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Disclosure of Social Responsibility as an Effort to Communicate the Quality of Corporate Governance in Order to Improve Financial Performance

Siti Istikhoroh[1], Untung Lasiyono[2], Mutiara Rachma Ardhiani[3], Wira Yudha Alam[4], Noerchoidah[5]

Abstract

This research aims to analyze the disclosure of social responsibility as an effort to communicate the quality of corporate governance to the public to enhance financial performance. The phenomenon of information asymmetry that always exists in the publication of financial statements proves the need for companies to engage in activities that communicate the quality of management governance to the public. With good communication, public trust will be built, and financial performance will improve. An empirical study was conducted on cigarette companies listed on the Indonesia Stock Exchange from 2020 to 2022. The type of research is quantitative, with data obtained by analyzing financial ratios as reported by companies on the Indonesia Stock Exchange and analyzed using the Moderated Regression Analysis technique. The research variables consist of Return on Assets as the dependent variable, Good Corporate Governance as the independent variable, and Corporate Social Responsibility as the moderating variable. Several variables measuring Good Corporate Governance, such as Managerial Ownership, Institutional Ownership, and Independent Commissioners, were found to have a partial effect on Return on Assets, while the Board of Directors and Audit Committee did not have a partial effect on Return on Assets. The analysis results prove that Corporate Social Responsibility can enhance the role of good corporate governance in influencing financial performance. This research is beneficial both theoretically and practically. Theoretically, the research results complement the literature on the determinants of financial performance, while practically, they are useful for company leaders in determining strategies to improve financial performance.

Keywords: *Managerial Ownership, Institutional Ownership, Audit Committee, Board of Directors, Independent Commissioner, Financial Performance, Corporate Social Responsibility.*

Introduction

Financial performance is an analysis conducted to assess how well a company has implemented financial management rules accurately and appropriately (Fahmi, 2017). The financial performance of a company can be evaluated using several financial ratios, such as profitability ratios, liquidity ratios, leverage ratios, and others. In this study, the researcher uses the profitability ratio to measure the company's ability to generate profits at the asset sales level. Profitability ratios are used because they show the final results or profits from the policies and decisions made by the company. A high ratio indicates asset management efficiency. Profitability can be measured using return on assets (ROA), which is a ratio used to measure a company's ability to generate profits from investment activities (Danilo Gomes de Arruda, 2021).

To achieve good financial performance, a company must implement good corporate governance (GCG) principles. This implies that the company needs to enhance appropriate strategies to maintain its existence and improve its performance. GCG became known and widely discussed in Indonesia in the late 1990s, specifically around 1997-1998, during the economic crisis caused by irresponsible corporate management and numerous cases of corruption, collusion, and nepotism. Poor corporate governance was one of the main reasons for the economic crisis at that time. Consequently, the government, through the Ministry of State-Owned Enterprises, began introducing the concept of GCG within state-owned enterprises (Luki Karunia, 2021), with components including managerial ownership, institutional ownership, the board of

[1] Universitas PGRI Adi Buana Surabaya, East Java, Indonesia, Email: istikhoroh_siti@unipasby.ac.id, (Corresponding Author)
[2] Universitas PGRI Adi Buana Surabaya, East Java, Indonesia.
[3] Universitas PGRI Adi Buana Surabaya, East Java, Indonesia
[4] Universitas PGRI Adi Buana Surabaya, East Java, Indonesia.
[5] Universitas PGRI Adi Buana Surabaya, East Java, Indonesia

commissioners, the audit committee, and the board of directors. These mechanisms provide oversight over company managers to be more effective and efficient in conducting the company's operational activities, aimed at improving company performance (Yunus & Tarigan, 2020).

The optimal implementation of GCG brings many benefits, both for the company and for stakeholders, including shareholders and the public. For companies in Indonesia, empirical data on the implementation of GCG shows less encouraging results, still relatively low according to a survey conducted by Credit Lyonnais Securities (CLSA), even when compared to other Asian countries (Nugraheni, 2021). The implementation of GCG has not been proven to reduce the manipulation of financial statements published by publicly listed companies on the Indonesia Stock Exchange. This implies the need for other components, besides GCG, to optimize financial performance. This study assumes that the company's activities to introduce its business presence to the surrounding community are believed to enhance the influence of GCG on financial performance. These activities are termed Corporate Social Responsibility (CSR) by academics.

In business activities, GCG and CSR are equally important. Both have significant roles in business practices and are interconnected. One of the principles of GCG implementation is responsibility. This principle is a form of social responsibility oriented towards stakeholders. Initially, CSR was limited to providing assistance to local organizations in poor communities in developing countries. The approach was based on humanitarian motivation and generally conducted on an ad hoc, partial, and non-institutional basis. At this level, CSR was merely about doing good and looking good (Mardikanto, 2018).

Research conducted by Barus (2016) on the influence of GCG on financial performance in mining companies concluded that GCG did not have a partial impact on financial performance. On the other hand, Suciwati et al. (2016) conducted a study on the influence of CSR on financial performance in mining companies and concluded that CSR disclosure significantly influenced financial performance as measured by Return on Assets (ROA). This supports the belief that CSR can enhance the influence of GCG on financial performance.

To achieve the desired results, this research was conducted on property and cigarette companies listed on the Indonesia Stock Exchange (IDX). The characteristics of these business fields, closely related to the surrounding community, make them suitable subjects for studying the importance of CSR disclosure in financial reporting. Companies managed by applying GCG principles need to be understood by the surrounding community so that the public or potential buyers can be more confident that the properties to be purchased are of good quality, safe, etc., as they are built by quality companies. Public trust is believed to be capable of increasing sales turnover, which ultimately can improve financial performance. Given this, the problems in this research are formulated as follows:

- Does managerial ownership affect Return on Assets?
- Does the audit committee affect Return on Assets?
- Does institutional ownership affect Return on Assets?
- Does an independent commissioner affect Return on Assets?
- Does the board of directors affect Return on Assets?
- Does Corporate Social Responsibility enhance the relationship between managerial ownership and Return on Assets?
- Does Corporate Social Responsibility enhance the relationship between the audit committee and Return on Assets?

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- Does Corporate Social Responsibility enhance the relationship between institutional ownership and Return on Assets?

- Does Corporate Social Responsibility enhance the relationship between independent commissioners and Return on Assets?

- Does Corporate Social Responsibility enhance the relationship between the board of directors and Return on Assets?

Theoretical Review

Good Corporate Governance

Good Corporate Governance (GCG) is a set of healthy corporate principles that need to be applied in company management solely to safeguard the interests of the company to achieve its objectives (Luki Karunia, 2021). GCG is a system that regulates the relationships among various stakeholders, especially, in a narrow sense, the relationships between shareholders, the board of directors, and the board of commissioners, to achieve the organization's goals (Sudarmanto, 2021). Therefore, it can be concluded that GCG is a set of corporate governance regulations that need to be applied to manage the company to achieve shared corporate objectives.

The objectives of implementing GCG include encouraging corporate transparency, preventing unhealthy practices such as takeovers and related-party transactions that harm minority shareholders, increasing the efficiency, effectiveness, and sustainability of an organization, contributing to the welfare of shareholders, employees, and stakeholders, providing an elegant solution in facing future organizational challenges, enhancing the legitimacy of an organization managed openly, fairly, and accountably, and recognizing and protecting the rights and obligations of shareholders and stakeholders (Luki Karunia, 2021).

The principles of GCG according to the Organization for Economic Cooperation and Development (OECD) are transparency, accountability, responsibility, independence, and fairness. The proxies for implementing GCG are:

Managerial Ownership

Luki Karunia (2021) states that managerial ownership refers to the amount of shares owned by management that actively participates in decision-making. Managerial ownership can be calculated using the formula:

$$\text{Managerial Ownership} = \frac{\text{Shares owned by management}}{\text{Total shares outstanding}} \text{x } 100\%$$

Institutional Ownership

Institutional ownership is the shareholding by institutions or entities such as insurance companies, banks, and investment firms (Asabri, 2019). Institutional ownership can be calculated using the formula:

$$\text{Institutional Ownership} = \frac{\text{Shares owned by institutions}}{\text{Total shares outstanding}} \text{x}100\%$$

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Audit Committee

According to Luki Karunia (2021), the audit committee is formed by the board of commissioners to carry out its supervisory duties and functions, consisting of at least one independent commissioner and two other members from outside the company. The audit committee can be calculated using the formula:

$$KA = \sum \text{Members of the Audit Committee}$$

Board of Directors

The board of directors is an important organ in the company that directly manages the company. The board of directors is responsible for determining the direction of policies and strategies for the company's resources for both short-term and long-term (ASABRI, 2019). The board of directors can be calculated using the formula:

$$DD = \sum \text{Members of the Board of Directors}$$

Independent Commissioners

An independent commissioner is a member of the board of commissioners who essentially has no special relationship with the board of directors, other commissioners, controlling shareholders, or any other relationship and is appointed to represent minority shareholders based on their knowledge, experience, and professional expertise to make independent decisions for the benefit of the company (Luki Karunia, 2021). Independent commissioners can be calculated using the formula:

$$\text{Independent Commissioner} = \frac{\text{Number of independent commissioners}}{\text{Total board of commissioners}} \text{x } 100\%$$

Corporate Social Responsibility

Corporate Social Responsibility (CSR) refers to how companies manage their business processes to produce an overall positive impact on society (Mardikanto, 2018). CSR is a way for companies to enhance their image in the public eye by conducting charitable programs both internally and externally (Mukhtadi, 2022). From these definitions, it can be concluded that CSR is a company's effort to maintain its good reputation by implementing programs that have a positive impact on society.

The CSR Index is measured using the formula:

$$CSRIj = \frac{\Sigma Xij}{nj}$$

Where:

CSRIj : *Corporate Sosial Responsibility Disclosure* Index for company J

N : the number of disclosure items.

ΣXij : 1 = if the item disclosed; 0 = if the item is not disclosed. Thus, $0 \leq CSRIj \leq 1$

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Financial Performance

Financial performance is an analysis conducted to assess how well a company has implemented financial management rules accurately and appropriately, such as preparing financial statements that comply with standards and regulations in the Financial Accounting Standards (SAK) or General Accepted Accounting Principles (GAAP), and others (Fahmi, 2017). Financial performance is the achievement or capability of a company in creating value for the company or capital owners in effective and efficient ways (Rahayu, 2020). With these two definitions, it can be concluded that financial performance is the company's ability to create value for the company by meeting standards and regulations in the Financial Accounting Standards (SAK) or General Accepted Accounting Principles (GAAP), and others.

This study measures financial performance through Return on Assets (ROA) analysis as per Agustina (2021), using the formula :

$$\mathrm{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Method

Conceptual Framework

The relationships between the variables discussed in this study are illustrated in the conceptual framework (Figure 1) as follows:

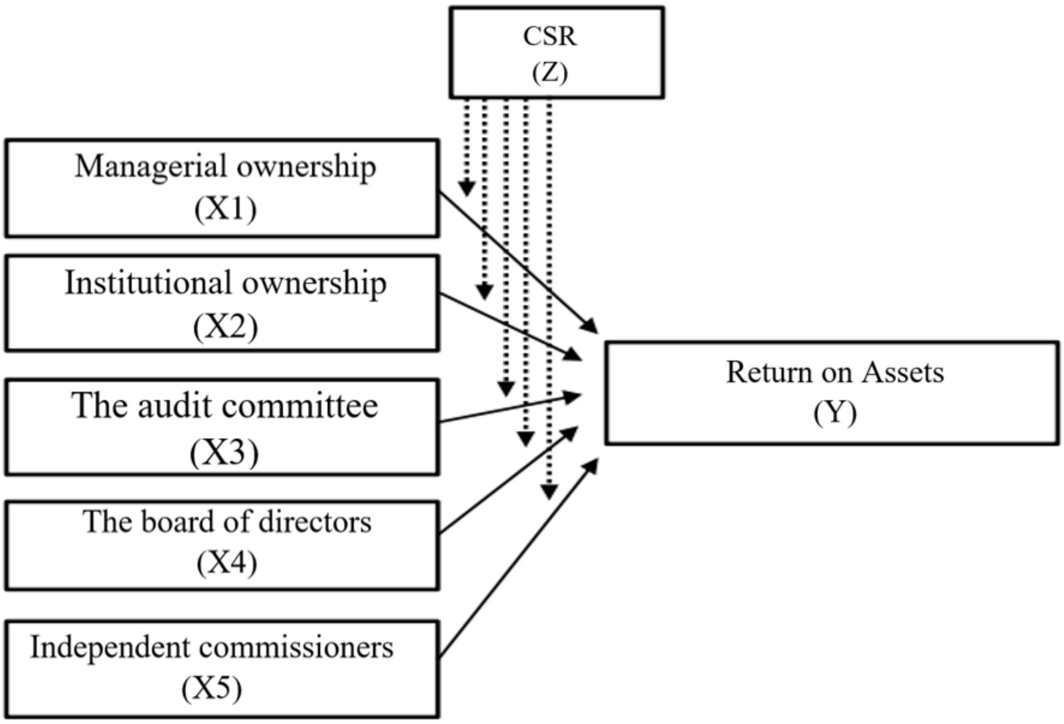

Figure 1: Conceptual Framework

Explanation :

→ : **Solid Line** indicates the partial relationship of variable X with Y

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-------→ : **Dashed Line** indicates variable Z as a moderator of the relationship between variable X and Y

Figure 1 explains the direct influence of managerial ownership, institutional ownership, the audit committee, the board of directors, and independent commissioners on financial performance. CSR is assumed to enhance the coefficient of this influence. Based on the literature review and the examination of the conceptual framework, the hypotheses that can be developed are:

- Managerial ownership has a direct effect on Return on Assets (ROA)
- The audit committee has a direct effect on Return on Assets (ROA)
- Institutional ownership has a direct effect on Return on Assets (ROA)
- Independent commissioners have a direct effect on Return on Assets (ROA)
- The board of directors has a direct effect on Return on Assets (ROA)
- CSR enhances the relationship between managerial ownership and Return on Assets (ROA)
- CSR enhances the relationship between the audit committee and Return on Assets (ROA)
- CSR enhances the relationship between institutional ownership and Return on Assets (ROA)
- CSR enhances the relationship between independent commissioners and Return on Assets (ROA)
- CSR enhances the relationship between the board of directors and Return on Assets (ROA)

Research Variables

This study has five independent variables, one moderating variable, and one dependent variable. The relationships between the variables are analyzed across 16 cigarette companies listed on the IDX from 2019 to 2021. The operational definitions of the variables are as follows:

Table 1: Research Variables

Type	Variable Name	Description
Independent	1. Managerial Ownership (X1)	Represents the number of shares owned by managers who participate in decision-making. This variable is measured using Formula 1.
	2. Institutional Ownership	Represents the number of shares owned by institutions such as insurance companies, banks, and investment firms. This variable is measured using Formula 2.
	3. Audit Committee	Represents the board of commissioners responsible for overseeing the company. This variable is measured using Formula 3.
	4. Board of Directors	Represents the company organ responsible for determining the company's policies and strategies in the short and long term. This variable is measured using Formula 4.
	5. Independent Commissioners	Represents members of the board of commissioners who do not have special relationships with the board of directors or other commissioners. This variable is measured using Formula 5.

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Type	Variable Name	Description
Moderating	Corporate Social Responsibility	Represents how the company enhances its image in the public eye through internal and external charitable programs. This variable is measured using Formula 6.
Dependent	Financial Performance	Represents the company's performance ability to create value for the company in effective and efficient ways. This variable is proxied by Return on Assets, measured using Formula 7.

Data Analysis

The research objects are cigarette companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2021, namely PT. HM. Sampoerna Tbk, PT. Bentoel Prima Tbk, PT. Gudang Garam, Tbk, and PT. Wismilak Inti Makmur, Tbk. Data were obtained from the IDX website (https://www.idx.co.id/) and analyzed using Multiple Regression Analysis (MRA) techniques, with the results as follows:

Table 2: MRA Test Results

	Original Sample (O)	T Statistics	P Values	Explanation
KM -> ROA	0,389	8,773	0,000	Significant
KI -> ROA	0,278	5,287	0,015	Significant
KA -> ROA	-0,202	3,835	0,067	Not Significant
DD -> ROA	0,059	2,234	0,711	Not Significant
KIn -> ROA	0,300	7,564	0,027	Significant
MOD KM-CSR -> ROA	0,619	9,761	0,000	Significant
MOD KI-CSR -> ROA	0,318	8,016	0,012	Significant
MOD KA-CSR -> ROA	0,224	5,175	0,039	Significant
MOD DD-CSR -> ROA	0,210	4,213	0,044	Significant
MOD KIn-CSR -> ROA	0,406	9,221	0,000	Significant

Explanation:

KM = Managerial Ownership

KI = Institutional Ownership

KA = Audit Committee

DD = Board of Directors

KIn = Independent Commissioners

Table 2 explains the partial influence of managerial ownership, institutional ownership, independent commissioners, audit committee, and the board of directors on financial performance. The table also explains the role of corporate social responsibility in enhancing the influence of each independent variable on the dependent variable. The analysis results can be summarized as follows:

- Managerial ownership, institutional ownership, and independent commissioners partially affect financial performance.
- The board of directors and the audit committee do not partially affect financial performance.

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- CSR enhances the influence of managerial ownership, institutional ownership, audit committee, board of directors, and independent commissioners on financial performance.

Discussion

Influence of Managerial Ownership on Financial Performance

The research proves that managerial ownership affects financial performance (ROA). The MRA test results show a variable coefficient value of 0.389 with a t-statistic value of 8.773, significant at the 0.000 level (less than 0.005). This value indicates the acceptance of the first hypothesis, which states that managerial ownership affects financial performance. This result aligns with Hermiyetti & Katlanis (2017), who stated that managerial ownership affects ROA because management's ownership of corporate shares can align potential differences in interests between agents and principals. The larger the managerial ownership, the more management's actions will aim to maximize the company's value. The agency-principal conflict disappears if managers are shareholders (Amelia, 2007; Rahmatia & Andayani, 2015). This result contradicts the research by Chilin et al. (2007) and Juhandi (2013), which explained that large managerial ownership cannot align management and shareholder interests, thereby not increasing ROA.

The proven influence of managerial ownership on financial performance implies that management's performance will improve if they own some outstanding shares. Managerial ownership at a certain level affects the quality of management decisions in improving financial performance. Managers with a significant shareholding will maximize the use of funds in productive assets to enhance shareholder welfare rather than for their benefit. This proper policy will enhance financial performance. Epi (2017) stated that if research concludes that managerial ownership does not affect ROA, it may be due to sample companies where managers do not own or only own a small portion of outstanding shares.

The influence of managerial ownership on financial performance has proven to increase after adding CSR activities conducted by the company. The regression coefficient value of managerial ownership on ROA becomes 0.619 with a t-value of 9.761, significant at the 0.000 level. Thus, it can be concluded that the sixth hypothesis, stating that CSR enhances the influence of managerial ownership on financial performance in cigarette companies, is accepted. This research contradicts the study by Ratih & Damayanthi (2016), which stated that CSR can moderate the influence of managerial ownership on ROA positively, so CSR disclosure can strengthen the relationship between managerial ownership and ROA. Ramadhani (2012) stated that managerial ownership influences CSR on ROA. This research shows that companies with high managerial ownership can increase company value through CSR disclosure. Ayu Ratih (2015) in her research found the same result, that CSR can moderate managerial ownership on ROA. Another study by Fajriana (2016) also stated that CSR and managerial ownership significantly influence ROA.

Influence of Institutional Ownership on Financial Performance

The research proves that institutional ownership affects financial performance (ROA). The MRA test results show a variable coefficient value of 0.278 with a t-statistic value of 5.287, significant at the 0.015 level (less than 0.005). This value indicates the acceptance of the hypothesis that institutional ownership affects financial performance. This result supports the opinion of Welim (2014) and Hermiyetti & Katlanis (2017), which stated that the influence of institutional investors on company management can be very significant because it can be used to align management and shareholder interests. This research result is due to institutional investors' tendency to compromise or side with management, so as institutional ownership increases, company performance will improve. Institutional ownership can enhance job professionalism because institutional owners, usually in the form of business entities, put more pressure on management to improve job quality.

This result contradicts Fadillah (2017) and Wijaya & Purnawati (2014), who stated that institutional ownership does not affect ROA. Institutions that own a majority of company shares can easily set policies for their benefit, and if they are dissatisfied with company performance, they will use their control as

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majority shareholders to obtain private benefits, indirectly reducing company value. If the statistical results show a negative influence, it means they do not significantly contribute to advancing the company; the more institutional ownership, the more the company's performance declines. They fully rely on company management to manage the company without giving input, especially on important policies. Even if they provide input, it is not beneficial for the company.

The influence of institutional ownership on financial performance has proven to increase after adding CSR activities conducted by the company. The regression coefficient value of institutional ownership on ROA becomes 0.318 with a t-value of 8.016, significant at the 0.012 level. Thus, it can be concluded that the seventh hypothesis, stating that CSR enhances the influence of institutional ownership on financial performance in cigarette companies, is accepted. Investors in Indonesia generally tend to buy shares to obtain capital gains. Meanwhile, CSR is a company's long-term strategy to maintain company sustainability, and CSR's influence cannot be felt in the short term. Institutions as shareholders tend to buy shares to obtain voting rights to influence company operations, so the CSR variable shows less contribution to its influence on institutional ownership on ROA.

Influence of the Audit Committee on Financial Performance

The research proves that the audit committee does not affect financial performance (ROA). The MRA test results show a variable coefficient value of -0.202 with a t-statistic value of 3.385, significant at the 0.067 level (greater than 0.005). This value indicates the rejection of the hypothesis that the audit committee affects financial performance. This result aligns with the research by Rahmawati et al. (2017), which concluded that the audit committee does not affect ROA. The audit committee, tasked with helping the board of commissioners monitor the financial reporting process by management to increase the credibility of financial statements, has no relation to company performance. Romano et al. (2012) even found a negative relationship between the number of audit committees and company financial performance. A smaller audit committee leads to better internal control, increasing vigilance over board activities and decisions, ultimately enhancing company profitability.

All audit committees, regardless of size, have the same tasks: reviewing the accounting policies applied by the company, assessing internal control, reviewing the external reporting system, and compliance with regulations. In theory, the committee's task is to provide formal communication between the board, management, external auditors, and internal auditors. This shows that the size of the audit committee does not guarantee its effectiveness in overseeing the company's financial performance. Hermiyetti & Katlanis (2017) found different results, stating that the audit committee positively affects return on assets. A larger audit committee positively influences company value. This result aligns with Gil & Obradovich (2012) and Hapsoro (2008), who stated that a positive relationship exists between the number of audit committees and financial performance. Endogenity theory states that companies with high value tend to have complete organizational structures, including audit committees. The presence of audit committees can increase company performance effectiveness to protect shareholders' interests from earnings management by management and contribute to overseeing the financial reporting process to produce high-quality financial statements through audits with integrity and objectivity, influencing company value improvement.

The influence of the audit committee on financial performance has proven to increase after adding CSR activities conducted by the company. The regression coefficient value of the audit committee on ROA becomes 0.224 with a t-value of 5.175, significant at the 0.039 level. Thus, it can be concluded that the eighth hypothesis, stating that CSR enhances the influence of the audit committee on financial performance in cigarette companies, is accepted. This research states that CSR can moderate the relationship between the audit committee and ROA, minimizing agency problems between the board of directors and shareholders. The audit committee has effectively performed its function in helping the board of commissioners improve company work quality, maintain the credibility of financial reporting through optimal supervision, and consistently control internal company operations. Therefore, CSR can moderate the relationship between stakeholder power and company environmental performance.

Influence of the Board of Directors on Financial Performance

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The research proves that the board of directors does not affect financial performance (ROA). The MRA test results show a variable coefficient value of 0.059 with a t-statistic value of 2.234, significant at the 0.711 level (greater than 0.005). This value indicates the rejection of the hypothesis that the board of directors affects financial performance. This aligns with Intia & Azizah (2021), who found that the board of directors does not affect return on assets, indicating that an increase or decrease in the number of directors does not affect financial performance. Gil & Obradovich (2012) stated that the number of directors negatively affects financial performance. Fewer directors create better communication among directors, more effective coordination, and quicker action to address problems. Bayrakdaroglu et al. (2012) stated that the size of the board of directors does not affect financial performance.

This result contradicts agency theory, which states that one basic assumption in agency theory is organization (Eisenhardt, 1989). In an organization, conflicts arise among members that affect company productivity, and the need for a large number of directors increases with effective external information flow. The board of directors in a company determines the policies or strategies principals will implement, affecting the company's financial performance to reduce agency conflicts. This occurs because the number of directors affects the difference in company characteristics in the effectiveness of each director in generating optimal resource management performance.

The influence of the board of directors on financial performance has proven to increase after adding CSR activities conducted by the company. The regression coefficient value of the board of directors on ROA becomes 0.210 with a t-value of 4.213, significant at the 0.044 level. Thus, it can be concluded that the ninth hypothesis, stating that CSR enhances the influence of the board of directors on financial performance in cigarette companies, is accepted. CSR becomes a long-term company strategy that positively affects efforts to maintain company sustainability and influence operational performance. Additionally, the market and investors use CSR disclosure information for investment assessment, which can add value and increase investor trust, as seen in significant shareholding. Companies with minimal CSR disclosure may view CSR reporting costs as unnecessary expenses, reducing net profit and investor returns. CSR is also not directly managed by the board of directors, limiting its moderating influence on the board's profitability.

Influence of Independent Commissioners on Financial Performance

The research proves that independent commissioners do not affect financial performance (ROA). The MRA test results show a variable coefficient value of 0.300 with a t-statistic value of 7.564, significant at the 0.027 level (less than 0.005). This value indicates the acceptance of the hypothesis that independent commissioners affect financial performance. This aligns with Fadillah (2017), who found that independent commissioners do not affect return on assets. Independent commissioners act as management overseers in a company. Independent commissioners can control managers to prevent harmful actions to the company. Data analysis results indicate that independent commissioners positively affect financial performance. This result aligns with Hapsoro (2008) and Maryanah & Amilin (2011). This indicates that the supervision conducted by independent commissioners can influence managers' behavior to improve company performance (Maryanah & Amilin, 2011). The larger the number of independent commissioners, the better the supervision of company management, thereby improving financial performance.

The influence of independent commissioners on financial performance has proven to increase after adding CSR activities conducted by the company. The regression coefficient value of independent commissioners on ROA becomes 0.406 with a t-value of 9.221, significant at the 0.000 level. Thus, it can be concluded that the tenth hypothesis, stating that CSR enhances the influence of independent commissioners on financial performance in cigarette companies, is accepted. CSR is a long-term company strategy to maintain company sustainability, and its influence cannot be felt in the short term. There is also a perception that investors do not pay attention to CSR disclosure because they assume that all mining companies have disclosed CSR well, following the regulations in the Company Law, namely Law No. 40 of 2007. Therefore, the extent of CSR disclosure does not affect stock price movements for Indonesian investors.

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Conclussion

This study concludes that managerial ownership, institutional ownership, and independent commissioners significantly impact financial performance. Conversely, the audit committee and board of directors do not influence financial performance. Additionally, Corporate Social Responsibility (CSR) enhances the impact of managerial ownership, institutional ownership, and independent commissioners on financial performance. Moreover, CSR improves the influence of the audit committee and the board of directors on financial performance, despite these variables not showing a direct impact. The findings suggest that companies should consider increasing managerial and institutional ownership to align interests between management and shareholders, which can enhance financial performance. Additionally, the presence of independent commissioners plays a critical role in overseeing management and ensuring good corporate governance, ultimately benefiting financial performance. The positive moderating role of CSR indicates that companies engaging in socially responsible activities can amplify the positive effects of ownership structures and governance mechanisms on financial performance. Therefore, companies should integrate CSR into their strategic planning to maximize financial outcomes. Future research could explore the long-term effects of CSR on financial performance across different industries to understand its broader applicability. Additionally, examining the role of other governance mechanisms, such as board diversity and executive compensation, could provide deeper insights into their impact on financial performance. Researchers could also investigate the interaction between CSR and these governance mechanisms in different cultural and regulatory environments to provide a more comprehensive understanding of their influence on financial performance**.**

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