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The Interaction Between Corporate Social Responsibility and Earnings Management Using Board Characteristics as Moderating Variable

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Abstract
This study examines the nature and significance of the moderating effect of board of commisioners characteristics on the relationship between the disclosure of corporate social responsibility and earnings management. Using a sample of 30 manufacturing companies listed in the Indonesia Stock Exchange overs the period of 2010-2015, the results show that the disclosure of corporate social responsibility significantly affect earnings management. While board of commisioners characteristics which are board educational background and frequency of board meetings strengthen the relationship between the corporate social responsibility disclosure and earnings management..

Keywords: ***corporate social responsibility, corporate governance, earnings management, board of commisioners.***

Introduction

The Income Statement contains useful earnings information for users to determine company's financial performance. Income Statement provides the information needed by shareholders and potential investors in making decisions to invest their funds.

In Indonesia, earnings management case occurs in large companies. Some of the big cases are PT Kimia Farma, PT Indofarma, and PT Ades Alfindo. The case in PT Kimia Farma occurred in 2002 which is the overstated of Rp32.7 billion, of which 2.3% came from sales and 24.7% came from PT Kimia Farma's net profit. The fault comes from overstated on sales of raw material industry units, on inventory of goods at central logistics units, and on merchandise of inventory, and on sales.

The case of PT Ades Alfindo was revealed in 2004 when the new management of PT Ades discovered the inconsistency of recording on the sales Period of 2001 to 2004. Management reported real sales amount is lower than the real amount. This missing is caused by the financial statements reported by PT Ades did not include sales volume in the audited financial statements. In the same year also PT Indofarma overstated the value that should have been reported, consequently referring to a higher profit which reported.

In carrying out its business activities, the company also has responsibilities to the stakeholders, whether internal or external. Stakeholders in a company include owners or shareholders, creditors, employees, suppliers (suppliers), consumers, communities, and the environment around the company. Corporate social responsibility itself sees how much company awareness about how its business decisions can affect the surrounding community.

Social responsibility, also known as Corporate Social Responsibility (CSR), oriented to society and business. According to Marhun in Sueb (2001), if the company does not give attention to the factors around it, as a unity of mutual support, then it can terminate the existence of the company. Implementation of social responsibility will be socialized to the public through social disclosure in the annual report (Yap and Widyaningdyah, 2009).

Reliable accounting earnings information disclosure is closely related to CSR because CSR provides the basis of trust to outsiders regarding the company's policies and operational activities. This is because CSR is related to ethics and moral issue, the attitudes of corporate in decision making which compliant with the rules and applicable laws (Heal, 2008). By participating in CSR activities, company will get a positive image by stakeholders to build better relationships with the community, build a reputation that will increase the ability to negotiate regulations and contracts with government and suppliers, set a favorable price for goods and services and reduce capital costs. So it can be concluded that the purpose of CSR activities is to gain support from various stakeholders within the company. In accordance with the paradigm shaped by various CSR experts, companies that conduct CSR activities are companies that demonstrate the ethics, morale and corporate social responsibility to stakeholders .

Agency theory explains that agency relationships arise when one or more people (principal) hire another person (agent) to provide a service and then delegate decision-making authority to the agent. The occurrence of a conflict of interest between the owner and the agent is because the possibility of the agent to act not accordance with the interests of the principal, thus triggering agency costs. As agents, managers are morally responsible to optimize the benefits of owners by obtaining compensation in accordance with the contract.

Ghozali and Chariri (2011) stated that accordance to stakeholder theory, the company is not an entity that only operates for its own interests but must provide benefits to its stakeholders (shareholders, creditors, consumers, suppliers, government, community, corporate analysts, and others). a recognition of the legality of something. An organization's legitimacy can be said to be a potential benefit or source for the company to survive (Dowling and Preffer, 1975). Carrol (1979) proposes the concept of a CSR pyramid consisting of economics, legal, ethics and philanthropy. Elkington (2007) proposes the concept of triple bottom line (people, profit, planet) which means that companies must be balanced in social, economic and environmental activities.

Various studies have tried to examine the relationship between CSR and earnings management and obtain two points of view. Some research tried to examine the relationship between CSR and earnings management, among others are Chih et al (2008) which conducted a study of CSR items at 1,653 companies in 46 countries, found that there was a negative relationship between CSR and earnings management. Instead of, the image as an ethical company yet ensure that the company does not engage in unethical activities within financial reporting. As has been explained above, company which doing earnings management has an incentive to increase CSR activities with a motive to cover up earnings management. Prior Research et al. (2008) has shows that 593 companies from 26 countries around the world do activities CSR with motivation to cover earnings management. In research of tax, Sikka's (2010) found that company doing CSR activities turned out to be tax evasion.

Good corporate governance (good corporate governance) found to be closely related to financial performance or earnings quality reported by the company (Murhadi, 2009). Implementation of corporate governance based on agency theory. The phenomenon of agency theory (agency theory) (Jensen and Meckling, 1976) indicate that there is a difference interests between internal parties and external parties may result the misuse of financial statements. This is due to the internal parties financial statements are used to show their performance is seen good although the company's condition is not good for keeping investors to invest in the company. While the importance of financial statements for external parties as users the company's financial statements are to know the real condition of the company at this time to predict the condition of the company in the future, a decision-making tools.

To overcome this problem a governance mechanism is required, a mechanism related to supervision and management of the company. Currently there are many researches about the effectiveness of corporate governance mechanisms and its effect on earnings management. The results were also different. Ujiyantho and Pramuka (2007) conducting research in Indonesia states that the existence of independent commissioners has an effect on earnings management means the existence of an independent commissioner on the board of commissioners will reduce the earnings management. While Xie et al. (2003) doing research in the United States found that earnings management tend to be rare in firms run by board with financial background. Conger et al. (1998) done research in the United States, states the more frequent of board meetings, will increase the effectiveness of the board. An active board meeting is more likely to do its duties in accordance with the interests of shareholders (Vafeas, 1999) and more strive to monitor the integrity of financial statements.

But the opinion is contrary to the results of research in Indonesia by Isnanta (2008) and Mintara (2008) that existence independent commissioners have no effect on earnings management due the implementation of the new corporate governance has impact over time long, after all rules are implemented according to the existing mechanism.

As there are variations of previous research results as has been done mentioned above; researchers are motivated to conduct research on the influence of disclosure levels of social responsibility and the characteristics of boards of commissioner on earnings management at the listed manufacturing company at Indonesia stock exchange. However, there are some differences in this study with the previous research; this study used a combination of levels disclosure of corporate social responsibility and corporate mechanisms governance to detect its effect on earnings management. Other than that this study uses the ISO 26000 standard as an indicator of measurement level of corporate social responsibility disclosure. For variables corporate governance mechanism, the researcher uses the characteristic of the board educational background and frequency of board meetings. There are some differences in this thesis with previous research will contribute to the development of science.

Hypotesis

The Interaction Between Corporate Social Responsibility Disclosure and Earnings Management

Several studies have analyzed the relationship between the disclosure of social responsibility (CSR) and accounting (Richardson and Welker, 2001; Margolis and Walsh, 2003; Messner, 2009; Blomgren, 2011). It seems that the high standards of CSR are positively related to quality high accounting of the company (Carnegie and Napier, 2010). Stakeholder theory suggests that firms can reduce agency costs by taking social initiatives that affect stakeholders' relationship. The underlying reason for this is that socially responsible companies aren't believe to hide unfavorable earnings information so it will not perform manipulation (Chih et al., 2008). Earnings management is considered as irresponsible and inconsistent actions with CSR performance. In other words, CSR adds transparency and promotes stakeholder engagement, reducing the opportunity or incentive to manage earnings.

To test the dominance of this contradictory view, the authors propose as the following hypothesis:
H1: There is a significant negative relationship between the disclosure of social responsibility and earnings management

Board Educational Background Moderate The Relationships between the Level of Disclosure of Social Responsibility and Earnings Management

Saputra (2002) states that formal education aims to equip people with the basics of knowledge, theory, logic, ability analyze and develop character and personality. The higher the education which is pursued, both formal and non formal education according to the field work then the higher the intellectual experience possessed. This intellectual experience will be able to facilitate the execution of the work. According Kusumastuti et al (2007) university education can helping someone in his career progress, that someone with higher education will have a career ladder higher and faster.

Board of commissioners who have competence in the economic field will better in managing the company than the board who have no competence in the economic field. In this case, the decision that will be taken for the company will be better because it is managed by the board who understand the field of economy and business to tighten supervision of the board of directors. In line with this, Agrawal and Chadha (2005) finds the low probability of manipulation in companies with boards who have knowledge in accounting and finance. Research conducted by Reno (2012) shows that education has a positive influence on the quality of accounting information presentation so that will strengthen the relationship between corporate social responsibility and earnings management. Hence the proposed hypothesis:

H2: Educational background of the board of commissioners strengthens the relationship between the level of social responsibility disclosure and earnings management

Frequency of Board Meetings Strengthen the Relationship between The Social Responsibility Disclosure and Earnings Management

Board meetings are important in determining the effectiveness of the board in exercising supervision and control. Board meeting is a communication tools and coordination between the members of the board in performing their duties as the supervisor of management. In the meeting will be discussed the direction and strategy of the company, the evaluation of policies that have been taken by management, as well as address the issue of conflict of interest (FCGI, 2002)

From the perspective of agency theory, the frequency of meetings can be viewed as the time proxy used by the board to carry out the task and the level of their monitoring activities (Laksamana, 2008). The frequency of board meeting every year usually depends on the size of the company and the duties of the board to ensure that the performance of the board can meet the expected objectives. Visvanathan (2008) found a negative relationship between the frequency of board meetings with real earnings management (REM) through discretionary cost reductions, not through sales manipulation and elevating post-SOX. This is because the board of directors who meet routinely will have plenty of time to detect REM. While Gulzar and Wang (2011) found that the effectiveness of an independent board of commissioners will increase with the activity of the board of commissioners shown by the high number of meeting frequencies. It can be concluded that the board who routinely conduct meetings is better able to limit the manipulation activities undertaken by management. So as to strengthen the relationship between corporate social responsibility with earnings management it will be obtained hypothesis as follows:

H3: The frequency of board meeting will strengthen the relationship between the level of social responsibility disclosure and earnings management

Method

This study is a hypothesis testing research that examines whether the predicted relationship is proven and answers beyond research questions have been obtained (Sekaran and Bougie, 2010).The population in this study is manufacturing companies listed on the Indonesia Stock Exchange. This research uses purposive sampling technique. The criteria are manufacturing companies listed on the BEI for the financial years 2010 to 2015, and publish an annual report provide complete information in compliance with the variables in this study.

Data collection methods at this study uses secondary data taken from the annual report of manufacturing company listed on BEI years 2010 until 2015. Data collected from www.idx.co.id and from the web site each of sample company.

Regression model used to test the relationship of corporate social responsibility disclosure and corporate governance mechanism to earnings management is as follow:

$DA_1 = £_o + £_1 CSR + \beta$

$DA_2 = £_o + £_1 CSR + £_2 EDU + £_3 CSR.EDU + \beta$

$DA_3 = £_o + £_1 CSR + £_2 FREC + £_3 CSR.FREC + \beta$

Description:

DA = discretionary accruals

CSR = corporate social responsibility disclosure

EDU = board educational background

FREC = frequency of board meetings

CSR.EDU = interaction between corporate social responsibility and board educational background

CSR.FREC = interaction between corporate social responsibility and frequency of board meeting

$£_o$-$£_3$ = regression coeficient

β = residual variable

Results and Discussion

Hypothesis testing

Table 1 The Interaction Between Corporate Social Responsibility Disclosure and Earnings Management

Dependent Variable	Independent Variable	Coefisient	Significance
Earnings Management (Y)	Constants (a)	0.235	0,011
	CSR	-0.012	0,008
	F	5.880	0,008
	R2	0,91	

The result show the coefficient value variable level regression disclosure of social responsibility (X) is -0.012 marked negative by level significance of 0.008. Significant value is less than alpha (0.008 <0.05). With thus, the first hypothesis (H1) which states that "level disclosure of social responsibility have a significant negative effect to earnings management manufactures listed on the BEI from the Year 2010-2015 "accepted.

This study is consistent with Kim's et.al(2012) indicating there is a significant negative relationship of corporate social responsibility to practice earnings management. According to Kim, et.al. (2012), the existence of social responsibility activities on the annual report will create a more reliable of financial information. Research Scholten and Kang (2012) as well show a negative relationship between CSR and earnings management, and found companies with relatively higher levels of CSR have significant negatively related to earnings management. Chih et. al (2008) found similar results and stated that CSR can improve transparency and reduce management opportunities in earnings management.

The result of first hypothesis is there is a significant influence between the level of social responsibility disclosure with the earnings management in manufacturing companies listed on the BEI from the years 2010 to 2015. The negative influence means the increased social responsibility disclosure cause the decrease of earnings management.

Result of this study are also in accordance with research by Laksmana and Yang (2009) where they try to test the relationship between corporate citizenship (CSR) and four attributes of earnings, ie earnings persistent, earnings predictability, profitability and earnings accruals. It was found out that companies with high CSR levels had more predictable, more persistent and smoother earnings than profits from firms with lower CSR.

The results show that firms that are better at disclosing information about their social activities will be more restrictive to the practice of earnings management. Disclosure of corporate social responsibility will make financial reporting transparent, thus encouraging management to reduce earnings management practices. In other words, companies who report on social responsibility activities is a company that behaves ethically so as to reduce the opportunities and incentives management to manage earnings.

Table 2 The Moderating Effect of Board Educational Background in the Relationship between Social Responsibility Disclosure and Earnings Management

Dependent Variable	Independent Variable	Coefisient	Significance
Earnings Management (Y)	Constants (a)	0,038	0,442
	CSR	-0,041	0,003
	EDU	-0,122	0,112
	CSR.EDU	0,036	0,025
	F	6,816	0,014
	R2	0,16	

The table show coefficient regression value of board educational background (moderating) is 0.036, marked negative with a significance level of 0.025. The significance value is less than alpha (0.025 <0.05) indicating that the board of commissioners' education strengthen the relationship between the level of corporate social responsibility disclosure and earnings management. Thus the second hypothesis (H2) stated "Education board of commissioners strengthens the relationship between the level of disclosure of social responsibility and earnings management" be accepted.

This significant coeficient of EDUC is similar to that of Xie et al. (2003) who found that earnings management tended to be rarely exist in firms conducted by boards of commissioners with a financial background. More over research by Reno (2012), shows that education has a positive influence on accounting information disclosure.

The results is similar with that of by Xie et al. (2003) who found that earnings management tended to be rare in firms run by boards of commissioners with a financial background. Research conducted by Reno (2012), shows that education has a positive influence on the quality of presentation of accounting information.

The result is consistent with agency theory stating that the potential for conflicts of interest within the company can be minimized by a supervisory mechanism that aligns interests between managers and shareholders. The company's supervision mechanism is known for good corporate governance which one of its mechanisms is the board educational background. The results of this study also support the theory of stewardship states that people are essentially trustworthy, capable of act with full responsibility, have integrity, and honesty to others. In other words, the stewardship theory views management or managers as trustworthy to act best for the owner's interest.

Board of commissioners should have adequate accounting or finance capability so that they can conduct more effective supervision in financial reporting process. Board of commissioners with accounting or finance educational background usually have better performance because the they are understands about accounting and will not easily be fooled by management

Table 3 The Moderating Effect of Board Educational Background In The Relationship Between Corporate Social Responsibility Disclosure And Earnings Management

Dependent Variable	Independent Variable	Coefisient	Significance
Earnings Management (Y)	Constants (a)	-0,02	0,572
	CSR	-0,024	0,001
	FREC	-0,049	0,293
	CSR.FREC	0,009	0,035
	F	6,291	0,026
	R2	0,115	

Table show the regression coefficient of frequency of board meeting (moderating) is 0.009, marked positive with a significance level of 0.035. The significance value is less than alpha (0.035 <0.05) indicates that the frequency of board meetings is significant in moderating the relationship between the social responsibility disclosure and earnings management. Thus the third hypothesis (H3) states "The frequency of board meetings strengthens the relationship between the social responsibility disclosure to earnings management". Be accepted.

This result is similar with that of by Xie et al. (2003) who found that the frequency of board meetings increase the monitoring fuction so that the company disclosure become wider. The more often the board of commissioners held their meetings, the monitoring function more effective so that the disclosure made the company will be more widespread. Similarly Brick and Chidambaran (2007), said that the more often the board of commissioners held a meeting it will further improve its performance

Board meetings are important in determining the effectiveness of the board in exercising supervision and control. Board meeting is a communication tools and coordination between the members of the board in performing his duties as a management supervisor. According to Conger et al. (1998), the more frequent of board meetings, the more effective the board will be. Gulzar and Wang (2011) states that the effectiveness of an independent board will increase by the board activities indicated by the high number of meeting frequencies

During the meeting, boards coordinate and perform its duties in supervise financial reporting. A more frequent board meetings may reduce the possibility of fraud, because regular meetings allow the board to identify and resolve potential problems, especially those related to the quality of financial reporting. With the evaluation of performance and supervision on a regular basis is expected will be more difficult for a manager to manipulate financial data so that earnings management practices can be minimized.

From the perspective of agency theory, the frequency of meetings can be viewed as the time proxies used by the board to carry out the tasks and levels of their monitoring activities. With the frequent meetings of boards, the supervision of management will be increase. Boards that rarely meet may only have time to approve management plans and listening presentations so that time to focus on issues such as earnings management will be limited. This show that board activity affects performance, and this is an important factor in hindering earnings management.

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Conclusions

Based on the findings and results of data analysis described in the previous section, the conclusion is as follows:

1. There is a negative and significant relationship between the level of corporate social responsibility disclosure and earnings management.
2. The Board of Commissioner's educational background strengthens the relationship between the level of corporate social responsibility disclosure and earnings management.
3. The frequency of meetings of the board of commissioners strengthens the relationship between the level of corporate social responsibility disclosure and earnings management
4. Results are in accordance with the stakeholders theory and agency theory whichstated that the management as the agent in the company acting align with the stakeholders interest to maximize the owner profit.
5. 1. For academic, this research result should be able to add information and contribution as the next reference related to corporate social responsibility, good corporate governance and earnings management.

Implications

1. For the practitioners

a. It is expected for practitioners to pay attention to the level of corporate social responsibility disclosure activities that will have a positive impact on image and company performance.

b. Companies can pay attention to the recruitment process into consideration of board educational background in the economic and business fields so as to contributel to the performance of the company.

c. The Company can increase the intensity and effectiveness of board meeting so as to minimize the possibility of earnings management within the company.

2. For the investor, in the case of decision making to invest in a company that the disclosure of corporate social responsibility and the implementation of corporate governance mechanism can be one factor that helps investors to consider in investing.

3. For the government, the problem in this research opens opportunities for policy makers to establish rules and oversee the implementation of the rules that have been made so that each company has a standard that is to be complied with in terms of guidelines for implementation of corporate social responsibility and the corporate governance.

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