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# Earnings Management and Corporate Social Responsibility: Moderating Effect of Managerial Entrenchment Evidence from France

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***Abstract:***

***Purpose:*** *The purpose of this paper is to examine the relationship between corporate social responsibility (CSR) and Earnings Management. Furthermore, this paper aims to empirically examine the moderating role of managerial entrenchment (ME) on the effect of corporate social responsibility (CSR) and earnings management (EM).*
***Design/methodology/approach:*** *This study uses panel data set of 263 French companies for the period 2010-2019. All used regressions for the analysis are estimated based on panel data with fixed effects.*
***Findings:*** *Based on a panel data of 263 French firm-year observations during the period 2010-2019, the authors find a negative impact of CSR on earnings management, and some CSR dimensions negatively impact earnings management and the results show that EM positively moderates the impact of Corporate Social Responsibility on the Earnings Management.*
***Practical implications:*** *The results suggest several implications for regulatory actions in France, as well as those in other countries that try to implement CSR activities. Therefore, investors are more motivated to invest in socially responsible firms than socially irresponsible firms. Also, given the association of CSR with the quality of accounting information and financial markets, regulators should step up recommendations relating to the different societal dimensions of CSR.*
***Originality/value:*** *The originality of this work lies in the division of CSR into sub-dimensions. It enables the operationalization of CSR in a new way to determine the impact of CSR on earnings management.*

***Keywords:*** *Corporate social responsibility, earnings management, Corporate Social Responsibility dimensions, managerial entrenchment.*

***JEL codes:*** *M0, M1.*

***Paper type:*** *Research article.*

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## 1. Introduction

According to McWilliams and Siegel (2000), Corporate social responsibility is "the extra effort made by the company to meet the expectations of the various stakeholders in the company". One of the most significant current discussions is the increasing of the number of companies taking an interest in societal concerns during the management process. Recently, investigators have examined the effects of corporate social responsibility on economics, finance and management.

Traditionally, Carroll (1999) has subscribed to the belief that CSR integrates economic, legal, ethical and philanthropic responsibilities into corporate decision-making, calling advocating firms to consider the interests of stakeholders beyond their shareholder.

In addition, several international, European and French organizations have taken the initiative to develop standards, codes of conduct and reference texts to guide companies in a societal approach. In fact, the ISO 26000 "Guidelines for responsibility" is part of these initiatives and defines a set of principles to be taken into account for a company to be socially responsible.

Corporate social responsibility (CSR) is fast becoming a key instrument in economics, finance and management literature. In addition, it is manifested in the ethical and moral guidelines of a body of rules encouraging companies to take societal concerns into account. Indeed, according to Freeman (1984), the responsibility of a company must be extended to take into account the interests of the various stakeholders into consideration.

Previous studies have reported that CSR has been studied by many researchers (Mackey *et al.*, 2007; Barnea and Rubin, 2010; Thalassinos *et al.*, 2006; 2023; Velinov *et al.*, 2023) using stakeholder theory who suggests that CSR increases firm value by balancing the competing interests of all stakeholders and by increasing firm competitive advantage.

In this context, companies have adopted CSR to reduce business risks, avoid bad governance, save energy, have a good reputation, promote the company’s brand image, gain customer loyalty and set up new development projects. It is clear that the commitment to CSR contributes to the achievement of long-term economic and social benefits. Recent evidence suggests that, the concept of earnings management has become one of the most important issues discussed in the accounting and finance literature (Chi *et al.*, 2015).

In this area, managers can use earnings management under generally accepted accounting principles to adjust results to their own benefit (Dechow and Skinner, 2000). In Indeed, the main objectives of managers are to maximize profits, to transfer wealth for their own benefit and to influence stakeholders' perceptions of the company's actual performance of the firm (Healy and Wahlen, 1999). In addition, the financial situation does not provide an accurate reflection of the actual situation of the company.

According to agency theory, a conflicting relationship arises between managers and shareholders in a context of asymmetric information and agency problems (Jensen and Meckling, 1976).

Once the principles of corporate responsibility in the corporate culture were established, a central problem established, a central issue was structured around the impact of corporate social responsibility of earnings management. Previous studies have investigated the relationship between corporate social responsibility and earnings management show that empirical tests have not yielded any similar results (Martínez-Ferrero *et al.,* 2015).

A large body of literature has examined the relationship between CSR and EM, that empirical tests did not yield similar results. Furthermore, few studies have examined the contribution of Managerial entrenchment (ME) to CSR and to EM. In this context, Berger *et al*. (1997) defined entrenchment as the extent to which managers fail to experience discipline from the full range of corporate governance and control mechanisms, including monitoring by the board, the threat of dismissal or takeover and stock- or compensation-based performance incentives.

In fact, previous studies of CSR have not dealt with the interaction between CSR, EM and ME. Then, we empirically test the moderating role of Managerial entrenchment in the relationship between CSR and EM. What is not yet clear is the impact of ME on the relationship betwenn CSR and EM. This paper contests the claim that ME has an impact on CSR on the one hand and on EM on other hand.

This paper contributes to the literature in the following ways. First, the first study provides a detailed review of previous studies on the relationship between CSR and EM. Moreover, the goals of this research were to provide a comprehensive literature review covering the main issues and theoretical arguments. This paper contributes also a systematic literature review, methodology and insights by reviewing the CSR reporting and earnings management research; and offering ideas on potential research areas by identifying the research gaps.

Second, the study makes a practical contribution by examining the moderating effect of ME on CSR and EM. Third, this study contributes to the growing awareness among stakeholders and researchers (Foster, 2021) that we ought to distinguish between active CSR firms and socially responsible firms and that being the latter entails something more than just mechanically copycat others and produce CSR reports.

The major objective of this study was to investigate the effect of Managerial entrenchment on the relationship between CSR and EM. We find a negative impact of CSR on earnings management. We find, also, that some CSR dimensions negatively impact earnings management. Hence, we contribute to this literature by providing some support for the hypothesis that Managerial entrenchment can change CSR and EM. The central question in this dissertation asks how ME can have an impact on the relationship between CSR and EM.

Data for this study were collected using 263 companies over a period of ten years which corresponds to 2630 firm-year observations. Our data were collected from the DataStream database. Concerning the score of the corporate social responsibility score, the data is taken from the ASSET 4 platform of Thomson Reuters. The findings should make an important contribution to the field of corporate social responsibility and earnings management.

The paper has been divided into five sections. Section 2 reviews the literature and puts forward the research hypotheses. Section 3 describes in detail the research design together with the sample, the models and measures of the variability. Section 4 presents the main results following the estimation of our regression model. Finally, Section 5 drew the major conclusions of the paper.

## 2. Literature Review and Hypotheses Development

### 2.1 Corporate Social Responsibility and Earnings Management

A large and growing body of literature has investigated that corporate social responsibility has been linked to earnings management in various studies. In fact, research that has examined the impact of corporate social responsibility and earnings management have yielded different results.

Gargouri *et al.* (2010) tested the same hypothesis on a sample of Canadian companies and concluded that CSR have a positive effect on earnings management. In the same vein, Buertey *et al.* (2020) has the same conclusion. Also, Sun *et al.* (2010) show that firms that engage in corporate social responsibility to provides the interests of various stakeholders are inadvertently expected to practice earnings management. We can therefore assume that there is a positive relationship between earnings management and corporate social responsibility.

Moreover, several studies have investigated the CSR and EM relationship, but their findings are inconclusive (Ehsan *et al.*, 2020). In addition, Cristina *et al.* (2022) found a negative relationship between EM and CSR, consistent with the idea that socially responsible activities are associated with more ethical behavior.

Besides, social responsibility orientation seems to mitigate strongly ERM, which may suggest that managers use less REM in order to protect a firm's long-term profitability. In this regard, Hao Shi *et al.* (2022) find that CSR is negatively associated with earnings management.

Ehsan *et al.* (2021) found a negative relationship between CSR and EM, and it supports the notion that firms' commitment to CSR is largely driven by long-term perspective. However, with respect to each measure of EM and CSR, this relationship is asymmetric.

Preliminary work on the positive impact of the CSR on earnings management was undertaken by Gond and Igalens (2012) within the framework of the stakeholder theory. Indeed, this theory attempts to formulate a new conception of the conception of the company by integrating its environment in order to go beyond the traditional and shareholder vision of the company.

Jo Hoje and Harjoto (2011), Harjoto (2011), Muttakin *et al.* (2015), Prior *et al.* (2008), Jędrzejowska-Schiffauer *et al.* (2019), Thalassinos and Zampeta (2012) concluded that CSR practices have a positive effect on earnings management. This result suggests that firms with a high level of earnings management use corporate social responsibility activities to mask opportunistic behavior.

In the same idea, Setiawan *et al.* (2019) examined the relationship between corporate social responsibility and earnings management in the sector Indonesian banking firms. They found that corporate social responsibility positively associated with earnings management with reference to the signaling theory through the use of a sample of Indonesian banking listed firms during the period going from 2013 to 2015. Societal disclosure constitutes a signal to investors and financial markets that management is able to control the company's social risks, engage in social responsibility and, therefore, have an improved financial performance (Sun *et al.*, 2010; Giannakopoulou *et al.*, 2016).

By contrast, detailed examination by Coller and Yohn (1997), Welker (1995) and Chih *et al.* (2008) showed a negative relationship between earnings management and corporate social responsibility.

Similarly, Ehsan *et al.* (2022) examined the association between corporate social responsibility and earnings management. They conducted an empirical study dealing with a sample of the 160 non-financial firms for the period from 2009 to 2018. The results relative to the estimation of the empirical model show a negative impact of CSR on earnings management.

Sial *et al.* (2019) have attempted to draw a negative and significant relationship between corporate social responsibility and earnings management. Likewise, Martinez *et al.* (2013) confirm the idea that the level of societal commitment of the company is negatively associated with the level of earnings management and positively related to the quality and transparency of financial statements. In the same vein, they found that CSR negatively influences earnings management. This result is consistent with the other which was found by Alsaadi *et al.* (2017) in their study within a European country.

Martinez *et al.* (2013) argued that the level of corporate social commitment negatively associated with the level of earnings management is positively related to the quality and transparency of financial statements. This result is confirmed by the work of Chassagne (2020), which shows the existence of a negative link between corporate social responsibility and earnings management.

Martinez-Ferrero *et al.* (2015) studied the link between earnings management and corporate social responsibility for the period going from 2002 to 2010. The authors confirm that corporate social responsibility practices had a negative effect on earnings management.

Similarly, on the basis of a sample of 2022 firms and 10,755 firm-year observations for the period which stand from 1993to 2010. Gao and Zang (2015) found a negative correlation between CSR and revenue smoothing. This suggests that socially responsible firms reduce or avoid earnings management through discretionary smoothing.

Using a sample of 139 firms from ten Asian countries, Scholtens and Kang (2013) shows that corporate social responsibility negatively affects earnings management. This result is confirmed by the work of Chassagne (2020), which shows the existence of a negative link between corporate social responsibility and the earnings management. In this context, Kim *et al.* (2012) in an empirical study conducted in the United States for the period 1991-2009, found that more socially engaged firms are less likely to engage in manipulative behavior.

Gras-Gil *et al.* (2016) tested the same hypothesis on a sample of 100 Spanish companies for the period 2005-2012 and they concluded that there is a negative impact of corporate social responsibility on earnings management. Using a sample of 1432 firm-year observations of Korean listed firms during 2005-2010, Cho and Chun (2016) found that socially responsible firms are significantly and negatively associated with real earnings management. The discussion above leads us to formulate the following hypothesis:

*H1: Corporate social responsibility has a negative impact on earnings management.*

Brammer *et al.* (2009) and Margolis *et al.* (2009) provide that corporate social responsibility is a multidimensional concept and that the effects of one dimension sometimes cancel out the opposing effects of another dimension. therefore, it is important to focus on the societal dimensions in order to verify the impact of each dimension on the management of the result.

In fact, companies are increasingly concerned with environmental issues (El-Mallah *et al.,* 2019; Kraus *et al.,* 2020). Hence, they are placing a high importance on environmental considerations in corporate social responsibility because the depletion of the quality of the environment directly influences the quality of life of communities ( Ben Amar and Chakroun, 2018).

In Indonesia, Sarumpaet and Shailer (2008) demonstrated that companies with lower environmental companies resort to downward earnings management. Their finding is consistent with the political cost hypothesis, which states that politically visible firms tend to manage their earnings downward to avoid the political costs of cleaning up their of cleaning up their operations. This leads to the following hypothesis:

*H1.a: The environmental dimension has a negative impact on earnings management.*

The social dimension measures a company's ability to generate trust and loyalty among its employees and loyalty of its employees, customers and society through its use of best management practices (Thomson Reuters, 2011).

This fairness of practices concerns the application of ethics in transactions between a company and other actors with whom it has a business relationship, whether they are public bodies, private partners or associations, or whether private partners or associations or whether they are members of one (ISO 26000, 2010).

Bajic and Yurtoglu (2018) point out that investors should focus on the social dimension when assessing corporate social responsibility. The authors argue that the social dimension consistently predicts the higher corporate value. As such, equity as such, fairness means applying ethics in corporate transactions to ensure fairness, integrity and honesty (ISO 26000, 2010).

A company that is committed to principles does not manage its bottom line upwards and provides credible information to its stakeholders (Ben Amar and Chakroun, 2018). However, generally, the managers of firms try to hide opportunistic behavior through the use of practices of corporate social responsibility and at the same time commit to a downward management of the resultant downwards in order to transfer wealth from the state to the firm.

The objective being to pay less to the tax authorities and to improve their image towards the other parties to the company. We therefore propose the following hypothesis:

*H1.b: The social dimension has a negative impact on earnings management.*

The board structure category measures the commitment and management’s commitment to and effectiveness in following the principles of good corporate

governance to a balanced board composition (Thomson Reuters, 2011). Hong and Kacperczyk (2009) and Eccles *et al.* (2014) concluded that firms that more effective corporate governance practices generates better value for the company.
Bédard *et al.* (2004), Bergstresser and Philippon (2006), Bowen *et al.* (2008) examined the relationship between different attributes of corporate governance, including ownership structure, board ownership structure, board structure, excessive executive compensation, and CEO duality and earnings management.

The results suggest a negative impact of governance mechanisms on earnings management. In addition, Ben Amar and Chakroun (2018) argued that the higher the governance score, the more the firm is committed to downward earnings management. Therefore, we formulate the following hypothesis:

*H1.c: The governance dimension has a negative impact on earnings management.*

### 2.2 The Impact Managerial Entrenchment on the Relationship between Corporate Social Responsibility and Earnings Management

Drajef and Chouaya (2022) studied the relationship between earnings management and leader's embeddedness and showed that leaders are more likely to manage earnings through real activities and reduce their use of accrual earnings management when short-term debt increases, as the latter induces scrutiny from lenders. The result is that managers are moving toward real earnings management because of the reduced possibility of being discovered.

Matsunaga and Yeung (2008) investigated the relationship between earnings management and managerial entrenchment. They found that managers have a deeper understanding in financial reporting on the increase of the firm value and decreasing information asymmetry.

According to Salehi *et al.* (2018) "managerial entrenchment" is a phenomenon that can be helpful or harmful to the firm. This phenomenon occurs when the manager has a dual role (CEO, managing director, etc.; duality means that the manager is both the head or vice-chairman of the board of directors and the CEO of the company at the same time.

In fact, Salehi *et al.* (2022) demonstrate a negative and significant correlation between managerial entrenchment and earnings management. Similarly, based on a sample of 98 companies listed on the Tehran Stock Exchange period from 2007 to 2016. Valiyan (2019) recently found a negative correlation between managerial entrenchment and accrual-based earnings management.

Managerial entrenchment has opposite effects on the relationship between earnings management and firm value. This means that managerial entrenchment leads managers to pursue long-term objectives by investing in profitable projects and plans rather than short-term goals by manipulating profits.

Mahmoud Abadi *et al.* (2018) investigated the connection between earnings management and managerial entrenchment and concluded that there is a negative and significant connection between managerial entrenchment, and earnings management.

Friedman (1970) and Fabrizi *et al.* (2014) have taken an agency cost perspective on CSR practices by taking a negative view of managerial motivations for pursuing CSR. For example, Friedman (1970) suggests that managers do opportunistic use of corporate social responsibility to advance their careers to advance their careers.

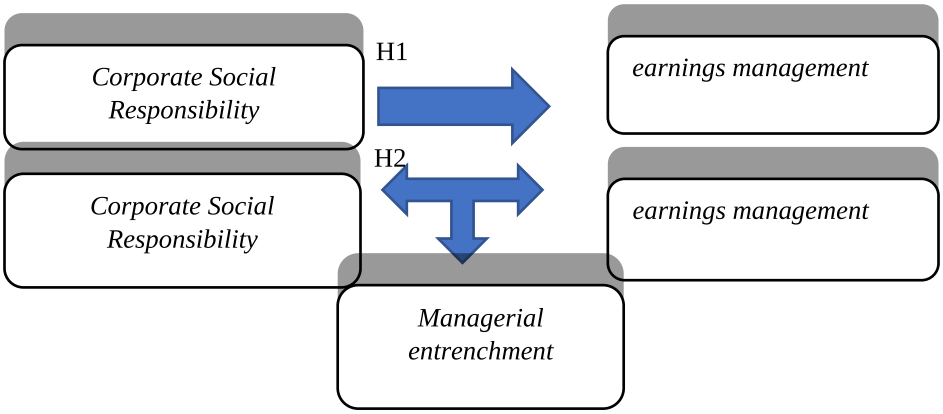
In addition, Fabrizi *et al.* (2014) point out that managerial incentives monetary incentives from corporate social responsibility actions maximize the wealth of executives. Well-established CEOs are more likely to invest in corporate social responsibility. These studies confirmed the findings of Surroca and Tribo (2008), who found that dismissed managers satisfy stakeholders by using corporate social responsibility actions as a strategy for rooting.

By contrast, Lars Moratis *et al.* (2018) tested the same hypothesis on a sample of 593 companies from 26 countries and they found that management has a positive impact on Corporate Social Responsibility. According to the authors, by initiating CSR activities, managers can deal with stakeholders who react with activism vigilance to the management of the result and ensure their position in the company.

This relationship holds for different forms of earnings management management (including revenue smoothing), for certain types of stakeholders (employees and customers and for regulated sectors. This allows us to formulate the following hypothesis:

*H2: The managerial entrenchment moderates positively the relationship between Corporate Social Responsibility on earnings management.*

***Figure 1.*** *Conceptual Framework*



***Source:*** *Own study.*

## 3. Research Methodology

### 3.1 Research Sample and Data

Our sample is composed of 263 French companies during the period going from 2010 to 2019. We have excluded firms belonging to the financial sector (banks, companies insurance companies, leasing companies, holding companies,) and companies because of a recent creation or or a recent listing on the stock exchange or for which the information is missing. In our empirical analysis, the quantitative data necessary to conduct this research were collected from the DataStream database. Concerning the score of the corporate social responsibility score, the data is taken from the ASSET 4 platform of Thomson Reuters.

***Table 1.*** *Sample selection*

| | No. of firms |
|---|---|
| **Initial sample** | **300** |
| **Financial firms** | **(29)** |
| **Observations with missing data** | **(8)** |
| **Total observations** | **263** |

***Source:*** *Own study.*

***Table 2.*** *Sample distribution across*

| Industry | No. of firms | % |
|---|---|---|
| **Basic materials** | **17** | **6%** |
| **Consumer goods** | **38** | **14%** |
| **Services to consumer** | **32** | **12%** |
| **Health** | **38** | **14%** |
| **Industries** | **68** | **26%** |
| **Oil and Gas** | **8** | **3%** |
| **Technology** | **54** | **21%** |
| **Telecommunications** | **1** | **0.3%** |
| **Utilities of community services** | **7** | **3%** |
| **Total** | **263** | **100%** |

***Source:*** *Own study.*

### 3.2 Variable Measures

#### *3.2.1 Corporate Social Responsibility*

The ISO 26000 standard is used to measure CSR and different societal dimensions based on a very rigorous analytical framework. We start by constructing a scale of measurements comprising the various items related to societal actions. Each item is associated with a CSR dimension, and each sub-item is associated with a societal action that is defined by the ISO 26000 standard.

The company's commitment to corporate social responsibility is measured by the average of environmental, social and governance performance scores.

**CSR = the Average (Score_Envt + Score_Soc+Score_Gouv)**

Where:
score_Envt: the environmental performance score provided by ASSET 4
Score_Soc: the social performance score provided by ASSET 4
Score_Gov: the corporate governance performance score provided by ASSET 4

### *3.2.2 Earnings management*

We use the estimated discretionary accruals based on the modified Jones model (Dechow *et al.*, 1995) the model becomes as follows:

$$TAit / Ait\text{-}1 = \alpha 0\ (1 / Ait\text{-}1) + \alpha 1\ ((\Delta CAit - \Delta CCit) / Ait\text{-}1) + \alpha 2\ (IMMOit / Ait\text{-}1) + \varepsilon it$$

Where:
TAit: Total accruals of firm i during period t.
ΔCAit: The change in sales of firm i during period t (CAit -CAi(t-1))
ΔCCit: The change in trade receivables of firm i in period t (CCit -CCi(t-1))
IMMOit: The gross value of firm i's property, plant and equipment at the end of year t
α0, α1 and α2: The regression parameters
εit: The error term that represents firm i's discretionary accruals during period t

### *3.2.3 Managerial Entrenchment*

Cuurently, there are several methods that have been developed and introduced to measure leader entrenchment (Bebchuk *et al.*, 2009; Cullinan *et al.*, 2019 ). In our study, managerial entrenchment was prepared according to the procedure used by Di Meo *et al.* (2017) namely managerial ownership. In fact, the managerial property is a dummy variable that takes the value of 1 if the proportion of the CEO's shares to the total number of total shares of the firm is between 18% and 50% and 0 otherwise (Di Meo *et al.*, 2017).

This measure is used by Surroca and Tribo (2008), Morck *et al.* (1988) and de Miguel *et al.* (2004). In fact, de Miguel *et al.* (2004) suggest that CEOs are more entrenched at an intermediate level of managerial ownership. In addition, CEOs with a higher proportion of control over firms, which may improve management quality and enhance their ability to quality of management and enhance their ability to follow their personal interests.

Thus, the higher the proportion of shares the CEO has, the more likely it is that entrenchment will emerge likely.

### *3.2.4 Control variables*

- Firm size (SIZE)

For the measurement of Size, we use the natural logarithm of the active total. This variable has already been used by several researchers including Omri (2002), Seboui (2003) and Koh (2003).

***SIZE = log of total assets***

- (debt)

The debt level is defined as the value of the financial debt deflated by the total assets. By total assets, Similar to Koh (2003), Ben Kraeim (2008) and Sahut and Gharbi (2008), the "debt" variable is measured by the debt ratio variance is measured by the debt ratio:

***Debt : Debt to equity ratio*** $=\frac{financialdebt}{totalassets}$

- Return on assets: (ROA)

Fombrun and Shanley (1990), Verschoor (2005), and Linthicum *et al.* (2010) consider that the performance variable is mainly due to the fact that some companies are committed to corporate social responsibility and disclose societal information for the simple reason that they are for the simple reason of maintaining their reputation and further improving their performance. In addition, since corporate responsibility activities require considerable financial capital, the financial capital, the financial situation of the company plays a key role in determining the level of as to the level of corporate social responsibility (Taleb, 2013).

Consistent with Prior *et al.* (2008) and Kim *et al.* (2012), we measure this variable by the ratio of economic return (ROA):

**ROA** $=\frac{profitbeforetax\wedge interest}{totalassets}$

- Cash flow (CFO)

Becker *et al.* (1998) and Gul *et al.* (2009) point out that earnings management is less likely to occur at firms with likely to occur at firms with excess operating cash flow. Alzoubi (2018) introduces the CFO variable to control for the effect of economic activity and firm performance on the manipulable portion. In addition, Dechow *et al.* (1995) indicate that the CFO variable influences the extent of earnings management.In our research, operating cash flow is measured by operating cash flow divided by total asset:

$$CFO = \frac{Cashflow}{totalassets}$$

## 4. Empirical Models

We estimate a panel regression model using the modified Jones model's discretionary accruals as our starting point to examine the influence of CSR on earnings management (Dechow *et al.*, 1995).

***Model 1:***

$$AD = \beta_0 + \beta_1 CSR + \beta_2 + \beta_3 DEBT + \beta_4 ROA + \beta_5 CFO + \varepsilon \quad (1)$$

Where:
DA = earnings management, measured using discretionary accruals;
CSR = corporate social responsibility score;
SIZE = firm size, measured as the nature logarithm of total assets;
DEBT = debt ratio, measured as long-term debt divided by total assets;
ROA = return on assets, measured as income before extraordinary items divided by total assets;
CFO= operating cash flows, measured by operating cash flows divided by total assets.

To examine the impact of the three societal dimensions on earnings management, we present the following three empirical models:

***Model 1.1:***

$$AD = \beta_0 + \beta_1 CSRENV + \beta_2 + \beta_3 DEBT + \beta_4 ROA + \beta_5 CFO + \varepsilon \quad (1.1)$$

***Model 1.2:***

$$AD = \beta_0 + \beta_1 CSRSOC + \beta_2 + \beta_3 DEBT + \beta_4 ROA + \beta_5 CFO + \varepsilon \quad (1.2)$$

***Model 1.3:***

$$AD = \beta_0 + \beta_1 CSRGOV + \beta_2 + \beta_3 DEBT + \beta_4 ROA + \beta_5 CFO + \varepsilon \quad (1.3)$$

Where:
DA = earnings management, measured using discretionary accruals;
CSRENV = the environmental dimension, measured by a score determined by the ASSET4;
CSRSOC= the social dimension, measured by a score determined by the ASSET4;
CSRGOV= the corporate governance dimension, measured by a score determined by the ASSET4;
SIZE = firm size, measured as the nature logarithm of total assets;
DEBT = debt ratio, measured as long-term debt divided by total assets; and
ROA = return on assets, measured as income before extraordinary items divided by total assets;

CFO= operating cash flows, measured by operating cash flows divided by total assets.

To examine the impact of managerial entrenchmen on the relationship between CSR and earnings management, we extend the previous analysis and include a moderating effect between CSR*EM Specifically, our regression is as follows:

***Model 2:***

$$AD = \beta_0 + \beta_1 CSR + \beta_2 ME + \beta_3 RSE * ME + \beta_4 + \beta_5 DEBT + \beta_6 ROA + \beta_7 CFO + \varepsilon \tag{2}$$

Then:

***Model 2.1:***

$$AD = \beta_0 + \beta_1 CSRENV + \beta_2 ME + \beta_3 RSEENV * ME + \beta_4 + \beta_5 DEBT + \beta_6 ROA + \beta_7 CFO + \varepsilon \tag{2.1}$$

***Model 2.2:***

$$AD = \beta_0 + \beta_1 CSRSOC + \beta_2 ME + \beta_3 RSESOC * ME + \beta_4 + \beta_5 DEBT + \beta_6 ROA + \beta_7 CFO + \varepsilon \tag{2.2}$$

***Model 2.3:***

$$AD = \beta_0 + \beta_1 CSRGOV + \beta_2 ME + \beta_3 RSEGOV * ME + \beta_4 + \beta_5 DEBT + \beta_6 ROA + \beta_7 CFO + \varepsilon \tag{2.3}$$

Where:
CSR = corporate social responsibility score;
ME = managerial entrenchment;
CSRENV = the environmental dimension, measured by a score determined by the ASSET4;
CSRSOC= the social dimension, measured by a score determined by the ASSET4;
CSRGOV= the corporate governance dimension, measured by a score determined by the ASSET4;
SIZE = is calculated as a natural logarithm of total assets;
LEV = is calculated as the ratio of total debt to total assets;
ROA = is the return on assets.

## 5. Empirical Findings

### 5.1 Descriptive Statistics

Table 3 displays the descriptive statistics for the regression variables for the years 2010 to 2019; the average value of the variable AD is -3.12, with lowest values of -0.219 and maximum values of 0.195. These findings are in line with earlier research by Garca Lara *et al.* (2005), Arnedo *et al.* (2007), Huguet and Gandia (2016), which demonstrated that private organizations are more likely to have a downward earnings management mindset. In fact, French firms practice in downward earnings management to increase undervaluation and consequently limit their political visibility. Concerning the CSR variable, the descriptive statistics show that the level of commitment of the companies in our sample varies from a minimum score of 8.98 reflecting a low level of interest in social, environmental and governance concerns, and a maximum governance and a maximum score of 91.38 reflecting a strong concern for societal issues.

The variables CSRENV, CSESOC and CSRGOV revealed a minimum of 0, 10.95 and 4.94 and a maximum of 97.6, 96.36 and 90.11 with an average of 63.715, 63.889 and 48.206. This is explained by the fact that most French companies are increasingly committed to societal practices and pay particular attention to environmental, social and corporate governance factors when making strategic decisions.

***Table 3.*** *Descriptive statistics*

| Variables | Median | Mean | Min | Max | SD |
|---|---|---|---|---|---|
| AD | 0.0009 | -3.12 | -0.219 | 0.195 | 0.0955 |
| CSR | 60.66 | 58.793 | 8.98 | 91.38 | 19.152 |
| CSRENV | 70.2 | 63.715 | 0 | 97.6 | 23.136 |
| CSRSOC | 70.43 | 63.889 | 10.95 | 96.36 | 22.107 |
| CSRGOV | 51.34 | 48.206 | 4.94 | 90.11 | 23.127 |
| SIZE | 13.692 | 13.839 | 8.630 | 20.942 | 2.658 |
| DEBT | 0.226 | 0.263 | 0 | 0.977 | 0.329 |
| ROA | 3.475 | -0.265 | -90.08 | 28.46 | 18.417 |
| CFO | 0.054 | 0.0229 | -0.793 | 0.277 | 0.186 |
| ME | 1 | 0.546 | 0 | 1 | 0.497 |

***Source:*** *Own study.*

### 5.2 Correlation Analysis

The correlation matrix between the various variables in the empirical models is shown in Table 4. The findings demonstrate that there is no correlation bigger than 0.8 in the Pearson correlation matrix between the various model variables.

The correlation coefficient between the variation "ME" on the one hand and the variable "CSR" on the other hand is positive at 0.0410 and meaningful at the threshold of 10%. This matrix provides a preliminary view of the relationship between the dependent variables and the independent variables.
Insert table 4 : Pearson correlations :

The tolerance limit for all variables is indeed close to 1, as indicated in Table 5. Therefore, there is no multicollinearity issue between the variables. Additionally, the

VIF variance's inflation components have a value that is less than 10 (Myers, 1990). So far, our empirical models' multicollinearity does not seem to be a concern.

***Table 4.*** *Pearson correlations*

| | CSR | DEBT | SIZE | CFO | ROA | CSRENV | CSRGOV | CSRSOC | ME |
|---|---|---|---|---|---|---|---|---|---|
| CSR | 1 | | | | | | | | |
| DEBT | -0.0122 | 1 | | | | | | | |
| SIZE | 0.2616*** | -0.006 | 1 | | | | | | |
| CFO | 0.0310 | -0.2786* | 0.3377* | 1 | | | | | |
| ROA | 0.0462* | -0.2833* | 0.3263* | 0.7741* | 1 | | | | |
| CSRENV | - | -0.0119 | 0.2512* | 0.0335* | 0.0452* | 1 | | | |
| CSRGOV | - | -0.0112 | 0.2368* | 0.0572* | 0.0605* | 0.4138 | 1 | | |
| CSRSOC | - | -0.0092 | 0.1617* | -0.0016 | 0.0158 | 0.7119* | 0.4676* | 1 | |
| ME | 0.0410* | -0.0336* | -0.0042 | -0.0211 | -0.0099 | 0.0131 | 0.0322* | 0.0297 | 1 |

Notes: *Significant at 10% level **Significant at 5% level; ***significant at 1% level

***Source:*** *Own study.*

***Table 5.*** *Collinearity statistics*

| **Variable** | **Collinearity statistics** | |
|---|---|---|
| | **VIP** | **Tolérances** |
| **CSR** | 1.08 | 0.925 |
| **SIZE** | 1.24 | 0.803 |
| **DEBT** | 1.11 | 0.897 |
| **ROA** | 2.56 | 0.390 |
| **CFO** | 2.59 | 0.386 |
| **CSRENV** | 1.07 | 0.932 |
| **CSRSOC** | 1.03 | 0.968 |
| **CSRGOV** | 1.06 | 0.942 |
| **ME** | 1.00 | 0.996 |

***Source:*** *Own study.*

### 5.3 Regression Results

Table 6 uses the Hausman (1978) test to identify which estimate model—one with fixed or random effects—explains our empirical findings. Since the Hausman test findings are significant for all models, the fixed effects specification is used.

***Table 6.*** *Hausman test*

| | **Dependent Variables** | | | |
|---|---|---|---|---|
| | **Model 1** | **Model 1.1** | **Model 1.2** | **Model 1.3** |
| **Fisher Test** | **2.47*** ** | **2.48*** ** | **2.47*** ** | **2.49*** ** |
| **Signif.** | 0.000 | 0.000 | 0.000 | 0.000 |

| | | | | |
|---|---|---|---|---|
| **Chi-2 test** | **1685.95*** ** | **1700.11*** ** | **1683.40*** ** | **1701.71*** ** |
| **Signif.** | 0.000 | 0.000 | 0.000 | 0.000 |
| **Note : ***significant at 1% level** | | | | |

***Source:*** *Own study.*

Table 7 shows that the degree of earnings management is strongly and adversely correlated with CSR (cof = -0.0002, P=0.006). This supports our main hypothesis, which was that CSR has a detrimental effect on earnings management. The findings of earlier studies, such as those by Grougiou *et al.* (2014) and Muttakin *et al.* (2015), which discovered a beneficial effect of CSR on earnings management, are not supported by this study.

Additionally, this research supports the theories put out by Cho and Chun (2016), Hong and Andersen (2011), and Kim *et al.* (2012) who demonstrated the detrimental impact of CSR on earnings management. This is evidence that managers' opportunistic behavior does not result in corporate social responsibility activities, which include This runs counter to the data gathered by writers like Cestone (2007).

By contrast, our results do not support the institutional theory (Chih *et al.*, 2008) which predicts an insignificant relationship between corporate social responsibility and earnings management (Liu *et al.*, 2017; Sun *et al.*, 2010).

The results, as shown in Table 7, indicate that a negative and the significant relationship between debt, CFO and CSR (CF = -0.045; CF =-0.476) at the level 1%. In other terms, there is a positive and significant relationship between, SIZE, ROA and CSR (CF = 0.0003), (CF=0.005 p=0.000).

***Table 7.*** *Regression (1) results*

| | **Regression (1)** | | |
|---|---|---|---|
| | **Coefficient** | **z** | **P>\|z** |
| **Constant** | 0.032 | 3.90 | 0.000*** |
| **CSR** | -0.0002 | -2.74 | 0.006** |
| **DEBT** | -0.045 | -10.26 | 0.000*** |
| **SIZE** | 0.0003 | 0.56 | 0.574 |
| **CFO** | -0.476 | -39.66 | 0.000*** |
| **ROA** | 0.005 | 41.36 | 0.000*** |
| **N** | | **2.630** | |
| **Wald Chi-2** | | **2053.55*** ** | |
| **Prob>Chi-2** | | **0.000** | |
| **Notes: *Significant at 10% level **Significant at 5% level; ***significant at 1% level** | | | |

***Source:*** *Own study.*

To test our H1.1, H1.2, and H1.3, we estimated equations 1.1, 1.2, and 1.3. The results are shown in Table 8. We discover that the variable CSRENV has a significant and negative coefficient at the 10% threshold (CF = -0.0001; P:0.029).

However, this finding did not support that of Molina-Azorin *et al.* (2009) or Horvathova (2010). Therefore, companies should take into account environmental dimensions in their activities and decision-making processes. They are invited to apply the precautionary approach to environmental issues (such as pollution, resource scarcity and climate change...) and to take initiatives to promote greater accountability on environmental issues. Additionally, earnings management is significantly and negatively impacted by the second societal dimension, CSRSOC (CF:-0.0001 P:0.019).

We notice that the initiatives taken by companies to preserve human rights serve to improve their image and reputation. For this reason these initiatives encourage managers to safeguard the interests of different stakeholders. In addition, they are called upon to reduce their managerial leeway in favor of introducing good practices socially responsible practices.

Last but not least, CSRCOV has a substantial and adverse effect on earnings management (CF: -0.0001; P0.036). This supports the theories put forth by Beasley *et al.* (2000), Eng and Mak (2003), and Cormier *et al.* (2013), all of whom demonstrate how governance mechanisms force companies to manage their earnings lower. This outcome confirms that good corporate governance is able to reduce managerial discretionary behavior and, consequently, ensure greater reliability of financial statements. This is ensured by the implementation of good corporate governance mechanisms such as the shareholder structure, board structure or excessive compensation.

***Table 8.*** *Regression (1.1) (1.2) and (1.3) results*

| | **Regression** 1.1 | | | **Regression** 1.2 | | | **Regression** 1.3 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Coefficients** | **Z** | **P>\|z** | **Coefficients** | **z** | **P>\|z** | **Coefficients** | **z** | **P>\|z** |
| Constant | 0.029 | 3.68 | 0.000*** | 0.032 | 3.85 | 0.00*** | 0.028 | 3.52 | 0.00*** |
| CSRENV | -0.000 | -2.18 | 0.029* | | | | | | |
| CSRSOC | | | | -0.000 | -2.35 | 0.019* | | | |
| CSRGOV | | | | | | | -0.000 | -2.09 | 0.036* |
| DEBT | -0.045 | -10.23 | 0.000*** | -0.045 | -10.23 | 0.00*** | -0.045 | -10.21 | 0.00*** |
| SIZE | 0.000 | 0.39 | 0.699 | 0.000 | 0.23 | 0.816 | 0.001 | 0.31 | 0.754 |
| CFO | -0.476 | -39.61 | 0.000*** | -0.476 | -39.62 | 0.00*** | -0.475 | -39.58 | 0.00*** |
| ROA | 0.005 | 41.33 | 0.000*** | 0.005 | 41.35 | 0.00*** | 0.005 | 41.33 | 0.00*** |
| N | **2.630** | | | **2.630** | | | **2.630** | | |
| Wald Chi-2 | **2048.68*** ** | | | **2050.02*** ** | | | **2048.03*** ** | | |
| Prob>Chi-2 | **0.000** | | | **0.000** | | | **0.000** | | |
| **Notes: *Significant at 10% level **Significant at 5% level; ***significant at 1% level** | | | | | | | | | |

***Source:*** *Own study.*

Table 9 displays the findings from the estimation of Equation (2) to verify our H2. The relationships between ME, CSR, and earnings management are examined by this hypothesis. First, Table 9 demonstrates that ME influences CSR favorably and considerably (CF =0.024 P=0.005).

Our research shows that managers who have deep roots are more inclined to participate in CSR initiatives. This is reflected that, since managers are aware of the benefits of CSR activities, such as social reputation and the prevention of government fines, they are more likely to use social activities and CSR reports and to align these benefits with their interests. The similar observations have been reported in this regard by Salim *et al.* (2019) and Kim *et al.* (2012). This conclusion, however, does not agree with those of Mahdi Salehi *et al.* (2022) or Valiyan (2019).

***Table 9.*** *Regression (2) results*

| | Regression 2 | | |
|---|---|---|---|
| | **Coefficients** | **Z** | **P>\|z** |
| **Constant** | 0.019 | 2.04 | 0.042* |
| **CSR** | 0.000 | 0.31 | 0.753 |
| **ME** | 0.024 | 2.81 | 0.005** |
| **CSR*ME** | 0.000 | 3.05 | 0.002*** |
| **DEBT** | -0.045 | -10.16 | 0.000*** |
| **SIZE** | 0.0002 | 0.46 | 0.645 |
| **CFO** | -0.476 | -39.65 | 0.000*** |
| **ROA** | 0.005 | 41.43 | 0.000*** |
| **N** | | **2.629** | |
| **Wald Chi-2** | | **294.74*** ** | |
| **Prob>Chi-2** | | **0.000** | |
| **Notes: *Significant at 10% level **Significant at 5% level; ***significant at 1% level** | | | |

***Source:*** *Own study.*

Second, by including the moderation variable, ME, in this model, we examine the connection between CSR and earnings management. This Table demonstrates that the CSR*EM coefficient is significant at 1% (0.002) and positive. The H2 that managerial entrenchment favorably modifies the influence of corporate social responsibility on earnings management is supported by this outcome.

The favorable correlation between CSR and ENR provides one explanation for this. Indeed, management embeddedness and corporate social responsibility appear to have a favorable association, according to Martnez-Ferrero and Garca-Sánchez (2015).

They considered corporate social responsibility  as a strategy of the leader's rootedness. There are numerous reasons why this outcome could have occurred. In actuality, managers defend their private profit preservation plan with CSR (Cheng *et al.*, 2014).

In this context, Cespa and Cestone (2007) would concede the idea that long-established managers collude with staff, communities, customers and suppliers to protect themselves from internal mechanisms, reducing shareholder wealth.

To gain stakeholder support, embedded managers engage in a wide range of practices to develop relationships with practices to develop relationships with corporate stakeholders and environmental activists known as corporate social responsibility engagements.

The coefficients for the variables debt and CFO are negative and statistically significant when compared to the control variables (CF = -0.045; CF = -0.476). However, this impact turns out to be favorable with the SIZE and ROA (CF = 0.0002 CF = 0.005).This outcome is in line with the findings of the research conducted by Darmawan *et al.* (2019) and Abbas and Ayub (2019).

### 5.4 Additional Tests

In order to better understand the effect of the manager' entrenchment on the relationship between CSR and management, an additional analysis seems important. Indeed, Table 10 presents the moderating effect of the manager's entrenchment on the relationship between the CSR dimension.

In fact, a positive and significant relationship exists between managers entrenchment and earnings (cf = 0.024 p =0.002). This result is not corroborated with Bédard *et al.* (2004) and Bowen *et al.* (2008), Warfi and Wild (1995) who showed that managerial ownership is negatively associated with earnings management.

Likewise, Table 10 shows that the coefficients RSEENV*ENR; RSESOC*ENR; and RSEGOV*ENR are positive and significant. This result confirms our findings that managerial entrenchment positively moderates the impact of corporate social responsibility (environmental, social and corporate governance) on the management of on earnings management.

***Table 10.*** *Additional tests*

| | **Regression** 2.1 | | | **Regression** 2.2 | | | **Regression** 2.3 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Coefficients** | **Z** | **P>\|z** | **Coefficients** | **Z** | **P>\|z** | **Coefficients** | **z** | **P>\|z** |
| Constant | 0.019 | 2.19 | 0.029* | 0.019 | 2.05 | 0.040* | 0.020 | 2.43 | 0.015* |
| CSRENV | 0.000 | 0.36 | 0.716 | | | | | | |
| CSRSOC | | | | 0.000 | 0.31 | 0.760 | | | |
| CSRGOV | | | | | | | 5.78 | 0.08 | 0.937 |
| ME | 0.024 | 3.12 | 0.002*** | 0.024 | 3.03 | 0.002*** | 0.233 | 3.13 | 0.002*** |
| CSRENV* ME | 0.000 | 3.46 | 0.001*** | | | | | | |
| CSRSOC* ME | | | | 0.000 | 3.35 | 0.001*** | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| CSRGOV* ME | | | | | | | 0.000 | 3.50 | 0.000*** |
| DEBT | -0.045 | -10.17 | 0.000*** | -0.045 | -10.17 | 0.000*** | -0.045 | -10.18 | 0.000*** |
| SIZE | 0.0002 | 0.46 | 0.646 | 0.000 | 0.51 | 0.609 | 0.003 | 0.52 | 0.605 |
| CFO | -0.476 | -39.66 | 0.000*** | -0.476 | -39.65 | 0.000*** | -0.476 | -39.68 | 0.000*** |
| ROA | 0.005 | 41.43 | 0.000*** | 0.005 | 41.43 | 0.000*** | 0.005 | 41.42 | 0.000*** |
| N | | **2.630** | | | **2.629** | | | **2.630** | |
| Wald Chi-2 | | **294.75*** ** | | | **294.74*** ** | | | **294.71*** ** | |
| Prob>Chi-2 | | **0.000** | | | **0.000** | | | **0.000** | |
| **Notes: *Significant at 10% level **Significant at 5% level; ***significant at 1% level** | | | | | | | | | |

***Source:*** *Own study.*

## 6. Conclusion

Our study used a sample of 263 French companies from the years 2010 to 2019 to examine the impact of corporate social responsibility on earning management and determine whether there is a significant relationship between these two concepts and managerial entrenchment. We were able to corroborate the theory that corporate social responsibility and numerous societal factors have a detrimental impact on earnings management according to the empirical findings of this study.

On the other hand, our estimates confirmed that the manager' entrenchment positively moderates this impact. Our findings have practical implications that may be of interest to the academic researchers. It is first necessary to note how crucial it is to understand the function of CSR in various institutional contexts.

Indeed, it is less likely that CSR will play a substantial role in regulating managerial behavior and consequently influence the management of the outcome in these situations where enforcement is optional or practically nonexistent.

Our findings motivate regulators to enact more stringent investor protection laws and processes that lessen the motivation to use earnings management, which affects the accuracy of the information revealed to and published to various company stakeholders. Second, the findings of our study may serve as instructions for regulators and accountants in various nations.

In fact, the study of management's use of earnings management can inform regulators, investors, and academics about the reliability of the financial statements of socially responsible companies. Finally, the results are of interest to investors and accounting regulators when preparing new rules or amending existing ones.

The scope of this study was limited in terms of the small size of the sample should be taken with caution. Also the models presented in the accounting literature to measure earnings management suffer from their weak explanatory power (Kothari *et al.*, 2005).

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