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The Effect of Corporate Social Responsibility, Free Cash Flow and Leverage on Earnings Management with Managerial Ownership as Moderating

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Abstract

This quantitative research study investigates how corporate social responsibility (CSR), free cash flow, and leverage influence earnings management in consumer goods industry companies listed on the Indonesia Stock Exchange (IDX) between 2018 and 2021. The researchers employ the multiple linear regression method using Eviews 12 software and employ purposive sampling to select a sample of 23 companies, resulting in 92 observations over the four-year period. Data is collected from the official IDX website (www.idx.co.id). The findings indicate that both CSR and free cash flow negatively impact earnings management, implying that companies displaying higher levels of corporate social responsibility and possessing greater free cash flow tend to engage in fewer earnings management practices in the consumer goods industry. However, leverage does not significantly influence earnings management. Furthermore, managerial ownership acts as a moderator, influencing the relationship between CSR and earnings management, but does not moderate the relationship between free cash flow, leverage, and earnings management. This research underscores the importance of vigilance among stakeholders in preventing harmful earnings management practices within the consumer goods industry.

Pengaruh Corporate Social Responsibility, Free Cash Flow dan Leverage Terhadap Manajemen Laba Dengan Kepemilikan Manajerial Sebagai Pemoderasi

Keywords:
(1) Corporate Social Responsibility, (2) Free Cash Flow, (3) Leverage, (4) Manajemen laba, (5) Kepemilikan Manajerial

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None

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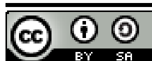
Abstrak

Studi penelitian kuantitatif ini menyelidiki bagaimana tanggung jawab sosial perusahaan (CSR), arus kas bebas, dan leverage mempengaruhi manajemen laba pada perusahaan industri barang konsumsi yang terdaftar di Bursa Efek Indonesia (BEI) antara tahun 2018 dan 2021. Peneliti menggunakan metode regresi linier berganda menggunakan perangkat lunak Eviews 12 dan menggunakan purposive sampling untuk memilih sampel 23 perusahaan, menghasilkan 92 observasi selama empat tahun. Data dikumpulkan dari situs resmi BEI (www.idx.co.id). Temuan menunjukkan bahwa CSR dan arus kas bebas berdampak negatif terhadap manajemen laba, menyiratkan bahwa perusahaan yang menampilkan tingkat tanggung jawab sosial perusahaan yang lebih tinggi dan memiliki arus kas bebas yang lebih besar cenderung terlibat dalam praktik manajemen laba yang lebih sedikit di industri barang konsumsi. Namun leverage tidak berpengaruh signifikan terhadap manajemen laba. Selanjutnya, kepemilikan manajerial bertindak sebagai moderator, mempengaruhi hubungan antara CSR dan manajemen laba, tetapi tidak memoderasi hubungan antara arus kas bebas, leverage, dan manajemen laba. Penelitian ini menggarisbawahi pentingnya kewaspadaan para pemangku kepentingan dalam mencegah praktik manajemen laba yang merugikan dalam industri barang konsumsi.



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1. Introduction

Each company prepares financial reports for use by stakeholders and various parties, namely internal and external parties (Putriana et al., 2018). Financial statements are information that describes the financial position of a company and then the information can be used as a description of the company's performance (Zulkarnain & Helmayunita, 2021). Hence, users such as investors, creditors, government entities, the public, and other stakeholders always analyze the financial information presented in financial statements as a fundamental basis for their decision-making processes.

Among all the sections present in the annual financial statements, the income statement garners the highest level of attention from users. This is primarily due to the fact that the income statement offers crucial insights into the company's capacity to generate profits or incur losses during a specific accounting period. Therefore, the income statement is vulnerable to manipulation because management is driven to appear to achieve targets but in a way that is contrary to company principles. One possibility is earnings management (Zulkarnain & Helmayunita, 2021).

Earnings management is defined as the efforts of business leaders to influence information in financial statements with the aim of misleading stakeholders who want to understand the performance and condition of the company (Putriana et al., 2018). Meanwhile, earnings management according to Sitanggang et al., (2019) is an opportunistic step taken by management to maximize its satisfaction, but it can have a negative impact on shareholders and investors because the earnings information presented can lead to wrong investment decisions. This opetunistic behavior is carried out by choosing certain accounting methods so that the company's profits can be adjusted, increased or decreased according to their wishes (Budiantoro, Lapae, et al., 2022).

Oneway to reduce earnings management practices is to carry out corporate social responsibility which aims to make information more transparent between management and stakeholders and companies that carry out substantial social responsibility have higher transparent quality and will carry out earnings management activities less frequently. Social responsibility, also known as corporate social responsibility (CSR), is actually more community and business oriented. A company that always pursues profit, can it also be responsible for the rights of the public, considering the impact of the business being carried out is very large (Suryani & Herianti, 2015). Research results from (Ardiani & Sudana, 2018) shows that corporate social responsibility has a significant negative effect on earnings management. In contrast to the results of research from (Solikhah, 2022) shows that corporate social responsibility has no effect on earnings management.

Another significant factor is Free Cash Flow, which plays a vital role in assessing performance and financial outlook. Investors require information about the company's free cash flow to make informed decisions. Free cash flow is company cash that can be distributed to creditors or shareholders which is no longer used for working capital or to fund investment in fixed activities (Ross et al., 2000). Companies that possess higher free cash flow values are less likely to engage in profit manipulation. This is because in such instances, companies place greater emphasis on providing accurate and transparent information regarding their free cash flow. A robust free cash flow signifies the company's ability to distribute dividends, leading to an increase in its share price. Investors perceive that the company has surplus cash available for dividend distribution, which enhances their confidence in the company's financial health.

(Mardiyanto, 2008: 51). Research results from (Herlambang, 2017) shows that free cash flow has a negative effect on earnings management while (Sitanggang et al., 2019) states that free cash flow has no effect on earnings management.

Leverage shows how much the company's operating activities are funded by debt. High leverage makes investors think twice about increasing or maintaining their investment. Meanwhile, for creditors, the leverage ratio is useful for making decisions related to lending (Sitanggang et al., 2019). Research result (Triyana et al., 2020) said that leverage has an effect on earnings management. On the other hand, research from (Dimarcia & Krisnadewi, 2016) shows the opposite, namely leverage does not have a significant effect on earnings management.

Managerial ownership is share ownership by the management of the company, where management is not only the manager of the company but also as a shareholder (Setiadi, 2019). (Jensen & Meckling (1976) states that managerial ownership is intended to balance conflicts of interest between external shareholders and management, thereby making management pay more attention to shareholders than management itself. This results in less initiative for management to carry out earnings management (Mahadewi & Krisnadewi, 2017) (Santosa et al., 2021). Therefore, managerial ownership is considered capable of reducing the influence of corporate social responsibility, free cash flow and leverage on earnings management. The results of Mahadewi & Krisnadewi (2017) show that managerial ownership has a negative effect on earnings management. On the other hand, research (Marpaung & Latrini, 2014) shows managerial ownership has no negative effect on earnings management.

2. Literature Review and Hypothesis

2.1. Agency Theory

According to Jensen & Meckling (1976), the agency relationship encompasses a contractual arrangement between managers (agents) and shareholders (principals). The concept of agency theory revolves around addressing agency problems that arise when there is a separation between company managers and ownership. Scott (2015) further explains that in the context of agency theory, management, acting as an agent, is expected to prioritize the interests of shareholders, but they may also prioritize their own interests to maximize profits. The discrepancy in interests between the principal (shareholders) and the agent (management) is referred to as the agency problem. Information asymmetry is identified as one of the factors contributing to the agency problem, where one party possesses more information than the other, leading to one party potentially benefiting at the expense of the other.

Stakeholder Theory

Stakeholder theory emphasizes that companies should not solely pursue their own interests but also consider the welfare of their stakeholders. Gray et al. as cited in Wati (2019: 16) suggest that one of the strategies employed by companies to foster positive relationships with stakeholders is to disclose social and environmental information. By providing such disclosures, companies aim to meet the information needs of stakeholders and effectively manage their support, which in turn impacts the sustainability of the business. This aligns with the belief that disclosing financial, social, and environmental information fosters a dialogue between the company and its stakeholders, offering insights into the company's activities and potentially influencing perceptions and expectations.

Corporate Social Responsibility

Corporate social responsibility (CSR) represents a means for companies to integrate social considerations into their business practices. It entails the industry's commitment to acknowledge the social, economic, and environmental consequences of their operations or activities, with the aim of ensuring that these impacts yield positive benefits for both society and the environment business activities, and if the company does not focus on all the surrounding factors then the action will end the existence of the company itself(Hermawan & Hanun, 2018). One way to reduce earnings management practices is to make disclosures to third parties through annual reports which are commonly called corporate social responsibility disclosures. The reason companies carry out CSR activities is a form of company attention to the surrounding social environment. The higher the company's disclosure of CSR it will reduce earnings management practices because the information will be more transparent between managers and stakeholders (Budiantoro et al., 2022). On the other hand, if the company hides information and actual conditions about the company, the opportunity for managers to carry out earnings management is higher. Research conducted byTriyana et al. (2020) and Ardiani & Sudana (2018), Zulkarnain & Helmayunita (2021) shows that CSR has a negative effect on earnings management. In contrast, research from Putriana et al. (2018) shows that CSR has no effect on earnings management.
H1: Corporate social responsibility (CSR) has a negative effect on earnings management.

Free Cash Flow

According to Gitman & Zutter (2015), free cash flow refers to the cash flow available to investors (creditors and owners) once the company has fulfilled all its operational requirements and made investments in net fixed assets and working capital. White et al. as cited in Erianti (2017) further argue that a higher value of free cash flow signifies better financial health for the company, indicating its capacity to repay creditors and provide dividends to investors. Companies with substantial free cash flow are considered healthier as they can meet their obligations to creditors and distribute dividends to stakeholders. Moreover, such companies are less likely to engage in profit manipulation since ordinary investors (temporary owners of the company) pay close attention to free cash flow information, which serves as an indication of the company's ability to pay dividends and generate free cash flow and without earnings management, the company can increase its share price because investors see that the company has excess cash for dividend distribution (Mardiyanto, 2008: 281). Research results fromKodriyah (2017) and Agustia (2013) explains that free cash flow has a significant positive effect on earnings management. Meanwhile, research from Herlambang (2017) reveals that free cash flow has a negative and insignificant effect on earnings management.
H2: Free cash flow has a negative effect on earnings management.

Leverage

Leverage refers to the utilization of debt by a company to fund its assets and conduct operational activities. It serves as a metric to gauge the proportion of a company's assets financed through debt in relation to its own capital. Broadly speaking, this ratio is used to measure the company's ability to pay all short-term and long-term debts (Fahmi, 2012). The Debt to Assets Ratio is a method used to assess leverage, which examines the balance between assets funded by creditors and those funded by company owners. Leverage serves as an indicator of the extent to which a company's activities are financed through debt. A higher level of leverage implies an increased risk for the company to meet its financial obligations. In such cases, creditors may exercise stricter oversight, leading to reduced management

flexibility in engaging in earnings management practices. The results of Herlambang's research (2017) and Agustia (2013) explain that leverage has a negative and significant effect on earnings management. The results of another study belonging to Sitanggang et al. (2019) and Kodriyah (2017) prove that leverage does not affect earnings management.
H3: Leveragenegative effect on earnings management.

Managerial Ownership
Managerial ownership is shares owned by management which can balance the interests of managers and stakeholders so as to reduce disputes between the two, and management is not only a manager of the company but also as a share holder (Lestari & Murtanto, 2018). Higher managerial ownership will affect management to improve its performance, thus making management pay more attention to shareholders than management it self (Mahadewi & Krisnadewi, 2017). When managers have ownership stakes in the company, they are more likely to strike a balance between their own interests and the interests of stakeholders. This balance reduces the motivation for managers to engage in earnings management, thereby minimizing information asymmetry between the two parties. Management plays a pivotal role in transparently disclosing information about the company's activities and conditions, including details on corporate social responsibility (CSR) and profit information. Companies that maintain good transparency in their reported information are less prone to engaging in earnings management practices. Ardiani & Sudana (2018) discovered that managerial ownership can mitigate conflicts between management (acting as agents) and shareholders (acting as principals), as managers also hold a stake as shareholders. Consequently, there is a likelihood that managerial ownership can moderate the relationship between corporate social responsibility and earnings management.
H4: Managerial ownership moderates the relationship of corporate social responsibility to earnings management.

Managerial Ownership Moderates the Relationship of Free Cash Flow to Earnings Management
Managerial ownership in a company is expected to create a sense of ownership among the management, which in turn reduces their inclination to engage in earnings management driven by free cash flow. Free cash flow can potentially contribute to earnings management when managers do not fully utilize the available cash for the company's benefit and instead divert it for personal interests. According to agency theory, managerial ownership has the potential to mitigate conflicts between agents (management) and principals (shareholders) and can thus weaken earnings management practices. Setiadi's research (2019) supports this notion, indicating that managerial ownership can weaken the relationship between free cash flow and earnings management.
H5: Managerial ownership moderates the relationship between free cash flow and earnings management.

Managerial Ownership Moderates Leverage Relationship to Earnings Management
If the company has high debt, it can be fatal for the company itself. Because managers own shares in the company, it makes managers more careful in making decisions, especially in utilizing and managing profits. However, if a company has high managerial ownership, it will result in weakening supervision to the management. If managers do not monitor the level of debt in the company and are not accompanied by good performance, the company has the potential to experience higher bankruptcy. Managerial ownership is considered a viable approach to address agency problems by aligning the interests of managers with stakeholders.

This alignment reduces the likelihood of opportunistic behavior and, consequently, diminishes the inclination to engage in earnings management practices. However, research findings from Sari & Khafid (2020) indicate that the level of managerial ownership does not moderate the impact of leverage on earnings management.
H6: Managerial ownership moderates the relationship between leverage and earnings management.

3. Data and Method

This research study utilizes a quantitative research methodology, aiming to test theories by quantitatively measuring research variables and analyzing data through statistical procedures. The investigation focuses on four variables, including one dependent variable, three independent variables, and one moderating variable. The statistical analysis is carried out using Eviews 12 software. The sample is purposefully selected through purposive sampling method.

3.1. Population, Sample and Sampling Technique

The target population for this study consists of 62 manufacturing companies that belong to the consumer goods industry sector and are listed on the Indonesia Stock Exchange (IDX) from 2018 to 2021. Through purposive sampling, a sample of 23 companies was chosen, resulting in a total of 92 observations for the entire 4-year research period.

3.2 Data and Data Sources

In this study, secondary data is utilized, obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). The data collection method employed is documentation, which involves gathering relevant information from various sources, such as books, archives, documents, numerical data, and images in the form of reports, for the purpose of this research.

3.3 Variable Operations

Profit management

According to Sugiyono (2017) Earnings management is an attempt by company managers to interfere with financial statements and influence information in order to deceive stakeholders who want to understand the performance and condition of the company. Earnings management in this study is measured by proxy discretionary accruals (DAC) according to the modified Jones method (Modified Jones Method). The following calculation steps to find the DAC value are:

1. Finding total accruals (TAit)

$$TAit = NIt - CFOit$$

Information :
TAit : Accruals for company during time period t
NIT : The net profit of company during time period t
CFOit : The cash flow generated from operating activities of company i during time period t

2. Looking for coefficient values of 1, β2, andβ3 with regression technique

$$\frac{TA_{it}}{A_{it}-1} = \beta 1\left(\frac{1}{A_{it}-1}\right) + \beta 2\left(\frac{\Delta REV_{it}}{A_{it}-1}\right) + \beta 3\left(\frac{PPE_{it}}{A_{it}-1}\right) + \varepsilon$$

Information:
Tait : Total accruals of the company in year t
Ait-1 : Total assets of the company at the end of year t-1
REVi : Change in total revenue in year t
RECit : Change in total net receivables in year t
PPEit : *Property, Plan and Equipment*company in year t
Eit : *Item error*

3. Calculating Non-Discretionary Accruals

$$NDA_{it} = \beta\left(\frac{1}{A_{it}-1}\right) + \beta\left(\frac{\Delta REV_{it}}{A_{it}-1} - \frac{\Delta REC_{it}}{A_{it}-1}\right) + \beta\left(\frac{PPE_{it}}{A_{it}-1}\right)$$

Information:
NDAit : *Non-discretionary accruals*company i in period t

4. Calculating the value of discretionary accruals (DACCit)

$$DA_{it=}\frac{TA_{it}}{TA_{it-1}} - NDA_{it}$$

Information:
DAit : *Discretionary accruals*firm i in time period t
TAit : Total accruals of company i in time period t

Corporate Social Responsibility
Corporate social responsibility is a form of social responsibility carried out by the company to stakeholders and the community in all aspects of its business activities, including matters arising from its business operations such as air pollution and waste pollution (Suryani & Herianti, 2015). CSR disclosure in this study is proxied by the Corporate Social Responsibility Index (CSRI) issued by GRI (Global Reporting Initiative). The indicator used in this study is the GRI G.4 index which includes 91 disclosure indicator items.

CSR disclosure in this study uses the checklist method on the items disclosed by the company. If the CSR item is disclosed it will be given a value of "1", otherwise if the CSR item is not disclosed it will be given a value of "0". Then the scores will be added up for each item to provide an overall score for CSR disclosure, then calculated using the formula:

$$\mathbf{CSRI} = \frac{\Sigma Xi}{n}$$

Information:
CSRI : *Corporate social responsibility Index*Company
Xi : Value 1 if the item is disclosed, 0 if the item is not disclosed
n : Number of disclosure items

Free Cash Flow
*Free cash flow*is the amount of cash available after the company meets all operational needs and pays for investments in net fixed assets and working capital (Gitman & Zutter, 2015: 171). According toKieso, 2005: 120), the formula for free cash flow is as follows:

$$\mathbf{FCF} = \frac{\textbf{Cash Flow From Operation} - \textbf{Capital Expenditure}}{\textbf{Total Asset}}$$

Information:

Cash Flow from Operation : Cash arising from the company's operational activities related to receipts, expenses, revenues and expenses.

Capital Expenditure : Costs incurred by the company to buy, maintain and repair fixed assets.

Leverage

Leverage refers to the overall proportion of a company's assets that are financed through debt. It reveals the extent to which a company utilizes debt to support its operations. Companies with a high level of leverage indicate that they have a significant amount of debt. In this study, the leverage variable is represented by the Debt to Asset Ratio, which calculates the ratio of total debt to total assets. Leverage can be calculated using the Debt to Asset Ratio as follows:

$$\mathbf{DAR} = \frac{\textbf{Total Debt}}{\textbf{Total Asset}}$$

Managerial ownership

Managerial ownership is ownership of company shares by the manager and the manager not only acts as a manager but also as a shareholder (Lestari & Murtanto, 2018).

$$\mathbf{KM} = \frac{\textbf{Number of management shares}}{\textbf{Number of outstanding shares}} \boldsymbol{x}\ \mathbf{100\%}$$

Data Analysis Method

In this study, to understand how two or more independent variables affect the dependent variable, this study uses multiple regression analysis with the help of Eviews 12 software. The regression equation used in this study is as follows:

$$\mathbf{MjnLaba = \alpha + \beta_1 CSR + \beta_2 FCF + \beta_3 LEV + e}$$

Information:

MjnProfit	: Profit management
α	: Constant
β_{1-3}	: Regression coefficient
CSR	: Corporate social responsibility
FCF	: *Free cash flow*
LEV	: *Leverage*
e	: Coefficient of error

4. Results

4.1 Descriptive Test Results

Descriptive statistical analysis is used to provide a comprehensive picture of the characteristics of the variables studied. The analysis is presented using a descriptive table, which contains the mean, maximum, minimum, and standard deviation values for each variable.

Table 1. Descriptive Statistics Test Results

	MjnProfit	CSR	FCF	LEV	KM
Mean	0.015592	0.503464	0.012953	0.410889	0.098359
Median	-0.010838	0.450549	0.016263	0.424540	0.015029
Maximum	0.733702	0.747253	0.156931	0.931277	0.682759
Minimum	-0.190508	0.362637	-0.246536	0.081354	0.000157
Std. Dev.	0.150952	0.113208	0.075976	0.188198	0.175492
Observation	92	92	92	92	92

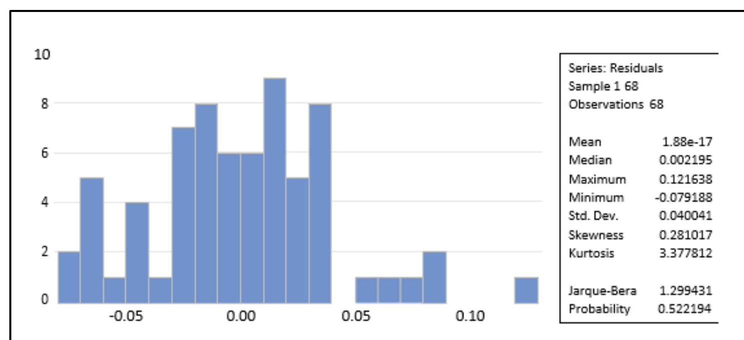
Source: Processing Results

Based on Table 1, the descriptive statistical analysis shows that the mean value of earnings management is 0.015592. The minimum value is -0.190508, while the maximum value is 0.733702. The standard deviation of earnings management is 0.150952. This shows that the data shows a wide distribution, because the standard deviation value exceeds the mean value, indicating considerable variability in the observed data points.

4.2. Classic Assumption Test

Normality Test Results

Normality test to assess whether the variables in the regression model follow a normal distribution. Normality is determined by examining the probability value (p-value) greater than 0.05 indicating that the data is normally distributed.



Source: Eviews 12 processing results

Figures 1. Normality Test Results

In Figure 1, the normality test produces a Jarque Bera value of 1.299431, with a probability of 0.522194 > 0.05. Therefore, the data model is normally distributed.

Multicollinearity Test

Multicollinearity test is used to determine the correlation between independent variables. If the VIF value < 10 then the regression is considered free from multicollinearity problems. Following are the test results using VIF:

Table 2 Multicollinearity Test Results

Variable	Variance	VIF
C	0.001072	55.06491
CSR	0.000362	6.993654
FCF	0.005580	1.304899
LEV	0.002815	52,59678
KM	0.000855	2.348273

Source: Eviews 12 processing results

Table 2 shows the VIF values of all variables <10. Therefore, it can be concluded that the independent variables do not show multicollinearity problems.

Heteroscedasticity Test

Heteroscedasticity test is used to assess variance inequality in the regression model. The desired regression model does not show heteroscedasticity. A good regression model is characterized by a probability value > 0.05.

Table 3 Multicollinearity Test Results

F-statistics	1.929835	Prob. F(4.51)	0.1196
Obs*R-squared	7.361851	Prob. Chi-Square(4)	0.1180
Scaled explained SS	4.721378	Prob. Chi-Square(4)	0.3171

Source: Eviews 12 processing results

Table 4.3 shows that the Obs*R chi-square probability value is 0.1180 > 0.05. Therefore, it can be concluded that this model does not show heteroscedasticity.

Autocorrelation Test

The autocorrelation test aims to test whether there is a correlation between the error term at and before the t period. The desired regression model is a model that does not show autocorrelation.

Table 4 Autocorrelation Test Results

Durbin Watson	1.469763

Source: Eviews 12 processing results

Table 4 shows the independent regression model of positive and negative autocorrelation because the value is 1.469763 > -2 and the value is 1.469763 < 2.

4.3 Regression Test Results

Based on the selection of the panel data model, the best model was chosen for this study, namely the common effect model. Panel data regression results in the following table:

Table 5 Multiple Linear Regression Test Results – No Moderation

Variable	Coefficient	Std. Error	t-Statistics	Prob
C	0.051959	0.030158	1.722903	0.0908
CSR	-0.064082	0.030799	-2.080668	0.0424
FCF	-0.567167	0.083711	-6.775307	0.0000
LEV	-0.049159	0.042672	-1.152017	0.2546

Source: Eviews 12 processing results

After conducting the panel data test and entering the values into the panel data regression equation, the results in Table 5 show the following output:

$$\mathbf{MjnProfit = 0.051959 - 0.064082CSR - 0.567167FCF - 0.049159LEV}$$

4.4 Moderated Regression Analysis (MRA)

Moderated Regression Analysis (MRA) is used for test moderating variablewith the interaction test. According to Ghozali (2013: 213), the moderator variable is an independent variable that strengthens or weakens the relationship of the independent variable to the dependent variable.

Table 6 Moderated Regression Analysis (MRA) Test Results

Variable	Coefficient	Std. Error	t-Statistics	Prob.
C	0.021639	0.032930	0.657118	0.5142
CSR	-0.039144	0.017058	-2.294733	0.0262
FCF	-0.593334	0.073475	-8.075282	0.0000
LEV	-0.001575	0.050730	-0.031044	0.9754
KM	-0.478283	0.216269	-2.211524	0.0318
CSR_KM	1.161231	0.379665	3.058569	0.0036
FCF_KM	0.054311	0.504133	0.107732	0.9147
LEV_KM	-0.080259	0.183372	-0.437682	0.6636

Source: Eviews 12 processing results

After analyzing the panel data test and inputting the values into the panel data regression equation, the results in Table 6 display the following output:

MjnProfit = 0.021639 – 0.039144CSR – 0.593334FCF – 0.001575LEV – 0.478283KM + 1.161231CSR_KM + 0.054311FCF_KM – 0.080259LEV_KM

4.4 Hypothesis Test Results (T Test)

Partial test (t-test) was conducted to assess the effect of each independent variable on the dependent variable moderated by managerial ownership. The independent variable is considered to have a significant effect on the dependent variable if the probability value is <0.05.

Table 7 Hypothesis Table

Variable	T-stats	Prob	Results	Hypothesis
CSR	-2.294733	0.0262	Negative effect	H_1 Accepted
FCF	-8.075282	0.0000	Negative effect	H_2 Accepted
LEV	-0.031044	0.9754	No effect	H_3 Rejected
CSR_KM	3.058569	0.0036	Moderate	H_4 Accepted
FCF_KM	0.107732	0.9147	Not moderating	H_5 Rejected
LEV_KM	-0.437682	0.6636	Not moderating	H_6 Rejected

Source: The result of processing Eviews 12 and has been reprocessed

4.5 Coefficient of Determination Test Results

The coefficient of determination is a metric used to evaluate how much of the variability in the dependent variable can be explained by the independent variables included in the model. It represents the percentage of the variance in the dependent variable that is influenced by the independent variables.

Table 8 Coefficient of Determination Test Results

R-squared	0.716071

Source: Eviews 12 processing results

Based on Table 8, the calculation result of Adjusted R-squared is 0.674665, which meansthat the influence of the independent variable moderated by managerial ownership on the dependentvariable can be explained by this equation model of 67.46%. This indicates that the combined influence of corporate social responsibility, free cash flow, and leverage variables, moderated by managerial ownership, on earnings management accounts for 67.46% of the variation. The remaining 32.54% of the variation is attributed to other factors not considered in this study.

5. Discussion

Effect of Corporate Social Responsibility on Earnings Management

Greater intensity of CSR disclosure is associated with lower levels of earnings management. Companies that provide more comprehensive CSR disclosures tend to limit or decrease their practice of earnings management. This is because CSR activities highlight transparent and ethical business conduct, leading to more reliable and trustworthy financial reporting by companies.

Effect of Free Cash Flow on Earnings Management

Companies with substantial free cash flow are less inclined to engage in earnings management due to their strong reputation for being able to distribute dividends to investors. Additionally, such companies possess the financial capability to repay debts and invest in the company's growth. Consequently, increasing free cash flow becomes a strategy for management to enhance the company's valuation, thereby attracting investors to invest in the company.

Effect of Leverage on Earnings Management

The level of leverage, whether high or low, does not appear to influence earnings management. This implies that the amount of debt in a company is not a driving factor for the management to engage in earnings management practices. A higher level of debt to total assets increases the possibility of default risk for the company, making it challenging to meet all debt obligations. This heightened risk can deter investors, who may demand a higher rate of return and become hesitant to invest in the company. In such cases, earnings management is not motivated by default risk aversion. Despite the debt burden, the company still needs to fulfill its debt obligations, and earnings management practices may become inevitable.

Managerial Ownership Moderates the Relationship of Corporate Social Responsibility to Earnings Management

When managers have ownership stakes in the company, it tends to reduce opportunistic behavior. Conversely, if managerial ownership is low, there is a higher likelihood of self-serving behavior. The fact that managers assume dual roles as both managers and shareholders is seen as a mechanism to balance the differing interests between management and shareholders, potentially mitigating conflicts between the two parties. As a result, the presence of managerial ownership can alleviate problems that may arise between management and shareholders.

Managerial Ownership Moderates Free Cash Flow's Relationship to Earnings Management

When a company has high free cash flow, it can be said that the company has good finances and thecompany can minimize earnings management. This healthy free cash flow also has an impact oninvestors and commissioners on the dividends that will be received. The

existence of managerialownership can minimize agency conflicts by providing a balance of interests between stakeholdersand management for the purpose and control of the company.

Managerial Ownership Moderates Leverage Relationship to Earnings Management
The level of debt held by a company is not a determining factor for its engagement in earnings management. Even if a company's debt level surpasses its total assets, it could face the risk of default and challenges in repaying all debts. However, earnings management behavior is not influenced by default risk aversion. The company's debt obligations still need to be fulfilled, and earnings management practices may still occur. Moreover, the presence or absence of managerial ownership in the company does not eliminate the possibility of management carrying out earnings management. This is because earnings management practices cannot replace the fulfillment of the company's obligations.

6. Conclusion

Based on the test results and discussions, several conclusions can be drawn. Firstly, corporate social responsibility (CSR) has a negative impact on earnings management, indicating that higher CSR disclosure leads to greater transparency, a positive company image, an improved reputation, and reduced earnings manipulation. Secondly, free cash flow also negatively affects earnings management, indicating that companies with higher free cash flow are less likely to engage in profit manipulation. However, leverage does not show a significant influence on earnings management. Regarding managerial ownership, it can moderate the relationship between CSR and earnings management, but it does not moderate the relationship between free cash flow or leverage and earnings management. Overall, while managerial ownership does not entirely prevent earnings management, it can play a role in aligning the interests of management and shareholders, thereby potentially mitigating the practice of earnings manipulation.

Recommendations

To overcome the limitations of this study, future research is recommended to investigate the impact of earnings management on risk by including companies from various sectors listed on the Indonesia Stock Exchange. This broader scope would lead to a more comprehensive understanding of the relationship between earnings management and risk. Moreover, researchers could incorporate additional independent or moderating variables not considered in this study, such as company size, sales growth, and profitability, to provide a more thorough analysis of the factors influencing earnings management. Furthermore, using different research subjects to represent earnings management practices would enhance the generalizability of the findings and offer a more diverse perspective on the topic. These steps would contribute to a more robust and holistic examination of earnings management and its implications.

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