



# The Influence of Corporate Governance, Intellectual Capital and Corporate Social Responsibility on The Financial Performance of Pharmaceutical Companies on The Indonesia Stock Exchange

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## ABSTRACT

This study aims to test and prove the effect of corporate governance, intellectual capital, and Corporate Social Responsibility on the financial performance of the pharmaceutical sector. This research is descriptive and quantitative. Secondary data sources were used with documentation data collection techniques. The sampling technique was purposive sampling, with criteria including pharmaceutical sector companies that published complete financial reports from 2010 to 2023, resulting in a sample of 135 financial reports. The results indicate that corporate governance does not affect financial performance, implying that pharmaceutical companies are less able to build governance to improve financial performance. Intellectual capital affects financial performance, indicating that pharmaceutical sector companies can utilize resources to improve financial performance. Corporate Social Responsibility affects financial performance, meaning that the responsibilities carried out by companies in terms of economic, social, and environmental aspects can improve financial performance.

Keywords: CG, IC, CSR, Financial Performance, Pharmaceutical Sector

## 1. Introduction

Pharmacists are essential to healthcare delivery. Their roles and responsibilities have become increasingly critical due to rapid advancements in healthcare, diseases, technology, and regulations (Ibrahim & Wertheimer, 2018). The pharmaceutical industry is a cornerstone of national stability and requires strategic planning to maintain its position. To ensure continued success, pharmaceutical companies must excel in achieving their goals, competing globally, and improving financial performance.

In 2023, the pharmaceutical industry is seen as still having attractive prospects. This is because the industry is getting fresh air from a number of factors. Several factors have influenced the prospects of pharmaceutical issuers until the end of this year. First, industry development regulations, RPP derived from the Health Law can positively influence regulations in the pharmaceutical industry ([www.liputan6.com](http://www.liputan6.com)). Good prospects for pharmaceutical companies can reflect good financial performance as well. Companies with healthy financial performance can carry out operational activities optimally (Fatihudin, 2018). According to Rudianto (2012) financial performance implies what will happen or the achievements that have been achieved by a management company in carrying out its capacity to adequately supervise company resources within a specific timeframe.

Corporate governance is one of the elements that affect financial success. For a business to be considered to have good corporate governance, there must be a system in place to regulate and control the company so that all stakeholders—including shareholders, managers, creditors, the government, and employees—are able to exercise their rights and responsibilities in a way that maximizes value for everyone involved. As per Brown & Caylor (2004), when a company effectively implements strong corporate governance practices, it can lead to enhancements across all operational areas, encompassing both financial and non-financial performance metrics.

Financial performance is influenced by the dual role of managers who hold shares in the company, as well as by the involvement of institutional investors, as explained by Mahrani & Soewarno (2018) in Indonesia; Handriani & Robiyanto (2019); El-Chaarani et al (2022). The findings contradict those of Guest (2009); Saidat et al (2019); Kyere & Ausloos (2021), which assert that corporate governance negatively impacts financial performance. Instead, they demonstrate that a large board size hinders effective communication and decision making due to its ineffective supervisory role, which is a reflection of the board's failure to fulfill its advisory function.

Intellect is one of the two factors that affect financial success with company governance. Intellectual capital consists of information that has been systematically collected, analyzed, and used to increase the value of assets. An OECD definition that has gained traction is that of IC as the monetary worth of two types of intangible assets: organizational capital (also known as structural capital) and human capital. In particular, issues with distribution and the supply chain are part of organizational (structural) capital. Human capital include both internal (i.e., workers) and external (i.e., connected to the business) resources, including customers and vendors (Ulum, 2009:21).

Research by Sardo et al., (2018); Bontis et al (2018); Wang et al (2021); Susanti et al (2020); Weqar et al., (2021) demonstrates that Human capital, structure capital, and social capital are all types of intellectual capital (IC) that can help a business do better financially. It would seem that the company's performance and the quality of its services are built upon its human resources and structural capital. Furthermore, relational capital—the process of creating and maintaining lasting connections with important stakeholders—capitalizes both human and structural capital. In the prior time frame, financial performance was positively impacted by structural capital and relational capital. Future financial success is a result of investments in the company's structural capital, including databases and procedures, and in the long-term relationships with important stakeholders, such as workers and consumers.

Olarewaju & Msomi (2021); Anghel et al (2018); Ge & Xu (2021) all come to the opposite conclusion, explaining that intellectual capital hurts financial performance. In contrast to what Nawaz & Haniffa (2017) and Sardo et al., (2018) have found, which imply that companies are more efficient in making use of their financial assets to boost profitability, our data shows that Value Added Capital Employed has a negative impact on financial performance. This suggests that companies could benefit from increasing their Capital Employed to boost their financial capital. All things considered, the three facets of intellectual capital have an effect on bottom-line results. A company's bottom line might be affected by its CSR initiatives. CSR is defined by Said (2018) as "the duty of a company to provide long-term benefits to the community and the company's environment in order to make the environment even better." These benefits can take many forms, including monetary contributions, assistance with company services, goods and facilities, and more.

Investigations by Malik & Kanwal (2018); Rahman et al (2020) in Bangladesh; Tyagi (2021) in India explains that CSR improves the pharmaceutical sector's financial performance. This suggests that investors will appreciate the company's increased CSR efforts and that the company's image will improve as a result (Siregar & Azzahra, 2022). The organization stands to gain from a more positive public perception of the firm and its employees if its efforts to boost performance are successful. Research by Pondrinal, (2019); Pratiwi et al (2021) demonstrates that CSR positively impacts financial performance in other industries, and studies by Ahamed et al (2014); Ghelli & Schröder (2013); Palmer (2012); Rajput et al., (2012); Saleh et al (2011) corroborate this.

In contrast to the opinion of Crisóstomo et al., (2011); M. Yang et al., (2019); Elouidani & Zoubir (2015); Qomariah & Nursaid (2021) which states that CSR has a negative effect on the financial performance of the pharmaceutical sector where companies that have a social approach show compliance in the eyes of the law

and spend less asset profitability and equity capital than other companies. This may occur because CSR encourages companies to engage in cost-generating investments that reduce profitability. The researchers set out to determine if there was a correlation between pharmaceutical companies' financial success and factors including CSR, IC, and CG.

## 2. Methodology

This study employs a descriptive quantitative approach to find out the correlation of CG, IC, and CSR about how well pharmaceutical businesses listed on the IDX did financially from 2010 to 2023. Utilizing secondary data from 135 purposively sampled financial reports, the research measures financial performance using the ROI ratio. Corporate governance is evaluated through internal mechanisms, including the board of commissioners, audit committee, management, and shareholder ownership. Intellectual capital is assessed using the VAIC model, comprising VACA, VAHU, and STVA. CSR is measured through content analysis based on the GRI indicators. Data analysis involves classical assumption tests, model fit tests using ANOVA, and hypothesis testing with multiple linear regression to determine the outcomes of CG, IC, and CSR on financial performance.

## 3. Results and Discussion

### 3.1. Results

#### 3.1.1. Classical Assumptions

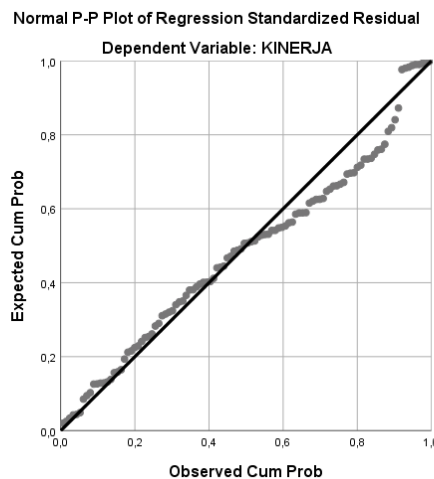


Figure 1. Normality Test

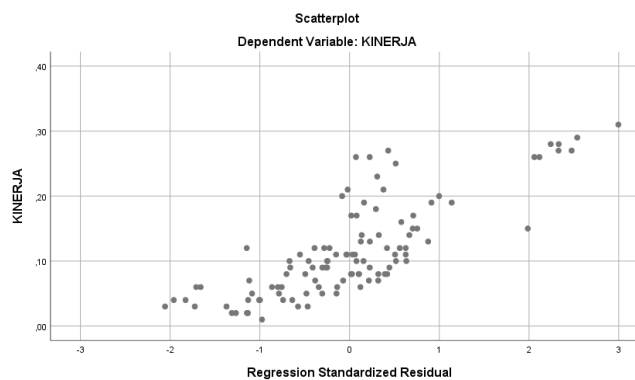


Figure 2. Heteroscedasticity Test

Table 12. Coefficients Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-11,275	7,612		-1,481	,142		
1 IC	,532	2,459	,020	,216	,829	,826	1,211
CG	24,557	8,256	,261	2,974	,004	,956	1,046
CSR	18,183	3,840	,444	4,735	,000	,837	1,194

a. Dependent Variable: PERFORMANCE

**Tabel 13. Model Summary**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,485 <sup>a</sup>	,235	,213	21,72430	2,659

a. Predictors: (Constant), CSR, CG, IC

b. Dependent Variable: PERFORMANCE

Figure 1 highlights how the data follows a normal distribution pattern in the histogram graph, with the data spreading out and aligning with the diagonal line. The scatterplot in Figure 2 reveal that the points are evenly distributed above and below the Y-axis at 0, which means that the regression model is free of heteroscedasticity difficulties and may be used. There is no significant correlation between the IV, with values surpassing 95%, as shown in Table 12 where no IV has a Tolerance value below 0.10. The VIF analysis confirms the absence of multicollinearity in our regression model. None of the independent variables exhibited a VIF score exceeding 10, indicating that the predictors are not excessively correlated with each other. The absence of autocorrelation in the regression model is shown by a Durbin-Watson (DW) value of 2.659, as shown in Table 13. This value is higher than the upper limit (du) of 1.7437 but lower than 2.2563 (4-du).

### 3.1.2. Model Fit Test

**Tabel 14. Anova Table**

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	15079,117	3	5026,372	10,650	,000 <sup>b</sup>
Residual	49082,324	104	471,945		
Total	64161,441	107			

a. Dependent Variable: FINANCIAL

b. Predictors: (Constant), CSR, CG, IC

Table 14 indicates that both the impact of IC and CG on CSR, as well as the combined influence of IC, CG, and CSR on financial performance, are statistically significant at the 5% level. Hence, the multiple linear regression model used in the analysis is appropriate.

### 3.1.3. Hypothesis Test

Analysis of the hypothesis test outcomes reveals diverse effects on financial performance from various factors. While CG shows no noteworthy impact, with its high significance value and moderate coefficient, both IC and CSR demonstrate major positive influences. IC's effect is evidenced by its low p-value and substantial positive coefficient, while CSR's impact is even more pronounced, with an extremely low p-value and a high positive coefficient. These results indicate that in this particular context, CG may not directly influence financial performance, but IC and CSR emerge as key drivers in boosting a company's financial results.

## 3.2. Discussion

### 3.2.1. The influence of Corporate Governance on Financial Performance

The investigation demonstrates that CG does not impact financial performance; this means that pharmaceutical companies' excellent and poor corporate governance practices do not impact the industry's consistently rising financial performance. This shows that a rise in CG does not automatically translate into improved financial results for pharmaceutical businesses; rather, it demonstrates that the influence of the board of commissioners, the audit committee, management, and shareholders, both high and poor, is indirect. It is not the case that financial performance is impacted by the application of corporate governance, as stated by Kyere & Ausloos (2021).

### 3.2.2. Impact of Intellectual Capital on Financial Performance

Financial performance is positively correlated with IC, according to the study's findings. Consequently, a company's financial performance will rise in proportion to the amount of its resources that are rich in intellectual capital, and fall in the opposite direction, when its resources are poor in IC. Based on descriptive analysis shows that the average IC is 2.0351 which means that pharmaceutical sector companies produce more Value Added from spending money on human capital which consists of all employee or staffing expenses including salary expenses, wage expenses and employee benefit expenses so that it shows that the pharmaceutical sector is able to utilize human capital properly as a strategy in improving financial performance where financial performance as measured by the average ROI of 0.0726 means that the average investment obtained from the comparison of operating profit in the pharmaceutical sector during the study period is 0.0726 or 7.26%.

Based on what the research found, pharmaceutical businesses may use intellectual capital to boost their financial performance, which is in line with Resource Based Theory's premise that people are a company's most valuable asset. If a company owns, controls, and makes excellent use of its essential strategic assets—both real and intangible—it will achieve strong financial performance and thrive in business rivalry, as per Resource Based Theory (RBT). As such, IC improves financial performance is backed by the findings of Bontis et al (2018); Sardo et al (2018); Susanti et al (2020); Wang et al (2021); Weqar et al (2021).

### 3.2.3. The effect of Corporate Social Responsibility on Financial Performance

The findings indicate a robust and favorable relationship between a company's CSR initiatives and its financial outcomes. This means that companies with higher levels of CSR disclosure tend to exhibit better financial results. Conversely, companies with lower CSR disclosure typically have poorer financial performance. The average value of CSR is 0.2557, meaning that the CSR disclosed by the pharmaceutical sector is 0.2557 with an economic dimension of 3 out of 17 items disclosed. CSR disclosure is most prevalent in the social sphere, followed by the environmental sphere, with the economic sphere receiving the least attention. This pattern of disclosure suggests that CSR initiatives, particularly in the social and environmental dimensions, can positively influence investment performance.

Stakeholder theory posits that managers should prioritize groups that can impact or be affected by the company's operations. According to Mahrani & Soewarno (2018), enhancing CSR initiatives, particularly through bolstering environmental practices, can lead to improved overall company performance. Malik & Kanwal (2018); Tyagi (2021); Rahman et al (2020) explain that CSR positively impacts the financial performance of the pharmaceutical industry. Companies that increase their CSR efforts tend to garner more favorable investor attention and enhance their overall corporate image.

## 4. Conclusion

The findings indicate that CG does not affect financial performance, meaning that pharmaceutical companies are less able to build governance, but pharmaceutical sector companies are still able to generate net profit by utilizing average assets. IC affects financial performance, meaning that pharmaceutical sector companies are able to utilize resources in improving the company's financial performance on net income by utilizing average assets. CSR affects financial performance, the responsibilities carried out by companies in terms of economic, social and environmental aspects are able to increase net profit by utilizing average assets.

Future research could expand on this study by exploring the impact of CG, IC, also CSR on the financial performance of pharmaceutical companies across different regions or countries. Researchers could also investigate the role of specific components of intellectual capital and CSR activities to identify which elements have the most significant impact. Longitudinal studies could be conducted to examine how changes in corporate governance practices, intellectual capital development, and CSR initiatives over time affect financial performance. Finally, comparing the pharmaceutical sector with other industries could reveal industry-specific differences and provide a details about the factors driving financial performance.

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