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CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY ON THE FINANCIAL PERFORMANCE OF BANKING COMPANIES

Pungky Ayu Kurniasari[1], Linawati[2], Mar'atus Solikah[3]

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Koresponding:
Universitas Nusantara PGRI, Kediri, East Java, Indonesia

Email:
Pungkykurniasari28@gmail.com

Abstract

Financial performance is an important aspect in company because it is a reference to the extent which the company has achieved its targets and how the company maintains its stability and credibility. According to a study from the World Bank, weak implementation of corporate governance is one of the causes of the crisis that occurred in Southeast Asia. Therefore, corporate governance is considered an important factor in improving company performance. Apart from corporate governance, Corporate Social Responsibility is also important because it affects the company's image. This research uses a quantitative approach with comparative causal research techniques. The sampling method uses purposive sampling at banking companies listed on the IDX. The analysis in this research uses multiple linear regression analysis. To fulfill the requirements specified in the use of multiple linear regression models, it is necessary to test several classical assumptions (normality test, multicollinearity test, heteroscedasticity test, autocorrelation test). To test the hypothesis, use the r square test, t test and f test. The conclusions of this research are (1) the audit committee has no effect on the company's financial performance, (2) institutional ownership has an effect on the company's financial performance, (3) corporate social responsibility has no effect on the company's financial performance, (4) the audit committee, institutional ownership and Corporate social responsibility simultaneously influences the company's financial performance

Abstrak

Kinerja keuangan merupakan aspek penting dalam perusahaan karena menjadi acuan sejauh mana perusahaan telah mencapai targetnya dan bagaimana perusahaan mempertahankan stabilitas dan kredibilitasnya. Menurut kajian dari Bank Dunia, lemahnya implementasi tata kelola perusahaan atau yang biasa disebut dengan *Good Corporate Governance* merupakan salah satu penyebab krisis yang terjadi di Asia Tenggara. Karena itu tata kelola perusahaan dianggap salah satu faktor penting untuk meningkatkan kinerja perusahaan. Selain tata kelola perusahaan, *Corporate Social Responsibility* juga penting karena berpengaruh pada citra perusahaan. Penelitian ini menggunakan pendekatan kuantitatif dengan teknik penelitian kausal komparatif. Metode pengambilan sampel menggunakan *purposive sampling* pada perusahaan perbankan yang terdaftar di BEI. Analisis pada penelitian ini menggunakan analisis regresi linier berganda. Untuk memenuhi syarat yang ditentukan dalam penggunaan model regresi linier berganda perlu dilakukan pengujian atas beberapa asumsi klasik (uji normalitas, uji multikolinearitas, uji heteroskedastisitas, uji autokorelasi). Untuk pengujian hipotesis menggunakan uji *r square* dan uji t. Kesimpulan penelitian ini adalah (1) komite audit berpengaruh positif tetapi tidak signifikan terhadap kinerka keuangan perusahaan, (2) kepemilikan institusional berpengaruh positif dan signifikan terhadap kinerja keuangan perusahaan, (3) *Corporate Social Responsibility* (CSR) berpengaruh positif tetapi tidak signifikan terhadap kinerja keuangan perusahaan

[2]linawati@unpkediri.ac.id, Universitas Nusantara PGRI, Kediri, East Java, Indonesia
[3]solikahkediri@gmail.com, Universitas Nusantara PGRI, Kediri, East Java, Indonesia

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INTRODUCTION

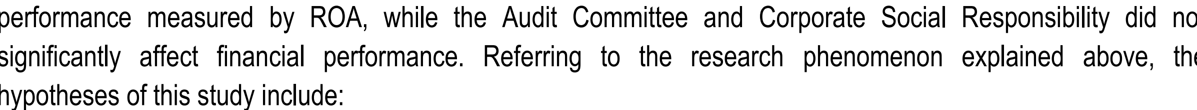
Financial performance is an important aspect of a company because it serves as a benchmark for how well the company has achieved its targets and how it maintains stability and credibility. Data from the Indonesian Institute for Corporate Directors (IICD) shows that the CG Score has been improving from 43.29% in 2012 to 67.99% in 2016. Among 50 companies in ASEAN, Indonesia only managed to place 2 companies. This indicates that corporate governance in Indonesia is still lower compared to other ASEAN countries. Besides corporate governance, Corporate Social Responsibility (CSR) is also important as it affects the company's image, although some companies have not yet implemented CSR.

According to Harmaen et al. (2022), financial performance is a depiction of a company's financial condition over a certain period, both in terms of fund collection and fund distribution, usually measured by indicators such as capital adequacy, liquidity, and profitability. There are six types of profitability ratios: (1) Gross Profit Margin, (2) Net Profit Margin, (3) Return On Sales, (4) Return On Assets, (5) Return On Investment, and (6) Return On Equity. Return On Assets (ROA) shows the company's ability to generate after-tax operating profit from the total assets owned by the company. This profitability ratio shows the return on the total assets used in the company and measures the efficiency of the company (Sutisna, 2020). It is concluded that ROA is a profitability ratio used to measure the company's effectiveness in generating profit by utilizing its assets. In other words, the better (higher) a company's ROA value, the better its performance in generating net profit.

Corporate governance is a system that regulates, manages, and oversees business control for the company's business success as a form of attention to stakeholders and regulates relationships and responsibilities among employees, creditors, and internal and external stakeholders in controlling the company to achieve a goal (Alfian, 2020). The more complex the risks faced by the bank, the more necessary the practice of Good Corporate Governance becomes. This practice is required to improve bank performance, protect stakeholder interests, and increase compliance with applicable regulations and generally accepted ethical values in the banking industry. The internal condition of national banking is also strengthened by the quality of Good Corporate Governance implementation. The Good Corporate Governance mechanism can be measured by the percentage of the audit committee, institutional ownership, board composition, and independent commissioner composition (Silitonga, 2020).

The audit committee is a group of people or a committee directly formed by the board of commissioners, aiming to carry out what becomes their duties and responsibilities related to corporate governance to create efficiency in managing and controlling the company. Institutional ownership refers to the shares of a company owned by other institutions that can be used for oversight over the company's management. The board of directors' composition is the executive committee that determines the policies and strategies for the resources owned by the company. The independent commissioners' composition is the committee that oversees the board of directors' policies and ensures that the company has carried out governance according to applicable regulations. This study will discuss corporate governance proxied by the audit committee and institutional ownership.

According to Luthan et al. (2018), social responsibility, commonly known as CSR, is the method used by companies to balance environmental, economic, and social aspects while meeting stakeholder expectations. The company's CSR activities can be disclosed through annual reports, referring to responsibilities towards stakeholders, including the community and the physical environment where the company operates. Research on financial performance influenced by corporate governance and social responsibility is still interesting to examine because there are still differing research results. In Yani's (2018) study, it was found that the Good Corporate Governance variable proxied by the audit committee and institutional ownership and the Corporate Social Responsibility variable influenced the financial performance variable measured by ROA (Return On Assets). Meanwhile, Sutisna's (2020) research found that the Board of Directors variable significantly affected financial



performance measured by ROA, while the Audit Committee and Corporate Social Responsibility did not significantly affect financial performance. Referring to the research phenomenon explained above, the hypotheses of this study include:

H1: The audit committee affects the financial performance of banking companies listed on the IDX from 2020-2022.

H2: Institutional ownership affects the financial performance of banking companies listed on the IDX from 2020-2022.

H3: Corporate social responsibility affects the financial performance of banking companies listed on the IDX from 2020-2022.

H4: The audit committee, institutional ownership, and corporate social responsibility simultaneously affect the financial performance of banking companies listed on the IDX from 2020-2022.

RESEARCH METHOD

The research approach to be used in this study is a quantitative approach with a causal-comparative research technique. The research will be conducted at the Indonesia Stock Exchange (IDX), and the required data will be downloaded from the website www.idx.co.id. The research period will span six months from July to December 2023. The population in this study consists of banking companies listed on the Indonesia Stock Exchange from 2020 to 2022, totaling 55 companies after applying purposive sampling as the sampling technique. The data analysis technique in this study is multiple linear regression analysis. To meet the requirements for using the multiple linear regression model, several classical assumption tests need to be conducted to ensure that the obtained regression equation has accuracy in estimation, as follows: (1) Normality test, (2) Multicollinearity test, (3) Autocorrelation test, and (4) Heteroscedasticity test. For hypothesis testing, the coefficient of determination (R^2 test), t-test (partial), and F-test (simultaneous) will be used.

RESULT AND DISCUSSION

Result of Statistic Deskriptive

Table 1. Result of Deskriptive Statitstic

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	57	-14,75	4,74	0,3374	3,39423
Audit commitee	57	2	7	3,6842	1,22704
Institutional Ownership	57	0,16	1	0,6898	0,22936
CSR	57	0,11	0,46	0,2709	0,0902
Valid N (listwise)	57				

Source : Data Processed, 2024

The results of the descriptive statistical analysis show that the average Return On Assets (ROA) of banking companies is 0.3374 or 33.74% with a standard deviation of 3.39 or 339%. The average audit committee size in banking companies is 3.68 or 368% with a standard deviation of 1.122 or 112.2%. The average institutional ownership in banking companies is 0.689 or 68.9% with a standard deviation of 0.229 or 22.9%, and the average CSR in banking companies is 0.2709 or 27.09% with a standard deviation of 0.090 or 9%.

Table 2. Normality Test

		Unstandardized Residual
N		57
Normal Parameters[a,b]	Mean	0
	Std. Deviation	2,808163
Most Extreme Differences	Absolute	0,115
	Positive	0,065
	Negative	-0,115
Test Statistic		0,115
Asymp. Sig. (2-tailed)		,057[c]

Source : Data Processed, 2024

The Asymp. Significance value is 0.057. Since the significance is greater than 0.05, it indicates that the data is normally distributed

Table 3 Multicollinearity Test

Variable	VIF	Tolerance
Audit commitee	0,741	1,35
Institutional Ownership	0,731	1,367
CSR	0,933	1,072

Source: Data Processed, 2024

The tolerance value for each variable is > 0.10 or the VIF (Variance Inflation Factor) is < 10, indicating that there is no multicollinearity among the independent variables, thus the data analyzed meets the multicollinearity assumption.

Table 4. Heteroscedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5,303	1,045		5,076	0
	Audit commitee	-0,323	0,235	-0,195	-1,375	0,175
	Institutional Ownership	-2,811	1,263	-0,317	-2,225	0,08
	CSR	-0,94	2,845	-0,042	-0,33	0,743

Source: Data Processed, 2024

The significance values for the three variables are > 0.05: the audit committee with a significance of 0.175, institutional ownership with a significance of 0.080, and CSR with a significance of 0.743, which means that there is no heteroscedasticity.

Table 5. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,562[a]	0,316	0,277	2,88655	1,996

Source: Data Processed, 2024

The Durbin-Watson value is 1.996. This value is compared to the Durbin-Watson significance table value with a significance level of 5%, a sample size (N = 57), an upper bound (DU) value of 1.6845, and a lower bound (DL) value of 1.4637. Thus, the result is 1.6845 < 1.996 < 2.3155, which can be concluded that there is no autocorrelation.

Multiple Regression Analysis

Table 6. Result of Regression Analisys

Variable	Koefisien regresi (B)	Std. Error	Beta	Nilai T	Significant
Constanta	-7,167	1,626		-4,407	0
Audit commitee	0,587	0,365	0,212	1,607	0,114
Institutional Ownership	5,151	1,966	0,348	2,619	0,011
CSR	6,604	4,428	0,176	1,491	0,142
Value of R	**0,562**				
R Square	**0,316**				
Adjusted R Square	**0,277**				
F Test	**8,144**				
Sig. F test	**0,000**				

Source : Data Processed, 2024.

Referring to the research results above, the regression equation used is: **Y = -7,167 + 0,587X1 + 5,151X2 + 6,604X3 + e**. This equation means that the constant value (-7.167) indicates that if the audit committee, institutional ownership, and corporate social responsibility (CSR) are all valued at 0, the financial performance (measured as Return On Assets, ROA) would be -7.167. The regression coefficient for the audit committee is 0.587. This means that for every one-unit increase in the audit committee variable, the financial performance increases by 0.587, assuming all other independent variables remain constant. The regression coefficient for institutional ownership is 5.151. This means that for every one-unit increase in the institutional ownership variable, the financial performance increases by 5.151, assuming all other independent variables remain constant. The regression coefficient for CSR is 6.604. This means that for every one-unit increase in the CSR variable, the financial performance increases by 6.604, assuming all other independent variables remain constant..

The Adjusted R^2 value is 0.277, which means that 27.7% of the variation in ROA can be explained by the three independent variables: audit committee, institutional ownership, and CSR. The remaining 72.3% is influenced by other variables not included in the study.

The significant level of the institutional ownership variable is < 0.05, while the significance levels of the other two independent variables, audit committee and CSR, are > 0.05. This leads to the conclusion that institutional ownership is partially significant to ROA, whereas the audit committee and CSR are not partially significant to ROA.

The significant level for the overall model is 0.00, which is < 0.05. Therefore, it can be concluded that the audit committee, institutional ownership, and CSR simultaneously have a significant effect on ROA.

DISCUSSION

Based on the t-test results, it was found that the audit committee does not affect financial performance. This finding is supported by the studies of Makhrus (2019) and Hartati (2020), which also concluded that the audit committee does not significantly influence financial performance. The audit committee is established to oversee the company and is accountable to the board of commissioners. However, an increase in the audit committee does not necessarily lead to a significant improvement in the company's financial performance.

The t-test results showed that institutional ownership affects financial performance. This finding is supported by the studies of Candradewi & Sedana (2020) and Hartati (2020), which found that institutional ownership influences financial performance. Institutional ownership has a positive and significant impact, meaning that the more shares held by institutions, the better the company's financial performance. This is because institutional investors represent a source of power that can be used for more optimal oversight and to prevent fraud within company management.

The t-test results indicated that corporate social responsibility (CSR) does not affect financial performance. This finding is supported by the studies of Sutisna (2020) and Sudaryanti (2020), which also concluded that CSR does not influence financial performance. CSR activities do not always receive a financial response from the public. The public may respond positively to CSR activities but this does not necessarily mean they will become the company's consumers. Therefore, CSR does not significantly affect the company's financial performance.

The F-test results showed that the audit committee, institutional ownership, and CSR simultaneously affect financial performance. This finding is supported by the study of Ningsih (2021), which found that the audit committee, institutional ownership, and CSR simultaneously influence financial performance. The audit committee and institutional ownership can serve as oversight tools for both management and external parties, thus protecting the interests of shareholders and minimizing fraud that may occur within company management. Moreover, CSR activities can enhance the company's reputation among investors and the public. Therefore, simultaneously, the audit committee, institutional ownership, and CSR influence financial performance

CONCLUSSION

Based on the test results, the t-test indicated that the audit committee and corporate social responsibility (CSR) each do not individually affect the financial performance of the company. However, institutional ownership individually affects the financial performance of the company. According to the simultaneous F-test, it was found that all three variables collectively influence the financial performance of the company and can be used for oversight of the company and to maintain the company's reputation.

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