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Corporate Social Responsibility, Earnings Management and Industry Type: Does CSR Reinforce Entrenchment Strategy?

(Tanggungjawab Sosial Korporat, Pengurusan Pendapat dan Jenis Industri: Adakah CSR Mengukuhkan Strategi Penyingkiran?)

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ABSTRACT

Managers could opportunistically misuse corporate social responsibility (CSR) to obfuscate earnings management (EM) by reporting more CSR activities that eventually accomplished stakeholders' advocacy as their demands on CSR are satisfied. Likewise, sensitive industries have a higher commitment to CSR to appease their stakeholders' adverse reactions to the nature of their business. This study examines the relationship between EM and sensitive industries on CSR (proxied by the quality of CSR disclosure) and the moderating role of sensitive industries in the relationship between EM and CSR. Employing multiple regression analysis on Malaysian public listed companies for the year 2016, this study finds an insignificant association between EM and CSR, a positive association between sensitive industries companies and CSR and sensitive industries moderate the relationship between EM and CSR. This study offers practical implications for companies to strengthen their corporate governance mechanisms and for investors to cautiously evaluate the companies' ethics.

Keywords: Corporate social responsibility; earnings management; industry; stakeholder-agency theory; entrenchment

ABSTRAK

Tanggungjawab Sosial Korporat (CSR) dapat digunakan secara oportunistik untuk mengaburkan aktiviti tidak beretika dan meraih pembelaan pemegang taruh. Industri sensitif juga berikan komitmen tinggi untuk mengurangkan reaksi negative pemegang taruh terhadap sifat perniagaan mereka. Sehubungan itu, kajian ini menyelidik perhubungan antara EM dan CSR (diukur menggunakan kualiti pendedahan CSR), perhubungan antara industri sensitif dan CSR dan kesan penyederhana industri sensitif terhadap hubungan EM and CSR. Menggunakan analisa multiple linear regression terhadap syarikat tersenarai awam (PLCs) di Malaysia pada tahun 2016, kajian ini mendapati EM tidak memberi kesan kepada pendedahan CSR, syarikat dari industri sensitif melaporkan lebih tinggi pendedahan CSR dan industri sensitif menguatkan hubungan antara EM dan pendedahan CSR. Kajian ini dapat memberikan implikasi praktikal kepada syarikat memperkuatkan tadbir urus korporat dan kepada pelabur supaya menilai etika syarikat dengan lebih berhati-hati.

Kata kunci: Tanggungjawab sosial korporat; pengurusan pendapatan; industri; teori pemegang taruh-agensi; pengukuhan penyingkiran

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INTRODUCTION

Philanthropic activities like corporate social responsibility (CSR) have increased academic research in the modern economy and social context. Carroll (1999) described CSR as a broad range of actions performed by a company to soothe harmful impacts and strengthen its positive effects on society. Malaysians, in particular, promote the importance of CSR. Several movements have been administered as early as 2006, such as mandating the public listed companies (PLCs) in Bursa Malaysia to disclose CSR, introducing Sustainability Framework in 2015 to promote higher CSR activities and strengthen investor relationships with sustainability teams, and the Companies Act 2016 encouraged companies to report any environmental matters, employees and social community issues in the Directors' Report. The efforts indicate high determination and commitment among Malaysian authority bodies.

On the one hand, it is undeniable that CSR offers countless benefits, as reported by previous studies (Chen et al. 2018; Hafizuddin-Syah et al. 2018; Nazri, Omar et al. 2018; Okafora et al. 2021). On the other hand, several empirical pieces of evidence have documented that companies engaging in unscrupulous business practices resort to CSR as a promotional strategy and as a means of legitimacy (Chen et al. 2018; Du & Vieira 2012; Nguyen et al. 2021; Zhenga et al. 2015). Likewise, incumbent managers would opportunistically overinvest in socially, and responsible activities to safeguard from boycotts and activism et al. 2021; Li et al. 2021) since CSR appears to be a mechanism that could mollify the stakeholders' pressure (Surroca & Tribo 2008). Either way, it can be said that CSR is a culture-laden construct, and a company pursues socio-economic goals by upholding broader stakeholder orientation.

This study is premised on the latter notion that meeting and assuring stakeholders with philanthropic activities could reinforce the entrenchment strategy. Previous research examined developed and developing countries (Cespa & Cestone 2007; Choi et al. 2013; Cumming, Huo & Lee, 2016; Garcia-Sanchez et al., 2020; Gonçalves et al., 2021; Li et al., 2021; Martinez-Ferrero, Rodriguez-Ariza & Garcia-Sanchez, 2016; Prior, Surroca & Tribo 2008) reported that unethical managers consciously involved in earnings management (EM) to deceive stakeholders from sensing the unethical discretion and attain their protection from costly media boycotts. Stakeholders, such as the political system, labour, the media, the judiciary and universities, wield significant power whereby they could construct costly boycotts, lobbies and media campaigns, which is a manifestation of the stakeholders' substantial power (Surroca & Tribo 2008). As such, acting as a defence mechanism for the unethical practices may spur companies to adopt more CSR, and at the same time, demonstrate the companies' orientation towards stakeholders.

In Malaysia, both EM and CSR are on the rise. Malaysia was ranked 9th place for its critical earnings opacity (Bhattacharya et al. 2003), used earnings management to smooth their income to plan their tax strategies (Kasipillai & Mahenthiran 2013) and the Securities Commission reported 17 cases of earnings manipulation from 1996 to 2012 (cited in Teh et al. 2017). In a current survey, PwC revealed that the issue of business misconduct increased to a percentage of 45 per cent (PricewaterhouseCoopers 2018). In line with the above, CSR and EM practices are something that Malaysia is actively pursuing, which drives this study to fill the missing gap concerning whether EM and CSR are increasing jointly or independently in the notion of misusing CSR as a means of concealing EM practices.

Previous literature has postulated that stakeholder pressure and scrutiny motivate the incumbent managers to engage in CSR, which eventually reinforce their entrenchment strategy (Surroca & Tribo 2008). However, the degree of stakeholder orientation and CSR is insignificantly affected by culture or country-specific (Prado-Lorenzo et al. 2009). For example, the level of stakeholder orientation in developed countries probably differs from that in developing countries (Jain et al. 2017). Arshad et al. (2012) highlighted that as a Muslim country, Malaysia must develop stakeholder orientation, particularly in an environment of increasing pressure from jurisdictions that are dominated by Islamic stakeholders which are law-abiding people (Atan & Abdul Halim 2012; Jaiyeoba et al. 2018). Adopting a stakeholder-agency theory perspective, this study contends that companies in Malaysia are highly stakeholder-orientated and thus, strengthen the entrenchment strategy.

Other than EM, companies from the sensitive industry are more likely to intensify their CSR practices than the non-sensitive industry. Jain et al. (2017) suggested that the CSR practices from one industry could be varied from other industries. Each industry sensitises differently to its stakeholders, which ultimately requires the sensitive industry to demonstrate a moral corporate image and impression to their rivals and stakeholders. However, this industry with exorbitantly harmful operations could opportunistically practice CSR as greenwashing tool. The sensitive industry companies aggressively demonstrate a positive image to obfuscate their business nature (Bowen & Aragon-Correa 2014). One of the sensitive industry sectors, the oil palm industry in Malaysia, has claimed with absolute allegations concerning the oil palm plantations extension. For example, these plantations caused the loss of habitats for animal and plant species, causing pollution and being involved in child and forced labour. Therefore, oil palm businesses are highly inclined to enhance the CSR disclosure to portray an impression of legitimacy and appease the negative reactions of stakeholders (Othman & Ameer 2010). Sensitive industries may need to take necessary action to minimise stakeholders' adverse reactions, be seen as operating in socially acceptable norms and appease the environmental activists' pressure (Bakar et al. 2019; Darus et al. 2013).

The effects of the industry have been examined by scholars, particularly in the contexts of EM and CSR, individually. Nonetheless, the type of industry might affect the direct association between EM and CSR. As proposed by Prior et al. (2008), companies from different industries might face different levels of stakeholder pressure, influencing the relationship between EM and CSR. This issue prevails especially towards sensitive industries, which require them to address their social and environmental responsibilities. Therefore, companies in sensitive industries that manage earnings must enhance their CSR activities to reinforce the entrenchment strategy. These issues, although significant, have not yet been considered in Malaysia, hence justifying the need for more research to provide timely and essential empirical evidence for a developing country like Malaysia.

Using the Modified Jones model (Dechow et al. 1995) to gauge discretionary accruals, which is the proxy for EM and CSR disclosure (CSRD) quality as the measurement for CSR, this study investigates the relationship between EM and CSR based on the entrenchment strategy, the effect of sensitive industries on CSR and how sensitive industries moderate the EM and CSR relationship. This study contributes to the literature in several ways. First, this study provides timely empirical evidence that contributes to tackling the mixed results between EM and CSR. Secondly, this study also analyses developing country, Malaysia which is significantly less studied in this realm and exhibits unique institutional and economic difference from other countries. Finally, this study offers several practical implications to the companies and investors. For instance, the companies could conduct frequent internal audit work to minimise unethical behaviour or misuse of CSR among irrational managers. Likewise, investors should not heavily rely on the level of CSRD as the indicator of the company ethics especially from sensitive industries companies and companies that use managerial benefit plans and frameworks for rewards and incentives that associated with firms' socially responsible programs.

The paper proceeds as follows. This study presents the literature review and hypotheses in the next section. In the subsequent sections, this study describes the respective research methodology and findings and discussion. Finally, in the last section this study presents the conclusion drawn from the analysis. .

LITERATURE REVIEW

EARNINGS MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY

Extant studies on EM have not provided an unambiguous definition for 'earnings management. However, two common definitions are identified in reviewing the numerous studies on EM. Schipper (Schipper 1989, p. 92) defines EM as "purposeful intervention in the external financial reporting process, to obtain some private gain (as opposed to, say, merely facilitating the neutral operation of the process)".

Another common definition is presented by Healy and Wahlen (1999). The researchers posited that "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers" (Healy & Wahlen 1999, p. 366). Managers can mislead the financial report and use it for their interest instead of stakeholders'.

Scholars have reported varied results on the EM-CSR relationship. On the one hand, few works of literature documented negative results, in that companies that are committed to CSR tend to avoid themselves from managing earnings. Using a sample of European Union countries, Alsaadi et al. (2016) stated that highly-rated CSR companies aim to appear trustworthy and credible to return their favour to stakeholders and stimulate CSR commitment, which is in accordance with stakeholder theory. Likewise, Almahrog et al. (2018) revealed that companies with a higher commitment to CSR are less likely to manipulate earnings. Kim et al. (2012) maintained and stressed that ethical managers will restrain themselves from being involved in EM practices and will report high-quality financial information. Moreover, companies conducting their business based on trust and cooperation are incentivised to demonstrate commitment to ethical behaviour. Managers from environmentally sensitive companies are also less likely to involve in earning management to portray real economic performance (Litt et al. 2014) and deliver reliable and transparent financial information (Yoon et al. 2019). As such, managers who feel indifferent to managing earnings shall concentrate on issues relevant to their business and stakeholders.

In addition, CSR could reduce the EM motivation by mitigating agency problems, particularly agency conflicts. Asian companies with good CSR engage in significantly lesser EM (Chen et al. 2018; Scholtens & Kang 2012). Besides, companies that involve in EM do not focus on taking care of the stakeholders' interests. It is a social norm by which these irrational managers do not internalise the endorsed norms associated with CSR, thus abandoning their involvement in CSR or demonstrating indifference and an unconcerned attitude towards it (Grougiou et al. 2014; Hong & Andersen 2011). Martinez-Ferrero et al. (2015) seconded and indicated that irrational managers' fundamental concern is managing earnings and not committing to CSR.

On the other hand, EM could also stimulate CSR commitment. Studies on this have proliferated, with several studies reporting a significantly positive relationship. In other words, opportunistic managers misused CSR intending to conceal their misconduct or make opportunistic use of a sustainable company's status to manage earnings under unfavourable economic conditions (Gonçalves et al. 2021; Pakawaru et al. 2021). Hill and Jones (1992) suggested stakeholder and agency theories to explain this relationship. Interestingly, the stakeholder and agency theories are unrelated in their history and focus but complement each other. The agency theory states that the agents (managers) must maximise the principals' (shareholders) interest. Going further, the stakeholder-agency theory illustrates that the agents serve not only the shareholders but also the stakeholders. Therefore, managers carry a unique and comprehensive role as they could serve as the agents of different groups of stakeholders (Shafai 2018). Hence, managers' managerial discretion also affects the non-shareholding shareholders (Hill & Jones 1992; Prior et al. 2008).

CSR being opportunistically used occurs when the interest between managers and shareholders are misaligned or known as agency conflict. Agents prioritise their own goals over the principals' interests to maximise their interests. This may result in their being charged with disciplinary action or even retrenched and boycotted. Anticipating that their position might be jeopardised, these irrational managers look for ways to mitigate the adverse reaction by the affected shareholders and stakeholders. Such managers will be inclined to over-invest to manage the conflicts of interest and disguise their irrational actions (Cumming et al. 2016; Pawlina & Renneboog 2005). A recent study by Li et al. (2021) documented that companies committed higher CSR during the fraud committing period than during the non-fraudulent period. In this regard, recognising that CSR could be the mechanism that can build trust and confidence, managers resort to over-investing in CSR to strengthen the entrenchment (Cespa & Cestone 2007; Li et al. 2021; Prior et al. 2008; Surroca & Tribo 2008).

INDUSTRY AND CSR

Previous research has investigated the impact of industry types on CSR. Prior et al. (2008) stated that companies from different industries experience different stakeholder pressure in addressing their social and environmental responsibilities. In particular, industries producing hazardous products, such as chemicals, and other products, like oils, laboratory supplies and medical supplies, received greater public scrutiny (Hackston & Milne 1996). The legitimacy of these companies may be threatened as their corporate activities have deviated from socially recognised values (Solikhah 2016). For instance, stigmatised industries like tobacco and alcohol strengthen their transparency level through CSR as they appear as socially undesirable industries (Lee & Comello 2019) and CSR works as an effective signals to stakeholders in increasing competitive advantage among environmentally sensitive industries (Yu et al. 2017). Likewise, companies in the sensitive industry that directly affect the environment and society face higher stakeholder pressure, media attention and public scrutiny than other companies. García-Meca and Martínez-Ferrero (2021) concurred and indicated that CSR disclosure is largely driven by the concern of corporate legitimacy especially for the environmentally sensitive companies.

In line with legitimacy theory, companies used CSR to respond to political and public pressure (Dowling & Pfeffer 1975; Moratis & Egmond 2018; Nguyen et al. 2021). Despite Ismaeel et al. (2021) reported an insignificant relationship between environmentally sensitive industries and CSR, Solikhah (2016) and Hrasky (2011) added that companies in the sensitive industry changed and improved their sustainability disclosures following to greater stakeholder awareness and pressure. Similarly, CSR concepts can be misused as sheer window dressing, i.e., to divert stakeholders' attention from the companies that harmful to the social and physical environments in which they operate (Ali et al. 2018; Spence 2011). Therefore, several previous studies in Malaysia had concentrated solely on environmentally sensitive industries as the sample to explain the relationship with CSR. These companies will positively affect CSR performance (Abdul Wahab et al. 2017; Fatima et al. 2015).

HYPOTHESES DEVELOPMENT

EARNINGS MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY

Several prior studies reported a positive association between EM and CSR. Addressing stakeholders' pressure by using CSR could offer advocacy for the managers and prevent stakeholders' activism. Besides CSR delivering favourable media coverage, managers promote their sustainable actions to convince and please the stakeholders, especially the media and the politicians (Cespa & Cestone 2007). They also aim to obscure their unethical managerial discretion (Li et al. 2021; Pakawaru et al. 2021); safeguard their leadership position and minimise or avoid costly boycotts and activism and conspire with stakeholders to reinforce their entrenchment strategy (Gargouri et al. 2010; Martinez-Ferrero et al. 2016; Shafai et al. 2018). Stakeholders who are also a part of the board could exert their power on the discontented shareholders by protecting the incumbent managers. They have retained the stakeholders' confidence by satisfying their social and environmental concessions (Gargouri et al. 2010; Shafai et al. 2018). This situation indicates that managerial entrenchment is reinforced, and thus, shareholders' power deteriorates.

Based on this discussion, it can be noted that stakeholders play a vital role in managers' entrenchment strategy alongside their aggressive involvement in CSR. To make themselves entrenched in the company, managers associate themselves with various CSR activities to build close relationships. Based on this discussion on the misuse of CSR for opportunistic reasons, and in line with the stakeholder-agency theory, this study hypothesised:

H1 Earnings management is positively associated with corporate social responsibility disclosure.

INDUSTRY EFFECTS AND CSR

Proponents and opponents have had ongoing arguments about the concept of CSR in controversial or sensitive industry sectors. Proponents have stated that companies from the sensitive industry have the right to invest more in CSR to be better organisations despite their business nature. Realising the public concern over the environment, these companies are keen to engage in CSR to sustain or protect their status and reinforce their public image. On the contrary, opponents have argued that CSR in the sensitive industry sector cannot be fully trusted (Solikhah 2016). Companies involved in controversial sectors might have more robust initiatives to commit to CSR as a way of management's self-serving behaviour disguising their harmful business nature and accomplishing legitimacy (Nguyen et al. 2021). Scholars have reported that companies in the sensitive industry disclose more CSR despite the arguments above.

Most scholars agree that environmentally sensitive industries are exposed to massive environmental surveillance and pressure. Following to this notion, these companies misused and deemed CSR as an effective signalling tool to achieve competitive advantage (Yu et al. 2017). Ali et al. (2018) reported that companies classified as harmful to the environment and socially visible are most likely to display, engage and report more CSR activities. Likewise, environmentally-sensitive companies tend to have higher CSRD than companies in different industries to satisfy the political demand (Wang et al. 2013) and corporate legitimacy (García-Meca & Martínez-Ferrero 2021). Therefore, it is expected that PLCs in Malaysia in the sensitive industry sector would use CSR to showcase their legitimacy. Therefore, this study hypothesised that:

H2 Industry effects are positively associated with corporate social responsibility disclosure.

EARNINGS MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY: THE MODERATING ROLE OF INDUSTRY

Industry effects have been known to be one of the motivations for EM and CSR. However, most previous studies have only examined the impact in separate contexts of EM and CSR or CSR performance, in particular (Moratis & Egmond 2018; Prior et al. 2008). This study goes beyond and suggests that companies engaged in EM practices may be conditioned by industry types that influence CSRD. As a proxy of IND, companies that are environmentally sensitive industries have been analysed by prior literatures and considered as a crucial elements of a company's CSRD (Ali et al. 2018; Solikhah 2016; Yu et al. 2017). These literatures deduced that companies that received higher public scrutiny and stakeholder activism changed their CSRD by increasing the level of disclosure which consistent with the increased stakeholder awareness and pressure.

Similarly, EM is directly associated with CSRD with the notion of obfuscating their misconduct (Gargouri et al. 2010; Li et al. 2021; Martinez-Ferrero et al. 2016; Pakawaru et al. 2021; Shafai et al. 2018). EM leads to better CSRD in the effort of deflecting stakeholders' attention from their unethical managerial discretion.

Given this premise, the variables EM and IND have similar theoretical connection whereby misusing CSRD as an effective tool in concealing their unfavourable corporate image. Environmentally sensitive industries that also distort earnings, such as EM practices, potentially reinforce their disclosure of information regarding CSR. Since it is an unexplored moderation relationship and there is theoretical evidence supporting such relationships, it is therefore hypothesised that:

H3 Industry effects moderate the relationship between earnings management and corporate social responsibility disclosure.

RESEARCH METHODOLOGY AND DATA

SAMPLE SELECTION

This study selected PLCs listed on the Main Market of Bursa Malaysia for 2016 as the sample. The rationale for choosing 2016 is the introduction of the Sustainability Framework in 2015 and the provision in promoting CSR disclosure in the form of a business review report by Companies Act 2016. Excluded non-financial companies, a total of 806 companies were listed. The process of determining the sample size was first to exclude the Financial Sector companies, PN171 companies (18 companies), and GN32 companies (three companies) and finalised with 751 active companies. The rationale for excluding these companies was to extract the CSR disclosure and information from the PLCs' annual reports that have financial stability. Referring to Krejcie and Morgan (1970), it is suggested that the adequate sample size would be at least 254 companies. Hence, this study decided to examine 270 PLCs, extended the suggested amount should there is any missing values during data collection. Table 1 presents the population and sample breakdown classified by industry types. Proportionate stratified sampling was employed in the sample selection process as it deems to be the most efficient technique (Hancock & Mueller 2010; Sekaran 2003). Selected companies were categorised into two categories, i.e., "sensitive industry" and "non-sensitive industry" (Ahmed Haji 2013; Hackston & Milne 1996; Shamil et al. 2012), to get an equal number for each type of industry. Industries that encompass no more than eight companies were omitted from this research to align with previous studies3 (Davidson et al. 2005). As such, companies in the hotel and mining sector were eliminated. The final sample constitutes only seven sectors, as shown in Table 1.

MEASURING EARNINGS MANAGEMENT

This study uses discretionary accruals (DACC) as the proxy for EM. The Modified Jones Model is employed to measure EM as it is known to be a commonly used model in EM literature. (Dechow et al. 1995). Several studies have argued the merits and demerits of this model (Dechow et al. 2010; DeFond 2010). Despite the few disadvantages of the Modified Jones Model, it is said that there is no alternative model that can estimate DACC in a better way (Botsari & Meeks 2008). Moreover, this model is also the most commonly used approach in empirical studies on earnings. Absolute value (unsigned) of DACC will be used as a proxy for the mixed-effects since EM can be either the effect of income-increasing or income-decreasing accruals (Chiraz & Anis 2013; Choi et al. 2013; Kasipillai & Mahenthiran 2013; Labelle et al. 2010; Martinez-Ferrero et al. 2016; Muttakin et al. 2015; Prior et al. 2008).

TABLE 1. Analysis of sample by sector

MAIN MARKET OF BURSA MALAYSIA				
Total Selected Companies (Year Ended 2016)				
SECTOR	POPULATION		PROPORTIONATE STRATIFIED SAMPLE	
Sensitive Industry	Size	%	Size	%
1. Industrial Products	223	71.2	96	71.2
2. Construction & Infrastructure	50	16.0	22	16.0
3. Plantation	40	12.8	17	12.8
Sub-Total	313	100	135	100
Non-Sensitive Industry	Size	%	Size	%
4. Consumer Products	124	28.3	38	28.3
5. Trading & Services	187	42.7	58	42.7
6. Technology	30	6.8	9	6.8
7. Properties	97	22.1	30	22.1
Sub-Total	438	100	135	100
TOTAL	751	100	270	100

Methodologically, following Jones (1991) and Dechow et al. (1995), total accruals (TA) is:

$$TAi,t = EBXIi,t – CFOi,t \quad (1)$$

Where TA is total accruals for a specific company and industry, equal to the earnings before extraordinary items (*EBXI*) minus cash flow from operations (*CFO*), *i* is industry, and *t* is the year. Ordinary least squares (OLS) analysis was run on all industries to estimate the fitted values (coefficients of *α1, α2* and *α3*). Non-discretionary accruals (NDA) was then obtained from the following equation:

$$NDAi,t/Ai,t-1 = α1(1/TAi,t-1) + α2(ΔSALESi,t, - ΔRECi,t\ t/TAi,t-1) + α3(PPEi,t/TAi,t-1) + εi,t \quad (2)$$

Where *ΔSALES* is the change in sales, *ΔREC* represents accounts receivable, *PPEi,t* represents the PPE of the firm, and *ε* is the error term.

The total DACC (residuals) is derived from the difference between the estimation in equation (2) and the accruals as presented in the following equation:

$$DACCi,t = Tai,t – NDAi,t \quad (3)$$

MEASURING INDUSTRY

Stakeholders call all businesses from different industries to be socially and environmentally responsible. Sensitive industries that allegedly harm the environment and society receive more pressure and scrutiny from the stakeholders. Hence, these companies are expected to minimise environmental impacts and engage in more CSR commitments to appear legitimate and attain stakeholder advocacy (Hrasky 2011; Moratis & Egmond 2018). This study used dummy variables ‘1’ for companies in sensitive industries and ‘0’ for companies in non-sensitive industries (Ahmed Haji, 2013; Hackston & Milne 1996; Shamil et al. 2012).

MEASURING CORPORATE SOCIAL RESPONSIBILITY

This study measures CSR based on the quality of CSRD disclosed by a company using content analysis. The rationale for choosing CSRD quality to gauge CSR is that it goes beyond the extent of CSRD as it employs the idea of “what is stated”, which means CSR information is comprehensively stated, explained and illustrated (Guthrie & Parker 1990). In addition, stakeholders claim it as being more credible and reliable than the volume of information (Darus et al. 2014). This study constructed the CSRD quality checklist based on previous studies conducted in Malaysia (Ahmed Haji & Ghazali 2013; Anas et al. 2015; Sadou et al. 2017; Saleh et al. 2010) as presented in Appendix I. Regarding the scoring method, the CSRD quality was awarded a three score should the disclosure contain monetary details, two scores should CSR information be disclosed comprehensively, one score for brief exposure, and 0 scores for no disclosure. The maximum possible disclosure score for the quality of CSR disclosures is 120 points (i.e., three × 40 = 120).

CONTROL VARIABLES

This study employed three company-specific characteristics as the control variables, i.e., company size (FSIZE), return on assets (ROA) and auditor (BIG4). FSIZE and ROA are projected to influence CSR positively. Engaging and practising more CSR could differentiate them from smaller companies, given their superior resources. Moreover, these companies are more visible and exposed to greater scrutiny by particular social groups and are under tremendous pressure to practise CSR. Hence, larger and profitable companies are prone to be involved in CSR activities to signal legitimacy to the stakeholders (Choi et al. 2013; Jo & Harjoto 2011; Prior et al. 2008). Moreover, companies audited by the BIG4 are expected to make more CSRD (Hoang et al.

2018). FSIZE is measured using the natural logarithm of total assets, whilst ROA is derived by dividing the total assets' net income at the beginning of the year. BIG4 is measured by dummy variables with '1' for companies audited by BIG4 and '0' otherwise.

RESEARCH MODEL

Upon analysing the data, this study employs multiple linear regression to test the following models. The rational of using multiple regression analysis is that this analysis determines correlations between the independent variables and dependent variable which have cause-effect relations (Büyüköztürk et al. 2008). The models used to examine these study hypotheses (Model 1 and Model 2) are as follows:

$$CSRD = \beta 0 + \beta 1DACC + \beta 2IND + \beta 3\ FSIZE + \beta 4ROA + \beta 5BIG4 + \varepsilon it \quad (1)$$

and

$$CSRD = \beta 0 + \beta 1DACC + \beta 2IND + \beta 3DACC*IND + \beta 4FSIZE + \beta 5ROA + \beta 6BIG4 + \varepsilon it \quad (2)$$

Where:

CSRD: CSR disclosure

DACC: Discretionary Accruals

IND: Dummy variable '1' for sensitive industries, and '0' otherwise

FSIZE: Natural logarithm of total assets

ROA: Net income divided by the total assets

BIG4: Dummy variable '1' for companies audited by Big4 audit firms, and '0' otherwise

RESULTS AND DISCUSSIONS

This study conducted several procedures in ensuring the reliability and validity of information prior data collection and analysis. Firstly, the data is screened for missing value and the sample for this study is then reduced from 270 to 265 samples. Using the skewness and kurtosis scores, the variables are evaluated for univariate normality. As presented in the Table 2, all variables have normal distribution based on the score of skewness and kurtosis of ±3.00 and ±10.00 (Kline, 2005) respectively which therefore, achieved the univariate normality.

TABLE 2. Univariate normality analysis

	Skewness	Kurtosis
CSRD	1.754461	6.376124
DACC	0.881902	-4.000236
IND	1.032711	0.775421
FSIZE	-2.119003	4.985201
ROA	-0.999261	-1.348772
BIG4	1.367862	2.027144

As for multicollinearity examination, this study employed variance inflation factor (VIF). As shown in Table 3, none of the variables indicate variance inflation factor (VIF) of more than 10 (Hair et al. 2010; Pallant 2010) which eliminate the problem of multicollinearity. Hence, this study concludes that the issue of multicollinearity does not exist in the model.

TABLE 3. VIF test

Variable	VIF
CSRD	1.032
DACC	1.174
IND	1.030
FSIZE	1.443
ROA	1.278
BIG4	1.863

The following paragraphs demonstrate the study results based on descriptive statistics and regression analyses.

DESCRIPTIVE STATISTICS

TABLE 4. Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
CSRD	38.65	15.13	8	95
DACC	0.056815	0.059967	0.00052	0.3345
FSIZE	5.751633	0.677284	3.91556	8.28988
ROA	0.020597	0.776383	-11.1823	3.88336

N= 265

Table 4 reports the descriptive statistics for all variables involved in the study. CSRD ranges from 8 to 95 index scores with a mean of 38.65%. The result is disappointing as the quality of CSRD is low, whereby the average score of quality CSRD barely reaches half of the score despite an increment compared to prior studies (Ahmed Haji 2013). Albeit the encouragement of the local government, the awareness and involvement of companies in practising and reporting CSR are still poor, especially in terms of the quality of CSRD. This echoes the findings of prior studies in Malaysia (Ahmed Haji 2013; Saleh et al. 2010). Consistent with previous research investigating Malaysian companies, discretionary accruals (DACC) have a relatively small mean of 0.057, falling within the range of 0.001 to 0.335 (Bamahros & Wan Hussin 2015; Chu & Song 2012; Selahudin et al. 2014). The average FSIZE of Malaysian listed companies was measured by total assets, where the total is RM5.75 million with a minimum of RM3.92 million to a maximum of RM8.29 million. Lastly, the average performance (ROA) is low at 0.02, with minimum and maximum values of -11.18 and 3.88, respectively.

TABLE 5. Descriptive statistics on disclosure practices based on frameworks

Variables	Full Score	Min	Max	Mean
Environment	21	0	19	6.28253
Workplace	54	5	41	16.7993
Community	21	0	20	7.34944
Marketplace	12	2	11	4.57993
Product & Safety	12	1	12	4.20446

Examining the quality of CSR disclosure in a more detailed view, Table 5 shows the minimum and maximum scores of each category of CSR frameworks. It is interesting to note that there exists a company which did not disclose any information related to Environment and Community despite the PLCs could grab the opportunity to have tax reduction for any charity work that involves with community. Nonetheless, there is a company that managed to provide detailed disclosure in Community framework as it nearly achieved full scores. Likewise, it is also the same to other frameworks which shows that there at least a company that managed to nearly get full scores in providing quality disclosure. Additionally, the table shows that workplace-related information scored a higher mean of 16.80 relative to community (7.35), environment (6.28), marketplace (4.58) and product and safety (4.20).

TABLE 6. Descriptive statistics for dummy variables

Dichotomous Variables	Number of PLCs	
	Frequency of 1s	Frequency of 0s
Industry (IND)	134	131
	(50.57%)	(49.43%)
Auditor (BIG4)	151	114
	(56.98%)	(43.02%)

Note: IND: 1 is companies from sensitive industries, 0 is otherwise.
BIG4: 1 is audit by BIG4 firms, 0 is otherwise.

Table 6 presents the descriptive statistics for the dummy variables. For Industry (IND), this study documented more companies from sensitive industries (50.57 per cent) than companies from non-sensitive industries (49.43 per cent). Despite the slight difference, the result indicates most of the missing values came from non-sensitive industries. In addition, this study reports that companies audited by the Big4 audit firms (BIG4) are slightly higher (at 56.98 per cent) than those audited by non-Big4 audit firms (at 43.02 per cent). Although the difference of percentage for BIG4 is relatively small than expected, this study believes that the percentage is small due to the small sample size.

REGRESSION ANALYSES RESULTS

Table 7 represents the regression results for Model 1 and Model 2. For Hypothesis 1, the relationship between EM and CSRD is insignificant with a negative relationship. Thus, Hypothesis H1 is rejected. This insignificant result could be due to this probable reason. This study further investigated the severity of EM practices in Malaysia by utilising the histogram chart. The histogram chart is

TABLE 7. Regression results

Variables	Without Interaction		With Interaction	
	Coefficient	t-statistics	Coefficient	t-statistics
Independent Variable				
DACC	-4.580	-0.200	-8.533	-0.377
IND	7.973	4.552***	8.361	4.861***
Moderating Variable				
DACC X CR			101.991	2.827***
Control variables				
ROA	1.511	4.824***	1.525	4.868***
FSIZE	12.399	14.741***	12.579	15.208***
BIG4	10.578	2.797***	10.992	6.139***
Adjusted R^2	0.758		0.751	
F-value	114.553***		133.25***	
N	265		265	

right-skewed, indicating most samples are clustered on the right side of the histogram, as shown in Appendix II. Given this, this study finds that most of the companies in this study's sample were not involved in high EM practices. Therefore, those selected companies did not have the motivation to opportunistically use CSR as the entrenchment mechanism to conceal their opportunistic behaviour since they were not involved in extreme or severe EM practices, which may have led to this insignificant relationship with CSR. This result aligns with the previous study that postulated CSR increased significantly due to the motivation to conceal misconduct and coordinate with the companies' fraudulent activities (Li et al. 2021). These findings also serve as timely evidence on the current state of EM practices in Malaysia. The IND variable shows that companies classified as sensitive industries are significantly and positively associated with CSRD. This explains that those companies with high environmental impact have a higher commitment to CSR and CSRD due to their business nature, consistent with a previous study by Moratis and Egmond (2018). Therefore, H2 is supported. Table 3 reports the interaction variable between EM and IND, whereby IND is included to reveal the moderating effect on the relationship between EM and CSR. As expected, IND moderates the relationship between EM and CSRD, demonstrating a positive and significant association. The result supports H3 and evinces the urgency to engage and disclose higher commitment and disclosure due to their negative impacts on the environment. Hence, an increase in CSRD is needed and critical in these industries that are also involved in EM practices to appear legitimate, appease stakeholders' pressure, attain stakeholders' advocacy and ultimately reinforce the entrenchment mechanism (Moratis & Egmond 2018; Prior et al. 2008). As expected and hypothesised, all control variables, i.e., FSIZE, ROA and BIG4, positively and significantly affect CSRD.

CONCLUSION

This study examined the ability of EM and IND to impact CSR and the moderating role of IND in the relationship between EM and CSR. Most prior studies have focused on the developed countries (Gargouri et al. 2010; Gonçalves et al. 2021; Li et al. 2021; Martinez-Ferrero et al. 2016; Moratis & Egmond 2018), which drove this study to investigate such relationships in a developing country, like Malaysia. This study reports interesting results using Malaysian PLCs, whereby the relationship between EM and CSR is insignificant. A detailed investigation was made, and this study finds that Malaysian PLCs were not involved in or practised severe and extreme EM activities in 2016. Therefore, these companies were less motivated and less likely to misuse CSR as an entrenchment tool. The urgency of attaining stakeholders' advocacy was also minimal since the EM practices were negligible. The result provides some comfort to Malaysian companies as their practices are not as extreme as other countries that require CSR to obfuscate managers' misconduct. In addition, as expected, Malaysian companies in sensitive industries committed to disclose higher CSR as the intention to appease stakeholders' pressure, appear legitimate and compensate their negative externalities. Additionally, despite the insignificant relationship between EM and CSR, IND moderates the relationship by strengthening the relationship between the two variables. By having IND as the moderator, the relationship between EM and CSR is positively significant. As such, this shows that Malaysian companies that practice EM have higher CSR if the companies are from the sensitive industries

Theoretically, this study contributes to the CSR entrenchment mechanism realm, where Malaysia's stakeholder-agency theory is not supported. The findings are disposed to the stakeholder and legitimacy theories, whereby these companies are socially and environmentally responsible for returning the favour to the stakeholders. Moreover, the practices and reporting of CSR in Malaysian companies can be classified as transparent and truthful since this study fails to provide evidence of CSR being misused as the entrenchment mechanism. Additionally, these companies have credible earnings quality and exhibit a high level of CSRD, and sensitive industries strengthen the relationship between EM and CSR to give a legitimate impression. Finally,

This study offers several practical implications for companies and investors. Despite the severity of EM among Malaysian companies being tolerable, this study suggests that companies should initiate measures such as mandate frequent internal audit works to strengthen corporate governance mechanism and minimise the misuse of CSR to conceal the irrational managers unethical behaviours. Additionally, investors should be extra cautious and not heavily dependent on evaluating the level of CSRD as the indicator of the company ethics especially from sensitive industries companies and companies that use managerial benefit plans and frameworks for rewards and incentives that associated with firms' socially responsible programs.

The findings of this study are subject to several limitations even though it was conducted rigorously. Firstly, this study only covered one year, 2016, which may have endogenous effects, and the sample selection covered only non-financial Malaysian PLCs. Generalising the results to other years should be viewed with some caution, and it may not be representative of the whole population in Malaysia. Hence, a larger sample extending to other countries (investigate other countries or combine developed and developing countries) is suggested for future studies to see the difference across the national environment. Secondly, this study used the definitions of EM by Schipper (1989) and Healy and Wahlen (1999), which entail any opportunistic behaviour conducted by the management. Further studies are recommended to use different inferences from other definitions that distinguish opportunistic behaviour from fraudulent financial reporting. However, researchers must be cautious of the criteria used to differentiate them due to the difficulties in operationalising the definitions of the financial reporting system (Dechow & Skinner 2000). Likewise, future studies may deploy other or more precise indicators of EM like real earnings management that could shed a different light on this relationship.

END NOTES

[1] PN17 or Practice Note 17/2005 is circulated by the Bursa Malaysia that indicates companies that are under financial difficulty. PN17 companies are from the Main Market.

[2] GN3 companies (filed under Guidance Note 3), are the financially distressed companies from the ACE Market.

[3] Upon ensuring the efficiency in accruals model estimation, any industry with less than 10 observations (Jones, 1991) were excluded.

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APPENDIX I. Development of CSR Disclosure Checklist

CSR DISCLOSURE CHECKLIST OF CURRENT STUDY	CSR ITEMS FROM VARIOUS SOURCES			
	Saleh et al. (2010)	Haji and Ghazali (2013)	Anas et al. (2015)	Sadou et al. (2017)
ENVIRONMENT				
1. Awards received in relation to social, environmental and best practices	√	√		√
2. Environmental protection programs		√		√
3. Efficient use of energy (e.g. issue of biofuels, biogas or any renewable energy)			√	√
4. Pollution and emission control (effort of reducing pollution and emission)	√		√	
5. Prevention or reparation program	√			
6. Conservation and recycled materials	√			
7. The essential needs to protect flora and fauna			√	
WORKPLACE				
1. Number of employees		√		√
2. Breakdown of employees by origin		√		
3. Breakdown of employees by gender		√		
4. Employee appreciation and recognition for excellent performances		√		√
5. Employee training	√	√		√
6. Information of employee redundancy (e.g. due to circumstances such as the closure of the business or a reduction in the number of staff)		√		√
7. Amount spent on employees training		√		
8. Number of employees trained		√		
9. Discussion of employees' welfare or benefits	√	√	√	√
10. Employees profile	√			
11. Occupational health and safety (Information on employees' safety)	√		√	
13. Information on incidents (i.e. accidents, fatalities)		√		
14. Diversity or equal opportunity policy statement (e.g. gender issues and equality, workforce diversity)		√	√	√
15. Reporting on the company's relationship with trade union/ or workers		√		
16. Reporting on any strikes, industrial actions/activities and the resultant losses in terms of time and productivity		√		
17. Share option offered for employees	√			
18. Health and Safety Award	√			
19. Quality of work environment			√	
COMMUNITY				
1. Employee involvement of country or community programs		√	√	√
2. Donations to community groups or charity bodies	√	√	√	√
3. Community development (health and education)		√	√	
4. Education (i.e. internship, scholarship)	√	√	√	√
5. Sports activities	√	√		√
6. Supporting national pride	√			
9. Public project (e.g. providing infrastructure)	√			
MARKETPLACE				
1. Supporting green products			√	
2. Ethical procurement practices			√	
3. Helping to develop supplies and other vendors			√	
4. Corporate governance standards			√	

CSR DISCLOSURE CHECKLIST OF CURRENT STUDY	CSR ITEMS FROM VARIOUS SOURCES			
	Saleh et al. (2010)	Haji and Ghazali (2013)	Anas et al. (2015)	Sadou et al. (2017)
PRODUCT				
1. Discussion of major types of products, services and projects	√			√
2. Product quality (meet applicable quality standards)	√			√
3. Customer service	√			√
4. Product safety (meet applicable safety standards)	√	√		√

Source: CSR disclosure checklist developed based on the literature review (Ahmed Haji & Ghazali, 2013; Anas et al., 2015; Sadou et al., 2017; Saleh et al., 2010)

APPENDIX II: P-P PLOT FOR NORMALITY TEST