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# Earnings Management and Corporate Social Responsibility

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## *Abstract*

This study lies at the heart of the issue of reliability of financial statements. Reliability is the accountant's terminology for integrity of financial statements. This study focused on the impact of Corporate Social Responsibility on earnings management in the Nigerian manufacturing sectors. The study is motivated by the paucity of research on subject matter in manufacturing sub-sector in Nigeria. The study employed the ordinary least square multivariate regression technique. A sample of fifty- two manufacturing firms was used. The result shows that there is a positive relationship between CSR and earnings management. This study recommended that statutory bodies should put a ceiling on the amount to be expended on CSR which must be exceeded by any firm.

*Keywords:* Earnings management, corporate social responsibility, Stakeholder

## **Introduction**

Earnings management is the employment of accounting methods to prepare financial report that presents an exaggeratedly affirmative view of a firm's business activities and financial position. Earnings management is termed management activities which lower the quality of the financial statements (Kinney Jnr, Palmrose & Scholz 2004). Fields, Lys and Vincent (2001) explain that, earnings management takes place when the manager exercises choices over accounting numbers. Lev (2003) opines that managers will only engage in earnings management if they believe that users of accounting information (investors, government, managers) cannot completely adjust the accounting numbers to remove the effect of earnings management. Lev (2003) is of the opinion that earnings management lowers earnings quality and whittles down the predictive ability of future earnings and cash flows. Kaplan (2001) further stresses that when earnings are managed to mislead investors, earnings management is usually considered to be an unscrupulous act.

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The financial crisis that blew through the nations of the world which led to the collapse of some blue chip companies put earnings management in the accounting spotlight in recent times. This monument event made both foreign and indigenous carry out studies to ascertain the factors responsible for this anomaly. Some are of the opinion that manipulation of earnings is a major factor that is responsible for this crisis that troubled the waters of some corporate entities globally (In Nigeria the AGIP saga is a typical example of this situation). The aforementioned stirred the interest of stakeholders on the determinants of earnings management thus they beam their search light on the subject matter..

Some authors (Healy, 1985; McNichols & Wilson, 1988; Holthausen, Larcker,& Sloan, 1995; Gaver, Gaver,& Austin, 1995; Cheng & Warfield, 2005; Bergstresser & Philippon, 2006; Houmes & Skantz, 2010) investigate the determinants of earnings management and discovered that compensation schemes is one of the determinants of earnings management . Healy (1985) provides the earliest evidence of contractual motivation for manage earnings. The author argues that since managers have inside information, they have opportunities to manage net income to maximize their bonuses.

Chung, Firth and Kim (2010) report that opportunity for earnings management is higher among companies with high surplus free cash flow. Gul (2001) further asserts that companies with high surplus free cash flow face major agency problems particularly when the free cash flow is high but investment opportunities are low. Some previous studies report that sales of non-current assets is used by managers to manipulate earnings (Ullmann, 1985; McGuire et al, 1988; Salama, 2005). Only a few empirical studies pointed the used of corporate social responsibility expenses as a tool for manipulating earnings. Chih et al. (2008) report that with a greater due diligence to CSR, the extent of earnings smoothing is mitigated, the extent of earnings losses and decreases avoidance is reduced, but the extent of earnings aggressiveness is increased. Prior et al. (2008) also argue that earnings management practices damage the collective interests of stakeholders hence managers who manipulate earnings can resort to CSR activities to distract stakeholders' attention from monitoring their opportunistic behavior and consequently safeguarding their jobs. Extant literature reports that to reduce the chances of being sacked and dimple of firm's reputation in the perspective of manipulating earnings information, managers use CSR to soothing earnings. Chih et al. (2008) are of the opinion that when a firm expands CSR, the financial performance could suffer, leading the firm to manage reported earnings upwards to obscure the weaker than expected results

From foregoing the objective of this study is to ascertain the effects of CSR on earnings management. To the best of researcher's knowledge this study the first indigenous work to investigate the effect of CSR on earnings management in the

Nigerian context. Elongated period covered, sample size and sector studied make this study novel among prior studies.

### **Literature Review**

#### **Conceptual Framework**

#### **Corporate social responsibility**

#### **Definition of corporate social responsibility**

In literature there is no worldwide acceptable definition of the term CSR but different scholars defined it based on their perceptions and understanding. The definition of CSR was developed from Bowen (1983) reports that it is the obligation of businessmen to include in their objectives the values of the society and to also ensure that the purse of their business activities is not at variance with societal norms.

Kenneth, Andrews and Steiner (1999) define Corporate Social Responsibilities (CSR) “as the intelligent and objective concern for the welfare of the society that restrains the individual and corporate behavior from ultimately destructive activities, no matter how immediately profitable but leads it to the directions of positive construction of human betterment”.

Black (1989) classifies CSR into four categories which are; enterprise: supporting and developing initiatives to nurture budding entrepreneurs and boost enterprise; education: helping to bring new horizons into the lives of young people; arts and culture: providing assistance to a range of artistic activities and bringing communities together; and environment: encouraging efforts to safeguard the environment and improve the quality of life.

Bernstein (2000) argues that business should be responsible to stakeholders even if it requires firms to sacrifice some profits. Firms should deal with these conflicting interests and claims in an ethical manner by formulating stakeholders’ friendly policies. This is consistent with the assertion of Carroll and Buchholz (2011) which states that CSR includes economic, legal, ethical, and philanthropic expectations placed on businesses by the society. Kotler and Lee (2005) assert that CSR is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.

#### **Earnings Management**

Watts and Zimmerman (1978) define earnings management as managers exercising their discretion over the accounting numbers. Healy and Wahlen (1999) then develop the concept of earnings management. They state that earnings manipulation occurs when managers exercise discretion in financial reporting or in structuring transactions, aiming at altering financial reports to either mislead some stakeholders about the underlying economic performance of the company or to

influence the contractual outcomes that depend on reported accounting numbers. Leuz et al. (2003) and Königsgruber (2009) suggest that earnings manipulation arises from the conflicts of interest between insiders and outsiders. In other words, the objectives of companies and stakeholders are not necessarily harmonious with each other, so the company has the incentive to influence the communication process to encourage particular actions from its various stakeholders, such as inspire creditors to supply additional capital in the company's favorable condition (Hong & Andersen, 2011). Information asymmetry and imperfect auditing assist irrational managers to manipulate earnings or convey false information about the firm's financial performance (Leuz et al., 2003), thereby, reducing earnings quality (Jaggi & Tsui, 2007) and finally undermining the firm's future performance in the long-run.

Earnings management is described as management actions which reduce the quality of the financial statements (Kinney Jnr, Palmrose & Scholz 2004). As Fields, Lys and Vincent (2001) explain that earnings management occurs when the manager exercises discretion over the accounting numbers. Further, managers will only engage in earnings management if they believe that users of accounting information cannot completely adjust the accounting numbers to remove the effect of earnings management. As earnings management leads to lowered earnings quality, it reduces the predictive ability of future earnings and cash flows (Lev 2003). To the extent that earnings are managed to mislead investors, earnings management is generally considered to be unethical (Kaplan 2001).

### **Review of theories**

#### **Stakeholder - agency theory**

From a traditional perspective, the separation of ownership and control in modern corporations, together with information asymmetry, give rise to the opportunistic actions of the manager (the agent), who may have different objectives from the owner (the principal). In this context, earnings management is the process through which managers seek their own benefits at the expense of the company and shareholders- it is regarded as an agency problem. As a consequence of the inaccurate financial information conveyed by managers, shareholders may make non-optimal financial and operational decisions, which represent the agency costs created or exacerbated by earnings manipulation.

According to Clarkson (1994), stakeholders are the group that bears the risks for the reason of investing some form of human or financial capital or something of value in a firm. As managerial decisions directly impact all the stakeholders groups, managers can be viewed as not only the agents of shareholders but also the agents of other stakeholders (Jones, 1995). In this situation, one of the amplified agency problems between managers and other stakeholders is that managers enlarge

their own gains in the decision-making process while stop stakeholders from maximizing their collective utility. A series of researches that understudied the stakeholder-agency costs of earnings management from different perspectives find long-term negative consequences of earning management to stakeholders and the company itself as well. Generally, firms with large discretionary accruals will subsequently experience significant negative abnormal returns (Sloan, 1996), while earnings management activities that are not optimal corporate responses to economic circumstances will ultimately jeopardize companies' competitiveness (Roychowdhury, 2006). Specifically, once earnings manipulation is suspected by stakeholders, the firm will immediately lose value on the stock market (Dechow & Sweeney, 1996).

#### **Stakeholder - legitimacy theory**

Legitimacy is a condition or status that exists when an entity's value system is congruent with the value system of the larger social system of which the entity is part (Lindblom, 1994). Legitimacy is recognized as a resource that is necessary for organizational survival. When a disparity, actual or potential, exists between the two value systems, particularly, if the firm does not operate within the norms and expectations of the society, a threat to its legitimacy is eminent.

Researches that explain firms' motivations to engage in CSR practices often rely on legitimacy theory. Ullmann (1985) creatively linked legitimacy theory to powerful stakeholders. Through CSR activities, companies achieve the license to operate (Porter & Kramer, 2006) – that is to say, it is the governments, communities and others give companies the tacit or explicit permission to do business.

To be precise, engaging in socially responsible activities, the company will not only improves stakeholder satisfaction, but also benefits from the positive effects on its reputation and brand name among stakeholders. The disclosure of information about corporate behavior and outcomes in terms of social responsibility will help companies build a positive image among stakeholders (Orlitzky et al., 2003). This positive image will in turn assist firms to establish community ties and build reputation capital, therefore, gaining trust and support from diverse groups of stakeholders.

#### **CSR and earnings management**

Rezayi and Hadizade (2012) carried out a study to examine the relationship between earnings management and corporate social responsibility using 90 firms quoted on the floor Tehran Stock Exchange within the period 2002 and 2011. They employed the ordinary least square regression technique. Their results show there is a positive association between CSR and earning management. Benson et al. (2011) perform a study in the US to ascertain the effects of CSR on earnings management

employing multivariate regression technique. Their result show that there is a positive association between CSR and earnings management. Kim et al., (2012) investigate the relationship between earnings management and CSR using some selected quoted Chinese companies. The study employed ordinary least square regression technique. Their results show that CSR firms are less inclined to be involved in aggressive earnings management via discretionary accruals or manipulation of actual activities and they play important role in limiting earnings management.

As Chih, Shen and Kang (2008) carried out a study to ascertain the relationship between earning management and CSR using selected Korean quoted firms. The result shows that there is a negative relationship between CSR and earning management.

Cespa and Cestone (2007) carried out a study to find out the relationship between CSR and earnings management. The result shows that there is no significant relationship between CSR and earnings management.

### **Research methodology**

#### **Research design**

The research design refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring you will effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data. (De Vaus, 2006).

Research design is like a footprint that shows the step by step procedure that will be taken in analyzing the data collected from field. There are various types of research design, but this research adopted the experimental and expo facto research design.

*Expo facto* in the sense that, the data or information of the study was extracted from a stored data of past events, it is experimental because it tends to establish the relationship between two or more variables. In other words, it explains how the explanatory variables affect the independent variable.

#### **Population**

This is the entirety of the subject of the study. Population can be seen as a group of units from which a sample is drawn. The population consists of all quoted manufacturing companies lmanage Nigerian Stock Exchange as at 31<sup>th</sup> December 2015.

#### **Sampling and Sampling Technique**

The simple random sampling technique based employed to give all members of the population equal opportunity to be selected and there after apply the Taro

Yamane formula to calculate the sample. The technique is well suited for determining the sample as it provides an equal probability of selection and as such minimizes selection bias. Year 2001 was used as the base year. The sample size is 52 when the aforementioned formula was applied.

The Taro Yamani formula employed is as shown below:

$$n = \frac{N}{1 + N(e)^2}$$

where,

$$\begin{aligned} n &= \text{Sample Size} = ? \\ N &= \text{Population Size} = 60 \\ e &= \text{error margin} = 5\% \text{ or } 0.05 \end{aligned}$$

Therefore, the sample size,

$$\begin{aligned} n &= \frac{60}{1 + 60(0.05)^2} \\ n &= \frac{60}{1 + 60(0.0025)} \\ n &= \frac{60}{1 + 60(0.0025)} \\ n &= \frac{60}{1 + 0.1500} \\ n &= \frac{60}{1.1500} \\ n &= 52.174 \approx 52 \text{ firms} \end{aligned}$$

### Sources of Data

The data for this study was sourced from secondary sources. The data will cover audit-related – data extracted from the annual reports and accounts of the selected fifty-two (52) manufacturing companies in Nigeria covering a period of 15 years (2001 – 2015).

### Method of data analysis

The model specification of this study is to look at the relationship between CSR and earnings management.

The model used is the modified version of Erica Yip, Chris Van Staden, Steven Cahan or Erica Yip et al (model I) as written below:

$$EM = \beta_0 + \beta_1 CSR\_DISC + \beta_2 LN\_SIZE + \beta_3 LEV + \beta_4 ROA + \beta_5 GROWTH + \varepsilon \dots \dots \dots (1)$$

Where:

$CSR\_DISC = RPT, WEB, \text{ or } ANY\_DISC,$

$LN\_SIZE$  = natural log of total assets,

$LEV$  = long-term debt divided by total assets,

$ROA$  = return on assets which is total operating income divided by total assets,

$GROWTH$  = change in sales from 2005 to 2006.

$$EM = \beta_0 + \beta_1 CSR + \beta_2 FSIZE + \beta_3 LEV + \beta_4 ROA + \epsilon \dots\dots\dots(2)$$

where:

CSR= corporate social responsibility

FSIZE = natural log of total assets,

LEV = long-term debt divided by total assets,

ROA = return on assets which is total operating income divided by total assets,

EM = Earnings management.

#### Model definition

Variable	Type	Measurement	Aprior expectation
Earnings management	Dependent	Discretionary accrual	
CSR	Independent	Amount expended on CSR activity for the year.	Positive sign
Firm size	Control variable	Natural log of total assets	Positive sign
Leverage	Control variable	Long term debt divided by total assets	Positive sign
ROA	Control variable	PAT divided by total assets	Positive

**Source:** Researcher's computation (2017)

#### Method of data

The study used ordinary least square regression and multivariate regression analysis to determine the relationship between the dependent and independent variable. The data was analyzed using the E-views analysis software. Some pre and post-test were also performed in other to determine the specification of the model.



## Analyses and interpretation of data

Table 1

## Descriptive Statistics

	DAC	CSR	FSIZE	ROA	LEV
Mean	-1.02E+09	15409659	10198.72	15.55353	0.725853
Maximum	1.20E+11	1.03E+08	191000.0	23.56000	16.57000
Minimum	-3.15E+11	167890.0	160.0000	11.14000	-4.150000
Std. Dev.	1.58E+10	19541449	17398.32	2.116419	1.317805
Skewness	-12.96053	2.303125	5.963502	0.664928	8.220947
Kurtosis	244.3901	8.594553	49.93017	3.764537	84.71289
Jarque-Bera	1900850.	1693.659	75616.39	75.88532	224051.5
Probability	0.000000	0.000000	0.000000	0.000000	0.000000

Source: Researcher's computation (2017)

Table 1 presents the results for the descriptive statistics for the variables. As observed, discretionary accrual (DAC) has a mean value of -1.02E while it has maximum and minimum values of 1.20E+1 and -3.15E0 respectively. The standard deviation reported relatively small values 1.58E shows that DAC is clustered around the mean. Since the mean is relatively greater than (to the right of) the median DAC is slightly skewed to the right. The kurtosis is a measurement of the ends of a distribution and is used to dictate the size of the tails of a data distribution. The coefficient value of kurtosis of 244 > 3 implies a fat tails and it is a leptokurtic distributions. The Jacque-Bera value of 1900850 and the associated p-value of 0.00 indicate that the data is normal ( $p > 0$ ) and that outliers or selection bias that the generalization from the study are unlikely. CSR has a mean value of 15409659 while it has maximum and minimum values of 1.03E and 1679890 respectively. The standard deviation reported relatively large values of 167890 implies that there is clustering around the mean. Since the mean (15409659 > 750000) is greater than the median it indicates CSR is skewed to the right. The coefficient value of kurtosis of 8.5 > 3 implies a leptokurtic distribution with topped tail. The Jacque-Bera value of 1600.659 and the associated p-value of 0.00 indicate that the data is normal ( $p > 0$ ) and that outliers or selection bias that the generalization from the study are unlikely.

Firm size has a mean value of 10198.72 while it has maximum and minimum values of 191000 and 160. The standard deviation reported relatively large values of 17398.3 shows that Firm is clustered around the mean. Since the mean is relatively greater than the median it indicates that it slightly skewed to the right. The variable is positively skewed and the positive value of the kurtosis signifies that the regression variable is peaked than the Gaussian distribution. Kurtosis value greater than 3 implies a leptokurtic distribution. The Jarque -Bera value of 75616 and p- values (0.00) implies that is that the variable is normally distributed.

Firm size (FSIZE) has a mean value of 15.5 while it has maximum and minimum values of 23 and 11 respectively. The standard deviation reported relatively small values 2.2 shows that FSIZE is clustered around the mean. Since the mean is relatively greater than ( $15.5 > 15.2$ ) the median it implies that it is slightly skewed to the right. The kurtosis is a measurement of the ends of a distribution and is used to dictate the size of the tails of a data distribution. The coefficient value of kurtosis of  $3.7 > 3$  implies a fat tails and FSIZE it is a leptokurtic distributions. The Jacque-Bera value of 80.0 and the associated p-value of 0.00 indicate that the data is normal ( $p > 0$ ) and that outliers or selection bias that the generalization from the study are unlikely

ROA has a mean value of 15.5 while it has maximum and minimum values of 23.56 and 11.14 respectively. The standard deviation reported relatively small values 2.11 shows that there is dispersion away from the mean. The mean is less than the median value relatively imply that it is slightly skewed to the right. The kurtosis is a measurement of the ends of a distribution and is used to dictate the size of the tails of a data distribution. The coefficient value of kurtosis of  $3.7 > 3$  implies a flat slope and ROA it is a leptokurtic distributions. The Jacque-Bera value of 141.0 and the associated p-value of 0.00 indicate that the data is normal ( $p > 0$ ) and that outliers or selection bias that the generalization from the study are unlikely.

LEV has a mean value of 0.72 while it has maximum and minimum values of 16.57 and -4.15. The standard deviation reported relatively small values 1.32 shows that there is cluster around the mean. The mean value of 0.72 relatively less than the median it indicates that it slightly skewed to the left. The variable is positively skewed and the positive value of the kurtosis signifies that the regression variable is peaked than the Gaussian distribution. Kurtosis value greater than 3 implies leptokurtic distribution. The Jarque –Bera value of 57.5 and p- values (0.00) implies that the variable is normally distributed.

Table 2

Pearson Correlation Result

	DAC	CSR	FSIZE	ROA	LEV
DAC	1.000000				
CSR	0.027222	1.000000			
FSIZE	0.012799	-0.031302	1.000000		
ROA	-0.238320	-0.063715	0.494513	1.000000	
LEV	0.018559	-0.009509	-0.023317	-0.218350	1.000000

Source: Researcher's computation (2017)

Table 2 presents the Pearson correlation coefficient results for the variables. It is observed that CSR appears to positively correlate with earnings management (DAC) as depicted by the correlation coefficient (0.027). It implies that manufacturing companies use CSR to manipulate earnings. The control variables FSIZE and LEV exhibit positive association with earnings (DAC) as depicted by correlation coefficient (0.0128) and (0.0186), while LEV exhibits positive association with earnings management (DAC).

The correlation coefficient results show that none of the variables is very strongly correlated and this indicates that the problem of multicollinearity is unlikely and hence the variables are suitable for conducting regression analysis.

### Diagnostic Test

Table 3

#### Variance Inflation Factor (VIF) result

	uncentred	centred
<b>DAC</b>	75.7	NA
<b>CSR</b>	1.6	1.0
<b>FSIZE</b>	1.79	1.33
<b>ROA</b>	77.5	1.41
<b>LEV</b>	1.38	1.06

Source: Researcher's computation (2017), using E-views 7.0

To further strengthen the result of the absence multicollinearity, we carried out a residual diagnostic test of variance inflation factor. From the in table 3, it is observe that the variance inflation factor (VIF) which measures the level of collinearity between the variables show how much of the variance of a variable most likely the coefficient estimate of a regressors has been inflated due to collinearity with the other variables or likely regressors. They can be calculated by simply diving variance of a coefficient estimated by the variance of that coefficient had other regressors not been included in the equation. The VIFs are inversely related to the tolerance with larger values indicating involvement in more severe relationships. Basically, VIFs above 10 are seen as a cause of concern (Landau & Everit, 2003). CSR reported a VIF of 1.0; CSR (1.0); FSIZE (1.33); ROA (1.41); and LEV (1.06). Inclusions, the VIFs of the variables are all less than 10 indicating the unlikelihood of multicollinearity amongst the variables and hence the variables satisfy a very important condition the multivariate regression analysis.

Table 4

**Heteroskedasticity**

Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	14.68416	Prob. F(4,769)	0.1100
Obs*R-squared	54.92344	Prob. Chi-Square(4)	0.3100
Scaled explained SS	5964.004	Prob. Chi-Square(4)	0.6400

The Breusch-Pagan-Godfrey test of heteroskedasticity was adopted. The result of the reported probability values of 0.31 and 0.492 which far exceeds the 0.05 bench mark; this implies the null hypothesis of heteroskedasticity residual is uniform across all observations.

Table 5

**Table regression result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.74E+10	1.76E+09	9.868577	0.0000
CSR	5.354799	4.946028	2.082646	0.0293
FSIZE	125185.5	20220.13	6.191133	0.0000
ROA	-1.20E+09	1.15E+08	-10.48301	0.0000
LEV	-3.36E+08	1.31E+08	-2.566995	0.0105
Weighted Statistics				
R-squared	0.521954	Mean dependent var		-0.059390
Adjusted R-squared	0.517620	S.D. dependent var		0.837270
S.E. of regression	0.740061	Sum squared resid		393.2416
F-statistic	51.20629	Durbin-Watson stat		2.058553
Prob(F-statistic)	0.000000			
R-squared	0.063086	Mean dependent var		-1.07E+09

**Regression Results**

From the Ordinary least squares multivariate regression result presented in table 5 it is observed that the estimates are presented on year by basis order to provide insight on the sensitivity checks for the outcomes. Beginning the relationship between CSR and earnings management (DAC) depicted by discretionary accruals is positive (5.356,  $p=0.029$ ) at 5% significance level.

Firm size (FSIZE) has a positive relationship with earnings management ( $\beta=125185, p=0.00$ ) at 5% significance level. The effect of profitability on earnings management as depicted by DAC appears to be negatively related with earnings management ( $\beta=-1.20E, p=0.00$ ) at 5% significance level.

Leverage (LEV) appears to be negatively related with earnings management ( $\beta=-5.36, p=0.01$ ) at 5% level of significance.

In evaluating the yearly performance of the model which relates CSR and earnings management, the  $R^2$  stood at 0.52 indicating that the model explains about 52% of systematic variations in earnings management. The F-stat of (F-stat= 52.0 and  $p=0.00$ ) for the model is significant at 5% it implies that the hypotheses of a linear relationship cannot be rejected at 5%. The D.W stat of 2.0 suggest that stochastic dependence is unlikely between successive units of the error term.

### **Test of Hypotheses**

#### **Hypothesis One**

***Ho:** There is no significant relationship between CSR and earnings management in the Nigerian manufacturing sector.*

The effect of CSR on earnings management as depicted by discretionary accruals appears to be positive with coefficients value (5.35) and p-value ( $p=0.029$ ). The impact is significant at 5% level of significant hence the null hypothesis is not retained.

### **Discussion of Results**

This study was aimed at ascertaining the relationship between corporate social responsibility and earnings management of the Nigerian manufacturing companies. The result shows that there is a positive relationship between CSR and earnings management. This result is in line with Benson et al. (2011) find that a positive association between CSR and earnings management.-the consistency between CSR and financial reporting was an empirical behavior and at variance with Kim et al., (2012) that investigate whether earnings quality is associated with CSR or not? But find that CSR firms are less inclined to be involved in aggressive income management via discretionary accruals or manipulation of actual activities and they play important role in limiting earnings management.

### **Conclusion**

This study lies at the heart of the issue of reliability of financial statements. Reliability is the accountant's terminology for integrity of financial statements. Reliability is the cornerstone of credibility, which in turns determines investor confidence. The focus of this study is CSR and earnings management in the Nigerian manufacturing sectors. The study is motivated by the paucity of research

on subject matter in manufacturing sub-sector in Nigeria. This study therefore uses the discretionary earnings management as proxy for earnings management.

This study contributes to CSR literature by being the first to best of our knowledge in the Nigerian context to relate earnings management with corporate social responsibility. Besides, the model used in this study is unique to this study. The model was built based on a study of extant literature. The variables used show that there is a positive relationship between CSR and earnings management.

### **Recommendations**

#### **Policy recommendations**

This study reveals that there is a positive relationship between earnings quality and CSR. Thus, the financial of information given by most manufacturing companies misleads both potential and existing investors, this study therefore recommended that statutory bodies should put a ceiling on the amount that expended on CSR this must be exceeded by any firm. Defaulters should be duly sanctioned.

#### **Recommendations for further studies**

This study focused on specific discretionary accruals as a proxy for earning management. The first suggestion for further study is to repeat the study in other sectors like financial institutions. Thus discretionary accruals, as used in the models should be replaced with abnormal loan loss provision.

This study deals with the manufacturing sector. An examination of these models for financial sector and other non-financial sectors of the economy is recommended for further studies.

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## Appendix

	DAC	CSR	FSIZE	ROA	LEV
Mean	-1.02E+09	15409659	10198.72	15.55353	0.725853
Median	-5962553.	7500000.	5225.000	15.29000	0.575000
Maximum	1.20E+11	1.03E+08	191000.0	23.56000	16.57000
Minimum	-3.15E+11	167890.0	160.0000	11.14000	-4.150000
Std. Dev.	1.58E+10	19541449	17398.32	2.116419	1.317805
Skewness	-12.96053	2.303125	5.963502	0.664928	8.220947
Kurtosis	244.3901	8.594553	49.93017	3.764537	84.71289
Jarque-Bera	1900850.	1693.659	75616.39	75.88532	224051.5
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	-7.91E+11	1.19E+10	7893811.	12038.43	561.8100
Sum Sq. Dev.	1.92E+23	2.95E+17	2.34E+11	3462.445	1342.399
Observations	774	774	774	774	774
	DAC	CSR	FSIZE	ROA	LEV
DAC	1.000000	0.027222	0.012799	-0.238320	0.018559
CSR	0.027222	1.000000	-0.031302	-0.063715	-0.009509
FSIZE	0.012799	-0.031302	1.000000	0.494513	-0.023317
ROA	-0.238320	-0.063715	0.494513	1.000000	-0.218350
LEV	0.018559	-0.009509	-0.023317	-0.218350	1.000000

## Variance Inflation Factors

Date: 07/22/17 Time: 21:33

Sample: 1 780

Included observations: 774

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	2.24E+19	75.76446	NA
CSR	780.0857	1.630204	1.004664
FSIZE	1.31E+09	1.797054	1.337031
ROA	9.32E+16	77.56053	1.408210
LEV	1.81E+17	1.383635	1.061251

## Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	14.68416	Prob. F(4,769)	0.1100
Obs*R-squared	54.92344	Prob. Chi-Square(4)	0.3100
Scaled explained SS	5964.004	Prob. Chi-Square(4)	0.6400

Dependent Variable: DAC

Method: Panel LS (Period SUR)

Date: 07/22/17 Time: 07:05

Sample: 2002 2015

Periods included: 14

Cross-sections included: 52

Total panel (unbalanced) observations: 723

Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.74E+10	1.76E+09	9.868577	0.0000
CSR	5.354799	4.946028	2.082646	0.0293
FSIZE	125185.5	20220.13	6.191133	0.0000
ROA	-1.20E+09	1.15E+08	-10.48301	0.0000
LEV	-3.36E+08	1.31E+08	-2.566995	0.0105

## Weighted Statistics

R-squared	0.521954	Mean dependent var	-0.059390
Adjusted R-squared	0.517620	S.D. dependent var	0.837270
S.E. of regression	0.740061	Sum squared resid	393.2416
F-statistic	51.20629	Durbin-Watson stat	2.058553
Prob(F-statistic)	0.000000		

## Unweighted Statistics

R-squared	0.063086	Mean dependent var	1.07E+09
Sum squared resid	1.80E+23	Durbin-Watson stat	1.023752