

Whether Corporate Social Responsibility is Used to Cover-up Earning Management Practices: An Empirical Study on Listed Manufacturing Companies in Sri Lanka

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This study investigates whether Corporate Social Responsibility (CSR) is used as a strategy to oppose the negative perception on companies by engaging in Earnings Management (EM) practices by using a sample of listed manufacturing companies in Colombo Stock Exchange (CSE) for the period 2014 to 2017. EM practices were measured using Real Activity based EM (RAEM) by using the measurement model of Roychowdhury (2006), and the framework of the Global Reporting Initiative (GRI) was used as the measure for the CSR. The findings of the study indicated a comparatively high level of RAEM (mean: 9.891) and a below average level of CSR (mean: 0.474) in the Sri Lankan context. Furthermore, the findings based on the correlation and panel regression analyses indicate that CSR is being misused as a strategy to cover up the negative perception that would arise from EM practices. These findings are expected to have significant policy implications, particularly in controlling the misuse of CSR disclosure for opportunistic purposes.

Keywords: Earnings Management, Corporate Social Responsibility, GRI Index, Entrenchment Strategy