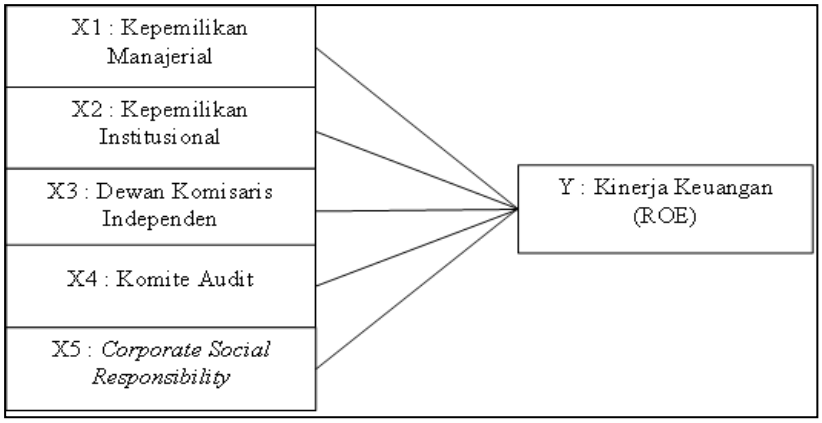
$$\textbf{X5 :}\ \text{CSR} = \frac{total\ number\ of\ category}{7\ disclosure\ items}$$

2.5 Financial Performance (ROE)

For shareholders, the level of profit achieved by the company will be more considered depending on how much the company's ROE level is. Another advantage is that for shareholders who invest their funds, ROE is also a benchmark for how much they get rewarded for the capital they have invested. To find out ROE, the following formula can be used:

$$\text{ROE} = \frac{net\ income\ before\ tax}{Total\ equity}$$

2.6 Frame of Mind



2.7 Hypothesis

In this study, there is a hypothesis as follows: H0 = Partial managerial ownership, institutional ownership, independent board of commissioners, audit conite and Corporate Social Responsibility

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affect the financial performance (ROE) of banking companies. Ha = Simultaneously managerial ownership, institutional ownership, independent board of commissioners, audit conite and Corporate Social Responsibility affect the financial performance (ROE) of banking companies.

2. Research Methods

In this study, researchers used a type of quantitative research type. Quantitative research is a type of research that basically uses a deductive-inductive approach [5]. Researchers use secondary data, which is already available and easily searchable data [6]. The source of the data comes from the annual report which comes from the official website of the Indonesia Stock Exchange (www.idx.co.id).

The total sample of companies to be tested was 12 banking companies out of a total of 47 listed companies. In data testing researchers use the SPSS (Statistical Products and Services Solutions) program in multiple regression analysis methods, descriptive tests, classical assumption tests (normality, autocorrelation, multicholinearity) as well as partial hypothesis testing / t-test and simultaneous / F.[7]

3. Results and Discussion

4.1 Descriptive Test

The descriptive test was used as a sample data description of the data that had been collected in the study [8]. In this descriptive test, the formulas used are the lowest value, the most important value, the average as well as the standard deviation or size of the data spread. In table 1, the total population studied was 60 (Sixty). The managerial ownership variable indicates the lowest value is 0.00. The lowest value was obtained by Bank Danamon Indonesia Tbk. Managerial ownership variable shows that the highest value is 0.41 obtained by Bank Yudha Bakti Tbk. Managerial ownership variable has an average value of 0.1313. The institutional ownership variable shows the lowest value is 0.51 obtained by the Regional Development Bank of West Java Tbk. The institutional ownership variable shows that the highest value is 0.97 obtained by Bank Maybank Indonesia Tbk. Institutional ownership variable has an average value of 0.7143. The variable of the independent board of commissioners shows that the lowest value is 0.33 obtained by Bank Yudha Bakti Tbk. The variable of the independent board of commissioners shows that the highest value is 0.80. obtained by Bank Pembangunan Jawa Barat Tbk. Variable independent board of commissioners has an average of 0.5594. The audit committee variable shows that the lowest value is 2 obtained by Bank Negara Indonesia (Persero) Tbk. The audit committee variable shows the highest value is 8 obtained by Bank Rakyat Indonesia (Persero) Tbk. The audit committee variable has an average of 4.4167. The CSR variable shows the lowest value is 0.65 obtained by Bank Yudha Bakti Tbk. CSR variable shows the highest value is 0.88 obtained by Bank Rakyat Indonesia (Persero) Tbk. CSR variable has an average of 0.7913. The variable ROE indicates the lowest value is -22.73. obtained by Bank Yudha Bakti Tbk. Variable ROE shows the highest value is 23.08 obtained by Bank Rakyat Indonesia (Persero) Tbk. Variable ROE has an average of 10.7932.

Table 1. Discriptive test

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
KM	60	,00	,41	,1313	,09265
KI	60	,51	,97	,7143	,15496
DKI	60	,33	,80	,5595	,09982
KA	60	2,00	8,00	4,4167	1,31860
CSR	60	,65	,88	,7913	,07215
ROE	60	-22,73	23,08	10,7932	7,04634

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4.2 Test Classical Assumptions

a. The normality test using the K.S Test has a significance value of 0.65 greater than 5%. With this result proves that the data is normally distributed.
b. The autocorrelation test has a DW value of 1.796 with (dl) = 1.4083 and (du) = 1.7671. The DW value is between DU and 4-DU so no autocorrelation occurs.
c. The multicholinearity test of data does not occur multicholinearity because it has a tolerance result value above 0.1 and a VIF below 10.

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		60
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	5.98677531
Most Extreme Differences	Absolute	.153
	Positive	.077
	Negative	-.153
Test Statistic		.153
Asymp. Sig. (2-tailed)		.065[c]

a. Test distribution is Normal.

b. Calculated from data.

Table 3. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,155[a]	,073	-,019	,541072	1,796

a. Predictors: (Constant), KM, DKI, KA, KI, CSR

b. Dependent Variable: ROE

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Table 4. Multicholinearity Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Kepemilikan Manajerial	0.141	0.837
	Kepemilikan Institusional	0.113	0.519
	Dewan Komisaris Independen	0.184	0.730
	Komite Audit	0.149	0.703
	CSR	0.161	0.986

a. Dependent Variable: ROE

4.3 Multiple Linear Regression

Table 5. Multiple Linear Regression

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	24.034	79.261		.303	.763
	KM	-7.189	34.724	-.100	-.207	.837
	KI	-9.536	14.670	-.227	-.650	.519
	DKI	-4.493	12.936	-.067	-.347	.730
	KA	.556	1.445	.110	.385	.703
	CSR	1.860	102.663	.020	.018	.986

a. Dependent Variable: ROE

There is an equation: $Y = \alpha + \beta\ 1\ X_1 + \beta\ 2\ X_{\ 2} + \beta\ 3\ X_{\ 3} + \beta\ 4\ X_{\ 4} + \beta\ 5\ X_{\ 5} + \varepsilon$ which then entered the following values:

$Y = 24{,}034 - 7{,}189X\ 1 - 9{,}536X_{\ 2} - 4{,}493X_3 + 0.556X_4 + 1{,}860X_5 + \varepsilon$

From the equation, there is the following explanation:

a = 24.034 is a constant, if ROE is not influenced by all five free variables and is zero (0), then the ROE value is 24.034.

b_1 = -7,189, meaning that the increasing value of managerial ownership results in a decrease in the ROE value of 7,189.

b_2 = -9,536, meaning that the increasing value of institutional ownership results in a decrease in the ROE value of 9,536.

b_3 = -4,493, has the intention of increasing the value of the independent board of commissioners resulting in a decrease in the ROE value of 4,493.

b_4 = 0.556, has the intention of increasing the value of the audit committee resulting in an increase in the ROE value of 0.556.

b_5 = 1,860, has the intention of increasing the value of CSR resulting in an increase in the ROE value of 1,860.

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1. **Hypothesis Test**
   a. Managerial ownership (X1) is based on the previous table of managerial ownership variables with a regression coefficient of -7.189 with a significance level of 0.837. From this value, a conclusion of 0.837 > 0.05 was drawn so that managerial ownership did not have a significant effect on the *Return on Equity* (ROE) variable. These results are not in line with the research of Junda Muhammad (2018) that managerial ownership has a significant negative effect [9]. This difference in results is influenced by the number of sample companies studied, the year of study and also different dependent variables.
   b. Institutional Ownership (X2) is based on the previous table of institutional ownership variables with a regression coefficient of -9.536 with a significance level of 0.519. From this value, a conclusion of 0.519 > 0.05 was drawn so that institutional ownership did not have a significant effect on the *Return on Equity* (ROE) variable. This result is influenced by the factor of the majority shareholder of the institution or investors participating in the control of the company so that it tends to carry out actions for personal interests even at the expense of the interests of minority owners. In addition, government-owned companies prioritize other goals besides profit such as social and political goals, so that institutional ownership has no effect on *Return on Equity*.
   c. The independent board of commissioners (X3) is based on the previous table of independent board of commissioners variables with a regression coefficient of -4.493 with a significance level of 0.730. From this value, a conclusion of 0.730 > 0.05 was drawn so that the independent board of commissioners did not have a significant effect on the *Return on Equity* (ROE) variable. In line with the research of Wulandari (2006) and Nathania (2014), an independent board of commissioners appointed is not because of their background capabilities but because of the importance of something to the company.
   d. The Audit Committee (X4) is based on the previous table of audit committee variables with aregression coefficient of 0.556 with a significance level of 0.703. From this value, a conclusion of 0.703 > 0.05 was drawn so that the audit committee did not have a significant effect on the *Return on Equity* (ROE) variable. In line with the research of Hasibuan & Sushanty (2018) which states that the size of the audit committee has no effect on the financial performance of banking companies [10]. Thishappens because of the size factor of the number of audit committees that are large, but the task it does is a large financial company so that in carrying out its duties it becomes less effective.
   1. *Corporate Social Responsibility* (X5) is based on the previous table of *Corporate Social Responsibility* variables with aregression coefficient of 1.860 with a significance level of 0.986. From this value, a conclusion of 0.986 > 0.05 was drawn so that *Corporate Social Responsibility* did not have a significant effect on the *Return on Equity* (ROE) variable. Some companies still consider CSR costs as a burden, and the implementation of these activities does not have reciprocity comparable to expenses so that they are less beneficial for the sustainability of the company.

1. **Test F**

Table 6. Test F

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1371.340	20	68.567	2.127	.022[b]
	Residual	1257.223	39	32.236		
	Total	2628.563	59			

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Based on the table above, it can be seen that the value of F is 2.127 with the significance level of the F test result is worth 0.022. This indicates that the significance level is lower than 0.05, so simultaneously the overall five (5) variables together have a significant influence on the *Return on Equity* (ROE) variable because 0.022 < 0.05.

4.6 Coefficient of Determinant Test

Table 7. Determinant Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.922[a]	.822	.576	567.772	2.945

The results of the determinant coefficient test show that *R Square* is worth 0.822 or 82.2%. These results indicate that 82.2% of free variable variations can explain regression equations and the remaining 17.8% are influenced by other variables not used in regression models

4. Conclusion

Based on the test results as well as the discussion above, partially t-test results of free variables of Good Corporate Governance (X1 – X4) X1: managerial ownership, X2: institutional ownership, X3: independent board of commissioners, X4: audit committee, and X5: Corporate Social Responsibility has less influence on the implementation of financial performance (Return on Equity) of banking companies. Meanwhile, the results of the F test prove that all variables simultaneously have a significant influence on the implementation of the financial performance (Return on Equity) of banking companies on the Indonesia Stock Exchange in 2016-2020.

For future research, it can add independent variables as determinants of the financial performance of banking companies (ROE) such as net profit margin (NPM), total assets, liquidity, leverage, company activity, Capital Adequacy Ratio (CAR), Loan to Deposite Ratio (LDR). With the addition of variables, it is expected to be able to improve the development of the financial performance of banking companies (ROE) and this research is expected to be used for the development of similar research that will be carried out by subsequent researchers.

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