Cuadernos de Economía (2022) 45, Issue 128 Page 187-193

Cuadernos de economía

Asociación Cuadernos de economía

www.cude.es

ARTÍCULO

The Influence of Corporate Social Responsibility on Real Earnings Management in Chinese-Listed Companies

Wang Houyi[1], Maisarah Binti Mohamed Saat[2], Wang Lijie[3]

[1] *Faculty of Management, Universiti Teknologi Malaysia, Johor Bahru, Malaysia; wanghouyi@graduate.utm.my*
[2] *Faculty of Management, Universiti Teknologi Malaysia, Johor Bahru, Malaysia;*
[3] *School of Graduate Studies, Lingnan University, Hong Kong, China; lijiewangln@163.com*

[*] *Correspondence: wanghouyi@graduate.utm.my*

Jel Codes:

M14; N14

Keywords: Corporate Social Responsibility; Real Earnings Management; Chinese Listed Companies, Shenzhen and Shanghai Stock Exchanges, contract theory.

Abstract: This study examines the relationship between corporate social responsibility and real earnings management using a sample of Shanghai and Shenzhen A-share listed companies from 2016 to 2020. This paper demonstrates that corporate social responsibility can discourage unethical real earnings management. To assure the validity of the data, this study screens the data based on the following criteria: (1) exclude the samples of financial and insurance firms; (2) eliminate ST and *ST firms; and (3) eliminate the samples with missing model data. There are now 1,311 firm-year observations remaining in this study's sample. This research primarily utilizes Runling Global's social responsibility rating data to measure CSR level. The control variables were SIZE (the natural logarithm of total assets), LEV (the ratio of debt to assets), ROA (the ratio of net income to total assets), GROWTH (the growth rate), BIG4 (the Big Four audit companies), YEAR, and IND. This study synthesizes prior research findings and evaluates corporate social responsibility and real profitability management from a Chinese perspective. This positively impacts the theoretical research and practical development of earnings management for Chinese publicly traded enterprises.

Author Correspondence: wanghouyi@graduate.utm.my

https://doi.org/10.32826/cude.v1i128.720

1. Introduction

Under government encouragement, different stakeholders of businesses, including consumers, investors, employees, suppliers, non-governmental groups, etc., have ever-increasing expectations and demands that businesses meet their social duties. They want businesses to demonstrate social responsibility and give quantitative economic, social, and environmental data. In response to the rising expectations of stakeholders, corporate social responsibility reports have become a communication tool for firms with stakeholders (Cespa G et al., 2007). Corporate social responsibility activities have begun to play a significant role in the development of corporations. With the intensification of China's reform and opening up, the concept of companies and society co-developing harmoniously has been widely embraced by the government and populace (Cespa G et al., 2007).

The Chinese government has played an essential guiding role in encouraging businesses to meet their corporate social responsibility and provide information about their social obligation. In 2016, the Chinese government stated that corporate social responsibility plays a crucial role in fostering a harmonious society. Consequently, the Shenzhen and Shanghai Stock Exchanges issued regulations encouraging listed companies to engage in corporate social responsibility and disclose social responsibility information (Chih HL et al., 2008). There is no doubt that Chinese public firms' understanding of corporate social responsibility is gradually expanding. However, due to the constraints and influence of China's political system, economic development stage, and social reform process, the majority of listed companies are unaware of the specific details and disclosure requirements of corporate social responsibility reports, as well as the impact of such reports on their enterprises (Chih HL et al., 2008). There is no clear and cohesive response to the concerns surrounding corporate social responsibility reporting in Chinese academia. From 2016 to 2020, the relationship between corporate social responsibility and real earnings management is examined using a sample of Shanghai and Shenzhen A-share listed companies.

2. Literature Review

This section discusses the literature review on corporate social responsibility and real earnings management.

2.1 Earnings Management

Principal-Agent Theory, Contract Theory, and Asymmetric Information Theory are the three primary theories about earnings management. With the advent of the modern business system, the principal-agent problem develops (figure 1).

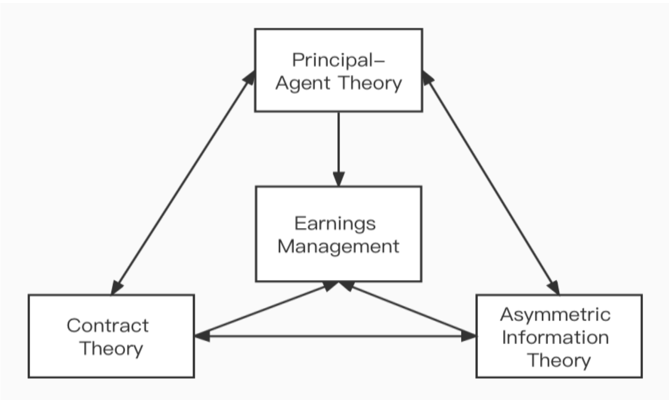
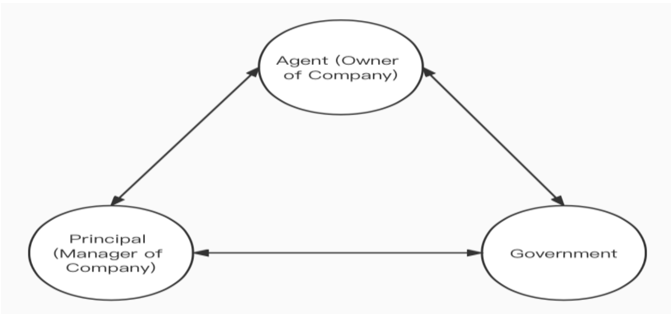


Figure 1: Earning Management

From classical contract theory to neoclassical contract theory to contemporary contract theory, contract theory has undergone a full evolution. Because the assumptions of classical and neoclassical contract theories are unrealistic and out of sync with economic reality, academics focus on modern contract theories based on this premise.

The mainstream academic perspectives on the definition of earnings management are the Opportunistic and Information Perspectives (Wang et al., 2019). Schipper (1989) distinguishes between accruing earnings management and actual earnings management. The distinctions between accrued and real earnings management are mostly reflected in the facets of time manipulation, concealment, and harmfulness, and associated research focuses primarily on these facets. This study focuses mostly on actual earnings management.

From the perspective of China's securities market environment, despite the rapid development of China's stock market, the related mechanisms are not yet complete. The Chinese stock market began to perform poorly gradually, with the Shenzhen Stock Exchange falling behind the Shanghai Stock Exchange (Choi BB et al., 2013). According to some researchers, China's Shanghai and Shenzhen stocks markets still do not match the criteria for a semi-strong efficiency market (Su, 2018). The research findings also indicate that "function lock" still exists in China's securities market. This suggests that the pricing of stocks on the market is not based on the permanent earnings that reflect the company's genuine success but on policies and news or is confined to the company's nominal accounting income. This allows firm executives to manipulate book earnings and engage in earnings management. In addition, the Chinese stocks market was developed quickly, and the creation of securities market-related rules, regulations and accounting standards lags significantly behind real needs (Su, 2018). (Figure 2).



From the standpoint of shareholding structure, China's publicly traded enterprises have a particularly unusual shareholding structure. National Equity holds the preeminent position in overall equity, but another equity is greatly spread. The nation-owned shares are dominant, yet their representatives have been fictional for decades, and the internal governance structure of listed firms is illogical. This has led to many illicit operations in the earnings management of China's publicly traded enterprises. Moreover, changes in accounting standards have a significant impact on earnings management. Although the new corporate accounting standards restricted earnings management in some ways, they also made earnings management more convenient. For instance, in the requirements of provision for impairment, the company defines the method and proportion of provision, which increases the opportunity for publicly traded corporations to select the accounting policy for asset impairment. This allows businesses to manipulate accounting results and engage in earnings management.

2.2 Corporate Social Responsibility

According to Archie B. Carroll (1991), CSR refers to the economic, legal, ethical, and charitable expectations that society places on businesses at a given time. In academia in China, there are disagreements on the meaning of corporate social responsibility, primarily regarding the following points: Economic responsibility and corporate social responsibility are the subjects of discussion. Concerning the debate over whether corporate social responsibility is obligatory or voluntary, the "Chinese Enterprise Management Yearbook" states that CSR encompasses both mandatory legal responsibility and voluntary moral responsibility.

Figure 3: Relationship between corporate social responsibility and earnings management

Although there are several studies on corporate social responsibility and profits management, there have been few studies on the relationship between corporate social responsibility and earnings management (Figure 3) Engelberg, 2011. Due to the absence of uniform and standardized evaluation criteria and pertinent data, the outcomes are inconsistent. This study primarily investigates the impact of corporate social responsibility and media attention on earnings management, analyzes the role of internal control in regulating the relationship between corporate social responsibility and earnings management, and provides an empirical reference for future research in this area.

In 2001, Fortune magazine revealed Enron's deception and financial fraud to the public. As media stories intensified, the involved corporation was harshly punished (Engelberg, 2011). Chinese media uncovered WanFuShengKe, the "first stock of financial fraud on the GEM," in September 2012. In November 2012, the media revealed that *ST Nanfang was accused of generating and disseminating misleading information; later, the Shanghai Stock Exchange formally punished the company. This sequence of financial fraud incidents, from the Enron scandal to Yinguangxia, were all uncovered in media reports. Without media coverage, the Enron incident might have remained unknown, and Yinguangxia's financial deception might have continued. With the advent of Internet-based new media, the likelihood of corporate scandals being exposed by the media is increasing, as is their influence. This unique function of media prompts individuals to consider the role of media in corporate governance.

Corporate social responsibility is split into economic, environmental, and social aspects, and it is proposed that the sustainability impact of firms on the economic, environmental, and social dimensions can be utilized as the underlying logic for measuring CSR. In China's Guidelines of No. 4 - Social Responsibility, corporate social responsibility is more specific. It does not emphasize the importance of creating profits. Instead, it emphasizes undertaking social responsibilities and obligations, such as safety production, environmental protection, product quality (including services), resource conservation, and protection of employee rights and interests (Cohen D et al. 2008).

China is currently concerned with the relationship between corporate social responsibility and earnings management. Consequently, one of the primaries focuses of this study is to determine if firms that actively engage in social responsibility activities create opportunities for their profit management practices. It has been established that the relationship between corporate social responsibility and earnings management is not limited to the internal governance environment of businesses. According to several researchers, the authority of corporate CEOs can successfully hinder earnings management practices. To effectively check and balance management's control over the enterprise, the enterprise attempts to weaken the moral risk and reverse selection caused by the entrustment agent through internal control. However, due to the enterprise's imperfect internal governance structure, management power is increasing, and the supervision and balance system of the enterprise's internal control is more easily broken by management.

Most research on the economic effects of corporate social responsibility focuses on corporate financial performance, brand influence, consumer response, and staff response, among other factors (Li Z et al., 2017). Numerous relevant studies have been conducted regarding company financial performance, with contradictory findings (Li Z et al., 2017). In general, more research has been conducted on positive associations. Nonetheless, some research has produced unfavorable or irrelevant findings (Katherine Schipper, 1989). Taking on social responsibility increased the enterprise's costs in the short run. However, from a longer-term view, the advantages of taking social responsibility for businesses exceed the downsides (Schipper, 1989). Hence there is a positive correlation between corporate social responsibility and financial performance (Figure 4).

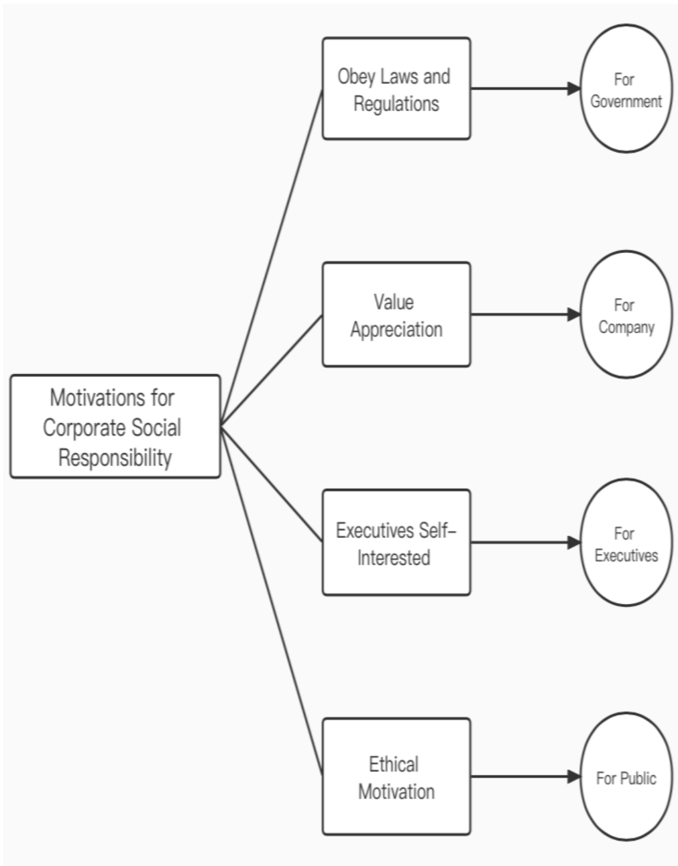


Figure 4: Motivations for corporate social responsibility

Existing research on employee reaction is grounded in social identity and exchange theories. Researchers have discovered that corporate social responsibility affects employee attitudes, habits, and performance (Cohen D et al. 2008). Existing research on employee attitudes focuses primarily on the appeal of corporate social responsibility to potential workers, employee job satisfaction, employee organizational commitment, employee organizational identity, and the effect of willingness to leave (Cohen D et al. 2008). Existing research has focused on the impact of corporate social responsibility on employee organizational citizenship conduct, employee performance, employee suggestions and behavior, and so forth, on employee behavior and performance (Cohen D et al. 2008).

2.3 Theoretic Analysis and Research Hypothesis

For actual earnings management, it is more detrimental to stakeholders because it diminishes the bonuses and funds that belong to them (Su, 2018). A company's worth is negatively impacted by its unreasonable business actions. Real earnings management has a bigger negative impact on cash flow and real profit than the other two approaches of earnings management. Consequently, corporations that actively engage in social responsibility have gotten more attention and improved their social image. And the corporation should restrict real profits management practices that are more detrimental to shareholder interests.

Based on the preceding analysis, this paper proposes the following hypothesis:

Corporate social responsibility can affect the management of real earnings.

3. Research Methodology

Panel data is also referred to as parallel data, which refers to several cross-sectional data stacked in chronological order and containing information on two levels: time and space. Since academics highly regarded panel data in the 1960s, econometric analysis based on panel data has become an essential component of econometrics. Its benefits include two factors: (Wang et al., 2019). In contrast to cross-sectional data, which only contain geographical dimensions, panel data can effectively capture the time relevance of sample data. They can convey data information at the time level (Wang J et al., 2019). Unlike the time series model, panel data reflects the individual differences in the dynamic development of the data through the intercept term, hence lowering the estimated bias caused by disregarding individual differences. Therefore, this study employs panel data to develop a research model (Wang J et al., 2019).

The fixed and random effects models are frequently employed for panel data. Due to the continuity and inheritance of economic variables, however, the current performance is frequently correlated with the historical development level. The history of China's communist free enterprise economic system is rather brief (Wang J et al., 2019). Due to the relatively short time T of the data, it is crucial to employ the dynamic panel data model for analysis (Roy Chowdhury S, 2006). Based on the static model, the dynamic panel data model will add the lag term of the explained variable to reflect the dynamic delay of the variable data. On the one hand, it is possible to simultaneously analyze the dynamic nature of the described variable and the influence of related elements (Roy chowdhury S, 2006). It improves the validity and consistency of the coefficient estimates of other variables. It reduces bias by considering the dynamic properties of the variables being explained (Roy Chowdhury S, 2006).

3.1 Data Collection

This paper selects the Chinese A-share listed firms from 2016 to 2020 as a sample. To ensure the validity of the data, this study screens the data according to standards as follows: (1) exclude the samples of financial and insurance firms; (2) eliminate ST and *ST firms; (3) eliminate the samples with the missing data in the model. 1,311 firm-year observations remain in the sample of this study.

3.2 Variable Measurement

(a) Corporate Social Responsibility

This paper mainly uses the social responsibility rating data released by Runling Global to measure CSR level.

(b) Real Earnings Management

This paper draws on the real earnings management measurement model of Roychowdhury (2006): real earnings management = abnormal production costs-abnormal operating net cash flow-abnormal period expenses.

(c) Control Variables

The control variables in this study are SIZE (the natural logarithm of total assets), LEV (the ratio of debt to assets), ROA (the ratio of net income to total assets), GROWTH (the growth rate), BIG4 (the Big Four audit companies), YEAR, and IND.

Enterprise Size (SIZE): The larger the business, the greater the incentive for leaders to engage in earnings management. However, the increased focus on huge corporations restricts executives' profit management behaviors to some extent. This study used enterprise size as the control variable because enterprise size affects earnings management behaviors. This study first computes the average total assets at the beginning and end of listed companies and then calculates the logarithm of the average to determine the size of businesses.

Debt to Asset Ratio (LEV): If the debt-to-asset ratio is excessive, debt solvency will be weakened, and cash flow will be inadequate. Investors believe that the company's financial risk is considerable. In addition, the supplier can lessen these businesses' credit policies (Carroll, 1991). Enterprises confront hazards such as bank loan application limits and funding challenges. Consequently, there is a relationship between the debt-to-asset ratio and earnings management. This study uses the debt-to-assets ratio as a control variable (Carroll, 1991).

Return on Total Assets: Executives engage in earnings management for personal reasons and the dissemination of accurate data to external stakeholders, and ROA is a crucial metric for them. Consequently, there exists a connection between ROA and earnings management. ROA is the control variable in this study (Carroll, 1991). Companies having a lesser growth potential may have a more difficult time securing capital for their continued development. The manager is more motivated to alter the report through earnings management. Therefore, there is a relationship between corporate growth and earnings management, and this study uses corporate growth as a control variable to examine this relationship (Carroll, 1991).

Whether or not the company has undergone an audit by the Big Four (BIG4): Companies that select the Big Four as their auditors are less likely to engage in unethical earnings management. Big Four evaluates the company's quality of earnings management when selecting audit clients and makes more prudent decisions. In this study, the control variable is whether or not the company has been audited by the Big Four (BIG4). The value is 1 if the Big Four audit the company and 0 otherwise. Annual Dummy Variables (YEAR): In this study, the annual dummy variables serve as the control variable to mitigate the year's impact on the research outcomes. The research sample is drawn from the years 2016 to 2020. Hence there are four dummy variables. The value is 1 if the sample is from a particular year and 0 otherwise.

Industry Dummy Variables (IND): In this study, industry dummy variables serve as control variables to mitigate the industry's influence on the research outcomes. There are 11 dummy variables, as the research sample covers 12 industries. If the sample is from a particular industry, the value is 1; otherwise, it is 0.

3.3 Model Setting

There are typically two estimation methods for dynamic panel data. One objective is to increase precision by adjusting the estimator derived from the generic static model and minimizing estimation error. The alternative is to estimate the model using linear regression directly. Because linear regression may produce reliable estimation results at once, it has drawn the interest of many academics. The dynamic panel data model has inherent issues, and the estimation of variable coefficients using a fixed-effects model is biased. When the section number N of the dynamic panel data model is infinite, the fixed-effect approach is employed for estimation, and an asymptotic equation is derived for the deviation of the biased estimator. This indicates that the error of the estimated value of the autoregressive coefficient increases as N increases and decreases as T increases. Several researchers devised a method for correcting deviation by utilizing the asymptotic expression of the biased estimator. First, the fixed effect estimation is done on the dynamic panel data model. Then the asymptotic expression and asymptotic value of the deviation are determined using the generated biased estimator to correct it. Then, researchers estimated using a fixed-effects model, attempting to get near the bias value using the known biased estimator and offered an additional correction approach. Experiments indicate that as the number of sections N rises, estimation error can be reduced dramatically.

The first-order difference of the dynamic panel model to eliminate individual differences μ_i and obtain the equation: $\Delta Y_{i,t}=\rho\Delta Y_{i,t-1}+\Delta X'_{i,t}\beta+\Delta\varepsilon_{i,t}$. Since $Y_{i,t-1}$ is related to $\varepsilon_{i,t-1}$, $\Delta Y_{i,t-1}$ is related to $\Delta\varepsilon_{i,t}$, and $\Delta Y_{i,t-1}$ is endogenous variables, so it is necessary to find effective instrumental variables to estimate to eliminate this dynamic panel bias. Then proposed to use $Y_{i,t-2}$ as an instrumental variable to estimate the model. However, assuming that $Y_{i,t-2}$ is valid, which means $\varepsilon_{i,t}$ does not exist autocorrelation, the higher order lagged variables $Y_{i,t-3}$ and $Y_{i,t-4}$ of $Y_{i,t}$ are all valid instrumental variables, but they are not added to the model for estimation. It can be seen that such an estimate is not accurate and reliable. However, only the random perturbation term $\varepsilon_{i,t}$ has no autocorrelation, and $\Delta Y_{i,t-1}$, $\Delta Y_{i,t-2}$, are not related to μ_i (variables represent individual heterogeneity).

In conclusion, to test the hypothesis, the model is established as follows:

$$
\begin{aligned}
REM_{i,t} = \alpha_0 + \alpha_1 CSR_{i,t} + \alpha_2 Size_{i,t} + \alpha_3 Lev_{i,t} + \alpha_4 Roa_{i,t} \\
+ \alpha_5 Growth_{i,t} + \alpha_6 Big4 + \alpha_7 \Sigma YEAR \\
+ \alpha_8 \Sigma \mathrm{IND} + \varepsilon_{i,t}
\end{aligned}
$$

4. Empirical Results and Discussion

4.1 Descriptive Statistic of Variables

This paper first performed descriptive statistical analysis on all variables involved in the modeling to gain some understanding of the basic characteristics of the variables to lay the foundation for the subsequent regression analysis (Table 1).

Table 1: Descriptive Analysis

	N	Missing Values	Mean	Median	Min	Max	Standard Deviation
REM	1311	0	-0.005	-0.033	-0.551	0.949	0.179
CSR	1311	0	42.936	38.642	24.981	83.624	10.435
ROA	1311	0	0.042	0.037	-0.039	0.118	0.081
LEV	1311	0	0.616	0.655	0.237	0.888	0.188
SIZE	1311	0	23.945	23.78	22.345	25.367	1.244
GROWTH	1311	0	0.148	0.101	-0.421	1.483	0.264
BIG4	1311	0	0.32	0	0	1	0.475

Table 2: Linear regression analysis for the relationships between corporate social responsibility

	REM
CSR(IV)	-0.001***
	(-2.771)
SIZE	-0.004
	(-0.802)
LEV	0.239***
	(7.565)
ROA	-0.251***
	(-3.915)
GROWTH	-0.016
	(-0.862)
BIG4	-0.039***
	(-3.685)
_cons	0.040
	(0.376)
Year	Yes
Industry	Yes

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

According to this table, the missing values for all variables are 0, indicating no missing data. The sample size of 1,311 is sufficient to demonstrate statistical significance. The small standard deviation indicates that these data are eligible for further examination. The minimal value of GROWTH is negative, indicating that the growth rate of some companies is negative.

4.2 Linear Regression

Next, this paper applied linear regression analysis to explore further the relationships between corporate social responsibility (Table 2).

In terms of this model, it means that CSR harms real earnings management. The t value is -2.771, and P>|t|=0.000, indicating that the model passes the t-test. It means that the regression equation is highly significant. In other words, the equation meets the "linearity assumption."

The coefficient of CSR is -0.001, indicating a negative relationship between corporate social responsibility and real earnings management. Similar to SIZE, ROA, and BIG4, actual earnings management is inversely associated with SIZE, ROA, and BIG4. However, SIZE's t value is -0.802, indicating that it is not statistically significant. ROA and BIG4 coefficients are significant at a 99% confidence level. LEV has a coefficient of 0.239, indicating a positive relationship with real earnings management, and a t-value of 7.565, indicating significance at the 99% level. Although the coefficient suggests that GROWTH is inversely connected to actual earnings management, the t value of -0.862 indicates that the relationship is insignificant.

5. Robustness Test

To confirm the validity of the abovementioned research findings, the following robustness tests are conducted in this paper. The variables substitution approach is utilized to determine the robustness of the association between the independent and dependent variables. For the subsequent robustness test, the Heckman Two-Step Method is applied. Eventually, the outcome is reliable, and the hypothesis can be confirmed.

6. Discussion and Conclusion

This study provides hypotheses based on its research and, through a series of model analyses, arrives at the following research conclusions. In conclusion, corporate social responsibility negatively affects real earnings management, suggesting that fulfilling social obligations can prevent unethical earnings management practices.

In light of the current state of corporate social responsibility and real earnings management in China, as well as the findings of empirical research, this paper proposes the following suggestions and policies from the perspectives of encouraging enterprises to practice corporate social responsibility and curbing excessive earnings management to have a positive impact on practical activities. Although the relevant departments have formulated regulations and systems about corporate social responsibility, the disclosure of information on corporate social responsibility, particularly moral responsibility, charitable responsibility activities, and social responsibility performance status, remains optional. There is primarily no common law for accounting treatment, no unified structure for information disclosure and the majority of the content is described through text. Recommendations are made that relevant departments continue to develop more transparent laws and regulations, enhance the accounting system, and standardize accounting. Handling and unifying the format of corporate social responsibility information disclosure, standardizing the information disclosure's substance, and describing it in words. The incorporation of pertinent data enhances the credibility and authority of the argument. In addition, because there are loopholes or gaps in the laws, promptly mending the rules and system loopholes is the most direct method of regulating excessive earnings management.

In addition to negative effects on corporate performance, earnings management has negative consequences on other publicly traded corporations, including dividend policy, stock price collapse, diversification, and shareholder profitability. The empirical evidence indicates that real profits management decreased the frequency and magnitude of cash dividends paid by publicly traded corporations. According to research, the management of real earnings had a moderating effect on the influence of institutional investors on cash dividend policy. Real earnings management is specifically based on the holdings of major institutional investors, stable institutional investors, and independent institutional investors. Real earnings management contributes to the moderating effect of cash dividends' beneficial effect. Sun (2018) discovered that the discount for diversity grows as the degree of actual earnings management increases. The research indicates that real earnings management harms future shareholder profitability and investment levels.

Real earnings management may also impact the information provided to market investors, influencing the external audit of publicly traded businesses. Some researchers observed that real earnings management affects the cost of equity of publicly traded companies and that the behaviors of real earnings management worsen the information uncertainty of external investors. Further research revealed that actual earnings management decreased accounting earnings quality, resulting in a rise in the firm's equity capital. The study demonstrates a trade-off between accounting flexibility and real earnings management. Using Chinese listed companies as an example shows that real earnings management decreased the cost of equity capital for high-growth companies while increasing the cost of equity capital for low-growth enterprises. The higher the level of actual earnings management, the greater the likelihood that the auditor will provide a non-standard audit opinion and the higher the audit charge.

Existing studies in industrialized nations offer significant reference value for studies utilizing Chinese-listed businesses as samples. Due to disparities in institutional basis, political impact, and cultural traits, China's company financial reporting, corporate governance environment, and corporate social responsibility information disclosure differ significantly from those of industrialized nations. First, although the number of Chinese listed firms that voluntarily publish corporate social responsibility is rising, more than 30 percent of corporations have not done so (2020 Shanghai Stock Exchange report). Investigating the corporate social responsibility of China's listed companies is beneficial to boosting information disclosure and increasing the transparency of China's A-share market information. Second, the level of earnings management of Chinese state-owned companies has historically lagged behind that of private companies. This study investigates Chinese publicly traded corporations, which comprise numerous non-state-owned enterprises. Therefore, it is advantageous for non-state-owned businesses to reduce unethical profit management practices.

However, there are certain limits and directions for future research: This article concludes that the examination of non-financial indicators will significantly impact the evaluation findings. Hence non-financial indicators are not included in the corporate social responsibility evaluation system. Because the financial index data required by the assessment system is sorted by hand, this article does not consider industry considerations; hence, the proposed hypothesis can only be confirmed to a limited extent and is subject to some restrictions. In future research, non-financial indicators will be introduced scientifically and rationally into the corporate social responsibility evaluation system to make it more comprehensive, increase the sample size, consider industry factors, revise the model further, and conduct more in-depth research on corporate social responsibility and real earnings management—the connection between. Propose improved corporate social responsibility and excessive earnings management tactics or initiatives.

A solid corporate governance framework can effectively prevent the corporate management authority from exploiting gaps in the regulations to manipulate earnings for specific financial goals, maximize their personal interests, and protect the stakeholders' and societal resources' interests. An efficient internal control system can greatly govern organizations' accounting behavior, assure the validity and reliability of accounting information and accounting data, and promptly detect and fix errors and frauds. Consequently, a solid corporate governance framework and internal control system can prevent excessive earnings management and promote corporate social responsibility.

China has not yet specifically specified the content of corporate social responsibility in legislation, and the normative function of the law is primarily formal and underutilized. The substance of social responsibility reported is restricted and not comprehensive, the form is singular, most corporations do not disclose social responsibility accounting information, and the process of producing social responsibility reports is based on inconsistent criteria. Therefore, it is vital to support the timely building of the external environment of corporate social responsibility and to create an adequate legal and legal foundation for CSR. Based on the actual development position of Chinese firms and the status quo of the securities market, it is required first to draft comprehensive and workable laws and regulations and simultaneously adopt effective social responsibility accounting standards. Second, the stock exchange and the China Securities Regulatory Commission should collaborate to ensure their independence, construct a comprehensive oversight system, and develop scientific, practical, and effective information disclosure rules and indicator systems. Consequently, increasing enterprise information openness and decreases information asymmetry. Lastly, we must pay attention to audit supervision and construct a social supervision system to ensure the fairness and objectivity of external audits, give full play to the media, we-media, and the public's supervision of corporate social responsibility, and limit the earnings management behavior of enterprises.

7. Conclusion

In conclusion, this study synthesizes prior research findings and evaluates corporate social responsibility and real profitability management from a Chinese perspective. This positively impacts the theoretical research and practical development of earnings management for Chinese publicly traded enterprises. And it can give both a theoretical foundation and empirical backing for China's pursuit of sustainable economic growth. This study indicates that CSR and EM have a negative correlation in Chinese businesses in general. However, there is a favorable correlation between state-controlled enterprises and firms in regions with greater institutional development.

8. Facts, figures, and future research considerations

The cultural, historical, and political context of Chinese CSR is distinct from Western CSR activity. Previous studies have paid little or no attention to Chinese CSR activities and have failed to provide substantial insight into Chinese CSR practices, despite the growing need for Chinese CSR research. This study indicates that CSR and EM have a negative correlation in Chinese businesses in general. However, there is a favorable correlation between state-controlled enterprises and firms in regions with greater institutional development.

References

Carroll, A. B. (1991). The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders. *Business Horizons,* 34(4), 39-48. doi: https://doi.org/10.1016/0007-6813(91)90005-g

Cespa, G. and Cestone, G. (2007). Cespa, Giovanni, and Giacinta Cestone. "Corporate social responsibility and managerial entrenchment." *Journal of Economics & Management Strategy*, 16 (3): 741–71. doi: https://doi.org/10.1111/j.1530-9134.2007.00156.x

Chih, H.-L., Shen, C.-H. and Kang, F.-C.(2008). Corporate Social Responsibility, Investor Protection, and Earnings Management: Some International Evidence. *Journal of Business Ethics*, 79 (1/2): 179–98. doi: https://doi.org/10.1007/s10551-007-9383-7

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*, 179-198. doi: https://doi.org/10.1007/s10551-007-9383-7

Chinese Academy of Social Science (CASS) (2014), Blue Book of Corporate Social Responsibility, Social Science Academic Press, Beijing.

Choi, B.B., Lee, D. and Park, Y. (2013). Corporate Social Responsibility, Corporate Governance, and Earnings Quality: Evidence from Korea'. *Corporate Governance: An International Review*, 21 (5): 447–67. doi: https://doi.org/10.1111/corg.12033

Cohen, D., Dey, A. and Lys, T. (2008). Real and Accrual-based Earnings Management in the Pre- and Post-Sarbanes-Oxley Periods'. *The Accounting Review*, 83 (3), 757–87. doi: https://doi.org/10.2308/accr.2008.83.3.757

Engelberg, J.E., C.A. Parsons. (2011). The causal impact of media in financial markets. *Journal of Finance,* 66(1), 67-97. doi: https://doi.org/10.1111/j.1540-6261.2010.01626.x

Katherine Schipper. (1989). Commentary on earnings management. *Accounting Horizons,* 3(4), 91-102. Retrieved from https://www.proquest.com/openview/177246e104b43553542ab048997f1a4e/1?pq-origsite=gscholar&cbl=3330

Li Z., Liu Q., Zhou Y. (2017). Analysis of Corporate Social Responsibility Motivation Based on the Relationship between Social Responsibility and Earnings Management. *Statistics & Decision,* 2017(10), 174-178.

Roychowdhury. S. (2006). Earnings Management through Real Activities Manipulation. *Journal of Accounting and Economics,* 42(3), 335-370. doi: https://doi.org/10.1016/j.jacceco.2006.01.002

Su X. (2018). Research on the Impact of Corporate Social Responsibility on the Quality of Accounting Information. (Doctoral Degree), Shanxi University of Finance and Economics.

Wang J., Pang Z. (2019). Analysis of Related Party Transactions Based on Earnings Management Purposes of Listed Companies. *China Securities Futures,* 2019(06):55-58.