

**ICEBM14-107**

**THE EFFECT OF EARNINGS MANAGEMENT ON THE DISCLOSURE OF  
CORPORATE SOCIAL RESPONSIBILITY TO CORPORATE GOVERNANCE AS  
VARIABLE MODERATION**

**(STUDIES ON COMPANIES REGISTERED IN LQ 45)**

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**Abstract**

The population in this study is a public company listed in listed companies LQ 45 samples were taken by using purposive sampling method and obtained a sample of 30 companies listed in the LQ45 contain elements of both. Public company in Indonesia, according to the companies listed in LQ 45 in the 2012 period. The first hypothesis states that the disclosure of earnings management affects corporate social responsibility. Therefore it can be concluded that the positive effect of earnings management, higher earnings management will lead to a higher level of social responsibility disclosure. The second hypothesis (a), the higher the corporate responsibility will continue lower earnings management by independent commissioners and directors, no significant effect on social responsibility disclosure. In the second hypothesis (b), the higher the corporate social responsibility disclosure will reduce earnings management by the board of directors significant effect on leverage and can have a significant effect on the disclosure of social responsibility.

*Keywords:* Earnings Management, Disclosure of Corporate Social Responsibility, Corporate Governance, an, Board of Directors, Leverage

## Introduction

Corporate Social Responsibility (CSR) by the company in general will affect the increased profitability of the company. Although it will increase costs for companies, but surely there will be a company's image in the eyes of the people who will indirectly attract the public to use the company's products, thus increasing the profitability of the company.

Corporate Social Responsibility (CSR) is the claim that the company not only operates for the benefit of the shareholders (shareholder), but also for the benefit of the stakeholders in the business practices, namely the workers, local communities, government, NGOs, consumers and the environment. The Global Compact Initiative (2002) calls this understanding with 3P (*profit, people, planet*), which is the purpose of business is not only to ensure the sustainability of the planet (Nugroho, 2007).

Currently corporate responsibility should be based on the triple bottom lines of corporate responsibility in social, environmental, economic and so that every company must disclose information about corporate social responsibility or corporate social responsibility. Elkington (1994) use the concept of social responsibility in the triple focus bottom line, which unites the rules of the economic, social and environment in an integrated understanding of corporate social responsibility (profit), but also a concern for the environment (planet) and public welfare (people). Triple bottom line can be concluded that the "profit" as a form of economic aspects, "planet" as a form of environmental aspects and the "people" as the social aspect.

The third aspect of the Triple Bottom Line can be realized in the following activities: First, Social Aspects, such as: education, training, health, housing, institutional strengthening (internally, including employee benefits) of social welfare, sports, youth, women, religion, culture and so on . Second aspects, Economics, for example: entrepreneurship, business groups / micro small and medium units, agribusiness, opening jobs, economic infrastructure and other productive enterprises. Third, Environmental aspects, such as: reforestation, land reclamation, water management, nature conservation, ecotourism environmental health, pollution control, as well as the production and use energy efficiently. These three aspects can be implemented certain strategies. The basic strategies that can be used in the implementation of social and environmental accounting is capacity building, Partnership and implementation of innovation.

Disclosure of corporate social responsibility is not only to increase the satisfaction of the stakeholders, but also provide a positive image for the company among stakeholders (Orlitsky *et.al.*, 2003). Positive corporate image can help build good relations with the community and build a reputation thus increasing the company's ability to negotiate better contracts with suppliers and government (Fombrun *et.al.*,2000). Brammer and Pavelin (2006) states that the disclosure of social responsibility with regard to the environmental impact of the steps taken by the company to reduce the adverse regulation of legislative pressure in the future.

Earnings management is a topic of interest, both in the field of accounting research and practitioners. In particular, Gu and Lee (2008) have shown that earnings management has been widespread and pervasive in every financial reporting submitted by the company. It provides an evidence that earning management occurs at each quarterly financial statements and the level of earnings management are largest in the fourth quarter. Earnings management is the manager attempts to use its discretion to intervene in the external financial reporting process that can mislead stakeholders regarding the economic performance of the companies or influence contractual outcomes using reported accounting numbers (Healy and Wahlen, 1999).

Companies can use social responsibility disclosure strategies to maximize profits, while for non-profit social responsibility disclosure strategy can satisfy the social ambitions of stakeholders. Managers use this social responsibility disclosure to reduce pressure from shareholders or other stakeholders dissatisfaction whose interests are harmed as a result of earnings management practices. . On the other hand the existence of information asymmetry gives an opportunity for management companies perform earnings management in the implementation of social responsibility, for the support and positive image of the stakeholders, without the stakeholders can observe the actions and motivations of the company's management in carrying out social responsibility disclosure. Therefore, if an increase in the disclosure of corporate social responsibility is linked to earnings management practices, it will hurt the company in the long term wealth.

The research is the development of research Yufenti (2011) study the effect of earnings management on the disclosure of corporate social responsibility to corporate governance as a moderating variable on the companies listed in the index compass 100, proving the existence of earnings management relations significantly affect the disclosure of corporate social responsibility and provide evidence that audit committees may moderate the relationship between earnings management and social responsibility disclosure, the size of the company as a control variable positive effect on social responsibility disclosure.

Empirical research that analyzes the relationship between corporate social responsibility disclosure with earnings management has not been done and showed mixed results. The findings of Prior *et.,al* (2008) showed a significant positive effect of earnings management on the disclosure of social responsibility. While research findings Chih *et.,al* (2008) showed that the disclosure of social responsibility has a positive or negative influence on the quality of published financial information, with earnings smoothing, earnings losses and decreases avoidance and earnings aggressiveness as a proxy of earnings management. The company is committed to social responsibility disclosure is more likely to make earnings aggressiveness but the effect can be reduced in countries with strong legal protection of the implementation of the investment.

The problem in this study is formulated in the form of research questions: 1) whether the effect of earnings management on the disclosure of corporate social responsibility? 2) whether the effect of earnings management on the disclosure of corporate social responsibility to be moderated by corporate governance?

## Literature Review

### Disclosure of Corporate Social Responsibility (CSR)

Social responsibility disclosure disclosed by the company in the form of information and the cost of environmental activities undertaken by the company to measure the information content of disclosure index enterprise environments presented in the annual report, whether related to raw materials and the type of energy used (input process) , the production process, regulation of health, safety, safety of employees.

Sustainability reporting has been developed and widely practiced in the world based on the guidelines issued by the GRI. To make Sustainability reporting, report generators require guidance or standards that are widely accepted by society. To implement a sustainability report to develop criteria that will eventually become the standard reporting generally accepted (Ballou, *et.al.*, 2006). Further Ballou *et.,al* (2006) that the GRI receive active support from a number of business groups, organizations, non-profit. Latest GRI G3 Guidelines issued in 2006 contains the power indicator of economic, environmental and social which includes labor practice and working environment, human rights, social, and responsibility for the product.

In Indonesia on social activities of the company and report environmental change after issuing Law PT 40 of 2007 and Act 25 of 2007 states that the PT which carries on business in the field and or concerned with natural resources required to carry out social responsibility and the environment (Article 74 paragraph 1). Another regulation that touches social responsibility is the Law No.25 of 2007 on Investment. Article 15 (b) states that each investor is obliged to implement corporate social responsibility. Although this Act has been set up in detail sanctions against entities or individuals who ignore social responsibility (Article 34), this Act only able to reach foreign investors and has not been set explicitly about social responsibility for national companies. Act No. 19 of 2003 on state enterprises set out in the Regulation of the Minister of State Enterprises No. 4 of 2007, which regulates the amount of fund start up procedures for the implementation of social responsibility.

Indonesian Institute of Management Accountants (IAMI) annually held Indonesian Sustainability Reporting Awards (ISRA) in collaboration with the institute National Center for Sustainability Reporting (NCSR). According NCSR ISRA objectives are: (1) give recognition to organizations that report and publish information on the environmental, social, and sustainable information; (2) support the reporting of environmental, social, and sustainable information; (3) improve corporate accountability by emphasizing the responsibilities of the key stakeholders; and (4) increase awareness of the company transparency and disclosure

According ISRA 2005 only about 10% of public companies in Indonesia disclose social and environmental information in the annual report of 2004, and even just a few companies that make special financial reports on environmental and social. The low number of corporate social responsibility disclosure due to the lack of social responsibility reporting standards. Darwin (2006) states although social responsibility reporting has been required for

the company, but is not supported by the standard means of supporting such reporting, skilled personnel (both statements and auditors) and the institution or institutions for the education and training necessary competence.

**Practice of social responsibility in Indonesia.** Social responsibility is not just a charity, which requires social responsibility of a company for making the decisions that seriously consider the consequences to all stakeholder of the company, including the environment.

This requires the company to make a balance between the interests of diverse stakeholders external to the interests of shareholders, which is one of the internal stakeholders. There are at least three important reasons why the business community should respond and develop social responsibility issues in line with its business operations. *First*, the company is a part of the community and therefore natural that companies consider the interests of society. *Secondly*, businesses and the public should have a relationship that is symbiotic mutualism. *Third*, social responsibility is one of the ways to reduce or even avoid social conflict.

Implementation of disclosure in Indonesia is very dependent on the corporate top management. That is, social responsibility disclosure policy is not always guaranteed in line with the vision and mission of the corporation. If the leadership of the company have a high moral consciousness, it is probable that implement corporate social responsibility disclosure policy right. Conversely, if the orientation of the leaders only referred to the satisfaction of the interests of shareholders (high productivity, great profits, higher stock value) as well as personal achievement, perhaps social responsibility disclosure policy merely cosmetic.

There are four benefits for companies to implement social responsibility disclosure. First, the existence of the company can be sustained and the company grow and gain a positive image of the community at large. Second, companies are more easily gain access to capital. Third, the company can maintain the quality of human resources. Fourth, the company can improve decision-making on critical matters and facilitate risk management.

For society, social responsibility disclosure practices that will either increase the value-added of firms in an area because it will create employment, improve social quality in the area. Local workers are absorbed will get the protection of their rights as workers. If there are indigenous / local communities, the practice of social responsibility disclosure will appreciate the presence of the local culture and traditions.

**Disclosed in the corporate responsibility.** Social disclosure by companies is voluntary, not checked and not regular. Themes including those included in the discourse of social responsibility accounting in Zuhroh and Sukmawati, (2003: 3), are:

1. Community

Themes include community activities, followed by the company, such as activities related to health, education and the arts as well as the disclosure of other community activities

## 2. Employment

This theme includes the impact of corporate activity on the people in the company. Activities include: recruitment, training, salaries and allowances, transfer and promotion, and other.

## 3. Products and Consumer

This theme involves the qualitative aspects of a product or service, among others: the usefulness of a product, service, customer satisfaction, honesty in advertising, clarity or completeness of the content and other packaging.

## 4. Environment

This theme covers the environmental aspects of the production process which includes pollution control in running the business operations, prevention and repair of damage and repair environmental damage caused by the processing of natural resources and conservation of natural resources.

## **Earning Management**

Healy and Wahlen (1998) has provided a definition of earnings management are reviewed in relation to the standard-setting bodies, namely: earnings management occurs when managers use financial reporting policies and in drawing up the transaction to change the financial statements and misleading stakeholders regarding the economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. Meanwhile, Schipper (1989) defines earnings management as "disclosure management" in the sense that management intervention in the financial reporting process to external parties for the purpose of personal gain.

Although the viewpoint of these two functions are different, but the core of both is the same, namely the efforts of management to manipulate accounting numbers with a view to gain for himself so that the accounting information provided does not reflect the actual conditions of economic enterprise and can mislead users of information the. So, the core of earnings management is the opportunistic behavior of corporate managers to maximize personal gain. Empirical research often analyze earnings management by focusing on the level of accruals accounting. Actually, the purpose of the principle of accrual accounting is to help investors assess the economic performance of the company during a period through the use of basic accounting principles such as revenue recognition and matching concept.

Until now, it has developed several models that are used to measure the level of earnings management, ranging from simple models that measure discretionary accruals as

total accruals to more sophisticated methods that attempt to separate the total accruals into discretionary and nondiscretionary components. Dechow, Sloan and Sweeney (1995) attempted to test the performance of each model and show that the modification of the model of Jones (1991) have more power in detecting earnings management.

**Shape and techniques earning management.** Scott (2009: 405) in Yufenti (2011) suggested the forms of earnings management is carried out by managers include:

1. Taking a bath, performed poorly when unfavorable circumstances and can't be avoided in the current period, by recognizing expenses in the periods to come and loss for the period.
2. Income minimization, done when the company earned high profitability with the aim that no political attention. Measures taken can include the imposition of advertising expenditures, research and development of rapid and so on. This method is similar to taking a bath, but less extreme.
3. Income maximization, is maximize profits in order to obtain larger bonuses. Similarly, the company is approached a breach of contract of long-term debt, the company's managers will tend to maximize profits.
4. Income smoothing, is a form of earnings management is the most frequently performed and most popular. Through income smoothing, the manager raised or lowered earnings to reduce fluctuations in reported earnings that the company looks stable and not high risk.

## **Corporate Governance**

Corporate governance is a concept proposed in order to improve corporate performance through supervision or monitoring management performance and ensure the accountability of management to stakeholders by basing on the regulatory framework. The concept of corporate governance is proposed in order to achieve a more transparent management of the company for all users of financial statements. If this concept is applied to both the expected economic growth will continue to rise in line with the transparency the better management of the company and will benefit many parties. Forum for Corporate Governance in Indonesia (FCGI, 2001) formulate corporate governance as a system of corporate governance that describes the relationship of various participants in determining the direction and performance of the company.

The purpose of corporate governance is to create added value for stakeholders. Effective corporate governance is expected to improve the performance of the company. The benefits of implementation of corporate governance can be seen from the company's share price investors are willing to pay. There are two types of mechanisms to help equalize the differences of interest between managers and shareholders are the company's corporate

internal control mechanisms and control mechanisms based on the market. Internal control mechanisms designed to align the interests of managers and shareholders. Long-term incentive contract is one of the internal mechanisms to align the interests of managers with shareholders.

National Association of Corporate Directors Governance (2008) suggests 10 key principles to strengthen corporate governance, are; (1) responsibilities for governance board; (2) transparency in governance; (3) the competence and commitment of the board; (4) accountability and commitment of the board of directors; (5) an independent board leadership; (6) integrity, ethics and responsibility; (7) the focus and information, agendas and strategies; (8) protection against entrenchment board; (9) involvement in the election of the board and shareholders; (10) communications shareholder. Application of the principles of corporate governance will provide benefits including; (1) minimizing the cost with controlling agency possible conflicts of interest that may occur between the principal and agent; (2) minimize the cost of capital by creating a positive signal to the capital providers; (3) enhance the corporate image; (4) increase the value of company that we can see from the cost of capital low, and (5) improvement of financial performance and perception of stakeholders on the future of the company better.

## **Previous Research**

Several empirical studies examined the relationship between firm characteristics and social responsibility disclosure. Devina *et.al.*, (2004) in research on the company went public in Indonesia Stock Exchange discover relationships that social disclosure in the annual report is influenced by the characteristics of the company, type of industry, profitability and firm base. Research results Baroko *et.al.*, (2006) in the company in Kenya found that the size of the company and leverage is positively associated with voluntary disclosure. Large firms and firms with high leverage tend to give more revealing voluntary. The results of the research Brammer and Pavelin (2006) on large companies and companies that have lower levels of debt tend to perform environmental disclosure and environmental disclosure quality is positively related to the size of the company and the company's environmental impact.

Jamal *et al.*, (2008) in his research in Lebanon found that the majority of managers understand corporate governance as an important pillar for sustainable CSR. Companies without long-term perspective on leadership efficient, effective internal control mechanisms, and strong responsibility that mutual reciprocity with internal stakeholders are unable to perform CSR real sense. Conversely, corporate governance will not be effective if without encouragement of sustainable CSR as companies respond to the needs of stakeholders to generate income and create value for the company owner and other stakeholders. Research Ho (2005) that a strong commitment to CSR and strong positive relation with corporate governance.

Research Yufenti (2011) tested the effect of earnings management on the disclosure of corporate social responsibility to be moderated by corporate governance. The board of

directors, independent directors and audit committee are proxies of corporate governance. Tests conducted on 45 companies listed in the index compass 100 which perform social responsibility disclosure. The results of this study indicate that earnings management positively and significantly related disclosure of social responsibility and this research can provide evidence that the audit committee may moderate the relationship between earnings management and social responsibility disclosure. The size of the company as a control variable is also positive influence on the disclosure of corporate social responsibility. The findings of this study indicate that corporate social responsibility is part of the managerial entrenchment strategy for opportunistic behavior management to have the support of stakeholders. The existence and expansion of the role of audit committees related to corporate actions play an important role to ensure the accountability of the strategy and implementation of social responsibility.

## **The Methodology and Model Research**

### **Sampling Method**

The population in this study are the companies listed in LQ45 with reason as companies that have an impact / influence on the surrounding environment as a result of activities undertaken by the company. This study uses the period 2011-2012 after the implementation of the Act PT on mandatory corporate social responsibility (CSR) for all limited liability companies.

The population in this study are the companies listed in the Stock LQ 45 the period 2011 - 2012. The study sample selection using purposive sampling method. The criteria used to select the sample are as follows:

- 1) Company registered in LQ45 in Indonesia Stock Exchange continuously during the period 2011-2012,
- 2) The Company publishes an annual report (annual report) and has the financial statements as well as a complete stock price respectively over the period 2011-2012.
- 3) The company publishes social responsibility report (CSR) respectively during the period 2011-2012.

### **Conceptual and Operational Definition of Variables**

The dependent variable in this study is the disclosure of corporate social responsibility, the independent variable in this research is earnings management moderating variable in this study is corporate governance.

The research model described above, the conceptual framework in this study as follows:

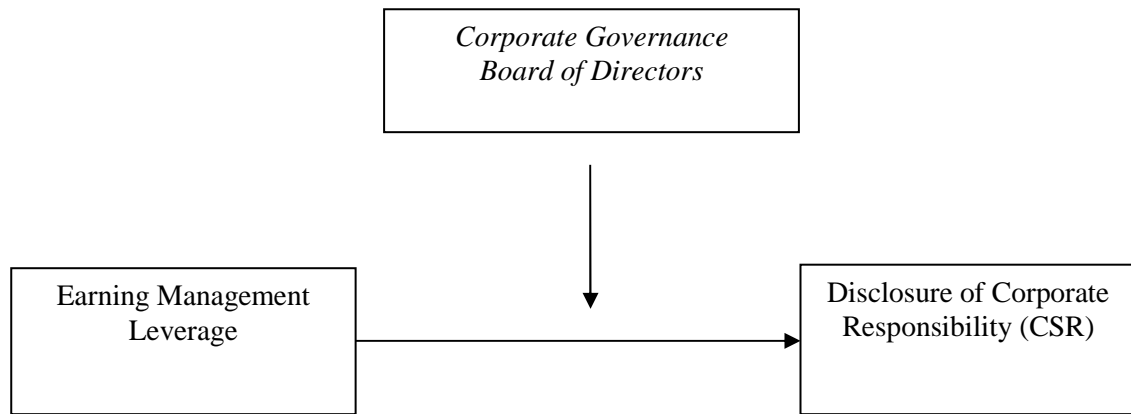


Figure 3.1. Conceptual framework of research

**Disclosure of corporate social responsibility.** The dependent variable in this study is the social responsibility disclosure. Disclosure of Social responsibility is information about an organization's responsibility to the effects of decisions and activities on society and the environment are realized in the form of transparent behavior that is consistent with sustainable development and the welfare of the community, considering the expectations of stakeholders in accordance with established laws and norms of international behavior, as well as integration with the organization as a whole.

Companies generally held sustainability report, issued either separately or included in the annual report. Disclosure of Social responsibility in this study is proxies in social responsibility disclosure index. Disclosure of social responsibility in this study is proxies by CSR disclosure index (ICSR) is based on the Global Reporting Initiatives (GRI).

Measurement instruments (CSR) which will be used in this study refers to the instrument used by Sembiring (2005), which classifies the CSR information into categories: Environment, Energy, Labor, Products, Community Involvement, and General. Total social responsibility disclosure items ranged 78, depending on the type of industrial companies. Approach to calculate CSRI basically using dichotomous approach that every item of social responsibility disclosure in the research instrument rated 1 if disclosed, and the value 0 otherwise disclosed (Haniffa et al., 2005 in Sayekti and Wondabio, 2007). Furthermore, the score of each item are summed to obtain the overall score for each company. Variable Corporate Social Responsibility Disclosure Index company. For CSRI calculation formula is as follows (Haniffa et al., 2005):

$$CSRI_j = \frac{\sum X_{ij}}{n_j}$$

Description:

CSR : Corporate Social Responsibility Disclosure Index company

$N_j$  : number of items for firm j,  $n_j \leq 78$

$X_{ij}$  : *dummy variable*: 1 = if item i is expressed; 0 = if item i is not disclosed

therefore,  $0 \leq \leq 1$  CSRI<sub>j</sub>

**Earning management.** Earnings management is the management actions to use judgment in financial reporting and the transaction procedure, with the aim to influence contractual or misleading the stakeholders in decisions regarding the economic performance of companies (Healy and Wahley, 1999). This study uses the Modified Jones Model (1991), because it considered the best in detecting earnings management (Dechow et al., 1995). In this model explained that the total accruals consist of discretionary accruals and non-discretionary accruals (Dechow *et.al.*, 1995). Model calculation is as follows: In this model explained that the total accruals consist of discretionary accruals and non-discretionary accruals (Dechow et al., 1995). The model calculation is as follows:

$$TA_{it} = NI_{it} - CFO_{it} \dots \dots \dots (1)$$

$$TA_{it} = NDA_{it} + DA_{it} \dots \dots \dots (2)$$

$$NDA_{it} = \alpha_1 (1 / A_{it-1}) + \alpha_2 (\Delta Rev_t / A_{it-1} - \Delta Rec_t / A_{it-1}) + \alpha_3 (PPE_t / A_{it-1}) \dots \dots (3)$$

$$DA_{it} = TA_{it} / A_{it-1} - NDA_{it} \dots \dots \dots (4)$$

Description:

$DA_{it}$  : *Discretionary accruals of firm i in period t*

$NDA_{it}$  : *Non-discretionary accruals of firm i in period t*

$TA_{it}$  : Total accruals of firm i in period t

$NI_{it}$  : Net income for firm i in period t

$CFO_{it}$  : Cash flow from operating activities of firm i in period t

$A_{it-1}$  : Total assets of firm i in period t

$\Delta Rev_t$  : Changes in earnings of firm i in period t

$PPE_t$  : fixed assets of the company in the period t

$\Delta Rec_t$  : Changes in receivables in the period t

e : Error

**Corporate governance.** Moderating variable in this study is corporate governance. Moderating variable is the other independent variables included in the model because it has the effect of relationship contingency dependent variable and the independent variables previously. Corporate governance is proxied by an independent commissioner, managerial ownership, institutional ownership, audit committees and the control variables firm size and leverage.

**Board of directors.** The board of directors is defined as a management board that serves as the manager and representative of the company under the direction and supervision of the board of commissioners "(FCGI, 2001: 4). The board of directors is responsible management manages and represents the company under the supervision and direction of the board of commissioners. Board members are appointed and may be replaced at any time by the board of commissioners. The Company has a number of boards of directors that is less than 7 people were given a scale of 1 (estimated optimal control management) and more than 7 people were given a scale of 0 (not estimated optimal in controlling earnings management).

## Variable Control

**Leverage.** Leverage ratio shows how much the company needs funds financed with debt "(Sutrisno, 2000: 261). "Some analysts use the term solvency ratio, which means measuring the ability of the company meet its financial obligations (Husnan and Pudjiastuti, 1994: 70).

Leverage in this study is measured by the ratio of total debt to total assets. This illustrates how the level of excess authority possessed by debt holders compared with shareholders. The leverage ratio is calculated by dividing total debt by total equity of the company. Leverage is calculated by the following formula:

$$\text{Debt Ratio (LEV)} = \frac{\text{Total Debt}}{\text{Total Asset}}$$

## The Findings

### Assumptions Classical Test

**Normality test.** Normality Test aims to test whether in a regression model, the residual value of the data has a normal distribution or not (Ghozali, 2005). Good regression model has a residual value of normal or near-normal distribution. Is there any data that is located far from the distribution of the data, the data is said to be normal (not normal), the basic decision-making is as follows:

- a. If the data spread around the diagonal line and follow the direction of the diagonal line, then the regression model to meet the assumption of normality.

b. If the data is spread far from the diagonal line or do not follow the direction of the diagonal line then the regression model did not meet the assumption of normality.

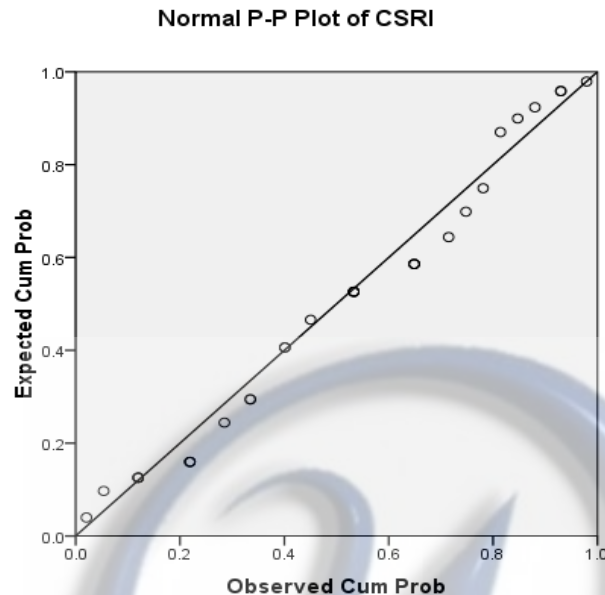


Figure 4.1.

Based on the above picture, it can be concluded that the CSRI normal distribution and dissemination of data form a straight line (no deviation data).

**Multicollinearity Test.** Multicollinearity is a situation where one or more independent variables can be expressed as a linear combination of the other independent variables. This test is used to determine whether there is a correlation between the independent variables. If there is a correlation, then there is a problem called multicollinearity. To detect the presence of multicollinearity used value Variance Inflation Factor (VIF) and tolerance for each independent variable. "Limit tolerance value is 0.10 and VIF limit is 10" (Ghozali, 2006: 92). So, if the independent variables in this study has a tolerance value  $> 0.10$  and  $VIF < 10$ , it can be concluded there is no multicollinearity between the independent variables in this study.

Gujarati (1997: 159-165) states that in case of multicollinearity, it can lead to: the value of the regression coefficient is less trustworthy, will have difficulty in separating the influence of each independent variable on the dependent variable. Detection of the presence of multicollinearity is the magnitude of the VIF (variance inflation factor) and tolerance, while guidelines to detect regression model free of multicollinearity is:

1. The value of VIF about number 1
2. Figures tolerance close to 1

Table 4.1.

*Multicollinearity Test Results*

Variabel	VIF	Tolerance	Asumsi
Earning Management	1.115	0.897	Not going multicollinearity
Director	1.251	0.799	Not going multicollinearity
Leverage	1.355	0.738	Not going multicollinearity

Based on the test results in table 4.1 above, the six independent variables that are used produce VIF values around the value 1 and the value of tolerance approaching 1. Based on these results it can be concluded there are no symptoms of multicollinearity among the independent variables in the regression model were used.

**Autocorrelation test.** Autocorrelation test is used to determine whether a correlation exists between the regression model bully error in period t with the error in period t-1. If there is a correlation, autocorrelation means encountered problems. In Durbin Watson with the number of observations (n) of 90 and the independent variables (k) as much as 3 variables. Test results using the Durbin Watson statistics are presented in Table 5.3 below:

Table 4.2

*Autocorrelation Test Results*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.289 <sub>a</sub>	0.084	-0.072	0.08548	2.019

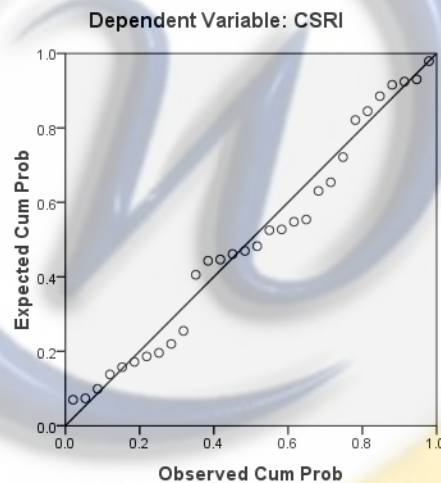
a. Predictors: (Constant), DIREKSI, ML, LEV

b. Dependent Variable: CSRI

Based on the results of testing for symptoms autocorrelation in Table 4.2 above, the value of DW-count of 2,019. Testing  $(du) < DW < (4-du)$  generate value  $2,019 < 1,696 < (4 - 1.661)$  it can be concluded no autocorrelation.

**Heterocedasticity test.** According to Gujarati (1999), heteroscedasticity can be detected by testing Park with two stages, the first one did not look at OLS regression with heteroscedasticity problem, then obtained  $e$  from this regression, and then a second stage regression with the results of the squared residuals and subsequently placed as a variable dependent, then regressed back. If the results are not significant  $t$ , where in this study using a 5% significance level, then the regression model can be accepted that there is no heteroscedasticity.

Normal P-P Plot of Regression Standardized Residual



Based on the scatter plot graph picture above it appears that these points above and below 0 on the Y axis, so we can conclude that there is a problem of heteroscedasticity.

## Summary and Conclusion

### Test Model accuracy and coefficient of determination

**Model accuracy testing.** Accuracy testing is done to ensure that the model has been formulated research can be applied in this study. Test models performed using F test F test as terlihat in Table 5.1 shows the value of the F statistic of 0.790 is significant with a p-value of 0.000 (significant at  $\alpha = 5\%$ ). This means that all the independent variables which include earnings management (ML), the board of directors (DIREK), and leverage (LEV) is a significant explanatory variable social responsibility disclosure (ICSR). Therefore it can be

concluded that the regression model can be used to predict the disclosure of corporate social responsibility.

**Testing Coefficient of Determination.** Testing the coefficient of determination (R<sup>2</sup>) aims to measure how far the ability of the model to explain variations in the dependent variable. The coefficient of determination in this study is used to determine how much (in%) contribution of earnings management factors, the composition of the independent directors and the board of directors of the level of disclosure of corporate social responsibility (ICSR). Based on the results of statistical tests as shown in Appendix 3 it can be seen that the value of R square is equal to 0.084 or 8.4%, while the value of Adjusted R Square is 0,072 or 7.2%. This shows that social responsibility disclosure is influenced by the three independent variables, namely: earnings management,, board of directors and the leverage of 8.4% while the remaining 91.6% is influenced by other variables outside the model.

Table 5.1.

*Multicollinearity Test*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.017	3	0.006	0.790	.511 <sup>a</sup>
	Residual	0.190	26	0.007		
	Total	0.207	29			

a. Predictors: (Constant), DIREKSI, ML, LEV

b. Dependent Variable: CSRI

Its F value of 1.746 with a significance value of 0.511 > 0.05 then the null hypothesis is accepted.

Table 5.2

*Autocorrelation Test*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.289 <sup>a</sup>	0.084	-0.072	0.08548	2.019

a. Predictors: (Constant), DIREKSI, ML, LEV

b. Dependent Variable: CSRI

*Determination test.* Determination test can be done by looking at the R-square value. From the ANOVA table shows that the R-square value (coefficient of determination) of 8.4%. 91.6% derived from other variables outside Profit Management, Board of Directors, and Leverage.

### Hypothesis Testing Results and Discussion

Results of testing aims to examine the effect of earnings management on the disclosure of corporate social responsibility with which the corporate governance moderated regression analysis moderation is by using statistical test t. Moderation regression analysis aims to prove whether the variables of directors (DIREK), is moderating the relationship of earnings management (ML) on the disclosure of social responsibility (ICSR). Moderating variable ML \* KOMIND calculated from the product of the value of ML with variable KOMIND. Moderating variable ML \* DIREK calculated from the product of the value of ML with variable DIREK. The results of data processing using SPSS 17.0 Windows application program can be shown as follows:

Table 5.3

*Calculation Results of Regression Analysis of Moderating*

Variabel	Koefisien Regresi	Standar Errorr	Value of t - statistics	Value Probability
Earning Management	0.003	0.007	0.388	0.701
Leverage	0.065	0.075	0.864	0.396
Directors	-0.182	0.124	-1.472	0.153
Interaction between Earnings Management by the Board of Directors	0.003	0.007	0.388	0.701
Leverage the interaction between the Board of Directors	0.065	0.075	0.864	0.396

\*) Statistically significant at the level  $\alpha = 5\%$

**Effect of earnings management on social responsibility disclosure.** Testing the first hypothesis states that affect earnings management disclosure of corporate social

responsibility. The higher the level of earnings management in the enterprise, the companies tend to perform more extensive disclosure regarding the implementation of corporate social responsibility. Based on the results of multiple linear regression in Table 5.4 show that earnings management has a p-value of 0701 (statistically significant at  $\alpha = 5\%$ ), and the value of the regression coefficient of 0.003 (positive). Therefore, it can be stated that the positive effect of earnings management, which means the higher the earnings management will lead to higher the level of social responsibility disclosure. Therefore it can be concluded that the results of this research can accept the first hypothesis.

These results are consistent with the findings Prior et al., (2008) that there is a positive effect of earnings management practices on social responsibility disclosure. Managers who behave opportunistic tend to collude with other stakeholders through the implementation and reporting of social responsibility disclosure, as a survival strategy against the initiative of the stakeholders who are disadvantaged by earnings management practices.

**Effect of earnings management on disclosure of corporate social responsibility with corporate governance as a moderating variable.** Effect of Earnings Management on Disclosure of Corporate Social Responsibility with Corporate Governance as a moderating variable in this study is derived in the following hypothesis:

*Effect of earnings management on the disclosure of corporate social responsibility by the board of directors as a moderating variable.* The second hypothesis (b) express higher disclosure of corporate social responsibility will further lower earnings management by the board of directors. Table 5.4 shows the results of the regression to see the effect of Earnings Management on Corporate Social Responsibility Disclosure Corporate Governance as moderating variables. This can be seen from the value of the variable t to the board of directors at -1472 and -0182 regression coefficient of 0.150 with a significance (not statistically significant at the level  $\alpha = 5\%$ ). While the interaction variable between earnings management by the board of directors does not significantly affect the social responsibility disclosure. This is evident from the results of the regression test showed that the interaction variable between earnings management by the board of directors has a t value of 0388, the regression coefficient 0.003 and p value of 0701 (not statistically significant at the level  $\alpha = 5\%$ ). So the second hypothesis (b) is denied.

Variable ML \* DIREK which is the interaction between earnings management by the board of directors does not significantly affect the social responsibility disclosure. The result of the interaction between the board of directors with significant earnings management did not affect the relationship between earnings management with social responsibility disclosure. So the board of directors has not proven to strengthen or weaken the influence of social responsibility disclosure. The results of this study indicate that the size of the board of directors as part of corporate governance practices do not affect the disclosure of social responsibility.

## **Test Results and Discussion of the Control Variables**

**Leverage.** To increase the likelihood of obtaining funds from institutional finance companies tend to provide detailed information in a company's annual report. Pressure from creditors also will the companies that received funds also affect the disclosure of information by the company, because in general the level of corporate leverage is used to measure the level of loan companies. Based on the test results can be seen in Table 5.4 which shows that the p-value of 0.644 the size of the company (not significant at  $\alpha = 5\%$ ), and 2,045 t values of the regression coefficient of 0.215. Therefore it can be concluded that no significant effect on leverage social responsibility disclosure. These results do not support the research Baroko et al., (2006) that the level of corporate leverage is positively related to the level of voluntary disclosure that companies with large amounts of debt tend to voluntarily provide more information in the annual report.

## Conclusion

Based on the analysis and discussion of the results we concluded that earnings management significantly positive effect on social responsibility disclosure. The results of this study support the results of research conducted by Prior et al., (2008)) that there is a positive effect of earnings management practices on social responsibility disclosure. These results differ from study Chih et al., (2008) which states that the implementation of social responsibility disclosure that have a positive or negative influence on the quality of published financial information, using earnings management proxy. These results support the theory that corporate social responsibility is part of a survival strategy for opportunistic managerial behavior to gain the support of stakeholders.

These results also indicate that the interaction between earnings management by the board of directors does not significantly affect the disclosure of corporate social responsibility. The board of directors has not proven to strengthen or weaken the influence of social responsibility disclosure. This suggests that the size of the board of directors as part of corporate governance practices do not affect the disclosure of social responsibility. This study indicates the existence of a board of directors as one of the mechanisms have not been able to influence the corporate governance disclosure of corporate social responsibility. Large size of the board of directors do not play a role in the monitoring mechanism, but the number of board size smaller then the monitoring mechanism can be more effectively so that corporate governance can be better.

Leverage as a control variable has no significant effect on the disclosure of social responsibility. These results do not support the research Baroko et al., (2006) that the level of leverage is positively related to the level of voluntary disclosure whereby companies with large amounts of debt tend to voluntarily provide more information in the annual report. However, the results of this study support Brammer and Pavelin (2006) that a company that has a lower amount of debt tend to perform environmental disclosure. This is because firms with low leverage levels will get a lower pressure from creditors, so it can easily improve fundraising and more free to determine the focus of the activities of the company, such as

voluntary disclosure that are directly related to the company's financial success Brammer and Pavelin (2006 ).

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