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The Influence of Corporate Social Responsibility and Good Corporate Governance on Financial Distress (A Case Study of Consumer Goods Sector Companies Listed on the Indonesia Stock Exchange for the 2018–2020 Period)

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ABSTRACT

This study aims to examine the influence of Corporate Social Responsibility (CSR) on the likelihood of financial distress, as well as the impact of Good Corporate Governance (GCG)—specifically institutional ownership, managerial ownership, audit committee, and independent board of commissioners—on the probability of financial distress. The research focuses on companies in the consumer goods sector listed on the Indonesia Stock Exchange during the 2018–2020 period. The research population consists of 50 companies. Samples were selected using a purposive sampling method, resulting in 147 firm-year observations over a three-year period. Logistic regression analysis was employed to examine the relationship between the independent variables (CSR and GCG components) and financial distress. The findings indicate that Corporate Social Responsibility has a negative effect on financial distress, suggesting that higher CSR engagement reduces the likelihood of financial distress. In contrast, institutional ownership, managerial ownership, audit committee, and independent commissioners do not have a significant impact on financial distress. CSR plays a role in reducing financial distress among consumer goods companies, while the selected components of Good Corporate Governance do not show a significant influence.

1. INTRODUCTION

Financial distress is a critical issue that threatens the sustainability of a company's operations and profitability. Companies naturally aim to generate maximum profit in order to sustain long-term operations. However, in pursuing this goal, companies may encounter various challenges that lead to financial distress, such as continuous losses, poor governance practices, lack of social responsibility, natural disasters, or disruptions like pandemics. These issues underline the importance of studying financial distress and the factors that may influence it.

Preliminary observations indicate that financial distress not only disrupts operational activities but also reduces investor confidence and deters lenders, leading to a higher risk of bankruptcy. According to (Muflihah, 2017), companies suffering losses for two consecutive periods can be classified as experiencing financial distress. In response to such risks, companies are increasingly encouraged to engage in Corporate Social Responsibility (CSR) and implement Good Corporate Governance (GCG) mechanisms as preventive measures.

CSR is a corporate obligation that goes beyond profit-seeking behavior. It encompasses the 3P principles: Profit, People, and Planet, which reflect the company's commitment not only to financial performance but also to social welfare and environmental preservation. For companies that rely heavily on operational continuity, such as those in the consumer goods sector, CSR initiatives play a vital role in ensuring public trust and sustainable operations.

Good Corporate Governance (GCG) is also seen as a strategic measure to prevent financial distress by improving transparency, accountability, responsibility, independence, and fairness within the company. The mechanisms of GCG, including institutional ownership, managerial ownership, audit committees, and independent commissioners, are expected to enhance firm performance and stakeholder confidence.

Previous studies have yielded inconsistent results. For example, (Ellen & Juniarti, 2013) found no significant effect of GCG on financial distress, whereas (Cahyani & Diantini, 2016) and (Ayu et al., 2015) found a significant negative relationship. Similarly, findings regarding the influence of CSR on financial distress remain mixed across studies. These inconsistencies highlight the need for further research to clarify the relationship between CSR, GCG, and financial distress, particularly in high-activity sectors such as the consumer goods industry.

This research focuses on consumer goods companies listed on the Indonesia Stock Exchange during the period of 2018–2020. These companies face higher operational demands and greater exposure to financial distress due to their role in fulfilling daily public needs. The study aims to answer the following research question: Do Corporate Social Responsibility and Good Corporate Governance significantly affect the likelihood of financial distress among consumer goods companies in Indonesia?

The scientific novelty of this research lies in its focus on the simultaneous influence of CSR and multiple GCG mechanisms on financial distress, using a recent three-year dataset and a sector-specific approach. By integrating both CSR and GCG variables, this study contributes to the growing discourse on corporate sustainability and financial health in emerging markets.

2. LITERATURE REVIEW

Legitimacy Theory

According to (Belkaoui, 2006), legitimacy theory posits that companies must align themselves with the systems and values upheld by society. Companies that engage in corporate social responsibility (CSR) activities are considered to be applying this theory. The focus of legitimacy theory lies in the interaction between companies and society. A company or organization is constantly seeking ways to ensure that its operations remain within the boundaries of socially accepted norms. This idea is emphasized in legitimacy theory (Rokhlinasari, 2015). When a company performs poorly, its reputation may be questioned, leading to a decline in investor confidence. This can cause a drop in share prices and push the company into a state of financial distress. Therefore, it is crucial for companies to continuously consider and regularly implement CSR activities, as greater involvement in social responsibility enhances public trust and acceptance of the company’s operations.

Stakeholder Theory

Stakeholders include all parties—both internal and external—who can affect or be affected by a company, either directly or indirectly (Rofiqkoh & Priyadi, 2016). Stakeholder theory emphasizes that stakeholder support is essential for a company's survival. In the development and growth of a company, stakeholders play a vital role. Maintaining strong and positive relationships with stakeholders is important to ensure smooth business operations and to avoid financial distress.

Corporate Social Responsibility (CSR)

Corporate social responsibility refers to a company’s commitment to contribute positively to the environment and society in relation to its operational activities (Rofiqkoh & Priyadi, 2016). A company's operations should not only focus on economic gains or profit but must also consider their social and environmental impacts, whether short-term or long-term. Implementing CSR is a strategic choice for companies aiming for long-term sustainability. The concept of the Triple Bottom Line (TBL), also known as the 3Ps—Profit, People, and Planet—is a foundational framework for CSR programs (Santioso & Chandra, 2012). CSR activities offer various benefits to companies, including enhancing their reputation and brand image (Manurung & Wibisoni, 2015).

Good Corporate Governance

Good corporate governance refers to a concept or framework aimed at improving company performance through the monitoring of management activities (Ananto et al., 2017). The implementation of good corporate governance has an impact on a company's performance, including its financial performance. Poor financial performance can disrupt a company's stability, potentially leading to financial distress and, in the long term, bankruptcy. The five core principles of good corporate governance—commonly known as TARIF—are Transparency, Accountability, Responsibility, Independence, and Fairness.

Financial Distress

Financial distress represents the early warning signs of a company's potential bankruptcy (Ananto et al., 2017). Identifying signs of financial distress at an early stage is critical, as it allows management to take corrective actions (Ananto et al., 2017). Financial distress occurs when a company is no longer able to generate income. It is a phase of financial decline that precedes liquidation (Kusanti, 2015). Poor corporate governance can be an indicator of impending financial distress (Dwijayanti, 2010). Financial distress may be caused by both external and internal factors. For example, externally, intense competition may allow only companies with large capital to survive. Internally, poor management decisions can also lead to financial distress (Putong, 2012).

3. METHODS

This study uses a quantitative approach to examine companies in the consumer goods sector listed on the Indonesia Stock Exchange (IDX) for the 2018–2020 period. The research aims to analyze the influence of corporate social responsibility (CSR), institutional ownership, managerial ownership, audit committees, and independent commissioners on the likelihood of experiencing financial distress.

The population comprises 50 consumer goods companies listed on the IDX during 2018–2020. A purposive sampling technique was used, with sample criteria including: (1) companies listed on the IDX during the observation period; (2) those that published complete financial statements; and (3) those that released annual or sustainability reports consistently from 2018 to 2020. The data used are secondary quantitative data, obtained from official company websites and the IDX website (www.idx.co.id). The data collection technique applied is documentation, specifically reviewing financial reports and annual reports. The instrument for data collection is documentation of publicly available reports and relevant literature. Data analysis was conducted using SPSS software, employing descriptive statistics and logistic regression analysis to test hypotheses.

The logistic regression model is specified as:

$$\text{Ln}\left(\frac{P}{1-P}\right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5$$

Model feasibility was tested using the Hosmer and Lemeshow Goodness of Fit Test, Chi-square test, and pseudo-R^2 indicators (Cox & Snell and Nagelkerke). Hypothesis testing is based on p-values at significance levels of 1%, 5%, and 10%, determining the impact of independent variables on financial distress.

4. RESULTS AND DISCUSSION

Based on the results of the descriptive statistical analysis presented in Table 1, the minimum value of corporate social responsibility is 0.01, while the maximum value is 0.59. The minimum value for institutional ownership is 0.00, and the maximum is 1.00. For managerial ownership, the minimum value is 0.00 and the maximum is 0.68. The audit committee variable has a minimum value of 0.00 and a maximum of 4.00. Meanwhile, the independent board of commissioners has a minimum value of 0.20 and a maximum of 1.00. For financial distress, the minimum value is 0 and the maximum is 1.

Table 1. Descriptive Statistics

	N	Min	Max	Mean	Std. Deviation
Corporate Social Responsibility	147	0,01	0,59	0,2936	0,12421
Institutional Ownership	147	0,00	1,00	0,6705	0,30315
Managerial Ownership	147	0,00	0,68	0,0716	0,15888
Audit Committee	147	0,00	4,00	2,9320	0,47772
Independent Board of Commissioners	147	0,20	1,00	0,4327	0,13699
Financial Distress	147	0	1	0,21	0,409
Valid N (listwise)	147				

Source: data processed, 2025

Table 2. Goodness of Fit Test
Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	2,239	8	0,973

Source: data processed, 2025

Table 4. Koefisien Determinasi

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	122,455	0,179	0,278
1	122,455[a]	0,179	0,278

Source: data processed, 2025

Based on Table 2 in the goodness of fit test, the Hosmer and Lemeshow's Goodness of Fit Test statistic is 2.239, with a significance probability value of 0.973, which is greater than 0.05. Therefore, it can be concluded that H0 is accepted, indicating that the model is a good fit.

Table 3. Overall Fit Model Test
Iteration History[a,b,c]

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	152,119	-1,156
	2	151,448	-1,313
	3	151,447	-1,320
	4	151,447	-1,320

Source: data processed, 2025

Based on Table 3, the initial -2 Log Likelihood value is 151.447, which is calculated using only the constant, without including the five independent variables. After the five independent variables are included, the final -2 Log Likelihood value decreases to 122.455. This decrease indicates that the hypothesized model fits the data, and it can be concluded that the regression model is good.

To assess the model's ability to explain the variation in the dependent variable, the Cox and Snell's R Square and Nagelkerke's R Square tests were conducted. According to Stanislaus S. (Stanislaus S. Uyanto, 2006), the Nagelkerke R Square value is generally higher than the Cox and Snell R Square value, but lower than the R Square value in multiple linear regression. Based on Table 4 (coefficient of determination test), the Cox and Snell R Square and the Nagelkerke R Square values are both 0.179. This indicates that 17.9% of the variation in the dependent variable, financial distress, can be explained by the independent variables: corporate social responsibility, institutional ownership, managerial ownership, audit committee, and independent board of commissioners. The remaining 82.1% is explained by other variables not included in this study.

Table 5. Classification Table[a,b]

Observed			Predicted		
			Financial Distress		Percentage Correct
			Not Financial Distress	Financial Distress	
Step 0	Financial Distress	Not Financial Distress	116	0	100,0
		Financial Distress	31	0	0,0
	Overall Percentage				78,9

Source: data processed, 2025

Based on Table 5, the regression model has a predictive accuracy of 78.9% in identifying companies experiencing financial distress. This means that 116 companies were classified as not experiencing financial distress during the 2018–2019 period, while 31 companies were identified as experiencing financial distress.

Tabel 6. ***Variables in the Equation***

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	Corporate Social Responsibility	-9,194	2,294	16,066	1	0,000	0,000	0,000	0,009
	Institutional Ownership	-1,016	1,016	1,000	1	0,317	0,362	0,049	2,652
	Managerial Ownership	0,077	1,567	0,002	1	0,961	1,080	0,050	23,318
	Audit Committee	-0,683	0,402	2,890	1	0,089	0,505	0,230	1,110
	Independent Board of Commissioners	0,484	1,594	0,092	1	0,762	1,622	0,071	36,919
	Constant	3,446	1,697	4,126	1	0,042	31,389		

Source: data processed, 2025

Based on the logistic regression results in Table 6, corporate social responsibility has a significance value of 0.000 (< 0.05), meaning H1 is accepted.

CSR has a negative effect on financial distress, consistent with (Purwaningsih & Aziza, 2019). The institutional ownership variable shows a significance value of 0.317 (> 0.05), so H2 is rejected. This aligns with (Agustina, 2017), who found no effect of institutional ownership on financial distress. The managerial ownership variable has a significance of 0.961 (> 0.05), thus H3 is rejected. This supports (Kusanti, 2015) and (Agustina, 2017), who found that managerial ownership does not significantly reduce financial distress. The audit committee variable has a significance value of 0.089 (> 0.05), so H4 is rejected. This is in line with (Agustina, 2017), who noted that larger audit committees may hinder effective decision-making. The independent board of commissioners shows a significance value of 0.762 (> 0.05), leading to the rejection of H5. This finding supports (Munawar et al., 2018), who found no significant impact on financial distress.

5. CONCLUSION

Based on the discussion and hypothesis testing using logistic regression analysis, it can be concluded that corporate social responsibility has a negative effect on financial distress, while institutional ownership, managerial ownership, audit committee, and independent board of commissioners have no significant effect on financial distress. Therefore, it is recommended that companies continue to focus on implementing corporate social responsibility and disclosing it clearly in their sustainability reports. Future research is encouraged to explore different research objects, extend the study period, and include additional variables. It is also suggested to consider alternative models for measuring financial distress, such as Z-Score, Zavgren, Ohlson, Grover, and others.

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