

# The Effect Of Corporate Social Responsibility And Good Corporate Governance On The Profitability Of Pharmaceutical Sub Sector Companies In Idx

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**Abstract:** The increase in profits for pharmaceutical companies during the pandemic has made business competition quite high. In 2020 there was a phenomenon that occurred in one of the pharmaceutical companies that contradicted the principles of good governance and social and environmental responsibility. This study was conducted to determine the effect of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on profitability. This research was conducted on pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange with a sample of 8 companies for the period 2018 to 2021. This study processes secondary data obtained from the Indonesia Stock Exchange and from the website of each company. This study was tested using SPSS version 25. The data analysis technique used was multiple linear regression model. From the results of this study, it was found that CSR, the board of directors, and the board of commissioners have a significant positive effect on Return Of Investment (ROI), the audit committee has a significant negative effect on Return Of Investment (ROI), and managerial ownership has a significant positive effect on Return Of Investment (ROI).

**Keywords:** ROI, CSR, GCG

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## Introduction

The role of the economy in Indonesia is very important. The current economic situation in Indonesia has changed a lot. In 2020, Indonesia was hit by Covid 19 which made the economy weaken. Many businesses have had to close due to the impact of the Covid-19 pandemic. This condition turned a positive impact on companies in the pharmaceutical sector, which experienced a rapid increase in profits. The need for medicines and health supplements is very much needed by the community. This causes a fairly high competition among companies in the pharmaceutical sector. However, the high competition triggers a lot of abuse of responsibility to achieve personal gain. Liputan 6 (2021) explained that the Ministry of SOEs followed up on the used antigen case that occurred at Kualanamu Airport and dismissed the entire board of directors of Kimia Farma Diagnostika. The incident resulted in at least 9000 people being harmed and the perpetrators getting a profit of around Rp. 1.8 billion. From these problems illustrates the poor governance of the supervisory function of the board of directors and the board of commissioners. Based on *Peraturan Menteri Keuangan Republik Indonesia No.88/PMK.06/2015 Chapter 4 point a and c* declare that good corporate governance is realized in carrying out the duties and responsibilities of shareholders, boards of commissioners, and boards of directors; completing and carrying out duties of committees and work units that carry out internal control functions. Good Corporate Governance (GCG) aims to ensure that the company carries out healthy business practices, increase investor confidence, reduce risks that cause conflicts of interest. Based on *UU RI Nomor 40 Tahun 2007 tentang Perseroan Terbatas chapter 1* declaring that the organs of the company are the general meeting of shareholders, the board of directors, and the board of commissioners.

In running the company, there are often disparities in the goals of the board of directors and shareholders. According to Kusumandari (2017) The board of directors is a company organ that is in charge of and has full responsibility for managing the company, the board of directors is very important to implement good corporate governance, the proportion of the board of directors that is high makes the company's operational activities more effective, and can determine the policies and strategies of the resources owned by them company to reach short term or long term. While the shareholder is an individual or legal substance who legally owns at least one share in the organization, one of the shareholders is managerial ownership or shares owned by the management company, this managerial ownership can help implement good managerial ownership, improve the company's

managerial ownership will link the interests of management with the interests of shareholders, so that I can directly experience the advantages and disadvantages of the company (Pratiwi et al., 2020). According to Fitria et al. (2018) From the many differences in interests between the board of directors and the shareholders, it is necessary to have supervision from the board of commissioners to ensure that the company is managed and operated properly to support the implementation of good corporate governance, there is a proportion of the board of commissioners who are higher, the better the supervisory function a company. The supervisory function of the board of commissioners is assisted by external parties, namely the audit committee, these audit committees act independently in carrying out their duties and responsibilities, and the audit committee ensures that the company conducts its business in accordance with the law and is also ethical, and carries out effective supervision. clash and fraud committed by the management of the company (Aprinita, 2016).

According to Supriadi (2020) the role of the board of directors in managing and the commissioner in providing supervision will make the company's performance better and more controlled, this can increase the profitability of the company. Profitability is the ability of the company to earn profits. One of the ratios of profitability is the ratio of Return on Investment (ROI), namely by directly measuring the return on investment of a company, from this ratio, investors can find out the weaknesses and strengths of the company. The implementation of GCG can have a positive impact on the company's profits. To increase profits in a sustainable manner it can be realized in the implementation of Corporate Social Responsibility (CSR), which is designed so that companies are able to take responsibility for the resources used in the company's operational processes. Based on *UU RI Nomor 40 Tahun 2007 tentang Perseroan Terbatas*, Article 74 paragraph 1 that a company that carries out its business activities in the field of and/or related to natural resources is obliged to carry out social and environmental responsibilities; and also paragraph 4 which states that a company that does not fulfill its obligations as referred to in paragraph (1) is subject to sanctions in accordance with the provisions of legislate. By carrying out CSR, of course, it provides benefits for various parties, one of which is to increase a positive image and strengthen the company's brand in the eyes of the public. In this regard, the company's activities in carrying out social and environmental responsibilities, of course using funds to generate profits, this profit is a brand image. Even though there are a lot of costs incurred to make it happen, but this activity is an attempt by the company to maintain profits to reach long. Based on the results of previous research Suciwati et al. (2021) good corporate governance has a positive and significant effect on financial performance (ROI). These results are different from the research from Napitupulu et al. (2021) Good corporate governance does not have a significant effect on ROI. Explore the previous research that has been carried out by Rumengan et al. (2017) found the results that CSR did not have a significant effect on ROI. Meanwhile, based on the research conducted by Nurohniah et al. (2008) get different results, namely CSR has a positive and significant impact on company performance (ROI).

## Method

This research was conducted on pharmaceutical sub-sector companies that were listed on the Indonesia Stock Exchange from 2018-2021. When this research was conducted in March until the end of the preparation. The technique of collecting data in this research is through library research, namely collecting data using guidelines from books, articles, journals, and the internet. I also go through documentation technique by recording the information contained on the website of each company and the data provided. listed in the annual financial reports of companies in the pharmaceutical sub-sector for the period 2018-2021 which are listed on the Indonesia Stock Exchange on the official website [www.idx.co.id](http://www.idx.co.id).

The population taken in this research is all companies in sub sector pharmaceuticals listed on Indonesia Stock Exchange period 2018-2021 which totals 10 companies. In this research, there are 8 out of 10 pharmaceutical companies listed on the Indonesia Stock Exchange which include:

**Tabel 1**  
**Sampling Table**

No	Sampling	Amount
	Population of Sub Pharmaceutical Sector Manufacturing Companies listed on the Indonesia Stock Exchange for the period 2018-2021	10
1	Companies that do not include information regarding CSR and GCG for the period 2018-2021	(1)
2	Companies that do not get profits in a row for the period 2018-2021	(1)
	Sample used	<b>8</b>

Data source processed, in 2022

The independent variables in this research are corporate social responsibility and good corporate governance which are measured by board of directors, board of commissioners, audit committee, and managerial ownership. The dependent variable in this research is profitability which is measured by Return of Investment (ROI). The analysis technique in this research is descriptive statistical test. Then test the classical assumptions, after the classical assumptions test is fulfilled then do a multiple linear analysis which is followed by hypothesis testing.

## Result and Discussion

- Descriptive statistics**

Descriptive statistics are used to provide a description of the descriptive statistical data of each variable. This data includes the amount of data, minimum and maximum values, average values, and standard deviations.

**Tabel 2**  
**Descriptive statistics**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>CSR</b>	32	0,06	0,44	0,2662	0,11339
<b>Board Of Directors</b>	32	3,00	10,00	5,3438	2,04165
<b>Board Of Commissioners</b>	32	2,00	8,00	5,1875	1,69320
<b>Audit Committee</b>	32	3,00	5,00	3,2500	0,50800
<b>Managerial Ownership</b>	32	0,00	29,96	2,2010	7,45621
<b>ROI</b>	32	0,10	92,10	11,9844	16,29336
<b>Valid N (listwise)</b>	32				

Data source processed, in 2022

CSR variable has a minimum value of 0.06 and a maximum value of 0.44. The average value of CSR from 32 data is 0.2662 and the CSR standard deviation is 0.11339. The board of directors variable has a minimum value of 3.00 and a maximum value of 10.00. The mean value of the board of directors from the 32 data is 5.3438 and the standard deviation of the board of directors is 2.04165. The board of commissioners variable has a minimum value of 2.00 and a maximum value of 8.00. The average value of the commissioners of the 32 data is 5.1875 and the standard deviation of the commissioners is 1.69320. The audit committee variable has a minimum value of 3.00 and a maximum value of 5.00. The mean value of the audit committee from 32 data is 3.2500 and the audit committee standard deviation is 0.50800. The managerial ownership variable has a minimum value of 0.00 and a maximum value of 29.96. The average value of managerial ownership from 32 data is 2.2010 and the standard deviation of managerial ownership is 7.45621. The ROI variable has a minimum value of 0.10 and a maximum value of 92.10. The average value of ROI from 32 data is 11.9844 and the standard deviation of ROI is 16.29336.

- Classic assumption test**

**Tabel 3**  
**Classic assumption test**

		<b>Unstandardized Residual</b>
<b>N</b>		32
<b>Normal Parameters<sup>a,b</sup></b>	<b>Mean</b>	0,000000
	<b>Std. Deviation</b>	0,43760521
<b>Most Extreme Differences</b>	<b>Absolute</b>	0,150
	<b>Positive</b>	0,090
	<b>Negative</b>	-0,150
<b>Test Statistic</b>		0,150
<b>Asymp. Sig. (2-tailed)</b>		,064 <sup>c</sup>

Data source processed, in 2022

Based on Table 3, it can be seen that from the results of the normality test, a significance value of  $0.064 > 0.05$  was obtained. So it can be concluded that the data is normally distributed.

**Tabel 4**  
**Multicollinearity Test**

Model	Collinearity Statistic	
	Tolerance	VIF
<b>1</b> (Constant)		
CSR	0,460	2,174
Board Of Directors	0,445	2,248
Board Of Commissioners	0,620	1,612
Audit Committee	0,592	1,688
Managerial Ownership	0,388	2,576

Data source processed, in 2022

Based on Table 4, it can be seen that the tolerance value is  $> 0.1$  and the VIF value is  $< 10$ . So it can be concluded that the regression model is free from multicollinearity.

**Tabel 5**  
**Heteroscedasticity Test**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
<b>1</b> (Constant)	42,034	23,724		1,772	0,088
CSR	31,387	38,089	0,218	0,824	0,417
Board Of Directors	1,032	2,151	0,129	0,480	0,635
Board Of Commissioners	-2,703	2,196	-0,281	-1,231	0,229
Audit Committee	-9,342	7,490	-0,291	-1,247	0,223
Managerial Ownership	0,210	0,630	0,096	0,334	0,741

Data source processed, in 2022

Based on Table 5, it can be seen that the significance value of the independent variable  $> 0.05$ , it can be concluded that the model is free from heteroscedasticity..

**Tabel 6**  
**Autocorrelation Test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
<b>1</b>	,725 <sup>a</sup>	0,526	0,434	0,47783	2,087

Data source processed, in 2022

Table 6 shows that the value of  $d = 2.087$ ,  $dL = 1.1092$ ,  $dU = 1.8187$ , and  $n = 32$ . So the result becomes  $dU < d < 4-dU$  or  $1.8187 < 2.087 < 2.1813$ , it can be concluded that there is no autocorrelation in the regression model.

**Tabel 7**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
<b>1</b> (Constant)	3,805	0,695		5,473	0,000
CSR	0,923	1,116	0,165	0,827	0,416
Board Of Directors	0,027	0,063	0,087	0,430	0,671
Board Of Commissioners	0,040	0,064	0,106	0,619	0,541
Audit Committee	-1,140	0,219	-0,911	-5,192	0,000
Managerial Ownership	0,040	0,018	0,470	2,167	0,040

Data source processed, in 2022

• **Multiple Linear Regression Model Test**

The equation of the multiple linear regression model in this study is:

$$Y = 3,805 + 0,923 X1 + 0,027 X2 + 0,040 X3 - 1.140 X4 + 0,040 X5 + e$$

The constant value of 3.805 indicates if the value of the CSR variable, the board of directors, the board of commissioners, the audit committee, managerial ownership is equal to 0, then the fixed value or the initial value of the ROI variable is 3.805.

• **t test**

In the significance test of CSR t has a value of  $t_{count}(0.827) < t_{table}(2.05553)$  and a value of  $sig0.416 > 0.05$ , it can be concluded that CSR has an insignificant positive effect on profitability so that the first hypothesis is rejected. This result is not significant because all pharmaceutical companies listed on the IDX do not disclose CSR indicators in the Sustainability Report. This causes the value of the CSR disclosure index to be small. Meanwhile, investors do not look at the CSR disclosure of pharmaceutical companies in making investments, but pay more attention to the financial side of the company. In addition, the Covid-19 pandemic has attracted investors to invest in pharmaceutical companies, along with the increasing public need for medicines. CSR should have a positive impact on profitability, because the better the implementation of CSR, the better the company's image. This affects people's loyalty to the products produced by the company. This means that the implementation of CSR can be used as a company effort to earn profits in the long term.

In the t significance test, the board of directors has a value of  $t_{count}(0.430) < t_{table}(2.05553)$  and a value of  $sig0.617 > 0.05$ , it can be concluded that the board of directors has a positive and insignificant effect on profitability so that the second hypothesis is rejected. The results are not significant because the implementation of the duties of each board of directors is not only seen from the large number of directors who are in accordance with the provisions of the law, but also from the quality of the board of directors in managing the company so that they run a healthy business in accordance with GCG principles or good corporate governance. This means that the number of the board of directors may not necessarily increase the profit of pharmaceutical companies, because GCG is not implemented properly.

In the t significance test the board of commissioners has a value of  $t_{count}(0,619) < t_{table}(2.05553)$  and a sig value of  $0.541 > 0.05$ , it can be concluded that the board of commissioners has an insignificant positive effect on profitability so the third hypothesis is rejected. The results of this positive study are not significant because there are many views on the proportion of the board of commissioners that increase profitability. The possibility of lack of expertise possessed by the board of commissioners makes the decisions made are not right, so that the company's profit is not achieved. However, there are too many commissioners found reduce the effectiveness of the company. This indicates that the proportion of the board of commissioners cannot significantly affect the profitability of the company.

In the t significance test the audit committee has a value of  $t_{count}(-5,192) > t_{table}(2,05553)$  and a value of  $sig0.000 < 0.05$ , it can be concluded that the audit committee has a significant negative effect on profitability so that the fourth hypothesis is rejected. This is probably due to the composition of the audit committee which is not independent. This audit committee can be called as an extension of the board of commissioners, which is in charge of carrying out the supervisory function of the board of directors. The audit committee has the authority to make recommendations on the selection of the company's external auditors. The audit committee's ability in its field should be able to increase the profitability of pharmaceutical companies.

In the t significance test, managerial ownership has a value of  $t_{count}(2.167) > t_{table}(2.05553)$  and a value of  $sig0.040 < 0.05$ , it can be concluded that managerial ownership has a significant positive effect on profitability so that the fifth hypothesis is accepted. This managerial ownership is seen as being able to harmonize the potential differences in external interests between shareholders and management. Managerial ownership can motivate companies to increase profitability which has an impact on stockholder satisfaction.

• **Coefficient of Determination Test (R<sup>2</sup>)**

**Tabel 8**  
**Coefficient of Determination Test (R<sup>2</sup>)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,725 <sup>a</sup>	0,526	0,434	0,47783

Data source processed, in 2022

Based on Table 8, it can be seen that the value of the Adjusted R Square is 0.434 or 43.3% which means that the magnitude of the influence of CSR, the board of directors, the board of commissioners, the audit committee, managerial ownership together on profitability is 43.4% , while the remaining 56.6% is



influenced by other variables outside the regression model of this study. The board of directors, board of commissioners, audit committee, and managerial ownership are part of the corporate organ that play an important role in implementation of Good Corporate Governance (GCG), implementation of this GCG can increase profits in a company, and maintain business continuity in the long term long term which prioritizes the interests of shareholders and stakeholders to maintain profits in the long term can be done by way of implementation of Corporate Social Responsibility (CSR), in this way also enhances the image of the company and strengthens the brand of the company in the eyes of the public.

## Conclusion

Based on the results of the multiple regression model test and the discussion described in the previous chapter, it can be concluded as follows :

- *Corporate Social Responsibility (CSR) has no significant positive effect on profitability, this indicates that the high and low profitability is not caused by CSR.*
- The board of directors has no significant positive effect on profitability, this indicates that the high and low profitability is not caused by the board of directors.
- The board of commissioners has no significant positive effect on profitability, this indicates that the high and low profitability is not caused by the board of commissioners.
- The audit committee has a significant negative effect on profitability, this shows that the high and low profitability is caused by the audit committee, but inversely if the audit committee is high then the profitability is low.
- Managerial ownership has a significant positive effect on profitability, this shows that the high and low profitability is caused by the percentage of managerial ownership.
- Corporate social responsibility, board of directors, board of commissioners, audit committee, and managerial ownership together have a significant effect on profitability, this shows that the level of profitability is influenced by the implementation of CSR and the proportion of company organs.

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