THE INFLUENCE OF THE LEVEL OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURES TO EARNINGS QUALITY

Stelah Yanuaristi Tamba
Jenjang Sri Lestari

International Financial Accounting Program (IFAP)
Economic Faculty
Universitas Atma Jaya Yogyakarta
Jalan Babarsari 43-44, Yogyakarta

ABSTRACT

This research is aimed to examine the influence of the level of corporate social responsibility disclosures to earnings quality. The proxy of earnings quality is discretionary accruals of earnings management. Sample of this research are companies in mining sector listed in IDX year 2012-2014. The results show the level of corporate social responsibility significantly influence to earnings quality. This research does not support the theory that said the level of corporate social responsibility disclosure has positive influence, but this research support the "Multiple Objectives hypothesis" by Chih et al., (2008)

Keywords: corporate social responsibility disclosure, earnings quality, earnings management, discretionary accruals

I. INTRODUCTION

Background of Research

Implementation of CSR in Indonesia is mandatory by government on Act No. 40 of 2007 about Corporation, Government Regulation No. 47 of 2012 concerning Social and Environmental Responsibility of Corporation, and the latest is on Decision of the Chairman of Capital Market and Financial Institution Supervisory Body (BAPEPAM-LK) No.KEP-431/BL/2012 concerning the Submission of Annual Report by Listed Company.

Some issues arise about the implementation of CSR in Indonesia. One of it is the issue of transparency on CSR's disclosure. It is proved by news on *RiauSatu.com* on April 2015 which stated that *"Ketua Pansus CSR berharap Pemerintah dan Perusahaan Transparan."* The news talked about the transparency of CSR's budget and the company's CSR activities. This issue in line with Kim et al., (2012) statement, that CSR is an issue of growing interest, and the reporting of socially responsible activity is becoming more prevalent as investors, customers, and other stakeholders demand greater transparency about all aspects of business. When company becomes not transparent in their report, it will cause information asymmetry between company and the users of their report.

Company generally has responsibility to fulfill not only their shareholders' interest but also stakeholders'. Corplaw (2013) define stakeholders as any person or group which can affect or be affected by the actions of a business and it is including employees, customers, suppliers, creditors and even the wider community and competitors. Ekawati (2012) stated that CSR is an activity that shows the company's concern to their stakeholders and as a form of responsibility to the activities of the company in term of social, economic environmental. All information of CSR is reported and disclosed by company in their annual report as already regulated by government. The information provided is hoped may provide consideration for stakeholders in making decisions. CSR disclosure considered increasingly taking a role in the present due to the shift in the concept of profit which began to lead to the concept of the triple bottom line (profit, planet, people) initiated by John Elkington and increasingly into the mainstream of business ethics (Palguna Putra, 2013).

As already said before, implementation of CSR in Indonesia regulated by government, so the disclosure of CSR also mandatory for all listed company. Unfortunately, the regulations did not clearly explain about what are social and environmental responsibility's items that should be disclosed by a company. Even, the latest regulation in Decision of the Chairman of Capital Market and Financial Institution Supervisory Body (BAPEPAM-LK) No.KEP-431/BL/2012 only requiring companies to disclose its CSR activities that cover policies, types of program and cost incurred in four aspects such as environmental; employment practices, health, and work safety; social and community development; and product responsibility, still, the items are not too specifics. Thus, the activity and the disclosure of CSR in Indonesia is still based on company's decision (voluntary disclosures). Voluntary disclosures also mean that company disclose beyond what is mandatory.

Company should balance in fulfilling the interest of shareholders' and also stakeholders'. It is a good choice for a company to shift their concept from profit concept to triple bottom line concept. But there is one thing that should be realize by company that Act No. 40 of 2007 chapter 74 clause 2 mentioned that CSR is the obligation of the company which are budgeted and calculated as expenses of the company. When expense increase it will affect company's profit. Meanwhile, Milton Friedman (1970) in his shareholders theory said that the sole responsibility of business is to increase profits. Corplaw (2013) also adding that based on the premise that managements are hired as the agent of the shareholders to run the company for their benefit, and therefore they are legally and morally obligated to serve their interest. This is contradicting with the stakeholder theory which state that the company is not the only entity operates for his own benefit, and to gain support from stakeholders companies must provide benefits to its stakeholders. Stakeholder theory suggests the purpose of the firm is to serve broader societal interests beyond economic value creation for shareholders alone. So company should handle this problem and must ensure that the fulfillment of the interest not running unilaterally.

Both CSR and profit (earnings) information are represented in annual report and financial statements of the company. Investor, creditor and stakeholders use this information as based information for their decision-making process. Therefore, the quality of the company's annual report and financial statement plays an important role in the communication process for the transfer of information from the company to users of annual report and financial statement because it will affect their decision-making process.

All information in annual report or financial statements should be presented transparently to the users. Yeh et al., (2014) stated that managers usually have better or timelier information than investors. Thus, managers have incentives to withhold private information for their self-interest and to practice diversion of resources because of conflicts of interest principles and agents. This will lead to information asymmetry between company and the users of annual report or financial statement. When asymmetry is high, stakeholders do not have sufficient resources or access to relevant information to monitor manager's actions. It leads to creation of opportunities for earnings management practices (Richardson 1998 in Sanjaya and Young. 2012).

Information asymmetry is a condition describing that managers have access to information on the company's prospects which are not owned by outside parties (Sanjaya and Young, 2012). Lang and Lundholm (1996) in Yeh et al., (2014), find that companies are more likely to make voluntary disclosures when information asymmetry between the company and investors is severe. Yeh et al., (2014) adding that increased voluntary disclosure can effectively reduce information asymmetries among management and stakeholders. Sanjaya and Young (2012) also stated that the increasing on presentation of voluntary disclosure, information asymmetry can be reduced so that earnings management can be prevented. When the practices of earnings management prevented it will affect to the increasing of earnings quality.

Ball and Shivakumar (2005) in Yeh et al., (2014) stated thar earnings quality refers to the level of faithful representation of the features of a firm's fundamental earnings processes that are relevant to specific decision making by investors, creditors, managers, and all other parties contracting with a firm. Quality of earnings is important because investors rely on earnings information to evaluate information risks related to a firm (Francis et al. 2004; Ng 2011 in Yeh at al., 2014). Higher quality of earnings indicating that information that use by users of annual report and financial statements are relevant and reliable as the based information in decision-making process.

Many researches already test about the influence of disclosure to earnings management or disclosure to earnings quality, and they have the same results which is disclosure negatively influence earnings management and positively influence earnings quality (Zhou and Lobo, 2001; Yeh et al., 2014; Sanjaya and Young, 2012; Blanco et al., 2014). Many researchers also research about the link between CSR and earnings quality or CSR and earnings management, and the results is mix (Kim et al., 2012; Ekawati, 2012; Isyanto, 2014; Hong and Andersen, 2011; Chih et al., 2008; Arief, 2014; Palguna Putra, 2013).

Research Question

Based on background that explained above, thus, the research question can be formulated as follow:

Does the level of corporate social responsibility disclosures influence earnings quality?

Objective of Research

The objective of this research is to give empirical evidence the influence of level of corporate social responsibility disclosure to earnings quality on Indonesian mining companies that listed on IDX year 2012-2014

II. THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Stakeholder Theory

The survival of the company depends on the support of stakeholders. Social disclosure is considered as part of a dialogue between the company and stakeholders (Gray et al., 1995). The company is not the only entity operates for his own benefit, and to gain support from stakeholders companies must provide benefits to its stakeholders. Edward Freeman (2001) on his article said that Stakeholders are those groups who have a stake in or claim on the firm. Lawrence et al., (2005), stakeholders are all the groups affected by, or that can affect, an organization's decisions, policies, and operations. Stakeholder theory argues that corporations serve a broader public purpose: to create value for society.

Companies should maintain a relationship with its stakeholders to accommodate the desires and needs of its stakeholders, especially stakeholders who have the power to the availability of resources that used for the operational activities of the company, such as labor, corporate and product markets over others (Chariri and Ghozali, 2007). So, here company does not only have a responsibility to fulfil the shareholders interest but also have a responsibility to fulfil the stakeholders interest by doing and disclosed CSR in their annual report to maintain the stability of the company.

Corporate Social Responsibility

Based on The World Business Council of Sustainability Development, Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large. Corporate Social Responsibility (CSR) is defined as the voluntary activities undertaken by a company to operate in an economic, social and environmentally sustainable manner.

Corporate Social Responsibility Disclosure

Disclosure about CSR in Indonesia first regulated in ACT No. 40 of 2007 about corporation and in Government Regulation No. 47 of 2012 concerning Social and Environmental Responsibility of Corporation. But both of those regulations did not explain about the items of social and environmental responsibility that must be disclosed. In August 2012, Ministry of Finance of the Republic of Indonesia through Capital Market and Financial Institution Supervisory Body (BAPEPAM-LK) issued Decision of the Chairman of Capital Market and Financial Institution Supervisory Body (BAPEPAM-LK) No. KEP-431/BL/2012 concerning the submission of annual report by listed company.

In Decision of the Chairman of Capital Market and Financial Institution Supervisory Body (BAPEPAM-LK) No. KEP-431/BL/2012, there is a regulation No. X.K.6 which is concerning the submission of annual report by listed company. In point 2.a.1.g said that an annual report must contain corporate social responsibility. Furthermore in point 2.h.1, BAPEPAM-LK required companies to disclose its CSR activities that cover policies, types of program, and cost incurred in the following aspects such as environmental; employment practices, health, and work safety; social and community development; and product responsibility.

Information Asymmetries

Information asymmetry is a condition describing that managers have access to information on the company's prospects which are not owned by outside parties (Sanjaya and Young, 2012). This condition will result in the magnitude of the opportunity manager, to do things that are beneficial to their interests (Palguna Putra, 2013). There are two major types of information asymmetry (Scott, 2009). First is adverse selection. Adverse selection is a type of information asymmetry whereby one or more parties to a business transaction, or potential transaction, have an information advantage over other parties. The second is moral hazard. Moral hazard is a type of information asymmetry whereby one or more parties to a business transaction, or potential transaction, can observe their actions in fulfillment of the transaction but other parties cannot.

Earnings Quality

Earnings quality is an indicator of the quality of financial information. High quality financial information is derived from the high quality of financial reporting (Surifah, 2010). Earnings quality refers to the ability of reported earnings to reflect the company's true earnings, as well as the usefulness of reported earnings to predict future earnings. Earnings quality also refers to the stability, persistence and lack of variability in reported earnings. The evaluation of earnings quality is often difficult, because companies highlight a variety of earnings figures: revenues, operating earnings, net income, and pro forma earnings (Bellovary et al, 2005). Barragato and Markelevick (2008), states that earnings quality is of interest to users of financial statements because earnings are utilized in making contracting and investment decisions. Earnings quality means different things to different users of financial statements.

Earnings Management

Based on Scott (2009), earnings management is the choice by a manager of accounting policies, or actions affecting earnings, so as to achieve some specific reported earnings objective. Earnings management is the use of accounting techniques to produce financial reports that may paint an overly positive picture of a company's business activities and financial position. Earnings Management takes advantage of how accounting rules can be applied and are legitimately flexible when companies can incur expenses and recognize revenue. It can be difficult to differentiate these allowable practices from earnings fraud or manipulation.

Discretionary Accrual – Earnings Management

Accrual earnings management is the practice of earnings management which is carried out by the company through the accrual components in the financial statements. Accrual itself is recognition of where the transactions are recognized, recorded, and presented in the financial statements when incurred without regard whether the cash flow is received or paid. Because of the nature of accrual using assumptions or estimates, accruals are often used as a tool by management to manipulate earnings. Accrual policy is divided into two discretionary accruals and nondiscretionary accruals. Discretionary accrual policy is undertaken by the will of management with a specific purpose. In this case, discretionary accrual is closely related to earnings management because it is done over the management of the company in which management will make adjustments to earnings to meet specific interests.

Hypothesis Development

CSR disclosure is believed as an action to fulfill the stakeholders' interest. CSR disclosure considered increasingly taking a role in the present due to the shift in the concept of profit which began to lead to the concept of the triple bottom line (profit, planet, people) initiated by John Elkington and increasingly into the mainstream of business ethics (Palguna Putra, 2013). It is in line with Kim et al., (2012) statement that CSR is an issue of growing interest, and the reporting of socially responsible activity is becoming more prevalent as investors, customers, and other stakeholders demand greater transparency about all aspects of business.

In Indonesia there are some issues arise about the implementation of CSR and one of it is company's transparency issue in disclosing the budget and activity of CSR. It is proved by news on *RiauSatu.com* on April 2015 which stated that *"Ketua Pansus CSR berharap Pemerintah dan Perusahaan Transparan."* The news talked about the transparency of CSR's budget and the company's CSR activities. Having problem in transparency will cause the increasing in information asymmetry between company and stakeholder. Richardson (1998) stated that when information asymmetry is high, stakeholders do not have sufficient resources or access to relevant information to monitor manager's actions. It leads to creation of opportunities for earnings management practices. Dye (1988) and Trueman and Titman (1988) in Zhou and Lobo (2001) show analytically that the existence of information asymmetry between management and shareholders is a necessary condition for earnings management. Thus, when earnings management increases it will affect quality of earnings of company.

Glosten and Milgrom (1985) in Zhou and Lobo (2001) stated that information asymmetry will decrease if the level of corporate disclosure increases. It is also proved by Lang and Lundholm (1993) in Zhou and Lobo (2001), which state that firms having greater incentives to disclose more information to mitigate adverse selection when there is greater information asymmetry. Sanjaya and Young (2012) found that the increasing on presentation of voluntary disclosure, information asymmetry can be reduced so that earnings management can be prevented. Zhao and Lobo (2001) also found negative relationship between corporate disclosure and earnings management. Firms that disclose less tend to engage more in earnings management and vice versa. When company less engage in earnings management their quality of earnings will increase. Many researches already test about the influence of disclosure to earnings management or disclosure to earnings quality, and they have the same results which is disclosure negatively influence earnings management and positively influence earnings quality (Zhou and Lobo, 2001; Yeh et al., 2014; Sanjaya and Young, 2012; Blanco et al., 2014).

Many researchers research about the influence and the association between CSR and earnings quality or CSR and earnings management, and the results is mix. Some researchers find that CSR has negative influence and association with earnings management and will give positive impact to earnings quality (Hong and Andersen, 2011; Kim et al., 2012; Ekawati, 2012; Palguna Putra, 2013; Isyanto, 2014). On the other hand, other researchers state that CSR has positive influence and association with earnings management and will give negative impact to earnings quality (Chih et al., 2008; Yip et al., 2011; Arief, 2014).

Due to the mix results from previous researchers then the hypothesis can be formulated as follow:

Ha: The Level of Corporate Social Responsibility Disclosures Influence the Earnings Quality

III. RESEARCH METHODOLOGY

Population and Sample

Population on this research includes all companies in mining sector that are listed in Indonesia Stock Exchange. The criterions for sample are listed as follow:

1. All companies in mining sector listed on Indonesian stock exchange (IDX) that published annual report from 2012 to 2014. Mining companies being selected because they are companies that run their business or activities in the field and/or related to natural resource (which means that those mining companies' business activities is to manage and exploit natural resources) and according to Act No. 40 of 2007 and Government Regulation No. 47 of 2012 that kind of companies have to perform and disclose CSR. The year selected from 2012-2014 because the regulation from BAPEPAM-LK for CSR disclosure items just issued by year 2012.
2. All mining companies that provide the information of CSR disclosures in their annual report that can be accessed through Indonesian stock exchange website or from company's website.
3. All mining companies that use Rupiah as the currency.

Definition and Measurements of Variables

The independent variable in this research is level of voluntary disclosure of CSR. The level of voluntary disclosure of CSR will be measured using performance indicators from GRI (Global Reporting Initiative) index version 3.1 deducted by mandatory items from BAPEPAM-LK in the regulation No. X.K.6 of Decision of the Chairman of Capital Market and Financial Institution Supervisory Body (BAPEPAM-LK) No. KEP-431/BL/2012, which match with the GRI ones. The reduction process remains 72 items of GRI index (see appendix I). Thus, the formula will be:

$$CSRD_j = \frac{\sum X_{ij}}{n_j}$$

Where:

$CSRD_j$: Corporate Social Responsibility Disclosure company *j*

n_j : Total voluntary disclosure items; 72 items (see appendix I)

X_{ij} : Score for each company; Dummy variable: 1 = if *item i* is disclosed; 0 = otherwise

The dependent variable in this research is earnings quality which proxied by Discretionary Accrual (DAC). The measurement of dependent variable (discretionary accrual) will use the modified jones model from Dechow et al. (1995). Based on Dechow et al. (1995), modified jones model is the model that performs the best in detecting earnings management. Previous research such as

Palguna Putra (2013) and Arief (2014) also uses this model as their measurement. Below are the steps to calculate discretionary accrual:

a. Calculate Total Accrual using cash flow approach:

$$TA_{it} = EBT_{it} – CFO_{it}$$

Where:
TA_{it} = Total accrual for firm i at year t.
EBT_{it} = Earnings before tax for firm i at year t.
CFO_{it} = Operating cash flow for firm i at year t.

b. Find coefficients value ($\alpha_0, \alpha_1, \alpha_2$) from regression of total accrual:

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

Where:
TA_{it} = Total accruals for a firm i at year t;
ΔREV_{it} = Change in net revenues in year t from year t-1;
ΔREC_{it} = Change in net receivables;
PPEit = Gross property, plant, and equipment;
A_{it-1} = Lagged total assets.
ε_{it} = Error item

c. Calculate Nondiscretionary Accruals (NDAC)

$$NDAC_{it} = \alpha_0 (1 / A_{it-1}) + \alpha_1 (\Delta REV_{it} - \Delta REC_{it}) / A_{it-1} + \alpha_2 PPE_{it} / A_{it-1}$$

Where:
$NDAC_{it}$ = Nondiscretionary accrual for firm i at year t.

d. Determine the discretionary accrual (DAC)

$$DAC_{it} = TA_{it}/A_{it-1} - NDAC_{it}$$

Where:
DAC_{it} = Discretionary accrual for firm i at year t.

Company which has high quality of earnings will have low discretionary accruals. Earnings management practices with discretionary accruals can involve either income-increasing (positive value) or income-decreasing accruals (negative value) (Warfield et al. 1995; Klein 2002 in Kim et al., 2012). Thus, this research will use the absolute value of discretionary accruals (ABS_DAC).

In this research, the control variables are Size, profitability that proxied with ROA, leverage that proxied with Debt to Equity Ratio (DER), and Operating Cash Flow to Total Assets Ratio (OCFTAR).

1. Size is the size of the company. The smaller size of the company the lower the quality of accrual. This is due to the unstable operation. Dechow-Dichev (2002) in Ekawati (2012) said that big companies will operate with a more stable and easier to predict. Therefore, will generate an error estimates fewer than small companies whose operations are not yet stable. Size formula:

$$SIZE = \ln(Total\ Assets)$$

Where:
ln (Total Assets) : Natural Logarithm from total assets in year t

2. Profitability explains the company's ability to generate excess profits as revenue rather than cost (Foster, 1986; in Palguna Putra, 2013). Thus, it is useful to investors in comparing among companies to see the difference in resources owned, whereas it is useful for creditors to decide whether give loans or not. Palguna Putra (2013) stated that profitability is used as a control

variable because profitability is defined as the company's ability to generate profits in order to increase shareholder value. This often makes managers perform earnings management in order to show a good performance to misled investors. Profitability in this research will be proxied with Return On Assets (ROA). The formula is:

$$ROA = \frac{Earnings\ After\ Tax}{Total\ Assets}$$

3. Leverage in here proxied with Debt to Equity Ratio (DER). DER is the ratio that indicates the company's ability to meet its obligations with equity. The higher the ratio, the value of risk faced by investors will be higher. Because it shows the composition of total debt greater than the equity of the company and it will make investors demanded greater profits. Thus, it can provide a loophole for companies to manage earnings. This control variable used by Kim et al. (2012), Ekawati (2012), and Arief (2014).

$$DER = \frac{Total\ Liability}{Total\ Equity}$$

4. OCFTAR is the ratio of operating cash flow to total assets on a company. This ratio is calculated by divided cash flow from operating activities with total assets. This ratio tells how efficient a company employing its assets. A high return may signal a bright future for the company because they will have more cash flow to reinvest for growth and to return to shareholders (Faulkenberry in www.arborinvestmentplanner.com). According to Becker et al. (1998) in Christiani (2014), cash flow from operating activities influences the actions of company's management in managing earnings. Lobo and Zhou (2006) in Susanto (2012), states that company which has high cash flow from operating activities it will have a low probability to do earning management due to good performance of the company. The formula is:

$$OCFTAR = \frac{Cash\ Flow\ from\ Operating\ Activity}{Total\ Assets}$$

Empirical Model

The empirical Model:

$$ABS\_DAC_{(i,t)} = \lambda_0 + \lambda_1 CSR_{(i,t)} + \lambda_2 SIZE_{(i,t)} + \lambda_3 ROA_{(i,t)} + \lambda_4 LEV_{(i,t)} + \lambda_5 OCFTAR_{(i,t)} + \varepsilon_{(i,t)}$$

Where:

ABS_DAC	: Absolute Value of Discretionary Accrual
CSR	: Index value of Corporate Social Responsibility
SIZE	: Natural Logarithm from Total Assets
ROA	: Net income / total assets
LEV	: total liability/total equity
OCFTAR	: Cash flow from operation/ total assets

Normality Test

This test is performed to determine whether the errors are normally distributed or not. If it is not normally distributed, it indicates there are many outliers. Normality test can be performed by using the histogram normality test.

Classical Assumption Test

Multicollinearity means that there is a definite linear relationship among some or all of the variables that describe the regression model. This test is conducted to determine whether there is a strong relationship between the independent variables. Heteroscedasticity test is done to examine the variance of variables in the data. A good regression model is the one with homoscedasticity or without heteroscedasticity. Heteroscedasticity test is done by White Heteroscedasticity test. Autocorrelation emerges as the consequence of continuing observation during the time related to one another, and that usually found in the sample with time series data. The autocorrelation test is used to know relations of independent variable with the error. Autocorrelation test is done by Breusch-Godfrey test.

Hypothesis Testing

Hypothesis testing will be done through Ordinary Least Square (OLS) regression tests using Eviews program. The regression analysis is used to test the influence of independent variable over the dependent variable. The regression model in this research presented as follow:

$$ABS\_DAC_{(i,t)} = \lambda_0 + \lambda_1 CSR_{(i,t)} + \lambda_2 SIZE_{(i,t)} + \lambda_3 ROA_{(i,t)} + \lambda_4 LEV_{(i,t)} + \lambda_5 OCFTAR_{(i,t)} + \varepsilon_{(i,t)}$$

Where:

ABS_DAC : Absolute Value of Discretionary Accrual
CSR : Index value of Corporate Social Responsibility
SIZE : Natural Logarithm from Total Assets
ROA : Net income / total assets
LEV : total liability/total equity
OCFTAR : Cash flow from operation/ total assets

The criteria of the hypothesis is hypothesis will be accepted if the significance level is less than 0.05 (sig. $t < \alpha$). Then, R^2 value, F-test and T-test will be used to support the hypothesis.

IV. DATA ANALYSIS AND DISCUSSION

Sample Selection

Table 4.1
Sample Selection

Explanations	**Total**
Total of mining companies listed in IDX 2012-2014	39
Total sample that has been eliminated from research: ➢ Annual report cannot be accessed ➢ Does not has information about CSR in their annual report ➢ Does not use Rupiah as the currency	 (6) (1) (18)
Total Companies	14
Observation	3 years
Total Sample Observation	**42**

Result of Normality and Classical Assumption Test

	Result	**Conclusion**
Normality Test (Jarque-Bera Test)	P-value > 0.05 0.296 > 0.05	Data normally distributed
Multicollinearity Test (Correlation Matrix)	Correlation matrix value of all independent variables < 80%	No multicollineaarity
Heteroscedasticity Test (White Test)	P-value of Obs*R-squared < 0.05 0.04 < 0.05	Heteroscedasticity problem
Autocorrelation Test (Breusch-Godfrey Test)	P-value of Obs*R-squared > 0.05 0.9957 > 0.05	No autocorrelation

Hypothesis Testing

The purpose of hypothesis testing is to test the influence of independent variable over the dependent variable. It can be undertaken through Eviews program. Statistically, the output/result from Eviews is for two-tailed significance, because the hypothesis of this research is uses two-tailed significance (non-directional hypothesis), thus, it does not need further calculation. The result of hypothesis testing of this research is listed below:

Table 4.7
Hypothesis Testing

Dependent Variable: ABS_DAC
Method: Least Squares
Sample: 1 42
Included observations: 42

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.054779	0.249844	0.219252	0.8277
CSR	0.094672	0.044741	2.115980	0.0413
SIZE	0.000315	0.008941	0.035218	0.9721
ROA	-0.190451	0.129541	-1.470198	0.1502
DER	0.002875	0.008420	0.341409	0.7348
OCFTAR	0.150035	0.109574	1.369256	0.1794

R-squared	0.198440	Mean dependent var	0.084588
Adjusted R-squared	0.087113	S.D. dependent var	0.063372
S.E. of regression	0.060549	Akaike info criterion	-2.639164
Sum squared resid	0.131983	Schwarz criterion	-2.390925
Log likelihood	61.42244	F-statistic	1.782490
Durbin-Watson stat	1.955518	Prob(F-statistic)	0.141284

Based on the result from table 4.7, it shows that P-value of F-statistic > 0.05 (at significance 5%) which is 0.1412 > 0.05. It means that this regression model is not a good model to test the influence of voluntary disclosure of CSR to earnings quality measured by discretionary accruals.

As already mentioned in classical assumption test of heteroskedasticity test, this regression model also has problem in heteroskedasticity. Thus, to overcome the insignificant of P-value of F-statistic and heteroskedasticity problem, writer proposes another model that does not have those problems. The model follows:

$$ABS\_DAC_{(i,t)} = \lambda_0 + \lambda_1 CSR_{(i,t)} + \lambda_2 OCFTAR_{(i,t)} + \varepsilon_{(i,t)}$$

The hypothesis testing result of this new model is listed below:

Table 4.8
Hypothesis Testing Result of New Model[1]

Dependent Variable: ABS_DAC
Method: Least Squares
Sample: 1 42
Included observations: 42

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.063939	0.012266	5.212728	0.0000
CSR	0.081585	0.035516	2.297116	0.0271
OCFTAR	0.055522	0.088868	0.624763	0.5358

R-squared	0.144964	Mean dependent var	0.084588
Adjusted R-squared	0.101116	S.D. dependent var	0.063372
S.E. of regression	0.060083	Akaike info criterion	-2.717437
Sum squared resid	0.140788	Schwarz criterion	-2.593318
Log likelihood	60.06618	F-statistic	3.306062
Durbin-Watson stat	2.017997	Prob(F-statistic)	0.047173

Based on the result from table 4.8, it shows that adjusted R-squared value is 0.101116. It means that the independent variable (CSR) and the control variable (OCFTAR) in this research able to explain 10% of the dependent variable (ABS_DAC) and the other 90% are explained by other factors that not include in this regression.

The hypothesis testing results also shows that P-value of F-statistic < 0.05 (at significance 5%) which is 0.047173 < 0.05. It means that independent variables (CSR and OCFTAR) jointly (simultaneously) influence the dependent variable (ABS_DAC). The significant value also shows that this regression model is a good model to test the influence of voluntary disclosure of CSR to earnings quality measured by discretionary accruals.

In table 4.8, the coefficient of CSR is 0.081585 and has probability value 0.0271 < 0.05 (at significance 5%) which is significant. It means that level of voluntary disclosure of CSR significantly influences earnings quality measured by discretionary accruals.

From table 4.8 above, shows the coefficient of OCFTAR is 0.055522 and has P-value 0.5358. It means that control variable OCFTAR has positive contribution and not significantly influences the dependent variable (ABS_DAC).

[1] The results of normality and classical assumption tests for the new model are available in appendix IV

Discussion

From hypothesis testing results, probability value of coefficient CSR variable is significant (0.0407 < 0.05); it means that level of voluntary disclosure of CSR significantly influences earnings management proxied with discretionary accruals. Thus, hypothesis (Ha) is accepted. Hypothesis testing results also shows that the coefficient of CSR is positive; it means that the higher level of voluntary disclosure of CSR that companies has, thus, the higher practice of earnings management proxied with discretionary accruals done by companies. This condition will lead to the decreasing of earnings quality of company.

This result does not support the theory which stated when company increases their voluntary disclosure it will decrease the information asymmetry between company and the stakeholders (outside parties) and that will give impact to the decreases of managing earnings practices, thus, company will have higher earnings quality. But, the result supports the previous researchers that found positive influence of CSR disclosure to earnings management (Chih et al., 2008; Yip et al., 2011; Arief, 2014).

This research supports the "multiple objectives hypothesis" by Chih et al., (2008). Yip et al., (2011) try to explain this hypothesis that, if companies with a high CSR disclosure try to meet the demands of multiple stakeholders, financial performance could suffer. Then, leading these firms to manage reported earnings upwards to obscure the weaker than expected results. This situation will lead companies to have lower quality of earnings.

As the impact of changes in companies concept from profit concept to the "triple bottom-line" concept (profit, people, planet), thus makes companies having multiple objectives. The obligation to meet both stakeholders' interest and shareholders' interest can be one of it. When companies want to fulfill the stakeholders' interest, they will doing more the CSR activities and disclose it to their annual report. But, it will increase their expense, meanwhile, decrease their earnings. Companies overcome this condition by managing earnings, thus, they can meet the shareholders' interest. That is why when companies disclose more about CSR at the same time companies also increase their earnings management practices. When this condition happens, it will decrease the quality of earnings. Thus, the information of earnings is not reliable for the users of financial reporting in their decision-making process.

V. CONCLUSION AND SUGGESTION

Conclusion

This research finds that level of voluntary disclosure of CSR significantly influences earnings quality proxied with discretionary accruals of earnings management, thus, hypothesis (Ha) is accepted.

Research Limitation and Suggestion

This research has limitation in observation period. The observation period is 3 years (2012-2014). The observation period cannot be lengthened backward; it is cause by the regulation from BAPEPAM-LK for CSR disclosure items just issued by year 2012. That is why the total sample of this research only 42 samples. Suggestions for future research is to use more data, with the broad criteria thus research has quite a lot of samples and provide an overview of the impact closer to reality. Research limitation also comes from the proxy of earnings quality. This research only uses discretionary accruals of earnings management as the proxy of earnings quality. Suggestion for future research is to use more proxy of earnings quality, such as real active manipulation of earnings management or earnings response coefficient.

REFERENCES

Chariri, Anis and Imam Ghozali. 2007. *Teori Akuntansi*. Fakultas Ekonomi: Universitas Diponegoro Semarang.

Chih, H., C. Shen, and F. Kang. 2008. Corporate Social Responsibility, Investor Protection, and Earnings Management: Some International Evidence. *Journal of Business Ethics* 79:179-198

Dechow, Patricia M., Richard G. Sloan, and Amy P. Sweeney. (1995). Detecting Earnings Management, *The Accounting Review* volume 70 number 2, pp. 193-225

Ekawati,. 2012. Analisis Hubungan Antara Corporate Social Responsibility dan Earnings Management Pada Perusahaan Pertambangan dan Pertanian tahun 2008-2010 yang Terdaftar di Bursa Efek Indonesia. Universitas Indonesia.

Fan, Olivia. 2013. The Interaction between Corporate Social Responsibility and Earnings Management. *Amsterdam Business School Research Institute*. Universiteit Van Amsterdam.

Kim, Y., M. S. Park, and B. Wier. 2012. Is earnings quality associated with corporate social responsibility? *The Accounting Review* 87 (3): 761–796.

Leuz, C.; D. Nanda, and P. Wysocki. 2003. Investor protection and earnings management: An international comparison. *Journal of Financial Economics* 69(3):505-527.

Lobo, G.J. and Zhou, J. 2001. Disclosure Quality and Earnings Management. *Social Science Research Network Electronic Paper Collection.*

Palguna Putra, I Gusti Bagus Alit Wahyu. 2013. Pengaruh Tingkat Pengungkapan Item Corporate Social Responsibility terhadap Manajemen Laba (Studi pada Perusahaan yang Terdaftar di Indeks SRI – KEHATI Selama Tahun 2009 – 2011). Skripsi Pogram Sarjana Universitas Atma Jaya, Yogyakarta.

Scott, W.R. 2009. *Financial Accounting Theory*. Pearson Prentice Hall. Toronto, Canada.

Sekaran, Uma. 2013. Research Methods for Business. *New York: John Wiley & Sons, inc.*

Suwardjono. 2008. *Teori Akuntansi Perekayasaan Pelaporan Keuangan*, Edisi Ketiga. Yogyakarta: BPFE UGM.

Winarno, Wing Wahyu. 2009. Analisis Ekonometrika dan Statistika dengan Eviews. Yogyakarta: UPP STIM YKPN.

www.globalreporting.org accessed 12/3/2015

Yip, E., Chris Van Staden, and Steven Cahan. 2011. Corporate Social Responsibility Reporting and Earnings Management: The Role of Political Costs. *Australasian Accounting, Business and Finance Journal*, Vol. 5, No. 3.