

The impact of corporate social responsibility on earning management of listed companies in Sri Lanka

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Abstract

The purpose of this study is to investigate the impact of corporate social responsibility (CSR) on the Earning Management (EM) of companies listed in the Colombo Stock Exchange in Sri Lanka. Many research studies have been carried out in the areas of CSR and financial performance in both local and global contexts. However, research that integrates CSR and EM has been limited. It was a matter of whether CSR would affect to change accounting accuracy. The objective of the study is therefore to assess the impact of CSR on EM on listed financial companies in Sri Lanka. The study was based on secondary data. There were three CSR elements, Environment (EN), Government Structure (GS), and Employee (EMP) related activities were considered as independent variables, whereas, EM as the dependent variable. EM was measured by discretionary accruals through the modified Jones Model and CSR was measured by using three scales weighted average method. Furthermore, the sample has chosen based on information available, and no biases were observed based on the omitted firms. The study used data from a sample of 34 manufacturing companies for 5 years from 2015 to 2019 and employed regression analysis to uncover the relationship that exists between these variables. The findings of the study suggest that EMP based CSR activates are statistically significant and have a negative impact on Earning Management while Environment and Governance Structure related activates have no statistically significant impact on Earning Management. Accordingly, this study suggests that companies that have more incorporated their EMP related CSR reports into their annual report engaged less in income- decreasing discretionary accruals.

Keywords: *Corporate social responsibility, earning management.*