RESEARCH ARTICLE

Does corporate social disclosure affect earnings quality? Empirical evidence from Tunisia

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Manuscript Info	Abstract
  Ines Belgacem ines.belgacem@ihecso.rnu.tn	The aim of our research is to investigate whether voluntary social disclosure is related to earnings quality. The study is performed on a sample of Tunisian Stock Market (TSM) listed companies over ten years (2002-2011). To achieve the aim of this study, content analysis and statistical analysis were used. Content analysis by sentences count was used to determine the level of social disclosure of Tunisian companies. Considering four attributes of earnings quality (Earnings management, conservatism, value-relevance of earnings and accruals quality), we provide strong evidence that social disclosure is positively associated with the degree of earnings management and negatively associated with the degree of conservatism. Accordingly, we conclude that social disclosure doesn't contribute to financial reporting quality. It is used by managers as a mechanism to cover-up their earnings management practices in order to reinforce firm legitimacy.

INTRODUCTION

In the wake of the current issues around global warming, emission trading schemes, carbon taxes and employment conditions, companies are under increasing pressure to demonstrate true "business ethics" and to be transparent. Affirming this commitment and reporting corporate social disclosure has become an increasingly common and important practice, due to increased demand from investors, consumers and other stakeholders to ensure transparency on all aspects of business (Kim et al. 2012). Furthermore, ethics has always been a key issue in the world of business. Hence, the revival of corporate social responsibility (CSR) is reflected in its recent prominence in public debate. With labels such as corporate citizenship, the triple bottom line, and more recently sustainability, the concept of CSR extends the accountability of firms beyond financial accountability to their shareholders and to other stakeholders (Yip et al. 2011).

To our knowledge, however, the effect of corporate social disclosure on the quality of earnings has seldom been studied in developing countries, like Tunisia, despite the growing interest in CSR expressed by Tunisian professionals and researchers. Being a recent and unregulated communication practice in Tunisia, the choice of this context study seems to be relevant and it is justified by the desire to enrich the previous literature which is mainly based on the Anglo-Saxon and European data (Kim et al. 2012; Zhang et al. 2012; Candy, 2013).

In Tunisia, the implementation and acknowledgement of reports on the social and environmental corporate disclosure is relatively new and it has become the most popular term since the mid 1990. Tunisia is interested in environmental protection and tries to exceed the original antagonism between economy and ecology through the concept of sustainable development, since the Rio Earth Summit held in June 1992. Furthermore, from an accounting point of view, the Tunisian accounting conceptual framework provides information on the social and environmental corporate disclosure as a supplement to conventional financial information reports. Additionally, the effort of Tunisia legislator, which prevails on the philanthropic orientation of CSR, focuses on two principles:

environmental actions and social actions. In this regard, a strategy for sustainable development was initiated in Tunisia at the beginning of 1996, through the organization of conferences within the national environment agenda development and quinquennial plan.

However, despite the substantial contributions of the recent decades' literature, there is still no consensual definition of CSR (Matten and Moon, 2008). Thus, the concept known as semantic evolution, induces fragmentation between different fields and disciplines (Gond and Igalens, 2008). In its evolution, it passed through several stages. Initially, in the first half of the 20th century, CSR emphasized philanthropic behavior of individual firms (Carroll, 2008). Later, in the 21st century, it expanded to include utilitarian justification, according to which the dimensions of CSR should help the economic and financial performance of the company. Indeed, maximizing the financial performance and the value of the company remain key objectives for all listed companies (Yip et al. 2011). In response to these pressures, managers engage in corporate social and environmental disclosure to cover up some corporate misconduct and to manage public impressions (New et al. 1998; McWilliams and Siegel, 2006). Such disclosure can be defined as an environmental management strategy to communicate with stakeholders, hence social and environmental corporate report. Furthermore, as such reporting practices have become widespread and more extensive, companies started to publish it in a separate social and environmental report (Deegan, 2007).

Recent accounting literature has addressed the question of whether corporate social responsibility (CSR) is associated with earnings quality. Then, managers can find themselves under pressure to use the flexibility afforded under generally accepted accounting practices (GAAP) to manage earnings in order to meet certain expectations or targets[1]. Therefore, earnings management is related to agency theory since it can create or exacerbate agency costs. In this line, Prior et al. (2008) argue that earnings management practices damage the collective interests of stakeholders and hence, managers who manipulate earnings may deal with stakeholder activism and vigilance by resorting to CSR practices based on opportunistic incentives (Kim et al. 2012).Indeed, they report information related to the firm's activities impact on environment, human resources, products and community involvement. Thus, they use the primacy of financial reporting in the decision-making process of stakeholders in order to influence their perceptions about the companies' activities and legitimize a firm's continued existence to the society (Gray et al., 1995; Brown and Deegan, 1998). In this vein, Yip et al. (2011) shed light on how CSR extends to other aspects of corporate behavior, such as, financial reporting transparency.

Alternatively, CSR practices can potentially be linked to the pursuit of ethical expectations of society and are likely to constrain earnings management, thereby providing investors with more transparent and reliable financial information. In this perspective, Atkins (2006) claims that what the investing public really means by "social responsibility" is to be transparent in firms' financial reporting. Thus, under an ethical perspective, firms that are socially responsible and make CSR disclosures, would be less inclined to manage earnings (i.e., reporting earnings honestly and sincerely) (Yip et al. 2011). If these incentives prevail, we would observe a positive relation between social corporate disclosure and earnings quality.

This study contributes to the literature in several ways. First, it highlights that earnings manipulation can drive managers to report social corporate disclosure. Second, by providing strong and consistent evidence on the relation between social corporate disclosure and earnings quality, we shed light on how social corporate disclosure extends to other aspects of corporate behavior, in this case, earnings quality.

The reminder of this paper is organized as follows: The next part reviews the literature and then the research hypotheses are formulated. The methodology and empirical results of our work are addressed in the third and fourth sections. We will finish our study with a discussion and a general conclusion.

Literature review and hypothesis development

Related literature

Although the predominance of previous studies that have examined the relation between CSR and financial performance (Margolis and Walsh, 2003; Mahoney and Roberts; 2004; Chih et al. 2008; Prior et al. 2008), few studies have specifically investigated the relationship between corporate social disclosure and earnings quality. Therefore, little is known about how corporate social disclosure affects earnings quality.

The literature review shows two main approaches to framing research on the impact of social corporate disclosure on financial reporting quality, namely: the opportunistic perspective and the strategic perspective (Kim et al, 2012). In line with agency theory, the impact of social corporate disclosure on earnings quality was apprehended

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[1] Our sample is based on Tunisian firms that report using GAAP.

according to two visions: a vision that considers that corporate social disclosure is a tool to reduce costs, especially financings costs, and another vision which considers it as a mechanism for managers to gain the support of stakeholders and, therefore, offers an opportunity for management entrenchment (shleifer and Vishny, 1997).Thus, managers may implement entrenchment strategies not only for their short-term survival but also to be able to invest in value-enhancing long-term projects. In most cases, the development of these projects requires that stakeholders' specific investments to be stimulated by means of CSR activities (Surroca and Tribo, 2008). Furthermore, in the field of societal investment, the problem of "moral hazard" is likely to increase, to the extent that such investment can provide private benefits and discretionary latitude to managers (Kothari et al. 2005, Pyo and Lee, 2013). Such perspective focuses on the opportunistic use of CSR within an agency theoretic framework. That is, managers might engage in CSR for personal benefit rather than for the interest of the firm and its stakeholders.

Several studies have been carried out using agency perspective to explain the existence and content of social and environmental reporting (Belkaoui and Karpik, 1989; Cahan, 1992; Cahan et al., 1997; Crumbley, 2003). Prior et al (2008) find CSR as a moderating role for earnings management. In this regard, managers use CSR practices to disguise earnings management that cannot be sustained over time. As earnings management leads to lower earnings quality, it reduces the predictive ability of future earnings and cash flows (Lev, 2003). To the extent that earnings are managed to mislead investors, earnings management is generally considered to be unethical (Kaplan 2001). From an agency perspective, McWilliams et al. (2006) argue that CSR is a managerial perquisite, in the sense that managers use CSR to advance their careers or other personal agendas. Similarly, Pagano and Volpin (2005) argue that managers can reward stakeholders, such as providing good working conditions for employees in order to avoid any pressure from the capital market through the hostile takeovers.

Based on recent studies (kim et al, 2012, Candy, 2013; Martinez et al, 2014), it seems that CSR is a result of a principal-agent problem where the manager is an agent who utilizes CSR as a tool to maximize his own private benefits (i.e. retention, compensation, conflict resolution, and earnings management) that may not necessarily increase shareholders' wealth. Therefore, the principal agent theory suggests that CSR is a product of managers' self interest.

While opportunistic perspective predicts a negative association between earnings quality and social corporate disclosure, some studies rely on ethical or strategic use of social corporate disclosure that suggests a positive relation. Thus, under a strategic perspective, firms that are socially responsible and make CSR disclosures would be less inclined to manage earnings. According to Chun (2005), ethical organizations will display integrity by being honest, sincere, socially-responsible, and trustworthy. Indeed, firms may demonstrate ethical commitment through philanthropic contributions and through using their resources and expertise to benefit society, e.g. reducing waste, employing minorities, and caring for the environment (Hoffman 1986). Several researches support that managers have a moral obligation to make responsible business decisions and simultaneous attention to the interests of all stakeholders, ensuring the transparency of financial reporting. In this perspective, socially responsible companies tend to publish more transparent and credible reports and may restrict earnings management (Atkins, 2006, Kim et al 2012.). Based on strategic perspective, organizations can engage in social actions, in order to enhance their reputation and thus promote sales growth. Studies explaining firms' tendency to make CSR disclosures often rely on legitimacy theory (De Villiers and Van Staden, 2006; Deegan, 2002). This theory is based on the premise that firms must operate within the standards, following the expectations of the community in which they operate. Considered as the legitimate heir of the social contract, this perspective seems to be less tied to the assumption of discrete and identifiable stakeholder factions. Then, legitimacy can be seen as an operational resource whose value must be maintained to ensure continued support from society (Laguir and Ilbaz, 2014) in order to demonstrate its congruence with societal values.

An empirical review shows that numerous studies who examine the relation between CSR and earnings management (Prior et al, 2008, Chih et al., 2008; Gargouri et al., 2010; Prior et al., 2008; Kim et al, 2012) provide puzzling results. Chih et al. (2008) examine CSR and earnings management and provide inconsistent results across different earnings management proxies. They show that CSR firms are more aggressive in accruals management but are less likely to engage in earnings smoothing and earnings losses avoidance. Recently, yip et al (2011) have examined whether the relationship between earnings management and social corporate disclosure is affected by ethical consideration. They test their hypotheses using data from two U.S. industries, the oil and gas industry and the food industry. The authors' show that political considerations are driving the relationship and CSR disclosure are positively related to earnings management (i.e. negatively related to earnings quality). Along this line, Kim et al (2012) examine whether CSR firms behave differently in making accounting and operating decisions, thereby delivering more transparent financial information to investors. They find that CSR firms are less likely to engage in aggressive earnings management through discretionary accruals and/or real activities manipulation. Their results support the transparent financial reporting hypothesis.

Only a few academic studies have focused on the relationship between earnings relevance and corporate social responsibility. Studies in this area sought to examine the financial dynamics between stock prices and the information disclosure. Indeed, the social and environmental performance can affect stock prices, either directly through the efficient use of human and material resources or indirectly by conveying a positive image to consumers, suppliers and the community (Callan and Thomas, 2009). In a recent paper, Cormier and Magnan (2003, p. 51) argue that "environmental reporting will be likely used by investors to better assess firm's earnings prospects and reduce implied uncertainty". Moneva and Cuellar (2009) find that financial environmental information provides value-relevant information about the firm value. However, they did not find the same for non-financial environmental information. Hassel et al. (2005) examined the relevance of environmental performance. They find a negative and significant relationship between the market value of Swedish companies and their environmental performance.

Another dimension of earnings quality which was included in accounting literature was accounting conservatism. According to Chan et al. (2009), accounting conservatism is a desirable attribute of financial statements as it enhances relevance and represents faithfulness. Nevertheless, there is a lack of consistent evidence in the accounting literature on the effect of CSR on the quality of earnings. Indeed, accounting conservatism and corporate social responsibility have received little attention in the recent literature (Francis et al, 2013). In their study, Ahmed and Duellman (2007) opined that managers may ordinarily bias accounting numbers in their favor. However, accounting conservatism mitigates management's upward bias of accounting numbers. More recently, Salewski and Zulch (2012) investigated the impact of CSR on financial reporting quality by examining the association between CSR and the degree of earnings management, the degree of accounting conservatism and the quality of accruals. The authors show that Firms with good CSR are more likely to engage in earnings management and to report bad news in a less timely fashion. Meanwhile, Kurniawan and Wibowo (2011) provide an examination of the conservatism sample of Indonesian banks. The findings of their research reveal that there is an insignificant relationship between conservatism and CSR disclosure score. They conclude that an increasing CSR disclosure in recent years has been the result of obeying government regulation.

In this study, we provide a comprehensive investigation of the effects of corporate social disclosure on financial reporting quality of Tunisian firms. Specifically, we exam four attributes of reporting earnings quality that have been used in prior research (Chen et al, 2008), including: earnings management, quality of accruals, value-relevance of earnings and accounting conservatism.

Hypothesis development

Following CSR's concept, it appears that a high standard of CSR is positively associated with high accounting quality of the firm (Laux and Leuz, 2009). Accordingly, a positive relation between social corporate disclosure and earnings quality could be hypothesized. This relation would also be in line with prior results of Choi and Pae (2011) and Kim et al (2012). In this line, earnings management is regarded as an act of irresponsibility and inconsistent with appropriate CSR performance. Similarly, socially responsible companies are also valuable because they try to improve the welfare of other stakeholders when maximize their own profits. Through investigating the effects of CSR on earnings quality, some researchers (Liu and Lu, 2007; Huang et al., 2008) emphasize improving CSR performance to respond to agency problem.

On the other side, incentives for social and environmental disclosure depend on the intentions of managers and their goals behind such commitment. Thus, firms' CSR practices do not always reveal their good intentions. Indeed, some firms are draped behind this "good image" and engage in unethical business practices, inconsistent with the shared values practices. Corporate scandals[2] that have affected large multinationals companies, despite their status of "socially responsible firms" testify the existence of fraudulent accounting practices.

However, in the Tunisian context, the absence of any appropriate regulatory framework and an audit reference governing the social communication gives to this practice a voluntary and discretionary nature, reinforcing therefore managerial latitude. Following the previous work of Chih et al. (2008); Moser and Patrick (2012); Marcus and Zeluch (2012), we assume that the level of social corporate disclosure impacts negatively on the earnings quality, suggesting that social corporate disclosure is driven by opportunistic behavior. Therefore, the following hypothesis is tested:

H1: Social corporate disclosure is negatively related to the earnings quality of Tunisian firms

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[2] The Enron case involves both illegal and unethical practices.

Our hypothesis will be split into four-hypothesis structured according to the individual measures of earnings quality. Earnings quality is a theoretical concept that has a multidimensional orientation. Literature evidence suggests that earnings quality can be classified into two categories: Market based or Accounting based (Francis et al. 2004; Barth et al. 2008). Market based attributes of earnings are value relevance, timeliness of information and conservatism. Proxies for these constructs are typically based on the relation between market data and accounting data. Accounting-based earnings attributes are derived from accounting numbers, which are not affected by the volatility of the stock market (Francis et al. 2004). They may reveal the presence of manipulation and may also reflect long-term prospects of firm. According to Francis et al. (2004), they are earnings persistence, quality of accruals, predictability, earnings management and smoothness. Therefore, empirical investigation of earnings quality has been through either one or two of these dimensions (Myers et. al., 2003). To examine whether social corporate disclosure is associated with earnings quality, we use a set of earnings attributes measures of Tunisian firms, earnings management, accruals quality, accounting conservatism and value-relevance of earnings (Jones, 1991; Kothari et al. 2005).

First, according to previous empirical studies, we consider that the value relevance is a good indicator of the quality of financial reporting quality and a good summary measure that reflects how the published accounting information is used by investors in their decision making (Barth et al, 2008). This market based measure assumes a correlation between stock returns and earnings and reaches a determination of the quality of earnings through a juxtaposition of these two measures. In this study and in line with our basic hypothesis, we state the flowing sub-hypothesis, suggesting that investors react negatively to corporate social disclosure. Consequently, social and environmental disclosure activities tend to reduce the value-relevance of reported earnings.

H1a: There is a negative relationship between the value-relevance of earnings and corporate social disclosure.

Second, we focus on the accruals quality in predicting future cash-flows, as a quality attribute based on accounting data which measures earnings' information risk (Francis et al, 2008). The idea behind this measure is that the part of the variation in current accruals unexplained by present, current and future cash-flows, reflects the magnitude of the estimation errors in accruals and therefore constitutes an inverse measure of earnings quality. We then expect the following sub-hypothesis:

H1b: There is a negative relationship between the accruals quality and corporate social disclosure level.

Third, In line with Choi and Pae (2011); Salewski et zulch (2012) we consider the qualitative characteristic of the accuracy of accounting numbers disclosed, by examining the level of accounting conservatism practiced by the managers. Prior studies assume that conservatism uses the level of the asymmetric accounting method for a prudent recognition of uncertainty (Givoly and Hayn, 2000; Penman and Zhang, 2002; Watts, 2003). In this line, Watts (2003) reports that the important aspect of conservatism is to reduce agency costs and reflects a degree of managers' integrity or ethics. Taken together, conservatism would be the consequence of managers' integrity as regards to financial reporting. Although, in line with our basic hypothesis, we propose the following hypothesis:

H1c: There is a negative association between the corporate social disclosure and the degree of accounting conservatism.

Fourth, managers may have the incentive to misuse corporate social disclosure to offset poor-quality earnings. They utilize CSR as a tool to maximize their own private benefits (i.e. retention, compensation, conflict resolution) and to disguise earnings management that cannot be sustained over time. Therefore, corporate social disclosure can be used as an entrenchment mechanism (Cespa and Cestone, 2007) by managers with the purpose of reducing the likelihood of being scrutinized by stakeholders in the context of earnings manipulation. Given these arguments and in line with our basic hypothesis, we predict that corporate social disclosure quality and earnings management are positively associated. This leads to the following hypothesis:

H1d: there is a positive association between earnings management and corporate social disclosure.

Data and variables

Data and sample selection

The sample used in this study consists of firms listed on the Tunisia Stock Market (TSM) from 2002 to 2011[3]. We exclude firms in financial service industries[4], those with insufficient financial data and non-December fiscal year-end firms, as well as those with fewer than ten observations within a respective industry. The time span was selected for two reasons: First, from 2002 the cash flow statements are available on the website of the TSM. Second, CSR is in its infancy period in the emerging market (Tsang, 1998).The sample contains 250 firms years, representing 25 distinct firms listed on the TSE from different size and operating in various activities: industry, consumer goods, consumer services, health, telecommunications and oil and gas. Table 1 summarizes the sample selection.

(Insert table 1)

The accounting and market data needed for the study were collected from two main sources of data. Accounting data was collected from the firms' annual reports over the entire period through TSM and Financial Council Market website. The focus of analysis on the corporate annual reports is also consistent with prior social disclosure studies (Gray et al, 1995; Abort and Monsen, 1997) that viewed it as the main official and legal document.
    Market data were indentified from the annual reports of TSE that incorporate all the stock information of listed companies. Regarding social and environmental information, they were obtained from the annual reports of the selected companies. This study reports and analyses corporate social disclosure through content analysis for Tunisian companies listed in TSE. The content analysis approach was used in previous study, especially in the emerging capital markets (Alnajjar, 2000 ; Che Zuriana et al, 2002; Ramasany and Tang, 2004; Thompson and Zakaria, 2004).

According to prior studies by Abdulhamid (2004) and the pioneering research work of Ernst and Ernst (Cited by chih et al, 2008), measurement of CSR in this study adopts a similar disclosure-scoring methodology based on content analysis. Such technique consists of codifying qualitative information in order to quantify the corporate social disclosure level. It requires the definition of categories information and the choice of the unit of measurement. Items selected for inclusion were based on their relevance to the Tunisian context, and these were classified into four categories of CSR namely: employee relations, Community involvement, product dimensions and environmental performance. Each category has sub-categories disclosures that are adjusted based on whether the items are disclosed (see Table 2). Thus, in final, we retained 45 items after reading annual reports. Unit of measurement used in the literature to quantify the level of corporate social disclosure are: the number of words, number of pages and the number of sentences. In this study, the sentence was selected as a coding unit because it is one of the most popular units employed in previous studies. Indeed, the number of sentences contains several words that can refer to several types of social information. In addition, according to Cuganesan et al (2010) it is considered as autonomous and grammatically built, because the number of sentences is more suitable than the number of words.

(Insert table 2)

Measurement of Constructs

Corporate social disclosure (CSD)

We follow recent research in emerging countries to specify our proxy for CSD. We rely on the study of Abdulhamid (2004) to measure the corporate social disclosure level. Therefore, we use the total number of sentences provided within each category of information for both the coding and measurement units, under the content analysis method. According to Milne and Adler (1999), such proxy increases the content analysis validity. The measure of the level of CSD level is as follow:

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[3]Although our sample ranges from 2002 to 2011, we include observations from 2001 to be able to calculate measures which are based on changes.
[4] Following prior studies (Kim et al. 2012; Pyo and Lee, 2013), we eliminate banking institutions and insurance companies from our sample as characteristics of accruals differ for these companies.

Level of corporate social information (CSD)= Number of sentences related to Human resources information + Number of sentences related to environment information + Number of sentences related to products information+ Number of sentences related to community involvement information

Earnings quality

-**Earnings management**: Barth et al. (2008) maintain that earnings quality is associated with less earnings management. Then according to previous research (Barth et al. 2008; kim et al. 2012), we use the performance-matched discretionary accruals (DA) model suggested in Kothari et al (2005). Thus, to measure the magnitude of earnings management, we estimate discretionary accruals[5] using an augmented modified Jones (1991) model that controls performance (Kothari et al, 2005). DA are computed as equation (1) as used in Kothari et al. (2005).

$$\frac{TA_{it}}{Assets_{i,t-1}} = a_1 \frac{1}{Assets_{i,t-1}} + a_2 \frac{(\Delta REV_{it} - \Delta AR_{it})}{Assets_{i,t-1}} + a_3 \frac{PPE_{it}}{Assets_{i,t-1}} + a_4 ROA_{i,t-1} + \varepsilon_{it} \qquad (1)$$

In international earnings management studies, accounting earnings are decomposed into cash flows from operations, non discretionary accruals (NDAC) and discretionary accruals (DA). The total accruals (TA) include discretionary and non-discretionary accruals. The total accruals are calculated by using the following models:

$$TA_t/Assets_{t-1} = DA_t/Assets_{t-1} + NDA_t/Assets_{t-1} \qquad (2)$$

Once equation (1) is estimated, the coefficients obtained (a1, a2, a3 and a4) are used to calculate non discretionary accruals. Discretionary accruals are measured by the error factor. They are obtained by the difference between total accruals (the difference between the net income and the cash- flows) and the non discretionary accruals.

Where,

Total accruals are calculated for each firm in year t, following Subramanyam (1996):
TA = total accruals (net income – cash flow from operations) in year t for firm i;
Assets = total assets in year t–1;
ΔREV = the difference between revenues in year t and in year t–1;
ΔAR = the difference between accounts receivable in year t and in year t–1;
PPE = net depreciable property, plant, and equipment in year t;
ROA = a return on assets in year t–1;
$TA_t/Assets_{t-1}$ is the total accruals in year t scaled by total asset at t-1; $NDA_t/Assets_{t-1}$ is the number of non-discretionary accruals in year t scaled by total asset at t-1; $DA_t/Assets_{t-1}$ is the number of discretionary accruals in year t scaled by total asset at t-1.
ε_{it} = estimated residuals from model (1), in year t for firm i.
-Accruals quality: Our second proxy of earnings quality is the quality of accruals, calculated following the Dechow and Dichev (2002) model. Therefore, we focus on the role of accruals estimation errors in predicting future cash flows, by examining the association between current working capital accruals (WCAt) with cash flow from operations of the previous fiscal year (CFOt-1), the current year (CFOt), and the subsequent fiscal year (CFOt+1).

$$\frac{WCA_{it}}{Assets_{it-1}} = \alpha_0 + \alpha_1 \frac{CFO_{it}}{Assets_{it-1}} + \alpha_2 \frac{CFO_{it-1}}{Assets_{it-1}} + \alpha_3 \frac{CFO_{it+1}}{Assets_{it-1}} + \varepsilon_{it} \qquad (3)$$

Following Dechow and Dichev (2002), WCA is working capital accruals of firm i in year t, calculated as the change in accounts receivable plus change in inventory less change in accounts payable less change in income tax payable plus change in other assets (net).CFO_{it}, CFO_{it-1}, and CFO_{it+1} signify cash flow from operations of firm i in years t, t-1 and t+1, respectively, calculated as the difference between net income before extraordinary items and total accruals (TA). All variables are deflated by average total assets in order to avoid problems of heteroskedasticity. The

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[5] Healy (1985) has been the first to use accruals as a proxy of earnings management. He defines accruals as the difference between reported earnings and cash flows from operations.

errors terms reflect the variation in working capital accruals unexplained by cash flows of the previous, current and subsequent periods. Therefore, the absolute value of the residual for each firm-year observation is an inverse measure of accruals quality. The higher the residual is, the lower is the accruals quality ($|\hat{\varepsilon}|$). We define this measure as AQ it and in order to facilitate interpretation, we use the negative value.

-**Accounting Conservatism**
Watts (2003) states that conservatism plays an important role in improving information quality for investors. Therefore, our third proxy for earnings quality is measured by the level of accounting conservatism in accruals. Thus, if a company exercises conservative accounting practices, it will recognize revenues less quickly and expenses more instantly. Merely, it is through accounting adjustments, in other words the accruals that operates the asymmetric recognition of revenues and expenses. As a result, conservatism will affect the main component of the result and not cash flows (CFO). In light of these arguments, we took our measure of accounting conservatism level of Tunisian companies to work of Ahmed et al. (2002) and Ahmed and Duellman (2007). The authors point out that conservatism leads to constant negative accruals. In addition, it is a measure that reflects the conditional and unconditional conservatism. Since accruals are reversed from one period to another it is necessary to consider the magnitude of accruals during a given period. We used the cumulative average of accruals as a proxy of the level of conservatism of Tunisian companies over a period of three years, (t-1 to t + 1) centered on year t. This accumulated value is then multiplied accruals by (-1). Thus, the higher this value is, the greater is the level of accounting conservatism.

$$CONS_{it} = -(1/3) \sum_{t-1}^{t+1} TA_{it} / \text{Assets}_{it-1} \qquad (4)$$

Where,
$CONS_{it}$: Accounting conservatism for firm i, in year t.
Assets = total assets in year t-1
TA = total accruals (net income – cash flow from operations) in year t for firm i.

-**Value relevance of earnings**
The value relevance literature deals with the usefulness of financial statement information in equity valuation. Relying on Ely and Waymine (1999), Easton and Harris (1991), Bushman et al. (2004) and Francis et al. (2004), we employ return earnings-model to measure the value-relevance of earnings. Gassen et al. (2006) and Gu (2007) point out that the error terms represent a significant economic base for the comparison of explanatory power. Thus, the absolute value of error terms was chosen as our alternative measure of earnings relevance and can be interpreted as the degree of estimation errors, incorporated in stock returns, which are not explained by the accounting earnings. Thus, a high absolute value of errors terms reflects a low level of earnings relevance. In statistical notation, the model is as follows:

$$R_{it} = \beta_0 NI_{it}/P_{it-1} + \beta_0 \Delta NI_{it}/p_{it-1} + \varepsilon_{it} \qquad (5)$$

Where, Rit is the stock return of firm i at time t, measured three months after the fiscal year end (Easton and Harris, 1991); EPS_{it} is earnings per share excluding taxes and extraordinary items; ΔEPSit is unexpected earnings per share [(Et – Et-1)/TAt-1]; P_{it-1} is market price at the end of the previous year; εit is an error term.

Research model

As in prior studies (Prior et al, 2008; Kim and Venkatachalam, 2011; Salewski et Zulech; 2012), we expect that corporate social disclosure negatively influences earnings quality. To avoid the problem of correlated omitted variables, we consider the effect of various control variables that could affect earnings quality and corporate social disclosure. In this vein, Roychowdhury (2006) suggests that firm size and growth opportunities can potentially explain significant variation in earnings quality. In addition, managers may manage earnings to avoid violations of debt covenants (DeFond and Jiambalvo,1994). Furthermore, according to Burgstahler and Dichev (1997), companies tend to manage earnings to avoid losses. Taking into account the specificities of Tunisian companies, we estimate the following models:

$$|DA_{it}| = \alpha_0 + \alpha_1 \text{ Ln } CSD_{it} + \alpha_2 SIZE_{it} + \alpha_3 MTB_{it} + \alpha_4 LEV_{it} + \alpha_5 LOSS_{it} + \varepsilon_{it} \qquad (6)$$

$$AQ_{it} = \alpha_0 + \alpha_1 \text{ Ln } CSD_{it} + \alpha_2 SIZE_{it} + \alpha_3 MTB_{it} + \alpha_4 LEV_{it} + \alpha_5 LOSS_{it} + \varepsilon_{it} \qquad (7)$$

$$\left|RLV_{it}\right| = \alpha_0 + \alpha_1 \, Ln \, CSD_{it} + \alpha_2 SIZE_{it} + \alpha_3 MTB_{it} + \alpha_4 LEV_{it} + \alpha_5 LOSS_{it} + \varepsilon_{it} \qquad (8)$$

$$CONS_{it} = \alpha_0 + \alpha_1 \, Ln \, CSD_{it} + \alpha_2 SIZE_{it} + \alpha_3 MTB_{it} + \alpha_4 LEV_{it} + \alpha_5 LOSS_{it} + \varepsilon_{it} \qquad (9)$$

(Insert table 3)

Results

Descriptive statistics and univariate Analysis

Table 4 reports descriptive statistics of dependent and independent variables for the sample of companies. The results revealed that the maximum number of sentences is seventy two (72), while the lowest disclosure level of social and environmental information is 0. The overall average is 17.711 sentences. Furthermore, results indicate a wide variation in the corporate social disclosure practices of Tunisian listed companies; also, the standard deviations in Table 4 confirm this result. Regarding earnings quality attributes, the mean of the absolute value of discretionary accruals is at 0.016. This indicates that the amount of discretionary accruals used by a firm is on average at 1.6 % of its beginning total assets. This result is closed to that reported by Klein (2002). In addition, quality of accruals shows an average value of 0.058. This earnings quality attribute is relatively disparate between firms, since it varies from a maximum value of 0.446 and a minimum one -0.295. Considering accounting conservatism, the mean value of CONS is - 0.044. This negative mean value indicates that Tunisian firms recognize good news timelier than bad news, so that these firms cannot be characterized as 'conservative' in the framework of Givoly and Hayn (2000) and Ahmed and Duellman (2007). The final attribute of earnings quality is the value relevance of earnings (RLV). The average value of this measure is 0.886, indicating the low value relevance of Tunisian firms 'earnings. This result suggests that reported earnings do not provide good summary measure of the events incorporated in stock prices during the reporting period. Furthermore, this measure is associated to stock market data linked to financial markets with different level of efficiency, which explains divergent results from one context to another. According, to Filip and Rafforurnier (2010) there is little evidence on the value relevance of accounting data in emergent economies.

Table 5 provides Pearson correlation coefficients between all variables. The results show that there are some moderately high correlations between variables, more specifically between corporate social disclosure level (CSD) and the absolute value of discretionary accruals ($\left|DA\right|$). However, according to Judge et al. (1985) collinearity did not appear to be a serious problem in interpreting the regression results since there is no pair-wise correlation in excess of 0.80. On the other hand, corporate social disclosure (CSD) is negatively correlated with accruals quality (AQ) and value relevance of earnings (RLV). The findings revealed the opportunistic strategy formulated in Hypothesis H1d, but has to be challenged in the multivariate analysis.

Specially, our metric of financial performance (ROA) is highly correlated with discretionary accruals ($\left|DA\right|$) (r=-0.534), enhancing the argument that it is important to consider firm financial performance when measuring earnings management. In addition, According to the correlation results, discretionary accruals ($\left|DA\right|$) is positively correlated with Loss (LOSS) and the level of leverage (LEV), suggesting that highly leveraged firms and those who were having losses are more likely to manage earnings. In other words, poorly performing firms tend to conduct more earnings management.

Relation between Corporate social disclosure and Earnings Quality

Table 6 presents multivariate regression analyses results of earnings quality attributes. Before proceeding to the estimation of regression models, we have conducted preliminary checks to identify estimation method. First, we conducted a number of specification tests. Several of these examine the distribution of the residuals generated by the estimation in order to look for evidence of specific kinds of misspecification. First, we tested for slope homogeneity. Next, we conducted Hausman-Type specification tests of whether the inclusion of firms fixed effects or both firms fixed effects and firm-specific trends can help control this selection. Finally, we documented for the presence of contemporaneous correlation in errors and heteroscedasticity. More specifically, we considered generalized least squares (GLS) estimation in fixed effects panel for Model 6 and 9 to mitigate heteroscadacity and auto-correlation problems, discussed in LeClair and Gordon (2000). Empirical results by GLS show a significant wald chi 2 test[6] for this study's model. Similarly, the overall Fisher-test statistic in Ordinary least-squares (OLS) shows statistical

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[6] The results for the GLS command do not show any R^2

significance of models 6 and 9, which indicates that the proposed relationship between the response variable and the set of predictors is statistically reliable.

The regression results indicate that there is a positive and significant association at the 1% level between ($│DA│$) and CSD, suggesting that firms who disseminate their CSR practices tend to manage earnings through discretionary accruals. This view can be interpreted in two manners. On one hand, managers may have an incentive to misuse corporate social disclosure to compensate for poor quality of earnings or poor performance. This result supports Petrovits (2006) finding, that firms pay contributions to humanitarian foundations in order to achieve earnings objectives. Also, this result is consistent with that found in Chih et al. (2008) study, which points out that companies with more commitment to CSR will exhibit more earnings aggressiveness.

On the other hand, managers assess risks to be eliminated, by opting for entrenchment mechanism (Walsh and Seward, 1990; Cespa and Cestone, 2007), like investment in CSR activities, the purchase of blocks of shares from potential buyers without shareholder approval, specific acquisitions, divestitures and others, in order to reduce the likelihood of being Scrutinized by stakeholders in the context of earnings manipulation. Given that, CSR is a powerful tool for a firm to project a good reputation and maintain legitimacy from stakeholders.

Further, The CONS model shows a negative relationship between corporate social disclosure (CSD) and accounting conservatism (CONS) at the 1% level. This result also suggests that firms with higher level of corporate social disclosure are less prone to engage in accounting conservatism, supporting H1c. However, CSD level is insignificant in both quality of accruals (QA) and value-relevance (REL) models, failing to find evidence of an association between the corporate social disclosure and these two attributes, rejecting H 1b and H1a. These results show that corporate social disclosure doesn't improve the value relevance of current earnings and the quality of accruals.

In summary, we found that firms incurring greater volume of corporate social disclosure, exercise greater management discretion and lower accounting conservatism over financial reporting. Accordingly, firms which engage in corporate social disclosure tend to engage in earnings management more actively and report bad news less timely, supporting that corporate social disclosure is driven by opportunistic financial reporting hypothesis. Consistent with prior studies (Ahmed et al., 2002; DeFond and Jiambalvo) LEV and LOSS are positively related to discretionary accruals ($│DA│$), suggesting that firms with higher leverage and higher losses experience a greater managers' discretion over financial reporting. However, LEV, ROA, and LOSS are statistically significant only in the DA model at least, while SIZE and MTK are insignificant in the four models.

Conclusion

The lack of extensive theoretical and empirical literature analyzing the effect of voluntary social disclosure and its effects on the earnings quality, motivate us to investigate the nature of this relationship for the Tunisian context. Our sample cover Tunisian companies observed over the period 2002-2011. We used an econometric model based on panel data with fixed and random effects regression. More specifically, we examined whether corporate voluntary social disclosure are associated with earnings quality attributes. We hypothesized that there is a negative association between corporate social disclosure and earnings quality.

Following previous research work, this study uses content analysis of annual reports for obtaining quantitative data from social and environmental reports. This methodology has been widely employed to measure the quantity of CSR and presupposes that social disclosure is a good proxy of CSR. Our results provided evidence that Tunisian firms are likely to report earnings of a lower quality. In fact, after controlling firm-specific factors, this study reveals that firms with higher levels of corporate social disclosure have greater discretionary accruals and lower accounting conservatism. Indeed, we show that the relationship between voluntary social disclosure and earnings management is motivated by the desire to hide losses and leverage level.

Furthermore, we find that voluntary social disclosure is negatively associated with the degree of accounting conservatism, i.e. the less timely bad news are reported, the higher is the level of social voluntary disclosure. However, CSD is insignificant in both QA and RLV models, failing to find evidence of an association between the voluntary social disclosure and earnings quality. Additionally, our results showed positive and significant correlation between the losses and the leverage level with the discretionary accruals.

In summary, we found a confirmation of the opportunistic use of CSD within an agency theoretic framework as a means to explain the CSR orientation of Tunisian companies and to understand how this orientation would affect their financial reporting quality. This study enables academics and practitioners to understand the role of voluntary corporate disclosure on earnings quality as proxied by four earnings quality attributes (earnings management, the value relevance of earnings, accounting conservatism and the quality of accruals) as regards to financial reporting. Future studies may examine the effect of various characteristics of governance characteristics on corporate social disclosure activities and their decision-making activities.

Table 1: Sample composition

Selection procedure	Observations number (Firms-years)
All non financial firm-year observations from Tunisia Stock Exchange in year 2011	350
(Less) firms introduced in Tunisia Stock Exchange (TSE) in year 2011	(10)
(Less) Firms with insufficient financial data	(80)
(Less) CFO and stock exchange data (Stock return and stock price) in year 2012	38
Final observation included in the study	222

Table 2: CSR disclosure Category and subcategory

Environment	Human resources	Products	Community involvement
Pollution	Personnel evolution	Research and development	Education
Recycling	Training	Quality	Humanitarianism / health
Resources/energy	Recruitment policies	Safety	Other
Other	Other	Other	

Source: (Hackston and Milne, 1996).

Table 3: Summary of variable definitions

Variables	Description	Study (by year)
Variable of interest		
Level of corporate social disclosure (CSD)	The total number of sentences related: - Employee resources' information - Environment's information - Product's information - Community involvement's information	-Abdulhamid (2004) -Williams et Pei (1999)
Dependent variables		
Accruals discrétionnaires $\mid DA \mid_{it}$	Absolute value of discretionary accruals of firm i at time t calculated using the performance adjusted modifed Jones Model.	-Kothari et al (2005) -Kim et al (2012) -Choi et Pae (2011)
Quality of accruals (QAit)	Quality of accruals of firm i at time t	-(Dechow and Dichev, 2002). - Chen et al (2008) - Choi et Pae (2011)
Value-relevance $\mid RLV \mid$	The absolute value of error terms of firm i at time t as suggested by return earnings- model of Easton and Harris (1999)	-Easton et harris (1999) - Lang et al (2006) -Barth et al (2008)
Accounting Conservatism (cons)	The cumulative average of accruals over a period of three years, (t-1 to t + 1) centered on year t , as suggested by Ahmed et Duellman (2002)	- Ahmed et al (2002) -Ahmed et Duellman (2007) - Lara et al (2009)
Control variables		
Size (SIZE)	Natural logarithm of the market value of equity of firm i at time t.	-Kim et al (2012)
Leverage (LEV)	Total long-term and short-term debt scaled by total assets of firm i at time t.	-Kim et al (2012)
Market-to-book (MTK)	Market-to-book equity ratio of firm i at time t measured as MVE/BVE, where BVE is the book value of equity.	- Eng et Mark (2003) -Choi et Pae (2011)

Return of assets (ROA)	Return on assets of firm i at time t. ROA is measured as income before extraordinary items, scaled by lagged total assets	-Kim et al (2012)
Loss (LOSS)	Indicator variable of firm i at time t equal to 1 if the firm reports a loss and 0 otherwise.	-Chen et al (2008) -Choi et Pae (2011)

Table 4: Descriptive Statistics

Continuous variables	Mean	Standard Deviation	Maximum	Minimum	Observations
CSD[7]	17,711	10,618	72	0	221
│DA│	0,0169	0,0150	0,1049	0,003	233
QA	0,0582	0,0892	0,446	-0 ,2955	195
CONS	-0,044	0,097	0,13	-0,679	176
│RLV│	0,886	1,752	17,498	0,002	220
LEV	0,499	0,267	1,941	0,0588	222
SIZE	17,968	0,9117	21,1977	16,489	221
ROA	0 ,045	0,080	0,328	-0,382	221
MTB	1,380	0,735	6,641	0,640	223
Binary variable	**Mean**	**Standard Deviation**	**Maximum**	**Minimum**	**Observations**
LOSS	0,180	0,385	1	0	221

Table 5 : Pearson Correlation Matrix

	CONS	│DA│	Ln CSD	MTB	LOSS	SIZE	ROA	AQ	│RLV│	LEV	VIFs
CONS	1										1,15
│DA│	0,0513 (0,505)	1									1,47
Ln CSD	-0,103 (0,191)	0,208 (0,001)***	1								1,13
MTB	0,0048 (0,951)	-0,210 (0,001)***	0,036 (0,597)	1							1,39
LOSS	0,170 (0,03)**	0,464 (0,000)***	0,004 (0,944)	-0,209 (0,001)***	1						1,89
SIZE	0,0618 (0,433)	0,070 (0,295)	-0,022 (0,744)	0,058 (0,385)	0,236 (0,000)***	1					1,31
ROA	-0,180 (0,021)**	0,534 (0,000)***	0,012 (0,055)**	0,417 (0,000)***	-0,704 (0,000)***	-0,133 (0,047)**	1				1,79
AQ	-0,180 (0,023)**	0,278 (0,000)***	-0,0457 (0,529)	-0,169 (0,017)**	0,090 (0,213)	0,028 (0,689)	-0,288 (0,000)***	1			1,18
│RLV│	0,089	0,004	-0,0191	-0,0498	-0,009	-0,021	-0,055	-0,033	1		1,05

[7] The average of the logarithmic value of the "the social disclosure level (CSD)" has no real meaning, it is more relevant to interpret its distribution before its transformation in the logarithmic form (Hackson and Milne, 1999)

	(0,258)	(0,953)	(0,779)	(0,462)	(0,894)	(0,752)	(0,416)	(0,641)			
LEV	-0,0641 (0,416)	0,263 (0,000)***	0,0008 (0,905)	-0,2215 (0,000)***	0,238 (0,000)***	0,4179 (0,000)***	-0,2525 (0,000)***	0,213 (0,000)***	0,026 (0,7)	1	1,45

Table 6: **The Relationship between corporate social disclosure and Earnings Quality**

Independent variables	Dependent variables			
	OLS		GLS	
	AQ (7)	RLV (8)	DA (6)	CONS (9)
	Coefficient (t-stat)	Coefficient (t-stat)	Coefficient (Z-stat)	Coefficient (Z-stat)
Intercept	0,207 (1,68)*	1,210 (0,61)	0,11 (0,45)	-0,12 (-1,65)*
Ln CSD	-0,01 (-0,69)	-0,013 (-0,07)	0,005 (3,45)***	-0,016 (2,87)***
SIZE	-0,006 (-1,13)	-0,005 (-0,05)	-0,000 (-0,37)	0,003 (0,82)
LEV	0,063 (2,84)***	0,373 (0,85)	0,005 (1,56)*	-0,013 (-0,65)
MTB	0,002 (0,28)	-0,121 (-1,14)	-0,000 (-0,82)	-0,003 (-0,70)
LOSS	-0,053 (-1,64)*	-0,532 (-1,45)	0,010 (4,39)***	-0,021 (-2,24)
ROA	-0,466 (-2,79)**	-2,873 (-1,85)*	-0,034 (-2,69)**	-0,273 (-4,52)
	R^2=12,4% F-Value=4,72 P=0,000	R^2=12,16% F-value=1,56 P=0,0899	Wald-Chie2=105,55 P=0,000	Wald-Chie2=30,6 P=0,000

Notes: ***, **, and * represent significance at the 1, 5, and 10 percent levels, respectively.
Definitions of other variables are in table 3.

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