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The Role of Corporate Social Responsibility and Earning Management in Mediation of the Effect of Corporate Governance on Corporate Performance

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Abstract

The purpose of this study is to analyze the role of corporate social responsibility and earning management in mediating the influence of corporate governance on corporate performance. The population of this study is manufacturing companies listed on the Indonesia Stock Exchange in 2016-2019. The sample used is 8 manufacturing companies that publish annual reports and sustainability reports for 2016-2019. This study uses the path analysis technique with SPSS. The results of the study found that corporate governance has a positive effect on corporate performance, corporate social responsibility hurts corporate performance, corporate governance also has a positive effect on corporate social responsibility. So that corporate social responsibility can mediate the relationship of corporate governance to corporate performance. However, the research also found that corporate governance has no effect on earnings management, earnings management has no effect on corporate performance, and earnings management is unable to mediate the relationship between corporate governance and corporate performance.

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1 Introduction

Corporate performance is a measure to determine a company's ability to generate profits on the management and allocation of its resources (Widnyana et al., 2020). Corporate performance can be measured by analyzing financial statements using financial ratios. According to Harahap (2008), financial ratios are divided into four types of ratios, namely, liquidity ratios, profitability ratios, solvency ratios, and activity ratios.

Profitability ratios are usually used to measure the success of financial performance because they provide an overview of operating results. Profitability ratios, such as Return On Assets (ROA), are commonly used to measure corporate performance. ROA measures the company's ability to earn a return on assets over a certain period (Soewarno & Tjahjadi, 2020). The research will focus more on Return On Assets (ROA) as a proxy for corporate performance measures. This ratio shows how effectively an entity uses its assets, in other words, how much return is generated from its assets.

Good Corporate Governance (GCG) is needed to encourage the creation of an efficient, transparent, and consistent market with laws and regulations. The implementation of GCG needs to be supported by three interrelated pillars, namely the state and its apparatus as regulators, the business world as market players, and the community as users of business products and services. Good Corporate Governance is very important to be implemented by companies because an effective corporate governance system can increase public trust in the company, attract investors to invest so that it will increase corporate performance (Singh et al., 2017; Bhagat & Bolton, 2008). Corporate performance shows how effective and efficient an organization is in achieving its goals. Effectiveness refers to the ability of management to select accurate goals or instruments to achieve certain goals. Efficiency refers to the ratio between input and output in that the appropriate input will produce optimal output (Suhadak et al., 2019).

Brown & Caylor (2009), assert that Corporate Governance is closely related to the management of resources and costs as well as maintaining relationships with stakeholders. This is following the stakeholder theory which later every policy made in the management of the company will have a positive impact and benefit for the stakeholders. Good management of the company will certainly have an impact on good corporate performance.

Chijoke-Mgbame et al. (2019), found that the implementation of good GCG in companies will significantly and positively affect corporate performance. Following the empirical studies that have been carried out, the implementation of GCG affects the company's performance. This is in line with the findings of Khan & Zahid (2020), which states that GCG affects corporate performance (Purbawangsa et al., 2019). However, there are different results in the study of Antonio et al. (2019), who found that GCG negatively affects corporate performance. However, this result contradicts the findings of Kurniati (2019), which states that GCG does not affect corporate performance. Good management will certainly increase management awareness in being responsible for every policy taken. Based on the stakeholder theory, the company is not only responsible for managing funds but is also responsible for managing resources and the impact of resource processing, including social, economic, and environmental impacts (Baños-Caballero et al., 2014; Abdullah & Sofian, 2012).

Corporate social responsibility (CSR) has attracted increasing interest and is the subject of many scientists. The company has a responsibility to all stakeholders who want to get better information about the company's performance and the actual impact of business activities (Boiral, 2013). A shift in management responsibility from a single bottom line, the value of a company reflected solely through its financial condition, to a triple bottom line, financial, social, and environmental.

CSR has become the current trend in the multinational business sector to improve performance and survive in business competition. The issue of CSR disclosure in developing countries is increasingly important (Garas & ElMassah, 2018). Companies that have good corporate performance will have more resources and funds to invest in social activities (Purbawangsa et al., 2019). Overcoming social problems and environmental sustainability against any pollution is the goal of every company. This commitment strengthens the company's performance and reputation. In this context, companies can refer to certain standards issued by international standards organizations such as ISO 9001, ISO 14001, and ISO 26000 (Moratis & Widjaja, 2014; Ranängen et al., 2014). ISO 14001 deals with environmental aspects related to the activities, products, and services of this organization. ISO 9001 establishes guidelines that improve the quality management of products and services that meet customer and regulatory requirements. ISO 26000 "Guidelines for Social Responsibility" is the first standard that establishes a set of principles that are taken into account for companies to be socially responsible (Moratis, 2017). Concerning this standard, corporate social responsibility is considered a multidimensional concept involving seven societal dimensions: corporate governance, human rights,

labor relations and conditions, the environment, fair operating practices, consumer concerns, and community engagement (Becker-Olsen et al., 2006; He & Harris, 2020).

All of these standards encourage companies to be more responsible, engage with stakeholders, and promote the ultimate goal: social responsibility. Empirical findings state that there are positive performance implications for companies that are involved in CSRD (Chijoke-Mgbame et al., 2019). CSR influences corporate performance. However, Anggie (2020), found that CSR does not affect corporate performance.

Company performance in a company can be improved with GCG, reducing the risks created by directors that only benefit their interests, and in general, GCG can foster shareholder confidence to make additional investments which will further affect the company's performance Mahrani & Soewarno (2018) and Purbawangsa et al. (2019), CSR can partially mediate the relationship between GCG and corporate performance. However, Apilia (2018), states that CSR does not mediate. Based on the differences in the results of this study, CSR will be chosen as a mediating variable in the influence of GCG on corporate performance.

Financial statements are information published by a company that cannot be separated from earnings management actions taken by company managers to improve the company's good name. Earning management or earnings management is known as a tactic used by managers to manipulate earnings without breaking the law. This strategy is derived from accounting regulations and policies in preparing financial statements. This action can lead to poor reporting quality in financial statements and cause shareholders to make wrong decisions. Earnings management practices occur without violating accounting policies (Chandrasegaram et al., 2013).

Earning management will mislead stakeholders' perceptions of the company's actual corporate performance, and cause reporting of different accounting numbers which will lead to wrong decision making (Healy & Wahlen, 1999). The importance of earning management factors that will affect corporate performance is of course influenced by good corporate governance. With good corporate governance, the level of earnings management will decrease and increase corporate performance. So that the lower earnings management will increase corporate performance (Handayani & Wiksuana, 2020).

Johari et al. (2009), examined the relationship of earnings management that is influenced by board independence, competence, and ownership in Malaysian companies. The resulting research states that good GCG has a significant negative effect on earnings management. According to Klein (2002), the main effective mechanism in monitoring the accounting process is an independent board. This finding is in line with the research produced by Uwuigbe et al. (2015), and Mahrani & Soewarno (2018). But some research results do not support the above findings (Nuryana & Surjandari, 2019). They concluded that good GCG has no relationship with earnings management. The GCG mechanism is only considered to function as a platform to comply with regulations and laws so that the implementation of GCG is not optimal and is not effective in the company's control management (Hermiyetti & Manik, 2013).

The existence of GCG and independent auditors can provide good monitoring to prevent fraud in financial reporting and limit possible engineering actions such as earnings management. Companies tend to increase operational activities for the personal benefit of their managers so that they can be given even greater incentives than the profits earned by the company. Therefore, companies will be motivated to investigate operational activities and detect earnings management. Studies that have been carried out by Chi et al. (2015), found indications that earning management has a mediating role between GCG and corporate performance, and earning management can create a stronger relationship between GCG and company performance. So in this study, earning management was chosen as a mediating variable.

Literature review and hypotheses development

The influence of GCG on corporate performance with CSR and earnings management as mediation is based on agency theory and legitimacy theory. An agency relationship is described as a relationship between company owners as principals and managers as agents, with a delegation of decision-making authority to agents (Jensen & Meckling, 1976). In an agency relationship, there are vulnerable conflicts of interest between the principal and the agent. Increased profitability and share of the company, while managers are agents whose ambition is to optimize the fulfillment of economic and psychological needs.

Legitimacy theory is seen as a perspective orientation system, in which companies can influence and be monitored by the community in the places where companies carry out their activities. Therefore, a valid theory is used as the basis for companies in disclosing CSR activities. Deegan (2002), explains that legitimacy can be obtained when there is harmony between the existence of a company that does not interfere or is appropriate (congruent) with the existence of a value system that exists in society or its environment. Freeman & Medoff (1984), concluded that the real purpose of a company is to meet the needs of stakeholders, namely the parties that come from the decisions taken by the

company. Stakeholder theory is important in this study because this theory is related to the parties who are interested in the company; those who will influence the company's activities, such as management accountability to stakeholders in the form of CSR activities and corporate performance of the company.

The effect of the GCG mechanism on Corporate Performance by Wu & Huang (2009), found empirical evidence that an independent commissioner with high professionalism will produce more objective decisions and realize security in improving managers. Following agency theory, the role of independent commissioners can be placed on agency problems that arise between the board of directors and shareholders. Thus, the decisions taken are not in the interests of certain parties, and managers act only in the interests of the company and other stakeholders to improve corporate performance (Saeed Al Mubarak & Mousa Hamdan, 2016).

Corporate social responsibility is important because nowadays people are increasingly concerned about environmentally friendly products and also have positive consequences for companies, especially for their financial performance. This is an important indication for investors because it can be used to see whether they will maintain their investment in the company or look for other alternatives (Ariyani & Gunawan, 2014). In addition, company performance measurement is also carried out to show investors and customers or the general public that the company has good credit (Munawir, 1995 in Ariyani & Gunawan, 2014).

Corporate performance in a company can be improved with GCG, reducing the risks created by directors who only benefit their interests, and in general, GCG can foster shareholder confidence to make additional investments which in turn will affect the company's performance Mahrani & Soewarno (2018), and Purbawangsa et al. (2019), CSR can partially mediate the relationship between GCG and corporate performance, this is in line with Rahman & Norman (2016) research.

Good corporate governance is expected to be able to provide improvements to corporate performance through monitoring management performance and ensuring management accountability to stakeholders based on the applicable regulatory framework. Parties who have certain interests will prepare financial statements following their wishes. This often happens and is considered entrenched in the management of a company. This is because the company's supervision is still not optimal and the rules and standards of accounting, auditing, and transparency principles are still weak in the application. Therefore, good supervision and control need to be done to prevent fraud. Thus, it is necessary to have a party that plays a role in controlling and supervising the actions and decisions of company managers so that in the end the management of the company runs in a healthy, clean, and responsible manner.

Company performance in a company can be improved with GCG, reducing the risks created by directors who only benefit their interests, and in general, GCG can foster shareholder confidence to make additional investments which will further affect the company's performance (Mahrani & Soewarno, 2018). The existence of GCG and independent auditors can provide good monitoring to prevent fraud in financial reporting and limit possible engineering actions such as earnings management. Companies tend to increase operational activities for the personal benefit of their managers so that they can be given even greater incentives than the profits earned by the company. Therefore, companies will be motivated to investigate operational activities and detect earnings management. Studies that have been carried out by Chi et al. (2015), found indications that earnings management has a mediating role between GCG and company performance and earnings management can create a stronger relationship between GCG and company performance.

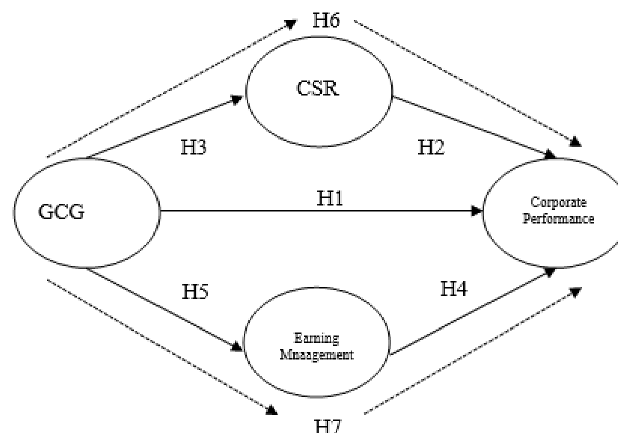

Figure 1. Research conceptual framework

Based on the literature review and the conceptual framework of the research, the hypotheses in this study are as follows:
H1: Corporate governance has a positive effect on corporate performance
H2: Corporate social responsibilities have a positive effect on corporate performance
H3: Corporate governance has a positive effect on corporate social responsibilities
H4: Earning management has a positive effect on corporate performance
H5: Corporate governance has a positive effect on earning management
H6: Corporate social responsibility can mediate the influence of corporate governance on corporate performance
H7: Earning management can mediate the influence of corporate governance on corporate performance

2 Materials and Methods

The scope of this research area is the manufacturing sector companies listed on the Indonesia Stock Exchange in 2015 – 2019 which were obtained from www.idx.co.id. BEI was chosen as the data source because it provides complete data on the company's financial statements. The data collection method used in this study is a non-participant observation method, namely by observing and recording the necessary data on manufacturing sector companies on the IDX.

The population studied were manufacturing sector companies listed on the Indonesia Stock Exchange (IDX) in 2016-2019. The sample is part of the number and characteristics possessed by a population. The sampling technique used in this research is using purposive sampling, namely the technique of determining the sample with certain considerations. The sample criteria used in this study are manufacturing sector companies that publish sustainability reports during the research period.

Hypothesis test using t-test. This test is used to test the significance of each regression coefficient so that it is known whether corporate governance, corporate social responsibility, and earning management have a significant influence on corporate performance. Testing the mediation hypothesis can be done using a procedure developed by Sobel (1982), and known as the Sobel test. The Sobel test was carried out by testing the strength of the indirect influence of the independent variable (X) to the dependent variable (Y) through the intervening variable (M).

3 Results and Discussions

Testing corporate governance on corporate social responsibility

This study regressed the independent variable, namely corporate governance (GCG) on the dependent variable, namely corporate social responsibility (CSR). The output results of hypothesis testing between GCG and CSR in the manufacturing sector can be written as follows:

Table 1
Regression analysis model 1

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-0,047	0,345		-0,136	0,893
	GCG	0,036	0,015	0,400	2,390	0,023
	Adj R Square = 0,132 F Value = 5,714 Sig. = 0.023					

Primary Data, 2021

The regression equation is obtained as follows:

$$CSR = -0.047 + 0.036\ GCG$$

The constant value will reach -0.047 when there are no other variables. It means that when there are no other variables, the value of corporate social responsibility (CSR) is 4%, then the coefficient of the GCG variable is positive at 0.036. This indicates that it has a harmonious or positive relationship with corporate social responsibility (CSR). This illustrates that each addition of GCG will increase corporate social responsibility (CSR) by 3.6% with the assumption that other variables are constant. The adjusted R2 value is 0.132. This shows that the change in CSR variables caused by GCG is 0.132 or 13.2%. While the rest is 86.8% influenced by other variables outside the independent variables. The results of the analysis show the value of the F statistic is 5.714 with a probability (significance) of 0.023 because the probability value (significance) is less than = 0.05, the test results conclude that the relationship between corporate governance (GCG) and corporate social responsibility (CSR) is influential. Therefore, the third hypothesis which states that corporate governance (GCG) affects corporate social responsibility (CSR) is accepted (H3 is accepted). This study regressed the independent variable, namely corporate governance (GCG) on the dependent variable, namely earning management (EM). The output results of hypothesis testing between GCG and EM in the manufacturing sector can be written as follows:

Table 2
Regression analysis model 2

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-0,010	0,013		-0,749	0,460
	GCG	0,000	0,001	0,148	0,818	0,420
	Adj R Square = -0,011 F Value = 0,669 Sig. = 0.420					

Primary Data, 2021

The regression equation is obtained as follows:

$$EM = -0.010 + 0.000\ GCG$$

Corporate governance on earning management

The constant value will reach -0.010 when there are no other variables. This means that when there are no other variables, the value of earning management (EM) is 1%, then the coefficient of the GCG variable is positive at 0.000. This indicates that it has a consistent or positive relationship with earnings management (EM). This illustrates that each addition of GCG will increase earnings management (EM) by 0% assuming other variables are constant. The adjusted R2 value is 0.022. This shows that the change in the EM variable caused by GCG is 0.022 or 2.2%. While the rest is 97.8% influenced by other variables outside the independent variables. The results of the analysis show the F statistic value of 0.669 with a probability (significance) of 0.420 because the probability (significance) value is greater than = 0.05, the test results conclude that the relationship between corporate governance (GCG) and earnings management (EM) has no effect. Therefore, the sixth hypothesis which states that corporate governance (GCG) affects earnings management (EM) is rejected (H5 is accepted).

Path analysis

This study regressed the independent variables, namely corporate governance (GCG), corporate social responsibility (CSR), earning management (EM) to the independent variable, namely corporate performance (ROA). The output results of hypothesis testing between GCG, CSR, and EM on ROA in the manufacturing sector can be written as follows:

Table 3
Regression analysis model 3

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-1,459	0,619		-2,357	0,026
	GCG	0,122	0,029	0,607	4,137	0,000
	CSR	-1,491	0,326	-0,669	-4,578	0,000
	EM	5,499	8,562	0,087	0,642	0,526
	F Value = 9.334 Adj R Square = 0,446 Sig. = 0.000					

Primary Data, 2021

Then the regression equation is obtained as follows:

$$ROA = -1.459 + 0.122GCG - 1.491CSR + 5{,}499\ EM$$

Corporate governance on corporate performance

The constant value will reach -1.459 when there are no other variables. This means that when there are no other variables, the value of corporate performance is 145.9%, then the GCG variable coefficient is positive at 0.122. This indicates that it has a harmonious or positive relationship with corporate performance (ROA). This illustrates that each addition of GCG will increase corporate performance by 12.2% assuming other variables are constant. The adjusted R2 value is 0.446. This shows that the change in corporate performance variables caused by corporate social responsibility is 0.446 or 44.6%. While the rest is 45.4% influenced by other variables outside the independent variables.

The results of the analysis show the t-count value of 4.137 with a probability (significance) of 0.000 because the probability (significance) value is less than = 0.05, the test results conclude that the relationship between corporate governance (GCG) and corporate performance has an effect. Therefore, the first hypothesis which states that corporate governance (GCG) affects corporate performance is accepted (H1 is accepted).

Corporate social responsibility on corporate performance

The constant value will reach -1.459 when there are no other variables. This means that when there are no other variables, the value of corporate performance is 145.9%, then the coefficient of the CSR variable is negative at 1.491. This indicates that it has a dissonant or negative relationship with corporate performance (ROA). This illustrates that each addition of corporate social responsibility will reduce corporate performance by 149.1% with the assumption that other variables are constant. The adjusted R2 value is 0.446. This shows that the change in the corporate performance variable caused is 0.446 or 44.6%. While the rest is 45.4% influenced by other variables outside the independent variables.

The results of the analysis show that the t-count value is -4.578 with a probability (significance) of 0.000 because the probability (significance) value is less than = 0.05, the test results conclude that the relationship between corporate social responsibility and corporate performance has an effect. Therefore, the second hypothesis which states that corporate social responsibility (CSR) affects corporate performance is accepted (H2 is accepted).

Earning management test on corporate performance

The constant value will reach -1.459 when there are no other variables. It means that when there are no other variables, the value of corporate performance is 145.9%, then the coefficient of earning management variable is positive at 5.499. This indicates that it has a harmonious or positive relationship with corporate performance (ROA). This illustrates that each addition of earning management will increase corporate performance by 549.9% assuming other variables are

constant. The adjusted R2 value is 0.446. This shows that the change in corporate performance variables caused by earning management is 0.446 or 44.6%. While the rest is 45.4% influenced by other variables outside the independent variables.

The results of the analysis show the t-test value of 0.642 with a probability (significance) of 0.526 because the probability (significance) value is greater than = 0.05, the test results conclude that the relationship between earnings management and corporate performance has no effect. Therefore, the fifth hypothesis which states that earnings management affects corporate performance is rejected (H4 is rejected).

Corporate governance on corporate performance through corporate social responsibility

The value of sig corporate governance on corporate social responsibility is 0.023, which is less than 0.05, so corporate governance affects corporate social responsibility. While the value of sig corporate social responsibility on corporate performance is 0.000 which is less than 0.050 then corporate social responsibility affects corporate performance. To see the substantive effect of the independent latent variable on the dependent latent variable, it can be known through the Variance Accounted For (VAF). Variance Accounted For (VAF) is one way to find out the magnitude of the additional effect on the existence of the mediating variable. The calculation formulation for Variance Accounted For (VAF) is as follows:

$$\text{VAF} = \frac{Indirect\ Effect}{Total\ Indirect\ Effect}$$

$$\text{VAF} = \frac{\beta 1\text{x}\ \beta 3}{\beta 2 + (\beta 1\text{x}\ \beta 3)}$$

$$\text{VAF} = \frac{\beta 1\text{x}\ \beta 3}{\beta 2 + (\beta 1\text{x}\ \beta 3)}$$

$$\text{VAF} = \frac{0{,}4\ \text{x} - 0{,}669}{0{,}607 + (0{,}4\ \text{x} - 0{,}669)}$$

$$\text{VAF} = 0{,}8$$

Based on the above calculation, the VAF value is obtained, which is based on the VAF criteria, it can be concluded that corporate social responsibility can mediate corporate governance on corporate performance (H6 is accepted).

Corporate governance on corporate performance through earning management

The value of sig corporate governance on corporate social responsibility is 0.42, which is greater than 0.05 then corporate governance does not affect corporate social responsibility. While the value of sig corporate social responsibility on corporate performance is 0.526 which is greater than 0.050 then corporate social responsibility does not affect corporate performance. Based on the criteria of the mediator variable as stated by Shrout & Bolder (2002), and the test results in table 5.8 which show p-value > 0.05, earning management is not a mediator variable. So the seventh hypothesis which states that earning management mediates the influence of corporate governance on corporate performance is rejected (H7 is rejected).

Coefficient of determination

The accuracy of the hypothetical model from the research data is measured by the relationship of the three coefficients of determination (R2) in the three equations. In the first equation, the R21 value is 0.160, R22 is 0.020 in the second equation and R23 is 0.500 in the third equation. The results of the accuracy of the model are:

$$\begin{aligned} R^2\text{model} &= 1 - (1 - R^2_1)\ (1 - R^2_2)\ (1 - R^2_3) \\ &= 1 - (1 - 0{,}16)(1 - 0{,}02)\ (1 - 0{,}50) \\ &= 1 - 0{,}412 \\ &= 0{,}588 \text{ or } 58{,}8\% \end{aligned}$$

The results of the calculation of the accuracy of the model of 58.8% explain that the contribution of the model to explain the structural relationship of the four variables studied is 58.8% and the rest is explained by other variables not involved in the model too many paragraphs in this section.

4 Conclusion

Based on research findings which state that corporate governance has a positive effect on corporate performance, this is of course following the concept of stakeholder theory, that the company is not an entity that only operates for its interests but must provide benefits to its stakeholders. By implementing GCG, it means that the company separates duties and responsibilities appropriately within the company so that the performance produced by the company will increase. The increasing corporate performance will certainly provide benefits for company stakeholders. Therefore, these findings support the stakeholder theory. In addition, these findings also support the findings of Chijoke-Mgbame et al. (2019) and Mardnly et al. (2018); which states that the implementation of good corporate governance in companies will significantly and positively affect corporate performance. The second finding is that CSR hurts corporate performance, this negative effect is caused by the concept of costs and benefits. Because CSR is considered a burden, and the company's performance benchmark is proxied by the profitability ratio, the two have a negative relationship, in line with Mahrani & Soewarno (2018). This finding also supports the legitimacy theory which states that the legitimacy theory focuses on the obligation of companies to ensure that they operate within the appropriate framework and norms in the community environment where the company stands, where the company ensures that the activities carried out are accepted as legitimate. So that to carry out obligations to the community, companies must continue to implement CSR.

Based on the results of the study, it was found that GCG affected corporate performance. The implementation of GCG will certainly have an impact on good management conditions, so that when management governance in the company is good internally. Then the company's performance in the company will of course improve. Especially the company's performance in terms of profitability Apart from the profitability side, the implementation of the principles of good corporate governance will help management to be socially responsible, so the GG concept will not only improve from the economic side but also non-economically. Companies need to implement corporate social responsibility because it is an investment for companies to increase value. However, management needs to remember that CSR is also included in the cost concept if it is associated with the company's performance in terms of profitability. The company's steps to be socially responsible will certainly increase the company's costs so that it will reduce the value of profitability. However, CSR is also very important for companies as an investment in increasing value.

Conflict of interest statement
The authors declared that they have no competing interests.

Statement of authorship
The authors have a responsibility for the conception and design of the study. The authors have approved the final article.

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