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The Role of Corporate Social Responsibility Disclosure in Indonesia: How Do Bonus, Debt Covenant, Tax Avoidance Affect Earnings Quality?

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Abstract:
This study examines the effect of bonuses, debt covenants, and tax avoidance on earnings quality and the role of corporate social responsibility disclosure in moderating these influences. The analysis was carried out on 69 manufacturing companies listed on the IDX from 2014 to 2019, which were selected using purposive sampling so that 414 observations were obtained. The hypotheses are examined with multiple linear regression for panel data. The results of this study suggest that bonuses positively affect earnings quality while debt covenants and tax avoidance harm earnings quality. Moreover, corporate social responsibility disclosure weakens the positive effect of bonuses on earnings quality, does not moderate the effect of debt covenants on earnings quality, and weakens the negative effect of tax avoidance on earnings quality. This study complements the accounting research literature within the framework of positive accounting theory. This study employs corporate social responsibility as a moderating variable in examining the association between three independent variables reflecting the motivation of positive accounting theory and earnings quality, which previous research has never conducted.

Keywords: positive accounting theory, sustainability disclosure, motivation, earnings quality.

企业社会责任披露在印度尼西亚的作用：奖金、债务契约、避税如何影响盈利质量？

摘要：
本研究考察了奖金、债务契约和避税对收益质量的影响，以及企业社会责任披露在缓和这些影响方面的作用。对 2014 年至 2019 年在 IDX 上市的 69 家制造公司进行了分析，通过目的抽样选择了这些公司，获得了 414 条观察结果。使用面板数据的多元线性回归检查假设。这项研究的结果表明，奖金对盈利质量有积极影响，而债务契约和避税会损害盈利质量。此外，企业社会责任披露弱化了奖金对盈利质量的正向影响，不缓和债务契约对盈利质量的影响，削弱了避税对盈利质量的负向影响。本研究补充了实证会计理论

框架内的会计研究文献。本研究将企业社会责任作为调节变量，检验反映积极会计理论动机的三个自变量与盈余质量之间的关联，这是以前的研究从未进行过的。

关键词：积极会计理论、可持续性披露、动机、收益质量。

1. Introduction

The ideal manager should present quality financial statements that can represent the actual condition of the entity. This situation is an effective form of contract because the manager works in line with the interests of the capital owners. However, the emergence of residual loss, losses due to agency problems, will still occur. This condition is caused by managers not bearing commensurate punishment for their dysfunctional behavior. Managers have an incentive to act opportunistically to maximize their interests regardless of whether they are in line with the company owners' interests.

Manipulating financial statements is a global phenomenon that companies often use in developing and developed countries (Ramírez-Orellana et al., 2017). This situation is contrary to financial reporting's objective: to provide financial information about reporting entities which is beneficial for various parties such as investors, potential investors, creditors, and potential creditors in connection with decisions regarding company resources. Accounting standard-setting bodies encourage companies to present quality financial statements to produce appropriate financial decision-making.

Analyzing an entity's performance, income statements, and cash flow statements are essential in decision-making. Dechow (1994) stated that accrual accounting, namely earnings, can provide a better performance measure than realized cash flow because profit is more closely related to stock returns than cash flow. Cash flow has timing and matching problems, so it is less reflective of the company's performance. However, the main problem of earnings based on accrual accounting is judgment in its determination. It involves estimates, assumptions, and various alternatives provided by accounting standards. It can lead to manipulation, so it is necessary to pay attention to the quality of company earnings for the right decisions (Suwarno et al., 2020). Therefore, it is crucial to investigate the earnings quality.

Quality earnings indicate low earnings management. Earnings quality formally measures the extent to which reported earnings figures accurately represent actual earnings performance (Dechow et al., 2010). Quality earnings can also be defined as the absence of earnings management because the manager's deliberate manipulation of earnings, within limits allowed in accounting standards, can interfere with users' decision usefulness. Regardless of the personal benefit manager (ex-post opportunism) or the company's welfare (ex-ante efficient contracting), when a manager intervenes in reporting earnings, a manager has engaged in earnings management. Earnings quality is high when a manager does not intervene in the earnings reporting process.

Many previous studies related to earnings quality have been conducted. At the international level, several studies have investigated various independent variables on earnings quality, including bonuses (Tahir et al., 2019), financial leverage (Ghosh & Moon, 2010; Kaushik & Kumar, 2018), tax avoidance (Yorke & Amidu, 2017), corporate social responsibility disclosure (Mohmed et al., 2019). As for Indonesia, research on earnings quality has used the positive accounting theory basis: the debt covenant hypothesis, including financial and operating leverage (Saksessia & Firmansyah, 2020); political cost hypothesis, including size, profitability, and tax avoidance (Anggreni et al., 2016; Saksessia & Firmansyah, 2020); bonus plan hypothesis using bonuses (Prihastomo & Khafid, 2018; Saksessia & Firmansyah, 2020; Vigim & Widyaningsih, 2020). Although many studies have related to earnings quality, few have investigated the three hypotheses in positive accounting theory at once (bonuses, debt covenants, and tax avoidance) on earnings quality in one study. These three components illustrate the relationship of the parties involved in managing company resources and the role of accounting in helping this relationship work. In the positive accounting theory framework, managers are assumed to be economical and rational beings who aim to maximize personal welfare (Scott, 2015). Therefore, this study attempts to explain managers' motivation in earnings management by using three different incentives, decreasing earnings quality.

Manager bonus schemes motivate opportunistic behavior to beautify financial statements so that earnings quality decreases. The bonus plan hypothesis states that managers use accounting and business policies to shift reported earnings from the future to the current period (Watts & Zimmerman, 1986). The manager's action aims to maximize personal compensation because by reporting high net income, the manager's utility will be maximized through bonuses and incentives. Saksessia and Firmansyah (2020) investigated bonuses in Indonesia, concluding that bonuses are negatively associated with earnings quality. Tahir et al. (2019) showed similar results that financial performance measurement in bonus contracts encourages managers to be involved in earnings management. Different results are shown by Prihastomo and Khafid (2018), Vigim and Widyaningsih (2020).

They stated that a bonus scheme harms earnings management due to tighter controls from the principal.

Furthermore, debt covenant encourages managers to intervene in preparing financial statements, which results in low earnings quality. In the debt covenant hypothesis, Watts and Zimmerman (1986) stated that managers are on the shareholders' side. When the company's high financial leverage approaches the limits set in debt covenants, managers have a strong incentive to make accounting choices and reporting decisions reducing the likelihood of debt covenant violations, one of which is through the earnings management mechanism. This hypothesis is in line with the research results of Ghosh and Moon (2010), which showed that debt covenants harm earnings quality. A different result is shown by Kaushik and Kumar (2018), who concluded that the company's financial leverage level does not affect earnings quality. This study describes that financial leverage does not affect managers' behavior in managing earnings, both accrual and real.

Furthermore, Saksessia and Firmansyah (2020) proved that financial leverage positively affects earnings quality characterized by low earnings management actions. When earnings more accurately predict future cash flows, creditors have a lower risk because creditors can more accurately estimate solvency, liquidity, and bankruptcy risks. Therefore, management is committed to providing high-quality information to lower borrowing costs.

Meanwhile, the company's tax avoidance mechanism stimulates managers to manipulate earning figures. There is a complementary relationship between tax avoidance and earnings management (Yorke & Amidu, 2017). Watts and Zimmerman (1986) stated that the increase in companies' political costs encourages management to use accounting and business policies to delay reported earnings from the present to the future. This hypothesis uses political considerations in the choice of corporate accounting and business policies because highly profitable companies attract the media, consumers, and the authorities. Taxes are a form of political cost most companies avoid. This attention may lead to an increase in taxes and other regulations. In Indonesia, research on the association between tax avoidance and earnings quality was conducted by Anggreni et al. (2016), Saksessia and Firmansyah (2020). In these studies, tax avoidance negatively affects the company's earnings quality, aligning with the political cost hypothesis. Tax is one of the components in the financial statements that can be adjusted in number so that tax avoidance results in low-quality company earnings. Companies avoid tax because taxes are seen as a transfer of economic resources from the company to the government, reducing the company's welfare.

This study aims to investigate bonuses, debt covenants, and tax avoidance on earnings quality. These three variables are rarely tested simultaneously in previous studies. There are still several different results related to the effect of bonuses, debt covenants, and tax avoidance on earnings quality. These results' inconsistency is one reason for empirically testing these variables on the earnings quality. In contrast to Saksessia and Firmansyah (2020), who employed accrual earnings management, this study employs accrual and real earnings management to represent earnings quality to investigate further managers' mechanisms in managing reported earnings figures.

In addition, this study also employs corporate social responsibility as a moderating variable in examining the association between three independent variables and earnings quality which has never been done in previous research. Stakeholder theory states that corporate responsibility is oriented to the company's prosperity and shareholders and all those affected by the company's strategy or policy action. The success and achievement of company performance are determined by the manager's ability to manage various stakeholders (Lako, 2018). Bozzolan et al. (2015) proved that corporate social responsibility disclosure orientation harms earnings management. This study also concludes that companies with a corporate social responsibility disclosure orientation tend to use accrual earnings management rather than real earnings management. Different results were found by Mohmed et al. (2019), who concluded that corporate social responsibility disclosures are used to "green" poor earnings quality. Salewski and Zülch (2012) found that companies with higher corporate social responsibility disclosure levels, particularly in the social and environmental dimensions of social responsibility, are involved in more accrual earnings management.

Companies that disclose corporate social responsibility more broadly tend to carry out low earnings management. Previous research has also investigated the association between corporate social responsibility disclosure and tax avoidance. Corporate social responsibility disclosure harms tax avoidance (Rista & Mulyani, 2019). Companies with broader corporate social responsibility disclosure have lower levels of tax avoidance. Companies with high financial leverage tend to reduce corporate social responsibility disclosures not to become the spotlight of debtholders and remain attractive to investors. This description shows that companies committed to taking part in social responsibility activities will reduce the opportunistic behavior of managers and unethical actions such as earnings management so that reported financial statements have higher quality. The existence of bonuses, debt covenants, and tax avoidance that will increase managers' tendency to report manipulative earnings can be suppressed by corporate social responsibility disclosure to increase earnings quality.

This study complements the accounting research literature within the framework of positive accounting theory by testing the earnings quality and its association with bonuses, debt covenants, tax avoidance, and the role of corporate social responsibility disclosure in these associations. This research can also be considered in investors' investment decisions and creditors' loan decisions. Besides, this research can be used as material for consideration in improving policies by the Indonesia Tax Authority and the Indonesia Financial Services Authority.

This study uses company size, profitability, and share ownership by managers as control variables to control. Company size and profitability are also used as control variables in the study of Kaushik and Kumar (2018), Arizona and Anggreni (2017). The consideration used in determining these three variables as the control variable is that large companies tend to obtain more public attention, thus encouraging managers to prepare financial statements.

2. Methodology

2.1. Sample and Data

The data used in this research are manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2019. The selection of the initial observation year is based on the year after the Global Reporting Initiative published GRI G4 on May 22, 2013, and the effective implementation of the guidelines was carried out from 2014. The research data was collected from www.idx.co.id and the companies' websites using the documentation method. The information data used are financial statements, annual reports, and sustainability reports of manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2019. The sampling technique was carried out by purposive sampling with the following criteria:

Table 1. Research sample (Processed, 2021)

Criteria	Amount
Companies listed on the IDX as of November 2020	713
Companies listed on the IDX after January 1, 2013	-275
Non-manufacturing sector companies	-245
Companies with negative pretax income	-124
The elements or information in the worksheet are incomplete	0
Number of companies	69
Year	6
Total Samples	414

2.2. Variables Measurement

This study's dependent variable is earnings quality using accrual earnings management as a representation in measuring earnings quality. The proxy used is the Performance-Matched Discretionary Accruals Model by Kothari et al. (2005) because, in their model, they added changes in return on assets (ROA) to control performance.

The following formula calculates the Performance-Matched Discretionary Accruals Kothari Model:

$$TA_{it} = \alpha_0 + \alpha_1(\Delta REV_{it} - \Delta REC_{it}) + \alpha_2 PPE_{it} + \alpha_3 \Delta ROA_{it} + \varepsilon_{it} \quad (1)$$

where:

TA_{it} - total accrual of the company i in year t;

ΔREV_{it} - the difference in revenue of company i in year t and t_{-1};

ΔREC_{it} - the difference in net receivables of the company i in year t and t_{-1};

PPE_{it} - the PPE of the company i in year t;

ΔROA_{it} - return on assets of the company i in years t and t_{-1};

ε_{it} - discretionary accrual.

Total accruals are obtained by subtracting net income from cash flow from operating activities so that all variables are scaled to total assets in year t_{-1}. Earnings quality with discretionary accrual (DFIN_AEM) proxy in the company is shown from the residual value displayed by ε_{it}, where the residue is obtained from cross-section regression results each year. Cross-sectional regression was chosen to see the earnings quality from year to year. There could be different results in different years due to industrial conditions and policies in that year.

The independent variables in this study consist of bonuses, debt covenants, and tax avoidance. In Indonesia, companies are not required to publish a detailed management bonus amount, so using the bonus component is more appropriate because it produces a broader sample. This study employs only one bonus component, namely the net income trend index, as shown by Suryatiningsih and Siregar (2008), which are as follows:

$$\textit{Net Income Trend } (TRENLB_{it}) = \frac{\textit{Net income } (t)}{\textit{Net income } (t_{-1})}$$

Furthermore, the value of net income trends (TRENLBit) is converted into an index of 0 (zero) to 1. This index conversion needs to be done because there are two terms in the bonus contract: bogey and cap. If the profit is below the bogey, there is no bonus for management, as well as if the profit is above the management cap, there will be no additional bonus (Saksessia & Firmansyah, 2020).

The absence of general standards and data related to bogey and cap for companies in Indonesia causes the conversion of the index in this study still refer to the research of Suryatiningsih and Siregar (2008) with the provision that the index value ranges from 0 (percentage of net income growth ≤ 20%) to 1 (percentage of net income growth ≥ 105%). Meanwhile, the index value 0 - 1 for the conversion of 20% net income trend <TRENLB <105% is obtained using the following interpolation method:

$$\frac{X - X_1}{X_2 - X_1} = \frac{Y - Y_1}{Y_2 - Y_1}$$

where:

X - net income trend index value;

Y - net income trend;

X_1 - minimum index value (0);
Y_1 - net income trend for minimum index value (20%);
X_2 - maximum index value (1);
Y_2 - net income trend for maximum index value (105%).

Since the values of x_1,y_1, x_2, and y_2 have been determined, the net income trend value (y) can be found in the net income trend index value (x) is known. Therefore, the above interpolation formula can be simplified as follows.

$$\text{Net Income Trend Index } (ITRENLB_{it}) = \frac{TRENLB_{it} - 20\%}{85\%} \times 100\%$$

The debt covenant in this study uses financial leverage with the proxy of the debt to asset ratio. These proxies are also used by Ghosh and Moon (2010), Sakessia and Firmansyah (2020). This ratio measures the debt covenant variable because creditors pay attention to the company debt level and financial leverage is one of the benchmarks most often regulated in debt covenants.

$$DEBT_{it} = \frac{\text{Total Liabilities } (t)}{\text{Total Asset } (t_{-1})}$$

Tax avoidance in this study uses a permanent discretionary differences tax (DTAX) proxy (Frank et al., 2009). Frank et al. (2009) stated that this proxy better describes tax avoidance conditions than the previous proxies such as ETR, Cash ETR, and book-tax differences. The permanent discretionary differences tax (DTAX) proxies used in the study have been adjusted to Indonesia's conditions according to Rachmawati and Martani (2017) with the following formula.

$$PERMDIFF_{i,t} = \alpha 0 + \alpha 1 INTANG i,t + \alpha 2 \Delta NOL it + \alpha 3 LAGPERM i,t + \varepsilon i,t \qquad (2)$$

where:
$PERMDIFF_{i,t}$ - total book-tax-differences minus temporary book-tax-differences of company *i* in year *t* $(PTBI_{it} – (CTE_{it} / STR_{it}) – (DTE_{it} / STR_{it})$);
$PTBI_{it}$ – accounting income before tax of company *i* in year *t*;
CTE_{it} – tax expense of company *i* in year *t*;
STR_{it} – tax rates;
DTE_{it} – deferred tax expense of company *i* in year *t*;
$INTANG_{i,t}$ – total intangible assets including goodwill of company *i* in year *t*;
ΔNOL_{it} – change in net operating loss carryforward of the company *i* in year *t* with the previous year;
$LAGPERM_{i,t}$ – amount of $PERMDIFF_{i,t}$ in the previous year;
$\varepsilon_{i,t}$ – the permanent discretionary difference of company *i* in year *t*.

Tax avoidance with permanent discretionary differences (DTAX) in companies is shown from the residual value displayed by ε_{it}, where the residue is obtained from cross-section regression results each year. Cross-section regression was chosen to see tax avoidance yearly because there could be differences in results in different years due to industrial conditions and policies in that year.

The moderating variable in this study is corporate social responsibility disclosure. This study employs a checklist and weighting system that follows the adjusted GRI G4 standards. The checklist used has 91 indicators divided into three categories: the economic category with nine indicators, the environmental category with 34 indicators, and the social category consisting of labor practices and decent work totaling 16 indicators, human rights totaling 12 indicators, the society totaling 11 indicators, and product responsibility totaling nine indicators. The quantity of disclosure as the assessment criterion cannot describe the actual disclosure quality (Lee, 2015). Assessments using only the quantity of disclosures can be misleading or lead to misinterpretation of corporate social responsibility disclosures and can be minimized by examining the quantity and quality of information disclosed.

Table 2. Scale of the corporate social responsibility disclosure index (Compiled by the authors)

Scale	Description
0	Do not disclose
1	Minimum disclosure or briefly stated
2	Descriptive: presents a clear impact on the company or policy
3	Quantitative: the impact on the firm is clearly defined in monetary terms or physical quantity
4	Truly extraordinary

The scores obtained are then added up to get the total score of each company. The following formula calculates the corporate social responsibility disclosure.

$$CSRI_{it} = \frac{\sum X_{it}}{N}$$

where:
$CSRI_{it}$ – corporate social responsibility index of the company *i* in year *t*;
X_{it} – the total score of corporate social responsibility disclosures of the company *i* in year *t*;
N – the maximum total score of corporate social responsibility disclosures.

The control variables in this study consist of company size, profitability, and managerial ownership. Company size is calculated using the proxies used by Kaushik and Kumar (2018), Arizona and Anggreni (2017) as follows:

SIZE = Ln (total asset)

The company's profitability is calculated using the proxies used by Kaushik and Kumar (2018), Arizona and Anggreni (2017) as follows:

$$ROA = \frac{\text{Net Income}}{\text{Total Asset}}$$

Managers' share ownership is measured using the dummy variable, following Mahadwartha and Hartono (2002). They stated that data tendency in Indonesia is binomial (present or non-existent), so a dummy is used with the provisions D = 1 for companies with share ownership by managers and D = 0 for companies without share ownership by managers.

2.3. Research Models

The hypotheses are examined with multiple linear regression for panel data. To examine the association between the research variables in hypotheses one to three, the main research model (Model 1) is employed as follows:

$$DFIN\_AEM_{i,t} = \beta_0 + \beta_1 ITRENLB_{i,t} + \beta_2 DEBT_{i,t} + \beta_3 DTAX_{i,t} + \beta_4 SIZE + \beta_5 ROA + \beta_6 OWN + \varepsilon_{i,t} \quad (3)$$

Model 2 is used to test the role of corporate social responsibility disclosure as a moderator in hypotheses four to six.

$$DFIN\_AEM_{i,t} = \beta_0 + \beta_1 ITRENLB_{i,t} + \beta_2 DEBT_{i,t} + \beta_3 DTAX_{i,t} + \beta_4 CSRI_{i,t} + \beta_5 (ITRENLB_{i,t} * CSRI_{i,t}) + \beta_6 (DEBT_{i,t} * CSRI_{i,t}) + \beta_{7(} DTAX_{i,t} * CSRI_{i,t}) + \beta_8 SIZE + \beta_9 ROA + \beta_{10} OWN + \varepsilon_{i,t} \quad (4)$$

where:
$DFIN\_AEM_{i,t}$ - earnings quality of company *i* in year *t* represented by accrual earnings management;
$ITRENLB_{i,t}$ - the bonus of company *i* in *i* year *t*;
$DEBT_{i,t}$ - debt covenant of company *i* in year *t*;
$DTAX_{i,t}$ - tax avoidance of company *i* in year *t;*
$CSRI_{i,t}$ - corporate social responsibility disclosure of company *i* in year *t*;
SIZE - company size;
ROA – profitability;
OWN - share ownership by managers;
β_0 – constant;
β_1, β_2 *s.d.* β_9 - regression equation coefficient;
$\varepsilon_{i,t}$ - the error of company *i* in year *t.*

A sensitivity test was also conducted to compare the results obtained through the main research equation. The use of real earnings management as a representation of earnings quality aims to see whether there is a shift in the earnings management mechanism by managers when facing certain conditions. This study employs Cohen and Zarowin's (2010) models for earnings quality tested using real earnings management. First, in line with Zang (2012), this study multiplies abnormal operating cash flow and abnormal discretionary expenditures by minus one. Then, it combines them into one measure so that the higher values of these measures, the more it shows that the company is involved in earnings management through sale manipulation in the form of discounting excessively and cutting discretionary expenses to appear to operate more efficiently. Cohen and Zarowin (2010) measure normal CFO as a linear function of sales and changes in sales. To estimate this model, the measurements used are as follows*:*

$$\frac{CFO_{it}}{Asset_{\ i,t-1}} = k_1 \frac{1}{Asset_{\ i,t-1}} + k_2 \frac{Sales_{\ i,t}}{Asset_{\ i,t-1}} + k_3 \frac{\Delta Sales_{\ i,t}}{Asset_{\ i,t-1}} + \varepsilon_{i,t} \quad (5)$$

where:
CFO_{it} - cash flow from operating activities of the company *i* in year *t*;
$Assets_{it-1}$ - total assets of the company *i* in year t_{-1};
$Sales_{it}$ - sales of the company *i* in year *t*;
$\Delta Sales_{it}$ - change in sales of the company *i* in year *t*.

Abnormal CFO is the actual CFO minus the normal CFO resulting from the calculation. Furthermore, the fair value of discretionary expenses is presented as a linear function of sales using the following measurement model:

$$\frac{DiscExp_{it}}{Assets_{it-1}} = k_1 \frac{1}{Assets_{it-1}} + \varepsilon_{i,t} \quad (6)$$

where:
$DiscExp_{it}$ - total discretionary expenses (advertising expenses, research and development expenses, as well as general and administrative costs) company *i* in year *t*;
$Assets_{it-1}$ - total assets of the company *i* in year t_{-1};
$Sales_{it}$ - sales of the company *i* in year *t*.

Abnormal Discretionary Expense is actual discretionary expense less normal discretionary expense resulting from the calculation.

Earnings quality with a representation of abnormal real activities (DFIN_REM) in the company is shown from the total residual value displayed by εit. The residue is obtained from the cross-sectional regression results for abnormal CFO and abnormal discretionary expense each year. Cross-section regression is chosen to see the earnings quality from year to year because there can be differences in results in different years due to changes in industrial conditions and policies in that year.

To test the hypotheses one to three in the sensitivity test, the equation model (model 3) is used as follows:

$$DFIN\_REM_{i,t} = \beta_0 + \beta_1 ITRENLB_{i,t} + \beta_2 DEBT_{i,t} + \beta_3 DTAX_{i,t} + \beta_4 SIZE + \beta_5 ROA + \beta_6 OWN + \varepsilon_{i,t} \quad (7)$$

To analyze the role of corporate social responsibility disclosure as a moderator on the sensitivity test in hypotheses four to six, the equation model (Model 4) is used as follows:

$$DFIN\_REM_{i,t} = \beta_0 + \beta_1 ITRENLB_{i,t} + \beta_2 DEBT_{i,t} + \beta_3 DTAX_{i,t} + \beta_4 CSRI_{i,t} + \beta_5 (ITRENLB_{i,t} * CSRI_{i,t}) + \beta_6 (DEBT_{i,t} * CSRI_{i,t}) + \beta_{7(} DTAX_{i,t} * CSRI_{i,t}) + \beta_8 SIZE + \beta_9 ROA + \beta_{10} OWN + \varepsilon_{i,t} \quad (8)$$

where:
$DFIN\_REM_{i,t}$ - earnings quality of company *i* in year *t* represented by real earnings management.

3. Result and Discussion

3.1. Descriptive Statistics

The results of descriptive statistical analysis are presented in Table 3.

Table 3. Descriptive statistics of the research (Processed)

Var	Mean	Med	Min	Max	Std. Dev	Obs
DFIN-AEM	-1,68E-19	-0,00663	-0,2064	1,128	0,0878	414
DFIN-REM	-1,29E-17	0,03343	-0,744	0,43078	0,1988	414
ITRENLB	0,8309	1	0	1	0,2715	414
DEBT	0,3977	0,3947	0,00053	0,8638	0,1820	414
DTAX	-5,2E-19	-0,00135	-0,0742	0,216	0,0241	414
CSRI	0,474	0,34066	0,04396	2,47253	0,4069	414
SIZE	28,789	28,533	25,719	33,495	1,6117	414
ROA	0,0844	0,06089	1,94E-05	0,921	0,0919	414
OWN	0,4469	0	0	1	0,4977	414

3.2. Empirical Results

This study comprises four models: Models 1 and 3 to examine the association between independent variables and earnings quality represented by accrual earnings management and real earnings management and Models 2 and 4 to examine the role of corporate social responsibility disclosure as a moderating variable in association between independent variables and the dependent variable.

Table 4. Results of the research model regression test (1-4) (Processed)

	Main Research Model								**Sensitivity Test**							
	Model 1 (Y = DFIN_AEM)				**Model 2 (Y = DFIN_AEM)**				**Model 3 (Y = DFIN_REM)**				**Model 4 (Y = DFIN_REM)**			
	Coef	T-stat	Prob		Coef	T-stat	Prob		Coef	T-stat	Prob		Coef	T-stat	Prob	
C	-1,894	-5,849	0,000		-2.125	-5,455	0,000		-0,688	-1,708	0,044		-0,732	-1,517	0,065	
ITRENLB	-0,047	-5,246	0,000	***	-0,059	-4,464	0,000	***	-0,057	-5,176	0,000	***	-0,066	-4,011	0,000	***
DEBT	0,259	6,646	0,000	***	0,251	5,807	0,000	***	0,120	2,363	0,009	***	0,128	2,265	0,012	**
DTAX	0,508	4,505	0,000	***	0,749	4,594	0,000	***	0,362	2,605	0,004	***	0,476	2,103	0,018	**
SIZE	0,061	5,499	0,000		0,070	5,231	0,000		0,024	1,793	0,036		0,026	1,599	0,055	
ROA	0,747	8,577	0,000		0,733	8,586	0,000		-0,159	-1,779	0,038		-0,159	-1,671	0,047	
OWN	-0.012	-0,835	0.201		-0,019	-1,267	0,102		-0,035	-1,778	0,038		-0,034	-1,619	0,053	
CSRI					-0,056	-2,257	0,012	**					-0,022	-0,729	0,233	
ITRENLB*CSRI					0,034	1,797	0,036	**					0,022	0,899	0,184	
DEBT*CSRI					0,015	0,308	0,378						-0,002	-0,040	0,484	
DTAX*CSRI					-0,644	-2,021	0,022	**					-0,311	-0,748	0,227	
R^2	0,509				0,541				0,915				0,914			
Adj. R^2	0,402				0,435				0,897				0,894			
F-Statistic	4,763				5,079				49,864				45,873			
Prob. (F)	0,000				0,000				0,000				0,000			

Notes:
*** Effect at the 1% significance level;
** Effect at the 5% significance level;
* Effect at the 10% significance level.

4. Discussion

4.1. The Association between Bonuses and Earnings Quality

The hypothesis test suggests that bonuses have a positive effect on earnings quality. In this study, the positive effect of bonuses on earnings quality shows a robust trend using either real or accrual earnings management representations. The results in this study confirm the research results of Prihastomo and Khafid (2018). However, this result is different from Saksessia and Firmansyah (2020). The bonus plan hypothesis states that bonuses provide managers an incentive to beautify their earnings reports to obtain bonuses based on profit figures. Managers will use accounting and operating policies that tend to shift reported earnings from future periods to the current period to maximize personal compensation through target achievement so that profits become manipulative (Watts & Zimmerman, 1986). Bonuses based on net income also raise the risk of behavioral displacement in managers trying to achieve profit targets quickly, not in the right, optimal, and most profitable way for the company, as shown by real earnings management behavior.

The existence of bonuses does not encourage managers to intervene in reporting earnings figures either through accounting methods or by changing the company's business operation strategy. Managers' earnings management practices are not motivated by maximizing bonus earnings based on profit achievement. The existence of bonuses has succeeded in suppressing opportunistic behavior and aligning managers' interests with shareholders, as indicated by a quality earnings report.

The difference between the results of this study and the bonus plan hypothesis can be caused by the conditions of public company managers in Indonesia that are different from the conditions of company managers in developed countries. These conditions certainly give rise to different cultures, work orientations, and motivations for managers in Indonesia and developed countries. Managers will strive to maximize firm performance because they are aligned with the interests of managers in the managerial labor market.

Based on the company's annual report, the sample companies are dominated by companies that have an affiliation with the manager, especially the president director (CEO), either in the form of direct ownership, indirect share ownership through the controlling company or significant influence or family relationship with the controller. This condition makes managers who act as agents act as principals to minimize agency problems in information asymmetry. Besides, this condition also makes the manager's work orientation not solely driven by bonuses but for a larger purpose, namely creating value for the company in a correct and non-manipulative way (Meo et al., 2017). Share ownership by managers is beneficial for the company because it encourages managers to be less myopic in managing earnings to meet short-term goals, especially those motivated by bonuses. This finding aligns with the study by Meo et al. (2017), which states that when there are incentives to manipulate company performance, managers with company share ownership are less affected to engage in earnings management activities detrimental to shareholders.

Managers' reluctance to carry out earnings management to obtain bonuses concluded by this study also indicates that managers have understood the risks and negative consequences of earnings management. The principal also has action control to ensure that the results are achieved correctly, one of which is an audit of a monitoring cost of financial statements. Accrual earnings management is related to accounting method choice, which cannot be done without the auditor's approval. Real earnings management techniques such as price discounts, softer credit conditions, and reduced discretionary expenses increase income in the current period but negatively affect cash flow in subsequent periods.

4.2. The Association between Debt Covenants and Earnings Quality

The hypothesis test suggests that debt covenants harm earnings quality. In this study, debt covenants' negative effect on earnings quality shows a robust trend using either accrual or real earnings management representations. The result in this study confirms the findings of Ghosh and Moon (2010), Kusumawardani and Dewi (2016). However, this study's result is different from that by Kaushik and Kumar (2018). The effect of debt covenants on the earnings quality is predicted in positive accounting theory, the debt covenant hypothesis. This hypothesis states that when corporate debt increases and approaches the limit of debt covenant violations, it will encourage managers to manipulate profits, not violate the benchmark limits set (Watts & Zimmerman, 1986). Therefore, earnings management behavior driven by debt covenants will affect the low quality of company earnings because earnings do not reflect the company's actual fundamental performance.

In this study, the debt covenant is several restrictions approved by the borrower set by the lending institution. Debt covenants have many forms, either unfavorable contracts in prohibitions or favorable contracts in obligations. One form of debt covenant refers to the proportion of assets financed by debt or how many of them can be used as collateral for the company's debt, reflected in debt to asset ratio. The debt to asset ratio size as a benchmark in the company's debt covenant illustrates a debt to asset ratio ceiling that the company cannot exceed if it does not want to receive penalty consequences for breaching the contract. According to the contractual agreement that has been arranged, managers must carefully manage this debt level so that the company does not experience default (Kusumawardani & Dewi, 2016). A high debt to asset ratio increases the risk for creditors for loans. In addition to indicating high corporate debt, this situation also illustrates that the company's assets are insufficient to guarantee company debt (Saksessia & Firmansyah, 2020).

Manipulative behavior triggered by debt covenants arises because of an agency problem between the principal, the debtholder, and the agent, the manager acting on behalf of the shareholder. To minimize this agency problem, principals need to protect their interests by providing terms in debt covenants based on financial leverage with the hope that agents will obey these prohibitions by reducing the aggressiveness of business activities and risk of risk default can be avoided. Whereas if this limit is exceeded, the principal will provide a penalty in the form of compensation for the additional risk, which is usually in the form of an increase in the cost of debt or additional rules that hinder the work of the company and shareholders will respond to the situation by reducing the manager's compensation (Hussain et al., 2018). Besides, the urge to be involved in earnings management also arises because it can reduce creditors' trust when its financial performance is unsatisfactory.

The descriptive statistics of debt covenants indicate the sample companies' debt to asset ratio is still in the low category (Ghosh & Moon, 2010) with a continuing downward trend. Companies with low debt levels receive less supervision from creditors. Therefore, managers become more flexible in carrying out earnings management. In addition, Indonesian companies' characteristics are still not disciplined and require supervision from other parties (Saksessia & Firmansyah, 2020) so that when creditors relax supervision, companies will report low earnings quality.

Furthermore, the higher the company's debt level also does not guarantee that creditors will provide tighter supervision to ensure quality financial statements are prepared. The creditors' main interest is to fulfill their obligations (Firmansyah et al., 2020). Unlike investors and shareholders, creditors do not care about the quality of financial statements. Creditors do not utilize the company's financial statements as the primary source for making lending decisions. Creditors base their lending decisions on information beyond just financial statements such as business plans, internal management accounting information, tax reports, interview results, and other additional qualitative information.

4.3. The Association between Tax Avoidance and Earnings Quality

The hypothesis test indicates that tax avoidance harms earnings quality. In this study, the negative effect of tax avoidance on earnings quality shows a robust trend shown by the consistency of results using either accrual or real earnings management representations. This study's results reinforce previous studies that state that tax avoidance harms earnings quality (Putri et al., 2016). However, although this study and Husain (2017) use the population of manufacturing companies on the IDX, the results are different. The difference in this study's result can be caused by Husain (2017) using the conditional revenue model approach that Stubben (2010) offered to measure earnings management.

This study confirms the political cost hypothesis, which states that companies tend to avoid expensive political costs, one of which is in the form of tax burdens (Watts & Zimmerman, 1986) by being involved in tax avoidance mechanisms. One of the methods used to avoid tax is earnings management taking advantage of existing accounting gaps or operating strategies to minimize profits so that the payment of tax obligations is low. Managers who act on behalf of shareholders will try to maximize the company's welfare, which will directly impact the welfare of managers.

Tax avoidance results from the separation between ownership and control. Managers can use tax avoidance to carry out earnings management. Tax avoidance and earnings management that reflect managers' opportunistic nature are detrimental to the company (Putri et al., 2016). Companies that engage in tax avoidance are at risk. Suppose the tax authorities detect tax avoidance activities.

Therefore, tax avoidance behavior and earnings management can be driven by ex-ante efficient contracting motives, namely encouragement to maximize the company's and shareholders' welfare, and ex-post opportunism, namely encouragement to improve managers' welfare. One party that is bound to be harmed by tax avoidance is the taxation authority.

Taxes are mandatory contributions in transferring company assets to the state without direct reciprocal benefits. A significant tax burden will undoubtedly reduce its wealth because it represents a transfer of wealth from the company to the state (Watts & Zimmerman, 1986). In addition, companies with many tax deposits will also attract tax authorities' attention, which will impact increasing supervision or the revocation of tax facilities so that companies tend to avoid taxes to minimize these consequences.

Companies' tax avoidance behavior directly affects earnings quality because the tax burden is one component that makes up profit (Saksessia & Firmansyah, 2020). Companies that are more aggressively involved in tax avoidance indicate that they are also becoming more aggressive in managing earnings. The company's involvement in earnings management will undoubtedly reduce the quality of reported earnings. The low quality of company earnings will cause inappropriate decisions for company stakeholders, especially related to performance evaluation based on profit figures (Dechow & Schrand, 2004). Especially for tax authorities, low-quality earnings can cause tax revenue loss in transferring wealth from the government to shareholders.

4.4. The Role of Corporate Social Responsibility Disclosures in the Association between Bonuses and Earnings Quality

The hypothesis test indicates that corporate social responsibility activities weaken the positive effect of bonuses on earnings quality. Stakeholder theory states that corporate responsibility focuses on the company's welfare, its shareholders, and all parties affected by its strategy or policy actions. This theory explains that the company aims to maximize collective welfare, with profit defined as mere money and human welfare. The agency theory states that bonding costs can reduce asymmetric information between the agent and principal (Jensen, 1986). One form of bonding cost is corporate social responsibility disclosure.

In carrying out its social responsibility, the company initiates various policies, programs, and activities in the economic, environmental, social, human rights, community, and product responsibility aspects. Furthermore, the company presents all activities related to social responsibility separately in a sustainability report or incorporated in an annual report. These reports manifest agency costs as bonding costs, namely the manager's time and effort to demonstrate the alignment of interests with the principal. When viewed from stakeholder theory, corporate social responsibility activities are a form of company effort in managing good relations with all stakeholders. Stakeholder theory states that when a company is committed to social responsibility activities, the initiative shows more ethical corporate behavior. The agency theory states that company initiatives in social responsibility activities can suppress managers' opportunistic behavior. One of which is in the form of earnings management so that reported earnings have high quality.

Companies employ corporate social responsibility activities as a shield to cover unethical behavior such as earnings management to maintain good relations with all stakeholders (Yateno & Sari, 2016). Managers involved in earnings management can use corporate social responsibility disclosure to disguise their opportunistic behavior. Corporate social responsibility activities provide reputation assurance that motivates managers to manage earnings and presents poor financial statement quality. Managers who initially aligned their interests with shareholders because of the bonuses based on earnings view corporate social responsibility activities as justification for earnings management. Corporate social responsibility activities will make financial information more reliable for parties who use financial statements. Managers use this trust to launch their agenda through earnings management behavior. Therefore, this study's results indicate a misinterpretation by managers of the concept of corporate social responsibility. Corporate social responsibility activities, which initially aimed to reduce asymmetric information and suppress opportunistic behavior by encouraging applying a more ethical work paradigm, motivate managers to be involved in earnings management because they felt protected by established perceptions.

4.5. The Role of Corporate Social Responsibility Disclosures in the Association between Debt Covenants and Earnings Quality

The hypothesis test suggests that corporate social responsibility activities cannot weaken the negative effect of debt covenants on earnings quality. Corporate social responsibility activities' inability to suppress the negative effect of debt covenants on earnings quality shows a robust trend shown by consistent results using either accrual or real earnings management representations. Stakeholders theory views corporate social responsibility activities as encouraging the coordination of managers' and debtholders' interests. Corporate social responsibility demands a business commitment to act ethically to every stakeholder, including creditors. The agency theory explains that the emergence of agency problems between debt holders and managers is caused by the manager's welfare determined by shareholders' welfare. Thus, managers naturally are not interested in the interests of the debtholder. As a party that manages the resource, managers have more knowledge about the company than principals. However, the existence of corporate social responsibility activities can theoretically minimize this asymmetric information (Scott, 2015).

In a debt covenant, the debtholder has the right to receive the promised return with a level of risk manifested in the cost of debt and is regulated using a benchmark. Ethical managers will avoid aggressive behavior in doing business, knowing that these actions increase debtholders' risk. In addition, managers who have a good understanding of corporate social responsibility will realize that debtholders are as crucial as shareholders because they provide funds for its sustainability.

This study explains that corporate social responsibility activities cannot suppress managers' manipulative behavior using accounting methods or business operations driven by debt covenants. Managers still prefer to present earnings figures that can prevent the company from penalties imposed on debt covenant rather than presenting quality earnings figures that illustrate the company's actual performance and level of risk. Managers should be responsible for ensuring creditors are not threatened by the funding decisions given to the company. The existence of corporate social responsibility activities should be the basis for a more comprehensive disclosure to creditors. Managers have a responsibility towards creditors at all times, whether liquidity is good or towards bankruptcy (Sari et al., 2021).

The characteristics of the sample companies dominated by companies with high ownership concentration and CEOs with corporate stock ownership have low-quality implementation of corporate social responsibility activities not to improve the earnings quality. The sample companies' characteristics make managers prioritize shareholders' interests over other stakeholders, and corporate social responsibility activities cannot change this situation. Testing the fifth hypothesis strengthens the first and second hypotheses, showing no agency problems in the contractual relationship between managers and shareholders caused by bonuses. Opportunistic behavior will appear in the contractual relationship between managers and debtholders to avoid penalties if they are detected to exceed the debt covenant's benchmark limits. The finding aligns with Firmansyah et al. (2020), which states that a flow of funds in debt from external parties causes asymmetric information to impact the low earnings quality. The most disadvantaged party from this opportunistic behavior is the shareholders as the primary financial statements user.

4.6. The Role of Corporate Social Responsibility Disclosures in the Association between Tax Avoidance and Earnings Quality

The hypothesis test suggests that corporate social responsibility activities have succeeded in suppressing tax avoidance behavior so that the earnings quality represented by accrual earnings management increases. However, corporate social responsibility activities cannot minimize tax avoidance's negative effect on earnings quality as represented by real earnings management. Stakeholder theory views that the success and achievement of company performance are determined by managing all the various stakeholders (Lako, 2018). A manager has a responsibility to balance all parties' interests, both those whose support is needed for the company's continuity or other external parties whose interests conflict with the company, one of which is in the form of taxes. Companies can publish transparent tax information in corporate social responsibility disclosures to mitigate reputation risk as a free-rider (Sikka, 2013). An ethical manager will understand that tax is more than just a business cost but contributes to the state and has broad social implications (Sikka, 2010).

Paying taxes following tax provisions is an early indicator for corporate social responsibility claims (Sikka, 2010). A manager cannot claim that his company is ethical if he is still involved in tax avoidance. The socially responsible manager realizes that he lives and works economically, socially, and environmentally as a company representative. Taxes are part of companies' economic dimension, but for the state, taxes as state revenue are an essential element in fulfilling the state's goals. Taxes encourage the sustainability of a favorable business climate in a country. Without tax revenues, the government cannot provide basic infrastructure and services to the community, such as education and transportation, beneficial to company employees. The government cannot provide the services that companies need, such as financial markets, legal systems, supervision, and protection. Therefore, companies must pay taxes according to the provisions (Sikka, 2010). Corporate social responsibility activities are expected to minimize tax avoidance behavior and earnings management, which are unethical actions because they are detrimental to other stakeholders.

This study indicates that corporate social responsibility activities can be an alternative solution amid weak supervision of tax authorities (Wildan, 2020), low investor protection (Richardson, 2008), and ineffective corporate governance (Verhezen & Raby, 2019) in suppressing managers' opportunistic and unethical behavior that is detrimental to various parties. This test result illustrates that since the beginning, managers have known that tax avoidance, whether taking advantage of tax regulation loopholes or in the form of illegal tax evasion, is unethical behavior and cannot be morally justified.

5. Conclusion

Managers do not consider bonuses as an impetus for maximum personal gain. The existence of a bonus has succeeded in aligning the interests of the agent and principal. Companies with higher financial leverage report lower earnings quality. Managers tend to act opportunistically to avoid violating the debt covenant's benchmark limits because it will incur a penalty on the company. Companies that are aggressively engaged in tax avoidance impact lower earnings quality. Companies' tax avoidance behavior directly affects earnings quality because the tax burden is one of the components. The relationship between the government and manager who acts as a shareholder representative in the self-assessment tax system does not provide a monitoring mechanism as stringent as the agency relationship between shareholders and managers.

Furthermore, corporate social responsibility disclosure triggers managers' opportunistic behavior driven by bonus motivation. Managers use corporate social responsibility disclosure as a shield to cover up their unethical behavior. The increasing trend of corporate social responsibility disclosure from year to year cannot play a role in reducing the opportunistic and manipulative behavior of managers either using accounting methods or business operations driven by debt covenants. Corporate social responsibility disclosure can suppress tax avoidance behavior so that the earnings quality represented by accrual earnings management increases but has not been able to suppress opportunistic behavior to the core of the company's operations.

6. Limitations and Further Study

This study has several limitations. First, the internal researcher gives the index score for the corporate social responsibility disclosure using the content analysis method based on the sustainability reporting guidelines released by the Global Reporting Initiative. The content analysis method is always related to subjectivity issues. Second, the bonus proxies used in this study use the bonus component approach applied to state-owned enterprises in previous studies. This study's bogey and cap limits may not be appropriate for the research sample company.

Further research can use a longer research time interval to obtain a more extended series. This study's measurement of earnings quality uses a discretionary accrual proxy based on the performance-matched discretionary accruals model by Kothari et al. (2005). Real earnings management uses Cohen and Zarowin's (2010) model. Further research can use other accrual earnings management proxies, for example, those developed by Dechow and Dichev (2002), Kasznik (1999), or Stubben (2010), to confirm the results of this study. Regarding the debt covenant variable, further research can use other proxies often used as benchmarks in debt covenants such as the debt to equity ratio or can divide the analysis of debt covenants into two parts: high-leverage financial conditions and low-leverage financial conditions such as in the study of Ghosh and Moon (2010) or Valipour and Moradbeygi (2011).

This study indicates that Indonesia Financial Services Authority (OJK) can design sustainability reporting guidelines to be more effective in focusing on the accuracy and quality of corporate social responsibility activities to be more than just one-sided claims by companies. Also, The Indonesia Tax Authority can improve applicable regulations and increase companies' supervisory function related to tax obligations to minimize tax avoidance behavior that can reduce the earnings quality. Also, the Authority can consider corporate social responsibility issues in refining existing tax policies, especially in the criteria for taxpayer compliance risk management.

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