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GOOD CORPORATE GOVERNANCE (GCG) AND CORPORATE SOCIAL RESPONSIBILITY IMPACT ON FINANCIAL PERFORMANCE: MODERATING ROLE OF EARNINGS MANAGEMENT

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ABSTRACT

This research investigates the relationship between good corporate governance (GCG) and corporate social responsibility (CSR), along with the moderating role of earnings management. Focusing on companies in the consumer cyclicals sector listed on the Indonesia Stock Exchange from 2021-2023, the study employs a descriptive design and purposive sampling, resulting in 216 observations from 72 companies. Data were analyzed using multiple regression techniques. The findings indicate that good corporate governance, as represented by institutional ownership, managerial ownership, the audit committee, and independent commissioners, does not have a significant impact on financial performance. Furthermore, corporate social responsibility is found to positively and significantly influence financial performance. Notably, earnings management does not significantly moderate the effect of good corporate governance on financial performance, and it exhibits a negative moderating effect on the relationship between CSR and financial performance. These insights deepen our understanding of the dynamics affecting financial performance in the Indonesian consumer cyclicals sector, highlighting the critical importance of strategic financial management in enhancing corporate outcomes.

Keywords: *Good Corporate Governance, Corporate Social Responsibility, Earnings Management, Financial Performance*

1. INTRODUCTION

Financial performance is critical for businesses because it acts as a fundamental measure of their operational health and viability. Financial performance measures a company's capacity to make profits, manage assets and liabilities, and satisfy its financial responsibilities [1]. Strong financial performance typically signals positive prospects to investors, potentially increasing stock prices. When a company reports financial results that exceed expectations, it is often interpreted as an indication of higher future profitability, leading to increased demand for its shares and a subsequent rise in stock prices.

Publicly traded companies on the Indonesia Stock Exchange (IDX) are held by shareholders, necessitating that investors understand these companies' financial performance to facilitate educated investment decisions. One of the sectors listed on the IDX is the consumer cyclicals sector. The consumer cyclicals sector encountered significant challenges during the COVID-19 pandemic, including reduced demand and supply chain disruptions. Historical data from IDXCYCLIC shows a notable decline in average stock prices from -3.8% in 2019 to -16.1% in 2020, followed by a recovery of 21.2% in 2021, with stabilized fluctuations from 2022 to 2023. This trend mirrors Indonesia’s GDP growth, which fluctuated during 2021 but stabilized at around 5% from late 2021 to 2023. Sector performance has also been influenced by events such as boycotts affecting specific companies, like PT Mitra Adiperkasa Tbk., and by increased e-commerce activity, with transactions reaching IDR 476.3 trillion in 2022. These dynamics

highlight the importance of financial performance analysis through financial statements to guide adaptive investment decisions in the face of economic cycles.

Financial performance encompasses more than just profitability; it also involves long-term value creation, meeting stakeholder expectations, and ensuring corporate sustainability [2]. Good corporate governance (GCG) ensures the integrity of financial reporting and mitigates performance manipulation [3]. Companies that adhere to strong GCG principles not only enhance investor confidence and attract investment but also achieve better financial results [4]. However, violations of governance and transparency, as seen in the cases of PT Garuda Indonesia and Enron, highlight the potential risks of inadequate corporate governance.

Beyond GCG, corporate social responsibility (CSR) is another vital factor. CSR initiatives signify a company's commitment to stakeholders by enhancing environmental quality and societal welfare, while considering both the positive and negative impacts of its business activities [5]. CSR has become a strategic tool for improving corporate image and subsequently influencing financial performance. In Indonesia, CSR implementation is mandated under Law No. 40 of 2007, transitioning CSR from a moral obligation to a legal requirement.

This research integrates earnings management as a moderating variable to enhance the analysis of the relationship between GCG, CSR, and financial performance. Reflecting the background and research problem, this study is titled "The Impact of Good Corporate Governance and Corporate Social Responsibility on Financial Performance in the Consumer Cyclicals Sector: Earnings Management as a Moderating Variable."

Agency Theory

Agency theory explains the relationship between a company's owner (principal) and its manager (agent), highlighting potential conflicts of interest when their goals diverge. While shareholders aim to maximize the company's value for optimal profits, the management is responsible for daily operations and may focus more on their own financial and emotional needs. This discrepancy often leads to manipulative practices, such as earnings management, to align with personal interests rather than those of the shareholders. The asymmetry of information, where management has more knowledge about the company's operations than shareholders, further exacerbates these issues, potentially resulting in decisions that harm the company's financial performance and detrimentally impact shareholders' interests [6][7].

Stakeholder Theory

Stakeholder theory underscores the crucial importance of balancing the interests of all stakeholders in business decision-making to achieve long-term success. Companies must prioritize not only shareholders but also employees, customers, suppliers, and the wider community. Corporate sustainability requires stakeholder support, and their approval is crucial for the company's activities [8]. Good relationships with all stakeholders can create greater value and help achieve strategic goals. This theory is crucial in this research as it directly impacts stakeholders affected by the company's activities. Stakeholder support significantly impacts industry sustainability, as stakeholders are often considered in the dissemination of financial reports.

Legitimacy Theory

Legitimacy theory is a concept that explains how companies maintain and obtain legitimacy from stakeholders and society. It was first introduced by Dowling & Pfeffer in 1975, emphasizing the importance of societal support for long-term sustainability. Legitimacy is the

social support a company gains by aligning its actions with societal values and expectations. Companies use various strategies to manage their legitimacy, ensuring alignment between their existence and existing value systems and the environment. This theory significantly impacts a company's existence and its sustainability.

Good Corporate Governance (GCG)

GCG is a mechanism that regulates the relationships between parties who have rights and obligations towards the company, as well as the management and operations of the company itself [9]. The use of Good Corporate Governance concepts can differ among countries and company due to differences in economic, legal, ownership, social, and cultural systems. These variations in practice will lead to several versions of good corporate governance principles [3].

Institutional Ownership

Institutional ownership is a condition where an institution or organization holds shares in a company, where every decision made by the manager becomes an effective monitoring mechanism through institutional ownership [10]. Institutional investors increase control over management performance, suppressing fraudulent actions. This can reduce agency conflicts between agents and principals, and reduce opportunistic behavior by managers. Institutional ownership enhances financial performance, as shareholders possess a vested interest in ensuring the company's sustainability and growth. The greater the institutional ownership, the stronger its influence in decision-making, ultimately driving performance optimization. This finding aligns with the research conducted by [11]. However, it contradicts the conclusions of [12], which assert that institutional ownership does not significantly influence financial performance.
H1: Institutional Ownership has a positive and significant effect on Financial Performance (See Figure 1)

Managerial Ownership

Managerial ownership refers to share ownership by internal parties in a company, including management, the executive board, and company owners [13]. This ownership motivates managers to optimize the company's performance and aligns with the agency theory by Jensen & Meckling. Managers must be cautious and accountable for every decision, reducing potential conflicts of interest and fraudulent actions. This aligns the goals of managers and shareholders, aiming to improve company performance. This finding aligns with the research conducted by [14]. However, it contradicts the conclusions of [11], which assert that managerial ownership has no significant effect on financial performance.
H2: Managerial Ownership has a positive and significant effect on Financial Performance (See Figure 1)

Audit Committee

The audit committee is a crucial organ in Good Corporate Governance, overseeing company management and financial reporting [15]. It reduces conflicts between management and shareholders by ensuring accurate and transparent financial statements. A larger committee reduces the risk of manipulation and adheres to good corporate governance principles, ensuring independence and objective presentation of financial performance reports. The effectiveness of the audit committee directly improves the company's financial performance by enhancing the credibility and integrity of financial statements. This result is consistent with the findings of [16], but it contradicts those of [3], indicating that the audit committee does not substantially affect financial performance.

H3: Audit Committee has a positive and significant effect on Financial Performance (See Figure 1)

Independent Commissioners

Independent board of commissioners as a party not affiliated with a company, tasked with aligning the interests of majority and minority shareholders [13]. [3] suggest that independent commissioners are related to company performance as they conduct unbiased supervision and ensure clean management. An elevated ratio of independent commissioners can mitigate conflicts of interest between management and shareholders. Stricter oversight by independent commissioners is positively related to financial performance, as it enhances transparency and accountability in management decision-making. This result aligns with the findings of [11], but it contradicts those of [3], which indicate that independent commissioners lack a substantial impact on financial performance.

H4: Independent Commissioners has a positive and significant effect on Financial Performance (See Figure 1)

Corporate Social Responsibility

A company's performance can be significantly improved through Corporate Social Responsibility (CSR) activities, which prioritize social goals over profit. Companies must gain legitimacy from society by implementing policies and complying with local regulations. This support from stakeholders, as per stakeholder theory, is crucial for long-term success. CSR activities can elevate the company's reputation, increase sales, and enhance financial performance. This support can lead to customer loyalty and optimal employee performance, ultimately enhancing the company's overall financial performance. This finding aligns with the research conducted by [7], but it contradicts the findings of [17] stating that CSR does not have a significant impact on financial performance.

H5: CSR has a positive and significant effect on Financial Performance (See Figure 1)

Earnings Management

Earnings management involves manipulating income through financial reporting to gain profits based on economic factors. It is often seen as an attempt by company managers to deceive stakeholders about the company's condition and performance. While some argue it is fraud, others believe it does not because it uses generally accepted accounting methods and procedures [18]. Key aspects of Good Corporate Governance (GCG), institutional ownership, managerial ownership, audit committees, and independent commissioners are connected to financial performance, with earnings management moderating these relationships. Institutional ownership can enhance oversight and alignment of interests, but their effectiveness declines when earnings management undermines transparency [12] [17]. Managerial ownership reduces agency conflicts by aligning the interests of management and shareholders, as managers who own shares are incentivized to ensure strong financial performance for greater profitability. Similarly, audit committees and independent commissioners aim to improve reporting accuracy, but their roles are weakened by manipulated financial data, leading to trust erosion and suboptimal decisions that harm. CSR activities can improve financial performance, but excessive earnings management can lead to over-investment and increased costs. Managers use earnings management to promote CSR activities, avoiding scrutiny from stakeholders. Unethical earnings management practices can undermine stakeholder trust and negatively impact the company's overall performance.

H6: Earnings management weakens the influence of institutional ownership on financial performance (See Figure 1)

H7: Earnings management strengthens the influence of managerial ownership on financial performance (See Figure 1)
H8: Earnings management weakens the influence of audit committee on financial performance (See Figure 1)
H9: Earnings management weakens the influence of independent commissioner on financial performance (See Figure 1)
H10: Earnings management weakens the influence of CSR on financial performance (See Figure 1)

The following is a theoretical framework outlining the impact of institutional ownership, managerial ownership, audit committee, independent commissioner, CSR on financial performance moderated by Earnings Management:

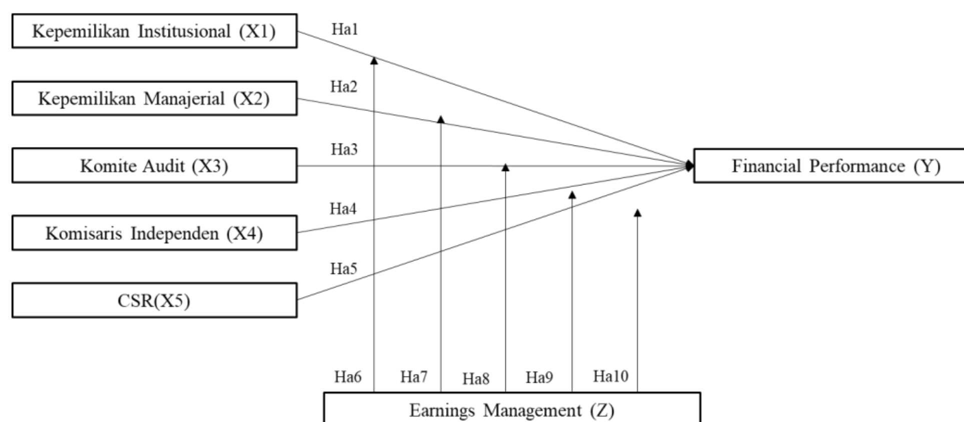

Figure 1. Research Framework
Source: Processed by the authors

2. RESEARCH METHOD

This study utilizes a quantitative research approach. The population comprises 120 consumer cyclicals sector companies listed on the Indonesia Stock Exchange for the years 2021-2023. Out of the population, 90 companies were identified as meeting the predetermined criteria. After removing outliers, the final sample included 72 companies. Data analysis was performed using EViews 13. Purposive sampling, more especially non-probability sampling, is the method used in sampling, based on the following criteria: 1) Consumer cyclicals sector companies that did not conduct an Initial Public Offering (IPO) during the 2021-2023 period, 2) Consumer cyclicals sector companies that were not subject to stock suspension during the 2021-2023 period, 3) Companies in the consumer cyclicals industry that show their financial results in Rupiah currency over the period 2021–2023, 4) Consumer cyclicals sector companies that present audited financial statements for the 2021-2023 period, 5) Consumer cyclicals sector companies with financial statements that do end on December 31, and 6) Consumer cyclicals sector companies that disclose information regarding corporate social responsibility during the 2021–2023 period.

Table 1. Operationalization of Research Variables
Source: Processed by the Author

Variable	Proxy	Scale	Source
Financial Performance	$ROA = \frac{Net\ Income\ After\ Tax}{Total\ Assets}$	Ratio	Yusmulianto et al. [3]
Institutional Ownership	$\frac{Number\ of\ Shares\ Owned\ by\ Institutional}{Total\ Outstanding\ Share}$	Ratio	Yusmulianto et al. [3]
Managerial Ownership	$\frac{Number\ of\ Shares\ Owned\ by\ Management}{Total\ Outstanding\ Share}$	Ratio	Yusmulianto et al. [3]
Audit Committe	$\Sigma Company\ Audit\ Committee$	Nominal	Yusmulianto et al. [3]
Independent Commissioners	$\frac{Number\ of\ Independent\ Commissioners}{Total\ Board\ of\ Commissioners}$	Ratio	Yusmulianto et al. [3]
CSR	$CSRI = \frac{\sum X_{ij}}{N_j}$	Ratio	Akousa dan Fadilah [27]
Earnings Management	$TAC = NIit - CFOit$ $\frac{TA_{it}}{A_{it-1}} = \beta 1 \left(\frac{1}{A_{it-1}}\right) + \beta 2 \left(\frac{\Delta Rev_{it}}{A_{it-1}}\right) + \beta 3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + e$ $NDA_{it} = \beta 1 \left(\frac{1}{A_{it-1}}\right) + \beta 2 \left(\frac{\Delta Rev_{it}}{A_{it-1}} - \frac{\Delta Rec_{it}}{A_{it-1}}\right) + \beta 3 \left(\frac{PPE_{it}}{A_{it-1}}\right) + e$ $DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it}$	Ratio	Yusmulianto et al. [3]

2. RESULT AND DISCUSSIONS

Descriptive Statistics

Table 2. Descriptive Statistics
Source: Processed by the authors with EViews 13

	N	*Mean*	*Median*	*Max*	*Min*	*Std. Dev.*
FP	216	0.007915	0.009432	0.255039	-0.253439	0.067125
INTOWN	216	0.608653	0.663963	0.999928	0.000000	0.269544
MANOWN	216	0.067799	0.000779	0.709675	0.000000	0.157377
CA	216	2.828704	3.000000	4.000000	0.000000	0.704345
KIND	216	0.431929	0.500000	1.000000	0.000000	0.127971
CSR	216	0.306861	0.307692	0.649573	0.051282	0.205242
EM	216	0.057601	0.056025	0.560711	-0.216419	0.103916

Based on the descriptive statistics table, Financial Performance (FP) ranges from a minimum of -0.253439 to a maximum of 0.255039, with a mean value of 0.007915. This indicates that, on average, companies have a slightly positive financial performance. The standard deviation of 0.067125 reflects moderate variability across the sample.

Institutional Ownership (INTOWN) ranges from a minimum of 0 to a maximum of 0.999928, with an average of 0.608653. This indicates that, on average, 60.87% of a company's shares are owned by institutional investors. A standard deviation of 0.269544 signifies considerable variability in institutional ownership across companies.

Managerial Ownership (MANOWN) ranges from 0 to 0.709675, with a mean value of 0.067799. This shows that managerial ownership is generally low, with a standard deviation of 0.157377, indicating notable variability among firms.

Audit Committees (CA) range between 0 and 4 members, with a mean of 2.828704, reflecting that companies typically have around three audit committee members. The standard deviation of 0.704345 shows moderate consistency in audit committee size.

The Independent Commissioner Proportion (KIND) ranges from a minimum of 0 to a maximum of 1, with an average of 0.431929. This indicates that, on average, 43.19% of board members are independent directors. A standard deviation of 0.127971 signifies minimal variability.

Corporate Social Responsibility (CSR) disclosure ranges from 0.051282 to 0.649573, with a mean of 0.306861. This suggests that CSR disclosure levels are generally low to moderate. The standard deviation of 0.205242 highlights variability in CSR practices across firms.

Earnings Management (EM) measured using the modified Jones model, ranges from -0.216419 to 0.560711, with a mean of 0.057601. This indicates a small average level of earnings manipulation. The standard deviation of 0.103916 suggests considerable variation in earnings management practices.

Classical Assumption Test

The normality test indicates that the data is normally distributed after reducing the sample size from 90 to 72 companies by removing outliers. This was verified using the Jarque-Bera test, which yielded a probability value of 0.650354. Multicollinearity was evaluated by analysing the Variance Inflation Factor (VIF) for each variable, revealing all VIF values below 10, thereby confirming the absence of multicollinearity.

To test for heteroscedasticity, the Breusch-Pagan Godfrey method was applied, revealing a Prob. Chi-Square value of Obs*R-squared at 0.1562 (>0.05), indicating that the regression model is free from heteroscedasticity. The presence of autocorrelation was evaluated using the Breusch-Godfrey Serial Correlation LM Test, which produced a probability value of 0.1023, exceeding the 5% significance level ($\alpha = 0.05$). Consequently, it can be inferred that the regression model in this study is unaffected by autocorrelation.

Regression Model Estimation Test

To determine the most suitable model among CEM, FEM, and REM, the study employed the likelihood, Hausman, and LM tests. The results of these tests indicated that the Random Effects Model (REM) is the most appropriate model for this research.

Multiple Regression Model

Here is the multiple regression model used in this study:

Model 1 (without moderation):

$$Y = \alpha + \beta 1INTOWN + \beta 2MANOWN + \beta 3CA + \beta 4KIND + \beta 5CSR + \varepsilon$$

Model 2 (with moderation):

$$Y = \alpha + \beta 1INTOWN + \beta 2MANOWN + \beta 3CA + \beta 4KIND + \beta 5CSR + \beta 6EM + \beta 7(INTOWNxEM) + \beta 8(MANOWNxEM) + \beta 9(CAxEM) + \beta 10(KINDxEM) + \beta 11(CSRxEM) + \varepsilon$$

The moderating effect of specific variables on the connection between the independent and dependent variables is investigated in this work using Moderated Regression Analysis (MRA).

Hypothesis Testing Result

Table 3. Partial Test (t-Test) Model 1
Source: Processed by the authors with EViews 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.024321	0.034129	-0.712636	0.4769
INTOWN	0.005142	0.027087	0.189823	0.8496
MANOWN	0.081488	0.046773	1.742196	0.0829
CA	-0.004171	0.007632	-0.546523	0.5853
KIND	-0.024104	0.039565	-0.609221	0.5430
CSR	0.149298	0.041164	3.626940	0.0004

Table 4. Partial Test (t-Test) Model 2
Source: Processed by the authors with EViews 13

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.065669	0.031844	-2.062222	0.0405
INTOWN	0.034430	0.025238	1.364228	0.1740
MANOWN	0.100608	0.043092	2.334725	0.0205
CA	-0.002762	0.006680	-0.413489	0.6797
KIND	-0.021016	0.042988	-0.488885	0.6254
CSR	0.145495	0.036147	4.025067	0.0001
EM	0.641462	0.166658	3.848985	0.0002
INTOWNXEM	-0.157528	0.121898	-1.292288	0.1977
MANOWNXEM	-0.442187	0.231518	-1.909950	0.0575
KINDXEM	-0.000749	0.259002	-0.002891	0.9977
CAXEM	-0.007532	0.038162	-0.197358	0.8437
CSRXEM	-0.602743	0.246631	-2.443904	0.0154

Model 1 equations can be formulated as follows:

$$ROA = -0.024321 + 0.005142INTOWN + 0.081488MANOWN - 0.004171CA - 0.024104KIND + 0.149298CSR + \varepsilon$$

Model 2 equations can be formulated as follows:

$$ROA = -0.065669 + 0.034430INTOWN + 0.100608MANOWN - 0.002762CA - 0.021016KIND + 0.145495CSR + 0.641462EM - 0.157528 (INTOWNxEM) - 0.442187(MANOWNxEM) - 0.007532(CAxEM) - 0.000749(KINDxEM) - 0.602743(CSRxEM) + \varepsilon$$

The Effect of Institutional Ownership on Financial Performance

As shown on Table 3, the coefficient for institutional ownership is 0.005142, indicating a positive effect on company performance. However, the probability value of 0.8496 is greater than the 5% significance level ($\alpha = 0.05$), meaning the effect is not statistically significant, so **H1 is rejected**. The findings of this study match those of Lavanda & Meiden [16], Yuliyanti & Cahyonowati [12], Yendrawati & Kinanti [19]. Furthermore contradicting the findings of Setiyawan et al. [11] and Altania & Tanno [14], which revealed a positive and significant correlation between institutional ownership and financial performance.

The study contradicts agency theory, which claims institutional ownership can reduce agency conflicts. However, many investors neglect management oversight and focus on short-term gains, not driving sustainable improvements in a company's financial performance. Yendrawati & Kinanti [19] argue that financial performance will not improve if management fails to fulfill its responsibilities well, even with significant institutional ownership. Additionally, macroeconomic and market conditions can also significantly impact financial performance, making institutional ownership less significant.

The Effect of Managerial Ownership on Financial Performance

Table 3 shows a 0.081488 coefficient for managerial ownership, suggesting a positive effect on corporate performance. However, the probability value of 0.0829 is greater than the 5% significance level (α = 0.05), meaning the effect is not statistically significant, so **H2 is rejected.** These results match those of Setiyawan et al. [11], Yuliyanti & Cahyonowati [12], and Yendrawati & Kinanti [19]. However, they contradict the studies of Yusmulianto et al. [3] and Altania & Tanno [14], which revealed a significant and positive impact on financial performance managerial ownership had.

This result can be ascribed to multiple factors, including the low level of managerial ownership. This finding actually contradicts agency theory, which posits that Managerial ownership helps to satisfy managers' interests with those of the shareholders, thus improving financial performance and reducing agency costs. However, in this study, the managerial ownership in the companies examined is relatively low. Of the 72 companies, 31 do not have any managerial ownership, and several others have ownership levels below 20%. The low ownership stake creates an environment conducive to agency conflicts, as management may act in their own interests, which conflicts with the goals of the shareholders. This result is in line with the agency theory.

The Effect of Audit Committee on Financial Performance

Table 3 shows a positive impact on corporate performance with a coefficient for audit committee of 0.004171. However, the probability value of 0.5853 is greater than the 5% significance level (α = 0.05), meaning the effect is not statistically significant, so **H3 is rejected**. The findings of this study align with the research of Yusmulianto et al. [3], Yuliyanti & Cahyonowati [12], and Sutisna [20]. However, they contradict the study of Lavanda & Meiden [16], which revealed a significant and positive affect of the audit committee on financial performance.

The presence of audit committees does not necessarily ensure an improvement in financial performance. Factors like insufficient understanding of their roles and responsibilities, lack of adequate accounting expertise, and the company's large size can impede the committee's effectiveness. The primary duty of the audit committee is to provide internal oversight and assist the board of commissioners, resulting in a less direct and less substantial influence on financial performance. The audit committee's role is to assist the board of commissioners, rather than to manage the company's operations. The committee's size and business complexity can also pose challenges in performing its duties optimally. Therefore, understanding the responsibilities and quality of the audit committee is crucial for its effectiveness.

The Effect of Independent Commissioners on Financial Performance

As shown on Table 3, the coefficient for independent commissioner is -0.024104, indicating a negative correlation on company performance. However, the probability value of 0.5430 exceeds the 5% significance level (α = 0.05), indicating that the effect is not statistically significant, and thus **H4 is rejected**. This outcome agrees with studies of Yusmulianto et al. [3] and Sembiring & Saragih [21]. Conversely, it contradicts the findings of Setiyawan et al. [11] and Yuliyanti & Cahyonowati [12], who reported a positive and significant effect of independent commissioners on financial performance.

Sembiring & Saragih [21] and Widodo & Salam [22] argue that independent commissioners' role is merely to comply with Indonesian laws, not to improve the company's performance. They also note that independent commissioners' role is more focused on supervisory functions

as representatives of stakeholders, rather than strategic decision-making. Furthermore, other factors, such as market conditions, business competition, and economic conditions, have a greater affect on financial performance than independent commissioners.

The Effect of CSR on Financial Performance

As shown on Table 3, the coefficient for CSR is 0.149298, indicating a positive correlation on company performance. However, the probability value of 0.0004 is lower than the 5% significance level (α = 0.05), meaning the effect is not significant, so **H5 is accepted**. The findings of this study align with the research conducted by Mahrani & Soewarno [7], Sial et al. [23], Wijayanto et al. [25], and Lukiman & Wirianata [9]. This study's findings are also at odds with the studies conducted by Kusumawati et al. [24], Suryananingtyas et al. [17], and Sutisna [20], who found no significant impact of CSR on financial success.

Thi study is consistent with legitimacy theory, suggests that companies should demonstrate compliance with regulations and CSR activity policies to gain recognition from society. Freeman's stakeholder theory emphasizes the importance of providing value to all stakeholders for long-term success. Support from these stakeholders can enhance a company's image, increase sales, and improve customer loyalty and employee performance. CSR is not only a moral obligation but also a business strategy that can provide long-term financial benefits. Therefore, the more active a company in CSR activities, the better its financial performance.

The Effect of Earnings Management in Moderate the Relationship Between Institutional Ownership and Financial Performance

As shown on Table 4, the probability value of 0.1977 exceeds the 5% significance level (α = 0.05), indicating that earnings management does not significantly moderate the relationship between institutional ownership and the company's financial performance. Therefore, **H6 is rejected**. This outcome aligns with the research conducted by Yusmulianto et al. [3] and Setiyawan et al. [11].

Institutional investors focus on a company's long-term prospects, not just its annual financial performance results. This perspective enables them to assess a company's performance in a more holistic manner, rather than depending solely on financial statements. This approach is not directly influenced by short-term profit fluctuations or financial results. Institutional ownership's impact on financial performance is unaffected by earnings management strategies. Institutional owners can also consider factors like economic conditions, market conditions, business competition, and government policies.

The Effect of Earnings Management in Moderate the Relationship Between Managerial Owneship and Financial Performance

As shown on Table 4, the probability value of 0.0575 is greater than the 5% significance level (α = 0.05), meaning that earnings management does not significantly moderate the relationship between managerial ownership and the company's financial performance. so **H7 is rejected**. These results of this study align with the investigations conducted by Yusmulianto et al. [3] and Setiyawan et al. [11].

The study reveals that managerial ownership, whether it involves earnings management moderation, does not significantly impact financial performance. Managerial ownership aligns the interests of principals and agents, reducing agency costs and encouraging sustainable performance improvement. However, short-term earnings management practices are not aligned with this goal. Managerial ownership increases transparency and accountability, but it

also narrows the space for earnings management due to strict supervision. This eliminates the opportunity for management to engage in opportunistic actions that could harm the company. Furthermore, executives who own shares typically avoids earnings management methods, as such actions can undermine market confidence and adversely affect the company's reputation over time. Therefore, it is likely that management avoids earnings management practices due to potential losses.

The Effect of Earnings Management in Moderate the Relationship Between Audit Committee and Financial Performance

As shown on Table 4, the probability value of 0.8437 is greater than the 5% significance level (α = 0.05), meaning that that earnings management does not significantly modify the association between the audit committee and the company's financial performance, so **H8 is rejected**. This study's findings align with the studies conducted by Yusmulianto et al. [3] but contradict the findings of Setiyawan et al. [11].

The audit committee's strict oversight of accounting practices and financial reporting limits the influence of earnings management on the relationship with financial performance.This restricts the space for earnings management practices, ensuring the quality of profit information shared with the public and stakeholders. The research determined that the primary function of the audit committee is internal oversight and support for the board of commissioners, making its influence on financial performance less direct and less significant. Regardless of the moderating effect of earnings management, the audit committee's main focus remains on ensuring the credibility of financial information shared to public and stakeholders.

The Effect of Earnings Management in Moderate the Relationship Between Independent Commissioners and Financial Performance

Table 4 indicates that the probability value of 0.8437 exceeds the 5% significance level (α = 0.05), signifying that earnings management does not significantly affect the association between the audit committee and the company's financial performance, so **H9 is rejected**. The findings of this study align with the studies conducted by Yusmulianto et al. [3].

Earnings management practices have a less impact on the relationship between independent commissioners and financial performance, as independent commissioners play a key role in corporate governance by overseeing transparency and accountability. The presence of an audit committee further supports the board of commissioners in ensuring effective oversight, thus preventing opportunistic behaviors like earnings management. Agency theory posits that independent commissioners prioritize shareholder interests and are accountable for the veracity of information presented by the board of directors. Their effectiveness is not significantly influenced by earnings management, as their primary role is to monitor and ensure the integrity of the company's financial reporting. The research indicated that independent commissioners exert a negligible influence on a company's financial performance, as their emphasis lies predominantly on oversight functions that represent stakeholders rather than direct involvement in advanced decision-making.

The Effect of Earnings Management in Moderate the Relationship Between CSR and Financial Performance

Table 4 indicates that the probability value of 0.0154 is below the 5% significance threshold (α = 0.05), signifying that earnings management considerably moderates the association between CSR and the company's financial performance, so **H10 is accepted**. The results of this

study correspond with the research of Sial et al. [23] and Wijayanto et al. [25]. However, they contradict the research of Ang et al. [26] and Kusumawati [24].

CSR activities can help organizations manage resources efficiently, positively impacting financial performance. However, excessive CSR disclosure can weaken this relationship, as companies tend to overinvest in CSR activities, increasing expenditures and reducing performance [25]. Additionally, excessive CSR disclosure can create skepticism among stakeholders, especially if it doesn't reflect the business's sustainability [23]. Managers can use CSR to create transparency and divert attention from unethical accounting practices, such as earnings management, to reduce scrutiny and protect managerial interests. However, insincere disclosures can damage stakeholder trust and hinder the company's overall performance.

4. CONCLUSION AND SUGGESTIONS

Based on the results of this research, the following conclusions can be drawn: a) Institutional ownership has no significant effect on financial performance, b) Managerial ownership has no significant effect on financial performance, c) Audit committee has no significant effect on financial performance, d) Independent Commissioners has no significant effect on financial performance, e) CSR has a positive and significant effect on financial performance, f) Earnings management does not significantly moderate the relationship between institutional ownership and financial performance, g) Earnings management does not significantly moderate the relationship between managerial ownership and financial performance, h) Earnings management does not significantly moderate the relationship between audit committee and financial performance, i) Earnings management does not significantly moderate the relationship independent commissioners and financial performance, and j) Earnings management significantly weaken the influence of CSR on financial performance.

The following are several limitations in this study: a) The study only included companies from the consumer cyclicals sector listed on the Indonesia Stock Exchange (IDX), limiting its ability to represent the overall corporate landscape, b) The research period was limited to three years (2021, 2022, and 2023), which coincided with the Covid-19 pandemic, a time when most companies experienced performance declines due to economic instability both in Indonesia and globally, c) The regression model used in this study has a limited capacity to explain changes in the dependent variable, company financial performance, due to the inability of the independent variables to account for much of the variance. This is evident from the low adjusted R^2 value of 37.39%, suggesting that other factors outside the variables included in the model may be influencing the results, d) The topic and variables used in this study have not been widely explored in previous research, which led to a scarcity of relevant literature. This limitation potentially affected the depth of analysis and discussion within the study and hindered the ability to compare results with similar studies.

Based on the limitations outlined earlier, the following suggestions are proposed for future studies: a) Encouraged to broaden the scope of sectors and sub-sectors in the research subject, so that the results are not limited to the consumer cyclicals sector but can also represent a more comprehensive view of the corporate landscape, b) Future studies should broaden the research period to achieve a broader understanding of the business's development across time, rather than limiting the analysis to just three periods, c) Future research should explore other variables, such as capital structure, leverage, and company size, to better understand financial performance. Additionally, earnings management could be tested as a mediating or independent variable in future studies.

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