

Does Corporate Social Responsibility, Corporate Governance And Profitability Affect Earnings Management? Evidence From Manufacturing Firms In Indonesia

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ABSTRAK

Penelitian ini menguji pengaruh corporate social responsibility, corporate governance, dan profitabilitas terhadap manajemen laba. Metode penelitian yang digunakan dalam penelitian ini adalah metode kuantitatif. Data yang digunakan dalam penelitian ini adalah data sekunder yang diambil dari laporan tahunan perusahaan manufaktur dari tahun 2015 - 2019. Jumlah sampel terdiri dari 100 sampel. Untuk menguji hipotesis, penelitian ini menggunakan analisis regresi berganda. Penelitian ini menunjukkan bahwa tanggung jawab sosial perusahaan berpengaruh positif dan signifikan terhadap manajemen laba, sedangkan faktor lainnya; corporate governance dan profitabilitas berpengaruh negatif dan tidak signifikan terhadap manajemen laba.

Kata Kunci: Manajemen Laba, Corporate Social Responsibility, Corporate Governance, Profitabilitas

ABSTRACT

This study examined the effect of corporate social responsibility, corporate governance, and profitability on earning management. The research method used in this study was a quantitative method. The data used in this study was secondary data taken from manufacturing firm's annual report from 2015 - 2019. Total sample consisted of 100 samples. To test the hypotheses, this study used multiple regression analysis. This study found that corporate social responsibility has a positive and significantly influenced the earnings management, while other factors; the corporate governance and profitability had a negative and insignificant effect on earnings management.

Keywords: Earnings Management, Corporate Social Responsibility, Corporate Governance, Profitability

INTRODUCTION

Financial statements were a structured presentation of the financial position and financial performance of an entity (Financial Accounting Standards, 2017). Meanwhile, Harahap (2012) stated that financial statements describe the results of a company's operations at period of time. The company's financial statements were the final product of an accounting cycle that contains information that shows the financial condition and performance of a company in an accounting period. Information in financial statements can be used by users of financial statements for making various decisions. In addition to presenting financial performance, companies are also required to provide non-financial

information, particularly regarding corporate social responsibility and corporate governance. Information about the company's non-financial performance, is usually presented in the annual report.

Corporate social responsibility guided by the triple bottom lines, namely corporate responsibility on social, environmental and economic aspects. Responsibility disclosure aimed to reach a good image for a company in the public. Elkington (1997) stated that the concept of social responsibility in a triple bottom line focus, which unites economic, social and environmental principles in an integrated understanding of corporate social responsibility (profit), but also has a concern for the environment (planet) and community welfare (people). The triple bottom line can be concluded that "profit" is a form of economic aspect, "planet" is a form of environmental aspect and "people" is a social aspect (Oktavia, 2013).

However, the disclosure of social responsibility is allegedly used by a handful of entities to cover earnings management by management. Schipper (1989) defined earnings management as the practice of intentionally intervening in the financial reporting process for external parties, with the intention of obtaining personal gain. Several studies suggest that social responsibility is used by management to cover earnings management in order to maintain good relations with stakeholders (Suryani and Herianti, 2015; Terzagih, 2012; Yateno and Sari, 2016; Rahmawati and Dianita, 2011; Kusuma and Syafruddin, 2014; and Ardiani and Sudana, 2018).

Earnings management can provide stakeholders with misleading information regarding information on the value of assets, transactions, or the company's financial position. It has negative consequences for stakeholders such as shareholders, the environment, creditors, employees, reputation and society as a whole (Zahra et al., 2005). The existence of vigilance made by stakeholders towards earnings management practices, can threaten the security of the manager's position and damage the company's reputation, causing managers to have incentives to compensate stakeholders through the practice of disclosing social responsibility.

In addition, earnings management can also be influenced by the company's corporate governance. Corporate governance is considered as one of the mechanisms to minimize the occurrence of earnings management. Monks and Minow (2003) who argues that corporate governance is a system that regulates and controls companies that create added value for all stakeholders. Corporate governance is usually guided by a set of mechanisms that influence the decisions that will be taken by managers when there is a separation between ownership and control (Wardhani, 2007). Corporate governance is needed to control management behavior so that it acts not only for their benefit and harm the owners or in other words to equalize the interests between company owners and company management.

In improving company performance, it is necessary to have a concept through supervision or monitoring of management performance and ensure management accountability to stakeholders based on this regulatory framework called the concept of corporate governance. Therefore, in order to mitigate earnings management within the company, it is necessary to improve the function of corporate governance and the disclosure of corporate social responsibility. Corporate governance will not be effective without the encouragement of sustainable social responsibility disclosure, because the company must be able to meet the needs of various stakeholders and also be able to generate profits to be able to create value for owners or shareholders (Jamail et al., 2008).

The effectiveness of the company in generating profits through the operation of its assets is a measurement of financial performance. A high profit will attract investors because with a high profit the company will have a higher rate of return. So that the

company's profitability can encourage management to carry out earnings management. The results of research by Guna and Herawaty (2010) showed that profitability has a significant positive effect on earnings management.

This research used 100 manufacturing company listed in Indonesian Stock Exchange for the period of 2015-2019. Moreover, this research also uses a different index to measure corporate social responsibility. This research uses Global Reporting Initiative-G3 to measure corporate social responsibility.

Therefore, the research questions of this study are: (1) Does the corporate social responsibility have a positive effect on earnings management? (2) Does the corporate governance have a negative effect on earnings management? (3) Does the profitability have a positive effect on earnings management? This study is expected to have contribution for manufacturing firms in Indonesia to mitigate earnings management. In order to mitigate earnings management, firms also need to improve a corporate social responsibility disclosure, a good corporate governance mechanism and profitability.

This paper consisted of several parts. The next section described relevant theories and hypotheses development. The third section was research method which consisted of sampling techniques and data analysis techniques. The fourth section was the results and discussion. The final section presented conclusions, suggestions, limitations, and suggestion for further research.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

Agency theory is used as one of the theoretical foundations in this study, because the object of this research is the financial statements of an issuer made by the agent on the orders of the principal. Jensen and Meckling (1976) stated that agency theory in the form of a written agreement in which the principals involving the agents to provide for the principals by handing over full responsibility in giving decisions to agents on behalf of the principle. Scott (2003) argued that the principle and the agent are part that contains of two individuals who think logically that they have opposing interests, if the two individuals have the same goal, the agent will do what the principal is told. The difference on interests between these two individuals occurs because of information asymmetry, when each individual has information that is not shown or informed to other individuals. Asymmetric information occurs because of the separation of the management function and the ownership function within the issuer so that it can lead to different goals between the manager (agent) and the principal.

Stewardship Theory

Stewardship theory has psychological and sociological roots designed to explain a situation where the manager is the manager and acts in the interests of the owner (Davis et al., 1997). Managers will carry out their work in accordance with the common interest. If the interests between the managers and the owners of the company are not the same, then the managers will try to cooperate with the owners of the company rather than having to fight them. Managers see that what is done is in the interest of achieving organizational goals, so that managers will behave in accordance with the owner of the company. Stewardship theory considers that there is a strong relationship between organizational success and company owner satisfaction. Managers will maximize organizational wealth and company performance, so that the maximum utilization of assets owned by the company will be maximized. An important assumption of stewardship theory is that managers align goals in accordance with the goals of the owner of the company (Raharjo, 2007).

Stakeholders Theory

The main assumption of the stakeholder theory is organization's effectiveness that measured by its ability to satisfy not only the shareholders, but also those agents who have a stake in the organizations (Freeman, 1984). Freeman (1984) also concluded that the real purpose of a company is to meet the needs of stakeholders. Gray et al. (1995) said that the survival of a company depends on the support of its stakeholders, and that support should be sought that the company should seek that support.

Earnings Management

Earnings management is a questionable practice in financial reporting to obtain personal gains (Schipper, 1989). Meanwhile, Healy and Wahley (1999) stated that earnings management is management's action to use judgment in financial reporting and in transaction procedures, aimed to influence contractual or misleading stakeholders in decisions making regarding the company's economic performance. There are two points of view of earnings management, namely opportunistic and efficient. From an opportunistic point of view, managers manipulate earnings to enhance their own interests, including increasing their earnings, and hiding "bad news" which can result in the loss of bonuses or even dismissal (Callen et al., 2011). Judging from these motives, it can be said that earnings management is an opportunistic manager's behavior. Because there is an opportunity for managers or accountants to "manage" reported earnings (Bergstresser and Philippon, 2006). From an efficient point of view, several studies have argued that earnings management may be beneficial because it was potential to increase the value of earnings through the delivery of private information to shareholders and public (Jiraporn et al., 2008; Rezaei and Roshani, 2012)

Fisher and Rosenzweig (1995) classified earnings management practices into two types, namely those related to changes in accounting methods and operating decisions. Earnings management related to accounting methods, management can change the company's accounting method policies to record a transaction. For example, changing the method of depreciation of fixed assets, method of recording inventory, and others. The second type of earnings management is operating decisions, which involve delaying transactions or early recognition of transactions. For examples, to offer special terms to customers at the end of the year to accelerate sales (Fisher and Rosenzweig, 1995); to accelerate or defer spending on promotions and research (R&D) costs until the next accounting period.

Corporate Social Responsibility

CSR was an idea that makes companies no longer faced with responsibilities based on a single bottom line, namely corporate value which is reflected in its financial condition only (Charles and Chariri, 2012). However, it also recognized to the concept of social responsibility in the triple bottom line focus, which combines the economic, social, and environmental principles (Elkington, 1994).

Corporate social responsibility is defined as the company's commitment to improve the welfare of the community through good business practices and contribute as a company resource (Kotler and Nancy, 2005). Meanwhile, Untung (2009:1) stated that corporate social responsibility is the commitment of the company or the business world to contribute to sustainable economic development by paying attention to corporate social responsibility and focusing on the balance between attention to economic, social and environmental aspects. According to the World Business Council for Sustainable Development (2002), corporate social responsibility is the commitment of business to

contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.”.

From the various definitions of corporate social responsibility from the expert, it can be concluded that corporate social responsibility is a concept that companies have a responsibility to consumers, employees, shareholders, communities and the environment in all aspects of company operations such as issues related to corporate social responsibility problems that have an impact on the environment such as pollution, waste, product and labor safety to improve common welfare. Currently, corporate responsibility is guided by the triple bottom line, namely corporate responsibility on social, environmental, and economic aspects.

Corporate Governance

Komite Nasional Kebijakan Governance (2006) explained that Good Corporate Governance (GCG) is one of backbones of a market economy and inextricably linked with trustworthiness of the company that applies it as well as the economic climate in country. GCG is a principal that both directs and controls a company with regard to its responsibility to investors and stakeholders (Laily, 2017). Corporate governance is one of the controls to achieve company's management goals (Luthan et al., 2016). The purpose of corporate governance is to create added value for stakeholders. Effective corporate governance is expected to improve company performance.

Uwuigbe et al. (2014) argued that the existence of GCG can prevent or reduce earnings management because such supervision becomes incentive for management as an agent to act as best as possible in the interest of the principal. The weaker the corporate governance, the more likely earnings management triggered. KNKG (2006) mentioned that GCG consists of five principles. These principles are transparency, accountability, responsibility, independency, and fairness.

Profitability

The company uses profit as a measure of the company's success in operating the company. The size of the company's profit can be measured by the profitability ratio. Profitability Ratio according to Kasmir (2017) is the ratio used to assess the company's profit based on the company's ability to seek the profit. Profitability ratios are also useful to assist in measuring the level of management effectiveness of a company which is indicated by the profit generated from sales and investment income. The effectiveness of the company in generating profits through the use of assets owned is a benchmark for company performance and can also motivate management actions related to earnings management actions in an entity. The higher the profitability value of a company, it can be said that the company's performance and ability to generate profits also increases (Yatulhusna, 2015).

Corporate Social Responsibility and Earnings Management

Corporate social responsibility was expected to have an influence on earnings management. Corporate social responsibility can be a means to cover earnings management practices by management. Firms committed corporate social responsibility activities and disclose it in annual statements indirectly get benefits in the form of a positive image of the public and investors. It was indirectly useful to management or company in managing profits. Management or companies was more freely to manage earnings, because the image is misused to cover the earnings management actions taken. This condition was used by management because the public has given a good image of

the company. The public argues that companies with higher of corporate social responsibility activities are unlikely to take unethical actions such as earnings management. This condition showed that the higher of corporate social responsibility in firm, the higher the earnings management actions taken.

Previous studies showed that corporate social responsibility have a positive effect on earnings management (Gargouri et al., 2010; Suryani and Herianti, 2015; Yip et al., 2011; and Ardiani and Sudana (2018). In addition, studies by Fauziah and Prabowo (2013) and Suryani (2017) showed the same results, corporate social responsibility has a positive and significant effect on earnings management. Therefore, the first hypothesis is formulated as follows:

H₁ : Corporate social responsibility has a positive effect on earnings management.

Corporate Governance and Earnings Management

The Cadbury Committee as mentioned in Siswantya (2007) defines GCG as a set of rules governing relationship between shareholders, corporate managers, creditors, governments, employees and other internal and external interest holders relating to their rights and obligations. In this paper, GCG measured by the amount of its independent commissioners. Good corporate governance would minimize earnings management because a company with strong GCG performed better because of independent commissioner's supervision.

As per agency theory, managers view independent commissioners as being more alert to agency problems as independent commissioners are fully dedicated to oversee management's performance and behaviour as it also supports the need for independent commissioners to strengthen their reputations as expert decision makers (Mahrani and Soewarno, 2018). Independent commissioners can prevent or reduce earnings management because management (as an agent) tends to achieve a higher income to gain incentives for themselves.

Research conducted by Uwuigbe et al. (2014) and Lee et al. (2012) stated that GCG has a negative significant impact on earnings management. They found that the effectiveness of supervisory functions by the board of commissioners requires high independence. Hasan and Ahmed (2012) also showed that the presence independent commissioners have a negative significant impact on earnings management. This indicates that the supervisory functions may reduce the opportunistic attitude of management to manipulate the financial statement through earnings management. Based on the description, the proposed hypothesis is:

H₂: Corporate governance has a negative effect on earnings management.

Profitability and Earnings Management

A company will use the profitability ratio to measure the company's ability to generate profits from the company's operations. The performance of a company can be seen from the size of the profits earned by the company. If the profit is large, it is assumed that the company's performance is good, but on the contrary if the profit earned is small, the company's performance is considered bad (Puspita and Khafid, 2020). Large profits will attract investors and the company will also give appreciation to management who achieve targets in the form of incentives and bonuses. According to (Sulistiawan et al., 2011) one of the motivations of management to do earnings management is the motivation to get incentives and bonuses.

Based on agency theory, problems between owners and management arise due to information asymmetry in the company which provides opportunities for managers to have thoughts that require the maximum use of profitable opportunities for themselves,

groups, or certain goals in situations that are not profitable according to managers. Research by (Hasty and Herawaty, 2017) and (Purnama, 2017) shows a positive influence between profitability and earnings management. Based on the explanation of the material above and the research that has been done previously, the hypothesis taken is:

H₃: Profitability has a positive effect on earnings management

RESEARCH METHODS

Data Collection Techniques

The data used in this study was secondary data obtained from annual reports for 2015 – 2019 period that available in Indonesia Stock Exchange. To determine sample, this study used purposive sampling technique. Purposive sampling is a sampling technique using certain considerations or criteria (Sugiyono, 2013). The certain criterias as follows.

1. Manufacturing firm was listed in Indonesia Stock Exchange for 2015 – 2019 period.
2. Manufacturing firm which published their annual reports in year 2015 – 2019.
3. Manufacturing firm which disclosed their corporate social responsibility in annual reports.
4. Manufacturing firm which disclosed their corporate governance in annual reports.
5. Availability of data on variable to be examined in annual report.

Variable Definition and Measurement

Independent Variable

The independent variables included the corporate social responsibility, corporate governance and profitability.

Corporate Social Responsibility

Corporate social responsibility is the commitment of the company or the business world to contribute to sustainable economic development by paying attention to corporate social responsibility and focusing on the balance between attention to economic, social and environmental aspects (Untung, 2009).

In this study, corporate social responsibility is measured by using the corporate social responsibility index (CSRI) which refers to the Global Instrument Initiative (GRI) instrument guideline version of the GRI-G3. This instrument classified CSR disclosure information to 3 disclosure categories, namely: (1) economy, which consisted of 4 aspects (economic performance, market presence, indirect economic impact, and procurement practices), (2) environment, which consisted of 11 aspects (materials, energy, biodiversity, emissions, effluents & waste, products & services, compliance, transportation, others, environmental supplier assessment, and environmental complaint mechanism), and (3) social with 3 sub-categories (labor practices & comfort of work, human rights, and society). These categories have a total of 101 items.

To measure CSR, this study used a scoring from 0-1, where a value of 0 is applied if there is absolutely no disclosure regarding the item, while a value of 1 is applied if the disclosure is available, as developed by Ahzar and Trisnawati (2013). Next, the scores of each item are calculate to obtain the overall CSR score. The formula to calculate CSR index is as follows (Haniffa et al., 2005).

$$CSRI_j = \frac{\sum X_{ij}}{n_j}$$

Information :

CSRI_j : Corporate Social Responsibility Disclosure Index

n_j : Disclosed by j th, $n_j \leq 101$
 X_{ij} : is disclosed, 0 if i th construct or item is not disclosed

Corporate Governance

In this paper, corporate governance measured by the amount of its independent commissioners. Independent commissioners are members of the board of commissioners who do not have share ownership in the company and/ or associated with one member of the board of commissioners who can influence their attitude in acting independently (Zulfikar et al., 2017). The existence of independent commissioners in a company is used to balance the interest of minority shareholders with another parties in decision making.

The independent commissioners reveal the number of commissioners that come from outside the company compared to the total of existing commissioners. The formula is as follows:

Profitability

The profitability ratio aims to assess the size of the company's ability to generate profits and the level of effectiveness in carrying out its operational activities, the level of profitability can be measured by various aspects, one of which is ROA (Aldona and Sinta, 2020). In this study, the comparison used in measuring the profitability ratio is net income from the company's operating results with total assets (ROA). According to Kasmir (2017), Return on assets (ROA) is a ratio that shows the results or the number of assets used in the company or a measure of the effectiveness of management in managing its assets.

$$\text{Corporate Governance} = \frac{\text{Number of independent commissioners}}{\text{Total board of commissioners}}$$

Dependent Variable

The dependent variable in this study is earnings management. Earnings management is management's action to use judgment in financial reporting and in transaction procedures, aimed to influence contractual or misleading stakeholders in decisions making regarding the company's economic performance (Healy and Wahley, 1999).

In this study, earnings management is measured by using discretionary accruals

$$\text{Profitability} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

(DAC) of modified Jones model. This modified model was used by Wardani & Kusuma (2012). This model assumed that manipulation can be carry out on income and income that is considered discretionary, so it is considered better in measuring earnings management (Ricardo and Faisal, 2015). There are four steps to calculate the value of discretionary accruals (DAC), which are as follows:

1. Calculating the total value of accruals used cash flow approach
 $TAC_{it} = NI_{it} - CFO_{it}$ (1)
2. Looking for coefficient values β_1 , β_2 , and β_3 regression technique
 $TAC_{it}/TA_{it} - 1 = \beta_1 (1 / TA_{it} - 1) + \beta_2 ((\Delta REV_{it} - \Delta REC_{it}) / TA_{it} - 1) + \beta_3 (PPE_{it} / TA_{it} - 1) + \epsilon_{it}$ (2)
3. Calculating non-discretionary accruals (NDAC)

$$\text{NDACit} = \beta_1 (1 / \text{TAit-1}) + \beta_2 ((\Delta\text{REVit} - \Delta\text{RECit}) / \text{TAit-1}) + \beta_3 (\text{PPEit} / \text{TAit-1}) + \text{eit} \dots\dots\dots (3)$$

4. Calculating discretionary accruals

$$\text{DAC} = (\text{TAC} / \text{TAit-1}) - \text{NDAC} \dots\dots\dots (4)$$

- Information :
- Niit : Earnings after tax i firm at year t.
 - CFOit : Operating cash flow i firm at year t.
 - TACit : Total accruals i firm at year t.
 - TAit – 1 : Total asset of firm at the end of year t-1
 - ΔREVit : Change in total revenue in year t.
 - ΔRECit : Changes in total net receivables in year t.
 - PPEit : Property, plant, and equipment at year t / fixed assets i firm at year t.
 - eit : Error item.
 - NDACit : Nondiscretionary accruals i firm at year t.
 - DAC : Discretionary accruals.

Analytical Techniques

The analysis technique used to test the research was multiple regression analysis, with the following equation:

$$\text{EM: } \alpha + \beta_1\text{CSR} + \beta_2\text{CG} + \beta_3\text{PROF} + e \dots\dots\dots (5)$$

Information:

- EM : Earnings management
- α : Constant
- β1 – β3 : Regression coefficient
- CSR : Corporate Social Responsibility
- CG : Corporate Governance
- PROF : Profitability

RESULT AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive statistics

| Variable | N | Minimum | Maximum | Mean | Std. Deviation | Variance |
|-------------------------|-------|---------|----------|--------|----------------|----------|
| EM | 400 | -2,7288 | 4,1622 | 0,0102 | 0,3743 | 0,140 |
| CG | 400 | 0,2000 | 0,8333 | 0,3933 | 0,1054 | 0,011 |
| CSR | 400 | 0,4158 | 0,8218 | 0,5875 | 0,0412 | 0,002 |
| PROF | 400 | -2,6544 | 109,8017 | 0,8555 | 7,8234 | 61,205 |
| Valid (listwise) | N 400 | | | | | |

Based on Table 1, it could be concluded that the average of the earnings management variable has a value of 0.0102. The standard deviation of the EM variable is 0.3743 indicating the variation in the EM value. The minimum means that the sample company has the lowest EM value of -2.7288 and the maximum means that the sample company has the highest EM value of 4.1622. The average of CG variable has a value of 0.3933. The standard deviation of the CG variable is 0.1054 indicating the variation in the CG value. The minimum means that the sample company has the lowest CG value of 0.2000 and the maximum means that the sample company has the highest CG value of

0.8333. The average of CSR variable has a value of 0.5875. The standard deviation of the CSR variable is 0.0412, indicating the variation in the CSR value. The minimum means that the sample company has the lowest CSR value of 0.4158 and the maximum means that the sample company has the highest CSR value of 0.8218. The average of PROF variable has a value of 0.8555. The standard deviation of the PROF variable is 7.8234, indicating the variation in the PROF value. The minimum means that the sample company has the lowest PROF value of -2,6544 and the maximum means that the sample company has the highest PROF value of 109,8017.

Hypothesis Testing Results

Table 2. Hypothesis Testing Result

| Variable | Statistic value of t | Probability Value |
|---------------------------|----------------------|-------------------|
| Constant | -2.273.283 | 0.0235 |
| CG | -0.191615 | 0.8481 |
| CSR | 2.418.160 | 0.0160** |
| PROF | -0.120101 | 0.9045 |
| R-squared | 0.014579 | |
| Adjusted R-squared | 0.007114 | |
| F-statistic | 1.952.900 | |
| Prob (F-statistic) | 0.120541 | |

Information:

** Statistically significant at = 5% level

Dependent variable: Earnings management

Hypothesis 1 stated that corporate social responsibility has positive effect on earnings management. The result showed the corporate social responsibility variables have a positive effect ($t = 2.418.160$) and significant at 0.05 level on earning management. Therefore, hypothesis 1 was supported. Hypothesis 2 stated that corporate governance has positive effect on earnings management. The result showed corporate governance has a negative effect ($t = -0.191615$), and was not significant on earnings management, so that hypothesis 2 was not supported. Hypothesis 3 stated that profitability has a positive effect on earnings management. The result showed the profitability has a negative effect ($t = -0.120101$) and was not significant at 0.05 level on earnings management. Therefore, hypothesis 3 was not supported.

Corporate Social Responsibility and Earnings Management

The results of examined first hypothesis are supported. Corporate social responsibility has a positive effect on earnings management. The wider the firm implemented the disclosure of corporate social responsibility, the higher the level of a company to carry out earnings management. Companies with high CSR gain legitimacy or trust from the public. This legitimacy is used by the company to cover the earnings management actions taken. Management is more freely to carry out earnings management actions because they feel protected by the legitimacy or public trust. This result was consistent with the research result of Gargouri et al. (2010), Suryani and Herianti (2015), and Yip et al. (2011) which stated that corporate social responsibility has a positive effect on earnings management. In addition, research conducted by Fauziah and Prabowo

(2013) and Suryani (2014) also found that corporate social responsibility has a positive and significant effect on earnings management.

Corporate Governance and Earnings Management

The second hypothesis stated that corporate governance has a negative impact on earnings management. The higher level of corporate governance in the company, the company will tend to make reductions in the implementation of earnings management practices. This result of the study implies that the second hypothesis was found to be unproven. It suggests that the existence of independent commissioners cannot prevent the behavior of the managers from committing earnings management. A weak control system is also responsible for the weak implementation of corporate governance in the company.

This result of the study consistent with Boediono (2005) that also found that the existence of an independent board of commissioners is less effective in reducing earnings management, among others, because the addition of independent commissioners is possible only to fulfill formal requirements, while the majority shareholder still plays an important role so that the performance of the board does not increase or even decrease. Moreover, Boediono (2005) mentioned that the greater the composition of the board of commissioners comes from outside company, it may lead to a decrease in the ability of board to perform a supervisory function due to problems in coordination, communication and decision making. The result of this study is not consistent with research by Uwuigbe et al. (2014), Lee et al. (2012), and Hasan and Ahmed (2012) stating that corporate governance have a negative effect on earnings management.

Profitability and Earnings Management

The results in this study do not show conformity with the agency theory that was presented earlier where it is said that managers will be motivated to get incentives and profits if they have good performance as stated (Sulistiawan et al., 2011) that managers can be motivated to think opportunistically. and do it when the opportunity arises. The higher the profitability, the lower the level of earnings management, this can be possible because in reality the managers do not always think and act opportunistically to be able to show good performance in front of the company owners in order to get incentives and bonuses. This thinking is supported by the second theory in this study, stewardship theory (Davis et al., 1997) which says that there is a psychological and sociological relationship in managers where managers will act as managers who will act in the interests of company owners. Stewardship theory assumes a strong relationship between owner satisfaction and organizational success which will be seen from the behavior of managers when faced with conditions where there are differences in interests between managers and owners, where managers choose to cooperate rather than oppose company owners (Raharjo, 2007).

This result is consistent with the findings of research by Gunawan, et al., (2015) and Amelia and Hernawati (2016) that profitability with ROA proxy has a significant negative effect on earnings management actions. The results of this test are at the same time contrary to research conducted by Hasty and Herawaty (2017) and Purnama,(2017) showing a positive influence between profitability on earnings management.

CONCLUSION

This study showed that corporate social responsibility has a positive and significant effect on earnings management. In addition, this study also provide evidence that corporate governance and profitability has a negative and not significant effect on earnings management. This study has several limitations. First, corporate social

responsibility as measured by the GRI index is still subjective. Therefore, further research can examine the other index of corporate social responsibility. Second, this study only uses three independent variables. Future research is expected to examine other variables that might affect earnings management. Third, corporate governance is only proxied by independent commissioners. Last, profitability is only measured using ROA. Further research can examine other proxy of corporate governance and profitability.

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