

LEADS ETHICAL BEHAVIOUR TO LOWER EARNINGS MANAGEMENT? A CRITICAL REVIEW OF EMPIRICAL FINDINGS

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Motivation

- Due to the increasing relevance of CSR activities, for companies these activities are of equal importance as the financial development of a company
- With regard to this new focus of shareholders, companies may need to make investments in order to meet the CSR demands of shareholders without achieving a poor result
- As a relatively new field of research, CSR performance of companies has not yet been extensively researched in terms of its influence on or impact by financial reporting
- strong CSR performance not only influences a company's image, but can also lead to a more favorable assessment of financial reporting

Research Questions

- Does good CSR performance reduce the activities of earnings management?
- Is CSR reporting used to cover up the engagement in earnings management activities?
- What are the important factors that moderate the relationship between earnings management and CSR performance?
- What are the important concerns and limitations in the existing literature

Contribution

- Fitting existing empirical evidence into the framework of the Ethical Theory
- Improvement of the theoretical framework for the analysis of Earnings Management and CSR Performance

Theoretical Framework (I/II)

Earnings Management

- Techniques to influence the presentation of financial statements
- Distinction of two forms: Accrual Based Earnings Management & Real Earnings Management

Corporate Social Responsibility

- Pattern of social and ethical standards
- Major initiative to generate standards and references to define CSR for companies was made by ISO 26000 „Guidelines for Social Responsibility“ in November 2010
- Motivation: fulfill of demands of society and stakeholders that go beyond financial performance

Theoretical Framework (II/II)

Theoretical Framework of Earnings Management and CSR performance

- With regard to this new focus of shareholders, there is a risk that companies could use this shift of relevance to cover up the engagement of EM
- If CSR performance is used to cover up EM activities, it is important to determine which factors are potentially enforcing this
- A strong CSR performance also offers the chance for companies to adopt a generally ethical approach and to present their financial situation in an unvarnished manner, i.e. not to engage in EM
- Approaches to develop hypothesis regarding the relationship could be found in the agency and ethical theory
 - From the perspective of agency theory, a manager could use the interest of shareholders and stakeholders in CSR activities and use them strategically to divert attention from their engagement in EM
 - From the perspective of ethical theory, one would assume that companies with a strong CSR environment generally behave responsibly. This would also include financial reporting, thus no EM activities are operated

Research Design

Search terms used

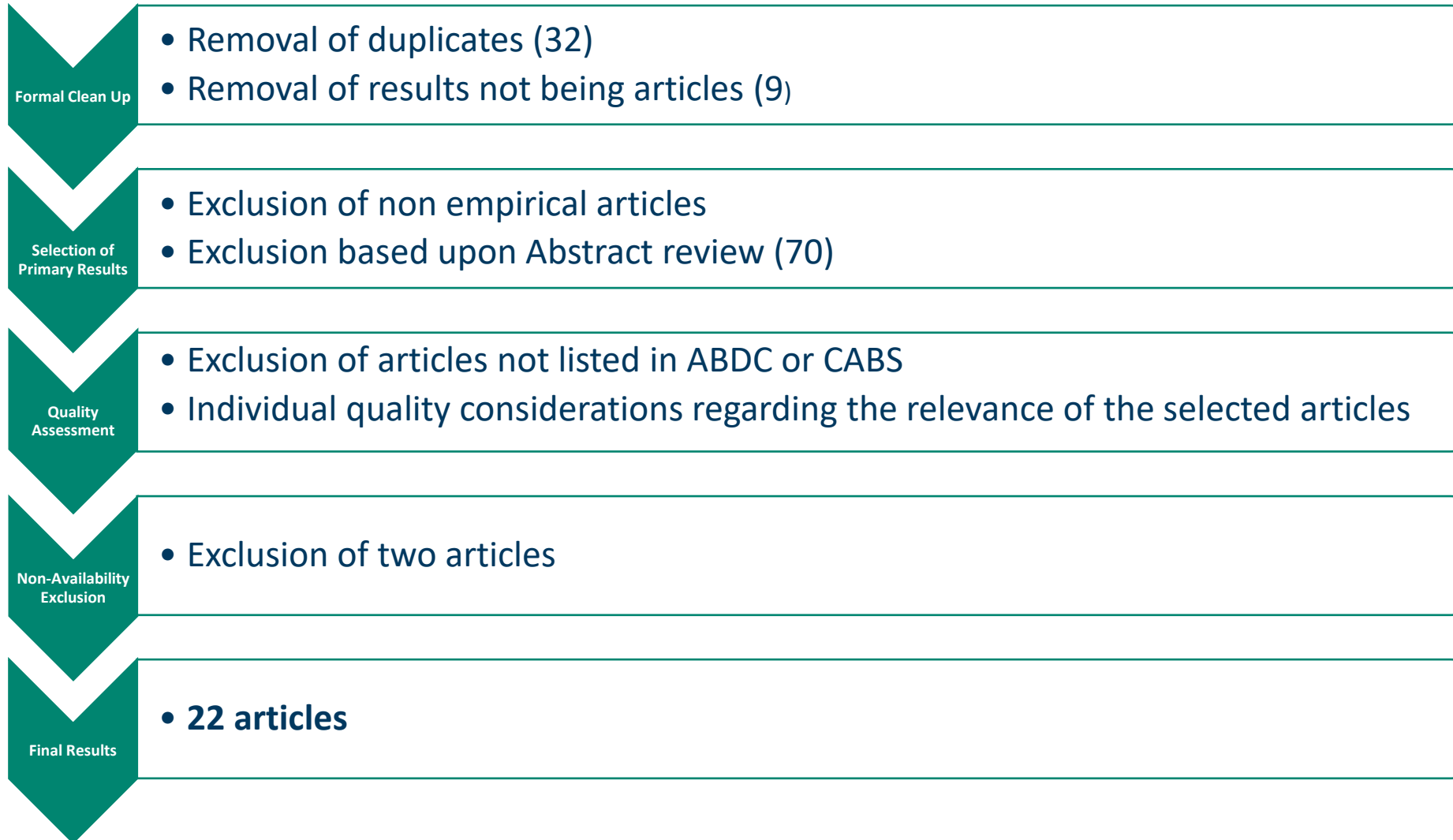
("Earnings Management" AND "CSR performance") OR ("Earnings Management" AND "ESG Performance") OR ("Earnings Management" AND "Corporate Social Responsibility Performance") OR ("Earnings Management" AND "CSR credibility")

Databases used

- Web of Science
- Scopus
- Emerald
- JSTOR

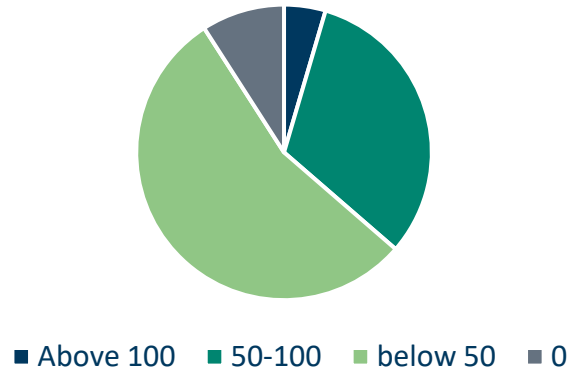
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Adjustment of Results



Descriptive Results

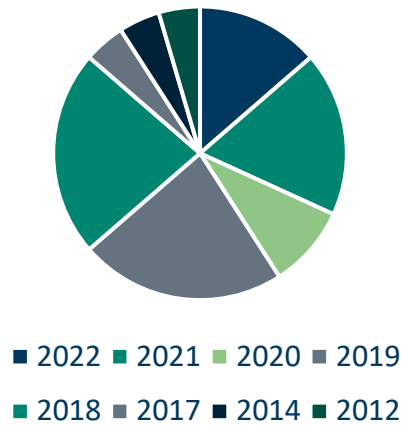
Citation Frequency



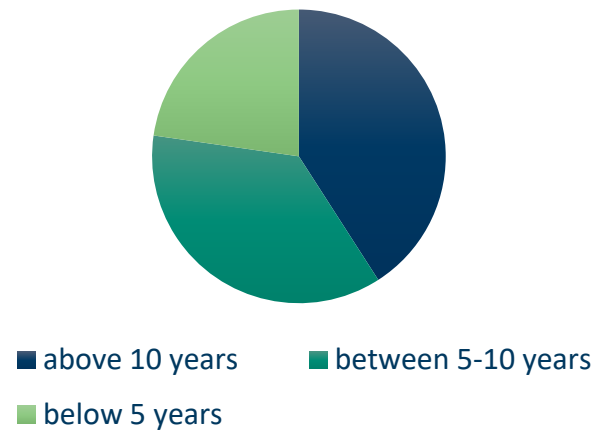
Countries Analyzed



Publication Year



Time Period Covered



Results

Content Results

Accrual Based Earnings Management and CSR Performance

- 20/22 analysis found a negative relationship

Real Earnings Management and CSR Performance

- 9/22 paper analyzed the relationship of REM and CSR performance
- Mixed results

Moderating Factors

- No country specific differences identified
- When moderators were included, the relationship of EM and CSR performance changed

Results

Fitting in the Framework of Ethical Theories

Approach: Distinguishing between market morality and traditional morality

Accrual Based Earnings Management and CSR Performance

- 17/22 results can be placed within the traditional morality framework
- 4/22 results can be placed within the market morality framework

Real Earnings Management and CSR Performance

- 5/9 results can be placed within the traditional morality framework
- 2/9 results can be placed within the market morality framework

Accrual Based & Real Earnings Management and CSR Performance

- 4/7 results can be placed within traditional morality framework for both, AEM and REM
- 3/7 results can not be placed within one framework for AEM and REM

Implications for future research

Implications for future research I

Data period covered

- Inclusion of data from a period without uniform framework of CSR performance
- In light of the agreement reached on the CSRD in Europe, further analysis regarding the associated changes in CSR performance of the companies are necessary

Moderators

- Studies shown effect of moderators, e.g. family involvement or managerial entrenchment
- Further analysis on moderating factors

Implications for future research II

Direction of Impact

- Analysis of reversed causality only by two papers, further analysis on this could help to get a deeper understanding of the relationship of EM and CSR performance
- Analysis on whether REM and AEM are used as substitutes in the interaction with CSR performance, until today this is only drawn as a conclusion based upon hypothesis, without an actual measurement

Measurement of CSR performance

- Most studies used overall CSR performance, only two used subgroupings based upon different CSR categories
- Future research could distinguish between different CSR subcategories

Hypothesis Development

- Approach to hypothesis development mainly based on ethical theory and agency theory

Thank you for your attention!

Feedback & Questions