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H<sub>5</sub>: Earning management has a significant positively relationship on financial performance.

### **2.7.6 Relationship between good corporate governance and financial performance with earnings management as mediating variable**

Financial performance in a company can be improved by GCG, reduce risks created by board decisions that only benefit their interests, and in general GCG could rise shareholders' confidence to invest their money and that will affect on company performance (Mahrani & Soewarno, 2018).

The presence of good corporate governance and independent auditor can deliver a great monitoring management in order not to commit fraud on financial reporting and minimize the possible fraud action taken like earnings management. Because when management decrease the level earning management, management's efforts to boost profits is to increase the number of operational activities by the company. Management will increase operational activities by personal interests so that they can get bigger incentives from profits earned by the company. Therefore, company will motivated to investigate its operational activity and detecting earnings management.

Study by Ching, Teh, San, & Hoe (2015), Setiawan (2007) and Kang and Kim (2011) discover evidence that earnings management can mediate the relationship between GCG to financial performance and earning managements could strengthen the causal relationship between GCG and financial performance.

However, previous findings from Kawatu (2009) has study effect of earning quality as intervening variable between GCG and financial performance and found earning quality was not the intervening variable between corporate governance to firm value. Therefore, proposed hypothesis based on above study is:

H<sub>6</sub>: Good corporate governance affects financial performance through earnings management as mediating variable.

### **2.7.7 Relationship between corporate social responsibility and financial performance through earnings management as mediating variable**

Presence of CSR activities helps company to operate calmly and obtain support from society. Transparent financial report can be achieved by disclosure of social responsibility, which turns to encourage manager to reduce earnings management practice. Therefore, employees' morale will improve through CSR and maintain good relationship with investors (Waddock & Graves, 1997).

Investors' confidence can be boosted by the low practices of earnings management and it would lead to an improvement of the company's financial performance. Prior research found that earnings management can mediate the relationship between corporate social responsibility and financial performance (Liu et al., 2017; Rahmawati & Dianita, 2011; Sial & Chunmei, 2018). Therefore, the proposed hypothesis is:

**H<sub>7</sub>:** Corporate Social Responsibility affect financial performance through earnings management as mediating variable.

## 2.8 Research Model

Figure 1.

*Research model : The effectiveness of earnings management in mediating the relationship between corporate governance, corporate social responsibility and financial performance in Indonesia Family firms*

**Source: Author research, 2018 (Adopted from Mahrani & Soewarno, 2018)**

