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THE EFFECT OF GOOD CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE

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ABSTRACT

Companies engage in CSR and GCG activities because they believe it will improve their financial performance. Income uncertainty as an impact of pandemic makes it interesting to examine how company will operate throughout 2019-2021. This study uses data on financial dan sustainability reports from five sectors of manufacturing companies. The proportion of institutional ownership and independent commissioners, as well as the audit quality, are used to calculate GCG. The disclosed activities in SR are measured for CSR. The modified Jones model is used to measure earnings management. ROA, EPS, and Tobin's Q are used to measure financial performance. PLS method and WarpPLS v.8.0 was used to examine the hypotheses in this study. The study's findings demonstrate that GCG significantly affect financial performance and earnings management. CSR has a substantial effect on financial performance while having no effect on earnings management. Earnings management have no significant effect on financial performance. Meanwhile, earnings management is considered unable to mediate the effect of GCG and CSR on financial performance.

Keywords: *good corporate governance, corporate social responsibility, earnings management, financial performance.*

1. INTRODUCTION

Good corporate governance (GCG) systems are essential in conducting the company's activities on a daily basis. GCG is a mechanism that controls the connection between parties who are entitled and obligated to a company, as well as the management and operations of the company itself. GCG is a framework that governs the function of the board of commissioners, directors, shareholders, and other stakeholders, as well as a transparent process for setting firm goals, successes, and performance review (Agoes, 2011).

A good corporation acts not just in line with the wishes and desires of stakeholders or investors, but also in accordance with the wishes and aspirations of society. Corporate social responsibility (CSR) is also important. The triple bottom line, or 3P, is a company-wide philosophy or concept that comprises of profit, people, and the planet (Elkington, 1998). In order for a company to survive, a company cannot only focus on finances/profits, but must also pay attention to the communities around which the company operates, and the sustainability of the environment in which the company operates.

Companies that have just begun operations will typically measure their financial success annually or quarterly in order to track the work they have completed throughout the current fiscal year. Financial statements must be released by the end of the first quarter of the following year for companies that have made a public offering of shares. According to Malik & Nadeem (2014), the purpose of financial reports is to determine how efficient a company is at generating revenue.

Earnings management is a company's attempt to manage its profits in a single year, but with certain policies and arrangements determined by GAAP so that financial statement reporting is not misleading to shareholders. Earnings management is an act of boosting or lowering profits that has nothing to do with improving or decreasing long-term profitability. Earnings management is likewise inextricably linked to the industrial sector due to the company's substantial profits from year to year. Earnings management is viewed as a mediating variable because it arises as a result of information discrepancies between management as an agent and owners/shareholders as principals, where management does not disclose information accurately to owners due to competing interests. In instances like this, GCG mechanism is required. It is also linked to CSR because managers use it to control corporate earnings.

This study refers Mahrani & Soewarno (2018) research, which found that the mechanism of GCG and CSR has a positive effect on financial performance and earnings management, whereas earnings management has no effect on the company's financial performance. The testing variables includes GCG, CSR, financial performance and earnings management. GCG and CSR as independent variables, meanwhile financial performance and earnings management as dependent variabeles. In this study, earnings management also testing as a mediating variable.

The agency relationship is the relationship between the company's owner and the agent, involving the delegation of authority to make decisions that are left to the agent. The company owner or shareholder delegated decision-making authority with the hope that the agent would make the best decision for the principle. However, issues develop when a company's management and ownership duties are separated. If the manager succeeds in increasing the company's profit, the profit will not benefit the agent. Therefore, managers often do not make decisions according to what the principal wants. Management has better knowledge about the company's surroundings and operations, which leads to information asymmetry. Agents that do not fully deliver proper information to the principal are the result of information assymetry owned by management and company owners, as well as conflicts of interest.

The stakeholder theory concludes that companies typically relate to three major components of sustainable development while conducting CSR operations, including economic growth, environmental protection, and social equity (Elkington, 1998). Profit is the primary reason for the company's existence. The people or community of stakeholders is also very essential because it is the most crucial source of support for a firm. The negative effect of the corporation's operational actions may erode public trust in the company. As a result, in order to earn community acceptance, the corporation must make considerable efforts for the environment.

The legitimacy theory is viewed as a view of the orientation system in which firms can be impacted and have an impact on the environment in which they carry out their operational operations. Publicizing the company's CSR operations is supposed to help the company, specifically by increasing earnings and gaining approval from the community. The key factor for this theory, according to Ghozali & Chairiri (2007) is the social contract between companies and communities because companies have utilized community economic resources, therefore people anticipate reciprocity from social relationships with companies.

Good Corporate Governance (GCG) and Financial Performance

GCG is a set of laws, regulations, and rules that must be followed in order to improve the performance of firm resources so that they can function efficiently and generate long-term economic value for stakeholders. The number of independent commissioners, the percentage of

institutional ownership, and audit quality are all used to measure GCG. There are several studies that found an empirical evidences that independent commissioner with a high level of professionalism can generate more objective choices to ensure that GCG policies are correctly implemented. This supervision duty grows in importance as institutions seek to defend their respective constituents. With audit operations performed by the big four public accounting firms, the GCG mechanism can be secured from all arbitrary management actions. As a result, shareholders and stakeholders are more willing to support the company. Mahrani and Soewarno (2018) claimed that GCG has a positive and significant effect on financial performance.
H1: GCG mechanism has a positive and significant effect on financial performance.

Corporate Social Responsibility (CSR) and Financial Performance
CSR is a company's endeavor to get active in alleviating welfare problems such as poverty, unemployment, education, and hunger. This is significant for the corporation since, in practice, the company has more negative consequences on people's lives and the environment, therefore it is logical for the community to seek positive input from the company as well. If a firm conducts and publicly exposes its CSR efforts, stakeholders both inside and outside the company tend to be more supportive of the organization. Chen and Wang (2011) assert that providing support involves purchasing the company's goods. This beneficial effect is consistent with studies by Mahrani & Soewarno (2018) which found that CSR can improve financial performance.
H2: CSR has a positive and significant effect on financial performance.

Good Corporate Governance (GCG) and Earnings Management
High levels of independence are necessary for the board of commissioners' supervisory role to be effective. The quantity of impartial commissioners is another factor used to determine GCG in this instance. Managers are aware of how they conduct business operations and the role of the independent commissioner. A high and effective GCG mechanism will lead to minimal earnings management. According to study by and Mahrani & Soewarno (2018), this oversight will avoid or minimize earnings management since managers will be able to concentrate on the interests of shareholders thanks to objective review by independent commissioners.
H3: GCG mechanism has a negative and significant effect on earnings management.

Corporate Social Responsibility (CSR) and Earnings Management
According to research done by Chih et al. (2008), companies that engage in CSR activities seek to maintain long-term relationships with stakeholders. As a result, companies won't engage in earnings management to avoid jeopardizing the trust they have developed through CSR activities with stakeholders. This earnings decline is a reflection of the company's declining financial performance as a result of its CSR initiatives. When a corporation engages in a lot of CSR initiatives, it will affect managers who are focused in profit management by reducing profits for a year. Research done by Mahrani & Soewarno (2018), come to the conclusion that CSR has a positive and significant impact.
H4: CSR has a positive and significant effect on earnings management.

Earnings Management and Financial Performance
Managers will be interested in carrying out earnings management if the profits presented are felt to be harmful to their parties. High earnings management may result in a reduction in the company's financial performance, according to Akram et al. (2016) because it entails tactics that come at a high cost because the manipulation of profits must be countered by the quantity of cash flow. This is consistent with studies by Prasetya (2017) and Mahrani & Soewarno (2018), that improving earnings management can deeply affect financial performance.

H5: Earnings management has a negative and significant effect on financial performance.

Earnings Management as Mediating Variable for The Effect of Good Corporate Governance (GCG) to Financial Performance
The company's awareness to apply GCG determines the company's financial performance. Theoretically, GCG can boost a business's financial performance while lowering the chance that management will act in their own best interests. In the end, stakeholders won't be hesitant to invest in the business and support it by using its products and services, which will help it succeed and grow financially. Due to their constraints in doing earnings management, management will work more to enhance operational processes. Research by Mahrani & Soewarno (2018) discovered empirical evidence that GCG has a negative effect on the company's financial performance through earnings management.
H6: The GCG mechanism has a negative and significant effect on financial performance mediated by earnings management.

Earnings Management as Mediating Variable for The Effect of Corporate Social Responsibility (CSR) to Financial Performance
The social environment supports the company's operations by encouraging disclosure of CSR activities it has undertaken. The aim to produce financial statements that are open and accurate will result in less earnings management as an organization works to strengthen relationships with its stakeholders. If it is shown that the company does not practice earnings management, stakeholders will be more inclined to support it by making purchases from it. There is evidence, according to studies by Mahrani & Soewarno (2018) and Sial et al. (2018) that earnings management can mediate the effect of CSR on financial performance.
H7: CSR has a negative and significant effect on financial performance mediated by earnings management.

2. RESEARCH METHOD

This research employs descriptive research with quantitative data and uses a source of financial records for companies in the manufacturing sector. This study uses secondary data from financial statements that are related to financial performance, earnings management, and good corporate governance based on the institution that audits the company via the Indonesia Stock Exchange website (https://www.idx.co.id). The stock price history was gathered from the Yahoo Finance website (https://finance.yahoo.com). Then, data on the number of corporate responsibility activities in the Sustainability Report of each company from the company's official website, which was compared based on the Global Reporting Initiative (GRI) Standards 2016. Microsoft Excel and WarpPLS are used to process the data. The mechanisms of GCG, CSR, and earnings management were employed as independent variables in this study. While financial performance and earnings management are the dependent variables, earnings management factors also serve as mediators. Companies listed on the Indonesia Stock Exchange (IDX) in the energy, basic materials, industry, primary and secondary consumer goods sectors from 2019 to 2021 were the subjects of this study. Purposive sampling was utilized in this study.

The Measurement of Good Corporate Governance (GCG)
Companies that have been audited by Big 4 public accounting firms receive a score of 1, otherwise they receive a score of 0. The following are the percentages of independent commissioners and institutional ownership:

$$KIND = \frac{Number\ of\ independent\ board\ of\ commissioners}{Total\ board\ of\ commissioners}$$

$$Institutional\ Ownership = \frac{Number\ of\ institutional\ ownership}{Total\ shares\ outstanding} x100\%$$

The Measurement of Corporate Social Responsibility (CSR)
This study measures the percentage points of corporations' sustainability initiatives to the points stated in GRI Standards 2016. The researcher then employs the checklist approach to determine how much the company has accomplished and disclosed in its social responsibility activities in the sustainability report. The formulas are as follows:

$$CSR = \frac{Total\ "1"\ value}{Total\ CSR\ activity\ in\ GRI\ Standards}$$

The Measurement of Financial Performance
The financial performance in this study is measured using return on assets (ROA), earnings per share (EPS), and Tobin's Q. The measurements are as follows:

a. ROA
$$ROA = \frac{Net\ Income}{Total\ Assets}$$
b. EPS
$$EPS = \frac{Net\ Income}{Numbers\ of\ shares\ outstanding}$$
c. Tobin's Q
$$Tobin's\ Q = \frac{MV(CS) + BV(PS) + BV(CL)}{BV(TA)}$$

The Measurement of Earnings Management
Earnings management allows them to fulfill the objectives of shareholders who want maximum profit while also satisfying stakeholders like as the community, the environment, the government, and even the company's own employees. The measurements are as follows:

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

3. RESULTS AND DISCUSSIONS

The study employs SEM analysis, specifically the partial least squares (PLS) model, which employs two types of modeling: evaluation of measurement models (outer models) and evaluation of structural (inner models) to evaluate capita structure (Ghozali & Latan, 2014). This study also employs path analysis since the presence of a mediating variable has an indirect effect. Path analysis is required so that conclusions about the direct and indirect relationship between the independent variables and the dependent variable can be obtained.

Convergent validity is a test that compares the latent loading factor value to the indication. The variable considered valid if the loading factor is greater than 0.70 and a significant p-value is less than 0.05. Indicators with loading factors of 0.40 will be eliminated from the model, while loading factors between 0.40 and 0.70 will be examined for their effect on the average variance expected (AVE) and composite reliability if these indicators are excluded (Sholihin & Ratmono, 2013). A convergent validity test must be performed in this study for each research variable that will be used, including the derived indicators.

Based on the results of the tests, it is possible to infer that all variables and indicators are in agreement with the study's provisions. However, loading factor values in the range of 0.6 to 0.7 are also permitted. Research done by Guadagnoli & Velicer (1988) even presume that values above 0.4 are deemed stable. A variable is considered useable if it has four or more loading factors with a value of 0.6 or above (see **Table 1**).

Table 1. Convergent Validity Test Results and P Value

	GCG	**CSR**	**FP**	**EAM**	**P Value**
X11	(-0.470)	0.290	-0.179	-0.321	<0.001
X12	(0.642)	0.181	-0.018	-0.197	<0.001
X13	(0.828)	0.023	-0.087	-0.029	<0.001
X2	0.000	(1.00)	0.000	0.000	<0.001
Y11	0.088	0.152	(0.779)	-0.142	<0.001
Y12	-0.164	0.008	(-0.409)	0.016	<0.001
Y13	-0.166	-0.141	(0.816)	0.143	<0.001
Z	0.000	0.000	0.000	(1.000)	<0.001

Discriminant validity is a test that determines a concept's capacity to distinguish itself from other conceptions. This test also compares a construct's square root AVE to the correlation between constructs. The combined loading and cross-loading views in the WarpPLS program can be used to calculate the loading value (see **Table 2**). The results showed that the square root AVE construct of the variables to be examined was bigger laterally and vertically than the other constructs.

Table 2. Loading Value Test Results

	GCG	**CSR**	**FP**	**EAM**
GCG	(0.663)	0.047	0.394	0.080
CSR	0.047	(1.000)	-0.140	0.108
FP	0.394	-0.140	(0.692)	-0.131
EAM	0.080	0.108	-0.131	(1.000)

A composite reliability test is used to measure the dependability of a structure. A construct has reliable data if it passes the Cronbach's alpha and composite reliability standards of >0.70. In this instance, values of 0.60-0.70 are still permitted for exploratory study. Meanwhile, Yamin & Kurniawan (2009) stated that a Cronbach's alpha value of 0.5 is deemed good, while a value of 0.3 indicates that the data is consistent and dependable. According to the findings of this study (see **Table 3**), the value of composite reliability and Cronbach's alpha is greater than the provisions, namely 0.70. As a result, linked variables with good and consistent values are stated to be reliable for use.

Table 3. Composite Reliability Test

	GCG	**CSR**	**FP**	**EAM**
Composite reliability	0.774	1.000	0.817	1.000
Cronbach's alpha	0.832	1.000	0.789	1.000

According to Yamin & Kurniawan (2009), inner model is a model suitability test to establish the relationship between a construct and other construct. This test is divided into three stages, the average path coefficient (APC) testing index, the average R^2 (ARS), the adjusted average R^2 (AARS), and the average block variance inflation factor (AVIF). According to Ghozali & Latan (2014), the APC, ARS, and AARS values are utilized to estimate the average lane coefficient value, namely R^2 and modified R^2 produced from the model. This model fit test was performed to determine the model's and data's adequacy. If the p-value for APC, ARS, and AARS is 0.05, the values are regarded good, accepted if the value is 5, ideal if the value is 3.3.

Based on the model fit test findings (see **Table 4**), it is possible to conclude that the APC value of 0.254 with a p value of 0.002 is consistent with the required circumstances because the value is 0.05. The ARS and AARS results of 0.235 and 0.216 are likewise in conformity with the rules because the P values are less than 0.05. The test then returns an AVIF result of 1,058 and an AFVIF result of 1,140, both of which are acceptable because the value is 5 and deemed optimal because it is 3.3. As a result, the model used is consistent with the research data.

Table 4. Goodness of Fit Model Test Results

Index		P value
Average path coefficient (APC)	0.254	0.002
Average R-squared (ARS)	0.235	0.003
Average Adjusted R-Squared (AARS)	0.216	0.006
Average block VIF (AVIF)	1.058	
Average Full Collinearity VIF (AFVIF)	1.140	

Second, the investigation is carried out with the path coefficient and R^2. The path coefficient test is used to determine the value of the path coefficient, whereas R^2 is used to determine the effect of the independent variable on the dependent variable. R^2 values of 0.70, 0.45, and 0.25 imply that the model has a significant, moderate, or mild influence.

Based on the coefficient of determination research (see **Table 5**), it concludes that the independent variables of CSR and GCG mechanisms can explain the dependent variable of earnings management by 12.8%, with the remaining 87.2% explained by other variables. According to Sholihin & Ratmono (2013), it demonstrates a poor ability to explain. Because the value is more than zero, predictive relevance research with a number of 0.180 is considered good (Chin, 1998), indicating that the model can explain 18% of the data utilized in the study. The model employed in this study is predictive or can explain the data utilized in the investigation.

The R-Square value of 0.342 then indicates that the independent variables of CSR and GCG mechanisms, can explain 34.2% of the dependent variable of financial performance. Meanwhile, the remaining 65.8% is explained by factors outside of the scope of this study. This statistic falls within the weak to moderate category, according to Sholihin & Ratmono (2013). The predictive relevance research of 0.357 is also good because the number is more than zero. Chin (1998), indicating that the model can explain 35.7% of the data utilized in the study.

Table 5. The Determination-Coefficient Value (R^2) and The Predictive-Relevance Value (Q^2)

	R-Square	Q-Square	Information
CSR → EAM, GCG → EAM	0.128	0.180	Weak
CSR → EAM → FP, GCG → EAM → FP	0.342	0.357	Weak

Figure 1 and **Figure 2** showed the results of direct effect and indirect effect.

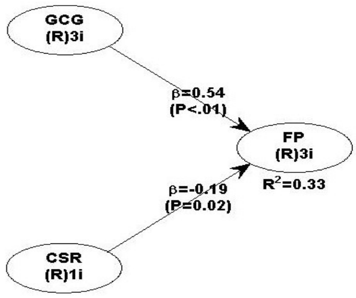

Figure 1. Direct Effect

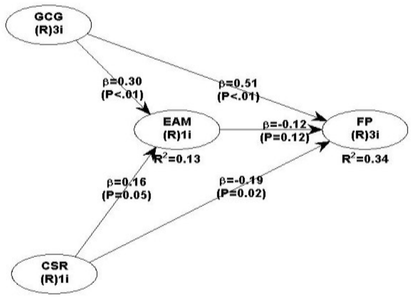

Figure 2. Indirect Effect

Table 6. Path Analysis Results

	β	P value	Results
CSR → FP	-0.187	0.025	Negative, significant
GCG → FP	0.545	<0.001	Positive, significant
CSR → EAM	0.155	0.052	Positive, not significant
GCG → EAM	0.303	<0.001	Positive, significant
EAM → FP	-0.116	0.115	Negative, not significant
CSR → EAM → FP	-0.035	0.307	Negative, not significant
GCG → EAM → FP	-0.018	0.398	Negative, not significant

The path analysis outcome for the first hypothesis that GCG has a positive effect on financial performance is 0.545 with a p-value 0.001 which is less than 0.05, indicating that if the GCG mechanism increase, then financial performance will also increase (see **Table 6**). This means that if the value of the GCG mechanism grows by one point, the financial performance variable will increase by 0.545 points, providing the other variables remain constant. As a result, H1 is acceptable in this study, in line with research from Mahrani & Soewarno (2018). The research is also in line with Wu et al. (2009) that professional independent commissioner will result in a more objective decision-making to increase the company's financial performance. Ahmed and Hamdan (2015) also show a similar result that more independent commissioner will increase financial performance because every operational activity is done according to the company's own interests. This demonstrates that many other organizations should develop a more targeted GCG mechanism to ensure that financial performance is ensured in accordance with the company's interests.

The path test results in **Table 6** show that CSR has a negative effect on financial performance because the test results are -0.187 with a p-value of 0.025 or 0.05, indicating that the more CSR activities done, the more financial performance will decrease. This result is in line with research from Ghozali (2018) and Crisostomo et al (2011). This means that if the CSR value increases by one point, the financial performance variable will fall by 0.187 points. Hence, the results of this study contradict the study by Chen and Wang (2011) that found a significantly positive effect of CSR on financial performance. As a result, H2 was rejected in this investigation because the stakeholders of the companies analyzed in this study are not fully aware of the significance of the company's CSR. The condition may also occur when a company invests excessively in CSR activites that harms the company’s financial performance. It might also happen because there is an omitted variable that is not used in this study.

The path analysis value for the hypothesis of GCG's effect on earnings management is 0.303 with a p-value of 0.001, which is less than 0.005 (see **Table 6**). This suggests that the GCG mechanism has a significant positive effect on earnings management. The conclusion is in line with research from Martin & Wijaya (2021). This means that if the value of the GCG mechanism grows by one point, the profits management variable will increase by 0.303 points. However, the results of this study contradict the study by Lee at al. (2012), Uwuigbe et al (2014) that found a significantly negative effect of GCG mechanism on earnings management. As a result, H3 was rejected in this investigation. Based on the findings of this study, it is possible to infer that corporate actions connected to strong corporate governance have not been helpful in minimizing the effect of earnings management in order to appear good in front of stakeholders. It is believed that the quantity of independent boards of commissioners and the quality of audits cannot cease earnings management. Because the number of stakeholders in the company will grow along with institutional ownership, it is difficult to minimize profit management at all. Instead, it will increase as institutional ownership percentages rise.

The path test results for the hypothesis of the influence of CSR on earnings management are 0.155 with a p-value of 0.052, which is higher than the 0.05 threshold (see **Table 6**). This suggests that while corporate social responsibility (CSR) has a positive effect, it is insignificant in terms of earnings management. This means that if the CSR value grows by one point, the earnings management variable will increase by 0.155 points. As a result of the difference in significance, H4 was rejected in this study. The findings are in line with research from Itan (2020) that it cannot be demonstrated that CSR has a major effect on earnings management. On the other hand, the result of this study contradicts in terms of significance with research from Mahrani and Soewarno (2018) that even if the results of the development of CSR activities can be carried out using earnings management, the company still develops CSR activities. One possible explanation is that this CSR is not utilized to manipulate profit. The positive effect is due to decreasing financial performance because of CSR activities, the companies decide to use earnings management.

According to path analysis research in **Table 6**, the value of earnings management's effect on financial performance is -0.116, indicating that earnings management has a negative direction but is not significant to financial performance, in line with research from Martin & Wijaya (2021). This means that if the value of earnings management increases by one point, the financial performance variable will fall by 0.116 points. However, because the number is 0.307, which is significantly more than 0.005, it is regarded to have no influence on financial performance. Nevertheless, the result of this study contradicts in terms of significance with Mahrani and Soewarno (2018). Thus, H5 in this study was rejected because of the difference in the significance of the effect. This could be due to the fact that the effect of earnings management is felt by the company in terms of financial performance in the long term with a negligible effect because many other things affect the decline in financial performance other than earnings management carried out by the company in the previous year. The negative effect is due to the fact that earnings management can make financial statements less trustworthy. If stakeholders decide they no longer have faith in the organization, this could eventually have an impact on financial performance. Figure 1 and 2 show the direct and indirect effects, respectively, as well as a table that summarizes the path analysis of each variable's link to one another.

The researchers investigated the link between GCG's indirect influence and financial performance as mediated by earnings management variables. This test yields a path coefficient of -0.118 and a p-value of 0.398 (see **Table 6**). These findings indicate a negative and insignificant correlations. According to the mediation test method used by Hair et al. (2017) when the path coefficient (0.545) is mediated by earnings management (-0.035), the magnitude of the effect changes from significant (0.001) to unsignificant (0.307>0.05). As a result, the earnings management variable cannot be a mediating variable. The GCG mechanism is thought to have only a direct influence on financial performance. Hair et al. (2017) employs the Variance Accounted For (VAF) approach and the Baron & Kenny method for testing.

According to the VAF calculations (see **Table 7**), the indirect effect of the earnings management mediation variable was 0.06894 or 6.89% with a negative effect and an insignificant p-value. This means that if the value of the GCG mechanism increases by one point, the financial performance variable will increase by 0.069 point. There is no mediating effect given by the earnings management variable because its value is below 20%. Therefore, H6 is rejected. It can be concluded that a significant effect becomes insignificant after the mediating variables of earnings management are involved. This study supports the findings of Martin & Wijaya's research (2021). This result contradicts with the result of Mahrani & Soewarno (2018)'s study that found a partial mediating effect of GCG mechanism on financial performance with negative and significant effect. When compared with agency theory which generally reveals that to overcome earnings management a good GCG mechanism is needed so that financial performance can be maintained stably, the results of this research cannot be compared because there is an insignificant relationship and earnings management cannot be a mediator. This is because there are other variables that cause a positive indirect relationship between GCG mechanisms and financial performance. One of them is the research year which was in a pandemic situation. In the pandemic years, firms' average financial performance has deteriorated while companies continue to compete to have a good GCG system in order to maintain stakeholder trust.

Table 7. VAF Calculations for The Effect of GCG Towards Financial Performance

Information	Calculation Results
Direct Effect (without earnings management (EAM)); GCG → FP = 0.545	0.545
Indirect effect (CSR → EAM * EAM → FP); GCG → EAM = 0.303; EAM → FP = -0.116	-0.03515
Sum of direct and indirect effect (0.512 + (-0.035148))	0.50945
VAF = Indirect effect / Sum of direct and indirect effect	-0.06894

Earnings management is expected to mediate the relationship between CSR and financial pergormance. It yields a path coefficient value of -0.035 and a p-value of 0.307, indicating that the influence is negative, not significant. According to the VAF (see **Table 8**), there is a direct effect with a bigger path coefficient value (-0.187) than an indirect effect after earnings management (-0.018), but the size of the effect shifts from a significant effect (0.025<0.05) to insignificant (0.398>0.05). As a result, the earnings management variable in this connection cannot mediate the effect. As a result, H7 was rejected. This study supports the findings of Martin & Wijaya's research (2021). However, the result contradicts with study from Mahrani and Soewarno (2018) and Setiawan (2015) that found an empirical evidence of full mediating effect of CSR on financial performance mediated with earnings management.

Table 8. VAF Calculations for The Effect of CSR Towards Financial Performance

Informations	Calculation Results
Direct Effect (without earnings management (EAM)); CSR → FP = -0.187	-0.187
Indirect Effect (CSR → EAM * EAM → FP); CSR → EAM = 0.155; EAM → FP = -0.116	-0.01798
Sum of direct and indirect effect (-0.187 + (-0.01798))	-0.20498
VAF = Indirect effect / Sum of direct and indirect effect	0.08772

Although the indirect impact is insignificant and cannot be mediated by earnings management, the negative influence value indicates that in the short term companies that carry out CSR activities will have lower financial performance because the profits are widely used for CSR activities. But in the long run it will increase trust and strengthen relationships with stakeholders. This research is in accordance with stakeholder theory because increasing CSR values will encourage the support given by the community to the company. This is also indirectly in accordance with legitimacy theory that companies can influence and be influenced by society and according to Deegan (2002), legitimacy will be obtained from agreements between companies that do not interfere with people's lives and values in society.

4. CONCLUSIONS AND SUGGESTIONS

This study focused on enterprises in manufacturing sectors because these industries are thought to be more interested in CSR efforts due to their operational operations. The results showed thath the GCG mechanism has a positive and significant effect on financial performance, meanwhile CSR has a negative and significant effect on financial performance. The GCG mechanism has a positive and significant effect on earnings management and CSR has a positive but insignificant effect on earnings management. Earnings management has a negative and insignificant effect on financial performance. Earnings management is unable to mediate the effect of GCG and financial performance. Earnings management is also unable to mediate the effect of CSR and financial performance.

The limitation of this study manifests itself in the form of a still limited study scope, notably in manufacturing businesses and specific sectors chosen depending on whether or not the company's sustainability report has been published for three consecutive years. Future researchers should do a broader scope study, other calculation proxies, and mediating variables.

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