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The Mediation Role of Earnings Management on the Effect of Disclosure of Corporate Social Responsibility on Financial Performance

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Abtract

This study aims to analyze the effect of corporate social responsibility disclosure on financial performance through earnings management. This study develops agency theory and proves the relationship between CSR, ear-nings management and financial performance variables. Indicators of corporate social responsibility variables are social, economic, environmental, human rights, as well as employment practices and work convenience. Indicators of fi-nancial performance variables are Return on Equity (ROE) and Return on In-vestment (ROI). Earnings management variable indicators use the formula approach from Kothari. The research design uses a causality explanation. The population in this study are all mining companies listed on the Indonesia Stock Exchange (IDX) for 2019-2021. The sampling method used is a census with a total of 50 samples. Data analysis used multiple regression methods. The re-sults of this study indicate that corporate social responsibility has a negative effect on financial performance with ROI indicators and earnings management can mediate the effect of corporate social responsibility on financial performance with ROI indicators.

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1. Introduction

The development of industry and technology in Indonesia has entered the Industrial Revolution 5.0, where during the development of the Industrial Revolution 4.0 almost all human activities coexisted with sophisticated machines and tools with almost human-like intelligence and aimed at facilitating human daily work. All companies must be able to adapt to these conditions in order to continue to exist and compete with new companies that are increasingly popping up. Adaptability is very important in influencing the success of a company (Pozzi et al., 2023; Perifanis & Kitsios, 2023).

The increasingly fierce level of competition between companies, both similar and dissimilar companies, causes each company to be able to show its superiority. One indicator of a company's superiority is by looking at the company's financial performance in the financial statements for the period in question which describe profitability, liquidity and capital. It is these financial statements that will be used as material for consideration of the financial evaluation of the company concerned (Dalwai et al., 2021; Ramadhan & Sulistyowati, 2022; and Alduais, 2022). Good financial performance will be able to attract investors both from within and from abroad (Haryanto et al., 2018; Fristiani et al., 2020; Giosi & Caiffa, 2020; Li et al., 2021; Budiman & Krisnawati, 2021; Andreas et al., 2023; Harmono et al., 2023; and Agustin et al., 2023).

Agency theory explains the differences in interests between agents and principals in making decisions within the company (Muldoon, 2016; Bendickson et al., 2016; Pepper, 2018). According to agency theory, CSR disclosure has the ability to reduce conflicts caused by information asymmetry that have an impact on a company's financial performance. By involving top management in CSR disclosure activities it will reduce the opportunistic behavior of managers. CSR is a conflict resolution that is able to reduce problems in agency theory (Dmytriyev et al., 2021; Greiner & Sun, 2021; Boachie & Mensah, 2022).

The environment in which the company is located must get attention for the continuity of the company's operations. Exploration and exploitation of natural resources managed by the company will have an impact on the health and safety of the surrounding environment (Ben Lahouel et al., 2022). From these problems, companies must have and maintain good relations with the community and are committed to providing social responsibility which is packaged in corporate social responsibility (Corporate Social Responsibility/ CSR). With this CSR, companies can create and maintain a good reputation in the eyes of society so that they can maintain good quality human resources (Pasko et al., 2022; López-González et al., 2019; Maali et al., 2021; Xu et al., 2022; and Pasko et al., 2022).

CSR disclosure has a positive and significant effect on financial performance (Cho et al., 2019; Rahmawardani & Muslichah, 2020; Han et al., 2023). Disclosure of CSR will be addressed to stakeholders in the company so that the reports made must be able to meet all the expectations of these stakeholders. Research in China shows that CSR disclosure has a positive effect on financial performance, especially when they are facing institutional instability. Disclosure of CSR in this instability can improve their reputation and attract many investors to be able to reduce the risks they are facing (Thai, 2017; Su et al., 2020; Long et al., 2020; and Huang, 2022).

Earnings management is an act of management carried out to maximize the quality of company management by making accounting procedure policies so that the desired profit can be achieved and the welfare of various interested parties can be maximized (Scott, 2015). A disclosure of CSR expenditures is carried out, the company will try to reduce these costs through earnings management practices within the company so that the profits obtained are higher. In research conducted in India, it shows that companies that make voluntary CSR disclosures tend to be more involved in earnings management practices (Sial et al., 2018; Bansal & Kumar, 2021; Hickman et al., 2021)

The CSR report is made to create a good corporate image in the eyes of the public, but before this CSR disclosure report is published, it must go through the stages of prior identification by stakeholders related to the report's ability to reflect a good image. With a good company reputation, it can be said that it is able to improve company performance which will be seen from the company's financial performance. This increase in financial performance forces company management to practice earnings management to generate higher company profits (Cao, 2022). Mining sector companies in fact have a big impact in terms of environmental health and this often causes contraries in society because they feel a direct impact on the environment and socially.

Based on the explanation above, this research was conducted to determine the effect of corporate social responsibility on financial performance through earnings management. CSR has a direct impact on financial performance and there have been many studies discussing this matter so that for the update in this study, the researcher includes earnings management as a mediating variable. The results of research that included mediating variables between CSR and financial performance indicate that mediators can become processes or results in indicators to translate CSR into financial performance (Ye et al., 2021). CSR disclosure is based on the Global Reporting Initiative (GRI), financial performance will be measured through ROE and ROI, and earnings management is calculated using the Kothari model (2006). The object of this research is a mining company that has been listed on the Indonesia Stock Exchange (IDX).

Disclosure of CSR in mining companies is considered important as a form of implementing social accounting because CSR disclosure can improve balance and social welfare for the community in which mining companies are located. The phenomenon of mining companies in Indonesia is progressing rapidly because various kinds of mines, ranging from gold to coal, have been found. This development led to better financial performance. Good financial performance can be influenced by CSR disclosure because it can attract investors to invest so that the capital in the turnover company tends to be stable. Capital and investment with high nominal can also be influenced by earnings management practices within the company. This study aims to analyze the effect of corporate social responsibility disclosure (CSR) on financial performance through earnings management.

2. Hyphotesis Development

Corporate Social Responsibility and Financial Performance

In agency theory it is stated that this theory reveals the relationship between the agent and the principal of the company. The application of agency theory in CSR disclosure can actually increase agency costs which will later affect financial performance. Disclosure of CSR in agency theory can be a burden in addition to agency costs in order to reduce the company's financial performance (Jensen & Meckling, 1976). The results of previous research on the relationship between CSR disclosure and financial performance indicate that there are positive effects between CSR disclosure and financial performance such as increasing the willingness of stakeholders to get involved, attracting resources, and strengthening competitive advantage (Huang, 2022).

In other studies, it is also stated that CSR disclosure plays an important role in financial performance with the concept of doing the best for the company (Ye et al., 2021). A good role between CSR disclosure and financial performance will serve as an external mechanism that can consider broader stakeholder interests such as social or environmental actions so that they can fulfill the goals of the company in maximizing financial performance (Xu et al., 2022).

Several other studies have revealed that CSR disclosure has a negative effect on financial performance. This negative effect on financial performance is found in the results of research conducted in Italy and in China on banking companies and also on family businesses (Tenuta & Cambrea, 2022; Zhou et al., 2021). In the short term the activity of disclosing a bank's CSR will add to the burden and have a negative impact on financial performance, but in the long term it will provide incentives for stakeholders such as increasing information transparency, reducing bank environmental risk, and so on (Zhou et al., 2021).

H_1: Corporate Social Responsibility disclosure has a negative effect on financial performance.

Earnings Management Mediates the Effect of Disclosure of Corporate Social Responsibility on Financial Performance

In agency theory it is explained that this theory arises from a conflict that arises from each group involved in this theory, namely the management group and the investor group. It is the interests of each group that will make each party strive to achieve and maintain profits which are part of the prosperity of the company concerned

The results of previous studies using earnings management as a mediating variable on the effect of CSR disclosure on financial performance indicate that the earnings management variable is capable of mediating (Ye et al., 2021). Other research also states the same thing that the earnings management variable is able to mediate the effect of CSR disclosure on financial performance, but further exploration is needed on the ability of earnings management as a mediating variable (Tuyen et al., 2023; Ye et al., 2021). Meanwhile, other studies show different results, namely that earnings management is unable to mediate the effect of CSR disclosure on financial performance (Pamungkas & Winarsih, 2020; (Rahmawardani & Muslichah, 2020). This happens because stakeholders are still unable to analyze the information obtained from the market. This is because stakeholders are unable to detect earnings management in the financial reports presented by management (Rahmawardani & Muslichah, 2020).

H_2: Earnings Management can mediate the effect of CSR disclosure on financial performance

3. Data and Methods

This study uses a type of causality explanatory research that explains the relationship between independent and dependent variables. Indicators for the dependent variable are financial performance by using content analysis to determine the level of business financial growth on an annual scale by identifying profitability ratios through how large and efficient the company uses its business assets, measuring financial health and efficiency, and evaluating the efficiency of the company's investment process concerned. The indicators of financial performance are carried out to find out how much influence they have on the three CSR indicators used, namely social, economic and environmental because this is in accordance with the field conditions of mining companies.

The population used in this study are companies from the mining sector that have been listed on the Indonesia Stock Exchange (IDX) for 2019-2021. The population criteria to be used in this study are: mining companies that publish complete annual reports. In Indonesia there are 53 mining companies listed on the IDX. The sampling method used in this study is the census method. All populations were taken for analysis, from all populations taken there were companies that did not publish complete annual reports. From a number of mining companies that are registered and meet the population criteria, there are 49 companies. So, the number of companies that can be analyzed, and the data that are ready to be processed are 50 samples.

This study uses secondary data obtained from the annual reports of mining companies which include financial reports and Corporate Social Responsibility reports for 2021. Data was obtained from the Indonesia Stock Exchange (IDX) website at www.idx.co.id.

The process of obtaining data for mining company annual reports is carried out with the first stage of compiling a list of companies that have been listed on the Indonesia Stock Exchange (IDX) in 2021. After the annual reports have been collected, a documentation process is carried out by recording and studying the information obtained from the annual report documents from companies that have concerned.

Operational Definition and Variable Measurement

Disclosure of Corporate Social Responsibility

The measurement of CSR disclosure is based on the Global Reporting Initiative (GRI) and will consist of CSR1, which is social, CSR2, namely the economy, CSR3, namely the environment, CSR4, namely Human Rights, and CSR5 Employment Practices and Work Leisure. In measuring CSR disclosure, it will reveal the value of each item that is disclosed in the company's annual report. The indicators in self-assessment will be scored 1 if the company discloses and 0 if the company does not disclose. From each of these indicators, it will be processed by adding up all of them to obtain the overall CSR value of the company. The formula for calculating the CSR Disclosure Index is (Julianto & Megawati, 2020):

$$CSRIj = \frac{\sum xij}{nj}$$

Where: CSRIj= (∑xij)/nj; CSRIj= Corporate Social Responsibility Index Categorization; ∑xij= number of items disclosed by company J for year I; Nj= number of items for company j

Financial performance

Financial performance measurement is seen from the profitability ratio through Return on Equity (ROE) and Return on Investment (ROI). ROE is used to determine the size of a company's financial performance and unify the income statement held by shareholders. It is necessary to pay attention to the capital turnover ratio in the company to determine the amount of capital used for company capital and that will be given to principals. ROI is used to evaluate the efficiency of existing investments in the company.

Earnings management

Earnings management practices within the company are used to improve profit conditions in order to support company performance. Companies that engage in earnings management practices only to meet revenue targets have a relatively better subsequent performance than companies that do not engage in earnings management and lose or only meet revenue targets (Osma et al., 2022). Measurement of earnings management is seen from total accruals and known as Performance-Matched Discretionary Accruals. This model was put forward by Kothari (2006). The condition of a company with systematic performance is expected to have a high enough value to be able to make the company's performance, especially in the financial section, relate well to accruals (Kothari et al., 2006). The condition of a company that is experiencing growth has a high accrual value due to the condition of a company that is experiencing growth or it could be that the company does have good performance. This assessment can be seen from the amount of receivables from the company which is quite high. From this explanation, Kothari (2006) created a model to control performance in terms of accruals. The formula for calculating total accruals for Kothari (2006) is:

$$DAit = \frac{TAit}{Ait-1} = \alpha 1\left(\frac{1}{Ait-1}\right) + \alpha 2\left(\Delta REVit - \left(\frac{\Delta RECit}{Ait-1}\right) + \alpha 3\left(\frac{PPE}{Ait-1}\right) + \alpha 4\left(\frac{ROAit}{Ait-1}\right) + \varepsilon\right.$$

Where: DAit= Discretionary accruals of company i in period t; TAit = Total accruals of company i in period t; Ait-1 = Total assets of company i in period t; ΔREVit : Change in income of company i in period t; PPEit : Fixed assets of company i in period t; ROAit : Return on Assets of company i in period t; ε : error term

In this study, the data analysis used is descriptive analysis, content analysis, and multiple regression analysis. Descriptive analysis is used to explain the sub-sector of mining companies, content analysis is used to determine the level of financial growth of mining companies, and regression analysis is used to predict the causal effect of the independent variable, namely corporate social responsibility and the dependent variable, namely financial performance through the mediating variable, namely earnings management. The equation of the multiple regression equation is:

$$\boldsymbol{FPDit = \alpha + \beta 1\, CSRDit + \beta 2\, MLit + \varepsilon it}$$
$$\boldsymbol{MLDit = \alpha + \beta 1\, CSRDit + \beta 2\, FPit + \varepsilon it}$$

This study also conducted a classical assumption test first to see the feasibility of the data to be used before conducting a multiple regression test. After conducting a classical assumption test and a multiple regression test, a hypothesis test was conducted by calculating the path analysis of the relationship between direct and indirect influence variables.

4. Result

Descriptive Analysis

The results of data analysis in this section present the results of descriptive analysis and are followed by inferential statistical analysis. The results of the descriptive statistical analysis are presented in table 1

Table1. Result of Descriptive Statistics

	Min	Max	Mean	St. Dev
CSR	0.090	0.600	0.265	0.123
ML	0.000	0.830	0.106	0.128
FP	0.001	0.110	0.014	0.019

The results of the descriptive statistical analysis in Table 1 show that the amount of data analyzed in this study amounted to 50. Based on these results it can be seen that the earnings management variable has the smallest value of 0.00, the largest value is 0.83, the average is 0.106 and the standard the deviation is 0.1279. The financial performance variable has a minimum value of 0.001, a maximum value of 0.110, a mean value of 0.014 and a standard deviation of 0.019. Fi-nally, the CSR disclosure variable has a minimum value of 0.090, a maximum value of 0.60, an average value of 0.265, and a standard deviation of 0.123.

Classical Assumption Test Results

The results of the classical assumption test consisting of the normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test have been met. The results of the normality test show a sigma value of 0.186 which indicates that the data is normally distributed. The results of the heteroscedasticity test indicate that the data tested does not experience heteroscedasticity. So the data is declared suitable for use as prediction material. The results of the multicollinearity test show that none of the variables experience multicollinearity. The results of the autocorrelation test indicate that the data is free from autocorrelation.

Path Analysis

Path analysis is used to examine the influence of intervening variables to analyze patterns of relationships between variables with the aim of comparing the coefficients of indirect effects with the coefficients of direct effects. The output results of Table 2 provide an unstandardized CSR disclosure beta value in equation 1 of 0.123 and a significance of 0.411> 0.05, which means that CSR disclosure does not affect earnings management. With the regression equation formula as follows:

Z (rationality) = 0,119 CSR + e1

Table 2. Results of CSR Pat Analysis on Earnings Management

	β	SE	t	Prob.
Constant	0.073	0.043		1.690
CSR	0.123	0.149	0.119	0.830

Table 3. Result of Path Analysis of CSR and Earnings Management on ROE

	β	SE	t	Prob.
(Constant)	0.022	0.007	3.332	0.002
CSR	-0.035	0.022	-1.614	0.113
ML	0.031	0.021	1.474	0.147

Output results in equation 2 with 2 different equations. The first equation with the dependent variable ROE gives a Standardized Coefficients beta value of CSR disclosure of -0.226 and a significance of 0.113 which means that CSR beta does not affect the ROE indicator, for Standardized Coefficients earnings management is 0.207 with a significance level of 0.147 which means CSR disclosure does not affect the ROE indicator through mediation earnings management. The second equation gives the dependent variable ROI a value of Standardized Coefficients beta CSR of -0.195 and a significance of 0.035, which means that beta CSR has a significant negative effect on the ROI indicator, for earnings management it is 0.787 with a significance level of 0.000 which means CSR disclosure has a significant negative effect on the ROI indicator through earnings management. The regression equation formula as follows:

Y(FP) = -0.226CSR + 0.207EM
Y(FP) = -0.226CSR + 0.207EM

Where: EM= Earnings Management; FP= Financial Performance; SM=CSR

p1 = Path Coefficient PF with CSR
p2= Path coefficient ML with PF

Table 2. Hypothesis Test Results

Variable Relation	Direct effect	Indirect effect	Total effect	Sig
CSR → ML	0.119			Non Sig
CSR → ROE	-0.226			Non Sig
CSR → ROI	-0.195			Sig
ML → ROE	0.208			Non Sig
ML → ROI	0.787			Sig
CSR → ML → ROE		0.119 x 0.208 = 0.025	-0.226 + 0.074 = -0.201	Non Sig
CSR → ML → ROI		0.119 x 0.787 = 0.093	-0.195 + 0.0934= -0.102	Sig
ROE Determination Coeficient Analysis Result				
R_2	0.085			
R^2_{Adj}	0.046			
ROI Determination Coefficient Analysis Results				
R_2	0.085			
R^2_{Adj}	0.046			

Based on table 4 it can be seen that the magnitude of the influence of CSR on earnings management is 0.119. The magnitude of the influence of CSR on ROE and ROI is -0.226 and -0.195. The magnitude of the influence of earnings management on ROE and ROI is 0.208 and 0.787. The effect of CSR disclosure on ROE and ROI through earnings management as a mediating variable (indirect effect) is calculated by multiplying the indirect coefficient with the resulting values of 0.025 and 0.093. The total effect generated by adding up the direct and indirect effects is -0.201 and -0.102. One of the relationship variables shows a negative result so that it can be concluded that earnings management cannot be used as a mediating variable in the relationship between CSR and financial performance.

The determination coefficient is used to measure how far the model's ability to explain the dependent variable. Based on table 4, it can be seen that the determination coefficient value can be seen from the R^2 value of 0.085 and 0.627. This shows that the contribution of two variables, namely CSR disclosure and earnings management to financial performance is 8.5% and 62.7%. While the rest is explained by other variables that are not observed in this study.

5. Discusssion

The Influence of CSR on Financial Performance

The results of this study state that CSR disclosure has a significant negative effect on financial performance which has a Return on Investment (ROI) indicator and has no effect on the Return on Equity (ROE) indicator. This indicates that the higher the activity as seen from CSR disclosure will affect the amount of costs incurred, but is considered good for the company's long-term investment. In accordance with related agency theory, namely the greater the managerial ownership for long-term interests, the greater the disclosure of CSR that is carried out so that the company's expenses will be even greater especially on CSR disclosures that have an impact on financial performance (Pepper, 2018). The results of this study support previous research conducted by (Rahmawardani & Muslichah, 2020; Ye et al., 2021; Zhou et al., 2021; Hickman et al., 2021; Kabir & Chowdhury, 2022; Tenuta & Cambrea, 2022) which states that CSR disclosure has a significant negative effect on financial performance. However, there are different with Gupta & Deb's, 2022; Huang, 2022; Kahloul et al., 2022; Ortiz-Martínez et al., 2023; Xu et al., 2022).

Companies have limited resources in the short term, so companies must pay certain financial costs to carry out social responsibility, and if companies spend more on social responsibility it will have a negative impact on financial performance (Zhou et al., 2021). Disclosure of CSR will cause the company's total expenditure to increase, but this disclosure is aimed at stakeholders in order to increase the amount of investment by outside investors into the company which has an impact on a good corporate image. Having a good corporate image can encourage consumers to enjoy services or buy products produced by the firm (Rahmawardani & Muslichah, 2020). Customer satisfaction, which can be seen from social indicators in CSR disclosure, is the main determinant of the financial results of a business so that it can improve financial performance (Ye et al., 2021). The use of the ROE indicator in research conducted in Bangladesh states that expenditures used for CSR do not show real financial performance so that CSR disclosure does not affect financial performance (Kabir & Chowdhury, 2022).

Companies with good financial performance control, especially in terms of investment activities, will have a good impact on the company. CSR is considered to be able to influence investors so that it can affect financial performance in the long term. Disclosure of CSR is not fully a supporting factor to attract investors. The amount of CSR disclosure made by the company will have an impact on the company's financial performance because the amount of equity issued will be considered as an expense. The effect of CSR on financial performance which has yielded significant results can be seen in the ROI financial performance indicators and is still not visible in the ROE indicators in the research results of mining companies for the 2019-2021 period.

Earnings Management Able to Mediate the Influence of Corporate Social Responsibility on Financial Performance

The results of this study state that earnings management is able to mediate the effect of CSR disclosure on financial performance through ROI indicators, but results cannot mediate ROE indicators. The higher the company's CSR activity, the more stakeholders will hold earnings management. Therefore, CSR disclosure affects profits or the quality of existing financial reports, if it is not used properly it makes managers take earnings management actions (Manuela et al., 2022). In accordance with related agency theory, there is significance in the interaction between protection of minority shareholders and controlling ownership of earnings management which can validate and broaden the perspective of institutionalized agency theory (Bao & Lewellyn, 2017).

The results of this study support previous research conducted by Ye et al., (2021); Zhou et al., (2021); Kim & Yoo, (2022); Tuyen et al., (2023) which states that mediation between CSR and financial performance can provide a significant relationship, but there are different statements from the research by Pamungkas & Winarsih, (2020); (Rahmawardani & Muslichah, 2020) which states that the existence of a mediating variable in CSR disclosure and financial performance has no effect.

The mediating role of earnings management in mediating the effect of CSR disclosure on financial performance, using the ROI indicator has a negative and significant effect. This is because the ROI indicator used in the financial performance variable is able to explain external physical events, namely in terms of investment decisions for stakeholders (Ye et al., 2021). Research in China reveals that the existence of a mediating variable in the relationship between CSR disclosure and financial performance will increase corporate social responsibility which will ultimately reduce the company's financial performance (Zhou et al., 2021). The difficulty in detecting earnings management practices by stakeholders causes earnings management practices to have a significant negative effect in mediating CSR with financial performance (Tuyen et al., 2023).

6. Conclusion and Suggestion

Conclusion

The results of the study indicate that CSR disclosure has a negative effect on financial performance on the ROI indicator and has no effect on the ROE indicator. Earnings management is able to mediate the effect of CSR disclosure on financial performance through earnings management with the ROI indicator and is unable to mediate through the ROE indicator. The implication of this study is that management is more careful in disclosing CSR, but CSR disclosure must still be carried out by management.

Suggestion

The limitation of this study is that some mining companies do not publish their annual reports so that the data related to the mining company's annual reports are incomplete. The data needed for this study is 2019-2021, but some companies only provide data for certain years without knowing the reason. It is recommended for further research to find and select companies that are complete in providing annual reports. For financial performance variable indicators, it is better to look for indicators that are able to provide a balanced contribution.

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