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THE EFFECTIVENESS OF EARNINGS MANAGEMENT IN MEDIATING THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE, CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE

MASENA ANGELINA
1642090

ABSTRACT

In this study, the researcher examines whether earnings management can mediate the relationship between corporate social responsibility and good corporate governance impacting financial performance. Samples are taken from the Indonesia Stock Exchange, mainly focused on family-owned companies from 2014 to 2018. As a mediating variable, earning management is calculated using discretionary accruals with the modified Jones model. The mechanisms of good governance are determined by board size, a board of commissioners and audit quality. Several data from ISO 26000 are taken to measure corporate social responsibility. Financial performance is measured through earning per share and return on asset.

Purposive sampling is the method used to select the data. Secondary data of 116 companies are collected from the Indonesia Stock Exchange website. SPSS software is used to aid the statistic descriptive analysis, while the outer and inner model is analyzed by Smart PLS 3.0 software.

Results indicate that good corporate governance can impact financial performance through earnings management as an intervening variable in the family-controlled firm. While earnings management has failed to mediate the relationship between corporate social responsibility and financial performance. This is due to corporate social responsibility does not have any impact on earnings management.

Keywords: *Mediating, earning management, financial performance, family-owned firms*