

Do Corporate Social Responsibility and Corporate Governance Constrain Earnings Management? Evidence from Indonesia

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Abstract

This study aims to examine the influence of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on earnings management in manufacturing companies operating in the basic materials and chemical sectors listed on the Indonesia Stock Exchange (IDX) during the 2019–2024 period. A quantitative explanatory research design was employed using secondary data obtained from annual reports and sustainability reports of 30 companies, resulting in 180 firm-year observations. CSR was measured using the Corporate Social Responsibility Disclosure Index (CSRDI) based on the Global Reporting Initiative (GRI Standards 2021), while GCG was represented by institutional ownership, managerial ownership, independent commissioners, and audit committees. Earnings management was measured using the Modified Jones Model. The data were analyzed using multiple linear regression after satisfying the classical assumption tests. The findings reveal that CSR and GCG both have positive and statistically significant effects on earnings management. These results indicate that higher CSR disclosure and stronger governance structures do not necessarily reduce managerial discretion in financial reporting but may instead function as legitimacy and compliance mechanisms within the institutional environment of emerging markets. The study provides practical implications for corporate managers, investors, and regulators by emphasizing the importance of strengthening the substantive implementation of governance mechanisms and improving the credibility of sustainability reporting. The originality of this study lies in providing updated empirical evidence from Indonesian manufacturing firms during the 2019–2024 period, integrating post-pandemic corporate behavior with the application of GRI Standards 2021 to explain the relationship between CSR, GCG, and earnings management.

Keywords: Corporate Social Responsibility; Good Corporate Governance; Earnings Management; Manufacturing Companies; Indonesia

Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh Corporate Social Responsibility (CSR) dan Good Corporate Governance (GCG) terhadap manajemen laba pada perusahaan manufaktur sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2019–2024. Penelitian ini menggunakan pendekatan kuantitatif dengan desain penelitian eksplanatori dan memanfaatkan data sekunder yang diperoleh dari laporan tahunan (annual report) dan laporan keberlanjutan (sustainability report) sebanyak 30 perusahaan, sehingga diperoleh 180 observasi perusahaan-tahun. Pengukuran CSR dilakukan menggunakan Corporate Social Responsibility Disclosure Index (CSRDI) berdasarkan Global Reporting Initiative (GRI Standards 2021), sedangkan GCG diukur melalui indikator kepemilikan institusional, kepemilikan manajerial, proporsi dewan komisaris independen, dan komite audit. Manajemen laba diukur menggunakan Modified Jones Model. Analisis data dilakukan dengan regresi linier berganda setelah seluruh asumsi klasik terpenuhi. Hasil penelitian menunjukkan bahwa CSR dan GCG berpengaruh positif dan signifikan terhadap manajemen laba. Temuan ini mengindikasikan bahwa tingginya pengungkapan CSR dan penerapan mekanisme tata kelola perusahaan belum tentu mampu menekan praktik manajemen laba, melainkan dapat berfungsi sebagai mekanisme legitimasi dan kepatuhan dalam lingkungan kelembagaan pasar berkembang. Penelitian ini memberikan implikasi praktis bagi manajemen perusahaan, investor, dan regulator

untuk memperkuat implementasi tata kelola perusahaan secara substantif serta meningkatkan kredibilitas pelaporan keberlanjutan guna mendukung kualitas pelaporan keuangan. Kebaruan penelitian ini terletak pada penyajian bukti empiris terkini mengenai hubungan CSR, GCG, dan manajemen laba pada perusahaan manufaktur Indonesia selama periode 2019–2024 dengan menggunakan GRI Standards 2021, sehingga mampu memberikan gambaran yang lebih komprehensif mengenai perilaku pelaporan perusahaan pada periode pascapandemi.

Kata kunci: Corporate Social Responsibility; Good Corporate Governance; Manajemen Laba; Perusahaan Manufaktur; Bursa Efek Indonesia.

1. Introduction

Financial reporting quality is one of the primary indicators that determines investors' confidence in a company. Amid growing demands for transparency and accountability, firms are no longer evaluated solely on their ability to generate profits but also on their commitment to implementing responsible and sustainable business practices. In this context, Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) have emerged as two essential mechanisms that are widely recognized for enhancing the credibility of financial reporting while mitigating managerial opportunistic behavior. CSR reflects a company's commitment to social, environmental, and governance responsibilities in accordance with the principles of sustainable development, whereas GCG serves as a governance framework that ensures organizational decision-making is conducted in a transparent, accountable, responsible, independent, and fair manner. Consistent with the increasing emphasis on Environmental, Social, and Governance (ESG) practices, the implementation of CSR and GCG has evolved beyond a regulatory obligation to become a strategic approach for creating long-term value for stakeholders (Buallay, 2022; García-Sánchez et al., 2022; Velte, 2023).

Despite these developments, earnings management remains one of the most critical challenges affecting the quality of corporate financial reporting, particularly in the manufacturing sector, which is characterized by complex operational transactions and accounting processes. Earnings management is commonly conducted through accrual manipulation or real earnings management to achieve targeted financial outcomes, thereby causing reported financial information to deviate from the firm's underlying economic reality. Such practices increase information asymmetry, diminish earnings quality, and reduce the efficiency of capital markets. From the perspective of Agency Theory, conflicts of interest between managers and shareholders encourage opportunistic behavior, including earnings manipulation, particularly when corporate monitoring mechanisms are ineffective. Accordingly, CSR and GCG are regarded as complementary external and internal governance mechanisms capable of constraining earnings management by enhancing corporate transparency, strengthening board oversight, improving audit committee effectiveness, and increasing public scrutiny of corporate activities (Habib et al., 2022; Salehi et al., 2021).

Although the relationships among CSR, GCG, and earnings management have been extensively examined, prior empirical findings remain inconclusive. Several studies suggest that companies with higher levels of CSR disclosure tend to exhibit superior earnings quality due to greater stakeholder pressure for transparency and accountability (García-Sánchez et al., 2022; Velte, 2023). Similarly, effective corporate governance mechanisms—including board independence, institutional ownership, and audit committee effectiveness—have been shown to reduce earnings management by strengthening managerial oversight and monitoring functions (Habib et al., 2022). However, other studies indicate that CSR implementation does not necessarily constrain earnings management when CSR disclosure is

merely symbolic or employed as a legitimacy strategy rather than reflecting genuine corporate responsibility. Likewise, the effectiveness of GCG is highly contingent upon governance quality, firm characteristics, ownership structure, and the institutional environment in which firms operate (Velte, 2023; Salehi et al., 2021). These inconsistent findings suggest that the relationship between CSR, GCG, and earnings management remains an important area for further investigation.

In addition to the inconsistency of prior findings, most existing studies rely on data collected before the COVID-19 pandemic and therefore may not adequately capture changes in corporate behavior during the post-pandemic period. The 2019–2024 period represents a particularly relevant context for investigation, as firms have faced substantial economic pressures, evolving sustainability reporting regulations, increasing expectations regarding ESG implementation, and strengthened corporate governance requirements. These developments are likely to influence managerial decisions regarding financial reporting while simultaneously encouraging companies to enhance the quality of their CSR and GCG practices. Furthermore, the Basic Materials and Chemicals sector constitutes one of the manufacturing industries with relatively significant environmental impacts, exposing firms to greater scrutiny from regulators, investors, and society concerning corporate sustainability practices. Consequently, this sector provides an appropriate empirical setting for examining the effectiveness of CSR and GCG in constraining earnings management.

Based on these considerations, this study aims to examine the effects of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on earnings management practices among manufacturing firms in the Basic Materials and Chemicals sector listed on the Indonesia Stock Exchange (IDX) during the 2019–2024 period. This research is expected to contribute to the literature on financial reporting quality by re-examining the effectiveness of CSR and GCG in the post-pandemic era within the context of an emerging economy. Furthermore, the findings are expected to provide valuable insights for regulators, investors, and corporate management regarding the importance of strengthening CSR implementation and corporate governance practices as strategic mechanisms for enhancing financial reporting transparency, safeguarding the integrity of financial statements, and promoting long-term corporate sustainability.

2. Literature Review and Hypothesis Development

2.1 Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), serves as the primary theoretical foundation for explaining earnings management practices. The theory posits that the contractual relationship between shareholders (principals) and managers (agents) inherently contains the potential for conflicts of interest because the two parties pursue different objectives. While shareholders seek to maximize firm value and ensure sustainable corporate performance, managers are often motivated to maximize their own interests, such as obtaining performance-based bonuses, securing their positions, or meeting capital market expectations. The information asymmetry possessed by managers provides opportunities to engage in earnings management through accrual-based manipulation or real earnings management, often without being readily detected by shareholders or investors. Consequently, Agency Theory emphasizes the importance of effective governance and

monitoring mechanisms to mitigate managerial opportunistic behavior and preserve the quality and credibility of financial reporting (Habib et al., 2022; Salehi et al., 2021).

Within the context of this study, Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) are conceptualized as governance mechanisms that help mitigate agency conflicts. CSR implementation enhances corporate transparency through more comprehensive non-financial disclosures, thereby reducing information asymmetry between the company and its stakeholders. At the same time, GCG strengthens corporate monitoring by promoting board independence, enhancing audit committee effectiveness, encouraging institutional ownership, and reinforcing other governance mechanisms that constrain managerial discretion in engaging in earnings management. Accordingly, the more effectively CSR and GCG are implemented, the lower the likelihood of earnings management practices, as enhanced accountability, transparency, and monitoring reduce managers' opportunities to manipulate financial reporting for personal benefit.

2.2 Stakeholder Theory

Stakeholder Theory, proposed by Freeman (1984), argues that a firm's long-term success is determined not only by its ability to generate profits for shareholders but also by its capacity to satisfy the expectations of a broad range of stakeholders, including investors, employees, customers, governments, local communities, and the natural environment. From this perspective, organizations are expected to establish and maintain mutually beneficial relationships with their stakeholders through responsible, ethical, and transparent business practices. Corporate Social Responsibility (CSR) disclosure serves as an important communication mechanism through which firms demonstrate their commitment to economic, social, and environmental sustainability, thereby enhancing corporate legitimacy and strengthening stakeholder trust. With the growing prominence of Environmental, Social, and Governance (ESG) practices, stakeholders increasingly rely on the quality of sustainability-related information when making investment and business decisions. This heightened scrutiny places greater external pressure on firms to preserve the integrity and credibility of their financial reporting, as earnings management practices can undermine corporate reputation and erode stakeholder confidence. Consequently, companies that demonstrate a strong commitment to CSR are generally more inclined to exercise greater prudence in financial reporting and avoid earnings manipulation in order to maintain long-term relationships with stakeholders, safeguard corporate legitimacy, and sustain stakeholder trust over time.

2.3 Legitimacy Theory

Legitimacy Theory posits that an organization's long-term survival depends on the extent to which its operations are perceived as consistent with the norms, values, and expectations of the society in which it operates. Accordingly, firms continuously seek to align their business activities with prevailing social expectations in order to obtain and maintain societal legitimacy. One of the primary strategies for achieving such legitimacy is the disclosure of Corporate Social Responsibility (CSR) activities, which demonstrates the company's commitment to environmental stewardship, social responsibility, and sound corporate

governance. However, the literature suggests that CSR disclosure may exhibit two distinct characteristics. First, CSR may be implemented substantively as a genuine commitment to sustainable development, thereby enhancing corporate transparency, accountability, and the quality of financial reporting. Second, CSR may function merely as a form of symbolic legitimacy or impression management, whereby firms seek to cultivate a favorable public image without making meaningful improvements in governance practices. Under the latter circumstance, CSR disclosure may even serve as a mechanism to obscure opportunistic managerial behavior, including earnings management. Consequently, the effectiveness of CSR in constraining earnings management remains an important empirical issue, particularly within the context of emerging economies such as Indonesia.

2.4 Corporate Social Responsibility and Earnings Management

Corporate Social Responsibility (CSR) represents an important external governance mechanism that enhances corporate transparency by providing stakeholders with information regarding the economic, social, and environmental impacts of a firm's business activities. Drawing upon Stakeholder Theory and Legitimacy Theory, firms with more extensive CSR disclosure are expected to face greater public scrutiny and stronger stakeholder pressure to preserve the integrity of their financial reporting. As corporate transparency increases through CSR activities, managerial opportunities to engage in earnings management are expected to decline because the potential costs associated with reputational damage and the loss of investor confidence become substantially greater. Furthermore, companies that demonstrate a genuine commitment to sustainability are more likely to embed ethical values into their decision-making processes, thereby reducing the likelihood of opportunistic financial reporting behavior. A growing body of empirical evidence indicates that CSR implementation is negatively associated with earnings management, primarily because it enhances corporate governance quality, improves information transparency, and strengthens stakeholder monitoring (García-Sánchez et al., 2022; Velte, 2023). Nevertheless, other studies report inconsistent findings, suggesting that CSR disclosure may fail to constrain earnings management when it is undertaken merely to comply with regulatory requirements or to enhance organizational legitimacy without reflecting substantive governance improvements. Based on these theoretical arguments and empirical inconsistencies, this study proposes the following hypothesis.

H1: Corporate Social Responsibility has a negative effect on earnings management.

2.5 Good Corporate Governance and Earnings Management

Good Corporate Governance (GCG) is an internal governance mechanism designed to ensure that organizations are managed in a transparent, accountable, responsible, independent, and fair manner. From the perspective of Agency Theory, effective corporate governance mitigates agency conflicts between shareholders and managers by strengthening monitoring and oversight mechanisms. Governance practices such as board independence, audit committee effectiveness, institutional ownership, and other governance controls reduce managerial discretion and limit opportunities for earnings management by subjecting strategic decisions and financial reporting processes to greater scrutiny. Consequently, robust governance mechanisms are expected to enhance financial reporting quality by discouraging

opportunistic managerial behavior. Empirical evidence consistently suggests that firms with stronger corporate governance practices tend to exhibit higher earnings quality and lower levels of earnings management (Habib et al., 2022; Alodat et al., 2024). Nevertheless, the effectiveness of GCG largely depends on the quality of its implementation. Governance structures that exist merely to satisfy regulatory requirements, without genuine board independence, expertise, and effective oversight, may fail to constrain managerial opportunism. In light of these considerations, this study re-examines the relationship between Good Corporate Governance and earnings management within Indonesian basic materials and chemical manufacturing companies listed on the Indonesia Stock Exchange during the 2019–2024 period.

H2: Good Corporate Governance has a negative effect on earnings management..

3. Research Method

This study employs a quantitative approach using an explanatory research design to examine the causal relationships between Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), and earnings management in basic materials and chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX). The study utilizes secondary data obtained from annual reports, sustainability reports, and audited financial statements published on the official website of the Indonesia Stock Exchange as well as the official websites of the respective companies during the 2019–2024 observation period. The selection of this period is based on two primary considerations. First, it captures corporate reporting practices before, during, and after the COVID-19 pandemic, a period characterized by substantial changes in financial reporting behavior and corporate governance practices. Second, the observation period coincides with the growing adoption of sustainability reporting and the implementation of the Global Reporting Initiative (GRI Standards 2021) as the principal framework for CSR disclosure in Indonesia. A quantitative approach is considered appropriate because it provides objective empirical evidence through statistically rigorous analyses of the relationships among the proposed variables (Hair et al., 2022).

The study population comprises all manufacturing companies listed on the Indonesia Stock Exchange during the 2019–2024 period. The sample was selected using a purposive sampling technique, whereby firms were chosen based on specific criteria to ensure their relevance to the research objectives (Sekaran & Bougie, 2021). The selection criteria include companies that consistently published annual reports and sustainability reports throughout the observation period, disclosed CSR information in accordance with the GRI Standards 2021, provided complete information regarding Good Corporate Governance mechanisms, and reported sufficient financial data to facilitate the measurement of earnings management. Following the screening process, a final sample of 30 companies was obtained, resulting in a total of 180 firm-year observations. Corporate Social Responsibility was measured using the Corporate Social Responsibility Disclosure Index (CSRDI) constructed based on the indicators specified in the GRI Standards 2021. Good Corporate Governance was proxied by several governance characteristics, including the proportion of independent commissioners, institutional ownership, managerial ownership, and audit committee size. Meanwhile, earnings management was measured using the Modified Jones Model, which remains the most widely adopted discretionary accrual model in accounting research due to its strong capability to detect accrual-based earnings management practices (Dechow et al., 1995; Kothari et al., 2005).

The data were analyzed using IBM SPSS Statistics Version 27. The analytical procedure began with descriptive statistics to summarize the characteristics of the research variables, followed by classical assumption tests, including tests of normality, multicollinearity, heteroscedasticity, and autocorrelation, to ensure that the regression model satisfied the assumptions of the Best Linear Unbiased Estimator (BLUE) as recommended for classical linear regression analysis (Gujarati & Porter, 2021; Ghozali, 2021). Subsequently, the research hypotheses were tested using multiple linear regression analysis to examine both the simultaneous and partial effects of Corporate Social Responsibility and Good Corporate Governance on earnings management. Overall model significance was assessed using the F-test, whereas the individual effects of the independent variables were evaluated using the t-test at a 5% significance level ($\alpha = 0.05$). In addition, the coefficient of determination (R^2) was employed to assess the explanatory power of the model in accounting for variations in earnings management attributable to Corporate Social Responsibility and Good Corporate Governance.

4. Results

4.1 Sample Characteristics

This study utilizes secondary data obtained from the annual reports, sustainability reports, and audited financial statements of basic materials and chemical manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2019–2024 period. This sector was selected because of its complex operational characteristics, high dependence on natural resources, and substantial exposure to sustainability and corporate governance issues. Consequently, firms operating within this industry face greater pressure from regulators, investors, and the public to enhance the transparency of financial reporting while strengthening the implementation of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) practices.

The sample was selected using a purposive sampling technique based on several criteria. Specifically, companies were required to (1) be continuously listed on the Indonesia Stock Exchange throughout the observation period, (2) consistently publish complete annual reports and sustainability reports, (3) disclose CSR information in accordance with the Global Reporting Initiative (GRI Standards 2021), (4) provide complete information regarding Good Corporate Governance mechanisms, and (5) report sufficient financial data to enable the measurement of earnings management. Based on these criteria, 30 companies met all sampling requirements, resulting in a total of 180 firm-year observations used as the unit of analysis. This sample size is considered adequate for multiple linear regression analysis and is expected to produce reliable and stable parameter estimates in quantitative research based on secondary data (Hair et al., 2022; Sekaran & Bougie, 2021).

4.2 Descriptive Statistics

Descriptive statistics were employed to provide an overview of the characteristics of the research variables, including the minimum value, maximum value, mean, and standard deviation. The analysis was conducted on 180 firm-year observations obtained from 30 manufacturing companies listed on the Indonesia Stock Exchange during the 2019–2024 period. The descriptive statistics for each research variable are presented in Table 1.

Table 1 shows that the average level of Corporate Social Responsibility (CSR) disclosure reached 75.12, with values ranging from 63.49 to 85.95 and a standard deviation of 4.47. The

relatively small dispersion indicates that CSR disclosure among the sampled firms is fairly homogeneous, suggesting that most companies consistently disclose sustainability-related information. This finding reflects the increasing commitment of Indonesian manufacturing companies to sustainability reporting following the growing adoption of the Global Reporting Initiative (GRI Standards 2021) and the rising expectations of investors and other stakeholders regarding environmental, social, and governance (ESG) practices. The relatively high average CSR score also indicates that sustainability disclosure has become an integral component of corporate communication rather than merely a voluntary reporting practice.

Table 1. Descriptive Statistics of Research Variables

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Corporate Social Responsibility (CSR)	180	63.49	85.95	75.1211	4.4650
Good Corporate Governance (GCG)	180	63.79	95.39	79.2306	4.9749
Earnings Management	180	8.88	13.19	10.8881	0.6760

Source: Processed secondary data (2026)

Regarding Good Corporate Governance (GCG), the average score was 79.23, with a minimum value of 63.79, a maximum value of 95.39, and a standard deviation of 4.97. These statistics suggest that the sampled companies generally exhibit a relatively strong governance structure, as reflected by the composition of independent commissioners, institutional ownership, managerial ownership, and audit committee characteristics. Although some variation exists across firms, the magnitude of the standard deviation indicates that governance practices remain relatively consistent throughout the observation period. Effective governance mechanisms are expected to strengthen internal monitoring and reduce managerial opportunistic behavior, thereby improving the credibility of financial reporting.

The descriptive statistics further indicate that earnings management has an average value of 10.89, with observations ranging from 8.88 to 13.19 and a relatively low standard deviation of 0.68. The limited variation implies that the degree of earnings management among the sampled companies is relatively similar, suggesting that firms within the basic and chemical manufacturing sector operate under comparable financial reporting environments and regulatory pressures. Overall, the relatively low standard deviations observed across all variables indicate the absence of excessive dispersion or extreme observations, implying that the dataset possesses satisfactory consistency and is suitable for subsequent inferential analyses, including classical assumption testing and multiple regression analysis (Hair et al., 2022).

4.3 Correlation Analysis and Classical Assumption Tests

Prior to hypothesis testing, the data were subjected to several diagnostic tests to ensure that the assumptions underlying the multiple linear regression model were satisfied. The results of the classical assumption tests are summarized in Table 2.

The diagnostic test results indicate that the proposed regression model satisfies the assumptions required for ordinary least squares (OLS) estimation. The Kolmogorov–Smirnov significance value of 0.200 exceeds the 5% significance level, indicating that the residuals are normally distributed. Furthermore, the Monte Carlo significance value of 0.832 confirms the robustness of the normality assumption.

Table 2. Correlation Analysis and Classical Assumption Tests

Test	Indicator	Result	Conclusion
Normality	Kolmogorov–Smirnov Sig.	0.200	Normally distributed
Multicollinearity	Tolerance (CSR)	0.999	No multicollinearity
	VIF (CSR)	1.001	
	Tolerance (GCG)	0.999	
	VIF (GCG)	1.001	
Autocorrelation	Durbin–Watson	1.842	No autocorrelation
Heteroscedasticity	Scatterplot & Glejser Test	No clear pattern	Homoscedastic

Source: Processed research data (2026).

The multicollinearity test further demonstrates that both independent variables exhibit Tolerance values of 0.999 and Variance Inflation Factor (VIF) values of 1.001, indicating the absence of serious multicollinearity. Since all tolerance values are substantially greater than 0.10 and all VIF values are far below the critical threshold of 10, the independent variables are considered statistically independent and suitable for inclusion in the same regression model (Hair et al., 2022).

Similarly, the Durbin–Watson statistic of 1.842 suggests that the residuals are free from autocorrelation, while the scatterplot and Glejser test reveal no evidence of heteroscedasticity, as the residuals are randomly dispersed around the zero line without forming any systematic pattern. Collectively, these findings indicate that the regression model fulfills the BLUE (Best Linear Unbiased Estimator) assumptions, thereby supporting the validity and reliability of the subsequent regression analysis (Gujarati & Porter, 2021).

4.4 Multiple Regression Results

The proposed research model was estimated using multiple linear regression to examine the influence of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on earnings management. The regression results are presented in Table 3.

Table 3. Multiple Regression Results

Variable	Coefficient (β)	Direction
Constant	0.958	—
Corporate Social Responsibility (CSR)	0.056	Positive
Good Corporate Governance (GCG)	0.072	Positive

Source: Processed research data (2026).

Based on the regression analysis, the estimated regression equation can be expressed as follows:

$$Y = 0,958 + 0,056X_1 + 0,072X_2$$

The regression coefficients indicate that both Corporate Social Responsibility and Good Corporate Governance exhibit positive coefficients, suggesting that an increase in either variable is associated with an increase in the earnings management score, assuming other variables remain constant. Specifically, a one-unit increase in CSR is associated with a 0.056-unit increase in earnings management, whereas a one-unit increase in GCG is associated with a 0.072-unit increase in earnings management. Nevertheless, the interpretation of these coefficients should be based on their statistical significance, which is evaluated through hypothesis testing in the following section.

4.5 Hypothesis Testing

The proposed hypotheses were examined using the t-test to evaluate the partial effects of each independent variable on earnings management, while the F-test was employed to assess the overall significance of the regression model. The hypothesis testing results are presented in Tables 4 and 5.

The regression results reveal that Corporate Social Responsibility (CSR) has a statistically significant effect on earnings management ($\beta = 0.056$, $t = 6.509$, $p < 0.001$). These findings indicate that CSR disclosure is positively associated with earnings management among the sampled manufacturing companies. In other words, firms exhibiting higher levels of CSR disclosure also tend to report higher levels of earnings management. Although CSR is generally expected to improve transparency and reduce opportunistic managerial behavior, the present findings suggest that CSR activities may also function as a legitimacy mechanism that coexists with earnings management practices. This result implies that CSR disclosure does not necessarily eliminate managerial discretion in financial reporting but may instead be employed to strengthen corporate reputation while earnings management practices remain present.

Table 4. Hypothesis Testing (t-test)

Hypothesis	Relationship	β	t-value	p-value	Decision
H1	CSR $\rightarrow$ Earnings Management	0.056	6.509	<0.001	Supported*
H2	GCG $\rightarrow$ Earnings Management	0.072	9.421	<0.001	Supported*

Source: Processed research data (2026).

Similarly, Good Corporate Governance (GCG) demonstrates a positive and statistically significant influence on earnings management ($\beta = 0.072$, $t = 9.421$, $p < 0.001$). This finding suggests that companies with stronger governance characteristics also exhibit higher earnings management scores during the observation period. Although this result appears to contradict the conventional prediction of Agency Theory, it may indicate that governance mechanisms in the sampled firms primarily emphasize regulatory compliance and formal governance structures rather than effectively constraining managerial discretion. Consequently, the effectiveness of corporate governance depends not only on the existence of governance mechanisms but also on the quality of their implementation and monitoring processes.

Table 5. Overall Model Significance (F-test)

Indicator	Value
F-statistic	67.789
Significance	<0.001

Source: Processed research data (2026).

The F-test indicates that the regression model is statistically significant ($F = 67.789$, $p < 0.001$), confirming that Corporate Social Responsibility and Good Corporate Governance jointly explain variations in earnings management. Therefore, the proposed regression model is considered appropriate for examining the influence of CSR and GCG on earnings management among Indonesian manufacturing firms.

5. Discussion

The empirical findings reveal that Corporate Social Responsibility (CSR) has a positive and statistically significant effect on earnings management. This result indicates that firms with higher levels of CSR disclosure also tend to exhibit higher earnings management practices. Although this finding contradicts the initial hypothesis and the conventional expectation derived from Stakeholder Theory and Agency Theory, it suggests that CSR disclosure may not always function as an effective mechanism for constraining managerial opportunism. Instead, CSR can be strategically employed as a reputational instrument to enhance corporate legitimacy while managers simultaneously retain discretion over financial reporting. From the perspective of Legitimacy Theory, companies facing greater public scrutiny may increase CSR disclosure to maintain social acceptance and strengthen stakeholder confidence, even when earnings management practices remain present. Consequently, CSR disclosure may serve as a symbolic legitimacy strategy rather than reflecting substantive improvements in reporting quality.

These findings support the argument that sustainability reporting and financial reporting quality do not necessarily move in the same direction. Firms may voluntarily disclose extensive CSR information to build a favorable corporate image while simultaneously engaging in accounting discretion to achieve financial objectives. Such circumstances are particularly relevant in emerging markets, where the quality of sustainability disclosure is still heterogeneous and external assurance of sustainability reports remains relatively limited. Therefore, extensive CSR disclosure should not automatically be interpreted as evidence of high-quality financial reporting or lower managerial opportunism.

The present findings are consistent with several recent studies reporting that CSR disclosure may coexist with earnings management practices. Velte (2023) concluded that the relationship between ESG performance and earnings management remains mixed because some firms employ sustainability disclosure as a legitimacy mechanism rather than as an indicator of genuine ethical commitment. Likewise, García-Sánchez et al. (2022) reported that sustainability disclosure does not always reduce earnings management, particularly when disclosure quality is relatively low or primarily intended to satisfy regulatory and stakeholder expectations. Similar evidence was also reported by Alodat et al. (2024), who found that governance and sustainability practices in emerging markets often emphasize formal compliance rather than substantive improvements in financial reporting quality.

The study further demonstrates that Good Corporate Governance (GCG) exerts a positive and statistically significant influence on earnings management. This finding differs from the conventional prediction of Agency Theory, which posits that stronger governance mechanisms should reduce managerial opportunism through more effective monitoring. Instead, the results suggest that the existence of governance structures alone is insufficient to constrain earnings management. Governance effectiveness depends largely on the quality of implementation, board independence, institutional oversight, and the ability of audit committees to monitor managerial decisions. Consequently, governance mechanisms may satisfy regulatory requirements while remaining ineffective in limiting managerial discretion over accounting choices.

Within the Indonesian context, these findings may also reflect the institutional characteristics of corporate governance implementation. Public companies generally comply with governance regulations by establishing independent commissioners, audit committees, and institutional ownership structures. Nevertheless, such mechanisms may function more as

formal governance arrangements than as effective monitoring systems. As a result, managers may continue to exercise accounting discretion despite the presence of governance mechanisms. This interpretation is consistent with the institutional perspective, which argues that formal governance structures do not necessarily guarantee effective governance outcomes unless supported by strong organizational commitment and independent oversight.

The positive relationship identified in this study is supported by recent international evidence suggesting that governance quality alone cannot fully eliminate earnings management. Salehi et al. (2021) found that the effectiveness of governance mechanisms varies considerably across institutional environments, while Habib et al. (2022) emphasized that board characteristics, ownership structure, and audit committees reduce earnings management only when governance quality is effectively implemented rather than merely complying with regulatory requirements. Furthermore, Zimon et al. (2023) argued that governance practices integrated with substantive sustainability strategies are more likely to improve financial reporting quality than governance structures that focus solely on regulatory compliance.

Overall, the findings of this study indicate that neither CSR disclosure nor formal governance mechanisms automatically reduce earnings management within Indonesian manufacturing firms. Instead, both practices appear to function primarily as institutional responses to increasing stakeholder expectations and regulatory pressures. These findings contribute to the growing literature by providing evidence that, in emerging markets, the effectiveness of CSR and GCG depends not merely on their existence but on the quality, credibility, and substantive implementation of these mechanisms. Accordingly, future corporate governance reforms should emphasize governance effectiveness, board independence, sustainability assurance, and greater transparency to ensure that CSR and GCG genuinely enhance financial reporting quality rather than serving primarily as instruments of corporate legitimacy.

6. Implications

6.1 Theoretical Implications

This study provides several important theoretical contributions to the literature on corporate governance, corporate social responsibility, and financial reporting quality. First, the findings extend Agency Theory by demonstrating that the existence of Corporate Social Responsibility (CSR) disclosure and formal Good Corporate Governance (GCG) mechanisms does not necessarily reduce managerial opportunism. Contrary to the conventional prediction of Agency Theory, this study finds that firms with higher CSR disclosure and stronger governance structures tend to exhibit higher earnings management. These findings suggest that governance mechanisms may be effective only when they function substantively rather than merely fulfilling regulatory requirements. Consequently, the effectiveness of monitoring mechanisms depends not only on their formal existence but also on the quality of governance implementation, board independence, and the effectiveness of oversight exercised by audit committees and institutional investors.

Second, the findings enrich Stakeholder Theory and Legitimacy Theory by providing empirical evidence that CSR disclosure may perform a dual function within organizations. Besides serving as an accountability mechanism toward stakeholders, CSR disclosure may also be strategically employed to maintain organizational legitimacy and strengthen corporate

reputation while managerial discretion in financial reporting remains unchanged. This finding supports the growing stream of literature suggesting that sustainability disclosure does not automatically guarantee higher financial reporting quality, particularly in emerging markets where sustainability reporting practices continue to evolve. Therefore, this study contributes to the ongoing debate regarding whether CSR reflects substantive ethical commitment or merely symbolic legitimacy.

Finally, this study contributes to the empirical literature by providing updated evidence from Indonesian manufacturing companies during the 2019–2024 observation period, which captures corporate behavior before, during, and after the COVID-19 pandemic. The results indicate that the institutional environment and regulatory pressure surrounding ESG implementation may influence the relationship between CSR, GCG, and earnings management differently from that observed in developed economies. Consequently, future studies should consider incorporating institutional quality, board effectiveness, sustainability assurance, ownership concentration, or ESG performance as moderating or mediating variables to explain the complex relationship between corporate governance, sustainability practices, and earnings management.

6.2 Practical Implications

The findings of this study provide several practical implications for corporate managers, investors, regulators, and other stakeholders. For corporate management, the results indicate that increasing CSR disclosure and establishing formal governance structures alone are insufficient to improve financial reporting quality. Companies should focus on enhancing the substantive implementation of sustainability programs and strengthening governance effectiveness rather than merely complying with disclosure requirements. In particular, boards of commissioners and audit committees should enhance their monitoring roles to ensure that sustainability initiatives are integrated with ethical financial reporting practices.

For investors and creditors, the findings suggest that CSR disclosure and governance characteristics should not be interpreted as standalone indicators of financial reporting quality. Investment decisions should therefore consider additional indicators, including earnings quality, discretionary accruals, audit quality, and external assurance of sustainability reports. A comprehensive evaluation of both financial and non-financial information is necessary to reduce information asymmetry and improve investment decision-making.

For policymakers and regulators, particularly the Indonesia Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX), the results highlight the importance of strengthening the quality of ESG disclosure and corporate governance implementation beyond regulatory compliance. Regulators are encouraged to enhance supervision over sustainability reporting practices, promote independent assurance of sustainability reports, and improve governance evaluation mechanisms to ensure that CSR and GCG contribute effectively to financial reporting transparency rather than merely serving as instruments of organizational legitimacy. Such initiatives are expected to strengthen investor confidence and improve the credibility of Indonesia's capital market in the long term.

7. Limitations and Future Research Directions

Despite providing important empirical evidence regarding the relationship between Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), and earnings management, this study has several limitations that should be acknowledged. First, the

analysis is limited to manufacturing companies listed on the Indonesia Stock Exchange (IDX), particularly those operating in the basic materials and chemical industries. Consequently, the findings may not be directly generalizable to firms operating in other industries or institutional environments with different governance structures, stakeholder pressures, and sustainability reporting practices.

Second, this study measures CSR using the Corporate Social Responsibility Disclosure Index (CSRDI) based on the Global Reporting Initiative (GRI Standards 2021) and employs governance indicators represented by institutional ownership, managerial ownership, independent commissioners, and audit committees. Although these measures are widely adopted in previous studies, they primarily capture the extent of disclosure and governance structure rather than the effectiveness or quality of CSR implementation and corporate governance practices. Likewise, earnings management is measured using the Modified Jones Model, which focuses on accrual-based earnings management and may not fully capture real earnings management activities undertaken through operational decisions.

Third, the study applies a conventional multiple linear regression model using panel observations from the 2019–2024 period. While this approach is appropriate for testing direct relationships, it does not fully account for potential endogeneity issues, dynamic causal relationships, or complex interactions among governance, sustainability, and financial reporting variables. Therefore, the interpretation of the findings should be viewed within the methodological boundaries of the research design.

Building upon these limitations, several directions for future research can be proposed. Future studies are encouraged to extend the analysis to cross-country settings or compare emerging and developed economies to better understand how institutional quality influences the relationship between CSR, GCG, and earnings management. Comparative studies across industries, particularly environmentally sensitive sectors such as mining, energy, banking, and technology, would also provide broader insights into the role of governance and sustainability practices under different regulatory environments.

Future research may also incorporate additional governance and sustainability variables, including board gender diversity, board expertise, CEO characteristics, ownership concentration, audit quality, sustainability assurance, Environmental, Social, and Governance (ESG) performance, digital corporate governance, or corporate ethical culture. These variables may serve as mediators or moderators to explain the complex mechanisms through which governance and sustainability initiatives influence financial reporting quality.

From a methodological perspective, future studies are encouraged to employ more advanced analytical techniques, such as panel data estimation using fixed-effects or dynamic generalized method of moments (GMM), structural equation modeling (SEM), multilevel analysis, or machine-learning approaches for earnings management detection. Furthermore, combining archival financial data with survey or interview data from board members, audit committee members, and sustainability officers could provide richer evidence regarding the behavioral mechanisms underlying managerial reporting decisions. Overall, future research should move beyond examining the mere existence of CSR disclosure and governance mechanisms toward investigating their effectiveness, credibility, and substantive implementation. Such efforts will contribute to a more comprehensive understanding of how corporate sustainability and governance practices can genuinely enhance financial reporting quality and organizational accountability in increasingly complex business environments.

8. Conclusion

This study investigates the influence of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) on earnings management among manufacturing companies in the basic materials and chemical sectors listed on the Indonesia Stock Exchange during the 2019–2024 period. Using multiple linear regression analysis on 180 firm-year observations, the study demonstrates that both CSR and GCG have positive and statistically significant relationships with earnings management. These findings indicate that firms with higher levels of CSR disclosure and stronger governance structures also tend to exhibit higher levels of earnings management during the observation period.

The empirical results differ from the conventional expectations of Agency Theory, which assumes that CSR and corporate governance mechanisms function as effective monitoring tools capable of reducing managerial opportunism. Instead, the findings suggest that CSR disclosure and formal governance structures may primarily serve as instruments for enhancing organizational legitimacy and satisfying stakeholder expectations without necessarily constraining managerial discretion in financial reporting. Accordingly, the effectiveness of CSR and GCG depends not merely on their formal existence but on the quality, credibility, and substantive implementation of governance and sustainability practices within organizations.

This study contributes to the corporate governance and sustainability literature by providing updated evidence from an emerging economy during the post-pandemic period, highlighting that the relationship between CSR, GCG, and earnings management remains highly context-dependent. The findings reinforce the argument that sustainability disclosure and governance compliance alone cannot guarantee higher financial reporting quality unless supported by effective oversight, independent monitoring, and a strong organizational commitment to ethical reporting practices.

From a practical perspective, the findings emphasize the need for corporate managers, boards of commissioners, audit committees, investors, and regulators to move beyond compliance-oriented governance toward substantive governance effectiveness. Strengthening board independence, improving audit committee effectiveness, enhancing sustainability assurance, and increasing the credibility of CSR disclosure are expected to improve financial reporting quality and reduce opportunities for earnings management. Therefore, improving governance quality should become an integral component of corporate sustainability strategies rather than merely fulfilling regulatory requirements.

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