

## Corporate Social Responsibility and Earnings Quality: Evidence from the Indonesian Financial Industry

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### ABSTRACT

The world of business and industry in Indonesia has undergone rapid development and intense competition. This has an impact on increasing environmental damage in Indonesia, thus encouraging the company to carry out Corporate Social Responsibility (CSR). Many companies included those in the financial service industry disclose their CSR activities even though such disclosure is still voluntary in nature, in order to gain a reputation as socially responsible firms. But whether such disclosure is a reflection of corporate ethical value or mere an image-building activity is still unclear. CSR Disclosure can become a tool to disguise corporate financial misconduct that categorizes companies with an active social responsibility as companies that act ethically in all their business practice. The aim of this study is to analyze the effect of CSR Disclosure on earnings quality in financial service industry companies that is listed on Indonesia Stock Exchange (IDX). Financial service industry was chosen due to its interesting fact as the largest number of CSR disclosure among other industries in Indonesia using sophisticated guidelines although their business characteristics that do not directly relate to CSR issues such as environment. The result shows that while CSR disclosures in aggregate do not associate with earnings quality, the CSR disclosure of environmental category negatively associates with earnings quality. These findings raise a concern of the need for careful consideration of stakeholders when analyzing companies' ethical behavior.

**Keywords:** Corporate social responsibility, earnings quality, business ethics, non-financial disclosure,