




Research Paper

**THE EFFECT OF EARNINGS MANAGEMENT ON CORPORATE SOCIAL RESPONSIBILITY WITH CORPORATE GOVERNANCE AS MODERATOR**

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**ABSTRACT**

**Purpose** - this study examines the nexus between Corporate Social Responsibility, Accrual Earnings Management, and Real Earnings Management and whether Corporate Governance can moderate that connection.

**Research Method** - this research uses a quantitative approach with the STATA application, employs a panel data regression to examine the effect of Earnings Management on Corporate Social Responsibility. Corporate Governance is examined as a moderating variable using an interaction term between Earnings Management and Corporate Governance. Tables such as descriptive statistics and regression analysis will be presented to achieve the research objectives. This analysis relies on data from companies listed on the Indonesia Stock Exchange (IDX), 299 companies from the period 2019-2023. From that, a total of 1,495 samples were collected.

**Findings** – The results of this paper show that both Accrual Earnings Management and Real Earnings Management are positively associated with Corporate Social Responsibility. We also found that Corporate Governance can limit the opportunistic activities of managers in manipulating earnings on accrual-based but not on the real-based.

Keywords: Corporate Social Responsibility, Accrual Earnings Management, Real Earnings Management, Corporate Governance, Sustainability

JEL code: G32, G34, G38

<b>Article History</b> Received : November 2025 Revised : January 2026 Accepted : April 2026	DOI : <a href="http://dx.doi.org/10.37253/gfa.v10i1.11528">http://dx.doi.org/10.37253/gfa.v10i1.11528</a> Web: <a href="https://journal.uib.ac.id/index.php/gfa/issue/view/365">https://journal.uib.ac.id/index.php/gfa/issue/view/365</a>
<b>Citation</b> Itan, I., Mardianto, & Pratama, R. P. (2026). The effect of earnings management on corporate social responsibility with corporate governance as moderator. <i>Global Financial Accounting Journal</i> , 10 (1), 16-29. doi: 10.37253/gfa.v10i1.11528	

## INTRODUCTION

Social responsibility has become a significant topic of researches due to its broad influence across various business practices. Corporate Social Responsibility (CSR) is increasingly recognized as a key corporate strategy (Dimitropoulos, 2022). Initially, social responsibility initiatives were primarily undertaken by large companies (Khuong et al., 2023), and such practices remain non-mandatory in many developing economies (Dissanayake et al., 2023; Al Farooque & Ahulu, 2017). This trend is attributed to market globalization and stakeholder pressure to demonstrate commitment to social and environmental issues, as well as increased stakeholder participation (Sial et al., 2019). CSR is founded on three core principles: accountability, sustainability, and transparency. Companies are therefore expected not only to generate profits but also to act responsibly toward the communities and environments in which they operate. As awareness of social performance grows, companies are increasingly motivated to invest in socially responsible projects (Anita & Hadianto, 2025). CSR initiatives are now widely adopted by companies of all sizes (Buerthey et al., 2020).

While social responsibility initiatives offer positive contributions, they may also provide opportunities for unethical practices. Stakeholders play a critical role in ensuring a company's sustainability and are highly attentive to operational performance. They rely on financial reports to distinguish between well-performing and poorly performing companies, using this information in their decision-making processes. Previous research (Khuong et al., 2023, Buerthey et al., 2020) suggests that managers may be motivated to engage in earnings management for personal benefit.

Earnings management involves manipulating reported profits, company assets, or restructuring transactions without breaching accounting standards. Such practices directly contradict the core principles of CSR. Management may intentionally misrepresent key data by disclosing information that appears relevant but is not (Dissanayake et al., 2023). Several studies have identified a significant relationship between social responsibility and earnings management.

Corporate Governance (CG) refers to the supervision and management of a company by directors appointed by shareholders. The board of directors is responsible for establishing systems to direct and control the company, setting strategic objectives, and ensuring compliance with relevant regulations and laws (Avcin & Balcioglu, 2017). According to (Khuong et al., 2023), effective CG can mitigate the impact of earnings management on CSR. As a result, companies are more likely to present reports that accurately and comprehensively reflect their performance.

Although numerous studies have examined the relationship between earnings management and CSR, a research gap persists regarding the role of Corporate Governance (CG) as a moderating variable, particularly within Indonesian companies. By focusing on data from 2019 to 2023, this research aims to provide a comprehensive reflection of the current context. The study has two primary objectives: to determine whether earnings management influences CSR and to assess the moderating effect of CG on this relationship, specifically whether CG can reduce opportunistic managerial behavior. The analysis will focus on public companies listed on the Indonesia Stock Exchange from 2019 to 2023.

Differences in research findings regarding the effect of earnings management on corporate social responsibility are due to differences in company context and institutional environment. In some studies, earnings management has a positive effect on CSR because CSR activities are used as a means of legitimization to cover up opportunistic behavior by managers and maintain the company's reputation. However, other studies have found a negative relationship because the strong implementation of CSR creates normative pressure from stakeholders for companies to behave ethically and transparently, thereby suppressing

earnings management practices. In addition, the quality of corporate governance also influences this relationship, whereby companies with good corporate governance implement CSR substantively and simultaneously limit manipulative behavior in financial reporting (Itan & Nazara et al., 2025). Research on this topic is relatively rare in Indonesia due to the low consistency of CSR disclosure, limited financial report transparency, and weak regulatory enforcement, which make it difficult to accurately measure earnings management and CSR.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

CSR is closely related to legitimacy theory because, essentially, companies carry out social activities to maintain acceptance and trust from the community. Legitimacy theory explains that an organization can only survive if its actions and existence are considered to be in accordance with social values, norms, and expectations. In this context, CSR serves as a strategic mechanism to show that companies are not only pursuing profit, but also care about the social and environmental impacts they cause. According to legitimacy theory, adaptation and sensitivity to norms, environmental issues, and community expectations are obligations. This is necessary so that companies are considered members of the social system. In addition, in order to carry out operational activities effectively and without obstacles, the cooperative nature of the surrounding community is one of the factors that creates such conducive conditions, especially the communities living around the operational area. To maintain public acceptance and legitimacy, companies must be in line with the explicit and implicit social expectations of the community (Itan & Sylvia et al., 2025). Companies that consistently implement CSR tend to be seen as responsible entities, thereby increasing their chances of maintaining support from stakeholders, such as consumers, the government, investors, and local communities. Conversely, if the community considers that a company's business activities are harmful to the environment or society, the company may lose its legitimacy even if it has strong financial performance. In such circumstances, CSR is often used as a tool for reputation recovery to demonstrate a commitment to change and improve its image. (Dissanayake et al., 2023) reveals that CSR is one of the tools that can increase a company's legitimacy. The same statement is also given by (Al Farooque & Ahulu, 2017). According to (Itan et al., 2023), in order to gain legitimacy from stakeholders, companies must be transparent about their environmental responsibilities. Companies have a social responsibility to maintain a healthy business environment and the safety of stakeholders and the environment (Itan & Sylvia et al., 2025). Thus, the link between CSR and legitimacy theory confirms that social responsibility is not merely a complementary activity, but part of a long-term strategy to maintain organizational sustainability through solid social legitimacy. Companies that understand this dynamic will be more careful in designing, implementing, and reporting CSR programs so that they are in line with community values and modern business ethics requirements.

The strong pressure experienced by managers due to demands for transparency requires them to resolve business problems and meet the needs of stakeholders while intensifying economic performance (Mutuc et al., 2019). This scenario is a case where companies carry out good deeds through CSR activities while being creative in manipulating profits. Agency theory explains the relationship between company owners/shareholders as principals and management as agents (Itan & Sylvia et al., 2025). In this context, principals appoint agents to run the business on their behalf. Managers are required to act in the interests of shareholders to reduce agency problems (Dissanayake et al., 2023). However, a disconnect between the interests of management and shareholders will occur, which will lead to conflicts of interest. This is because managers have more control over information and the company's operational conditions, creating information asymmetry that opens up opportunities for managers to act in

their personal interests. According to (Dissanayake et al., 2023), opportunistic activities related to CSR are always linked to managers' personal gains, such as obtaining performance bonuses, retaining their positions, meeting capital market targets, or creating an image of corporate stability in the eyes of stakeholders. Therefore, agency theory always leads to earnings management (Abdelkarim & Zuriqi, 2020). Accounting adjustments are applied to obscure data, improve the appearance of actual performance below satisfaction, and release reports that mislead shareholders and stakeholders. From an agency theory perspective, earnings management indicates the existence of agency costs, which are losses that arise when managers act contrary to the interests of shareholders. Instead of focusing on long-term value creation, managers who engage in earnings management only pursue short-term profits and maintain their reputation. This can have a negative impact on the credibility of financial reports, reduce investor confidence, and increase the risk of litigation and regulatory scrutiny.

Earnings management in the context of stakeholder theory is viewed as a practice that has the potential to disrupt the company's relationship with its stakeholders. Stakeholder theory emphasizes that companies are not only responsible to shareholders, but also to various groups that have an interest in the company's activities, such as employees, consumers, creditors, the government, the community, and the surrounding environment. Within this framework, financial information is not merely a tool for assessing company performance, but also a source of trust and a basis for decision-making for stakeholders. When management engages in earnings management, whether through accrual manipulation or real earnings management policies, the quality of financial information becomes biased. Information that does not reflect actual economic conditions can mislead stakeholders, undermine the decision-making process, and reduce the level of trust in the company. From the perspective of stakeholder theory, earnings management reflects an imbalance between the interests of management and the interests of a broader group of stakeholders. Although in the short-term earnings management may provide certain benefits, such as maintaining profit stability or meeting market expectations, this practice is not in line with the principles of responsibility and transparency that form the basis of a healthy relationship with stakeholders (Haji-Seseang et al., 2023). In fact, earnings management can trigger suspicion and create the perception that the company is only focused on the interests of certain managers or shareholders, while neglecting the public interest and long-term trust. As a result, the company's reputation may be threatened, and support from stakeholders may weaken, which ultimately impacts business sustainability.

Stakeholder theory also emphasizes that a company's success is greatly influenced by social legitimacy and stakeholder support. Therefore, earnings management practices contradict the values of openness and integrity that are essential for building mutually beneficial long-term relationships. To prevent these potential negative impacts, companies need to implement strong governance, improve reporting transparency, and prioritize honest disclosure of financial and operational conditions. Thus, the link between earnings management and stakeholder theory shows that ethical and accountable reporting practices are not only a regulatory obligation but also an important strategy for maintaining trust, support, and the long-term sustainability of the company.

In this study, the authors will focus on two pillars of Earnings management, namely accrual-based EM (AEM) and real-based EM (REM), as in previous studies (Khuong et al., 2023; Dissanayake et al., 2023; Sial et al., 2019; Ehsan et al., 2022), to explore more comprehensively the impact of Earnings management on Corporate Responsibility. The results of the study by (Khuong et al., 2023) show that the relationship between CSR and Earnings management produces different relationships. (Khuong et al., 2023), in the study used accrual-based EM and real activity-based EM. In accrual-based EM, the relationship shows a

significant negative relationship. The same results were found in studies (Dissanayake et al., 2023). The study concluded that companies that anticipate reducing AEM will have executives who are more oriented towards CSR activities. The influence of REM shows a significant positive effect on CSR. Executives prefer to use real-based methods rather than accrual-based methods in implementing Earnings Management. However, the role of production costs is not relevant in this proxy because in the statistical results of the study, the value is not significant. Conversely, the results of study of (Khuong et al., 2023) are the opposite of study (Ehsan et al., 2022), where REM has a significant negative relationship, while AEM is significantly positive. Executives use CSR disclosure as a 'shield' to cover up their opportunistic activities through accrual-based earnings management, giving them an apathetic attitude towards long-term relationships. The same results are shown in study of (Ningsih et al., 2023). Because CSR demands high transparency and accountability, companies tend to avoid applying real-based earnings management. Nevertheless, (Dissanayake et al., 2023) reveals that both earnings management approaches to CSR produce similar statistical values, which are significantly positive. The inconsistency of previous research results regarding this relationship certainly makes it an interesting topic to review in this study.

Each country certainly has different regulations, including laws and regulations, different institutions, corporate governance codes, and even different regulations regarding CSR. (Ehsan et al., 2022) reveals that companies in developing countries are less aware of the importance of non-financial reporting and sustainability reporting. On the other hand, research by Tashman et al., 2019) shows that multinational companies in developing countries are increasingly using CSR as a global legitimacy strategy. CSR disclosure in companies in developing countries tends to be higher than CSR disclosure in developed countries (Sial et al., 2019; Itan et al., 2025) because social responsibility regulations in developing countries are relatively weak in enforcement (Tashman et al., 2019). Therefore, companies in developing countries will use this opportunity to engage in CSR in order to improve their social status and reputation (Kumala & Siregar, 2021), especially in the context of Indonesia, where CSR/SR reporting is still in the form of initiatives and voluntary (Sial et al., 2019). Based on the above premises, we propose the first hypothesis.

H1a. Accrual Earnings Management has a positive effect on CSR

H1b. Real Earnings Management has a positive effect on CSR

Agency theory emphasizes the importance of control mechanisms and good governance to limit managers' scope for earnings management. Strengthening the functions of the board of commissioners, internal and external audits, long-term performance-based compensation structures, and increased reporting transparency are recommended steps to reduce conflicts of interest. These mechanisms constitute Corporate Governance (CG) (Dimitropoulos, 2022). Corporate Governance is essential for a business to survive, develop, and maintain economic balance. According to (Buerthey et al., 2020), Corporate Governance also serves as a 'support' for the balance between shareholder welfare (Itan et al., 2024) and meeting the expectations of various stakeholders. According to (Wati & Malik, 2021), the existence of Corporate Governance can also resolve issues between the interests of management and other stakeholders. The case of a leading company such as Enron, with its poor reporting quality and subsequent failure, proves that its corporate governance was also of poor quality. According to (Dissanayake et al., 2023), low capital costs, high investment control, effectiveness and efficiency in resource utilization, and increased accountability to all stakeholders are signs of good Corporate Governance. Based on the above premises, we propose the hypothesis below.

H2a. Corporate governance can moderate the relationship between Accrual Earnings

Management and CSR.

H2b. Corporate governance can moderate the relationship between Real Earnings Management and CSR.

## RESEARCH METHODOLOGY

The sample for this study comprises non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The inclusion criteria required companies to publish audited financial reports for five consecutive years, provide Social Responsibility data reports covering economic, environmental, and social performance for five consecutive years, and possess sufficient data to measure Profit Management over the same period. After applying these criteria, 1,495 data were selected for analysis. To test the hypothesis regarding the relationship between CSR and Earnings Management, a quantitative approach was employed. Similar research has been conducted in previous studies and other related works. A regression model was utilized, designating CSR (Dependent) and Earnings Management (Independent). The subsequent regression model and conceptual diagram illustrate the relationship between CSR and Earnings management (CSR-EM), as well as the moderating effect of Corporate Governance (CG).

### Research Model

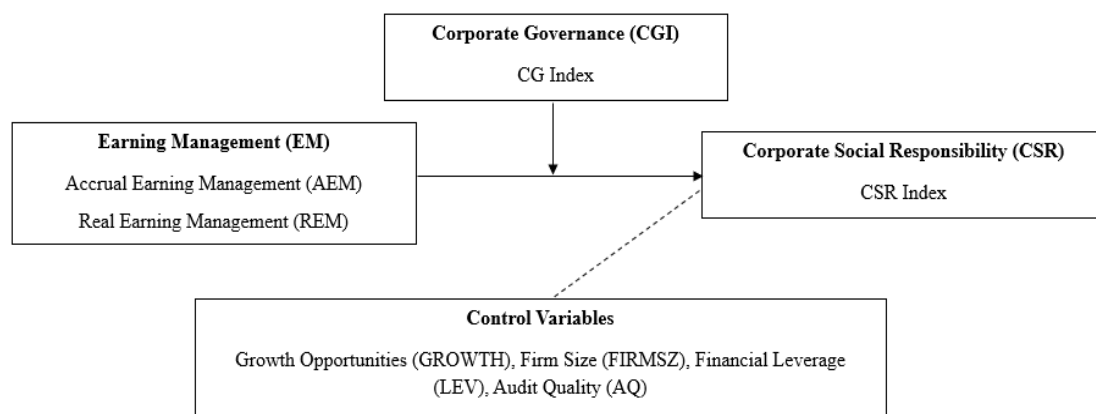


Figure 1. Research Model

### Operational Variables

#### Dependent Variable

CSR Index (CSR)

Corporate Social Responsibility (CSR) refers to the requirement for companies to act legally, ethically, and responsibly toward the environment and surrounding communities. According to “Undang-undang Perseroan Terbatas” No. 40 of 2007 article 1 paragraph 3, Social and Environmental Responsibility is defined as the Company's commitment to participate in sustainable economic development to improve the quality of life and the environment for the benefit of the Company, the local community, and society in general. The CSR assessment in this study utilizes the latest Global Reporting Initiative (GRI) index, GRI 2021, which comprises 122 points grouped into GRI 2: General Disclosure (30 points), GRI 3: Material Topics (3 points), GRI 200: Economic Performance (17 points), GRI 300: Environmental Performance (32 points), and GRI 400: Social Performance (40 points). This measurement approach is consistent with (Dissanayake et al., 2022).

### Independent Variables

#### 1. Real Earnings Management (*REM*)

Real earnings management involves manipulating reported profits through the alteration of actual business activities. The measurement follows (Roychowdhury, 2006) framework, which assesses abnormal operating cash flow (abnormal CFO), abnormal production costs, and abnormal discretionary expenses.

##### a. Abnormal operating cash flow

$$CFO_{it}/A_{it-1} = \alpha_0 + \alpha_1(1/A_{it-1}) + \beta_1(S_{it}/A_{it-1}) + \beta_2(\Delta S_{it}/A_{it-1}) + e_t$$

##### b. Abnormal production costs

$$PROD_{it}/A_{it-1} = \alpha_0 + \alpha_1(1/A_{it-1}) + \beta_1(S_{it}/A_{it-1}) + \beta_2(\Delta S_{it}/A_{it-1}) + \beta_3(\Delta S_{it-1}/A_{it-1}) + e_t$$

##### c. Abnormal discretionary expenses

$$DISEXP_{it}/A_{it-1} = \alpha_0 + \alpha_1(1/A_{it-1}) + \beta_1(\Delta S_{it}/A_{it-1})$$

These measures are then combined using the following formula.

$$REM_{it} = CFO_{it} + (-PROD_{it}) + (-DISEXP_{it})$$

Information:

$REM_{it}$ : Real Earnings Management *i* in year *t*;

$PROD_{it}$ : The company's operating cash flow *i* in year *t*;

$CFO_{it}$ : The company's Cost of Goods Sold plus inventory changes *i* in year *t*;

$DISEXP_{it}$ : The company's Research and Development Expenses plus Advertising Expenses plus Sales, General and Administration Costs *i* in year *t*;

$S_{it}$ : The company's sales *i* in year *t-1*;

$\Delta S_{it}$ : The company's changes in sales *i* in year *t*;

$\Delta S_{it-1}$ : The company's changes in sales *i* in year *t* minus year *t-1*;

$A_{it-1}$ : The company's total assets *i* in year *t-1*;

$\alpha, \beta$ : Regression Coefficients;

$e_t$ : Error.

#### 2. Accrual Earnings management (*AEM*)

Accrual earnings management is conducted by altering the accrual components in financial statements, as these elements are more susceptible to manipulation by preparers. This accounting method enables businesses to recognize rights and obligations independently of cash transactions. The Modified Jones Model (1995) is employed to measure accrual earnings management, consistent with the methodologies of (Dissanayake et al., 2022; Sial et al., 2019).

$$TACC_{it} = EBXT_{it} - OCF_{it};$$

$$TACC_{it}/TA_{it-1} = \alpha_1(1/TA_{it-1}) + \alpha_2(\Delta REV_{it}/TA_{it-1}) + \alpha_3(PPE_{it}/TA_{it-1});$$

NDACC is obtained by plugging the coefficient estimates back into the model.

$$NDACC_{it} = \alpha_1(1/TA_{it-1}) + \alpha_2(\Delta REV_{it} - \Delta REC_{it})/TA_{it-1} + \alpha_3(PPE_{it}/TA_{it-1});$$

$$DACC_{it} = (TACC_{it}/TA_{it-1}) + NDACC_{it}$$

Information:

$TACC_{it}$ : The company's total accrual *i* in year *t*;

$DACC_{it}$ : The company's Discretionary Accruals *i* in year *t*;

$NDACC_{it}$ : The company's Non-Discretionary Accruals *i* in year *t*;

$EBXT_{it}$ : The company's Earnings Before Tax *i* in year *t-1*;

$OCF_{it}$ : The company's Operating Cash Flow *i* in year *t*;

- $REC_{it}$  : The company's receivables  $i$  in year  $t$ ;  
 $REV_{it}$  : The company's revenue  $i$  in year  $t$ ;  
 $TA_{it-1}$  : The company's total assets  $i$  in year  $t-1$ ;  
 $PPE_{it}$  : The company's Property, Plant and Equipment (gross)  $i$  in year  $t$ .

### Moderate Variable

#### Corporate Governance Index (CGI)

According to the Indonesia Stock Exchange (IDX), corporate governance is a system designed to guide professional business management, emphasizing accountability, independence, equality, transparency, responsibility, and fairness. The Corporate Governance (CG) Disclosure Index measures governance by comprising five components: board independence, institutional ownership, ownership concentration, stability of Board of Directors, and related party transactions. This measurement approach aligns with (Dissanayake et al., 2022).

a. Board independence

$$\frac{\text{Board of Directors independence}}{\text{Total Board of Directors}} \times 100\%$$

If the result shows <60%, the point is 0. If the result shows >60%, the point is 1.

b. Institutional ownership

The average of institutional ownership to total outstanding shares multiplied 100% in the sample during the research period (2019-2023). A dummy variable equals 1 if greater than the percentage of the outstanding shares and 0 if otherwise.

c. Ownership concentration

The average of individual ownership to total outstanding shares multiplied 100% in the sample during the research period (2019-2023). A dummy variable equals 1 if greater than the percentage of the outstanding shares and 0 if otherwise.

d. Stability of Board of Directors

If there is a change in the board of directors within a 2-year period, the value is 0, otherwise 1.

e. Related Party Transaction

Sales transactions to related parties per total sales multiplied by 100%. A dummy variable equals 1 if greater than the percentage of the total sales and 0 if otherwise.

### Control Variables

1. Growth Opportunities (GROWTH)

Growth opportunities are measured by the percentage change in company sales. This approach is consistent with the methodology used by (Mvita & Toit, 2024).

$$GROWTH = (\text{sales} - \text{sales}_{t-1}) / \text{sales}_{t-1}$$

2. Firm Size (FIRMSZ)

Firm size is measured using the natural logarithm of total assets, following the methodology of (Khuong et al., 2023; Dissanayake et al., 2022; Sial et al., 2019).

$$FIRMSZ = \ln(\text{total assets})$$

3. Financial Leverage (LEV)

To measure a company's financial leverage, the leverage formula is used. The same measurement is used in the studies by (Khuong et al., 2023; Sial et al., 2019).

$$LEV = \text{Total liabilities} / \text{total assets}$$

4. Audit Quality (AQ)

Audit quality is measured using a dummy variable: financial statements audited by the Big 4 (EY, Deloitte, KPMG, and PwC) are coded as '1', while those not audited by

the Big 4 are coded as '0'. This measurement is consistent with (Sial et al., 2019).

## RESULTS AND DISCUSSION

### Descriptive Statistics

Descriptive statistics provide a comprehensive overview of the characteristics of the research data. Measures such as mean, median, standard deviation, minimum, and maximum values facilitate the identification of basic patterns, general trends and variations in the data prior to conducting inferential analysis.

**Table 1.** Descriptive Statistics

Variable	N	Mean	Std. Deviation	Min	Max
Corporate Social Responsibility (CSR)	1,495	0.389	0.173	0.000	0.989
Accrual Earnings Management (AEM)	1,495	-0.010	0.315	-4.842	0.175
Real Earnings Management (REM)	1,495	0.063	0.336	-3.928	3.760
Corporate Governance (CGI)	1,495	1.131	0.788	0.000	3.000
Growth Opportunity (GROWTH)	1,495	0.043	0.222	-0.847	2.527
Firm Size (FIRMSZ)	1,495	28.839	1.747	22.603	34.720
Financial Leverage (LEV)	1,490	0.513	0.480	0.003	5.522

Source: (Processed Research Data, 2025)

CGI	Frequency	Percent
0	1,004	67.16
1	491	32.84
Total	1,495	100.00

Source: (Processed Research Data, 2025)

Based on the table above, the amount of data (n) in this study is 1,495. Corporate Social Responsibility (CSR) has a mean value of 0.389 with a standard deviation of 0.173, min 0.000, and max 0.989. Accrual Earnings Management (AEM) has a mean value of -0.010 with a standard deviation of 0.315, a minimum of -4.842, and a maximum of 0.175. Real Earnings Management (REM) has a mean value of 0.063 with a standard deviation of 0.336, a minimum of -3.928, and a maximum of 3.760. Corporate Governance (CGI) has a mean value of 1.131 with a standard deviation of 0.788, a minimum of 0.000, and a maximum of 3.000.

### Regression Analysis

Regression is a statistical method for analyzing the relationship between dependent and independent variables, assessing influence, testing hypotheses, and assisting in more accurate data-based predictions and decision-making in various contexts of modern scientific research. The following are the sample regression results in this study.

**Table 2.** Regression

Independent Variable (CSR)	Coefficient	Std. Error	t-Statistic	Prob.
(Constant)	0.35818	0.02424	14.78	0.000
AEM	0.96081	0.03769	25.49	0.000
REM	0.13929	0.00894	15.59	0.000
CGI	-0.08970	0.00249	-35.98	0.000
AEMCGI	-0.32410	0.01300	-24.94	0.000
REMCGI	-0.00754	0.00571	-1.32	0.187

GROWTH	0.00271	0.00607	0.45	0.655
FIRMSZ	0.00264	0.00085	3.11	0.002
LEV	0.05425	0.00476	11.40	0.000
AQ	-0.00649	0.00308	-2.11	0.035

Source: (Processed Research Data, 2025)

Based on the results of the regression table above, the constant value is 0.35818. Therefore, if the AEM and REM variables are 0, the CSR value is 0.35818. The coefficient of AEM based on the table is 0.96081 and the coefficient is positive. It can be concluded that if AEM increases, CSR also increases. The same applies to REM. REM has a positive coefficient of 0.13929. Therefore, the higher the REM value, the higher the CSR value.

### Hypothesis Test Result

#### Coefficient of Determination

Results of testing the coefficient of determination are as follow:

**Table 3.** Coefficient of Determination

Model	R <sup>2</sup>	Percentage
1	0.9122	91.22%

Source: (Processed Research Data, 2025)

The R-squared value of 0.9122 indicates that the regression model is able to explain approximately 91.22% of the variation in the dependent variable through the independent variables used in the study. Thus, this model has a very strong explanatory power, while the remaining 8.78% is influenced by other factors outside the model or variables not included in the analysis. This R-squared result indicates that the model specification used is adequate in describing the relationship between the research variables.

#### T Test

The purpose of the t-test is to test hypotheses related to partial relationships between variables and to determine which variables contribute significantly to explaining the dependent variable. Below are the results of the T-test.

**Table 4.** T Test

Variable	Coefficient	Prob.	Result	Hypothesis
AEM	0.96081	0.000	Significant	Accepted
REM	0.13929	0.000	Significant	Accepted
CGI	-0.08970	0.000	Significant	
AEMCGI	-0.32410	0.000	Significant	Accepted
REMCGI	-0.00754	0.187	Not significant	Rejected
GROWTH	0.00271	0.655	Not significant	
FIRMSZ	0.00264	0.002	Significant	
LEV	0.05425	0.000	Significant	
AQ	-0.00649	0.035	Significant	

Source: (Processed Research Data, 2025)

The following is a further explanation of Table 4 T test above.

1. The significance value of the effect of Accrual Earnings Management (AEM) on Corporate Social Responsibility (CSR) is 0.000, which is <0.1. Therefore, the relationship between these two variables is statistically significant. The coefficient value is 0.96081, which is positive. Therefore, hypothesis H1a is accepted, namely that Accrual Earnings Management (AEM) has a significant positive effect on Corporate Social Responsibility

- (CSR).
2. The significance value of the effect of Real Earnings Management (REM) on Corporate Social Responsibility (CSR) is 0.000, which is  $<0.1$ . This means that the relationship between these two variables is statistically significant. The coefficient value is 0.13929, which is positive. Therefore, hypothesis H1b is accepted, namely that Real Earnings Management (REM) has a significant positive effect on Corporate Social Responsibility (CSR).
  3. The significance value of the effect of Corporate Governance (CG) on the relationship between Accrual Earnings Management (AEM) and Corporate Social Responsibility (CSR) is 0.000, which is  $<0.1$ . This means that the effect of Corporate Governance (CG) on the relationship between these two variables is statistically significant. The coefficient value is -0.32410, which is negative. Therefore, hypothesis H2a is accepted, namely that Corporate Governance (CG) can significantly weaken the relationship between Accrual Earnings Management (AEM) and Corporate Social Responsibility (CSR).
  4. The significance value of the influence of Corporate Governance (CG) on the relationship between Real Earnings Management (REM) and Corporate Social Responsibility (CSR) is 0.187, which is  $>0.1$ . This means that the influence of Corporate Governance (CG) on the relationship between the two variables is statistically not significant. The coefficient value is -0.00754, which is negative. It can be concluded that hypothesis H2b is rejected, namely that Corporate Governance (CG) can't significantly weaken the relationship between Real Earnings Management (REM) and Corporate Social Responsibility (CSR).

#### F Test

The F-test determines the overall suitability of the model by examining whether all independent variables in the regression model influence the dependent variable simultaneously. The model is considered statistically significant if the significance value of the F-test is below the specified significance level, which is 0.05. The results of the F-test are shown below.

**Table 5.** F Test

Model	Prob.	Result
1	0.000	Significant

Source: (Processed Research Data, 2025)

Based on the F test results above, the value 0.000 is  $<0.05$ . It can be concluded that the independent variables together are able to explain the variation in the dependent variable.

#### The Effect of Accrual Earnings Management on Corporate Social Responsibility

In this study, we analysed the effect of Accrual Earnings Management on Corporate Social Responsibility. Based on the regression table, the significance value is 0.000 ( $0.000 < 0.1$ ). From this, it can be concluded that the relationship between these two variables is significant. The coefficient is 0.96081, which is positive. This study is in line with the results of previous studies, including (Dissanayake et al., 2023; Khuong et al., 2023; Pasko et al., 2021; Siueia & Wang, 2019).

Companies that engage in Accrual Earnings Management tend to manage profits through accounting estimates. This practice is not always intended to manipulate market perceptions, but can also be a strategy to support the legitimacy of the company in the eyes of stakeholders, shareholders and even societies. More intensive CSR disclosure can serve as a signal of ethical commitment as well as an effort to offset potential negative perceptions of accounting performance engineering. Thus, companies that aggressively implement accrual management

have greater incentives to increase CSR disclosure in order to maintain their reputation, minimize political risk and maintain support from investors and the public, so that the relationship between accrual management and CSR tends to be positive in this strategic context.

### **The Effect of Real Earnings Management on Corporate Social Responsibility**

We investigated the relationship between real earnings management and corporate social responsibility in this study. The significance value is 0.000, which is less than 0.1, according to the regression table. Thus, the relationship between these two variables is considered significant. The coefficient of 0.13929 indicates a positive result. This study is in line with the findings of previous studies, such as (Dissanayake et al., 2023; Itan et al., 2024).

Real earnings management is carried out through operational decisions such as accelerating sales, reducing research and development costs, or managing production activities to influence reported profits. Although this strategy is often considered more difficult for auditors and regulators to detect, companies still face the risk of negative assessments from the market when the quality of profits is questioned. Therefore, increased CSR disclosure can be used as an instrument of legitimacy and reputation enhancement in order to reduce information asymmetry and strengthen the company's sustainability image. Allocating resources to social activities and sustainability reporting helps companies demonstrate their long-term orientation and commitment to social values, so that companies with high real earnings management intensity are usually encouraged to expand the scope and quality of CSR disclosure.

### **The Moderating Effect of Corporate Governance on the Relationship Earnings Management and Corporate Social Responsibility**

The test results show that earnings management has a significant positive effect on corporate social responsibility disclosure, indicating that companies tend to use CSR as a means of legitimization when engaging in earnings management practices. Furthermore, the role of corporate governance as a moderating variable shows different results between accrual earnings management and real earnings management. Corporate governance has been proven to significantly weaken the influence of accrual-based earnings management on CSR, indicating that corporate governance mechanisms are effective in limiting accounting-based earnings management practices and financial reporting policies. Conversely, in real earnings management, corporate governance is only able to weaken the relationship between earnings management and CSR, but not significantly in statistical terms. These findings indicate that real earnings management practices are more difficult to detect and control by corporate governance mechanisms because they are carried out through actual operational decisions, such as production manipulation, discretionary cost reduction, or aggressive sales strategies, which do not formally violate accounting standards and are often categorized as normal business decisions (Roychowdhury, 2006). (Gunny, 2010) also states that real earnings management tends to escape the scrutiny of traditional corporate governance mechanisms because it does not directly affect accounting figures through reporting policies.

## **CONCLUSION AND SUGGESTION**

This study examines whether earnings management, both accrual and real, can influence corporate social responsibility and whether corporate governance can weaken this influence. This study took samples from developing countries, namely Indonesia. Companies listed on the Indonesia Stock Exchange with data from 2019-2023 were included. The results show that Earnings Management does have a significant positive effect on Corporate Social Responsibility. The significance value and coefficient are 0.000 and 0.96081 for the AEM-

CSR relationship. The significance value and coefficient are 0.000 and 0.13929 for the REM-CSR relationship. The corporate governance variable as a moderator can significantly and positively influence the relationship between AEM and CSR with the significance value and coefficient are 0.000 and -0.32410. However, it does not have a statistically significant effect on the relationship between REM and CSR, with the significance value and coefficient are 0.187 and -0.00754.

From a theoretical perspective, earnings management is related to agency problems caused by information gaps between managers and shareholders. Managers may use corporate social responsibility activities to reduce attention and protect their own interests. Based on legitimacy theory, companies increase CSR disclosure to maintain public approval when earnings management could harm their reputation. In addition, stakeholder theory explains that CSR is used to manage relationships with various stakeholders and to reduce negative responses to earnings management practices. Overall, these theories suggest that companies tend to use CSR as a tool to support earnings management by reducing monitoring, maintaining legitimacy, and preserving stakeholder trust. CSR disclosure among firms in developing economies is generally reported to be greater than in those operating in developed markets (Dissanayake et al., 2023). This pattern arises because regulatory enforcement related to social responsibility in developing countries tends to be less stringent (Tashman et al., 2019), giving firms wider flexibility in shaping their CSR practices. As a result, companies in these environments often leverage CSR activities as a strategic tool to strengthen their public image and social legitimacy (Mutuc et al., 2019). This condition is particularly evident in Indonesia, where CSR and sustainability reporting largely remain voluntary initiatives rather than mandatory obligations (Dissanayake et al., 2023). Of course, this gap is a golden opportunity for management to engage in earnings management. Corporate governance plays a crucial role in overseeing managerial behaviour, but its effectiveness varies depending on the type of earnings management practiced. Corporate governance mechanisms are generally more effective in constraining accrual-based earnings management because this form of manipulation is closely related to accounting policies and financial reporting processes that fall directly under formal monitoring and oversight. In contrast, real earnings management is more difficult to control through corporate governance because it is carried out through actual operational decisions that are often perceived as normal business strategies and do not formally violate accounting standards. As a result, corporate governance has limited capacity to restrict the use of CSR as a legitimizing tool when earnings management is conducted through real operational activities.

The practical implications of this study indicate that managers need to be cautious in using CSR as a tool to legitimise earnings management practices, as this can pose long-term reputational risks. Regulators are expected to strengthen regulations and supervision of CSR reporting and corporate governance practices, particularly in relation to real earnings management, which is difficult to detect through formal accounting mechanisms. Meanwhile, investors are advised not only to assess companies based on their level of CSR disclosure, but also to consider the quality of corporate governance and the potential for earnings management practices that could affect the company's long-term performance.

However, there are several limitations to this study. The sample taken from 2019-2023 is insufficient to describe this relationship in the long term. The sample taken from developing countries cannot describe this relationship in developed countries, as regulations in developed countries are stricter regarding environmental concerns. Further research could broaden the context of the study by conducting cross-industry or cross-country comparisons, particularly between developing and developed countries.

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