THE EFFECT OF CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY DISCLOSURE ON EARNINGS MANAGEMENT: FEMALE AUDIT COMMITTEE AS MODERATING

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ABSTRACT

The purpose of the research is to get empirical evidence about the effect of corporate social and environmental responsibility disclosure on earnings management. Furthermore, the research also to get empirical evidence about the effect of female audit committee on the relationship between corporate social and environmental responsibility disclosure and earnings management. The research uses sample of manufacturing firms which listed in Indonesia Stock Exchange during 2010 to 2012. The sample selection is based on purposive sampling method. The result of the research shows that corporate social and environmental responsibility disclosure has positively influence to earnings management. While, female audit committee has negatively influence to the relationship between corporate social and environmental responsibility disclosure and earnings management. Corporate social and environmental responsibility disclosure makes the management to perform earnings management. Female audit committees are more likely to stringent in overseeing the management. Female audit committee more conservative than Male audit committee.

Key words: Earnings management, corporate social and environmental responsibility disclosure, female audit committee.

Introduction

The importance of social and environmental responsibility is a new paradigm in sustainable development. Since 1980, sustainable development into the concept of development in different countries. The principle of sustainable development is to build for the present without compromising the interests in the future (Burritt and Lehman, 1995). Sustainable development can be achieved if development activities in addition to achieving economic interest also pay attention to social and environmental interests.

There have been many cases of environmental pollution caused by the company's business activities. One case is the environmental pollution in Buyat Bay by PT Newmount Minahasa Raya which occurred in 2004. Another case is the case of pig enzyme PT Ajinomoto and PT Lapindo case that until now have not been completed settlement (Utami and Prastiti, 2011). The impact of environmental pollution is serious enough for the surrounding community, as in the case of PT Lapindo, not less than 8 villages were submerged due to the mudflow. In 2011, PT Nagamas Palmoil Lestari disposes of liquid waste into the Dumai Sea. River pollution case in Bandung Cikijing conducted three textile companies, namely PT KHT II, PT ISIT and PT FST. In addition to environmental issues, the company was in conflict with the trade union. Most conflicts relate to the minimum wage and outsourcing methods relating to the welfare of employees. Papuan tribal community development issues in the area of the Freeport mine and the community of Aceh conflict with Exxon which manages the natural gas in Arun makes people always negative view would be operations of a business entity.

See cases of environmental pollution and industrial relation, shifting business goals also helped emerged. A business that was originally only focused on maximizing profits, the current required to focus also on social and environmental responsibility. Corporate responsibility is not only on the shareholders, but also on other interested parties (stakeholders). Companies are required to balance between financial performance, social and environmental performance (triple bottom lines).

Regulations regarding social and environmental responsibility is reflected in Undang-Undang No. 40 Year 2007 regarding Limited Company. In Article 74 of the Limited Company Law states that company conducting its business activities in the field and or related to the natural resources required to implement the Social and Environmental Responsibility. In addition, many regional regulations also govern the corporate social and environmental responsibility.

The demand of shareholders and stakeholders, implementation and disclosure of social and environmental responsibility is a must for companies (Khan et al., 2013). Corporate social and environmental responsibility can be described as the availability of financial and non-financial information relating to the organization of interaction with the physical environment and social environment, which can be made in the annual report and a separate social and environmental report (Dewi and Keni, 2013)

During this public company has made social and environmental responsibility in accordance with the demands of the government. In fact, they are lacking social and environmental responsibility related to the operations of the company. They form social and environmental responsibility as a form of strategic management in imaging companies. The current annual reports still reveal little social and environmental responsibility. Companies are more likely to do social and environmental responsibility which directly exposed in the media such as television, newspapers and internet. To suppress this, the shareholders and stakeholders need to supervise the management of the company through the implementation of corporate governance. Shareholders and stakeholders demand management perform social and environmental responsibility in the annual report. Social and environmental responsibility should the company related to the operations of the company which is a form of corporate ethics and not a form of imaging companies.

An issue of research is earnings management has an important role as a means of communication between the management, shareholders and stakeholders. Ethics has a role in the communication process. Ethics in the form of corporate social and environmental responsibility. Ethics arise because of the demands of shareholders and stakeholders through corporate governance which includes independent commissioners and audit committee of women. Motivation research is at least research that examined the relationship between corporate social and environmental responsibility disclosure and earnings management (Labelle et al., 2010). The few studies that examine the role of ethics in the form of social and environmental responsibility disclosure to affect earnings management.

This research is the development of Muttakin *et al*. (2015), Hong and Andersen (2011) and Qi and Tian (2012). Muttakin *et al*. (2015) using non-financial companies listed on Dhaka Stock Exchange, Bangladesh in 2005 until 2009. Muttakin *et al*. (2015) showed that the higher the company discloses social and environmental responsibility higher earnings management. Hong and Andersen (2011) using non-financial companies listed on Compustat North America in 1995 until 2005. Hong and Andersen (2011) showed that the higher the company discloses social and environmental responsibility the higher earnings quality. Qi and Tian (2012) using non-financial companies listed on China Stock Exchange in 2004 until 2010. Qi and Tian (2012) showed that the female audit committee can reduce earnings management than male audit committee. This suggests that female audit committee is more conservative and ethics than male audit committee. This study uses manufacturing companies listed in Indonesia Stock Exchange in 2010 until 2012. The purpose of the study was to obtain empirical evidence of the effect of corporate social and environmental responsibility disclosure on earnings management. And, the effect of female audit committee on the relationship between corporate social and environmental responsibility disclosure and earnings management.

Agency Theory

One that affects the extent of voluntary disclosure, where social and environmental responsibility disclosure is one of them, is the application of corporate governance. Corporate governance is defined as a system that directs and controls company (Garrison et al., 2011). In the structure of corporate governance, has specified the division of rights and responsibilities of each party of company, such as commissioners, management, shareholders and stakeholders (Hodgetts et al., 2009). Management as agents need to communicate information relating to the condition of the company to the principal (Untoro and Zulaikha 2013). Social and environmental responsibility disclosure conducted management with the objective of getting a positive assessment of the principal related to corporate social and environmental performance (Utami and Prastiti, 2011).

Legitimation Theory

This theory explains that the firm carries out social and environmental responsibility to fulfill the obligation only applied by the government and only as a requirement. With the implementation of these obligations, the firm hopes to gain recognition and acceptance from the public. Companies are in the society and are a part of them, need to interact with society so get harmonious relationship between firm and society (Untoro and Zulaikha, 2013). The firm's failure to adapt to the society, breaking the norms and customs of the community, would threaten the legitimacy of the company and threaten the company sustainability (Utami and Prastiti, 2011).

Companies seek to perform social and environmental responsibility to gain legitimacy from the society. Alignments of the society are one strategic factor for companies to sustainability (Sari, 2012). Strategic philanthropy suggests that the business, social and environmental is not related to each other (Porter and Kramer, 2006). Along change, management incorporates social and environmental responsibility in competitive advantage (Cohen, 2009).

Corporate Social and Environmental Responsibility Disclosure and Earnings Management

Few studies that examined the effect of the social and environmental responsibility disclosure on earnings management. For in Indonesia, many of which examine the effect of earnings management on social and environmental responsibility disclosure as practiced by Sari and Utama (2014). The greater the social and environmental responsibility disclosure the greater the earnings management (Muttakin *et al*., 2015; Susanto, 2015; Sari and Utama, 2014; Prior et al., 2008). Social and environmental responsibility disclosure as a form of shareholders and stakeholder demands and indicates that the financial capacity of the firm is better able to perform social and environmental responsibility. This makes shareholders and stakeholders would not suspect the firm in earnings management.

Little research has examined the relationship between corporate social and environmental responsibility and earnings management (Labelle et al., 2010). The few studies that examined the role of ethics in the form of social and environmental responsibility to influence earnings management. Labelle et al. (2010), Chih et al. (2008) and Hong and Andersen (2011) showed that the higher the social and environmental responsibility disclosure increasingly quality of financial statements. The extent of corporate disclosure is negatively related to earnings management (Lakhal, 2015). The higher the social and environmental responsibility disclosure can improve the earnings quality. The hypothesis is:
H_1 The greater corporate social and environmental responsibility disclosure, the greater earnings management.

Female Audit Committee on the relationship between Corporate Social and Environmental Responsibility Disclosure and Earnings Management

To study the influence of female audit committee on the relationship between corporate social and environmental responsibility disclosure and earnings management has never been done. This is something new for the study. The relationship between social and environmental responsibility disclosure and earnings management is not always consistent. Lakhal (2015) and Hong and Andersen (2011) showed that the higher the company disclose social responsibility and environmental management, the lower the earnings management. While, Muttakin *et al*. (2015), Susanto (2015), Sari and Utama (2014), Prior et al. (2008) showed that a positive relationship between social and environmental responsibility disclosure and earnings management.

There are contingency factors that influence the relationship between social and environmental responsibility disclosure and earnings management. The contingency factor is female audit committee, which is the watchdog of the management company to carry out activities of the company in accordance with the wishes of the principal, which increases the value of the company. With the oversight expected female audit committee is negatively affect the relationship between social and environmental responsibility disclosure and earnings management.

According Fakih (2010) gender is an inherent nature of men and women who are socially and culturally constructed. Women have contributed to economic success. Audit committee that was formed has the main function, which is to oversee the financial statements (Mayangsari, 2003). The preparation of these financial statements would be free from fraudulent practices especially earnings management. With the supervision of the audit committee, the earnings management practices can be reduced. Qi and Tian (2012), Peni and Vahamaa (2010) and Susanto (2014) showed that the female audit committee negatively affect earnings management. Companies that have female audit committees are more likely to stringent in overseeing the management. Female audit committee more conservative and higher ethical than audit committee of men (Qi and Tian, 2012). The hypothesis is:

H_2 Female audit committee negatively affects the relationship between corporate social and environmental responsibility disclosure and earnings management.

Research Methods

The sample used in the study is listed manufacturing companies in Indonesia Stock Exchange. The sample selection in this study using purposive sampling method. The data used in hypothesis testing as many as 183 data drawn from public manufacturing company from 2010 to 2012. The sample selection procedure can be seen in table 1.

Tabel 1: Sample Selection Procedure

No	Sample Criteria	Company	Data
1	Manufacturing companies in Indonesia Stock Exchange during the period 2010-2012	121	363
2	Companies that do not report any financial statements as of December 31	(4)	(12)
3	Companies that do not use Rupiah	(23)	(69)
4	Companies that do not have availability data	(33)	(99)
	The number of companies and data used in the study	61	183

Earnings management is behavioral or management actions taken to improve (reduce) earnings reported on a unit and responsible managers, without resulting in an increase (decrease) in long- term economic profitability of the unit (Widyaningdyah, 2001). Earnings management is measured using discretionary accruals. Value of discretionary accruals is the residual value of the results of the following regression

$$TAC_t = a_1 + a_2\Delta SAL_t + a_3PPE_t + e \quad (1)$$

Where TACt total accruals on period t (operating income-operating cash flow), ΔSAL_t change of revenue, PPE_t gross property plant and equipment in year t. All calculation scaled by total asset in year t-1.

The disclosure index of Rouf (2011). The measurement of corporate social and environmental responsibility disclosure is measured by using content analysis. Content analysis is a method of codifying the text of the same characteristics to be written in different groups depending on specified criteria (Hapsoro, 2012). This method can be implemented by means of a checklist that has been classified into five categories, namely (a) environmental information disclosure, 8 items, (b) employees information disclosure, 15 items, (c) the community and the other of disclosure, 8 items, (d) energy disclosure, 2 items and (e) product disclosure, 6 items. The audit committee of women was measured using a dummy variable, value of 1 there are female members of audit committee and 0 otherwise (Susanto, 2014). Independent commissioners can be measured by calculating the percentage of the commissioners who come from outside the company to all its commissioners (Jao and Pagalung, 2011).The measurements of variables are summarized in Table 2.

Table 2: Measurement of Variables

Variable	Measurement
ADA	Absolute discretionary accruals, calculated using Jones model as presented in equation (1)
GENDER	Dummy variable, which value of 1 if there are female members in audit committee and 0 otherwise (Susanto, 2014)
SIZE	Firm size, total assets
ROA	Profitability, net income divided shareholders' equity (Santioso dan Chandra 2012)
LEV	Leverage, total debt divided shareholders' equity (Dewi dan Keni, 2013)

Firm size is the size of the company. Widyastuti (2009) proved that firm size has a positive effect on earnings management. This shows that the bigger the firm, the higher the earnings management. Firm size was measured by total assets. The measurement of profitability uses return on equity ratio (Santioso and Chandra, 2012), net income divided to shareholders equity. Widyastuti (2009) and Guna and Herawaty (2010) proves that the profitability a positive effect on earnings management. This shows that the higher profitability, the higher the earnings management. Firm reported higher earnings tendency for engagement in earnings management. Firm reported a higher profit to show that the operational performance so well that the stakeholders will assess the firm so well. The measurement of leverage uses debt to equity ratio (Dewi and Keni, 2013), total debt divided shareholders equity. Widyaningdyah (2001) and Widyastuti (2009) proved that leverage has a positive effect on earnings management. This shows that the higher leverage, the higher earnings management. The Firm with high leverage possibly are experiencing financial difficulties and tend to engage an earnings management.

Results and Discussions

Test results of descriptive statistics and hypothesis testing can be seen in the following table 3 and 4:

Table 3: Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
ADA	0.00047	1.09896	0.18328	0.20357
CSR	0.02564	0.84615	0.34560	0.16014
GENDER	0	1	0.31720	0.46664
SIZE	78200046265	1.822739982089e+14	7093486409283	2.084107485039e+13
ROA	0.00146	1.21943	0.18996	0.17191
LEV	0.10412	4.31701	0.91743	0.77022

Table 4: Result of Hypothesis Testing

Variable	B (model 1)	B (model 2)	B (model 3)	B (model 4)
Constant	0.074	0.075	0.079	0.047
CSR	0.293**	0.259**	0.263**	0.364**
GENDER			-0.014	0.102
SIZE		$1.705\ 10^{-15}$**	$1.651\ 10^{-15}$**	$1.463\ 10^{-15}$**
ROA		-0.100	-0.099	-0.107
LEV		0.190	0.019	0.020
CSR*GENDER				-0.333*
AdjR^2	0.057	0.084	0.080	0.091
F	11.994**	5.176**	4.172**	4.027**

* 10% ** 5%, Adjusted R^2 0.05871, $F_{6,179}$ 2.92316**

Results of hypothesis testing showed that corporate social and environmental responsibility disclosure has a coefficient value of 0.293 (model 1), 0.259 (model 2), 0.263 (model 3), 0.364 (model 4) and significant, H_1 is accepted, which means that the corporate social and environmental responsibility disclosure has positively influence on earnings management. This is consistent with Muttakin *et al*. (2015), Susanto (2015), Sari and Utama (2014) and Prior et al. (2008). The greater the social and environmental responsibility disclosure, the greater earnings management. Social and environmental responsibility disclosure as a form of shareholders and stakeholder demands and indicates financial capacity of the company is better able to perform social and environmental responsibility. This makes shareholders and stakeholders would not suspect the firm engaged in earnings management.

The interaction female audit committee and corporate social and environmental responsibility disclosure has a coefficient value of -0.333 and significant, H_2 is accepted, which means that female audit committee negatively affects the relationship between corporate social and environmental responsibility disclosure and earnings management. This is consistent with Peni and Vahama (2010), Qi and Tian (2012) and Susanto (2014). Female audit committee is the watchdog of the management company to carry out activities of the company in accordance with the wishes of the principal, which increases the value of the company.

Firm size has a coefficient value of $1.463\ 10^{-15}$ and significance, which means that the positive affect of firm size on earnings management. This is consistent with Widyastuti (2009). Profitability has a coefficient value of -0.107 and not significance, which means that profitability does not have an influence on earnings management. This is not consistent with Widyastuti (2009) dan Guna dan Herawaty (2010). Leverage has a coefficient value of 0.020 and not significance, which means that leverage does not have an influence on earnings management. This is not consistent with Widyaningdyah (2001) dan Widyastuti (2009).

Conclusion, Limitation and Recommendation

The corporate social and environmental responsibility disclosure and firm size have an influence on earnings management. The female audit committee negatively affects the relationship between corporate social and environmental responsibility disclosure and earnings management. The profitability and leverage do not have an influence on the earnings management. This study has several limitations of the first, the study period is relatively short, ie from year 2010 to 2012 so that earnings management is observed less describe actual conditions. For further research to extend the period of study, a minimum of 5 years so that the data obtained can better describe the actual condition of earnings management. Second, the sample of companies used in this study is only limited to the manufacturing companies listed in Indonesia Stock Exchange, so the lack of research results can be generalized. To further expand the study sample into non-financial companies listed on the Indonesia Stock Exchange.

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