Corporate social responsibility and firm performance of sharia bank: testing the moderating effects of earning management

Viany Ekasari[1], Zulfikar Zulfikar[2*]

[1,2] Universitas Muhammadiyah Surakarta

[1]b200180223@student.ums.ac.id
[2*]Corresponding author: zulfikar@ums.ac.id

DOI: 10.29322/IJSRP.12.04.2022.p12440
http://dx.doi.org/10.29322/IJSRP.12.04.2022.p12440

Paper Received Date: 25th March 2022
Paper Acceptance Date: 10th April 2022
Paper Publication Date: 17th April 2022

abstract – This research was conducted to eamine and analyze the effect of corporate social responsibility on firm performance by testing the moderating effect of earning management on Islamic commercial banks that have been listed on the BEI. The population in this research are indonesian Islamic commercial banking companies that have been listed on the IDX for five periods, namely 2016-2020. In this research, a purposive sampling method was used to select the sample, so that the number of observation sample was 55. The data analysis technique in this research used multiple regression analysis technique. Therefore, the findings ofthis research obtained the result that CSR has a significant positive relationship with firm performance and earnings management cannot moderate the relationship between CSR and firm performance.

Index Terms – CSR, ROA, Firm Performance, Earnings Management

I. Introduction

The importance of social responsibility (CSR) in recent years has increased rapidly, developed countries have required CSR reporting which is regulated by law while in developing countries it is not mandatory (Sial et al., 2019). Rumors abaout the environment, especially on company emissions in Indonesia, are a proven fact from the companys low attention to environmental impacts caused by exploration and exploitation of resources. This triggers the public in the opinion that the company can actively participate in activities to promote social welfare and provide information that is not seen as their responsibility from environmental activities due to the many impacts of environmental losses (Putri, 2019). Social responsibility (CSR) has received significant scrutiny in the business world and academic literature. Every company that is involved in CSR activities in terms of welfare and also the economy, has provoked an interest in the use of CSR activities, which have a role as a mechanism in obtaining competitive quality (Ho et al., 2021).

Companies that carry out and disclose CSR in their financial statements will get a positive response from the public. CSR disclosureis very helpful to convince the public about the quality of the company, the responsibility of the attitude as well as the ethical operation of the company. CSR indirectly reduces labor costs so that this results in ups and downs in costs so that the companys net profit increases and has an effect on ROA(Angelia &

Suryaningsih, 2015). CSR activities and performance reveal about improving the companys health, total assets, and financial performance (Thottoli & Thomas, 2021).

A company that runs and describes CSR, which is written in each of its financial statements, can get a positive response from the community. Research on the effect of CSR on a firm's financial performance has been extensively done. However, inconsistent results are still found regarding the relationship between CSR research, company performance, and earnings management. Earnings management is a change in the way the company works that is reported by a party or person in order to mislead stakeholders and also affect the results that have been previously promised (Asghar et al., 2020). The results of earnings management usually do not come from deliberate fraud, but rather from the culmination of a series of aggressive interpretations of accounting standards (Ung et al., 2018).

Based on research (Mahrani & Soewarno, 2018) empirical evidence is obtained that the implementation of CSR has a positive and significant effect on firm performance. During the course of the investigation (Cooper & Uzun, 2019) empirical evidence that CSR does not significant effect on firm performance. In research (Sial et al., 2018) it was found that CSR has a significant effect on firm performance, but earnings management has been shown to negatively moderate the relationship between CSR and firm performance.

II. Literature Review and Hypothesis Development

Social Contract Theory

The basic concept of social contract theory is the relationship between companies and society. The company has an obligation to the community to provide benefits to the surrounding community. Interaction relationships that occur in the community who continue to strive to fulfill and comply with the norms that exist in the community, so that company’s activities can be seen as legitimate. Deegan in Hadi (2011).

Stakeholder Theory

This theory reveals that a good company is a company that is good in managing its relationship with stakeholders and in carrying out its social activities maximally so that there is an increase that occurs in the company and then goals and success can be achieved. This theory specifically reveals that a company is an instrumental social contract that has a core in profit seeking, competition between companies, and minimizing expenses. With this, in running an efficient budget, must carry out developments to support trust, improve, and establish relationships between stakeholders. Stakeholder theory proves that a good relationship with key stakeholders (shareholders) can improve financial performance by achieving good management. Donaldson and Preston (1995).

CSR on Firm performance

At present, there is a lot of research that examines the relationship between CSR and firm performance. From various research, it has been concluded that the implementation of CSR and the effectiveness of the company increase (Healy danWahlen,1999); Many managers struggle to balance company activities with CSR needs because CSR itself has a relationship with financial performance (Oware & Mallikarjunappa, 2019). CSR is able to meet every need of stakeholders. There are stakeholders who are more dedicated to contributing to the company's activities, namely internal stakeholders. There are also external stakeholders whose role is to give a good assessment of the company.. Along with the many customers coming to make the firms performance (Chen & Huang, 2018).

Research (Angelia & Suryaningsih, 2015); (Parengkuan, 2017); (Bahta et al., 2020) proves that CSR hasa positive effect on fim performance. This shows that the increase or decrease in CSR affects the firm's performance. As for research (Cooper & Uzun, 2019), found empirical evidence that CSR has a negative effect on firm performance. Which means that the existence of CSR can reduce the firm's performance.

From the series of descriptions above, the researcher proposes a hypothesis:

H1 : CSR has a positive effect on firm performance

Moderate Role of Earnings Management

The management hypothesis has been stated well by Waddock and Graves (1997) in Dianita and Rahmawati (2011) explained related to effect of good stakeholder relations with positive financial performance, but can be reduced if there is mismatch of company eanings management with accounting policies (Akbar, Kevin Fatahillah and Dewayanto, 2022).

If the entrenchment strategy of managers who carry out earnings management seeks to involve stakeholders as a from of validating the actions taken to avoid pressure from other stakeholders. This action was taken with theaim of narrowing the flexibility of the organization as well as the impact of adverse financial result (Kusuma & Syafruddin, 2014).

Therefore, earnings management can weaken the relationship between CSR and profitability. So we proposed the hyphothesis of the moderating effect of earnings management on the relationship between CSR and firm performance.

H2 : Earning management has a negative effect on moderating the relationship between CSR and firm performance.

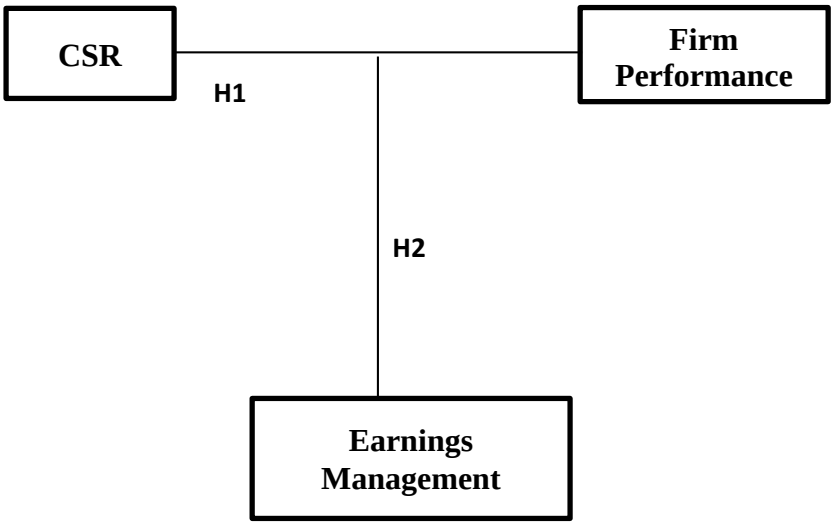

Figure 1. Hypotheses and conceptual framework

III. Research method

Population and sample

In this research, samples from Islamic commercial banks that have been registered on the IDX for the 2016 – 2020 period were obtained from the websites www.idx.co.id and the websites of each related company . The sampling technique used a purposive sampling method, namely the sampling method with predetermined criteria. The sample criteria used for this research are:

- Sharia commercial Banks that have been registered on IDX for the period 2016-2020
- Islamic commercial banks that have issued financial reports for the period 2016-2020
- Islamic commercial banks that issue financial reports in rupiah.

Research method

Hypothesis testing in this research was done using multiple linear regression analysis. This method is useful for testing hypotheses in order to learn about the independent variables that affect the dependent variable. The models are :

ROA = A + B1CSR + B2ERM + B3SZF + B4AGE + B5FREQ + B6AGEB + B7SZB

ROA = A + B1CSR + B2 ERM + B3SZF + B4AGE + B5FREQ + B6AGEB + B7SZB + B8CSR*ERM

Variable measurement

Dependen variable

This ratio is the most important in determining the company's profitability. A company's "Return on Assets" is a measure of the company's effectiveness in gaining profits by utilizing its assets. The measurement uses the formula :

$$\text{ROA} = \frac{Net\ Income\ after\ Tax}{Assets} \times 100\ \%$$

Independent variable

The independent variable used in this research is corporate social responsibility. To calculate the CSRI (Corporate Social Responsibility Index), basically using a dichotomous approach, each CSR item is given a value of 1 if it is disclosed, and if it is not disclosed, it is given a value of 0. The CSRI calculation formula is:

$$CSRI_J = \frac{\Sigma X_{ij}}{n_j}$$

Information :

CSRIj : corporate Social responsibility index perusahaan j

Nj : Numberof items for company j nj 1

Xij : Dummy Variable:1 = ifthe item is relevealed; 0 = if item is not disclosed

Moderate variable

There is a lot of consensus on earnings management. It seems that many researchers whose effort are limited by difficulties in measuring motivatuion and decision making, accounting policies cannot be seen directly (San Martin Reyna, 2018). In this research, earnings management is proxied by discretionary accruals calculated by the Modified Jones Model modified by Dechow, Sloan, and Sweeney (1995), which is designed to reduce errors that tend to occur in the Jones model when discretionary is assigned to earnings. Formulated as follows:

$$\mathbf{TACit = Nit - CFOit}$$

The first models used to calculated real earnings management by revenue manipulation is:

$$\mathbf{TACit/Ait\text{-}1 = \beta1(1/Ait\text{-}1) + \beta2(\Delta REVt / Ait\ \text{-}1) + \beta3\ (PPEt / Ait\text{-}1) + e}$$

By using the regression coefficient above, the value of non-discretionary accruals (NDA) can be calculated by the formula:

$$\mathbf{NDAit = \beta1\ (1/Ait\text{-}1) + \beta2\ (\Delta REVt / Ait\text{-}1 - \Delta RECt / Ait\text{-}1) + \beta3\ (PPEt / Ait\text{-}1)}$$

Furthermore, discretionary accrual (DA) can be calculated using:

$$\mathbf{DAit = TAit / Ait\text{-}1 - NDAit}$$

Information :

TACit = total company accruals i in period t
Nit = Net profit of company i in period t
CFOit = Cash flow from operating activities of company i in period t
Ait-1 = Total Assets of company i in year t-1
ΔREVt = Change in company i's income from year t-1 to year t
ΔRECt = Change in receivables of company i from year t-1 to year t
PPEt = Fixed assets (Property, plant and equip-ment) year company t
Dait = Discretionary Accruals of the company i in the period t
NDAit = Non Discretionary Accruals of company i in period t
β 1, β2, β3 = regression cefficient
e = error.

Contol variable

Control variable	Measurement
Firm Size	*Logarithm (Asset)*
Firm Age	*Long established company*
Frequency of boards meeting members	*Many board member meetings*
Average age of board members	*Year of birth of board member*
Board Size	*The total number of board members*

IV. Resulth and disscussion

Descriptif statistic

Table 1 is a descriptive statistical analysis that describes the variables

Descriptif

Variabel	N	Min	Max	Mean	Std.Deviation
ROA	55	-0.47	7.41	.1772	.99947
CSR	55	0.53	.85	.7068	.09130
ERM	55	-390.74	111.97	-54.8001	87.25503
SZF	55	25.88	32.99	30.7282	1.59912
AGE	55	6.00	125.00	39.5455	30.46663
FREQ	55	6.00	23.00	12.6909	3.79509
AGEB	55	39.00	65.00	52.8364	6.00852
SZB	55	2.00	8.00	4.7455	1.56605
Valid N (listwise)	55				

The following information is collected from the results of the descriptive statistical test in the table:

The firm performance variable, which calculated by Return On Assets, has the lowest value of -0.47 percent and the highest value of up to 7.41 percent. The average value of the firm's performance is 0.1772 percent,and the standard deviation shows a value of 0.99947 percent. In this case, it illustrates that Islamic bank companies listed on the Indonesia stock Exchange in the 2016-2020 period have good or positive firm performance of 0.1772 percent.

The Corporate Social Responsibility variable calculated using the GRI-G3 standard shows the lowest value of 0.53 percent and the highest value of 0.85 percent. The average value of Corporate Social Responsibility is 0.7068 percent, with a standard deviation of 0.09130 percent.This means that in the 2016-2020 period, the average CSR information published by Islamic banking companies listed on the Indonesia Stock Exchange is 0.7068 percent of what is required by GRI.

Firm size variable (SZF), whose measured uses logarithm (total assets), shows the lowest value of 25.88 percent and the highest value og 32.99 percent, and has an average value of 30.7282 percent and a standard deviation of 1.59912 percent. The age of the firm has the lowest value of 6 percent and the highest value of 125 percent, with an average value of 39.5455 percent and a standard deviation of 30.46663 percent. The frequency og board member meetings measured by the number of board member meetings has a value range of 6 to 23 percent and a mean value of 12.6909 percent and a standard deviation of 3.79509 percent. The mean age of board members, calculated from the year of birth of board members, has a value range of 39 to 65 percent, and the mean value is

52.8364 percent, and the standard deviation is 6.00852 percent. The size of the board, which is calculated from the total number of board members, has a value range of 2 to 8 percent, a mean value of 4.7455 percent, and a standard deviation of 1.56605 percent.
Testing linear regression statistic in this research requires testing the classical assumption. The data from this research passed the classical assumption test, consisting of the normality test, heteroscesdasticity test, multicollinearity test,and autocorrelation test.
The first regression equation with F = 2.468 and a significant 0.31, The coefficient of determination (adjusted Rsquare) shows the number 0.16. The second regression equation has F = 6.530 and a 0.0001 significance level.The coefficient of determination (adjusted Rsquare) shows the number 0.45.

Hypothesis testing

T test hyphotesis table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	16.141	2.680		6.022	.000
	CSR	.535	1.720	.488	3.311	.002
	ERM	-.472	.012	.412	-2.407	.039
	CSR_ERM	-.427	.019	.481	-3.049	.006
1	SZF	-.528	.089	-.844	-5.926	.000
	AGE	.004	.004	.118	1.048	.300
	FREQ	.007	.028	.027	.258	.798
	AGEB	-.015	.023	-.091	-.668	.507
	SZB	.312	.078	.489	4.024	.000

The effect of CSR on Firm performance

The regression coefficient of the statistical test of the effect of CSR on firm performance is 0.535, which in this case illustrates if there is a positive relationship between corporate social responsibility and firm performance. If the significant level shows a value of 0.002, less than 5% or 0.05, then H1 in this research is accepted.
According to the findings of this research, corporate social responsibility has a beneficial impact on firm performance. The findings reveal that the greater the corporate social responsibility of a company, the better the firm's performance. Apart from that, efforts to improve the environment can garner a positive perception from investors and have an impact on the firm's image. Positive perceptions and corporate image provide benefits for companies in an effort to improve firm performance.
This is in line with the concept of stakeholders theory, which assumes that companies must be responsible for various types of community groups that have an influence on the company because their decisions and behavior affect the welfare of the community. The findings of this research are consistent with those (Mahrani & Soewarno, 2018); (Jang et al., 2019);(Bahta et al., 2020).

Earnings management has a negative effect on moderating the relationship between CSR and firm performance.

The statistical regression test coefficient of earnings management in moderating CSR with firm performance is -0.427, which shows that there is a negative relationship between earnings management in moderating CSR with firm performance. The significant level shows a value of 0.006 less than 5%, or 0.005, which is where H2 in this research is accepted. Earnings management weakens the relationship between CSR and firm performance. This findings is evidenced by the fact that the higher the application of corporate earnings management, the lower the firm's performance will be. Sustainable earnings management practices will obscure the actual condition of the financial statements and can result in errors in decision making. The result of this research are in line with research conducted by;(Aprianto, 2016);(Javed et al., 2020) (Akbar, Kevin Fatahillah and Dewayanto, 2022).

V. CONCLUSION

In this research, we have tested the impact of CSR on firm performance by using a moderating variable, namely earnings management. The object used in this research is a sharia banking company listed on the Indonesia Stock Exchanges for the period 2016-2020 . To collect and interpret the data, there are as many as 55 data samples as the final accumulation of this research sample. Therefore, it can be concluded that CSR has a significant positive impact on firm performance. Earnings management is also able to moderate and weaken the relationship between CSR and firm performance.

However, this research has limitations, namely in the use of profit measurement methods and the research sample only uses Islamic banks listed on the BEI. Therefore, for further research, it is better to measure earnings management using a different formula and for the research sample, it is better to add other samples, such as sharia business units.

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AUTHORS

First Author – Viany Ekasari, Muhammadiyah of Surakarta University, b200180223@student.ums.ac.id.

Second Author – Zulfikar Zulfikar, Muhammadiyah of Surakarta University, zulfikar@ums.ac.id

Correspondence Author – Zulfikar Zulfikar, Muhammadiyah of Surakarta University, zulfikar@ums.ac.id.