

CHAPTER 1

INTRODUCTION

A. Research Background

The current economic development has a huge influence on corporate behavior and the welfare of the social community. Indonesia itself is one of the developing countries with a level of social welfare that is still lacking. Currently, it seems that Indonesia is trying to improve the economy in order to improve the welfare of its people. This is proven by the number of companies that are established in Indonesia and are starting to become aware of their social responsibilities. With the emergence of several new companies, it will further strengthen the economy in Indonesia, with this it cannot be denied that business competition is currently getting tougher and competing to always be the best. Therefore, every company must have their own strategies to maintain the company's existence. To find out the existence of the company, it can be seen by measuring the company's financial performance. Measurement of financial performance can be identified through 2 sides, namely by the internal side through the company's financial statements or it can also be from the external side through the company's value by calculating financial performance.

The company's financial performance which can determine the company's good or bad, the performance of company's can be seen from

the company's financial statements. Every company must also have financial performance measurements. The definition of financial performance is the determination of certain measures that can measure the success of a company in generating profits (Sucipto, 2003). The main thing in calculating the financial performance of an industry is that the industry must be able to create profits. Profit is not only a dimension of an industry in fulfilling people's obligations but also to prove the prospects of the industry in the future.

From an economic point of view, the company is expected to get a large profit. But judged from a social perspective, the company must contribute directly to the community. Currently, many companies have realized the importance of implementing CSR programs as one of their business strategies and as a manifestation of the company's concern for the community. The more forms of responsibility that companies do to their environment, the company's image increases. Implementing CSR within the company will expect a positive response from market players, so that the impact of CSR can have an effect on profits in the financial statements.

The idea of CSR will make the company no longer have to face the responsibility that is in favor of a single bottom line, namely the value of the company (corporate value) which is reflected in its financial condition (financial) only, but corporate responsibility must be based on triple bottom lines. It is a fact that the resistance of the local community has surfaced against companies that are deemed not paying attention to the

environment. Although the implementation of CSR in Indonesia has started to develop, until now the disclosure of CSR (Corporate Social Responsibility) information in the company's annual reports is still voluntary.

Companies also need to have a good corporate governance system, to increase the competitiveness of companies nationally and internationally so as to increase market confidence that can encourage investment flows and sustainable national economic growth. With the implementation of GCG in the company, the management of company resources is expected to be efficient, effective, economical and productive by always being oriented towards company goals and paying attention to the stakeholder approach. So it can be said that the implementation of GCG in the company is very important. Based on the general guidelines for Indonesian Good Governance put forward by the National Committee on Governance (KNKG), Good Corporate Governance (GCG) has principles, namely transparency, accountability, responsibility, independency and fairness. Based on these principles, CSR implementation is a form of GCG implementation. A company that has good governance (GCG) will carry out and disclose its CSR activities, which are contained in the company's annual report.

QS An Nisa 58:

إِنَّ اللَّهَ يَأْمُرُكُمْ أَنْ تُؤَدُّوا الْأَمَانَاتِ إِلَىٰ أَهْلِهَا وَإِذَا حَكَمْتُمْ بَيْنَ النَّاسِ أَنْ تَحْكُمُوا بِالْعَدْلِ ۗ إِنَّ اللَّهَ نِعِمَّا يَعِظُكُمْ بِهِ ۗ إِنَّ اللَّهَ كَانَ سَمِيعًا بَصِيرًا

Meaning:

“Indeed, Allah has commanded you to convey the message to those who are entitled to receive it, and when you set a law between people, you should judge it justly. Indeed, Allah is the best who teaches you. Indeed, Allah is All-Hearing, All-Seeing.”

This verse of the Koran instructs to convey the "mandate" to those who are entitled. The meaning of "mandate" in this verse is something that is entrusted to someone to carry out as well as possible.

This research is a replication of research that has been carried out by Mayang Mahrani and Noorlailie Soewarno, 2018 "The effect of good corporate governance mechanism and corporate social responsibility on financial performance with earnings management as mediating variable". The differences in my research are 1) Measurement of the dependent variable, namely financial performance, in this study only uses the Return On Assets measurement, whereas in previous studies using (Return On Assets, Earnings per Share, and Tobins Q). 2) The sample research year used in this study was 3 years (2018 2019, 2020), while in the previous study only in 2014. 3) The testing hypothesis used in this study was 5 tests (Multiple Regression test, Path Analysis, Partial T-test, Coefficient Determination Test, Simultaneous Significance Test), whereas in previous studies only the partial least square (PLS) model was used.

Based on the explanation of the background above, the authors are interested in conducting research with the title "**The Influence of Good**

Corporate Governance and Corporate Social Responsibility on Financial Performance with Earnings Management as Mediating Variable”

B. Research Question

Based on the background, the problems that can be formulated in this research is :

1. Does the implementation of GCG (Good Corporate Governance) affect positively the company’s financial performance?
2. Does CSR (Corporate Social Responsibility) affect positively the company’s financial performance?
3. Does the implementation of GCG (Good Corporate Governance) affect positively earnings management?
4. Does CSR (Corporate Social Responsibility) affect positively earnings management?
5. Does earnings management affect positively the company’s financial performance?
6. Does the implementation of GCG (Good Corporate Governance) affect the company’s financial performance through earnings management?
7. Does CSR (Corporate Social Responsibility) affect the company’s financial performance through earnings management?

C. Research Purposes

The objectives of this study are as follows:

1. To examine the implementation of GCG (Good Corporate Governance) affect positively the company's financial performance
2. To examine CSR (Corporate Social Responsibility) affect positively the company's financial performance
3. To examine the implementation of GCG (Good Corporate Governance) affect earnings management
4. To examine CSR (Corporate Social Responsibility) affect earnings management
5. To examine earnings management affect the company's financial performance
6. To examine the implementation of GCG (Good Corporate Governance) affect the company's financial performance through earnings management
7. To examine CSR (Corporate Social Responsibility) affect the company's financial performance through earnings management

D. Research Benefit

The benefits or uses obtained from research are as follows:

1. Theoretical Practices

The results of this study are expected to provide good material

beneficial to science in the field corporate financial performance, corporate finance, corporate social responsibility and good corporate governance .

2. Practical Benefits

For the company, hopefully the results of this research can be useful as input and can provide information obtained from the results of testing financial performance against firm value with of CSR and GCG.