Corporate Social Responsibility on Earnings Management

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As it evidences the need to promote research on responsible business practices in order to formulate policies that enable the implementation of CSR (Corporate Social Responsibility) practices that favor EM (Earnings Management), therefore, researchers should follow the recommended directions and fill the existing knowledge gaps, thus extending the body in this field, developing better and more precise hypotheses and research questions, and, therefore, increasing the quality of research on the influence of CSR on EM.

Corporate Social Responsibility (CSR) earnings management

1. Introduction

The flexibility of generally accepted accounting principles makes it easier for managers to have some discretion in estimating reported earnings that may not accurately reflect the underlying economic conditions of the company (Prior et al. 2008). This opportunistic behavior of using managerial discretion is known as Earnings Management (EM) (Habbash and Alghamdi 2017) and is defined as the process of taking deliberate steps within the constraints of generally accepted accounting principles to achieve the desired level of reported earnings (Davidson et al. 1987). EM is thus broadly interpreted as a latent and unwanted threat (Mohsen Al-Absy et al. 2018), which could result in devastating long-term effects if the relevant suspicions, highlighted and inflamed by various sources and events, become public (Dechow and Skinner 2000). It is therefore considered unethical and irresponsible behavior (Scholtens and Kang 2013).

Researchers have attempted to analyze the relationship between corporate EM practices and commitment to Corporate Social Responsibility (CSR) (Bozzolan et al. 2015; Choi et al. 2018; Maglio et al. 2020). Thus, socially committed companies are presumed to have less manipulation of profits as they are intrinsically more committed to creating value for their shareholders and transparent disclosure policies (Mercedes Palacios-Manzano et al. 2019). However, although the importance and influence of EM practices on CSR is an area of significant value today, it requires further research (Kim et al. 2012).

Thus, an essential component of any research is to relate it to existing knowledge. In this situation, the literature review takes on great relevance, as it can promote knowledge, facilitate theory development, provide an overview of existing research areas and synthesize research findings to uncover areas in need of further research (Snyder 2019). This study aims to analyze current research trends on the influence of CSR on EM. To this end, a bibliometric study was carried out, starting with a group of more than 300 published articles selected from scientific journals in the Web of Science database, published in the period between 2002 and 2020, and filtering this group to find specialized works on the proposed topic. In recent years, a large number of articles have been published on the relationship between CSR and EM. These studies have identified a number of current issues that have been analyzed in the research published to date. Despite its current scope, the literature published to date has not assessed the performance of the scientific activity of this relationship.

Firstly, this article presents an analysis of various bibliometric indicators, including the number of publications, total citations, citations per article, top journals, most relevant universities and most influential countries on the subject, which will be of great relevance to researchers who want to broaden their knowledge about the origin, evolution and current state of the relationship studied. Secondly, this study uses an inductive approach through bibliometric analysis of scientific production to observe the evolution of the field of empirical knowledge analyzed in this research. Specifically, we used the bibliometric tool VOSviewer, which allowed us to analyze co-occurrence of terms and co-authorship networks and map density based on researcher networks. These analyses have provided us with an insight into current research trends on the topic under study.

Consequently, this study contributes to the theoretical development of research on the impact of CSR on EM because it helps researchers identify the main research topics, applicable techniques and the possibility of investigating underutilized problems. In short, the main contribution of this article is the identification of a number of gaps in the literature. The results demonstrate how certain aspects such as gender diversity on boards of directors, the family or non-family character of companies, the voluntary issuance of CSR reports or the presence of an audit committee in companies and the influence of these on the relationship between CSR and EM have not been sufficiently addressed, thus opening up important possibilities for future research.

2. Conceptual Framework

Earnings management is one of the most challenging, debated and controversial topics in finance and financial management. This method is performed by the company's management in the process of preparing the financial statements and can affect the level of earnings shown (Mahdaleta et al. 2016). Thus, EM occurs when managers use their financial reporting decisions and prepare transactions to alter financial statements to either create a false picture for stakeholders about the company's economic performance or to influence contractual results that depend on accounting figures reported (Muda et al. 2018). Moreover, it has been demonstrated that the existence of CSR-contingent executive compensation contracts can serve, if the contingent remuneration is high, to persuade managers to manipulate performance (Li and Thibodeau 2019).

In this context, earnings management is seen as the use of accounting techniques to produce financial statements that present an overly positive view of corporate business activities and financial position (Ye 2007) and aims to achieve stable and predictable financial results (Healy 1985). Additionally, EM helps to achieve specific targets involving the manipulation of accruals through the discretionary choices of accrual accounting (McNichols and Wilson 1988).

CSR activity by companies is based on the agency theory. This theory claims that it is necessary to limit the opportunistic behavior of the administration (Jensen and Meckling 1976; Mahrani and Soewarno 2018). In addition, this theory is complemented by the theory of legitimacy and stakeholder theory. The first argues that a company's survival depends on the support of stakeholders (Gray et al. 1995), as they will be affected and influenced by the company's activities (Freeman 1984; Mahrani and Soewarno 2018). Furthermore, the theory of legitimacy adds that the company must operate according to the prevailing norms of the society or environment in which it is situated. The company seeks to ensure that its operational activities are accepted as "legitimate" (Mahrani and Soewarno 2018).

From a managerial point of view, this research can be used to raise managers' awareness of the inappropriateness of engaging in practices aimed at manipulating the outcome, which has been demonstrated by the worldwide interest in analyzing this malpractice. From a company owner's point of view, this research can serve to enhance the implementation of CSR practices as mechanisms to reduce managers' opportunistic behavior in relation to EM. Finally, it could be helpful for auditors as well. Auditors have to evaluate the quality of the EM and if the audited company has a developed CSR system, it could be considered by auditors as a positive factor to reduce the irregular audit risk.

Research on EM is an important constant concern within CSR. In this context, EM is perceived as an act that is irresponsible according to CSR principles (Choi et al. 2018), as CSR-oriented companies are more likely to act responsibly when reporting their financial statements (Wang and Choi 2013). This is because business organizations with strong social responsibility commitments are less likely to manage their profits, and do not hide unfavorable profit-making, and therefore do not engage in EM. In this context, EM is broadly interpreted as a latent threat and an unwanted practice, which could potentially result in devastating long-term effects if relevant suspicions, as signaled by various sources and events, are made public (Dechow and Skinner 2000).

Thus, it is widely accepted that EM and CSR are linked through two perspectives. The first of these corresponds to the long-term perspective hypothesis, which suggests that socially responsible companies generally focus on fostering future stakeholder relationships (Mercedes Palacios-Manzano et al. 2019). Hence, business organizations committed to CSR tend to encourage long-term relationships with stakeholders rather than maximizing their profits in the short term (Choi et al. 2018). This results in companies' commitment to CSR being largely driven by the long-term perspective (Ehsan et al. 2021). Thus, companies use CSR practices to manage or manipulate the information needs of various powerful stakeholder groups in society (such as employees, shareholders, non-governmental agencies and the general public) in order to gain their support, which is necessary for the survival of the company and its stakeholders (Gray et al. 1995). As a result, business organizations committed to CSR tend to encourage long-term relationships with stakeholders rather than maximizing short-term profits (Wang and Choi 2013).

On the other hand, the second perspective is related to the managerial opportunism hypothesis, which suggests that managers who manage for profit can strategically use CSR information to disguise their opportunistic behavior (Mercedes Palacios-Manzano et al. 2019). It is important to note that economic cycles and financial performance play important roles in the relation between CSR and EM (Gonçalves et al. 2021). Thus, previous research has demonstrated the efforts made by managers to demonstrate better measures of profitability through EM practices in order to secure their personal financial incentives (Walker 2013). As a result, managers pursue their own self-interest by reporting earnings in financial statements that do not show an accurate picture of the true economic situation of the company (Scholtens and Kang 2013) because some of them are likely to take discretionary actions with respect to reported revenues in order to maximize their own profit (Sun et al. 2010). Therefore, EM activities are conceptualized as opportunistic practices through which managers inflate earnings to meet budget targets in order to increase their own compensation (Grougiou et al. 2014). In this way, managers can use CSR to reduce the likelihood of being scrutinized by unsatisfied stakeholders in the first place (Prior et al. 2008) and maximize their own private benefits (Choi et al. 2018). A similar conclusion was achieved by Lui et al. (Liu et al. 2017), who determined that companies with a deep CSR system show a more aggressive EM behavior. However, there is controversy about whether only the mandatory CSR impacts on the EM or the voluntary CSR affects EM (Gong and Ho 2021).

In conclusion, EM is perceived as irresponsible according to CSR principles, as CSR-oriented companies are more likely to act responsibly because they report on their financial statements (Wang and Choi 2013). Therefore, they are less likely to manage their profits, and they do not hide unfavorable profit-taking, so they do not engage in EM (Mercedes Palacios-Manzano et al. 2019). Additionally, CSR can be used as a mechanism to distort earnings information to become a tool to achieve managers' self-interested objectives (Prior et al. 2008).

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