Article Type: Research Paper

Do Corporate Social Responsibility and Investor Protection Limit Earnings Management? Evidence from Indonesia and Malaysia

Muliati, Arung Gihna Mayapada*, and Abdul Pattawe

OPEN ACCESS

AFFILIATION:
Department of Accounting, Faculty of Economics and Business, Universitas Tadulako, Central Sulawesi, Indonesia

***CORRESPONDENCE:**
arunggihna@gmail.com

THIS ARTICLE IS AVAILABLE IN:
http://journal.umy.ac.id/index.php/ai

DOI: 10.18196/jai.v22i3.11515

CITATION:
Muliati, M., Mayapada, A.G., & Pattawe, A. (2021). Do Corporate Social Responsibility and Investor Protection Limit Earnings Management? Evidence from Indonesia and Malaysia. *Journal of Accounting and Investment*, *22*(3), 482-499.

ARTICLE HISTORY
Received:
16 Apr 2021
Revised:
08 Jun 2021
14 Jun 2021
Accepted:
15 Jun 2021

Abstract:
Research aims: This study aims to investigate the effect of corporate social responsibility on earnings management by considering the impact of investor protection.
Design/Methodology/Approach: This study's population was plantation companies listed in Indonesia Stock Exchange and Malaysia Stock Exchange. The period of this study was from 2012 to 2017. Moreover, the hypotheses testing technique used was multiple regression analysis.
Research findings: This study's results revealed that corporate social responsibility disclosure and investor protection significantly affected earnings management.
Theoretical contribution/Originality: These results support the ethics hypothesis stating that companies committed to ethics view earnings management unethical behavior. This study also verifies the relationship between legal systems and earnings management.
Keywords: Corporate Social Responsibility; Earnings Management; Investor Protection

Introduction

Earnings management does not harm investors but other company stakeholders, namely society, employees, local communities, and managers (Zahra, Priem, & Rasheed, 2005). For example, earnings management carried out by Enron's top management harmed its stakeholders with employee termination, loss of employee pension funds, and reduced state tax revenue. Even earnings management hurt the Enron itself. Regarding this, earnings management can reduce stakeholder trust in the company. As a result, stakeholders will give negative responses to the company, such as increased pressure from shareholders, government sanctions, employee abandonment, consumer boycott, increased demand to reduce prices, reduced sales revenue, boycotts by environmental activists, and negative media coverage (Lin et al., 2016; Prior, Surroca, & Tribó, 2008). All these negative responses can threaten the sustainability of the company's operations.

Consequently, most investors have realized that business sustainability is more important than excellent financial performance over a certain period but is misleading (Timbate & Park, 2018; Yusrianti, Norma Habsari, & Prukumpai, 2016). In this case, companies should generate economic benefits and be ethically responsible for all stakeholders, especially society and the environment (Choi, Lee, & Park, 2013). Therefore, the focus of investors and other stakeholders is currently not only on financial reporting but also on corporate social and environmental responsibility reporting (Kolk, 2016). The previous studies' results showed that corporate social responsibility reporting could increase company reputation to stakeholders (Saeidi et al., 2015). Furthermore, a socially responsible company tends to have good relationships with stakeholders and get support from stakeholders (Mohamed, Faouzi, & Olfa, 2014).

Based on the ethical perspective, the company reporting corporate social responsibility voluntarily upholds integrity, fairness, accountability, transparency, and corporate philanthropy (Chun, 2005). Meanwhile, the previous study result found that the company upholding ethical values would perceive earnings management as unethical behavior (Elias, 2004). Therefore, some previous studies uncovered that company management reporting corporate social responsibility activities tended not to do earnings management (Ajina, Lakhal, & Ayed, 2019; Ben Amar & Chakroun, 2018; Jordaan, De Klerk, & De Villiers, 2018; Kim, Park, & Wier, 2012; Saeed, Hashmi, & Javid, 2019).

However, Sun et al. (2010) found that one of management's motives to report corporate social responsibility activities is to divert the attention of investors and potential investors from earnings management done by management. Company management utilizes corporate social responsibility reporting as a mask to secure their jobs and avoid monitoring by stakeholders, especially investors (Cespa & Cestone, 2007). The previous study revealed a positive relationship between corporate social responsibility and earnings management (Habbash & Haddad, 2019; López-González, Martinez-Ferrero, & García-Meca, 2019; Prior et al., 2008).

The various previous studies' results regarding the effect of corporate social responsibility on earnings management indicated that this issue still needs to be examined. The previous studies showed that earnings management as management fraud and corporate social responsibility as management discretion must be examined by considering the specific company characteristics and the environment in which the company operates (Ehsan, Abbas, & Nawaz, 2018; Kyaw, Olugbode, & Petracci, 2017; Moratis & van Egmond, 2018). The institutional factor in which the company operates can also influence the choice of policy taken by management, including whether to do earnings management or not. The different protection of investors' rights by every country distinguishes management behavior in violating investors' rights, including earnings management (Leuz, Nanda, & Wysocki, 2003). Previous studies revealed that investor protection negatively affected earnings management, meaning that strong investor protection can limit management fraud effectively (Chen, Chou, & Wei, 2019; Kouki, 2018; Lourenço et al., 2018). The previous studies also exposed that the specific characteristics could distinguish the level of earnings management, such as leverage

(Burgstahler, Hail, & Leuz, 2006; Leuz et al., 2003; Marcel Martins Ardison, Lopo Martinez, & Caio Galdi, 2012).

Therefore, this study aimed to investigate the effect of corporate social responsibility disclosures and investor protection on earnings management. This study was conducted because the previous studies' results related to the relationship between corporate social responsibility and earnings management could not be concluded. This study considers new variables in the relationship between corporate social responsibility and earnings management, namely investor protection as another independent variable and leverage as a control variable. Considering the variable of company and institutional characteristics aimed to answer the differences in the previous studies' results so far related to corporate social responsibility and earnings management. According to Shen and Chih (2005), earnings management could differ between countries and firm sizes because strong investor protection could limit earnings management, and large firms are more vulnerable to the spotlight of authority than small firms.

To the best of researchers' knowledge, only one study considers the effect of investor protection and corporate social responsibility on earnings management, which is the study of Scholtens and Kang (2013). Still, the study was conducted before the enactment of global accounting standards, International Financial Reporting Standards. However, the current study was conducted in the period after Indonesia and Malaysia adopted International Financial Reporting Standards in 2012. Therefore, this study is different from previous studies.

Further, this study was conducted on companies operating in the plantation sector listed in Indonesia Stock Exchange and Malaysia Stock Exchange. The reason for plantation companies was chosen as this research's main subject is that plantation companies are industrial sectors whose operational activities directly impact the community and the surrounding environment. Other than that, Indonesia and Malaysia are the largest palm oil-producing countries that commit eco-friendly. Indonesia and Malaysia have taken the initiative to establish Council Palm Oil Producing Countries in 2016. Interestingly, Indonesia and Malaysia have regulated corporate social responsibility reporting in 2006 and 2007, respectively. Still, plantation companies' cases of environmental destruction in Indonesia and Malaysia are prevalent, such as forest fires for land clearing. Therefore, this study aimed to investigate the effect of corporate social responsibility disclosures and investor protection on earnings management in Indonesia and Malaysia plantation companies.

In addition, this study has theoretical implications for a new paradigm regarding the relationship between corporate social responsibility and earnings management at the country level, thus paving the way for accounting theory and international business. This study's results can also open the paradigm of stakeholders, especially investors, to encourage firms to be ethically responsible for local communities, the environment, and economic benefits. Finally, this study can guide investors and potential investors in assessing the firms' financial reporting transparency by considering the firm's characteristics and the institutional environment in which the firm operates.

Literature Review and Hypotheses Development

Agency Theory and Stakeholder Theory

The relationship between corporate social responsibility and earnings management can be explained based on the agency and stakeholder theory framework (Prior, Jorge, & Tribó, 2007). Agency theory focuses on the agency relationship between shareholders and management. Management is an agent who is entrusted with managing the firm. Meanwhile, shareholders as principals are parties who delegate their authority to management. According to Jensen and Meckling (1976), management tends to behave opportunistically and be selfish because management has different interests from shareholders. As a result of the agency relationship, information asymmetry allows management to steal profits from shareholders (Richardson, 2000). In addition, management as a party with more information about the company can manipulate information provided to shareholders so that shareholders are wrong in making decisions (Mayapada, 2018). However, management must take these opportunistic actions carefully so that management is not acted upon by shareholders, including using corporate social responsibility to mislead shareholders of the real value of the firm and its real performance (Ajina et al., 2019).

In the context of agency theory, earnings management can be viewed as an agency cost (Chandren, 2016). Management can perform earnings management because the information asymmetry between management and shareholders allows management to manipulate information reported to shareholders, including earnings figures (Richardson, 2000). Meanwhile, earnings figures are one of the primary considerations for shareholders in assessing management performance and making investment decisions. Therefore, earnings management can result in shareholders wrongly assessing management performance, investment decisions, and eventually making shareholders suffer losses (Zahra et al., 2005).

Furthermore, according to Freeman (1984), stakeholder theory does not only focus on the relationship between management and shareholders, but also other parties affected by the company's operational activities. Therefore, management must not only focus on its relationship with shareholders but also all other company stakeholders, including the community and the surrounding environment that have provided locations and resources. Therefore, stakeholder theory states that a company can survive by aligning all its stakeholders' interests, not only shareholders but also the community and the surrounding environment (Hill & Jones, 1992).

Corporate social responsibility is a concept based on stakeholder theory (Brown & Forster, 2013). Corporate social responsibility is a form of fulfilling the firm's moral and ethical obligations to a society and the environment (Schwartz & Carroll, 2003). Communities and the environment as stakeholders have contributed to the firms in providing the firms location and resources (Hill & Jones, 1992). In return, the firms have a moral and ethical obligation to pay attention to the interests of society and the environment through community empowerment and environmental conservation. Such firms also run their business with integrity and tend to provide reliable financial statements to meet the needs of stakeholders (Gras-Gil et al., 2016). This is because the firms are not only focused on increasing current profits but also focused on fostering future relationships with stakeholders (Chih et al., 2008). Building good relationships with stakeholders is important because stakeholders control the firms' resources that are essential for the firms' existence (Choi et al., 2013).

Hypotheses

The previous studies revealed two perspectives regarding the relationship between corporate social responsibility and earnings management (Choi et al., 2013; Chun & Cho, 2017; Jordaan et al., 2018). The first perspective is called the ethical hypothesis or long-term perspective based on the stakeholder theory. The ethical hypothesis is based on the idea that the issue of corporate social responsibility is related to ethical and moral issues in decision making. Therefore, ethics plays a vital role in controlling earnings management behavior (Labelle, Makni Gargouri, & Francoeur, 2010). On the other hand, another perspective believes that corporate social responsibility is merely a tool for management to gain a good reputation from stakeholders. In this case, excellent support from stakeholders can be used by management to behaving opportunistically (Jordaan et al., 2018). Therefore, this perspective is called the political or opportunistic behavior hypothesis based on the agency theory.

The ethical hypothesis assumes that management carries out corporate social responsibility based on awareness of ethical and moral issues in organizational decision-making (Liu et al., 2017). The company that carries out corporate social responsibility is the company that does not focus only on profit maximization but also on building a good relationship with all stakeholders (Chih, Shen, & Kang, 2008; Kolk, 2016; Lin et al., 2016). Management realizes that stakeholders control all resources needed by the company to exist (Gras-Gil, Palacios Manzano, & Hernández Fernández, 2016). Thus, management who carries out corporate social responsibility tends to avoid all actions which harm all stakeholders, including shareholders. Also, corporate social responsibility reporting can increase the transparency of corporate financial reporting so that information asymmetry between management and stakeholders is minimized (Elkington, 2013; Scholtens & Kang, 2013). Therefore, corporate social responsibility is assumed to be able to reduce earnings management carried out by management.

On the other side, the previous study's results revealed that corporate social responsibility could increase the company's reputation (Lin et al., 2016). The company will get support from all stakeholders, such as getting good news from media, legitimacy from society, and favorable regulation (Prior et al., 2007). This condition can be utilized by management to behaving opportunistically. Management uses corporate social responsibility as a tool to divert stakeholder's attention and secure their jobs (Kim et al., 2012; Prior et al., 2008; Shafai, Amran, & Ganesan, 2018). Therefore, the political hypothesis states that generally, the companies that are very proactive in corporate social responsibility reporting make earnings management more than the companies that are slightly seeking public attention.

Previous studies have disclosed that the relationship between corporate social responsibility and earnings management was positive and significant (Habbash & Haddad, 2019; Jiang et al., 2013; López-González et al., 2019; Shafai et al., 2018). In contrast, Ajina et al. (2019); Ben Amar and Chakroun (2018); Cho and Chun (2016); Choi et al. (2013); García-Sánchez and García-Meca (2017); Gras-Gil et al. (2016); Jordaan et al. (2018); Kim et al. (2012); Saeed et al. (2019); Scholtens and Kang (2013) found that corporate social responsibility had a significant adverse effect on earnings management. Therefore, the researchers formulated the following hypothesis:

***H*$_1$**: *Corporate social responsibility disclosure has a significant negative effect on earnings management*

Further, earnings management is an action intentionally carried out by management in presenting misguided information about company performance so that shareholders change their decision (Schipper, 1989). Shareholders, as principals, have the right to obtain reliable and relevant information regarding the company’s performance from management. Shareholders ensure their rights are fulfilled by designing good contracts that depend on the legal system and contract enforcement (La Porta et al., 1998). The legal system enforces contracts by acting on management, such as changing management (Chih et al., 2008). Several previous studies have exhibited that strong investor protection in a country could reduce the level of earnings management in the country (Burgstahler et al., 2006; García-Sánchez & García-Meca, 2017; La Porta et al., 1998; Leuz et al., 2003; Mayapada, 2018).

***H*$_2$**: *Investor protection has a significant negative effect on earnings management*

Research Method

Population and Sample

This study's population was plantation companies listed in the Indonesia Stock Exchange and the Malaysia Stock Exchange. Plantation companies were chosen because they are one of the industrial sectors that directly impact the community and the surrounding environment. Besides, most forest fire issues in Indonesia and Malaysia in recent years have been caused by the opening of plantation land, mainly oil palm plantations. Furthermore, Indonesia and Malaysia are the two leading players in the oil palm industry (Ministry of Agriculture of the Republic of Indonesia, 2015). In addition, Indonesia and Malaysia are also the initiators of forming a palm oil-producing unity state institution (Ministry of Industry of the Republic of Indonesia, 2016). Hence, it is interesting to investigate the social responsibility of plantation companies in Indonesia and Malaysia amid the controversy over forest fires that are plaguing both. Also, the population includes cross-country companies because one of the research variables is an institutional factor, investor protection at the country level.

Based on the data obtained, the total plantation companies listed on the Indonesia Stock Exchange were eight companies. Meanwhile, the entire plantation companies listed in the Malaysia Stock Exchange were 43 companies. Therefore, the total population of this study was 51 companies. This study period covered 2012 until 2017. This period was selected because Indonesia and Malaysia have fully adopted IFRS as their accounting standards since 2012. Therefore, Indonesia and Malaysia have the same accounting standards, so that comparing accrual earnings management between Indonesia and Malaysia can be done well.

The sampling technique was carried out using purposive sampling. One sample criterion included that the plantation companies had been listed on the stock exchange since before 2010. This criterion was based on the reason that the earnings management behavior will be different if the company has just made an initial public offering. Besides, another requirement is that sample companies had to have the same financial reporting period and ended on December 31. Furthermore, companies that experienced losses from 2012 to 2017 were also excluded from the sample because the company that lost had another tendency in managing earnings. Also, companies that did not provide complete data for this study were excluded from the sample. Based on the sampling criteria, the numbers of plantation companies that met the requirements were 13 companies consisting of four companies listed on the Indonesia Stock Exchange and nine companies listed on the Malaysia Stock Exchange.

Table 1 Sampling Procedure

Sampling Criteria	Indonesia Stock Exchange	Malaysia Stock Exchange	Total
Plantation companies listed on the exchange since 2010 (population)	8	43	51
The financial statements do not have one year period and do not end on December 31.	(0)	(18)	(18)
Plantation companies suffered losses during the period under study (in 2012 - 2017)	(4)	(12)	(16)
Plantation companies do not publish complete data.	(0)	(4)	(4)
Total samples	4	9	13
Total research observations (2012-2017)	24	54	78

Variable Measurement

This study consisted of one dependent variable and two independent variables. The dependent variable was earnings management. Earnings management is a change in economic performance reported by management to mislead stakeholders and influence contractual outcomes (Healy & Wahlen, 1999). Earnings management can be done by utilizing accounting standards or through real company transactions. However, management prefers accrual earnings management because manipulating financial statements is carried out without violating accounting standards (Leuz et al., 2003). In this study, earnings management was proxied through the absolute value of discretionary accruals calculated based on the modified Jones model (Dechow, Sloan, & Sweeney, 1995).

The primary independent variable in this study was corporate social responsibility disclosure. According to Carroll (1999), corporate social responsibility is the social responsibility of a business that includes responsibility in terms of economy, law, ethics, and wisdom, which society expects from an organization at a specific time. The company usually discloses corporate social responsibility activities to stakeholders in a written report. Corporate social responsibility disclosure in a written report is regulated based on defined standards that have been developed by many non-profit organizations in the world as financial statements are prepared based on accounting standards.

In this study, corporate social responsibility disclosure referred to the Global Reporting Initiative (GRI) standards, especially GRI G4. The measurement of corporate social responsibility disclosure used a content analysis method (Hamid & Atan, 2011; Sumiani, Haslinda, & Lehman, 2007). The researchers analyzed each content related to corporate social responsibility topics based on the GRI G4 standards in annual reports, separate corporate social responsibility reports (if any), and the company's website. The corporate social responsibility disclosure index was then calculated by a non-weighted average index (Ghazali, 2007; Rosli, Said, & Fauzi, 2015). The following formula for corporate social responsibility disclosure index is:

Corporate social responsibility disclosure index = (Total items disclosed)/ (Total items should have been disclosed)

The other primary independent variable in this study was investor protection. According to La Porta et al. (1998), investor protection can be seen from the legal system applied in a country. Based on the previous study result, common law is better than civil law in protecting investor rights (Leuz et al., 2003). Civil law is a legal system codified in the form of written law. Common law is a legal system dominated by unwritten law and judge decisions in the past. Judges' decisions in courts in civil law countries must be based on written rules so that management can take advantage of existing written rules loopholes to do fraudulent actions against outside shareholders and other stakeholders. In contrast, the judges in the courts in common law countries are given the freedom to interpret the existing rules and judges' decisions broadly in the past to decide on a case even though it has not been regulated in the written regulations yet. Therefore, investor protection was proxied by a dummy variable, in which 1 representing common law countries and 0 signifying civil law countries (Mayapada, 2018; Wulandari & Ayu, 2010). Meanwhile, leverage as a control variable was calculated by dividing the company's total debt and total assets (Kyaw et al., 2017; Prior et al., 2007, 2008).

Data Analysis Method

This study involved four variables: earnings management (EM), corporate social responsibility disclosure (CSRD), investor protection (InvPro), and leverage (Lev). Based on that, the data analysis method employed in this study was the multiple linear regression analysis with a common effect model. Therefore, the equation of multiple linear regression analysis in this study is as follows:

$EM_i = a + b_1\, CSRD_{i,t} + b_2\, InvPro_{i,t} + b_3\, Lev_{i,t} + e$ ....(1)

Result and Discussion

Descriptive Statistics

Table 2 presents the descriptive statistics of all variables in this study using transformed data in Indonesia and Malaysia because the original data had normality problems. The Table 2 shows that the average natural log of earnings management value was -1.4411. The minimum value of earnings management was owned by one of the sample companies listed on the Malaysia Stock Exchange, while the highest value was owned by one of the sample companies listed on the Indonesia Stock Exchange. These results indicate that the level of earnings management varied between countries, one of which could be expected to be influenced by the level of investor protection applied in the states. Meanwhile, the maximum score of corporate social responsibility disclosure was obtained by most Malaysian companies, the majority of which made corporate social responsibility reports separately and based on GRI standards. However, not all Malaysian companies reported their CSR well, as indicated by the minimum score obtained by a Malaysian company. The Malaysian company did not disclose its corporate social responsibility activities well throughout this study period. Meanwhile, the company with the highest leverage value came from Malaysia, and the lowest leverage value came from the Indonesian company. The Table 2 also displays that most of the sample of this study were plantation companies listed on the Malaysia Stock Exchange, reaching almost 70%.

Table 2 Descriptive Statistics

Variable	Range	Minimum	Maximum	Mean	Std. Error
LnEM	6.60	-5.32	1.29	-1.4411	0.09733
LnCSRD	1.37	-1.37	0.00	-0.7422	0.04565
InvPro	1.00	0.00	1.00	0.6923	0.05260
LnLev	3.03	-3.34	-0.32	-1.6021	0.09067

N=78

Empirical Results

Table 3 shows that the correlation coefficient (R) in this study was 0.508, meaning that the level of relationship between the variables of this study was quite strong. Meanwhile, the adjusted R square value of 0.228 indicates that 22.8% of the variability of earnings management variables was explained by the variability of corporate social responsibility disclosure, investor protection, and leverage. Meanwhile, 77.2% (100%-22.8%) was explained by other variables not examined in this study.

Table 3 also provides the simultaneous influence test results to determine whether the independent variables jointly influenced the dependent variable. The simultaneous effect test results also represented the feasibility of the research model developed.

Table 3 The Empirical Results

Variable	Unstandardized Coefficients (*Beta*)	*t*	*Sig.*
(Constant)	-1.458	-6.097	0.000
LnCSRD	-0.678	-3.139	0.002*
InvPro	-0.851	-3.992	0.000*
LnLev	-0.064	-0.514	0.609
R = 0.508		Adj. R Squared = 0.228	

T-test results indicated the effect of each independent variable on the dependent variable. Of the three independent variables included in the model, only the Ln Leverage variable was not significant at 0.05. In contrast, other independent variables, Ln Corporate Social Responsibility Disclosure and Investor Protection, were all significant, with values less than 0.05. These results concluded that Ln Corporate Social Responsibility Disclosure and Investor Protection influenced Ln Earnings Management.

The Ln Corporate Social Responsibility Disclosure regression coefficient of -0.678 stated that each increase in corporate social responsibility disclosure by 1% would reduce the level of earnings management by 0.678%. Meanwhile, the Investor Protection variable's regression coefficient of -0.851 indicated that Ln Earnings Management of plantation companies in common law country, namely Malaysia, was 0.851 lower than Ln Earnings Management of plantation companies located in civil law, namely Indonesia.

Discussion

This study found that corporate social responsibility disclosure had a significant adverse effect on earnings management. This empirical result supports the perspective that companies carry out corporate social responsibility because of the ethical awareness in doing business. On the contrary, this empirical result contradicts the political hypothesis, stating that companies carry out corporate social responsibility only to obtain support from all stakeholders and as a camouflage of earnings management done by management. Therefore, this empirical result is not in line with the research findings of (Cespa & Cestone, 2007; Gargouri, Shabou, & Francoeur, 2010; Jiang et al., 2013; Moratis & van Egmond, 2018; Prior et al., 2008; Yip, Van Staden, & Cahan, 2011). However, this empirical result is similar to the conclusion of previous studies, which also support the ethical hypothesis, such as Cho and Chun (2016); Choi et al. (2013) in Korean-listed firms, Chih et al. (2008) in firms in 46 countries around the world, Garcia-Sanchez and Garcia-Meca (2017) with bank samples, Gras-Gil et al. (2016) in Spanish non-financial companies, Jordaan et al. (2018) in South African companies, Hong and Andersen (2011) with non-financial US sample firms, and Scholtens and Kang (2013) with firms in ten Asian countries including Malaysia.

Furthermore, companies with a solid commitment to ethics will not hesitate to report their corporate social responsibility activities to stakeholders as a form of public accountability. The more transparent financial statements, the lower incentive management to do earnings management is (Shen & Chih, 2005). Companies that carry out corporate social responsibility consider earnings management an irresponsible action that does not follow ethics (Mohamed et al., 2014). Therefore, companies that report corporate social responsibility well tend not to do earnings management in their financial statements.

The ethical hypothesis related to the relationship between corporate social responsibility and earnings management is based on the idea that ethical companies will always strive to maximize all stakeholders' interests without harming any stakeholders. Corporate social responsibility is closely related to moral and ethical issues between policymakers and company behavior (Rahmawati & Dianita, 2011). Companies that uphold ethical values in business realize that the company's goal is not only to maximize profit and meet the expectations of shareholders but also to add value to the around community and environment (Chih et al., 2008). The company's sustainability cannot be separated from the support of all stakeholders, so that the company must ensure that the company's operational activities do not harm the around communities and environment. The research result by Ahmed Haji (2013) revealed that the extent and quality of CSR disclosures in Malaysia experienced a significant increase in the recent decade. The majority of firms in Malaysia disclosed their CSR activities through narratives in annual reports (Ahmad, Rashid, & Gow, 2017). Meanwhile, CSR disclosures in Indonesia have been required by the government through Law No. 40 of 2007 concerning Limited Liability Companies, emphasizing firms with a direct impact on the environment, such as plantation firms. However, Ridho (2017) showed that most management in Indonesia only understood CSR as activities related to donations and community development. In addition, most firms in Indonesia also reported their CSR activities through annual reports and websites.

Moreover, the research result by Shen and Chih (2007) revealed that the level of earnings management carried out by firms in Indonesia was higher than that of Malaysian firms. Shen and Chih (2007) also found that it was influenced by corporate governance. This result aligns with Wu et al.'s (2016) finding, which showed that the level of earnings management in Malaysian banks was the lowest among other Southeast Asia countries.

This study also verifies the stakeholder theory. Stakeholder theory states that a company should be able to accommodate all stakeholders' interests. Company stakeholders are not only shareholders but also suppliers, customers, regulators around the community, and the environment. All these stakeholders play an essential role in supporting the company's operations. Without the support of all company stakeholders, the company will not be able to exist and obtain maximum profits because the company's activities are disrupted.

Table 3 also displays that investor protection proxied by the legal system had a significant positive effect on earnings management. This finding means that investor protection could restrict earnings management done by management. This result also revealed that common law was better in protecting investor rights than civil law. This result is in line with the result of previous studies, such as Chih et al. (2008); Houqe et al. (2012); Leuz et al. (2003); Mayapada (2018); Renders and Gaeremynck (2007); Shen and Chih (2005); Wulandari and Ayu (2010).

When investors fund companies, they face a risk of controlling shareholders and company management taking over the returns (La Porta et al., 1998). The takeover returns can be done in various ways by management, such as earnings management; according to Leuz et al. (2003), management and controlling shareholders as insiders use earnings management to obtain private control benefits. Therefore, fair financial reporting is vital for outside shareholders and creditors to monitor their claims and achieve contracts effectively. All investors' claims can only be realized if the investors' rights are appropriately regulated and protected by the legal rules in the country where the company operates.

On the other hand, the legal rules between countries in the world are different from one another. As a result, the level of investor protection also differs between countries (Graff, 2007). The legal system that forms the level of investor protection in a country is also different. This study suggests that common law as a legal system in Malaysia is better in protecting investors' rights than civil law as a legal system in Indonesia because this study showed that the level of earnings management in common law countries was lower than in civil law countries.

Concerning this, Malaysia was a British colony, so the legal system is common law. Accounting standards and reporting practices in Malaysia also reflect its colony history based on the Anglo-Saxon model (Likitwongkajon & Sutthachai, 2019). The mode emphasizes fair presentation, transparency, and full disclosure in financial reporting. In addition, two institutions regulate financial reporting in Malaysia, namely The Financial Reporting Foundation (FRF) and the Malaysian Accounting Standards Board (MASB). Meanwhile, Indonesia's accounting environment is influenced by the Dutch with a complex civil law. Indonesian accounting standards initially adopted the Dutch accounting standard, then the US system, and converged to International Financial Reporting Standards in 2012.

The research results by Klapper and Love (2004) found that Malaysia was superior in protecting shareholders' rights and judicial efficiency than Indonesia. It is inseparable from the kind of legal system. Therefore, the degree of earnings management in Malaysia was lower than in Indonesia.

This study's results also revealed that leverage did not have a significant effect on earnings management. This result means that companies with high leverage do not always have a high level of earnings management. This result is different from the findings of Ali, Salleh, and Hassan (2008); DeFond and Jiambalvo (1994); Jiang et al. (2013); and Sawicki and Shrestha (2008).

This result also does not support the perspective of positive accounting theory about incentives to manipulate income. Besides, debt holders usually provide several conditions to ensure that the company can pay interest and return the loan principal. However, this study's results exposed that companies with leverage were not always motivated to manage earnings to avoid debt agreements. While, according to Watts and

Zimmerman (1978), companies approaching a breach of contract will make accounting choices that increase revenue to relax their debt limits.

Conclusion

This study found that companies reporting corporate social responsibility activities upheld moral values and business ethics. Therefore, the companies would not do earnings management because they viewed earnings management as unethical behavior. This result supports the ethical hypothesis related to the relationship between corporate social responsibility and earnings management. This study also uncovered that investor protection could limit earnings management. Besides, this study revealed that companies operating in common law countries had lower earnings management than companies operating in civil law countries. However, this result must be interpreted carefully because this study only involved plantation companies in Indonesia as civil law representatives and Malaysia as common law representatives. Therefore, the researchers suggest that the subsequent researchers expand the research population by adding countries representing common and civil law countries.

Moreover, this study verifies the ethical hypothesis, which is in line with stakeholder theory. The firm is not only responsible to investors but also to the environment and society. However, the interpretation of this study must be made carefully because the research sample included plantation firms only. Therefore, the researchers suggest further research to expand the research sample. In addition, further research can use other measuring tools for earnings management variables, such as real earnings management, because the tendency of accrual earnings management behavior is different from real earnings management behavior.

The implications of this study's results consist of several essential things. First, this study's results indicated that shareholders should encourage companies to do corporate social responsibility activities and report them because this study has proved that corporate social responsibility could reduce earnings management done by management. However, this research also revealed that investor protection through laws could limit the opportunistic behavior of management in earnings manipulation. Therefore, the researchers advise regulators to formulate rules that can effectively protect investor rights and even other corporate stakeholders' rights.

References

Ahmad, N.B.J., Rashid, A., & Gow, J. (2017). Board independence and corporate social responsibility (CSR) reporting in Malaysia. *Australasian Accounting, Business and Finance Journal, 11*(2), 2017, 61-85. https://doi.org/10.14453/aabfj.v11i2.5

Ahmed Haji, A. (2013). Corporate social responsibility disclosures over time: Evidence from Malaysia. *Managerial Auditing Journal, 28*(7), 647–676. https://doi.org/10.1108/MAJ-07-2012-0729

Ajina, A., Lakhal, F., & Ayed, S. (2019). Does corporate social responsibility reduce earnings management? The moderating role of corporate governance and ownership. *Management International, 23*(2), 45–55. https://doi.org/10.7202/1060030ar

Ali, S. M., Salleh, N. M., & Hassan, M. S. (2008). Ownership structure and earnings management in Malaysian listed companies. *Asian Journal of Business and Accounting, 1*(2), 89–116.

Ben Amar, A., & Chakroun, S. (2018). Do dimensions of corporate social responsibility affect earnings management? Evidence from France. *Journal of Financial Reporting and Accounting, 16*(2), 348–370. https://doi.org/10.1108/JFRA-05-2017-0033

Brown, J. A., & Forster, W. R. (2013). CSR and Stakeholder Theory: A Tale of Adam Smith. *Journal of Business Ethics, 112*(2), 301–312. https://doi.org/10.1007/s10551-012-1251-4

Burgstahler, D. C., Hail, L., & Leuz, C. (2006). The importance of reporting incentives: earnings management in European private and public firms. *The Accounting Review, 81*(5), 983–1016. https://doi.org/10.2308/accr.2006.81.5.983

Carroll, A. B. (1999). Corporate social responsibility: Evolution of a definitional construct. *Business & Society, 38*(3), 268–295. https://doi.org/10.1177/000765039903800303

Cespa, G., & Cestone, G. (2007). Corporate social responsibility and managerial entrenchment. *Journal of Economics & Management Strategy, 16*(3), 741–771. https://doi.org/10.1111/j.1530-9134.2007.00156.x

Chandren, S. (2016). Review on the Double Side of Earnings Management. *Pertanika Journal of Social Sciences & Humanities, 24*(4).

Chen, C. C. S., Chou, Y.-Y., & Wei, P. (2019). Country factors in earnings management of ADR firms. *Finance Research Letters, 32*, 101146. https://doi.org/10.1016/j.frl.2019.04.003

Chih, H.-L., Shen, C.-H., & Kang, F.-C. (2008). Corporate social responsibility, investor protection, and earnings management: some international evidence. *Journal of Business Ethics, 79*(1–2), 179–198. https://doi.org/10.1007/s10551-007-9383-7

Cho, E., & Chun, S. (2016). Corporate social responsibility, real activities earnings management, and corporate governance: Evidence from Korea. *Asia-Pacific Journal of Accounting & Economics, 23*(4), 400–431. https://doi.org/10.1080/16081625.2015.1047005

Choi, B. B., Lee, D., & Park, Y. (2013). Corporate social responsibility, corporate governance and earnings quality: Evidence from Korea. *Corporate Governance: An International Review, 21*(5), 447–467. https://doi.org/10.1111/corg.12033

Chun, R. (2005). Ethical Character and virtue of organizations: An empirical assessment and strategic implications. *Journal of Business Ethics, 57*(3), 269–284. https://doi.org/10.1007/s10551-004-6591-2

Chun, S., & Cho, E. (2017). Differentiation strategy, CSR, and real activities earnings management: Evidence from Korea. *Journal of Applied Business Research (JABR), 33*(4), 669-692. https://doi.org/10.19030/jabr.v33i4.9988

Dechow, P., Sloan, R., & Sweeney, A. (1995). Detecting earnings management. *The Accounting Review, 70*(2), 193-225. Retrieved from http://www.jstor.org/stable/248303

DeFond, M. L., & Jiambalvo, J. (1994). Debt covenant violation and manipulation of accruals. *Journal of Accounting and Economics, 17*(1–2), 145–176. https://doi.org/10.1016/0165-4101(94)90008-6

Ehsan, S., Abbas, Q., & Nawaz, A. (2018). An inquiry into the relationship between earnings' management, corporate social responsibility and corporate governance. *Abasyn Journal of Social Sciences, 11*(1), 104-116. Retrieved from http://ajss.abasyn.edu.pk/article?paperID=208

Elias, R. Z. (2004). The impact of corporate ethical values on perceptions of earnings management. *Managerial Auditing Journal, 19*(1), 84–98. https://doi.org/10.1108/02686900410509839

Elkington, J. (2013). *Enter the triple bottom line*. New York: Routledge.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman.

García-Sánchez, I.-M., & García-Meca, E. (2017). CSR engagement and earnings quality in banks. The moderating role of institutional factors. *Corporate Social Responsibility and Environmental Management, 24*(2), 145–158. https://doi.org/10.1002/csr.1405

Gargouri, R. M., Shabou, R., & Francoeur, C. (2010). The relationship between corporate social performance and earnings management. *Canadian Journal of Administrative Sciences, 27*(4), 320–334. https://doi.org/10.1002/cjas.178

Ghazali, N. A. (2007). Ownership structure and corporate social responsibility disclosure: Some Malaysian evidence. *Corporate Governance: The International Journal of Business in Society, 7*(3), 251–266. https://doi.org/10.1108/14720700710756535

Graff, M. (2007). Law and finance: Common law and civil law countries compared—An empirical critique. *Economica, 75*(297), 60-83. https://doi.org/10.1111/j.1468-0335.2007.00596.x

Gras-Gil, E., Palacios Manzano, M., & Hernández Fernández, J. (2016). Investigating the relationship between corporate social responsibility and earnings management: Evidence from Spain. *BRQ Business Research Quarterly, 19*(4), 289–299. https://doi.org/10.1016/j.brq.2016.02.002

Habbash, M., & Haddad, L. (2019). The impact of corporate social responsibility on earnings management practices: evidence from Saudi Arabia. *Social Responsibility Journal, 16*(8), 1073–1085. https://doi.org/10.1108/SRJ-09-2018-0232

Hamid, F. Z. A., & Atan, R. (2011). Corporate social responsibility by the Malaysian telecommunication firms. *The Special Issue on Contemporary Issues in Business and Economics, 2*(5), 198–208.

Healy, P. M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons, 13*(4), 365–383. https://doi.org/10.2308/acch.1999.13.4.365

Hill, C. W. L. dan T. M. Jones. 1992. Stakeholder-Agency Theory. *Journal of Management Studies, 29*(2), 131-154.

Hong, Y., & Andersen, M. L. (2011). The relationship between corporate social responsibility and earnings management: An exploratory study. *Journal of Business Ethics, 104*(4), 461–471. https://doi.org/10.1007/s10551-011-0921-y

Houqe, M. N., van Zijl, T., Dunstan, K., & Karim, A. K. M. W. (2012). The effect of IFRS adoption and investor protection on earnings quality around the world. *The International Journal of Accounting, 47*(3), 333–355. https://doi.org/10.1016/j.intacc.2012.07.003

Jensen, M. C., & W. H. Meckling. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics, 3*(4), 305-360.

Jiang, W., Karan, V., Huang, H.-W., & Lin, Y.-H. (2013). Association of corporate social responsibility performance and earnings management: Evidence from China. *Working Paper Series Center for Corporate Reporting and Governance, 3*(1), 1–41.

Jordaan, L. A., De Klerk, M., & De Villiers, C. J. (2018). Corporate social responsibility and earnings management of South African companies. *South African Journal of Economic and Management Sciences, 21*(1), 1-13. https://doi.org/10.4102/sajems.v21i1.1849

Kim, Y., Park, M. S., & Wier, B. (2012). Is earnings quality associated with corporate social responsibility? *The Accounting Review, 87*(3), 761–796. https://doi.org/10.2308/accr-10209

Klapper, L. F., & Love, I. (2004). Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance, 10*(5), 703–728. https://doi.org/10.1016/S0929-1199(03)00046-4

Kolk, A. (2016). The social responsibility of international business: From ethics and the environment to CSR and sustainable development. *Journal of World Business, 51*(1), 23–34. https://doi.org/10.1016/j.jwb.2015.08.010

Kouki, A. (2018). Mandatory IFRS adoption, investor protection and earnings management: A data analysis of Germany, France and Belgium listed companies. *International Journal of Accounting & Information Management, 26*(1), 187–204. https://doi.org/10.1108/IJAIM-07-2017-0091

Kyaw, K., Olugbode, M., & Petracci, B. (2017). The role of the institutional framework in the relationship between earnings management and corporate social performance. *Corporate Social Responsibility and Environmental Management, 24*(6), 543–554. https://doi.org/10.1002/csr.1426

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy, 106*(6), 1113-1155. https://doi.org/10.1086/250042

Labelle, R., Makni Gargouri, R., & Francoeur, C. (2010). Ethics, diversity management, and financial reporting quality. *Journal of Business Ethics, 93*(2), 335–353. https://doi.org/10.1007/s10551-009-0225-7

Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: an international comparison. *Journal of Financial Economics, 69*(3), 505–527. https://doi.org/10.1016/S0304-405X(03)00121-1

Likitwongkajon, N. & Sutthachai, S. (2019). Colonialism influence on accounting practices in ASEAN countries regarding earnings management strategy classification. *International Journal of Business and Society, 20*(1), 125-150.

Lin, H., Zeng, S., Wang, L., Zou, H., & Ma, H. (2016). How does environmental irresponsibility impair corporate reputation? A multi-method investigation: How does environmental irresponsibility impair corporate reputation?. *Corporate Social Responsibility and Environmental Management, 23*(6), 413–423. https://doi.org/10.1002/csr.1387

Liu, M., Shi, Y., Wilson, C., & Wu, Z. (2017). Does family involvement explain why corporate social responsibility affects earnings management? *Journal of Business Research, 75*, 8–16. https://doi.org/10.1016/j.jbusres.2017.02.001

López-González, E., Martinez-Ferrero, J., & García-Meca, E. (2019). Does corporate social responsibility affect earnings management? Evidence from family firms. *Revista de Contabilidad, 22*(2), 233–247. https://doi.org/10.6018/rcsar.349601

Lourenço, I. C., Rathke, A., Santana, V., & Branco, M. C. (2018). Corruption and earnings management in developed and emerging countries. *Corporate Governance: The International Journal of Business in Society, 18*(1), 35–51. https://doi.org/10.1108/CG-12-2016-0226

Marcel Martins Ardison, K., Lopo Martinez, A., & Caio Galdi, F. (2012). The effect of leverage on earnings management in Brazil. *Advances in Scientific and Applied Accounting*, 305–324. https://doi.org/10.14392/ASAA/2012050301

Mayapada, A. G. (2018). Pengaruh sistem hukum terhadap manajemen laba dengan mekanisme corporate governance sebagai variabel pemoderasi (Studi pada perusahaan industri barang konsumsi yang terdaftar di Bursa Efek Indonesia dan Bursa Malaysia). *Katalogis, 5*(8), 1–25. Retrieved from http://jurnal.untad.ac.id/jurnal/index.php/Katalogis/article/view/9699

Mohamed, T., Faouzi, J., & Olfa, B. J. (2014). The interaction between environmental accounting practices and earnings management. *Journal of Business Studies Quarterly, 5*(3), 99–112.

Moratis, L., & van Egmond, M. (2018). Concealing social responsibility? Investigating the relationship between CSR, earnings management and the effect of industry through quantitative analysis. *International Journal of Corporate Social Responsibility, 3*(8). https://doi.org/10.1186/s40991-018-0030-7

Prior, D., Jorge, S. A., & Tribó, J. A. (2007). Earnings management and corporate social responsibility. *Working Papers Business Economics, 23*(6), 1–42.

Prior, D., Surroca, J., & Tribó, J. A. (2008). Are socially responsible managers really ethical? Exploring the relationship between earnings management and corporate social responsibility. *Corporate Governance: An International Review, 16*(3), 160–177. https://doi.org/10.1111/j.1467-8683.2008.00678.x

Rahmawati, & Dianita, P. S. (2011). Analysis of the effect of corporate social responsibility on financial performance with earnings management as a moderating variable. *Journal of Modern Accounting and Auditing, 7*(10), 1034–1045.

Renders, A., & Gaeremynck, A. (2007). The impact of legal and voluntary investor protection on the early adoption of international financial reporting standards (IFRS). *De Economist, 155*(1), 49–72. https://doi.org/10.1007/s10645-006-9041-y

Richardson, V. J. (2000). Information Asymmetry and Earnings Management: Some Evidence. *Review of Quantitative Finance and Accounting, 15*(4), 325–347. https://doi.org/10.1023/A:1012098407706

Ridho, T. (2017). CSR in Indonesia: Company's perception and implementation. *The EUrASEANs: Journal on Global Socio-Economic Dynamics*, *3*(4), 68-74. Retrieved from https://euraseans.com/index.php/journal/article/view/41

Rosli, M. H. B., Said, J., & Fauzi, N. A. B. (2015). Company characteristics and corporate social responsibility disclosure of Malaysian listed companies. International Conference on Accounting Studies (ICAS), 68-75. Retrieved from http://repo.uum.edu.my/20792/

Saeed, A., Hashmi, A. M., & Javid, A. Y. (2019). Corporate social responsibility and earnings management: The moderating role of family ownership. *Abasyn Journal of Social Sciences, 12*(1). https://doi.org/10.34091/ajss.12.1.14

Saeidi, S. P., Sofian, S., Saeidi, P., Saeidi, S. P., & Saaeidi, S. A. (2015). How does corporate social responsibility contribute to firm financial performance? The mediating role of competitive advantage, reputation, and customer satisfaction. *Journal of Business Research, 68*(2), 341–350. https://doi.org/10.1016/j.jbusres.2014.06.024

Sawicki, J., & Shrestha, K. (2008). Insider trading and earnings management. *Journal of Business Finance & Accounting, 35*(3-4), 331–346. https://doi.org/10.1111/j.1468-5957.2008.02075.x

Schipper, K. (1989). Earnings management. *Accounting Horizons, 3*(4), 91–102.

Scholtens, B., & Kang, F.-C. (2013). Corporate social responsibility and earnings management: evidence from Asian economies: SR and earnings management in Asia. *Corporate Social Responsibility and Environmental Management, 20*(2), 95–112. https://doi.org/10.1002/csr.1286

Schwartz, M. S. dan A. B. Carroll. 2003. Corporate Social Responsibility: A Three-Domain Approach. *Business Ethics Quarterly, 13*(4), 503-530.

Shafai, N. A. B., Amran, A. B., & Ganesan, Y. (2018). Earnings management, tax avoidance and corporate social responsibility: Malaysia evidence. *International Academic Journal of Accounting and Financial Management, 5*(3), 41–56. https://doi.org/10.9756/iajafm/v5i2/1810016

Shen, C.-H., & Chih, H.-L. (2005). Investor protection, prospect theory, and earnings management: An international comparison of the banking industry. *Journal of Banking & Finance, 29*(10), 2675–2697. https://doi.org/10.1016/j.jbankfin.2004.10.004

Shen, C.-H., & Chih, H.-L. (2007). Earnings management and corporate governance in Asia's emerging markets. *Corporate Governance: An International Review, 15*(5), 999–1021. https://doi.org/10.1111/j.1467-8683.2007.00624.x

Sumiani, Y., Haslinda, Y., & Lehman, G. (2007). Environmental reporting in a developing country: A case study on status and implementation in Malaysia. *Journal of Cleaner Production, 15*(10), 895–901. https://doi.org/10.1016/j.jclepro.2006.01.012

Sun, N., Salama, A., Hussainey, K., & Habbash, M. (2010). Corporate environmental disclosure, corporate governance and earnings management. *Managerial Auditing Journal, 25*(7), 679–700. https://doi.org/10.1108/02686901011061351

Sweeney, A. P. (1994). Debt-covenant violations and managers' accounting responses. *Journal of Accounting and Economics, 17*(3), 281–308. https://doi.org/10.1016/0165-4101(94)90030-2

Timbate, L., & Park, C. K. (2018). CSR performance, financial reporting, and investors' perception on financial reporting. *Sustainability, 10*(2), 522. https://doi.org/10.3390/su10020522

Watts, R., & Zimmerman, J. (1978). Towards a positive theory of the determination of accounting standards. *The Accounting Review, 53*(1), 112-134. Retrieved from http://www.jstor.org/stable/245729

Wu, Y.-C., Wei Kiong Ting, I., Lu, W.-M., Nourani, M., & Kweh, Q. L. (2016). The impact of earnings management on the performance of ASEAN banks. *Economic Modelling, 53*, 156–165. https://doi.org/10.1016/j.econmod.2015.11.023

Wulandari, & Ayu, R. (2010). Pengaruh sistem hukum terhadap manajemen laba dengan kepemilikan institusional sebagai variabel pemoderasi: Studi perbandingan Inggris dan Perancis. Simposium Nasional Akuntansi XIII, Purwokerto.

Yip, E., Van Staden, C., & Cahan, S. (2011). Corporate social responsibility reporting and earnings management: The role of political costs. *Australasian Accounting, Business and Finance Journal, 5*(3), 17–34. Retrieved from https://ro.uow.edu.au/aabfj/vol5/iss3/3/

Yusrianti, H., Norma Habsari, T., & Prukumpai, S. (2016). The effect of financial and non-financial variables to firm performance: Comparison between Indonesia and Thailand. *Jurnal Akuntansi dan Investasi, 17*(2), 118–131. https://doi.org/10.18196/jai.2016.0049.118-131

Zahra, S. A., Priem, R. L., & Rasheed, A. A. (2005). The antecedents and consequences of top management fraud. *Journal of Management, 31*(6), 803–828. https://doi.org/10.1177/0149206305279598