

The Effect of Corporate Social Responsibility and Good Corporate Governance on Financial Performance

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Article History

Received : 2026-08-09

Revised : 2026-08-18

Accepted : 2026-08-19

Keywords:

Corporate Social Responsibility; Good Corporate Governance; Financial Performance; Return on Assets.

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DOI:

10.68376/MANTRA.v1.i2.a92

Abstract

This study aims to examine the effect of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on the financial performance of textile and garment subsector manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period. This study employed a quantitative descriptive method using secondary data obtained from company annual reports. The sampling technique used was purposive sampling, resulting in 9 companies that met the predetermined criteria, yielding 36 firm-year observations. Financial performance was measured using Return on Assets (ROA), CSR was measured using a disclosure index based on the Global Reporting Initiative (GRI) framework, and GCG was measured through the proportion of independent commissioners. The data were analyzed using multiple linear regression with the assistance of SPSS. The results show that CSR does not have a significant effect on financial performance, GCG does not have a significant effect on financial performance, and CSR and GCG simultaneously do not have a significant effect on financial performance. The coefficient of determination indicates that the two variables jointly explain 11.3% of the variation in financial performance, while the remaining 88.7% is explained by other factors outside the research model.

Introduction

Financial performance is commonly used by investors as a benchmark in making investment decisions, typically assessed by comparing a company's current performance against prior periods; when the results of such analysis show sound financial performance, this tends to attract investors to commit their capital, making financial performance a critical factor for companies seeking to secure investment (Meiyana & Aisyah, 2019). Financial performance reflects the extent to which a company has succeeded in its efforts and continues to reflect an outcome achieved through various activities undertaken, with continuous improvement needed for a company to remain competitive (Erawati & Wahyuni, 2019).

A company's financial performance can be observed through the information disclosed in its financial statements, which contain data on operating transactions and financial information intended for interested parties. Financial statements include several financial ratios that investors can use as a basis for assessing a company's performance, one of which is the profitability ratio, with Return on Assets (ROA) serving as a commonly used measure of financial performance. Several factors are believed to improve a company's financial performance, among them Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG); both are important in improving financial performance when implemented effectively. In Indonesia, CSR and GCG have become obligatory for companies that involve external parties in fulfilling their financing needs and whose operations carry social consequences (Ratih & Setyarini, 2018).

CSR is regulated under Law of the Republic of Indonesia No. 40 of 2007 concerning Limited Liability Companies, which requires companies whose business activities relate to natural resources to carry out social and environmental responsibility. CSR is a concept companies adopt to demonstrate their social responsibility toward the community and the environment; through CSR implementation, company performance is expected to improve, as investors tend to favor investing in companies that actively carry out CSR activities (Krisdamayanti & Retnani, 2021).

However, the cost required to implement CSR may be substantial or modest depending on a company's commitment to it, so many companies still regard CSR as a burden, since it requires additional cost that may ultimately affect the dividends distributed to shareholders.

In addition to sound financial performance, sound and orderly management performance is also needed, manifested through good corporate governance (Deswara et al., 2021). GCG is a system of good corporate governance, functioning as a set of rules applied as guidance for managing a company's management, implemented to achieve managerial transparency for stakeholders so they obtain effective protection and confidence that the return on their investment is genuine; GCG implementation within a company can attract prospective investors, as the company is regarded as having sought to optimize its decision-making, thereby increasing firm value (Utami & Muslih, 2018). GCG is regulated under State-Owned Enterprises Ministerial Decree No. Kep-117/M-MBU/2002, defining GCG as a process and structure used by a company's organs to improve business success and accountability in order to realize long-term shareholder value, while remaining mindful of the interests of other stakeholders and grounded in prevailing laws and ethical values. In this study, GCG is measured through the proportion of independent commissioners.

Prior research on the effect of CSR and GCG on company financial performance remains inconsistent. Alfawaz and Fathah (2022) reported that CSR has a positive and significant effect on ROA, whereas Yudha (2021) found that CSR has a significant negative effect on ROA among manufacturing companies listed on the Indonesia Stock Exchange for the 2020–2023 period. Similarly, while some studies found that CSR has a significant positive effect on financial performance, others found no significant effect. Regarding independent commissioners, some studies reported a positive effect on financial performance, such as Helin Titania and Salma Taqwa (2023), while others, such as Rista Arimby (2023), found that the independent board of commissioners does not affect company financial performance.

Based on the description above, the researcher is interested in further examining financial performance under the title “The Effect of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on Financial Performance (A Study on Textile and Garment Subsector Manufacturing Companies Listed on the Indonesia Stock Exchange for the 2021–2024 Period).” This study represents a replication of prior research by Michelly Cinthya Mangune et al. (2024) examining the effect of CSR on financial performance in the pharmaceutical subsector of the goods and consumption industry sector listed on the Indonesia Stock Exchange for the 2018–2021 period, differing in its focus on the textile and garment manufacturing subsector for the 2021–2024 period and its addition of GCG, proxied through the independent board of commissioners, as a supplementary independent variable.

Literature Review and Hypotheses Development

Financial Performance and Return on Assets

Financial performance in this study is measured using Return on Assets (ROA), a ratio used to measure a company's ability to generate profit (earnings) as a whole; ROA is one indicator of a company's success in generating profit, and the higher the ROA, the higher the resulting profit level and the better the company's position in terms of asset utilization (Dendawijaya, 2018). A company's ability to generate profit through its operational activities is a primary focus in evaluating company performance, since profit reflects a company's ability to meet its obligations to creditors and investors and forms part of the value-creation process related to the company's future prospects. A rising ROA reflects improving company performance, tending to attract investors, since higher ROA is generally driven by more efficient asset management by the company's management, reflecting operational efficiency, while a low ROA can be caused by idle company assets, excessive inventory investment, or assets operating below their normal capacity.

The Effect of Corporate Social Responsibility on Financial Performance

CSR disclosure is a form of responsibility manifested through the disclosure of a company's social and environmental impact related to its economic activities to the community. In this study,

CSR is measured based on the Global Reporting Initiative (GRI) framework, comprising three disclosure focuses, namely economic, environmental, and social, as sustainability reporting; the GRI framework was selected for its comprehensiveness in assessing a company's CSR activities, encompassing 79 disclosure items spanning economic indicators (9 items), environmental indicators (30 items), labor practices (14 items), human rights (9 items), social indicators (8 items), and product responsibility indicators (9 items). According to stakeholder theory, a company's objectives extend beyond fulfilling shareholder interests alone to also considering other stakeholders, such as customers, employees, and the community. Based on the theory and empirical findings above, the following hypothesis is proposed:

H1: Corporate Social Responsibility has a positive effect on company financial performance.

The Effect of Good Corporate Governance on Financial Performance

GCG in this study is proxied through the independent board of commissioners, in accordance with Financial Services Authority (OJK) Regulation No. 33/POJK.04/2014 concerning the Board of Directors and Board of Commissioners of Issuers or Public Companies. The board of commissioners is an organ of an issuer or public company whose duty is to provide advice and oversight, whether generally or specifically, in accordance with the articles of association, to the board of directors, while independent commissioners are board members originating from outside the issuer or public company who meet the requirements to serve as independent commissioners; the independent board of commissioners serves to mediate disputes between internal management and management-policy oversight functions and to provide advice to management, holding collective duties and responsibilities to oversee and advise the board of directors and to help ensure GCG implementation, without being directly involved in operational decision-making (Sasanti et al., 2022; Dianawati & Fuadati, 2019). Based on the theory above, the following hypothesis is proposed:

H2: Good Corporate Governance has a positive effect on company financial performance.

The Simultaneous Effect of Corporate Social Responsibility and Good Corporate Governance on Financial Performance

CSR and GCG are both regarded as important factors in supporting a company's financial performance; jointly, sound implementation of both is expected to improve investor confidence, corporate reputation, and, ultimately, company financial performance. Based on the theory above, the following hypothesis is proposed:

H3: Corporate Social Responsibility and Good Corporate Governance simultaneously affect company financial performance.

Research Methods

This study was conducted on textile and garment subsector manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The object of this study is Corporate Social Responsibility (CSR), examining how the CSR practices implemented by companies affect their financial performance, together with Good Corporate Governance (GCG), measured through the independent board of commissioners, and financial performance as the dependent variable, measured through the profitability ratio of ROA.

This study employed a descriptive quantitative approach, using data expressed in numerical form and measurable units; the quantitative data used are the financial statements of textile and garment subsector companies listed on the Indonesia Stock Exchange during the 2021–2024 period. The population in this study consists of all textile and garment subsector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 period, totaling 15 companies (Ferdinand, 2018). The sampling technique used was non-probability sampling with a purposive sampling approach, applying the following criteria: textile and garment subsector companies listed on the Indonesia Stock Exchange throughout the 2021–2024 research period, excluding companies that did not disclose Corporate Social Responsibility (CSR) in their annual reports during the 2021–

2024 period. Based on these criteria, 9 companies met the requirements as the research sample, resulting in 36 firm-year observations across the four-year period.

The type of data used in this study is quantitative data, and the data source used is secondary data, namely data that does not provide information directly to the data collector but is obtained through further processing of primary data presented in another form or by another party (Sugiyono, 2019). The data source used in this study is the annual reports of textile and garment subsector manufacturing companies for the 2021–2024 period, obtained through the Indonesia Stock Exchange's official website (www.idx.co.id) and each company's official website. Data were collected through documentation, by collecting secondary data in the form of records and annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange for the 2021–2024 period, supplemented by relevant books, theses, and journal articles.

Corporate Social Responsibility (X1) is measured based on the GRI (Global Reporting Initiative) framework, comprising three disclosure focuses (economic, environmental, and social) as sustainability reporting, calculated as the number of items disclosed by a company divided by the total number of disclosure items, with a maximum disclosure score of 1. Good Corporate Governance (X2) is measured through the proportion of independent commissioners, calculated as the number of independent commissioners divided by the total number of commissioners, multiplied by 100%. Financial Performance (Y) is measured using Return on Assets (ROA), calculated as net income after tax divided by total assets, multiplied by 100%.

Data were analyzed using multiple linear regression with the assistance of SPSS, comprising descriptive statistical analysis; classical assumption tests, namely normality (tested using the Kolmogorov-Smirnov test or Normal P–P Plot graphical analysis, with data considered normally distributed if the significance value exceeds 0.05), multicollinearity (tested using Tolerance and Variance Inflation Factor/VIF values, with a regression model considered free of multicollinearity if the VIF value is below 10 and the Tolerance value exceeds 0.10), and heteroscedasticity (tested using scatterplot graphical analysis, with the regression model considered free of heteroscedasticity if no clear pattern is observed); multiple linear regression analysis with the model $Y = a + b_1X_1 + b_2X_2 + e$; the coefficient of determination (R^2) test; and hypothesis testing through the partial test (t-test) and simultaneous test (F-test).

Results and Discussion

Descriptive statistical testing across the 9 sampled companies over the 2021–2024 period (36 observations) shows that CSR disclosure remained relatively stable and homogeneous from 2021 to 2023 (mean ranging from 0.5167 to 0.6122), but became markedly more heterogeneous in 2024, when the standard deviation (11.59148) far exceeded the mean (4.5300), reflecting a sharp and highly variable increase in disclosure among certain sampled companies. GCG, proxied through the proportion of independent commissioners, remained relatively homogeneous throughout the period, averaging between 39.07% and 43.52% across the four years, consistently above the Financial Services Authority's 30% minimum requirement. Financial performance, measured through ROA, showed a pronounced declining and increasingly volatile trend, falling from a mean of 0.5044% in 2021 to –1.3289% in 2022, –2.5400% in 2023, and –20.3411% in 2024, with the standard deviation in 2024 (57.79695) far exceeding the mean, reflecting substantial financial distress and heterogeneity across the sampled textile and garment companies during this period.

Classical assumption testing shows that no multicollinearity is present, as both independent variables have a Tolerance value of 0.994 (greater than 0.10) and a VIF value of 1.006 (less than 10). Heteroscedasticity testing through scatterplot analysis shows that the residual points are randomly scattered without forming a discernible pattern, indicating the absence of heteroscedasticity, so the regression model is suitable for hypothesis testing.

Table 1. Multiple Linear Regression and t-Test Results

Variable	B	T	Sig.
(Constant)	20.625	0.938	0.355
Corporate Social Responsibility (X1)	-5.364	-0.164	0.870
Good Corporate Governance (X2)	-0.571	-2.025	0.051

Source: SPSS Data Processing Results, 2026. Dependent Variable: Financial Performance; $t\text{-table } (\alpha = 0.05, df = 33) = 2.032$

Based on Table 1, the regression equation obtained is $Y = 20.625 - 5.364X_1 - 0.571X_2 + e$. The constant value of 20.625 indicates that when CSR and GCG are held at zero, Financial Performance is estimated at 20.625. Both regression coefficients are negative, indicating that an increase in either CSR disclosure or the proportion of independent commissioners is associated with a decrease in Financial Performance, though neither effect is statistically significant.

Table 2. F-Test and Coefficient of Determination Results

R	R Square	Adjusted R Square	F-calculated	Sig.
0.336	0.113	0.059	2.100	0.139

Source: SPSS Data Processing Results, 2026. Predictors: (Constant), Good Corporate Governance, Corporate Social Responsibility

The t-test results in Table 1 show that CSR obtained a calculated t-value of -0.164 (below $t\text{-table } 2.032$) with a significance value of $0.870 (> 0.05)$, so H1 is rejected: CSR does not have a significant partial effect on Financial Performance. GCG obtained a calculated t-value of -2.025 with a significance value of 0.051 (marginally above 0.05), so H2 is rejected: GCG does not have a significant partial effect on Financial Performance. The F-test result in Table 2 shows a calculated F-value of 2.100 (below F-table 4.14) with a significance value of $0.139 (> 0.05)$, so H3 is rejected: CSR and GCG do not simultaneously have a significant effect on Financial Performance. The R Square value of 0.113 indicates that the two independent variables jointly explain 11.3% of the variation in Financial Performance, while the remaining 88.7% is explained by other factors outside the research model.

The Effect of Corporate Social Responsibility on Financial Performance

The t-test result shows that CSR does not have a significant partial effect on Financial Performance ($t = -0.164$; Sig. = $0.870 > 0.05$), so H1 is rejected. The negative and non-significant relationship suggests that CSR activity and disclosure function as a cost center that directly consumes cash flow and net profit; expenditures on environmental care programs, community social support, occupational safety certification, and sustainability reporting have a practical effect of reducing profit margin in the current reporting period, thereby lowering the ratio of profit to total assets (ROA). At the same time, this negative effect remains statistically non-significant, likely due to a time-lag effect: under stakeholder theory, social and environmental investment through CSR is intended to build reputation, consumer loyalty, and public legitimacy, benefits typically realized over the long term rather than within a single accounting period. Moreover, market and consumer perception in the manufacturing sector does not yet generally treat the level of CSR disclosure as a primary factor in product purchasing decisions, so the magnitude of CSR expenditure does not automatically translate into an immediate increase in sales revenue, meaning that changes in CSR expenditure do not meaningfully affect changes in ROA. This finding is consistent with prior research finding that CSR does not affect company financial performance (Alvina Adiola Artianti et al., 2024; Pramudya Wardhani, 2021), though it differs from Alfawaz and Fathah (2022), who found that CSR affects company performance.

The Effect of Good Corporate Governance on Financial Performance

The t-test result shows that GCG does not have a significant partial effect on Financial Performance ($t = -2.025$; Sig. = $0.051 > 0.05$), so H2 is rejected, though the effect approaches conventional significance thresholds. The negative direction of this relationship suggests that increased implementation or disclosure of corporate governance mechanisms, such as accumulating the number of independent commissioners, establishing various supporting committees, and implementing strict auditing, tends to be accompanied by a decline in profitability

during the current period. This may be explained by the substantial operational cost allocation required to establish and operate GCG structures, ranging from honoraria and allowances for commissioners and committee members to meeting costs and compliance administration; when such increased governance expenditure is not directly offset by increased operational efficiency or core business revenue growth, the additional cost tends to reduce net profit and depress ROA. The non-significance of this effect may occur because the existence of GCG organs in the short term is often more focused on fulfilling Financial Services Authority (OJK) regulatory obligations than serving as a fundamental efficiency strategy; in manufacturing companies specifically, profitability performance such as ROA tends to be dominated far more by real operational factors, such as raw material cost efficiency, labor cost, and export market dynamics, so changes in governance structure do not produce a statistically meaningful effect on annual ROA fluctuation. This finding is consistent with Rista Arimby (2023), who found that the independent board of commissioners does not affect company performance, but differs from Sekar Erfidita Rizky and Ulfah Setia Iswara (2023) and Helin Titania and Salma Taqwa (2023), who found that independent commissioners have a positive effect on ROA; the oversight function of independent commissioners in this study may not have functioned as an effective control over the policies adopted by management.

The Simultaneous Effect of Corporate Social Responsibility and Good Corporate Governance on Financial Performance

The F-test result shows a significance value of 0.139 (> 0.05), so H3 is rejected: CSR and GCG do not simultaneously have a significant effect on Financial Performance among textile and garment subsector manufacturing companies. This indicates that the level of CSR disclosure and GCG implementation, whether high or low, does not affect company financial performance during the period studied. Theoretically, this non-significant joint effect can be explained through legitimacy theory and agency theory: under legitimacy theory, CSR implementation in the textile and garment industry is often characterized by symbolic compliance, or mere regulatory fulfillment intended to protect corporate image in the eyes of the public, so CSR expenditure does not directly increase business revenue in the short term. Agency theory, meanwhile, highlights that the board of commissioners (as the GCG proxy) may focus more on compliance oversight than on ensuring efficient CSR budget allocation, so the combination of social disclosure and governance oversight structure does not generate sufficiently strong synergy to drive a simultaneous increase in net profit. This condition is further reinforced by trade-off theory and stakeholder theory. Under trade-off theory, expenditure on CSR programs and governance operational costs constitutes a real financial burden that can reduce cost efficiency, particularly amid the challenges facing the textile industry during 2021–2024, such as elevated operational costs and intense market competition. Stakeholder theory, meanwhile, explains the existence of a time lag, in which the positive effect of CSR reputation and sound governance requires years to translate into increased sales or profitability. As a result of the accumulation of short-term cost burdens and this reputational time lag, the joint implementation of CSR and GCG has not yet been able to make a significant contribution to financial performance (ROA) during the research period.

Implication and Conclusion

Based on the results of the analysis and discussion, it can be concluded that Corporate Social Responsibility does not have a significant effect on the financial performance of textile and garment subsector manufacturing companies listed on the Indonesia Stock Exchange during 2021–2024 (H1 rejected); Good Corporate Governance does not have a significant effect on financial performance (H2 rejected); and Corporate Social Responsibility and Good Corporate Governance do not simultaneously have a significant effect on financial performance (H3 rejected), jointly explaining only 11.3% of its variation, while the remaining 88.7% is explained by factors outside this study.

These findings imply that CSR and GCG implementation in the textile and garment subsector may function more as regulatory compliance mechanisms than as immediate drivers of profitability, given that their benefits, such as improved reputation and stakeholder trust, are more

likely to be realized over a longer time horizon than a single accounting period. Companies are encouraged to design CSR programs that are more strategically integrated with core business operations rather than treated purely as a compliance cost, and to ensure that governance structures are accompanied by genuine engagement in strategic decision-making rather than serving a purely formal function. Future researchers are recommended to expand the sample to other industry sectors, such as mining or oil and gas, to substitute or add other financial performance proxies such as Return on Investment (ROI) or Return on Equity (ROE), and to incorporate additional independent variables, such as profitability, intellectual capital, and leverage, in order to obtain a more comprehensive research model, given that CSR and GCG in this study explained only a small proportion of the variation in financial performance.

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