

CHAPTER I

INTRODUCTION

1.1 Research Background

As a going public entities, companies are required to report their performance and activities during the year as a form of responsibility to its stakeholders. The companies report their performance through annual report and financial report. These report are extremely important for all of the users, because through these reports, the users could evaluate the companies' performance. The information contained in these report will affect the economic decisions of the users. One of the component that is used by the users to evaluate the companies' performance is earnings.

Knowing the importance of earnings, in some circumstances, the management could conduct an activity called as earnings management. Earnings management could be defined as the selection of accounting policies or concrete action that will affect income therefore the company would achieve the intended earnings reported on financial report (Scott, 2015). If the earnings management is done using the selection of accounting policies, it is called as accrual earnings management. Meanwhile, if the earnings management is done using concrete action, it is called as real earnings management. In the global economic world, the practice of earnings management happened in several companies such as Enron, Worldcom, and Xerox. In Indonesia, one of the earnings management cases happened in PT Garuda

Indonesia Tbk. who reported earnings more than it should be, that is Rp 11,56 billion on 2018 (Kurniawati, 2021).

However, in this current situation, the investors are not only concern about the reported numbers but they also concern about how companies engage with its environment. These situation encourages the companies to provide more information regarding its activity and its impact on the environment. These information is Corporate Social Responsibility (CSR) disclosure. CSR is a contribution from the companies to ethically act, legally operate, and thoughtfully increase the prosperity of its employees, local community, and community as broad.

However, the implementation of CSR in some circumstances is misused by the companies. According to opportunistic perspectives (Jensen & Meckling, 1976), the companies in some ways will disclose more information about CSR in order to use it as window-dressing mechanism in order to distract the attention of investors from the suspicious financial information reported. Otherwise, the moral perspectives had an assumption that companies who are engaged more in CSR are found to be less likely to engage with earnings management practice (Chih et. al. 2008). These two perspectives generated conflicting results of the previous researches in explaining the connection between CSR and earnings management. Abhirama and Ghozali (2021) found that CSR is positively correlated with earnings management. Meanwhile, Fauziah and Marissan (2014) found that CSR has a negative relationship with earnings management.

The practice of earnings management could be reduced by the presence of good corporate governance. Corporate governance could be defined as a system who direct and control the business corporations. In this research, the corporate governance is measured by institutional ownership. The measurement of institutional ownership is chosen by the researcher because in the context of Indonesia, it is shown that institutional owners are found in most of companies listed in Indonesia Stock Exchange (Wardhana & Tandelilin, 2011).

The research from Nurleni et. al. (2017) found that companies with higher institutional ownership, would engage with CSR disclosure more. In addition, institutional investors will monitor the firms and therefore reduce earnings management (Ajay & Madhumathi, 2015). Therefore, it is proposed that the institutional ownership would be able to moderate the relationship between CSR and earnings management.

The research that explain about the relationship between CSR and earnings management had already been done before, however the results are still inconsistent. For that reason, the researcher is interested in investigating this topic. The purpose of this study is to provide empirical evidence about the impact of institutional ownership on the relationship between CSR and earnings management. The object of this research is manufacturing companies listed in Indonesia Stock Exchange from 2018 until 2020. This research will use institutional ownership as moderating variable, corporate social responsibility as independent variable, earnings management both proxied by accrual and real as dependent variable, and ROA & DER as the control variable.

1.2 Research Problem

In order to investigate the impact of institutional ownership on the relationship between CSR and earnings management; both proxied by accrual and real earnings management, the researcher formulated the research problem as follows:

1. What is the impact of corporate social responsibility towards earnings management?
2. What is the impact of institutional ownership on the relationship between corporate social responsibility and earnings management?

1.3 Research Objectives

According to the research problem, the research objectives are as follows:

1. To give the empirical evidence about the impact of corporate social responsibility towards earnings management.
2. To give the empirical evidence about the moderating effect of institutional ownership on the relationship between corporate social responsibility and earnings management.

1.4 Research Contributions

This research is conducted in order to contribute in:

1. Theoretical Contributions

The result of this research is expected to provide more empirical evidence about the impact of institutional ownership on the relationship between corporate social responsibility and earnings management. It is expected that the

result of this study could strengthen the previous studies that have been done before. In addition, it is expected that the result of this study could be used as a reference for future and further study.

2. Practical Contributions

The result of this study is expected to encourage the regulators for providing and improving the standards for the accounting process, especially for the Corporate Social Responsibility (CSR) disclosure. It is also expected by the researcher that the results of this study could help investors, creditors, and other parties in making decisions based on financial statement analysis.

1.5 Writing Systematic

The writing systematic for this research is prepared systematically as follows:

CHAPTER I INTRODUCTION

Chapter I is the introduction of the research that consist of: research background, research problem, research objective, research contribution, and writing systematic.

CHAPTER II THEORITICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Chapter II is the literature review of the research that consists of grand theory, empirical study, and logical reasoning of corporate social responsibility, earnings

management, and institutional ownership as the basis of hypothesis development and research model.

CHAPTER III RESEARCH METHODOLOGY

Chapter III is the research methodology used in the research that consist of type of research, research object, population and sample, technique of data collection, measurement of variables, technique of data analysis, and hypothesis testing

CHAPTER IV DATA ANALYSIS AND DISCUSSION

Chapter IV is the data analysis and discussion, which includes descriptive statistics, classical assumption test, hypothesis testing, and discussion of research results.

CHAPTER V CONCLUSIONS

Chapter V is the conclusion, which includes conclusion, limitation, and suggestion.