Corporate Social Responsibility Disclosure on Earnings Management

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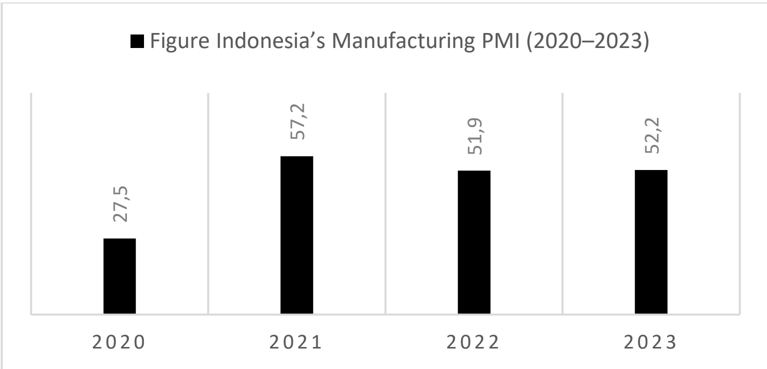
ABSTRACT

This study aims to empirically examine the effect of Corporate Social Responsibility (CSR) disclosure on earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. Fluctuations in Indonesia's manufacturing sector, reflected in the Purchasing Managers' Index (PMI), indicate the pressure faced by companies to maintain stable profits and corporate image, particularly during periods of economic uncertainty. In such situations, CSR disclosure is often used not only as a form of accountability but also as a legitimacy strategy to manage stakeholder perceptions. Using a quantitative approach, data were collected from 31 manufacturing companies, totaling 124 firm-year observations. CSR disclosure was measured based on GRI G4 standards, while earnings management was assessed using the Modified Jones Model. The analysis employed multiple linear regression via SPSS 25. The results show that CSR disclosure has a positive and statistically significant effect on earnings management (t = 11.544, sig. = 0.000), with the model explaining 52.2% of the variance in earnings management. These findings support agency theory and align with previous research indicating that CSR can be strategically used by managers to obscure opportunistic financial behavior. The study contributes to the accounting and corporate governance literature by highlighting the dual function of CSR and offers practical recommendations for improving transparency and accountability in the manufacturing sector.

1. INTRODUCTION

The manufacturing sector plays a vital role in Indonesia's economy due to its contribution to industrial output, exports, and employment absorption (Sari, 2022). The performance of this sector is highly influenced by macroeconomic conditions, one of which is reflected in the Purchasing Managers' Index (PMI). During the 2020–2023 period, Indonesia's manufacturing PMI experienced significant fluctuations: it dropped sharply to 27.5 in April 2020 due to the COVID-19 pandemic (Rivankurniawan, 2020), rose to 57.2 in October 2021 (Lestari, 2021), and remained above 50 throughout 2023, indicating steady expansion (ANTARA News, 2024). These fluctuations illustrate the pressure on manufacturing firms to maintain stable earnings and corporate image amid economic uncertainty.

Figure 1.2 Indonesia's Manufacturing PMI (2020–2023)



Source: Processed by the author, 2025

In response to such pressure, managers may be inclined to engage in earnings management, which refers to the legal modification of accounting information to meet financial targets or sustain profit trends (Healy & Wahlen, 1999). This practice is often used as a managerial strategy to meet market expectations, although it can reduce the quality of information received by stakeholders (Scott, 2015). A notable example is the case of PT Waskita Beton Precast Tbk, where financial statements were manipulated through fictitious projects to present a strong earnings performance (CNBC Indonesia, 2023).

One strategy frequently used to maintain a positive perception under such conditions is the disclosure of Corporate Social Responsibility (CSR). Although CSR is intended to reflect a company's commitment to social and environmental responsibilities, its implementation requires significant costs that may reduce short-term profits (Hariyani et al., 2022). This financial burden can motivate managers to conduct earnings management to protect public and investor perception. According to agency theory, managers may also exploit CSR disclosure as a form of legitimacy to mask opportunistic behavior, especially when stakeholders face information asymmetry (Pramudianti, 2024). Previous studies by Nguyen et al. (2024), Brahem et al.

(2022), and Riadh (2021) support this view, showing that CSR is often used as an impression management tool to obscure earnings manipulation practices.

Based on this background, this study aims to empirically examine the effect of CSR disclosure on earnings management in manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2023 period. The research refers to Financial Services Authority Regulation No. 51/POJK.03/2017, which mandates sustainability reporting for public companies. The novelty of this study lies in its perspective that CSR is not only a tool for accountability but may also serve as a strategic instrument exploited by management to conceal manipulative practices. This research is expected to contribute to the accounting and corporate governance literature and provide practical recommendations to improve transparency and accountability in Indonesia's manufacturing sector

2. LITERATURE REVIEW

Agency Theory

Agency theory explains the potential conflict between owners (principals) and managers (agents) due to differences in interests and information asymmetry. Jensen and Meckling (1976) emphasize that managers, as agents, tend to act opportunistically if not properly monitored, while Eisenhardt (1989) reinforces this view by stating that agents are rational and tend to prioritize personal interests over organizational goals.

Corporate Social Responsibility (CSR) Disclosure

In the context of non-financial reporting, Corporate Social Responsibility (CSR) disclosure is considered one of the means by which companies demonstrate social accountability. However, according to Santos-Jaén et al. (2021), CSR can also function as a managerial legitimacy tool to maintain public trust. In Indonesia, Nugrahani et al. (2023) find that CSR practices are still largely symbolic and imitative in nature. Nguyen et al. (2024) further argue that unsubstantial CSR disclosure may serve as part of an impression management strategy intended to obscure earnings management practices.

Earnings Management

Earnings management is defined as a systematic effort by management to influence financial reporting in order to achieve specific objectives, while still complying with applicable accounting standards. Healy and Wahlen (1999) explain that earnings management is often used to meet market expectations and influence stakeholder assessments. Scott (2015) describes it as a rational strategy employed in response to external pressures. Sulistyanto (2018) classifies earnings management techniques into several types, including income smoothing and big bath. Empirically, indications of earnings management are measured through discretionary accruals, one of which is estimated using the Modified Jones Model, which separates normal and abnormal accruals in financial statements.

3. METHODS

This study employs a quantitative approach to examine the effect of Corporate Social Responsibility (CSR) disclosure on earnings management in manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. Secondary data were obtained from annual reports and sustainability reports published on the official company websites and www.idx.co.id. The sample was selected using purposive sampling. Data analysis was conducted using multiple linear regression with SPSS version 25, including classical assumption tests, F-test, t-test, and coefficient of determination (R^2), following the guidelines of Ghozali (2018).

CSR Disclosure

CSR is measured based on the GRI G4 standards, which include 91 disclosure items covering economic, social, and environmental aspects. The CSR disclosure index is calculated based on the proportion of items disclosed in the company's annual and sustainability reports (Dewi, 2022; Pramudianti, 2024). The formula is as follows:

$$CSRIj = \frac{\sum Xij}{Nj}$$

Earnings Management

Earnings management refers to managerial efforts to adjust financial statements to present a desired performance outcome (Yani et al., 2024). This study measures earnings management using the Modified Jones Model through discretionary accruals, which are calculated as the difference between total accruals and non-discretionary accruals (Febria, 2020; Pramudianti, 2024).

1. Calculating total accruals using the cash flow approach:

$$TACit = NIit - CFOit$$

2. Determining the coefficients β1, β2, and β3 using the regression method:

$$\frac{TACit}{A(it-1)} = \beta 1\left(\frac{1}{A(it-1)}\right) + \beta 2\left(\frac{\Delta Revit}{A(it-1)}\right) + \beta 3\left(\frac{PPEit}{A(it-1)}\right) + e$$

3. Calculating Non-Discretionary Accruals (NDAC):

$$NDAit = \beta 1\left(\frac{1}{A(it-1)}\right) + \beta 2\left(\frac{\Delta Revit - \Delta Recit}{A(it-1)}\right) + \beta 3\left(\frac{PPEit}{A(it-1)}\right)$$

4. Calculating Discretionary Accruals (DAC):

$$DACit = \frac{TACit}{A(it-1)} - NDAit$$

Hypothesis Development

Corporate Social Responsibility (CSR) disclosure represents a company's commitment to social responsibility communicated to the public and stakeholders. However, its implementation often incurs significant costs, which may prompt managers to engage in earnings management to maintain financial performance stability (Hariyani et al., 2022). According to agency theory, managers tend to utilize CSR disclosure as a legitimacy tool to create a favorable image, thereby reducing suspicion from the public and principals regarding earnings manipulation particularly in situations with limited information access (Pramudianti, 2024). Prior studies by Nguyen et al. (2024), Brahem et al. (2022), and Riadh (2021) also indicate that CSR is frequently employed as a strategy to conceal earnings management practices. Therefore, this study proposes the following hypothesis:

H1: Corporate Social Responsibility (CSR) disclosure is suspected to have a positive effect on earnings management.

4. RESULTS AND DISCUSSION

Sampling Process

The population in this study includes 220 manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. The sample was selected using purposive sampling based on criteria such as the availability of financial statements, annual reports, and sustainability reports published consecutively over the four-year period. After applying exclusion criteria, 31 companies were selected as the research sample, resulting in 124 firm-year observations.

Table 1. Sampling Process

No	Description	Total
1	Manufacturing companies listed on IDX	220
2	Companies not consistently listed during 2020–2023	(27)
3	Companies without complete financial reports in 2020–2023	(20)
4	Companies without annual and sustainability reports in 2020–2023	(142)
5	Final sample	31
6	Total firm-year observations (31 companies × 4 years)	124

Source: Processed by the author, 2025

Descriptive Statistics Analysis

Table 2. Results of Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
CSR	124	.01	.64	.2573	.12646
Earnings_Management	124	-.31	.16	-.0234	.07348
Valid N (listwise)	124				

Source: Secondary data processed using SPSS 25, 2025

Descriptive statistics show that the average CSR disclosure is 0.2573, with the lowest value of 0.01 recorded by PT Indo Kordsa Tbk (BRAM) in 2020, and the highest value of 0.64 recorded by PT Chandra Asri Petrochemical Tbk (TPIA**)** during 2021 to 2023. Meanwhile, the average earnings management value is -0.0234, ranging from -0.31 to 0.16. These findings indicate that most manufacturing companies still have a low level of CSR disclosure and generally tend to engage in income-decreasing earnings management.

Table 3. Results of Multicollinearity Test

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.603	.004		-167.596	.000		
	CSR	.144	.012	.723	11.544	.000	1.000	1.000
a. Dependent Variable: Earnings_Management								

Source: Secondary data processed using SPSS 25, 2025

The multicollinearity test shows that Tolerance = 1.000 and VIF = 1.000 for the CSR variable. Since Tolerance ≥ 0.10 and VIF ≤ 10, it can be concluded that there is no multicollinearity in the regression model. The independent variables do not exhibit a linear relationship with one another.

Table 4. T-test Result

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.603	.004		-167.596	.000		
	CSR	.144	.012	.723	11.544	.000	1.000	1.000
a. Dependent Variable: Earnings_Management								

Source: Secondary data processed using SPSS 25, 2025

The t-test result shows that the CSR variable has a t-value = 11.544, which is greater than the t-table = 1.980, with a Sig. = 0.000. Since t count > t table and Sig. < 0.05, it can be concluded that CSR has a significant partial effect on earnings management.

Table 5. F-test Result

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.044	1	.044	133.256	.000[b]
	Residual	.040	122	.000		
	Total	.084	123			
a. Dependent Variable: Earnings_Management						
b. Predictors: (Constant), CSR						

Source: Secondary data processed using SPSS 25, 2025

The F-test result shows F count = 133.256 and F table = 3.92 at $\alpha = 0.05$ with df1 = 1 and df2 = 122. Since F count > F table and Sig. = 0.000 < 0.05, it is concluded that CSR has a significant simultaneous effect on earnings management.

Table 6. Results of Coefficient of Determination Test

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.723[a]	.522	.518	.01819	1.664
a. Predictors: (Constant), CSR					
b. Dependent Variable: Earnings_Management					

Source: Secondary data processed using SPSS 25, 2025

The R Square value of 0.522 indicates that 52.2% of the variation in earnings management can be explained by the CSR variable in this regression model. The remaining 47.8% is explained by other variables outside the model. This suggests that the influence of CSR on earnings management is considered moderately strong.

The Effect of Corporate Social Responsibility on Earnings Management

This study proves that Corporate Social Responsibility (CSR) has a significant effect on earnings management, with a t-value of 11.544 and a significance level of 0.000. Therefore, the first hypothesis stating that "CSR affects earnings management" is accepted. This finding is in line with studies by Nguyen et al. (2024), Brahem et al. (2022), and Riadh (2021), which show that CSR is often used as an impression management strategy by managers to conceal earnings manipulation practices. In addition, Hariyani et al. (2022) emphasize that CSR implementation may create cost burdens that encourage managers to engage in earnings management in order to maintain stable company performance. However, this result contradicts the findings of Prameswari et al. (2022), Sinaga et al. (2023), Hickman et al. (2021), and Solikhah (2022), who argue that CSR does not significantly affect earnings management, as it is perceived as a long-term reputational investment that does not directly influence accounting policy decisions.

5. CONCLUSION

This study concludes that the disclosure of Corporate Social Responsibility (CSR) has a significant effect on earnings management practices in manufacturing companies listed on the Indonesia Stock Exchange. The findings suggest that CSR can be utilized by management as a strategic tool to maintain a positive corporate image while engaging in opportunistic financial reporting. This supports the agency theory perspective, in which managers act in their own interests under conditions of information asymmetry. The study contributes to the literature by highlighting the dual role of CSR—as both a form of social accountability and a potential means of earnings manipulation. Therefore, it is important for companies to ensure that CSR disclosures are made transparently and substantively, so they genuinely reflect a commitment to sustainability rather than serving merely as symbolic communication.

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