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Standardized corporate social responsibility disclosure, assurance, and real earnings management: evidence from developing countries

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Abstract

Research aims: This study aims to present empirical evidence on the effect of social responsibility disclosure on real earnings management and the role of assurance in this relationship. This is based on a paradox, i.e., companies that publish standardized corporate social responsibility disclosures to project ethical business practices are also associated with accounting and financial scandals.

Design/Methodology/Approach: This study was conducted on non-financial sector companies in developing countries that are members of ASEAN-4, namely Indonesia, Malaysia, Thailand, and the Philippines, which issued GRI-based social responsibility disclosures in the period 2013-2019, amounting to 285 companies with a total of 859 observations.

Research findings: The results demonstrated that companies with standardized social responsibility disclosures tend to reduce their real earnings management practices. However, the assurance variable mitigates the negative effect of corporate social responsibility on real earnings management, implying that assurance provides false credibility. In an additional analysis, the samples were grouped based on board structure. The findings of this study are consistent with two-tier board structures, suggesting that a one-tier system provides better information quality.

Theoretical contribution/Originality: The originality of this study lies in a comprehensive measurement of social responsibility disclosure variables using an index that gauges a combination of accountability and performance aspects. Furthermore, this study takes into account assurance as a variable representing the credibility of information, which surprisingly moderates the negative effect of social responsibility disclosure on real earnings management.

Practitioner/Policy implication: The findings of this study underscore the importance of standardized social responsibility disclosure in mitigating managerial opportunistic behavior. The findings also highlight the need to enhance the assurance function to prevent its use as an opportunistic management tactic.

Keywords: Corporate Social Responsibility Disclosure; Real Earnings Management; Assurance

Introduction

Corporate social responsibility has evolved into an integral part of business practices. In carrying out their business, companies are required to behave ethically to improve the welfare of their owners (Elkington, 2018). In fact, social responsibility is a manifestation of the company's. This implies that

corporations that disclose their social responsibilities are anticipated to maintain ethical practices in their financial disclosures (Salem et al., 2021).

In its development, social responsibility has also become one of the strategic issues that can affect the company's reputation and value (Axjonow et al., 2018; Martínez-Ferrero et al., 2016). Corporate social responsibility is an established issue in developed countries and is becoming increasingly popular in developing countries (Stanislavská et al., 2020). Previous research in developing countries has shown that corporate social responsibility activities and disclosures can reduce information asymmetries and improve firm performance, such as sales and earnings growth, as well as stock price and firm value (Husnaint & Basuki, 2020; Isnalita & Narsa, 2017; Tjahjadi et al., 2020). Due to its positive contribution to improving corporate performance, social responsibility is essential information to be disclosed to stakeholders. Disclosure of social responsibility is expected not only to help increase the company’s value in the eyes of stakeholders but also to provide legitimacy to maintain the continuity of its business.

Nevertheless, paradoxes arise when socially responsible companies are involved in accounting and financial scandals that harm many parties, such as the case of inflated earnings at PT. Garuda Indonesia, Tbk. and asset bubbles at 2GO Group, Inc. in the Philippines, corruption and allegations of false payments at Malaysia's MISC Group, and insider trading cases at CP All in Thailand. These are examples of companies that promote corporate social responsibility while engaging in financial accounting scandals. This paradox illustrates that companies that openly disclose and even receive recognition for their corporate social responsibility efforts do not necessarily exhibit ethical behavior in their business operations. This raises questions about whether corporate social responsibility truly embodies ethical values or merely serves as a smokescreen for companies to deceive their stakeholders. While companies may publish social responsibility disclosures, these should not be viewed as solely reflective of ethical behavior. Instead, they could be used to mislead stakeholders about the company's poor financial condition and conceal fraudulent financial manipulation (Du & Wu, 2019; Gavana et al., 2017).

Accordingly, this current study used earnings management to manipulate corporate finances based on the findings of Md Nasir et al. (2018) and Perols and Lougee (2011). The studies uncovered that companies involved in accounting and financial scandals had frequently engaged in earnings management before the scandal was revealed. This denotes that companies may reveal their social responsibility to appear ethical in their business practices while at the same time engaging in unethical behavior through earnings management in their financial reporting. Earnings management actions are considered unethical because they distort the value of earnings and do not describe the company's true condition (Salem et al., 2021). In addition, according to Shleifer (2004), earnings manipulation serves as evidence of a decline in the ethical standards of a firm. A study by Choi and Pae (2011) found that firms with strong ethical commitment reduce earnings management practices, report earnings more conservatively, and make more accurate predictions of future cash flows compared to firms with weak ethical commitment.

Furthermore, this study focuses on real earnings management for several reasons. First, the research result of Cohen et al. (2008) exposed that there has been a shift in earnings management patterns from accrual earnings management to real earnings management. This is because real earnings management practices are more challenging for auditors and regulators to detect. Real earnings management provides greater flexibility, as it can occur any time during the year, making it more difficult to prove (Chang et al., 2017; Zang, 2012). Second, Graham et al. (2005) conducted interviews with managers and reported that managers prefer to engage in real earnings management rather than accrual earnings management to achieve earnings targets. Third, the bibliometric review carried out by Santos-Jaén et al. (2021) revealed that a scarcity of literature exists related to the influences of corporate social responsibility on real earnings management compared to the influences of corporate social responsibility on accrual earnings management. Therefore, this study specifically examines the effect of corporate social responsibility disclosures on real earnings management behavior.

The paradox also further raises skepticism about the credibility of corporate social responsibility disclosures (Hsueh, 2018; Richard & Odendaal, 2021). Social responsibility disclosures in developing countries, which are still voluntary, tend to have low credibility and are vulnerable to companies' use of manipulative unilateral claims for personal gain (Chen et al., 2016). The trustworthiness of social responsibility disclosures is, in fact, critical to ensure that users are not subject to manipulation. Hence, it is crucial to prioritize the credibility of the information presented in social responsibility disclosures. According to Jahn et al. (2020) and Lock and Schulz-Knappe (2019), credible disclosures can increase the legitimacy of a company. This suggests that credibility may be a contextual factor that can moderate the effect of corporate social responsibility disclosures on real earnings management.

Moreover, prior studies examining the influence of social responsibility on earnings management have yielded inconsistent findings. Research conducted by Mubarokah and Agustia (2020) and Muliati et al. (2021) unveiled a negative impact of corporate social responsibility disclosure on earnings management. Conversely, Jordaan et al. (2018) and Ruwanti et al. (2019) discovered a positive impact, whereas Larasati & Az’mi (2023) and Toukabri et al. (2014) identified no significant association between corporate social responsibility disclosure and earnings management. These inconclusive results suggest the existence of a research gap where credibility could potentially serve as a moderating variable. Further analysis of past studies that provide different relationship results reveals a similar method of measuring social responsibility disclosure, i.e., by using the ratio of disclosed items to total items that should be disclosed. This indicates the lack of accuracy in measuring social responsibility disclosure that leads to inconsistent relationship outcomes, as it solely focuses on accountability, whether or not the company discloses, without considering their performance in corporate social responsibility. As such, a comprehensive evaluation of social responsibility disclosure is necessary to consider both accountability and performance aspects. Hence, this study introduces a novel measurement index that combines accountability and performance aspects, providing a comprehensive measure of corporate social responsibility disclosure. Another novelty lies in the use of assurance variables as moderating variables in the relationship between

social responsibility disclosure and earnings management and introduces a more detailed measurements that consider various aspects of assurance.

This research was conducted in developing countries because they are commonly characterized by limited access to information, weak regulation and enforcement, and lower levels of transparency, disclosure, and investor protection than their developed countries, resulting in a voluntary disclosure environment (Md Zaini et al., 2018). This study focuses on companies in developing countries, specifically Indonesia, Thailand, the Philippines, and Malaysia, collectively referred to as the ASEAN-4 (Kumagai, 2019; Liang et al., 2020). The ASEAN-4 countries have the largest economies in ASEAN and are rich in natural resources (Wibowo, 2013). Using natural wealth for economic development will have environmental and social impacts. Social responsibility issues, such as pollution, deforestation, unemployment, child labor, corruption, gender inequality, and workplace safety, however, remain major concerns in developing countries (Adhariani & de Villiers, 2019; Tjahjadi et al., 2021).

Further, this study contributes to the body of knowledge on corporate social responsibility by supporting legitimacy theories from both substantive and symbolic legitimacy perspectives. Employing a comprehensive measure of social responsibility, the findings on the relationship between corporate social responsibility and real earnings management support substantive legitimacy theory. This study also documents evidence of an interaction effect of credibility and social responsibility disclosure on the relationship between social responsibility disclosure and real earnings management. The moderating variable of assurance surprisingly reinforces legitimacy theory from the symbolic perspective, showing that assurance is vulnerable to being misused by managers to provide false credibility. Another scientific advance is made by introducing more comprehensive measures of social responsibility disclosure and assurance variables, which enriches the methods used in such measurements.

The practical implication of this research is the need to strengthen law enforcement related to standardized corporate social responsibility disclosure since it is proven to reduce real earnings management practices. The data indicate that although the government in each country has issued regulations requiring public companies to publish social responsibility disclosures, the percentage of companies that publish them remains low. The implication concerning the assurance variable emphasizes the importance of strengthening the assurance institution and profession to prevent it from being used as a tool for managers to deceive stakeholders, and the assurance carried out can truly reflect the true credibility of corporate social responsibility disclosure.

Literature Review and Hypotheses Development

Legitimacy Theory

Corporate social responsibility disclosure applies legitimacy theory, which is based on the concept of institutional legitimacy proposed by Dowling and Pfeffer (1975). According to

this theory, entities gain legitimacy when their values are consistent with the more extensive social system in which they exist. Any discrepancy between the two poses a threat to the institution's legitimacy. As long as these value systems are aligned, the entity has the license to continue operating. Legitimacy theory serves as a foundation for understanding why companies disclose their social responsibility despite the voluntary environment of such disclosures. The company also actively promotes its social responsibility disclosure and has won awards in this area to gain a reputation as an active social responsibility company. Companies with a strong reputation for social responsibility gain community support, which is crucial for their survival and legitimacy (Kim et al., 2007).

Furthermore, the legitimacy theory literature divides the legitimacy theory approach into two parts, namely symbolic and substantive legitimacy approaches (Ashforth & Gibbs, 1990; Hahn & Lülfs, 2014; Nasution & Adhariani, 2016). The first approach, symbolic legitimacy, is a strategy aimed solely at creating the illusion that the company is aligned with societal values and expectations without making any major changes to internal operations. This approach demonstrates the tendency of companies to use social responsibility disclosures as window dressing and manipulative activities (Bozzolan et al., 2015). Companies may disclose social responsibility to gain a reputation as an ethical company in their business practices, but at the same time, the company is committing unethical acts in the form of fraud on the financial reporting side. Thus, social responsibility disclosure is used to cover up such unethical practices. Financial scandals of companies that actively practice social responsibility exemplify a symbolic legitimacy approach. Companies can use such an approach because financial fraud is not immediately apparent to the public and requires some expertise to detect. Cases of financial scandals usually come to the public's attention after an investigation by the relevant authorities or the existence of a whistleblower, and the case is already significant in scale. Md Nasir et al. (2018) and Perols and Lougee (2011) reported that firms involved in accounting and financial scandals had engaged in earnings management before the scandal.

The second approach is substantive legitimacy, which focuses on the actual changes made by companies (Crossley et al., 2021). In the substantive legitimacy approach, companies apply the ethical values that exist in social responsibility to their business practices so that changes occur within the company (Idowu & Aluchna, 2017). The ethical values that underlie social responsibility activity are also applied to other aspects of the company, including the financial aspect. The company believes that social responsibility encompasses more than only the company's contributions to society and the environment; it also encompasses ethical business practices, including financial practices. The company engages in corporate social responsibility activities and disclosures not only to make the company look good in the eyes of its stakeholders but also to manifest its ethical values. Research by Kim et al. (2012) found that companies that actively engage in social responsibility are positively associated with earnings quality, meaning that companies that actively engage in social responsibility also limit the company’s earnings management practices. Correspondingly, a study by Popli et al. (2022) uncovered that

earnings management actions may hinder a company's attempts to establish legitimacy in its business operations.

Previous Research and Hypotheses

Based on the theory of legitimacy and its relationship to ethical behavior, companies should adopt a substantive legitimacy approach to social responsibility disclosure. The substantive legitimacy approach focuses on companies' real changes concerning responsible business practices. The company positions the disclosure of social responsibility as a reflection of ethical behavior and will align it with the financial aspects by reducing real earnings management practices. The practice of earnings management is unethical because it distorts the value of earnings, leaving stakeholders unaware of the true value of a company's earnings, and can lead to mistakes in decision-making.

Social responsibility disclosure is a reflection of the substantive legitimacy approach. Companies that disclose social responsibility will also make real changes in their financial aspects by reducing real earnings management practices because these practices are considered unethical. The results of Choi et al.'s (2013) study on companies in South Korea showed that companies with high social responsibility ratings had high earnings quality. They were companies that actively engaged in social responsibility, which had a negative impact on earnings management. These findings are in harmony with Muliati et al.'s (2021) study results on companies in the plantation industry listed on the Indonesian and the Malaysian Stock Exchanges, which found that social responsibility negatively affected earnings management, indicating that environmentally and socially responsible companies are also responsible to investors by reducing earnings management practices. Research conducted by Mubarokah and Agustia (2020) on manufacturing companies listed on the Indonesian Stock Exchange also revealed that companies that disclose social responsibility negatively affect earnings management. However, the earnings management variables used in these studies still focus on accrual earnings management, and none have focused on real earnings management, even though earnings management practices have shifted from accrual earnings management to real earnings management (Cohen et al., 2008). Based on this, the following hypothesis was formulated:

H_1: *Social responsibility disclosure has a negative effect on real earnings management.*

Assurance of corporate social responsibility disclosure represents information credibility, which indicates the extent to which users believe in the content of the information presented (Roberts, 2010). The credibility of information is obtained from the existence of assurance from independent parties outside the company. Assurance will assure stakeholders that the information published by the company's disclosure can be trusted (Hayes et al., 2005). Based on legitimacy theory, assurance plays a vital role in social responsibility disclosure, specifically in a voluntary environment, because it can increase confidence that the company's efforts to gain and maintain its legitimacy are not only unilateral claims but have been verified by independent external parties.

The research results of Ballou et al. (2018), Du and Wu (2019), and Quick and Inwinkl (2020) found that the presence of assurance could increase the credibility of corporate social responsibility disclosure. Assurance in social responsibility disclosure also signals to investors that the disclosure is credible (Brown-Liburd & Zamora, 2015) and provides a positive signal about the company's ethical behavior (Stuart et al., 2021). Thus, assurance in the company's disclosure is a moderating variable that provides confidence that the company is highly committed to ethical business practices. Based on this description, the following hypothesis was proposed:

***H₂**: Assurance strengthens the negative effect of corporate social responsibility disclosure on real earnings management.*

Research Method

This study used secondary data from annual reports, sustainability reports, and financial statement data of non-financial industry companies listed in ASEAN-4 countries. The financial data in this study was obtained from the OSIRIS database. Exchange rate differences between countries were converted into a single rate using the exchange rate conversion available in OSIRIS. In addition, social responsibility disclosure and assurance data were obtained from sustainability and annual reports.

The study period was 2013-2019. This sample period was chosen because the GRI-G4 corporate social responsibility reporting guidelines have been applied since 2013. The guidelines were later updated to GRI standards in 2016 and 2018. This study did not use data for 2020-2022, as the COVID-19 pandemic caused companies to reduce investment in social responsibility activities to lower costs and mobilization constraints (Chintrakarn et al., 2021; Popkova et al., 2021; Qiu et al., 2021). In addition, during the pandemic, the company shifted its corporate social responsibility activities to philanthropic activities aimed at helping those affected by the pandemic (Zhang et al., 2022). In fact, such policy is not in line with the GRI principle, which is based on empowerment activities and the impact of corporate social responsibility in economic, environmental, and social areas that contribute to sustainable development. Table 1 summarizes the sample selection process presented in aggregate from 2013-2019.

Table 1 Sample Selection Process

Description	Total for the Period 2013-2019			
	Indonesia	Thailand	Malaysia	Philippines
Public listed company	3,900	4,609	6,295	1,831
Companies in the financial industry sector (SIC 6)	(1,260)	(1.262)	(1,022)	(686)
Companies not in the financial industry sector	2,640	3,347	5,273	1,145
Companies that did not publish sustainability reports according to Global Reporting Initiative (GRI)	(2,370)	(3,016)	(5,095)	(1,065)
Companies that published sustainability reports	270	331	178	80

In this research, corporate social responsibility disclosure is defined as the standardized disclosure of corporate social responsibility by publishing sustainability reports based on GRI guidelines. This study's measure of social responsibility disclosure is a modification of the Social Responsibility Disclosure Index developed by Tsalis et al. (2020). Tsalis et al. (2020) developed a methodology to measure social responsibility disclosure for performance and accountability, focusing only on environmental aspects. GRI-based social responsibility disclosure considers environmental, economic, and social aspects. Therefore, this study reviewed and reclassified the measures of Tsalis et al. (2020) and added economic and social aspects to calculate the overall GRI-based Social Responsibility Disclosure Index.

The process of measuring the social responsibility index consists of two stages: 1) The GRI indicators are divided into two Types: Type 1 includes indicators demonstrating the company's progress toward social responsibility, and Type 2 covers qualitative measures that make it difficult to draw definitive conclusions about the company's performance. The report contains 53 Type 1 indicators and 24 Type 2 indicators; 2) The Social Responsibility Disclosure Index is calculated using the Accountability and Performance Index. To determine Accountability Index scores, the following guidelines were used:

Table 2 Accountability Index Score Calculation Guidelines

Score	Description
0	The information was not disclosed.
1	The information disclosed is qualitative.
2	The information disclosed is quantitative but could not be used to measure performance.
3	The information disclosed is quantitative in nature and could be used to measure performance.

The accountability index score was determined by using a formula combining Types 1 and Types 2:

$$TAI = \frac{\sum_{i=1}^{k} Type\ 1 + \sum_{j=1}^{l} Type\ 2}{AI\ Max} \quad (1)$$

Where TAI describe to total accountability index; AI Type 1 describe to total accountability index Type 1; and AI Type 2 describe to Total Accountability Index Type 2.

The maximum value of the Accountability Index (IAmax) results from combining the maximum values of IA Type 1 and IA Type 2. Type 1 IA indicators can score a maximum of 3 points each, while Type 2 IA indicators, which cannot assess performance, can only score a maximum of 2 points each. Consequently, the IA's highest achievable value is 207, accounting for (53 x 3) + (24 x 2).

The Performance Index was calculated only on indicators that fell into the Type 1 category, with the following score calculation guidelines:

Table 3 Index Score Calculation Guidelines

Score	Description
0	If the performance of the indicator is lower than the previous year
1	If the performance of the indicator is the same as the previous year
2	If the performance of the indicator is higher than the previous year

The total performance index score was gauged only for Type 1 indicators, with formulas:

$$TPI = \frac{\sum_{i=1}^{k} PI\ Type\ 1}{PI\ Max} \quad (2)$$

Where TPI describe to total performance index and PI Type 1 describe to total performance index Type 1.

The Performance Index (Pimax) has a maximum value of 106 = (53 x 2). Based on the results of the Accountability and Performance Index scores, the Social Responsibility Disclosure score was then calculated as follows:

$$CSR\ Score = \frac{1}{2} x\ (TAI + TPI) \quad (3)$$

Following that, real earnings management is a technique used to modify the timing and/or structure of actual business activities to manipulate company profits. This strategy emphasizes operational activities to boost earnings (Francis et al., 2016; Roychowdhury, 2006). In this study, real earnings management was determined using a model established by Roychowdhury's (2006) research, which involves manipulating real activities by changing production costs, operating cash flow, and discretionary costs. The model calculates real earnings management based on abnormal operating cash flow minus abnormal production and abnormal discretionary costs. Real earnings management was also determined by combining abnormal cash flows from operating activities, abnormal production costs, and abnormal discretionary costs - each calculated as described Model 4, Model 5, Model 6, and Model 7.

Model 4 describe about manipulation of real activities by production costs. Manipulation of real activity through production costs was measured by abnormal production costs using an estimation model for normal production costs as follows:

$$\frac{PROD_t}{TA_{t-1}} = \alpha_0 + \alpha_1\left(\frac{1}{TA_{t-1}}\right) + \alpha_2\left(\frac{S_t}{TA_{t-1}}\right) + \alpha_3\left(\frac{\Delta S_t}{TA_{t-1}}\right) + \alpha_4\left(\frac{\Delta S_{t-1}}{TA_{t-1}}\right) + \varepsilon_t \quad (4)$$

The AB_PROD represents the residual value in Equation 4. Overproduction is a strategy of real earnings management adopted to decrease the cost of goods sold, and it is directly proportional to increased AB_PROD.

Where $PROD_t$ describe to production cost in t year ($COGS_t + \Delta INV_t$); S_t describe to sales in year t; ΔS_tdescribe to change in net sales in year t; ΔS_{t-1} describe to change in net sales in year t-1; and TA_{t-1} describe to total assets in year t-1.

Model 5 describe about manipulation of real activities by operating cash flow. Manipulation of real activities by cash flow from operating activities was measured through abnormal operating cash flows, which were determined as follows:

$$\frac{OCF_t}{TA_{t-1}} = \alpha_0 + \alpha_1\left(\frac{1}{TA_{t-1}}\right) + \alpha_2\left(\frac{S_t}{TA_{t-1}}\right) + \alpha_3\left(\frac{\Delta S_t}{TA_{t-1}}\right) + \varepsilon_t \quad (5)$$

The abnormal operating cash flow (AB_OCF) was calculated as the residual from Equation 5. A lower AB_OCF indicates increased manipulation of sales for real earnings management.

Where OCF_t describe to operating cash flow in year t; S_t describe to sales in year t; ΔS_t describe to change in net sales in year t; and TA_{t-1} describe to total assets in year t-1.

Model 6 describe about manipulation of real activities by discretionary costs. The manipulation of real activity by discretionary costs was gauged through the estimation of abnormal discretionary costs, outlined as follows:

$$\frac{DSIEXP_t}{TA_{t-1}} = \alpha_0 + \alpha_1\left(\frac{1}{TA_{t-1}}\right) + \alpha_2\left(\frac{S_t}{TA_{t-1}}\right) + \alpha_3\left(\frac{\Delta S_t}{TA_{t-1}}\right) + \varepsilon_t \quad (6)$$

Discretionary costs, as defined in this study, consisted of advertising, research and development, selling, and general and administrative expenses. AB_DISEXP represents the residual of Equation 6 and indicates abnormal discretionary cost. The lower abnormal discretionary cost denotes a higher degree of real earnings management achieved by subtracting discretionary costs.

Where $DISEXP_t$ describe to discretionary expenses (advertising fees, R&D fees, SGA fees) in year t; S_t describe to sales in year t; ΔS_t describe to change in net sales in year t; TA_{t-1} describe to total assets in year t-1.

Further, real earnings management was calculated by combining abnormal cash flows from operating activities, abnormal production costs, and abnormal discretionary costs in the following manner (Chen et al., 2021; Cho & Chun, 2016):

$$REM_t = AB_PROD_t - AB_OCF_t - AB_DESEXP_t \quad (7)$$

Where REM_t describe to real earnings management in t year; AB_PROD_t describe to abnormal production cost in year t; AB_CFO_t describe to abnormal operating cash flow in year t; AB_DISXEP_t describe to abnormal discretionary expenses in year t.

The higher the REM value, the higher the company's real earnings management actions through changes in the company's operational activities.

Moreover, assurance independently verifies a company's social responsibility disclosures. Assurance is by constructing a thorough index that involves assurance providers, assurance standards, and assurance levels. The formulation is as follows Table 4.

Table 4 Index Score Calculation Guidelines

Description	Score		
	0	1	2
Social responsibility disclosure assurance (AS)	No assurance	The assurance provider is not an audit firm	The assurance provider is an audit firm
Assurance standards (SA)	No information	ISAE3000 or AA1000AS	Combination of ISAE3000 and AA1000AS
Assurance level (LA)	No information	limited (ISAE3000) or moderate (AA1000AS)	reasonable (ISAE3000) or high (AA1000AS)

The valuation reference in Table 4 was then translated into a composite index as follows Model 8.

$$ASR_t = \frac{1}{6}(AP_t + AS_t + AL_t) \quad (8)$$

Where ASR_t describe to total assurance score; AP_t describe to assurance provider score; AS_t describe to assurance standards score; and AL_t describe to assurance level score.

This study also used control variables to prevent bias from other factors excluded from the analysis but could also affect the dependent variable (Hair Jr et al., 2019). The control variables were derived from the results of previous studies and affected the variables under study, namely firm size, leverage, profitability, sales growth, firm growth, and institutional ownership (Choi et al., 2013; Hoi et al., 2013; Jordaan et al., 2018; Kim et al., 2012; Muttakin et al., 2015; Ruwanti et al., 2019).

Afterward, model determination tests (FE, RE, and OLS), classical assumption tests, and correlation tests were first conducted before hypothesis testing. The hypothesis was tested utilizing multiple linear regression analysis with the following research Model 9 and Model 10.
Model for testing the H1 hypothesis.

$$REM_{it} = \alpha_0 + \alpha_1 CSR_{it} + \alpha_2 ASR_{it} + \alpha_3 SIZE_{it} + \alpha_4 ROA_{it} + \alpha_5 LEW_{it} + \alpha_6 GRW_{it} + \alpha_7 MTB_{it} + \alpha_8 INS_{it} + \varepsilon_t \quad (9)$$

Model for testing the H2 hypothesis.

$$REM_{it} = \alpha_0 + \alpha_1 CSR_{it} + \alpha_2 ASR_{it} + \alpha_3 CSR * ASR + \alpha_4 SIZE_{it} + \alpha_5 ROA_{it} + \alpha_6 LEW_{it} + \alpha_7 GRW_{it} + \alpha_8 MTB_{it} + \alpha_9 INS_{it} + \varepsilon_t \quad (10)$$

Where REM_{it} describe to real earnings management of the company i in year t; CSR_{it} describe to the value of corporate social responsibility disclosure i in year t; ASR_{it} describe to company assurance i in year t; $SIZE_{it}$ describe to the company size i in year t; ROA_{it} describe to the profitability of the company i in year t; LEV_{it} describe to total debt of the company i in year t; GRW_{it} describe to company growth of the company i in year t; MTB_{it} describe to market to book value of company i in year t; INS_{it} describe to institutional ownership of the company i in year t.

The results of the estimation model test indicated that the fixed effects (FE) model was optimal for this study. This study employed robust standard errors to mitigate the problem of autocorrelation and heteroscedasticity (Hoechle, 2007). All variables were winsorized at the 1% and 99% levels to diminish the impact of outliers (Effiezal Aswadi Abdul et al., 2020; Harymawan et al., 2020). The correlation test results showed that each model's average VIF value was less than 10, indicating no multicollinearity in the research model. To increase the robustness of the study, an alternative measure of real earnings management was incorporated by applying a modified real earnings management model (MOD_REM) developed by Cohen et al. (2020), which was modified from the original model of Roychowdhury (2006) model by controlling for cost stickiness.

Result and Discussion

Results

The distribution of the research samples is displayed in Table 5, divided into two panels. Panel A indicates the sample distribution by country and year, with a total sample size of 859 observations from 285 companies. This study used unbalanced panel data because not all sample companies adopted GRI-based social responsibility disclosure from the early years of the study period.

Table 5 Distribution of Research Samples

Panel A : Sample distribution by country and year								
Country	Year							
	2013	2014	2015	2016	2017	2018	2019	Total
Indonesia	15	30	34	34	38	52	67	270
Thailand	7	29	39	52	58	71	75	331
Malaysia	3	7	12	18	27	44	67	178
Philippines	2	3	6	12	11	17	29	80
Total	27	69	91	116	134	184	238	859

Panel B: Sample distribution compared to total public listed companies							
Country	Year						
	2013	2014	2015	2016	2017	2018	2019
Indonesia	3.11%	5.93%	6.53%	6.33%	6.71%	8.40%	10.03%
Thailand	1.20%	4.70%	6.10%	7.93%	8.43%	10.09%	10.34%
Malaysia	0.33%	0.78%	1.35%	2.02%	3.02%	4.88%	7.29%
Philippines	0.79%	1.15%	2.29%	4.58%	4.17%	6.44%	10.94%

The information presented in Panel A signifies an upward trend in the number of companies disclosing social responsibility data in a standardized manner. This is consistent with the information presented in Panel B, which denotes an annual increase in the proportion of non-financial sector companies reporting GRI-based social responsibility information in each country. Nevertheless, the low percentage implies that the number of companies with standardized disclosures is still relatively small.

Table 6 Results of Hypothesis 1 Testing

	REM	MOD_REM
CSR	-5.545**	-0.479
	(-4.223)	(-3.653)
ASR	0.066*	0.065
	(1.870)	(1.617)
SIZE	-0.019	-0.020
	(-0.472)	(-0.553)
ROA	-0.787***	-0.680***
	(-4.190)	(-3.005)
LEV	0.098	0.109
	(0.900)	(0.917)
GRW	0.007	0.064**
	(0.200)	(2.036)
MTB	-0.004	-0.005
	(-0.987)	(-1.290)
INS	0.263	0.235
	(1.633)	(1.511)
Constant	0.275	0.275
	(0.292)	(0.330)
F	4.498***	3.840***
R^2	0.096	0.081
N	859	859

t-statistics in parentheses
* p < 0.1, ** p < 0.05, *** p < 0.01

Based on the results presented in Table 6, the CSR variable had a negative coefficient value of -0.545 and was significant at less than 1% (t = -4.223) in the REM dependent variable. This infers that the value of social responsibility disclosure significantly negatively impacts the real earnings management variable. This finding suggests that firms with higher levels of social responsibility disclosure tend to engage in less real earnings management. This outcome is consistent, using an alternative model for real earnings manipulation, the MOD_REM. Notably, the MOD_REM model yielded a negative coefficient value of -0.479 and was statistically significant at less than 1% level (t = -3.653). This finding supports hypothesis 1, which posits that disclosing corporate social responsibility has an adverse effect on the company's real earnings management.

The second hypothesis test results are displayed in Table 7, indicating that the dependent variable CSR*ASR produced consistent outcomes in both REM and MOD_REM models. CSR*ASR had a coefficient value of 0.568 with a significance level of less than 5% (t = 2.192) in the REM model. Additionally, in the MOD_REM model, CSR*ASR had a coefficient value of 0.659 with a significance level of less than 5% (t = 2.239). These findings indicate that the assurance variable mitigates the adverse impact of the variable social responsibility disclosure on real earnings management. Hypothesis 2 was therefore not supported. The empirical study reveals that firms navigate social responsibility disclosure assurance to conceal earnings management activities, especially in real earnings management activities that are difficult to identify (Chang et al., 2017). The

findings suggest that managers engaged in opportunistic behavior by utilizing assurance to disguise their real earnings management activities.

Table 7 Results of Hypothesis 2 Testing

	REM	MOD_REM
CSR	-0,688***	-0.643***
	(-4.186)	(-3.706)
ASR	-0.039	-0.056
	(-0.643)	(-0.933)
CSR*ASR	0.568**	0.659**
	(2.192)	(2.239)
SIZE	-0.017	-0.018
	(-0.418)	(-0.474)
ROA	-0.780***	-0.670***
	(-4.227)	(-3.011)
LEV	0.110	0.125
	(1.009)	(1.050)
GRW	0.006	0.063**
	(0.173)	(1.990)
MTB	-0.005	-0.006
	(-1.073)	(-1.407)
INS	0.261*	0.231
	(1.669)	(1.543)
Constant	0.277	0.284
	(0.287)	(0.331)
F	4.611***	3.821***
R^2	0.100	0.085
N	859	859

t-statistics in parentheses
* p < 0.1, ** p < 0.05, *** p < 0.01

Additional Testing

This study conducted further analysis by testing the research hypothesis on a sample group, as the board structure could influence disclosure quality. The results of Alzoubi's (2016) and Lobo and Zhou's (2001) research indicated that earnings management behavior could be affected by disclosure quality. Meanwhile, Khan et al. (2020) and Nosheen et al. 2020) found that the disclosure quality of companies in ASEAN countries with one-tier board structures was higher than those with two-tier board structures. This infers that board structure plays a vital role in disclosure quality. Therefore, this current study divided the samples based on their board structure and retested the hypothesis to determine whether the board structure that impacted the disclosure quality could influence the relationship between corporate social responsibility, assurance, and real earnings management. Among the ASEAN-4 countries, Indonesia uses a two-tier system, while Malaysia, Thailand, and the Philippines use a one-tier system (OECD, 2017).

Table 8 reveals that companies operating under the one-tier board structure recorded an average social responsibility disclosure score of 0.168 (SD = 0.092), whereas companies under the two-tier board structure had an average disclosure score of 0.145 (SD = 0.080).

The observed mean difference was statistically significant at the <1% level (t = 3.700). These results suggest that companies with a one-tier board structure demonstrated a higher quality of social responsibility disclosure than those with a two-tier board structure. This aligns with the research by Khan et al. (2020) and Nosheen et al. 2020), who uncovered that one-tier boarded companies provide higher quality disclosure than two-tiered companies.

Table 8 Results of Different Groups of Board Structure Samples

Group	Obs.	Mean	Std. err.	Std. dev.	t	sig. (2-tailed)
One-tier	589	0.168	0.004	0.092	3.700	0.000
Two-tier	270	0.145	0.005	0.080		

The test results of hypothesis 1, as demonstrated in Table 9, indicate that the variable of social responsibility disclosure had a negative impact on the variable of real earnings management. In the one-tier sample group where REM was the dependent variable, the CSR variable displayed a negative coefficient value of -0.556, with a significance level of less than 1% (t = -3.346). In the MOD_REM dependent variable for real earnings management, the CSR variable exhibited a negative coefficient value of -0.577, significant at less than 1% (t = -3.374).

Table 9 Results of Testing Hypothesis 1 on Sample Groups Based on Board Structure

	One-tier System		Two-tier System	
	REM	MOD_REM	REM	MOD_REM
CSR	-0.556***	-0.577***	-0.485**	-0.318
	(-3.346)	(-3.374)	(-2.359)	(-1.432)
ASR	0.104**	0.110*	0.014	0.005
	(2.023)	(1.897)	(0.376)	(0.127)
SIZE	-0.032	-0.037	0.015	0.018
	(-0.632)	(-0.838)	(0.523)	(0.563)
ROA	-0.584***	-0.533**	-1.283***	-1.079***
	(-2.728)	(-1.987)	(-4.117)	(-3.111)
LEV	0.193	0.274	-0.027	-0.084
	(0.882)	(1.237)	(-0.274)	(-0.980)
GRW	-0.027	0.041	0.054	0.081*
	(-0.614)	(0.960)	(1.142)	(1.815)
MTB	-0.005	-0.005	0.002	-0.001
	(-1.015)	(-0.907)	(0.242)	(-0.198)
INS	0.091	0.159	0.356**	0.273
	(0.546)	(0.911)	(2.350)	(1.490)
Cons	0.650	0.679	-0.607	-0.642
	(0.567)	(0.680)	(-0.933)	(-0.855)
F	3.640***	3.520***	4.465***	2.284**
R^2	0.087	0.083	0.180	0.148
N	589	589	270	270

t-statistics in parentheses
* p < 0.1, ** p < 0.05, *** p < 0.01

In the sample group consisting of two tiers, the coefficient value for the CSR variable exposed a negative value of -0.485 with a significance level of less than 5% (t = -2.359). However, the results from the real earnings management model MOD_REM did not align with this finding. The variable for corporate social responsibility (CSR) showed a negative coefficient of -0.318 but with a significance level above 10% (t = -1.432), indicating that MOD_REM had no impact on real earnings management practices. This variance resulted from the MOD_REM variable's measurement, which introduces sales decline indicators as proxies for cost stickiness, acting as control variables in the equation model of the elements present in real earnings management, comprising abnormal production costs, abnormal operating cash flows, and abnormal discretionary costs (Cohen et al., 2020; Gunny, 2010; Vorst, 2016). Overall, the study's findings indicated that CSR variables had a negative impact on real earnings management variables across one-tier and two-tier sample groups. These results align with the aggregate sample test findings, supporting the conclusion that social responsibility disclosure mitigates real earnings management practices.

Table 10 shows the results of testing hypothesis 2 on a sample of board structures. Based on the results presented in Table 10, the CSR*ASR variable had a coefficient value of 0.209 and a significance level greater than 10% (t = 0.676) for the one-tier group with REM dependents. In MOD_REM's dependent variable, the CSR*ASR variable had a coefficient value of 0.349 and a significance level >10% (t = 1.056). Based on the findings, it can be inferred that within the sample group of one-tier board structures, the assurance variable could not reinforce or diminish the adverse impact of CSR variables on REM. This could be attributed to the elevated level of disclosure quality in the one-tier board structure system, resulting in the information provided being considered reliable. The high quality of disclosure incentivizes firms to diminish the employment of real earnings management tactics since it deteriorates the caliber of the provided information.

In the sample group of companies with a two-tier board structure and REM-dependent variables, the CSR*ASR variable had a coefficient value of 1.417 and a significance level of less than 5% (t = 2.407). These findings support the dependent variable of MOD_REM, specifically the CSR*ASR variable coefficient of 1.600, with a significance level of <1% (t = 3.060). The results of the two-tier board structure group study denote that variable assurance mitigates the negative effect of variable social responsibility disclosure on real earnings management. In light of these findings, organizations operating under two-tier board structures with inferior disclosure quality use social responsibility disclosure assurance to deceive stakeholders about their real earnings management practices.

Table 10 Results of Testing Hypothesis 2 on Sample Groups Based on Board Structure

	One-tier System		Two-tier System	
	REM	MOD_REM	REM	MOD_REM
CSR	-0.610***	-0.665***	-0.768***	-0.627**
	(-2.986)	(-3.073)	(-3.070)	(-2.269)
ASR	0.060	0.036	-0.187*	-0.221**
	(0.655)	(0.409)	(-1.925)	(-2.403)
CSR*ASR	0.209	0.349	1.417**	1.600***
	(0.676)	(1.056)	(2.407)	(3.060)
SIZE	-0.031	-0.036	0.018	0.022
	(-0.610)	(-0.799)	(0.718)	(0.767)
ROA	-0.587***	-0.538**	-1.187***	-0.966***
	(-2.744)	(-2.017)	(-3.919)	(-2.910)
LEV	0.204	0.290	-0.003	-0.053
	(0.926)	(1.302)	(-0.035)	(-0.650)
GRW	-0.029	0.040	0.052	0.081*
	(-0.652)	(0.926)	(1.121)	(1.865)
MTB	-0.005	-0.005	0.001	-0.002
	(-1.069)	(-0.956)	(0.153)	(-0.410)
INS	0.100	0.173	0.334**	0.240
	(0.594)	(0.985)	(2.185)	(1.287)
Cons	0.658	0.681	-0.604	-0.632
	(0.560)	(0.665)	(-0.983)	(-0.891)
F	3.459***	3.421***	8.497***	7.024***
R^2	0.087	0.084	0.193	0.164
N	589	589	270	270

t-statistics in parentheses
* p < 0.1, ** p < 0.05, *** p < 0.01

Discussion

The findings of this research demonstrate that while there appears to be a phenomenon of companies actively pursuing social responsibility and simultaneously being involved in financial scandals, it cannot be generally concluded that social responsibility activities and disclosures are used as a means to conceal corporate fraud. These results prove the legitimacy theory, which posits that companies disclose responsibility as a crucial component of establishing legitimacy in their business practices. Further, the findings on hypothesis 1 suggest that a substantive approach, in which companies reduce real earnings management practices alongside standardized social responsibility disclosures, can effectively enact meaningful change. In the legitimacy theory of the substantive approach, the presence of social responsibility ought to affect business practices because such practices form part of corporate social responsibility when conducted with ethical behavior. As a result, companies that robustly implement and reveal social responsibility endeavors are also accountable for their financial aspects by diminishing the real earnings management practices within the organization. Real earnings management practices are counterproductive in a company's obtaining and maintaining business legitimacy. Therefore, companies that proactively disclose their corporate social responsibility endeavors can decrease their real earnings management practices. The results from Hypothesis 1 corroborate with findings from Muliati et al. (2021), who revealed that

corporate social responsibility is closely related to high ethical commitment and that the company will reduce earnings management practices as it is considered unethical behavior. The results of this study are also consistent with the research of Cho and Chun (2016), in which a negative correlation was found between the disclosure of social responsibility and real earnings management. According to Cho and Chun (2016), social responsibility disclosure is a means for managers to maintain good relationships with stakeholders to ensure their business's legitimacy. On the contrary, real earnings management activities are considered detrimental and can harm this relationship.

This study was conducted in companies that disclosed GRI-based social responsibility, demonstrating that standardized social responsibility disclosure tends to decrease real earnings management practices. The presence of standardized social responsibility disclosure could signify a company's dedication to fulfilling its social responsibility obligations. Several factors contribute to this issue. First, social responsibility disclosure is voluntary in developing countries, particularly regarding implementation, as there are no sanctions or strict law enforcement against companies that do not engage in social responsibility activities or report them. Using standardized disclosures in a voluntary disclosure environment signifies that the company exerts more effort than other companies. Crossley et al. (2021) assert that modest disclosures denote social responsibility that is symbolic and image-based. Conversely, disclosures that require more significant effort signify substantial social responsibility disclosure.

Second, standardized disclosures address reporting formats and serve as indicators to measure and compare companies' success in their social responsibility endeavors. According to the study conducted by Zahller et al. (2015), disclosure quality positively impacts corporate legitimacy, underscoring the importance for companies to prioritize measurable, consistent, and comparable reporting. This can be accomplished through standardized disclosure, enabling the evaluation of disclosure performance by comparing similar companies and the company's past performance. Third, standardized disclosure demonstrates that corporate social responsibility activities extend beyond philanthropy. Companies are required to disclose their economic, environmental, and social actions through GRI-based disclosure. The company aims to address corruption and unhealthy trade practices in the economic aspect, reduce energy consumption and greenhouse gas emissions, manage waste in the environmental aspect, and prioritize labor rights, human rights, and consumer protection in the social aspect. This demonstrates that the GRI's usage of social responsibility has a broad scope, involving not only charitable contributions like donations but also the company's dedication to addressing economic, environmental, and social matters with a serious approach. This broad scope creates a foundation for responsibility in other areas, including finances, which can also serve as a form of corporate social responsibility to stakeholders. This leads to the company attempting to reduce real earnings management practices, which constitute unethical conduct incongruous with the principles of social responsibility.

The results of hypothesis 2 indicate that the assurance variable lessened the adverse effects of social responsibility disclosure on real earnings management. In other words, the presence of the assurance variable weakens the ability of the social responsibility

disclosure variable to reduce real earnings management practices. This unexpected outcome suggests the symbolic approach of legitimacy theory. Companies attempt to enhance their legitimacy by assuring their corporate social responsibility disclosure. Nevertheless, these efforts are essentially symbolic as they increase real earnings management practices in the company. This is in accordance with the symbolic legitimacy theory, where assurance serves to create an image of a company with credible corporate responsibility, thus leading stakeholders to believe that the company follows ethical business practices. However, in reality, the assurance is intended to conceal the company's real earnings management practices.

This finding is consistent with studies by Baier et al. (2022) and Hummel et al. (2019), which argue that assurances about social responsibility disclosures may generate false credibility signals. This is due to the voluntary nature of assuring social responsibility disclosure. This also creates flexibility within the assurance process, allowing companies and assurance providers to determine the assurance scope jointly. Nevertheless, this can pose a problem as companies can negotiate the assurance process only for specific issues, potentially limiting the amount of social responsibility information provided. In other words, management can restrict the assurance process to specific parts with the highest positive impact on the company's image. This condition illustrates the potential use of social responsibility disclosure assurance to address the company's earnings management practices. The researchers' observations during data collection indicated that no company utilized the highest level of assurance, precisely reasonable (ISAE3000) or high (AA1000AS). Assurances provided at the limited (ISAE3000) or moderate (AA1000AS) level must be deemed less confident than those provided at the reasonable (ISAE3000) or high (AA1000AS) level. Results from Quick and Inwinkl's (2020) research revealed that the reasonable (ISAE3000) or high (AA1000AS) level of assurance offers greater credibility than the limited (ISAE3000) or moderate (AA1000AS) level.

Furthermore, the aggregate sample test results uncovered that assurance moderating variables weakened the negative impact between social responsibility disclosure and real earnings management. This result is because detecting real earnings management is more complex than accrual earnings management (Bozzolan et al., 2015). The same applies to a sample group of companies having a two-tier board structure. The two-tier board structure results in lower disclosure quality, leading companies to utilize assurance services to enhance the credibility of presented information. However, the company's assurance may be strategic to conceal their real earnings management practices. A sample group comparing results from one-tier board structures suggests that assurance could not moderate the negative effects of social responsibility disclosure on real earnings management. Assurance does not add value to social responsibility disclosure because the one-tiered structure already provides superior disclosure quality. Quick and Inwinkl's (2020) research findings suggest that bankers tend to make favorable decisions for companies that assure their social responsibility disclosure, such as approving loan applications or recommending stock purchases to their clients. The study's results indicate that company effectiveness is more significant when assurance is used at reasonable or high levels. This research complements Quick and Inwinkl's (2020) findings by revealing

that firms using limited (ISAE3000) or moderate (AA1000AS) level assurance may be prone to using it as a facade to conceal real earnings management practices.

This study's findings contribute to the corporate social responsibility field in several ways. First, this study demonstrates that the legitimacy theory of substantive and symbolic approaches can explain corporate social responsibility activities. Companies implementing standardized social responsibility disclosures tend to apply substantive legitimacy theory, while those using assurance, particularly in the two-tier board structure, tend to apply the symbolic legitimacy approach. This highlights the susceptibility of assurance to be exploited for opportunistic motives. Second, this study documented the interaction between corporate social responsibility disclosure and assurance and the relationship between corporate social responsibility disclosure and real earnings management. The existing board structure in the company further influences this interaction, suggesting that information quality climate also affects corporate social responsibility policies. Third, this study expands the field of social responsibility by developing a comprehensive index to assess the standardized corporate social responsibility disclosure, examining not only the accountability aspect, which many previous studies have focused on but also the performance aspect, which indicates the efforts of a company to improve its social responsibility activities. Additionally, the study developed an index to measure the assurance of corporate social responsibility disclosure based on social responsibility disclosure assurance characteristics.

On a practical level, the study results indicate that strict enforcement of regulations is necessary to promote corporate compliance with standardized social responsibility disclosures. The goal is to make social responsibility performance comparable and measurable so that companies not only engage in social responsibility activities but also continuously strive to improve the quality of their activities and disclosures. Measured disclosure of social responsibility can serve as a means of supervision and provide regulators with a basis for implementing reward and punishment mechanisms. Furthermore, strengthening social responsibility disclosure by institutions and the assurance industry as an independent assurance provider is essential to enhance credibility and prevent its use by companies as a tool for symbolic legitimacy.

Conclusion

Overall, the study's findings demonstrate that social responsibility disclosure can mitigate real earnings management practices. This suggests the company has taken a substantive legitimacy approach to social responsibility by constraining real earnings management practices. However, the company has not fully executed such an approach, given that perceived information credibility indicates that the company still practices a symbolic approach to legitimacy. The assurance of disclosing social responsibility actually offsets the negative impact on real earnings management. The ineffective role of social responsibility disclosure assurance makes it vulnerable to abuse as a cover for more elusive real earnings management practices. The corporation presents social responsibility disclosure to create the impression that it takes social responsibility

seriously despite engaging in real earnings management activities. This aligns with the two-tier board structure, which offers inferior disclosure quality compared to the one-tier structure. In a one-tier board structure featuring high-quality disclosure, research has indicated that including social responsibility disclosure coverage fails to provide any benefit beyond the harm caused by social responsibility disclosure.

This study formulates a comprehensive index to provide a more complete measure of social responsibility disclosure by combining accountability and performance. Similarly, assurance measurement is accomplished by examining the components that characterize the assurance of social responsibility disclosure. These indices can be utilized in future research to examine the consistency of research results. Future studies may also build upon the findings of this study, which indicate that only a small portion of companies have issued standardized social responsibility disclosures. In addition, future research can investigate why many companies did not publish standardized social responsibility disclosures. Moreover, conducting a comparative analysis of earnings management practices between companies that published social responsibility disclosures and those that did not is a compelling subject for future investigation.

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Conflicts of Interest

The author declares no conflict of interest. The funders had no role in the design of the study; in the collection, analyses, or interpretation of data; in the writing of the manuscript, or in the decision to publish the results.

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