

ANALYSIS OF CORPORATE SOCIAL RESPONSIBILITY, DEFAULT RISK AND CONSERVATISM EFFECT TO EARNING MANAGEMENT WITH GOOD CORPORATE GOVERNANCE AS MODERATING VARIABLE IN MANUFACTURING COMPANY WHOSE SHARES INCORPORATED IN INDONESIA SHARIA STOCK INDEX

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Abstract

The purpose of this research is to examine and analyze Good Corporate Governance in moderating the relationship between Corporate Social Responsibility (as measured by economic, environmental and social), Default Risk (as measured by debt to equity ratio and debt to assets ratio) and Conservatism (as measured by earning / stock return relation, accruals and net assets) Earnings Management. The sample used is a manufacturing company during the period 2011-2015. The total sample used is 170 samples. Sampling technique used is saturated sample method. The analytical model used in this research with Structural Equation Modeling.

The results showed that Corporate Social Responsibility, as measured by the economy and environment, has a positive and significant effect on earning management, while Corporate Social Responsibility measured by social have negative and significant effect to earning management. Default risk, as measured by debt to equity ratio and debt to asset ratio, has positive and significant effect on Earnings Management. Also, conservatism measured by earning / stock return relation and accrual has adverse and insignificant effect on earning management.

Good Corporate Governance moderates weakening the effect of Corporate Social Responsibility as measured by economic, environmental to Earnings Management. Meanwhile, the interaction of Corporate Social Responsibility proxy by social with good corporate governance has a positive and significant effect. Good Corporate Governance moderates weakening the effect of default risk measured by debt to equity ratio on Earnings Management, while the interaction between default risk measured by debt to asset ratio with good corporate governance has positive and insignificant effect, so GCG does not moderate the effect of default risk as measured by debt to asset ratio to Earnings Management. Another result was that good Corporate governance does not moderate Conservatism effect measured by Earning Stock Return and accrual to Earnings Management on manufacturing companies registered in ISSI on the Indonesia Stock Exchange

Keywords: Corporate Social Responsibility, Default Risk, Conservatism, Earning Management, Moderation, Good Corporate Governance.

JEL Code; G30, O16, M14.

1. INTRODUCTION

The financial statements are the primary communication media of the management in conveying information to external parties of the company - i.e. investors, creditors, government and others. The purpose of the financial statements is to provide the information on the company's financial position, performance and beneficial cash flows to most users of the report in order to make economic decisions as well as demonstrate management accountability for the use of resources entrusted to the management (PSAK No.1).

The companies and interested parties desperately need information reported by the company. The information strongly supports whether the company develops or not is the financial statements. In the financial statements, it will be seen how the company experienced growth or even decreased. One of the most important criteria in submitting a financial report is relevant and reliable. Accounting information is said to be relevant if it can influence the decision by reinforcing or altering the expectations of the decision maker and the information and is said to be reliable if it can be trusted and cause the user depend on the information.

Many problems arise from the non-transparency of the company financial statement information, such as the agency problem that so attracted the attention of researchers in the field of financial accounting (Fuad, 2005; Muda and Dharsuky, 2015; Lubis *et al.*, 2016; Nurzaimah *et al.*, 2016; Sadalia *et al.*, 2017; Syahyunan *et al.*, 2017 & Erlina *et al.*, 2017). The agency problem arises because of a conflict of interest between the shareholder and the manager who do not find the common point of maximal utility among them. The agency relationship as a contract between manager as agent and owner as principal company (Jensen and Meckling, 1976). Principal gives authority to agent to run the company in the interest of principal. Meanwhile, managers as agents morally responsible to optimize the benefits of the owners. But, managers also have an interest to maximize their welfare. Therefore, the information submitted by them sometimes does not match to the actual company conditions, because managers tend to report something that maximizes their utility. Such a situation is known as asymmetry information that can give the managers an opportunity to practice earning management (Richardson, 1998).

Information asymmetry opens opportunities for managers to act opportunistically for their gain (Ujiyanto, 2007). Asymmetry information can be minimized by means of transparency in the delivery of financial statements to the principal. The financial statements will be used by various parties, including internal management of the company itself. In fact, the most concerned party with the financial statements is the external users or parties outside management. The financial statements are essential to external users, because these users are in the greatest highest state of uncertainty (Ali, 2004). Internal users have direct contact with their company entities and are aware of any significant events that occur, so their dependency on accounting information is not as great as external users.

Parawijati and Baridwan (1998) mentioned that the earning that has been mentioned in the Statement of Accounting Concepts (SFAC) no. 1 that in addition to assess the management performance also to help to estimate the ability of a representative earning and to measure the risk in investment or credit. The investor's attention is often centered on the earnings information regardless the procedures used to generate the earnings information, thus encouraging managers to perform earnings management or earnings manipulation (Beattie *et al.* 1994).

Fan and Wong, (2002) stated that earnings quality in Indonesia is lower than other Asian countries and developed countries (Landsman, *et al.*, 2012). Indonesia is

categorized as one of the countries that low law enforcement and companies in Indonesia tend to have high concentrations of ownership (Claessens, Djankov and Lang, 2002). The low information content of earning at companies in Indonesia raises the need for information aside from financial statements that is information outside the financial statements. In the research information about corporate social responsibility is used. It is also driven by the number of environmental cases; the existence of regulations that require limited liability companies to carry out the corporate social responsibility activities, the issuance of ISO 26000 which makes corporate social responsibility as one of the important things that is considered by all parties and has been widely applied as part of the company's activities.

Based on this background, this research will discuss the influence of Corporate Social Responsibility, Default Risk and Conservatism to Earning Management with Good Corporate Governance as Moderating Variables in Manufacturing Companies whose Shares are incorporated in ISSI for the period of 2011-2015.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency theory is basically a model used to formulate a conflict between the shareholder as the principal owner and the manager as the party appointed or authorized by the shareholders (agent) to run the company in accordance with its interests. According to Lambert (2001), the principal-agent model can be described as in Figure 1 below.

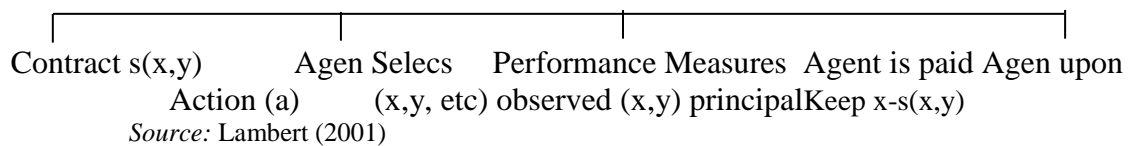


Figure 1. Principal-Agent Model

Figure 1 above shows that s is a compensation function that will serve as the basis and form of a function that connects performance measurement with agent compensation. While y is a performance measurement vector by contract, and a is an action performed by the agent (manager). Such action or activity shall be conducted under the contract that has been made and selected. The actions taken are in the form of policies, which include funding policies, investment policies, and operational policies. As a further notation, x is an outcome of the implementation of those policies which are used as performance measurement and agent compensation. As the form of manager's responsibility that have been authorized by the owner (principal), then the manager will inform the performance that has been achieved through the financial statements. In this context, the manager (agent) has superior information compared to the principal (Lutfi *et al.*, 2107; Muda, 2017 & Lubis *et al.*, 2017). When a principal cannot monitor the managerial activity perfectly, the manager has the potential and opportunity to determine a policy that benefits him, and this is where conflict with the owner arises because the owner does not like the action.

2.2. Legitimacy Theory

Legitimacy is a condition in which the value system is an entity equal to the value system of society social system in which an entity becomes part of society (Lang and

Lundholm, 1993). The birth of legitimacy theory is based on social contract between society and company in using economic source. The realization of legitimacy in the business world can be the report of social activities in the form of company social responsibility. One of the company's expectations in the implementation of company social responsibility is to gain social legitimacy and maximize its financial strength in the long term.

The organization legitimacy can be seen as something that society gives to the company and is something the company desires from society. So, legitimacy is a potential benefit or source for the company to survive. If there is a difference in the value held by the company with the prevailing value in the society, then the legitimacy of the company is in a threatened position. In the perspective of legitimacy theory, the company and the surrounding community have close social relations because they are bound in social contract.

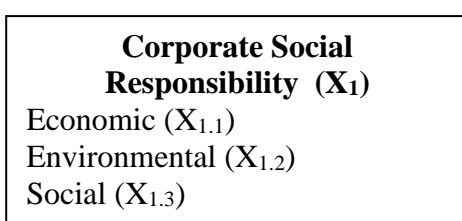
2.3. Earning Management

Earnings management is interference in the external financial reporting process with the aim to benefit oneself so as to reduce the credibility of financial statements and earnings management adds bias in the financial statements. It can disrupt the users of financial statements in trusting the profit rate of engineering result as the number of profit rate without engineering (Setiawati and Na'im, 2000). There are various motivations that encourage the earnings management. Positive accounting theory proposes three earnings management motivation hypotheses: 1) bonus plan hypothesis, 2) debt covenant hypothesis and 3) the political cost hypothesis (Watts and Zimmerman, 1986).

2.4. Conservatism

Penman and Zhang (2002) in his research stated that conservatism actually causes the quality of earnings to be low. This is because conservative accounting will directly charge the discretionary cost in the current period which causes lower earnings and create hidden reserve. If in the next year the company lowers its investment costs, the liquidation of hidden reserves will happen and earning will be higher. Ahmed *et al.*, (2002) proves that conservatism can play a role in reducing conflicts between management and shareholders due to the company's dividend policy. To avoid conflict, the management tends to use more conservative accounting. Furthermore, Achmad, Sari *et.al.*, (2007) in his research stated that conservatism plays a role in companies facing a conflict between shareholders and bondholders. Mayang Sari and Wilopo (2002) prove that conservatism has value relevance, so that the financial statements of companies that apply the principle of conservatism can reflect the market value of the company.

2.5. Research Model



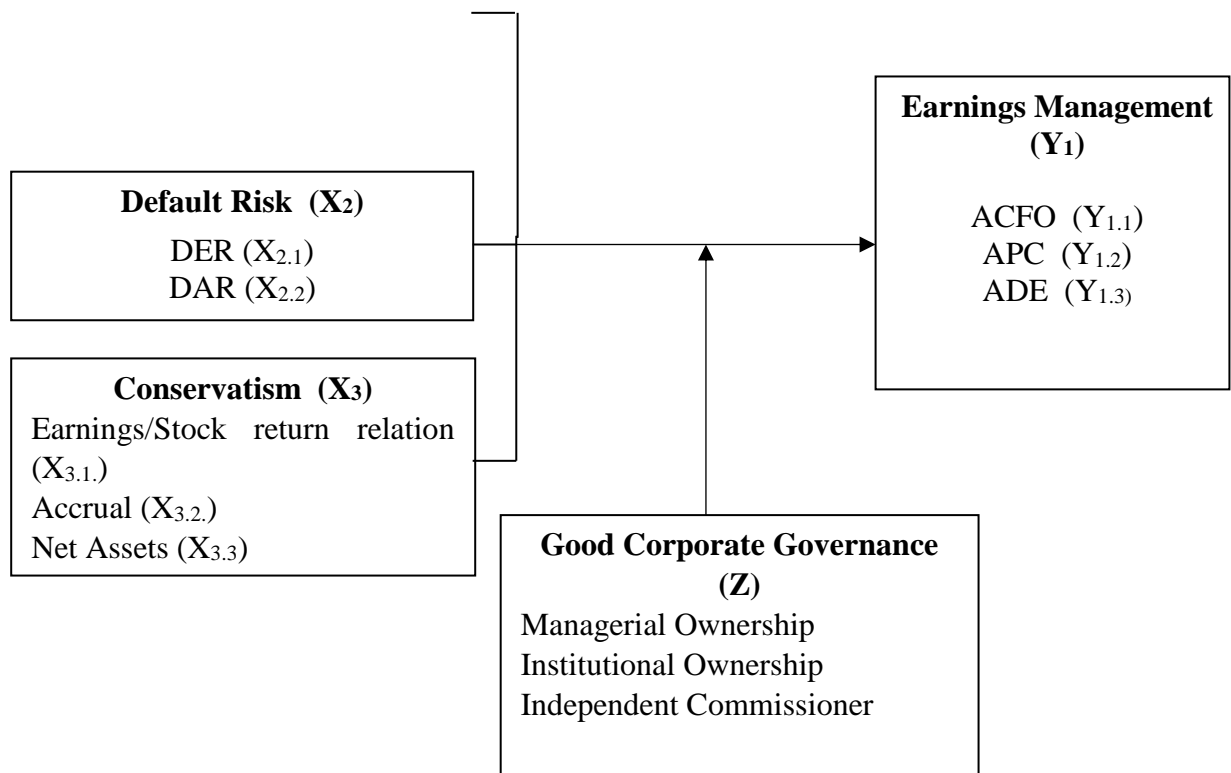


Figure 1. Conceptual Framework

3. RESEARCH METHOD

3.1. Research Type

The type of this research is a quantitative one, based on the characteristics of the problems studied. It can be classified into comparative causal research. However, to complete the analysis of qualitative data, it will be displayed and reinforced also with data that is quantitative, with the understanding that this study using qualitative paradigms equipped and reinforced with quantitative data (Gusnardi *et al.*, 2017; Achmad *et al.*, 2017; Badaruddin *et al.*, 2017; Tarmizi *et al.*, 2017 and Muda *et al.*, 2018).

3.2. Data Type and Source

The type of data used in this research is secondary data and has been published by the Indonesia Stock Exchange through ICMD from 2011-2015. As for the necessary data are financial statements in accordance with research variables, namely Corporate Social Responsibility, Default Risk, Conservatism, Earning Management, good corporate governance.

3.3. Population and Sample

Cooper and Emory (1999) and Badaruddin *et al.*, (2017) states that the population is a collection of individuals or research objects that have the quality and characteristics that have been set. Based on the qualities and characteristics that at least have one

characteristic equation, the population used in this study is all manufacturing companies that go publicly that has sharia-compliant in ISSI registered on Indonesia Stock Exchange from 2011 to 2015 which has complete financial statements and published in Indonesia Capital Market Directory (ICMD).

3.4. Operational Definition and Variable Measurement

Table 1. Measurement of Research Variables

Variable	Definition	Parameter	Scale
Independent Variable (X)			
<i>Corporate Social Responsibility (X₁)</i>	CSR in this research is in terms of environment, social and governance.		
Economic (X _{1.1})	Company CSR activities related to the environment	$CSR_E = \frac{\sum X_{ij}}{n_j}$	Ratio
Environmental (X _{1.2})	CSR activities covering social elements	$CSR_L = \frac{\sum X_{ij}}{n_j}$	Ratio
Social (X _{1.3})	Company CSR activities related to governance.	$CSR_S = \frac{\sum X_{ij}}{n_j}$	Ratio
<i>Default Risk (X₂)</i>	Default risk is the risk faced by investors or bondholders because the bonds fail to be paid. (Cashmere 2010; Sofyan Syafri Harahap, 2010; Lukman, 2009)		
<i>Debt to Equity Ratio (X_{2.1})</i>	Debt to Equity is the ratio used to assess debt and equity.	DER = Total amount of debt / Total equity	Ratio
<i>Debt to Assets Ratio (X_{2.2})</i>	Debt to Asset Ratio is a ratio to measure the ratio of total debt to total assets	DAR = Total amount of debt/ Total Assets	Ratio
<i>Accounting Conservatism (X₃)</i>	Conservatism is measured by earnings/stock return relation measure, earning/accrual measures, net asset measures		
<i>Earning/Stock return relation (X_{3.1})</i>	Changes in the value of an asset at the time of the change, whether changes in loss or earning are reported in due course.	$\Delta NI = \alpha_0 + \alpha_1 \Delta NI_{t-1} + \alpha_2 \Delta NI_{t-1} + \alpha_3 \Delta NI_{t-1} \times \Delta NI_{t-1} + \epsilon_t$	Ratio
<i>Accrual (X_{3.2})</i>	Measure the conservatism by subtracting income before extraordinary items with operating cash flow and added to depreciation expense	$CONACC_{it} = NI_{it} - CFO_{it}$	Ratio
<i>Net Assets (X_{3.3})</i>	The level of conservatism in the financial statements is the value of the asset whose understatement and liability are an overstatement.	Book to market ratio, companies that implement conservatism report net assets and book to market ratio is lower	Ratio
Dependent Variable			

<i>Earning Management</i>	Earning management is the actions of managers to increase/reduce current reported earnings where managers are responsible without increasing / decreasing in long-term economic profitability		Ratio
<i>Abnormal cash flow operations</i>	Earning manipulation through a cash flow operation that will have a lower cash flow than its normal level	$CFO_t/A_{t-1} = \alpha_0 + \alpha_1(1/\log A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \varepsilon_t$	Ratio
<i>Abnormal production cost</i>	Earnings management through the manipulation of production costs, where the company has higher production costs than average.	$Prod_t/A_{t-1} = \alpha_0 + \alpha_1(1/\log A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \beta_3(\Delta S_{t-1}/A_{t-1}) + \varepsilon_t$	Ratio
<i>Abnormal discretionary expenses</i>	Earning manipulation through research and development costs, advertising costs, sales costs, administration and general	$Disc_t/A_{t-1} = \alpha_0 + \alpha_1(1/\log A_{t-1}) + \beta(S_{t-1}/A_{t-1}) + \varepsilon_t$	Ratio
Moderation Variable			
<i>Good Corporate Governance</i>	The mechanism used by management that the owner of a company's capital makes an earning from the activities undertaken by the manager, or the owner of the capital conduct control over the manager of the company		
Managerial Ownership	Total percentage of shares owned by the company management	$\frac{\text{management share}}{\text{total outstanding share}} \times 100\%$	Ratio
Kepemilikan Institutional	Percentage of shares owned by the institution	$\frac{\text{institutional share}}{\text{total outstanding share}} \times 100\%$	Ratio
Independent Commissioner	Percentage of the commissioners board from outside the company	$\frac{\text{independent commissioner}}{\text{total of commissioner board}} \times 100\%$	Ratio

3.5. Data Analysis Technique

Analytical technique in this research is conducted with Structural Equation Model (SEM). The model used is path analysis whose purpose is to describe the relationship pattern among variables to know the influence of direct or indirect a set of free variable to the dependent variable (Riduan and Kuncoro, 2007; Yahya *et al.*, 2017; Marhayanie *et al.*, 2017 & Muda, 2018). Furthermore, data processing technique by using SEM method based on Partial Least Square (PLS) with SmartPLS.

4. RESULT AND DISCUSSION

4.1. Result

4.1.1. Variable Measurement Model of Corporate Social Responsibility

Corporate Social Responsibility variable consists of 3 indicators and the weight of each indicator in reflecting variable is as follows:

Table 1. Weight of Indicator Factor of CSR Variable

Indicator	Loading Factor	R ²	T Statistics
Economic	0.756	0,738	2,255
Environmental	0.839	0,468	2,303
Social	0.734	0,365	1,978

Composite reliability(CR)= 0,821

Average Variance Extracted(AVE) = 0,605

Source: Output Result of SmartPLS (2017).

The value of Composite Reliability (CR) for Corporate Social Responsibility variable is 0.821. It shows that the level of indicators conformity in reflecting Corporate Social Responsibility variable is greater than the recommended that is 0.70. While the Average Variance Extracted (AVE) value of 0.605. This value indicates that on average, 60.5% of the information contained in the three indicators can be reflected through the variables of Corporate Social Responsibility.

4.1.2. Measurement Model of Default Risk Variables

Table 2. Weight of Indicator Factor of Default Risk Variable

Indicator	Loading Factor	R ²	T Statistics
Debt to equity ratio	0.985	0,646	3,540
Debt to assets ratio	0,972	0,514	2,075

Composite reliability(CR)= 0,978

Average Variance Extracted(AVE) = 0.957

Source: Output Result of SmartPLS (2017).

The value of Composite Reliability (CR) for Default Risk variable is 0.978. This indicates that the level of conformance indicator in reflecting Default Risk variable higher than the recommended that is 0.70 (Erlina *et al.*, 2017; Lubis *at al.*, 2017; Marhayanie *et al.*, 2017; Muda & Hasibuan, 2018 and Muda, 2018). While the Average Variance Extracted (AVE) value was 0.957, this value indicates that on average 95.7% of the information contained in both indicators can be reflected through the Default Risk variable.

4.1.3. Measurement Model of Conservatism Variable

Table 3. Weight of Indicator Factor of Conservatism Variable

Indicator	Loading Factor	R ²	T Statistics
Earnings Stock Return Relation	1,000	0,505	127,964
Accrual	1,000	0,596	132,091

Composite reliability(CR)= 1,000

Average Variance Extracted(AVE) = 0,999

Source: Output Result of SmartPLS (2017).

The value of Composite Reliability (CR) for Conservatism variable is 1,000; this indicates that the level of conformity of indicator in reflecting conservatism variable is greater than the recommended is 0.70. While the Average Variance Extracted (AVE) value of 0.999. This value indicates that on average 99.9% of the information contained in both indicators can be reflected through Conservatism variables.

4.1.4. Measurement Model of Earning Management Variable

Table 4. Weight of Indicator Factor of Earning Management Variable

Indicator	Loading Factor	R ²	T Statistics
<i>Abnormal Cash Flow Operation</i>	0,954	0,510	11,404
<i>Abnormal Production Cost</i>	0,957	0,537	11,350
<i>Composite reliability (CR)= 0,954</i>			
<i>Average Variance Extracted(AVE) = 0,912</i>			

Source: Output Result of SmartPLS (2017).

Based on table 4 above, it can be seen that all the value of factor weight for each indicator is higher than 0.5. It is tested by looking at the value of t_{count} compared to the critical value of 1.96, where the value of t_{count} is more significant than the critical value (Muda, 2017; Ferine *et al.*, 2017; Nasir *et al.*, 2017; Azlina *et al.*, 2017; Pohan *et al.*, 2018; Muda, 2018 and Nurlina and Muda, 2018). These data indicate that both indicators are significant in reflecting the Earning Management variables.

4.1.5. Measurement Model of Good Corporate Governance Variable

Table 5. Weight of Indicator Factor of Good Corporate Governance Variable

Indicator	Loading Factor	R ²	T Statistics
Ownership of Managers	0,836	0,338	2,926
Institutional Ownership	0,805	0,502	2,198
Independent Commissioner	0,552	0,687	3,513
<i>Composite reliability(CR)= 0,781</i>			
<i>Average Variance Extracted(AVE) = 0.551</i>			

Source: Output Result of SmartPLS (2017).

Based on table 5 above, it can be seen that all values of factor weight for each indicator is greater than 0.5. It is tested by looking at the value of t_{count} compared to the critical value of 1.96, where the value of t_{count} is higher than the critical value (Nurzaimah *et al.*, 2016; Handoko *et al.*, 2017; Muda, 2017; Muda and Hutapea, 2018; Muda *et al.*, 2018). This data indicates that all three indicators are significant in reflecting Good Corporate Governance variables.

4.1.6. Hypothesis Test

Here are the results of data processing with SmartPLS model PLS Algorithm and t-value model (Bootstrapping):

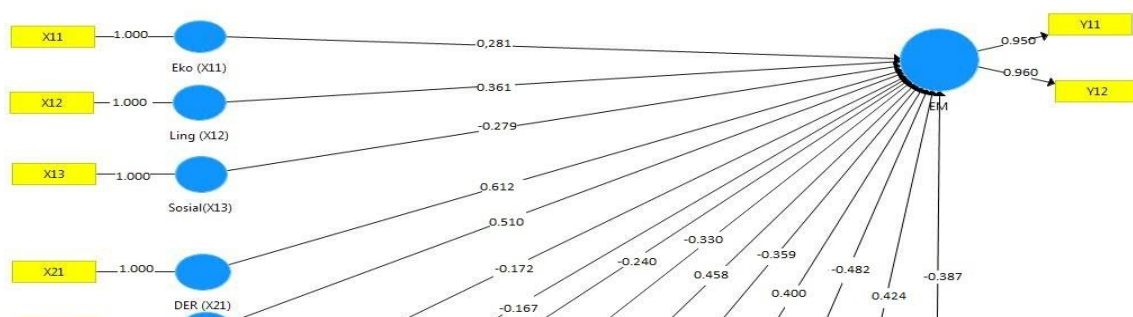


Figure 2. Line Chart of SmartPLS Algorithm Run Results

Source: Output Result of SmartPLS (2017)

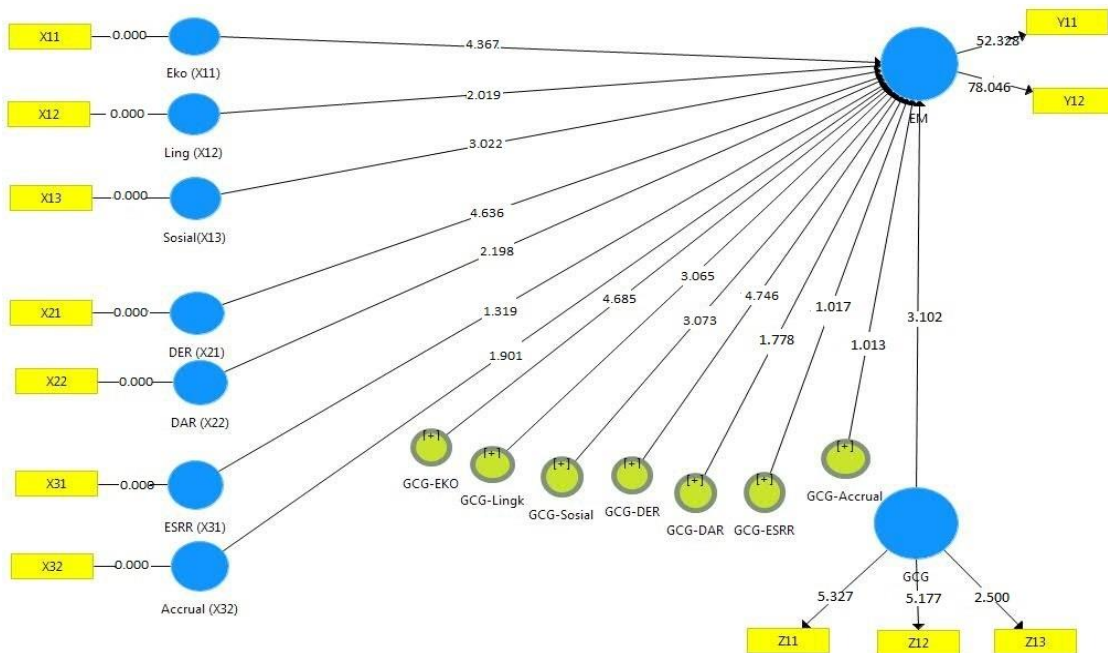


Figure 3. Path Diagram Model

Source: Output Result of SmartPLS (2017)

4.1.6. Influence of Corporate Social Responsibility as measured by economic, environmental and social to Earnings Management

Based on the results of data processing using SmartPLS program, the results are as follows:

Table 6. Test Result of Corporate Social Responsibility Influence as measured by economic, environmental and social to Earning Management

Channel	Coefficient	t _{count}	p-value	H ₁
Eko (X11) -> EM (Y1)	0.281	4.367	0.010	Accepted
Lingk (X12) -> EM (Y1)	0.361	2.019	0.025	Accepted

Sosial (X13) -> EM (Y1)	-0.279	3.022	0.028	Accepted
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Source: Output Result of SmartPLS (2017).

In table 6 above can be seen that the t_{count} of Corporate Social Responsibility lane that measured with the economic effect on Earning Managements by 4.367 with a probability value of 0.010. The value of t_{count} (4.367) is greater than that $t_{critical}$ (1,96) at 5% error rate, coefficient value of 0.281 and positive sign, so it can be concluded that Corporate Social Responsibility measured by economy has a positive effect on Earning Management. It means that the higher the Corporate Social Responsibility as measured by the economy will improve Earning Management.

4.1.7. The effect of Default Risk as measured by debt to equity ratio and debt to asset ratio to Earnings Management.

Table 7. Test Results of Default Risk Effect as measured by Debt to Equity Ratio and Debt to Asset Ratio to Element Management

Channel	Coefficient	t_{count}	p -value	H_1
DER (X21) -> EM (Y1)	0.612	4.636	0.010	Accepted
DAR (X22) -> EM (Y1)	0.510	2.198	0.023	Accepted

Source: Output Result of SmartPLS (2017).

In Table 7 above, it can be seen that t_{count} of Default Risk value lane that measured by DER effect on Earning Management of 4,636 with probability value of 0,010. Because the value of t_{count} (4.636) is bigger than $t_{critical}$ (1,96) at 5% error level with coefficient of 0.612 and has positive sign, so it can be concluded that Default Risk as measured by DER has positive and significant influence to Earning Management. It means that the higher the Default Risk as measured by DER will increase Earning Management.

4.1.8. Conservatism Influence as measured by earning /stock return relation and accrual to Earnings Management.

Table 8. Test Results of Conservatism Influence as measured by ESRR and Accrual on Earning Management

Lane	Coefficient	t_{count}	p -value	H_0
ESRR (X31) -> EM (Y1)	-0.172	1.319	0.191	Accepted
Accrual (X32) -> EM (Y1)	-0.167	1.901	0.205	Accepted

Source: Output Result of SmartPLS (2017).

In Table 8 above can be seen the value of t_{count} of Conservatism lane measured by ESRR has an effect on Earning Management of 1,319 with a probability value of 0,191. Because the value of t_{count} (1,319) is smaller than that of $t_{critical}$ (1,96) at 5% error level with coefficient of -0.172 and has negative sign. It can be concluded that Conservatism measured with ESRR has a negative effect with Earning Management. It means that the higher the conservatism measured by the ESRR will decrease Earning Management.

4.1.9. Test of Moderating Variable

The tests on moderating variables in this research are Good Corporate Governance has a role to moderate the relationship of Corporate Social Responsibility (as measured by economic, environmental and social), Default Risk (as measured by DER and DAR),

Conservatism (as measured by Earning Stock Return Relation and Accrual) to Earning Management:

4.1.10. Good Corporate Governance acts to moderate the Corporate Social Responsibility relationship measured by Economic, Environmental and Social to Earnings Management

Table 9. Test Result of Good Corporate Governance in moderating the Corporate Social Responsibility relationship measured by Economic, Environmental and Social to Earnings Management

Lane	Coefficient	t _{count}	p-value	H ₁
GCG & Eko -> EM (Y1)	-0.240	4.685	0.025	Accepted
GCG & Lingk -> EM (Y1)	-0.330	3.065	0.015	Accepted
GCG & Sosial -> EM (Y1)	0.458	3.073	0.024	Accepted

Source: Output Result of SmartPLS (2017)

In Table 9 above, it can be seen that the t_{count} value of Good Corporate Governance lane moderate the Corporate Social Responsibility relationship measured with the economy to Earnings Managements of 4,685 with a probability value of 0.025. Because the value of t_{count} (4,685) is greater than the t_{critical} (1,96) at 5% error rate, so it can be decided to accept H_{1.1} that is Good Corporate Governance moderate the Corporate Social Responsibility relationship measured with economy to Earnings Management in manufacturing company registered in ISSI at Indonesia Stock Exchange.

4.1.11. Good Corporate Governance play a role in moderating the relationship of Default Risk as measured by Debt to Equity Ratio and Debt to Asset Ratio to Earnings Management

Table 10. Test Result of Good Corporate Governance in moderating the Default Risk relationship as measured by DER and DAR towards Earnings Management

Channel	Coefficient	t _{count}	p-value	H ₀	H ₁
GCG & DER -> EM (Y1)	-0.359	4.746	0.045		Accepted
GCG & DAR -> EM (Y1)	0.400	1.778	0.437	Accepted	

Source: Output Result of SmartPLS (2017).

t_{count} value of the Good Corporate Governance lane moderates the Default Risk relationship measured by DAR towards Earnings Management of 1.778 with a probability value of 0.437. Because the value of t_{count} (1.778) is smaller than that of t_{critical} (1.96) at 5% error rate, so it can be decided to reject H_{2.2} i.e (Dalimunthe *et al.*, 2016 and Hasan *et al.*, 2017). Good Corporate Governance cannot moderate the relationship of Default Risk measured by DAR to Earnings Management in manufacturing company registered in ISSI at Indonesia Stock Exchange.

4.1.12. Good Corporate Governance play a role in moderating Conservatism relationship as measured by Earning Stock Return Relation and Accrual to Earnings Management

Table 11. Test Result of Good Corporate Governance in moderating Conservatism relationship to Earnings Management

Channel	Coefficient	t _{count}	p-value	H ₀
GCG & ESRR -> EM (Y1)	-0.482	1.017	0.989	Accepted
GCG & Accrual->EM (Y1)	0.424	1.013	0.489	Accepted

Source: Output Result of SmartPLS (2017)

In Table 11 above, it can be seen that t_{count} value of Good Corporate Governance lane moderate the Conservatism relationship measured with ESRR to Earnings Management of 1.017 with probability value of 0.989. Because the value of t_{count} (1.017) is smaller than that of t_{critical} (1.96) at 5% error rate, it can be decided to reject $H_{3.1}$ i.e. (Tarmizi *et al.*, 2016; Muda *et al.*, 2016; Lubis *et al.*, 2016; Dalimunthe *et al.*, 2017; Sirojuzilam *et al.*, 2017 & Azlina *et al.*, 2017). Good Corporate Governance does not moderate conservatism relationship as measured by ESRR to Earnings Management at registered manufacturing company in ISSI at the Indonesia Stock Exchange. The value of t_{count} of Good Corporate Governance lane moderates the Conservatism relationship measured by accrual to Earnings Management of 1,013 with probability value of 0.489. Because the value of t_{count} (1.013) is smaller than that t_{critical} (1.96) at a 5% error rate, it can be decided to reject $H_{3.2}$ i.e. Good Corporate Governance does not moderate conservatism relationship as measured by Accrual to Earnings Management at a manufacturing company registered in ISSI at Indonesia Stock Exchange.

4.2. Discussion

4.2.1. Good Corporate Governance play a role in moderating the Corporate Social Responsibility relationship measured by Economic, Environmental and Social to Earnings Management

Based on the results of the research, it was found that Good corporate governance played a role in moderating the relationship between Corporate Social Responsibility as measured with economy to Earnings Management, Good corporate governance played a role in moderating the Corporate Social Responsibility relationship as measured by the environment to Earnings Management and Good Corporate Governance played a role in moderating the relationships of Corporate Social Responsibility as measured by social to Earnings Management.

According to Pradnyani *et al.*, (2013) the companies in Indonesia have not fully realized the implementation of Good Corporate Governance as a liability in the company. The guidelines for the implementation of Good Corporate Governance are only limited to the recommendations that have not been set into binding legislation causing many companies have not run the principles of Good Corporate Governance perfectly.

Good Corporate Governance closely related to Corporate Social Responsibility in accordance with the statement of Princes of Wales Foundation which state that there are five important things that affect Corporate Social Responsibility; one of them is Good Corporate Governance. This statement indicates that a company with good corporate governance has been assured that the company has implemented Corporate Social Responsibility and disclosed it in its annual report, and vice versa. This is in line with the research results of Prior *et al.*, (2008) which shows that companies that disclose Corporate Social Responsibility with the motivation to cover earnings management. Therefore, it can be concluded that the better the implementation of Good Corporate Governance in the company will result in the lower relationship of Corporate Social Responsibility with Earnings Management.

4.2.2. Good Corporate Governance play a role in moderating the relationship of Default Risk as measured by Debt to Equity Ratio and Debt to Asset Ratio to Earnings Management

Hakim *et al.*, (2005) stated that the high level of corporate debt then the more managers will make earnings management to avoid breach of debt contract. The company will try to avoid it by creating policies that can increase revenue and profit. Thus, it will provide a relatively good bargaining position in the negotiation or rescheduling the corporate debt (Jiambalvo, 1996). The amount of corporate debt can affect earnings management action. The high default risk is due to management mistake in managing corporate finances or the implementation of inappropriate strategies from the management. Due to the lack of supervision leading to high risk defaults, it will also increase the opportunistic action such as earnings management to maintain its performance in front of shareholders and the public. Then the higher the default risk, it will be able to result in the management to conduct earning management. This indicates that the higher the implementation of Good corporate governance will weaken the relationship between default risk with earning management.

4.2.3. Good Corporate Governance play a role in moderating Conservatism relationship as measured by Earning Stock Return Relation and Accrual to Earnings Management

The selection of conservatism methods in the financial statements tends to make the managerial to be more cautious and choose to manage earnings with income decreasing patterns. With the high degree of conservative accounting in making financial statements will hinder the management in raising the retained earnings. However, in this research, conservatism has a negative and insignificant effect on earning management and Good Corporate Governance cannot moderate the relationship between them.

5. Conclusion

1. Directly, the Corporate Social Responsibility as measured by economy and environment have positive and significant effect to earning management. Meanwhile, Corporate Social Responsibility which measured by social have negative and significant effect to earning management.
2. Directly, Default risk as measured by debt to equity ratio and debt to asset ratio has a positive and significant effect on Earnings Management.
3. Directly, conservatism measured by earning / stock return relation and accrual have negative and insignificant effect to earning management.
4. Good Corporate Governance moderates weakening the influence of Corporate Social Responsibility as measured by economic, environmental to Earnings Management. Meanwhile, the interaction of Corporate Social Responsibility measured by social with good corporate governance has positive and significant effect.
5. Good Corporate Governance moderates weakening the effect of default risk as measured by debt to equity ratio to Earnings Management. Meanwhile, the interaction between default risk as measured by debt to asset ratio with good corporate governance has positive and insignificant effect, so GCG does not moderate the effect of default risk as measured by debt to asset ratio to Earnings Management.
6. Good corporate governance does not moderate the effect of Conservatism as measured by Earning Stock Return and accrual to Earnings Management on manufacturing companies registered in ISSI at the Indonesia Stock Exchange.

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