A COMMENTARY ON THE RECENT PUBLISHED PAPER: THE EFFECT OF GOOD CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT TO CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE

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In their recent publication, Laksmi & Kamila (2018) investigated the effect of good corporate governance (GCG) and earnings management towards disclosure of corporate social responsibility (CSR) of 17 stated-owned companies that are listed on the Indonesia Stock Exchange from 2013 to 2015 by using the guidelines from Global Reporting Initiative (GRI) (Indonesia Stock Exchange, 2019).

Good corporate governance or GCG, earnings management and CSR have been discussed quite extensively in the accounting literature, especially in Indonesia due to its unique characteristics. GCG is basically the steps taken by companies’ management that result in actions benefiting the companies. The Indonesian’s government somewhat takes GCG seriously and thus GCG can be perceived as a reflection of the economy (Financial Service Authority, 2014). The identification of corporate governance weaknesses definitely paves a way for an evaluation for the nation’s economic progress.

As one of emerging middle-income countries in Asia (The World Bank, 2019), Indonesia is an attractive country for investors. On the contrary, Indonesia also has problems with corruption. At the moment, Indonesia is the 89 least corrupt nations out of 175 countries, according to the 2018 Corruption Perceptions Index. GCG is imperative for Indonesian companies in order to gain trust from the investors, and corruption practices definitely reduce or even destroy that trust. The Ministry of State-Owned Enterprises (2019)’s latest record indicates that there are currently 115 state-owned companies in Indonesia. Meanwhile, a recent data from the Indonesian Stock Exchange (2019) shows that there are 648 companies publicly listed in the market. Focusing investigation of GCG only on a handful of state-owned
Indonesian companies is definitely not adequate considering the pervasive corruption practices in the nation.

The next issue is about the complex relationship between GCG, CSR disclosure and also earnings management. There are studies that were trying to connect the dots between the three of them. CSR itself is a ubiquitous term to begin with (Crowther & Aras, 2012; Boubakary & Moskolaï, 2016). The implementation of CSR is also not a straightforward matter. According to Crowther (2006), there are stages of maturity of CSR activity. The stages begin with a dominant feature of window dressing, which includes activity such as changing word and sections in corporate reports to reflect CST language, to accountability, which activity is far more complex and includes relocating high value added activity in developing countries. The different stages of CSR are critical to be explored first when one tries to investigate CSR disclosure and relate it with other business practices.

For the relationship between GCG and CSR disclosure, the connection seems to be clearer. It is not difficult to predict that GCG definitely positively affects CSR disclosure considering the central idea of GCG and CSR is similar. Both GCG and CSR concepts believe in accountability and giving back to the stakeholders, which is a wider community than just the shareholders (Crowther & Aras, 2012). However, there is a tendency that companies that disclose CSR more are the ones that perform well on the market. Crowther & Aras (2012) argued that good financial performance leads to good future environmental performance and vice versa. Hence, the concepts of GCG and CSR should not be separated when discussing companies’ performance since they are interconnected to one and another.

Earnings management and CSR disclosure is also an interesting relationship to be discussed. Some literature found that there is indeed a relationship between earnings management and CSR disclosure while other found no relationships between the two. Grecco et al. (2017) found that it is hard to predict whether companies’ social engagement size indicate their financial performance. Another interesting point to consider is companies’ type of ownership and its relationship with earnings management and CSR disclosure. According to Crowther & Aras (2012) there are families who have control over 50 per cent of public companies through a family cross-holding system in Indonesia, hence, dominating the capital markets. Gavana et al. (2017) found that family-owned companies and non family-owned companies have different characteristics when it comes to earnings management and CSR. Larger family-owned companies are more likely to use CSR disclosure in order to disguise downward earnings management and also to preserve company’s image and this practice may have detrimental effect for the stakeholders. As a result, CSR disclosure by family-owned companies cannot be seen as an indicator of the good quality financial information (Gavana et al., 2017). Equally, family-owned companies are less likely to use CSR disclosure in order to distract attention from upward earnings management. Gavana et al. (2017) also found that for non-family-owned companies-although they are more likely to conduct earnings management-they do not seem to use CSR disclosure to mask their real motivations. Thus, more research are needed in the future to determine whether or not there is a relationship between earnings management and CSR disclosure and if they are related. If a relationship between earnings management and CSR disclosure can be firmly built, then the next question is whether or not companies’ type of ownership moderates the relationship between earnings management and CSR disclosure.

In conclusion, GCG, earnings management and their effect to CSR is quite an interesting topic to explore, especially in a developing country such as Indonesia. As an emerging economy in Asia, Indonesia definitely needs more investment from the investors in order to thrive in the current market. Consequently, listed companies in Indonesia must measure up to meet the international standards of financial performance. Earnings management is a well-known accounting technique to help companies in window dressing their financial
performance and it may have an adverse effect to the stakeholders (Transparency International, 2018). Hence, GCG is critical for public companies, as it will protect the interest of their stakeholders. CSR disclosure is often considered as a signal to the stakeholders that the companies are indeed implementing GCG. Nonetheless, future research in this area can sharpen the research focus by adding more samples and more diverse company ownership types; by aligning the purpose of GCG and CSR disclosure and also by taking into account the type of ownership that can moderate the relationship between earnings management and CSR disclosure.

REFERENCES


