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The Effect of Earnings Management on Financial Performance Moderated by CSR

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ABSTRACT

This study investigates the relationship between earnings management and financial performance, while examining the moderating role of Corporate Social Responsibility (CSR) in manufacturing companies listed on the Indonesia Stock Exchange during 2021–2024. A quantitative explanatory approach was employed using secondary data obtained through purposive sampling based on reporting completeness criteria. Earnings management was represented by discretionary accruals estimated using the Modified Jones Model. Financial performance was assessed through Return on Assets (ROA) and Return on Equity (ROE), whereas CSR was evaluated using the Global Reporting Initiative (GRI)-based CSR Disclosure Index. The analytical framework included descriptive statistics, classical assumption testing, Moderated Regression Analysis (MRA), hypothesis testing, and model evaluation using the coefficient of determination and F-test at a significance level of 0.05. The findings demonstrate that earnings management has a significant effect on ROA but does not consistently influence ROE. CSR shows no significant association with ROA; however, it positively and significantly affects ROE. The moderating analysis further reveals that CSR does not significantly alter the relationship between earnings management and either ROA or ROE. These results indicate that the interaction between earnings management and CSR is not a primary determinant of financial performance. Consequently, variations in corporate performance are likely influenced by other factors beyond the variables incorporated in this study.

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1. INTRODUCTION

Corporate financial performance is a critical indicator of organizational success and serves as an important basis for investment decisions in capital markets (Beaver, 2002). Financial statements published by companies, particularly through official corporate websites, provide stakeholders, including investors, creditors, and regulators, with essential information regarding a firm's financial condition and operational performance (Amar & Chakorun, 2017). Financial performance is commonly assessed using profitability indicators such as Return on Assets (ROA) and Return on Equity (ROE). ROA measures the efficiency of asset utilization in generating profits, whereas ROE reflects the effectiveness of a company in generating returns from shareholders' equity (Barus et al., 2017). Higher profitability generally indicates stronger financial performance and greater value creation for shareholders (Barauskaite & Streimikiene, 2021).

The credibility of corporate performance evaluations depends heavily on the quality of published financial information; however, accounting disclosures do not invariably represent the underlying economic reality of a firm (Anggitasari & Mutmainah, 2012). Managerial intervention in the financial reporting process may occur through earnings management, a practice involving the strategic use of accounting judgment to influence reported outcomes in pursuit of particular organizational objectives (Al-Khabash & Al-Thuneibat, 2008). As a consequence, the informational environment can become less transparent, increasing disparities in information access between corporate insiders and external stakeholders and potentially impairing the accuracy of performance-related decisions (Alareeni & Hamdan, 2020). While earnings management is frequently interpreted as an expression of managerial self-interest, the phenomenon may also reflect adaptive responses to institutional demands, financial constraints, or pressures associated with achieving targeted performance levels (Adryanti, 2019).

Scholarly discourse in the fields of accounting and corporate finance has extensively examined how managerial reporting behavior may influence organizational financial outcomes. From the perspective of agency theory, the separation of ownership and control creates informational advantages for managers, allowing judgment within financial reporting practices to be exercised in ways that may advance particular organizational or individual objectives (Adityaningsih & Hidayat, 2024; Adrai & Perkasa, 2024). Such discretion can manifest through earnings management activities designed to achieve desired profit benchmarks, preserve favorable perceptions among capital providers, strengthen eligibility for performance-based rewards, and align reported results with prevailing expectations in financial markets (Abaoub & Amar, 2008). While some studies argue that earnings management can be used to communicate private information regarding future prospects, excessive managerial discretion may reduce the credibility of financial reporting and negatively affect firm performance (Breton & Schatt, 2003).

In addition to financial performance, stakeholders increasingly expect companies to demonstrate social and environmental responsibility. From the perspective of stakeholder theory, organizational legitimacy and long-term viability are influenced by the extent to which corporate actions accommodate the expectations of diverse stakeholder constituencies rather than exclusively serving shareholder interests (Aminah, 2015). Within this framework, Corporate Social Responsibility (CSR) is increasingly recognized as a governance-oriented mechanism embedded in strategic decision-making processes. The concept encompasses organizational efforts to generate socio-economic value through ethically grounded business conduct, while simultaneously enhancing the well-being of employees, local communities, and wider society (Oktafia, 2013). The institutionalization of CSR has also been strengthened by globally accepted standards and reporting architectures, notably ISO 26000 and the Global Reporting Initiative (GRI), which promote the incorporation of sustainability-related responsibilities into operational practices and corporate disclosure systems (Arigawati, 2025).

The growing importance of CSR is also evident in investment decision-making. Beyond financial performance, investors increasingly consider Environmental, Social, and Governance (ESG) factors when evaluating corporate value and long-term sustainability, including in the Indonesian capital market (OJK, 2023). Effective CSR implementation can strengthen corporate reputation, enhance stakeholder trust, attract and retain talented employees, and support sustainable business growth (Arya et al., 2002). Consequently, CSR may play an important role in mitigating the adverse effects of earnings management by promoting transparency, accountability, and ethical business practices.

Existing evidence on the association between earnings management and financial performance remains fragmented. Khantzian, (1990) as well as Amar, (2018) reported that earnings management contributes significantly to improved financial performance, including ROA among Indonesian manufacturing firms. By contrast, Jannah & Rochmatullah, (2024) observed a significant negative impact of earnings management on financial performance and identified CSR as a mechanism capable of reducing this detrimental effect. Different results were presented by Riski & Rochmatullah, (2025), who found no significant influence of CSR on either financial performance or earnings management. Conversely, Galuh & Rochmatullah, (2025) documented a positive and significant relationship between CSR engagement and earnings management practices. These contrasting findings indicate that the role of CSR in shaping the earnings management–financial performance relationship remains unresolved and requires further empirical assessment.

To address this research gap, the present study simultaneously examines accrual-based and real earnings management. Prior studies have frequently focused on only one form of earnings management, potentially limiting a comprehensive understanding of managerial reporting behavior (Saputri & Rochmatullah, 2025). To further investigate the conditions under which earnings management influences organizational outcomes, Corporate Social Responsibility (CSR) is positioned as a contingency factor within the research framework. The moderating role proposed by Firmansyah & Rochmatullah, (2026) implies that the magnitude and even the direction of an association between predictor and outcome variables may vary depending on the presence of a third construct. From this perspective, CSR engagement represents a governance-related mechanism capable of reshaping managerial behavior by discouraging self-serving financial disclosure practices. Simultaneously, sustained commitment to social and environmental responsibilities may generate reputational capital and strengthen stakeholder confidence, thereby altering the way earnings management is associated with financial performance (Sari & Rochmatullah, 2023).

Building upon the work of Lyra & Rochmatullah, (2026), the current research investigates the moderating role of CSR within the Indonesian context, which remains relatively underexplored in the literature. Indonesia provides a particularly relevant setting because CSR implementation is supported by Government Regulation No. 47 of 2012, which requires companies operating in or affecting natural resources to undertake social and environmental responsibilities. Furthermore, manufacturing firms represent an appropriate research setting due to the complexity of their operational activities, ranging from raw material procurement to production and distribution, which may create greater opportunities for earnings management. At the same time, the sector generates considerable environmental and social impacts, making CSR practices increasingly important.

This investigation is designed to explore the association between earnings management practices and corporate financial outcomes among manufacturing firms publicly traded on the Indonesia Stock Exchange throughout the 2021–2024 observation period. Particular attention is directed toward evaluating the contingent role of Corporate Social Responsibility (CSR) in shaping the magnitude and direction of this relationship. Beyond empirical verification, the study seeks to broaden scholarly understanding of the intersection between financial reporting behavior and sustainability-oriented corporate initiatives. The resulting evidence is anticipated to provide valuable implications for policy formulation, investment decision-making, and managerial governance by supporting greater accountability, transparency, and ethical conduct in corporate reporting and business operations.

2. METHODS

An explanatory quantitative framework was adopted to investigate the linkage between earnings management practices and corporate financial outcomes while incorporating Corporate Social Responsibility (CSR) as a contingent moderating mechanism. Empirical evidence was derived from archival sources, namely audited financial statements and sustainability disclosures issued by manufacturing firms listed on the Indonesia Stock Exchange (IDX) between 2021 and 2024. The selected timeframe reflects the post-COVID-19 business landscape, enabling the evaluation of organizational performance under conditions of economic recovery and operational adjustment (Felandi & Rochmatullah, 2024).

The determination of eligible observations followed a purposive selection procedure. Inclusion was restricted to firms that continuously released audited annual reports throughout the study horizon, presented financial information in Indonesian Rupiah, and disclosed all indicators necessary for the operationalization of the research constructs. Only companies satisfying these methodological requirements were retained for subsequent statistical analysis (Zahra & Rochmatullah, 2026).

Corporate financial performance constituted the dependent construct and was represented by Return on Assets (ROA) and Return on Equity (ROE) in accordance with the framework proposed by Subramanyam and Wild (2010). Earnings management functioned as the explanatory variable and was quantified through discretionary accrual estimates generated using the Modified Jones Model developed by Dechow et al. (2015). Meanwhile, the moderating role of CSR was operationalized through the Corporate Social Responsibility Disclosure Index (CSRDI), with disclosure assessment referring to the standards established within the Global Reporting Initiative (GRI) framework. The index was calculated using a dichotomous scoring method, assigning a value of 1 for disclosed items and 0 otherwise (Oktafia, 2013).

The moderating effect of CSR was tested using Moderated Regression Analysis (MRA) with the following models:

$$ROE = \alpha + \beta_1 EM + \beta_2 CSR + \beta_3 (EM \times CSR) + \varepsilon: \quad (1)$$

$$ROA = \alpha + \beta_1 EM + \beta_2 CSR + \beta_3 (EM \times CSR) + \varepsilon: \quad (2)$$

where ROE denotes Return on Equity, ROA denotes Return on Assets, EM represents earnings management, CSR represents Corporate Social Responsibility disclosure, α is the intercept, β_1–β_3 are regression coefficients, and ε is the error term.

Data were analyzed using statistical software. Descriptive statistics were employed to summarize the characteristics of the data, followed by classical assumption tests comprising normality, multicollinearity, heteroscedasticity, and autocorrelation tests (Ghozali, 2018). Hypothesis testing was conducted using t-tests and F-tests at a 5% significance level. In addition, the coefficient of determination (R^2) was used to assess the explanatory power of the regression models.

3. RESULTS AND DISCUSSION

Empirical observations were drawn from publicly listed manufacturing firms operating within the Indonesian capital market over the 2021–2024 timeframe. To ensure consistency with the analytical framework, sample inclusion was guided by a purposive selection procedure rather than random sampling. Eligibility was restricted to companies providing uninterrupted annual reporting across all years under investigation, presenting corporate social responsibility disclosures based on the Global Reporting Initiative framework, reporting financial information in Indonesian rupiah, and supplying complete datasets for all variables examined. Application of these screening conditions resulted in the final research sample, the composition of which is summarized in Table 1.

Table 1. Sample Selection Description

No	Criteria	Total
1	Manufacturing firms recorded on the Indonesia Stock Exchange and observed throughout the 2021–2024 research horizon	174
2	Companies excluded due to the absence of uninterrupted annual report publication during the observation window	(3)
3	Firms omitted because Sustainability Reports did not contain disclosures aligned with the Global Reporting Initiative (GRI) framework	(106)
4	Companies removed from the sample selection process for reporting financial information in currencies other than the Indonesian Rupiah	(12)
5	Firms lacking the complete financial data required for measurement of the research variables	0
	Sample per year	53
	Total sample (4 years observation)	212
	Outlier	(41)
	Final usable data sample	171

Source: Researcher-processed primary data (2026)

Table 1 summarizes the sample derivation process. From an initial pool of 174 manufacturing companies listed on the Indonesia Stock Exchange between 2021 and 2024, a series of selection filters were implemented to ensure conformity with the study requirements. The application of these criteria resulted in the retention of 53 eligible firms, yielding a balanced dataset consisting of 212 firm-year observations. Following the removal of 41 outlier observations, the final dataset comprised 171 firm-year observations used in the subsequent analysis.

Descriptive statistics are used to transform raw data into more detailed and easily interpretable information. The analytical framework of this investigation incorporates three categories of constructs, comprising outcome variables, an explanatory variable, and a moderating factor. Financial performance is operationalized through Return on Assets (ROA) and Return on Equity (ROE) as the endogenous measures, whereas earnings management represents the primary predictor, with Corporate Social Responsibility (CSR) functioning as the interaction-based moderating construct. To provide an empirical overview of the dataset, descriptive statistical procedures were employed, encompassing central tendency and dispersion indicators, including mean values, minimum observations, maximum observations, and standard deviations. A comprehensive summary of these statistical characteristics is reported in Table 2.

Table 2. Results of Descriptive Statistical Analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	171	-0.10	0.19	0.0542	0.05148
ROE	171	-0.33	0.27	0.0800	0.09446
DA	171	-0.19	0.27	0.0256	0.06435
CSR	171	0.11	1.00	0.4354	0.18390
Valid N (listwise)	171				

Source: Researcher-processed primary data (2026)

A total of 44 firm-year observations were incorporated into the empirical analysis. As reported in Table 3, the extent of CSR disclosure demonstrates considerable cross-sectional variation, evidenced by values spanning from 0.11 to 1.00, a mean score of 0.4354, and a standard deviation of 0.18390. These figures suggest that although the average level of social responsibility reporting remains moderate, substantial differences persist, ranging from firms with comprehensive disclosure practices to those providing only limited information. Regarding earnings management, the distribution extends between -0.19 and 0.27, accompanied by a mean of 0.0256 and a dispersion measure of 0.06435. Such statistics imply that discretionary reporting behavior is generally restrained across the sample, despite the existence of observable inter-firm variability. In terms of financial performance, ROA records a minimum of -0.10 and a maximum of 0.19, producing an average value of 0.0542 with a standard deviation of 0.05148. This pattern reflects relatively modest efficiency in generating returns from asset utilization, while the limited spread around the mean points to a fairly homogeneous distribution, notwithstanding the presence of loss-making entities. A broader range is observed for ROE, which fluctuates from -0.33 to 0.27 and yields a mean of 0.0800 alongside a standard deviation of 0.09446. The magnitude of this variability indicates greater heterogeneity in shareholders' returns and highlights the inclusion of companies exhibiting comparatively weaker financial outcomes.

A well-specified regression model is generally evaluated based on the normality of its data distribution, particularly the residuals, rather than the distribution of each individual variable. Prior to model estimation, the distributional adequacy of the error term was evaluated to verify compliance with the normality requirement underlying parametric regression procedures. This assessment relied on the Kolmogorov–Smirnov goodness-of-fit statistic, applying a significance threshold of 0.05. Establishing the absence of substantial departures from a normal distribution is necessary because the robustness of coefficient estimation, hypothesis testing, and the overall credibility of inferential outcomes depends on the behavior of the residual component. The normality test was conducted to determine whether the residual data in the regression model followed a normal distribution. The results of the data normality test are presented in Table 3.

Table 3. Results of Data Normality Test

			Unstandardized Residual (Model 1)	Unstandardized Residual (Model 2)
	Asymp. Sig. (2-tailed)		0.200c,d	0.016c
Monte Carlo Sig. (2-tailed)	Sig		0.798e	0.251d
	99% Confidence Interval	Lower Bound	0.787	0.240
		Upper Bound	0.808	0.262

Source: Researcher-processed primary data (2026)

Verification of the distributional assumption was performed through the One-Sample Kolmogorov Smirnov procedure employing Monte Carlo estimation. The analytical dataset comprised 171 cases in each regression specification. Evidence from the first model revealed a two-tailed Monte Carlo significance level of 0.798, substantially surpassing the critical probability criterion of 0.05, thereby indicating the absence of meaningful deviations from normality within the residual structure. An equivalent pattern emerged in the second specification, where the obtained significance value reached 0.251 and remained above the established threshold. Consequently, the residual components associated with both models can be regarded as approximating a normal distribution, confirming the adequacy of this prerequisite for subsequent multivariate statistical procedures.

Assessment of interpredictor dependency was subsequently undertaken through multicollinearity diagnostics. Within regression-based estimation, excessive linear association among explanatory variables may distort parameter estimation and compromise model stability. Accordingly, diagnostic evaluation relied on the examination of Tolerance coefficients and Variance Inflation Factor (VIF) statistics. The absence of multicollinearity is generally inferred when Tolerance values remain greater than 0.10 and VIF values do not exceed 10, indicating that each predictor contributes sufficiently distinct information to the model. The multicollinearity test was conducted to examine whether there was a correlation among the independent variables in the regression model. The results of the multicollinearity test for Model 1 and Model 2 are presented in Table 4.

Table 4. Multicollinearity Test Results for Model 1 and Model 2

Model	Variable	Tolerance	VIF
Model 1	DA	0.996	1.004
Model 1	CSR	0.996	1.004
Model 2	DA	0.996	1.004
Model 2	CSR	0.996	1.004

Source: Researcher-processed primary data (2026)

The multicollinearity test results are presented in Table 4. Both Discretionary Accruals (DA) and Corporate Social Responsibility (CSR) consistently show tolerance values of 0.996 and VIF values of 1.004 in both models. Evidence derived from the collinearity diagnostics confirms the adequacy of the model structure, given that each explanatory construct produced a tolerance statistic exceeding 0.10 and a variance inflation factor considerably lower than 10. Accordingly, the estimated parameters are unlikely to be distorted by intercorrelations among predictors. Furthermore, verification of the constant-variance assumption was undertaken using Spearman’s rho approach, whereby residual components were statistically associated with the independent variables to identify the possible presence of heteroskedasticity. The results of the Spearman's rho heteroskedasticity test for Model 1 and Model 2 are presented in Table 5.

Table 5. Spearman's rho Heteroskedasticity Test Results (Model 1 & Model 2)

Model	Variable	Sig. (DA)	Sig. (CSR)
Model 1	DA & CSR	0.506	0.994
Model 2	DA & CSR	0.230	0.958

Source: Researcher-processed primary data (2026)

Table 5 reports the results of the heteroskedasticity test using Spearman's rho. The significance values between the independent variables (DA and CSR) and the residuals in both Model 1 and Model 2 are all greater than 0.05. Therefore, no heteroskedasticity problem is detected, indicating that the variance of the residuals is homoskedastic.

The following table 6 presents the results of the Runs Test used to examine autocorrelation in Model 1 and Model 2.

Table 6. Autocorrelation Test Results

	Model 1	Model 2
Test Value	-.00030	.00580
Asymp. Sig. (2-tailed)	0.250	0.038

Source: Researcher-processed primary data (2026)

The autocorrelation test results using the Runs Test are presented in Table 6. Model 1 shows a significance value of 0.250 (> 0.05), indicating no autocorrelation problem. In contrast, Model 2 produces a significance value of 0.038 (< 0.05), indicating the presence of autocorrelation. This suggests that the residuals in Model 2 are not fully random, and the autocorrelation assumption is not satisfied. The results of the moderated regression analysis for Model 1, examining the effects of Digital Advertising (DA), Corporate Social Responsibility (CSR), and the DA_CSR interaction term on the dependent variable, are presented in Table 7.

Table 7. Moderated Regression Results for Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	0.032	0.01		3.241	0.001
	DA	0.353	0.144	0.441	2.45	0.015
	CSR	0.035	0.02	0.126	1.721	0.087
1	DA_CSR	-0.204	0.3	-0.122	-0.68	0.497

Source: Researcher-processed primary data (2026)

The estimates reported in Table 7 reveal that the moderating mechanism proposed in Model 1 is not empirically supported. Specifically, the coefficient associated with the interaction between discretionary accruals and CSR is negative (β = -0.204) and fails to achieve statistical significance (p = 0.497), suggesting that variations in CSR engagement do not alter the influence of earnings management on firm profitability as measured by ROA. In contrast, discretionary accruals exhibit a statistically significant positive association with ROA (β = 0.353; p = 0.015), implying that firms characterized by greater earnings management practices tend to report higher returns on assets. Although CSR demonstrates a favorable coefficient (β = 0.035), its effect remains below conventional significance thresholds (p =

0.087), indicating insufficient empirical evidence to confirm a direct contribution to profitability. Furthermore, the intercept estimate of 0.032 reflects the expected ROA level under conditions where all explanatory variables are fixed at zero. The results of the moderated regression analysis for Model 2 are presented in Table 8.

Table 8. Moderated Regression Results of Model 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	0.023	0.018		1.267	0.207
	DA	0.46	0.265	0.313	1.733	0.085
	CSR	0.107	0.038	0.208	2.836	0.005
1	DA_CSR	-0.126	0.553	-0.041	-0.228	0.820

Source: Researcher-processed primary data (2026)

Table 8 presents the regression results for Model 2. The constant is 0.023, indicating the baseline level of ROE. Discretionary Accruals (DA) have a positive but insignificant effect on ROE ($\beta = 0.460$; $p = 0.085$). The estimation results identify corporate social responsibility disclosure as a statistically meaningful predictor of shareholder profitability, as reflected by the positive coefficient obtained for ROE ($\beta = 0.107$; $p = 0.005$). This finding implies that firms exhibiting broader CSR reporting practices tend to achieve superior returns on equity. In contrast, the moderating specification incorporating the interaction between discretionary accruals and CSR produced a negative parameter estimate ($\beta = -0.126$); however, the associated probability value ($p = 0.820$) indicates an absence of statistical support for a moderating effect. Accordingly, the influence of earnings management on ROE remains unchanged regardless of variations in CSR engagement. The adjusted coefficient of determination for each estimated regression equation is reported in the following table 9.

Table 9. Coefficient of Determination (Adjusted R^2) Results for Model 1 and Model 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Dependent Variable
1	0.347	0.120	0.104	0.04872	ROA
2	0.334	0.111	0.096	0.08984	ROE

Source: Researcher-processed primary data (2026)

An assessment of model fit reported in Table 9 reveals a limited proportion of explained variance across both regression specifications. For the ROA model, the Adjusted R^2 coefficient reaches 0.104, demonstrating that only 10.4% of fluctuations in profitability can be attributed to the combined contribution of Discretionary Accruals (DA), Corporate Social Responsibility (CSR), and the moderating interaction between these variables. Consequently, 89.6% of the observed variation remains associated with influences beyond the analytical framework employed. Comparable evidence emerges from the second specification, where an Adjusted R^2 value of 0.096 indicates that the explanatory variables account for merely 9.6% of the changes in ROE. The relatively modest explanatory capacity observed in both estimations suggests that financial performance is shaped by a broader set of determinants that were not incorporated into the present investigation.

The results of the simultaneous significance test (F-test) for both regression models are presented in the following table, which summarizes the joint effect of Discretionary Accruals (DA), Corporate Social Responsibility (CSR), and their interaction term (DA_CSR) on the dependent variables. The results of the simultaneous significance test (F-test) for the moderation models are presented in Table 10.

Table 10. Simultaneous Significance Test (F-Test) Results for Moderation Models

Model	Dependent Variable	F Value	Sig.
Model 1	ROA	7.601	0.000
Model 2	ROE	6.985	0.000

Source: Researcher-processed primary data (2026)

Evidence regarding the joint explanatory power of the proposed models is provided in Table 10. The statistical output demonstrates that the first specification attains an F-statistic of 7.601, whereas the second specification records an F-statistic of 6.985; both estimates are associated with probability values of 0.000. Given that these significance levels remain substantially below the conventional threshold of 0.05, the null hypothesis of no collective influence can be rejected. Accordingly, DA, CSR, and the moderating interaction between the two variables exhibit a statistically meaningful combined relationship with financial performance, as proxied by ROA and ROE. Such results further confirm the adequacy and empirical validity of both regression specifications, thereby supporting their application in subsequent hypothesis evaluation. Detailed outcomes of the partial parameter significance assessment (t-statistics) for Model 1 and Model 2 are subsequently reported in Table 11.

Table 11. t-Test Results for Model 1 and Model 2

Model	Variable	Significance	Criteria	Result
Model 1	DA	0.015	< 0.05	H1 Accepted
Model 1	CSR	0.087	> 0.05	H2 Rejected
Model 1	DA_CSR	0.497	> 0.05	H3 Rejected
Model 2	DA	0.085	> 0.05	H1 Rejected
Model 2	CSR	0.005	< 0.05	H2 Accepted
Model 2	DA_CSR	0.820	> 0.05	H3 Rejected

Source: Researcher-processed primary data (2026)

Evidence reported in Table 11 from the coefficient significance assessment indicates that the explanatory power of Discretionary Accruals (DA) toward Return on Assets (ROA) remains statistically meaningful, as reflected by a probability value of 0.015. In contrast, neither Corporate Social Responsibility (CSR) disclosures nor the moderating specification represented by the DA–CSR interaction demonstrate sufficient statistical support, with respective significance levels of 0.087 and 0.497. These outcomes provide empirical confirmation for the first proposed hypothesis, whereas the second and third hypotheses fail to obtain validation within the estimated Model 1 framework.

In Model 2, DA does not significantly affect ROE ($p = 0.085$), whereas CSR has a significant positive effect ($p = 0.005$). The interaction term remains insignificant ($p = 0.820$), indicating that CSR does not moderate the relationship between earnings management and ROE. Thus, H1 is rejected, H2 is supported, and H3 is rejected.

Discussion

The results demonstrate that earnings management, proxied by discretionary accruals, affects financial performance differently depending on the performance measure employed. The empirical results indicate a differentiated impact of earnings management across profitability measures. Statistical evidence confirms its significant association with Return on

Assets (ROA), whereas no meaningful relationship is observed with Return on Equity (ROE). This pattern implies that accounting discretion primarily affects indicators reflecting the efficiency with which corporate resources are converted into earnings, given that asset-based performance metrics are highly sensitive to variations in reported income. Such findings reinforce the proposition advanced by Ramadhaniar & Rochmatullah, (2025) and Malasari & Rochmatullah, (2025), who emphasize the central role of financial reporting outcomes in influencing evaluations of operational effectiveness. Supporting evidence is also provided by Hasibuan & Rochmatullah, (2026), whose study demonstrates that organizations practicing earnings management frequently report superior short-term performance, particularly when profitability is assessed through measures linked to asset utilization.

The insignificant effect of earnings management on ROE may be attributed to the broader determinants of equity returns. Unlike ROA, ROE is influenced not only by accounting profits but also by financing decisions, capital structure, and equity management policies. This finding supports the argument of Sinatraz and Suhartono (2021), who suggest that investors tend to evaluate equity performance more cautiously, thereby reducing the observable impact of earnings manipulation. Similar results were reported by Manurung and Syafruddin (2020) and Christabel and Andrea (2025), who found no consistent relationship between earnings management and equity-based performance measures. From the perspective of agency theory, earnings management may temporarily improve reported profitability; however, excessive managerial discretion can reduce financial reporting quality and weaken investor confidence over time.

Empirical estimation demonstrates a differentiated impact of corporate social responsibility across profitability indicators. While no statistically meaningful association is observed between CSR engagement and Return on Assets (ROA), the relationship between CSR and Return on Equity (ROE) appears positive and significant. The absence of a measurable effect on ROA may indicate that investments in social and environmental initiatives are not directly reflected in the efficiency with which corporate assets generate earnings during the initial stages of implementation. Such evidence aligns with the conclusions reported by Limanto and Handoko (2022) as well as Pratiwi et al. (2020), who argued that the economic returns derived from CSR programs often emerge gradually and therefore may not be captured through short-term profitability measures. Conversely, the significant contribution of CSR to ROE suggests that sustainability-oriented corporate practices enhance value creation from the shareholders' perspective. This outcome can be attributed to reputational strengthening, the development of more favorable stakeholder perceptions, and the reinforcement of investor trust, all of which may improve market assessments of the firm. Similar observations have been documented by Oktavia and Rahayu (2022), Alfawaz and Fathah (2022), and Zuhriah and Maharani (2022), whose findings identified CSR implementation as an important factor associated with higher firm value.

Evidence interpreted through the lens of stakeholder theory indicates that improvements in shareholder-oriented profitability, as reflected by ROE, may arise from stakeholders' growing appreciation of firms that demonstrate meaningful commitments to environmental and social sustainability. By embedding CSR into organizational strategy, companies may strengthen their social license to operate, enhance relational trust among stakeholder groups, and establish conditions conducive to enduring value accumulation. In contrast, the insignificant relationship identified for ROA points to the possibility that the economic outcomes of sustainability-oriented investments are not instantaneously translated into operational efficiency, particularly when the analytical timeframe is relatively short and unable to capture delayed performance effects (Amalia & Rochmatullah, 2026).

Results obtained from the moderating effect assessment reveal the absence of a statistically meaningful interaction between Corporate Social Responsibility (CSR) and earnings management in explaining variations in financial performance, regardless of whether performance is proxied by ROA or ROE. Such evidence suggests that the influence exerted by earnings management practices on organizational outcomes remains largely unchanged across different levels of CSR engagement. One plausible interpretation is that market participants and broader stakeholder groups do not integrate social responsibility initiatives with assessments of reporting integrity when forming evaluations of a firm. Instead, CSR disclosures tend to be associated with commitments to social and environmental stewardship, whereas earnings management is more closely linked to perceptions of financial statement reliability and informational transparency. As a result, favorable CSR involvement appears insufficient to mitigate the adverse implications that may arise from concerns regarding managerial intervention in the financial reporting process.

This result is consistent with the findings of Silvera et al. (2024), Primatama and Kawedar (2022), and Yuliansyah et al. (2025), who reported that CSR does not consistently function as a moderating variable in the relationship between accounting-related variables and firm performance. Evidence obtained in the present study is consistent with the perspective advanced by Winata and Gunawan (2025), indicating that market participants do not necessarily evaluate corporate social responsibility initiatives and financial disclosure quality through the same interpretive framework. While CSR activities primarily generate legitimacy and reputational value, assessments of corporate financial information are largely driven by perceptions of reporting transparency and credibility. Consequently, the performance implications associated with CSR are likely to become more pronounced when sustainability-related initiatives are supported by financial statements that convey a high degree of reliability and openness.

From a broader governance perspective, the results demonstrate a direct contribution of CSR to shareholder-related performance outcomes. However, no empirical evidence suggests that CSR modifies the influence exerted by earnings management on financial performance. This pattern implies that external stakeholders may regard social responsibility practices and the integrity of financial reporting as distinct governance dimensions, each creating value through separate mechanisms despite their potential complementarities within the corporate accountability framework. Consequently, efforts to improve firm performance should be accompanied not only by effective CSR implementation but also by the maintenance of high-quality and transparent financial reporting practices.

4. CONCLUSION

Using a sample of manufacturing firms traded on the Indonesia Stock Exchange throughout the 2021–2024 period, this investigation evaluates whether the consequences of earnings management for corporate profitability are contingent upon the presence of Corporate Social Responsibility (CSR) practices. Empirical estimation indicates heterogeneous outcomes across profitability indicators. While discretionary earnings manipulation demonstrates a statistically significant association with Return on Assets (ROA), no comparable relationship is observed when financial performance is represented by Return on Equity (ROE), suggesting that the economic implications of earnings management depend on the dimension of profitability being assessed. A similar divergence emerges in relation to CSR. The analysis shows no meaningful contribution of CSR activities to asset-based performance; however, a positive and significant linkage is identified between CSR engagement and shareholder-oriented returns, implying that the benefits of CSR are more strongly reflected in equity value creation than in the efficiency with which organizational assets are utilized. Examination of the interaction effects further reveals the absence of a moderating function of CSR in the earnings management–performance nexus. Regardless of whether ROA or ROE is employed as the dependent indicator, CSR fails to amplify, weaken, or otherwise alter the influence exerted by earnings management on firm outcomes. These results suggest that corporate performance is unlikely to be primarily shaped by the combined operation of earnings management and CSR, whereas a broader set of internal organizational characteristics and external environmental conditions may possess greater explanatory relevance.

From a theoretical standpoint, the study extends existing evidence concerning financial reporting behavior and sustainability initiatives within the setting of an emerging economy. The findings indicate that the value generated through CSR engagement tends to occur through direct performance channels rather than through its capacity to condition the effects of earnings management. Consequently, CSR cannot be regarded as an effective boundary condition capable of strengthening or constraining the performance implications associated with managerial discretion in financial reporting. To advance understanding in this area, future research should integrate additional dimensions related to corporate governance structures, financial attributes, and market dynamics in order to develop a more comprehensive explanation of the determinants underlying variations in corporate financial performance.

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