Corporate Social Responsibility and Earnings Management: Ethics Perspective

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Abstract. The purpose of this study is to provide empirical evidence and determine how corporate social responsibility (CSR) influences earnings management. This study utilized 305 samples selected using the purposive sampling technique. From 2017 to 2021, the research sample consists of all primary sector companies listed on BEI in the agricultural and mining sectors. CSR measurement uses content analysis. Using multiple linear regression to process data. According to the study's findings, CSR can mitigate earnings management actions. CSR consistently opposes earnings management in the agriculture industry in an additional analysis. Meanwhile, the results are insignificant in the mining industry.

Keywords: Corporate Social Responsibility · Earnings Management · ethics

1 Introduction

Earnings are essential in a company's financial statements because they will influence the future of the company's operational processes. The company will make every effort to obtain profits so that various methods can be used to achieve its objectives. The annual financial statements published by a company reveal the company's earnings. According to Achyani & Lestari [1], financial reports for company management are a way to report to investors. Earnings achievement is also one of the benchmarks for evaluating a company's performance because information about earnings helps stakeholders and investors estimate earnings power, which can be used to assess investment and credit risk [2].

When a business desires to reach predetermined profit goals, it will employ earnings management techniques. In research, corporate social responsibility is frequently cited as a factor associated with earnings management. CSR is a report on a company's social responsibility activities for investors, customers, stakeholders, and other parties who demand non-business-related aspects [3]. The company's annual report will reflect its positive image if CSR is implemented, as it will be socially responsible for the environment in its operations, thereby meeting investors' societal expectations. Obviously, this will influence investors' decisions to view the company's annual report [4]. In addition, the use of earnings management is limited in order to provide investors with more transparent and trustworthy financial information. On the other hand, if a company engages

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in CSR, it will have a positive image in society. This will have an effect on earnings management, as a positive image can result in increased opportunities to implement earnings management. As a result of gaining the public's trust, businesses will feel more liberated when managing earnings.

Corporate social responsibility must be one of the company's efforts to provide external parties with financial report information that meets their expectations. Disclosure of CSR can assist companies in gaining the trust of external parties who rely on financial reports to evaluate company activities, thereby indirectly limiting earnings management. In contrast, the absence of CSR disclosure will be advantageous for the company's earnings management practices. Based on previous research findings, many studies are inversely proportional to one another, so definitive research is lacking in this area.

With the company's investment of resources in CSR activities, its daily operational activities will be more ethical, honest, and trustworthy. This results in company performance that inhibits earnings management [5]. Buertey [6] stated that the presence of market coverage and monitoring that functions as a governance mechanism would reduce profit manipulation when the governance in question is CSR disclosure governance. Previous research has demonstrated that CSR disclosure by companies will have an effect on earnings management, with earnings management practices becoming less prevalent or even disappearing [7]. Kim et al. [8] found in another study that CSR disclosure will reduce the incidence of earnings management practices in Chinese companies. This study contributes to the enrichment of literature in developing nations. The majority of studies in this field are conducted in developed countries. Despite using the same variables, each nation has several distinct characteristics that may influence the conclusions of this research. For instance, companies in developed countries are required to disclose more information about their corporate social activities and corporate governance than those in developing countries.

2 Methods

This study's sample comprised all companies listed on the Indonesia Stock Exchange between 2017 and 2021. There are multiple selection criteria for the sample. First, businesses are included in sector 1, which includes the agricultural and mining industries. Second, businesses publish annual or sustainability reports for the given year. Third, possess all necessary data. Based on the sample selection criteria results, the total number of company years was 305. This study's dependent variable is earnings management, which is proxied by discretionary accruals (DAC) and a modified Jones model Dechow et al. [9]. The results of this DAC calculation will reveal the value of the company's earnings management. If the results are positive, greater than zero, then the company's management practices earnings management with an emphasis on income maximization. Conversely, if the results are negative, earnings management is conducted using a pattern of income minimization. Corporate Social Responsibility (CSR) is measured as an independent variable using the GRI Standards as a reference through content analysis employing disclosure standards for 87 indicators.

Profitability, tax planning, and leverage are the three variables of control. Profitability is measured by Return on Assets (ROA). According to Aditama & Purwaningsih [10], the

Table 1. Descriptive Statistics

Variable	N	Min	Max	Mean	Std. Dev
EM	305	-0.4378	0.8042	0.0006	0.1072
CSR	305	0.0230	0.7586	0.2999	0.1354
TPL	305	-2.5505	10.6853	0.7296	0.9132
LVG	305	0.0068	1.9253	0.5248	0.2693
PFTB	305	-0.9164	0.5202	0.0297	0.1449

tax retention rate is a measurement model used to analyze measures of the effectiveness of tax management in company financial reports. Leverage is one of the additional factors that affect earnings management because, with earnings management, companies attempt to meet their external funding requirements and debt obligations, such as by selling shares on the capital market. This study employs the formula for the debt-to-equity ratio.

After the data has passed the classical assumption test, multiple linear regression will be used to test the research hypothesis.

$$EM = a + a_1 CSR + a_2 PFTB + a_3 TPL + a_4 LVG$$

Where EM stands for earnings management, PFTB for profitability, TPL for total shareholder return, and LVG for leverage.

3 Result

In Table 1 are provided descriptive statistics. Each variable comprises the amount of data (N), the minimum value (Min), the maximum value (Max), the average value (Mean), and the standard deviation (Std). The characteristics of each sample company are based on each variable (Std. Dev).

The minimum value for the EM (Earnings Management) variable is -0.4378 and the maximum is 0.8042. The minimum value indicates a declining income. While the maximum value indicates that there are also businesses that implement an income-increasing strategy, the resultant profit tends to be positive and has an enormous value relative to the other samples. The lowest CSR value recorded is 0.0230, and the highest is 0.7586. The average profitability variable value is 0.0297. The average value of the variable concerning tax planning is 0.7296. LVG average value is 0.5248.

4 Analysis and Discussion

It has been demonstrated that the extent of CSR disclosure can inhibit earnings management practices employed by companies. Socially responsible businesses have made various efforts to allocate resources for CSR activities that meet stakeholders' expectations. Therefore, businesses that disclose CSR will be more ethical [11]. According to

Amar & Chakroun [12], companies that disclose CSR must have a social commitment to increase management's transparency. In other words, the company will be unable to manage earnings and provide stakeholders with inaccurate financial information. Researchers argue that the disclosure of social responsibility in a company's annual report indicates that the company's financial information will be more reliable, thereby enhancing the company's image. Due to the company's multiple levels of CSR disclosure, the company will likely generate less income if earnings management is also employed. They tend to engage in earnings management, in contrast to companies that are less willing to disclose their CSR information. This is also consistent with the agency theory, in which investors act as principals who place great faith in companies acting as agents. With the pressure exerted by investors who continue to hope that corporations have a social responsibility, investors will indirectly discourage opportunistic behavior from corporations, namely earnings management. Another explanation is that companies engage in CSR to preserve their reputations. Suppose the value of the company is based on its reputation. In that case, the desire to maintain that reputation will prevent the company and its managers from engaging in unacceptable social activities. Managers will use CSR to enhance their reputation and restrict earnings management to prevent reputational damage to the company (Table 2).

The additional investigation leads through column (2) is agricultural industry tests, and in column 3 are mining industry samples. In industry 1 (agriculture), the CSR variable affects earnings management, whereas variable 2 (mining) has no effect. This

Table 2. Results

	All Sample (1)	Industry 1 (2)	Industry 2 (3)
Constant	0.011	0.013	-0.002
	(0.588)	(0.349)	(0.104)
CSR	-0.073	-0.140	-0.064
	(1-.767)**	(-1.705)**	(-1.303)
PFTB	0.336	0.658	0.272
	(0.000)***	(6.755)***	(5.673)***
TPL	0.005	0.015	0.003
	(0.845)	(0.882)	(0.492)
LVG	0.005	0.037	0.005
	(-0.208)	(0.983)	(0.179)
F-test	19.240*	15.831*	9.049**
DW	2.050	2.135	2.095
Adj R2	0.194	0.392	0.132
N	305	93	212

*10%, **5%, ***1% (*one tail-test*)

is possible because the average number of CSR disclosures in sectors 1 and 2 differ significantly. In sector 1, there are more annual disclosures than in sector 2, despite the fact that sector 2 has a much greater number of companies.

5 Conclusion

The empirical evidence indicates that CSR has a negative impact on earnings management. In other words, the greater the level of disclosure, the more it will reduce earnings management pressure. CSR influences earnings management in the agricultural sector but not in the mining sector. This research has limitations in two ways. First, the research sample consists solely of companies registered in the agriculture and mining industries, so sector coverage tends to be limited, even over a lengthy time span. Second, the earnings management variable calculation utilizes a modified version of the Jones model when other methods should be used. Future research can utilize a sample of companies whose sector coverage has expanded, such as manufacturing and non-manufacturing companies. In addition, moderating variables can be added for a more comprehensive analysis.

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