Effect of Corporate Social Responsibility, Corporate Governance and Earnings Management on Firm Performance at Publicly Listed Indonesian Companies in Indonesia Stock Exchange

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Abstract
Earnings are an important indicator of financial performance so managers sometimes find themselves under the pressure to attain earnings to meet certain objectives. Therefore, in practice, managers exercise discretion without breaking generally accepted accounting principles (GAAP) to make earnings appear greater or lesser than it should be. Firms that are socially responsible would be viewed to be less inclined to manage earnings. Under such a scheme, corporate social responsibility (CSR) and good corporate governance are used as a defence mechanism in the perspective of earnings manipulation. The research aims to obtain a causal relationship among earnings management (EM), corporate social responsibility (CSR), corporate governance (CG), and firm performance (FP). This research using survey method with data is secondary data obtained from Indonesia stock exchange. To examine complex relationship among these variables, samples consist of 33 publicly listed companies in Indonesia period of 2012-2014 using descriptive and inferential analysis. In descriptive analysis, each variable was explained referring to the mean. On the other hand, in inferential analysis, path analysis was used to investigate the relations between each variable with prior doing the assumption and hypothesis test. The results of this research: (1) corporate social responsibility and corporate governance have no impact to earnings management, simultaneously and partially, (2) earnings management, corporate social responsibility, and corporate governance have no impact to firm performance, simultaneously and partially.

Keywords: Earnings management, CSR, Corporate governance, Firm performance
1. Introduction

Accounting earnings are one of the most important indicators of financial performance so it receives the interest of shareholders and stakeholders. As a matter of fact, managers sometimes find themselves under the pressure to attain earnings to meet certain objectives. Therefore, in practice, managers exercise discretion without breaking generally accepted accounting principles (GAAP) to make earnings appear greater or lesser than it should be. As a result, financial reporting will damage the value of financial reports as a channel of communication between companies and external stakeholders and mislead them.

Certain firms try to compensate for poor organizational behaviours by engaging in Corporate Social Responsibility (CSR). In the last two decades, there has been an increase in CSR firms, especially in The Organization for Economic Co-operation and Development (OECD) countries (Vergalli and Poddi, 2012).

In Figure 1, it is showed the number of CSR firms from 1999 until 2009. The trend in number of CSR companies is growing fast. Recent studies have observed that the phenomenon of social responsibility is influenced by the level of economic development in each country.

**Figure 1:** Number of CSR Firms (Dow Jones Sustainability Index)

![Figure 1: Number of CSR Firms (Dow Jones Sustainability Index)](image)

Legend: ROW includes Brazil, Chile and South Africa, EU-1 includes Austria, Belgium, Denmark, Finland, Greece, Ireland, Norway, Portugal, Sweden; ASIA-1 includes India, Indonesia, China, Malaysia, Singapore, Thailand, Taiwan, Hong Kong.

Firms that are socially responsible would be viewed to be less inclined to manage earnings (i.e., reporting earnings honestly and sincerely). Then, CSR can attempt to influence external stakeholders to view the company’s financial reports favourably. In return, managers
can have more freedom to manage earnings without pressure of being fired due to dissatisfaction of shareholders and stakeholders. Under such a scheme, CSR is used as a defence mechanism (Cespa and Cestone, 2007) in the perspective of earnings manipulation.

Corporate governance restricts opportunistic earnings management and ensures manager act in the interest of shareholder. Firms with better corporate governance are less likely to conduct earnings management by preventing ruling shareholder to takeover and guaranteeing better decision making (Syah, Butt, and Hasan, 2009). Therefore, firms with good corporate governance result in better firm performance.

In Figure 2, Indonesia ranks the second in Asia with the worst quality of corporate governance. Poor corporate governance practice is one of the causes of the monetary crisis in Indonesia (Capulong et al., 2001; Nam and Nam, 2004).

The issue of earnings management has been studied in recent years due to several publicized cases of financial frauds throughout the world, such as Enron, Maxwell, and London & Commonwealth (Akers, Giacomino & Bellovary, 2007). In 2014, The Securities and Exchange Commission found there were 99 accounting-fraud enforcement actions in the fiscal year that ended Sept. 30, a 46% increase from its 68 actions the previous fiscal year (Eaglesham and Rapoport, 2011).

**Figure 2:** Quality of Corporate Governance in Asia (Political and Economic Risk Consultancy)

According to Figure 3, after six years streak of fewer cases, US Securities and Exchange Commission (SEC) brought more accounting frauds in 2014. SEC found 99 accounting fraud enforcement actions in the fiscal year that ended Sept. 30, a 46 percent increase from its 68 actions the previous fiscal year.
Banks in Indonesia also manage earnings to meet the regulations of Bank Indonesia according to previous researchers such as Setiawati and Na’im (2001), Rahmawati (2006), and Rahmawati and Baridwan (2006). Only a few of 400 accounting firms in Indonesia appear to have high level of compliance with the generally accepted accounting principles (GAAP) according to PPAJP (Pusat Pembinaan Akuntandan Jasa Penilai) in the ROSC 2011. The practice is indeed pervasive.

2. Statement of the Problem

Previous researchers found inconclusive relation between corporate social responsibility (CSR) and firm performance (FP). A positive relation between CSR and firm performance has been shown in some studies (Margolis and Walsh, 2003; Orlitzky et al., 2003) but results remain mixed (McWilliams and Siegel, 2000).

Relation between CSR and earnings management also found inconsistent by previous studies. CSR is considered in relation to earnings management (EM) in accounting, often measured by discretionary accruals. Kim, Park, and Wier (2012) found a negative relation between CSR and discretionary accruals (whether EM providing more transparent and reliable financial information along the lines of an ethical theory of CSR). Other researchers, such as Prior et al. (2008), found a positive impact of earnings management practices on CSR.
On another aspect, study on relations between earnings management and firm performance has been carried out. Researchers claim that manager’ accruals choices are unscrupulous that is resulting in low-quality reported earnings while others believe that managers exercise discretion to enhance the information value of accounting earnings (Watts and Zimmerman, 1986; Healy and Palepu, 1993).

Earnings management is a complex concept with many dimensions. The purposes of this paper are to find impacts between several variables. They are the impacts between (a) CSR and earnings management; (b) corporate governance and earnings management; (c) earnings management and firm performance; (d) CSR and firm performance; and (e) corporate governance and firm performance.

2.1 Research Questions

1. How do corporate social responsibility and corporate governance impact to earnings management?
2. How does corporate social responsibility impact to earnings management?
3. How does corporate governance impact to earnings management?
4. How do earnings management, corporate social responsibility, and corporate governance impact to firm performance?
5. How does earnings management impact to firm performance?
6. How does corporate social responsibility impact to firm performance?
7. How does corporate governance impact to firm performance?

2.2 Research Objectives

1. Examine impact of corporate social responsibility and corporate governance to earnings management
2. Examine impact of corporate social responsibility to earnings management
3. Examine impact of corporate governance to earnings management
4. Examine impact of earnings management, corporate social responsibility, and corporate governance to firm performance
5. Examine the impact of earnings management to firm performance
6. Examine the impact of corporate social responsibility to firm performance
7. Examine the impact of corporate governance to firm performance

### 3.1 Conceptual Framework

#### 3.1.1 Earnings Management

Earnings management can be classified as white, gray, or black. White earnings management enhances the transparency of the reports; grey earnings management manipulates reports within the boundary of compliance that is opportunistic or enhancing; and the black involves misrepresentation and fraud. (Ronen and Yaari, 2007)

**Table 1: Alternative Definitions of Earnings Management**

<table>
<thead>
<tr>
<th>White</th>
<th>Gray</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings management is taking advantage of the flexibility in the choice of accounting treatment to signal the manager’s private information on future cash flows</td>
<td>Earnings management is choosing an accounting treatment that is either opportunistic (maximizing the utility of management only) or economically efficient</td>
<td>Earnings management is the practice of using tricks to misrepresent or reduce transparency of the financial reports</td>
</tr>
</tbody>
</table>

#### 3.1.2 Corporate Social Responsibility (CSR)

**Table 2: CSR Definitions from Various Sources**

<table>
<thead>
<tr>
<th>Source</th>
<th>CSR Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jones, 1980</td>
<td>Corporation has a responsibility to society other than stockholders and that is mentioned by law or union contract.</td>
</tr>
<tr>
<td>Kilcullen and Kooistra, 1999</td>
<td>The degree of moral responsibility that may be given to corporations beyond simple obedience to the laws of the state.</td>
</tr>
<tr>
<td>Foran, 2001</td>
<td>Practices and behaviours that firms adopt in which their operations are rooted towards their labour force, the environment, authority and civil society.</td>
</tr>
</tbody>
</table>

Based on Figure 4, these four different social responsibilities components have to exist in the organization’s strategy for the achievement of successful business (Carroll, 1991). These
four components can also be summarized as:

Corporate Social Responsibility = economic responsibilities + legal responsibilities + ethical responsibilities + philanthropic responsibilities.

![Figure 4: A hierarchy of Corporate Social Responsibility (Carroll and Buchholtz, 2008)](image)

### 3.1.3 Corporate Governance

Corporate governance can be considered as an internal system including policies, process, and people that serve the needs of stakeholders by managing activities with good business practices, objectivity, and integrity. Corporate governance is also mechanism including applicable laws, rules, and functions to protect outside investors against expropriation by insiders (La Porta et al., 2002). Corporate governance is designed to pursue stakeholders’ interest (for example obtaining such amount return of capital) (Shleifer and Vishny, 1997).

### 3.1.4 Firm Performance

According to Spanos and Lioukas (2001), there are two dimensions of firm performance. First is profitability that reflects its internal success by financial statements. Major determinants of firm-level profitability include (Scherer, 1980): (1) characteristics of the industry in which the firm competes; (2) the firm’s position relative to its competitors; and (3) the quality and quantity of firm’s resources. Last is market performance that refers to external accomplishment related to market position, such as sales or market share.

### 4 Hypotheses

#### 4.1 CSR and Earnings Management

Previous literature has researched whether CSR is associated with earnings management. Prior, Surroca, and Tribo (2008) claim that managers who manipulate earnings
might deal with stakeholder involvement and awareness by engaging in CSR because earnings management practices harm the mutual benefits of stakeholders. Chih, Sen, and Kang (2008) find that when firms had a greater commitment to CSR, the degree of earnings smoothing was lower, avoidance of earnings losses and decreases was less apparent, but the degree of earnings aggressiveness was greater when studied whether CSR had a positive or negative relation to the quality of financial information. Kim, Park, and Wier (2012) found that CSR firms are less likely to be related with earnings management based on ethical theory of CSR.

4.2 Corporate Governance and Earnings Management

Recent accounting researches argue whether corporate governance could effectively restrain firms from engaging in earnings management activities. At institutional level, Leuz et al. (2003) recommend an explanation for the differences based on idea that insiders use earnings management to disguise corporate performance from outsiders to protect their private control benefits. Hence, earnings management is expected to decrease while investor protection increases because strong protection restrict insiders’ ability to obtain private control benefits and diminishes their incentives to disguise firms’ performance.

At firm’s level, according to Agrawal and Chadha (2005), two corporate governance scopes can reduce the probability of restatement: 1) the occurrence of independent directors with background in accounting or finance on the board and/or audit committee; 2) the presence of CFO on the audit committee. Accrual-based earnings management is unlikely to occur or occur less often when boards and audit committees include more independent non-executive directors with corporate or investment banking background (Xie et al., 2003). Tendeloo and Vanstraelen (2005) show that when listed companies are audited by big 4 audit firm, they are less likely to engage in earnings management. Chung et al. (2002) find that higher 10 institutional ownership reduces the agency cost of information asymmetry thus reduce earnings management when investigate the effect of institutional ownership on the informativeness of earnings and on discretionary accruals.

4.3 Earnings Management and Firm Performance

It was undecided whether discretionary accounting accruals enhance or reduce information provided by earnings. According to Watts and Zimmerman (1986); Healy and
Palepu (1993), managers exercise discretion to improve the informational value of accounting numbers while academics claim that managers’ accrual choices are opportunistic and result in low-transparency earnings.

Healy (1985) finds that CEO manipulates earnings downwards when their bonuses are at their maximum due to bonus ceiling according to opportunistic earnings management perspective. Dechow and Sloan (1991) find that in their final year of employment, managers are unlikely to decrease expenditures on R&D due to increase earnings. Opportunistic earnings management would not be positively associated with firm value because does not carry information about the value of the firm.

Firm performance is measured using Tobin’s Q that provides information about the market value of the firm’s asset relative to book value. According to Ohlson (1995), Tobin’s Q is a measure of unrecognized intangible asset value or expected future abnormal earnings. Therefore, a positive relation between EM and Tobin’s Q means there is a use of discretionary accruals to indicate long-term firm value. There is a positive relationship between earnings management and firm value measured by Tobin’s Q (Jiraporn, Miller, Yoon, and Kim, 2008).

4.4 CSR and Firm Performance

The result of previous studies between CSR and firm performance are difference (Vogel, 2005). According to Husted and Alle (2007), CSR might be positively related with firm performance if CSR contributes to firm reputation and innovation (i.e., R&D expenditures for products and services innovation linked to social issues) and increase long-term firm value. CSR is an important communication strategy for enhancing firm reputation and public image. Ihlen, Barrlett, and May (2011) concerned that CSR becoming tool to divert attention from poor corporate behaviours.

According to McWilliams and Siegel (2000), researchers find positive, negative, and neutral impact of CSR and financial performance. This inconsistency may be due to incorrect empirical analysis. Elsayed and Paton (2005) express that previous studies have shown difference result because of model misspecification and/or limited data without controlling for firm heterogeneity and dynamic effects. In the end, previous studies have not developed agreement regarding the relationship between CSR and firm performance. Therefore, there is a need for further research to examine the relations between CSR and firm performance.
4.5 Corporate Governance and Firm Performance

According to Klapper and Love (2002), the effect of corporate governance on firm performance may differ depend on the country-specific level of investor program. In countries where investor protection is poor, firms with fairly good corporate governance are likely to be more highly valued. Regarding this statement, it is expected for the market to assess the same corporate governance differently depend on corporations’ ownership and control structure. For example, the market is likely to mark down the value of measured corporate governance if the market suspects that controlling owners can find ways to maximize their interests at the expense of other shareholders however good their firms’ cooperate governance practices may appear.

Based in the discussion above, following hypotheses are suggested in this study:

1. Corporate Social Responsibility (CSR), Corporate Governance (CG) and Earnings Management (EM)
   H1: Corporate Social Responsibility (CSR) and Corporate Governance (CG) affect positively on Earnings Management (EM)

2. Corporate Social Responsibility (CSR) and Earnings Management (EM)
   H1: CSR affects positively on EM

3. Corporate Governance (CG) and Earnings Management (EM)
   H1: CG affects positively on EM

4. Earnings Management (EM), Corporate Social Responsibility (CSR), Corporate Governance (CG) and Firm Performance (FP)
   H1: Earnings Management (EM), Corporate Social Responsibility (CSR), and Corporate Governance (CG) affect positively on Firm Performance (FP)

5. Earnings Management (EM) and Firm Performance (FP)
   H1: EM affects positively on FP

6. Corporate Social Responsibility (CSR) and Firm Performance (FP)
   H1: CSR affects positively on FP

7. Corporate Governance (CG) and Firm Performance (FP)
   H1: CG affects positively on FP

5. Research Method

Survey method is used to do this research. Types of research for this study are
descriptive and verification. In this research, the unit of analysis is publicly listed Indonesian companies in Indonesia Stock Exchange (IDX).

5.1 Population and Sampling Method

This research uses publicly listed Indonesia companies in Indonesian Stock Exchange (IDX) as population. There are total of 511 publicly listed companies in Indonesia in March, 2015 (list of publicly Indonesian companies in IDX are given in the Appendix). The sample has been selected from IDX compromising 33 listed companies (see in Appendix) using purposive sampling.

5.2 Type, Source and Data Collecting

Data that is used for this research is secondary data. The type of data used is the financial report of the companies in the period of 2012-2014. The financial reports are obtained from Indonesian Stock Exchange (IDX).

Yearly firm-level data (2012-2014) are collected to estimate discretionary accruals and Tobin’s Q from annual report of each company and on CSR and corporate governance ratings from CSRHub. The final sample for this research consists of 33 publicly listed Indonesian companies in Indonesian Stock Exchange (IDX) for 2012-2014 periods which qualified:

- Complete CSR data in CSRHub
- Complete corporate governance data in CSRHub

5.3 Measurement of Variables

5.3.1 Corporate Social Responsibility (CSR)

CSRHub provides access to corporate social responsibility and sustainability ratings and information on nearly 5,000 companies from 135 industries in 65 countries. CSRHub rates 12 indicators of employee, environment, community and governance performance and flags many special issues.

The researcher obtains data necessary for CSR from CSRHub website (http://www.csrhub.com/). There are total 33 companies in Indonesia that listed in CSRHub with complete data for each category. However, lengths of the data are different between each company. Data for governance area are removed because the data are analysed as corporate
governance variable.

Table 3: The Topic Areas and Categories of CSRHub
CSRHub includes 12 categories for four topic areas:

<table>
<thead>
<tr>
<th>Topic Area</th>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community</td>
<td>Community Development and Philanthropy</td>
<td>Product</td>
<td>Human Rights and Supply Chain</td>
</tr>
<tr>
<td>Employees</td>
<td>Compensation and Benefits</td>
<td>Diversity and Labor Rights</td>
<td>Training, Health, and Safety</td>
</tr>
<tr>
<td>Environment</td>
<td>Energy and Climate Change</td>
<td>Environment Policy and Reporting</td>
<td>Resource Management</td>
</tr>
<tr>
<td>Governance</td>
<td>Board</td>
<td>Leadership Ethics</td>
<td>Transparency and Reporting</td>
</tr>
</tbody>
</table>

5.3.2 Earnings Management

Earnings management variable is calculated as discretionary accruals by utilizing the annual cross-sectional industry regression with the modified Jones model based on Kothari, Leone, and Wasley (2005). The equation to measure discretionary accruals is as follows:

$$
\frac{TA_{it}}{A_{it-1}} = b_0 + b_1 \left( \frac{1}{A_{it-1}} \right) + b_2 \frac{(\Delta REV_{it} - \Delta REC_{it})}{A_{it-1}} + b_3 \frac{PPE_{it}}{A_{it-1}} + b_4 \frac{IBEI_{it-1}}{A_{it-1}} + \epsilon_{it},
$$

Where:

$TA_{it}$ is total accruals for firm i at year t, $\Delta REV_{it}$ is the change in net revenues for firm i at year t, $\Delta REC_{it}$ is the change in net receivables for firm i at year t, $PPE_{it}$ is gross property, plant, and equipment for firm i at year t, $IBEI_{it}$ is net income before extraordinary items for firm i at year t, and $A_{it-1}$ is total assets for firm i at year t-1. Total accruals ($TA_{it}$) are calculated by deducting cash flow from operating activities ($CFO_{it}$) from income before extraordinary items ($IBEI_{it}$).

The data are obtained from annual reports (Statements of Income, Statements of Balance Sheets, and Statements of Cash Flows) of each company in 2012-2014. The residuals from modified Jones model above are then used as estimates of firms’ discretionary accruals.
The value of residuals is proxy of discretionary accruals because manager can manipulate earnings in either income-increasing or income-decreasing way (Warfield, Wild, and Wild, 1995).

5.3.3 Firm Performance

Firm performance is measured by Tobin’s Q according to Brown and Cayclor (2006). The equation is as follows:

\[
\text{Tobin’s Q} = \frac{AT + MVE - BVE - DT}{AT},
\]

Where:

- \(AT\) is total assets,
- \(MVE\) is market value of equity calculated by multiplying common shares outstanding and stock price (fiscal year close),
- \(BVE\) is book value of equity,
- \(DT\) is deferred taxes.

All items of the equations are obtained from annual reports of each company in 2012-2014.

5.3.4 Corporate Governance

Data for corporate governance are obtained from CSRHub website (http://www.csrhub.com/). CSRHub has three categories in governance area to assess firms’ governance that are: a) board, b) leadership ethics, and c) transparency and reporting.

6 Data Analysis

6.1 Descriptive analysis

Descriptive analysis is used to describe and summarize that have been analysed or reaching conclusions regarding any hypotheses that have been made. Using descriptive analysis, mean of each variable will be explained. Add up all the values and divide by the number of values to compute the mean (Lund and Lund, 2013).

6.2 Inferential Analysis

With inferential analysis, hypotheses are tested using path analysis. Path analysis will be conducted using SPSS. The path diagram is as following:
Explanation:

X = Corporate Social Responsibility
Y = Corporate Governance
Z = Earnings Management
W = Firm Performance

6.3 Assumption Test

a. Normality Test

A normality test is a statistical process used to determine if sample or any group of data fits a standard normal distribution.

b. Autocorrelation test

Autocorrelation is a correlation between the values of the same variables on related objects.

c. Multicollinearity Test

Multicollinearity is a condition of high inter-correlations among independent variables. It disturbs the data so the data may not be reliable.

d. Heteroscedasticity test

Heteroscedasticity means a situation in which the variance of the dependent variable (Y) varies across the levels of the independent data (X).

6.4 Hypothesis Testing

Hypothesis testing includes testing of hypotheses partially and simultaneously. By conducting path analysis, direct and indirect effect of each independent variable to dependent variable will be known.
a. **F-test**

Simultaneously hypothesis test is used to find out the impact of overall independent variable to dependent variable. It will be shown in table section Anova results of data processing.

- **Sub structure 1:** Impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG) to Earnings Management (EM)

  Statistic hypotheses propose for F-test:
  
  \[ H_0 : \rho_{ZX} = \rho_{ZY} = 0 \quad \text{CSR and CG do not affect EM} \]
  \[ H_1 : \rho_{ZX} = \rho_{ZY} \geq 0 \quad \text{CSR and CG affect positively on EM} \]

- **Sub structure 2:** Impact of Earnings Management (EM), Corporate Social Responsibility (CSR), and Corporate Governance (CG) to Firm Performance (FP)

  Statistic hypotheses propose for F-test:
  
  \[ H_0 : \rho_{WZ} = \rho_{WX} = \rho_{WY} = 0 \quad \text{EM, CSR, and CG do not affect FP} \]
  \[ H_1 : \rho_{WZ} = \rho_{WX} = \rho_{WY} \geq 0 \quad \text{EM, CSR, and CG affect positively on FP} \]

b. **Paired sample T-test**

Partial hypothesis test is used to find out the impact of each independent variable to dependent variable. It will be shown in table section Coefficients results of data processing.

- **Sub structure 1:** Impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG) to Earnings Management (EM)

  Statistic hypotheses propose for t-test:
  
  \[ H_0 : \rho_{ZX} = 0 \quad \text{CSR does not affect EM} \]
  \[ H_1 : \rho_{ZX} \geq 0 \quad \text{CSR affects positively on EM} \]
  \[ H_0 : \rho_{ZY} = 0 \quad \text{CG does not affect EM} \]
  \[ H_1 : \rho_{ZY} \geq 0 \quad \text{CG affects positively on EM} \]

- **Sub structure 2:** Impact of Earnings Management (EM), Corporate Social Responsibility (CSR), and Corporate Governance (CG) to Firm Performance (FP)

  Statistic hypotheses propose for t-test:
  
  \[ H_0 : \rho_{WZ} = 0 \quad \text{EM does not affect FP} \]
  \[ H_1 : \rho_{ZX} \geq 0 \quad \text{EM affects positively on FP} \]
H0: \( \rho_{WX} = 0 \) CSR does not affect FP  
H1: \( \rho_{WX} \geq 0 \) CSR affects positively on FP

H0: \( \rho_{WY} = 0 \) CG does not affect FP  
H1: \( \rho_{WY} \geq 0 \) CG affects positively on FP

6.3 Research Hypothesis Testing

Research hypothesis testing uses path analysis to find out the impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG) towards Earnings Management (EM), including their impact to Firm Performance (FP). The impacts are shown by path coefficient at each path diagram. Path model for this research is described as follows:

**Figure 5:** Causal Relationship Path Diagram of CSR, CG, EM, towards FP

Explanation:
CSR: Corporate Social Responsibility  
CG: Corporate Governance  
EM: Earnings Management  
FP: Firm Performance

To answer the research questions, the hypothesis testing is divided into two substructures which are:

1. Impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG), either simultaneously or partially on Earnings Management (EM).
2. Impact of Corporate Social Responsibility (CSR), Corporate Governance (CG), and Earnings Management (EM), either simultaneously or partially on Firm Performance (FP).

6.4 The Empirical Results of Path Analysis
6.4.1 Relationship between Corporate Social Responsibility (CSR) and Corporate Governance (CG)

\( H_0 : r_{X1X2} = 0 \) There is no positive relationship between Corporate Social Responsibility (CSR) and Corporate Governance (CG).

\( H_1 : r_{X1X2} \neq 0 \) There is positive relationship between Corporate Social Responsibility (CSR) and Corporate Governance (CG).

Results of the correlation coefficient calculation via software IBM SPSS Statistics 20 obtained the following results:

<table>
<thead>
<tr>
<th>Table 4: Relationship between Corporate Social Responsibility (CSR) and Corporate Governance (CG)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>---------------------</td>
</tr>
<tr>
<td>CSR and CG</td>
</tr>
</tbody>
</table>

According to table above, the correlation coefficient between CSR and CG is 0.751. Testing with t statistics show that the value of calculated t value (9.029) > t table (2.042). This indicates rejection of Ho which shows that there is a positive relationship between CSR with the CG. Coefficient correlation of 0.751 shows that degree of relationship between CSR with the CG fall under strong category according to Sugiyono criteria.

6.4.2 Impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG) to Earnings Management (EM)

Simultaneous Test

In this research, the hypothesis being tested at sub structure 1 is formulated as follows:

\( H_0 : \rho_{yx} = 0 \) Corporate Social Responsibility (CSR) and Corporate Governance (CG) have no impact on Earnings Management (EM).

\( H_1 : \rho_{yx} \neq 0 \) Corporate Social Responsibility (CSR) and Corporate Governance (CG) have impact
on Earnings Management (EM).

Calculation results of path coefficient (path analysis) through software IBM SPSS Statistics 20 obtained the following results:

**Table 5: Impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG) Simultaneously to Earnings Management (EM)**

<table>
<thead>
<tr>
<th>Simultaneous Test</th>
<th>Calculated F value</th>
<th>F table</th>
<th>Decision</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR and CG simultaneously impact EM</td>
<td>0.371</td>
<td>3.3158</td>
<td>H₀ is accepted</td>
<td>Not significant</td>
</tr>
</tbody>
</table>

According to table above, CSR and CG simultaneously have no significant impact to EM. It is derived from the results of testing with the F statistic which shows that the calculated F value of 0.371 and from the F distribution tables with degrees of freedom dk₁ = k = 2 and dk₂ = n-k-1 = 33-2-1 = 30 F obtained a value of 3.3158 so calculated F value (0.371) < F table (3.3158) then H₀ is accepted. It means that CSR and CG have no impact on EM.

**Individual Test**

H₀: \( \rho_{yxi} = 0 \) Corporate Social Responsibility (CSR) / Corporate Governance (CG) has no impact on Earnings Management (EM).

H₁: \( \rho_{yxi} \neq 0 \) Corporate Social Responsibility (CSR) / Corporate Governance (CG) has impact on Earnings Management (EM).

\[ i=1,2 \]

According to table below, the path coefficient between CSR towards EM is 0.188. It implies that one point increase of CSR will increase EM of 0.188. Testing with t statistics shows that calculated t value (0.689) < t table (2.042). It indicates acceptance of H₀ that implies CSR has no significant impact to EM.

**Table 6: Impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG) Individually to Earnings Management (EM)**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path Coefficient</th>
<th>Calculated t value</th>
<th>t table</th>
<th>Decision</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pyx₁ ≠ 0</td>
<td>0.188</td>
<td>0.689</td>
<td>2.042</td>
<td>H₀ is accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>Pyx₂ ≠ 0</td>
<td>-0.234</td>
<td>-0.858</td>
<td>2.042</td>
<td>H₀ is accepted</td>
<td>Not significant</td>
</tr>
</tbody>
</table>
CSR is not positively related to discretionary accruals (representation of earnings management. While a high engagement in EM increases engagement in CSR, involvement in CSR does not determine EM practices (Grougiou at al., 2014). Then, Chih et al. (2008) that was studying the impact of CSR on earnings manipulation and Prior et al. (2008) that were examining the effect of earnings management on CSR use international data. According to Olivia Fan (2013), the characteristics of worldwide firms, including Indonesia, may not necessarily be the same as that in American companies.

Furthermore, as Chih et al. (2008) suggest, the type of relationship between CSR and earnings management depends on which earnings management is studied. The representation of earnings management in this study is discretionary accruals. Other kinds of earnings management for example, earnings smoothing and earnings losses avoidance, could help reverse the rejected hypotheses and confirm the relations between the two.

Path coefficients to EM is \(-0.234\). It implies that one point increase of CG will decrease EM of 0.234. Testing with t statistics shows that calculated t value \((-0.858)\) < t table (2.042). It indicates acceptance of \(H_0\) that implies CG has no significant impact to EM.

**Table 7:** Substantial Contribution of Corporate Social Responsibility (CSR) to Earnings Management (EM)

<table>
<thead>
<tr>
<th>Direct and Indirect Impact</th>
<th>Substantial Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct CSR</td>
<td>(P_{yx1}P_{yx1})</td>
</tr>
<tr>
<td>CSR through CG</td>
<td>(P_{yx1}P_{y1x2}P_{yx2})</td>
</tr>
<tr>
<td>Total CSR Impact to EM</td>
<td></td>
</tr>
</tbody>
</table>

Corporate governance is not positively related to earnings management. According to Olivia Fan (2013), the developing level of corporate governance in America is far beyond many other countries, so the characteristic defect of corporate governance is not obvious. Therefore, in Indonesia that has second worst corporate governance in Indonesia, corporate governance may not be used to manipulate earnings.

According to table above, total contribution of CSR to EM is 0.23%. Furthermore, to see the contribution of CG to EM can be seen from the following table.
Table 8: Substantial Contribution of Corporate Governance (CG) to Earnings Management (EM)

<table>
<thead>
<tr>
<th>Direct and Indirect Impact</th>
<th>Substantial Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct CG</td>
<td>$p_{yx2}p_{yx2}$</td>
</tr>
<tr>
<td>CG through CSR</td>
<td>$p_{yx2}r_{x1x2}p_{yx1}$</td>
</tr>
<tr>
<td>Total CG Impact to EM</td>
<td></td>
</tr>
</tbody>
</table>

According to the table above, the total contribution of CG to EM is 2.18%. Furthermore, to see the total contribution of CSR and CG to EM can be seen from the following table.

Table 9: Total Contributions Corporate Social Responsibility (CSR) and Corporate Governance (CG) Simultaneously on Earnings Management (EM)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Earnings Management (EM)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct Impact</td>
</tr>
<tr>
<td>CSR</td>
<td>3.53%</td>
</tr>
<tr>
<td>CG</td>
<td>5.48%</td>
</tr>
<tr>
<td>Total Impact</td>
<td></td>
</tr>
<tr>
<td>Residual</td>
<td></td>
</tr>
</tbody>
</table>

From the table above, the total impact of CSR and CG to EM is 2.41%. Wherein, the impact of other variables towards EM is 97.59%. In other words, EM variable can be explained 2.41% by CSR and CG variables. The remaining 97.59% of EM can be explained by other variables which were not studied.

6.4.3 Impact of Corporate Social Responsibility (CSR), Corporate Governance (CG), and Earnings Management (EM) to Firm Performance (FP)

Simultaneous Test

In this research, the hypothesis being tested at sub-structure 1 is formulated as follows:

$H_0: \rho_{zx} = 0$ Corporate Social Responsibility (CSR), Corporate Governance (CG), and Earnings Management (EM) have no impact on Firm Performance (FP).

$H_1: \rho_{zx} \neq 0$ Corporate Social Responsibility (CSR), Corporate Governance (CG), and Earnings Management (EM) have impact on Firm Performance (FP).

Calculation results of path coefficient (path analysis) through software IBM SPSS Statistics 20 obtained the following results:
**Table 10**: Impact of Corporate Social Responsibility (CSR), Corporate Governance (CG), and Earnings Management (EM) Simultaneously to Firm Performance (FP)

<table>
<thead>
<tr>
<th>Simultaneous Test</th>
<th>Calculated F value</th>
<th>F table</th>
<th>Decision</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR, CG, and EM simultaneously impact FP</td>
<td>0.163</td>
<td>2.9223</td>
<td>$H_0$ is accepted</td>
<td>Not significant</td>
</tr>
</tbody>
</table>

According to the table above, CSR, CG, and EM simultaneously have no significant impact to FP. It is derived from the results of testing with the F statistic which shows that the calculated F value of 0.163 and from the F distribution tables with degrees of freedom $dk_1 = k = 3$ and $dk_2 = n-k-1 = 33-3-1 = 29$ obtained a value of 2.9223 so calculated F value (0.163) < F table (2.9223) then $H_0$ is accepted. It means that CSR, CG, and EM have no impact on FP.

**Individual Test**

$H_0$: $\rho_{yxi}=0$ Corporate Social Responsibility (CSR) / Corporate Governance (CG) / Earnings Management (EM) has no impact on Firm Performance (FP).

$H_1$: $\rho_{yxi} \neq 0$ Corporate Social Responsibility (CSR) / Corporate Governance (CG) / Earnings Management (EM) has impact on Firm Performance (FP).

$i=1,2,3$

According to the table below, the path coefficient between CSR towards FP is 0.081. It implies that one point increase of CSR will increase FP of 0.188. Testing with $t$ statistics shows that calculated $t$ value (0.289) < $t$ table (2.042). It indicates acceptance of $H_0$ that implies CSR has no significant impact to FP.

**Table 11**: Impact of Corporate Social Responsibility (CSR), Corporate Governance (CG), and Earnings Management (EM) Individually to Firm Performance (FP)

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path Coefficient</th>
<th>Calculated t value</th>
<th>t table</th>
<th>Decision</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>$P_{zx1} \neq 0$</td>
<td>0.081</td>
<td>0.289</td>
<td>2.042</td>
<td>$H_0$ is accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>$P_{zx2} \neq 0$</td>
<td>-0.132</td>
<td>-0.469</td>
<td>2.042</td>
<td>$H_0$ is accepted</td>
<td>Not significant</td>
</tr>
<tr>
<td>$P_{zy} \neq 0$</td>
<td>0.080</td>
<td>0.430</td>
<td>2.042</td>
<td>$H_0$ is accepted</td>
<td>Not significant</td>
</tr>
</tbody>
</table>

The number of variables and the measurement biases may be the caused there is no significant relationship between CSR and firm performance (Forget, 2010). In fact, many studies
are confronted with limited data (small samples, old periods), often cross-sectional (ruling out the possibility of dynamic analysis of performance). Besides, a number of papers also rely on mis-specified empirical models leading to endogeneity problems. A variable is endogenous when it is predicted by other variables than those in the model.

Furthermore, different types of variables are considered as representative of a firm’s CSR policy and are not always comparable. Similarly, firm performance is accounted for by different variables across studies. There are either accounting based measures (such as return on assets, on equity or on sales) or market based measured (such as Tobin’s Q).

Thus, path coefficient CG to FP is –0.132. It implies that one point increase of CG will decrease FP of 0.132. Testing with t statistics shows that calculated t value (-0.469) < t table (2.042). It indicates acceptation of $H_0$ that implies CG has no significant impact to FP.

There can be measurement error in measuring each characteristic of corporate governance. The weight a particular index assigns to corporate governance characteristics is important. If the weights are not consistent with the weights used by informed market participants in assessing the relation between governance and firm performance, then incorrect inferences would be made regarding the relation between governance and firm performance (Bhagat and Bolton, 2008).

Moreover, the path coefficient between EM towards FP is 0.080. It implies that one point increase of EM will increase FP of 0.080. Testing with t statistics shows that calculated t value (0.430) < t table (2.042). It indicates acceptation of $H_0$ that implies EM has no significant impact to FP.

<table>
<thead>
<tr>
<th>Direct and Indirect Impact</th>
<th>Substantial Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct CSR</td>
<td>$P_{x1}P_{x1}$</td>
</tr>
<tr>
<td>CSR through CG</td>
<td>$P_{x1}P_{x1}P_{x2}$</td>
</tr>
<tr>
<td>CSR through EM</td>
<td>$P_{x1}P_{x1}P_{x2}$</td>
</tr>
<tr>
<td>Total CSR Impact to FP</td>
<td></td>
</tr>
</tbody>
</table>

Table 12: Substantial Contribution of Corporate Social Responsibility (CSR) to Firm Performance (FP)

According to Anderson et al. (2013), there is a reverse relationship between firm performance and earnings management – that firm performance drives earnings management.
Therefore, there is no significant relationship for CG toward EM.

As to see the magnitude of Corporate Social Responsibility (CSR) contribution to Firm Performance (FP) can be seen from the following table.

According to table above, total contribution of CSR to FP is -0.132%. Furthermore, to see the contribution of CG to FP can be seen from the following table.

**Table 13:** Substantial Contribution of Corporate Governance (CG) to Firm Performance (FP)

<table>
<thead>
<tr>
<th>Direct and Indirect Impact</th>
<th>Substantial Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct CG</td>
<td>$P_{xz2}P_{xz2}$</td>
</tr>
<tr>
<td>CG through CSR</td>
<td>$P_{xz2}r_{x2x1}P_{x1}$</td>
</tr>
<tr>
<td>CG through EM</td>
<td>$P_{xz2}r_{x2y}P_{zy}$</td>
</tr>
<tr>
<td>Total CG Impact to FP</td>
<td></td>
</tr>
</tbody>
</table>

According to table above, total contribution of CG to FP is 1.04%. Furthermore, to see the contribution of EM to FP can be seen from the following table.

**Table 14:** Substantial Contribution of Earnings Management (EM) to Firm Performance (FP)

<table>
<thead>
<tr>
<th>Direct and Indirect Impact</th>
<th>Substantial Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct EM</td>
<td>$P_{zy}P_{zy}$</td>
</tr>
<tr>
<td>EM through CSR</td>
<td>$P_{zy}r_{y1}P_{z1}$</td>
</tr>
<tr>
<td>EM through CG</td>
<td>$P_{zy}r_{x2y}P_{x2}$</td>
</tr>
<tr>
<td>Total EM Impact to FP</td>
<td></td>
</tr>
</tbody>
</table>

According to table above, total contribution of EM to FP is 0.748%. Furthermore, to see the total contribution of CSR, CG, and EM to FP can be seen from the following table.

**Table 15:** Total Contributions Corporate Social Responsibility (CSR) and Corporate Governance (CG), and Earnings Management (EM) Simultaneously on Firm Performance (FP)

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Direct Impact</th>
<th>Indirect Impact</th>
<th>Total Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>0.66%</td>
<td>-0.792%</td>
<td>-0.132%</td>
</tr>
<tr>
<td>CG</td>
<td>1.74%</td>
<td>-0.7%</td>
<td>1.04%</td>
</tr>
<tr>
<td>EM</td>
<td>0.64%</td>
<td>0.108%</td>
<td>0.748%</td>
</tr>
<tr>
<td>Total Impact</td>
<td>1.656%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residual</td>
<td>98.344%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table below, total impact of CSR, CG, and EM to FP is 1.656%. Wherein, impact of other variables towards FP is 98.344%. In other words, FP variable can be explained 1.656%
by CSR, CG, and EM variables. The remaining 98.344% of FP can be explained by other variables which were not studied.

Therefore, path diagram of the impact of Corporate Social Responsibility (CSR) and Corporate Governance (CG) to Earnings Management (EM), and its impact on Firm Performance (FP) is shown in the following diagram.

**Figure 6:** The impact of CSR and CG to EM and its impact on FP

![Path Diagram](image)

7. Conclusion

The relations between Corporate Social Responsibility (CSR), Corporate Governance (CG), Earnings Management (EM), and Firm Performance (FP) are examined in this study. Path analysis is used to complete this study because it can assess the impact of CSR and CG to EM and its impact to FP.

The samples are 33 publicly Indonesian companies in Indonesia Stock Exchange (IDX) from 2012 to 2014. It is found that CSR has positive significant impact on CG. In substructure 1, CSR and CG are proved having no significant impact on EM. Thus, in substructure 2, CSR, CG, and EM are also proved having no significant impact on FP.

7.2 Theoretical and Practitioner Implications

This study could add contributions to the accounting literature in the following ways. First, it studies the relation between several variables. In this case, the variables are CSR, CG, EM, and FP. Second, by using path analysis, the impact of each variable to the others can be assessed. It also could provide better understanding about the relations.
7.3 Limitations and Recommendation

This study only uses 33 samples and limited to 3 years so it may not be able to describe the real situation. In future work, it can provide better result by adding more samples and increase the study period. A more comprehensive measure of the variables also should be used. Furthermore, there is no room to include the influence of additional explanatory variables. Thus, it would be more appropriate using another model in future research to consider the influence of explanatory variables.

References:


Nam, S.-W., and Nam, I.C. (2004), Corporate Governance in Asia: Recent Evidence from Indonesia, Republic of Korea, Malaysia and Thailand, Asian Development Bank Institute, Tokyo.


