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Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) Influence on Corporate Financial Performance

Reni Yendrawati*, Amalia Kinanti
Department of Accounting, Universitas Islam Indonesia, Yogyakarta, Indonesia
*Corresponding author email: 903120103@uii.ac.id

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ABSTRACT

The aim of this research is to analyze the influence of CSR which will be viewed from CSR disclosures carried out by the company and GCG PROXIED by institutional ownership, managerial ownership and an independent board of commissioners on the company's financial performance. The population in this research is manufacturing companies listed on the BEI in 2019 - 2021. Sampling used the purposive sampling method that collected 37 companies. The analysis was multiple linear regression analysis. The results of this research indicate that corporate social responsibility, institutional ownership and managerial ownership do not affect on financial performance. Independent board of commissioners has a positive effect on financial performance. The results of this research are expected to provide the government an evaluation material regarding corporate social responsibility regulations.

Introduction

This study is based on the general behaviors and habit patterns of the general public and professional business investors which along with time are made easier by the advancement of technology. Nowadays, a company's information from company profiles to annual statements can easily be accessed by the community on its official website through the internet. This information can facilitate the investors to make investment decisions. The information that is usually taken into consideration is profitability as seen from ROA (Return on Asset), CSR (Corporate Social Responsibility), and GCG (Good Corporate Governance). CSR and GCG have strong impacts on corporate value which can attract investors to put their money in. One of the goals of a company is to gain maximum profits and spend minimum costs. To get profits, good corporate governance is needed to provide a good system where company operations are controlled and directed for the best of stakeholders' interests (Qamar et al., 2020).

Corporate financial performance can be reviewed from the information presented in the financial statements that contain the operational financial transactions of the corporation for the related parties. Financial statements contain financial ratios that can be used by investors as the basis of measurement of a company's performance, such as profitability ratio (Sanjaya & Rizky, 2018) .ROA (Return on Asset) can be utilized as the measurement of corporate financial performance.

In addition to good financial performance, good and orderly management in the form of good corporate governance (GCG) is also required (Deswara et al., 2021). GCG includes the systemic order implemented as the guidance to manage a corporation to create management transparency for all stakeholders to get effective protection and confidence in the appropriate return for their investment. The application of GCG in a company can attract investors because GCG helps optimize the decision-making process and increase company value (Utami & Muslih, 2018).

CSR (Corporate Social Responsibility) is a concept of a company to show its social responsibility to its surrounding community and environment. The implementation of CSR is believed to improve company performance since investors tend to choose to invest in a company that performs CSR (Krisdamayanti & Retnani, 2020). The implementation of a CSR program may require low or high financial outlay depending on the company's commitment; therefore, some companies assume that CSR is a burden because they have to spend more costs which can impact the distribution of dividends (Sari et al., 2019).

Qiu et al. (2020) examined the role of CSR in terms of the protection of firm values during the spread of the novel Coronavirus. Research provides evidence that CSR engagement is conducive to improving stock returns

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and stakeholders' attention during the pandemic. One more notable result is that in the pandemic context, community-related CSR tends to be more preferable and shows a more immediate and positive effect on stock returns, compared to activities focusing on customers and employees. Hence, GCG and CSR are very influential in promoting company value because company prestige will rise if the company does not solely focus on economic factors but also on social and environmental factors (Sasanti et al., 2022).

There have been many studies of the influences of CSR and GCG on corporate financial performance, however, the results are still inconsistent. In their study, Alfawaz and Fathah (2022) state that CSR positively and significantly influences ROA, but conversely, Yudha (2021) proves that CSR has a negative and significant effect on the ROA of the manufacturing companies listed on the Indonesia Stock Exchange during 2015-2019. Deswara et al. (2021) argue that institutional ownership as the proxy of GCG does not significantly affect ROA, but the research conducted by Agustina and Soelistya (2018) reveals that institutional ownership positively influences corporate financial performance. Sari et al. (2019) mention that managerial ownership has a positive effect on corporate financial performance, however, Agustina and Soelistya (2018) point out that managerial ownership does not influence ROA. Sari et al. (2019) also conclude that independent board of commissioners has a positive influence on a company's financial performance, on the other hand, Aprilia et al. (2022) claim the opposite. Based on the preceding elaboration, the researchers are to investigate "The Influences of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on Corporate Financial Performance."

Literature Review

Agency Theory

Agency Theory which was proposed by Jensen and Meckling (1976) states that a company is a set of contracts between one or more principals who authorize agents to act on their behalf. This contract focuses on the most efficient contract based on three assumptions, those are (1) Assumption on human nature, (2) Assumption on organization, and (3) Assumption on information.

Stakeholder Theory

To be successful and make the right decisions, company leaders must see it from the perspective of their various stakeholders (Barney & Harrison, 2020). Some argue that Stakeholder Theory has solved most of the company's problems, can help business decision making, and should help business decision making (Barney & Harrison, 2020).

CSR (Corporate Social Responsibility)

CSR (Corporate Social Responsibility) or social and environmental responsibility is a company's commitment to participate in sustainable economic development to improve the quality of life and the environment which is beneficial for the company, local communities, and society as a whole (Law No. 40 of 2007 concerning Limited Liability Companies (UUPT) article 1 paragraph 3). CSR (Corporate Social Responsibility) is a company's commitment to improving community welfare through good business practices and the contribution of company resources (Kotler & Nancy, 2005). CSR activities also build up and maintain the strong and decent corporate image that satisfies diverse stakeholders (Franco et al., 2020; Rhou & Singal, 2020).

GCG (Good Corporate Government)

GCG (Good Corporate Government) according to the World Bank is a collection of laws, regulations, and rules that must be implemented and can motivate the performance of a company to be more efficient in realizing long-term economic values in an interrelated manner for both shareholders and society. According to Dianawati and Fuadati (2016), Good Corporate Governance is a structure that regulates harmonious relationships between the roles of the board of commissioners, directors, and shareholders withand the system of checking and balancing the authority to control the company to minimize the emergence of mismanagement and misuse of company assets through a transparent process of determining company goals, achievements, and performance measurements. Htay et al. (2013) found a positive relationship between corporate governance and the quality of disclosures from the banks listed on Bursa Malaysia. Furthermore, the research conducted by Pratiwi (2016) and Yantiningsih et al. (2016) also found that the quality of GCG implementation had a significant and positive effect on profitability.

Institutional Ownership

Institutional ownership is an important structure to encourage company performance and the level of company supervision. Shared ownership can be used as a source of power to control the performance of the management of a company. (Subagyo et al., 2018).

Managerial Ownership

Managerial ownership comes from the management who actively participates in the decision-making process of a company (Wati et al., 2019). Managerial share ownership makes managers not merely external parties who work for the interests of the company but also shareholders. Therefore, manager involvement is expected to improve management performance.

Independent Board of Commissioners

Based on the Financial Service Authority regulation number 33/POJK.04/2014 concerning directors and board of commissioners of issuers or public companies, board of commissioners is an organ of the issuer or public company whose task is to provide general or specific advice and supervision in accordance with the articles of association to the board of directors. Independent commissioners are members of board of commissioners who do not work for the issuer or public company and have fulfilled the requirements as independent commissioners. According to Sari et al. (2019), independent board of commissioners acts as a mediator in disputes between internal managers and management policy supervisors and provides advice for the management. Based on Sasanti et al.'s research (2022), an independent board of commissioners is a company organ that has collective duties and responsibilities to supervise and provide advice for the board of directors and ensure the implementation of GCG, but does not participate in operational decision making.

CSR (Corporate Social Responsibility) and financial performance

Kuiksuko (in Krisdamayanti & Retnani, 2020) says that Corporate Social Responsibility is a company's moral responsibility to its stakeholders, especially the community surrounding its operational area. The good implementation of CSR includes protecting the surrounding environment and its inhabitants. This will improve the company's image in public because the company will be deemed accountable for not destroying and polluting the environment of its operational area, thus, it will also increase company value since the public evaluation will be taken into consideration by the investors to make their investment decision. As a result, the company can fulfill its obligation to the shareholders because its share price will rise as its value increases. Similarly, Putri and Mardenia (2019) assume that a company that reports its CSR program brings a positive image to the community and later will attract the investors and increase the company value. Alfawaz and Fathah's (2022) research also reveals that CSR has a positive and significant effect on ROA. Therefore, the hypothesis is formulated as follows.
H1: Corporate social responsibility has a positive influence on corporate financial performance.

Institutional ownership

Subagyo et al. (2018) mention that institutional ownership is an important structure to stimulate company performance and its monitoring level that can decrease the risk of unethical behaviors and facilitate the company's decision-making process. The supervision conducted by the investing institutions generally relies on the amount of their investment. The larger the amount of investment, the stricter the monitoring and the more efforts to promote the management to maximize the company value which further affects the company's performance. Therefore, more institutional ownership will promote profitability as proven by Agustina and Soelistya (2018) who argue that institutional ownership positively affects corporate financial performance. Based on the elaboration, the second hypothesis proposed is as follows.
H2: Institutional ownership has a positive effect on corporate financial performance.

Managerial ownership

According to Wati et al. (2019), managerial ownership is one of the good corporate governance mechanisms that is able to influence managerial incentives. Hence, managerial ownership will make the managers more careful in decision making because the decision accuracy will directly bring consequences to the company, either benefit or loss. Consequently, the proportion of managerial ownership might stimulate the monitoring of company performance since it will also impact the management thus encouraging them to act for the interest of the company. Therefore, the larger the managerial ownership, the better the company's financial performance, as researched by Sari et al. (2019) who prove that managerial ownership has a positive influence on corporate financial performance. Based on the description, the third hypothesis argues that:
H3: Managerial ownership has a positive influence on corporate financial performance.

Independent board of commissioners

In the study performed by Sari et al. (2019), independent commissioners are defined as the members of the board of commissioners who are related with none of any members of board of commissioners, board of directors, and/or

shareholders. The tasks and responsibilities of an independent commissioner are to supervise and advise the board of directors. Without any underlying business intention and relation, this independent commissioner can minimize the conflict that may occur between the board of directors and shareholders, thus, the larger the number of independent commissioners, the better the performance of the board of commissioners to supervise and control the opportunistic behavior of board of directors and create better corporate performance. Sari et al. (2019) assume that independent board of commissioners has a positive effect on corporate financial performance. Therefore, the formulation of the fourth hypothesis is as follows.
H4: Independent board of commissioners has a positive effect on corporate financial performance.

Research Method

Population and Sample

The population of this study is the manufacturing companies listed on the Indonesia Stock Exchange from 2019 to 2021. The sampling used purposive method based on three following criteria, namely (1) Indonesian companies that fall into the category of manufacturing companies and were listed at the IDX of the period 2019-2021; (2) Manufacturing companies that issued their annual statements during the period of 2019-2021; (3) Manufacturing companies that disclosed their CSR reports in their annual statements during 2019-2021 referring to the GRI G4 standard involving economic, environmental, and social aspects.

Research Variables

Dependent variable

This study employs corporate financial performance as the dependent variable. Financial performance as defined by the Institute of Indonesia Chartered Accountants (IAI) is the ability of a company to manage and control its resources. The financial performance of a company can be indicated by Return on Asset (ROA). Tjondro and Wilopo (2011) describe ROA as a ratio to assess the management capability to generate profits and create work efficiency. The ratio of ROA, according to Aprilia et al. (2022) can be measured using the formula as follows.

$$Return\ on\ Asset = \frac{Net\ income}{Total\ asset} \times 100\%$$

Independent variable

Independent variables of this study encompass Corporate Social Responsibility (CSR) and Good Corporate Government (GCG).

Corporate Social Responsibility (CSR)

CSR disclosure is a form of a company's accountability for the social and environmental impacts of its economic activities. CSR can strengthen the influence of public ownership on corporate financial performance (Agustina & Soelistya, 2018) which means that the higher the rate of CSR of a company, the higher the level of public trust in the company, thus automatically improving the financial performance of the company. The items to measure CSR in this study refer to the performance indicators of GRI guidelines. Subsequently, each company's score will derive from the addition of each item score based on the formula as follows.

$$CSRj = \frac{\sum x_{ij}}{n_j}$$

Where:
CSRj : Corporate Social Responsibility (CSR) of Company j
Xij : Dummy variable, which is 1 for disclosed item and 0 for undisclosed item
n_j : Total item

Institutional ownership

Institutional ownership is the amount of a company's stocks owned by government institutions, legal entities, trust funds, financial institutions, foreign institutions, and other institutions (Sasanti et al., 2022). Jensen (1976) argues that institutional ownership has an important role in decreasing the rate of agency conflict between shareholders and management. Aprilia et al. (2022) assume that institutional ownership can be measured using the formula as follows.

$$Institutional\ ownership = \frac{number\ of\ stocks\ owned\ by\ other\ institutions}{total\ outstanding\ stocks} \times 100\%$$

Managerial ownership

Managerial ownership is the ownership of a company's stock by the management that actively participates in the decision-making process (Wati et al., 2019). According to Sari et al. (2019), managerial ownership can be measured using the formula as follows.

$$Managerial\ ownership = \frac{Number\ of\ stocks\ owned\ by\ management}{total\ outstanding\ stocks} \times 100\%$$

Independent Board of Commissioners

Board of Commissioners (BOC) is the company tool that has collective tasks and responsibilities for monitoring and advising the board of directors as well as ensuring that GCG is well-implemented; however, BOC does not participate in the operations of making the decisions (Sasanti et al., 2022). Independent board of commissioners, according to Sasanti et al. (2022), is measured based on the following formula.

$$Independent\ BOC = \frac{number\ of\ independent\ commissioners}{total\ members\ of\ BOC} \times 100\%$$

Data Analysis

The data were analyzed using descriptive statistics to investigate the mean, maximum, minimum, median, and standard deviation value. Meanwhile, the hypothesis testing used multiple regression analysis with the help of SPSS software based on the following regression model.

$$Y = b0 + b1X1 + b2X2 + b3X3Y = b0 + b1X1 + b2X2 + b3X3$$

Where:
Y : Dependent variable
b0 : Constant
b1 ; b2 ; b3 : Regression coefficients
X1 ; X2 ; X3 : Independent variables

Results and Discussion

Description of Research Sample

This research used secondary data in the form of annual statements collected from 193 manufacturing companies listed at the Indonesia Stock Exchange in the period of 2019-2021 as the sample. The sampling technique was purposive sampling based on the criteria as presented in Table 1.

Table 1. Number of Research Samples

No	Criteria	Number
1	Companies in the category of manufacturing company and listed at IDX in the period of 2019-2021	193
2	Companies not issuing the annual statements between 2019 and 2021	(48)
3	Companies not using Rupiah currency in the annual statements during 2019-2021	(14)
4	Companies presenting incomplete data on the variables in question during the period of 2019-2021	(93)
5	Companies not disclosing CSR programs in the annual statements during the years of observation	0
	Total samples	37

Table 1 shows that the number of samples for this study is 37 companies.

Descriptive Statistics

Descriptive statistics is to describe the research variables by showing their minimum, maximum, mean, and standard deviation values. The analysis of the descriptive statistics in this study was performed using SPSS (Statistical Product and Service Solution) version 16.0.0, and the results are as follows.

Table 2. Descriptive Statistics Analysis Results

Variable	Minimum	Maximum	Mean	Std. Deviation
CSR	0.132	0.505	0.29749	0.080296
KI	0.015	0.934	0.63042	0.225279
KM	0.000	0.739	0.14059	0.194988
DKI	0.167	0.800	0.41709	0.104170
ROA	0.000	0.364	0.06298	0.056727

It can be seen from Table 2 that the value range of CSR is from 0.132 to 0.505. The minimum value belongs to BOLT Company in 2018, while the maximum is owned by PEHA Company in 2021. The mean of CSR of all sample companies between 2019 and 2021 is 0.29749 with the standard deviation of 0.080296.

Institutional ownership's (KI) value range stretches from 0.015 to 0.934. The minimum is BOLT's value in 2021, and the maximum is the value of SAMF in 2019. The mean of this variable is 0.63042 with the standard deviation of 0.225279.

The variable of managerial ownership's (KM) value ranges from 0.000 to 0.739, where the minimum belongs to WTON in 2019, and the maximum belongs to BAJA in 2019-2021. The mean is 0.14059, and the standard deviation is 0.194988.

The minimum and maximum values of independent board of commissioners (DKI) are 0.167 and 0.800 respectively. The minimum is owned by UNIC Company in 2019-2021, and the maximum is ASII Company's in 2021. This variable mean is 0.41709 with the standard deviation of 0.104170.

The range of return on asset (ROA) value is from the minimum of 0.000 to the maximum of 0.364. The minimum is of CAKK in 2021, while the maximum goes to MARK in 2021. The mean of this variable is 0.06298 with the standard deviation value of 0.056727.

Hypothesis Testing

Coefficient of determination test

Tabel 3. Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.524	.275	.247	.01705

The results of the analysis of the coefficient of determination show that the value of the coefficient of determination (Adjusted R-Squared) is 0.247. Based on these results, it can be concluded that the amount of independent variables that can influence the ROA variable is only as much as 24.7% and the remaining 75.3% is influenced by other factors.

T-test

T-test was used to prove the hypotheses of this study. The testing was done by estimating the regression coefficient and significance value of each independent variable, i.e. CSR, institutional ownership, managerial ownership, and independent board of commissioners. The results of the significance test are presented in Table 3. The test on CSR variable shows that CSR has regression coefficient value of -0.082 and significance value of 0.037 which is less than $\alpha=0.05$, so the regression coefficient is significant. Thus, it can be concluded that CSR has a negative and significant influence on profitability, thus H1 is not supported.

Institutional ownership (KI) shows the regression coefficient as much as -0.039 with the significance value of 0.127 which is larger than $\alpha=0.05$ and indicates that institutional ownership has a negative influence on corporate financial performance. Consequently, H2 is not supported.

The managerial ownership's (KM) regression coefficient is -0.065 with the significance value of 0.032, which is less than 0.05. Thus, managerial ownership is assumed to have a negative and significant influence on corporate financial performance. Therefore, H3 is not supported.

The variable of independent board of commissioners (DKI) has regression coefficient of 0.079 with the significance value of 0.010 which is < 0.05. Hence, it can be deduced that independent board of commissioners has a positive and significant influence on corporate financial performance. Consequently, H4 is supported.

The first hypothesis stating that Corporate Social Responsibility (CSR) has a positive influence on corporate financial performance is not supported because the result of the study reveals the otherwise that CSR negatively affects corporate profitability. This implies that a high level of CSR disclosure does not increase corporate profitability. This result is probably due to the perception of most of the companies in Indonesia that CSR is a burden since its implementation requires a significant amount of funding and cannot directly benefit the companies.

Thus, CSR implementation is deemed as less vital and not beneficial. Additionally, in 2020 the COVID-19 pandemic significantly reduced the CSR activities of the companies in Indonesia since the government imposed the implementation of restriction on community activities (PPKM) that made CSR activities that usually involved the community impossible to perform during that time. This resulted in massive layoffs that triggered reduced people's income and an impact on people's purchasing power. Therefore, demand for products also fell. The higher the CSR costs (employee welfare costs and community costs), the lower the company's profits. If the company's profitability falls, it can be seen that the company's financial performance also decreases (Agnelia et al., 2020).

Table 4. Results of T-test

	B	Std. Error	Beta	t	Sig.
Constant	0.088	0.025		3.453	0.001
CSR	-0.082	0.039	-0.204	-2.116	0.037
KI	-0.039	0.025	-0.273	-1.538	0.127
KM	-0.065	0.030	-0.389	-2.172	0.032
DKI	0.079	0.030	0.255	2.615	0.010

This research result is corroborated by Yudha (2021) who argues that CSR negatively and significantly affects the ROA of manufacturing companies listed at IDX during 2015-2019. Additionally, it is also supported by the research conducted by Krisdamayanti and Retnani (2020) stating that CSR disclosure does not affect corporate financial performance (ROA). The implication is that companies should implement CSR that can attract sympathy from the public, so it can increase the public interest in using the company’s products.

The second hypothesis proposed by this study that institutional ownership has a positive influence on corporate financial performance is not supported. This implies that a larger proportion of institutional ownership does not significantly impact a company’s profitability. Institutional ownership enables the institution owners to control a company, so there is likely a tendency to conduct self-interest actions. In addition, the information discrepancy between the institution owners and the company management might stimulate the institution owners to control the company because they feel that they have more information. As a result, institutional ownership does not guarantee the monitoring effectiveness toward the management performance. Institutional ownership in companies is considered to be an alternative that can reduce agency conflicts by supervising management which can have an impact on the company's financial performance. However, in reality, the number of shares owned by an institution does not guarantee how the manager will manage the company's assets in order to achieve maximum profits which can improve the company's financial performance.

This study is in line with the study conducted by Deswara et al. (2021) which mentions that institutional ownership as the proxy of GCG does not significantly affect ROA as the indicator of financial performance. Similarly, Aprila et al. (2022) also argue that institutional ownership does not influence corporate financial performance. The implication is that companies must encourage the function of institutional ownership to be more effective in supervising their existing activities, so the companies’ performance increases.

This study’s third hypothesis stating that managerial ownership has a positive influence on corporate financial performance is not supported by the research findings. This demonstrates that the larger the proportion of managerial ownership, no effect will the company get. The results of this research are not in accordance with Agency Theory which states that managerial ownership can align the interest of shareholders and that of the managers so that they are motivated to improve the company's financial performance. However, in this research, the percentage of managerial ownership tends to be low, so the interests of shareholders and managers cannot be united.

This might result from the fact that the prevalence of managerial ownership in Indonesia is still low. Of all the 193 companies investigated, there were 75 companies which did not practice managerial ownership. In addition, the companies practicing managerial ownership only provided a low share of this type of ownership. Meanwhile, a stock ownership percentage below 20% is considered insignificant to influence the company, so a company with a low rate of managerial ownership will tend to show a low level of management performance. This finding agrees with that of Agustina and Soelistya’s (2018) research which reveals that managerial ownership does not affect ROA. The implication for companies is that managerial ownership should be large to be able to promote the company's performance.

Finally, the last hypothesis of this study argues that independent board of commissioners has a positive influence on corporate financial performance which is supported by the research findings. This means that the more independent the commissioners in a company, the better the profitability rate of the company. An independent board of commissioners has an important role in monitoring a company that can help the company to minimize agency conflicts between the management and the stockholders and to control management opportunistic behaviors to perform better financial performance. The increasing number of independent commissioners can encourage the board of commissioners to act objectively and be able to protect all company stakeholders.

This result agrees with the research carried out by Sari et al. (2019) which mention that Good Corporate Governance proxied by independent board of commissioners positively influences corporate financial performance. The implication is that independent commissioners in companies must be effective in monitoring the company, so that if there is a conflict of interest it can be resolved immediately.

Conclusion

Based on the results of the analysis conducted on 37 manufacturing companies listed on the Indonesia Stock Exchange during the period of 2019-2021, it can be concluded that CSR does not have a positive influence on corporate financial performance. The perception that CSR is a burden for a company because of the significant amount of cost required for its implementation and less direct benefits provided underlie the reasons for this result. Consequently, CSR cannot improve the performance of corporate financial performance.

Likewise, the results of the analysis prove that institutional ownership does not have a positive influence on corporate financial performance. If the management makes decisions based on its interest instead of the company's interest, the company's financial performance will not improve, thus, institutional ownership cannot improve company financial performance.

The managerial ownership variable also does not positively influence corporate financial performance. This is caused by the low prevalence of managerial ownership in Indonesian companies which can be an opportunity for the managers to take opportunistic actions. A high rate of opportunistic actions will certainly lead to decisions that do not benefit the company.

This study succeeds in proving that independent board of commissioners has a positive influence on corporate financial performance. This is because the independent board of commissioners is able to control the opportunistic behaviors of the management, thus improving the financial performance of the company. The results of this research can help the government as an input for formulating corporate social responsibility regulations and creating stricter policies regarding corporate social responsibility.

This study has three limitations. First, the research period is short, only three years from 2019 to 2021. In addition, this study uses Return on Asset (ROA) as the measurement tool which has not yet reflected the overall corporate financial performance. Lastly, the sample of this study is limited to manufacturing companies which still cannot showcase the financial performance of all companies in the Indonesia Stock Exchange.

Therefore, future research is expected to extend the research period to collect more data in order to get more accurate analysis. Moreover, the sample used for future study should be expanded into other company categories, and it is suggested to use other proxies to measure corporate financial performance, such as ROE, DER, and PER.

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