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The Effect Of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on Financial Performance

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ABSTRACT

This study aims to empirically examine the effect of Corporate Social Responsibility and Good Corporate Governance on the financial performance of banking companies listed on the Indonesia Stock Exchange in 2017-2020. The research method used in this study is a quantitative method. The population in this study were all banking companies listed on the Indonesia Stock Exchange in 2017-2020, where the sample used was purposive sampling criteria and obtained as many as 10 banking companies. The data analysis technique used in this study is multiple linear regression analysis, F test, and t test. Based on the research results, it can be seen that Corporate Social Responsibility has a negative and insignificant effect on the financial performance of banking companies. The reason is because Corporate Social Responsibility activities in Indonesia are still based on volunteerism, so that many companies still consider Corporate Social Responsibility activities as a burden that can reduce company profits and have no effect on financial performance. In addition, the results of this study also found that Good Corporate Governance (which is proxied by the proportion of the number of commissioners and directors) has a positive and significant effect on the financial performance of banking companies. The reason is that the more the number of boards of commissioners and the board of directors in a company can help create good governance within the company, so that the creation of good governance within a company can help improve financial performance.

Keywords: CSR, Good Corporate Governance, Financial Performance, Banking

INTRODUCTION

Financial performance, namely the achievement of an achievement from the company during a certain period of financial reports and company sustainability reports, so with these achievements a company can show how it is performing (Oktalia, Valianti, & Oktariansyah, 2020). Based on the definition above, financial performance can be said to be an illustration of the company's condition during a certain period, in managing assets and also maintaining good relations with shareholders and the public. To find out the achievements of the company in each period, financial performance can basically be measured using Return On Assets (ROA). Every company can improve its financial performance by carrying out specific activities related to the company and all related stakeholders.

Corporate Social Responsibility is also seen as a form of the company's commitment to stakeholders, both directly and indirectly by improving environmental quality and community welfare by taking into account the positive and negative impacts originating from the company's business activities (Manurung, Rusmawan, Hapsari, & Husnatarina, 2017). Disclosure of Corporate Social Responsibility performance in companies can basically be measured using the Global Reporting Initiative (GRI) index, which has the topic of performance disclosure, both economic, environmental and social. In this study, the performance indicators approach in the Sustainability Report uses the GRI Standard reporting guidelines, which are divided into three dimensions, namely Economics/Economics (EC), Environment (EN) and Social/Society (SO) aspects (Agustina,

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Putri & Annisa, 2022). Through the issuance of Law no. 40 of 2007, the implementation of Corporate Social Responsibility in banking companies is increasing every year. Not infrequently, many banking companies have implemented Corporate Social Responsibility by providing scholarships to students who excel or are less fortunate (eg Bank BNI), this is one of the positive activities of implementing Corporate Social Responsibility that occurs among the community.

Good Corporate Governance is a method used to regulate, manage and supervise company relations with stakeholders in order to achieve more transparent company activities. Good Corporate Governance in this study is proxied through the proportion of the board of directors and board of commissioners. There are many cases related to the implementation of Good Corporate Governance, for example, the case of misappropriation of CSR funds that occurred at one of the Regional Banks of Southeast Sulawesi, where CSR funds for people affected by the Covid-19 pandemic were used for personal gain and there were procedural inconsistencies regarding the administration of these donations.

In addition to the phenomena that have been described, several previous studies also found differences in results regarding the influence of Corporate Social Responsibility and Good Corporate Governance on company financial performance. The results of research from Fajrinnaski (2017) show that Corporate Social Responsibility has a negative and insignificant effect on financial performance, while Good Corporate Governance which is proxied by the independent board of commissioners and the size of the board of directors has a positive and significant effect on financial performance. However, the results of other studies found that Corporate Social Responsibility has a positive and significant effect on financial performance (Nyeadi, Ibrahim & Sare, 2018). Similar findings were also obtained by Idayanti & Hasni (2022) found that Corporate Social Responsibility has a positive and significant effect on financial performance, and Good Corporate Governance has a positive and insignificant effect on financial performance. On the other hand, the results of research conducted by Puspita & Kartini (2022) state that Corporate Social Responsibility has a positive and insignificant effect on financial performance and Good Corporate Governance which is proxied through the audit committee has a positive and significant effect on financial performance. Meanwhile, the results of research by Suciwati, Dewi & Bagiada (2021) show that Corporate Social Responsibility and Good Corporate Governance have a positive and significant influence on financial performance. and Good Corporate Governance is positive and not significant to financial performance. On the other hand, the results of research conducted by Puspita & Kartini (2022) state that Corporate Social Responsibility has a positive and insignificant effect on financial performance and Good Corporate Governance which is proxied through the audit committee has a positive and significant effect on financial performance. Meanwhile, the results of research by Suciwati, Dewi & Bagiada (2021) show that Corporate Social Responsibility and Good Corporate Governance have a positive and significant influence on financial performance. and Good Corporate Governance is positive and not significant to financial performance.

On the other hand, the results of research conducted by Puspita & Kartini (2022) state that Corporate Social Responsibility has a positive and insignificant effect on financial performance and Good Corporate Governance which is proxied through the audit committee has a positive and significant effect on financial performance. Meanwhile, the results of research by Suciwati, Dewi & Bagiada (2021) show that Corporate Social Responsibility and Good Corporate Governance have a positive and significant influence on financial performance. Puspita & Kartini (2022) states that Corporate Social Responsibility has a positive and insignificant effect on financial performance and Good Corporate Governance which is proxied through the audit committee has a positive and significant effect on financial performance. Throughout, the results of research by Suciwati, Dewi & Bagiada (2021) show that Corporate Social Responsibility and Good Corporate Governance have a positive and significant influence on financial performance. Puspita & Kartini (2022) states that Corporate Social Responsibility has a positive and insignificant effect on financial performance and Good Corporate Governance which is proxied through the audit committee has a positive and significant effect on financial performance. Meanwhile, the results of research by Suciwati, Dewi & Bagiada (2021) show that Corporate Social Responsibility and Good Corporate Governance have a positive and significant influence on financial performance.

LITERATURE STUDY

Theoretical Review

Triple Bottom Line

Triple Bottom Lineis a concept that is used as a basic foundation in the implementation of Corporate Social Responsibility in a company which is based on three aspects, namely economic, social and environmental aspects (Elkington, 1997). The Triple Bottom Line can be divided into 3 terms, namely economic prosperity, environmental quality, and social justice, or what is commonly known as the "3P Formula", which consists of profit, people and planet.

Agency Theory

According to Jensen & Meckling (1976), agency theory is a collection of contracts (nexus of contracts) between owners of economic resources (principal) and management (agents) who manage the use and control of these resources. In agency theory, it explains that the board of directors is the most influential party to company operations because all policies and decisions are on the board of directors (Puspita & Kartini, 2022).

Corporate Social Responsibility

Corporate Social Responsibility is an accounting concept that emphasizes corporate responsibility that is not solely oriented to the economic aspect (profit), but also considers the social and environmental impacts of the company's business activities (Djamilah, 2017). In Indonesia, issues regarding Corporate Social Responsibility are officially regulated in law no. 40 of 2007 concerning 18 Limited Liability Companies. In the Limited Liability Company Law No. 40 of 2007 article 1 paragraph 3 which explains that social responsibility is a company commitment, which participates in sustainable economic development to improve the quality of life and the environment for both the company and the surrounding environment (Reza, 2019).

Good Corporate Governance

Good Corporate Governance is a set of efforts to improve systems and processes in organizational management by regulating and clarifying relationships, authorities, rights and obligations of all stakeholders, both through the General Meeting of Shareholders (GMS), the Board of Commissioners and the Board of Directors (Hendro, 2017). So, it can be said that Good Corporate Governance is a method used to regulate, manage and supervise corporate relations with stakeholders in order to achieve more transparent company activities.

Financial performance

Financial performance, namely the achievement of an achievement from the company during a certain period of financial reports and company sustainability reports, so with these achievements a company can show how its performance is (Oktalia, Valianti, & Oktariansyah, 2020). In this study, Return On Assets (ROA) is used as the main analytical tool in assessing the company's financial performance indicators. Return On Assets (ROA) is one of the calculation ratios that shows the success of a company in carrying out its business plans (Diantara, 2019). ROA can be formulated as follows:

$$ROA = \frac{Net\ Income}{Asset\ Total} \text{ X } 100\%$$

Hypothesis Development

The Effect of Corporate Social Responsibility (CSR) on Financial Performance

*Corporate Social Responsibility*is an accounting concept that emphasizes corporate responsibility that is not solely oriented to the economic aspect (profit), but also considers the social and environmental impacts of the company's business activities (Djamilah, 2017). According to Wijaya, Denny & Saebani (2019), stated that Corporate Social Responsibility is defined as a company's commitment to contribute to the performance of sustainable economic development with employees and company representatives in the local community and society at large to improve the quality of life, in a way that is good for the business world. and also for development. Based on the description above, the hypothesis in this study is as follows:

H1: Corporate Social Responsibility (CSR) has a positive and significant effect on financial performance

The Effect of Good Corporate Governance (GCG) on Financial Performance
*Good Corporate Governance*is a set of efforts to improve systems and processes in organizational management by regulating and clarifying relationships, authorities, rights and obligations of all stakeholders, both through the General Meeting of Shareholders (GMS), the Board of Commissioners and the Board of Directors (Hendro, 2017). According to Idayanti & Hasni (2022), Good Corporate Governance is a system and method for managing a company with the aim of increasing shareholder value and accommodating various parties with an interest in the company. Based on the description above, the hypothesis in this study is as follows:
H2: Good Corporate Governance (GCG) has a positive and significant effect on financial performance.

METHOD

Population and Sample
The population used in this study are all banking companies listed on the Indonesia Stock Exchange for the 2017-2020 period with a total population of 39 people. This study used purposive sampling which is a sampling technique through certain criteria. The following criteria are used to determine the sample for this study: (1) Banking companies listed on the Indonesia Stock Exchange for the 2017-2020 period, (2) Banking companies that have a Board of Directors and Board of Commissioners attached to the company's annual report or displayed on the web companies (banks), (3) Banking companies that issue and report sustainability reports in the 2017-2020 period. With these criteria, a sample of 10 banking companies was obtained.

Research variable
Dependent Variable
The dependent variable (Dependent Variable) is a variable that is affected or becomes a result because of the independent variable (Sugiyono, 2018: 61). The dependent variable in this study is financial performance. Return On Assets (ROA) is a ratio used to measure the ability of banking companies listed on the Indonesia Stock Exchange in 2017-2020 to generate net income based on the level of assets they have. A high ratio indicates the efficiency of asset management. ROA can be formulated as follows:

$$ROA = \frac{Net\ Income}{Asset\ Total} \text{ X } 100\%$$

Independent Variable
The independent variable (Independent Variable) is a variable that influences the change or emergence of the dependent variable (Sugiono, 2018: 61). In this study, the independent variables studied were Corporate Social Responsibility (X1) and Good Corporate Governance (X2).

a) **Corporate Social Responsibility (X1)**
Corporate Social Responsibility is a form of concern for the company's external environment, both in the form of environmental protection, development participation, community norms and various other forms of social responsibility (Srijayanti, 2022). The category of social disclosure used in this study adopts the Global Report Initiative (GRI Standard) which has been adapted to the implementation of CSR in Indonesia. Sustainability reports in Indonesia mostly use the core option and can be seen in the sustainability report via the GRI Index. In this case, to see the GRI requirements with the core option, this study uses standards 102 (general disclosure), 200 (economic performance), 300 (environmental) and 400 (social). Related to the GRI standards, there will be several criteria that will be measured using a dichotomous approach, namely, each item (sub standard) will be given a value of 1 if it is disclosed and a value of 0 if it is not disclosed. Based on this, later each item that has been obtained will be added up to find out the score from CSR. The CSR calculation formula is:

Volume: 02 | Number 02 | August 2023 |
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CSRJ:

$$\frac{\sum Xj}{n_j}$$

Information:

CSRIJ : Corporate Social Responsibility Company Index j.

Xj : Number of items disclosed by the company j.

Nj : Number of CSR disclosure items.

b) Good Corporate Governance (X2)

Good Corporate Governance is a system that can regulate, manage and supervise business control processes that run on an ongoing basis to improve company performance (Azmy, Anggreini & Hamin, 2019). Good Corporate Governance in this study will be proxied by the proportion of the Board of Commissioners and the Board of Directors. The Board of Commissioners as an organ of the company has collective duties and responsibilities for supervising and providing advice to the Directors and ensuring that the company implements Good Corporate Governance. The board of commissioners in this study is calculated using the following formula:

$$\boxed{\sum Board\ of\ commissioners}$$

Likewise with the board of directors, the board of directors as an organ of the company has collegial duties and responsibilities in managing the company. Each member of the Board of Directors can carry out their duties and make decisions in accordance with the division of duties and authority. The board of directors in this study can be calculated using the following formula:

$$\boxed{\sum Board\ of\ commissioners}$$

RESULTS AND DISCUSSION

Results

Data Description

This research was conducted at banking companies listed on the Indonesia Stock Exchange, where this research was conducted through data research on the Indonesia Stock Exchange.The data used in this study are sustainability report data (CSR variable), as well as the total number of members of the board of commissioners and board of directors (GCG variable) contained in the financial reports or banking company web for the 2017-2020 period. The descriptive statistics table can be seen in table 1 below:

The research results and the comprehensive discussion are deeply and clearly presented . Results can be presented in figures, graphs, tables and others that make the reader understand easily. The discussion must be clearly and deeply conducted. The discussion can be made in several sub-chapters. Table format must have all borders and autofit to window. Value in table maximum 6 decimals.

E-ISSN: 2962-5505 | DOI: doi.org/10.47709/governors.v2i2.2384

Table 1. Descriptive Statistics

	Means	std. Deviation	N
Y	1.6856	1.06501	36
X1	48.6111	9.65484	36
X2	15.8889	4.51523	36

Source: Data processed, 2023

Based on table 1 above, the number of observations (N) from this study was presented as many as 36 data samples from 40 data samples. Of the 40 data samples, 4 data were eliminated during the autocorrelation test, because these 4 data had problems with very far outliers from the results of other banking companies. The data that must be eliminated during the autocorrelation test, namely BCA bank company data for 2017, 2018, 2019 and Bukopin bank company data for 2020. If these 4 data are forced to be used, then the data will be abnormal and will not pass the assumption test. classic.

Classic assumption test

a) Normality Test Results

The Normality Test aims to test whether in the regression model, the independent variables and the dependent variable have a normal distribution (Ghozali, 2018: 106). If the variables are not normally distributed, the statistical test results will decrease. The method used to determine normality in this study is the One Sample Kolmogorov - Smirnov test. The data distribution is declared normal if the significant value is greater than 0.05 (> 0.05). The normality test results can be seen in Table 2 as follows:

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		36
Normal Parameters A,B	Means	.0000000
	std. Deviation	.91682432
Most Extreme Differences	absolute	.073
	Positive	0.73
	Negative	-.068
Kolmogorov-Smirnov Z		.437
asymp. Sig. (2-Tailed)		.991

Source: Data processed, 2023

Based on the results of the normality test in Table 2 using the One Sample Kolmogorov - Smirnov test, it can be seen that Asym. Sig (2-tailed) is 0.991 > 0.05, which means that it can be concluded that the data is normally distributed.

b) Multicollinearity Test

A regression model that is free of multicollinearity is one that has a VIF value < 10 and a tolerance number > 0.10. If the VIF value is > 10 and the tolerance value is <0.10, then there is a symptom of multicollinearity. The results of the multicollinearity test can be seen in Table 3 as follows:

Table 3. Multicollinearity Test Result

Model	Collinearity Statistics	
	tolerance	VIF
1 (Constant)		
X1	.920	1,087
X2	.920	1,087

Source: Data processed, 2023

Based on Table 3, it can be seen that the results of the multicollinearity test show that all VIF values of the independent variables are less than 10 (< 10) and the tolerance value is greater than 0.10 (> 0.10). This indicates that the regression model is free from multicollinearity symptoms.

c) Autocorrelation Test

The autocorrelation test in this study was carried out using the Durbin Watson (DW) method. The results of the autocorrelation test using the Durbin Watson (DW) method can be seen in table 4 below:

Table 4. Summary model b

Model	R	R Square	adjusted R Square	std. Error Of The Estimates	Durbin-Watsons
1	.509a	.259	.214	.94420	1,367

Source: Data processed, 2023

Based on table 4 it can be seen that the Durbin-Watson (DW) value is 1,367. This shows that the regression model used does not occur autocorrelation, so this equation model can be used in this study.

d) Heteroscedasticity Test

In this case, heteroscedasticity does not occur if the significance value is > 0.05. Conversely, heteroscedasticity can occur if the significance value is <0.05 (Ghozali, 2018: 142). The results of the heteroscedasticity test can be seen in Table 5 below:

Table 5. Heteroscedasticity Test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	.893	.640		1,396	.172
X1	-.010	.009	-.175	1,004	.323
X2	.020	.020	.168	.964	.342

Source: Data processed, 2023

Based on Table 5 above, it can be seen that the results of the heteroscedasticity test show all significant values of more than 0.05 (> 0.05), so it can be concluded that the regression model is free from heteroscedasticity symptoms.

Multiple Linear Regression Analysis

The multiple linear regression analysis model is used to determine the effect of Corporate Social Responsibility and Good Corporate Governance on the Financial Performance of Banking companies listed on the Indonesia Stock Exchange for the 2017-2020 period. The results of multiple linear regression analysis can be seen in table 6 below:

Table 6. Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	.276	1,161		.238	.814
X1 (CSR)	-.008	0.17	-.074	-.477	.637
X2 (GCG)	.114	.037	.483	3,089	.004

Source: Data processed, 2023

Based on table 6 above, it can be written into the multiple linear regression equation as follows:
$Y = 0.276 - 0.008X1 + 0.114X2 + e$

Volume: 02 | Number 02 | August 2023 |
E-ISSN: 2962-5505 | DOI: doi.org/10.47709/governors.v2i2.2384

This equation can be explained as follows:

b1 = -0.008 which shows that Corporate Social Responsibility has a negative relationship to financial performance, where if Corporate Social Responsibility increases however, financial performance growth will decrease assuming the other independent variables are constant.

b2 = 0.114 which indicates that Good Corporate Governance has a positive relationship to financial performance, where the better Good Corporate Governance, the financial performance will increase assuming the other independent variables are constant.

Model Feasibility Test

a) Simultaneous Significance Test (F Test)

This test is carried out by measuring the significant probability value, where if the significant probability value is <0.05 then the hypothesis H0 is rejected and H1 is accepted. This means that the independent variables together have a significant influence on the dependent variable. Conversely, if the probability value is significant > 0.05 then the hypothesis H0 is accepted and HI is rejected, which means that the independent variables together do not have a significant influence on the dependent variable. The results of the F test can be seen in table 7:

Table 7. F Test Result

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	10.274	2	5.137	5,761	.003a
residual	29,420	33	.829		
Total	39,698	35			

Source: Data processed, 2023

Based on table 7 above, it shows that the significant value of the F test is 5,761 with a significance of 0.003 <0.05, so it can be concluded that simultaneously Corporate Social Responsibility and Good Corporate Governance influence the financial performance of banking companies. This shows that the multiple linear regression model in this study is feasible to use.

b) Partial Test Analysis (t test)

This test is carried out by measuring the significant probability value, where if the significant probability value is <0.05, then the H0 hypothesis is rejected and HI is accepted. This explains that partially the independent variables have a significant influence on the dependent variable. Vice versa, the probability value is significant > 0.05, then the hypothesis H0 is accepted and HI is rejected. This means that partially the independent variables do not have a significant influence on the dependent variable. The results of the t test can be seen in table 8:

Table 8. Partial test results (t)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	std. Error	Betas		
1 (Constant)	.276	1,161		.238	.814
X1 (CSR)	-.008	0.17	-.074	-.477	.637
X2 (GCG)	.114	.037	.483	3,089	.004

Source: Data processed, 2023

Based on table 4.9, the t test results are obtained as follows:

1. The Corporate Social Responsibility variable has a regression coefficient of -0.008 and a significance value of 0.637 > 0.05. This means that the Corporate Social Responsibility variable has a negative and insignificant effect on financial performance, so that H0 is

Volume: 02 | Number 02 | August 2023 |
E-ISSN: 2962-5505 | DOI: doi.org/10.47709/governors.v2i2.2384

accepted and HI is rejected.

2. Good Corporate Governance variable (proxied by the proportion of the board of commissioners and board of directors, where the total number of members of the board of commissioners is added up to the total number of members of the board of directors) has a regression coefficient of 0.114 and a significance value of 0.004 <0.05. This means that the Good Corporate Governance variable has a positive and significant effect on financial performance, so that H0 is rejected and HI is accepted.

Discussion

The Effect of Corporate Social Responsibility (CSR) on Financial Performance in 2017-2020.

The first hypothesis (HI) raised in this study states that Corporate Social Responsibility has a negative and insignificant effect on the company's financial performance. The results of tests carried out with multiple linear regression showed that the regression coefficient value of the Corporate Social Responsibility variable was -0.008 and a significance value of 0.637 > 0.05. This variable shows that Corporate Social Responsibility has a negative and insignificant effect on financial performance, so that H0 is accepted and HI is rejected. This means that the increasing disclosure of Corporate Social Responsibility by banking companies does not have a significant effect on the company's financial performance.

The results of this study are in line with the results of previous research conducted by Fajrinnaski (2017); Larasati, Titisari & Nurlaela (2017); Reza (2019); Puspita & Kartini (2022) stated that Corporate Social Responsibility has no effect on financial performance. This is because, the company still considers Corporate Social Responsibility as a burden. When a company diverts its sources of funds for Corporate Social Responsibility activities, it is seen that the company can have a negative effect or reduce the wealth and profits of shareholders (Nyeadi, et al, 2018).

So, based on this description it can be concluded that Corporate Social Responsibility has a negative and insignificant effect on the company's financial performance because Corporate Social Responsibility activities in Indonesia are still based on volunteerism, so that many companies still consider Corporate Social Responsibility activities as a burden that can reduce company profits and has no effect on financial performance.

The Effect of Good Corporate Governance (GCG) on Financial Performance in 2017-2020.

The second hypothesis (H2) raised in this study states that Good Corporate Governance (proxied by the proportion of the board of commissioners and board of directors, where the total number of members of the board of commissioners is added up to the number of all members of the board of directors) has a positive and significant effect on the company's financial performance. The results of tests carried out with multiple linear regression showed that the value of the regression coefficient of the Good Corporate Governance variable was 0.114 and a significance value of 0.004 <0.05. This variable shows that Good Corporate Governance has a positive and significant effect on financial performance, so that H0 is rejected and HI is accepted. This means that the increasing number of boards of commissioners and boards of directors in a banking company can improve the company's financial performance.

The results of this study are in line with the results of previous research conducted by Khansa (2017); Sulistyowati & Fidiana (2017); Wulandari (2018); Nabilah & Rialdy (2022) state that Good Corporate Governance has a positive and significant effect on financial performance. Good Corporate Governance which is proxied by the proportion of the number of commissioners and directors can improve financial performance. Rahmawati et al, (2017) said the function of the board of commissioners is to provide oversight and also provide quality information from a report on the performance of the board of directors, so that a large number of boards of commissioners will provide results from good management oversight and can improve financial performance. So, it can be concluded that the existence of a board of commissioners and a board of directors in a company can help create good governance within the company.

Volume: 02 | Number 02 | August 2023 |
E-ISSN: 2962-5505 | DOI: doi.org/10.47709/governors.v2i2.2384

CONCLUSION

Based on the research and discussion described in the previous chapter, Corporate Social Responsibility has a negative and insignificant effect on the financial performance of banking companies listed on the Indonesian stock exchange in 2017-2020. This shows that the higher the disclosure of Corporate Social Responsibility has not had a significant effect on financial performance. The reason is because the company in disclosing Corporate Social Responsibility still considers it as part of the advertisement and just following the existing regulations, not as a true responsibility for its business activities. In addition, Corporate Social Responsibility activities in Indonesia are still based on volunteerism. Meanwhile, Good Corporate Governance has a positive and significant effect on the financial performance of banking companies listed on the Indonesian stock exchange in 2017-2020. Good Corporate Governance which is proxied by the proportion of the board of commissioners and the board of directors can affect the company's financial performance. This shows that the increasing number of commissioners can increase oversight of the board of directors and act as a mediator between internal managers, so as to minimize conflicts that occur between management and shareholders. Likewise, the existence of a Board of Directors can have an influence on financial performance. This is because a larger number of board of directors will be able to increase financial performance in accordance with its role in formulating policies on company operations.

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