



The Effect of CSR, Company Size, and GCG on Earnings Management

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ABSTRACT

The purpose of this research is to determine the effect of Corporate Social Responsibility (CSR), company size, and Good Corporate Governance (GCG) on earnings management. The quantitative technique is applied in this research. Data analysis approaches consist of descriptive analysis, classical assumption tests, and multiple linear regression tests. This research concentrate on coal mining business listed on the IDX between 2020 and 2023. The findings demonstrate that that, simultaneously, the variables of CSR, company size, and GCG all give an influence on earnings management. However, this research finds that GCG, as proxied by institutional ownership, board size, and company size give a beneficial effect on earnings management. Meanwhile, the independent board of commissioners, audit committee, and CSR don't impact on earnings management.

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1. INTRODUCTION

Financial statements provide essential information, as they reflect a business's condition over a specific period. The disclosure of company profits inevitably affects the company's value and influences stakeholders' decisions, creating the potential for the report to be misused (Mahariana & Ramantha, 2014). Financial Accounting Standards (SAK) are used to prepare financial statements (Rahmawati, 2013). In this process, SAK provides companies with the flexibility to choose the accounting methods or procedures they will use when preparing their financial statements.

Companies can manipulate earnings by adjusting accounting systems or policies to control reported profits (Rahmawardani and Muslichah, 2020). Earnings management involves altering financial statement content to attract investor attention. Healy & Wahlen, 1999 (as cited in Gil et al., 2016) describe earnings management as an adjustment to reported financial performance intended to mislead stakeholders or influence contract terms. Ruru et al (2023) explain that information asymmetry in earnings management leaves stakeholders lacking the resource, motivation, and access to critical information needed to monitor manager's action, leading to increased prevalence of such practice. Fanani et al (2020) argue that financial statements should allow management communicate transparently with stakeholders and other external parties. However, earnings manipulation by certain parties can compromise the integrity of these report. Profit, as noted by Tala and Karamoy (2017) serves as a key measure of management's success in assets management and reflects overall company performance.

Several companies in Indonesia have engaged in inaccurate financial statement practices, including revenue manipulation, expense misreporting, and delayed disclosure of relevant information. Some of these cases have drawn the attention of regulators and capital market authorities in Indonesia. One notable example is a 2017 case involving PT Tiga Pilar Sejahtera Food Tbk, a manufacturing company, where previous management was found to have overstated accounting entries worth Rp 4 trillion in its financial statements.

Earnings management is motivated by the interests of company management. In practice, it may involve strategies to decrease or increase income. Technique to decrease income are typically used to lower profits on paper, helping companies reduce taxes or manage labor expectations. In contrast, income-increasing strategies are intended to inflate profits, aiming to elevate stock prices, support business growth, achieve capital gains, and drawn in potential investors and creditors. Companies that show substantial profits are generally perceived as offering better returns, which tends to attract more investors after detailed review of their financial statements (Suhartanto, 2015);

Corporate Social Responsibility (CSR) refers to corporation's ethical duty to operate sustainably, aiming to generate a beneficial impact on society and the environment. Within the framework of sustainability, a sustainability report outlines the company's approaches and achievements across economic, environmental, and social areas, including product development. These reports focus on accountability and transparency for stakeholders (Anthoni and Yusuf, 2022)

Afifah et al (2021) argue that corporations must enhance performance through CSR initiatives that not only aim to improve customer service but also consider the needs of other stakeholders. Companies that prioritize CSR often focus on long-term goals, like sustaining a positive reputation with the public and stakeholders and achieving sustainability growth. However, some companies may use corporate social responsibility (CSR) as a type of "social washing" to discreetly engage in earnings management. Additionally, companies are needed to disclose CSR operations as part of their accountability efforts. Greater transparency in financial reporting can reduce information asymmetry, granting managers more flexibility in managing earnings as the information gap between earnings management and stakeholders narrows (Kalbuana et al., 2020).

H1: CSR affects earnings management

The scale of a company classified as large, medium, or small determined its assets (Ariani and Yudantara, 2023). Company size offers insight into its scale, complexity, and potential market and economy influence. Which can also affect its approach and capacity for earnings management. A firm's size can be gauged by its assets, sales, and market presence: higher assets, sales, and market size generally indicate a larger company (Sucipto and Zulfa, 2021). Companies under greater scrutiny from the government, creditors, and investors tend to avoid profit manipulation, as larger firms with greater transparency.

Medyawati (2016) notes that large companies are more inclined to show stable performance to attract investors. In contrast, smaller companies are often seen as more prone to engaging in earnings management. Companies size can thus be a factor that influences a firm's likelihood of meeting investor or shareholder expectations of investors through earnings management (Setiowati et al., 2023)

H2: Company size affects earnings management

Good Corporate Governance (GCG) practice can help reduce earnings management (Widyaningsih, 2017). GCG serves as a management guideline for companies to safeguard their priorities in achieving goals and objectives. Effective GCG management promotes accountability in management's actions and decisions. (Junaedi, 2020) defines GCG as the practice of managing a corporation responsibly to generate long-term values while considering stakeholder interests and adhering to law, ethics, and cultural norms

Corporate governance helps guide risk-prone policy decisions and reduce the likelihood of earnings management by through the board's role and its committees' independence. Good Corporate Governance (GCG) upholds management accountability to stakeholders enhancing company performance through oversight of management actions (Syofyan, 2021). GCG principles of accountability, transparency, and fairness help mitigate the risk of earnings management that could negatively impact stakeholders. In this study, GCG includes elements such as institutional shareholders, independent supervisory board, executive board, and financial oversight committee.

"Institutional investors' holdings" pertains to company's stock being owned by institutions, such as corporations, either from within the country or abroad, governments, insurers, investment firms, and other entities. Rahmawati (2013) found that institutional investors shareholdings correlates positively with earnings management and company value,

as managers may feel pressure to meet investors profit expectations. Bahri and Arrosyid (2021) note institutional investors tend to conduct more through financial analyzing

H3: Institutional ownership affects earnings management.

One of the elements within the board of commissioners is independent commissioners. It is essential aspect from GCG, aims responsible for ensuring adherence to, supervising management's actions, and upholding the company's reputation (Franita, 2018).

H4: The independent board of commissioners affects earnings management.

The task of the board of directors is leading initiatives and developing the company's future strategies to reach its objectives (Hasbullah F. Sjawie, 2013). The board makes key decision regarding the company's strategy and future direction (Taco & Ilat, 2016). The appointment of the board of directors is an integral part of implementing good governance.

H5: The board of directors affects earnings management.

Committee audit is accountable for providing independent opinions to the board of commissioners, supporting the application GCG principles to prevent earnings manipulation. Its function is to increase the accuracy of financial statement information, while the independent audit committee works to optimize the reliability of data in the organization's financial records, ensuring that management avoids mistakes. (Rahmawati, 2013)

H6: The audit committee affects earnings management.

CSR, company size, and GCG are factors that may influence the potential for earnings management to take place. CSR and GCG can act as control mechanisms to regulate earnings management. Company size is believed to influence earnings management due to limited supervision and human resources, as well as efforts to keep the business's images.

H7: CSR, company size, and GCG affects earnings management.

2. METHODS

This study applies quantitative approach, presenting records in numerical form. y. The research examines coal mining firms that were registered on the IDX between 2020 to 2023. Purposive sampling, as defined by Sugiyono (2019), is a method that takes into account specific pre-establish conditions and criteria. Coal mining business listed on the IDX that have reveal their CSR initiatives and published their financial reports for the year 2020 to 2023 satisfy the study's sample requirements. Fiftee enterprise, with 60 observations, met the criteria based on the parameters. This emplyos multiple linear regression analysis, descriptive analysis, and conventional assumption testing, utilizing SPSS software for data management.

Operational Variables

Earnings Management

This research analyzes earnings management by measuring discretionary accruals, derived with the adjusted Jones model.

Corporate Social Responsibility

The study's CSR data is derived from the organization's sustainability report, utilizing the CSR disclosure specified in OJK Circular Letter No. 16/SEOJK.04/2021.

Company Size

In this research, the company's size is determined by the overall worth of its assets.

Institutional Ownership

Institutional ownership is determined by summing the proportion of stocks held by institutions, like domestic or foreign corporates, government agencies, investment companies, and banks to the overall amount of equity circulating within the company.

Independent Board of Commissioners

This variable is evaluated by comparing the ratio of externally sourced members to the overall count of board members associated with the company.

Board of Directors

On this study, the board of directors is analyzed by counting the overall count of members.

Audit Committee

In this research, the audit committee is assessed by counting the overall count of members in the institution's audit committee.

3. RESULTS AND DISCUSSION

Descriptive Statistical Test Results

Descriptive statistical tests are used to outline the characteristic of the study variables through the computation of the mean and standard deviation. Table 1 presents the outcomes of the descriptive statistical analysis. The mean value of earnings management is 0.3222, with a standard deviation of 0.28312. For the CSR variable, the mean value is 0.4355, with a standard deviation of 0.26974. The firm size variable shows a mean of 5.4406, with a standard deviation of 0.13558. The institutional ownership variable has a mean value of 0.5021, with a standard deviation of 0.18924. The independent board of commissioners variable has a mean of 0.6587, with a standard deviation of 0.08176. The board of directors variable shows a mean value of 0.6510, with a standard deviation of 0.20210. Finally, the audit committee variable has a mean of 0.5107, with a standard deviation of 0.07055.

	N	Mean	Standard Dev
Y	60	.3222	.28312
X1	60	.4355	.26974
X2	60	54.406	.13558
X3	60	.5021	.18924
X4	60	.6587	.08176
X5	60	.6510	.20310
X6	60	.5107	.07055

Source: SPSS processed by the author, 2024

Statistical Test Results of Normality

The Kolmogorov-Smirnov test was applied in this research to check the data's conformity to normal distribution by calculating the significance score of Asymp Sig. Data is

considered distributed in normal if the asymptotic significance (2-tailed) value from the standard test exceeds 0.05 (5%). The asymptotic significance value in this study is 0,085 exceeding 0,05. Consequently, it may be asserted that this research data is distributed in normal.

Table 2. Kolmogorov-Smirnov Test Results

Criteria	Significance
Asymp. Sig. (2- tailed)	0.085

Source: SPSS processed by the author, 2024

Multicollinearity Statistical Test Results

The Table below show outcomes of the multicollinearity statistical analysis. Variables of independent have VIF values under 10 and tolerance levels over 0,10. The data indicate that the regressuin model is suitable for the investigation, as the values remains within acceptable limits.

Table 3. Multicollinearity Test Results

	Tolerance	VIF
CSR	0,547222222	1.269
Company Size	0,326388889	2.129
Institutional Ownership	0,564583333	1.229
Independent Board of Commissioners	0,547916667	1.268
Board of Directors	0,5125	1.355
Audit Committee	0,425	1.634

Source: SPSS processed by the author, 2024

Autocorrelation Statistical Test Results

The autocorrelation statistical test can be utilized to associate a linier model's mistakes with time (Masliyani & Murtanto, 2022). The Durbin-Watson (DW) statistic is analysed during the test. The DW value must range from 4 to 4-DU to ensure the absence of autocorrelation. The design weight for this investigation is 2,060. This outcome may indicate the absence of autocorrelation, implying that the study data is suitable for utilization due to its lack of autocorrelation.

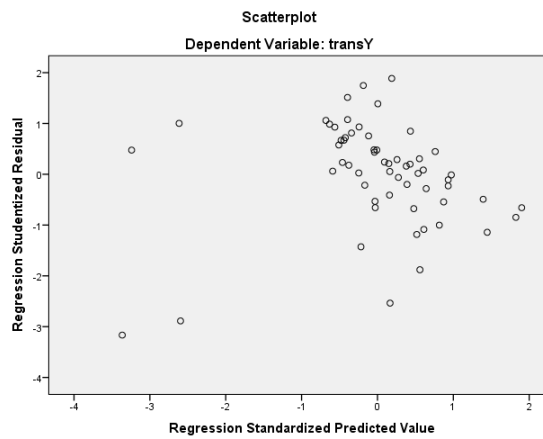
Table 4. Autocorrelation Test Results

N	Durbin-Watson
60	2,06

Source: SPSS processed by the author, 2024

Heteroscedasticity Statistical Test Results

The subsequent figure indicates the absence of heteroscedasticity in this regression model. This conclusion is drawn by observing the random distribution of points on the Y-axis, both above and below the number 0, in the Scatterplot diagram.



Source: SPSS processed by the author, 2024

Figure 1. Heteroscedasticity Test Results

T test

In this study, the result from the t-test are displayed on table below, which presents the otcomess from the multiple linear regression analysis.

Table 5. Multiple Linear Regression Test Results

Model		T	Sig
1	(Constant)	-2.872	.006
	X1	1.105	.274
	X2	2.797	.007
	X3	-3.085	.003
	X4	1.132	.263
	X5	-3.070	.003
	X6	-.354	.725

Source: SPSS processed by the author, 2024

H1: CSR affects earnings management

Variable CSR exhibits a t-value significance with 0,274, exceeding the 0.05 threshold, as indicated by the hypthothesis test findings. Thus, it may be asserted that CSR does not influence earnings management. Earnings management is unrelated to CSR as they pursue distinct objectives. Business engag in CSR. to demonstrate their ethical dedication to the environmental and community, whereas ernings management aims to manipulate financial reporting to achieve specific bjectives.

H2: Company Size Affects Earnings Management

The second independent variables exhibits a t-value significance of 0.007, which is bellow the 0.05 threshold, as indicated by the hypthothesis test findings. The indicates earnings management is infulenced scale of corporation. Stakeholders and investors frequently esert greater pressure on larger enterprise, perhaps leading to earnings management. Major organizations may earnings management Startegies to maintain consistent and dependable financial performance.

H3: Institutional Ownership Affects Earnings Management

Institutional ownership gives result of a t-value significance of 0.003, that bellow 0.05. Its indicates that this independent variable influence earnings management. Institutional ownership can influences company's performance, hence affecting earnings management

through institutional ownership. Research by Al-Haddad and Whittington (2019) illustrates that that institutional ownership influence earnings management. Pressure from institutional shareholders may prompt management to involve in earnings management actions for the purpose of meet targeted profits and maintain stock price stability.

H4: Independent Board of Commissioners Affects Earnings Management

In this variable gives result a t-value significance of 0.263, exceeding the threshold of 0.05, as per the hypothesis test. It means this variable does not impact a on earnings management. To minimize earnings management., independent supervisory board is accountable for monitor company management's policies and execution and ensuring the accuracy of the financial report.

H5: The Board of Directors Affects Earnings Management

Hypothesis testing reveals on this variable has a t-value of 0.003, That is bellow 0.05. Indicating that this variable gives impact to earnings management. Earnings management possibly influenced by the board because they are accountable for overseeing the action made by management, including those related to financial reporting. An effective Board of Directors can help management avoid earnings manipulation practices. A larger number of board members enhances the ability to supervise and control managers (Juliani and Venty, 2022)

H6: The Audit Committee Affects Earnings Management

For last independent variable from this study exhibits a t-value of 0.725, above the 0.05, threshold in hypothesis testing. Consequently, it may be asserted that earnings management is not influenced through the audit committee. Committee of audit may lack the requisite authority or oversight to effectively prevent management from falsifying earnings.

F test

The F-test evaluates the independent variables, in case impact the dependent variable. The condition for this test is that the hypothesis is valid if the significance value of F is 0.05 or lower. This means that the independent factors impact the dependent variable. As long as the F significance level exceeds 0.05, it suggests that the independent factors give no impact on the dependent variable.

H7: CSR, Company Size, GCG Affect Earnings Management

The findings reveal a significance value of 0.000, below 0.05, showing the independent factors had equal impact on dependent variable. CSR, company size, and GCG all contribute to increased openness and influence the degree of pressure that management confronts while carrying out earnings management.

Table 6. the Result of F test

	Model	F	Sig
1	Regression Residual Total	5.048	.000 ^b

Source: SPSS processed by the author, 2024

4. CONCLUSION

This study utilizes recent data, focusing on coal mining companies within the subsector from 2020 to 2023. The findings indicate that the firm size, CSR, and GCG factors all influence earnings management. Specifically company size, institutional shareholding and the board of directors positively give a control to earnings management, while CSR, the independent board

of commissioners, and the audit committee give no impact. Rahmawati (2013) study similarity found that GCG collectively impact earnings management. However, Bahri and Arrosyid (2021) observed that GCG, represented by external commissioners give no influence on earnings management. As well, Kalbuana et al., (2020) concluded the CSR give no impact on earnings management.

The study's findings highlight that certain corporate factors play a crucial role in earnings management. Larger companies, those with greater institutional ownership, and a robust board of directors are shown to have a positive impact on controlling earnings management, likely due to their enhanced oversight and governance mechanisms. In contrast, factors such as Corporate Social Responsibility (CSR), the presence of an independent board of commissioners, and the audit committee do not seem to significantly affect earnings management in this case. This suggests that while governance mechanisms like the board and institutional ownership are effective in limiting earnings manipulation, CSR and audit-related structures may need further strengthening to achieve a similar effect.

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