CHAPTER V
CONCLUSION, LIMITATION, AND RECOMMENDATION

5.1 Conclusion

This study focuses on examining the effect of good corporate governance and corporate social responsibility to financial performance mediated by earnings management. To measure earnings management, discretionary accruals was calculated and ran in indirect effect test on Smart PLS 3. Corporate governance was counted by board of directors, board of commissioners and audit quality. Corporate social responsibility was measured by ISO 26000 index which contains 37 items. Financial performance was calculated by return on asset (ROA) and earning per share (EPS). Data were collected from family-owned companies in Indonesia Stock Exchange for a period of 5 years from 2014 until 2018.

Testing and analysis result on the financial performance which is measured by ROA and EPS, are as the following:

a. Good corporate governance (GCG) has significant positively impact on financial performance. The role of board of commissioner size can strongly supervise management actions in a company and monitor the function of board of director. By increasing board of director and board of commissioner in family company help to increase company financial performance and generate interest according to shareholders. In addition, company which audit by big four company has a positively and significantly influence on company financial performance. This means, good reputation as a public accountant can provide proper suggestion for company's condition and can be company's guideline to improve the company's performance.

b. Corporate social responsibility (CSR) has significant positively associated to financial performance. Analysis has proved that CSR affect willingness of customer to buy more product from company, earn customer satisfaction and increase social reputation of firms which closely to firm performance. Therefore, positive appreciation from CSR will contribute company's benefit to improve its financial performance.

c. Good corporate governance has significant negatively effect on earnings management in listed family-owned companies in Indonesia Stock Exchange. By increasing company board of size and board of commissioner can effectively decrease manager behaviors to manipulate earnings. In addition, audit quality can reduce management's action to manipulate earning. This is because Big Four as professional auditor can raise manager's awareness that manipulate financial statement will be uncovered and detected by high quality auditor. Thereupon, by having GCG is a great tool to supervise and control manager's opportunity to do earning management.

d. Corporate social responsibility (CSR) has no influence on earning management that listed in family-owned companies in Indonesia Stock Exchange. Evidence has indicate that CSR is not a tool used by manager to cover unethical behavior in manipulate earnings. Frequency of how many activities in CSR is to fulfill company regulation and has no significancy relation with earnings management practice.

e. Earnings management has a significantly and positively impact on financial performance in listed family-owned companies in Indonesia Stock Exchange. This may because family-owned firms in Indonesia keen to pursue its own advantages in managing a company which may be different interest of the owners. Manager took advantage by manipulating financial report to be better performance just to fulfill own interest and attract investor so company can survive from next to next generation despite low earning report quality.

f. Earnings management can mediate significantly negative relationship between GCG and financial performance. The presence of earnings management in the family companies can controlled by a good system corporate mechanisms which play a part as counterweight for managers keep aware if they manipulate earnings thus lead to influencing company financial performance. Consequently, the presence of board of commissioner, board of director and professional auditor has contribute to great monitoring and reduce the possibility of fraud such earnings management. As a result, manager's intention to maximize profit is done by increasing the sales thus lead to better financial performance.

g. Earnings management has failed to mediate relationship between corporate social responsibility (CSR) and financial performance in listed family-owned companies in Indonesia Stock Exchange. This is because study failed to acknowledge relationship between corporate social responsibility and earning management. According to Baron & Kenny (1986), if a mediator variable is M, X as independent variable must has impact on M and M must has impact on Y as dependent variable in order for M to be a mediator.

Overall, testing and analysis has proved that corporate governance in practice has important implication on managers' opportunistic behavior. Meanwhile, companies that have system of good corporate governance may help manager to reduce the earnings management so it leads to a better earning quality and good financial performance.

5.2 Limitation

Because model study in this paper are not that common and they are relatively new, this study has some limitation as following:

a. Sample was only taken from non-financial listed family-owned companies in Indonesia Stock Exchange over a period of 5 years, from 2014 until 2018. Meanwhile there are many sectors in Indonesia listed companies. Therefore, limited size of the sample is another concern.

b. Corporate social responsibility is a subjective index generated variable which may cause different interpretation between one to another researcher result.

5.3 Recommendation

According to above examined results, there are some suggestion for the future researchers, which are:

a. Future reseachers are expected to expand the range of the sample which is more than 5 years and compare between family firm and non-family-owned companies.

b. For the future reseachers are expected to add independent variables that reflect GCG mechanism which lead to higher goodness fit of model.