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The Influence of Financial Performance and CSR on Company Value with Earnings Management as a Mediating Variable

Nadifa Tyas Sulistiani[1], Wita Ramadhanti [2], Christina Tri Setyorini[3]
[1,2,3]Program Studi Magister Sains Akuntansi, Fakultas Ekonomi dan Bisnis, Univesitas Jenderal Soedirman, Indonesia
witarama.akuntan@gmail.com[1]

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ABSTRACT

The objective of this study is to assess the impact of financial and corporate social responsibility (CSR) performance on business value, with earning management serving as a mediating variable. This study investigated manufacturing firms listed on the Indonesia Stock Exchange (BEI) throughout the period of 2018-2022. The variables considered in this research consist of endogenous variables, specifically the company value assessed using Tobin's Q indicator; an exogenous variable, namely financial performance measured by the total Asset Turnover Ratio and Return on Assets; CSR, measured by the GRI Standard; and earning management, assessed using the Modified Jones Model, serving as the mediating variable. The study's population consists of 195 companies, and a purposive sampling method is employed to pick a sample of 16 organizations that fulfill the specified requirements. The data analysis approach employed is Structural Equation Modeling (SEM) using the Partial Least Squares (PLS) method, implemented using the WarpPLS software. Based on the research findings, corporate social responsibility (CSR) has a beneficial and substantial influence on the manipulation of earnings. However, financial success has an adverse effect on earnings management. Earnings manipulation positively impacts the overall worth of a company. Company value is positively influenced by financial performance, however it is negatively impacted by CSR. The mediation research results indicate that earnings management does not serve as a mediator in the relationship between firm financial performance and company value. Nevertheless, earnings management acts as a mediator in the relationship between CSR and the acceptable value of a firm.

Corresponding Author:
Dr. Wita Ramadhanti, SE., MSA., Ak., CA., CPA.[1]
Program Studi Magister Sains Akuntansi
Fakultas Ekonomi dan Bisnis
Univesitas Jenderal Soedirman
Email: witarama.akuntan@gmail.com

1. INTRODUCTION

According to the Ministry of Industry (Kementerian Perindustrian), the investment value in the manufacturing industry declined from 2016 to 2019. Investments in the manufacturing business experienced a decline of 17.69%, dropping from IDR 274.8 trillion in 2017 to IDR 226.18 trillion in 2018. The manufacturing industry experienced a further decline in investment realization in 2019, with a loss of 4.6%. The total investment realization amounted to of IDR 215.9 trillion (Kemenperin, 2022). The occurrence of a falling trend for three consecutive years is an atypical phenomenon, as there had always been an upward trajectory in previous years (Stefanie, 2018). This state persisted until 2019 when the Covid-19 pandemic took its place. This state endured until 2019 when the Covid-19 pandemic supplanted it. Due to the significant prevalence of COVID-19 cases in multiple countries globally, numerous nations have enacted regional quarantine measures. China is one of the countries that enforce a regional quarantine strategy. The scenario significantly affects the Indonesian economy due to the substantial influence of China as Indonesia's trading partner. The export and import activities of materials are impacted, thus influencing the accessibility of raw resources for the industrial sector in Indonesia (Widyawati & Ningtyas, 2022).

In response to the rising number of COVID-19 cases, the Indonesian government has enacted a comprehensive national economic recovery policy amidst the ongoing pandemic. The industrial sector plays a significant role in the national economic recovery initiative. The manufacturing industry operations must adhere to strict health requirements as specified in the license granted by the Minister of Industry. Various sectors in Indonesia have implemented innovation by manufacturing personal protective equipment (PPE) including hazmat suits, masks, gloves, goggles, and other equipment to cater to the requirements of healthcare professionals. The manufacturing industry in Indonesia has successfully contributed 19.98 percent to the country's Gross Domestic Product (GDP) as a result of significant efforts. The manufacturing industry experienced a significant increase in investment realization in 2020, reaching a total of IDR 272.9 trillion. This represents a growth of 26% compared to the previous year. The increasing trajectory is expected to persist until 2021, reaching a total of IDR 325.4 trillion, representing a 19 percent increase compared to the previous year (Kemenperin, 2022). In 2022, the growth rate is projected to rise to 52 percent, resulting in a total of IDR 497.7 trillion (Kemenperin, 2023).

Not in line with the increasingly improving realization of investment in the manufacturing industry, several companies operating in the manufacturing industry actually reported the opposite. PT HK Metals Utama Tbk (HKMU) reported a 234 billion IDR loss in 2021 (Rahmawati, 2022) and PT Wijaya Karya reported a loss in 2022 of IDR 59.6 billion (Rizki, 2023). In addition, PT Waskita Karya (Persero) Tbk also reported losses that continued to increase since 2019-2022 with a nominal loss of IDR 938 M (2019), in 2020 amounting to IDR 7,378 T, in 2021 amounting to IDR 1,096 T (Sahamee, 2021) and IDR 1.89 T in 2022 (Afriyadi, 2023).

The company's present condition can be ascertained from the data presented in its financial reports. Financial reports, such as profit and loss reports, changes in equity reports, balance sheets, and cash flow reports, are used to assess a company's performance and financial situation (Ningsih, 2017). Investors utilize corporate value, which is impacted by the financial state of the company, to inform their investment choices. Robust and lucrative financial circumstances will bolster investor enthusiasm and attract greater interest. Conversely, if the company's financial health is weak, it will diminish investor interest in investing in the company. Consequently, corporations employ earnings management techniques while compiling financial reports to create favorable conditions that will appeal to investors. Given the company's fluctuating financial condition, management might be motivated to engage in earnings management practices. Earnings management refers to the deliberate actions taken by management to manipulate the company's financial reports in order to present a consistent and favorable image to investors (Nersiyanti et al., 2020).

The company's management is now scrutinizing the significance of corporate and environmental responsibility, in addition to solely prioritizing financial gains. Companies must prioritize corporate social responsibility (CSR) in order to safeguard the well-being of stakeholders and the environment. A company's reputation in society improves in direct proportion to its level of environmental stewardship. Having a favorable reputation leads to a rise in customer loyalty, hence resulting in more sales and profitability. Corporate social responsibility (CSR) is a kind of governance that addresses social and environmental issues resulting from operational activities (Wirawan et al., 2020). The level of corporate social responsibility (CSR) implementation by a company will directly influence the long-term viability of the business and the overall worth of the organization. Companies that provide information regarding social responsibility contribute positively to the well-being of their community (Nahda & Harjito, 2011).

The evaluation of the financial performance of the organization in this study is conducted using asset management ratios, namely the total asset turnover ratio, and profitability ratios, specifically the return on assets (Brigham & Houston, 2010). Research by Hulasoh & Mulyati (2021) demonstrates that there is a favorable correlation between total asset turnover and firm value. These findings contradict the research conducted by by Rahayu & Istikhoroh (2019), which indicates that total asset turnover has a detrimental impact on the value of a company. The study conducted by Balqis & Praptoyo (2020) indicates that there is a positive correlation between return on assets and company value. This finding contradicts the research conducted by Maharani et al. (2021), which suggests that return on assets has a negative impact on firm value.

The study conducted by Nersiyanti et al. (2020) reveals that earnings management exerts a substantial impact on the overall worth of a company. This study contradicts the findings of Ayem & Menge (2022) who demonstrated that earnings management had a detrimental impact on the value of a company. Sulbahri (2021)did prior studies on corporate social responsibility. The research findings indicate that Corporate Social Responsibility (CSR) exerts a substantial impact on firms. This statement contradicts the results of a study conducted by Kusumayanti & Astika (2016) which demonstrates that corporate social responsibility (CSR) has a direct and adverse impact on the value of a company.

This study investigates the correlation between financial success and corporate social responsibility (CSR) as well as the valuation of companies. Due to the conflicting findings of previous study, measurements were taken during the most recent period to enhance the relevance to the current environment. This study will also assess the mediating effect of earnings management on the association between financial success and corporate social responsibility (CSR) in determining firm value.

Literature Review

Signaling Theory

Signaling theory suggests that there is a lack of equal information between managers and investors, as investors or potential investors are presumed to possess less comprehensive knowledge about the business compared to the management (Reschiwati et al., 2020). Signaling theory emphasizes the significance of corporate information in shaping investor investment choices. The publication of information will serve as indicators for investors to take into account when making investment choices (Modigliani & Miller, 1958).

Stakeholder Theory

Stakeholder theory posits that companies must satisfy the interests of stakeholders in order to achieve long-term success (Freeman & McVea, 2005). Stakeholder theory delineates a company's engagement with many stakeholders, including investors, consumers, employees, suppliers, society, and the environment (Jansson, 2005). On the other hand, CSR elucidates a company's ethical obligations towards society and the environment. Thus, CSR is an acronym that denotes a company's commitment to fulfilling its obligations towards its stakeholders in terms of social responsibility.

Financial Performance

Financial reports provide an up-to-date overview of a company's financial condition and its operational actions within a specified period of time (Brigham & Houston, 2010). Analyze financial information to evaluate a corporation's capacity to execute operational responsibilities. By evaluating financial ratios, one can obtain financial performance statistics for the organization in the past, present, and future projections (Ningsih & Sari, 2019).

a. Asset Management Ratios (Total Asset Turnover Ratio)
   Asset management ratios are financial statistics that quantify the ability of assets to generate profits or revenue. The total asset turnover ratio is a metric used to assess a company's efficiency in generating sales from its total assets. (Brigham & Houston, 2010).

$$\textit{Total Asset Turnover Ratio} = \frac{Sales}{Total\ Asset}$$

b. Profitability Ratio (Return on Asset)
   Profitability ratios are financial metrics used to assess a company's capacity to earn profits or enhance profitability over a specific period of time (Kasmir, 2019). The return on assets ratio is utilized to calculate the net profit generated by all of the company's assets after taxes (Brigham & Houston, 2010).

$$\textit{Return on Assets} = \frac{Net\ Income}{Total\ Asset}$$

Company Value

Tobins'Q is a quantitative measure that evaluates a firm's effectiveness in managing its assets by quantifying its overall company value (Sudiyatno & Puspitassari, 2010). The following formula is used to calculate the Tobin's Q value (Lindenberg & Ross, 1981):

$$q = (MVS + D)/TA$$

Explanation:

MVS	=	*Market value of all outstanding shares* (*Outstanding Shares x Stock Price*)
D	=	*Debt*
TA	=	*Total asset*

Earnings Management

Earnings management refers to the deliberate manipulation of financial accounts by a manager in order to accomplish certain objectives (Suyono, 2017). The computation of earnings management measurement is derived from the modified Jones model using the following formula:

1) Calculate total accruals:

$$TAC = NIit – CFOit$$

2) Calculate the accruals value using the regression equation:

$$\frac{TAit}{Ait-1} = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{\Delta REVit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right) + e$$

3) Calculating the non-discretionary accruals model (NDA):

$$NDAit = \beta 1\left(\frac{1}{Ait-1}\right) + \beta 2\left(\frac{\Delta REVit}{Ait-1} - \frac{\Delta Recit}{Ait-1}\right) + \beta 3\left(\frac{PPEit}{Ait-1}\right)$$

4) Calculating discretionary accruals:

$$DAit = \frac{TAit}{Ait-1} - NDAit$$

Explanation:

DAit	=	discretionary accruals of a company i in period year t
NDAit	=	nondiscretionary accruals of company i in period year t
Tait	=	total accruals of a company i in the period year t
Niit	=	net profit of company i in year period t
CFOit	=	cash flow from operating activities of a company i in year period t
Ait-1	=	total assets of a company i in the period year t-1
∆Revit	=	Company i's income in year t is reduced by company i's income in year t-1
PPEit	=	property, plant, and equipment of company i in the period year t
∆Recit	=	company i's trade receivables in year t minus company i's income in year t-1
e	=	error

Hypothesis Development

Users evaluate the organization's financial performance to determine whether the company's overall situation is positive or negative. Asymmetric information distribution amongst participants to a transaction may lead to asymmetric reactions, which signaling theory helps decision-makers comprehend (Spence, 1973). Positive financial performance signals to investors that a company provides them with value, which is why they opt to invest in it. This aids investors in their decision-making process.

Research related to the influence of financial performance on company value by Amalia et al. (2019), Bama et al. (2021), Jaunanda & Cunny (2021) shows that financial performance has a positive effect on company value. Given the information provided, a hypothesis is generated:

H1: Financial performance has a positive effect on earnings management

In addition to pursuing profit-driven commercial activities, firms must also prioritize their corporate responsibility towards the environment and stakeholders. Corporate social responsibility (CSR) refers to a company's actions aimed at upholding sustainability by taking responsibility for the social impact it has on the surrounding environment (Sulbahri, 2021). Earnings management refers to the deliberate actions taken by a manager to manipulate financial report data in order to mislead stakeholders about the company's performance and financial situation (Sulistyanto, 2008 in Wahyuningsih & Rasmini, 2020). The stakeholder theory posits that corporations should prioritize the well-being of their stakeholders rather than solely pursuing their own business objectives (Ghozali & Chariri, 2007). The implementation of corporate social responsibility (CSR) practices motivates management to engage in earnings management methods, as they see that fraudulent activities can be masked by the favorable response of the public and investors towards CSR (Wahyuningsih & Rasmini, 2020).

The research conducted by Habbash & Haddad (2020); Irawan *et al.*, (2021); Wahyuningsih & Rasmini, (2020) on manufacturing companies listed on the IDX reveals that there is a positive correlation between CSR and earnings management. Based on the description above, a hypothesis is formulated:

H2: CSR has a positive effect on earnings management

Earnings management refers to the deliberate actions taken by a manager to manipulate reported profits of their assigned unit, without affecting the unit's long-term economic profitability (Reschiwati et al., 2020). Earnings manipulation techniques create an illusion of favorable conditions and growth for the organization. This aligns with signal theory, which suggests that the information disclosed by the company serves as a signal for investors to make informed investment choices. Earnings management methods serve as reliable indicators for investors, thereby amplifying investor attraction as a result of favorable firm valuation.

Research related to the influence of earnings management on company value by Hernawati *et al.* (2021), Reschiwati *et al.* (2020); Iswandi & Yuniarti (2020) shows that earnings management has a positive effect on company value. Based on the description above, a hypothesis is prepared:

H3: Earnings management has a positive effect on company value

This study utilizes the total asset turnover ratio to assess asset management ratios and the return on assets to evaluate profitability ratios in order to gauge financial performance. Financial indicators are informative indications pertaining to a company's financial state that investors utilize to assess investment opportunities. This aligns with the objective of signal theory, which is to assist investors in reacting and making decisions in situations when there is a lack of balance and insufficient information offered by the organization to stakeholders (Bergh & Gibbons, 2011). Research related to the effect of total asset turnover ratio on company value by Bama *et al.* (2021); Hasangapon *et al.* (2021); Ichsani *et al.* (2021) shows that total asset turnover has a positive effect on company value.

Research related to the influence of profitability ratios with return on assets indicators by Amalia *et al.* (2019), Fadhilah & Kurniati (2022), Pradita & Suryono (2019) shows that profitability has a positive effect on company value. Based on the description above, a hypothesis is prepared:

H4: Financial performance has a positive effect on company value

The significance of the company's association with stakeholders is acknowledged due to its impact on the company's business strategy (Księżak & Fischbach, 2018). In addition to affecting relationships with stakeholders and the firm's image, Corporate Social Responsibility (CSR) also exerts an influence on the value of the company (Evangelista et al., 2022). This aligns with stakeholder theory, which posits that an organization must serve the interests of its stakeholders, in addition to pursuing its own commercial objectives. The provision of optimal benefits to stakeholders will effectively satisfy them, hence enhancing the overall value of the organization (Kesumastuti & Dewi, 2021). Research by Butt *et al.* (2020), Kesumastuti & Dewi (2021), Meha & Hariadi (2021) regarding the influence of CSR on company value shows that CSR has a positive effect on company value. Based on the description above, a hypothesis is formulated:

H5: CSR has a positive effect on company value

Financial performance demonstrates the capacity to effectively oversee and regulate a company's resources (Brigham & Houston, 2010). Assessing the success of a firm by considering the market price of its existing shares provides an indication of the company's value to the broader public (Dzahabiyya et al., 2020). Share prices or Tobin's q, which consider fluctuations, can be used to assess the value of a company. This assessment influences investor behavior in accordance with signal theory, which involves the interpretation and response to non-financial and financial information provided by the company (Setiawanta et al., 2021). Hence, firm managers employ earnings management tactics to attract investors by presenting favorable information about the company (Reschiwati et al., 2020).

Research related to the influence of performance on company value by Amalia et al. (2019), Bama et al. (2021), Fadhilah & Kurniati (2022) shows that financial performance has a positive effect on company value. Research related to the influence of earnings management on company value by Hernawati et al. (2021), Reschiwati et al. (2020), Iswandi & Yuniarti (2020) shows that earnings management has a positive effect on company value. Research related to the influence of financial performance on earnings management by Adi et al. (2020), Cuong & Ha (2018), Edison & Nugroho (2020) shows that financial performance has a positive effect on earnings management. Based on this premise, as stated by Baron & Kenny (1986), the testing might go to mediation testing using the following hypothesis:

H6: Earnings management mediates the influence of company financial performance on company value

CSR refers to the practical application of a company's commitment to fulfilling its social responsibilities towards the environment and local people, with the aim of ensuring the long-term viability of the company (Sulbahri, 2021). Organizations that adopt Corporate Social Responsibility (CSR) practices are perceived as accountable for their environment, leading to an enhancement in their corporate value. This approach aligns with stakeholder theory, which emphasizes that organizations should prioritize the well-being of their stakeholders alongside profit generation (Kesumastuti & Dewi, 2021). Engaging in CSR activities will enhance the company's reputation and cultivate a positive public perception. Management engages in earnings management tactics because they believe these deceptive methods fall under the umbrella of corporate social responsibility (Wahyuningsih & Rasmini, 2020).

Research related to the influence of earnings management on company value by Hernawati et al. (2021), Reschiwati et al. (2020), Riswandi & Yuniarti (2020) shows that earnings management has a positive effect on company value. Research related to the influence of CSR on company value by Butt et al. (2020), Kesumastuti & Dewi (2021), Meha & Hariadi (2021) shows that CSR has a positive effect on company value. Research related to CSR and earnings management by Habbash & Haddad (2020), Irawan et al. (2021), and Wahyuningsih & Rasmini, (2020) on manufacturing firms listed on the IDX demonstrates that there is a positive correlation between CSR and earnings management. Based on this premise, as stated by Baron & Kenny (1986), the next step in the testing process involves doing mediation testing with the following hypothesis.

H7: Earnings management mediates the effect of CSR on company value

2. METHOD

The methodology utilized in this study is quantitative. The quantitative technique is based on positivist philosophy and is used to research certain populations or groups. This methodology is employed to collect data using research instruments and conduct statistical or quantitative data analysis. The objective of this technique is to articulate and evaluate the hypotheses (Sugiyono, 2018).

Research Design

This study specifically targeted manufacturing companies that were publicly listed on the Indonesia Stock Exchange throughout the period from 2018 to 2022. The data in this study was analyzed utilizing the Structural Equation Modeling (SEM) Partial Least Squares (PLS) analytical technique with the WarpPLS analysis program.

Participants/Sample Selection and Data Sources

The population for this study comprises 195 manufacturing organizations that are listed on the Indonesia Stock Exchange from 2018 to 2022. The sample selection technique was executed using a purposive sampling approach, adhering to the following criteria:

a. Manufacturing businesses that were listed on the Indonesian Stock Exchange during the period from 2018 to 2022.
b. Manufacturing businesses that publish financial statements for the period spanning from 2018 to 2022.
c. Manufacturing businesses offering sustainability reports from 2018 to 2022.

According to the above criteria, there are a total of 16 companies that satisfy the criteria. The data collection process involved retrieving the financial records from the websites of each company.

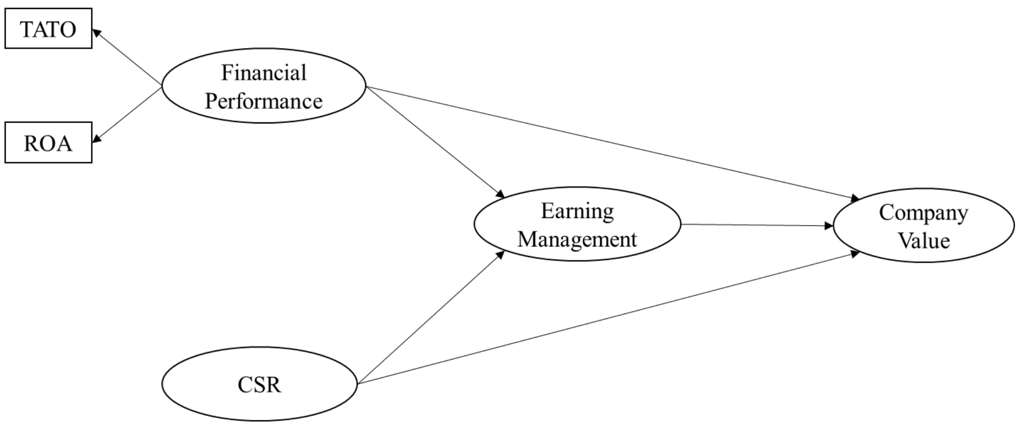
Instrumentation/Data Collection

The data utilized in this study is derived from secondary sources, specifically the financial reports of manufacturing firms listed on the Indonesia Stock Exchange spanning the years 2018 to 2022. Financial records were obtained from the websites of each company for research purposes.

Data Analysis

The data in this study was analyzed using Structural Equation Modeling (SEM) Partial Least Squares (PLS) analysis with the Warp PLS analysis tool. This study examines two models: the measurement model, sometimes referred to as the outside model, and the structural model, which is known as the inner model. The measurement model testing include assessments of construct validity, including convergent validity and discriminant validity, as well as reliability tests. The purpose of structural model testing is to conduct hypothesis testing.

Research Model



Picture 1. Research Model

3. RESULTS AND DISCUSSION

Result

Measurement model testing (outer model)

A. Convergent validity test

No	Indicator	Factor Loading (>0,7)	Explanation	P Value (<0,05)	Explanation
1.	TATO	0.875	Accepted	<0.001	Accepted
2.	ROA	0.875	Accepted	<0.001	Accepted
3.	CSR	1.000	Accepted	<0.001	Accepted
4.	Earnings Management	1.000	Accepted	<0.001	Accepted
5.	Tobin's Q	1.000	Accepted	<0.001	Accepted

Table 1. Convergent Validity Test Results

The convergent validity measurement assesses that if the factor loading value is >0.7 and the p-value is <0.05, it can be concluded as significant (Rifa'i & Widyanto, 2022). The results of convergent validity testing show that the factor loading value for all variables is >0.7, and the p-value for each variable is <0.001. Based on the research results, the variables in this study meet the significance criteria of the convergent validity test.

B. Discriminant validity test

No	Variable	Square Root of AVE				Explanation
		Financial Performance	CSR	Earnings Management	Company Value	
1.	Financial Performance	**0.875**	-0.228	-0.250	0.709	Accepted
2.	CSR	-0.228	**1.000**	0.064	-0.194	Accepted
3.	Earnings Management	-0.250	0.064	**1.000**	0.029	Accepted
3.	Company Value	0.709	-0.194	0.029	**1.000**	Accepted

Table 2. Discriminant Validity Test Results

Each latent variable's AVE value is compared to the correlation between its other latent variables in a model to determine discriminant validity. If the AVE value of the latent variable is greater than the correlation with all other variables, it is said to have good discriminant validity (Rifa'i & Widyanto, 2022). The results of discriminant validity testing show that the AVE root of each variable > the AVE root of the other variable. Based on these results, this research variable meets the criteria for discriminant validity.

Reliability Test

No	Variable	*Composite reliability coefficients (>0,7)*	*Cronbach's alpha coefficients (>0,6)*	*Full collinearity VIF (<3,3)*	Explanation
1.	Financial Performance	0.867	0.694	2.385	Accepted
2.	CSR	1.000	1.000	1.058	Accepted
3.	Earnings Management	1.000	1.000	1.174	Accepted
3.	Company Value	1.000	1.000	2.216	Accepted

Table 3. Reliability Test Results

The process of reliability testing involves calculating the values of Cronbach's alpha coefficients and composite reliability coefficients. The criteria for measuring composite reliability coefficients require a value of more than 0.7 and Cronbach's alpha coefficients of more than 0.6 to meet the reliability requirements. Apart from that, an analysis was also carried out on the Full Collinearity VIF, which has criteria that must be less than 3.3 to be not having issues with vertical collinearity or general method bias (Rifa'i & Widyanto, 2022). The measurement findings suggest that this study meets the criterion for dependability and is free of collinearity and common method bias.

Structural model testing (inner model)

Path Analysis

	Financial Performance	CSR	Earnings Management
Earnings Management	-0.314	0.026	
Company Value	0.810	-0.107	0.188

Table 4. Path Analysis Test Results

P-value analysis

	Financial Performance	CSR	Earnings Management
Earnings Management	0.001	0.406	
Company Value	<0.001	0.163	0.039

Table 5. P-value analysis test results

Mediation Analysis

	Financial Performance	CSR
Company Value	-0.059	0.005

Table 6. Mediation Analysis Test Results

According to the results of path analysis and p-value analysis, the firm's financial performance has a strong negative impact on earnings management and a significant positive impact on company value. CSR has a favorable influence on earnings management but a negative effect on company value. Meanwhile, earnings management has a positive impact on firm value. Based on mediation analysis, it is known that earnings management has a negative effect in mediating the influence of financial performance on company value. In contrast, earnings management has a positive influence in mediating the influence of CSR on company value.

Discussion

According to the findings of the conducted research, it is known that the variables in this research have met the requirements for evaluating the measurement model (outer model). The research used an outer model including validity tests, specifically convergent validity and discriminant validity, as well as reliability tests. The results of convergent validity testing show that the factor loading value for TATO, ROA, CSR, earnings management, and Tobin's Q is >0.07, and the p-value for each variable is <0.05. Based on the research results, the variables in this study meet the significance criteria of the convergent validity test. Apart from testing convergent validity, discriminant validity testing was also carried out. The results of discriminant validity testing show that the variables in the study meet the criteria for discriminant validity because the AVE root value for each latent variable is greater than the correlation between other latent variables (Rifa'i & Widyanto, 2022).

Cronbach's alpha coefficients, composite reliability coefficients, and Full collinearity VIF values were calculated to perform the reliability test. The measurement results show that the composite reliability coefficients for the financial performance, CSR, earnings management, and company value variables are >0.07 each, which means they meet the criteria. The measurement results for cronbach's alpha coefficients show that financial performance, CSR, earnings management, and company value are >0.06. Apart from that, an analysis was also carried out on the full collinearity VIF, which has criteria that must be less than 3.3 to be not affected by usual method bias or vertical collinearity issues, and the measurement results show that each variable has a full collinearity VIF value of <3.3 (Rifa'i & Widyanto, 2022). Based on the measurement results, it is possible to conclude that this study meets the reliability standards and is free of collinearity and common method bias.

Next, hypothesis testing is carried out to test the hypotheses that have been built in this research. Path analysis involves examining the measurement results to do hypothesis testing analysis. Based on path analysis, it is known that the path coefficient value of financial performance towards earnings management is -0.314 with a p-value significance level of 0.001. In accordance to these measurement results, financial performance has a negative impact on earnings management. So, the research hypothesis H1, which states that Financial Performance has a positive effect on earnings management, is rejected. According to Santika & Herwiyanti (2022), profitability has an adverse impact on earnings management, which is supported by this research. These results show that even though financial performance is in good or bad condition, it does not influence management's decision to carry out earnings management. If the company's financial performance is seen to be getting better, then shareholders will get greater profits, and management will also benefit so that management will not be motivated to carry out earnings management. This is in line with signal theory, which states that signal theory helps decision-makers respond to information obtained from the company (Spence, 1973). In this case, when Financial Performance is in good condition, it does not encourage managers to carry out earnings management.

Path analysis to test the influence of CSR on earnings management obtained a path coefficient with a value of 0.026 and a p-value of 0.406. The results of this research show that CSR has a positive and significant effect on earnings management, which means that the research hypothesis H2 is accepted. The findings of this study are consistent with research carried out by Habbash & Haddad (2020), Irawan *et al.* (2021), Wahyuningsih & Rasmini (2020), whichclaims that the management of earnings is positively affected by CSR. The study's findings are consistent with the stakeholder theory, which states that businesses must be able to benefit stakeholders and the environment in addition to making a profit (Ghozali & Chariri, 2007). Management assumes that when the company has carried out CSR activities, it will make the public and investors respond to the company's good and can cover up fraudulent practices. Hence, management uses CSR practices to support earnings management practices.

Hypothesis testing to test the influence of earnings management on company value obtained a path coefficient with a value of 0.188 and a p-value of 0.039. These results show that earnings management has a positive effect on company value, which means that the research hypothesis H3 is accepted. This research is in line with research conducted by Hernawati *et al.* (2021), Reschiwati *et al.* (2020), Iswandi & Yuniarti (2020), who stated that earnings management has a positive effect on company value. Earnings management practices will improve the condition and growth of the company. This is in line with signal theory, which says that information released by companies encourages investors to make the right investment decisions. Earnings management practices that keep the company in good condition will provide a good signal to investors, which will increase investor interest because of good company value.

Path analysis measurements carried out to test the influence of financial performance on company value obtained a path coefficient of 0.810 with a p-value of <0.001. This shows that financial performance has a positive and significant effect on company value as formulated in the hypothesis, meaning that the research hypothesis H4 for financial performance has a positive effect on company value and is declared accepted. This research is in line with research by Amalia *et al*. (2019), Fadhilah & Kurniati (2022), Pradita & Suryono (2019) stated that financial performance has a positive effect on company value. This means that the higher the company's financial performance ratio, the better the company value seen by the public. This is in line with signal theory, which states the function of financial indicators as signals used by investors to respond to information in making investment decisions (Bergh & Gibbons, 2011). The better the company's financial condition, the better the company value, which will attract investors to make investment decisions.

Path analysis to test the influence of CSR on company value obtained a path coefficient with a value of -0.107 and a p-value of 0.163. Based on these measurement results, it means that CSR has a negative effect on company value. So, the research hypothesis H5, which states that CSR has a positive effect on company value, is rejected. This is in line with research by Sabatini & Sudana (2019), which states that CSR has a significant negative effect on company value. CSR has a negative effect on company value because companies have not conveyed CSR disclosures accurately to investors, so investors do not see CSR disclosures as something that must be paid attention to (Sabatini & Sudana, 2019). Investors tend to focus on the profits that will be obtained from the invested capital, so investors do not use corporate social responsibility disclosure information to make decisions (Nagari et al., 2019). This is not in line with stakeholder theory, which states that companies must provide benefits to stakeholders. Even though the company has provided benefits by carrying out its social responsibility, this does not affect company value, which will have an impact on investor decisions because investors tend to be more oriented towards financial performance. This is in line with signal theory, which states that if a company shows a positive signal from its financial ratio indicators, investors will be eager to put money into the business.

The indirect total impact value is used to analyze how financial performance affects firm value in earnings management mediation analysis. The indirect total effect value is determined to be -0.059 based on the research findings. These findings demonstrate that earnings management is not a mediating factor in the relationship between financial success and firm value. This means that the research hypothesis H6, which states that earnings management mediates the influence of the company's financial performance on company value, is rejected. This is consistent with the findings of H1 research, which found that financial performance has no positive effect on earnings management because when the company's situation is strong, management benefits, therefore they are not motivated to conduct earnings management. Apart from that, shareholders will also get greater profits if the company's financial condition is in good condition, so management does not need to practice earnings management to attract investors. The results of this research are in line with research by Santika & Herwiyanti (2022) which states that profitability has a negative effect on earnings management and research by Jannah & Wibowo (2021), which states that earnings management has a negative effect on company value. Because investors have asymmetric knowledge, this show that managers' earnings management tactics do not positively impact company value. Consequently, investors will only base their investment decisions on information released by the company. The study's findings are consistent with signal theory, which holds that the acts of earnings management are bad signals or signals that are not good for the company, and as a result, they do not increase the value of the company (Jannah & Wibowo, 2021).

Tests carried out on earnings management mediation on the influence of CSR on company value obtained an indirect total effect value of 0.005. Based on these results, it can be seen that there is a mediating influence of the earnings management variable on testing the relationship between the CSR variable and the company value variable. This means that the research hypothesis H7, which states that earnings management mediates the influence of CSR on company value, is accepted. This is in line with stakeholder theory, which explains that companies operate not only to seek profit but are also obliged to carry out their duties to the environment. When a company carries out CSR practices, it will increase its positive image to the public, which has an impact on increasing company value. Research related to the influence of CSR on company value was conducted by Butt *et al.* (2020), Kesumastuti & Dewi (2021), Meha & Hariadi (2021) show that CSR has a positive effect on company value. Apart from that, companies that have implemented CSR obligations will make the public's response to the company good so that it can cover up fraud committed by the company if it carries out Earnings Management practices.

4. CONCLUSION

This study was carried out with the goal of determining the extent to which financial performance influences the value of manufacturing businesses listed on the Indonesia Stock Exchange (BEI) in 2018-2022. The findings of the research indicate that while CSR has a large and beneficial impact on earnings management, financial performance has a negative impact on it. The results of the hypothesis test used to examine how earnings management affects firm value indicate that earnings management increases company value. The results of research examining financial performance on company value show that financial performance has a positive effect on company value, while CSR has a negative effect on company value. Furthermore, the mediation analysis in this research shows that earnings management is unable to mediate the influence of the company's financial performance on company value, but earnings management mediates the influence of CSR on company value. Future research can add other variables that have not been measured in this research to add new points of view.

The implication of this research is that companies can improve their financial performance because this has been proven to be able to increase company value as per the data obtained in the results of this research. This is in line with Signal Theory which explains that financial information issued by a company will be received as a signal by investors in the form of good news or bad news.

When a company conveys financial information that provides good or potential signals for investors, it will be accepted as good news which can increase the value of the company.

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