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Good Corporate Governance Moderates the Effect of Corporate Social Responsibility Disclosure, Financial Distress and Managerial Ability on Earnings Management with Variable

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Abstract---The purpose of this study is to empirically examine the effect of corporate social responsibility disclosure, financial distress, and managerial ability on earnings management and empirically test good corporate governance in moderating the effect of corporate social responsibility disclosure, financial distress, and managerial ability on earnings management. The population in this study are all manufacturing companies listed on the IDX in 2017-2021. The sampling method used in this study was non-probability sampling with purposive sampling technique and 70 samples were obtained. This research technique is Moderated Regression Analysis (MRA) using the SPSS program. The results of the study show that the corporate social responsibility disclosure has no significant effect on earnings management. Financial distress has a significant positive effect on earnings management, meaning that the higher the company's level of financial distress, the earnings management will increase. Managerial ability has no significant effect on earnings management. Good corporate governance is not able to moderate the corporate social responsibility disclosure on earnings management. Good corporate governance is able to weaken financial distress in earnings management, meaning that the higher the good corporate governance, the weaker the relationship between financial distress and earnings management. Good corporate governance is not able to moderate managerial abilities in earnings management.

Keywords---corporate social responsibility, earnings management, financial distress, good corporate governance, managerial ability

Introduction

The income statement is one of the reports that is the basis for making investments, because this report shows the company's performance to generate profits. This is a loophole for management to try to take advantage of the lack of information received by investors by means of earnings management. Investors not only see financial information but also see other information that is not related to finance. One of the information that is not related to finance is the corporate social responsibility disclosure (CSR) (Alexander & Palupi, 2020).

Corporate social responsibility disclosure (CSR) can be a corporate strategy to fulfill stakeholder interests in non-financial information related to the company's social and environmental impacts arising from its activities. Increasing corporate social responsibility disclosure (CSR) by companies will enable stakeholders to fully support all company

activities aimed at improving performance and achieving the expected benefits. Companies can attract the attention of stakeholders to accept less ethical behavior from companies, including earnings management (Pakawaru et al., 2021).

Corporate social responsibility disclosure (CSR) has no effect on earnings management based on research results from Kinasih et al. (2018); Solikhah (2022). This means that companies that do not carry out earnings management actions are considered as companies that have concern in disclosing corporate social responsibility (CSR) because companies need community support. However, these results are not in line with research conducted by Buerthey et al. (2020); Setiawan et al. (2019), who found the effect of corporate social responsibility (CSR) disclosure on earnings management is significant and positive. Companies that allocate funds for corporate social responsibility disclosure (CSR) tend to manage earnings by increasing profits, so it is necessary to maintain the company's image in order to perform well.

Corporate social responsibility disclosure (CSR) can contribute to reducing corporate ethical responsibility to bankruptcy risk by providing accurate, relevant and reliable information. The earlier the signs of bankruptcy are known by the company, the better it is for management because they can make the necessary improvements for companies that are having problems in terms of financial difficulties (Rodriguez-Fernandez, 2016; Rusydi et al., 2020; Lozano et al., 2016; Luthan & Satria, 2016). This causes management to often not consider and carry out various actions in the midst of various conditions that cannot be controlled in order to save the company's survival. The financial distress experienced by the company is a triggering factor for the emergence of earnings management practices (Handayani & Hariyani, 2019).

Positive accounting theory explains that in the context of debt agreements, managers manage and regulate profits so that debts that should be repaid in a certain year are deferred to the following year. This is a manager's attempt to manage and regulate the level of profit and is an indicator of a company's ability to pay off its debts. The manager manages and adjusts the profit rate to defer costs for the period concerned and settle them in future periods (Irawan & Apriwenni, 2021).

Based on previous research conducted by Handayani & Hariyani (2019); Puri & Gayatri (2018), it shows that financial distress has a positive and significant effect on earnings management. These conditions do not reflect the actual condition of the company and earnings management carried out by managers so that the company is able to maintain business continuity in the future. Meanwhile, the research conducted by Nurdiansyah & Ferdiansyah (2021); Kristyaningsih et al. (2021), found that financial distress has no effect on earnings management. Companies experiencing financial distress assume that earnings management practices will be detrimental to the company in the future, so that company management prefers to report actual profits.

Profit information is very important for stakeholders so that it encourages management to intervene in the financial reporting process with a specific purpose. Owners and managers are individuals who tend to pursue their own interests. The attention of users of financial reports is more focused on profit information and there is a misalignment of interests between managers and other users of financial statements encouraging managers to carry out earnings management (Kodriyah & Putri, 2019).

Research conducted by Majid et al. (2020); Henryawan (2018), shows that managerial abilities have a positive effect on earnings management. Capable managers use their expertise and abilities to take opportunistic actions by manipulating accrual components in financial statements because accruals are components that can easily be engineered according to the manager's wishes. In research conducted by Kodriyah & Putri (2019); Istiqomah & Fitriani (2018), the results were different. Managerial ability has no significant effect on earnings management. Capable managers will consider continuing to improve the quality of their performance so that it will provide added value to the company rather than having to carry out earnings management which risks failing to maintain public and stakeholder trust.

Earnings management is believed to be a direct impact of the efforts of managers or financial report preparers to manage accounting information, especially profits, for the benefit of individuals or companies (Tsaqif & Agustinarsih, 2021; Urquiza et al., 2010; Falck & Heblich, 2007; Aksak et al., 2016). Therefore, the implementation of good corporate governance (GCG) in a company can limit the practice of earnings management because a good good corporate governance (GCG) mechanism can mitigate the opportunistic behavior of managers in implementing earnings management. The role of good corporate governance (GCG) is expected to be able to minimize agency problems that arise between directors and shareholders so that the company's commitment to contributing to sustainable economic development can be aligned with the company's main goal of getting support from stakeholders (Henryawan, 2018).

Research results that are still varied motivate researchers to conduct further research on the effect of corporate social responsibility disclosure (CSR), financial distress and managerial ability on earnings management. This study

uses accrual earnings management because it reflects personal information provided by managers to show the economic condition of a company so that it allows managers to engage in opportunistic financial reporting to maximize manager profits. This study adds the variable good corporate governance (GCG) as a moderating variable based on [Wahidahwati & Ardini's \(2021\)](#), research. There are four company internal control mechanisms using factor scores consisting of the four dimensions of good corporate governance (GCG) used in this study which are measured using proxies for the board of commissioners, audit committee, management and shareholders. In addition, in previous studies measuring managerial ability with Data Envelopment Analysis (DEA) but in this study using CEO tenure. The longer the CEO is in office, the more information and knowledge the CEO has about the company compared to the principal ([Rusci et al., 2021](#); [Ardiani & Sudana, 2018](#); [Cornaggia et al., 2017](#); [Dechow et al., 2012](#)).

Literature Review and Hypothesis Development

Companies with socially responsible behavior will undergo management interest adjustments to reduce management incentives to manipulate earnings. In addition, companies with high corporate social responsibility (CSR) performance tend to be long-term oriented and less oriented to short-term financial goals and thus disclose more voluntary non-financial information. Companies that engage in corporate social responsibility (CSR) are considered associated with greater financial transparency and have formed a corporate reporting culture, which reduces incentives for profit manipulation ([Dimitropoulos, 2022](#)). [Setiawan et al. \(2019\)](#), found corporate social responsibility (CSR) had a positive effect on earnings management in banking companies listed on the Indonesia Stock Exchange for the 2013-2015 period. The results of the study show that banking companies in Indonesia have a positive relationship between corporate social responsibility (CSR) activities and earnings management. Corporate social responsibility (CSR) activities have motivated managers to be involved in earnings management so that they can increase profits aggressively and protect the interests of stakeholders.

H1: corporate social responsibility disclosure has a positive effect on earnings management

According to [Li et al. \(2020\)](#), companies with higher levels of financial distress tend to be more involved in accrual management and less involved in real earnings management. After negotiating relative costs and risks, companies experiencing financial difficulties are generally more likely to manipulate real profits and less actual profits. Therefore, the higher the level of financial distress experienced by the company, the higher it will encourage managers to carry out earnings management. Based on the research by [Handayani & Hariyani \(2019\)](#), it states that financial distress has a positive and significant effect on earnings management. A high level of corporate financial distress will increase the tendency to carry out earnings management. In terms of financial difficulties, management is increasingly motivated to manage earnings. This was done by management to cover up the company's financial difficulties so that management can show investors that the company is not experiencing financial difficulties.

H2: Financial distress has a positive effect on earnings management

The skills managers need to achieve their best performance include conceptual, technical, communication, time management, decision-making, and leadership skills. This skill arises because competent managers have a high level of intelligence and education. The smarter and more educated managers are, the more efficient and enabling decision making can add value to the company. In addition, experience is an indicator that determines the level of competence of a leader ([Majid et al., 2020](#)). According to [Majid et al. \(2020\)](#), managerial skills have a positive effect on accrual earnings management. A capable manager takes advantage of his expertise and abilities to take opportunistic actions by manipulating accrual components in financial statements, because accruals are components that are easy to manipulate according to personal wishes. Managers will manipulate discretionary accruals that do not affect cash flow directly and are usually carried out at the end of the accounting period when management knows that the profit target has not been achieved ([Dokas et al., 2021](#); [García-Sánchez et al., 2020](#); [Hambrick & Mason, 1984](#); [Hickman et al., 2021](#)).

H3: Managerial ability has a positive effect on earnings management

Agency theory explains the relationship between principals hiring agents to carry out various activities on their behalf and delegating decision-making authority to managers ([Sumardi & Wati, 2022](#); [Susilowati & Harsono, 2020](#); [Tangke, 2021](#); [Tannaya & Lasdi, 2021](#); [Ruangviset et al., 2014](#)). In this case it has the potential to create agency

problems when the interests of the agent and the principal are not in line. One way to mitigate agency problems is to implement good corporate governance practices. Corporate governance includes a set of structures, rules and systems inside and outside the company that protect shareholder value. Corporate governance is designed to align the interests of managers with the interests of shareholders. The existence of an effective governance mechanism will affect inter-agency conflicts and thereby regulate the relationship between corporate social responsibility (CSR) and earnings management, so that abuse of corporate social responsibility (CSR) will occur more frequently in companies with weaker governance mechanisms (Buerthey et al., 2020). According to Ruwanti et al. (2019), the role of good corporate governance weakens corporate social responsibility (CSR) relationships in earnings management, meaning that if a company has good governance, it tends not to carry out earnings management. The number of board members who are more diverse in abilities, skills, academic backgrounds will place greater emphasis on earnings management actions. Effective independent directors exert significant influence over management's choices so as to limit earnings management. Institutional ownership can overcome management to take advantage of imprecise reporting of earnings in financial statements, thereby providing quality earnings (Kim et al., 2019; Kjærland et al., 2020; Lindawati & Puspita, 2015; Panda & Leepsa, 2017).

H4: Good corporate governance weakens the effect of corporate social responsibility disclosure on earnings management

A significant relationship in a company's financial governance can be seen from financial distress so that it can determine the effect of earnings management in a company of a certain size, big or small, through failure in financial distress (Pradnyawati et al., 2021; Putri & Rusmanto, 2019; Risk et al., 2018; Saputri, 2021; Hidah & Sedana, 2021). A good company has good corporate management, so good corporate governance (GCG) is also implemented properly through the maintenance of the relationship between the company and all parties who have interests that have been consistently maintained. In other words, good corporate governance (GCG) can have a meaning as a system that is used to manage a company so that it can run well where this is in accordance with the goal of obtaining the maximum profit. The company will provide all accurate, relevant, open and timely information related to profit so that it will increase investor confidence. According to Hapsoro & Hartomo (2016), stated that good corporate governance has a negative effect on the relationship between financial distress and earnings management. This shows that the existence of good corporate governance can reduce the effect of financial distress on earnings management so that it can improve company performance through supervision or monitoring of management performance as well as ensuring management accountability to stakeholders.

H5: Good corporate governance weakens the effect of financial distress on earnings management

Through corporate governance, monitoring mechanisms, decision making and management accountability can be carried out in a transparent and accountable manner so that errors or manipulation of financial reports are easily detected (Henryawan, 2018). According to agency theory, the manager is the party that controls all the information needed to prepare financial reports and parties outside the company have limitations in obtaining company information. Conceptually, the manager's desire is influenced by his motivation and ethical behavior so that the quality of the information in the financial statements also depends on the manager, causing the manager to only disclose certain information if there are benefits to be gained. Opportunistic behavior implies the manager's efforts to take over the wealth of the owner of the company to himself. The important role of implementing good corporate governance (GCG) is to increase supervision and protection of shareholders, as well as to control opportunistic behavior caused by different interests between management and shareholders. According to Henryawan (2018), good corporate governance weakens the influence of managerial skills on earnings management through real activities. So that the existence of a good corporate governance mechanism can mitigate the opportunistic behavior of managers to manage earnings.

H6: Good corporate governance weakens the effect of managerial ability on earnings management

Methods

This research was conducted on all manufacturing companies listed on the IDX in 2017-2021. The reason for choosing manufacturing companies in this study is because companies in this sector often experience uncertainty in sales and profit. In addition, there is often a decrease in performance because the marketed product is damaged

before the product reaches the consumer so that manufacturing companies will be more influenced to manipulate company profits in achieving certain targets.

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The sampling method used in this research is non-probability sampling with purposive sampling technique. The criteria used for sample selection in this study are as follows:

- 1) Companies that present financial reports for the 2017-2021 period consecutively.
- 2) The company presents financial reports in rupiah currency.
- 3) Companies that provide information regarding corporate social responsibility (CSR) disclosures.
- 4) Companies that provide information about the implementation of good corporate governance (GCG).

This research technique is Moderated Regression Analysis (MRA) using Statistical Product and Service Solution (SPSS). This technique is used to see the effect of corporate social responsibility disclosure (CSR), financial distress, managerial ability on earnings management with good corporate governance (GCG) as a moderating variable.

Results and Discussion

Moderated Regression Analysis (MRA)

Table 1
Moderation regression analysis results

Model	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0,165	0,082		-2,018	0,044
X1 (CSR)	0,150	0,281	0,142	0,534	0,594
X2 (FD)	0,147	0,039	1,212	3,822	0,000
X3 (MA)	-0,001	0,003	-0,143	-0,432	0,666
X4 (GCG)	0,108	0,197	0,127	0,548	0,584
X1.X4	-0,125	0,67	-0,064	-0,187	0,852
X2.X4	-0,293	0,087	-1,099	-3,357	0,001
X3.X4	0,015	0,008	0,624	1,955	0,051
R	0,586 ^a				
R Square	0,343				
Adjusted R Square	0,330				
F.Value	25,528				
Sig. F.Value	0,000 ^b				

Secondary Data, 2022

Based on the results of the moderated linear regression analysis as presented in Table 1, the structural equation is as follows:

$$Y = -0.165 + 0.150 X1 + 0.147 X2 - 0.001 X3 + 0.108 X4 - 0.125 X1X4 - 0.293 X2X4 + 0.015 X3X4$$

Determination Coefficient Test Results

Based on Table 1, the magnitude of the influence of the independent variables on the dependent variable is indicated by the adjusted R Square value of 0.330. This shows that 33% of variations in corporate social responsibility, financial distress, managerial ability, and good corporate governance affect earnings management while the remaining 67% is explained by other factors not included in the model.

F Test

Based on Table 1 it is known that the F value is 25.528 with a significance of 0.000 where the value is smaller than 0.05. This shows that the model is feasible to use in this study.

*Hypothesis Test Results (t test)**The Effect of corporate social responsibility disclosure on earnings management*

Hypothesis 1 states that corporate social responsibility disclosure affects earnings management. Based on the analysis of the effect of corporate social responsibility disclosure on earnings management, a significance value of $0.594 > 0.05$ was obtained with a regression coefficient of 0.150. These results indicate that corporate social responsibility disclosure has no significant effect on earnings management, so H1 is rejected.

The effect of financial distress on earnings management.

Hypothesis 2 states that financial distress has a positive effect on earnings management. Based on the results of the analysis of the effect of financial distress on earnings management, a significance value of $0.000 < 0.05$ was obtained with a regression coefficient of 0.147. These results indicate that financial distress has a positive and significant effect on earnings management, so H2 is accepted.

The effect of managerial ability on earnings management

Hypothesis 3 states that managerial ability influences earnings management. Based on the analysis of the effect of managerial ability on earnings management, a significance value of $0.666 > 0.05$ was obtained with a regression coefficient of -0.001. These results indicate that managerial ability has no significant effect on earnings management, so H3 is rejected.

Good corporate governance moderates The effect of corporate social responsibility on earnings management

Hypothesis 4 states that good corporate governance is able to weaken the relationship between corporate social responsibility and earnings management. Based on the analysis of the effect of corporate social responsibility disclosure on earnings management with good corporate governance as moderator, a significance value of $0.852 > 0.05$ was obtained with a regression coefficient of -0.125. This shows that the interaction of good corporate governance and corporate social responsibility disclosure has no significant effect on earnings management. Good corporate governance does not moderate the relationship between corporate social responsibility disclosure on earnings management, so H4 is rejected.

Good corporate governance moderates the effect of financial distress on earnings management

Hypothesis 5 states that good corporate governance is able to weaken the relationship between financial distress and earnings management. Based on the results of the analysis of the effect of financial distress on earnings management with good corporate governance as a moderator, a significance value of $0.001 < 0.05$ was obtained with a regression coefficient of -0.293. This shows that the interaction of good corporate governance and financial distress has a positive and significant effect on earnings management. Good corporate governance weakens the relationship between financial distress and earnings management, so H5 is accepted.

Good corporate governance moderates the effect of managerial ability on earnings management

Hypothesis 6 states that good corporate governance is able to weaken the relationship between managerial ability and earnings management. Based on the results of the analysis of the effect of managerial ability on earnings management with good corporate governance as moderator, a significance value of $0.051 > 0.05$ was obtained with a regression coefficient of 0.015. This shows that the interaction of good corporate governance and managerial ability has no significant effect on earnings management. Good corporate governance does not moderate the relationship between managerial ability and earnings management, so H6 is rejected (Selviani, 2017; Subroto, 2014; Sucipto & Zulfa, 2021; Sugiyono 2018; Sen et al., 2016; Putri & Sujana, 2018).

Conclusions

The results of this study are consistent with agency theory, stakeholder theory, disclosure theory, positive accounting theory and upper echelon theory. In this study, managers as company managers have more diverse information about the state of the company so that with their expertise they can take advantage of opportunities in decision making. The mechanism of good corporate governance is a concept based on agency theory which is expected to function as a tool to provide confidence to investors that they will receive information in accordance with actual conditions and receive rewards for their investment. The results of this study are also consistent with the positive accounting theory associated with financial distress on earnings management. If the company experiences financial difficulties, managers will use accounting practices and methods to increase profits as an effort to deal with difficult financial conditions in order to achieve company goals.

Companies are expected to be able to apply good corporate governance on an ongoing basis to equalize the interests of company owners and company managers in order to be able to produce financial reports that contain profit information so as to improve the performance of financial reports and increase the trust of shareholders. Investors are expected to pay attention to corporate social responsibility (CSR) disclosures from companies as one of the things considered for investing. Investors need to review the financial condition related to the company's ability to manage current assets to finance its debts and obtain maximum profit in order to minimize the risk of earnings management practices. Investors are expected to analyze the financial condition and performance of the company in the financial statements before making investment decisions because the financial information presented may not necessarily reflect the actual condition of the company.

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