

Earning management, corporate social responsibility disclosures and firm's value: Empirical study on manufacturing listed on IDX period 2010-2012

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ABSTRACT

To achieve maximum value is the main goal of any company in order to maintain their sustainability. Management and corporate social responsibility are undertaken to achieve this goal. This research was aimed at identifying the influence of the earning management on the firm's value by looking into corporate social responsibility as an intervening variable. Population in this research was manufacturing company listed in Indonesia Stock Exchange period 2010 to 2012, which also includes corporate social responsibility disclosure. The sample consisted of 38 companies which were selected by purposive random sampling. Data were analyzed by descriptive and qualitative statistical. The result showed that earning management has a positive but insignificant influence on corporate social responsibility disclosure, corporate social responsibility disclosure has a positive and significant influence on firm's value, and earning management has a negative and insignificant influence on firm's value. Using 38 companies sample and 3 years of timing length was the limitation of this research.

Keywords: Earning management, corporate social responsibility disclosure, firm's value.

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INTRODUCTION

Financial report is shown by an information management to assess the quality of a firm's performance and demonstrate its responsibility to investors, employees, customers, society, and government. Financial report serves to present information to help investors, creditors, and other potential users in a similar decision rationally. Financial statements are very important because it demonstrates the quality of management performance in a period of time. One of the importances of financial statements is its use to measure management performance. Therefore, management will try to make a financial report in such a way that the performance of the company looks good in the financial statements. Due to the importance role of financial statements in demonstrating the performance of a company, the management will try to mislead investors or the owner of the company to avoid the confidentiality of the actual condition of the financial statement. One way that is often

applied to mislead the owner of the company or investors is conducting earnings management, because the manipulation of earnings management is the safest and legal, and does not violate generally accepted accounting principles (Haryudanto and Yuyetta, 2011).

Measures of earnings management is aimed at maximizing the utility managers and tends to benefit themselves in a manner affecting the financial reporting process. The positive impact of earnings management is to increase the value of the company in view of investors as indicated by earnings management which is the optimal profit from the earnings management, so that investors are interested to invest. Of course there are negative impacts in managing earnings. For managers losses will be accepted as loss of reputation, job, position, and career. As for the company, one of the most fatal consequences is that firm will lose the support of their stakeholders.

Measures of earnings management has led in some cases accounting reporting scandals that are widely known, such as Enron, Merck, WorldCom and the majority of other companies in the United States (Cornett et al., 2000, in Alijoyo, 2003). In the case of Enron, for example, one very obvious impact is the loss borne by the investors from the collapse of a very dramatic stock value of the price per share of U.S. \$ 30 to U.S. \$ 10 in just two weeks. The question which then arises is why a world class company may find a very tragic to declare bankruptcy even after the results of the financial audit of the company expressed "unconditional reasonable" (Alijoyo, 2003).

The ability to make management take action that could avoid occurrence of such events is to take up the practice of social responsibility or corporate social responsibility (CSR), so that the earnings management activities will be helped by the CSR practices. CSR deals with ethical and moral issues regarding the policies and behavior of decision makers, such as placing a complex issue to secure the preservation of the environment, human resource management, health and safety, relationships with local communities, and establish harmonious relationships with suppliers and customers (Castelo and Lima, 2006).

Castelo and Lima (2006) explains that through the practice of CSR, companies can generate more favorable treatment with respect to regulation, as well as the support of social activist groups, the legitimacy of the industrial community, and positive news from the media, which in turn maintained the company's reputation better. Because of the magnitude of benefit from the application of CSR, it can be concluded that CSR is used to cover the company's management, one of which is earnings management activities. Managers who perform earnings management can carry out projects that are environmentally friendly and help the community through CSR. Thus, it can reduce the possibility of being fired if managers in managing earnings.

According to Sun et al. (2010) in Mestuti and Mutmainah (2012), one of the goals of social responsibility disclosure by the company is to attract investors to invest in the company, but the developments of social responsibility disclosure arises in connection with earnings management conducted by management. Managers have incentives to voluntarily be responsible towards the environment to attract investors and to add a better impression over his company especially when they try to engage in earnings management. Disclosure Manager is used to divert the attention of investors or interested parties from monitoring earnings management activities. For example, PT. Unilever has conducted several CSR programs as a form of high responsibility to the community in a sustainable manner. CSR programs that have been done by PT. Unilever include hand-washing campaign (Lifeboy); program of oral health education (Pepsodent); traditional food preservation

program (Bango) and others. Companies that make CSR as an idea is no longer exposed to liability based on the single bottom line, which is the preferred value of the company's financial condition, but corporate responsibility should be based on the triple bottom lines. Not only the financial but also social and environmental, as financial condition is not enough to guarantee the value of the company to grow in a sustainable manner. Corporate sustainability will be ensured if the company applies the three aspects, namely financial, social, and environmental. The company will reveal its social responsibility in the annual report. The extent of CSR disclosure in annual reports of companies will attract investors to invest so as to increase the company's value. Value of the company in question in this study is the value of the stock market as measured by Tobin's Q theory. This theory explains how monetary policy affects the economy through pengaruhnya on equity valuation. Tobin's q is defined as the market value of the company divided by the replacement cost of capital. If q is high, the housing market value is high relative to the replacement cost of capital, and capital building and equipment will be low relative to the market value of the company.

Haryudanto and Yuyetta (2011) conducted research on the effect of earnings management on the level of CSR and firm's value. The results of these studies indicate that earnings management does not affect the level of CSR in companies listed on the Stock Exchange during 2007 to 2009; CSR disclosure level affects firm value in companies listed on the Stock Exchange during 2007 to 2009; and the disclosure of earnings management does not affect the value of companies listed on the Stock Exchange 2007 to 2009. CSR measurements are done using the data disclosed in the company's annual report and calculated using the CSR Disclosure Index (CSRDI) based on standard items. GRI (Global Reporting Initiative) are disclosed in the company's annual report.

Based on the background and the research that has been conducted by Haryudanto and Yuyetta (2011), the researchers intend to continue the study with changing social responsibility disclosure as an intervening variable. As well as the differences that applied from previous studies, namely the use of CSRI to measure CSR. CSRDI based on standard items GRI are disclosed in the company's annual report; in this study the researchers used CSRDI which is based on the ISO 26000 Guidance Standard on Social Responsibility which includes 34 items in 7 main aspects, namely organizational governance, human rights, labor, environment, fair business practices, consumer issues and community involvement and development. Researchers observed the study period 2010 to 2012 for the reason that the latest data and the disclosure of CSR calculated using CSRDI based on the ISO 26000 Guidance Standard on Social Responsibility newly defined in 2010 by the International Standardization Organization.

LITERATURE REVIEW

Positive accounting theory

Positive Theory is a theory that explains and predicts certain phenomena such as economic phenomenon. Positive accounting theory popularized by Watts and Zimmerman's (1978) attempt to explain a process that uses the ability, understanding and knowledge of accounting and the use of the most appropriate accounting policy for certain conditions in the future. In principle, positive accounting theory assumes that the purpose of accounting theory is to explain and predict accounting practices as in the practice of earnings management.

Positive accounting theory is an advanced study of normative accounting theory which fails to explain the phenomenon that occurs in real practice. The role of positive accounting theory is very important in the development of accounting theory as it can provide guidance for policy makers in determining the accounting consequences of the development policy (Watts and Zimmerman, 1978). Positive accounting theory evolve as the need to explain and predict accounting practice realities that exist in society. Positive explanation contains a statement about an event, action or deed as it is in accordance with the facts or what happened on the basis of empirical observations. Positive explanation is directed to give an answer whether something is true or false statements on the basis of scientific criteria. In other words, positive accounting theory is intended to explain and predict the consequences that occur when managers determine a particular choice. Explanations and predictions in the positive accounting theory is based on the contracting process or agency relationship between the manager and other groups such as investors, creditors, auditors, capital markets and government institutions (Watts and Zimmerman, 1990).

Earnings management

Scott (2006: 344) in Mestuti and Mutmainah (2012) defines earnings management as the selection of accounting policies by the manager of the Financial Accounting Standards which exist and naturally can maximize their utility and/or the market value of the company. According to Dechow et al. (1995) in Murwaningsari (2008) earnings management is defined as the manipulation of earnings, both inside and outside the boundaries of acceptable accounting principles generally. However, Djakman (2003) emphasizes that earnings management is not the same as manipulation. Earnings management is done in order to meet the interests of management by exploiting the inherent weaknesses of the accounting policies, whereas the mean earnings manipulation offenses accounting

principles generally accepted to produce the company's financial performance in accordance interests. It can be concluded that earnings management is a deliberate action by the management of the company's financial reporting process to external companies that utilize research to influence the decisions of users as well as for the sake of personal gain despite the fact that the company's financial condition is not as reported.

Corporate social responsibility (CSR)

CSR is an action or a concept that is carried by the company (according to the ability of the company) as to the form of their social responsibility and the environment in which they operate. CSR is a phenomenon of corporate strategies that accommodate the needs and interests of its stakeholders. CSR arises from an era where awareness of the long-term sustainability of the company is more important than profitability. According to the CSR Forum (Wibisono, 2007 in Mestuti 2012), CSR is defined as a business that is conducted in a transparent, open, based on moral values and uphold respect for employees, communities and environment. CSR is closely related to citizens and large companies. Basically, CSR is a form of corporate contribution to the sustainability of life in the surrounding communities, both rational, economic and environmental communities. According to the World Bank, CSR is a commitment of business to contribute to sustainable economic development to improve the quality of life, so that what is good for business is good for social life at the same time. CSR according to the World Business Council for Sustainable Development (WBCSD) is an ongoing commitment from the business to act ethically and contribute to economic development at the local or wider community, along with improvement in the lives of employees and their entire family. Meanwhile, according to ISO 26000, the characteristics of social responsibility is the willingness of an organization to consider the social and environmental aspects in decision making and is responsible for the impact of decisions and activities that affect society and the environment.

Firm's values

An enterprise value of investors' perception of the company is often associated with stock prices. High stock price makes the value of the company high. Common enterprise value is indicated by the price to book value. High price to book value makes the market believe in the future prospects of the company. This is the desire of the owner of the company, because a company with high value indicates prosperity (Soliha and Taswan, 2002). In reality, not all companies want a high stock price (expensive), because of fear not being able to sell or not

being able to attract investors to buy. That is why, the stock price should be made optimally. This means that the stock price should not be too high and not be too low. Stock price that is too low can adversely affect the company's image in the view of investors. Optimal stock price can be achieved through a series of inferences from the company's experience in selling shares on the stock exchange. That is, if the market is very interested in shares traded, the company can raise its stock price, and vice versa. With the high value of the company, the shareholders will feel confident with the future of the company when the company is handed over the management to the manager or interested parties who are considered able to run the company. Management will take action that could increase the value of the company, one way with CSR disclosure. Through CSR, companies can participate in the social engagement of the community and the environment, and can also increase the value of the company and to attract investors through the optimal stock price.

Effect of earnings management on CSR disclosure

Earnings management is defined by Copeland (1968) in Haryudanto and Yuyetta (2011) as "the ability to increase or decrease reported net income at will", which means the ability of management to increase or decrease reported net income at will. It can give management an opportunity to report financial information to the owners of different companies. In this theory, principal and agent have different goals resulting in a conflict of interest. The owner of the company does not have sufficient information about the performance of the manager and the state of the company, while the manager himself has a lot of information about the state of the company. Driven by personal interests and opportunity, the manager can take advantage of these circumstances to perform earnings management, and report financial reporting not in accordance with the actual state of the company. As a consequence, the owner of the company cannot make investment decisions optimally. When the owner of the company or shareholders find any indication of earnings management in the company, the value of the company goes down drastically in the stock market (Dechow et al., 1995). This usually has a very serious impact on business owners and other stakeholders. When that happens, the stakeholders will take action that would threaten the existence of management.

Businesses are performed by managers to secure their position which is to engage in activities aimed at improving the relationship between the company and stakeholders and the social environment, in this case the CSR. To attract the support of these groups, the usual CSR activities is to enter into the social aspects of the production process, adopt the practice of human resource development progressively, increasing activity

through the eco-friendly recycling and the reduction of pollution and waste, or with the purpose of accelerating society organizations (McWilliams et al., 2006, in Haryudanto and Yuyetta, 2011). In a previous study conducted by Haryudanto and Yuyetta (2011), they stated that managers in companies that perform earnings management tends to be more active in enhancing the image and draw support from the public and stakeholders through CSR policies. The manager believes that the stakeholder satisfaction and realize a good impression of the social environment and the suspicion and awareness of stakeholders can be reduced so it is likely to be observed by stakeholders regarding earnings management can also be reduced.

Based on the above, it is first hypothesized in this study are as earnings management has an influence on the level of CSR disclosure.

Effect of CSR disclosure on firm's value

The main objective of the company is increasing the value of the company on an ongoing basis. These objectives can be achieved when companies pay attention to the economic, social and environmental factors. In the application of CSR to be conducted as corporate responsibility and concern for the environment around the company. In a previous study, Zuhroh and Heri (2003) states that CSR disclosure in the annual report that the company went public has influence on the value of shares of companies included in the company's high profile. From these results, it can be said that the investors directly respond well to any social information indicated in the company's annual report.

Based on the above, it is second hypothesized in this study as the level of CSR disclosure has effect on firm value.

Effect of earnings management on firm's value

The shareholders or owner of the company can only rely on reports from the company's management to know the state of his company. While the manager as the manager of the company has the duty to find out more information on the company's internal and prospects for the future, giving rise to the information gap. This condition is often referred to as information asymmetry (Jensen and Meckling, 1976). Because of the asymmetry of information, the owner of the company cannot know the actual condition of the company so that the company's management has the opportunity to perform earnings management. Basically managers perform earnings management to enhance shareholder value. This activity actually may increase the value of the company at a certain period but also may decrease the value of the company in the future. Therefore, if the manager does

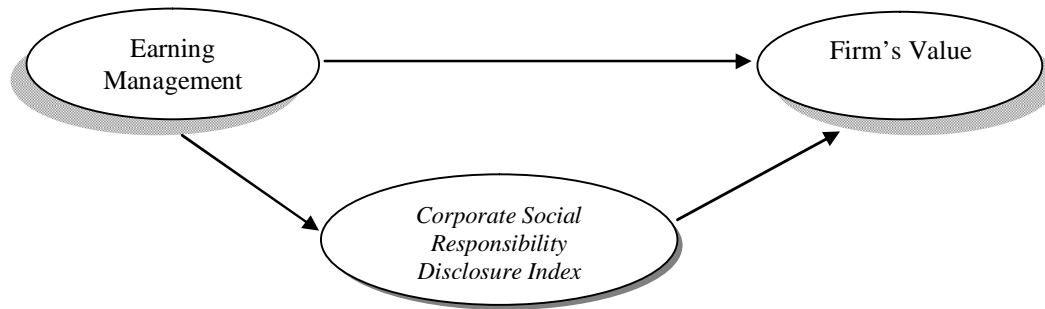


Figure 1. Theoretical framework.

earnings management, the company's earnings will improve as well as the performance of the company; if the company increases the performance of the stock market prices will increase as well (Ferdawati, 2009).

Based on the above, the third hypothesis formulation is the effect of earnings management on firm value.

Theoretical framework

Based on a literature review as well as from previous studies, the variables involved in this study can be formulated into the framework shown in Figure 1.

METHODOLOGY

Population and sample

The population used in this study is a manufacturing company that is listed on the Indonesia Stock Exchange 2010 to 2012. This is done for reasons that manufacturing companies typically do a lot of CSR activities and their effect on the surrounding environment is greater than other types of companies. The method used in sampling is purposive sampling method, the sampling method is based on certain criteria. 38 companies were selected.

Variables and measurement of variables

The variables consist of the independent variable, dependent and intervening. Independent variables are variables that affect other variables. The dependent variable is the variable that is affected by the independent variable. Intervening variable is the variable or variables that strengthen mediate between dependent and independent variables.

In this study, earnings management is used as the independent variable, the value of the company is used as the dependent variable, and the disclosure of CSR used as an intervening variable.

Earnings management as an independent variable in this study was detected using a modified model of Jones (1991) discretionary accruals proxy (discretionary current accruals). Model modified Jones (1991) was used in this study because it is considered the most excellent models in detecting earnings management. In search of discretionary accruals, one must go through the following steps:

Measure of Total Accrual (TACC_{it}):

$$TACC_{it} = NI_{it} - CFO_{it}$$

Measure of Non Discretionary Accrual (NDA_{it}):

$$NDACC_{it} = \alpha_1(1/TA_{it-1}) + \alpha_2((\Delta REV_{it} - \Delta REC_{it})/TA_{it-1}) + \alpha_3(PPE_{it}/TA_{it-1})$$

Measure of Discretionary Accrual (DA_{it})

$$DACC_{it} = (TACC_{it} / TA_{it-1}) - NDACC_{it}$$

CSR in this research are used as intervening variables. In this study, the items used to measure the disclosure of social disclosure is based on the ISO 26000 Guidance Standard on Social Responsibility which consists of 33 items in 7 key themes such as disclosures made by Handayati (2011). In this study, the measuring instrument used to measure corporate social disclosure is Disclosure Corporate Social Responsibility Index (CSRDI) based on the items contained in the ISO 26000 Guidance Standard on Social Responsibility. CSRDI formulated as follows:

$$CSRDI = (\text{Items Numbers Disclosure} / \text{Total itmes number have to disclosure}) / 100\%$$

Firm's value is used as the dependent variable. The firm's value in this study is defined as the market value. The firm's value is calculated by using the model of Tobin's Q Ratio developed by Tobin (1967), which shows the estimated financial markets today. When the Q ratio is above one, this indicates that the investment will generate profits in assets that provide higher value than investment spending, it will attract new investment. If the Q ratio is below one, the investment is not interesting (Herawaty, 2008). The calculation of the firm's value is done using the following formula:

$$Q = (EMV + D) / (EBV + D)$$

Analysis technique

Regression models used to demonstrate the intervening variable were calculated by creating two structural equation regression equation, which suggests the hypothesized relationship. In this case, there are two such equations, namely:

$$\text{Firm's value} = \alpha + \rho_1 \text{ ML} + \rho_3 \text{ CSRDI} + e_2 \quad (1)$$

$$\text{CSRDI} = \alpha + \rho_2 \text{ ML} + e_1 \quad (2)$$

Path analysis

To test the effect of intervening variables, path analysis method was used. Path analysis is an extension of the multiple linear

regression analysis or the use of regression analysis to assess the causality relationship between variables (casual models) that have been set previously. Path analysis alone cannot determine the causal relationship and cannot be used as a substitute for the researchers to see the relationship of causality between variables. Causality relationship between variables has been established based on theoretical models. What can be done by path analysis is to determine the pattern of relationships of three or more variables and it cannot be used to confirm or reject the hypothesis of causality imaginary (Ghozali, 2011).

Path model proposed relationship is based on the theory that earnings management has a direct relationship with the Company Value (p1). Nevertheless earning management also has the effect of indirect relationship to the firm's value to disclosure of CSR (p2) and then to firm's value (p3). The total effect relationship of earnings management to firm's value (correlation between earnings management and firm's value) is equal to the direct influence of earnings management to firm's value (path or regression coefficients p1) plus the indirect effect that the path coefficients of earnings management to CSR disclosure is p2 multiplied by the coefficient of the path of CSR disclosure to firm's value is p3 (Ghozali, 2011).

The direct effect to the earning management to firm's value = p1. Indirect influence disclosure of CSR to earnings management = p2 x p3. The total effect (the correlation firm's value to earnings management = p1 + (p2 x p3).

RESULTS

Descriptive statistics analysis

This research uses descriptive statistical analysis to provide an overview of existing variables. Descriptive statistics were used is the average (mean), minimum, maximum and standard deviation.

The number of variables in the study (N) is 114. Variable earnings management has a mean value of 0.0407; the maximum value of 0.16; minimum value of -0.07; and the value of standard deviation of 0.0267. The mean of firms values variable has 0.9035; maximum value of 1.24; minimum value of 0.71; and the value of standard deviation of 0.0859.

Variable of disclosure index of CSR has a mean value of 0.6330; maximum value of 0.94; minimum value of 0.27; and value of standard deviation of 0.1288. The result of testing the relationship of CSR to the intervening variables that earnings management has a correlation coefficient value of 0.034 with a significance level of 0.361 so it can be concluded that CSR intervening variables have no correlation to earnings management.

Regression analysis

Method of path analysis was performed on the model to predict the relationship between the dependent and independent variables as well as intervening variables. Regression model was as follow:

$$\text{CSRDI} = 0.626 + 0.163 \text{ EM} + e1 \quad (3)$$

The value of p2 0.163 indicates that if there is an increase in earnings management it will be followed by an increase in the company's CSR 0.163 assuming fixed variables. In other words, earnings management negatively affects to CSR disclosure:

$$\text{FV} = 0.805 - 0.425 \text{ EM} + 0.183 \text{ CSRDI} \quad (4)$$

The regression equation can be explained as follows:

(a) From the calculations, the constant value is 0.805. This suggests that in the absence of the independent variables, there will be an increase in the firm's value by 0.805;

(b) P1 value of -0.425 indicates that if there is an increase in earnings management in the company it will be followed by a decrease in the value of the company 0.425, assuming other variables remain;

(c) P3 value of 0.183 indicates that if there is an increase in the company's CSR disclosure index, it will be followed by an increase in the firm's value 0.183, assuming other variables remain.

Once the value of p1, p2 and p3 is obtained, the value will be calculated e1 and e2. The value of e1 = $\sqrt{(1 - 0.001)} = 0.031$, while the value of e2 = $\sqrt{(1 - 0.090)} = 0.953$.

From Figure 2, path analysis model showed that CSR disclosure is as an intervening variable with the following as arnings management can directly affect the Company's value to negative influences and can also indirectly affect which of Earnings Management to CSR disclosure (as intervening) and to value the company. The magnitude of the direct effect is -0.425, while the magnitude of the indirect effect should be calculated by multiplying the coefficients are their indirect $0.163 \times 0.183 = 0.029$. The total effect of earnings management to firm's value = $-0.425 + 0.029 = -0.396$.

Simultaneous effects of test results (F test)

F test is done to show whether all the independent variables included in the model have an influence together on the dependent and intervening variables. The result shows that the calculated F value is equal to 0.128 with a significance level of 0.721. Significance level is greater than 0.05, it can be concluded that the earnings management variable has no significant effect on CSR disclosure.

The second testing results show that the calculated F value of 5.515 with a significance level of 0.005. Since the significance value is less than 0.05, it can be concluded that earnings management and CSR disclosure has simultaneous effect on firm value in companies listed in Indonesia Stock Exchange 2010-2012.

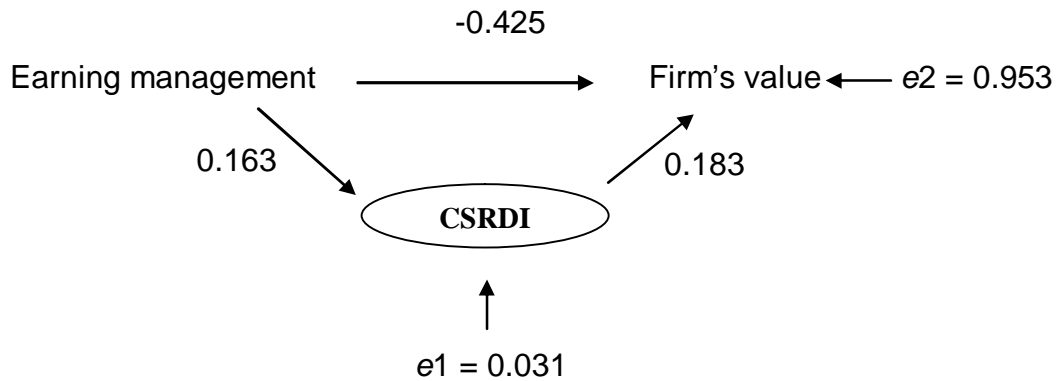


Figure 2. Path analysis model.

Partial test results (t test)

This test aims to show how far the influence of the independent variables in explaining the variation individually dependent variable. Test results partially explain that the earnings management variable has a positive and significant effect on the disclosure of CSR with a regression coefficient of 0.163; t value 0.358 and significance of 0.721. This shows that the earnings management variable has no significant effect on CSR disclosure. This means that there is no relationship of earnings management on CSR disclosure statistically. However, because the regression coefficient is positive, the increase in earnings management leads to an increase in CSR disclosure. Decrease in earnings management to encourage a decrease in CSR disclosure. Therefore, changes in earnings management will respond either by disclosure of CSR in the form of a decrease or an increase.

The second test showed results that variable earnings management do not have a significant negative effect on firm value with regression coefficient -0.425; t value -1.460; and 0.147 significance greater than 0.05. This suggests that earnings management variable has no significant effect partially, so it can be concluded that the earnings management variable has no significant effect on firm value or no statistical relationship to firm value. And the regression coefficient is negative then the increase in earnings management will encourage a decline in the value of the company. And vice versa, a decrease in earnings management will encourage an increase in the value of the company. Thus, a change (either increase or decrease) will be responded earnings management change (either increase or decrease) in the value of the company 0.425.

Variable expression of corporate social responsibility has a positive and significant impact on firm value with regression coefficient 0.183, t value 3.031, and 0.003 significance smaller than 0.05. This suggests that the variables of corporate social responsibility disclosure has the effect of partially, so it can be concluded that the

disclosure of corporate social responsibility has a significant effect on firm value, the increase in corporate social responsibility disclosure will encourage an increase in the value of the company. And vice versa, a decrease in corporate social responsibility disclosure would push down the value of the company. Thus, a change (either increase or decrease) the disclosure of corporate social responsibility will be responded change (either increase or decrease) in the value of the company 0.183.

Coefficient of determination test results

Adjusted R^2 is used to measure the level of ability of the model to explain the variations of independent variables. The coefficient of determination is between zero and one. Adjusted R^2 values are small means the ability of the independent variables in explaining the dependent variable is very limited. Value close to one means that the independent variables provide almost all the information needed to predict the variation in the dependent variable. The test results showed R^2 of 0.001 or 0.1%. So it can be said that the 0.1% amount of social responsibility disclosure is caused by earnings management, while 99.9% of the amount of social responsibility are caused by other variables not examined in this study. Testing results for the second model shows R^2 of 0.090 or 9%. So it can be said that 9% of the value of the company due to earnings management and social responsibility disclosure, while 99.9% of the amount of social responsibility is caused by other variables not examined in this study.

DISCUSSION

Earnings management relationship with CSR disclosure

Positive accounting theory is intended to explain and predict the consequences that occur when managers

determine a particular choice. Earnings management is one of the accounting practices described in positive accounting theory. When the manager decides to conduct earnings management practices, then there are consequences to be accepted if it is known as loss of position or job loss. Therefore, to minimize the risk that is the case then the manager (the company) will undertake CSR activities and disclose the company's annual report. Based on the theory that the effect on earnings management of CSR disclosure. The results are consistent with existing theory, because the result is positive. Although it does not mean the absence of significant statistical relationship is caused by the state of the sample. However, these results conflict with studies conducted by Haryudanto and Yuyetta (2011) which states the negative effect on earnings management of CSR disclosure. This difference may be due to the number of samples and sample conditions used. There is no significant relationship between earnings management and CSR is caused by not too high level of CSR disclosure in Indonesia. In other words, CSR disclosures by the company in Indonesia are still relatively economical companies. Economic enterprise by Suharto in Haryudanto and Yuyetta (2011) is a company that has a high profit but its CSR disclosure level is not too low or high. Most companies in Indonesia have not been maximizing its CSR activities well.

CSR disclosure relationship with firm's values

In carrying out its activities, the company is not only responsible for the investor parties but also environmentally responsible. Companies must pay attention to the impact of its activities on the surrounding environment. In fact, not only that the company must also consider the impact on the earth, especially companies that have a high level of pollution to the environment. Therefore, companies need to disclose social responsibility. In addition to the existing line with the theory, the results of this study are also consistent with research conducted by Murwaningsari (2008) which states that the degree of influence of CSR on firm value, the higher level of disclosure and the higher the value of the company. Research conducted by Zuhroh and Heri (2003) explains that CSR disclosure in the annual report of the company going public can affect the volume of stock trading. This means that investors respond to information about CSR activities disclosed by the company through the company's annual report properly. Research conducted by Harduyanto (2011) also indicates that CSR disclosure by the company has a positive effect on firm value. In addition, research conducted by Booth-Harris Trust Monitor (2001) in Priantinah and Reny (2012) also showed that the majority of consumers will abandon a product that has earned a bad or negative reported.

Earnings management relations firm's value

As a manager of the company, managers know more than the state of the company shareholders or shareholders, so the shareholders or owners of companies rely on financial statements to determine the state of the company. This raises the information gap between managers and shareholders (information asymmetry). Basically managers perform earnings management to increase corporate profits, which in turn will have an impact on increasing the value of the company. Earnings management activities are one of the cults of accounting to enhance shareholder value. This is in line with the positive accounting theory. Positive accounting theory describes a process that the company (manager) is using to understand accounting knowledge to face future conditions to achieve the company's main goal which is increasing the value of the company. With good management practices and tidy profit then the value of the company will increase. However, the results of this study conflict with existing theory, because of the results showed that earnings management has no significant negative effect on firm value. This means that most companies in Indonesia do not embrace the practice of earnings management to enhance shareholder value. These results are also contrary to the research conducted by Herawaty (2008) which states that earnings management has a positive effect on firm value. His research indicates that earnings management actions undertaken can have a direct impact on the survival of the company. However, the level of significance in this study is in line with the level of significance in a study conducted by Harduyanto (2011) which indicates that earnings management is not a significant effect on firm value. This is caused by the object sample average sample firm has a low level of earnings management.

CONCLUSIONS AND RECOMMENDATIONS

Based on the analysis and testing of the effect of earnings management as an independent variable, the disclosure of CSR as an intervening variable, and the value of the company at companies listed on the Indonesia Stock Exchange in 2010-2012 as the the dependent variable, it can be concluded that:

1. Earnings management variables have no significant positive effect on the disclosure of CSR in companies listed in Indonesia Stock Exchange 2010-2012.
2. CSR disclosure variable has positive significant effect on firm's value in companies listed in Indonesia Stock Exchange 2010-2012.
3. Earnings management variables has no significant negative effect on firm's value in companies listed in Indonesia Stock Exchange 2010-2012.

Suggestion

Based on the results of previous research and the discussion, the following suggestions can be drawn:

1. To further improve the management expected wider corporate social responsibility disclosure in the annual report.
2. For the government, IAI and the relevant regulators are expected to formulate a policy or rule that is capable of governing the disclosure of CSR because the extent of CSR disclosures made by the company is still relatively low.
3. Future studies are expected to use a longer observation period so that it will provide a greater likelihood to obtain the actual conditions and increase the number of samples.
4. Future studies are expected to be able to add or use other variables to find an estimate of the standard model of corporate social responsibility disclosure.

Limitations

This study has the following limitations:

1. Almost all variables showed significant results. This is probably caused by the condition of the samples that are limited only to manufacturing companies. Therefore, it is expected that future studies may include all types of companies in order to obtain significant results.
2. In addition, the observation period in this study is limited to 3 years, that is, 2010, 2011 and 2012, so it may not be able to describe the real situation. Therefore, further research is expected to increase the study period to obtain significantly better results.

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