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ECO-FRIENDLY BUSINESS AND CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE THROUGH EARNINGS MANAGEMENT

Christina Dwi Astuti[1*]
Etty Murwaningsari[2]
Yvonne Augustine Sudibyo[3]
[1,2,3]Faculty of Economics and Business, Trisakti University
e-mail: cdwi_astuti@triskti.ac.id[1], etty.murwaningsari@trisakti.ac.id[2], yvonne.augustine@trisakti.ac.id[3]
*Correspondence: cdwi_astuti@triskti.ac.id[1]

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Abstract. This research aims to find the impact of Eco-friendly Business System Good and Corporate Governance Mechanisms on Financial Performance with Earning Management as a mediating variable. The samples are obtained from manufacturing companies listed on the Indonesian Stock Exchange from 2017-to 2019. The dependent variable in this research is Financial Performance, the independent variables are Eco-friendly Business systems and Good Corporate Governance, and the mediating variable is Earnings Management. Corporate Governance proxied by Independent Board of Commissioner, Institutional Ownership, and Audit Quality. This study is using a purposive sampling method. Data analysis using a regression model with SPSS tools. This research is expected to be able to provide information about factors that affect Financial Performance so it can be used as a consideration by investors and companies in making any decision. This research shows that an Eco-friendly Business System and Independent Board of Commissioner have a positive impact on Financial Performance, Audit quality hurts Earnings Management, and Earnings Management only mediates audit quality and financial performance. Institutional ownership has no direct and indirect effect on financial performance

Keywords: earnings management; financial performance; good corporate governance *(GCG);* eco-friendly business system.

INTRODUCTION

Today many companies are not only oriented toward the many profits that can be generated but also think about the impact of their business activities. This is due to the increasing public awareness that in addition to economic factors, social and environmental factors are also important for the creation of a sustainable company. Because of this, the company is currently expanding the things that must be prioritized (social and environmental). In addition, the company also needs to think about related parties who also have an interest in the company (stakeholders).

Stakeholders are all parties inside and outside of the company who can influence or be affected by the company's business activities and performance (Magdalena, Suharsono, & Roekhudin, 2019). Therefore, the company is not only oriented to the benefit of shareholders as owners, but also for the benefit of other stakeholders in carrying out their business practices, through the implementation of environmentally friendly business practices.

Environmentally (Eco) friendly business is a concept of legitimacy theory where companies need to ensure that all company activities are by applicable rules and norms, both in terms of social and environmental. This is so that the company's operations or activities can be accepted by various parties. The implementation of this friendly business system can improve the company's performance because the company's reputation and competitiveness in business will increase. Companies that implement eco-friendly business, have a more competitive advantage because stakeholders have an interest in information related to the impact of the company's business practices on the environment. The management of the company as a fund manager is required not only to account for the funds managed to generate profits but also to account for the impact that can be caused on social and environmental.

Besides an eco-friendly business system, a good corporate governance mechanism is needed in improving the company’s performance. Good corporate governance is minimizing the risk of fraud that can be done by company managers as managers. With the implementation of good corporate governance, managers will act fairly for all stakeholders and act not only to meet their own needs. Good corporate governance needs to be implemented to build stakeholders' trust in management. Through the implementation of good corporate governance and eco-friendly business, it is hoped that the company can sustain itself in the future.

METHODS

This research uses purposive sampling method. Data analysis used a regression model with SPSS tools. This study was conducted to see how the effect of the application of eco-friendly business and good corporate governance on the financial performance of companies with earnings management as a mediating variable. Data collection in this study uses secondary data, which refers to information collected from various sources that have existed previously in the form of financial statements (financial statements) and annual reports (annual report). This secondary data was obtained from the IDX's official website (www.IDX.co.id) or the company's official website. The data used in this study is data pooling, namely data whose observations are made on many objects and are carried out from time to time. The unit of data analysis carried out in this study is a manufacturing company listed on the Indonesia Stock Exchange from 2017 – until 2019.

RESULTS AND DISCUSSION

1. Description Research Object

The data used in this study used secondary data which included Annual Reports and Financial Reports on manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2016-to-2018. This research discusses the influence of green practices and good corporate governance on the company's financial performance with profit management as a mediation. Data were collected from 106 manufacturing companies. The number of samples used in this study can be seen in the following table:

Table 1. Sampling Data using Purposive Sampling

No.	Description	Total
1.	Manufacturing companies listed on the Indonesia Stock Exchange respectively during the period 2017-2019	144
2.	Manufacturing companies that do not have complete and relevant data related to the variables to be examined	(18)
3.	Companies that successively had negative profits during the period 2017-2019	(20)
4.	**Total companies**	106
5.	Number of years	3
6.	**Total observed**	318
7.	Data outlier	(168)
8.	**Total observe processed**	150

Source: Data processed (2021)

2. Descriptive Statistic

Descriptive statistics is a statistical method that provides a description or description of data that can be seen from the average (mean), middle value (median), the value that often appears (mode), variants, standard deviation, minimum value, and maximum value. The results of descriptive statistic tests that have been researched by the authors on green practices, good corporate governance consisting of an independent board of commissioners, institutional ownership, audit quality, then financial performance, and earnings management are as follows.

Table 2. Descriptive Statistic Test

	N	Min.	Max.	Mean	Std. Deviasi
Independent Board of Commissioners	150	0,33	0,67	0,3973	0,09772
Insttitutional Ownership	150	0,02	0,87	0,5233	0,26550
Earnings Management	150	-0,05	0,21	0,0570	0,03625
Financial Performance	150	-0,02	0,09	0,0430	0,02155

Source: Data processed (2021)

Based on table 4.2, it can be seen that the standard deviation result for all variables above is lower than the average, so this is a good representation of the overall data.

Tabel 3. Descriptive Statistic Test for Eco-friendly Business

		Frequency	Percentage
Valid	0,00	85	56,7
	1,00	65	43,3
	Total	150	100,0

Source: Data processed (2021)

Based on table 3, eco-friendly business variables are measured using a nominal scale, namely in the form of a dummy with a score of 0-1. If the company has ISO14001: 2015 certification, it is given a score of one while if it does not have the certification it is given a score of zero. In this study, there were 85 observed or equivalent to 56.7% of companies that did not have ISO14001 certification, and the remaining 65 observed or 43.3% of companies that had ISO 14001 certification.

Table 4. Descriptive Statistic Test for Audit Quality

		Frequency	Percent
Valid	0,00	107	71,3
	1,00	43	28,7
	Total	150	100,0

Source: Data processed (2021)

Audit quality variables are measured using the ordinal scale, namely in the form of the dummy with a score of 0-1. If the company uses the services of a public accounting firm that is included in the Big Four, it is given a score of one while if not it is given a score of zero. In this study, there were 107 observed or equivalent to 71.3% of companies that do not use the services of the Big Four public accounting firms, and the remaining 43 observed or 28.7%

use the services of public accounting firms Big Four.

3. Hypothesis Test

Multiple linear regression test testing can be done after the model of this study is qualified to pass the classical assumption test. Based on the tests that have been conducted, all data is distributed normally (p-value > 0.05), there is no multicollinearity (VIF < 10), and there is no heterodoxy (p-value > 0.05). In the first test, there was an autocorrelation, but using the Cochrane-Orcutt test obtained the results of no autocorrelation, so the multiple regression test can be continued.

Tabel 5. Hypothesis Test

FP = $\beta 0$ + $\beta 1$ECO + $\beta 2$INDBOC + $\beta 3$INST + $\beta 4$AQ + $\beta 5$EM + $\varepsilon 1$...............(1)				
Variable	**Predicted**	**Beta**	**Sig.**	**Conclusion**
Constant		-0,023		
Eco-friendly Business	+	0,016	0,000	H1 accepted
Independent Board of Commissioners	+	0,074	0,000	H2 accepted
Institutional Ownership	+	-0,003	0,589	H3 rejected
Audit Quality	+	0,005	0,178	H4 rejected
Earnings Management	-	-0,183	0,000	H5 accepted
	Adjusted R-Square		0,359	
Uji F		**Sig.**	0,000	
EM = $\beta 0$ + $\beta 1$ECO - $\beta 2$INDBOC - $\beta 3$INST - $\beta 4$AQ + $\varepsilon 1$.....................(2)				
Variable	**Predicted**	**Beta**	**Sig.**	**Conclusion**
Constant		0,049		
ECO	-	0,004	0,675	H6 rejected
Independent Board of Commissioners	-	0,007	0,750	H7 rejected
Institutional Ownership	-	-0,017	0,167	H8 rejected
Audit Quality	-	-0,034	0,000	H9 accepted
	Adjusted R-Square		0,148	
Uji F		**Sig.**	0,000	

Source: Data processed (2021)

Based on table 5. regression model could be draw:

FP = -0,023 + 0,016ECO + 0,074INDBOC – 0,003INST + 0,005AQ + 0,183EM

EM = 0,049 + 0,004ECO + 0,007INDBOC - 0,017INST - 0,034AQ

a. Goodness of Fit

The determination coefficient test is used to measure how far the model's ability to explain variations in dependent variables is. Based on Table 4.5 above, it is known that the Adjusted R Square value in the First Regression Model is 0.359. This shows that the independent variables in the First Regression Model can explain the dependent variables by 35.9% while the remaining 64.1% is explained by other variables that were not included in the model. Then in the Second Regression Model, the Adjusted R Square value is known at 0.148. This shows that the independent variables in the Second Regression Model can only explain the dependent variables of 14.8% while the remaining 85.2% is explained by other variables that were not included in the model.

b. F-test

Based on Table 4.5 Test Results of the First Regression Model Hypothesis of Sig values. by 0.000 < 0.05 then in the First Regression Model its independent variable simultaneously affects the dependent variable. Then for the Second Regression Model sig value. by 0.000 < 0.05 then in the Second Regression Model its independent variables simultaneously affect the dependent variable as well.

c. T-test

Based on table 4.5 above, eco-friendly business, independent board of commissioners, and earnings management have an impact on financial performance with a p-value < 0,05. On the other hand, institutional ownership and audit quality do not have an impact on financial performance. Eco-friendly businesses, the Independent Board of Commissioners, and Institutional Ownership do not have an impact on Earnings Management, but Audit Quality has an impact on Earnings Management.

To see if earnings management is a mediation variable, it is necessary to conduct a Sobel test. Based on the Sobel test, earnings management results were not able to mediate the influence of eco-friendly business (p-value = 0.569), independent board of commissioner (p-value = 0.859), and institutional ownership (p-value = 1.273) on financial performance. But earnings management can mediate the influence of audit quality on financial performance (p-value = 0.0031).

DISCUSSION

1. Eco-friendly Business System and Financial Performance

ISO14001 certification shows that eco-friendly business variables have a significant positive influence on the company's financial performance. This shows that ISO14001 certification can improve the financial performance of the company. In addition, with ISO14001 certification, the company gets appreciation and a good image from investors. Appreciation and improvement of the company's image can provide company benefits to improve company performance.

These results are from research conducted by (Feng & Wang, 2016), (Miroshnychenko, Barontini, & Testa, 2017) who stated that green practices have a positive and significant influence on the financial performance of companies while the results of this study are not in line with research conducted by (Przychodzen, Gómez-Bezares, & Przychodzen, 2018) which has a negative influence. The existence of this positive influence is to the concept of legitimacy theory and stakeholder theory which states that the company in carrying out its business activities must get legitimacy from the surrounding environment and must be responsible to various stakeholders who influence the company because the company's decisions and behavior have an impact on the welfare of the surrounding community.

2. **Independent Board of Commissioner and Financial Performance**

The Independent Board of Commissioners has a positive influence on the company's financial performance. The results of this study showed that a large number of independent boards of commissioners made supervision of the company's management better. Like agency theory, management considers independent commissioners. Management becomes more alert to agency issues as independent commissioners are fully dedicated to overseeing management's performance and behavior. Supervision carried out by this independent commissioner can prevent or reduce management's actions in achieving its interests solely because each supervision can be intensive management as an agent to act as well as possible towards the interests of stakeholders. With a large number of independent commissioners as one of the mechanisms of corporate governance, it will improve the company's financial performance.

The results of this study are in line with research conducted by stating that the mechanism of good corporate governance, with the measurement of the independent board of commissioners, has a positive influence on the company's financial performance (Mahrani & Soewarno, 2018), but the results of this study are not in line with (Fadillah, 2017) which states that the independent board of commissioners has a significant negative influence on the company's financial performance.

3. **Institutional Ownership and Financial Performance**

Institutional ownership does not have a positive influence on the financial performance of the company. This can happen because the implementation of corporate governance is more shown to the moral responsibility to the public for the values that have been applied to create a good system. The existence of institutional ownership does not guarantee that it will improve the company's financial performance.

The results of this study are in line with research conducted by (Fadillah, 2017) and are not in line with research conducted by (Mahrani & Soewarno, 2018) and (Mahrani & Soewarno, 2018) which stated that institutional ownership has a positive influence on the company's financial performance. The results of this study contradict the theory of stakeholder theory (stakeholder theory) which states that stakeholders are individuals or groups who can exert influence or exert influence to achieve company goals. The effect of institutional ownership on financial performance can be caused by the negligence of the institution in supervising the company so that the existence of institutional ownership does not influence the company's financial performance.

4. Audit Quality and Financial Performance

The quality of the audit does not have a positive effect on the financial performance of the company. This may happen because the reputation of the Public Accounting Firm alone is not enough to affect the company's financial performance. The results of this study show that the reputation of the Public Accounting Firm as an external auditor does not help management's performance to provide appropriate opinions on the company's conditions. Opinions issued from public accounting firms that have a good reputation are not enough to affect improving the company's performance and maintaining the company's sustainability.

This result does not match the research conducted by (Mahrani & Soewarno, 2018) and (Phan, Lai, Le, & Tran, 2020) which stated that the quality of audits has a positive influence on the company's financial performance. This result also contradicts agency theory that one way to reduce conflicts of interest between agents and principals can be done by improving corporate governance, one of which is by improving the quality of audits from the Big Four Public Accounting Firms that have market confidence. The role of a Public Accounting Firm that has a good reputation is not enough if it is not balanced with the suitability of the audit specialization of the Public Accounting Firm concerned.

5. Earnings management and Financial Performance

Earnings management has a negative influence on financial performance. Users of financial statements see the profits generated by the company as a benchmark in assessing the success of a company. Profit management actions carried out by the company's management can reduce the quality of the company. Good information presented by the company in the financial statements can hurt the company's financial performance so that its performance can decrease.

The results of this study are in line with research conducted by (Audita Cahya Camila, Sucipto, & Khairiyani, 2019) and (Mahrani & Soewarno, 2018) which stated that profit management has a negative influence on the company's financial performance. But the results of this study contradict research conducted by (Al-Shattarat, Hussainey, & Al-Shattarat, 2018) which stated that profit management has a positive influence on the financial performance of the company. The results of this study are by agency theory which states that agents in agency relationships must provide transparent and reasonable information to prevent information asymmetry that can trigger conflicts of interest. If the practice of profit management or profit manipulation is continuously carried out, it can trigger a greater asymmetry of information so that in the future it can trigger agency costs.

6. **Eco-friendly Business and Earnings Management**

Eco-friendly businesses do not influence profit management. This result shows that the improvement of eco-friendly business carried out by the company to improve environmental performance does not influence improving earnings management actions. Although implementing the system requires no small cost, companies that implement ISO standards are certainly more concerned about compliance and stakeholders so that the company does not take actions that are considered negative such as earnings management practices. In addition, companies that implement the system maintain long-term relationships with investors so companies try not to practice profit management to maintain long-term relationships.

The results of this study are not in line with research conducted by (Mahrani & Soewarno, 2018) which states that improving environmental performance can improve profit management action. But supports stakeholder theory where the company strives to not only fulfill its interests but also to meet the interests of stakeholders to create a sustainable company.

7. **Independent Board of Commissioner and Earnings Management**

The Independent Board of Commissioners does not influence profit management. This shows that the presence of existing independent commissioners in the company does not affect the possibility of decreasing profit management practices. This may happen because the implementation of corporate governance is often just a symbol, but the application is not perfect because the company has not carried out good corporate governance functions.

The results of this study do not support the research conducted by (Al-Shattarat et al., 2018), and (Mahrani & Soewarno, 2018) which stated that the Independent Board of Commissioners has a negative influence on earnings management. The results of this study are likely to be ineffective supervision carried out by the independent board of commissioners conducting supervision can also be used as a cause of the non-effect of the presence of an independent board of commissioners on the decline of earnings management practices. The results of this study contradict agency theory which states that agents must act fairly towards the principal by providing information that is by the company's conditions. If not, then it can trigger the emergence of conflicts of interest between management and stakeholders.

8. **Institutional Ownership and Earnings Management**

Institutional ownership does not influence profit management. Institutional ownership can control management through the monitoring process effectively to reduce earnings management practices. However, ineffective supervision and control carried out by institutions can lead to the inefficiency of institutional supervision and control in lowering earnings management practices.

The results of this study do not support the research conducted by (Kurniawati, Wahyuni, & Putra, 2017) and (Mahrani & Soewarno, 2018) which stated that institutional ownership has a negative influence on earnings management. The results of this analysis are supported by the stakeholder theory, regarding a group of people or individuals who exert influence or are given the influence to achieve the company's goals to meet the interests of both parties.

9. Audit Quality and Earnings Management

Audit quality has a negative influence on earnings management. These results show that the quality of audits can reduce profit management practices in the company. Company managers who are clients of the Big Four Public Accounting Firm tend to avoid profit management practices because the Big Four Public Accounting Firms are publicly known to cause caution and uphold the independence of it raises managers' concerns that manipulating reports will be detected and found, then can destroy the company's image. In addition, the reputation of the Public Accounting Firm as an external auditor can minimize the case of earnings management and increase the credibility of accounting information in financial statements.

The results of this study are in line with research conducted by (Lopes, 2018) and (Mahrani & Soewarno, 2018) which stated that good corporate governance projected by audit quality has a negative and significant influence on the company's financial performance. The results of this analysis are supported by the stakeholder theory that stakeholders are groups or individuals who can influence the company.

CONCLUSIONS

This research was conducted to obtain empirical evidence on the Influence of Eco-friendly Business systems and Good Corporate Governance on Financial Performance with Profit Management as a Mediation in manufacturing companies listed on the Indonesia Stock Exchange (IDX) from the period 2017-to 2019. Based on the results of the analysis of the data that has been discussed, it can be concluded that: 1) An eco-friendly Business system and Independent Board of Commissioners have a positive impact on financial performance. 2) Institutional Ownership, Audit Quality, and Earnings Management do not have an impact on financial performance. 3) The eco-friendly Business system, Independent Board of Commissioners, and Institutional Ownership do not have an impact on Earnings Management. 4) Audit Quality hurts Earnings Management. 5) Earnings Management only mediates audit quality to financial performance. Limitations of the research are that the company's different conditions from year to year can cause different or varied increases and decreases in value, resulting in a lot of data outliers. For future research, we recommend that researchers can add other variables such as tax avoidance and social performance as independent variables.

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