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1. Introduction

During the last few decades, the corporate world has been predisposed by the growing awareness on CSR and become more conscientious on how they generate and expend profits. Currently, firms are more concerned about their ethical and moral behaviour, and their relationship with relevant societal interest groups (Held 1970). It has been accepted that firms can gain multiple advantages through building a positive image among the stakeholders, and in establishing social bonds with employees and the local community, which generates reputational gains (Branco and Rodrigues 2006; Fombrun et al. 2000; Gray et al. 1988; Orlitzky et al. 2003). In practice, those companies who implement CSR activities are bound to provide transparent and reliable financial information (Kim et al. (2012) and demonstrate a commitment to ethical and accountable behaviour (Jones 1995). However, there is an argument that CSR can be used as an entrenchment mechanism to achieve managers' self-interest objectives by distorting earnings information (Choi et al. 2013; McWilliams et al. 2006).

Since earning management (EM) is perceived in the literature as an ethical issue, several studies have attempted to explore whether EM and CSR are related. However, several studies have found that EM and CRS are negatively related Alsaadi et al. (2017); Chih et al. (2008); Cho and Chun (2016); Choi et al. (2013); Christensen (2016); García-Sánchez and García-Meca (2017); Gras-Gil et al. (2016); Kim et al. (2012); and Martínez-Ferrero et al. (2016), broadly indicate that firms with strong commitment to CSR are less likely to engage in EM. On the other hand Gargouri et al. (2010); Jo Hoje and Harjoto (2011); Muttakin et al. (2015); Prior et al. (2008); and Scholtens and Kang (2013) found positive relationship between EM and CSR and suggest that firms with a higher level of EM resort to CSR activities to disguise managerial opportunistic behaviour. Given that the empirical findings remain inconclusive, more research is needed to understanding how CSR initiatives can impact corporate reporting quality by reducing EM practice (Chih et al. 2008; Gras-Gil et al. 2016; Grougiou et al. 2014). Accordingly, this study attempts to fill this gap by shedding more light on this issue. Moreover, prior research on this topic has primarily focused on the US (Sun et al. 2010), we believe that our study fills this gap of the existing literature by examining the effects of CSR activities on EM in the UK. Thus, the aim of this study is to explore the impact of CSR on EM using a sample of non-financial FTSE 350 UK companies during the period 2008 – 2010. Particularly, this study investigates whether the level of CSR affects the magnitude of discretionary accruals as proxy for EM. Unlike the previous studies, we use multiple measurements to capture the level of CSR: content analysis and disclosure index. We measure EM based on discretionary accruals using cross-sectional version of Kothari et al. (2005) model. Our results suggest that companies with a higher commitment to CSR activities are less likely to manage earnings through accruals. Besides, we found that firms with higher level of community (COM), employees (EMP), environment (ENV), and products (PRO) are less likely to engage in EM via accruals. However, there is no evidence has been detected on the levels of CUS and OTH and the EM.

This paper contributes to the literature in several ways. First, unlike prior research (e.g. Bozzolan et al. 2015; Grougiou et al. 2014; Kim et al. 2012; Martínez-Ferrero et al. 2015; Martínez-Ferrero et al. 2016; Prior et al. 2008), we use manual measurement for the CSR. Prior research on the impact of CSR on EM has used exclusively CSR scores provided by CSR score indices (e.g. SiRi ranking index; KLD ranking index; FTSE4Good Global). Already existing indices criticized for not provide enough information about their methodologies (e.g., Kostyuk et al. 2013; Mitchell et al. 2004) and not being fully grounded in the theoretical development of CSR (e.g., Gond and Crane 2010; Mattingly and Berman 2006; Rowley and Berman 2000). The manual measurement employed in this study for CSR (disclosure index/content analysis) is considered to provide a more detailed and precise measure (Haniffa and Cooke 2005; Hassan and Harahap 2010). To the best of our knowledge, such manual measures have not been employed in joint studies of CSR and EM. Second, the majority of studies in this area are conducted in the context of US (e.g. Grougiou et al. 2014; Kim et al. 2012; Yip et al. 2011). Although the UK and the US share some common features, there are differences in many ways that could affect the inferences of such research (Toms and Wright 2005). For example, US companies are required to disclose more detailed information about corporate social activities and corporate governance than are UK firms (Lennox 2003). Another area of divergence is the notion of EM practice. In this regard, (Brown and Higgins 2001) indicate that the extent to which US managers manage earnings is significantly higher than by their counterparts in the UK. For these considerations, the present study has a strong incentive to shed more light on the potential impact of CSR on EM in the context of the UK.

The remainder of the paper is organised as follows. Section 2 reviews the literature and relevant theoretical perspectives on CSR and EM. Section 3 outlines the methodology and Section 4 report main empirical findings and their consistency with our framework. Section 5 concludes.

2. EM and CSR – Differing Perspectives

In order to explain the link between CSR and EM, previous studies have suggested two perspectives. According to the first one, firms with strong commitments to CSR are less likely to manage earnings since they do not hide unfavourable earnings realisations and, therefore, conduct no EM (Chih et al. 2008). Since EM is perceived as an irresponsible act with CSR principles, Choi et al. (2013) argue that firms with strong commitment to CSR are more prone to act in a responsible way when reporting their financial statements. Likewise, Kim et al. (2012) point out that companies that expend their efforts and resources in designing CSR programmes and implement these programmes to address the ethical interests of stakeholders follow more transparent and reliable financial reporting and less likely to manage earnings. Inversely, the managerial opportunism perspective suggests that managers who manage earnings may strategically use CSR information to disguise their opportunistic behaviour (Prior et al. 2008). According to Prior et al. (2008), managers who engage in EM may resort to CSR to deal with stakeholders' activism and vigilance (Prior et al. 2008). In line with this

argument, Choi et al. (2013) argue that managers who act in pursuit of private benefits by distorting earnings information are able to entrench themselves through engaging in CSR activities.

The empirical studies findings reflected these contradictory perspectives. For instance, the studies of Alsaadi et al. (2017); Chih et al. (2008); Cho and Chun (2016); Choi et al. (2013); Christensen (2016); García-Sánchez and García-Meca (2017); Gras-Gil et al. (2016); Kim et al. (2012); and Martínez-Ferrero et al. (2016) found that EM is negatively related to CSR suggesting that firms with strong commitment to CSR are less likely to engage in EM. On the other hand, Gargouri et al. (2010); Jo Hoje and Harjoto (2011); Muttakin et al. (2015); Prior et al. (2008); and Scholtens and Kang (2013) have found EM and CSR are positively related, suggesting that firms with a higher level of EM resort to CSR activities to disguise managerial opportunistic behaviour. These contradictory results provide the motivation to look further and shed more light on the association between EM and CSR. Furthermore, the study contributes to the need for financial transparency and accountability, which may induce managers to produce high quality financial reports.

Stakeholder theory offers a beneficial foundation for research into the connection between EM and CSR. According to this theory, CSR is seen as obligatory for the firm to discharge wider accountability norms by providing information to relevant stakeholders (Buhr 2001; Guay et al. 1996). Stakeholder theory is about groups and individuals who can affect or be affected by the organization, and how the organizations manage those groups and individuals (Freeman 1984). The theory further views that organizations have a duty and obligation to a wider range of stakeholders (Buhr 2001; Guay et al. 1996) and the managers decisions need to incorporate the interests of all stakeholders (Grougiou et al. 2014). However, this perspective provides a prescription for how managers can undertake strategies to manage and treat their various stakeholders; it does not have a direct role in predicting managerial behaviour in practice (Deegan 2002). Since the firm is perceived as a multilateral set of relationships amongst stakeholders, Grougiou et al. (2014) indicate that since managers attempt to attend a multilateral set of stakeholders objectives, the information asymmetry between managers and stakeholder is high. The existence of information asymmetry provides managers an opportunity to practise EM. Further to this, Hoque (2006) argues that managers manipulate earnings to improve their private interests at the expense of other stakeholders. Moreover, Grougiou et al. (2014); and Sun et al. (2010) illustrate that companies that engage in CSR to negotiate diverse stakeholders interests are inadvertently expected to practise EM. Thus one can assume a positive relationship between EM and CSR in the stakeholder theory framework.

Since the engagement with CSR is one of the management strategies to endorse firm's legitimacy (Grougiou et al. 2014), we looked into the views of legitimacy theory on our central issue. Legitimacy theory is perceived as a generalised perception that the actions of any entity are desirable within some socially constructed system of norms, values,

beliefs and definitions (Suchman 1995, p.574), argues that an organisation activities must be legitimate in the eyes of society if it is to be allowed to continue its operations. Hence, if a company loses its legitimacy, society may revoke its contract and prevent it from continuing its operations (Deegan and Rankin 1996; Guthrie and Parker 1989). Various strategies that firms can adopt in order to maintain their legitimacy within the society in which they operate, and all these strategies can be involved to make social disclosure as a means of showing that firms are conforming to society's expectations (Dowling and Pfeffer 1975). Although a firm may choose CSR to maintain or increase perceptions of its legitimacy (Patten 1992), it may use this as a means of anticipating or avoiding social pressure as well as enhancing the firm's image or reputational status (Gray et al. 1988). In terms of EM, García-Sánchez and García-Meca (2017); and Sun et al. (2010) indicate that managers who manipulate earnings tend to realise that CSR can be used to maintain the firm's legitimacy, specifically with social and political stakeholders. Thus the CSR is seen as a means of informing stakeholders on the wider interests of the firm and of its accountability which prompts the firm to behave in a socially responsible manner.

It is also possible that managers would be involved in activities that could indirectly harm the company and stakeholders except managers. The separation of ownership and management of a company, together with existence conflicts problem and information asymmetry, could create serious problems because managers are more concerned about their job security, rewards, ability to remain in power, and to maximize their own wealth (Morris 1987). This incites us to explore the relationship between EM and CSR in the framework of an agency theory. Agency problems occur and conflicts arise between managers and owners when the managers act for their own benefits rather than optimizing the firms' value from the stakeholders' viewpoint (Watts and Zimmerman 1986). Information asymmetry occurs when managers have superior access to the information as compared to the owners (Fields et al. 2001). While managers work in the firm every day and are knowledgeable about all business transactions and affairs, stakeholders, on the other hand, depend on periodic sources of information, such as annual and interim reports to enable them to value firm's value. Thus, information asymmetry will be higher if the quality of information is low. Managers could undertake opportunistic EM to achieve their objectives, which in turn, increasing firm's agency cost. Since agency relationships suffer from the problems of conflict of interest and information asymmetry, an optimal solution should be discovered to control such problems. Several solutions have introduced in the literature to solve firm's agency problems. For example, Watts and Zimmerman (1986) argue that the transparency and accountability system is one of the solutions that should be put in place in order to avoid agency problems. Given that financial transparency and accountability are vital to CSR, a closure investigation of EM (agency cost) and CSR is required Chih et al. (2008). Jo and Kim (2007) argue that EM occur less in companies that disclose more information on their social activities, because when the information transparency is increased, it is expected that the information asymmetry between managers and investors will be decreased, which will enable investors to detect EM. Likewise, Eisenhardt (1989) states

that “...since information systems inform the principal about what the agent is actually doing, they are likely to curb agent opportunism because the agent will realize that he or she cannot deceive the principal” (p. 60). Similarly, Shleifer (2004) argue that manipulation of earnings occurs less often in corporations with a strong commitment to CSR. In addition, Chih et al. (2008) state that a strong commitment to CSR principles prevent managers from using their opportunistic discretion over earnings.

Finally, in terms of the signalling theory, Gray (2007) illustrates that firms with high-quality information tend to use CSR as an alternative to the classical financial reporting, while low-quality information companies choose non-disclosure, consistent with constrained accounting information. In addition, Gray (2007) argues that the quality of company reports is a signal to investors and financial markets that managers are able to control social risks within the company. Likewise, Sun et al. (2010) indicate that corporate environment disclosure as a part of CSR is a signal to investors and other powerful and economic stakeholders that the company is actively taking part in CSR and that its market value is in good condition. According to signalling theory, a company discloses information to reduce information asymmetry and to signal to investors that it is performing better than its competitors (Álvarez et al. 2008; Miller 2002). However, Hughes (1986) states that the credibility of information provided by a firm is an essential element in ensuring lower information asymmetry. Given that EM is more likely occurs when information asymmetry is high, signalling theory assumes that CSR information is used as a means to reduce the information symmetry (agency problem) between companies and their investors. Therefore, based on the notion that CSR information is a useful tool for reducing information asymmetry, prior studies predicted a negative association between CSR information and information asymmetry (Brown et al. 2004; Collier and Yohn 1997; Heflin et al. 2005; Welker 1995), which indicates a negative relationship between EM and CSR.

Given that increasing the level of CSR performance is a possible solution to constrain EM through decreasing information asymmetry and conflicts between managers and shareholders, the present study employs agency theory to explain the potential relationship between CSR and EM.

H1: “There is a negative relationship between the level of EM and CSR”.

The main previous hypothesis is developed to determine the association between the total CSR performance and EM. In order to test the association between the CSR sub-themes (i.e. community (COM), employee (EMP), environment (ENV), products and services (PRO), customers (CUS), and others (OTH)) and EM, further six sub-hypotheses are developed as follows:

H1a: “There is a negative relationship between the level of EM and COM sub-score”.

H1b: “There is a negative relationship between the level of EM and EMP sub-score”.

H1c: “There is a negative relationship between the level of EM and ENV sub-score”

H1d: “There is a negative relationship between the level of EM and PRO sub-score”.

H1e: “There is a negative relationship between the level of EM and CUS sub-score”

H1f: “There is a negative relationship between the level of EM and OTH sub-score”

3. Research Design

3.1 Measurement of Earnings Management

Discretionary accruals are commonly used to estimate EM in the literature. Similar to other previous studies (e.g., Dechow et al. 1995; Jones 1991; Kothari et al. 2005), we measure EM based on discretionary accruals using cross-sectional version of the modified Jones model (Dechow et al. 1995) due to its superior specification and less restrictive data (DeFond and Jambalvo 1994). Following Kothari et al. (2005), we include return on assets (ROA, a proxy for performance) as an independent variable in the modified Jones model to control for the impact of firm financial performance on accruals.

For each year and industry, we estimate the following model:

$$TA_{it}/A_{it-1} = \alpha_1 (1/A_{it-1}) + \alpha_2 (\Delta REV_{it}/A_{it-1} - \Delta REC_{it}/A_{it}) + \alpha_3 (PPT_{it}/A_{it-1}) + \alpha_4 ROA_{it} + \varepsilon_{it} \quad (1)$$

Where TA_{it} is total accruals measured as the difference between earnings before extraordinary items and cash flow from operations, deflated by beginning total assets for firm i in year t . A_{it-1} is the total assets at the beginning of the year for firm i in year t . ΔREV_{it} is the change in revenue between year $t-1$ and year t for firm i in year t , deflated by beginning total assets. ΔREC_{it} is the change in receivables between year $t-1$ and year t for firm i in year t , deflated by beginning total assets. PPT_{it} is the gross property, plant, and equipment for firm i in year t , deflated by beginning total assets. In our analyses, we use the absolute value of discretionary accruals (AB_DA) rather than signal discretionary accruals, as we are focused on capturing the extent of EM rather than the direction of EM since the later can involve either income-increasing or income-decreasing (Gavious et al. 2012; Klein 2002).

3.2 Measurement of Corporate Social Responsibility

Consistent with prior studies, we have used CSR disclosure as an indicator for CSR (Lanis and Richardson 2012; Wibowo 2012). Following Haniffa and Cooke (2005), we use two types of measures to capture the level of CSR disclosure, which are, content analysis and disclosure index. Content analysis is used to measure the length of CSR

disclosure (CSRL), while the score of CSR disclosure items is measured by CSR disclosure index (CSRI). The reason of using the two methods is to capture the extent and the verity of CSR disclosure (Haniffa and Cooke 2005).

Content analysis which has been widely used in previous literature as a powerful tool to explore corporate disclosures (Aljifri and Hussainey 2007; Aribi and Gao 2010; Hussainey et al. 2003), was utilized to gathering and exploring CSRL in the sample of this study. In content analysis, the selection of recording units such as sentences, words, line, a group of words, pages, paragraph or a whole document are needed. This research uses word as a recording unit since words are considered more reliable as a unit of analysis compared to longer alternatives (Al-Najjar and Abed 2014; Hackston and Milne 1996). Furthermore, Ng (1985) argued that using portion of pages and sentences may be inappropriate because column sizes, print sizes, and page sizes may differ from one annual report to another. Thus, to overcome these problems the current study uses number of words.

Although selection and development of disclosure categories into which content units can be classified is an essential element of content analysis (Haniffa and Cooke 2005), the literature does not provide a clear reference to the categories of CSR disclosure. Gray et al. (1995b, p.81) provide four major categories of CSR disclosure (i.e. community, employees, natural environment, and customers). However, Deegan et al. (2002); Hall (2002); Haniffa and Cooke (2002); Othman et al. (2011); and Rizk et al. (2008) have argued that “energy”, “products and services”, “value-added statement”, and “others” should be added to the main themes to encompass most of the themes and subthemes of CSR disclosure. The “others” theme is added to capture any elements that represent CSR disclosure but fall outside the main and added themes (Gray et al. 1995b). Before conducting a pilot study, decision rules (see Appendix B) were established based on the studies by Hackston and Milne (1996); and Gray et al. (1995b), in order to classify which CSR items are to be disclosed under which theme and subtheme. The pilot study process commenced with the downloading of 50 annual reports for the period 2008-2010 (around 17 annual reports per year and 5 per industry). In the second stage, these reports were reviewed independently by two researchers followed by a third experienced academic who discussed the ambiguities raised in the review. The final research instrument was constructed to comprise 59 subcategories included within six main themes: environment (ENV), employees (EMP), community development (COM), customers (CUS), products and services (PRO), and others (OTH) (see Appendix A).

Similar to the previous studies (Haniffa and Cooke 2005; Othman et al. 2011; Rizk et al. 2008), an equally-weighted dichotomous approach based on categorical coding is applied in this study to score the disclosure items and develop the disclosure index (CSRI). According to this approach, all items included in index checklist are equally valued regardless of their importance or relevance to any particular user group (Chau and Gray 2002). A dichotomous procedure was conducted whereby an item of disclosure was awarded a “1” point if the item of the relevant disclosure included in the checklist was disclosed, and a “0” point if it was not disclosed. The corporate social disclosure index (CSRI) for each company is estimated as follows:

$$CSRI_{jit} = \frac{\sum_{j=1}^{nj} X_{jt}}{n_{jit}}$$

Where

CSRI = total score of CSR disclosure;

X = takes 1 if an item is disclosed and 0 otherwise;

n = the number of items expected, where $n \leq 59$;

j, i and t = the category j for firm i in year t;

So that $0 \leq \text{CSRI} \leq 1$.

Reliability and validity refer to a measuring procedure, which provides the same results on repeated tries (Aribi and Gao 2010). In this study, special considerations were given to reliability and validity. To enhance validity, our checklist themes were carefully developed from prior studies. In addition, the items validity of the initial checklist were reviewed independently by two researchers followed by a third experienced academic who discussed the ambiguities raised in the review. The final checklist includes 59 items included within six main themes of CSR disclosure. To ensure the reliability of the research, the authors and one independent researchers analysed 50 randomly selected annual reports. Then, the results from the two researchers were compared. However, given that the final research instrument was generally agreed by all researchers, the differences in the compliance scores from the researchers were insignificant.

3.3 Empirical Models

To test the relation between EM and CSR, we estimate the following models:

$$\begin{aligned} Abs_DA_{it} = & \alpha_0 + \alpha_1 CSRI_{it} + \alpha_2 BRDEF_{it} + \alpha_3 AUDEF_{it} + \alpha_4 SIZE_{it} + \alpha_5 OCF_{it} + \\ & \alpha_6 LVEG_{it} + \alpha_7 ROA_{it} + \alpha_8 MB_{it} + \alpha_9 LOSS_{it} + \sum_{k=1}^{n-1} \alpha_k INDUSTRY_i^k + \\ & \sum_{Y=2008}^{2010} \omega_y YEAR_i^y + \varepsilon_{it} \end{aligned} \quad (2)$$

$$\begin{aligned} Abs_DA_{it} = & \alpha_0 + \alpha_1 CSRL_{it} + \alpha_2 BRDEF_{it} + \alpha_3 AUDEF_{it} + \alpha_4 SIZE_{it} + \alpha_5 CFO_{it} + \\ & \alpha_6 LVE_{it} + \alpha_7 ROA_{it} + \alpha_8 MB_{it} + \alpha_9 Loss_{it} + \sum_{k=1}^{n-1} \alpha_k INDUSTRY_i^k + \\ & \sum_{Y=2008}^{2010} \omega_y YEAR_i^y \varepsilon_{it} \end{aligned} \quad (3)$$

Where Abs_DA_{it} is the absolute value of discretionary accruals for firm i in year t, $CSRI_{it}$ is CSR index for firm i in year t, $CSRL_{it}$ is CSR length for firm i in year t. $BRDEF_{it}$ is board of director's effectiveness for firm i in year t that takes 1 if 50 per cent or more of members on the board of directors are independent and at least a sample median of them are financial experts, 0 = if otherwise. $AUDEF_{it}$ is an audit committee effectiveness for firm i in year t that takes 1 if all the members on the audit committee are independent and at least a sample median of them are financial experts, 0 = if otherwise. $SIZE_{it}$ is the natural logarithm of total assets for firm i at the year-end t, OCF_{it} is net cash flow from operation divided by the total assets for firm i in year t, $LVEG_{it}$ is Long-term debt divided by total assets for firm i in year t, ROA_{it} is net income divided by total assets for firm i in year t, MB_{it} is market to book ratio for firm i in year t, and $LOSS_{it}$ is a dummy variable for firm i in year t that takes 1 if the firm net

income is negative, 0 = otherwise. INDUSTRY is a dummy variable according to Industry Classification Benchmark (ICB) and YEAR is a dummy variable that indicate fiscal years.

We used the variables to control the potential effect of corporate governance and firm-specific factors that may influence the extent of EM. With regarding corporate governance effect, the study includes $BRDEF_{it}$ and $AUDEF_{it}$ to control its impact on the association between EM and CSR. We have also included several other control variables in the regression model to control for firm-specific characteristics that may affect the level EM. These control variables are: $SIZE_{it}$ is measured as the natural logarithm of total assets for firm i in year t , CFO_{it} is net cash flow from operation divided by total assets, ROA_{it} is return on assets, $LVEG_{it}$ is financial leverage measured as total liabilities scaled by total assets, MB_{it} is market to book value, and $LOSS_{it}$ is a dummy variable take one if the firm i reported negative net income in year t ; and zero otherwise.

Previous studies suggest that the above firm-specific characteristics are useful to predict EM (Chih et al. 2008; Hong and Andersen 2011; Kim et al. 2012). SIZE is included in the regression to control for a firm size on the EM. There is no agreement in the literature regarding the impact of firm size on EM. For example, Watts and Zimmerman (1990) argue that larger companies are more likely to perform downward EM. On the other hand, Richardson (2000) indicates that the market pressure is greater for larger companies because they are subject to close scrutiny by investors, thus they more likely to adopt aggressive accounting policies which lead to manage EM upwards. Therefore, firm size can be negative or positive associated with EM. OCF

was included to control for the differences of performance across firms within different industries and economic activity on EM. We expect that firms with a high cash flow performance are less likely to engage in income-increasing EM (Dechow et al. 1995). ROA is proxy for firm financial performance. It expected the firms with higher financial performance tend to manage earnings downwards (Watts and Zimmerman 1990). LEVG is used as proxy for debt covenant violation (Elayan et al. 2008). The findings of the impact of LEVG on EM were mixed (Dechow and Skinner 2000; DeFond and Jiambalvo 1994; Watts and Zimmerman 1990). Therefore, financial leverage can be negative or positive associated with EM. MB is included to control for a firm growth. It is expected that firms with high growth tend to manage discretionary accruals upwards due to they are under the greatest pressure to adopt aggressive accounting policies to report increased earnings (Chih et al. 2008). LOSS is included to control for financial condition of the firm and expected that firms that faced financial problems tend to engage in income-decreasing EM (Healy 1985). Given that the extent of EM may differ over time and across industries, we control for time and industry potential effect. INDUSTRY is a dummy variable according to Industry Classification Benchmark (ICB) and YEAR is a dummy variable that indicate fiscal years.

3.4 Data and sample selection

The initial sample of the study is UK FTSE 350 index during the period from 2008-2010. We have restricted the sample period to the immediate aftermath of the financial crisis, since the pressures that it caused, are more likely to lead to more pronounced practices of EM. We have removed regulated, mining, and financial industries from the initial sample due to their unique characteristics and to specific regulations which may affect the results (Arun et al. 2015; Astami et al. 2017; DeFond and Jiambalvo 1994; Klein 2002). Further to this, industries less than six observations were reduced from the initial sample. Firms with missing data were also excluded from the sample. Therefore, the final sample consisted 515 firm-year observations during the period 2008-2010. Table I summarises the distribution of the final sample in accordance to Industrial Classification Benchmark (ICB). Four main resources were used to collect the data, mainly FAME, Thomson One Banker, firms' annual and, if any, corporate social reports. EM and control variables were collected mainly from FAME and Thomson One Banker databases, while CSR information was gathered from firms' annual and corporate social reports. Table I shows the sample distribution by ICB classifications code. The most heavily represented industry is Industrial Goods & Services (31 per cent, ICB code 027), followed by Travel & Leisure (12 per cent, ICB code 057).

Insert table I about here

4. Results

Table II presents the summary of descriptive statistics for all variables. The mean value of the absolute value of discretionary accruals (Abs_DA) is 0.044. This result is comparable with the previous findings of Rajgopal et al. (1999); and Yu (2008), who document that the average value of discretionary accruals in US companies is around 4.6 and 4.9 per cent respectively. The mean value of CSRI and CSRL are 0.367 and 1943.351 respectively. For the corporate governance effectiveness variables, Table II shows that the mean value of board of directors' effectiveness (BRDEF) is 0.256, while the audit committee effectiveness (AUDEF) has an average of 0.609. These results suggest that, on average, 25.6 per cent of UK firms have efficient boards, whereas 60.9 percent have efficient audit committees. Ho-Young (2008) indicates that the proportion of board effectiveness in US companies is 32.65 per cent, whereas the percentage of audit committee effectiveness is 34.54 per cent. For the control variables, the mean value of cash flow from operation (CFO), financial leverage (LEV), and return on assets (ROA) are 0.135, 0.599, and 0.084 respectively. In addition, Table II reports that the mean value of company size (SIZE) is 7.292 and the market-to-book ratio (MB) is 2.944. It also reports that 13.6 per cent of our sample firms report losses.

Insert table II about here

Table III presents the pairwise correlations for the variables used in the regression. It shows that the highest correlation is between CSRI and CSRL with a coefficient of 60 per cent and significant at 0.01 level. In order to avoid the multicollinearity problem, the relation between EM and CSR is separately tested for the two measurements of CSR (i.e. number of words and disclosure score). According to Gujarati (2003), the coefficient of ± 80 per cent is considered as a begging at which multicollinearity problem might exist and harm the results of the regression analysis. Therefore, the problem of multicollinearity does not exist between the independent variables used in the paper.

Insert table III about here

Following Bozzolan et al. (2015); Cho and Chun (2016); Dimitropoulos and Asteriou (2010); García-Sánchez and García-Meca (2017); and Gras-Gil et al. (2016), the multivariate specifications are estimated using the multiple pooled OLS regression with robust standard error to control the heteroscedasticity and serial dependence problems that may occur in pooled OLS regression analyses (Petersen 2009). Using absolute value of discretionary accruals, Table IV shows that the score of CSR (CSRI) is negatively significant related to EM at ($p < 0.01$), suggesting that firms with a higher score of CSR report lower magnitude of discretionary accruals compared with those firms with a lower score of CSR. Similar results are found when we used the number of words (CSRL) as an alternative measurement of CSR. In particular, Table IV reports that CSRL is negatively significant related to EM at ($p < 0.01$), indicating that firms with higher level of CSR are more likely to engage in lower level of EM. Consistent with H1, this result support the prior research (see e.g. Alsaadi et al. 2017; Chih et al. 2008; Cho and Chun 2016; Choi et al. 2013; Christensen 2016; García-Sánchez and García-Meca 2017; Gras-Gil et al. 2016; Kim et al. 2012; Martínez-Ferrero et al. 2016), suggestion that CSR constrain company ability to manage earnings using accrual based. This perspective is consistent with assumption provided by agency theory, which argues that CSR information is an essential tool to reduce information asymmetry between managers and shareholders when the interests of the two groups conflict.

Insert table IV about here

Further analyses are preformed to examine the rest of our six sub-hypotheses. Therefore, we test the link between EM and individual themes of CSR using disclosure score and content analysis approaches. These themes are: community (COM), employees (EMP), environment (ENV), products (PRO), customers (CUS) and others (OTH). While Panel A of Table V report the results based on the disclosure score approach, Panel B presents the result based on the content analysis approach. As can be seen from Panel A of Table V, there is a negative and significant relationship between EM and COM, EMP, ENV, and PRO at ($p < 0.01$, $p < 0.05$, $p < 0.01$, $p < 0.05$ respectively), suggesting that firms with a high score of COM, EMP, ENV, and PRO are less likely to manage earnings through accruals. However, the study finds there is no relation between EM and CUS and OTH sub-Scores. These results indicate that the level of CUS and OTH does not impact the magnitude of EM.

Panel B of Table V presents the similar results to Panel A of that COM, EMP, ENV, and PRO have a negative and significant effect on the magnitude of EM at ($p < 0.05$, $p < 0.10$, $p < 0.01$, and $p < 0.05$ respectively). With respect to CUS and OTH themes, Panel B shows there is no relation between the themes and EM. The results of Panel A and Panel B of Table V are consistent with sub-hypotheses *H1a* through *H1d*, however rejecting the two sub-hypotheses *H1e* and *H1f*. In sum, our results provide evidence suggesting that CSR information of community, employees, environment and products seems to play an important role in constraining managers ability to manipulate reported earnings through

accruals compared to those information of customers and others (Kim et al. 2012). These results suggest that UK companies disclose a high level of COM, EMP, ENV and PRO information compared with the information of CUS and OTH.

Insert table V about here

The study uses the lagged values of endogenous independent variable (i.e. CSRI and CSRL) as an instrumental variable (IV) to investigate whether or not the simultaneity problem affects the relation between EM and CSR. After controlling for endogeneity, the coefficient of CSRI and CSRL are negatively and significantly related to discretionary accruals as presented in the Table V.I. These results suggest that firms with higher levels of CSR report lower levels of discretionary accruals. Although the level of significance is different between the main and 2SLS regressions, the results of the instrumental variables (IV) 2SLS results are consistent with the main results in Table IV. This implies that the simultaneity problem between CSR and EM does not affect the primary results of CSR on discretionary accruals.

Insert table VI about here

While the main model to detect EM in this study is Kothari et al. (2005) model, we alternatively use the modified Jones (Dechow et al. 1995) model as an alternative measurement for EM to investigate whether it has any effect on the results. The findings are consistent with the main results (see table VII), suggesting that main findings are robust with different measurements of EM.

Insert table VII

Conclusion

In this paper, we investigate the link between EM practices and CSR in the FTSE 350 companies in the UK during the period from 2008-2010. We hypothesise that firms with high level of CSR is more likely to engage in EM. In order to support/or reject the main hypothesis, the study has employed content analysis and disclosure index to measure the level of CSR.

The findings support the main hypothesis that firms with higher level of CSR tend to engage in low magnitude of EM through discretionary accruals. The study further investigates whether CSR sub-themes and EM are related. The results of empirical analysis show that the levels of COM, EMP, ENV and PRO are negatively related to the extent of EM, suggesting that firms with a high level of such information report lower levels of EM. However, there is no evidence of such a relationship between the levels of CUS and OTH and the magnitude of EM, suggesting that the levels of CUS and OTH do not affect the level of EM. In order to test whether the primary findings are consistent and robust to the specifications of different measures, sensitivity analyses are performed, addressed the endogeneity question between EM and CSR. Overall, our results are in line with agency theory and consistent with the long-term perspective, which asserts that firms issuing a high level of CSR information reduce information

asymmetry and enhance relationships with stakeholders rather than simply focusing on increasing profits. Therefore, CSR activities are motivated by managers' incentives to be honest, trustworthy, and ethical.

The findings of our study provide insights for policy makers, executive managers, and academics. Firstly, our study has policy implications for standard setters and regulators to continue improving the guidance and framework to assist companies to provide CSR reports. Secondly, executive managers may understand the function and importance of the CSR in constraining EM and therefore improving financial reporting quality and transparency. Managers may refer to this result when they purpose to persuade investors and perform CSR activities to reduce earning manipulation and increase investors' wealth. Finally, to the academics, the empirical evidence on the effect of CSR on accrual based EM a stepping-stone for future research so that future studies can consider the role of voluntary disclosure to reduce real activity EM to protect investors.

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Appendix A: Checklist of CSD Themes

Employee

1. Number of employees
2. Employee's salary
3. Health and safety in the workplace
4. Employee equal opportunities
5. Employee benefits

6. Employee remuneration
7. Employee's satisfaction
8. Profit sharing/bonus scheme policy
9. Employee share ownership
10. Employee education and training
11. Accident in the workplace
12. Other

Community

13. Participation to community activities around the company
14. Community donations/Charity
15. Community health supporting
16. Local community education
17. Participation in government social campaigns
18. Awards related to community achievement
19. Other special community related activities

Products/services

20. Product/service development(research and development)
21. Product safety
22. Product/service quality
23. Others

Customers

24. Customer services
25. Customer compliant
26. Customer satisfaction
27. Others

Environment

28. Materials used
29. Waste
30. Recycling
31. Packaging
32. Water consumption
33. Conservation of natural resources
34. Impact in the environment
35. Designing facilities harmonious with the environment
36. Repairs/Protection to environmental damage
37. Energy consumption
38. Use of waste material for energy production
39. Development of new sources of energy
40. Carbon credits

- 41. Emission of greenhouse gases
- 42. Clean Development Mechanisms
- 43. certified Emission Reduction s
- 44. Actual environmental policies
- 45. Environmental goals, targets and objectives
- 46. Compliance with regulations and requirements
- 47. Environmental Partnerships
- 48. Environmental education
- 49. Environmental research
- 50. Environmental management
- 51. ISOs 14.000
- 52. Environmental auditing
- 53. Contributions to beautify the environment
- 54. Wildlife conservation
- 55. others

Others

- 56. General health and safety information
- 57. General disclosure of corporate objectives /policies relating to the social responsibility of the company to the various segments of society
- 58. Report about the presence of corporate social responsibility committee and its members and activities
- 59. Information about awards received by the company concerning its social responsibility, or the presence of the company in one, or more, social indexes

Appendix B: Decision Rules for CSD

1. All CSR information must be related to the firms and its activities.
2. All disclosures must be specifically stated, they cannot be implied.
3. If any word has more than one possible classification, the word should be classified as to the activity most emphasized in the word.
4. Any disclosure which is repeated shall be recorded as a CSD word each time it is discussed.
5. All sponsorship activities to be included, no matter how much it is advertised.