

DOES GOOD CORPORATE GOVERNANCE (GCG) MODERATE THE SUSTAINABILITY REPORT DISCLOSURE AND EARNINGS MANAGEMENT RELATIONSHIP?

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ABSTRACT

This study proposes to investigate the GCG's role in the cause-effect connection between sustainability report disclosure and earnings management. A quantitative approach involves CGPI data and the GRI G.4 Index, supported by statistical analysis tools to reveal the role. The results, first, sustainability report disclosure hurts earnings management. Second, GCG (management ownership) and corporate governance perception index (as an external control mechanism) strengthen that negative effect. Third, GCG (independent commissioners) does not moderate that effect. These imply that management ownership and external control mechanisms are the practical options to increase earnings quality.

Keywords: GCG; Sustainability Report Disclosure; Earnings Management

ABSTRAK

Penelitian ini bertujuan mengeksplorasi peran moderasi GCG di dalam hubungan antara pengungkapan laporan keberlanjutan dan manajemen laba. Satu pendekatan kuantitatif melibatkan data CGPI dan Indeks GRI G.4, didukung alat analisis statistik untuk mengungkap peran moderasi tersebut. Hasilnya, pertama: pengungkapan laporan keberlanjutan berpengaruh negatif terhadap manajemen laba. Kedua: GCG (kepemilikan manajemen) dan indeks persepsi corporate governance (mekanisme pengendalian eksternal perusahaan) memperkuat pengaruh itu. Dan ketiga: GCG (dalam bentuk keterlibatan komisaris independen) tidak berperan sebagai moderator di dalam pengaruh negatif di atas. Hal ini menunjukkan kepemilikan manajemen dan mekanisme pengendalian eksternal merupakan pilihan paling efektif untuk meningkatkan kualitas laba.

Kata Kunci : GCG; Pengungkapan Sustainability Report; Manajemen Laba

JEL Classification: G340



ASSETS
Jurnal Akuntansi
dan Pendidikan

Vol. 12 No. 2
Page 174-187
Madiun, October 2023
p-ISSN: 2302-6251
e-ISSN: 2477-4995

Article History
Submitted:
March 19, 2023
Accepted:
October 24, 2023

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INTRODUCTION

Earnings management is the primary quality indicator of financial reporting, which has become an apprehension for the last two decades (Ali & Kamardin, 2018). The rise of financial disgrace and the ruin of large corporations due to fraudulent financial reporting are essential evidence that earnings management is a significant issue for many stakeholders. Large variations in income and expenses are a regular fragment of a company's activities, but it worries investors interested in stability and growth.

According to Astuti (2021), earnings management stands as an internal act to arrange financial information by increasing or decreasing the bottom value. Unfortunately, when practiced in an enormous scope, it will result in low earnings quality and vice versa (Khan et al., 2012). In other words, financial statements (with earnings management) cannot accurately present company information. As a result, investors will receive misleading information, so any decisions based on these are inappropriate.

Earnings management is a complex problem carried out in previous studies. Ali and Kamardin (2018) have considered earnings management a problematic condition that must be fixed immediately. Under this frame, earnings management is illustrious as opportunistic and informative earnings management. Opportunistic means to misinform investors, while informative one describes an excellent image to stakeholders, especially about the company's performance. Each function may sign that earnings management is not permanently unethical conduct.

Information asymmetry encourages managers to present inaccurate information, primarily about management's performance. Managers as agents aim to generate maximum income from the company through compensation for the profits achieved. The difference in these goals creates a conflict, raising agency costs. Agent fees are costs incurred to monitor agent behavior in managing the company. The agent is considered to have more quantity and quality information than the principal, giving the agent an advantage in achieving his goals (see Jensen & Meckling, 1976; Razak & Helmy, 2020).

Previous research has shown that the more corporate social responsibility (CSR) activities a company carries, the higher the quality of the company's accruals, and hence, can grow earnings quality. Disclosure of a company's sustainability report will form a good company profile in the community, and management will be careful in carrying out earnings management practices (Alexander & Palupi, 2020; Rahmawardani et al., 2020; Santi & Wardani, 2018). However, the results of different studies found that managers can tend to collusion through implementing and disclosing sustainability reports by using advantages and disadvantages for opportunistic behavior (Juliani & Ventty, 2022; Kalbuana et al., 2020; Kinasih et al., 2018; Razak & Helmy, 2020). This contradiction drives the author to add GCG variables because it can encourage transparency, financial management by applicable regulations, and company involvement in social and environmental activities (Laksmi & Kamila, 2018).

Ghozali et al. (2022) stated that GCG is a system that regulates, controls, and monitors business control processes. By implementing GCG, economic efficiency will be increased because it involves relations between the company's senior manager, directors, shareholders, government, employees, and industry. GCG also provides an opportunity to set the company's goals and make conclusions about performance monitoring techniques. Besides, CGC is one of the proper steps to monitor contractual



problems and constraints on management's opportunistic behavior as described by Agency Theory ((Jensen & Meckling, 1976).

Combining the role of GCG with a sustainability report disclosure strategy can increase stock value in the long term. Mukhtaruddin et al. (2019) described that GCG implementation will reinforce the competitive position, maximize value, manage resources, and control risks efficiently, and ultimately brace shareholder and stakeholder trust to operate and grow sustainably. GCG can improve the quality of reporting accounting information relevant to making decisions (see Lestari & Murtanto, 2018; Naciti, 2019; Priharto et al., 2018). Legitimacy theory (Gray et al., 1996) has supported the exposure of sustainability reports by companies and considered being an incentive to gain legitimacy from society (Kepakisan & Budiasih, 2022). It also indicates a societal agreement conducted by the business and the society, and hence, there is social and environmental disclosure. Finally, companies carry out social warranties and adjust them to prevail values and norms to maintain harmony (Nugraha & Meiranto, 2015).

METHOD

The research has been designed with the quantitative approach regarding the positivism paradigm. Practically, it re-examines the theory of phenomenon by studying and testing causal relationships between variables in cross-sectional design. The results were described in explanatory type supported by statistical analysis (see Hartono, 2017).

Table 1. Research Sample

Descriptive Criteria	2015	2016	2017	2018	2019	2020	2021
The company is included in the 2015-2021 CGPI program participants.	31	33	33	36	31	34	34
Companies are not included in the CGPI program participants consecutively during 2015-2021.	6	6	6	5	5	4	4
Companies not listed on BEI 2015-2021.	9	9	9	9	9	9	9
The company should have published annual reports consecutively during 2015-2021.	3	2	2	1	1	1	1
The company does not publish a <i>sustainability report disclosure report</i> on GRI G.4 for 2015-2021.	3	3	3	2	2	3	1
Total data obtained and suitable with research criteria	15	15	15	15	15	15	15
Total Observation Data	105						

Companies listed in the CGPI, a ranking constructed by the Indonesian Institute of Corporate Governance (IICG), are selected as population. Meanwhile, the data are composed of several samples that met these criteria: (1) Companies that won CGPI awards in 2015-2021; (2) Companies listed on BEI in 2015-2021; (3) Companies that published annual reports for 2015-2021; (4) Companies that published a sustainability report disclosure report on GRI G.4 in 2015-2021. There are fifteen companies stated as samples and supported the required data.

Secondary data were collected from several sources, including CGPI scores, annual reports, and the GRI G.4 index. Data sources related to earnings management information and GCG proxies were obtained by accessing the annual reports on the BEI website and the site of each firm. Furthermore, the GCG proxy that uses the CGPI score is obtained from the CGPI website, namely www.iicg.org. Meanwhile, the data source for disclosure of sustainability report information is obtained from the GRI G.4 index, accessed on the website www.globalreporting.org.

Research data were collected by using documentation techniques from secondary sources. Besides, this study is also supported by kinds of literature (journals, books, and other sources) related to this topic. The documentation includes data from published CGPI scores, annual reports, and the GRI G.4 index. The score from the company rating survey issued by CGPI was obtained through the official website, www.iicg.org, with company data registered in the CGPI for 2015-2021. The companies' annual reports were attained on the BEI website yearly. The sustainability report disclosure data were traced using an instrument in the form of a checklist retrieved from www.globalreporting.org.

Statistical tools consist of Multiple Regression Analysis and Moderated Regression Analysis (MRA) to support the analysis procedure based on an application SPSS program. There are several regression models were used based on the analysis as below:

$$ML = \alpha + \beta_1 CSRI + \beta_2 UP + \beta_3 P + \varepsilon \dots\dots\dots (1)$$

$$ML = \alpha + \beta_1 CSRI + \beta_2 KM + \beta_3 KI + \beta_4 CGPI + \beta_5 UP + \beta_6 P + \varepsilon \dots\dots\dots (2)$$

$$ML = \alpha + \beta_1 CSRI + \beta_2 KM + \beta_3 KI + \beta_4 CGPI + \beta_5 KM*CSRI + \beta_6 KI*CSRI + \beta_7 CGPI*CSRI + \beta_8 UP + \beta_9 P + \varepsilon \dots\dots\dots (3)$$

Description:

α = Constant

β = Regression coefficient

CSRI = Sustainability Report

ML = Earnings management

KM = Managerial Ownership

KI = Independent commissioner

CGPI = Corporate Governance Perception Index

UP = Firm Size

Q = Profitability

ε = Error term, namely the level of error in the estimator in the study

As stated before, the sustainability report disclosure has become an independent variable. By definition, it delivers CSR activities to stakeholders who have a greater demand for transparency regarding all features of the business. Meanwhile, earnings management has been stated as a dependent variable, which the Modified Jones Model measures. It is an exertion by managers to intrude or encourage the material in financial announcements to deceive stakeholders. They want to recognize the comprehensive illness of the company. In addition, we have a control relationship between both variables with company size and profitability.

Then, this study assigned GCG as a moderator variable, measured with some proxies (managerial ownership, independent commissioners, and CGPI). The first proxy shows the level of shares owned by management participating in the deciding process. The second one describes the amount of the Board of Commissioners members who have no affiliation with management with other members of the Board of Commissioners. Moreover, the third is the results from a research program about GCG



implementation ranking in Indonesia. It is usually used as an indicator to evaluate the quality of GCG implementation in comparative matters.

Table 2. Variable Measurement

Variable	Name of Variable	Measurement
Independent	Sustainability Report Disclosure	SRDI = $\frac{\text{Total items disclosed by the company}}{\text{Total disclosure items}}$
Dependent	Earnings Management	<ol style="list-style-type: none"> Calculating total accruals: $TAC_{it} = N_{it} - CFO_{it}$ Determining the coefficients of the total accrual regression: $TAC_{it}/A_{it-1} = \alpha_1(1/A_{it-1}) + \alpha_2((\Delta REV_{it}/A_{it-1}) + \alpha_3(PPE_{it}/A_{it-1}) + e$ Calculating <i>Nondiscretionary Accruals</i> (NDAC) $NDA_{it} = \alpha_1(1/A_{it-1}) + \alpha_2(\Delta REV_{it} - \Delta REC_{it}/A_{it-1}) + \alpha_3(PPE_{it}/A_{it-1})$ Determining <i>Discretionary Accrual</i> $DA_{it} = (TAC_{it}/A_{it-1}) - NDA_{it}$ <p> DA_{it} = Discretionary accruals of the company i in the t-year NDA_{it} = Nondiscretionary accruals for the company i in the t-year TAC_{it} = Total accruals company i in year t CFO_{it} = Flow of operating cash flow of company i in year t N_{it} = Net profit of company i in the t-year A_{it-1} = Total assets of company i at the end of year t-1 ΔREV_{it} = Change in company income i in year t minus company income in year t-1 ΔREC_{it} = Change in net receivables of company i in year t minus net receivables in year t-1 PPE_{it} = Gross property, plant, and equipment of company i in year t e = Errors </p>
Moderation	Managerial Ownership	Managerial ownership = $\frac{\text{Managerial shareholder}}{\text{Total outstanding share}}$
	Independent Commissioners	IC = $\frac{\text{Sum of independent commissioners}}{\text{Sum of boards of commissioners}}$
	Corporate Governance Perception Index (CGPI)	<p>A score of 85-100 means very trusted.</p> <p>A score of 70-84 means trusted.</p> <p>A score of 55-69 means trustworthy enough.</p>
Control	Company Size	SIZE = $\text{Log}(\text{Total Assets})$
	Profitability	ROA = $\frac{\text{After Tax Profit} \times 100\%}{\text{Total assets}}$

RESULT AND DISCUSSION

Descriptive analysis was used to see statistics distribution from companies registered with CGPI from 2015-2021 based on research variables: disclosure of sustainability reports, earnings management, managerial ownership, independent commissioners, and the CGPI. Besides, it also customizes company size and profitability as control variables.

Table 3. Descriptive Statistics

Var	Min	Max	Average	SD
Sustainability Report Disclosure	0,033	0,736	0,372	0,183
Earnings management	-0,840	1,372	-0,070	0,329
Managerial ownership	0,000	0,168	0,005	0,025
Independent commissioner	0,140	0,800	0,421	0,141
CGPI	72,690	95,180	85,584	5,207
Company Size	14,679	21,269	17,833	1,811
Profitability	-0,507	0,219	0,026	0,078

The sustainability report disclosure has a maximum value of 0.736 (table 3) and a minimum value of 0.033. The mean value of the sustainability report disclosure is 0.372, and the standard deviation is 0.183. A standard deviation that is lower than the average reflects good measurement results. Meanwhile, earnings management shows a maximum value of 1.372, a minimum value of -0.840, and a standard deviation of 0.329.

The following three variables are moderators. First, the managerial ownership variable has a maximum value of 0.168, a minimum value of 0.000, and a standard deviation of 0.025. It means the company is state-owned and a subsidiary company that does not involve managers as shareholders; second, the independent commissioner's moderation variable shows a maximum value of 0.800, a minimum value of 0.140, and a standard deviation of 0.141; and third, the maximum value of CGPI is 95.180, a minimum value of 72,690, and a standard deviation of 5.207. A slight standard deviation means the values of the evaluated items are similar.

Firm size and profitability as control variables have a maximum value of 21.269 and 0.219 and a minimum value of 14,679 and 0.507, respectively. The larger the company size value, the greater the value of the assets owned by the company.

Table 4. Statistical Model Test Results

Var	1	2	3
CSRI	0.000	0.000	0.000
(<i>t value</i>)	(-5,964)	(-5,413)	(-5,733)
SIZE	0.078	0.020	0.013
(<i>t value</i>)	(1,733)	(2,369)	(2,527)
ROA	0.122	0.195	0.102
(<i>t value</i>)	(-1.588)	(-1.306)	(-1.652)
km		0.043	0.127
(<i>t value</i>)		(-2.050)	(-1,541)
KI		0.398	0.186
(<i>t value</i>)		(-0.849)	(-1,333)
CGPI		0.191	0.309
(<i>t value</i>)		(-1.316)	(-1.023)
CSRI* K M			0.035
(<i>t value</i>)			(2,136)
CSRI*KI			0.123
(<i>t value</i>)			(1,555)
CSRI*CGPI			0.000
(<i>t value</i>)			(5,256)
F	12,849	7,738	13,957
Sig F	0.000	0.000	0.000
Adj. R ²	0.255	0.280	0.529

The statistical model 1 (see Table 4) is intended to assess the effect of CSRI on earnings management. Statistical model 2 is used to verify the effect of CSRI on earnings management by adding control variables. Finally, statistical model 3 is used to prove the moderating role of GCG on the effect of CSRI on earnings management.

Table 5. Statistical Test Results

Var	Coeff.	Sign	Decision
CSRI towards ML	-0.706	0.000	Accepted
KM moderates CSRI toward ML	6,176	0.035	Accepted
KI moderates CSRI toward ML	0.349	0.123	Rejected
CGPI moderates CSRI toward ML	0.007	0.000	Accepted

Sustainability Report Disclosure and Earnings Management

Statistical test results (in Table 5) show that the disclosure of sustainability reports hurts earnings management. These are aligned with preceding research, which shows that applying disclosure of sustainability reports within companies can minimize earnings management actions (Alexander & Palupi, 2020; Rahmawardani et al., 2020; Santi & Wardani, 2018). Earnings management can be minimized by disclosing sustainability reports of the company.

This result supports Ajina et al. (2019), who have explored French companies. They have explained that companies with CSR activities are more likely to limit earnings management practices to comply with ethical requirements and to meet stakeholders' interests. Therefore, the French authorities must sustain the development of CSR activity initiatives. Moreover, CSR is based on actual practice rather than just good report statements to deceive stakeholders. A more regulated CSR system for public companies becomes crucial in this context.

Earnings management practices reflected in management's opportunistic behavior can be explained through agency theory (see Jensen & Meckling, 1976). Management as an agent tries to arrange their welfare by sacrificing the interests of the owner of capital as the principal, reflecting the opportunistic behavior of management. Companies' earnings management practices can be limited by issuing accountability reports, reducing transaction and agency costs, and engaging in corporate social responsibility (CSR) initiatives.

This study supports the legitimacy theory, which is also used as the basis for the second theory in this study. Legitimacy theory explains that companies' disclosure of sustainability reports is considered to gain acceptability from the environment so that awareness of community legitimacy can boost companies to disclose information about CSR activities and hereafter limit earnings management practices.

Sustainability reports disclosure is a form of symbiotic mutualism between companies and the environment, along with the physical and non-physical factors of a company's existence. The corporate image formed through the disclosure of sustainability reports makes the company's reputation and managers feel confident so that earnings management actions can be minimized. Furthermore, a sustainability report also forms the intention of all employees to participate in building a competitive company. Disclosing a good sustainability report also builds trust from external stakeholders. Sustainability report disclosure has a positive correlation with earnings management.

Various scandals that caused large corporation collapses force a solid necessity to ensure reliability and transparency. Although the description of earnings management may differ between investors and organizations, credible and correct disclosure of

financial position is vital for an organization's survival. It will ensure that the shareholders' interests are appropriately managed through risk management practices. An organization is driven by pressure to enable managers to manage the organization in the best interests of various stakeholders who are connected directly or indirectly to the organization (Baskaran et al., 2020).

Experts distinguish between opportunistic and informative earnings management. Opportunistic earnings management is used to mislead investors, and informative earnings management is used to describe the company's good image to stakeholders about the company's performance. This difference may reflect that earnings management is not always unethical behavior. Disclosure of good earnings management in terms of quality and quantity makes the public trust the company more because the community is also considered a company stakeholder in addition to environmental factors.

Managerial Ownership as Moderator

Statistical test results in Table 5 show that managerial ownership strengthens the disclosure of sustainability reports on earnings management. It is relevant to previous explore that suggested that the bigger the managerial ownership, the stronger the internal control in the company, thereby reducing earnings management actions carried out by internal parties (Kusumawardana & Haryanto, 2019; Lestari & Murtanto, 2018). It is agency theory, which states that agency conflicts will occur sooner or later. Constructed under its theory, it is supposed that the more significant the proportion of share ownership owned by the managerial can strengthen the allegation that the acquirer who makes payments through shares will manipulate the financial statements by increasing the price of their shares to reduce the cost of acquisition activities (Suartama & Sukartha, 2020).

Managerial ownership indicates the level of share owned by management who actively participates in decision-making. As one of the company's organs, managerial ownership is an internal company mechanism that can help suppress earnings management. Stakeholders' trust in the internal company must be maintained by managers so that managers will try not to carry out unethical activities. This study supports that the disclosure of sustainability reports, balanced with high managerial ownership as a company's internal mechanism, can minimize earnings management.

The agency cost can increase when the conflict of interest upsurges. The results prove that high managerial ownership can strengthen the disclosure of sustainability reports, so the earnings management practices can be diminished. The existence of managerial ownership in GCG can make the company more transparent and progressive and have good values for the environment, humans, and society. Managerial ownership functions as a company controller to reduce fraud in the company. More shareholders will increase supervision to make the company's information more transparent.

The higher the concentration of shareholder ownership in a company, the lower the earnings management in that company. Managerial ownership can be an internal mechanism for controlling earnings management actions in a company. Companies with high managerial ownership mean that shareholders have a strong incentive to monitor the actions of managers to reduce the possibility of managers doing earnings management in the company.

Independent Commissioner as Moderator

Table 5 also shows the role of independent commissioners. It is needed to strengthen the effect of sustainability report disclosure on earnings management. This condition, as well as previous research, concluded that the size of the composition of the independent commissioners does not affect the disclosure of the company's sustainability report (see Nanda & Somantri, 2020; Pratomo & Alma, 2020). A company's appointment of an independent commissioner may only be carried out to comply with regulations but is not proposed to enforce good corporate governance within the company. There is no effect of the independent commissioner on the disclosure of the sustainability report because there is a possibility that the board of independent commissioners needs more robust and substantial competence.

Agency theory confirms that independent commissioners should hold most commissioner seats because they can monitor agents' decisions effectively (Naciti, 2019). Furthermore, Naciti (2019) has shown that a more significant number of independent commissioners leads to lower sustainability indicators. The Board of Commissioners' competencies perform a vital part in decision-making, so not only the composition of independent commissioners is considered, but also their knowledge and educational background. They can advance the decision quality at the commissioner level related to the disclosure of sustainability reports.

By definition, independent commissioners are members of the Board of Commissioners who have no affiliation to management or other members of the Board of Commissioners and are not controlling shareholders. In addition, they are not allowed to use their ability in the company's interests. Here, the independent commissioners are used as a proxy for GCG because they are internal organs of the company that hold high independence. Unfortunately, it is not proven that independent commissioners can strengthen the consequence of sustainability report disclosure on earnings management. It indicates that the independent commissioner, as the company's internal mechanism, fails to prevent unethical actions such as earnings management.

The participation of independent commissioners is designed to increase company capabilities and align company resources to obtain greater profits (Ruwanti et al., 2019). In this study, independent commissioners cannot strengthen the connection of sustainability report disclosure to earnings management. It is possible due to the selection and appointment of independent commissioners who are less effective. It shows that many independent commissioners need the ability, so the supervisory function does not work correctly and impacts the lack of encouragement for management to disclose sustainability reports. Carrying out a fit and proper test for independent commissioner candidates in a company is an attempt to determine professional independence. Still, the integrity of a person's independence is determined more by what is believed and carried out in practice, not by appearances. Lack of supervision of management by independent commissioners and accountability to the company and shareholders will give rise to agency conflicts, which ultimately lead to a decline in company value. The size of the composition of independent commissioners in the company is not able to encourage and increase the disclosure of sustainability reports so earnings management can be maintained.

Corporate Governance Perception Index (CGPI) as Moderator

CGPI strengthens the relationship between sustainability report disclosure and earnings management, as described in Table 5. This result aligns with previous research that labeling the quality of GCG (CGPI score) hurts earnings management (see

Budiatmaja, 2021; Priharta et al., 2018). The greater the CGPI score, the better the GCG quality, so earnings management actions will be minor. Corporate governance in agency theory hopes to give confidence to investors about the return-on-investment funds that have been issued. The role of GCG is control for the company.

The results of research from the Indonesian Institute for Corporate Governance (IICG) on the CGPI are one of the comprehensive GCG measurement tools for companies in Indonesia. A high CGPI indicates that the company is healthy, so there are no indications of deviant behavior, good transparency, and fairness. The CGPI is conducted through research to encourage corporates to improve their quality through continuous enhancement by conducting evaluations and comparisons. A company is considered healthy when the value of the company is above a predetermined limit.

Corporate governance is concerned with how investors control managers and other benefits to reduce agency costs. The application of the GCG concept to companies is in line with the application of the corporate governance concept by regulators. The implementation of corporate governance in companies is expected to protect parties who have an interest in the company, where corporate governance is a system that functions as supervision and control to provide added value to the company continuously while still paying attention to the interests of stakeholders, based on norms, ethics, applicable culture, and regulations. In addition, corporate governance reduces earnings management practices and eliminates the risk of developing opportunistic behavior among managers to commit fraud (Asghar et al., 2020).

Control Variables

Control variables complement or control the affiliation between the sovereign and the dependent variable, hoping the empirical model obtained will be better and more complete. The control variables show varying results on earnings management. The control variables have significant probability values, namely firm size (SIZE) and profitability (ROA) variables.

The SIZE has a positive consequence on earnings management. This result supports Sun et al. (2010) and Prior et al. (2008). Both have explained that the larger the company size, the higher the company's sustainability report disclosure. The larger the company's size, the more information shareholders obtain in determining a decision to be taken so that it gets more attention from the public. Meanwhile, small companies tend to convey earnings management practices to show good company performance and attract investors (Nariastiti & Ratnadi, 2014).

Large companies have significant financial needs. They have an alternative to fulfilling them by using external funds from debt or getting investors. In increasing external funds, companies will choose specific accounting methods to boost profits and, therefore, become more competitive in attracting investors. The next option is that the company will reduce profits to avoid new regulations from the government. These taxes can reduce a company's net income so that larger companies are more eager than the smaller ones to issue new stocks to meet their financial needs.

The study's results on the profitability variable (ROA) in this study show that the results have a positive effect on earnings management. Sembiring (2017) and Sun et al. (2010) have shown the same results as this study. Profitability is a performance indicator used by management in handling the company's assets as indicated by the profit generated. Stakeholders use Profit as an indicator to assess management performance in managing the company. High-profitable companies attract investors

based on the consideration that the management successfully runs the company's operations and vice versa.

The GCG concept emerged due to requests from external parties. Hence, the company does not commit fraud against the public. In other words, the information stated in financial reports can be trusted and affordable for decision-making. Maintaining a company's credibility requires earnings management because the resulting output determines the company's future, especially relations with investors. Profit is essential in a company's earnings management because profitability measures the net effect of a company's business operations. When a company's profitability improves, it can suppress earnings management actions. It will maintain the good name of the company in front of investors.

CONCLUSION

This study examines and analyzes the negative cause-effect between sustainability report disclosure and earnings management. As a result, the partial disclosure of sustainability reports significantly negatively affects earnings management. It indicates that the company's image was formed by disclosing sustainability reports. It means the company's reputation and the managers are confident so that earnings management actions can be minimized. Companies that decide to report high Corporate Social Responsibility activities reflect broader, more transparent, and better sustainability report disclosures. Disclosure of sustainability reports shows companies that are ethical and committed to meeting the ethical expectations of stakeholders by contributing to the environment.

This study also examines and analyzes GCG indicators in strengthening the influence of sustainability report disclosure on earnings management. Managerial ownership strengthens the effect of sustainability report disclosure on earnings management; managerial ownership in GCG can make companies more transparent and progressive and has good value for the environment, humans, and society. Independent commissioners must strengthen the effect of sustainability report disclosure on earnings management due to the ineffective selection and appointment of independent commissioners, so many cannot show their independence. The corporate governance perception index (CGPI) strengthens the effect of sustainability report disclosure on earnings management. CGPI is carried out through research that encourages companies to improve their quality through continuous improvement by conducting evaluations and comparisons.

This research is an object of limitations. First, we used a company sample from CGPI only. The results may not necessarily generalize to other companies. Second, this study does not apply another accrual measurement, such as natural activity management, as a complement to accrual earnings management. Third, this study uses GRI G4. as an indicator in assessing companies' disclosure of sustainability reports. Subjective interpretation is possible when assessing certain items disclosed by the company.

Future researchers can involve the other variables related to earnings management with a broader range of observation data so that the research results are more accurate than it is. Subsequent research can use objects outside the CGPI company to support the consistency of the findings of this study. They may select or combine the other models in measuring earnings management, such as natural earnings management. Finally, other sustainability report disclosure item indexes, besides GRI version 4, are also essential to examine the consistency of the findings.

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