

# **THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE ON FIRM VALUE: THE MODERATING ROLE OF EARNINGS MANAGEMENT**

**(An Empirical Study in Manufacturing Companies Listed on Indonesia  
Stock Exchange (IDX) from 2014-2016)**



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## **DECLARATION OF ORIGINALITY**

I am, Hasya Arsitarini, hereby declare that this thesis is real and accurate to be my own work, especially written for partial requirement to complete Undergraduate Program of Accounting, and has not been presented in any other occasion before. I bear full responsibility for my undergraduate thesis.

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## **MOTTO AND DEDICATION**

*“But they plan, and Allah plans. And Allah is the best of planners.”*

*Surah Al-Anfal 8:30*

*“It doesn’t matter where you start, it matters where you end up.”*

***This thesis is dedicated to:***

*Bapak Muchlis and Ibu Eniwati*

*All of my family and friends*

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## ABSTRACT

This research aims to determine the influence of corporate social responsibility disclosure on firm value with the moderating role of earnings management. Firm value is measured with Tobin's Q, corporate social responsibility is measured with CSR disclosure index, and earnings management is measured with discretionary accruals. The control variables of this research are cash-flow to total assets, firm size, leverage, institutional ownership, and ownership concentration.

The population of this research is all manufacturing companies listed in Indonesia Stock Exchange (IDX). Samples were taken for the year 2014-2016 and was collected using the purposive sampling method. This research used secondary data from the annual reports of the companies. Moderated Regression Analysis on EViews 9 was used to examine the data.

Findings of this study shows that corporate social responsibility has a positive influence on firm value. The regression analysis proved that earnings management does moderate the relationship between corporate social responsibility and firm value negatively.

**Keywords** : corporate social responsibility disclosure, firm value, earnings management, cash-flow to total assets, firm size, leverage, institutional ownership, ownership concentration.

## ABSTRAK

*Penelitian ini bertujuan untuk menentukan pengaruh pengungkapan tanggung jawab sosial perusahaan pada nilai perusahaan dengan peran manajemen laba sebagai variable pemoderasi. Nilai perusahaan diukur dengan Tobin's Q, tanggung jawab sosial perusahaan diukur dengan indeks pengungkapan CSR, dan manajemen laba diukur dengan akrual diskresioner. Variabel pengendali dalam penelitian ini adalah rasio arus kas terhadap total aset, ukuran perusahaan, daya ungkit, kepemilikan institusional, dan konsentrasi kepemilikan.*

*Populasi penelitian ini adalah semua perusahaan manufaktur yang terdaftar dalam Bursa Efek Indonesia (BEI). Sampel diambil untuk tahun 2014-2016 dan dikumpulkan dengan menggunakan metode purposive sampling. Penelitian ini menggunakan data sekunder dari laporan tahunan perusahaan-perusahaan tersebut. Moderated Regression Analysis dalam perangkat EViews9 digunakan untuk menguji data penelitian.*

*Temuan dari penelitian ini menunjukkan bahwa tanggung jawab sosial memiliki pengaruh positif terhadap nilai perusahaan. Analisis regresi berhasil membuktikan bahwa manajemen laba memoderasi hubungan antara tanggung jawab sosial dan nilai perusahaan secara negatif.*

**Kata kunci** : *pengungkapan tanggung jawab sosial perusahaan, nilai perusahaan, manajemen laba, rasio arus kas terhadap total aset, ukuran perusahaan, daya ungkit, kepemilikan institusional, konsentrasi kepemilikan*

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# **CHAPTER I**

## **INTRODUCTION**

This first chapter is directed to explain five sections including background of the research, formulation of research problems, objectives of the research, research contribution, and writing systematics. In background section, the reasons why this study is conducted are explained thoroughly and are the basis of problem formulation. The problem formulation section discusses the issues to be raised in this study. Moreover, this chapter also consists the objectives of this research, research contributions given by this study, as well as the writing systematics of this study.

### **1.1 Background**

In operating a business, the main goal of a company is to seek growth in the value of their firm. Implementing corporate social responsibilities (CSR) activities has been considered as one of the ways to achieve this particular objective. CSR is aimed to boost a favorable reputation of the business in the eyes of its stakeholders which will eventually result in an increase of firm value. CSR is associated to ethical as well as moral issues reflected on company's the decision making process and behavior. Moreover, CSR is also affiliated to more intricate matters such as the protection of environment, management of human resources affairs, relationships with product buyers and its suppliers, health and safety within the working environment, as well as correspondence with local

groups. Implementing CSR suggests that a company is willing to integrate its business operations and interactions with stakeholders within social and environmental concerns (Castelo & Lima, 2006).

Initially, CSR was voluntarily performed by companies in order to construct a positive reputation in the public eyes, but due to the rapid growth in social and environmental awareness, regulations on CSR were becoming necessary. In 2007, the government of Indonesia made it mandatory for companies that conduct its business with ties to any form of natural resources to implement CSR. This requirement is regulated specifically in Undang-Undang Perseroan Terbatas Nomor 40 pasal 74 that was released in the year 2007. This regulation states that CSR is the responsibility of the company that should be carefully calculated and budgeted accordingly. Additionally, sanctions are to be given to any companies that do not comply to this rule. Implementation of CSR is not the only thing that is supported, the disclosure of such activities by these companies are also encouraged by Peraturan Bapepam No. KEP-134/BL/2006 that was released in December 7 of the year 2006. This government ruling clearly communicates that companies are required to disclose their CSR activities and the costs that go into them.

The importance of CSR has risen quite significantly over the time. Many companies have realized that if they do not concern themselves with its surrounding factors such as employees, consumers, environment, and natural resources as a supporting unit of business operations, eventually these actions will harm their existence in the long run. This realization has driven companies

to practice CSR as a business strategy. The Economist Intelligence Unit conducted a survey showing that 85% of senior executives and investors of different organizations is making CSR as a main consideration factor when making decisions. By practicing CSR, a company can increase shareholder's satisfaction while boosting company reputation. Possessing a positive reputation indicates that the company is widely accepted by the general public. According to Fombrun et al. (2000), this image can establish relations to the related communities and construct a reputation for the company in the stock market, as well as increasing its ability to arrange better contracts with various stakeholders such as suppliers and government to decrease the capital cost. Additionally, if managers know how to effectively carry out CSR engagements, then firm value would be positively influenced (Jo & Harjoto, 2011).

CSR has become one of the strategies to increase a company's income in annual report. Income is also one of many indicators in financial statements that investors use in their decision making process. Management also takes part in creating policies in financial statement in order to make the information more favorable to their current and future investors. The choices of accounting policies by management for a specific purpose is often referred to earnings management. Earnings information as a part of financial statements often becomes the target of management's engineering. Earnings is an indicator which is able to be easily utilized in measuring the business' performance from an operational perspective. Information on earnings is used to measure the success or failure of business in

achieving their operational goals which have been set before (Siallagan & Machfoedz, 2006).

Healy & Wahlen (1998) explained that earnings management happens when financial reporting activities are influenced by managers' judgments with a purpose to give modifications in financial statements to deceive stakeholders with the company's performance information or to influence any future contracts that will rely on the accounting figures released by the company. Earnings management can be caused by an agency problem between shareholders and management. In operating its business, a public or a listed company is run by separating ownership functions and management or managerial functions. This separation of function forms an agency relationship, which is a relationship where shareholder as a principal is putting trust on a manager as an agent to make decisions on their behalf according to the owner's best interest by entrusting agents with several processes of decision making within the company (Jensen & Meckling, 1976).

One of the ways of management in preparing financial statements that can affect the earnings rate is shown is through earnings management. Earnings management practices are expected to increase the company's value at certain times. However, negative consequences can undeniably arise from the practices of earnings management for shareholders, employees, communities, career and reputation of company's executives. One of the most avoided consequences is losing the support of stakeholders, which can result in the association of the

company to a negative image and will eventually lead to the risk of managers losing their jobs.

Therefore, company engages in a self-defense mechanism (entrenchment strategy) in order to anticipate stakeholders' dissatisfaction and to protect its own reputation. Considering that CSR activities can significantly increase support from various stakeholders, companies have begun to use CSR as a self-defense strategy. Cespa & Cestone (in Rahmawati & Dianita, 2011) stated that management is encouraged to practice earnings management to promote a socially-friendly reputation through CSR implementation in order to gain support from different stakeholders.

Previous researches have been conducted to further determine the existing CSR disclosure's relationship with the value of the firm (e.g. Crisóstomo et al., 2011; Barnea & Rubin, 2010; Jo & Harjoto, 2011; Tandry et al., 2014). However, the debate on whether the one influences the other still exists. Meanwhile, the role that earnings management on CSR disclosure influence on firm value is still very limited. This study is conducted due to the inconsistent result of the previous researches. Earnings management will be added as a moderating variable to examine its impact of the relationship between CSR disclosure and firm value.

This study is according to the study conducted by (Tandry et al., 2014) that related corporate social responsibility disclosure with earnings management and value of the firm. Companies that are in the manufacturing field are used as the population of this study. These companies are listed on the Indonesia Stock

Exchange during 2014-2016. Moreover, this research uses purposive sampling to match the previously set criteria for the sample selection process. Given the background, this title of this research is, **“The Influence of CSR Disclosure on Firm Value: The Moderating Role of Earnings Management (An Empirical Studies in Manufacturing Companies Listed on Indonesia Stock Exchange from 2014-2016)”**

## **1.2 Problem Formulation**

According to the background on the influence of CSR disclosure on firm value with the moderating role of earnings management above, there is a potential of a certain influence that earnings management practices have on the relationship between value of the firm and CSR disclosure. Over the time, corporate social responsibility has been continually used by companies to increase the trust of shareholders, so that in doing earning management practices, management is driven to use corporate social responsibility disclosure to increase company's value. According to the background section of the research above, the problem statements can be identified as follow;

1. Does the disclosure of corporate social responsibility have any influence on the value of the firm?
2. Does earnings management have any moderating influence on the relationship between the disclosure of corporate social responsibility and the value of the firm?

### **1.3 Research Objectives**

According to the research problems above, the objectives of this study is to empirically acknowledge:

1. The influence that corporate social responsibility disclosure has on firm value.
2. The influence that earnings management has on the relationship between the disclosure of corporate social responsibility activities and firm value.

### **1.4 Research Contributions**

The expectation for this research is that it will be able to provide various advantages and be useful for all parties, either practically or theoretically. These expected contributions are as follow:

1. For academics

This research is expected to produce empirical evidence on the relationship between the disclosure of CSR and value of the business with earnings management acting as a moderating variable, as well as a reference for other researchers who are interested to research this particular topic. This research contributes to the related academic literature.

2. For companies

This research can be used for companies to understand the influence that corporate social responsibility disclosure has on firm value and



whether earnings management practice is influencing the relationship between them. This research will hopefully influence company's decision in using corporate social responsibility to distract from the earnings management activities done by the company.

3. For investors

This research can contribute in the process of making an investment decision in a company by further analysis to the company's financial performance and not only analyzing based on the company's earnings or corporate social responsibilities activities.

4. For further researchers

This research is hoped and presumed to be developed and used as a consideration material as well as a reference and to conduct further researches.

## **1.5 Writing Systematic**

Systematic in this writing is comprised of five chapters.

### **CHAPTER I INTRODUCTION**

This chapter contains overview of this research that is explained through the research background of the study, the problem formulation and the statements of problem raised in this study. Moreover, this chapter is able to explain the objectives and contributions of the study for various parties, and the systematics of the writing.

## CHAPTER II LITERATURE REVIEW

This second chapter is comprised of various underlying theories that are used to conduct this research and the previous researches that have been conducted within the similar topics. This chapter also explains the development of the research hypotheses that will be examined and tested and visualizes the relationship between the variables of this research in the theoretical framework.

## CHAPTER III RESEARCH METHODOLOGY

The research methodology operated in the study will be further elaborated in this third chapter. This elaboration includes operational definition and variable measurement, population, and sample, types and sources of data, data collecting method, variable identification, and data analysis method.

## CHAPTER IV DISCUSSION AND ANALYSIS

This chapter provides the definition of the research object, the result of the data analysis in this research, and the interpretation of the result, as well as the explanation about the hypotheses testing.

## CHAPTER V CONCLUSION AND SUGGESTION

This chapter is a closing chapter which includes the conclusion of all of the elaborate with limitations and suggestions for future research.