CHAPTER I
INTRODUCTION

A. Research Background

Nowadays, the assertion for companies is getting bigger because aside from being demanded to pursue profit, companies must also pay attention and be involved in fulfilling the welfare of the community and actively contribute to preserving the environment (Wardhani and Sugiharto, 2013). Every company must have goals and desires to increase th profitability and performance of the company itself. According to Sugiharto (2007) Stakeholder theory highlighted that a company is not an entity that only operates for its own interests but must provide benefits for its stakeholders (shareholders, creditors, consumers, suppliers, government, society, analysts and other parties). Thus, the existence of a company is strongly influenced by the support provided by the company's stakeholders.

According to QS. Hud Verse 85:

وَيَٰقَوْمِ أَوْفُوا۟ ٱلْمِكْيَالَ وَٱلْمِيزَانَ بِٱلْقِسْطِ ۖ وَلَا تَبْخَسُوا۟ ٱلنَّاسَ أَشْيَآءَهُمْ وَلَا تَعْثَوْا۟ فِى ٱلْأَرْضِ مُفْسِدِينَ

The meaning: And Shu'aib said: "O my people, fill in a fair measure and weigh, and do not harm humans against their rights, and do not do evil on the face of the earth by causing damage." (QS. Hud: 85)

And QS. Asy-Syuraa Verse 152 & 183:

ٱلَّذِينَ يُفْسِدُونَ فِى ٱلْأَرْضِ وَلَا يُصْلِحُونَ

The meaning: "Who makes damage on earth and does not make repairs." (QS. Asy-Syuraa: 152)

مُفۡسِدِينَ ٱلۡأَرۡضِ فِى تَعۡثَوۡاْ وَلَا أَشۡيَآءَهُمۡ ٱلنَّاسَ تَبۡخَسُواْ وَلَا

The meaning: "And do not harm human rights, and do not become rampant on the face of the earth by causing mischief." (QS. Asy-Syuraa: 183)

Based on the verses above, in practice, companies cannot be separated from stakeholders. A company and stakeholders are mutually related. Their contribution determines the success of nation building. The two important aspects must be considered in order for the company to have a good influence on stakeholders. Companies are not only faced with the responsibility of earning profits, but also must pay attention to their social and environmental responsibilities. If the stakeholders consider the company not responsible for its social and environmental conditions, this will make the company feel an unfavorable impact on its value and performance.

According to Guthrie and Mathews (1985), one of the most frequently asked information searches by people from companies today is information about the corporate social responsibility of the company itself. Corporate social responsibility also can be described as the availability of financial and non-financial information that related to an organization's interactions between its physical and social environments, which can be included in the company's annual report or in a report on the implementation of separated social responsibility.

In Indonesia, Corporate Social Responsibility (CSR) issues are increasingly becoming a serious concern because there are various kinds of issues that are being debated. The first issue is that the existence of CSR activities CSR clearly raises the expenditure of the company's financial resources, but the question of whether CSR activities can increase company profits is still an important question for various groups (Kabir and Thai, 2017). The second issue regarding the quality of CSR in Indonesia discussed in research conducted by the Center for Governance, Institutions, and Organizations National University of Singapore (NUS) Business School, is about the quality of CSR implementation in Indonesia is ranked third out of four countries in Asia with a score of 48.6 in 2016 and is ranked fourth place with a score of 53.6 in 2018. This shows that the quality of CSR implementation in Indonesia is still low when compared to other Asian countries.

In today's world, CSR has been used as a strategy by companies to improving the company's image, which will also affect the company's financial performance. In accordance with Law No.40 of 2007 concerning Limited Liability Companies, it is stated that companies whose business fields are related to natural resources are required to carry out social and environmental responsibility (Article 74 paragraph 1). This is in accordance with Beny's (2012) who defines CSR as the act of a corporation or large company in showing its responsibility by giving money, equipment or other gifts to communities, organizations or individuals in the area where the company operates. The concept of CSR was first put forward by Howard R. Bowen in 1953. Initially, CSR was based on "philanthropic" activities, namely humanitarian encouragement that comes from universal norms and ethics to help others and fight for social equity.

Talking about CSR disclosure, the purpose of the disclosure itself is to present information deemed necessary to achieve financial reporting objectives and serve the needs of various parties who have different interests (Suwardjono, 2005). In Indonesia, the practice of social responsibility disclosure is regulated by the Indonesian Institute of Accountants (IAI) in the Statement of Financial Accounting Standards (PSAK) No.1 Paragraph 9, which states that “Companies can also present additional reports such as reports on the environment and reports on value added (added statement), especially for industries where environmental factors play an important role and for industries that consider employees as the report user group that holds important reports”.

Furthermore, about Good Corporate Governance (GCG) in the business world. As we all know business ethics has the purpose of being able to distinguish which one is good and which one is bad, and what should and should not be done in behaving in the business world. Due to the intense competition in order to compete for the market to obtain large profits, it is necessary to have good corporate governance or what we usually call Good Corporate Governance (GCG) so that the behavior of business people is properly oriented toward attaining a particular goal. In essence, GCG is a system or a number of regulations that regulates the relationships of various interested parties in a company.

The implementation of good corporate governance and disclosure of information on corporate social responsibility are concepts that are proposed to improve company performance. If this concept is implemented properly, it is hoped that economic growth will continue to increase along with better transparency in company management and will benefit many parties. According to Murwaningsari (2009) CSR is closely related to Good Corporate Governance. Like two sides of a coin, they both have a strong position in the business world but are related to one another. Social responsibility which is oriented towards stakeholders, is in line with the main principles of good corporate governance, namely responsibility, while the disclosure of the implementation of corporate social responsibility is in line with the principle of transparency. According to Reksodiputro (2004), the concept of corporate social responsibility is part of the guidelines for implementing good corporate governance.

There have been some studies conducted by some scholars on the effect of CSR on financial performance. For example, the research conducted by Changeno (2016), Suciwati et. al (2016), and Madichie, et. al (2018) shows that CSR has a significant positive effect on financial performance. On the other hand, the results of research by Parengkuan (2017) and Fitriya and Setyorini (2019) finds out that CSR has no effect on financial performance. However, those findings are still not enough and comprehensive and the research using GCG as a moderating variable is still rare in Indonesia.

Because the study above is still not comprehensive, I want to do more research about it. And also, this study is a replication of previous research that conducted by Felia & Luky (2020) with the title "Pengungkapan Corporate Social Responsibility terhadap Kinerja Keuangan dengan Good Corporate Governance sebagai Variabel Moderasi". I decided to choose this research because it's the newest and the most suitable with my research. The differences from previous research and my research are 1) the proxy of Good Corporate Governance (GCG), in my research only using the Size of Board Commissioners and Independent Board of Commissioners, meanwhile the previous research using the Size of Board Commissioners, Independent Board of Commissioners and Institutional Ownership. 2) The sample in my research is manufacturing company with the 3 years period (2017, 2018, 2019), meanwhile the previous research using the sample of BUMN company with the 5 years period (2014, 2015, 2016, 2017, 2018).

Based on the explanation above, the author wants to do research entitled **"The Influence of Corporate Social Responsibility (CSR) on The Company's Financial Performance with Good Corporate Governance (GCG) as Moderating Variable".**

B. Research Questions

From the background that has been outlined above, the research questions are formulated as follows:

1. Does Corporate Social Responsibility (CSR) have a positive and significant effect on financial performance (ROA)?
2. Does the moderating variable of Good Corporate Governance (GCG) with the size of board commissioners, strengthens the effect of Corporate Social Responsibility (CSR) on financial performance (ROA)?
3. Does the moderating variable of Good Corporate Governance (GCG) with independent board of commissioners, strengthens the effect of Corporate Social Responsibility (CSR) disclosure on financial performance (ROA)?

C. Research Purposes

The objectives from this study are:

1. To examine whether Corporate Social Responsibility (CSR) has a positive and significant effect on financial performance (ROA).
2. To examine whether the moderating variable of Good Corporate Governance (GCG) with the size of the board commissioners (DK), strengthens the effect of Corporate Social Responsibility (CSR) on financial performance (ROA).
3. To examine whether the moderating variable of Good Corporate Governance (GCG) with independent board of commissioners (DKI), strengthens the effect of Corporate Social Responsibility (CSR) disclosure on financial performance (ROA).

D. Research Benefits

There are several research benefits from this study, as follows:

1. Theoretical Benefit

   This research is expected to obtain empirical evidence of testing the influence of corporate social responsibility (CSR) on the company's financial performance. This research is also expected to be the evidence as a source for future research about CSR and GCG in the companies. It is hoped that the research can be used as a reference for companies so that companies no longer make CSR and GCG as a burden, but can use CSR and GCG as an instrument in improving company’s financial performance.

2. Practical benefits

   a. For company

      This research is expected to increase the understanding of how corporate social responsibility and good corporate governance is affecting the company's financial performance, so the company can be more concerned with their responsibility to its environment, and can earn more profit. Companies that implement CSR will be more stable and more able to survive in the competition and will even be able to improve their financial performance so that they can prosper shareholders.

   b. For Investors

      This research also expected to be useful for investors because by knowing the relationship between the variables studied, investors can be more concerned not only about the profit get by the company, but also the environment. Investors also can choose companies to invest by paying attention to the CSR factor and the way the company implement GCG.