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CORPORATE SOCIAL RESPONSIBILITY AND EARNINGS MANAGEMENT: THE ROLE OF CORPORATE GOVERNANCE

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Abstract

Purpose: The purpose of this paper is to examine the role of corporate governance in the relationship of Corporate Social Responsibility (CSR) and firm size to earnings management of manufacturing firms in Indonesia.

Methodology: The study draws on data from 66 firms listed in Indonesian Stock Exchange from 2014 to 2017, using a multiple regression model. The present study examines the influence of CSR on earnings management, and the impact of corporate governance on the relationship between CSR and firm size with earnings management.

Main Findings: The finding showed that the effect of CSR on earnings management was significant and positive. The study also finds a statistically significant negative relationship between firm size and earnings management. The evidence also shows the role of corporate governance in the relationship of CSR and firm size to earnings management is significant and negative, it means that when the firm has good corporate governance, the firms that allocate CSR funds are relatively large, then it will tend not to practice earnings management, likewise large firms with good corporate governance will tend not to do earnings management.

Research limitations/implications: The present study does not include all possible other variables that influence earnings management. Further research might increase the scope of research objects by extending the study period and need to pay attention to the firm's macro factors or economic risk factors outside of financial performance so as to provide a more comprehensive picture of the results of the study.

Originality/value: The study focuses on the role of corporate governance issues such as the independence and activity of the boards and their influence on earnings management. The subject analyses the possible impact of CSR and firms size-related earnings management that has received much attention from academic research, which has largely focused on studying the publications of corporate governance in Indonesia context and can be contributes thoughts about the importance of corporate social responsibility activities that are reported as a basis for consideration incorporate policy-making to further enhance corporate awareness in the social environment, as well as the importance of corporate governance to minimize earnings management practices.

Keywords: *corporate social responsibility, firm size, corporate governance, earnings management, financial performance.*

INTRODUCTION

The corporate governance perspective starts from agency theory, which identifies potential conflicts of interest between the owner (principal) and management (agent). An agency relationship is a contract between the owner and management. The occurrence of a conflict of interest between the owner and management is likely due to management acting in accordance with the interests of the owner, thus triggering agency costs (Jensen & Meckling, 1976). Managers as company managers know more about internal information and company prospects than the owners. The manager as the manager is obliged to give a signal about the condition of the company to the owner. However, the information submitted is sometimes not in accordance with the actual conditions. This condition is known as information asymmetry (Cornett, McNutt, & Tehranian, 2009).

Corporate governance is governance that explains the relationship between various parties in the firm that determines the direction and corporate performance (Monks & Minow, 2004; Yuniarti, Chandrarin & Subiyantoro, 2018). The issue of corporate governance is still an interesting discussion until today because issues related to governance are seen as very important to address corporate financial problems (Rajput & Joshi, 2014). Good corporate governance can reduce agency conflicts and increase disclosure that can limit information asymmetry. Weak corporate governance is considered to play an important role in the bankruptcy of a number of large companies and crises that occur in various countries (Reddy, Locke, & Scrimgeour, 2010; Ross & Crossan, 2012; Ujunwa, 2012). Research result by (Kang & Shivdasani, 1995)states that poor corporate governance is one of the causes of the economic crisis in East Asia in 1997-1998, including Indonesia. At the end of 2015, the Financial Services Authority announced that from 10 ASEAN countries in implementing good corporate governance, Indonesia still lags behind Malaysia, Singapore, and Thailand.

Information asymmetry between management and owners provides opportunities for managers to do earnings management. Earnings management is the manager's decision to choose certain accounting policies that are considered able to achieve the desired goals, both to increase profits and reduce the level of reported losses (Scott, 2015).Earnings management as a process that is intentionally carried out within the limits of generally accepted accounting principles to lead to the expected level of profit. Earnings management defines as a manager's decision to choose an accounting policy

from a certain standard with the aim of maximizing shareholder welfare and the market value of the firm (Scott, 2015). This is in line with the agency theory which emphasizes that the authority received by managers of firm owners to manage and run the firm brings logical consequences that must be carried out by managers and firm owners.

Positive accounting theory put forward seeks to explain why accounting policies become a problem for firms and parties interested in financial statements and to predict accounting policies that firms want to choose under certain conditions (Watts; & Zimmerman, 1986). Positive accounting theory uses agency theory to explain and predict accounting policy choices by managers. There are three motivations that can explain why a manager makes earnings management efforts, namely capital market motivation, contractual motivation (bonus) or managerial compensation and debt, and government regulation.

Based on positive accounting theory, one of the causes of earnings management is the political costs motive which states that the company concerns the government is a large firm that conducts a monopoly. The government has an interest in the firm in terms of taxation. Large firms in an effort to avoid taxes will tend to shrink their profits, so the firm size is used as a derivative of the political cost hypothesis that motivates firms to do earnings management. The firm size can be determined based on the number of workers, market capitalization, total sales, or total assets. One benchmark that shows the firm size is the total assets of the firm (Lee, 2009).Company size is a proxy of financial strength as a scale to classify the size of a company. One of the benchmarks to show the size of the company using the company's total assets (Dashmash, 2015; Isbanah, 2015; Lee, 2009; Niresh and Velnampy, 2014). Revealed that company size had a negative effect on earnings management (Shu and Chiang, 2014). Large companies lack the motivation to practice earnings management because shareholders and outside parties are considered more critical than small companies. Company size and earnings management have a positive effect because large-scale companies can meet the high expectations of shareholders or investors (Rahmani and Mir, 2013).

Another cause of firms doing earnings management is the motive of Corporate Social Responsibility (CSR). This is in accordance with the results of research by (Chih & Shen, 2008; Kang & Shivdasani, 1995)stated that firms that are highly committed to CSR often delay recognition of losses or accelerate the recognition of profits. Research on the effect of CSR on earnings management has been carried out by previous researchers with mixed results. There is a significant positive relationship between CSR and earnings management (Gargouri, Shabou, & Francoeur, 2010) and a negative relationship between CSR and earnings management (Izadinia & Isfahani, 2014; Scholtens & Kang, 2012; Yip, Van Staden, & Cahan, 2011), and there is no significant relationship between CSR and earnings management (Cristina et al., 2017; Dianita & Rahmawati, 2011). To achieve the objectives of CSR activities in improving long-term corporate performance, there should be integration between the role of corporate governance and the implementation of CSR. The concept of corporate governance is intended to achieve a more transparent corporate management. This study aims to analyze the influence of CSR on earnings management, and the impact of corporate governance on the relationship between CSR and firm size with earnings management.

THEORETICAL FRAMEWORK

Several studies examining the relationship between CSR on corporate financial performance directly or through earnings management, as well as the effect of governance on the relationship of CSR with earnings management, have been conducted by previous researchers.(Chun & Cho, 2015) examine the effect of CSR on earnings management that is moderated by corporate governance. The results show that CSR negatively influences earnings management and corporate governance variables strengthen the negative effect of CSR on earnings management. The dimensions of corporate social performance about the environment and employees are positively related to earnings management (Gargouriet al., 2010). This relationship can be explained by the fact that managers are involved in earnings management because of environmental activities that require expensive costs or as a means to cover the opportunistic behavior of management.

Research on the relationship of CSR with earnings management has been investigated by (Scholtens and Kang, 2012). The results showed that CSR negatively affected earnings management. Scholtens and Kang's (2012) research results are in line with the results of research conducted by (Cho and Chun, 2015) and Izadinia (2014), but contradicting the results of (Chih et al, 2008),(Gargouri et al, 2010) and (Muttakin et al, 2015), which states that CSR has a positive effect on earnings management. Research conducted by (Yip et al, 2011) examined the relationship between CSR and earnings management. The results showed that more specifically there was a negative relationship between CSR and earnings management in the oil and gas industry, and there was a positive relationship between CSR and earnings management in the food industry. Company size is often used as a proxy for financial strength and availability of information in the market. Information for large companies is more available in the market than in small companies. Research conducted by (Siregar&Utama, 2008) found evidence that company size had no effect on earnings management.

According to (Shleifer&Vishny, 1997), corporate governance relates to ways that company shareholders believe that they will get a return on their investment. Corporate governance as a system that is directed and controlled (Cadbury, 1992). Agency theory (Jensen and Meckling 1976; Fama 1980) emphasizes that conflicts of interest between shareholders and managers are at the core of agency relationships. Thus, shareholders develop a set of mechanisms to monitor and motivate managers to align their interests with shareholders. Corporate governance is the shareholders who build a series of mechanisms to monitor and motivate managers to align their interests with shareholders (Bushman and Smith, 2001). Good

governance is very helpful and important to limit earnings management (Dechow, Sloan, & Sweeney 1996; Klein 2002; Sarkar, Sarkar, and Sen 2008; Prawitt, Smith & Wood 2009).

The board of commissioners and the audit committee are important factors that inhibit the tendency of managers to manage earnings (Xie et al, 2002). This opinion is supported by (Hazarika et al, 2012) which states that the board of commissioners tends to proactively discipline managers who conduct earnings management aggressively before manipulation that causes cost consequences. Other research results also mentioned the independent board of commissioners (Chen et al., 2007; Mulyadi and Anwar, 2015) had an effect on earnings management. Research results by (Cornett et al. (2009) and (Mansoret al, 2013) found that corporate governance has a negative effect on earnings management.

Good corporate governance mitigates agency problems, especially conflicts between controlling shareholders and minority shareholders (Liu & Lu, 2007). The results of research conducted by (Hong and Andersen, 2011) state that CSR that has quality will reduce earnings management activities, CSR and earnings management affects the quality of financial statements. Although most research supports the idea that corporate governance helps reduce corporate revenue management, the results of previous research are still mixed. It will be helpful to explore the interaction effects of corporate governance and CSR on earnings management if corporate governance has a synergy effect with other variables such as CSR in limiting earnings management. Researchers mostly use a narrow scope to measure corporate governance, such as the independence of the board of commissioners or the audit committee as a separate governance variable, rather than using a composite index of corporate governance that combines various dimensions of corporate governance (Jiang et al., 2008).

This study empirically examines the effect of corporate governance on the relationship between corporate social responsibility, company size, and leverage with earnings management and its implications for corporate financial performance. The difference in this study with previous research lies in the use of corporate governance variables as moderating the relationship between corporate social responsibility, company size, and leverage with earnings management, and the use of earnings management variables as a mediating variable relationship between corporate social responsibility and corporate financial performance. Another difference of this study with previous research lies in the measurement of corporate social responsibility variables and corporate financial performance. Previous research, the measurement of corporate social responsibility uses a proxy for corporate social responsibility disclosure using a measure based on the CSR Index that refers to the disclosure of corporate social responsibility with the elements listed in the Global Reporting Index (GRI), while the measurement of corporate social responsibility in this study use the total CSR funds spent by the company. The measurement of corporate financial performance in this study uses Economic Value Added (EVA). EVA is the best way to explain the creation of a company's added value to revenue or net profit. EVA is the net operating profit after tax and capital costs. If profits are greater than the cost of capital, it creates added value for the company. The use of EVA makes the company focus more attention on creating corporate value (creating a firm's value). Previous studies, the majority of measurements of corporate financial performance using the ratio of Return on Assets (ROA) and Return on Equity (ROE) as moderating the relationship between corporate social responsibility and company size on earnings management.

CONCEPTUAL MODEL AND RESEARCH HYPOTHESIS

Corporate Social Responsibility (CSR) and Earnings Management

The discussion of earnings management will not be separated from the grand theory of agency theory. The initiator of agency theory(Jensen & Meckling (1976) states that agency relations are a contract between the agent and the principal. The separation between ownership and management of the firm, according to agency theory can lead to agency problems. The relationship between the principal and the agent can lead to asymmetrical information conditions. In conditions of information imbalance, agents can influence the accounting numbers presented in financial statements by conducting earnings management.

Corporate Social Responsibility (CSR) is a business commitment to contribute to sustainable economic development, through cooperation with employees and representatives of firms, local communities, and the general public to improve the quality of life in ways that are beneficial, both for the continuity of the firm's business and for development. In its development, CSR is a new breakthrough and idea put forward by (Barnea & Rubin, 2006) which is famous for the triple bottom line. The proposes the concept of corporate CSR in the triple bottom line focus, which unites economic, social and environmental rules in an integrated understanding of CSR (profit), but also has concern for the environment and people's welfare(Elkington, 2012) Research findings (Chih et al., 2008)stated that firms with high commitment to corporate CSR conduct earnings management by delaying recognition of losses or accelerating the recognition of profits.

The results of the study by (Gargouri et al., 2010) show that the dimensions of corporate social performance about the environment and employees are positively related to earnings management. This relationship can be explained by the fact that managers are involved in earnings management because of expensive environmental activities. This study also underlines that corporate governance mechanisms do not hamper earnings management. Contrary to theories that aim to satisfy stakeholders, corporate social performance can aggravate agency problems and provide incentives for managers to engage in earnings management activities. Firms with high CSR activities have incentives to limit earnings management to

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achieve a good corporate image by getting good relationships with stakeholders. Based on the explanation above, the hypotheses developed in this study are:

H_1: CSR affects earnings management

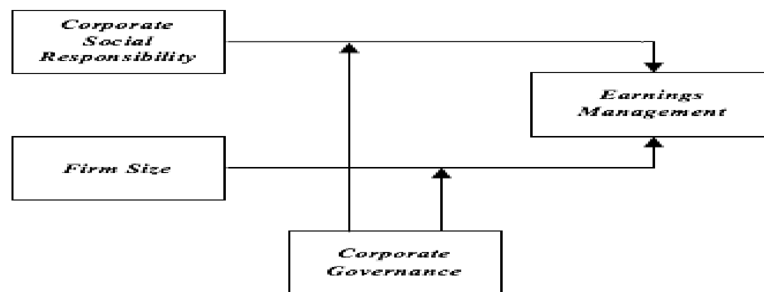

Figure 1: Proposed Conceptual Model

Firm Size and Earnings Management

Firm size is a proxy of financial strength as a scale to classify the firm size. One of the benchmarks to show the firm size using the total assets of the firm (Dahmash, 2015; Lee, 2009; Niresh & Velnampy, 2014; Isbanah, 2013). Firms that have large total assets show that the firm has reached maturity. At this stage, the firm's cash flow is positive and considered to have good prospects in a relatively long period of time, besides that it reflects that the firm is relatively more stable and more able to generate profits compared to firms with small total assets.

The firm size is also related to the quality of earnings, because the larger the size of the firm, the higher the continuity of the firm's business in improving financial performance, so the firm does not need to practice profit manipulation. Companies with high leverage are more likely to do earnings management (Dichev and Skinner, 2002; Beatty and Weber, 2003) to maintain the company's financial performance in the eyes of stakeholders. On the other hand, (Jensen &Melking, 1986) show that debt creation reduces the behavior of managers performing earnings management (Zamri et al., 2013). Managers use their discretion to control the company's cash flow. But the role of debt control starts when the manager has the obligation to pay the interest plus the principal. Large firms lack the motivation to practice earnings management because shareholders and outsiders are considered more critical than small firms. Research results by (Rahmani & Akbari, 2013) found that firm size and earnings management have a positive effect because large-sized firms must be able to meet the high expectations of shareholders and investors. Therefore, the hypotheses developed in this study are:

H_2: Firm size influences earnings management

Corporate Social Responsibility, Corporate Governance and Earnings Management

Corporate governance is a system that regulates and controls firms that are expected to provide and increase firm value to shareholders (Brown & Caylor, 2006). The purpose of corporate governance is to create added value for stakeholders. The success of implementing corporate governance is largely determined by the quality of supervision carried out by the board of commissioners (Ross & Crossan, 2012). An independent board of commissioners functions to harmonize the interests of shareholders in order to protect the rights of minority shareholders. Financial Services Authority Regulation Number 55/POJK.04/2015 concerning Issuers' Board of Directors and Board of Commissioners, that in order to achieve good corporate governance, the proportion of independent commissioners must be at least 30% of the total number of members of the board of commissioners. The board of commissioners is needed to maintain the integrity needed to ensure that supervision and advisory functions are carried out correctly. The participation of independent commissioners is designed to enhance the ability of the firm and harmonize the firm's resources to obtain greater profits (Ehikioya, 2009).

The theory that supports CSR disclosure is agency theory (Jensen & Meckling (1976) which states that agency relations are a contract between the agent and the principal. There is a conflict of interest between the owner and management because the possibility of management acting is not in accordance with the interests of the owner, thus triggering the agency cost. Corporate governance is related to how shareholders control managers (Shleifer & Vishny, 1997). In other words, corporate governance is expected to function to reduce or reduce agency costs.

The results of previous studies, good corporate governance are very helpful and important in limiting earnings management (DeChow, Sloan, & Sweeney, 1996; Klein, 2002; Sarkar, Sarkar, & Sen, 2008; Prawitt, Smith, & Wood, 2009). Likewise (Cho and Chun, 2015) found that CSR significantly and negatively related to earnings management and the relationship was moderated by corporate governance. To test this claim, we propose the following hypothesis:

H_3: Corporate governance has a significant effect on the relationship between CSR and earnings management.

Firm Size, Corporate Governance and Earnings Management

The results of research conducted by (Lee & Choi, 2002)found that firm size is a variable that can influence a firm's tendency to manage earnings. Smaller firms do earnings management to avoid losses than larger firms. The results of (Shu & Chiang, 2014)study of the effect of firm size on earnings management for large firms show that earnings management has a positive effect on short term wealth and has a negative effect on long term wealth. To avoid the occurrence of information asymmetry within the firm, a good corporate governance concept is needed. With good governance, the firm will be more transparent, accountable, responsible, independent and reasonable. So that it will affect the practice of earnings management in the firm. We, therefore, propose the following hypothesis:

H_4: Corporate governance has a significant effect on the relationship between firm size and earnings management.

METHODOLOGY

Sample selection and data collection

The research population is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) until the end of 2017 as many as 557 companies, consisting of 9 sectors based on industry classifications determined by the IDX, namely:

a. The main sectors consist of raw material producing industries / natural resource management industries:

- The agricultural sector
- The mining sector

b. The second sector consists of the manufacturing industry:

- Basic and chemical industry sectors
- Various industrial sectors
- The consumer goods industry sector

c. The third sector consists of the service industry:

- The property, real estate, and building construction sector
- Infrastructure, utilities and transportation sectors
- Financial sector
- Trade-in services and investment sectors

The research sample consisted of companies included in the manufacturing industry sector which were listed on the Indonesia Stock Exchange in the 2014-2017 period. The sample selection technique uses a purposive sampling method, namely the method of selecting samples based on certain criteria (Chandrarin, 2017) to get a representative sample in accordance with the specified criteria. The criteria for selecting a research sample are as follows:

a. Manufacturing sector companies listed on the Indonesia Stock Exchange for the period 2014 - 2017.

b. Companies that publish complete annual reports in a row during the period 2014 - 2017.

c. The company did not experience losses during the study period

d. The company publishes an annual report that contains complete data related to the variables used in research.

Based on the sample criteria above, 264 companies were obtained as research samples. The sampling technique uses purposive sampling method, which is a sampling method based on certain criteria to get a representative sample in accordance with specified criteria. The type of data in this study is quantitative data. The data structure is in the form of panel data which is a combination of time series and cross-sectional data.

EMPIRICAL RESEARCH RESULTS

This study uses moderating variable corporate governance as the main part of which the hypothesis will be tested. Hypothesis testing is done to determine the effect of corporate governance on the relationship between CSR and firm size on earnings management.

Empirical Models to Determine the Existence of Earnings Management by Discretionary Accruals

The formula of the Modified Jones Model (Dechow et al., 1995) as follows:

Empirical Models to Determine the Existence of Earnings Management by Discretionary Accruals

The formula of the Modified Jones Model (Dechow et al., 1995) as follows:

$$TA_{it} = \Delta CA_{it} \text{-} \Delta Cash_{it} \text{-} \Delta CL_{it} + \Delta STD_{it} \text{-} Dep_{it}$$

Where:

TA_{it} = the total accruals of the firm in period t

ΔCA_{it} = the variation of current assets from the end of period t-1 to the end of period t

$\Delta Cash_{it}$ = the variation of cash and cash equivalents from the end of period t-1 to the end of period t

ΔCL_{it} = the variation of current liabilities from the end of period t-1 to the end of period t

ΔSTD_{it} = the variation of short term debt from the end of period t-1 to the end of period t

Dep_{it} = the amount of depreciation and the amortization expense during period t

$$\frac{TA_{it}}{A_{it\text{-}1}} = \beta_1\left(\frac{1}{A_{it\text{-}1}}\right) + \beta_2\left(\frac{\Delta Rev_{it}}{A_{it\text{-}1}} \text{-} \frac{\Delta Rec_{it}}{A_{it\text{-}1}}\right) + \beta_3\left(\frac{PPE_{it}}{A_{it\text{-}1}}\right) + \varepsilon_{it}$$

Where:

ΔRev_{it} = firm I's revenues in period t minus its revenues in period t-1

ΔRec_{it} = firm I's receivables in period t minus its revenues in period t-1

PPE_{it} = firm I's plant, property, equipment in period t

A_{it-1} = firm I's total assets at the end of period t-1

$\beta_1, \beta_2, \beta_3$ = estimate coefficients of the regression

ε_{it} = firm i's regression error in period t

$$NDA_{it} = \beta_1\left(\frac{1}{A_{it\text{-}1}}\right) + \beta_2\left(\frac{\Delta Rev_{it}}{A_{it\text{-}1}} \text{-} \frac{\Delta Rec_{it}}{A_{it\text{-}1}}\right) + \beta_3\left(\frac{PPE_{it}}{A_{it\text{-}1}}\right)$$

Where:

NDA_{it} = nondiscretionary accrual of the firm in period t

ΔRev_{it} = firm I's revenues in period t minus its revenues in period t-1

ΔRec_{it} = firm I's receivables in period t minus its revenues in period t-1

PPE_{it} = firm I's plant, property, equipment in period t

A_{it-1} = firm I's total assets at the end of period t-1

$\beta_1, \beta_2, \beta_3$ = estimate coefficients of the regression

ε_{it} = firm i's regression error in period t

$$DA_{it} = \frac{TA_{it\text{-}1}}{A_{it\text{-}1}} \text{-} NDA_{it}$$

Where:

DA_{it} = discretionary accrual of the firm in period t

TA_{it-1} = firm I's total accruals at the end of period t-1

A_{it-1} = firm I's total assets at the end of period t-1

NDA_{it} = nondiscretionary accrual of the firm in period t

Empirical Model to Test the Relation Between CSR, Firm Size, Corporate Governance and Earnings Management

Hypothesis testing tool, the special application of multiple linear regression in the regression equation contains the element of interaction (multiplying two or more independent variables) with the following equation:

$$EM = \alpha + \beta_1 CS + \beta_2 FS + \beta_3 CG + \beta_4(CS^*CG) + \beta_5(FS^*CG) + \varepsilon$$

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Where:

EM = Earnings Management

CS = Corporate Social Responsibility

FS = Firm Size

CG = Corporate Governance

In the above model, EM is the dependent variable and CS and FS are the independent variables. The level of discretionary accruals is a measure of earnings management. The moderating variable is corporate governance (CG).

RESULTS & DISCUSSION

Based on the results of the classic assumption test, all variables have VIF values below 10, meaning that all independent variables are not influenced by multicollinearity. The results of the normality test also show data spread around and near the diagonal line. This shows the research data is normally distributed. While the autocorrelation test shows that the value of Durbin Watson is greater than 1.71 (Du) and smaller than 2.26 (4-Du). It means that it can be concluded that there is no autocorrelation in the regression model. The results of heteroscedasticity tests, irregularly scattered dots without certain patterns, so that heteroscedasticity is stated not in the regression model.

The results of data analysis with regression analysis to examine the effect of corporate governance on the relationship between CSR and firm size with earnings management are presented in Table 1 below.

Table 1: The Result of Regression Analysis

Variable	*Standardized Coefficients Beta*	t	Sig.
CS	0,202	3,521	0,001
FS	-0,452	-7.860	0,000
CG	-0,167	-3,044	0,003
CS*CG	-0,392	-2,038	0,001
FS*CG	-3,403	-14,019	0,000

Notes: The following table presents the results of regression analysis. Different notations used in the table are defined as follows: CS=total cost of corporate social responsibility, FS= total assets, CG= ratio of the number of independent commissioners and total board of commissioner. This table has values in a Significant level 0,005.

Based on Table 1, the results of the CSR variable analysis with a significance value of 0.001 smaller than the significance level of 0.05 and the regression coefficient of 0.202 means that there is a significant positive effect between CSR on earnings management, meaning that firms that allocate CSR funds are relatively large tend to do earnings management by increasing income. This relationship can be explained by the fact that managers who are involved in earnings management because of expensive CSR activities, this will have an impact on the firm's financial condition, so firms need to maintain the firm's image in order to continue to perform well. The results of this study are consistent with the research of (Gargouri et al, 2010) shows that corporate social environmental performance and employees are positively related to earnings management. According to the stakeholders' perspective, earnings management tends to be considered contrary to CSR activities that emphasize good relations with stakeholders. Firms with high CSR activities have incentives to limit earnings management practices to achieve a good corporate image and get good relationships with stakeholders.

The effect of firm size variables obtained a significance value of 0,000< 0,005 and regression coefficient -0.452. This means that there is a significant and negative influence between the size of the firm and earnings management. These results accept the hypothesis that the firm size has a significant effect on earnings management, meaning that large firms tend to do earnings management by decreasing income. The size of the firm motivates the occurrence of earnings management practices by management because of rules such as tax rules, anti-monopoly law, banking regulations, and others. With the existence of anti-trust or tax avoidance laws, large-scale companies tend to reduce company profits, and there is also a tendency for increasing political burdens The results of this study are consistent with (Lee & Choi, 2002) which states that firm size with earnings management had a negative effect.

Based on the analysis of the role of corporate governance on the relationship between CSR and earnings management, a significance value of 0.001 and regression coefficient was obtained 0,494, meaning that when the firm has good governance, firms that allocate CSR funds are relatively large, and there is a tendency to practice earnings management by increasing income. Good corporate governance is very helpful and important for limiting earnings management (DeChow et al., 1996; Klein, 2002; Sarkar, Sarkar, & Sen, 2008; Prawitt et al., 2009). Research result by (Lin & Hwang, 2010)stated that corporate governance is negatively related to earnings management. Earnings management indicates explicitly the practice of earnings management by managers can bring negative consequences to stakeholders and this will have an impact on firm performance. Good corporate governance guarantees that the principles and practices of good corporate governance have been adhered to and applied properly. The role of corporate governance that is proxied in the role of an

independent board of commissioners is to monitor the policies of directors who are expected to minimize agency problems that arise between the board of directors and shareholders, so that the implementation of CSR as a business commitment to contribute to sustainable economic development will synergize with the firm's main objectives improve overall performance.

The role of corporate governance on the relationship between firm size and earnings management is obtained significance of 0.00 smaller than the significance level of 0.05, and regression coefficient was obtained -3,90, meaning that the corporate governance variable has a significant and negative role in moderating the relationship between firm size and earnings management, meaning corporate governance the good big firms have a tendency to do earnings management by minimizing profits, and conversely small firms have a tendency to do earnings management by reporting greater profits so that they can show better firm performance. The results of this study are consistent with the research of (Lee & Choi, 2002) who found that firm size is a variable that affects the tendency of firms to conduct earnings management. This shows that the independent board of commissioners has the expertise, skills, and knowledge that is capable of carrying out the monitoring process. These skills effectively prevent earnings management actions, so that reported profits become more transparent. In order to avoid the occurrence of information asymmetry within the firm, a good corporate governance concept is needed, so that the firm will be more transparent, accountable, responsible, independent and reasonable. The greater the firm size as measured by total assets will tend to reduce management's actions to increase income. In addition, large firms will be more careful in conducting financial reporting and tend to report financial conditions accurately because they are more concerned by the public.

CONCLUSION, LIMITATION & RECOMMENDATION

Based on the results of the study it can be concluded that CSR has a significant positive effect on earnings management, and firm size has a significant negative effect on earnings management. The firms that allocate CSR funds are relatively large, tend to do earnings management by increasing income. The results of this study are in line with (Gargouri et al, 2010), but in contrast to (Lee & Choi, 2002), those large firms tend to have high political costs so firms tend to practice earnings management by decreasing income. The results of this study are consistent with(Lee & Choi, 2002), but in contrast to (Rahmani & Mir, 2013)found that company size has a positive effect on earnings management, because large companies must be able to meet the high expectations of shareholders. The role of corporate governance in the relationship of CSR and firm size to earnings management is significant and negative, meaning that when the firm has good governance, the firms that allocate CSR funds are relatively large, there is a tendency to practice earnings management by minimizing profits, as well as firms. Large firms have a tendency to do earnings management by minimizing profits. The results of this study are consistent with (DeChow et al., 1996); (Klein, 2002) ; (Sarkar, Sarkar, & Sen, 2008) ; (Prawitt et al., 2009) ; (Lee & Choi, 2002).

Research Limitation and study forward -

Research limitations only use two variables, namely CSR and firm size as control variables, while there are still many other variables that influence earnings management. The number of samples is small because the study period was only in the period of 4 years 2014 - 2017. During this period many companies need money because it is needed in the selection of healthy company samples that they do not qualify as research samples. The data used is secondary data that may have errors in entering data in the form of numbers. The data used is secondary data which may have errors in entering data in the form of numbers. This research is only focused on the firm's internal performance variables in the form of financial ratios by not paying attention to the firm's macro factors or other economic risk factors outside the firm's performance. Recommendations for further research are expected to increase the scope of research objects by extending the study period and need to pay attention to the firm's macro factors or economic risk factors outside of financial performance so as to provide a more comprehensive picture of the results of the study.

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