

Corporate Social Responsibility and Earnings Management

Velte, Patrick

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CORPORATE SOCIAL RESPONSIBILITY AND EARNINGS MANAGEMENT: A LITERATURE REVIEW

Patrick Velte *

* Institute of Management, Accounting & Finance, Faculty of Business & Economics, Leuphana University of Lüneburg, Germany
Contact details: Leuphana University of Lüneburg, Universitätsallee 1, C6.309, 21335 Lüneburg, Germany



Abstract

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This paper provides insight to whether Corporate Social Responsibility (CSR) and earnings management are connected. Based on the agency- and stewardship theory the author conducts a literature review and evaluates the empirical results with regard to the CSR-earnings management and the earnings management-CSR link. In this context, CSR reporting and CSR performance are focused as CSR measures. The results of the 33 studies indicate that the majority of the research relies on the CSR-earnings management link, on the US-American capital market and on CSR performance measures. Most of these studies indicate that CSR relates to decreased earnings management in line with the stewardship theory. However, also other results exist on the CSR-earnings management link. Research on the earnings management-CSR relationship is of low validity so far in view of the low amount. Comparability of recent research on that topic is in particular limited in view of the heterogeneous CSR and earnings management variables and the endogeneity concerns. Future research is encouraged to address endogeneity tests, include country-specific effects and increase the validity of CSR and earnings management variables. As CSR performance and reporting can have a major impact on earnings quality, the author recommends firms to search for opportunities to make their CSR activities more comprehensive by expanding their CSR reporting and thus providing deeper insights on their CSR performance in line with stakeholders' interests. The paper is the first literature review on the CSR-earnings management and earnings management-CSR relationship so far. The author explains the main CSR and earnings management variables that have been included in prior empirical research, stresses the limitations of the studies and gives useful recommendations for future research, practice and regulators.

Keywords: Corporate Social Responsibility, Earnings Management, CSR Performance, CSR Reporting, Stakeholder Agency Theory, Stewardship Theory

Authors' individual contribution: The author is responsible for all the contributions to the paper according to CRediT (Contributor Roles Taxonomy) standards.

1. INTRODUCTION

Corporate social responsibility (CSR) management has been rapidly increasing by public interest entities (PIEs). Our interpretation of "CSR" deals with the triple bottom line concept, indicating that economic, environmental and social aspects are

equal within stakeholder management (Carroll, 1999). Stakeholder management should lead to CSR reporting as a complement to financial accounting and should increase CSR performance and financial performance in the long run (Murphy & McGrath, 2013). While stakeholders' demands increased, literature states that information overload and

greenwashing weakens the validity of CSR performance and reporting (Mahoney, Thorne, Cecil, & LaGore, 2013). Thus, in line with earnings management, managers will influence both financial reports and CSR reports and (selectively) manipulate its informational value to suit its information policy (Darus, Sawani, Zain, & Janggu, 2014). After the financial crisis of 2008–2009, (inter)national standard-setters initiated several reform measures to strengthen financial and nonfinancial reporting (e.g., Directive 2014/95/EU). During the last years, empirical research on the link between CSR and earnings management is growing (Velayutham, 2018) with mixed results.

In view of this relevance, in our literature review of 33 empirical-quantitative studies, we focus on: 1) the CSR-earnings management relationship; and 2) the earnings management-CSR link. According to the theoretical framework of our review, both a positive (the stakeholder agency theory) and negative (the stewardship theory) relationship can be assumed. We found that most of our included studies relate to the CSR-earnings management link, recognize the US-American capital market, rely on CSR performance measures and state a negative relationship in line with the stewardship theory.

We see a major benefit of our literature review in view of the following aspects. Current empirical corporate governance and CSR research, regulatory and practical literature state that there are many interactions between financial reporting and nonfinancial reporting which have to be analyzed in detail (Velayutham, 2018). Successful stakeholder management depends on decision-useful financial reporting and CSR reporting in line with stakeholders' interests. However, we know very little about the current state of empirical research on that topic.

To our best knowledge, no literature review on the link between CSR and earnings management and vice versa has been published in an international journal yet. We only identify a short summary by Velayutham (2018), published in the recent *Research Handbook of Finance and Sustainability*. Other literature reviews that have been conducted do not focus on the relationship between CSR and earnings management, but they refer to related topics, e.g., tax avoidance (Whait, Christ, Ortas, & Burritt, 2018) or financial analysts (Hinze & Sump, 2019).

Our literature review is aimed at researchers, regulators, and practitioners alike. We provide research recommendations in terms of investigating the link between CSR and earnings management and vice versa. We stress which variables are commonly used in empirical research, explain the limitations of these studies and give useful recommendations for future research. Our literature review is also relevant for regulators, as many regulations have been finalized in order to strengthen CSR reporting and performance during the last years. We make a major contribution to this discussion by examining the possible outcomes of these reform initiatives. Finally, we motivate corporate practice to recognize CSR and earnings management as key elements of modern sustainable corporate governance management.

This review is structured as follows. Firstly, the theoretical framework is presented from a

stakeholder agency and stewardship theoretical perspective. Then, in our literature review section, we first present the sample selection and methodology, followed by a detailed analysis of empirical studies that relate to: 1) the CSR-earnings management link; and 2) the earnings management-CSR relationship. Finally, we stress the limitations of existing empirical research and make useful recommendations for future research, stressing some practical and regulatory implications.

2. THEORETICAL FRAMEWORK

The link between CSR and earnings management and vice versa can be analyzed from two different perspectives. It depends on the assumption whether managers' incentives are opportunistic (the agency theory) or managers act as "good" stewards of the firm (the stewardship theory). According to the *stewardship theory* (Donaldson, 1990; Donaldson & Davis, 1991; Davis, Schoorman, & Donaldson, 1997), managers act collectively and have nonfinancial interests, e.g., increased firm reputation or ethical reasons (Velte, 2010). It is expected, that managers in line with the stewardship theory will disclose more decision-useful financial and CSR information, which will lead to increased financial and CSR performance. Relying on this negative CSR-earnings management link, intrinsic managers assume that socially responsible companies prefer a long-term relationship with their stakeholders. Those managers, who engage in CSR reporting and performance, are less likely to engage in earnings management because a reduced earnings quality does not reflect stakeholders' interests. Also the other way round, the negative earnings management-CSR link, can be explained by the stewardship theory, because financial and CSR reporting (performance) decisions will be conducted simultaneously during the business year. Managers' reflection on stakeholder demands, which will lead to decreased earnings management, can also be linked to an increased responsibility to implement a decision-useful CSR reporting, that is connected with an increased CSR performance. CSR reporting and performance are therefore used as a positive reputation signal and are also related to a lower degree of earnings management (Velayutham, 2018).

In contrast to the stewardship theory, the *stakeholder agency theory* assumes an opportunistic management behavior (Jensen & Meckling, 1976; Hill & Jones, 1992) and thus a positive CSR-earnings management link and vice versa. Managers may use CSR reporting and performance as a device to mask their opportunistic earnings behavior (Velayutham, 2018). If firms use CSR reporting and performance to cover up their factually irresponsible actions, they may also be actively engaged in earnings management. Thus, CSR management presents the reputational insurance which gives managers a license to manage earnings and to present a negative financial reporting quality (Kim, Park, & Wier, 2012). Also, the positive earnings management-CSR relationship can be explained by the stakeholder-agency theory. When managers engage in earnings management, there will be a risk of reduced stakeholder trust. In order to compensate these risks, CSR reporting and performance that address a broad range of stakeholders will be

conducted. In our following literature section we will state that prior empirical research has found heterogeneous results in line with our controversial theoretical framework.

3. LITERATURE REVIEW

3.1. Research framework

We present a research framework to analyze our two main streams of research. As we will see in the next section, studies with an analysis of the CSR-earnings management relationship are dominant in our sample. With regard to the main CSR variables, most of the included studies concentrate on *CSR performance* with a focus on external databases and ratings (e.g., by the former Kinder, Lydenberg, Domini & Co (KLD) database). Moreover, some researchers conduct a content analysis of *CSR reports* and a self-created disclosure score.

In contrast to CSR, *earnings management* measures are more complex in recent empirical research. Most of the included studies focus on *accruals based earnings management* (AEM) (Dechow, Ge, & Schrand, 2010). Abnormal accruals are the difference between annual results and operational cash flow and will be associated with increased earnings management and thus reduced earnings quality (Dechow et al., 2010). Based on the model by Jones (1991), many modifications of accruals models have been established so far (Dechow & Dichev, 2002; Dechow, Sloan, & Sweeney, 1995; Dechow, Richardson, & Tuna, 2003; Kothari, Leone, & Wasley, 2005).

Accruals models address accounting policy in the accounts after the balance sheet date. Moreover, accounting policy before the balance sheet date as “*real earnings management* (REM) is important. Some researchers integrate both AEM and REM to conduct a more robust analysis. Roychowdhury (2006) defines REM as “departures from normal operational practices, motivated by managers’ desire to mislead at least some stakeholders into believing certain financial reporting goals have been met in the normal course of operations” (p. 337). Abnormal cash flow from operations, abnormal production costs and abnormal expenses have been established as the most common proxies (Roychowdhury, 2006).

Other models for estimating earnings management as earnings quality exist, with lower relevance in our sample. *Earnings persistence* models assume that firms with more consistent earnings have a more “sustainable” earnings development which will constitute a more useful input into discounted cash flow-based equity valuations. Another benchmark is *earnings smoothness*, which lowers transaction costs for stakeholders (Dechow et al., 2010). However, management attempts to smooth permanent changes in cash flows will lead to delayed earnings and a less informative earnings number. Another earnings management variable is *accounting conservatism*. There is a demand for timely loss recognition (prudence) to combat natural management optimism, and it, therefore, represents high-quality earnings. Moreover, *loss avoidance* has been identified as an indication of earnings management. Similarly, researchers have proposed that small earnings increases could indicate earnings management based on a statistically unusual

number of companies with small decreases in earnings (Burgstahler & Dichev, 1997). *Analyst forecast accuracy* is an indicator based on the “kink” in the distribution of forecast errors: reported earnings less consensus analyst forecasts (e.g., Degeorge, Patel, & Zeckhauser, 1999). Furthermore, *earnings and cash flow predictability* is used as an inverse measure of earnings management, because financial reporting should reflect future earnings and cash flows. As aggressive earnings management may also lead to accounting failures, some studies also analyze *enforcement releases* by external institutions.

3.2. Sample selection and methods

We use international databases (Web of Science, Google Scholar, SSRN, EBSCO, Science Direct) to select relevant studies for our literature review. A targeted search was conducted for the keywords “corporate (social) responsibility”, “corporate (social) responsibility reporting”, “corporate (social) responsibility performance”, “corporate (social) responsibility disclosure”, “CSR performance”, “CSR reporting”, “CSR disclosures”, “sustainability disclosure”, “sustainability performance” and related terms together with “earnings management” and “earnings quality”. In parallel, the search was either broadened by the addition of the broader term “corporate governance” or narrowed by the addition of specific variables (e.g., accruals). We did not limit our selection to a specific country or special time frame. However, we focused on archival studies as the dominant research method in this field. For quality reasons, only papers published in international (English) journals with double-blind review were included. A quantitative literature analysis in the form of vote counting (Light & Smith, 1971) helps to focus on the most significant findings and their respective indicators but ignores the specific coefficient values. The underlying primary studies have been assigned the expressions significantly positive (+), negative (−), and no impact (+/−). Vote counting is a very common method in management and CSR research, but not conducted on this research topic yet. We note that vote counting is a limited method for synthesizing evidence from multiple evaluations, which involves comparing the number of significances. Vote counting does not take into account the quality of the studies, the size of the samples, or the size of the effects. These limitations can be decreased by a quantitative meta-analysis. The restricted amount of studies and the heterogeneity of the study designs are huge problems to conduct a meta-analysis yet.

Table 1 provides an overview of the number of papers per year of publication, the regions examined, the journals in which the papers were published, and the content. The studies were all published within the last 14 years (2003–2017) with a clear increase in recent years. Thus, we identify the first study on this topic in 2003 and the latest published study in 2017. Both US-American studies and cross-country studies were common. Most of the research findings were published in accounting, corporate governance and business ethics journals. A commonly used medium for this type of research is the *Journal of Business Ethics*, in which five studies were published, whereas four publications were

found in *Managerial Auditing Journal*. The majority of the included studies analyses the CSR-earnings management relationship (26).

Table 1. Count of cited published papers

Panel A: by publication year	
Total: 33	<ul style="list-style-type: none"> • 2003: 1 • 2004: 1 • 2008: 2 • 2009: 1 • 2010: 2 • 2011: 5 • 2012: 2 • 2013: 4 • 2014: 2 • 2015: 6 • 2016: 4 • 2017: 3
Panel B: by region	
Total: 33	<ul style="list-style-type: none"> • Cross country: 10 • Bangladesh: 1 • Canada: 1 • China: 1 • Indonesia: 2 • Korea: 4 • Spain: 1 • UK: 1 • USA: 12
Panel C: by journal	
Total: 33	<ul style="list-style-type: none"> • Accounting Forum: 1 • Accounting Review: 2 • Advances in Accounting: 1 • Advances in Environmental Accounting & Management: 1 • Asia-Pacific Journal of Accounting & Economics: 1 • Australian Accounting Review: 1 • Australian Accounting, Business and Finance Journal: 1 • Business Research Quarterly: 1 • Canadian Journal of Administrative Sciences: 1 • Corporate Governance: An international review: 2 • Corporate Social Responsibility and Environmental Management: 1 • Corporate Social Responsibility and Environmental Management: 2 • International Journal of Economics and Financial Issues: 1 • Journal of Accounting and Public Policy: 1 • Journal of Business Ethics: 5 • Journal of Business Research: 1 • Journal of Business Studies Quarterly: 1 • Journal of Modern Accounting and Auditing: 1 • Managerial Auditing Journal: 4 • Review of Finance and Accounting: 1 • Review of Managerial Science: 1 • The International Journal of Accounting: 1 • The Journal of Applied Business Research: 1
Panel D: by content	
Total: 35*	<ul style="list-style-type: none"> • Impact of CSR on EM: 26 • Impact of EM on CSR: 9

Note: *some studies analyze both links

3.3. CSR-earnings management link

The majority of researchers analyzed the impact of CSR on earnings management (26) with a dominance of CSR performance (see Table 2). This strategy is

common because of the easy practice to conduct the data and in view of the decreased subjectivity in comparison to self-created CSR disclosure scores. In our literature review, we find positive, negative and insignificant empirical results. Most of the studies found a *negative* impact of CSR on earnings management in line with the stewardship theory (Bozzolan, Fabrizi, Mallin, & Michelon, 2015; Cho & Chun, 2015; Cheng & Kung, 2016; Choi & Pae, 2011; Dhaliwal, Radhakrishnan, Tsang, & Yang, 2012; García-Sánchez & García-Meca, 2017; Gras-Gil, Manzano, & Fernández, 2016; Kim et al., 2012; Lee, 2017; Litt, Sharma, & Sharma, 2014; Martínez-Ferrero, Gallego-Álvarez, & García-Sánchez, 2015a; Pyo & Lee, 2013; Scholtens & Kang, 2013; Suteja, Gunardi, & Mirawati, 2016). In this context, CSR performance (Choi & Pae, 2011; Gras-Gil et al., 2016; Kim et al., 2012; Litt et al., 2014; Martínez-Ferrero, García-Sánchez, & Cuadrado-Ballesteros, 2015b; Scholtens & Kang, 2013) and CSR reporting (Bozzolan et al., 2015; Pyo & Lee, 2013; Suteja et al., 2016) are connected with decreased AEM. Furthermore, REM (Cho & Chun, 2015; Kim et al., 2012), analyst and management forecast error (Dhaliwal et al., 2012; Lee, 2017) and accounting and auditing enforcement releases (Kim et al., 2012) decreased. Accounting conservatism (Choi & Pae, 2011; Cheng & Kung, 2016; Pyo & Lee, 2013), earnings and cash flow persistence and predictability (García-Sánchez & García-Meca, 2017) as inverse earnings management measures increased by better CSR performance.

However, some researchers found a *positive* link between CSR and earnings management in line with the stakeholder-agency theory (Gargouri, Shabou, & Francoeur, 2010; Martínez-Ferrero, Banerjee, & García-Sánchez, 2016; Muttakin, Khan, & Azim, 2015; Patten & Trompeter, 2003; Yip, Van Staden, & Cahan, 2011). In this context, CSR performance (Gargouri et al., 2010) and CSR reporting (Muttakin et al., 2015; Patten & Trompeter 2003; Yip et al., 2011) are connected with increased AEM. Conducting a generalized method of moments (GMM), Martínez-Ferrero et al. (2016) found that CSR performance is negatively linked with costs of capital in firms with high earnings management indicating that the capital market does not identify when CSR is used as a strategy to mark earnings management.

Heterogeneous results are also common in recent research (Chi, Shen, & Kang 2008; Hong & Andersen, 2011; Laksmana & Yang, 2009; Riahi-Belkaoui, 2003). According to Chi et al. (2008), earnings smoothing and loss avoidance are lower, but AEM is higher by increased CSR orientation. Hong and Anderson (2011) found a positive impact of CSR performance on accruals, but a negative impact on REM. According to Laksmana and Yang (2009), increased earnings persistence, smoothness and predictability, but no impact on AEM can be stated. In the study of Riahi-Belkaoui (2003), both earnings informativeness and AEM are increased by CSR performance. Finally, insignificant results were found by Grougiou, Leventis, Dedoulis, and Owusu-Ansah (2014) and Liu, Shi, Wilson, and Wu (2017).

Table 2. Literature review on the CSR-earnings management link (Part 1)

<i>Year of publication</i>	<i>Author(s)</i>	<i>Journal</i>	<i>State, sample years</i>	<i>Independent variable(s)</i>	<i>Dependent variable (s)</i>	<i>Significant results</i>
2015	Bozzolan et al.	The International Journal of Accounting	5,863 firm-year observations 24 countries 2003-2009	CSR performance (Ethical Investment Research Service EIRIS database)	REM: abnormal production costs and abnormal expenses (Cohen, Krishnamoorthy, & Wright, 2008); abnormal cash flows from operations and abnormal expenses (Roychowdhury, 2006) AEM: (Dechow et al., 1995)	- CSR-oriented firms are less likely to engage in REM than in AEM. In strong legal enforcement countries, REM is lower instead of AEM in companies with high CSR (CSR as moderator).
2016	Cheng and Kung	Review of Finance and Accounting	China 4,367 firm-year observations 2007-2009	CSR performance (Shanghai National Accounting Institute)	Accounting conservatism (C-Score)	+ (weaker for state-owned enterprises)
2008	Chi et al.	Journal of Business Ethics	46 countries 1,653 firms 1993-2002	CSR index (included in the FTSE4Good Global Index; dummy)	Earnings smoothing (Dechow et al., 1995) AEM: (Bhattacharya, Daouk, & Welker, 2003) Earnings losses/decreases avoidance (Burgstahler & Dichev, 1997) Moderator: legal enforcement	- + (but can be mitigated by strong legal enforcement) -
2015	Cho and Chun	Asia-Pacific Journal of Accounting & Economics	Korea 1,432 firm-year observations 2005-2010	CSR performance (Korea Economic Justice Institute KEJI Index)	REM: abnormal cash flow from operations; abnormal production costs and abnormal expenses (Roychowdhury, 2006) Moderator: corporate governance score (by the Korea Corporate Governance Service KCGS Index)	- +
2011	Choi and Pae	Journal of Business Ethics	Korea 242 firms 2004	CSR performance (listing in the ethical commitment index)	AEM: (Jones, 1991; Kothari et al., 2005) Accounting conservatism (Basu, 1997; Watts, 2003) Accounting accuracy (Dechow & Dichev, 2002)	- + +
2012	Dhaliwal et al.	The Accounting Review	31 countries 1,297 firms 1994-2007	CSR reporting: issuance of stand-alone CSR reports	Analyst forecast error Moderator: stakeholder orientation, financial transparency, legal enforcement	- (stronger in stakeholder-oriented countries and stronger in countries with more opaque financial disclosure)
2017	García-Sánchez and García-Meca	Corporate Social Responsibility and Environmental Management	9 countries 877 firm-year observations 2004-2010	CSR performance (EIRIS database)	Earnings persistence (Kanagaretnam, Lim, & Lobo, 2014) Cash flow predictability (Kanagaretnam et al., 2014) Moderator: investor protection and bank regulation	+ + (stronger in countries with higher levels of investor protection and bank regulation)
2010	Gargouri et al.	Canadian Journal of Administrative Sciences	Canada 109 firms 2004-2005	CSR performance (MJRA-CSID database)	AEM: (Dechow et al., 1995; 2003)	+ (environment and employees)
2016	Gras-Gil et al.	Business Research Quarterly	Spain 2866 firm-year observations 2005-2012	CSR performance (MERCOS; Spanish Monitor of Corporate Reputation)	AEM: (Dechow et al., 1995)	-
2011	Heltzer	Managerial Auditing Journal	USA 2,171 firms 2007	CSR performance (KLD database)	AEM: (Dechow et al., 1995)	+/- (firms with at least one environmental strength) + (firms with at least one environmental concern (income decreasing))

Table 2. Literature review on the CSR-earnings management link (Part 2)

<i>Year of publication</i>	<i>Author(s)</i>	<i>Journal</i>	<i>State, sample years</i>	<i>Independent variable(s)</i>	<i>Dependent variable (s)</i>	<i>Significant results</i>
2011	Hong and Andersen	Journal of Business Ethics	USA 8,078 firm-year observation 1995-2005	CSR performance (KLD database)	AEM: (Dechow & Dichev, 2002) REM: abnormal cash flow from operations; abnormal production costs and abnormal expenses (Roychowdhury, 2006)	+ -
2012	Kim et al.	The Accounting Review	USA 23,391 firm-year observations 1991-2009	CSR performance (KLD database)	AEM: (Kothari et al., 2005) REM: abnormal cash flow from operations; abnormal production costs and abnormal expenses (Roychowdhury, 2006) Enforcement releases	- - -
2009	Laksmana and Yang	Advances in Accounting	USA 652 firms 2001-2002	CSR performance (listing in the 100 Best Corporate Citizens by Business Ethics Magazine)	AEM: (Dechow & Dichev, 2002) Earnings persistence Earnings predictability Earnings smoothness	+/- + + +
2017	Lee	Journal of Business Ethics	USA 5,578 firm-year observations 1995-2009	CSR performance (KLD database)	Management earnings per share forecast accuracy	+ (only present for the post-regulation period 2001-2009)
2014	Litt et al.	Managerial Auditing Journal	USA 2,095 firm-year observations 2004-2006	CSR performance (KLD database)	AEM: (Kothari et al., 2005)	-
2017	Liu et al.	Journal of Business Research	USA 2,369 firm-year observations 2003-2010	CSR performance (KLD database)	AEM: (Kothari et al., 2005) REM: abnormal cash flow from operations; abnormal production costs and abnormal expenses (Roychowdhury, 2006) Moderator: family involvement	+/- +/-
2016	Martínez-Ferrero et al.	Journal of Business Ethics	26 countries 8,785 firm-year observations 2006-2010	CSR performance (EIRIS database) Accruals based earnings management (AEM): discretionary accruals (Dechow et al., 1995)	Costs of capital (Price/Earnings to growth ratio) Corporate reputation Moderator: national CSR approach and investor protection	- (in firms with high earnings management indicating that the market does not identify when CSR is used as a strategy to mark earnings management) GMM model +/-
2015	Muttakin et al.	Managerial Auditing Journal	Bangladesh 580 firm-year observations 2005-2009	CSR reporting (disclosure score)	AEM: (Dechow et al., 1995) Moderator: powerful stakeholders (international buyers), industry	+ (- negative relationship from export-oriented industries and powerful stakeholders)
2003	Patten and Trompeter	Journal of Accounting and Public Policy	USA 40 firms 1984	CSR reporting (disclosure score)	AEM:	+ (negative accruals)
2013	Pyo and Lee	Journal of Applied Business Research	Korea 4,198 (4,257) firm-year observations 2004-2010	CSR activities (level of donation expenses) and CSR reporting (voluntary issuance of CSR report in line with GRI)	AEM: (Dechow et al., 1995; Kothari et al., 2005) Accounting conservatism (Penman & Zhang, 2002; Givoly & Hayn, 2000)	- +
2003	Riahi-Belkaoui	Advances in Environmental Accounting & Management	USA 404 firm-year observations 2003	CSR performance (Fortune Magazine)	Earnings informativeness (earnings coefficients) AEM: (Jones, 1991)	+ +

Table 2. Literature review on the CSR-earnings management link (Part 3)

<i>Year of publication</i>	<i>Author(s)</i>	<i>Journal</i>	<i>State, sample years</i>	<i>Independent variable(s)</i>	<i>Dependent variable (s)</i>	<i>Significant results</i>
2013	Scholten and Kang	Corporate Social Responsibility and Environmental Management	10 Asian countries 139 firms 2009	CSR performance (Asia Sustainability Research)	Earnings smoothing (Dechow & Dichev, 2002) AEM: (Bhattacharya et al., 2003) Moderator: investor protection	-
2016	Suteja et al.	International Journal of Economics and Financial Issues	Indonesia 15 banks 2010-2014	CSR reporting (disclosure score)	Financial performance (ROA) Moderator: AEM: (Dechow et al., 1995)	+ -
2011	Yip et al.	Australasian Accounting, Business and Finance Journal	USA 110 firms 2006	CSR reporting (issuance on the website, a separate website, a separate report)	AEM: (Kothari et al., 2005) Moderator: political costs, ethical predisposition	+ (stronger in the food industry)

3.4. Earnings management-CSR link

In comparison to the CSR-earnings management relationship, the amount of studies on the earnings management-CSR link is rather low (9) with no clear results (see Table 3). Prior research found a positive impact (Prior, Surroca, & Tribó, 2008; Grougiou et al., 2014; Martínez-Ferrero & García-Sánchez, 2015), a negative impact (Choi, Lee, & Park, 2013; Martínez-Ferrero et al., 2015a; 2015b) of earnings management on CSR, mixed results (Heltzer, 2011) and insignificant results (Rahmawati & Danita, 2011; Sun, Salama, Hussainey, & Habbash, 2010; Toukabri, Jilani, & Ben Jemâa, 2014).

In more detail, some researchers stated that AEM leads to better CSR performance (Grougiou et al., 2014; Martínez-Ferrero & García-Sánchez, 2015; Prior et al., 2008). The same is for REM (Martínez-Ferrero & García-Sánchez, 2015).

In opposite to these results, Choi et al. (2013) and Martínez-Ferrero et al. (2015a; 2015b) found decreased CSR performance by increased AEM. Heltzer (2011) found that firms with at least one environmental concern are linked with more income decreasing AEM. However, no significant results exist by analyzing firms with at least one environmental strength. Rahmawati and Dianita (2011), Sun et al. (2010) and Toukabri et al. (2014) found no impact of AEM on CSR reporting.

Table 3. Literature review on the earnings management-CSR link (Part 1)

<i>Year of publication</i>	<i>Author(s)</i>	<i>Journal</i>	<i>State, sample years</i>	<i>Independent variable(s)</i>	<i>Dependent variable (s)</i>	<i>Significant results</i>
2013	Choi et al.	Corporate Governance: An International Review	Korea	AEM: (Dechow et al., 1995)	CSR performance (Korea Economic Justice Institute KEJI Index) Moderator: chaebol firms, ownership concentration, foreign investors	- (weaker for chaebol firms and firms with highly concentrated ownership)
2014	Grougiou et al.	Accounting Forum	USA 580 firm-year observations 2003-2007	AEM: loan loss provisions and realized securities gains and losses (Beatty, Ke, & Petroni, 2002; Cornett, McNutt, & Tehranian, 2009)	CSR performance (Kinder, Lydenberg, Domini KLD)	+
2015	Martínez-Ferrero and García-Sánchez	Review of Managerial Science	23 countries 14,721 firm-year observations 2002-2010	AEM: (Dechow et al., 1995) REM: abnormal cash flow from operations; abnormal production costs and abnormal expenses (Roychowdhury, 2006)	CSR performance (EIRIS database) Moderator: stakeholder protection (national corporate responsibility index NCRI), CSR dimension	+
2015a	Martínez-Ferrero et al.	Australian Accounting Review	26 countries 2002-2010	AEM: discretionary accruals (Kothari et al., 2005) Moderator: stakeholder and investor protection	CSR performance (EIRIS database)	- Stronger in countries with significant institutional pressure (stakeholder) and investor protection, board effectiveness

Table 3. Literature review on the earnings management-CSR link (Part 2)

<i>Year of publication</i>	<i>Author(s)</i>	<i>Journal</i>	<i>State, sample years</i>	<i>Independent variable(s)</i>	<i>Dependent variable (s)</i>	<i>Significant results</i>
2016	Martínez-Ferrero et al.	Journal of Business Ethics	26 countries 8,785 firm-year observations 2006-2010	CSR performance (EIRIS database) AEM: (Dechow et al., 1995)	Costs of capital (Price/Earnings to growth ratio) Corporate reputation Moderator: national CSR approach and Investor protection	- (in firms with high earnings management indicating that the market does not identify when CSR is used as a strategy to mark earnings management) GMM model +/-
2015b	Martínez-Ferrero et al.	Corporate Social Responsibility and Environmental Management	25 countries 747 firms 2002-2010	AEM: (Dechow et al., 1995; Kothari et al., 2005) Accounting conservatism (Khan & Watts, 2009; Basu, 1997) Accruals quality (Dechow & Dichev, 2002; Ball & Shivakumar, 2006)	CSR reporting (disclosure score)	- + +
2008	Prior et al.	Corporate Governance: An International Review	26 countries 593 firms 2002-2004	AEM: (Dechow et al., 1995)	CSR performance (SiRi Pro database)	+
2011	Rahmawati and Dianita	Journal of Modern Accounting and Auditing	Indonesia 27 firms 2006-2008	AEM: Dechow et al., 1995)	CSR reporting (disclosure score)	+/-
2010	Sun et al.	Managerial Auditing Journal	UK 245 firms 2007	AEM: (Dechow et al., 1995; Kothari et al., 2005)	CSR reporting (disclosure score) Moderator: board size, audit committee meetings	+/-
2014	Toukabri et al.	Journal of Business Studies Quarterly	USA 682 firms 1997-2008	AEM: (Dechow et al., 2003)	CSR reporting (disclosure score)	+/-

4. LIMITATIONS OF PRIOR EMPIRICAL RESEARCH AND RECOMMENDATIONS

We stress the main limitations of our included studies. Firstly, multi-period observations, comparisons of an international sample of companies, and multivariate regression and sensitivity analyses were not available in every case. Only 10 of the 33 included studies chose a multinational sample in order to control for country-specific effects (e.g., strength of the enforcement regime). The results of single-period analyses are restricted – for example, owing to legally driven changes in CSR and financial reporting over time that are only visible through a multi-period observation. No study directly focuses on possible impacts of the financial crisis 2008-2009 on earnings management and CSR. Furthermore, sensitivity analyses or endogenous tests were not included in every study. Reverse causality and endogeneity concerns between CSR and earnings management represent the main challenges in empirical research. Only few researchers include GMM and instrumental variables to include endogeneity concerns yet (Martínez-Ferrero et al., 2015a; 2015b; 2016).

The CSR variables used in the studies were also dominated by content analyses of CSR reports with an individual scoring metric and by reliance on external CSR ratings. The validity of both measures is limited. On the one hand, CSR reporting measures lack objectivity and on the other hand, CSR performance ratings are connected with a “black box character”. As CSR and earnings management are subject to country-specific arrangements, we see a huge concentration on studies on the one-tier system. As research on one-tier systems is not comparable to two-tier systems (management board and supervisory board), the results of the included studies are not transferable to other regimes (e.g., European member states).

The included CSR measures, but also the earnings management variables have to be critically discussed. As financial reporting quality cannot be determined directly, several substitute measures as surrogates have been established with a limited validity. This especially affects the frequently used AEM which are associated with a marker for earnings management (Gros & Worret, 2014). In particular, the differentiation between normal and abnormal accruals is characterized by a lack of comparability which is reflected in the diversity of empirical research models.

In view of these limitations, we give useful recommendations for researchers, practice and regulators. For future research, if a reasonable number of studies exists, we suggest performing quantitative meta-analyses of the CSR-earnings management link in the future. While meta-analyses are rather low in the amount in current corporate governance research, importance has grown during the last years (Velte, 2019). We propose future meta-analyses on the link between CSR and earnings management if they represent a satisfying amount of studies.

Although the current literature review relies on CSR and earnings management, we stress that many relevant firm- and country-specific governance variables should be integrated as moderators or interaction variables (e.g., legal enforcement, shareholder structure, shareholder protection, national CSR engagement) in future statistical models. As CSR performance and reporting have interdependencies with corporate governance variables (Velte, 2017), these items should be linked with earnings management.

We also suggest other empirical research methods on the impact of CSR performance and reporting on earnings management. Interviews, surveys, case studies, and experiments involving representatives of boards of directors and (sustainable) investors should be performed to determine the boards' self-assessments regarding their respective CSR activities and earnings management. We also know very little about the communication process within the board with regard to CSR strategies and financial reporting (Schaltegger & Zvezdov, 2015).

Our literature review states that multinational studies are not always included. Thus, some studies focused on the link between CSR and earnings management in one specific country. In this context, we identify a major difference between developed and developing countries with regard to CSR. Therefore, further research on country effects is requested because different cultures and other socio-economic factors in different countries may have an impact on CSR and earnings management (Morros, 2016). Culture is also relevant in view of the different ranges of stakeholder pressure on financial and CSR reporting. In this context, the impact of the one-tier and two-tier system should be analysed in more detail. In addition to this, it seems to be important to analyse the different branches of industries to a greater extent as CSR activities might differ.

Our literature review also stresses regulatory implications. In contrast to the US-American capital market as a dominant research design, the European legislator and also other regimes have finalized several reform initiatives on CSR reporting and performance since the financial crisis 2008-2009. It remains unclear to date if these regulations will positively contribute to CSR management so far. The huge discussion of greenwashing and boilerplate information in CSR reports indicates that firms must implement a sustainable vision and philosophy as a top-down approach in accordance with the total employees and a consistent stakeholder dialogue.

Finally, we stress some practical implications. Management should not only be aware of the CSR costs but also on the positive impact on firm reputation and stakeholder trust, which leads to

better CSR and financial performance in the long run. However, involvement in CSR may not generally be transformed into appropriate CSR reporting and performance (Majeed, Aziz, & Saleem, 2015). Also small and medium-sized entities are aware of CSR, especially family firms (Liu et al., 2017). It is also important to have a clear research strand on financial institutions (Grougiou et al., 2014) and explain that the banking sector with its focus on financial reporting and financial key performance indicators must be extended by nonfinancial value drivers.

5. CONCLUSION

As a supplement to financial reporting, CSR reporting and also CSR performance measures gained increased relevance after the financial crisis 2007-2008. Financial and CSR reporting has many interactions, so that the analysis of both CSR and earnings management is an important stream of empirical research with main implications on corporate practice and regulators during the last decade. In view of the relevance of the topic, we conduct structured literature on 33 empirical-quantitative studies regarding the impact of CSR performance and reporting on earnings management and vice versa.

We provided a stakeholder-agency and stewardship theoretical framework in order to explain the heterogeneous relationships between CSR and earnings management within a company. Then, beginning with our literature review, the research framework with the different CSR and earnings management proxies, the sample selection process and the methods are presented. We then provided a detailed literature analysis of the results of existing empirical research on: 1) the CSR-earnings management link; and 2) the earnings management-CSR link. The results of the 33 studies indicate that the majority of the research relies on the CSR-earnings management link, on the US-American capital market and on CSR performance measures. Most of these studies indicate that CSR relates to decreased earnings management in line with the stewardship theory. However, also other results exist on the CSR-earnings management link. Research on the earnings management-CSR relationship is of low validity so far in view of the low amount.

We then explained the main limitations and offered recommendations to researchers, practice and regulators. Future researchers should include more firm-specific and country-specific governance factors, e.g., shareholder structure, shareholder protection or legal enforcement, in line with sustainable corporate governance research in other topics. To increase the validity of research, other empirical research designs, e.g., surveys, interviews or case studies of the board and (sustainable) investors, and experimental designs are useful. We also mention the different CSR and earnings management proxies and their lack of comparability and restricted objectivity. In view of the huge international regulatory activities in the context of CSR, future research should analyze the impact of CSR on earnings management and vice versa in a multinational sample with one-tier and two-tier systems with a separation of different branches of industries.

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