CSR Reporting: Perspective of Female Audit Committee Having Financial Expertise

P.A. Widyasari & N.F. Ayunda
University of Surabaya, Surabaya, Indonesia

ABSTRACT: This paper contributes to the evidence that identified gender and skill affect organizational and business practices. This research combines two characteristics of the audit committee, namely gender and financial expertise, as one perspective. The research aims to analyze whether the presence of the female audit committee with financial expertise has an impact on the company's CSR report. This research confirmed that females with financial expertise in the audit committee had a negative effect on CSR reporting. The female audit committee having financial expertise will be more conservative regarding CSR reporting. Conservative reporting stands for not exaggerate the CSR activity. The result was limited to the sample of 157 industrial and manufacturing companies listed on the Indonesia Stock exchange (IDX) in 2015 – 2016. CSR reporting checklist is based on Hackston & Milne, including environment, energy, employees, products, and community involvement aspects. Control variables used in the research were earnings management, leverage, ROA, and types of industry.
Keywords: audit committee, female audit committee, CSR reporting, earning management, leverage.

1 INTRODUCTION

Based on Law of The Republic of Indonesia Number 40 of 2007 Concerning Limited Liability Companies article 1 verse 3, corporate social responsibility is corporate commitment to contribute to economic development, which elevates the quality of life and environment for the company itself, social, and community.

According to positive stakeholder relations, CSR can be part of the corporate strategy since it creates value for the stakeholder (Anderson & Bieniaszewska, 2005). Stakeholder theory stated that CSR could be an efficient way of managing the relationship between the company and its stakeholders. Since the stakeholder is a very crucial part of the company, the manager tends to do everything to keep the relationship with the stakeholder (Roberts, 1992).

The company must disclose its CSR activity in its annual report (Law of The Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies article 66). Information disclosure can decrease the level of asymmetric information between investor and manager; consequently, the investor can rely on the manager and is willing to trade with the company, which causes a higher level of liquidity (Verrechia, 2001).

On the other hand, disclosure of CSR activity might not be sincere or have the potential to mislead the financial statement users. Managers can strategically use CSR to disguise their opportunistic intention because by doing CSR, managers can secure their job, and then they will gain trust from the stakeholders (Cespa & Cestone, 2007). However, CSR disclosure can be used by the firm to "mask" or cover the inadequate CSR performance (Huang & Watson, 2015). Prior et al. (2008) stated that since management is doing earnings management, the company started to do more CSR to reduce stakeholder's scrutiny and increase company's reputation so that the investor will trust the company more.

Regardless the cost and the benefit, several aspects affect the disclosure of CSR activity such as corporate life cycle (Widyasari et al. 2019), earnings management (Prior et al., 2008), directors' experience (Ramón-Llorens et al., 2018); percentage of female in audit committee (Pucheta-Martínez et al., 2016) and Audit committee financial expertise (Sun & Rakhman, 2013). Appuhami & Tashakor (2017) found that audit committee characteristics such as size, committee independence, number of meetings, and gender diversity affect the level of CSR disclosure.

Regarding the audit committee characteristic, previous researchers observed the gender and financial expertise variable separately. Contributing to the above knowledge, this research combines two characteristics of the audit committee, gender, and financial expertise, as one perspective. This research observes the effect of the female audit committee having the financial expertise on the CSR disclosure. Moreover, this research includes earnings management, leverage, ROA, and types of industry as control variables.

1.1. *Female in business practice*

As males and females are socialized differently based on the behavior that is accepted and acceptable, they stuck with what it is called gender identity (Eagly & Karau, 1991). For example, females were raised and told to be a mother, wife, and daughter, while males were raised in more competitive habitat (Dick & Nadin, 2006). Thereby, both personalities are entirely different, where females tend to be more people-oriented, and males tend to be more dominant and ambitious (Eagley & Johannesen-Schmidt, 2001). These personality differences then brought to the working context supported by real-life organizational practices that later shown the differences between the two.

According to Krishnan & Parsons (2008), women tend to better in dealing with ethical issues. Women are more focused on relationships and helping people, while men are more concerned about competition and making money in the company. Ittonen et al. (2013) found that female partner in an auditing firm is more constraint in earnings management. It shows that firms audited by female engagement partners are associated with smaller abnormal accruals.

As a member of the audit committee, the presence of females has an impact. Female audit committee members show better communication abilities and meeting preparations (Stewart & Munro, 2007). Gender diversity in the audit committee will lower the audit fee because female representation reduces the inherent risk of misstatements (Ittonen et al., 2010)

1.2. Female audit committee with accounting expertise and corporate social responsibility disclosure

Females are more conservative and unbiased than males in making ethical decisions (Thiruvadi & Huang, 2011). Basu (1997) interpreted that conservatism is an act to disclose bad news more quickly than good news. Disclosing the CSR activity might be one of the ways of sending "good news" to stakeholders.

As female's conservatism level is higher than males; thus, females tend to avoid exaggerating the good news. Having a female audit committee will influence the CSR reporting style by more conservative. Conservative CSR reporting style can be interpreted as avoids misleading the financial statement user, delaying the good news, and tends to disclose the bad news or avoid the exaggeration of CSR disclosure.

On the other hand, having financial expertise makes the audit committee more conservative. Driven by knowledge, having financial expertise is expected to have better monitoring capability. Financial expertise has the incentive to reduce litigation risk and protect the company's reputation (Krishnan & Visvanathan, 2008). The risk of mitigation might be reduced by not misleading the financial statement's user, providing a conservatism report, and not exaggerating "good news". As the company fulfills the mandatory requirement by the government to report the CSR activity, the Audit committee having financial expertise will tend to avoid releasing exaggerate CSR disclosure. Moreover, Musallam (2018) found that the financial expertise of the audit committee has a significant negative relationship with CSR disclosure.

Combining the perspective of gender and expertise, by having financial expertise, the female audit committee can be expected to create better reporting information and monitoring the process (Defond et al., 2005). This research proposes the hypothesis that the female audit committee with financial expertise tends to be conservative when reporting the CSR activity.

H1: Female with financial expertise in the audit committee has a negative effect on the CSR

2 RESEARCH METHODS

The unit analysis of this research is manufacturing and industrial sector companies that publicly listed in the Indonesia Stock Exchange (IDX) from 2015 until 2016. The researchers only chose manufacturing and industrial companies because it has a high sensitivity with the independent variable of this research, which is Corporate Social Responsibility (CSR) (Mutia et al., 2011).

CSR disclosure scoring system uses the Hackston & Milne (1996) checklist. The checklist includes aspects such as environment, energy, employees, products, and community involvement. Hackston & Milne (1996) checklist is the one that fits the most with the aspects of CSR disclosures that have been carried out by the companies in Indonesia. Even though some aspects are rarely done by the Indonesian company, but the majority of them fit with the condition. Other checklists are mostly too complicated, or the items inside it do not represent the aspects that already done by the Indonesian company or the number of the items is too limited.

The value of CSRQ is determined by dividing the value of the items that are check listed by matching it with the information in the annual report with the value of all the items in the checklist, which are 88. ACGEX is the percentage of the female audit committees having financial expertise. It can be traced based on the profile of the female audit committee provided in the annual report. It can be concluded by the education background, title, certification, working experience.

Earnings management is calculated based on the residual value of the modified-Jones model that augmented with ROA (Kothari et al., 2005). Leverage is measured using a debt to equity ratio (DER) formula. Debt to Equity Ratio equal with Total Liabilities divided by Total Stockholder Equity. ROA is calculated based on Net Income divided by Total Assets. The last control variable is the dummy industry. This research categorizes the manufacturing industry into three categories, including Basic Industry, Consumer Good Industry, and Miscellaneous Industry.

3 RESULTS AND DISCUSSIONS

The test results for each of the research Hypotheses can be explained on table 1.

Table 1. Regression Result

Variables	Beta	t
Constant	0.370	18.113*
ACGEX	-0.127	-3.245*
EM	0.002	0.162
ROA	0.101	1.411
LEV	0.021	1.631
DCG	0.035	1.516
DMISC	-0.059	-2.321*
F	4.789*	
Adj. R. Squared	0.127	

NB: *Sig. at α 5%.

Based on the table 1 the linear regression formula is:

CSRQ = 0.370 – 0.127.ACGEX + 0.002.EM + 0.021.LEV + 0.101.ROA + 0.035.DCG – 0.059.DMISC.

Table 1 show that ACGEX has a significant negative impact on CSRQ. It is proven that the female audit committee with financial expertise has a negative effect on CSR reporting. It shows that the presence of a female (gender) audit committee having financial expertise (skill) creates a conservative CSR report. The results confirm that females are more conservative and unbiased than males in making ethical decisions (Thiruvadi & Huang, 2011), and having financial expertise denotes having a responsibility to demonstrate better monitoring capability, reduce the litigation risk and protect the company's reputation (Krishnan & Visvanathan, 2008). Moreover, the result is robust based on the relationship test by Pearson and a linear regression test.

4 CONCLUSION

This research contributes to the literature and empirical research about the phenomenon of gender and skill toward business reporting, especially, confirm that female audit committee having financial expertise will be more conservative regarding the CSR reporting. Conservatism signifies that females tend not to exaggerate the CSR activity.

The result leads to the implication that gender diversity in the audit committee might add a conservative effect on business reporting. It implies that the company must consider to establish a fully functioned audit committee by diverse it by gender and skill. The diverse audit committee will create better monitoring capability. For the standard-setter, the establishment of the rule regarding diversified gender audit committees and having expertise should be considered and discussed.

REFERENCES

Anderson, C.L. & Bieniaszewska, R.L. 2005. The role of corporate social responsibility in an oil company's expansion into new territories. *Corporate Social Responsibility and Environmental Management* 12(1): 1-9.

Appuhami, R. & Tashakor, S. 2017. The Impact of Audit Committee Characteristics on CSR Disclosure: An Analysis of Australian Firms. *Australian Accounting Review* 27(4): 400-420. doi: 10.1111/auar.12170

Basu, S. 1997. The conservatism principle and the asymmetric timeliness of earnings1. *Journal of Accounting and Economics* 24(1): 3-37.

Cespa, G. & Cestone, G. 2007. Corporate social responsibility and managerial entrenchment. *Journal of Economics and Management Strategy* 16(3): 741-771.

DeFond, M.L., Hann, R.N. & Hu, X. 2005. Does the market value financial expertise on audit committees of boards of directors? *Journal of accounting research* 43(2): 153-193.

Dick, P. & Nadin, S. 2006. Reproducing gender inequalities? A critique of realist assumptions underpinning personnel selection research and practice. *Journal of Occupational and Organizational Psychology* 79(3): 481-498. doi: 10.1348/096317905x68709

Eagly, A. H. & Johannesen-Schmidt, M.C. 2001. The Leadership Styles of Women and Men. *Journal of Social Issues* 57(4): 781-797. doi: 10.1111/0022-4537.00241

Eagly, A.H. & Karau, S.J. 1991. Gender and the emergence of leaders: A meta-analysis. *Journal of personality and social psychology* 60(5): 685.

Hackston, D. & Milne, M.J. 1996. Some determinants of social and environmental disclosures in New Zealand companies. Accounting, *Auditing & Accountability Journal* 9(1): 77-108. doi: 10.1108/09513579610109987

Huang, X. & Watson, L. 2015. Corporate Social Responsibility Research in Accounting. *Journal of Accounting Literature* 34: 1-16.

Ittonen, K., Miettinen, J. & Vähämaa, S. 2010. Does Female Representation on Audit Committees Affect Audit Fees? *Quarterly Journal of Finance and Accounting* 49(3/4): 113-139.

Ittonen, K., Vähämaa, E. & Vähämaa, S. 2013. Female Auditors and Accruals Quality. *Accounting Horizons* 27(2): 205-228. doi: 10.2308/acch-50400

Kothari, S.P., Leone, A.J. & Wasley, C.E. 2005. Performance matched discretionary accrual measures. *Journal of Accounting and Economics* 39(1): 163-197. doi: https://doi.org/10.1016/j.jacceco.2004.11.002

Krishnan, G.V. & Parsons, L.M. 2008. Getting to the bottom line: An exploration of gender and earnings quality. *Journal of Business Ethics* 78(1-2): 65-76.

Krishnan, G.V. & Visvanathan, G. 2008. Does the SOX Definition of an Accounting Expert Matter? The Association between Audit Committee Directors' Accounting Expertise and Accounting Conservatism*. *Contemporary Accounting Research* 25(3): 827-858. doi: 10.1506/car.25.3.7

Law Of The Republic Of Indonesia Number 40 Of 2007 Concerning Limited Liability Companies (2007).

Musallam, S.R.M. 2018. The direct and indirect effect of the existence of risk management on the relationship between audit committee and corporate social responsibility disclosure. *Benchmarking: An International Journal* 25(9): 4125-4138. doi: 10.1108/BIJ-03-2018-0050

Mutia, E., Zuraida, Z. & Andriani, D. 2011. Pengaruh Ukuran Perusahaan, Profitabilitas Dan Ukuran Dewan Komisaris Terhadap Pengungkapan Corporate Social Responsibility Pada Perusahaan Manufaktur Yang Terdaftar Di Bursa Efek Indonesia. *Jurnal Telaah dan Riset Akuntansi* 4(2): 187-201.

Prior, D., Surroca, J. & Tribó, J.A. 2008. Are Socially Responsible Managers Really Ethical? Exploring the Relationship Between Earnings Management and Corporate Social Responsibility. *Corporate Governance: An International Review* 16(3):160-177. doi: 10.1111/j.1467-8683.2008.00678.x

Pucheta-Martínez, M.C., Bel-Oms, I. & Olcina-Sempere, G. 2016. Corporate governance, female directors and quality of financial information. *Business Ethics: A European Review* 25(4): 363-385. doi: 10.1111/beer.12123

Ramón-Llorens, M.C., García-Meca, E. & Pucheta-Martínez, M.C. 2018. The role of human and social board capital in driving CSR reporting. *Long Range Planning*. doi: https://doi.org/10.1016/j.lrp.2018.08.001

Roberts, R.W. 1992. Determinants of corporate social responsibility disclosure: An application of stakeholder theory. *Accounting, organizations and society* 17(6): 595-612.

Stewart, J. & Munro, L. 2007. The Impact of Audit Committee Existence and Audit Committee Meeting Frequency on the External Audit: Perceptions of Australian Auditors. *International Journal of Auditing* 11(1): 51-69. doi: 10.1111/j.1099-1123.2007.00356.x

Sun, L. & Rakhman, F. 2013. CFO financial expertise and corporate social responsibility: Evidence from S&P 500 companies. *International Journal of Law and Management* 55(3): 161-172.

Thiruvadi, S. & Huang, H.W. 2011. Audit committee gender differences and earnings management. *Gender in Management: An International Journal* 26(7): 483-498. doi: 10.1108/17542411111175469

Verrecchia, R.E. 2001. Essays on disclosure. *Journal of Accounting and Economics* 32(1):97-180. doi: https://doi.org/10.1016/S0165-4101(01)00025-8

Widyasari, P.A., Sutanto, C. & Hastuti, M.E. 2019. Corporate life cycle, corporate governance structure, and corporate social responsibility disclosure. *Jurnal Keuangan dan Perbankan* 23(3).