



The Relationship between Corporate Social Responsibility and Earnings Quality: A Case of Egypt

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Abstract:

The main objective of this study is to investigate whether Egyptian corporate social responsible (CSR) firms behave ethically in their financial reporting and deliver a more transparent and reliable financial information to investors. To achieve the research objective, this study examined the relationship between firms CSR ranking in S&P EGX/ESG 30 index and earnings management practices; using both discretionary accruals and real activities manipulation. It has been found that CSR ranking do constraint one technique of earnings management; discretionary accruals. However, CSR ranking has no relationship with the other technique; real activities manipulation. Hence, the relation between CSR and earnings quality might depend on the proxies of earnings quality. This paper extends prior studies on CSR in Egypt by looking at the implications of CSR on financial reporting quality. The results of this study are constrained by the proxies applied to measure earnings management practices and the small sample size.

Keywords: Corporate Social Responsibility, Discretionary Accruals, Earnings Quality, Earnings Management, Real Activities Manipulation.

1. Introduction

Recent financial scandals and, more recently, the global financial crisis accompanied with the increased global competition, and stakeholders' requirements have led to several changes at both corporate and society levels. At the corporate level; corporate's executives begin to adapt a broader strategy that integrate corporate social responsibility (CSR) initiatives. At the society level; society demands more accountability from corporations than it did in the past (Chih, Shen & Kang 2008 2008; Becchetti et al. 2012). Therefore, CSR is becoming a concept with deeper importance for issues of competitiveness, financial

stability and good relationship with the environment (Ganescu 2012).

These changes toward CSR are based on the view that financial performance might not ensure a favorable future for a company, as a business cannot develop in a world that fails. Hence, to survive and prosper, firms need to bridge the gaps in economic as well as social systems. CSR is the concept that are used by companies to bridge this gap (Wijesinghe 2012). CSR has become one of the main components of corporate strategy and an important instrument to mitigate conflicts with stakeholders. Further, CSR has emerged as a dominant theme in the business world in recent years. Many companies have expressed



CSR commitments, initiated CSR projects, and issued CSR reports (Kim, Park & Wier 2012).

The improved CSR disclosure is expected to increase firms' transparency and accountability. Consequently, CSR turn to be more prevalent to investors and other stakeholders who demand for greater transparency and reliability. Those investors and stakeholders depend on the argument that better CSR performance reflects managers' ethical concerns, hence, it is expected to drive more transparent and reliable financial reporting (Kim et al. 2012). However, it is noteworthy that certain companies such as Enron, one of the biggest financial scandals in corporate world, were ranked by Fortune Magazine as the most admired in terms of corporate social performance (Culpan & Trussel 2005).

Therefore, engaging in CSR activities might be considered as a part of a managerial entrenchment strategy to gain stakeholders' support after having employed practices damaging to both shareholders' and stakeholders' interests (Francoeur, Gargouri, & Shabou 2010). Then, being CSR firms does not necessary confirm the reliability of the financial reporting process. One of the characteristics to ensure transparency and reliability of financial reporting systems is earnings quality. Accounting earnings are of major interest to different groups of stakeholders. Prior literature indicated that quality of earnings could be measured by Earnings Management (EM) practices (Sloan 1996; Francis et al. 2004). Considering both CSR and earnings quality, the relationship between these two variables might be based on the fact that financial transparency and accountability turned to be principles of CSR that might reduce

the extent to which insiders misuse their information advantage over outsiders. Given that financial transparency accountability, and reliability are essential to CSR concept, a closer examination of issues related to earnings quality is required (Chih et al. 2008).

Additionally, it might be realized that CSR as a concept and practices have been developed and concentrated in developed world. However, developing countries, like Egypt, are in most need to these CSR practices and to continuously improve them. They need CSR in order to ensure sustainability in world that suffers from poverty, unemployment, health problems, and all sort of pollutions. Therefore, examining CSR in developing countries will be one of the main concerns of the current study. The core of the present research is to examine whether ethical firm toward its society, referred to as CSR firms, in a developing country of Egypt, would also be ethical in its financial reporting by constraining EM practices.

2. History of Corporate Social Responsibility Practices in Egypt

CSR in Egypt is still in its formative and emergent stage. This stage is understood mainly as charitable phenomenon due to a strong cultural and religious practice, especially Islam, which encourages giving and community cohesion (Crowther & Aras 2011). The Global Compact initiative has been formally launched in Egypt on February 9, 2004. The Egyptian declaration to UN Global compact is assumed to improve the corporate perception of CSR from charitable to obligation and a duty to comply with recognized standards of ethical behavior (Walby 2010). In addition, the government in Egypt is viewing CSR as cost-effective mean to



enhance sustainable development strategies. The Egyptian government considers CSR as one of the component of their strategies for national competitiveness in order to attract foreign investments and support their exports in global markets.

In spite of that, there are no significant public policies on CSR in Egypt. However, there are some soft laws which endorse the Organization for Economic Co-operation and Development (OCED) guidelines and International Organization for Standardization (ISO) standards. Regarding the good corporate governance practices, Egypt Code of Corporate Governance, for example, is expected to improve the reporting and disclosure of CSR practices. The Egyptian Code of Corporate Governance include set of guidelines relate to principles of corporate governance. This phrase "principles of corporate governance" is used to describe all the rules, regulations, and procedures that achieve the best protection of and balance between the interests of corporate managers, shareholders, and stakeholders. One of these rules states that corporation must reveal to the shareholders, the dealing public and its staff non-financial information on its social, environmental, occupational health and safety and other policies at least once per year (Egypt Code of Corporate Governance 2005).

Further, the code indicates that the declared policies should be clear and not misleading. These policies should reveal what the corporation intends to do regarding; development and changes in number and training of employees and social welfare schemes. The corporation should reveal also whether these changes are undertaken within the corporation or within its surrounding environment. For

health and environmental policies, they have to be in conformity with the enforced Egyptian laws and regulations and should aim at achieving the welfare of the staff and the surrounding environment; moreover, they should be sustainable on the long-run (Egypt Code of Corporate Governance 2005). Consequently, Egypt corporate governance code integrates CSR practices and disclosure in its rules and promotes organizations to increase their transparency about these issues.

In addition, the governing laws which address the CSR include; the constitution regarding human rights, the labour law and the child law regarding the child rights, work, and abuse, and the environment law. In spite of that the discussions around CSR concept remains at the conceptual levels and the various attempts to promote it are prevented by number of factors. These factors include; the existence of high bureaucratic barriers and lack of specific CSR law enforcement. Neither the laws nor the new listing requirements mandate public disclosure of CSR issues (Rizk, Dixon & Woodhead 2008; Crowther & Aras 2011).

3. Steps to improve CSR practices in Egypt

Egypt has established many pragmatic steps to develop CSR practices. On the one hand, the Ministry of Investment (MoI) recently established the Egyptian Corporate Responsibility Center (ECRC) which is a part of the Egyptian Institute of Directors (EIoD). ECRC has taken significant steps to improve awareness of CSR issues and has assumed a leadership role in the region regarding this respect. Additionally, it recently published a Sustainability Report guidelines in 2008 in collaboration



with the United Nation Development Program (UNDP).

On the other hand, the Egyptian stock exchange (EGX) established a special corporate environmental, social, and governance index (ESG) on 2010. This index is established in alliance with Standards and Poor (S&P) and Crisil, so called S&P EGX/ESG 30. The main aim of this index is to encourage companies to be more transparent and to disclose their governance, social and environmental practices more clearly which would increase their competitive advantage. Further, the 30 corporations' constituents of ESG are ranked annually according to their CSR practices and governance performance. This index is considered one of the pioneer ESG indexes in Middle East and North Africa (MENA) region (Razek 2014). In order to improve CSR reporting, the ECRC has led a delegation of Egyptian organizations to participate at the 3rd GRI Conference on Sustainability and Transparency, held in Amsterdam on May 2010. The participation in this conference represents a step to encourage Egyptian organizations to adopt GRI standards in their sustainability reporting.

From the previous analysis it is noted that the Egyptian government, recently, made an actual efforts to promote and move forward CSR practices. In addition, firms are trying to cope with these efforts by improving their CSR practices and reporting. The main issue in the current study is to determine whether companies' CSR practices, in Egypt as a developing country, actually, reflect their ethical concerns toward society or it has been adapted as a part of a managerial entrenchment strategy.

4. Literature Review and Hypotheses Development

4.1. Related Literature

Despite of the increased attention CSR gained recently, few studies in the literature examined how CSR affects firms' financial reporting behavior by affecting managers' decision to engage in EM practices. In addition, those few studies provide inconsistent results. Further, the majority of these few studies concentrated in the developed world. In developed economies, Chih et al. (2008) investigate the relationship between CSR and EM on a global scale. They find that the type of the relationship between CSR and EM depends on which kind of EM is considered. Beaudoin (2008) examine how a company's level of commitment to CSR impacts EM decisions given the agency problem based on an experimental research in USA. Beaudoin finds that company's expressed commitment to social responsibility mitigates the influence of the agency problem on managers' accrual decisions. Asserting on the positive impact of CSR on constraining EM practices, Kim et al. (2012) find that CSR firms appear to reduce or avoid earnings manipulations through discretionary accruals and are less likely to engage in RM, as compared to non-CSR firms.

Contradicting with these previous results, two other studies provide different findings. Francoeur et al. (2010) examine the relationship between CSP and EM, finding that CSP dimensions; environment and employees, are positively related to EM. Recent study of Fan (2013) examines the interaction between CSR and EM, finding CSR performance has no significant negative effect on EM. Additionally, EM in the meanwhile is not positively related to



CSR. Therefore, it can be noted that prior studies that is conducted in developed economies provide mixed and inconsistent results. However, developing economies have different cultures, circumstances, reporting environment, and economy which could affect CSR and EM relationship differently.

Jiang et al. (2013) study was conducted in china, as a developing country, studying the association between CSR and quality of financial reporting for a set of state owned enterprises and non-state owned enterprises. They find non-state owned enterprises Chinese firms engaging in a higher level of CSR activities are associated with higher discretionary accruals. These previous results could not be generalized due to the unique characteristics of China. Based on the above discussion, it appears to be good grounds for the current research to carry out an examination of the potential contribution of CSR in improving financial reporting behavior in Egypt. Egypt is a developing country with an emerging financial market, where, CSR initiatives and disclosure are still based on voluntary bases. In addition, this relationship need to be examined considering the establishment of a new Egyptian CSR index named "The Egyptian Corporate Responsibility Index" launched on 2010. Further, the financial market in Egypt is not described as efficient, however, investors and different stakeholders groups seek information that might improve their perception and confidence in the financial reporting process. Hence, the current research intends to extend the few studies in CSR-EM relation in developing countries context.

4.2. Hypotheses Development

One of the most accepted definition of CSR stated that CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large (World Business Council for Sustainable Development as in Holme & Watt 2000). This previous definition asserts that CSR is a commitment to behave ethically. A strong sense of ethics might also be reflected in improving the reported earnings quality through discouraging EM practices. Building on this view, it is expected that firm which behave ethically toward its society would, of course, behave ethically in its financial reporting behavior as well. However, prior literature provide a conflicting predictions regarding the relationship between CSR and earnings quality measured by EM.

Previous empirical research supports that there are a negative relation between CSR and EM practices (Chih et al. 2008; Beaudoin 2008; Kim et al. 2012). This negative relation indicated that CSR might be considered as a strategy through which firms meet ethical expectation of stakeholders. In this case, CSR would influence managers' decisions positively through motivating them to behave ethically and moving away from decisions that reflect only their self-interest. Therefore, CSR would enhance transparency and reliability of financial reporting. In contrast, other studies conducted in Canada and China indicated that there is a positive relation between CSR and EM (Francoeur et al. 2010; Jiang et al. 2013). They justified these positive results due to the high cost of CSR activities. Further, the existence



of a positive relation indicate that managers use CSR activities as a mean to mask their misconduct and opportunistic behaviors. Further, study of Fan (2013) indicated that there is neither a positive nor a negative relation between CSR and EM.

In conclusion, the relationship between CSR and earnings quality in previous studies yield different conflicting results that are based on developed countries. Therefore, this relationship need investigation in the Egyptian context, where moral issues might be perceived differently. Hence, the following hypothesis is formulated:

H_{01} . There is no significant relationship between CSR and EM.

The CSR-EM relation might be based on EM proxies, earnings smoothing and earnings avoidance have a negative relation with CSR, while, earning aggressiveness has a positive relation (Chih 2008). Confirming the same idea, the negative relation found by Beaudoin (2008) study has been based on one type of accrual decisions (expense-decreasing accruals) as EM proxy, the other types of accrual decisions might make managers behave differently. Further, Fan (2013) argued that the no relationship results of his study might be changed if other kinds of EM proxies are used. The negative results of Kim et al. (2012) were based on both discretionary accruals and real activities manipulation as proxies for EM.

Since managers in any enterprise might use more than one EM technique to reach the desired earnings target. Hence, examining only one EM technique at a time cannot explain the overall impact of EM activities. A recent study found that managers trade off the two

EM methods based on their relative costs and timing of EM activities (Zang 2012). Therefore, the present research will depend on two EM proxies; discretionary accruals and real activities manipulation, as a way to extend Kim et al. (2012) study in a developing country. As it has been found that the relationship between CSR and EM depend on EM proxy. Using both proxies might help in capturing the overall effect of CSR on EM practices if the two techniques substitute each other's. In the light of the above discussion the main hypothesis will be examined through the following sub-hypotheses:

H_{01A} . There is no significant relationship between CSR and discretionary accruals.

H_{01B} . There is no significant relationship between CSR and real activities manipulation.

5. Research Design

5.1. Data and Sample Selection

Companies included in the S&P/EGX ESG index in 2013 provide the starting point of this study. The S&P/EGX ESG Index is the first index in Egypt to address the investment community's concern regarding environmental, social, and governance issues. The index employs methodology that quantifies the most active 100 companies' ESG practices, and then each company is ranked against its peers based on a scoring system. The initial sample of current study included the 30 companies of S&P/EGX ESG index in 2013. We exclude 10 financial institutions due to their different reporting characteristics. Further, another one company is excluded because it is recently issued in 2011. Hence, the final CSR sample consisted of 19 companies.



The financial data needed to test the possible association between CSR and earnings quality's proxies are obtained from the annual reports that are available from the Egyptian Company for Information Dissemination (EGID); a subsidiary of the Egyptian stock exchange market. Since, the current study earnings analyses would be based on firm-specific time-series estimation, the sample consisted of 209 firm-year observation from 2003 to 2013 to estimate earnings constants and parameters.

5.2. Variables measurements

5.2.1. Corporate Social Responsibility:

The creation of the S&P/EGX ESG involves a two-step process. First, a multi-layered approach to determine an "ESG" score for each company is employed. The top 100 Egyptian companies ranked by ESG scores make up the initial universe of the index. From the initial universe, 30 stocks with high ESG rankings and appropriate investability requirements are then chosen. Second, the weighting of the index is determined by the ESG score – the higher the ESG score, the more weight the company will have in the index. As S&P/EGX ESG index reveals 30 of the best Egyptian performing stocks in the market as measured by environmental, social, and governance parameters, CSR companies' index ranking will be used as a measure of their CSR performance.

5.2.2. Discretionary Accruals

Earnings quality could be measured by one of its indicators which is EM practices. Based on prior literature, discretionary accruals is used to proxy for accrual-based earnings management. Discretionary accruals are the difference

between actual accruals and the normal accruals. The modified Jones model to estimate discretionary accruals is employed by regressing accrual data either using cross-sectional analyses or time-series analyses. The current research will use firm-specific time series analysis based on the argument of Francis and Smith (2005) that time-series estimations should be used for earnings analysis. Therefore, the following Modified Jones Model (1995) is used to estimate normal accruals based on firm specific time series analysis for 10 years, using the ordinary least squares method.

$$TA_{it}/A_{it-1} = \alpha_0 (1/A_{it-1}) + \alpha_1 (\Delta REV_{it} - \Delta REC_{it})/A_{it-1} + \alpha_2 PPE_{it}/A_{it-1} + \varepsilon_{it}$$

Where; TA_{it} is the total accruals for a firm i at year t ; ΔREV_{it} is the change in net revenues in year t from year $t-1$; ΔREC_{it} is the change in net receivables; PPE_{it} is the gross property, plant, and equipment; and A_{it-1} is the total assets for a firm i at year $t-1$.

5.2.3. Real activities Manipulation

Managers have opportunity to manage earnings by the manipulation of real activities. Healy and Wahlen (1999) and Dechow and Skinner (2000) point to EM methods available to managers such as; acceleration of sales, alterations in shipment schedules, and delaying of R&D and maintenance expenditures as (Roychowdhury 2006). Therefore, real activities manipulation is defined as actions of management that deviate from normal business practices incurred for purposes of meeting or beating certain earnings thresholds (Roychowdhury 2006). Following Roychowdhury (2006), Zang (2012), and Kim et al. (2012), real activities manipulation is proxied by the following four measures; abnormal levels of operating cash flows (AB_CFO), the



abnormal production costs (AB_PROD) abnormal discretionary expenses (AB_EXP), and (4) a combined measure of real activities manipulation. The following model will be used to estimate the normal level of operating cash flows.

$$CFO_t/A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \alpha_2(S_t/A_{t-1}) + \alpha_3(\Delta S_t/A_{t-1}) + \varepsilon_t$$

Where, CFO_t is the cash flow from operations activities in year t; S_t is the net sales at year t; and ΔS_t is the change in sales ($S_t - S_{t-1}$). The abnormal cash flow from operations is the residual (ε_t) from the corresponding model. Production costs is the sum of change in COGS and change in inventory during the year. The normal production costs will be estimated from the following equation:

$$\frac{PROD_t}{A_{t-1}} = \alpha_0 + \alpha_1(1/A_{t-1}) + \alpha_2(S_t/A_{t-1}) + \alpha_3(\Delta S_t/A_{t-1}) + \alpha_4(\Delta S_{t-1}/A_{t-1}) + \varepsilon_t$$

Where, ΔS_{t-1} is the change in sales in year t-1 ($S_{t-1} - S_{t-2}$). The abnormal production cost is the residual (ε_t) from the model. Discretionary expenses is the sum of R&D, Advertising, and SG&A expenses). The normal level of discretionary expenses will be estimated using the following equation:

$$DISEXP_t/A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \alpha_2(S_{t-1}/A_{t-1}) + \varepsilon_t$$

Where, $DISEXP_t$ is the discretionary expenses in year t, defined as the sum of R&D, Advertising, and SG&A expenses. For every firm-year Abnormal discretionary expenditure is the residual (ε_t) from the model. Finally, the combined measures of real activities manipulation by aggregating the three individual real activities manipulation proxies, AB_CFO, AB_PROD, and AB_EXP. Considering the direction of

each real activities manipulation components.

$$COMBINED_RAM = AB_CFO - AB_PROD + AB_EXP$$

5.3. Empirical models

The relationship between CSR and EM is examined by estimating the coefficients in the following two multiple regression models after considering independent variables and control variables:

$$DA_t = \alpha_0 + \alpha_1 CSR + \alpha_3 COM_RM + \alpha_4 FSIZE + \alpha_5 AUDT + \alpha_6 FAGE + \alpha_7 LEV + \varepsilon_t$$

$$RM_t = \alpha_0 + \alpha_1 CSR + \alpha_3 DA_t + \alpha_4 FSIZE + \alpha_5 AUDT + \alpha_6 FAGE + \alpha_7 LEV + \varepsilon_t$$

Where:

DA_t = discretionary accruals measured by firm specific time series Modified Jones Model;

RM_t = real activities manipulation proxied through AB_CFO, AB_PROD, AB_EXP, or COM_RM:

AB_CFO = the level of abnormal cash flows from operations;

AB_PROD = the level of abnormal production costs;

AB_EXP = the level of abnormal discretionary expenses;

COM_RM = AB_CFO - AB_PROD + AB;

CSR = the weight of a company's CSR ranking in S&P/EGX ESG index in 2013;

FSIZE = firm size measured by the natural logarithm of book value of total assets;

AUDT = an indicator variable that takes a value of (1) if the firm's external auditor is one of the Big4 and (0) otherwise;

FAGE = firm age natural logarithm of (1+ number of years since company's issuance); and

LEV = leverage measured by long-term debt scaled by total assets.



Prior literature revealed that managers might use more than one EM techniques (i.e. discretionary accruals and real activities manipulation) to reach the desired earnings target. Alternatively, managers sometimes make a trade-off between both techniques depend on their relative costs (Zang 2012). Therefore, real activities manipulation variable is included in discretionary accruals model as a control variable. Additionally, discretionary accruals variable is included in real activities manipulation model as a control variable. Among variables that have been identified in the prior literature to influence the relation between CSR and EM is firm size, auditor type (i.e. firms audited by one of the BIG4 or not), firm age, and leverage (Prior, Surroca & Tribo 2008; Kim et al. 2012; Jiang et al. 2013). Hence, the current research included those variables to avoid the problem of correlated omitted variables that could have a significant impact on the results.

6. Results:

6.1. Descriptive Statistics

Table 1, shows the descriptive statistics of study variables; discretionary

accruals, abnormal cash flow, abnormal production cost, abnormal discretionary expenses, CSR and control variables of firm size, auditor type, firm age and auditor type. The descriptive analysis shows statistics such as mean, median, standard deviation, quartile 1, and quartile 3 of each of the models variables. The mean value of DA is -4.5 percent of total assets, indicating that firms do engage EM practices using discretionary accruals. The mean values of AB_CFO, AB_PROD, AB_EXP, and COM_RM are 0.016, -.025, 0.008, and 0.050 respectively, suggesting that on average firms engage more in real activities manipulation through overproduction and reduction in production costs. For the control variables 68 percent of our sample firms are audited by the Big 4 auditing firms. The mean of firm size is 9.57 indicating that the sample on average are concentrated in big size companies. Leverage in the study sample tend to be low as the mean of leverage is 8 percent, suggesting that the sample firm is not depending on long term debts. Further the mean of the firm age is 18 years.

Table 1: Descriptive Statistics of Study Variables

Descriptive Statistics of Study Variables					
	<u>N</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Mean</u>	<u>Std. Deviation</u>
DA	19	-.4936	.0888	-.045016	.1313068
AB_CFO	19	-.1810	.2522	.016863	.0850337
AB_PROD	19	-.4302	.0595	-.024779	.1017710
AB_DISEXP	19	-.0300	.1520	.008116	.0385691
COM_RM	19	-.1881	.5027	.049758	.1494018
CSR	19	.0333	.9667	.456140	.2884725
FSIZE	19	8.3496	10.7427	9.578005	.6937073
LEV	19	.0000	.2238	.079368	.0717169



FAGE	19	.8451	1.7404	1.293879	.2327700
AUDT	19	0	1	.68	.478

6.2. Multivariate analysis

We conducted a multivariate regression analyses to take into consideration the relationship between the discretionary accruals, real activities manipulation, and CSR considering the existence of the control variables (i.e. firm size, auditor type, firm age, and leverage). Table 2 include results of the first model in which the discretionary accruals is the dependent variable. These results reveal that the full regression model explains 30 percent of the variations in the discretionary accrual level. Corporate social responsibility is

found to have a significant negative relationship with the discretionary accruals. Hence, the first null sub-hypothesis is rejected. This finding is consistent with those of Chih et al. (2008), Beaudoin (2008), and Kim et al. (2012). Further, the results of the first model indicated there is a significant negative relationship between the two types of EM techniques, discretionary accruals and combined real activities manipulation. This previous finding is consistent with Zang (2012) that there is a trade-off between the two EM methods.

Table 2: First Model Summary

Panel A.					
	R	R²	Adjusted R²	SE	
	0.732	0.535	0.303	0.109	
Panel B. Coefficients^a					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.343	.622		.551	.592
CSR	-.232	.103	-.509	-2.251	.044
COM_RM	-.388	.180	-.442	-2.154	.052
FSIZE	-.032	.052	-.170	-.619	.547
AUD	-.036	.072	-.132	-.502	.625
FAGE	.046	.164	.081	.281	.784
LEV	.127	.415	.070	.307	.764

a. Dependent Variable: DA

The results in Table 3 reveal the findings regarding the second model in which real activities manipulation

proxies; are the dependent variables. The four real activities manipulation proxies in this study don't have a significant



relationship with CSR ranking. Therefore, the second null sub-hypothesis is accepted that there is no significant relationship between CSR and real activities manipulation. This preceding finding is consistent with Fan (2013) study that support there is no relationship between CSR and EM. However, it has been found that abnormal discretionary expenses variable has a significant relationship with discretionary accruals variable (significant at the 0.01 level). Further,

the combined real activities manipulation has a significant negative relationship with discretionary accruals variable (significant at the 0.05 level). Hence, the trade-off between EM techniques do exist. The findings of the current research support that the CSR ranking could have a significant relationship with earnings management practices. However, this relationship depend on which technique of earnings management is tested.

Table 3: Second Model Summary: Real Activities Manipulation as Dependent Variable

	AB_CFO Coefficient Sig.	AB_PROD Coefficient Sig.	AB_EXP Coefficient Sig.	COM_RM Coefficient Sig.
CSR	-0.039 0.902	0.331 0.324	0.144 0.526	-0.211 0.518
DA	-0.502 0.109	-0.386 0.386	-0.630 0.009**	-0.631 0.052*
FSIZE	-0.555 0.112	-0.026 0.939	0.374 0.127	-0.201 0.550
AUDT	0.184 0.567	0.246 0.459	-0.146 0.519	-0.101 0.755
FAGE	0.03 0.932	0.305 0.402	0.144 0.561	-0.154 0.664
LEV	-0.036 0.893	-0.302 0.286	0.043 0.820	0.197 0.474
Adj. R ²	0.027	0.519	0.517	0.004
Model Sig.	0.425	0.519	0.016	0.462
**. Statistical significance at the 0.01 level. *. Statistical significance at the 0.05 level.				

7. Conclusions

The main objective of this study is to investigate whether Egyptian CSR firms behave ethically in their financial reporting and deliver a more transparent and reliable financial information to

investors. In order to achieve the research objective, we examined the relationship between firms CSR ranking in the new S&P EGX/ESG 30 index and earnings management practices. Earnings management, as a proxy of



earnings quality, measured in the current study by both EM techniques; discretionary accruals and real activities manipulation. The final sample consisted of 19 companies and the estimates of earnings quality was based on firm specific time series analyses for 10 years before 2013. Hence, the total number of observations are 209 firm-year. The results of the statistical analyses suggest that there is a negative significant relationship between CSR ranking and one of EM techniques; discretionary accruals, which means CSR might constrains EM. This finding is consistent with the findings of Beaudoin (2008) and Kim et al. (2012).

This preceding results support that CSR ranking might also be reflected in improving earnings quality, hence, delivering more reliable and transparent financial reporting. However, our findings regarding the other type of EM techniques, real activities manipulation, reveal that there is no significant relationship between CSR ranking and EM practices. Consequently, the type of the relationship between CSR and EM depends on which kind of EM is considered same as Chih et al. (2008) argument. It worth noting that when we control for the trade-off between EM techniques, results support the existence of significant negative relationship between combined real activities manipulation and discretionary accruals. Overall, the findings showed in emerging markets like Egypt, CSR might improve the financial reporting transparency and reliability. Therefore, there is a need to enhance board of directors, practitioners and accounting professional bodies' awareness of benefits of CSR. Furthermore, the governors, regulators, and accounting bodies should put more

emphasis on CSR practices and disclosure.

As is the case in most research in social sciences, this paper has some limitations; where it tests S&P EGX/ESG 30 index for only one year 2013. Additionally, the results are constrained by the proxies applied. There are opportunities to carry out future research to consider a long term tests of CSR and EM relationship. Moreover, future research could compare the earnings quality of CSR firms compared to a matching sample of non CSR firms to determine if they perform better.

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