Does Corporate Governance, Corporate Social Responsibility, Research and Development Investment Affect Financial Performance?

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ABSTRACT
This research aims to determine the relationship between corporate governance, social responsibility, and research and development investment on the financial performance of property companies listed on the Indonesia Stock Exchange (IDX) in 2016-2019. The research sampling technique uses a purposive sampling method while the analysis method uses multiple linear regression. The results of this research indicate that corporate governance and research and development investment have a positive relationship to financial performance. Good corporate governance practices ensure that the company's financial information is accurate, thereby increasing company profits. Then, R&D investment can help companies improve operational efficiency and reduce production costs. In addition, this research shows that corporate social responsibility has a negative relationship with financial performance. Companies need to carefully consider the impact of CSR on their financial performance and ensure that CSR activities are carried out in accordance with company objectives and the interests of stakeholders.

Keywords: *corporate governance, corporate social responsibility, financial performance, research and development*

1. INTRODUCTION

The company regulates the use of factors of production in the most efficient way possible so that efforts to maximize profits can be achieved in a way that is seen as the most efficient way from an economic point of view. Company goals such as achieving profits can be achieved easily if the company's performance is carried out optimally. A profit level that continues to increase until it reaches maximum profit is an indicator of good financial performance and determines its sustainability. The financial performance and sustainability of a company can be measured by publishing periodic financial reports that provide an overview of its financial position [1].

Business development within the company today can be seen from the performance of the company itself. The profit maximization principle in achieving good financial performance has now an effect that is not necessarily good for society. This principle is now starting to be seen as deviating from the norms of society. Environmental degradation, climate change, ecosystem loss, and rising waste levels all contribute to increased pollution of the air, groundwater, and even sound. Employee protests and demonstrations are increasing and even welfare is being questioned. Good corporate governance is important, considering that the decline in performance is not caused by external factors in the property industry. Good corporate governance must also pay attention to improving community welfare, one of which is by implementing Corporate Social Responsibility. Apart from that, the company must also present a report showing the contribution to various innovations to maintain the company's sustainability.

This research uses an agency theory approach. Shareholders act as principals and managers act as agents. Managerial decisions are made to optimize the use of company resources [2]. However, shareholders cannot monitor every managerial choice and action. danger to shareholders if management acts against their best interests and not those of shareholders. The basic problem with agency theory is that there must be a conflict of interest between managers and shareholders. When a manager makes a choice that will solely further

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his interests and not those of the shareholders, there is a conflict of interest. It is this behaviour of managers in conflict-of-interest situations that is interesting to research.

Research on financial performance has previously been conducted [3]–[7]. Several studies found corporate governance [2], corporate social responsibility [3], [4], [8], [9], and research and development [10]–[12], affect financial performance. Meanwhile, other research finds that corporate governance [13], [14], corporate social responsibility [15] have no effect on financial performance.

The existence of inconsistent findings shows that research on financial ratios and corporate governance is still interesting to research. This research is a development of previous research that has never tested whether corporate governance, corporate social responsibility, research and development directly impact financial performance. The purpose of this research is to find out whether corporate governance, corporate social responsibility, research and development directly impact financial performance. This research was conducted in the property sector because property companies are known as businesses that have fast-changing, persistent and complex cycles.

2. LITERATURE REVIEW

2.1. Corporate Governance

A system called corporate governance promotes the equitable distribution of resources among competing users while also enhancing relationships between different parties (such as shareholders, managers, and investors). There is no universal agreement on the relationship between corporate governance and financial performance despite extensive research. There is a widely held belief that sound corporate governance procedures are linked to more favourable financial results. Recent research on corporate governance in OECD nations reveals that corporate governance is a significant predictor of performance, according to studies using best practice econometric approaches. Companies with better governance are more profitable, enjoy high market values and pay more dividends to shareholders [16].

Previous research has found that corporate governance through external board members plays an important role in unifying corporate activities [17]. In addition, board structure has been acknowledged by academics as a crucial component of agency theory [18], [19]. Agency theory explains that controlling shareholders join company management to avoid agency costs arising from the interests of owners and managers.

A commissioner who is independent and unaffiliated with the shareholders is necessary for the board of commissioners. According to Haryanto [2] found that the high proportion of independent commissioners who show supervisory and control actions on executives will be better. In line with these findings, the literature shows that the existence of an independent board of commissioners can have a positive impact on financial performance. Based on the explanation that has been described, the hypotheses that can be proposed are:

H_1: Corporate governance has a positive effect on financial performance

2.2. Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a corporate strategy that enables organizations to uphold their social obligations to society, their stakeholders, and themselves. Several previous studies on sustainability and CSR have made comparisons between companies based on the best and worst categories. The idea that CSR investments can produce long-lasting competitive advantages can help businesses increase their financial performance, which is rewarded by the financial markets and advantageous to shareholders [20]. Companies are currently starting to implement many CSR activities to increase the attractiveness of stakeholders who are more concerned about environmental issues and the balance between economic, social and environmental issues.

CSR is a method for increasing employee and manager motivation because it directs managers to increase the social and environmental impact of their employees' decisions, which can later be beneficial for the company's financial management [21]. The relationship between CSR and financial performance has previously been carried out. Research by Suaidah & Putri [8] used propensity scores that matched a sample of companies with high and low sustainability and found that companies with high sustainability reduced the company's financial performance. In line with these findings, the literature shows that CSR can have a negative impact on financial performance. Based on the explanation that has been described, the hypothesis that can be proposed is:

H_2: Corporate social responsibility has a negative effect on financial performance

2.3. Research and Development

The approach or technique of research and development (R&D) can be utilized to enhance business procedures. Research and development (R&D) include not only the improvement of already-existing goods but also the discovery of new facts or issues that can be solved. Companies must devote more resources to R&D since it will result in cutting-edge products that give them a competitive advantage and increase their market share [12]. R&D gives businesses the chance to create better goods and manufacturing procedures as well as more successful sales innovations to raise the value of their businesses [22].

R&D has been found to have a positive impact on business success in earlier research. According to Ghaffar and Khan [11], research and development improves business effectiveness. Other studies' findings support the notion that an investment in R&D made the year before will bear fruit the following year in the shape of ground-breaking goods or procedures, boosting the firm's profitability and cash flow [10]. In line with these findings, the literature shows that R&D investment can have a positive impact on financial performance. Based on the explanation that has been described, the hypotheses that can be proposed are:

H_3: Research and development has a positive effect on financial performance.

3. RESEARCH METHOD

3.1. Data and Sample Research

This research was conducted at property companies listed on the Indonesia Stock Exchange (IDX). The data taken is the company's annual report of observations for 2016-2019. Company data and financial reports are accessed through each company's website. The determination of the sample for this study used a purposive sampling method with the following criteria:

a) Property companies go public and are listed on the IDX;
b) Property companies that issue financial reports; and
c) Property companies issuing R&D reports.

The initial sample consisted of 296 property companies with the 2016-2019 observation year which had research and development activities. Because the data regarding the selected variables is incomplete, the final sample observations used in this study amount to 52 company-year observations.

3.2. Operational Definition of Variables

3.2.1. Corporate Governance

Corporate governance refers to a company's organizational structure and operating procedures for managing and directing its operations. Corporate governance in this study is measured by the proportion of independent commissioners developed Awaysheh et al. [20] as follows:

$$CG = \frac{\sum Independent\ Commissioner}{\sum Commissioner}$$

3.2.2. Corporate Social Responsibility

Corporate Social Responsibility is one of the efforts for companies to carry out their obligations to pay attention and care for the needs of the community. CSR in this study is measured by the proportion of corporate social responsibility disclosure developed Putri & Pramudiati [23] as follows:

$$\text{CSRIj} = \frac{\sum \text{Xij}}{\text{Nj}}$$

Notes:
CSRIj : corporate social responsibility index
∑ Xij : total items disclosed
Nj : number of disclosure items by Global Reporting Initiatives (GRI)

3.2.3. Research and Development

Research and Development (R&D) is research and development activities to increase innovation in company practices. R&D investment in this study is measured by the proportion of R&D costs to total assets as follows:

$$\text{R\&D investment} = \frac{RnD\ Cost}{\text{Total Asset}}$$

3.2.4. Financial Performance

Financial performance is a company's ability to manage and control the resources it has. Financial performance in this research is measured by the profitability ratio in the Return on Assets (ROA) financial report as follows:

$$ROA = \frac{Net\ Income}{Total\ Asset}$$

4. RESULT

According to the results of an analysis carried out on 52 companies in the property sector during the 2016-2019 period, descriptive statistics produced research findings, as shown in the following table:

Table 1. Descriptive Statistic Test

Variable	N	Min	Max	Mean	Std. Dev
CG	52	0,250	0,500	0,387	0,083
CSR	52	0,280	0,510	0,378	0,054
RnD	52	0,000	0,005	0,000	0,001
ROA	52	-0,063	0,532	0,047	0,076

Source: Secondary data (2023)

Table 1 shows the descriptive statistics of CG having a mean value of 0.387. Then, CSR has a mean value of 0.378. Furthermore, R&D has a mean value of 0.000 which indicates that property companies in Indonesia have minimal R&D practices. Meanwhile, ROA has a mean value of 0.047.

Table 2. Hypothesis Test

Variable	Beta	t	Sig	Conclusion
(Constant)	0,090	1,097	0,278	
CG	0,273	2,100	0,041	H_1: Accepted
CSR	-0,416	-2,168	0,035	H_2: Accepted
RnD	29,245	1,801	0,078	H_3: Accepted
F Hitung = 2,864			0,046	
Adjs R^2 = 0,099				

Sig. 10%

Based on the results of the first hypothesis, the t value is 2.100 and the significance level is 0.041, indicating that corporate governance has a positive effect on financial performance, H1 is supported. Independent commissioners are considered a check and balance mechanism in increasing the effectiveness of the board of commissioners. Independent commissioners' function in supervising managers so that investor confidence will be greater in the company's performance. According to Haryanto [2], independent commissioners can act as mediators in conflicts between internal managers, supervise management regulations and provide advice to management. The most appropriate person to carry out supervisory duties in order to establish a company with good corporate governance is an independent commissioner.

The results of testing the second hypothesis have a t value of -2.168 with a significance of 0.035, indicating that corporate social responsibility has a negative effect on financial performance, H2 is supported. The expenditures incurred will increase as the organization's knowledge of performing CSR initiatives grows, making it a financial burden for the company. Investors also have a negative view of corporations disclosing their CSR activities because they typically do so just as part of ads and withhold other pertinent information. Therefore, the lack of investor interest in investing in the company causes an increase in financial performance not to run optimally. The findings of this study are in line with other studies regarding the relationship between corporate social responsibility and the impact that reduces the company's financial performance [8], [9].

Testing the third hypothesis has a calculated t value of 1.801, with a significance of 0.078, indicating that R&D has a positive effect on financial performance, H3 is supported. Research and development has a track record of helping businesses in this cutthroat business environment. Companies can improve manufacturing methods and sales innovation through research and development (R&D) operations [22]. Companies that spend more on research and development receive more rewards than companies that do not [24]. The findings of this study are in line with other research regarding the relationship between research and development and its beneficial impact on business financial performance [10]–[12].

5. CONCLUSION

This research examines the impact of corporate governance, corporate social responsibility and research and development investment on the financial performance of property companies in Indonesia. Empirical results show that corporate governance has a positive effect on financial performance. This shows that the use of efficient and effective corporate governance will enable companies to achieve higher financial performance. Then, this study found that corporate social responsibility has a negative effect on financial performance. This shows that CSR in property companies must be managed effectively and efficiently so as not to harm the company. In addition, this study also found that R&D has a positive effect on financial performance. Companies that allocate higher research and development spending gain greater benefits than companies that do not allocate research and development spending. Future research is expected to be able to examine other factors that can affect financial performance.

AUTHORS' CONTRIBUTIONS

Tri Siwi Nugrahani: Determining research topics and designing research methodology, as well as analyzing research data;

Fitri Susilowati: Analyzing research data and writing articles

Galih Tri Astuti: Collecting research data and article editions

Lintang Dinda Saputri: Collecting research data and article editions

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