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THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE, LEVERAGE, AND FREE CASH FLOW ON EARNINGS MANAGEMENT

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Abstract

This study aims to determine the effect of CSR Disclosure, Leverage, and Free Cash Flow on profit management. The population in this study was manufacturing companies in the food and beverage sector which were listed on the Indonesia Stock Exchange (BEI) in the 2016-2018 period. Sampling was carried out using a purposive sampling method, and the number of samples used in the study was 26 data of food companies and drinks. Based on the results of research and data analysis using SPSS shows that: (1) CSR disclosure does not affect earnings management, (2) Leverage does not affect earnings management, and (3) Free cash flow does not affect earnings management. The results of this study imply that CSR disclosure is not the only indicator that is considered by investors. Investors may pay more attention to the company's prospects in the future along with the performance of the company. It is expected that companies can pay more attention to social responsibility as an effort to establish policies in promoting a balance between company profits and the benefits of society as a whole. Besides, in conditions where leverage and free cash flow are high, managers do not always think to undertake earning management to overcome the problems. Managers may consider the reversal impact after the earning management which may give a more negative impact on the company.

Keywords: CSR Disclosure, Leverage, Free Cash Flow, and Earnings Management

INTRODUCTION

Food and beverages in the manufacturing industry have become the primary needs that must be met. Nine of ten companies with the largest market capitalization on the Indonesia Stock Exchange (IDX) that achieved very good performance during the third quarter of 2018 came from the financial sector, cigarettes, consumer goods, various industries, and trade in services and investment. Some of the 10 biggest are from manufacturing companies namely PT Unilever Indonesia Tbk. and PT Astra

Internasional Tbk. Increased profits at PT Unilever Indonesia Tbk, because this company provides products that are needed by consumers in their daily activities (www.cnnindonesia.com).

In addition to these companies, other consumer goods companies, PT Sampoerna Tbk, also experienced an increase in profits. Many manufacturing companies, especially the consumer goods sector, have experienced an increase in profits because the majority of goods produced are daily necessities whose turnover is fast enough so that it can maximize the profits generated. Based on the Ministry of Industry that the manufacturing industry is still the main driver of national economic growth. The data from the Central Statistics Agency (2017), Indonesia's economy grew by 5.07% with a GDP (Gross Domestic Product) based on current prices of Rp 13,588.8 trillion. Of the amount produced, the manufacturing sector contributed to the GDP of Rp2, 739.4 trillion.

The company's success in influencing the improvement of the country's economy, of course, driven by the vision and mission and long-term goals. In measuring the success of a company, it is not only measured by increasing profits. However, companies must also be able to present their financial reports accountability. ASEAN Economic Community / AEC (2016) recognizes that the increase in company revenue is not only obtained through the quality of products provided by consumers but is also influenced by the company providing accurate information in its financial statements.

The company uses financial statements as one of the bridges in the process of delivering information to communicate with internal and external parties of the company. The purpose of the issuance of financial statements is to meet the need for information related to the financial position company, performance, and cash flow of the company.

The use of financial statement information can create opportunities for management to practice earnings management. This situation is exacerbated by the information gap between investors and management, where management knows more about the state of the company than investors, creditors, or other external parties. The gap in the ownership of financial statement information between investors and management aims to get personal profit. Financial statements are useful to know the development of the business, capital structure, and profits and or profits generated by the company in each period. This information will be used by users in making decisions. However, financial statements are often misused by managers to bring personal benefits and become targets for manipulation.

It was proven in 2002 that a case of alleged net inflation was carried out by Kimia Farma Tbk. David Parsaoran (2009) revealed that PT Kimia Farma Tbk carried out acts of manipulation of its financial statements. The results of the audit on December 31, 2001, the company management revealed a net profit of Rp 132 billion. However, the Ministry of BUMN and Bapepam considered that the net profit has been manipulated. After a re-audit, on October 3, 2002, PT Kimia Farma financial statements are restated, because a fundamental error had been found. In the new financial statement, the profit presented was only IDR 99.56 billion, or lower by IDR 32.6 billion, or 24.7% of the reported initial profit. The error arose in the raw material industry unit, namely errors in the form of overstated sales of Rp 2.7 billion, in the central logistics unit in the form of overstated goods inventory of Rp 23.9 billion, in the pharmaceutical wholesaler unit in the form of overstated inventories amounting to Rp 8.1 billion, and overstated sales of IDR 10.7 billion. Bapepam assesses any discrepancies in the submission of financial statements under article 69 of the Capital Market Law. Number 2 Letter a Bapepam Regulation Number VIII G.7 guidelines for public accountant standards. Then given administrative sanctions based on article 5 letter an of Law no. 8 of 1995 concerning capital markets and Article 64 Government Regulation No. 12 of 2004 concerning the implementation of activities in the capital market.

Other cases can be found in various countries such as Japan which has a good economic level. In 2015, Toshiba stated that the company was investigating an internal accounting scandal and had to revise the calculation of earnings on financial statements in the last 3 years. The results of the investigation showed that the Toshiba companies, had difficulty achieving its business profit target since 2008 because that year there was a global crisis. Therefore, the company manipulated earnings information on the financial statements of US $ 1.22 billion. This action is carried out to produce high profits. This caused Toshiba to be excluded from the stock index and experienced a significant decline in sales. In 2015, Toshiba lost US $ 8 billion in revenue (Sari, 2017).

Sulistyanto (2008) argues that accounting principles provide the freedom to make changes in judgment, accounting methods, and shifts in costs and revenues. However, if the managers make any changes to the transactions that should be reported in financial statements, they consider misleading information to the stakeholders. This action is called as earnings management.

The more widespread earnings management activities have encouraged external parties, both shareholders and practitioners to demand accurate financial statement information. External parties will gain an understanding of the company's financial condition and operating results through financial statements. Therefore, all information related to financial statements must be presented by applicable standards, as well as by the actual situation in a period. The preparation of financial statements must provide information about assets, liabilities, capital, income, and costs. The existence of applicable standards will facilitate creditors and investors in evaluating the company's financial performance.

An inseparable part of evaluating company performance is social performance or CSR (Corporate Social Responsibility) which is regulated by Law No. 40 the year 2007 concerning corporate and government regulation and Law No. 47 the year 2012 concerning corporate social responsibility. Social responsibility is the company's obligation to the community as a form of corporate concern or commitment to take responsibility for the impacts of its operations or activities in social, economic, and environmental aspects.

CSR will have an impact on internal and external parties. The external impact given by a company depends on the type or characteristics of the company. If the company has a good financial performance and operational system, it will have an impact on the fulfillment of high social responsibility and vice versa.

Several previous studies have shown that CSR disclosure has an influence on earnings management practices in a company. Siregar (2017) and Wardani and Santi (2018) prove the influence of CSR disclosure on earnings management. Tandry, Setiawati, and Setiawan (2014) prove that CSR disclosure affects company value which is moderated by earnings management. In contrast to the research (2014) and Ermayanti (2016) stated in their research that there is no relationship of CSR disclosure to earnings management. The results of this study explain that corporate social responsibility is part of a survival strategy for managerial opportunistic behavior to get support from stakeholders.

From the perspective of agency theory, management can carry out CSR for opportunistic purposes. Opportunistic action in question is that CSR carried out by managers as one of the actions can provide benefits to personal managers such as efforts to improve his career (William, Siegel, & Wright, 2006). CSR can be used as a tool to cover up unethical actions taken company.

Cases of abuse of corporate authority related to CSR obligations have occurred a lot. One such case is water pollution that occurred in Bengawan Solo. The Central Java Provincial Government and the Ministry of Environment and Forestry identified pollution due to the presence of liquid and solid waste originating from the textile, alcohol, and pig farm industries. Head of the Surakarta PDAM Production Section, Giyoto reported that there were 16,000 complaints from customers who did not get clean water due to the pollution (Amali, 2019).

In addition to earnings management, other factors that can influence earnings management include the ratio of free cash flow, leverage, and profitability. Increased free cash flow will lead to the practice of earnings management. The earnings management is to measure reported earnings, to show a better performance. Richard et al., (2005) states that companies indicated facing an agency problem are companies that practice earnings management by utilizing high free cash flow in the financial statements.

The lack of information free cash flow in previous studies, resulting in a study about the relationship of free cash flow and earnings management still needs further investigation as the results are still inconclusive. Herlambang (2017) states that free cash flow does not affect earnings management, while Kodriyah and Fitri (2017) and Rahayu (2018) state that free cash flow influences earnings management. The results of this study indicate that companies that have high free cash flow will tend to practice earnings management.

The next factor that can be used as a benchmark for earnings management is leverage. Sartono (2014) argues that the leverage ratio reflects how much the company is financed by debt. The use of debt that is too high will endanger the company because the company is trapped in a high level of debt and it is difficult to release the debt burden. If the company does not consider the use of debt, it will have an impact on delays in the company's ability to pay obligations, thus threatening default.

Previous research shows that leverage has an influence on earnings management practices in a company. This is proven by Siregar (2017) and Alarreason and Mardiati (2019). This is different from the research of Astuti (2017) which states that leverage does not influence earnings management. These results indicate that the higher the ratio of the leveraged company will result in high risk borne by the owners of capital, so managers tend to do earnings management.

LITERATURE REVIEW

Agency Theory

Jensen and Mecklings (1976) argue that an agency relationship is a contract between (principal) and agent to perform a service on behalf of the principal, and authorizes agents to make agents the best decision for the principal. The agency relationship is divided into two namely between managers and shareholders and between managers and bondholders.

Earnings Management

Earnings management is defined as the efforts of company managers to intervene or influence information relating to financial statements. Earnings management is motivated by personal interests, so it is not uncommon for managers to deceive stakeholders who want to know the condition of the company.

Based on the definition above, earnings management is a policy choice by managers of existing accounting standards and can impose their utility and market value on the company. Earnings management is not new in the world of corporate management. Every action taken is of course based on motives and goals. According to Scott (1997), several factors encourage managers to practice earnings management, namely: (1) Bonus Planning; (2) Other Motivations; (3) Political motives; (4) Tax motif; (5) CEO change; (6) Initial Public Offering / IPO; and (7) The importance of providing information to investors.

Corporate Social Responsibility Disclosure

In conducting its business, the company has obligations both to internal parties and external. One of the obligations to external parties is social responsibility.

WBCSD (The World Business Council for Sustainable Development) explained that social responsibility is a business commitment to contribute to sustainable economic development, through collaboration with employees and company representatives, and the local community and community.

The benefits received by the company are improving the company's image, strengthening the company's brand, development cooperation with its competitors, generating innovation and learning to increase the company's influence, opening access to investment and financing for the company, and increasing share prices. This CSR activity is a corporate obligation regulated in Law No.40 years 2007 concerning limited liability companies and government regulation No.47 of 2012 concerning corporate social responsibility.

Carroll (1999) developed the concept of a pyramid which explains that there are theoretical and logical considerations why companies need to apply CSR, namely:

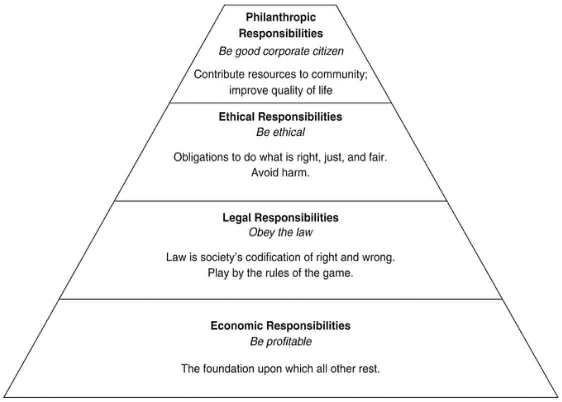

Figure 1.Pyramid of CSR

CSR disclosure can be measured based on the company's total net income and divided into 91 indicators based on GRI (Global Reporting Initiative) G4. The GRI-G4 indicator aims to make it easier for reporters to prepare reports by established standards of practice. The division of 91 GRI Indicators consists of 9 indicators economic, 34 environmental indicators, 16 indicators of labor practices and work comfort, 12 human rights indicators, 11 community indicators, and 9 indicators of product responsibility (GRI, 1997).

Leverage

Leverage has a relationship that is closely related to earnings management practices, this is proven by looking at the ratio leverage in the company's financial statements. Kieso et al., (2011) argues that leverage is a measure of the percentage of total company assets obtained from creditors.

Leverage is divided into two categories, namely debt that is directly related to the activities company's operations (operating leverage) and debt that is directly related to corporate finance or funding (financial leverage). Meanwhile, according to Sartono (2014) leverage consists of:

1. Operating Leverage

Operating leverage has two categories: fixed costs or costs that have a predetermined period due to variability in operations (level of output produced) or sales, and variable costs or costs that can change due to changes in sales units obtained.

Changes in earnings before interest and taxes are called the DOL (Degree of Operating Leverage), defined as the impact of changes in sales. DOL can be formulated as follows:

$$\mathrm{DOL} = \frac{\text{\% Change in EBIT}}{\text{\% Change in Sales}}$$

Or the same as:

$$\mathrm{DOL}_{\mathrm{Srupiah}} = \frac{\mathrm{S} - \mathrm{VC}}{\mathrm{S} - \mathrm{VC} - \mathrm{FC}} = \frac{\mathrm{EBIT} + \mathrm{FC}}{\mathrm{EBIT}}$$

Notes:

$\mathrm{DOL}_{\mathrm{S\ rupiah}}$ = DOL from sales in rupiah
S = sales
VC = total variable cost
FC = fixed cost

2. Financial Leverage

$$\mathrm{DOL}_{\mathrm{Srupiah}} = \frac{\mathrm{S} - \mathrm{VC} - \mathrm{FC}}{\mathrm{S} - \mathrm{VC} - \mathrm{FC} - 1} = \frac{\mathrm{Q(P - V) - FC}}{\mathrm{Q(P - V) - F - 1}} = \frac{\mathrm{EBIT}}{\mathrm{EBIT} - 1}$$

Notes:

I = annual interest paid
Q = quantity (units) of goods produced or sold
(P - V) = contribution margin per unit

The use of the source of funds that have a constant load, with the hope that it will provide an additional gain or changes in EPS (Earnings Per Share) which is greater than its fixed expenses or EBIT (Earnings Before Interest and Taxes) so that it will increase profits available to shareholders. The multiplier effect generated by the use of funds using fixed costs is called DFL (Degree of Financial Leverage), with the following:

$$\mathrm{DFL} = \frac{\text{\% Changes in EPS}}{\text{\% Change in Sales}}$$

3. Combined Leverage

The company has good operating leverage and financial leverage in an attempt to increase profits for shareholders. DCL (Degree Combined Leverage) is multiple effects on changes in EPS, this is influenced by changes in sales of each unit. In other words, DCL is the ratio between the percentage change in EPS and the percentage change in sales. The measurements DCL are:

$$\mathrm{DCL_Q} = \frac{\mathrm{EBIT + FC}}{\mathrm{EBIT} - 1 - [\mathrm{PD}/(\mathrm{I} - \mathrm{t})]} = \frac{\mathrm{S - VC}}{\mathrm{EBIT} - \mathrm{I} - [\mathrm{PD}/(\mathrm{I} - \mathrm{t})]}$$

4. Analysis Break-Even

Planning activities in the company based on estimated levels of output. Understanding the relationship between company scale, operating costs, and EBIT at various levels of output is called cost-profit volume analysis. High output value, it will affect the misuse of funds by unauthorized parties.

Free Cash Flow

Ross et al., (2000) define free cash flow as corporate cash that can be distributed to creditors or shareholders that are not needed for working capital or investment in assets. This happens due to a conflict of interest between managers and shareholders. Meanwhile, Brigham et al., (2010) state that free cash flow is cash flow that is truly available to be paid to all investors after the company places all of its investments in assets fixed, new products, and capital needed to maintain operational activities.

HYPOTHESIS DEVELOPMENT

The Effect of CSR Disclosure on Earnings Management

Many of the earnings management phenomena carried out by managers hurt stakeholders. Prior et al., (2007) stated that stakeholders will provide negative views and responses in the form of pressure from investors, sanctions from regulators, abandoned by colleagues, boycotts from activists, and negative media coverage.

The company must have a strategy to anticipate the dissatisfaction of stakeholders. One of the strategies is to issue a company policy regarding the application of CSR. The policy-making is in line with the triple-bottom-line (TBL) concept revealed by Elkington (1999) that companies must pay attention to economic, social, and environmental aspects. The triple bottom line concept in CSR is supported by Limited Liability Company Law No. 74 Article 74 of 2007 which requires companies to carry out CSR activities. The implementation of CSR can be seen based on the GRI G-4 index, which is summarized into 91 indicators such as environmental preservation, management of human resources, occupational health and safety, relations with the local community, and building harmonious relations between the two parties both internal and external.

These results support the theory that corporate social responsibility is part of a survival strategy for managerial opportunistic behavior to get support from stakeholders. So, the hypothesis can be formulated as follows:

H_1: CSR disclosure has a positive effect on earnings management

$$DCL_{\text{pada Q unit}} = \frac{EBIT + FC}{EBIT - 1 - [PD/(I - t)]} = \frac{S - VC}{EBIT - I - [PD/(I - t)]}$$

The Effect of Leverage on Earnings Management

Leverage in this study was a ratio of the assets and liabilities of every company in the financial statements. If the value of corporate debt higher than the value of assets, there is a risk faced by companies because they must pay the debt burden (interest costs), as well as the higher level of dependence on external parties (creditors).

This situation shows the influence of leverage and earnings management. The higher the ratio of leverage corporate will result in a higher risk borne by the capital owner. Thus, managers tend to do earnings management.

Based on the explanation above, so the second hypothesis can be formulated as follows:

H_2: Leverage has a positive effect on earnings management

The Effect of Free Cash Flow on Earnings Management

Free cash flow can be a result of the lack of oversight by the companies, as well as the lack of optimum utilization of the cash. Bukit and Iskandar (2019) explained that an increase in cash flow will have an impact on improving earnings management practices to improve earnings reports.

The results of this study indicate that companies that have high free cash flow will tend to practice earnings management. Based on the description above, so the last hypothesis in this study can be formulated as follows:

H_3: Free Cash Flow has a positive effect on earnings management.

RESEARCH DESIGN

Type of Research

This research is a quantitative study, using secondary data.

Research Object

The object of this study is earnings management in manufacturing companies that are influenced by CSR disclosure, leverage, and free cash flow.

Population and Sample

1. Population

The population in this study is manufacturing companies in the food and beverage sector which are listed on the Indonesia Stock Exchange (BEI) in the 2016-2018 period, namely 26 data of food and beverage companies.

2. Samples

In this study the selected sample uses a purposive sampling method with the following criteria: (a) Food and beverage manufacturing companies listed on the Indonesia Stock Exchange for the period of 31 December 2016-2018; (b) The company publishes annual audited financial statements for the period of 31 December 2016-2018; and (c) The company has complete data on CSR disclosure, leverage, and free cash flow to detect earnings management for the period of 31 December 2016-2018.

Types and Data Sources

Types of data used in this study are secondary data in the form of financial statements for the period 2016-2018. Secondary data is a source of research data obtained indirectly through intermediary media (obtained and recorded by other parties). Secondary data are generally in the form of evidence, historical has records or reports that have been compiled in archives (documentary data) which are published and which are not published. The financial statements were obtained through the IDX website site is www.idx.co.id.

Data Collection Techniques

This research uses the 2016-2018 financial statement data which as retrieved from the Indonesia Stock exchange (IDX) website. By using secondary data, the data is collected using documentation techniques.

CONCEPTUAL AND OPERATIONAL OF VARIABLES

Dependent Variable (Y)

Operationally earnings management is proxied through discretionary accruals, which are measured using the method developed by Dechow and Sloan (1995), the Modified Jones method, with the following formula:

1. Calculating the total accrual value

   Total Accrual (TAC) = net income – cash flow from operating

2. Calculating the total accrual estimated by the equation Ordinary Least Square (OLS):

$$\frac{\mathrm{TAC_t}}{\mathrm{A_{t-1}}} = \alpha_1\left(\frac{1}{\mathrm{A_{t-1}}}\right) + \alpha_2\left(\frac{\Delta\mathrm{REV_t}}{\mathrm{A_{t-1}}}\right) + \alpha_3\left(\frac{\mathrm{PPE_t}}{\mathrm{A_{t-1}}}\right) + \mathrm{e}$$

Notes:

TAC_t = total company accrual i in period t
A_{t-1} = total assets for sample company i in year t-1
REV_t = change in company income i from year t-1 to year t
PPE_t = Company's fixed assets year t

3. Calculating the non-discretionary accruals model

   After the regression process, the coefficients of each independent variable will be obtained which will then be included in the following equation:

$$\mathrm{NDA_t} = \alpha_1\left(\frac{1}{\mathrm{A_{t-1}}}\right) + \alpha_2\left(\frac{\Delta \mathrm{REV_t} - \Delta \mathrm{REC_t}}{\mathrm{A_{t-1}}}\right) + \alpha_3\left(\frac{\mathrm{PPE_t}}{\mathrm{A_{t-1}}}\right)$$

   Notes:
   NDA_t = nondiscretionary accruals in period t
   REC_t = change in company receivables i from year t-1 to year t
   α = fitted coefficient obtained from the regression results

4. Calculate discretionary accruals

$$\mathrm{DAC_t} = \frac{\mathrm{TAC_t}}{\mathrm{A_{t-1}}} - \mathrm{NDA_t}$$

   Notes:
   DAC_t = company discretionary accrual i in period t

If the total accruals are the same as non-discretionary accruals (TAC_t = NDA_t) or the amount of DAC_t = 0, the company is not identified to practice earnings management.

Independent Variable (X)

The following is a formula for calculating CSRI:

$$CSRI_y = \frac{\sum xky}{N_y}$$

Notes:
CSRIy = CSR Index y.
Σxky = Total of 1 = information categories disclosed in the annual report, 0 = information categories not disclosed.
Ny = The number of items for the company y.

The formula of leverage used according to Sutrisno (2009) is as follows:

$$Leverage = \frac{Total\ Amount\ of\ Debt}{Total\ Assets}$$

Notes:
Total Amount of debt = All debts owed by the company both short term and long term.
Total Assets = All of the assets owned by the company, both fixed assets and current assets

Brigham et al., (2010) stated that free cash flow can be calculated using the following formula:

$$FCF = NOPAT - net\ investment\ in\ operating\ capital$$

Notes:

FCF	=	Free cash flow
NOPAT	=	Net operating profit after tax
Net investment for operating capital	=	Total operating capital - total operating capital - 1
Total operating capital	=	net operating capital + net fixed assets
Net operating working capital	=	Current assets - Current liabilities without interest

DATA ANALYSIS TECHNIQUES

The analysis technique used in this study is descriptive statistics, classical assumption, multiple linear regression analysis, determination coefficient test, and the goodness of fit test. Descriptive statistics to describe or provide an assessment of the object made through sample data or participation as it is, without doing analysis and making conclusions that apply to the public (Sugiyono, 2016). the study was measured using standard deviations, maximum, and minimum.

The second techniques are classical assumption include of: (1) normality test; (2) Multicollinearity tests; (3) Heteroskedasticity test; and (4) The autocorrelation test. The third techniques are multiple linear regression analysis with the formula:

$$\gamma = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Notes:

Y	=	earnings management
α	=	Constant
X_1	=	CSR disclosure
X_2	=	Leverage
X_3	=	free cash flow
β	=	regression coefficient
e	=	error

The four techniques are determination coefficient test or R squared with the symbolized "R2". The formula of R square is: $Kd = r^2 \times 100\%$

Description:

Kd	=	Determination coefficient
r^2	=	Correlation coefficient

Criteria for the analysis of the coefficient of determination are: (1) If Kd detects zero (0), then the influence of the variable independent on the variable dependent weaks and (2) If Kd detects one, then the influence of the variable independent on the variable dependent strong.

RESULT AND DISCUSSION

Analysis of Descriptive Statistical

Analysis statistical analysis is used to determine the data description or description of each variable in this study, namely CSR, leverage, and free cash flow. The results of descriptive statistical analysis in this study are shown in the following table:

Table 1.Result of Statistics Descriptive

		CSR	LEVERAGE	FCF	EM
N	Valid	42	42	42	42
	Missing	0	0	0	0
Mean		.285976	.443459	569.674319	.129082
Std. Deviation		.0714848	.1590669	1234.8453952	.2287778
Minimum		.1429	.1406	-1300.4180	-.7321
Maximum		.4286	.6518	4771.2750	.8332

Source: Secondary data is processed (2020)

Based on table 1, the amount of valid data processed (N) is 42 company data. The table shows companies that have the opportunity to practice earnings management (Y) in this study ranging from -0.7321 to 0.8332, meaning that there is a minimum of -73% and a maximum of 83% with an average value of -0.129082 on the standard deviation 0.2287778. With a greater standard deviation of 23% than the average value of -13%, then this study has varied data or earnings management data in this study evenly distributed data with one relatively low data.

While the value of CSR disclosure (X1) in the table shows the number of CSR disclosures sampled in this study ranged from -0.1429 to 0.4286, meaning that companies implementing CSR are at least -14% with a maximum of 42% of the total sample used. With an average value of 0.285976 on the standard deviation 0.0714848, it can be seen that the standard deviation value is 7% smaller than the average value of 28%, meaning that this study does not have varied data or uneven CSR disclosure data with other data classified as high.

Meanwhile, companies that tend to have leverage (X2) in the financial statements are a minimum of -0.1406 or -14% with a maximum value of 0, 6518, or 65% of the total sample used. The average value of 0.443459 or 44% on the standard deviation of 0.1590669 or 15% that has leverage in the financial statements, meaning that the average value in this study is greater than the standard deviation, so this shows an indication of the distribution of leverage data uneven or different data from one another to the relatively high data.

Then, it is known that companies that have free cash flow (X3) in this study a minimum of -1300.4180 with a maximum of 4771.2750. The average value obtained is 569.674319 on the standard deviation of 1234.8453952, meaning that the average value is smaller than the standard deviation value in this study has varied data or earnings management data in this study evenly distributed data with one other data is relatively low.

Results of the Classical Assumption Test

Normality Test

Test. Decision making in the non-parametric Kolmogorov-Smirnov test Test, if Asymp. Sig (2 tailed) > α (0.05) then the data is normally distributed.

Table 2.Result of Normality Test

	Unstandardized Residual
N	35
Test Statistic	.123
Asymp. Sig. (2-tailed)	.199[c]

Source: Secondary data processed (2020)

Based on table 2, the Kolmogorov Smirnov test results can be seen that Asymp. Sig. > α which is equal to 0.199. The value of α is 0.05. Based on the normality test criteria, it can be concluded that the data is normally distributed.

Multicollinearity Test

The following are the results of the multicollinearity test of research observations using the SPSS application:

Table 3.Multicollirity Test Result

Variable	Tolerance	VIF
CSR Disclosure	.977	1.024
Leverage	.950	1.053
FCF	.969	1.032

Source: Secondary data processed (2020)

Based on table 3, known variable CSR disclosure, leverage, and free cash flow have tolerance values> 0.1 and VIF values <10, so it can be concluded that each variable does not have multicollinearity.

Heteroscedasticity Test

The following is a table that shows whether there is heteroscedasticity in research observations using SPSS applications:

Table 4.Heteroscedasticity Test Result

Variable	T	Sig.
CSR Disclosure	0.853	0.400
Leverage	-1.380	0.178
FCF	-0.425	0.673

Source: Secondary data processed (2020)

Based on table 4, it shows that there are no independent variables that are statistically significant influencing the dependent variable. It can be seen from the Table that the significance probability is above the 5% confidence level so it can be concluded that the regression does not contain heteroscedasticity.

Autocorrelation Test

The following are the results of the autocorrelation test using the run-test in the SPSS application:

Table 5.Autocorrelation Test Results

	Unstandardized Residual
Test Value	-.00147
Cases < Test Value	17
Cases> = Test Value	18
Total Cases	35
Number of Runs	18
Asymp. Sig. (2-tailed)	1.000

Source: Secondary data processed (2020)

Based on table 5, the Asymp value is known. Sig. (2-tailed) of 1.00 is greater than 0.05, it can be concluded that there are no symptoms or autocorrelation problems.

Analysis of Multiple Linear Regression Models

Based on the results of the classic assumption test, it can be concluded that the data in this study are normally distributed, do not have multicollinearity, heteroscedasticity, and autocorrelation. Therefore, the available data meets the requirements for using multiple linear regression models with a significance value of each independent variable:

Table 6.Outputs of Regression Analysis Result

Variable	B	Tstatistic	Sig.
CSR Disclosure	0.366	1.838	0.76
Leverage	-0.403	-3.801	0.001
FCF	-0.000	-1.284	0.209

Source: Secondary data is processed (2020)

Based on table 6, the equation of this study are as follows: $Y = 0.202 + 0.366 X_1 - 0.403 X_2 - 0.000 X_3 + e$

Test for the Coefficient of Determination

The coefficient of determination (R Square) or symbolized by "R^2" is useful for predicting and seeing how much the contribution of the effect of independent variables on the dependent variable.

Table 7.Coefficient of Determination Result

Model	R	R Square	Adjusted R Square	Std. An error of the Estimate
1	.631[a]	.398	.340	.0818650

Source: Secondary data processed (2020)

Based on table 7, it can be seen that the value of R Square is 0.398 or 39.8%. This number implies that the independent variables can explain the dependent variable by 39.8%. While the remaining 60.2%) (100% - 39.8%) is influenced by other variables not included in this study.

The goodness of Fit Test

This test shows whether all independent variables included in the model have a shared influence on the dependent variable. Based on the results of the analysis obtained F values as follows:

Table 8. F Test Results

Equation	F	Sig.
1	6.836	0.001

Source: SPSS data processed (2020)

Based on table 8, the results of statistical calculations note that f-count 6, 836 with a probability of 0.001. Because the probability number is smaller than 0.05 or 5%, it can be concluded that the fit model (the regression model can be used to predict the dependent variable) or in other words CSR disclosure, leverage, and free cash flow have a significant effect on earnings management.

Hypothesis Test (t-test)

Statistical test t aims to determine the level of significance of the effect of each independent variable on the dependent variable partially by using the level (α) = 0.05, and degree of freedom = 33. Based on the results of the analysis that can be seen in the table then the significance value is obtained as follows: (1) Variable CSR disclosure has a significance value of 0.76 is greater than the probability value of 0.05 means H1 is rejected. Thus, CSR disclosure does not have a positive effect on earnings management; (2) Variable leverage has a negative and significance value of 0.001 which is smaller than the probability value of 0.05 which means that Hypothesis (H2) is rejected Thus leverage negatively affects earnings management, and (3) Variable free cash flow has a significance value of 0.209 greater than the probability value that is 0.05 means that Hypothesis (H3) is rejected. Thus, free cash flow does not affect earnings management.

Overall, it can be concluded that the results of testing the hypothesis by using multiple linear regression analysis are as follows:

Table 9. Testing Results

	Hypothesis	Result
1	CSR disclosure has positive earnings management.	Rejected
2	Leverage has positive earnings management.	Rejected
3	Free cash flow has a positive earnings management.	Rejected

Source: SPSS data processed (2020)

DISCUSSION

The Effects of CSR Disclosure on Earnings Management

The results of this study indicate that CSR disclosure does not affect earnings management, this is in accordance with table 8, which revealed the results of the determination coefficient test has an R Square value of 39.8%, meaning that there are many variables that can affect earnings management that are not examined in this study.

The results of this study indicate that CSR disclosure does not affect earnings management. This result is in line with Arvina's (2014) which shows that CSR disclosure does not affect earnings management. However, this study is not in line with previous studies conducted by Siregar (2017) and Wardani (2018) which states that CSR disclosure has a significant positive effect on earnings management.

Thus, it can be concluded that CSR disclosure will reduce conflicts of interest from both parties, both principals and agents, and earnings management practices because CSR disclosure makes information about the company's overall activities transparent. Conversely, if a company does not have transparency or openness in disclosing information about company activities, it will tend to do various forms of earnings management both for personal gain and company profit (Patten & Trompeter, 2003).

The Effect of Leverage on Earnings Management

The results of this study indicate that leverage harms earnings management. So it can be concluded that leverage does not affect earnings management. This result is in contrast to the research hypothesis stating that leverage has a positive effect on earnings management, this is by table 8, which revealed the results of the coefficient of determination test has an R Square value of 39.8%, meaning that many variables can affect earnings management that is not examined in this study.

The results of this study are not in line with research by Siregar (2017) and Nalarreason and Mardiati (2019) which show that leverage influences earnings management practices in the company. Meanwhile, this research is in line with Astuti (2017) which states that leverage does not affect earnings management.

The results of these studies explain that the high level of corporate leverage does not affect earnings management actions. Thus, the greater the level of leverage owned by the company will not be able to influence the agent to influence the accounting numbers presented in the financial statements by way of earnings management. So, in this case, agency theory cannot influence the size of the total leverage in the financial statements.

According to Jao and Pagulung (2011) companies with a high degree of leverage is considered to be unable to meet its obligations. Based on the result of this study, earnings management may not be an effective mechanism to avoid defaults resulted from high leverage. The fulfillment of obligations must continue to be done and cannot be avoided through earnings management.

The Effect of Free Cash Flow on Earnings Management

The results of this study indicate that free cash flow has no negative effect on earnings management. This is by the calculation of the t-test and the coefficient value, the test states that the significance value of free cash flow is 0.209 greater than the probability value of 0, 05 with a coefficient value - 0,000. So, it can be concluded that free cash flow has no negative effect on earnings management.

This is by table 8, which revealed the results of the coefficient of determination test has an R Square value of 39.8%, meaning that many variables can affect earnings management that is not examined in this study. The research is consistent with Herlambang's (2017) research stating that free cash flow does not affect earnings management, while Kodriyah and Fitri (2017) and Rahayu (2018) state that free cash flow affects earnings management.

Based on the results of the analysis, companies that have free cash flow tend not to take earnings management actions. Even without earnings management, the company can increase the stock price, this is because investors tend to look at the condition of the company where the company has excess cash for dividend distribution (Agustia, 2013).

Thus, there is no information asymmetry between the principal and the agent in fulfilling personal interests, this is due to the equal distribution of dividends provided by the company.

CONCLUSIONS

Based on the results, the followings conclusions can be drawn: (1) CSR disclosure does not affect earnings management; (2) Leverage does not affect earnings management, and (3) Free cash flow does not affect earnings management.

IMPLICATIONS

The results of this study imply that CSR disclosure is not the only indicator that is considered by investors. Investors may pay more attention to the company's prospects in the future along with the performance of the company. It is expected that companies can pay more attention to social responsibility as an effort to establish policies in promoting a balance between company profits and the benefits of society as a whole. Besides, in conditions where leverage and free cash flow are high, managers do not always think to undertake earning management to overcome the problems. Managers may consider the reversal impact after the earning management which may give a more negative impact on the company.

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