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Research Paper

THE INTERRELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND EARNINGS MANAGEMENT: FEMALE AND INDEPENDENT DIRECTORS AS MODERATORS

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ABSTRACT

Purpose - This study examines the interrelationship between corporate social responsibility (CSR) and earnings management, focusing on whether CSR is manipulated opportunistically or influenced by earnings management practices. Additionally, it evaluates the moderating effects of female and independent directors on this relationship.
Research Method - Utilizing panel data regression analysis, the research analyzes data from 32 companies listed on the Indonesia Stock Exchange that consistently issued sustainability reports over a five-year period, using Eviews for statistical evaluation.
Findings - The findings indicate that independent directors play a significant moderating role in the connection between CSR and earnings management, enhancing governance and reducing agency costs. However, this moderating effect is only apparent when CSR occurs before earnings management, not the other way around. There is also no significant direct relationship between CSR and earnings management. In contrast, the presence of female directors does not significantly influence this relationship.
Implication - The study underscores the importance of independent directors in preventing the misuse of CSR but suggests that their effectiveness diminishes when earnings management precedes CSR efforts. This indicates that mere structural independence is not enough, strong governance support and authority are essential for ethical practices and credible sustainability reporting.

Keywords: Corporate Social Responsibility, Earnings Management, Female Directors, Independent Directors, Moderating

JEL code: M41, M14, G34

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INTRODUCTION

Financial reports become a strategic measurement tool. However, financial information is vulnerable to manipulation, especially the income element. The existence of an accrual element in revenue recognition raises the question of whether the manager's discretion truly reflects the actual situation. According to (Dechow, 1994; Mahjoub & Miloudi, 2015), at its discretion, management can signal users to information within the company (information perspective), and it can also be used to manipulate earnings which results in misleading users of reports (opportunistic perspective).

The agency model supports the statement that information provided by managers is vulnerable to manipulation, because this model exposes the information gap between managers (management) and owners (investors) (Jensen & Meckling, 1976), so that the key controller of information transparency is management. So managers are categorized as successful when they are not only able to achieve targets but also provide appropriate material information for various stakeholders. However, in practice, there are not a few who abuse it in order to achieve circulating expectations or act opportunistically. What is usually found only describes good news/information that can maintain market stability (Fauziah & Marissan, 2014).

Earnings information manipulation is a common issue. Steinhoff, a holding company for international retailers, inflated profits by $7.4 billion, revealed in 2017, by booking fictitious transactions of €6.5 billion (Motsoeneng & Rumney, 2019). General Electric (GE) engaged in fraudulent accounting, pocketing $38 billion and hiding $29 billion in maintenance losses (The Guardian, 2019). Former directors of Indofarma were fined for misstatement of 2001 financials, overstating work in progress and profits (Detikcom, 2020). PT PLN adjusted transactions with PT PGN, resulting in a 162% rise in net profit for 2018 (CNN Indonesia, 2019). Additionally, PT Garuda Indonesia Tbk (GIAA) prematurely recognized revenue on a long-term contract despite no payment in 2018 (CNN Indonesia, 2019). Despite issuing regular sustainability reports since 2014, companies like GIAA and PT PLN have made profit adjustments, suggesting that those with sustainability disclosures may still engage in opportunistic behavior.

Current business trends no longer only consider financial performance, so disclosure of Corporate Social Responsibility (CSR) activities is now integrated with company policies (Wang et al., 2021). On the other hand, the phenomenon of sustainability reporting is increasing, as evidenced by the results of the KPMG 2020 survey, which states that 80% of a sample of 250 major companies in the world disclose their sustainability activities, and the dominant standard used is the Global Reporting Initiative (GRI) (Threlfall et al., 2020). This fact illustrates that many parties are looking at the company not only for its performance but also for activities that are a reflection of the company's social and environmental obligations, so that these activities are able to make the company more valuable and as a means of establishing harmonious relationships with shareholders and stakeholders (Suripto, 2019; Zhang et al., 2017). Meanwhile, the performance of CSR practices is closely related to several driving factors originating from stakeholders, the media, and the size of the entity itself (Setó-Pamies, 2015).

The condition of sustainability reporting in Indonesia in a report on Sustainability Reporting in ASEAN Countries (Indonesia, Malaysia, Philippines, Singapore, and Thailand as research objects), where the average result of disclosure in five countries is 59.2%. The GRI standards are used as a framework. In the results of the project organized by the National University of Singapore (NUS), sustainability disclosure in Indonesia exceeds half of the companies in the review object, which is 53.6%. However, Indonesia's achievement was recorded in the final position of the five countries, even below the disclosure average, with Malaysia and Singapore at the top (64.5% and 61.7%, respectively) (Loh et al., 2018).

CSR and earnings management are key elements of modern sustainability governance management (Velte, 2020), and from the above phenomena, a common thread can be drawn between the transparency of sustainability and financial reporting and the opportunistic actions of managers. What are the indications between the disclosure of CSR activities and earnings quality because managers are the key to the discretion that determines the quality of the two reports. Information manipulation has a negative effect on earnings quality (Litt et al., 2013). There are several parties who are harmed when earnings management is practiced (Prior et al., 2008).

The connection between this phenomenon and earnings quality found by (Salewski & Zülch, 2012) is that CSR disclosure has a high score at the same time as trying to manage earnings. This argument is sharpened by agency theory in which managers who choose discretion over CSR disclosures are driven by opportunistic actions (Choi et al., 2013; Muttakin et al., 2015; Prior et al., 2008). Under these conditions, CSR can be a means of distorting actual earnings information for the manager's personal interest. (Santoso, 2019) researched a similar thing in Indonesia with CSR guarantees as moderating. With the findings, there is a unidirectional interaction that causes the low quality of corporate earnings with high CSR disclosure, as well as a positive interaction of CSR assurance as a moderator. These results reflect that in developing countries, CSR is used to gain personal interests by managers. Another study with a developing economic background, China, by (Rezaee et al., 2020) stated the results of research that CSR companies and companies that have high CSR scores are less involved in earnings management that increases earnings through accruals than Real Earnings Management (REM). So that income is more persistent and accurate to predict future cash flows.

Another study that describes companies that are indeed CSR-oriented disclose information transparently compared to those that do not (Scholtens & Kang, 2013), there is also a statement that entities that invest in CSR activities have a high level of earnings management because CSR as a forum covers financial quality that is low actually (Moratis & Egmond, 2018). (Moratis & Egmond, 2018) found that the object of research on public companies in the United States was not significant. This study considers the influence of industry, namely companies with high and low environmental impacts which are proxies of stakeholder pressure. In addition, companies with a high environmental impact appear not to practice earnings management so that they do have a higher CSR performance. (Velte, 2020) in his theoretical framework describes the relationship between these two variables depending on the assumptions used. In his research, the relationship between the two is seen based on agency theory (managers who pursue incentives, act opportunistically) and stewardship theory (managers who behave loyally, have related non-financial issues such as company reputation). (Alsaadi et al., 2017) in their research on the influence of two aspects of ethical principles, namely CSR and membership in the Sharia index. That a high level of CSR tends not to process profits, while membership in the Sharia index can lead to profit manipulation.

From the various results above, it can be seen in the literature on the topic of research on factors that influence and are affected by the reporting, however, previous studies have not found a unified conclusion (inconsistency). It can be concluded that CSR has the possibility of playing a role in covering the quality of financial statements by managers so it is worth researching, specifically in this study is to explore the two-way relationship between CSR and earnings management. Previously, research on CSR and earnings management in Indonesia was limited to a one-way relationship (Aditya & Juniarti, 2016; Ardiani & Sudana, 2018; Kinasih et al., 2018; Ricardo & Faisal, 2015; Santoso, 2019), this research investigates a two-way relationship and incorporates moderating variables to enhance understanding.

Based on the contingency approach, in which there is no effective control that applies to the entire organization, contextual variables need to be considered (Madjodjo, 2017), namely the presence of female directors and independent directors, as moderators. Independent directors are generally acknowledged for their capacity to oversee management and ensure transparency, which may help reduce the misuse of CSR for the purpose of manipulating earnings (Anita & Fajriya, 2020; Khairunnisa & Anita, 2021). On the other hand, female directors are often linked to more ethical decision-making, a tendency toward risk aversion, and improved diligence on boards, all of which might affect how CSR is both implemented and reported (Wang et al., 2021). The purpose of incorporating these moderators is to investigate whether the characteristics of the board influence the relationship between CSR and earnings management, especially in an emerging market like Indonesia.

This research makes a theoretical contribution by broadening the current literature, which has mainly centered on one-way relationships and developed market environments. On the empirical side, it presents new data from an emerging market setting and emphasizes the influence of board characteristics on the ethical execution of CSR. From a practical viewpoint, the results offer guidance for policymakers and businesses to enhance board structures particularly by increasing independence and promoting gender diversity which in turn fosters transparency, accountability, and trust among stakeholders.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

(Jensen & Meckling, 1976) clearly emphasize that contractually, managers and owners are different individuals, so that the perspective of achievement between agents (managers) and owners (shareholders/principals) may differ in this structure. In this case the principal delegates tasks and operational decision making to the manager (agent). With the binding of the contract, generally both parties want maximum utility (Scott, 2000), where the owner is oriented to his business skills until the future (going concern). As a result of the contract, the manager is the main person who knows and is responsible for financial reports, CSR reports and other material information (Full Information), this situation gives birth to asymmetric information that allows managers to act opportunistically to manipulate information (Lisa, 2012). As a result, minority shareholders in countries that lack protection for shareholders will tend to face agency problems (La Porta et al., 2000).

By implementing sustainable business practices the company has the potential to benefit from its business perspective and also as an umbrella to face stakeholder demands on social and environmental concerns (Camilleri, 2017; Hamza & Jarboui, 2017). CSR is one way to mobilize a business to run smoothly where companies can generate large profits according to shareholder expectations by minimizing legal contra, and as a challenge for business people to further develop information transparency, improve business ethics, and relate to stakeholders (Camilleri, 2017; Friedman, 1970). By carrying out social responsibility, the company is expected to win the trust of various stakeholders from the internal scope, such as employees, consumers, and even the community. This “peaceful” situation supports companies to invest and innovate, so that they can grow even more (Setó-Pamies, 2015). However, this is not entirely the case, agents can take advantage of the disclosure to simply maintain career reputation (McWilliams et al., 2006; Prior et al., 2008).

Contingency Theory

To gain effectiveness in leadership within the organization, the organization seeks to find supporting factors beyond those that have existed before the usual contingency variables (Fiedler, 1964; Madjodjo, 2017). Practices to achieve this effect can also be applied to the financial sector in future financial planning. This theory considers the environment around the organization in decision-making (Anwar, 2015).

Earnings Management

Managers who put aside the interests of other parties when faced with poor performance tend to be opportunistic, one of which is earnings management (Eisenhardt, 1989). In the income statement, there are two components that make up the final amount of revenue, namely operating cash flow which is generally very considered in making decisions, and the other component is total accruals (Gao & Gao, 2016). Total accruals have two basic components to form cash flows, namely discretionary accruals where the flexibility of accounting standards can be utilized, and the second component is non-discretionary accruals, which reflect cash flows in actual conditions, such as salaries payable, and accrued electricity and water expenses (Mahjoub & Miloudi, 2015). So it is important to know the mapping from the receipt of accrued income to cash, poor mapping will reduce the quality of reporting (Bhattacharya et al., 2013).

Earnings management can be categorized as agency costs because managers can act driven by personal interests so that information does not reflect the real economic condition of the company, investors fail to make optimal decisions (Prior et al., 2008). Meanwhile, (Dechow et al., 2015), briefly define earnings management as a company practice by manipulating profits. The higher the earnings quality, the more informative and informative the reporting refers to the accuracy in decision making (Dechow et al., 2010). So there are several arguments regarding the suitability between financial information and the actual quality of earnings, not to mention the existence of other hidden aspects of the company (Moratis & Egmond, 2018).

Earnings quality is divided into three main categories, one of which is the Properties of Earnings which includes accrued earnings, the model that has been used by (P. Dechow et al., 2010) is the Jones model. This model is modified because it has superior specifications, with adjustments to the growth of credit sales because credit sales tend to be a means of manipulation so that it can reduce errors in detecting earnings management (Jackson, 2018). Research that uses discretionary accruals as a proxy is (Alsaadi et al., 2017; Hsu & Chen, 2018; Liu & Lee, 2019; Swarnapali, 2020), while in Indonesia, it is used by (Alexander & Palupi, 2020; Kumala & Siregar, 2020; Santoso, 2019).

CSR and Earnings Management

CSR is a rapidly growing issue and is integrated with today's business practices (Santoso, 2019). From the explanation of the reasons why companies carry out CSR activities, there are various empirical evidence which state that with CSR companies build good long-term relationships with stakeholders and investors and implement CSR as an addition to the entity's value and reputation, there are also those who argue that CSR is an alternative for managers hiding his other initiatives for personal gain (opportunist action). Stakeholder theory shows that in sustainability, companies need to consider their discretion regarding their correlation with stakeholders, so that disclosure is a means of communicating it (Muttakin et al., 2015). According to (Almahrog et al., 2018), CSR is a means of reducing information asymmetry.

Previous studies have documented the results of the relationship between CSR disclosure and earnings management, namely, there is a negative relationship between CSR and earnings management. Companies that release CSR reports fulfilling social and environmental obligations under certain contracts, regulations, and stakeholder expectations to minimize the negative impact if the company acts indifferently to the above issues (Rezaee et al., 2020). In research by (Ernst & Young, 2017), currently many global investors and executives take into account non-financial aspects such as CSR which can affect the perspective on earnings quality.

On the other hand, the effect of earnings management can be considered as agency costs that arise as a result of managers manipulating financial information to maximize their interests according to (Prior et al, (2008). Many empirical studies have found a negative relationship to earnings management, such as (Almahrog et al., 2018; Alsaadi et al., 2017; Amar & Chakroun, 2017; Bozzolan et al., 2015; Gras-Gil et al., 2016; Kim et al., 2012; Kumala & Siregar, 2020; Scholtens & Kang, 2013; Swarnapali, 2020).

However, the results of the literature (Choi et al., 2013; Muttakin et al., 2015; Prior et al., 2008), found a unidirectional correlation between CSR and earnings management. Another argument states that management discloses CSR activities in order to attract investors' attention so that they can practice earnings management (Santoso, 2019). According to (Velte, 2020), in his theoretical framework, the relationship between CSR and earnings management depends on the assumptions used, which in his research are described based on agency theory and stewardship theory.

H1: The relationship between CSR and earnings management is significant.

Earnings Management and CSR

Earnings management is highly avoided by principals and has received special attention in accounting science, but until now, there has been no adequate support for earnings behavior (Sial et al., 2019). There are still managers seeking deviant actions to fortify their position as well as personal gain (Oktavia, 2013). (Jensen & Meckling, 1976) explained that through CSR as a shield for managers in their opportunistic actions, CSR can also take part to cover up the company's 'health' condition (Hemingway & Maclagan, 2004; Sunarsih, 2017). One of the stimuli for managers who override their professional ethics is compensation, so that in order to achieve their goals, discretion over accounting decisions such as discretionary accruals is carried out either with the aim of increasing or decreasing profits, which of course is contrary to the ideals of shareholders and the long-term orientation of the entity (Prior et al., 2008; Sial et al., 2019).

In the results of his study (Oktavia, 2013) found a positive correlation between earnings management and CSR, managers who tend to act opportunistically will choose CSR disclosure as a shield against stakeholder suspicion. Companies with a firm stance on the triple bottom line tend not to perform earning smoothing, and tend to have a smaller stimulus in avoiding losses or declining revenues. However, they tend to engage in aggressively increasing income, but this can be reduced in countries with strong law enforcement (Prior et al., 2008).

Good quality financial reports can encourage good CSR disclosure because of the element of transparency (Sial et al., 2019). Companies with poor quality financial reporting may disclose standardized sustainable information as legitimacy to compensate for the lack of financial quality reported (Martínez-Ferrero et al., 2015).

H2: The relationship between earnings management and CSR is significant.

Moderate Role of Women Directors and Independent Directors

The board of directors is one of the most important milestones in establishing effective governance mechanisms in relation to stakeholders (Jensen & Meckling, 1976). The discretion of the entity/organization is highly dependent on the board of directors (Wang et al., 2021), in this case the consideration of personal interests can have an impact on decision making on the disclosure of CSR activities (Watts & Zimmerman, 1978). Earnings management based on opportunistic behavior of managers can be minimized with good corporate governance (Roodposhti & Chashmi, 2011).

Female Directors

Gender diversity is one of several important aspects of governance, several studies reveal how this variable can affect overall human resources leading to an increased understanding of complex corporate issues compared to homogeneous boards of directors (Carter et al., 2003). The prevailing expectation is that the presence of female directors will further encourage the creation of shareholder wealth, in addition to having a higher and more reliable social awareness so that statements emerge that female directors tend not to practice earnings management (Sial et al., 2019; Zalata et al., 2018). In addition to the general nature of women in making decisions, there are several other reasons for the presence of female directors in companies, namely in many countries the percentage of female university graduates is higher than that of men, where workforce factors like this are an important part and consideration (Setó-Pamies, 2015). The influence of the presence of female directors is taken into consideration in the board of directors. The presence of female directors is seen as being able to better consider stakeholder expectations, so that the company's CSR activities and disclosures become more feasible and objective (C. Wang et al., 2021; J. Q. Zhang et al., 2013).

Many countries in Europe have legitimized the minimum number of female directors on the board (Na & Hong, 2017). As in Spain, female directors must be filled at 40%, Sweden 25%, while in Norway 40% of the share of directors is subject to sanctions if they violate (Vinnicombe, 2008). The results of research in Pakistan that women entrepreneurs at various levels have an important role in participating in building economic activities (Ikram et al., 2016). However, the situation in Indonesia in the explanation of the results of the 2019 International Financial Corporation (IFC) study related to gender diversity in ASEAN, Indonesia lost to Thailand and Vietnam in the number of women who occupy directors of directors in public companies (International Financial Corporation, 2019).

By explaining how women's general attitudes as leaders are socially caring and reliable, many research expectations in this case female directors tend not to do earnings management (Fan et al., 2019; Sial et al., 2019). According to (Na & Hong, 2017) gender diversity can encourage higher earnings quality, but their empirical study does not find a correlation between female directors and financial reporting quality, even though there is a strong incentive to practice female directors not being involved. Another study found that the increasingly diverse gender in the board of directors will limit earnings management practices although empirical evidence shows results that are not strong enough (Orazalin, 2019). Meanwhile, (Saona et al., 2020) found that strict supervision of female directors on managers would limit earnings management practices.

In relation to sustainability reporting, (Huang, 2012) found that gender affects the company's CSR performance, where women on the board of directors have more sensitivity to CSR issues. This statement can be supported by a statement by (Jaffee & Hyde, 2000), which states that women are more vulnerable in relationships, respond to needs, and feel responsible for not causing harm. The number of female directors will strengthen CSR activities and also have fewer negative CSR-related issues (Cullinan et al., 2019).

H3: Female directors moderate the relationship between CSR and earnings management.

H4: Female directors moderate the relationship between earnings management and CSR.

Independent Directors

The Board of Directors plays an important role in determining the discretion for sustainable actions and their responsibilities to stakeholders in relation to agency theory and stakeholder perspectives (Hill & Jones, 1992). Effective agency supervision depends on the relationship between the directors and agents, so directors who have independent board status can be trusted to have more power to limit opportunistic earnings management practices (Kelton & Yang, 2008). Another reason for agency theory is that the position of directors is not as depressed by the performance of financial statements as the agents (Alareeni, 2018; Daghsni et al., 2016; Y. Wang & Campbell, 2012). Moreover, the independent director is more directed as a stakeholder representative other than the controlling shareholder (Yu et al., 2018). However, the current condition of the Indonesian stock market has eliminated the obligation of issuers to have an independent board of directors by the Indonesia Stock Exchange (IDX) (Wareza, 2018).

With independent directors, positive changes are not only seen on the social side but also on the environmental conduct of the organization (Rao & Tilt, 2016). A study based on data from Jordan found that the percentage of independent directors had a negative effect on earnings management (Idris & Siam, 2018). Likewise with the results of research in the gas and oil industry by (Azeez et al., 2019). However, it is different from the results of the study by (Alareeni, 2018), which found the relationship between independent directors and earnings management is unidirectional (positive).

Empirical evidence from (W. Liu et al., 2020) that the reputation of independent directors' incentives has a significant effect on increasing the company's CSR activities, even the effect is strengthened by the moderating role of company size. The conclusion from the research results is that reputation is an effective mechanism that can motivate independent directors to fulfill their role in monitoring and providing direction to CSR activities.

H5: Independent directors moderate the relationship between CSR and earnings management.
H6: Independent directors moderate the relationship between earnings management and CSR.

RESEARCH METHODOLOGY

This type of research is a type classification based on the purpose, namely basic research. The purpose of basic research by (Sukmadinata, 2005) is to increase knowledge with basic principles, scientific laws, and to improve scientific research and methodology. While the classification of other types of research is based on the nature of which is classified as quantitative research. Which means that research can be measured using numbers such as ratios in measuring variables and requires statistical steps in testing (Indriantoro & Supomo, 2013).

The data used in this study is secondary data taken from the financial statements of public companies on the IDX from 2016 to 2020. Companies listed on the IDX as of December 31, 2020 are 712, but only 32 entities meet the criteria. The exception to financial companies is a form of anticipation of results because they have different accrual characteristics (Bozzolan et al., 2015; Habbash & Haddad, 2019; Hong & Andersen, 2011; Salewski & Zülch, 2012; Swarnapali, 2020). The data results that can be used from the sample selection are presented in the following table:

Table 1. Sample Selection

Description	Total
Companies listed on the Indonesia Stock Exchange	712
Company IPO in 2016-2020	(205)
Financial Companies registered in the 2016-2020 period	(88)
Companies that do not and/or incompletely publish sustainability reports in the 2016-2020 period	(383)
Companies with incomplete required variables	(4)
Sample companies	32
Research period	5 years

Source: (Secondary Data Processed, 2021)

The dependent variable in this study is earnings management (DA), followed by the independent variable which is the company's CSR disclosure (CSR), vice verca. While the moderators used are female directors (FD), and independent directors (BI) and the control variables are firm size (SIZE), leverage (LEV), market ratio divided by book value (MBV), age of entity (AGE), and previous year's total accruals (t-1) (LAGTACC). The operational variables used in this study are as follows:

Table 2. Variable Measurement

Variable	**Measurement**	**Source**
Earnings Management (DA)	Total Accrual= Net Profit-Operating Cash Flow …..(1) $NDACt=\beta1(1/(TAt\text{-}1))+\beta2(((\Delta REVt\text{-}\Delta ARt))/(TAt\text{-}1))+\beta3PPEt/(TAt\text{-}1)$.....(2) Discretionary Accruals = (T Accrual/ T Asset t-1)-Accruals Non-discretionary …..(3) Where: NDACt= Non-discretionary Accruals TAt-1= Total Asset t-1 ΔREVt= Change in Income (t and t-1) ΔARt= Changes in Accounts Receivable (t and t-1) PPEt= PPE Year t	(Muttakin et al., 2015)
CSR Disclosure (CSR)	Total Disclosures by the Company / Total GRI Criteria	(Alexander & Palupi, 2020)
Female Directors (FD)	$\sum_{i=1}^{n} P_i^2$ Where: P= Proportion of Male and Female of the Board of Directors 2= Number of Categories	(Lee-Kuen et al., 2017)
,,Independent Directors (BI)	Directors Independent/Total Directors	(Wang et al., 2021)
Firm Size (SIZE)	Natural Logarithm (Total Asset)	(Bozzolan et al., 2015)
Total Accruals from the Previous Year (LAGTACC)	Net Profit t-1-Operating Cash Flow t-1	(Bhattacharya et al., 2013)
Leverage (LEV)	Total Liabilities/Total Asset	(Siueia & Wang, 2019)
Market to Book Value (MBV)	Market Ratio/Book Value	(Chih et al., 2008)
Firm Age (AGE)	Natural Logarithm (Firm Age)	(Kim et al., 2012)

The data will be tested using the regression method, namely modeling between the independent variables and the dependent variable (Ariefianto, 2012). The data collected was then tested for outlier test, and tested hypotheses (F test, t test, and coefficient of determination test). The regression models outlined below are designed to explore the two-way relationship between CSR and earnings management, while also taking into account the moderating effects of female board representation and board independence.

(M1) $DA_{it} = \alpha_1 + \beta_1 CSR_{it} + \beta_2 SIZE_{it} + \beta_3 LAGTACC_{it} + \beta_4 LEV_{it} + \beta_5 MBV_{it} + \beta_6 AGE_{it} + \varepsilon_{it}$

(M2) $CSR_{it} = \alpha_1 + \beta_1 DA_{it} + \beta_2 SIZE_{it} + \beta_3 LAGTACC_{it} + \beta_4 LEV_{it} + \beta_5 MBV_{it} + \beta_6 AGE_{it} + \varepsilon_{it}$

(M3) $DA_{it} = \alpha_1 + \beta_1 CSR_{it} + \beta_2 FD_{it}{*}CSR_{it} + \beta_3 SIZE_{it} + \beta_4 LAGTACC_{it} + \beta_5 LEV_{it} + \beta_6 MBV_{it} + \beta_7 AGE_{it} + \varepsilon_{it}$

(M4) $CSR_{it} = \alpha_1 + \beta_1 DA_{it} + \beta_2 FD_{it}{*}DA_{it} + \beta_3 SIZE_{it} + \beta_4 LAGTACC_{it} + \beta_5 LEV_{it} + \beta_6 MBV_{it} + \beta_7 AGE_{it} + \varepsilon_{it}$

(M5) $DA_{it} = \alpha_1 + \beta_1 CSR_{it} + \beta_2 BI_{it}{*}CSR_{it} + \beta_3 SIZE_{it} + \beta_4 LAGTACC_{it} + \beta_5 LEV_{it} + \beta_6 MBV_{it} + \beta_7 AGE_{it} + \varepsilon_{it}$

(M6) $CSR_{it} = \alpha_1 + \beta_1 DA_{it} + \beta_2 BI_{it}{*}DA_{it} + \beta_3 SIZE_{it} + \beta_4 LAGTACC_{it} + \beta_5 LEV_{it} + \beta_6 MBV_{it} + \beta_7 AGE_{it} + \varepsilon_{it}$

RESULTS AND DISCUSSION

Descriptive Statistics

It appears in the test results below that the average discretionary accruals or earnings management is 0.0084. The maximum and minimum values are 0.9678 and -0.3319, respectively, with a standard deviation of 0.1190. A negative value on discretionary accruals indicates the company is making a reduction in earnings in earnings management practices (Jordaan et al., 2018). The higher the value of DA, the more likely the company is to practice earnings management by playing an accrual policy. As an independent variable, it can be concluded that from a total of 91 disclosure indicators, companies in the research object have disclosed 33% or equivalent to 30 specific disclosures on the topic of economic, environmental and social disclosures because most companies choose the core disclosure option. Where the company has flexibility in determining the points that the company will disclose accordingly (Global Sustainability Standards Board (GSSB), 2016). The company with the most disclosures was PT Bukit Asam Tbk (PTBA) and the least amount of CSR information disclosure by PT Adhi Karya Tbk (ADHI), which were 70 and 6 disclosures, respectively. While the moderating variables, namely female directors and independent directors, have an average of 0.1351 and 0.0942, respectively.

Table 3. Descriptive Statistics

Variable	Min	Max	Mean	Std. Deviation
DA	-0.3319	0.9678	0.0084	0.1190
CSR	0.0659	0.7692	0.3333	0.1446
FD	0.0000	0.5000	0.1351	0.1873
BI	0.0000	0.3333	0.0942	0.1035
SIZE(in million)	452.494	351.958.000	43.947.993	58.235.006
LAGTACC (in million)	-29,708,847	10,161,134	-10,086,874	3,842,593
LEV	0.1264	1.8977	0.5610	0.2792
MBV	0.2101	85.1811	3.9855	11.6779
AGE	2	91	44.813	18.1684

Source: (Secondary Data Processed, 2021)

Chow Test

Table 4. Chow Test Results

Model	Effects Test	Statistic	d.f.	Prob.
1	Cross-section F	2.816	(31.105)	0.000
	Cross-section Chi-square	86.541	31	0.000
2	Cross-section F	5.866	(31.109)	0.000
	Cross-section Chi-square	144.283	31	0.000
3	Cross-section F	3.002	(31.104)	0.000
	Cross-section Chi-square	91.404	31	0.000
4	Cross-section F	5.792	(31.108)	0.000
	Cross-section Chi-square	143.956	31	0.000
5	Cross-section F	3.035	(31.108)	0.000
	Cross-section Chi-square	92.125	31	0.000
6	Cross-section F	5.290	(31.111)	0.000
	Cross-section Chi-square	136.084	1	0.000

Source: (Secondary Data Processed, 2021)

Hausman Test

Table 5. Hausman Test Results

Model	Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
1	Cross-section random	26.238	6	0.000
2	Cross-section random	13.271	6	0.038
3	Cross-section random	29.281	7	0.000
4	Cross-section random	20.508	7	0.004
5	Cross-section random	37.868	7	0.000
6	Cross-section random	18.260	7	0.010

Source: (Secondary Data Processed, 2021)

F-test Results

Table 6. F-test Results

Model	Dependent Variable	F	Sig.
1	Earnings Management	4.093	0.000
2	CSR	5.596	0.000
3	Earnings Management	4.202	0.000
4	CSR	5.284	0.000
5	Earnings Management	4.289	0.000
6	CSR	4.949	0.000

Source: (Secondary Data Processed, 2021)

t-test Results

Table 7. t-test Results

		DA	
Variable	**Model 1**	**Model 3**	**Model 5**
C	1.101 (0.358)	-0.049 (0.968)	3.953 (0.000)
CSR	-0.069 (1.182)	-0.056 (0.307)	0.008 (0.876)
DA			
FD*CSR		-0.085 (0.469)	
FD*DA			
BI*CSR			-0.498 (0.038)
BI*DA			
SIZE	-0.017 (0.700)	0.018 (0.691)	-0.100 (0.000)
LAGTACC	-1.150 (0.585)	-1.241 (0.557)	-1.230 (0.568)
LEV	-0.254 (0.062)	-0.379 (0.007)	-0.064 (0.193)
MBV	0.001(0. 698)	0.001 (0.535)	0.000 (0.911)
AGE	-0.111 (0.474)	-0.080 (0.605)	-0.215 (0.219)
		CSR	
Variable	**Model 2**	**Model 4**	**Model 6**
C	-3.561 (0.003)	-4.458 (0.000)	-4.455 (0.000)
CSR			
DA	0.149 (0.117)	0.177 (0.088)	0.186 (0.271)
FD*CSR			
FD*DA		-0.678 (0.182)	
BI*CSR			
BI*DA			-0.283 (0.706)
SIZE	0.108 (0.005)	0.133 (0.000)	0.135 (0.001)
LAGTACC	-4.604 (0.053)	-3.702 (0.123)	-6.065 (0.021)
LEV	0.060 (0.325)	0.093 (0.131)	0.078 (0.241)
MBV	-0.002 (0.283)	-0.003 (0.212)	-0.002 (0.342)

AGE	0.139 (0.225)	0.166 (0.168)	0.155 (0.238)

Source: (Secondary Data Processed, 2021)

Goodness of Fit Model Test Results

Table 8. Goodness of Fit Model Results

Model	Dependent Variable	*R square*	*Adjusted R square*
1	Earnings Management	0.590	0.446
2	CSR	0.655	0.538
3	Earnings Management	0.605	0.461
4	CSR	0.650	0.527
5	Earnings Management	0.601	0.461
6	CSR	0.628	0.501

Source: (Secondary Data Processed, 2021)

Table 7 Model 1 shows a significance probability of 1.182, indicating that the research results are not significant. Hypothesis 1 is rejected. The result is consistent with the findings of (Moratis & Egmond, 2018), but in addition to these findings, there are other findings that the influence of industry type in the sample affects CSR performance and earnings management. Companies with high environmental impact have better CSR performance and tend to practice less earnings management (Kim et al., 2012). Findings by (Aditya & Juniarti, 2016) stated that because the samples used were only various industries belonging to the category of emitting less pollution, so that the purpose of CSR disclosure was only a formality to regulations.

Model 2 also does not show significant relationship between the two variables, (Sun et al., 2010) in his study in England argues that it is not CSR that managers use to change the perspective of the company. Also, asymmetric information causes a barrier to knowing the consequences of CSR disclosure, for that transparent and open information can be examined about whether CSR motivation is personal or social (McWilliams et al., 2006).

By adding the moderating role of female directors, Models 3 and 4 do not show the relationship between CSR and earnings management. This result is explained by the findings of (Hayes, 2001) which show that although men and women differ in terms of scientific knowledge, it has little or no effect on attitudes towards the environment. In most countries, women are no more concerned about environmental issues than men. Not to mention that Indonesia is below the rankings of Thailand and Vietnam in the number of women who occupy directors' seats in public companies (International Financial Corporation, 2019).

Meanwhile, with the presence of independent directors as moderator of the relationship, Model 5 shows a t-test significance of 3.8% with t-Statistic of -2.098. This supports the initial hypothesis regarding the existence of independent directors as moderator. This finding reinforces agency theory, which argues that independent directors are crucial for monitoring managerial behavior and minimizing agency costs (Azeez et al., 2019; Idris & Siam, 2018; La Porta et al., 2000). By offering enhanced oversight, independent directors can help reduce dishonest earnings manipulation and encourage reliable CSR disclosures.

In Model 6, when the relationship is reversed to examine whether independent directors influence the impact of earnings management on CSR, the results turn out to be statistically insignificant and show a negative sign, leading to the dismissal of the hypothesis. This difference in findings indicates that while independent directors may help mitigate earnings management in CSR-related decisions (as seen in Model 5), they might not be as effective in ensuring that companies engaged in significant earnings management maintain authentic CSR practices (Model 6). This observation aligns with the idea that merely having independent directors may not suffice without comprehensive governance and accountability frameworks in place. Similar insights were provided by (Michelon & Parbonetti, 2012; Said et al., 2009), who highlighted the contextual challenges that board independence faces in improving the quality of CSR. In emerging markets like Indonesia, where governance structures are still evolving, independent directors might encounter structural or cultural obstacles that diminish their moderating impact.

CONCLUSION AND SUGGESTION

This study examines the reciprocal influence of CSR and earnings management practices, with discretionary accruals used as a proxy. The analysis indicates that Hypothesis 5, which examines the moderating effect of independent directors, is supported. In particular, independent directors lessen the positive connection between CSR and earnings management, highlighting their role in fostering good governance and curbing managerial opportunism. However, Hypotheses 1, 2, 3, 4, and 6 do not show significant relationships.

In particular, Model 5 shows that independent directors play a significant role in reducing the positive correlation between CSR and earnings management. However, Model 6 indicates that they do not have a meaningful impact on the opposite relationship, which is how earnings management affects CSR. This reveals an imbalance in the moderating functions of independent directors. It suggests that while they can effectively oversee CSR initiatives to mitigate opportunistic behaviors, their presence alone does not guarantee that CSR remains credible in companies already engaged in earnings management. These findings align with previous research by (Michelon & Parbonetti, 2012; Said et al., 2009), highlighting the potential limitations of board independence in situations where governance structures are weak or merely symbolic.

This research enhances existing literature by presenting empirical data from an emerging market where the reciprocal relationships between CSR and earnings management are not well-studied. It improves theoretical knowledge by utilizing a contingency-based approach and incorporating board characteristics, specifically female and independent directors, as moderating factors. The practical implications of the findings provide important insights for corporate leaders, governance supporters, and regulators, highlighting the need to bolster board independence to ensure that CSR efforts are ethically sound and not exploited for earnings manipulation. Additionally, the uneven outcomes related to board independence indicate that governance reforms should prioritize not just structural independence, but also enhancing board effectiveness, transparency, and accountability measures.

While this study offers valuable insights, it does come with some limitations. One major constraint is the small sample size, which includes only 32 companies that have steadfastly followed the Global Reporting Initiative (GRI) standards and issued sustainability reports for five consecutive years. Because of this, the conclusions drawn may not necessarily apply to a wider range of industries or to the Indonesian stock market as a whole. Additionally, the research focuses exclusively on discretionary accruals as a measure of earnings management, which might overlook other critical aspects of how management behaves.

To better understand these limitations, future studies could consider a broader and more varied group of samples, perhaps including companies that utilize different types of CSR disclosures beyond what the GRI standards offer. Researchers might also look into alternative ways of measuring earnings management, such as focusing on real earnings management, to strengthen their findings. Examining additional potential moderating factors, such as ownership structure, institutional pressure, or the characteristics of CEOs, could further enhance understanding. It could be particularly beneficial to conduct sector-specific studies, especially in industries known for their strong focus on CSR, like extractives, finance, or manufacturing, as these areas may present more detailed insights into the relationship between CSR practices and earnings management.

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