

THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY (CSR) DISCLOSURE ON EARNINGS QUALITY WITH GOOD CORPORATE GOVERNANCE (GCG) AS A MODERATING VARIABLE IN STATE-OWNED ENTERPRISES (SOES) LISTED ON THE INDONESIA STOCK EXCHANGE (IDX) FOR THE 2018 – 2022 PERIOD

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Abstract

The purpose of this research was to determine the effect of Corporate Social Responsibility (CSR) on earnings quality with Good Corporate Governance (GCG) as a moderating variable in State-Owned Enterprises (BUMN) companies listed on the Indonesia Stock Exchange (IDX) for the 2018 – 2022 period. The method used in this research is a quantitative method with a descriptive verification approach with secondary data obtained from financial reports and sustainability reports. The population in this study were 24 BUMN companies listed on the IDX for the period 2018-2022. The sampling technique used was purposive sampling with the results of 17 sample companies. The data analysis technique used is panel data regression analysis. The results of this study indicate that Corporate Social Responsibility (CSR) has an effect on earnings quality, but Good Corporate Governance (GCG) cannot moderate the relation between Corporate Social Responsibility (CSR) and earnings quality.

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INTRODUCTION

It is imperative that companies provide clear and accurate information in the preparation of financial statements, as these reports are essential for stakeholders such as investors, creditors, governments, and the general public. Earning is defined as an accounting concept that serves as a means of measuring the quality of profit administration (Puspaningrum & Indarti, 2021). The quality of earning is defined as the performance of profit in providing information that serves a functional purpose in supporting decision-making (Witjaksono & Djaddang, 2018).

The annual financial report of Garuda was found to be defective after it was discovered that Garuda Indonesia had recognized revenue related to its cooperation with PT Mahata Aero Technology. The fund is, in fact, still a debt with contracts that remain valid for the next 15 years. However, it has been credited in the first year and recognized as income and entered into other income. Consequently, the company that previously incurred losses and then printed profits (pppk.kemenkeu.go.id downloaded on October 7, 2023) is suspected of financial report manipulation by two companies issuing state-owned enterprises (BUMN) works, namely PT Waskita Karya Tbk (WSKT) and PT Wijaya Karia Tbc (WIKa). The performance of WIKa throughout the I-2023 quarter was not particularly encouraging, with net income growing by 37.34% annually to Rp 4.34 trillion. However, the company's bottom line reversed, resulting in net losses. (www.CNBCIndonesia.com downloaded on 7 October

2023). The rationale for conducting research on a company registered in the Indonesia Stock Exchange (BEI) is to ascertain the quality of its financial reporting, which has been found to be problematic in a period of less than 10 years.

Agency Theory

The agency theory was introduced by Jensen and Meckling in 1976 and is the basis for understanding corporate governance. According to Jensen and Meckling (1976) it defines agency relationships as a contract that states that one or more persons (principle) involve others (agents) to perform certain services in their interests by delegating decision-making authority to agents.

Corporate Social Responsibility (CSR)

Maengko et al. (2023) define Corporate Social Responsibility (CSR) as an effort made by a company to assume responsibility for the impact of its operational activities on sustainable development. A company that adheres to the principles of CSR not only pursues economic earnings but also considers the implications of its actions on environmental sustainability and society's well-being.

The Corporate Social Responsibility (CSR) disclosure items were quantified using the G4 GRI, which comprises 91 performance indicators across three categories (economy, social, environment). The index was disclosed in the Global Reporting Initiative (GRI) using the following formula:

$$CSRIi = \frac{\sum XIi}{91}$$

Earnings Quality

Management as the manager of the company must meet the interests of the investors and creditors by presenting high-quality earnings. High-quality earnings are earnings that are free from mistakes and misleading information for users of financial reports, as defined by Kurnia et al. (2017). In this study, the quality of earnings will be measured using the Penman method (2001), as outlined in the journal article by Septiyani et al. (2017). The ratio of operational cash flows to net earnings will be employed as a measurement of the quality of earnings. A lower ratio indicates a higher quality of earnings, with a smaller rate indicating a better quality of earnings. To ascertain the extent to which earning quality is being measured, the following metrics will be employed:

$$EQ = \frac{CFO}{EBIT}$$

Good Corporate Governance (GCG)

Good Corporate Governance is a structure and process used to direct and manage enterprises to corporate progress and accountability with the ultimate goal of creating corporate value and shareholder wealth sustainably, taking into account the interests of stakeholders (KNKG,2021).

In the BUMN Minister's Regulation No. Per-2/MBU/03/2023 on the Guidelines for Governance and Significant Corporate Activities, BUMN explains that in article 15, paragraph 3, the composition of the board of commissioners/council of supervisors of at least 20% (twenty percent) is the members of the Board of Commissioners /council of independent overseers as specified in the decision of its appointment.

$$\text{Independent Commissioner} = \frac{\text{Members of the independent commissioner's council}}{\text{total of commissioner's council}}$$

The impact of Corporate Social Responsibility (CSR) Disclosure on the Quality of Earnings

For stakeholders, corporate social responsibility (CSR) represents a factor that companies must consider in order to enhance the quality of their earnings. Companies that have already implemented CSR are expected to enhance their corporate image in the community. The more companies care about their surroundings, the more they can improve their company image, which in turn can attract investors to invest in the company and increase its future earnings.

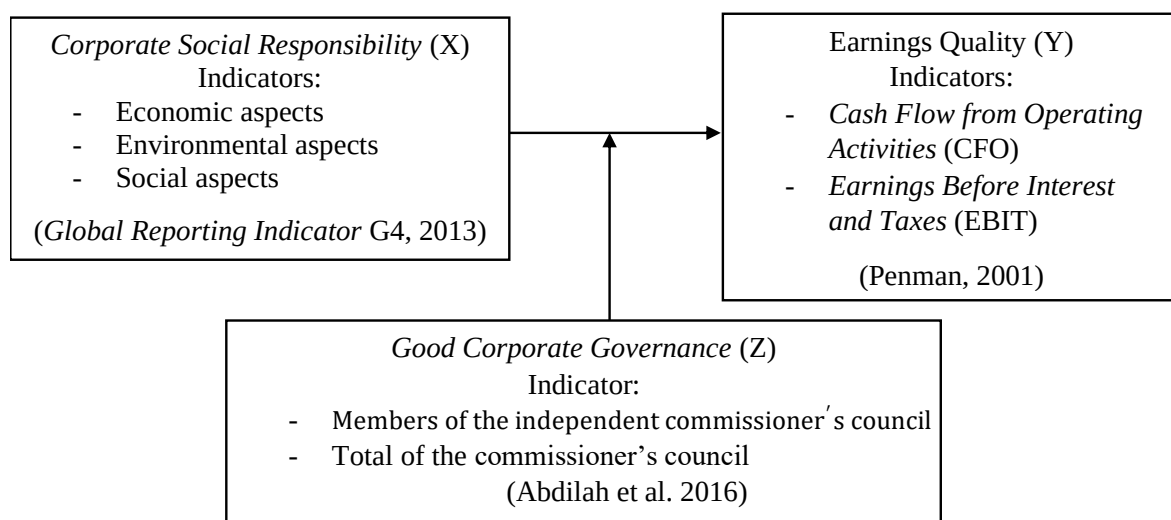
As the number of investors increases, it is anticipated that the company will also enhance its profitability. The quality of corporate earnings after implementing CSR is expected to be superior to that observed prior to its implementation. Witjaksono & Djaddang (2018) posit that there is a significant correlation between CSR and the quality of earning. Aziz (2018) posits that companies with a robust CSR program are less likely to engage in earning management activities, resulting in a higher quality of earning.

H1: Corporate Social Responsibility (CSR) influences the quality of earnings.

The Impact of Corporate Social Responsibility (CSR) Disclosure on Quality of Earning with Moderate Good Corporate Governance (GCG)

In the preparation of the financial statements of the company, the independent commissioner serves the function of monitoring the financial reporting. The presence of the independent commissioner is expected to improve the quality of financial reports. This assertion is supported by Fauziah & Marissan (2014), which explains that the impact of CSR on moderated earnings by independent commissioners is significant.

H2: Good Corporate Governance (GCG) can moderate Corporate Social Responsibility (CSR) towards earnings quality.



DATA AND RESEARCH TECHNIQUE ANALISYS

This research uses descriptive methods and verification methods with a quantitative approach. In this study the objects used by the author are Corporate Social Responsibility (CSR), profit quality, and Good Corporate Governance (GCG). The operational variables are:

Table 1: Operational Variable

Variable	Variable Definition	Indicator
<i>Corporate Social Responsibility (CSR) (X)</i>	Corporate social responsibility (CSR) is a management strategy that aims to responsible for the impact of operational activities on society and the surrounding environment. CSR is one of the management endeavor to improve the company's reputation and create a positive image to stakeholders and the general public. CSR enables companies to identify and address their social responsibility by covering economic (profit), social (people) and environmental (planet) aspects. Maengko et al. (2023)	- Economic aspects - Environmental aspects - Social aspects <i>(Global Reporting Indicator G4, 2013)</i>
Earnings Quality (Y)	Earnings quality is an indicator used to assess the quality of a company's financial information. High-quality financial information is derived from the accuracy and clarity of financial reporting. Earnings quality serves as a benchmark for companies in analyzing and evaluating the company's financial condition. Puspitawati et al. (2019)	- <i>Cash Flow from Operating Activities (CFO)</i> - <i>Earnings Before Interest and Taxes (EBIT)</i> <i>(Penman, 2001)</i>
<i>Good Corporate Governance (GCG) (Z)</i>	Good Corporate Governance (GCG) is a framework used to direct and manage a company with the aim of achieving corporate targets, ensuring accountability, transparency and ethics in corporate governance. GCG also involves the relationship between various parties involved in the company to determine the direction and performance of the company. Budianto et al., (2018)	- Members of the independent commissioner's council - Total of the commissioner's council <i>(Abdilah et al. 2016)</i>

Source : Self Proceed

The research subjects carried out in this study were BUMN companies listed on the Indonesian Stock Exchange (BEI) during the period 2018-2022. During the survey period, the population was 24 companies, but the companies that met the criteria were 17. In this study, the method used is nonprobability sampling based on purposive samplings. The following is the calculation for sampling

Table 2: Research Sampling Calculation

Criteria	Total
State-owned enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) for the period 2018-2022..	24
Companies that did not consecutively report sustainability reports and financial statements during the 2018-2022 period.	(5)
Companies that do not report financial statements in Rupiah (Rp)	(2)
Total sample	17
Total data (17 x 5)	85

Source : Self Proceed

RESULT AND DISCUSSION

Descriptive Data of Research Result

Table 3: Descriptive Statistics

	N	CSR	Earnings Quality	GCG	Variable Interaksi
Mean	85	-1,222740	0,737902	-0,865141	1,049803
Median	85	-1,178655	1,026505	-0,847298	0,998672
Maximum	85	-0.206794	1,927529	-0,356675	3,914340
Minimum	85	-3.124565	-1,901739	-1,609438	0,148830
Std. Dev.	85	0,591165	0,867528	0,275744	0.620005

Source : Self Proceed

Classical Assumption Test

Prior to conducting multiple regression analysis, it is essential to perform classical assumption testing. This process ensures that the parameter estimates and regression coefficients are not biased. The classical assumption tests employed in this study include a normality test, a heteroscedasticity test, and a multi-collinearity test.

- A normality test was conducted in this study through the use of a histogram normality test, which entailed the examination of the probability value. The probability value obtained from the test results was $0.0931 > 0.05$. Therefore, it can be concluded that the data utilized in this study is normally distributed.
- The heteroscedasticity test is designed to assess whether there is an inequality of variance in the residuals of the regression model. In this study, heteroscedasticity testing employs the use of y residuals. The results of the heteroscedasticity test indicate that the residual value falls within the range of 1.9 to -1.9, and does not exceed the 5 and -5 limits. Therefore, it can be concluded that the data utilized in this study passes the heteroscedasticity test.
- The multi-collinearity test is intended to ascertain whether the regression model identifies a correlation between the independent or independent variables. In this study, the multi-collinearity test uses a method that examines the correlation between the independent variables to determine the value of each variable, with a value of 0.90 or above being required. Table 4.5 indicates that the correlation between CSR (X) and GCG (Z) is $-0.049897 < 0.90$. Similarly, the correlation between CSR (X) and the interaction variable (XZ) is $-0.821445 < 0.90$. The correlation value between GCG (Z) and the interaction variable (XZ) is $-0.467167 < 0.90$. Therefore, based on the results of the multi-collinearity test, it can be concluded that the multi-collinearity test passes.

Multiple Linear Regression Analysis

After conducting model selection tests using the Chow, Hausman and Leverage Multiplier (LM) tests. The fixed effects model (FEM) test was then selected as the best model for panel data regression. The following are the results of panel data regression using the fixed effect model (FEM):

$$\text{Earnings Quality (Y)} = 2,497031 + 1,998254(X) + 1,673109(Z) + 1,098779(XZ)$$

- The constant value indicates a number of 2.497031 or 249.7031%, which suggests that if CSR (X), GCG (Z), and interaction variables (XZ) are held constant, then earnings quality (Y) will increase by 249.7031%.
- The regression coefficient value of the CSR (X) variable is 1.9982. This indicates that if CSR (X) is constant, then earnings quality (Y) will increase by 54 or 199.8254%.
- The regression coefficient value of the GCG variable (Z) shows a value of 1.673109 or 167.3109%, which indicates that if GCG (Z) is constant, then earnings quality (Y) will increase by 167.3109%. Consequently, earnings quality (Y) will increase by 167.3109%.
- The regression coefficient value of the interaction variable (XZ) indicates a value of 1.098779 or 109.8779%, which signifies that if the interaction variable (XZ) is maintained at a constant level, then earnings quality (Y) will increase by 109.8779%.

The coefficient of determination (R^2) is a statistical measure that indicates the extent to which the independent variable, namely Corporate Social Responsibility (CSR), influences the dependent variable, namely Good Corporate Governance (GCG). In this case, the Adjusted R-squared number (0.276148) indicates that the influence is weak. This indicates that the proportion of the influence of the independent and moderating variables on the dependent variable is 27.6148%. Alternatively, it can be interpreted that the independent variable and the interaction between the independent variable and the moderating variable utilized in the model are capable of explaining approximately 27.6148% of the dependent variable. While the remaining 72.3852% is influenced by other factors not examined.

Hypothesis Test

Table 4: *t test*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.497031	0.781568	3.194898	0.0022
X	1.998254	0.703806	2.032534	0.0334
Z	1.673109	0.828717	2.018914	0.0476
XZ	1.098779	0.726131	1.513198	0.1351

Source: *Processed, 2024*

- The probability value on the CSR (X) variable is $0.0334 < 0.05$. Therefore, it can be concluded that the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted. This indicates that there is a statistically significant effect of Corporate Social Responsibility (CSR) on earnings quality.
- The probability value on the interaction variable (XZ) is $0.1351 > 0.05$. Consequently, it can be posited that the null hypothesis (H_0) is accepted and the alternative hypothesis (H_1) is rejected. This implies that good corporate governance (GCG) does not serve to moderate the effect of corporate social responsibility (CSR) on earnings quality.

Table 5: *F test*

R-squared	0.439876	Mean dependent var	0.737902
Adjusted R-squared	0.276148	S.D. dependent var	0.867528
S.E. of regression	0.738089	Akaike info criterion	2.432819
Sum squared resid	35.41037	Schwarz criterion	3.007560
Log likelihood	-83.39480	Hannan-Quinn criter.	2.663996
F-statistic	2.686620	Durbin-Watson stat	1.708176
Prob(F-statistic)	0.001642		

Source: *Processed, 2024*

The probability value (F-statistic) is $0.001642 < 0.05$. Therefore, it can be concluded that the model is suitable for use in research and qualifies for partial testing.

The Effect of Corporate Social Responsibility (CSR) Disclosure on Earnings Quality

The results of the t-test hypothesis in Table 4.10 indicate that the probability value is 0.0334, which is less than the significance level of 0.05. This suggests that Corporate Social Responsibility (CSR) has a significant influence on earnings quality in state-owned companies listed on the IDX for the period 2018-2022.

Corporate social responsibility (CSR) is a management strategy that is designed to assist companies in addressing economic, social, and environmental issues. The implementation of CSR is anticipated to enhance the company's image and to improve the quality of earnings, thereby attracting investors to invest in the company.

In addition, CSR is also related to agency theory, namely as a company strategy to reduce agency problems. CSR has the ability to reduce asymmetric information, thereby reducing agency problems between management and stakeholders.

The results of this study align with previous research conducted by Witjaksono and Djaddang (2018), Puspaningrum and Indarti (2021), and Aziz (2018).

The Effect of Corporate Social Responsibility (CSR) Disclosure on Earnings Quality with Good Corporate Governance (GCG) as Moderation

The results of the t-test hypothesis in Table 4.10 indicate that the probability value is 0.1351, which is greater than the significance value of 0.05. Therefore, it can be concluded that Good Corporate Governance (GCG) does not moderate the relationship between Corporate Social Responsibility (CSR) and earnings quality in BUMN companies listed on the IDX for the period 2018-2022.

The existence of GCG, which the proxy is using an independent board of commissioners, and CSR, which has the benefit of improving the quality of financial performance, are two key factors in this research. The study was conducted on state-owned companies that had independent commissioners during the period 2018-2022. The results of this study demonstrate that GCG, with the proxy of independent commissioners, cannot moderate the relationship between CSR and earnings quality. This is because the board of commissioners does not participate in the preparation of CSR disclosure reports; rather, it oversees the process to ensure that the reports are complete and free of errors. Furthermore, the level of CSR disclosure in state-owned enterprises (BUMN) listed on the Indonesia Stock Exchange (IDX) for the period 2018-2022 is still considered to be low, with an average of only 31 items or approximately 34% disclosed.

This result does not align with the findings of Fauziah & Marissan (2014), but it is aligned with the findings of Sari & Widodo (2022).

CONCLUSIONS

The results of hypothesis testing and the discussion described in the previous chapter regarding the effect of Corporate Social Responsibility (CSR) on earnings quality with Good Corporate Governance (GCG) as a moderating variable in BUMN companies listed on the IDX for the period 2018-2022 indicate the following conclusions:

- a. The disclosure of Corporate Social Responsibility (CSR) affects the quality of earnings in state-owned companies listed on the IDX for the period 2018-2022. This is due to the increase in CSR disclosure every year, with the increase in CSR disclosure in the company indicating that the company is paying more attention to existing regulations.
- b. Corporate Governance (GCG) cannot moderate the relationship between Corporate Social Responsibility (CSR) and earnings quality. This can occur because the independent board of commissioners does not participate directly in the preparation of CSR reports but only oversees them to ensure the accuracy and usefulness of the reports for stakeholders.

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