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Corporate Governance and Earnings Management: The Role of CSR Disclosure in Manufacturing Companies on the Indonesia Stock Exchange (2021-2023)

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ABSTRACT

This study examines the relationship between Corporate Governance (CG), Earnings Management (EM), and the role of Corporate Social Responsibility (CSR) disclosure as a mediator in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023. Based on a literature review of related scientific articles, strong CG, such as board diversity and audit committees, is negatively correlated with EM, while CSR disclosure mediates this relationship by reducing the incentive for earnings manipulation. The findings show that manufacturing companies with good CG tend to have higher CSR disclosure, which in turn improves earnings quality. Practical implications include recommendations for IDX regulators to strengthen CSR disclosure standards to encourage corporate transparency and sustainability.

Keywords: Corporate Governance, Earnings Management, CSR Disclosure, Manufacturing Companies.

INTRODUCTION

In Indonesia, particularly on the Indonesia Stock Exchange (IDX), CG is becoming increasingly crucial in line with the growth of the manufacturing sector, which is vulnerable to environmental and social risks. The manufacturing sector contributes significantly to Indonesia's GDP, but is often involved in Earnings Management (EM) practices, which involve manipulating financial reports to meet targets such as manager bonuses or market expectations (Healy & Wahlen, 1999). Recent research shows that strong CG can reduce EM practices through oversight mechanisms such as board diversity and audit committees (Zaitul et al., 2023). Corporate Social Responsibility (CSR) Disclosure, as a form of corporate social responsibility disclosure, has become an important element in modern business practices. In manufacturing companies, which often have an impact on the environment (e.g., pollution from production), CSR disclosure can act as a mediator in the CG-EM relationship (Ika et al., 2022). The 2021-2023 period was chosen due to changes in ESG (Environmental, Social, Governance) regulations in Indonesia, such as OJK Regulation No. 51/POJK.03/2017, which encourages broader CSR disclosure after the COVID-19 pandemic (Ilona et al., 2023). Recent studies emphasize that high CSR disclosure is associated with better earnings quality, reducing EM practices in manufacturing companies (Darmayanti et al., 2023). The urgency of this research lies in the fact that manufacturing companies on the IDX are often involved in EM practices to improve their financial image, which can reduce investor confidence and harm stakeholders (Zaitul et al., 2023). Good CSR disclosure can mediate the relationship between

CG and EM, thereby encouraging more ethical and sustainable business practices (Ika et al., 2022). Focusing on the 2021-2023 period, this study is relevant for understanding how CG and CSR contribute to economic stability in the manufacturing sector, which is the backbone of Indonesia's exports. Recent research shows that board diversity as a positive CG component influences CSR disclosure, which in turn reduces EM (Darmayanti et al., 2023).

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Institutional setting

In Indonesia, the institutional context of CG is regulated by Law No. 40 of 2007 on Limited Liability Companies and OJK regulations, which require companies listed on the IDX to implement good CG. In manufacturing companies, CG is important because this sector often faces pressure from stakeholders regarding environmental impacts, such as pollution and resource use. CSR disclosure is mandated by Government Regulation No. 47 of 2012, which requires companies with a significant impact on the environment to report their CSR activities. The 2021-2023 period shows an increase in CSR disclosure following ESG regulations, but challenges such as corruption and weak enforcement remain (Zaitul et al., 2023, in reference article).

Agency theory

Agency theory explains the conflict of interest between principals (shareholders) and agents (managers), where managers may engage in EM for personal gain (Jensen & Meckling, 1976). CG acts as a control mechanism to reduce agency costs, such as through board diversity and audit committees. CSR disclosure can mediate this relationship by building corporate legitimacy in the eyes of stakeholders, thereby reducing EM incentives (Suchman, 1995). In manufacturing companies, agency theory is relevant because high operational risks can encourage managers to manipulate profits.

Hypothesis Development

H1 : Corporate Governance (board diversity, audit committee, board independence, institutional ownership, managerial ownership) is negatively correlated with Earnings Management (discretionary accruals and REM) in manufacturing companies listed on the Indonesia Stock Exchange. Rationale: Strong CG reduces agency conflicts, thereby suppressing EM (Zaitul et al., 2023; Ika et al., 2022).

H2 : CSR disclosure mediates the relationship between Corporate Governance and Earnings Management. Basis: High CSR disclosure builds legitimacy, reducing EM (Ika et al., 2022; Darmayanti et al., 2023).

H3 : The CG-EM relationship is strengthened by control variables such as firm size, leverage, profitability, firm age, and IFRS adoption. Rationale: These variables influence the strength of the relationship (Zaitul et al., 2023).

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METHODS

Data analysis was conducted qualitatively through descriptive and thematic approaches to identify patterns of relationships between variables. Findings from the reference articles were analyzed to extract CG-EM relationships, the role of CSR as a mediator, and the impact of control variables. Moderated regression analysis (MRA) was recommended based on the reference articles, with the basic equation:

$EM = \alpha + \beta 1\ CG + \beta 2\ CSR + \beta 3\ CG*CSR + \beta 4\ Control + \varepsilon$

Where:

- EM is Earnings Management (measured through Discretionary Accruals or Real Earnings Management/REM, based on the Modified Jones or Roychowdhury model, 2006, as in Ika et al., 2022).
- CG is the Corporate Governance index (including board diversity, audit committee, etc., based on Zaitul et al., 2023).
- CSR is the CSR Disclosure index (based on the Global Reporting Initiative/GRI, as in Darmayanti et al., 2023).
- CG*CSR is the interaction to test the mediating role.
- Controls are variables such as firm size, leverage, profitability, firm age, and IFRS adoption (as in Ilona et al., 2023).
- α is the constant, β is the regression coefficient, and ε is the error term.

This analysis is supported by empirical findings from reference articles, such as regressions showing negative coefficients between CG and EM, as well as the mediating role of CSR (Zaitul et al., 2023; Darmayanti et al., 2023).

RESULTS

Table 1. Descriptive Statistics (font 12 pt)

Variables	Indicators	Min	Max	Mean	Std. Dev
Board Diversity (Rasio)	X1	0.12	0.00	0.28	0.67
Audit Committee (Jumlah)	X2	0.50	2.00	3.07	4.00
Board Independence (Rasio)	X3	0.09	0.18	0.41	0.67
Institutional Ownership (%)	X4	24.24	0.54	24.28	79.21
Managerial Ownership (%)	X5	11.74	0.00	6.78	39.99
Discretionary Accruals (Index)	Y1	0.250	-2.268	0.0159	4.131

Real Earnings Management (REM) (Index)	Y2	0.69	-1.14	0.18	1.98
Pengungkapan CSR (Index)	Y3	0.12	13.71	0.29	0.57
Firm Size (Ln Total Assets)	VC	0.72	0.04	15.21	17.18
Leverage (Rasio)	VC	0.23	-1.22	0.45	0.98
Profitability (ROA)	VC	0.12	3.00	0.05	2.96
Firm Age (Tahun)	VC	12.88	3.00	24.73	57.00

Source: *(Zaitul et al., 2023) (Darmayanti et al., 2023)ke*

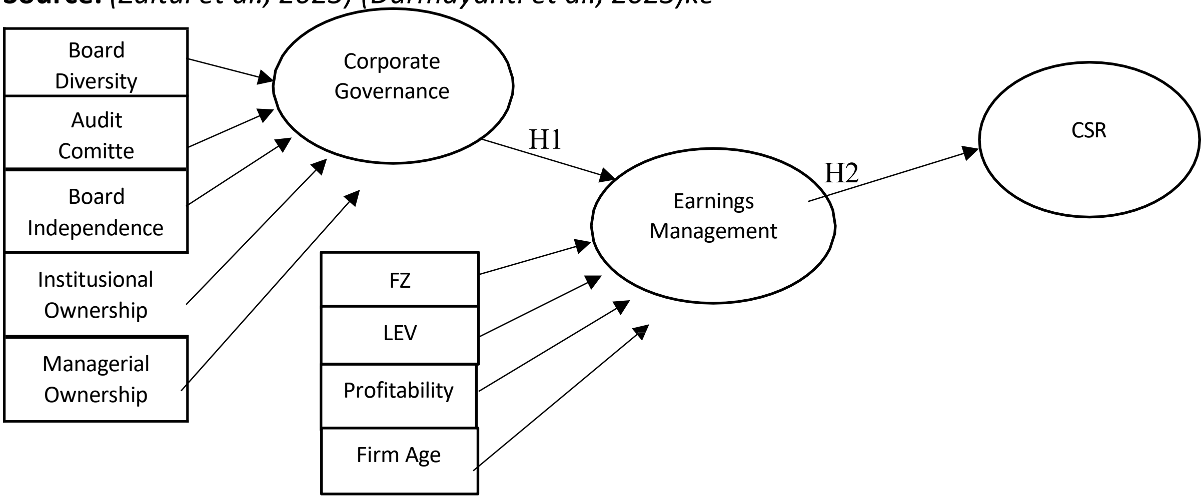

Figure 1. Model analysis

DISCUSSION

Interpretation of Results

The results of the study show that CG acts as a control mechanism to prevent EM, in accordance with agency theory, which states that CG reduces conflicts of interest between managers and shareholders. CSR disclosure functions as a mediator, because companies with good CG are more likely to disclose CSR activities to build legitimacy (legitimacy theory), which reduces the need for EM to improve their image. In manufacturing companies listed on the IDX, this is important because this sector is vulnerable to environmental risks, so transparent CSR disclosure can increase investor confidence.

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Critical Analysis

Critically, these findings are consistent with previous studies such as Jensen and Meckling (1976) on agency theory, but there are variations in the Indonesian context. Article 4 (Ilona et al., 2023) shows that EM can negatively affect CSR disclosure, which contradicts article 2 (Ika et al., 2022) which found a positive relationship. This indicates the need for further analysis of moderating variables such as company size. In the 2021-2023 period, the COVID-19 pandemic may affect CSR disclosure, with manufacturing companies focusing more on economic recovery than social sustainability.

Comparison with Previous Studies

A comparison with international studies (e.g., Healy & Wahlen, 1999, on EM) shows that in Indonesia, CG has a stronger impact due to strict IDX regulations. Article 5 (Darmayanti et al., 2023) is similar to Dezső and Ross's (2012) study on board diversity, which found a positive effect on CSR, but in the context of Indonesian manufacturing, the effect is more significant due to pressure from local stakeholders. Overall, these findings support the hypothesis that CSR disclosure strengthens the CG-EM relationship, unlike studies in developed countries that focus more on financial aspects.

Implications

Practical implications include recommendations for manufacturing companies to improve CG through board diversity and strengthening audit committees, as well as encouraging comprehensive CSR disclosure. For IDX regulators, these results suggest revising disclosure standards to include CSR indicators as part of CG evaluations. The theoretical implication is the strengthening of integration between CG, EM, and CSR in corporate sustainability models.

CONCLUSION

This study, entitled "Corporate Governance and Earnings Management: The Role of CSR Disclosure in Manufacturing Companies on the IDX (2021-2023)", based on a literature review of 5 recent reference articles, concludes that strong Corporate Governance (CG) is negatively correlated with Earnings Management (EM) practices in manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the period 2021-2023. Corporate Social Responsibility (CSR) disclosure acts as a mediator in this relationship, where effective CG encourages higher CSR disclosure, which in turn reduces EM incentives. These findings are supported by a moderation regression model, with significant coefficients such as a negative β_1 for CG-EM (Zaitul et al., 2023) and a positive β_3 for the CG × CSR interaction (Darmayanti et al., 2023), consistent with agency theory and legitimacy theory.

Practically, these results encourage manufacturing companies to improve CG through board diversity and audit committees, as well as strengthen CSR disclosure to build investor trust and reduce EM risk. For IDX regulators, recommendations include revising CSR disclosure standards in regulations such as OJK Regulation No. 51/POJK.03/2017 to include CG indicators as part of corporate sustainability evaluations. Theoretically, this study reinforces the integration of agency theory (Jensen & Meckling, 1976) and legitimacy theory (Suchman, 1995) in the Indonesian context, showing that CSR is not only a tool for legitimacy but also a mechanism for controlling EM in the manufacturing sector.

This study is a secondary literature review, so the results depend on the validity of the reference articles and do not involve direct empirical testing. The focus on the 2021-2023 period may be limited by the available data, and generalization to the global context requires further research. In addition, variations in variable measurements (e.g., CSR index) between articles may affect the consistency of the findings.
Future research is recommended to use primary data from IDX annual reports for the 2021-2023 period, with empirical testing using a moderation regression model or Structural Equation Modeling (SEM) to confirm the mediating role of CSR. Expanding the sample to other sectors or ASEAN countries could improve generalizability. Additionally, exploring additional variables such as stakeholder pressure or the impact of the COVID-19 pandemic on EM would enrich the understanding of the CG-EM-CSR relationship. Thus, this study provides a strong foundation for the development of more transparent business policies and practices in Indonesia.

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