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Original Article

The Effect of Corporate Social Responsibility on Earnings Management with Leverage as the Control Variable: Manufacturing Firms in the Indonesian Stock Exchange

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***Abstract* - *The purpose of this study is to analyze and examine the influence of corporate social responsibility (CSR) on earnings management. CSR disclosure was measured using the Corporate Social Responsibility Index (CSRI), which is based on the instrument used by Global Reporting Initiative (GRI), while earnings management was measured using Modified Jones Discretionary Accruals (DA) model. There are three controlling variables included in this study, namely size, leverage, and profitability. The population in this study are the firms in the manufacturing industry listed on the Indonesian Stock Exchange in 2018, with a total of 164 firms. The total number of samples is 143 firms, selected using the purposive sampling method. The data collection method used was the non-participant observation method. The data were analyzed using the multiple regression analysis, while the analysis tool used is the Ordinary Least Square (OLS) regression. The analysis results showed that CSR has a negative and significant influence on earnings management, and leverage is able to become a significant controlling variable in the influence of CSR on Earnings Management. Meanwhile, size and profitability are not significant controlling variables in the influence of CSR on Earnings Management.*

Keywords *- Corporate Social Responsibility, earnings management, size, leverage, profitability.*

I. INTRODUCTION

Over the past few years, there has been a significant increase in awareness of environmental issues. Following this increase in awareness, the role played by firms in affecting the environment has also increased. In 2010, a study revealed that the cost of pollution and other environmental damages of 3000 largest firms in the world would reduce a third of their net income if they were financially held responsible. This indicated that the environmental damage in 2008 was valued at approximately 2.2 trillion dollars (Jowit, 2010). In 2010, PUMA made an environmental profit and loss account, in which they summarized that 78 percent of their profit would be reduced if they directly recognized all their environmental costs (Puma, 2011).

The increase in environmental awareness and the role performed by firms in affecting the environment was followed by the increase in demand by investors, customers, and other stakeholders to the firms to show their responsibility toward social issues. This caused corporate social responsibility to become an important aspect to firms, which led to the adoption of social policies by the firms and made them show their commitment towards social matters, such as to the environment, employees, and ethical conduct. Corporate social responsibility (CSR) can be defined as the ethical and responsible treatment by the firm towards its stakeholders (Dahlsrud, 2008). The scope encompassed by the improvement in CSR includes employee relationships, human rights, corporate ethics, public relationship, and the environment (Moir, 2001).

Firms may voluntarily commit to conducting their business in a socially responsible manner (Martinez-Ferraro et al., 2016). Only being profitable is not enough to survive in the market nowadays; the firm must also show a good degree of environmental awareness and ethical conduct (Ameer, 2013). Previous studies still have not found a clear answer of whether CSR commitment has a positive or negative effect on the firm’s reporting quality (Chih et al., 2008). Shleifer (2004) argued that if the purpose of the firm is to be socially responsible in its business activities, it will perform less earnings management because the firm is committed to conducting business responsibly.

The transformation of CSR from the fringe activities conducted by several large firms, such as The Body Shop and Ben and Jerry’s, is among the main priorities of traditional firms (Doane and Abasta-Vilaplana, 2005). Another study showed that firms active in CSR activities tend to have a better reputation among their stakeholders. This helps firms to develop a tie with the community and

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develop their reputation capital, allowing the firm to negotiate more profitable contracts with the government and supplier, imposing premium prices for their products and services, and to minimize the cost of capital (Fombrun et al. 2000). In addition to the external change, CSR also affects internal aspects, such as corporate governance and the quality of financial statements (Kim et al., 2012; Sacconi, 2006; Orlitzky et al., 2003).

Several researchers have been motivated to examine this relationship because of the financial scandals which have shocked the business environment. Among the varying research results regarding this relationship, many studies revealed that CSR has a reducing effect on earnings management (Shleifer, 2004; Kim et al., 2012; Hong and Andersen, 2011; Scholtens & Kang, 2013). Therefore, firms that are socially responsible would provide financial statements with better quality, have greater firm value, and have a better reputation in the market.

CSR is related to the ethical and moral conduct of firms that exceeds the requirements enforced by the law (Heal, 2008). Earnings quality can be influenced by revenue management, such as managing the short-term revenue of the firm (Vinten et al., 2005). Earnings management occurs when managers utilize the valuations in financial reporting to adjust the contents of the financial report and depending on the accounting numbers reported, it may mislead stakeholders or influence contractual results (Healy and Wahlen, 1999).

Earnings management is the selection of accounting policy by management to achieve certain goals. Earnings management is an intervention in the external financial reporting process, with an intent to obtain private benefit (Schipper, 1989). Earnings management does not always have a negative trait or is not always harmful to others because earnings management may not always be oriented towards earnings manipulation, but it may also be related to the selection of accounting methods by management.

Earnings management can be defined as the change in a firm's performance reporting by management to influence the contractual outcome (Leuz et al., 2003). Earnings management practice can be motivated by manager's interest to protect themselves or the firm in facing unexpected situations and to benefit the parties involved in a contract. Earnings management is the action of managers in reporting accounting numbers utilizing accounting policies to influence the economic decision-making process (Watt and Zimmerman, 1986).

There are two ways to conduct earnings management. First, earnings management can be performed by utilizing accrual policies. Accrual policies are based on estimation and assumptions. Due to its characteristics, accruals are based on estimations or assumptions and are frequently used by management to manipulate earnings. Accruals can be differentiated into two, namely discretionary accruals and non-discretionary accruals. Discretionary accruals are accrual policies implemented by management for specific purposes. Meanwhile, non-discretionary accruals are accrual policies implemented, not by the discretion of management, but due to the changes in firm condition and are performed using a fair method. Second, earnings management can be conducted by manipulating real activities. Real activities manipulation is an earnings manipulation practice conducted by management through activities that are directly related to the operational activities of the firm. Roychowdhury (2006) found evidence that firm managers tend to perform earnings manipulation through real activities to avoid the firm's loss which should be reported in the firm's annual report.

Gajevszky (2014) argued that the manipulation of accounting numbers through operational activities is motivated by management's interest in achieving financial targets, which may mislead stakeholders. Managers tend to manage earnings for explicit and implicit contractual purposes, affect the relationship between the firm and the capital market, external funding needs, political and legal environment, and other situations (Bauwhede, 2001). This managerial action is implemented to disguise the real value of the firm's assets, transaction, and financial position, which has a negative influence on stakeholders and other parties related to the company (Zahra et al., 2005). Management may use different methods to disguise their economic performance, such as by decreasing revenue volatility (Al-Thuneibat et al., 2015).

Management has a strong motivation to perform earnings management to provide greater expectations to market practitioners. Management does this by increasing their earnings through accounting methods, increasing accrual values, and delaying expenses. This behavior is not ethical and is irresponsible. Therefore investor protection is needed.

This manipulation method is an act purposely performed to mislead stakeholders and gain personal benefit (Schipper, 1989). Firms that operate their business responsibly should not aim to gain short-term benefits by harming their long-term relationship. Thus, it can be assumed that firms that operate their business in a socially responsible manner will also be less likely to perform earnings management.

The investigation of the relationship between earnings manipulation and commitment towards responsible business conduct should still be conducted because previous results are still inconsistent. Some revealed that the relationship is positive, some negative, while others found that the relationship is neutral (Chih et al., 2008; Hong and Andersen, 2011; Kim et al., 2012; Scholtens & Kang, 2013; Litt et al., 2014). However, most studies found that CSR is able to reduce earnings management practice, or firms committed towards responsible practices would provide higher quality financial statements. On the other hand, several studies argued that CSR is only used as a shield to disguise their negative reputation as a result of

manipulating earnings (Martinez-Ferraro et al., 2016; Prior et al., 2008). The positive influence of CSR on reputation and firm performance means that CSR is able to reduce the negative effect of earnings management on reputation and firm performance.

Most studies that investigate this relationship focus on accrual-based earnings management, while others compare the effect of accrual-based and real activity earnings management (such as by Hong and Andersen., 2011; Kim et al., 2012; Bozzolan et al., 2015). In recent research findings, real activity earnings management is more dominantly conducted in the business world (Graham et al., 2005; Roychowdhury, 2006). Thus, it is important to consider real activity manipulation when the relationship between CSR and earnings management is investigated.

The study conducted by Palacios-Manzano et al. (2019) revealed that CSR practice has a negative impact on earnings management. This finding shows that socially responsible firms tend to develop long-term relationships with their stakeholders instead of maximizing their short-term profit. Jordaan et al. (2018) found that firms with better CSR performance are more likely to be involved in EM through the increase in discretionary accruals. CSR performance is a useful method to estimate revenue. In addition, firms with better CSR performance have less accrual-based earnings management (Hsu and Chen, 2018). Gras-Gil et al. (2016) found that the socially responsible practice of a firm is an asset to the firm, which leads to the effective usage of resources, and has a negative effect on earnings management practice.

Prior et al. (2008) found that there is a positive relationship between earnings management and CSR. Earnings management is harmful to a firm's reputation. Thus, managers who perform earnings management tend to conduct activities related to CSR because this can improve their firm's reputation. Yip et al. (2011) studied the relationship between CSR and earnings management by examining the political cost and found evidence that CSR reporting and earnings management are influenced by political cost. Kim et al. (2012) found evidence that firms that perform CSR activities are less likely to apply earnings management through discretionary accruals and real activity manipulation. Scholtens and Kang (2013) also conducted a study on earnings management by examining its relationship with CSR and investor protection. The research results showed that there is a negative relationship between CSR and earnings management and between investor protection and earnings management. Their study found that firms with relatively better CSR are less likely to conduct earnings management practices.

The challenges of CSR in Indonesia are different compared to in other countries. This is due to the difference in culture. Firms in Indonesia that implement CSR must face issues related to culture and social heterogeneity in each region. Thus, firms must adjust their CSR practice according to the cultural condition in Indonesia. Hofstede (2005) explained that western culture tends to be more individualistic, in which they tend to prioritize themselves more than others. On the other hand, the eastern culture tends to be more collective in which each individual depend on others, and the fulfillment of social role is very important because the people are bound by their purposes and necessities. It can be inferred that before CSR was widely discussed, there were several firms that had already conducted CSR activities as a form of their concern and awareness towards the social environment and community, just that it was previously less systematic.

Since the issuance of Law No. 40 the Year 2007 regarding limited companies, CSR activities that were previously voluntary became compulsory for the limited companies in Indonesia. This law urged firms to have a commitment towards CSR activities, while firms that do not perform their obligation are penalized in accordance with the prevailing law. Consequently, firms allocate their resources to fulfill their CSR obligations which certainly reduces the firm's profit. On the other hand, management is demanded to maximize firm profit to satisfy shareholders' interest, which also means that earnings reporting is very important to the firm's management.

Based on the research background and the inconsistencies between the results of previous studies, the relationship between Corporate Social Responsibility (CSR) and earnings management needs to be re-examined. The sample in this study is firms listed on the Indonesian Stock Exchange (IDX) that published financial statements in the year 2018. The firms selected in this study are the manufacturing firms because the production process of these firms should have the highest impact on the environment due to the waste and pollution these firms produce. Thus, the firms in this industry should have a great amount of social responsibility towards the people and their surrounding environment.

In this research, there are some controlling variables, including firm size, leverage, and profitability (ROA). There are several arguments that underlie the inclusion of these controlling variables. First, firm size is included because, according to the political cost hypothesis, which states that larger firms are more likely to conduct earnings management practice by decreasing reported earnings because as firms grow, they will be increasingly monitored by the government (Young and Freedman 1999). Under the scrutiny of the government, the potential of earnings management in large firms will be decreased. Second, leverage is a control against the possibility of firm bankruptcy. Firms with financial issues or distress have the motive to perform earnings management by increasing their reported earnings to reduce the potential loss (Park and Shin, 2004). Third, profitability or ROA is the proxy to measure the profitability level of the firm. Firms with higher (lower) earnings tend to have a higher (lower) degree of accruals value (McNichols and Stubben 2008). Consequently, it is more likely to find a positive

relationship between firms with high profitability and earnings management.

II. LITERATURE REVIEW

A. Corporate Social Responsibility (CSR)

Aguinis (2011) explained that CSR practice is the context-specific organizational action and policies of firms which consider the expectation of stakeholders and the triple bottom line of economic, social, and environmental performance. CSR can be divided into three components, namely economic, social, and environmental responsibility. Considering the business operation and firm culture, firms must be sustainable in the three aspects displayed in the figure below.

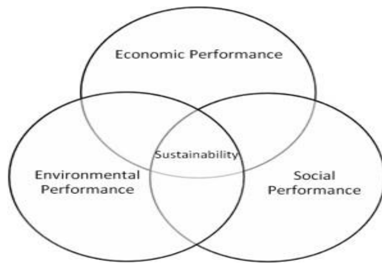

Fig. 1 Triple Bottom Line (Elkington, 1997)

Carroll (1991) introduced four dynamics of CSR in hierarchal order, which is depicted as the CSR pyramid. These components consist of economic responsibility, legal, ethical, and philanthropic responsibility. Economic responsibility is historically the main role of corporates, which means that their main purpose is to maximize the financial returns for shareholders. Legal responsibility is another fundamental aspect of the business. Firms are expected to comply with the laws and regulations, which means that profit must be pursued while not crossing the legal limits. The ethical responsibility of firms is to fulfill the standards and norms required by consumers, employees, shareholders, and society. Philanthropic responsibility can be defined as a requirement for firms to be good corporate citizens, for example, by contributing to art and education. The CSR pyramid is displayed in the Figure below.

Fig. 2 Corporate Social Responsibility Pyramide (Carroll, 1991)

There are three theories supporting the disclosure of CSR, namely the agency theory, legitimacy theory, and stakeholder theory (Sembiring, 2005).

a. Agency Theory analogizes management as the agent of the principal, while the principal is generally the shareholders or other traditional users.
b. In the Legitimacy Theory, by conducting social disclosure, firms feel that their existence and activities are legitimized.
c. Stakeholders Theory assumes that a firm's existence is determined by the stakeholders.

B. Earnings Management

Earnings management is a strategy utilized by management by deliberately manipulating the firm's earnings so that the reported numbers meet the predetermined target. This practice is applied for income smoothing. Consequently, instead of having a fluctuating income level, firms may attempt to maintain a relatively stable income number by adding in or transferring out cash from a reserve account.

Healy and Wahlen (1999) gave a broader explanation of why managers perform earnings management. The three main motives are capital market, contractual, and legal motivations. Capital market motivation assumes that accounting information is used by investors and financial analysts to help valuate the stocks. This leads to the incentive of managers to manipulate earnings in an attempt to influence short-term stock price performance. They found that firms use earnings management to influence the expectations of certain types of investors. There are two main approaches that can be adopted by managers to manipulate revenue and mislead external parties. These approaches are accrual-based and real activity earnings management.

III. CONCEPTUAL FRAMEWORK

The relationship between the variables examined is explained through the following conceptual framework.

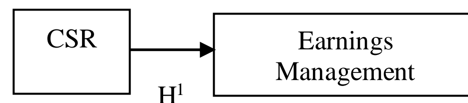

Fig. 3 Research Conceptual Framework

A. Research Hypothesis

H[1]: CSR Disclosure has a negative influence on earnings management.

IV. RESEARCH METHOD

This research is an explanatory study. The variables utilized in this study are dependent variable, independent variable, and control variables. Earnings management is the dependent variable, CSR is the independent variable, while Firm Size, Leverage, and ROA are the control variables.

To calculate earnings management, the total accruals must be determined before the Modified Jones model is utilized. The calculation of the modified Jones model is as follows:

1. Calculate Total Accruals (TAC), which is the net income in year t deducted by the operational cash flow in year t:
   TACit = NIit – CFOit .... (1)
   Afterward, total accrual (TAC) is estimated by using the Ordinary least Square method:
   $$\frac{TACit}{A_{it-1}} = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left(\frac{\Delta REVit}{A_{it-1}}\right) + \beta_3\left(\frac{PPEit}{A_{it-1}}\right) + \varepsilon$$
   .... (2)

2. With the regression coefficient in the formula above, the non-discretionary accruals (NDA) is calculated using the following equation:
   $$NDAit = \beta_1\left(\frac{1}{A_{it-1}}\right) + \beta_2\left(\frac{\Delta REVit}{A_{it-1}} - \frac{\Delta RECit}{A_{it-1}}\right) + \beta_3\left(\frac{PPEit}{A_{it-1}}\right)$$
   ....(3)

3. Finally, discretionary accruals (DA) as the proxy for earnings management is calculated with the following equation:
   $$DAit = \frac{TACit}{A_{it-1}} - NDAit$$ ....(4)

Annotation :

DAit = Discretionary Accruals of firm in year t
NDAit = Non-discretionary Accruals of firm i in year t
TAit = Total accrual of firm i in year t
NIit = Net Income of firm i in year t
CFOit = Operational Cash Flow of firm i in year t
Ait-1 = Total assets of firm i in year t
ΔREVit = Revenue of firm i in year t deducted by the revenue of firm i in year t-1
PPEit = Property, Plant, and Equipment of firm i in year t
ΔRECit = Account Receivables of firm i in year t deducted by the Account Receivables of firm i in year t-1
ε = Error

CSR is measured using the Corporate Social Responsibility Index (CSRI). The CSRI measurement instrument used in this study refers to the instrument used by Global Reporting Initiative (GRI).

The index is calculated using the following equation:
$$CSR_y = \frac{\Sigma Xk_y}{ny}$$ ....(5)

Annotation :
CSRIy : Corporate Social Responsibility Index of firm y,
Σ Xky : Total of the dummy variable: 1 = if Sustainability Report k was disclosed; 0 = if the Sustainability Report k was not disclosed.
ny : Total items of firm y, ny = 79

The control variables used in this research are similar to the variables in Kim et al.'s (2011) study. The control variables used are size, leverage, and profitability (ROA). Firm size is measured using the natural logarithm value of total assets. The proxy of leverage in this study is the debt to equity ratio. Profitability (ROA) shows the firm's ability to generate profit utilizing its available assets. ROA is calculated by dividing NI by total assets.

The data collection method utilized is the non-participant observation method. The data type used in this study is secondary data collected from the financial statements of manufacturing firms listed on the Indonesian Stock Exchange. The data are downloaded from IDX's official website.

V. RESULTS AND DISCUSSIONS

The hypothesis in this study is examined using the regression analysis model. There are three steps in this analysis, namely the t-statistics test, F-statistics test, and the coefficient of determination test.

Based on the regression equation, which examines the influence of CSR on earnings management without the control variables, it can be seen that the t-calculated value is 2.438, the regression coefficient is -0.004, and the significance value is 0.016 < 0.05. This means that CSR has a negative and significant influence on earnings management. Thus H1, which stated that CSR has a negative and significant influence on earnings management, is accepted (table 5.1)

Based on the analysis results (table 5.2), the regression equation is as follows:

EM = -0,005 – 0,006 CSR + 0,000 Size – 0,001 Leverage – 0,001 ROA + ε

Based on the regression analysis, which examined the influence of CSR on earnings management, with size, leverage, and profitability (ROA) as the control variables, the partial test (t-test) results are as follows:

1. The influence of CSR disclosure on earnings management has a t-calculated value of -2.857, the regression coefficient is -0.006, and the significance value is 0.005 < 0.05. Thus, H1 is accepted, which means that CSR has a

significant and negative influence on earnings management in manufacturing firms.

2. The influence of size on earnings management has a t-calculated value of -2.857, the regression coefficient is 0.000, and the significance value is 0.181 < 0.05. Thus, size does not significantly influence earnings management in manufacturing firms.
3. The influence of leverage on earnings management has a t-calculated value of 2.903, the regression coefficient is -0.001, and the significance level is 0.004 < 0.05. Thus, the leverage variable has a significant and negative influence on earnings management in nufacturing firms.
4. The influence of profitability (ROA) on earnings management has a t-calculated value of -0.355, the regression coefficient is -0.001, and the significance value is 0.723 < 0.05. Thus, ROA does not significantly influence earnings management in manufacturing firms.

Table 5.1 Regression Analysis Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.000	.000		.672	.503
	CSR	-.004	.002	-.201	-2.438	.016

Table 5.2 Results of the Regression Analysis with the Control Variables

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.005	.004		-1.080	.282
	CSR	-.006	.002	-.268	-2.857	.005
	SIZE	.000	.000	.124	1.343	.181
	LEV	-.001	.000	-.246	-2.905	.004
	ROA	-.001	.002	-.032	-.355	.723

Table 5.3 Simultaneous Test

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.000	4	.000	4.259	.003[b]
	Residual	.001	138	.000		
	Total	.001	142			

a. Dependent Variable: ML
b. Predictors: (Constant), ROA, SIZE, LEV, CSR

Table 5.4 Coefficient of Determination Test Results

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.331[a]	.110	.084	.0026009653

a. Predictors: (Constant), ROA, SIZE, LEV, CSR

VI. DISCUSSION

The research results provide evidence that CSR has a negative and significant relationship with earnings management. This means that the greater the CSR contribution of the firm, the lower the firm's earnings management practice through discretionary accruals. Firms disclose their CSR activities not only for legitimization purposes but also because firms have social responsibilities they must fulfill. This result is supported by the studies conducted by Gras-Gil et al. (2016), Martinez-Ferraro et al. (2015), Choi et al. (2013), dan Scholtens and Kang (2013).

Firms that perform their CSRs view that CSR is an ethical activity and view that it is a moral obligation that must be done voluntarily. The research result showed that CSR in Indonesia is a way for firms to show their concern and awareness towards the environment and the social community. In addition, firms that perform CSR activities usually have better financial performance as they are able to allocate a large number of resources for their CSR programs. With a better degree of financial performance, firms would be less likely to conduct earnings management practices. This finding is largely in line with the agency, legitimacy, and stakeholder theory.

The result of this study is consistent with the research conducted by Kim (2012) dan Chih et al. (2008), which found evidence that CSR has a negative and significant influence on earnings management. This indicates that firms with active CSR contributions are less likely to perform accrual-based earnings management. This is also related to the motive of firms in performing CSR activities. Firms that perform CSR activities as a moral obligation are more likely to avoid or minimize accrual-based earnings management practices. Porter and Kramer (2006) and Hong and Andersen (2011) stated that one of the reasons firms perform CSR is because they realize that they have moral responsibilities to others.

VII. CONCLUSION AND RECOMMENDATIONS

Based on the data analysis results, hypothesis test results, and discussions, the conclusions of this study are as follows:

1. Corporate Social Responsibility (CSR) has a significant and negative influence on earnings management. This means that the greater the CSR contribution of the firm, measured using the Corporate Social Responsibility Index (CSRI), the less the earnings management practice through discretionary accruals of manufacturing firms listed in the Indonesian Stock Exchange.
2. Leverage is a significant control variable in the influence of corporate social responsibility (CSR) on earnings management. This means that the greater the leverage, the lower the earnings management practice performed by manufacturing firms listed on the Indonesian Stock Exchange.

Firm size statistically does not have a significant influence on earnings management. This shows that firm size does not necessarily minimize the likelihood of management. This means that the greater the firm's leverage, the less their earnings management practice. The third control variable, which is profitability (ROA), was found to not have a significant influence on earnings management. With greater profitability, the dividends distributed will be less. The increase in profitability means that the firm's performance is good, and shareholders will receive more profit. Subsequently, managers are less likely to perform earnings management because they are also benefitted.

Firm size statistically does not have a significant influence on earnings management. This shows that firm size does not necessarily minimize the likelihood of earnings management. Large firms have more assets, and it is possible that many of the assets are not managed well, leading to the likelihood of misstatement in the total assets of the firm. The second control variable, leverage, has a negative and significant influence on earnings.

Based on the data analysis shown in Table 5.3, the probability value (F-calculated) is 4.259, with a significance level of 0.003. Since the significance level is less than 0.05, Ho is rejected, and Ha is accepted. This means that CSR, size, leverage, and profitability (ROA) simultaneously have a significant influence on earnings management.

Based on the data analysis results shown in Table 5.4, the Adjusted R Square (R^2) value is 0.084, which means that 8.4% of the variation in earnings management is explained by CSR as the independent variable, and size, leverage, and profitability as the control variables. The remaining 91.6% is explained by other factors, such as ownership structure, earning pressure, financial risk, dividend pay-out ratio, tax, and other factors not included in this research model.

Based on the results, discussion, and conclusion of this study, the suggestions or recommendations of this study are as follows.

1. Firms are expected to re-evaluate their CSR activities, especially in terms of implementation effectiveness. Firms are also expected to disclose more of their CSR activities even though these activities may have a negative effect on earnings management because firms must still be responsible for the resulting impact. In addition, firms must continuously monitor their managers to prevent opportunistic earnings management.
2. For regulators, they are expected to create new policies that are related to CSR, especially ones that are related to CSR reporting, to provide clear regulations regarding how CSR should be reported. In addition, regulators are also expected to create new policies related to earnings management practices in Indonesia.
3. For future researchers, it is recommended to conduct the study on a wider scope of population

and sample, not limited to one type of firm. The research can also be improved by adding moderating or mediating variables. It is also advisable to examine other independent variables in order to determine the main factors that influence the level of earnings management. Researchers are also recommended to use better methods to measure earnings management.

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