

Analysis of the Effect of Corporate Social Responsibility on Financial Performance With Earnings Management as a Moderating Variable

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This study aims to obtain empirical evidence about the effect on the activity of earnings management practices of Corporate Social Responsibility (CSR), and further examine the impact of these relationships (earnings management and CSR) effect on the financial performance of companies in the future. Samples used in this study were 27 companies listed in Indonesia Stock Exchange during the years 2006-2008. Data collected by purposive sampling method and statistical method used is ordinary least square regression. The study provides empirical evidence that companies that engage in the practice of earnings management have no influence on CSR activities. In addition, the second hypothesis, based CSR explained that the activities associated with earnings management practices negatively affect the company's financial performance in the future.

Keywords: corporate social responsibility, earnings management, corporate financial performance

Introduction

The financial statements are the main tool for management to submit financial information company. The submission of financial information through the financial statements need to be done to fulfill the responsibility of management to the owners of the company, while meeting the needs of external and internal parties (stakeholders) who lack the authority to obtain the information they need directly from the source company (Boediono, 2005). An important component in the financial statements which are often used as a tool to inform management performance is net income (earnings). Income has a high relevance value for statistically associated with an increase and decrease in share price, and can be used to predict future corporate performance.

Therefore, profit is an indicator of company performance and has high relevance to the performance of companies in the future, and the stakeholders often use the income figures as a basis for economic decision making. Consider shareholder profit figures to make investment decisions, lenders use income figures as a basis for making a decision granting or denial of loans, the government uses income figures as a basis for calculating corporate income tax, employee profit companies use numbers to ensure their welfare where he worked, and many other stakeholders who use the income figures to ensure the continuity of their main interests in the company.

But the problem will occur when the relevance of earnings as a performance measuring device companies are faced with the practice of manipulation (earnings management) conducted by the manager. Watts and Zimmerman (1978) defined earnings management as manager act in the use of accounting policy on reporting accounting numbers that are inconsistent with actual economic conditions companies, and lead to earnings numbers are misleading stakeholders in economic decision making. However the manager can report earnings higher or lower than the actual profit figure, without violating Generally Accepted Accounting Principles [GAAP], because GAAP provide freedom for managers to determine the accounting policies in order to determine the number of reported earnings. For that Healy and Wahlen (1999) defined earnings management as the actions of managers who use judgments in financial reporting and the preparation of transactions to alter financial statements misleading to shareholders on the basis of the economic performance of firms to influence the outcome in accordance with the contracts that depend on accounting figures reported. Their opinions are implicitly means that earnings management is closely related to the motivations underlying managers manage earnings.

However, earnings management brings negative consequences for shareholders, employees, communities where the company operates, community, career and reputation of the respective managers (Zahra, Priem, & Rasheed, 2005). One of the most fatal consequences due to management actions that manipulate earnings is the company will lose the support of their stakeholders. Stakeholders will give a negative response from investors in the form of pressure, sanctions from regulators, abandoned co-workers, the boycott of the activists, and negative news media (Prior, Surroca, & Tribó, 2008). Such actions are a form of dissatisfaction with stakeholders on company performance manipulated, and ultimately damaging impact on the market the company's reputation capital (Fombrun, Gardberg, & Barnett, 2000).

Therefore, managers use a strategy of self defense (entrenchment strategy) to anticipate its stakeholder dissatisfaction when he reported that the company's performance is unsatisfactory. Manager self-defense strategy is an attempt to maintain the company's reputation and protect personal career managers. One of the ways used by managers as a self defense strategy is to issue a firm policy regarding the implementation of Corporate Social Responsibility (CSR). CSR related to ethics and moral issues regarding the policy decision makers and behavior, such as placing the complex issue of maintaining environmental conservation, human resources management, health and safety, relationships with local communities, and establish harmonious relationships with suppliers and customers (Castelo & Lima, 2006). Disclosure of information on behaviors and outcomes related to social responsibility is to help build an image (image) positive among the stakeholders (Orlitzky, Schmidt, & Rynes, 2003). This positive image can help companies to establish community ties and build a reputation in the stock market because companies can improve their ability to negotiate attractive contracts with suppliers and government, to set premium prices for goods and services, and reduce the cost of capital (Fombrun et al., 2000). Castelo and Lima (2006) explained that through the practice of CSR, companies can produce more treatment is more beneficial with respect to regulation, and gain the support of social activist groups, the legitimacy of the industrial community, and positive news from the media, which in the end the company remained reputation properly maintained.

The context of this research problem is the suspicion that managers use CSR mechanism as a powerful tool for self-defense when they do things to harm the interests of shareholders or other stakeholders. Cespa and Cestone (2007) explained that management has the incentive to manipulate earnings to project

socially-friendly image through CSR activities to gain support from stakeholders. With this tactic, the manager will reduce the possibility of getting pressure from dissatisfied shareholders or other stakeholders whose interests are damaged by the practice of earnings management. Furthermore, Prior et al. (2008) reported that there was disagreement between the effect of earnings management and CSR, which in turn will impact on the company's financial performance. However, companies that implement CSR programs must provide adequate financial resources which will affect the company's financial performance in the long term. This phenomenon encourages the academy to conduct research that describes the influence of earnings management on CSR, and subsequently investigated the impact of these relationships (earnings management and CSR) on corporate financial performance.

On the basis of this background and some results of previous research, the goals to be achieved from this study is to analyze and obtain empirical evidence regarding: (1) the influence of earnings management practices on Corporate Social Responsibility activities; and (2) the influence of Corporate Social Responsibility activities related with earnings management practices of the company's financial performance in the future.

Theoretical Framework and Hypotheses

Earnings Management and CSR

Davidson III, Jiraporn, Kim, and Nemeč (2004) have examined the relationship between earnings management and agency theory. They argued that the separation between owners (principals) and controllers (agents) in the company led to information asymmetry, which allows agents to act opportunistically because they have different interests with the principals. In this context, earnings management is seen as an agency fee to oversee the managers who are likely to keep his personal interests by issuing financial statements that did not present the true economic picture company. As a consequence, the shareholders can make investment decisions that are not optimal.

Nevertheless, the impact of earnings management affects not only owners, but also has a strong influence on other stakeholders. Stakeholders are a group of people who have a risk as a result of their investment in the form of capital, human resources, or something of value in a company (Clarkson, 1994). Under that definition, means that management actions such as the practice of earnings management would mislead stakeholders on asset valuation, transactions and financial position, which has serious consequences to shareholders, creditors, employees, and society as a whole (Zahra et al., 2005).

Rowley and Berman (2000) explained that one form of stakeholders' response to the managers who use power for personal gain, is a way to punish them for changing the behavior of these opportunists. The sentence was in the form of boycotts and lobbying the relevant parties who have bargaining power with the firm (Baron, 2001; Feddersen & Gilligan, 2001; John & Klein, 2003). Action boycotts and media campaigns posed a threat of harm to the management, but stakeholders are substantially enjoying the action because they can indirectly control the company. In addition, the boycott also raises the threat of trade unions, reducing the confidence of customers and business partners, and sanctions from the regulator (Castelo & Lima, 2006). In this context, then the stakeholders using the media to drown out the action, and contribute to the reduction of management abuse.

Through CSR activities, managers have different goals to get the fun of the media reports, the legitimacy of local communities, regulations that make it easier and less criticism from investors and workers. At the same time, some activities can reduce the possibility of a boycott of the company's products, avoiding lobbying

against the company. Its essence is a manager believes that by satisfying the interests of stakeholders and planning to make a positive image of caring and social and environmental consciousness, it can reduce the possibility be investigated more thoroughly by stakeholders who take pride against earnings management actions.

Some abuse the benefits of CSR activities to bring doubts about the efficiency of the implementation of social policies are friendly as a mechanism of corporate governance. This view differs from that provided by traditional stakeholder theory by suggesting that stakeholder participation is one important way for management to take action as follows: (1) strengthen the company's perception of social legitimacy; (2) strengthening the relationships between the board of directors; and (3) binding management with a higher standard of performance. All these factors can help improve financial performance (Luoma & Goodstein, 1999).

The second argument justifies the use of insincere CSR by managers, who manipulate earnings relating to the application of self defense initiative manager. In this view, permits social activists and pressure groups is a simple self-defense strategies for CEOs who are under pressure from shareholders whose interests would be damaged. Pagano and Volpin (2005) argued that managers will give awards to stakeholders such as employees with a generous social activity as a form of self-defense mechanism to avoid pressure from financial markets through a hostile takeover. For that reason, suspected that when managers act to pursue personal interests to mislead stakeholders about the real value of the assets of companies or financial position, they get permission secretly from other stakeholders to validate some practices. Stakeholders can be persuaded to offer the satisfaction of their specific interests and policies that aim to improve the company's CSR.

Therefore, it is suspected that the executive with incentives to manage earnings will be very proactive in their public disclosure advertise through CSR activities, especially for companies with strict supervision. Conversely, companies with low levels of earnings management have little incentive to get a public response by promoting social responsibility activities. The hypothesis is:

H1: The practice of earnings management has positive influence on CSR activities.

Corporate Social Responsibility and Performance: The Moderating Role of Earnings Management

The second aspect is addressed in this research is the impact of CSR on financial performance, spurred by the practice of earnings management. Instrumental stakeholder theory (Donaldson & Preston, 1995) argued that good management affects positive relationships with key stakeholders (shareholders), which in turn can improve financial performance. The basic assumption underlying this theory is that CSR can be used as a tool for organizations to use resources more effectively (Orlitzky et al., 2003), which then has a positive impact on corporate financial performance. Therefore, the management strategy for relations with stakeholders is an intangible asset that can be viewed as a tool to improve financial performance by using resources on the theory of the firm (Hillman & Keim, 2001). Berman, Wicks, Kotha, and Jones (1999) also found evidence that supports the position that good stakeholder relationships have a positive influence on financial performance. The statement called the Good Management Hypothesis (Waddock & Graves, 1997).

The positive impact of CSR on corporate financial performance, however, is a question with a variety of arguments. First, the argument that managers who want a higher position, tend to pursue short-term policy focusing solely on financial results on long-term burden on social issues (Preston & O'Bannon, 1997). Second, the relationship management among a broad set of stakeholders with the aim of the dispute could lead to

violence too high and consumption of organizational resources that could endanger the company's financial performance (Aupperle, Carroll, & Hatfield, 1985). Finally, managers can behave as opportunistic, against losses of financial results, following the practice of defense (Jones, 1995) with the aim that the interests of stakeholders satisfied, as explained earlier.

When companies improve their CSR as a consequence of earnings management, the positive impact of CSR on corporate financial performance should be reduced significantly. This statement is based on the fact that managers who take refuge in accounting adjustments tend to over-invest in CSR activities that enhance the company as one of self-defense strategy. The emergence of social license of this strategy is unproductive and wasteful, is expected to have a negative marginal impact on financial performance. For example, managers may over-invest in complex projects that are running with different stakeholders employ to satisfy their interests and, in the same time, manage earnings in order to give greater license to stakeholders. Rowley (1997) emphasized that a high level of CSR covers a broad relationship with a group of stakeholders to the conflict in order to delay the decision making process within the organization.

The next hypothesis is that managers who perform earnings management tried to involve stakeholders as a way to validate his actions in order to not get the pressure of other stakeholders. This is referred to as the entrenchment strategy. Such measures can reduce the flexibility of the organization and affect the financial results disadvantage. Thus the level of earnings management to weaken the relationship between CSR and profitability, then the second alternative hypothesis is:

H2: The higher the level of earnings management, then the negative effect on the relationship between CSR and financial performance.

Research Method

Data and Sample

All data to develop models of this study are secondary data taken from annual financial reports (annual report) manufacturing companies listed in Indonesia Stock Exchange (IDX) for the fiscal year 2006-2008. Sources of research data obtained from the publication of financial statements obtained from the Indonesian Stock Exchange (www.idx.co.id), Economics Faculty Corner Indonesia Stock Exchange [BEI] Sebelas Maret University, Database Program Master of Science in University of Gadjah Mada, PDBE (Data Center of Business and Economics Faculty of Economics and Business) University of Gadjah Mada, and Indonesian Capital Market Directory (ICMD).

Selection of study sample by using purposive sampling method with the following criteria: Manufacturing companies listed on the Stock Exchange and publish audited financial statements are consistent from year 2006-2008 the Indonesian currency, presents CSR disclosure in its annual report, not a merger, acquisition, and other business changes (divestitures). Of these criteria, then the total sample to be used in this study is the number of 27 companies manufacturing.

Measurement

This research model consists of four variables, namely the independent variables, moderation, dependent, and control. Here is a description of the operational definition and measurement of each variable.

Dependent Variables

Corporate social responsibility (CSR). Dependent variable to test the first hypothesis of this research is

CSR. CSR was measured by using the index of social disclosure of which is a dummy variable. Checklist done by looking at corporate social responsibility disclosure in seven categories: environment, energy, health and labor safety, etc. on labor, product, community involvement, and general (Sembiring, 2005). This category was adopted from a study conducted by Hackston and Milne (1996). After adjusting to the conditions in Indonesia it is obtained of 78 disclosure items for the manufacturing sector.

Approach to compute the Corporate Social Responsibility Index (CSRI) using the dichotomy approach is every item of CSR in the research instruments were given a value of 1 if disclosed, and the value 0 if not disclosed (Haniffa & Cooke, 2005). Further scores from each item added together to obtain a total score for each company, and the total score is weighted with a total score that should be disclosed in the item.

Corporate financial performance (CFP). Dependent variable to test the second hypothesis of this research is corporate financial performance or financial performance. The financial performance is measured using the Return on Assets (ROA). ROA is the ratio of net income before tax to total asset value.

Independent Variables: Earnings Management

This study uses the accrual variable Jones model compliance by Dechow, Sloan, and Sweeney (1996) to detect earnings management. Total accruals consist of discretionary and nondiscretionary components. Total accruals obtained from the difference between earnings and operating cash flow. Total accruals to the model of Jones' compliance by Dechow et al. (1996) are:

$$TACC_{it} = EBXT_{it} - OCF_{it} \quad (1)$$

$$\frac{TACC_{it}}{TA_{i,t-1}} = \alpha_1 \frac{1}{TA_{i,t-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{i,t-1}} + \alpha_3 \frac{PPE_{it}}{TA_{i,t-1}} + \varepsilon_t \quad (2)$$

Regression equation above shows NDACC calculated by including the return coefficient α_1 , α_2 , and α_3 to the following equation:

$$NDACC_{it} = \alpha_1 \frac{1}{TA_{i,t-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{i,t-1}} + \alpha_3 \frac{PPE_{it}}{TA_{i,t-1}} \quad (3)$$

$$DACC_{it} = \frac{TACC_{it}}{TA_{i,t-1}} - NDACC_{it} \quad (4)$$

where:

$TACC_{it}$ = total accruals firm i in period t ;

$EBXT_{it}$ = earnings before extraordinary item firm i in period t ;

OCF_{it} = operating cash flows firm i in period t ;

$TA_{i,t-1}$ = total asset firm i in period $t-1$;

REV_{it} = revenue firm i in period t ;

REC_{it} = account receivable (net) firm i in period t ;

PPE_{it} = fixed assets (gross) firm i in period t ;

ε_t = error term (proxy of discretionary accruals).

Moderating Variable: Earnings Management

Moderating variable to test the second hypothesis of this study is one of earnings management in prior periods. Measurement of earnings management is equal to earnings management that is used as independent variables in testing the first hypothesis.

Control Variables

This research model uses five control variables that impact on CSR activities. Control variables used in this study consisted of:

(1) Firm size (SIZE): There is a positive relationship between firm size and CSR activities and corporate financial performance (Prior et al., 2008). Size of company is measured by the logarithm of total assets.

(2) The size of the board of commissioners (KOM): Collier and Gregory (1992) in Sembiring (2005) explained that the board of commissioners serves to monitor and control the CEO. The greater the number of commissioners, it will be easier to control the CEO and monitoring conducted by the more effective. Thus, the greater the commissioners are expected to monitor the CSR activities more effectively and in harmony with the interests of stakeholders. The sizes of the board of commissioners that are used in this study are consistent with Juholin (2004) and Sembiring (2005) is the number of commissioners.

(3) Ownership concentration (KP): Calculated using the percentage of shares owned by public companies (Prior et al., 2008).

(4) Institutional ownership (KI): KI is the number of shares held by institutional investors to total shares outstanding. Institutional ownership is measured by the percentage of shares held by institutional investors of the total shares outstanding.

(5) Leverage (LEV): LEV is a source of corporate finance from third parties (i.e., parties other than corporate investors). Leverage is measured by the ratio of total liabilities to total equity capital. Leverage is used as control variables to test the two hypotheses in the leverage of the previous period. Leverage a previous period represents an enterprise risk that could affect the company's financial performance in the future.

Methodology

Testing the second hypothesis in this study uses ordinary least square regression. The first hypothesis was tested with the following models:

$$CSR_{it} = \lambda_1 + \lambda_2 DAC_{it} + \lambda_3 SIZE_{it} + \lambda_4 KOM_{it} + \lambda_5 KP_{it} + \lambda_6 KI_{it} + \lambda_7 LEV_{it-1} + \varepsilon'_{it} \quad (5)$$

Result of testing the first hypothesis is based on the coefficient is positive and significant. These results interpret that the higher level of earnings management, then the greater CSR activity.

Furthermore, to test the second hypothesis is used the model as follows:

$$CFP_{it} = \beta_1 + \beta_2 DAC_{it-1} + \beta_3 CSR_{it-1} + \beta_4 (DAC \times CSR)_{it-1} + \beta_5 SIZE_{it} + \beta_6 KOM_{it} + \beta_7 KP_{it} + \beta_8 KI_{it} + \beta_9 LEV_{it-1} + \varepsilon'_{it} \quad (6)$$

The second hypothesis based on the coefficient is negative and significant, which indicates the influence of earnings management that moderates the relationship between CSR and financial performance. The higher level of earnings management, the influence of CSR on financial performance worsened the company's financial performance. This indicates moral hazard behind the management of a company's CSR program.

Result

Descriptive Statistics

Based on the sample predetermined criteria, the number of samples in this study is 27 companies with 81 observations. Of 81 observations, there are three data outliers that are removed from the sample.

Regression model used in this study have passed the test of the classical assumption, namely multicollinearity test, autocorrelation test, heteroscedasticity test, and test for normality. Table 1 presents the

results of statistical tests of model (5) are associated with the first hypothesis tested in this study.

Table 1

The Result of Regression Model (5)

Variables	Coefficient	Probabilities	R^2
Constant	-0.501	0.122	
DAC	0.019	0.556	
SIZE	0.018	0.491	
KOM	0.006	0.357	
KI	0.005	0.055*	0.148
KP	0.005	0.075*	
LEV	-0.009	0.480	
F Statistic = 2.030		0.073*	

Note. * Significant at significant level 0.1.

The test results of regression model (5) indicates that the value of the determinant coefficient (R-squared) is 0.148 (14.8%) means that earnings management, firm size, board size, institutional ownership, public ownership, and leverage able to explain 14.8% variation corporate social responsibility, the rest is explained by other factors. ANOVA test results showed that the F-test at 0.07 (7%) and significant at the 10% level, meaning that the regression model suitable for use as a predictive model for corporate social responsibility, or it can be said that earnings management, firm size, the size of the board of commissioners, institutional ownership, public ownership, and leverage jointly influence on corporate social responsibility.

The first hypothesis suggests that earnings management variable coefficient (DAC) is positive with a p value of 0.019 and 0.556. This suggests that earnings management has positive influence on corporate social responsibility, but not empirically supported. This indicates that companies that do not earnings management proved to increase the activity of corporate social responsibility as an entrenchment strategy. Thus the first hypothesis of this study was rejected. In other words, the results of this study provide empirical evidence that management did not earnings management practices proven to improve CSR programs as a defense effort to cover the management of earnings management practices of the spotlight stakeholders. The results are inconsistent with Prior et al. (2008) who stated that the higher the level of earnings management, the greater the CSR activities as an effort to entrenchment strategy.

However, institutional ownership variables and public ownership significantly affect CSR. These results indicate that the greater public ownership and institutional ownership can encourage management to enhance CSR program.

Table 2 shows the value of the determinant coefficient (R-squared) of the test results of regression model (6) is 0.255 (25.5%) means that earnings management, CSR, the interaction between earnings management and CSR, company size, board size, institutional ownership, and leverage can explain 25.5% variation of corporate financial performance, the remainder explained by other factors outside the model of this research. ANOVA test results showed that the F-test of 0.007 and significant at 1% level, meaning that the regression model is suitable for use as a predictive model for corporate financial performance, or it can be said that earnings management, CSR, the interaction between earnings management and CSR, the size of the company, board size, institutional ownership, and leverage jointly influence on corporate financial performance.

Table 2

Regression Model (6) Testing Results

Variable	Coefficient	Probability	R^2
Constant	-0.794	0.012	
DAC	-0.266	0.077*	
CSR	0.201	0.028**	
DAC × CSR	-0.557	0.063*	
SIZE	0.014	0.591	0.255
KOM	-0.000	0.950	
KI	0.006	0.017**	
KP	0.005	0.041**	
LEV	0.001	0.891	
F Statistic = 2.912		0.007***	

Note. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

The second hypothesis indicates that the coefficient of interaction variable earnings management and CSR (DAC × CSR) – 0.557 negative value and p value of 0.063. This indicates that the interaction of earnings management and CSR is negatively related to corporate financial performance and empirically supported at the level of 10%. Thus the second hypothesis of this research is received. These results interpret that the higher level of earnings management leading to an increase CSR program worsened the company's financial performance in the future. The results are consistent with Prior et al. (2008) who reported that higher levels of earnings management, the CSR negatively affect the company's financial performance in the future because the CSR program is used by management as a form of entrenchment strategy to cover the earnings management practices that can damage the interests of stakeholders. Prior et al. (2008) also explained that management had two reasons to earnings management as one way to satisfy the interests of stakeholders: first, as a preventive measure in anticipation of the spotlight stakeholders towards earnings manipulation actions that could jeopardize their positions within the company; second, as a means of self defense that management tends to align the diverse interests of stakeholders.

Conclusions

The purpose of this study is to analyze and obtain empirical evidence about the effect of earnings management practices of corporate social responsibility activities. This study also aimed to test whether corporate social responsibility activities related to earnings management practices affect the company's financial performance in the future. The following are the conclusions of research based on hypothesis testing:

(1) Testing the first hypothesis is rejected so that the practice of earnings management has no influence on the activity of corporate social responsibility (CSR). However, institutional ownership variables and public ownership significantly affect CSR.

(2) Testing the second hypothesis is accepted, meaning that the activities of corporate social responsibility (CSR) associated with earnings management practices affect the company's financial performance in the future. In addition, earnings management variables (DAC), CSR, the interaction between earnings management and CSR, institutional ownership, and public ownership significantly affect the company's financial performance in the future.

Limitation

The results of the research must be interpreted carefully and thoroughly. This is related to a number of limitations which can be used as a basis for making recommendations. As for some of the limitations that can be found among others: (1) Relatively limited number of samples, namely 27 companies of 393 companies listed on the BEI. The limited number of companies are eligible to be caused by a sample of this study are still a few companies listed on the Stock Exchange which revealed a consistent CSR activities throughout the study period and voluntary CSR disclosure.

(2) The research sample is limited to manufacturing companies so that these results cannot be generalized to other industries. Manufacturing company is one type of company that has the greatest number compared to other types of companies listed on the JSE (Johannesburg Stock Exchange).

(3) Disclosure of CSR is voluntary so there is no standard rule of the regulator which can be used as reference to measure CSR index. This raises the subjectivity element in measuring CSR index.

(4) Broad assessment instrument assessed the expression of only a dummy variable that failed to give detail information on the quality of expression, which is presented each company.

Implication

The results of this study have implications for theory and practice. Implications on the theory supporting research Prior et al. (2008) who concluded that the higher the level of earnings management, the CSR negatively affect the company's financial performance in the future because the CSR program is used by management as a form of entrenchment strategy to cover the earnings management practices that can damage the interests of stakeholders. This was due to management's expectations that earnings management practice to align the interests of stakeholders so that actions manipulation not highlighted by other stakeholders by implementing CSR programs. However the implementation of CSR programs, along with earnings management practices negatively impacts the company's financial performance because of CSR requires long-term funds that are not small.

Practical implication of this research is to advise the practitioner, especially for investors and creditors of companies directly affected by the practice of earnings management. Investors and creditors are expected to exercise careful consideration to the investment decision (the decision to provide loans), especially in manufacturing companies implementing CSR programs. Input for the management is expected to be more aware of the importance of management of CSR programs for the survival of companies in the future. To that end, management is expected to harmonize the various interests of stakeholders through CSR programs by maximizing the positive impacts and minimize negative impacts of a particular business activity. While management cannot avoid opportunities for earnings management practices in reporting the company's financial performance, but the expected earnings management actions are not detrimental to the interests of other stakeholders in the long run so the company can enjoy the benefits of CSR programs on the financial performance and in turn will be enjoyed by the public in general.

Directions for Future Research

Based on some of the limitations of the study above, the following are some considerations that need to be considered in developing and expanding this research:

(1) Further research is recommended to multiply the number of samples and use the data the most recent annual report to describe the condition of the most recent.

(2) Future studies are expected to conduct research in all industry sectors, not just manufacturing companies only for the results obtained to represent all industrial sectors listed in Indonesia Stock Exchange (BEI).

(3) Future studies should use data with a longer period to obtain a more valid measurement results.

(4) Future studies are expected to connect a Corporate Social Responsibility to the value of the company.

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