Macrothink Institute™ Business and Economic Research

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Journal Metrics

Google-based Impact Factor (2020): 0.50

h-index (December 2020): 22

i10-index (December 2020): 56

h5-index (December 2020): N/A

h5-median(December 2020): N/A

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Journal Metrics

1. Google-based Impact Factor (2020): 0.50

The impact factor (IF) or Journal impact factor (JIF) normally referred to is the proprietary journal impact factor from Thomson Reuters calculated based on the Web of Science (WOS) and published in the Journal Citation Reports® (JCR). Currently, this journal hasn't been indexed in Thomson Reuters JCR. Therefore, its official JCR®JIF is not yet available.

However, Google Scholar now provides an alternative Google-based impact factor. Google Scholar is the only openly available database suitable for journal metric calculation. It has a wide coverage and is a meaningful source. For this reason, Marcothink publishing is calculating its own Impact Factor by applying Thomson Reuters'(TR) algorithm based on Google Scholar's citation counts.

The 2020 Google-based impact factor of this journal would be calculated as follows:

$IF_{2020}=(Citations_{2019}+Citations_{2018})/(Publications_{2019}+Publications_{2018})=(20+39)/(59+57)=0.50$

$Citations_{2019}$=2020 cites to articles published in 2019

$Citations_{2018}$=2020 cites to articles published in 2018

$Publications_{2019}$=number of articles published in 2019

$Publications_{2018}$=number of articles published in 2018

2. h-index (December 2020): 22

The h-index is an author-level metric that attempts to measure both the productivity and citation impact of the publications of a scientist or scholar.

h-index is the largest number h such that h publications have at least h citations.

The data was calculated based on Google Scholar Citations

3. i10-index (December 2020): 56

i10-index is the number of publications with at least 10 citations.

The data was calculated based on Google Scholar Citations

4. h5-index (December 2020): N/A

h5-index is the h-index for articles published in the last 5 complete years. It is the largest number h such that h articles published in 2015-2019 have at least h citations each.

The data was calculated based on Google Scholar Metrics

5. h5-median (December 2020): N/A

h5-median for a publication is the median number of citations for the articles that make up its h5-index.

The data was calculated based on Google Scholar Metrics

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Corporate Social Responsibility (CSR) Performance and Accrual Quality: Case study on Firms Listed on Indonesia Stock Exchange (IDX)

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Abstract

Research on the impact of corporate social responsibility (CSR) performance to the financial performance have been widely studied previously. However, there were a few studies investigate the effect of CSR on accrual quality which is one of the attributes of earning quality. The aim of this study is to examine the affect of CSR toward accrual quality in the context of Indonesia, where the empirical results of the benefits of CSR implementation are still scant.

Research samples are all listed companies in Indonesia Stock Exchange (IDX) in miscellaneous industry sector for period 2009 to 2013. There are 92 firm years included in this study. CSR is measured by scoring CSR activities of the firm based on GRI Index guideline version 3.1, whereas attributes of earning quality used in this study is accrual quality. We include two control variables in this research model i.e. firm size and leverage.

The results show that CSR performance do not explain the changes in accrual quality. Leverage has no effect on accrual quality as well. On the other hand firm size has a significant effect on CSR performance however the sign of association is contrary with the expected.

Keywords: Corporate social responsibility, Earning quality, Accrual quality

1. Introduction

The failure of several big companies such as Enron Corporation, Arthur Anderson, Lehman Brotthers, and worldCom have diminished public trust (Snider *et al.*, 2003). The business disaster including financial scandals have triggered the need of strong corporate social responsibility (CSR). Yoon *et al.* (2006) said that CSR activities can be used to attract consumer social view attention to the firms, to create firms's brand image and to develop positive relationships with stakeholders as well. Stakeholders will use information provided by companies to make decision. According to Hong & Andersen (2011), external stakeholders will rely on financial statement to value amount, timing, and uncertainty of future cash flow. Therefore, the quality of reported earning has an important role in communication process between firms and its external stakeholders.

There are only a few research that investigate CSR and earning quality, beside that the results of prior research still vary. Some of previous research showed the positive relationshiop between CSR and erning quality, whereas others found the negative association of CSR and eaning quality (Belkaoui, 2004; Laksmana & Yang, 2009; Muttakin *et al*., 2015, Salewski & Zulch, 2014). Moreover research topic that had been studied for many times is about the affect of CSR on financial performance (Mc Guire *et al*., 1988; Preston & O'Bannon, 1997; Waddock & Graves, 1997; Balabanis *et al*., 1998; Stanwick & Stanwick, 1998; Mc Williams & Siegel, 2000; Moore, 2001; Van de Velde *et al*., 2005; Fauzi & Idris, 2009; Rais & Goedegebuure, 2009; Dunn & Sainty, 2009; Aras *et al*., 2010; Karagiorgos, 2010; Reddy & Gordon, 2010; Samy *et al*., 2010; Crisostomo *et al*., 2011; Ekatah *et al*., 2011; Saleh *et al*., 2011; Bayoud *et al*., 2012; Luethge & Han, 2012; Amrousy *et al*., 2012; Sun, 2012; Purnomo & Widianingsih, 2012; Afiff & Anantadjaya, 2013; Nuryaman, 2013; Turcsanyi & Sisaye, 2013; Dewi *et al*., 2014; Malik & Nadeem, 2014; Chih & Chih, 2014; Chen *et al*., 2015).

There is a theory which can be used to explain the affect of CSR on eaning quality, which is stakeholder theory. Freeman (1984) in Mainardes *et al*. (2011) explained that firm, toward stakeholder, not only responsible in economic aspect but also in moral aspect (social and environment). CSR is considered as embodiment of stakeholder theory, because it can fulfill social, economic, and environment responsibility (Caroll, 1991). Based on previous statement, then firm that do CSR will be more responsible economically and morally. Responsible in moral aspect means that firm will reported earning based on reality and transparent, therefore the firm financial statement will be reliable and represent faithfulness.

Based on stakeholder theory, positive relationship between CSR and earning quality needs to be reviewed. Moreover, the results of research conducted by Laksmana & Yang (2009) has also inspired this study. We intend to prove positive relationship between CSR and earning quality proxied by accrual quality on miscellaneous industry firm ~~which~~ listed on *Indonesia Stock Exchange* (IDX).

2. Theoretical Foundation and Hypothesis Development

2.1 Theoretical Foundation

2.1.1 Stakeholder Theory

Stakeholder theory first emerged from Freeman's idea (1984) written in his article, *Strategic Management: a Stakeholder Approach* (Mainardes *et al*., 2011). Freeman (1984) in Pirsch *et al*. (2007) defined stakeholders as group or individual that affect and affected by firm's goal achievement.

Based on normative aspect, stakeholder theory is viewed as the guidance of firm, so that firm can do its business activities based on moral principle (Donaldson & Preston, 1995). This statement is supported by Pirsch *et al*. (2007). They stated that firm continuity and success depend on fulfillment of economic (profit maximization) and non-economic (social and environment) responsibility by fulfilling various needs of stakeholder.

Clarkson (1995) divides stakeholder into two groups, they are primary stakeholder and secondary stakeholder. Primary stakeholder is stakeholder which have formal contract with firm, for example: shareholder, employee, and vendor. Without continuous participation from primary stakeholder, firm can't continue it's operation. Secondary stakeholder is stakeholder which affect or affected by firms, but does not involve in firms business activity, i.e society, government, and mass media as well.

Friedman & Miles (2006) in Mainardes *et al*. (2011) divide those group using three approach, they are: descriptive, instrumental, and normative. (1) Descriptive approach used to manage how firm operate and manage stakeholder; (2) Instrumental approach used to show how firm achieve organization goal through stakeholder management; (3) Normative approach used to define how firm should operate in business, especially when related with moral principle..

Choi & Wang (2009) stated that good relationship with stakeholder can give value-added to firm, such as improvement in employee's motivation to achieve firm's goal; growth on consumer's demand; and transfer knowledge from vendor to firm.

2.1.2 Corporate Social Responsibility (CSR)

According to Marsden (2001), CSR is considered as the core of companies' behavior and responsibility to their total impact on the societies, it can be positive or negative impact toward economic, social, and environment. Carroll (1991) said that firms which do CSR do not operate only for profit, but also fulfill moral responsibility toward stakeholders, such as obeying the law, behaving ethically, and being a good firm.

Porter & Kramer (2006) identified that there are four reasons to do CSR activities. First, society and many companies believed that actually firms have moral responsibility to fulfill stakeholder's need. Second, going concern concept drives firm to care its social and environmental. Third, the license to operate. Governments, community, and other parties provide firms implicit and explicit permission to do their business. Finally, firms expect to achieve reputation through the CSR activities.

In line with the above reasons, Porter & Kramer (2006) stated that CSR will improve firm's image, strengthen firm's brand, and enliven firm's morale. Hong & Andersen (2010) argue that the more socially responsible firms, the higher the earning quality they produced. In addition, socially responsible firms will avoid activities to manage earnings.

2.1.3 Accrual Quality

Accrual is underlying the recording of transactions or events in which revenues and expenses recorded at the time in which the transaction occurs rather than when payment is made or cash received (Warren *et al*., 1998). Dechow & Dichev (2002) said that accrual quality can be determined by looking how close of firm's earning and firm's cash. Previous research stated uncovered that firms will have better earning quality, if their accrual quality is high too, are:

Penman (2001), Dechow & Dichev (2002).

2.1.4 Firm Size

Aryani (2011) said that firm size is a measurement to categorize size of the firm. There are several method to measure firm size according to Waddock & Graves (1997): total sales, total asset, and total employee. Firm size is important in this research, because usually firm with small size can't do CSR activity (Karagiorgos, 2010). This control variable used to minimize the significant gap between big firm and small firm, so total asset can be distributed normally (Sari, 2012).

2.1.5 Leverage

Sari (2012) said that leverage is considered as firm's financial risk because it can be used to describe firm's equity structure and to detect risk of uncollectable debt. This research used debt to asset ratio to measure firm's leverage, as done by Prior *et al*. (2008), Sun (2012), and Muttakin *et al*. (2015). Debt to asset ratio is a ratio to measure firm's asset which financed by debt. If the value of DAR is higher, it's also indicate the higher interest expense that firm will paid.

2.2 Hypothesis Development

2.2.1 The Affect of CSR on Accrual Quality

Stakeholder theory is a theory which give guidance for firm, so that firm can do its's business activity based on moral principle (Donaldson & Preston, 1995). This statement is supported by Pirsch *et al*. (2007). They said that firm have to fulfill stakeholder's need, both economic and non-economic, in order to guarantee it's continuity and success. Caroll (1991) stated that CSR is considered as embodiment of stakeholder theory, because it can fulfill social, economic, and environment responsibility.

CSR is considered as embodiment of stakeholder theory, therefore firm which applying CSR will be more responsible economically and non-economically based on moral principle. Moral principle will make firm do the right things to do, such as: obeying the rule, acting based on ethics, and becoming good firms

It can be said that firms which applying CSR will have higher accrual quality compared to firms which not applying CSR, because those firm which applying CSR obeyed financial accounting standard based on moral principle. This statement is supported by Belkaoui (2004), Laksmana and Yang (2009), Kim *et al*. (2011), and Muttakin *et al*. (2015). From statements above, we hypothesize :

H1: Corporate social responsibilty positively affect accrual quality.

2.2.2 The Affect of Firm Size on Accrual Quality

Firm size is kind of control variable which usually used in research that related with firm's profit. Cowen *et al*. (1987) in Sembiring (2006) stated that bigger firm had bigger operating activity and influence toward stakeholder, so firm will try to maintain relationship with stakeholder. Bigger firm will be more stable, had more predictable operations, and fewer estimated error (Dechow & Dichev, 2002), therefore bigger firm tend to have better accrual quality. (Francis *et al*., 2004; Francis *et al*., 2005; Sembiring, 2006; Laksmana & Yang, 2009). From statements above, we hypothesize :

H2: Firm size positvely affect accrual quality.

2.2.3 The Affect of Leverage on Accrual Quality

Firm needs investment from market in order to survive and develop it's business. There are a lot of ways for firm to get fund for purchasing, production, selling, and paying expenses, for example debt financing (Valipour & Moradbeygi, 2011). The higher leverage score, the higher firm's assets financed using debt and the higher firm's solvability risk. Valipour & Moradbeygi (2011) concluded that higher debt financing, will lead to aggresive accrual policy by management to manage income. This policy used by management so that their firm will not violate debt covenant. This statement is supported by Francis *et al*. (2005), Ghosh & Moon (2010), Valipour & Moradbeygi (2011), Kim *et al*. (2011) and Fung & Goodwin (2013). From statements above, we hypothesize :

H3: Leverage negatively affect accrual quality.

3. Research Method

Independent variable in this research is CSR, and the dependent variable is accrual quality. Meanwhile, the control variables are firm size and leverage. Here is an operational definitions of each variables:

i. *Accrual Quality*

Accrual quality is how close firm's earning with firm's cash. This research measure accrual quality based on Dechow & Dichev (2002). ACCQUAL is the standard deviation of residuals (ε_i) from the following regression:

$$TCA_{i,t} = y_0 + y_1 CFO_{i,t-1} + y_2 CFO_{i,t} + y_3 CFO_{i,t+1} + \varepsilon_{i,t}$$

Large values of ACCQUAL indicate lower accrual quality.

ii. CSRi

CSR Variable measured using GRI Index 3.1, There are 84 criteria, including economic, social, and environmental dimension. If firm reported CSR we will give a score, but if a firm didn't report CSR we will give zero. Those score will be summed then subtracted with number of criterias in GRI 3.1. This measurement also used in Jenkins & Yakovleva (2006), Yuliana *et al*. (2008); Panayiotou *et al*. (2009), Mulyadi & Anwar (2012), Waworuntu *et al*. (2014).

$$\text{CSRi} = \frac{\text{Total firm's disclosures}}{\text{Total criteria of G3.1}}$$

The higher CSR score, indicate that more firm's CSR activity fulfil GRI's criteria.

iii. *Firm Size*

Firm size is measurement that used for categorize the size of the firm (Aryani, 2011). Firm size can be calculated by log total asset, as done by Chih *et al*. (2008), Sun (2012), and Bayoud *et al*. (2012).

$$FSIZE = \log(total\ assets)$$

iv. *Leverage*

To measure firm's leverage, this research used debt to asset ratio, as is done by Prior *et al*. (2008), Sun (2012), and Muttakin *et al*. (2015). Firm's total debt consist by short term and long term debt. The component of short term debt are: bank overdrafts, short term debts and borrowings, short term portion of long term borrowings, current obligations under finance leases and interest bearings loan. Meanwhile, the component of long term debt are: *bonds*, *loans*, *mortgage debts*, *sinking funds*, *finance lease obligations* and *long term bank overdrafts* (Welch, 2011). Higher leverage value also indicate the higher interest expense that firm will pay. Leverage calculated as follow:

$$Debt\ to\ Asset\ Ratio = \frac{Total\ debt}{Total\ asset}$$

This research used two kinds of data, they are quantitative and qualitative. Quantitative data in this research, such as: operating income, current asset, current liabilities, cash and cash equivalent, short term debt, depreciation and amortization expense, total assets, and total debt, are collected from Bloomberg. Meanwhile, qualitative data in this research is CSR activity which reported on firm's annual report. Firm's annual reports are collected from firm's website and Indonesian Stock Exchange (IDC).

This study applies the purposive sampling method to select sample. Purposive sampling is sampling method that choose population which fulfil research criterias. The sample criteria are as follows: (1) Firms in miscellaneous industry sector which issue annual report for the period 2009 to 2013; (2) Firms have already listed on Indonesia Stock Exchange (IDX) before 2009; (3) Firms have a complete annual report during the period of investigation.

4. Results

4.1 Descriptive Statistics

Sample profiles in this research are presented in Table 1.

Table1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ACCQUAL	92	.00000	.91900	.1150870	.18484646
CSRi	92	.08300	.38100	.2132500	.06594764
FSIZE	92	10.94000	14.26000	12.1584783	.65266139

LEV	92	.00000	2.06800	.3835435	.38617221
Valid N (listwise)	92				

ACCQUAL has relatively low value. Smaller value is prefer since it shows higher quality of accrual. CSRi as the interest variable in this research has quite low of mean value. On average, only 21% of CSR activities of the sample firms comply with the GRI guideline. FSIZE of the sample firms is quite varied, it can be seen from the range between min and max value is wide. LEV that represents company's risk has mean as of 0,38. It can be implied that on average, samples have a moderate risk, since only 38% of their assets are contributed by debt.

This research do four kinds of classical assumption test, they are normality test, autocorrelation test, heteroscedasticity test, and multicollinearity test. Test of classical assumption is required to prove that data fit with the regression model. After several tests performed to overcome the normality problem in the regression model, the classical assumption is satisfy. Normality test is justified as shown by significant value of Kolmogorov-Smirnov as of 0,092 greater than signficant level at 0,05. This model also free from autocorrelation problem. Durbin Watson value is 1,935 located between dU 1,7176 and (4-dU) 2,284, therefore autocorrelation test is passed. Glejser test shows that all variables have significant value greater than 0,05 so it can be concluded that regression model is free from heteroskedasticity problem. There is no multicollinearity problem in the regression model, since all variable have VIF greater than 10 and have TOL smaller than 0,05

4.2 Goodness of Fit Test

After classical assumption test, then we do feasibility test of regression model to show that regression model is decent to test the hypothesis.

This research uses two indicators to test the godness of fit of regression model that is F-test and coefficient determination. F-test is as of 4,963 and has a significant value 0,003, less than significant value 0,05 it means that all of independent variables significantly affect dependent variable and regression model is decent to test the hypothesis.

Table 2. F-test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.717	3	1.239	4.963	.003[b]
	Residual	19.473	78	.250		
	Total	23.190	81			
a. Dependent Variable: LOG_ACCQUAL						
b. Predictors: (Constant), LEV, CSRi, FSIZE						

In addition, adjusted R^2 is 0,128 mean that as of 12,8% changes in dependent variable can be explained by all independent variables.

Table 3. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.400[a]	.160	.128	.49965	1.935
a. Predictors: (Constant), LEV, CSRi, FSIZE					
b. Dependent Variable: LOG_ACCQUAL					

4.3 Hypothesis Test

To test the hypothesis this research used t-test, the following are the results of t-test:

Table 4. T-test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.382	1.125		2.118	.037
	CSRi	.356	.951	.045	.375	.709
	FSIZE	-.318	.095	-.401	-3.349	.001
	LEV	.057	.154	.042	.368	.714
a. Dependent Variable: LOG_ACCQUAL						

Table 4 shows that CSR has a positive sign as predicted, however this coefficient is not significant at significance level of 0,05. It is implied that CSR has no significant effect in changes of accrual quality. FSIZE has a significance value less than significance level 0,05, unfortunately the sign of the coefficient differ than expected. It also means that hypothesis 2 is not accepted. The bigger the company size, the lower the quality of accrual. The third hypothesis in this research is also not proven. Eventhough the sign of LEV as predicted, but the association is not significant since the significance value is greater that significance level at 0,05.

5. Conclusion

This research aimed to prove the existence of positive affect from corporate social responsibility (CSR) to earning quality proxied by accrual quality in miscellaneous industry firm listed on IDX. This research found that CSR didn't affect accrual quality, so H1 is rejected. This happened because, based on Indonesian Ministry of Environment and Forestry, hotel, fish processing, hospital, mining sector, and palm plantations have a big role in polluting and harming environment. So another sector from previous statement, including miscellaneous industry sector, which is our focus of research, will do CSR only to comply goverment regulation as formality not morality. This finding is consistent with Kurniawan & Wibowo (2009) who stated that there is no relationship between CSR and discretionary accrual.

Based on this research findings, firm size negatively and significantly affect accrual quality, so H2 is rejected. This finding consistent with Llukani (2013) who found that both big firm and small firm will do earning management to avoid loss and earning decrease. Rangan (1998) stated that in bigger firm, management tend to modify current accrual in order to increase firm's earning. Therefore the firm's accrual quality will be lower.

Lastly, leverage does not affect accrual quality. This finding consistent with Gray *et al*. (2009) who found that leverage didn't affect accrual quality because most of firm equity come from private debt, not public debt. Triningtyas & Siregar (2014) stated that only 24,74% from total firm listed in IDX financed from public debt. So, majority Indonesian firm financed from private debt, therefore private lenders will have easier access to firm's business and financial information, and also have right to monitor management, so that management can't used accrual policy to manage earning, because private lenders knows firm's real situation.

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