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RESEARCH ARTICLE

The Effect of Audit Quality, Corporate Governance and CSR on Real Earning Management: Indonesian Evidence

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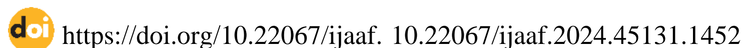
Abstract

This study investigates the effect of audit quality, corporate governance, and Corporate Social Responsibility (CSR) on real earnings management. This study proxies corporate governance by audit committee size, independent commissioner proportion, managerial ownership, and institutional ownership. The population in this study is the manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019-2021. The sampling method was carried out using a purposive sampling approach. This study obtained 236 observation data from 82 companies in Indonesia. The data was analyzed using regression analysis. The results of this study indicate that audit quality, managerial ownership and institutional ownership positively affect real earnings management. At the same time, the audit committee has a negative significant effect on real earnings management. However, the proportion of independent boards of commissioners and Corporate Social Responsibility disclosure does not affect real earnings management. This research shed light on the role of corporate governance mechanisms and CSR in real earnings management practices of Indonesian public companies.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1. Introduction

Earnings management is a deliberate management effort to create a positive impression of a company's performance through accounting policies or real activities that influence reported profits to achieve certain goals (Schipper, 1989; Scott, 2015; Wahyono et al., 2019). Merchant (1989) defines earnings management as an action management takes to influence reported profits. This action can provide information about economic profits that do not reflect the actual conditions experienced by the company and can even be detrimental to the company in the long term. Earnings management practices create concerns about the quality of financial information and long-term corporate sustainability performance (Nguyen, 2024).

Earnings management practices themselves are generally carried out through accrual and real earnings management. Accrual earnings management is earnings management using the flexibility of accrual accounting policy (Boedhi and Ratnaningsih, 2017). Accrual-based earnings management consists of discretionary accruals and nondiscretionary accruals. Nondiscretionary accrual is an earnings management activity performed through the accounting process. In contrast, discretionary accrual is a technique for selecting accrual policies, which are the authority and control of managers.

Discretionary accruals take the form of choosing accounting policies, for example, by choosing the method of depreciation of fixed assets, determining the economic age and residual value of fixed assets, choosing inventory valuation methods, determining reserves for losses on receivables, policies on revenue recognition, policies on provisions for credit losses, changes in the percentage of costs for losses on receivables, changes warranty cost estimation, inventory valuation, receivable write-off policies, and provisions for restructuring (Scott, 2015; Cohen and Zarowin, 2010). Detection of earnings management activities through accrual manipulation cannot be observed directly from the financial reports. The existence of accrual manipulation can only be estimated through a model. Several researchers have modeled the detection of earnings management through accrual manipulation (Jones, 1991; Dechow et al., 1995; Gomez and Okumura, 2001; Dechow et al., 2011; Healy and Wahlen, 2016; Nguyen et al., 2023).

Apart from accrual management, earnings management can be done through real activities. Roychowdhury (2006) explains that real earnings management is carried out by managing cash flow, volume of production, and discretionary costs. Real activity based earnings management is carried out in various ways, for example, delaying or accelerating sales and/or costs into a different accounting period, managing the amount of marketing costs, research and development costs, travel costs, employee recruitment and development costs, maintenance, asset sales, investment, discount policies, easing credit terms, product pricing policies, and excess production to reduce the cost of goods sold.

Much research has been related to earnings management, but most of this research focuses on accrual earnings management (Kliestik et al., 2021). In fact, after the Sarbanes-Oxley Act (SOX) period, management switched the focus from accrual earnings management to real earnings to avoid findings by auditors and regulators. Managers prefer real earnings management to accrual earnings management (Graham et al., 2005). Several factors, such as the auditor's ability to detect errors and irregularities in the client's accounting system, the effectiveness of corporate governance, and corporate social responsibilities, may become the major factors that influence real earnings management practices. However, few studies have investigated these issues, especially in emerging economies such as Indonesia. Previous research has not provided conclusive results so further research is still needed.

This research examines whether audit quality, corporate governance, and CSR can mitigate real earnings management. Does the higher audit quality increase the company's tendency to carry out earnings management through real activities? Furthermore, whether corporate governance

mechanisms can reduce real earnings management practices and whether companies with higher CSR disclosure have a lower tendency to carry out real earnings management. This research provides theoretical contributions by showing empirical evidence regarding the relevance of agency theory and signaling theory in the context of the impact of audit quality, corporate governance, and CSR on real earnings management practices. This study is also useful for policymakers regarding the efforts to produce high quality financial information and minimize earnings management practices.

2. Literature review

2.1 Agency theory

Jensen and Meckling (1976) proposed the existence of agency theory. When one or more people, such as the principals, employ other people as the agents and give decision-making authority to the agents, an agency relationship will occur. This can trigger a conflict of interest between the agent and the principal because both want to maximize their utilities. Management as an agent has opportunistic behavior and adverse selection.

Conflicts of interest occur due to information asymmetry between agents and principals. Managers know more about the company's condition than owners. To overcome agency problems, managers are responsible for providing information to owners such as financial reports. However, differences in interests between agents and principals mean managers sometimes do not provide complete information to the owners. In this case, management can take actions such as earnings management that are not communicated to owners.

2.2 Signaling theory

Signaling theory describes behavior between two parties that have access to different information. In the business context, management will choose information as the signal to other parties outside the company, i.e. investors regarding the current and future performance of the company (Connelly et al., 2010). Signal theory encourages a company to provide information to users of financial reports or external parties because of information asymmetry. To minimize the occurrence of information asymmetry, companies need to disclose comprehensive information, both financial and non-financial information. Signaling theory emphasizes that company value can increase through disclosure or reporting.

Signal theory generally relates to how a signal has value or benefits while other signals do not (Gumanti, 2009). Signal theory tries to carefully understand the relationship between the signal and the qualities within it and what factors make the signal remain attractive and convincing. Signal theory also looks at the consequences when a signal is not completely convincing until it has no meaning. In relation to earnings management, Scott (2015) shows that some companies carry out earnings management as a signal to investors that the company has profit prospects in the future. Chhillar and Lellapalli (2022) found that earnings management could signal an early stage of company financial distress.

Bartov et al. (2002) show that managers carry out earnings management to meet market expectations or exceed earnings forecasts made by analysts (see also: Keung et al., 2010). Earnings management is also carried out to form the perception of external parties that the company has low risk. Another motivation for earnings management is to influence various contracts based on reported accounting numbers (Healy and Wahlen, 2016). Earnings management is also carried out to increase company value ahead of management buyouts (MBO), initial public offerings (IPOs), seasoned public offerings (SEOs), stock-for-stock mergers, and open market repurchase (Gong et al., 2008; Scott, 2015).

2.3 Hypothesis development

2.3.1 Audit quality

Public companies must publish audited financial reports. Audit towards financial reports is intended to increase the value of the financial reports and the trust of the users (Nurdiniah and Pradika, 2017). To ensure that there are no material misstatements in the financial statements, it is necessary to carry out an audit by an external auditor or an auditor from outside the company with high competence and independence.

If competent and independent people carry out the audit, the quality of the audit will also be high. High audit quality can minimize accrual earnings management practices. The study conducted by Le and Moore (2023) confirmed that audit quality decreases income-increasing discretionary accrual. However, because management knows that engaging in accrual-based earnings management is easily detected by auditors, then management will move to real earnings management because accounting regulators and auditors scrutinize real earnings management less than accrual earnings management (Enomoto et al., 2015).

Umar et al. (2021) show audit quality negatively affects real earnings management. However, the study of Sitanggang et al. (2019) and Hoang and Vinh (2018) found that audit quality positively affects real earnings management. Meanwhile, research by Astuti and Pangestu (2019) provides results that audit quality does not influence real earnings management. We predict that the higher the audit quality, the greater the tendency for management to carry out real earnings management.

H1: Audit quality has a positive effect on real earnings management.

2.3.2 Audit committee

An audit committee is a committee tasked with assisting the board of commissioners in supervising and creating harmony within the company. The audit committee is also seen as a bridge between the board of commissioners, shareholders, and management regarding control issues. The audit committee is one of the corporate governance mechanisms that can encourage the creation of transparency and accountability. The existence of an audit committee can minimize fraudulent practices due to the audit committee's ability to measure the transparency and honesty of the information contained in the financial reports (Parinduri et al., 2019). Mardessi and Fourati (2020) found that audit committees decrease the likelihood of engaging in real earnings management. This research predicts that the existence of an audit committee can reduce management's tendency to engage in real earnings management.

H2: Audit committee has a negative effect on real earnings management.

2.3.3 Independent commissioner

An independent board of commissioners is a member of the board of commissioners who is independent or has no relationship with management, other members of the board of commissioners, controlling shareholders, businesses, or the like that can influence his/her independence. An independent board of commissioners is appointed to oversee company policies and management and assist the board of directors by providing advice. The existence of supervision by an independent board of commissioners makes managers more careful in managing the company. Indarti et al. (2021) found that the existence of an independent commissioner decreases the tendency of real earnings management practice. A recent study conducted by Fitrasari (2023) also provides evidence that a larger independent board of commissioners can mitigate earnings manipulation. Thus, we predict that an independent board of commissioners can minimize real earnings management practices.

H3: Independent commissioner has a negative effect on real earnings management.

2.3.4 Managerial ownership

Managerial ownership is the total number of shares owned by the company's management, both by directors and/or commissioners. Management ownership influences company operations. High management ownership allows managers to make all kinds of efforts to increase profits for shareholders, including the manager himself. Rahman et al. (2021) found that managerial ownership positively affects real earnings management. However, the study conducted by Tran and Dang (2021) did not find the effect of managerial ownership on earnings management in Vietnamese public companies. Thus, the effect of managerial ownership on earnings management is still unclear. We predict high managerial ownership will increase real earnings management.

H4: Managerial ownership has a positive effect on real earnings management.

2.3.5 Institutional ownership

Institutional ownership is the total number of shares owned by institutional shareholders, namely the government, foreign institutions, legal institutions, financial institutions, representative funds and other institutions. Institutional ownership and earnings management have different relationships depending on the institutional investor. If institutional investors are long-term, then company managers focus on long-term profitability rather than being busy with earnings management because these investors intend to hold shares for the long term and have high share ownership. Kałdoński et al. (2020) show a different influence of institutional ownership on real earnings management in companies with different levels of market pressure on management and ownership stability. Firms with more stable ownership have a negative association with real earnings management. However, several studies do not find a significant effect of institutional ownership on real earnings management (Widagdo et al., 2021). This study predicts high institutional ownership tends to increase real earnings management practices.

H5: Institutional ownership has a positive effect on real earnings management.

2.3.6 Corporate Social Responsibility (CSR)

CSR is information disclosed by the company to third parties in company reports. This disclosure can give the company a good impression to the public and investors. However, it does not rule out the possibility that this will actually encourage management to carry out earnings management to create a good company image. Likewise, people tend to think that companies that disclose CSR will not carry out unethical actions such as earnings management. From a signaling theory perspective, companies disclose CSR programs as a signal to external parties that the company has implemented ethical and responsible business practices. Therefore, CSR is expected to be negatively related to earnings manipulation. Chouaibi and Zouari (2022) show that firms with higher CSR have less real earnings management. Nguyen (2024) and Gaio et al. (2022) also provide evidence that companies with higher corporate sustainability performance tend to engage in earnings management less. Thus, we predict higher CSR can result in lesser real earnings management.

H6: CSR disclosure has a negative effect on real earnings management.

3. Method

3.1 Data

The data in this research are manufacturing sector companies listed on the Indonesia Stock Exchange (BEI) during 2019-2021. The purposive sampling method underlies determining the

research sample. Purposive sampling is a technique for determining samples by considering and determining criteria according to the research objectives. The sample criteria in this research include (1) Manufacturing sector companies listed on the Indonesia Stock Exchange (BEI) and are consistent and complete in publishing financial reports resulting from audits for the 2019-2021 period. (2) Companies that experienced profits during the 2019-2021 period. (3) Financial reports with complete data as required. (4) Companies that were not delisted or moved sectors during the 2019-2021. (5) Financial reports are presented in rupiah.

3.2 Research variable and measurement

3.2.1 Dependent variable

In this research, the dependent variable is real earnings management. According to Roychowdhury's (2006) approach, real earnings management is measured by abnormal cash flow operation (CFO), abnormal production costs, and abnormal discretionary expense. The results of each proxy are then added up so that they cover all real earnings management proxy effects. The calculation of Abnormal Cash Flow Operation (CFO) for company i in year t is as follows:

$$\frac{CFO_{i,t}}{A_{t-1}} = \alpha_0 + \alpha_{1,t}\left(\frac{1}{A_{i,t-1}}\right) + \alpha_{2,t}\left(\frac{S_{i,t}}{A_{i,t-1}}\right) + \alpha_{3,t}\left(\frac{\Delta S_{i,t}}{A_{i,t-1}}\right) + e_{i,t}$$

Where:

$CFO_{i,t}$: Cash flow from the operation of company i in year t
$A_{i,t-1}$: Total assets of company i in year t-1
$S_{i,t}$: Sale of company i in year t
$\Delta S_{i,t}$: Subtraction of company i's sales in year t from sales in year t-1

Calculation of company i's abnormal production costs in year t:

$$\frac{PROD_{i,t}}{A_{i,t-1}} = \alpha_0 + \alpha_{1,t}\left(\frac{1}{A_{i,t-1}}\right) + \alpha_{2,t}\left(\frac{S_{i,t}}{A_{i,t-1}}\right) + \alpha_{3,t}\left(\frac{\Delta S_{i,t}}{A_{i,t-1}}\right) + \alpha_{4,t}\left(\frac{\Delta S_{i,t-1}}{A_{i,t-1}}\right) + e_{i,t}$$

Where:

$PROD_{i,t}$: Production cost of company i in year t
$PROD_{i,t} = COGS_t + \Delta INV_t$
$A_{i,t-1}$: Total assets of company i in year t-1
$S_{i,t}$: Sales of company i in year t
$\Delta S_{i,t-1}$: Subtraction of company i's sales in year t from sales in year t-1

Calculation of company i's abnormal discretionary expense in year t:

$$\frac{DISEXP_{i,t}}{A_{t-1}} = \alpha_0 + \alpha_{1,t}\left(\frac{1}{A_{i,t-1}}\right) + \alpha_{2,t}\left(\frac{S_{i,t}}{A_{i,t-1}}\right) + e_{i,t}$$

Where:

$DISEXP_{i,t}$: Discretionary expenses, which include research and development expenses, advertising expenses, sales expenses, and administrative and general expenses in company i in year t.

$A_{i,t-1}$: Total assets of company i in year t-1
$S_{i,t}$: Total sales of company i in year t-1

3.2.2 Independent variable

Audit Quality

One of the audit quality factors is the size of the public accounting firm. Audit quality is measured in this research using dummy variables. Public accounting firms affiliated with the big four are given the number 1, while accounting firms not affiliated with the Big Four are given the number 0.

Audit Committee

The audit committee supervises and creates harmony within the company and assists the board of commissioners. The company's total number of audit committees measures the audit committee variable.

Independent Commissioner

An independent board of commissioners is a member of the board of commissioners with no relationship with management, other members of the board of commissioners, controlling shareholders, or any business or similar that could affect their independence. The independent commissioner variable is measured by the proportion of independent commissioners to the total number of boards of commissioners.

$$\text{Independent commissioner} = \frac{\text{Total number of Independent commissioner}}{\text{Total number of board of commissioner}} \times 100\%$$

Managerial Ownership

Managerial ownership is the total number of shares owned by management by directors and/or commissioners.

$$\text{Managerial Ownership} = \frac{\text{Shares owned by Management}}{\text{Total company'share}} \times 100\%$$

Institutional Ownership

Institutional ownership is the total number of shares owned by institutional shareholders, namely the government, foreign institutions, legal institutions, financial institutions, representative funds and other institutions.

$$\text{Institutional Ownership} = \frac{\text{Shares owned by Institution}}{\text{Total company's shares}} \times 100\%$$

Corporate Social Responsibility (CSR)

CSR is information disclosed by the company to third parties in company reports. CSR disclosure uses the Corporate Social Responsibility Index (CSRI) based on ISO 26000. Issues that are disclosed will be given a value of 1, while those that are not disclosed will be given a value of 0. Then, the scores will be added up and divided by the total number of issues.

$$\text{CSRI} = \frac{\sum xi}{n}$$

3.3 Empirical model

In this research, the regression analysis used is multiple linear regression. The following is the multiple linear regression equation in this research:

$$REM = \alpha + \beta1*AudQual + \beta2*AudComm + \beta3*IndepCom + \beta4*ManOwn + \beta5*InstOwn + \beta6*CSR + e$$

4. Results

The data used in this research is secondary data, namely companies listed on the Indonesia Stock

Exchange (BEI). The population in this study is manufacturing sector companies listed on the Indonesia Stock Exchange (BEI) for the 2019-2021 period. This research took the following samples:

Table 1. Sample

Description	Total Firms
Companies registered on the IDX for the 2019-2021 period	167
Companies experiencing losses	(52)
Companies that present financial reports in currencies other than rupiah	(29)
Companies with incomplete data	(4)
Samples that meet the criteria	82
Number of sample periods 2019-2021 (82×3)	246
Data outlier	(10)
Total final sample	236

4.1 Descriptive statistics

The following are the results of descriptive statistical tests on the company data studied:

Table 2. Descriptive Statistics

Variable	Min	Max	Mean	Std. Deviation
Audit Committee	0,000	5,000	2,915	0,678
Independent Commissioner	0,000	0,667	0,396	0,119
Managerial Ownership	0,000	0,894	0,073	0,166
Institutional Ownership	0,000	0,997	0,629	0,273
CSR Disclosure	0,286	1,000	0,721	0,161
Real Earnings Management	0,056	3,445	1,121	0,523
N	236			

Based on Table 2, it is known that the highest number of audit committees is 5 and the average is 2 people. The average proportion of independent commissioners is 39,6%. The highest managerial ownership is 89,4% and the average is 7,3%. Institutional ownership is the highest at 99,7% and the average is 62,9%. CSR disclosure has an average of 72% of the total items used as disclosure criteria.

Of the 236 companies, 80 of them are companies audited by Audit Firm affiliates of the big four, namely KAP Tanudiredja, Wibisana, Rintis and Rekan (PwC Affiliate), KAP Purwantono, Suherman and Surja (EY Partners), KAP Satrio Bing Eny and Rekan (Delloite Affiliate), KAP Siddharta Widjaja and Partners (KPMG Affiliate), and 156 other companies were audited by KAP not affiliated with the big four.

4.2 Classical assumption test

4.2.1 Normality test

Based on the results of the Kolmogorov-Smirnov non-parametric statistical test, a significant value of 0.079 was obtained, so it was stated that the residual data was normally distributed.

4.2.2 Multicollinearity

Table 3. Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Audit Quality	0,929	1,076
Audit Committee	0,964	1,037
Independent Commissioner	0,963	1,039
Managerial Ownership	0,690	1,450
Institutional Ownership	0,721	1,387
CSR Disclosure	0,968	1,033

Based on the multicollinearity test, it is known that audit quality, audit committee size, proportion of independent board of commissioners, managerial ownership, institutional ownership, and CSR disclosure have a tolerance value of more than 0.10 and a VIF value of less than 10.00. This means that there is no multicollinearity in the research data.

4.2.3 Heteroscedasticity

Based on the results of the Glejser test, the results showed that the significance value (Sig.) for audit quality, audit committee size, proportion of independent commissioners, managerial ownership, institutional ownership, and CSR disclosure more than 0.05. Thus, it is stated that in this study there was no heteroscedasticity.

4.2.4 Autocorrelation

Based on the autocorrelation test, the Durbin-Watson (d) value was 1.892. Meanwhile, based on the Durbin-Watson value distribution table, it is obtained at 1,740. So, it is known that 1.740 is less than d of 1.892, and d of 1.892 is less than 4-1.740, namely 2.260. Based on these results, it can be stated that this research is free from autocorrelation.

4.3 Regression analysis results

Table 4. Regression Analysis

Independent Variable	Hypothesis	Coefficient (β)	T	Sig.
Audit Quality	H_1 (+)	0,288	4,015	0,000
Audit Committee	H_2 (-)	-0,098	-1,985	0,048
Independent Commissioner	H_3 (-)	-0,458	-1,640	0,102
Managerial Ownership	H_4 (+)	0,496	2,093	0,037
Institutional Ownership	H_5 (+)	0,351	2,486	0,014
CSR Disclosure	H_6 (-)	-0,274	-1,330	0,185
Constant		1,430	5,718	0,000
F = 4,431; p = 0,000				
R^2 = 0,104; Adjusted R^2 = 0,081				

4.4 Hypothesis test results

This research predicts that audit quality positively influences real earnings management. Based on the regression results, the audit quality has a positive and significant effect on real earnings management (β = 0.288; t = 4,015; $p < 0,01$). This significance value is smaller than the significance level of 0.05, meaning that the audit quality variable significantly influences real earnings management. Meanwhile, the positive value of β means that audit quality has the same direction as real earnings management as predicted. Thus, the hypothesis 1 is supported. This result can be inferred from the fact that managers tend to choose to carry out real earnings management, not accrual manipulation when audited by auditors from high-quality audit firms. This strategy is conducted to avoid audit findings related to accrual-based manipulation that could reduce investor confidence. Managers prefer to carry out real earnings management because it has lower risks and is still under management discretion, which does not violate accounting standards.

Hypothesis 2 of this study states that the audit committee negatively influences real earnings management. Based on the test results, the β value for audit committee size is -0.098 and the significance value is 0.048 ($p < 0,05$). This significance value is smaller than the significance level of 0.05, meaning that the audit committee size significantly influences real earnings management. Meanwhile, the negative value of the audit committee's regression coefficient (β) means that the audit committee size has the opposite direction to real earnings management. These results indicate that

the existence of an audit committee can reduce the tendency of managers to carry out real earnings management. This research's results align with those of Mardessi and Fourati (2020), who also found evidence of a significant negative relationship between the number of audit committees and real earnings management. Thus, the hypothesis 2 is supported.

The existence of an independent board of commissioners is predicted to have a negative influence on real earnings management. Based on the test results, the β value for the proportion of independent commissioners is -0.458 and the significance value is 0.102. This significance value is greater than the significance level of 0.05, meaning that the variable proportion of independent board of commissioners does not have a significant influence on real earnings management. Meanwhile, the β value of the proportion of independent board of commissioners means that the proportion of independent board of commissioners has the opposite direction to real earnings management. Thus, the hypothesis 3 is not supported. This result confirms Auliana et al's (2023) research finding that independent commissioners do not have a significant effect on earnings management. These findings indicate that the existence of independent commissioners in public companies in Indonesia has not been effective (Pratama and Suryani, 2020). The appointment of independent commissioners in public companies in Indonesia is more of a political decision and is just a formality to comply with regulations. The selection of independent commissioners is often not based on competence but on popularity or political connections with the government. Based on Revised I-A Regulation No. 00183/BEI/12-2018, since December 26, 2018, the Indonesian Stock Exchange has omitted the requirements for the company to have an independent commissioner. This regulation is resealed to attract companies to list on the Indonesian Stock Exchange.

Hypothesis 4 states that managerial ownership positively influences real earnings management. Based on the test results, the β value of managerial ownership is 0.496 and the significance value is 0.037 ($p < 0,05$). This result means that managerial ownership has a positive significant influence on real earnings management. Thus, the hypothesis 4 is supported. Higher managerial ownership tends to increase real earnings management because managers get benefits in several aspects, including bonuses and dividends at the same time; on the other hand, it is safer from scrutiny by external auditors and regulators.

This research predicts that institutional ownership positively influences real earnings management. Based on the test results, the β value of institutional ownership is 0.351 and the t value is 2,486 ($p < 0.05$). This result means that institutional ownership positively and significantly influences real earnings management. Based on this result, hypothesis 5 is supported. Institutional investors are more concerned with long-term profits and lower risks. Therefore, institutional investors tend to prefer real earnings management over accrual manipulation. The higher the institutional ownership, the higher the manager's tendency to carry out real earnings management. The institutional ownership type also influences institutional ownership's influence on the level of real earnings management. Sakaki et al. (2017) show that companies owned by more stable institutional ownership have lower levels of real earnings manipulation. However, different results were shown in the research of Ali et al. (2024) who examine companies in the Chinese capital market which displays that companies with higher levels of institutional ownership tend to have lower levels of real earnings management.

Hypothesis 6 of this research states that CSR disclosure negatively influences real earnings management. Based on the regression test results, the CSR disclosure variable has a regression coefficient (β) of -0.274 and a significance value of 0.185. This significance value is greater than the significance level of 0.05, meaning that the CSR disclosure variable does not significantly influence real earnings management. Meanwhile, the negative value of β means that CSR disclosure has the opposite direction to real earnings management. Even though the results of this study show a direction that is in line with predictions, the significant value is above 0.05, so hypothesis 6 of the study is not

supported. The absence of CSR influence on real earnings management shows that the current implementation of CRS has not yet become a strong pressure tool for management to reduce earnings manipulation through real activities. CSR programs and CSR disclosures are currently used as a gimmick to attract investors and comply with capital market regulations. Previous research examining the influence of CSR on management earnings in companies in Indonesia has provided varying results. Setiawan et al. (2019) found a positive influence of CSR on earnings management in banking companies in Indonesia. However, research by Zaman et al. (2024) found that CSR disclosure significantly negatively affected earnings management. The existence of conflicting results regarding the influence of CSR on earnings management indicates the need for further exploration regarding the possible interaction effect of CSR with other variables in influencing earnings management.

5. Conclusion

This study found that audit quality, managerial ownership, and institutional ownership have a positive association with real earnings management. As expected, this study found that audit committees can mitigate real earnings management practices. However, the proportion of independent boards of commissioners and CSR disclosure does not influence real earnings management. This research provides insight for investors, regulators, and academicians that management tends to choose earnings management through real activities, especially if management and institutional ownership are high. Using a highly qualified audit firm will lead management to avoid engaging in accrual-based earnings management and move to real earnings management. Therefore, auditors need to be more careful and thorough in conducting audits, especially detecting earnings manipulation practices through real activities. Meanwhile, the proportion of independent commissioners does not significantly influence real earnings management. It could be interpreted that the existence of independent commissioners is not yet optimal but is still just a formality to fulfill regulatory requirements.

This research provides a practical and theoretical contribution for auditors, policymakers, investors, and academicians regarding the phenomenon of real earnings management in public companies in Indonesia. Investors need to pay more attention and caution to the companies that carry out earnings management to avoid losses in their investments. For academics, the results of this research can be used to add empirical data regarding real earnings management literature.

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