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Corporate Social Responsibility and Financial Reporting Quality

Yaser Abasabadi *

* *Assitant professor, Department of Accounting, Kangavar branch, Islamic Azad University, Kangavar, Iran*

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Abstract
The society has gradually realized that the actions of the companies in the society have consequences for them and are monitored by the stakeholders. By disclosing the financial and non-financial information of the companies, companies can fulfill part of their responsibility towards the society and provide a better decision-making ground for the stakeholders. The purpose of this research is to examine the relationship between social responsibility and the quality of financial reporting in companies listed on the Tehran Stock Exchange. For this purpose, 184 companies were selected during the years 1396 to 1400 using the Tobit method for panel data. Research findings show that the quality of financial reporting improves with the increase of social responsibility disclosure. The results of this research help to enrich, improve, and increase knowledge in social responsibility research, and investors can consider the proper performance of corporate social responsibility based on signaling theory as a sign of improving the quality of financial reporting.

* Corresponding Author: yaser.abasabadi@gmail.com
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Introduction

Leaders in public opinion, academics, consumers and investors have recently been advocating that businesses should not merely be geared toward profit at the expenses of fulfilling their responsibilities to employees, the environment or society (Salewski and Zulch, 2014). Accordingly, Interest in corporate social responsibility (CSR) information has increased in recent years and business firms are placing increasing emphasis on their ongoing "sustainability, "which implies a simultaneous focus on economic, social, and environmental performance (Colbert and Kurucz, 2007).

This has caused companies to rethink the classic economic view and to accept the 'triple bottom line', reporting social, environmental, and financial information, In order to provide the required information to their stakeholders.

Many companies have been criticised for the problems caused by their social and environmental impact, despite the economic and technological progress also achieved (Reverte, 2009). In response, environmental policies and quality controls such as ISO 14000 or EMAS (ECO Management and Audit Scheme) have been adopted (Moneva and Llena, 2000). Thus, society has paid increasing attention to environmental and social issues, and the frequency of information disclosure in this respect has increased substantially since the late 1970s (Patten, 2002; Frías-Aceituno et al., 2012).

The financial report shows the economic and financial situation of the company, in order to inform managers and shareholders (Mathews and Perera, 1991; Moneva and Llena, 2000), and is of crucial importance in decision making, when the interests of both shareholders and creditors must be taken into account (American Accounting Association (AAA), 1977). However, the financial report has a weakness in that it does not provide information about certain questions that are currently arousing great concern, namely the social and environmental aspects of company activities. To overcome this limitation, companies inform in their annual report or in complementary reports on issues such as corporate governance, intellectual capital, and corporate social responsibility (CSR).

Financial reporting quality (FRQ) is a central topic in financial accounting research. As the subject of quality in financial reports is broad several definitions of the term financial reporting quality have been expressed, based on the objectives of each research. For instance Verdi (2006) defines financial reporting quality as "the precision with which financial reports convey information about the firm's operations, in particular its cash flows, in order to inform equity investors". Other researchers define financial reporting quality as "the extent to which the financial statements provide true and fair information about the underlying performance and financial position", (Q. Tang et al. 2008). However, a commonly accepted definition is provided by Jonas and Blanchet (2000), who state that "…quality financial reporting is full and transparent financial information that is not designed to obfuscate or mislead users".

Taking into account the growing importance of Corporate Social Responsibility (CSR) and importance of Financial Reporting Quality (FRQ) in financial statements reporting, in this study, we will analyze the possible relationship between the CSR disclosure from compliance with GRI and FRQ.

CSR disclosure

Although no universal CSR definition has been accepted (Godfrey and Hatch, 2007), in most definitions it is considered to be a concept that is well-integrated in business operations, reflecting the social and environmental practices carried out by

companies and the effects of these practices on stakeholders (employees, shareholders, investors, consumers, public authorities, etc.).

Nowadays, companies operate in an environment in which the exercise of responsibility is a prerequisite to compete, and thus CSR is a crucial strategic element (Garrigues Walker and Trullenque, 2008). It achieves a three-fold impact – social, economic, and environmental (Adams and Zutshi, 2004) – through the development of environmental protection systems and policies and the exercise of actions promoting relations with the community, customers or suppliers, in order to benefit both the company and the diverse stakeholders that affect and are affected by it (Adams, 2002; Waddock, 2003). Furthermore, sustainable practices promote a climate of acceptance and support among regulators and stakeholders, dissuade activism and intervention by interest groups, and increase job satisfaction and customer loyalty. Also, this sustainable behaviour permits the company to satisfy the information need of investors, and therefore, investors demand lower returns, i.e. lower cost of capital for company with better FRQ (Blanco et al., 2009).

Opinions differ on theoretical frameworks, because CSR is a complex concept. Nevertheless, under most theories, social and environmental information disclosure is a valuable means of proclaiming the reputation, identity, and legitimacy of the company (Hooghiemstra, 2000). From the standpoint of legitimacy theory, CSR information disclosure could be a strategy to manage company legitimacy (Patten, 1991; Deegan and Rankin, 1996; Campbell, 2000; Hutchings and Taylor, 2000; Woodward et al., 1996).

Companies usually inform about their CSR practices in a CSR or Sustainability Report. There are no compulsory models for these reports (Reverte, 2009), but some global standards for CSR reporting have been proposed, such as the GRI guidelines. Willis (2003) summarised the process by which this indicator was created. In 1997, CERES (Coalition for Environmentally Responsible Economies), endorsed by the United Nations Environmental Programme (UNEP), began working to achieve the global standardisation of the format and content of CSR disclosures. A major reason for this project was to overcome the limitations of the reports previously presented which varied in content and could not be compared. Subsequently, CSR has become increasingly common worldwide (Kolk, 2004).

The GRI guidelines are based on eleven principles underpinning the quality of sustainability reports (Clarkson et al., 2008): transparency, inclusiveness, auditability, completeness, relevance, sustainability context, accuracy, neutrality, comparability, clarity, and timeliness. Global Reporting Initiative (2000, 2002) lists the following key non-financial issues that should be included in company reports: (i) Environmental issues; (ii) Labour practices and decent work; (iii) Human rights; (iv) Society in general; and (v) Product responsibility.

From a research standpoint, three fields of study can be characterised. First, descriptive studies, which compare the nature of CSR in different countries and during different periods of time. Second, empirical studies, focused on the potential determinants of CSR reporting. And finally, studies considering the impact of CSR reporting on different stakeholders.

Some studies have analysed the informative practices of companies in different countries (Gray et al., 2001; Apostolos and Konstantinos, 2009; McKinnon and Dalimunthe, 2009; Prado-Lorenzo et al., 2009a). In general, these studies report an orientation to legitimation (Rouf, 2011), to reputational risk management (Bebbington et al., 2008) and to the satisfaction of stakeholders'

demands (Hirshleifer, 2008).

Financial Reporting Quality (FRQ)

FRQ is a broad construct. According to Choi and Pae (2011), the fundamental goal of financial reporting is to provide useful information for decision-making purposes. FRQ has been defined as the faithfulness of the information conveyed by the reporting process. On the other hand, for Jonas and Blanchet (2000), financial reporting is not only a final output; the quality of this process depends on each part, including disclosure of the company's transactions, information about the selection and application of accounting policies and knowledge of the judgments made.

This process may be influenced by factors related to taxes, dividends, and other factors relevant to the information needs of external providers of capital (Ball and Shivakumar, 2005; Burgstahler et al., 2006). FRQ requires companies to voluntarily expand the scope and quality of the information they report, to ensure that market participants are fully informed in order to make well-grounded decisions on investment, credit, etc.

This high quality information facilitates greater transparency.

According to the leading authorities on the evaluation of financial reporting (such as the FASB, SEC, or the Jenkins committee), the main characteristics required are relevance, reliability, transparency, and clarity (Jonas and Blanchet, 2000; Lu et al., 2011). It has been asserted that high quality accounting information is a valuable means of counteracting information asymmetry (Chen et al., 2011). FRQ has been studied in different areas, and several authors have referred to its advantages, such as its positive effects from the financial point of view, by contributing to reducing information risk and enhancing liquidity (Lambert et al., 2007).

There is no universally accepted measure for FRQ (Dechow et al., 2010) and thus authors such as Hope et al. (2012); Choi and Pae (2011); Hans et al (2015); MORAIS and CURTO (2008) and Garrett et al. (2012)

have used diverse alternative measures, such as accruals quality, accounting conservatism, the likelihood of misstatements, the likelihood of material weaknesses in internal control, value relevance or audit fees.

Taking this into consideration, in this study we use Earnings Management, Accounting Conservatism, Accruals Quality and Value Relevance as FRQ alternatives.

Literature review and hypothesis

Some previous studies have analysed the impact of FRQ on CSR practices. Salewski and Zülch (2014) used the degree of EM, the existence or otherwise of accounting conservatism and the quality of accruals as measures of FRQ. They found that CSR is positively associated with EM and negatively with accounting conservatism.

Therefore, it is associated with lower FRQ, because social practices may conceal opportunistic behaviour. Previously, Chih et al. (2008) had defined the multiple objectives hypothesis, by which CSR intensifies the agency problem and motivates EM practices. The reason for this is that the company does not have just one goal; there are various stakeholders (employees, customers, financial institutions, etc.) each with their own priorities. Therefore, internal managers, with different goals, use internal information to make decisions based on their own interests, and in order to conceal such opportunistic practices, managers make use of EM practices.

Along the same line, Prior et al. (2008) obtained empirical evidence of the positive effect of CSR practices on manipulative behavior, arguing that these social

practices are carried out as a means of disguising EM. These arguments are along the same line as the opportunistic hypothesis, according to which managers may act in their own interests and the quality of financial reporting could be affected by these unethical actions (Hope et al., 2012).

Nevertheless, these findings are in contrast with those of most other studies. Regarding the demand hypothesis, companies report financial information with the aim of satisfying the information demands of their investors, customers, suppliers, etc. Managers may have incentives to disclose financial information quality (lower manipulative practices) in order that this information is more informative and transparent, and minimises the negative effects of EM actions (Sun et al., 2010). Francis et al. (2005) found evidence of a complementary relationship between earnings quality (a proxy of FRQ) and voluntary financial disclosure.

Firms with a high level of financial disclosure have better financial quality. Similarly, Yip et al. (2011) reported a negative relationship between CSR and EM in the oil and gas industry, but a positive one in the food industry. These differing results point to the influence of political considerations, in addition to ethical ones.

Chih et al. (2008) concluded that the relationship between CSR and EM depends on the EM practices considered, and noted that CSR practices increased transparency and informational impact, thus tending to reduce profits smoothing and the concealment of losses, by reducing the possibility of applying EM. They measured a negative relationship between EM and CSR when earnings smoothing or earnings losses avoidance is an indicator of EM.

Choi and Pae (2011) analysed the relationship between business ethics and FRQ, finding empirical evidence that companies with a high level of ethical commitment have less incentive to carry out EM practices.

Furthermore, they are more conservative in reporting earnings and predict future cash flows more accurately. Therefore, companies with a higher level of ethical commitment show better FRQ than do companies with less ethical commitment, and so are less likely to abuse accounting standards flexibility. These results are supported by Verrecchia (1990), who considered that companies with better quality of financial information have more incentives to reveal information about the corporation, such as CSR information. In the same line, Penno (1997) shows that companies with high earnings quality are more predisposed to voluntary information disclosures.

These results are supported by several other authors. Kim et al. (2011) studied whether companies that are more strongly involved in CSR activities also engage in fewer EM practices. Their results reflect a negative relationship between CSR performance and EM. Therefore, socially responsible companies tend to manage earnings to a lesser extent, and managers have an incentive to be honest and ethical in their business (Moser and Martin, 2012). In their research, Andersen et al. (2012) showed that socially responsible firms have higher quality accruals as a proxy of financial reporting transparency.

Along the same line, Francis et al. (2008) obtained empirical evidence about the positive relationship between earnings quality and voluntary disclosures of sustainable information, since sustainable information allows reduce the informative asymmetries. Companies with lower earnings quality (as a proxy of FRQ) have fewer incentives to voluntary disclosure because investors consider this information less credible. Therefore, the quality of financial information can be regarded as a defining aspect of the information

disclosure in each company. Using a US sample for the period 2001–2006, these authors found a complementary relationship between FRQ and information disclosures.

In accordance with the previous arguments, there is no consensus about the relationship between FRQ and the disclosure of standardised sustainable information. Following Francis et al. (2008), on the one hand this relationship could be substitutive in the sense that companies with poor- quality financial reporting might disclosure standardised sustainable information as a mechanism of legitimacy to substitute the lack of good quality financial information. On the other hand, this relationship could be complementary, since companies with good quality financial information have incentives to reveal all kind of information, as CSR information. This could be a mechanism to promote the company, since companies operate in environments in which the exercise of responsibility is a prerequisite to compete, so CSR is a crucial strategic element (Garrigues Walker and Trullenque, 2008).

In this regard, we proposed a possible relationship, complementary, according to Francis et al. (2008):

Main hypothesis

There is a positive (complementary) relationship between the CSR disclosure and Financial Reporting Quality (FRQ).

This relationship (the main hypothesis) will be tested through four sub-hypotheses.

Sub-hypotheses

1. There is a negative (substitutive) relationship between the CSR disclosure and Earnings Management.
2. There is a positive (complementary) relationship between the CSR disclosure and Accounting Conservatism.
3. There is a positive (complementary) relationship between the CSR disclosure and Accruals Quality.

Methodology

Population and Sample

The statistical population is the companies admitted to the Tehran Stock Exchange, from which 184 companies were selected by systematic elimination. The financial data of the research has been extracted from the financial statements published by the companies admitted to the Tehran Stock Exchange and published in the Kodal system, and the annual reports of the board of directors of the companies have been used to collect information about social responsibility. To test the hypotheses, 184 companies are tested during the years 1396 to 1400 by the Tobit method and through panel data.

Measurement of GRI

The analysis of the disclosure of sustainability information is based on examining the contents of CSR reports (Donnelly and Mulcahy, 2008). In measuring the level of disclosure information, authors usually take into account the number of pages, sentences or even words in reports (Samaha et al., 2012).

The most important problem is related to the informative content, because this kind of information is voluntary and is influenced by the subjectivity of the person who creates the report, as well as by the opinions of the directors. In addition, the disclosure of bad news or the use of optimistic expressions is not penalized in the assessment (Adams, 2002).

Accordingly, some researchers use indexes to measure the level of standardisation of disclosure information, based on international indicators such as

the GRI guidelines. This is the approach we adopt, following authors such as Clarkson et al. (2008); Prado-Lorenzo et al. (2009a, 2009b) and Nikolaeva and Bicho (2011). By comparing the information contained in CSR reports with the GRI guidelines we can determine the extent to which this information is global, comparable and harmonized.

The Independent variable of this study is termed GRI and it is an ordinal variable that takes values between 0 and3. These values represent the level of standardization of CSR information disclosed. To create this variable, we can examine the CSR reports of companies included in the sample and assign a value for the GRI variable. These CSR reports could be obtained through the web sites of each company.

GRI values Type of CSR report

GRI = 0 Companies that do not disclose CSR information or companies that disclose CSR information which does not comply with GRI guidelines.

GRI = 1 Companies that disclose CSR information following the C level of the GRI guidelines, i.e. there are very basic.

GRI = 2 Companies that disclose CSR information following the B level of GRI guidelines, i.e. their reports are complete.

GRI = 3 Companies that disclose CSR information following the A level of GRI guidelines, i.e. their reports are very advanced.

GRI variable

Measurement of Financial Reporting Quality (FRQ)

Taking into account the previous literature, we used various measures of FRQ (Choi and Pae, 2011; Hong and Andersen, 2011; Lu et al., 2011), as there is no universally accepted measure (Dechow et al., 2010). The first measure used is the degree of EM using accruals, the second is the degree of accounting conservatism, the third is accruals quality and the fourth is value relevance.

(1)Earnings Management (EM) through Accruals

EM is considered to be the inverse of FRQ (Dechow and Dichev, 2002); a higher degree of EM is associated with lower quality of information and lower earning quality (Raman et al., 2012). Thus, the first measure of FRQ is the management discretion over accruals (Choi and Pae, 2011).

According to García-Osma et al. (2005), EM can be defined as ‘any practice carried out intentionally by company managers, for opportunistic and/or information purposes, to report accounting results that do not correspond to those really achieved’. The discretionary component of accruals adjustment could be used as a measure of management discretion, and therefore of accounting manipulation. As observed by García-Osma et al. (2005), accruals are not all discretionary; hence it is necessary to separate the discretionary component from the non-discretionary one in order to determine the presence and extent of EM. The discretionary accruals adjustment (DAA) is obtained by subtracting the non-discretionary accruals adjustment (NDAA) from the total accruals adjustment (TAA). The DAA represents the abnormal accruals that constitute the variable taken as a measure of EM.

In this study, we use the modified Jones model (Dechow et al., 1995) and the Kothari model (Kothari et al., 2005) to separate the non-discretionary component of accruals from the discretionary one. To obtain a proxy of FRQ, we employ the absolute value of the DAA estimated by both models because EM may involve either income-increasing or income-decreasing accruals (Warfield et al., 1995;

Klein, 2002):

FRQDECHOW = ABS DAA DECHOW

FRQKOTHARI = ABS DAA KOTHARI

Here, ABS_DAA_DECHOW is the absolute value of DAA calculated by the modified Jones model and ABS_DAA_KOTHARI is the absolute value of the DAA calculated by the Kothari model. Thus, the lowest values of FRQDECHOW and FRQKOTHARI represent the lowest level of earning management practices that is associated with the highest FRQ**.**

(2)Accounting Conservatism

The second measure of FRQ that we consider is the degree of accounting conservatism, which implies a more timely incorporation of economic losses into accounting earnings than of economic gains (Ball et al., 2000). According to Basu (1997), conservative accounting reflects bad news for the company more quickly than good news because this approach tends to reduce litigation risks (Kothari et al., 1989; Skinner, 1994; Ball et al., 2008). Following Choi and Pae (2011); García Lara et al. (2009) and Salewski and Zülch (2014), we use a variation of the Basu (1997) model proposed by Khan and Watts (2009). These authors employ a two-step procedure.

First, we estimate the following cross-sectional regression for each year:

$$\frac{E_{it}}{P_{i,t-1}} = \alpha_0 + \alpha_0 DR_{it} + \beta_{1t} SizeMVE_{it} + \beta_{2t} MTB_{it} + \beta_{3t} LEV_{it} \qquad (3)$$

$$+ DR_{it} (\delta_0 + \delta_{1t} SizeMVE_{it} + \delta_{2t} MTB_{it} + \delta_{3t} LEV_{it})$$

$$+ R_{it} (\gamma_0 + \gamma_{1t} SizeMVE_{it} + \gamma_{2t} MTB_{it} + \gamma_{3t} LEV_{it})$$

$$+ R_{it} \times DR_{it} (\mu_0 + \mu_{1t} SizeMVE_{it} + \mu_{2t} MTB_{it} + \mu_{3t} LEV_{it}) + \varepsilon_{3t}$$

Where *Eit* is the net income scaled by the lagged market value of equity; Rit is the annual stock return for Pi,t-1 the 12 months ending 3 months after the balance sheet date; DRit is a dummy variable that takes the value 1 when (R)it<0 and 0 otherwise; SizeMVEit is(2)the natural logarithm of the market value of equity; MTBit is the market-to-book ratio; LEVit is the leverage measured by dividing the sum of long term and short term debts by the market value of equity; I represents companies and t years.

In the second step, we use a firm-year specific measure of timeliness of earnings (C_SCORE), with the coefficient estimates from Equation (3).

$$CScore = \hat{\mu}_0 + \hat{\mu}_{1t} SizeMVE_{it} + \hat{\mu}_{2t} MTB_{it} + \hat{\mu}_{3t} LEV_{it} \qquad (4)$$

An alternative measure has been proposed, taking into account the timeliness of reported earnings with respect to bad news, because stakeholders are more influenced by bad than by good news. This measure is called B_SCORE and it is calculated as follows:

$$BScore = \hat{\gamma}_{0t} + \hat{\gamma}_{1t} SizeMVE_{it} + \hat{\gamma}_{2t} MTB_{it} + \hat{\gamma}_{3t} LEV_{it} + \hat{\mu}_0 + \hat{\mu}_{1t} SizeMVE_{it} + \hat{\mu}_{2t} MTB_{it} + \hat{\mu}_{3t} LEV_{it} \qquad (5)$$

(3)Accruals Quality

Another measure of FRQ that has been used in several papers (Francis et al., 2005; Choi and Pae, 2011; Hong and Andersen, 2011) is the AQ. Because TAA are not all non-discretionary, the higher levels of accruals that are not associated with the firm's fundamental earnings process (DAA) may reduce the earnings quality (Dechow et al., 2010). In this paper, AQ is measured through two models, Dechow and Dichev (2002) and Ball and Shivakumar (2006).

Dechow-Dichev Model (D-D). Dechow et al. (2010) argued that the external indicators of FRQ are related to: (i) SEC Accounting and Auditing Enforcement Releases (AAERs); (ii) Restatements; and (iii) internal control.

However, these three measures are not available for companies located in

countries other than the USA. Therefore, following Lu et al. (2011), we used the Dechow and Dichev (2002) model to obtain a proxy of AQ. These authors developed a model for expected accruals and interpreted the standard deviation of this expected value as the estimated error in accruals, which was used as a measure of earnings quality. Following the approach of Francis et al. (2005); Hong and Andersen (2011) and Chen et al. (2011), we add the change in revenues and the total value of Property, Plant and Equipment (PPE). Equation (6) is estimated cross- sectionally, by year; then the residuals are aggregated by firms; and finally, the standard deviation of these residuals is obtained by firm.

$$\Delta WCit = \beta 0 + \beta 1\ OCFi,t\text{-}1 + \beta 2\ OCFit + \beta 3\ OCFi,t+1 + \beta 4\ \Delta REVit + \beta 5\ PPEit + \varepsilon 6t \quad (6)$$

Where the change in working capital accruals from year t-1 to t is: ΔWC= ΔAccounts Receivable + ΔInventory - ΔAccounts Payable -ΔTaxes Payable +ΔOther Assets; OCF is the operating cash flow; ΔRevenues is the change in revenues; i indicates the company and t refers to the time period. All the variables are scaled by the total assets.

We use the standard deviation of residuals of Equation (6) as a proxy of AQ. This means that a lower standard deviation of the residuals represents a higher AQ and more transparency in the financial statements (Doyle et al., 2007; Andersen et al., 2012). These models offer a firm level measure (no firm-year level measure) of AQ (Choi and Pae, 2011).

Ball-Shivakumar Model (B-S). Finally, we follow the model proposed by Ball and Shivakumar (2006) to obtain another measure of AQ. These authors suggest that nonlinear accrual models that incorporate the timely recognition of losses perform better than linear models. Hence, we add a current-year cash flow dummy and its interaction with the level of cash flows into the previous Dechow and Dichev model.

$$\Delta WCit = \beta 0 + \beta 1OCFi,t\text{-}1 + \beta 2OCFit + \beta 3OCFi,t+1 + \beta 4\Delta REVit + \beta 5PPEit + \beta 6DOCFit + \beta 7OCFit \times DOCFit + \varepsilon 7t \quad (7)$$

Where DOCF is an indicator variable for the negative cash flows. It takes the value 1 if there are negative OCF and 0 otherwise. The remaining variables are the same as in Equation (6). All the variables (excepted DOCF) are scaled by the total assets.

We use the absolute value of the residuals from this model as a proxy of AQ: the lower the degree of this proxy, the higher the degree of AQ.

Control Variables

Doyle et al. (2007) identified some innate company characteristics that may affect AQ and, therefore, FRQ. Those which may have a direct effect on FRQ include profitability, the size and age of the firm, the rate of its growth, the complexity of its operations and the performance or otherwise of restructuring.

To prevent fanatically results, we included several control variables, whose effect on the FRQ is established by previous studies. Specifically, we consider the Firm Size, Profitability, Sales Effect, Leverage, and Growth Opportunities.

Firm Size (SIZE)

Company size is measured by the logarithm of the total assets. It is common practice to use firm size as a determinant variable of information disclosure (Patten, 1991). Dechow and Dichev (2002) find that accruals quality is poorer for firms with certain characteristics, such as for smaller firms. Also previous research has shown that firms engaging in earnings management activity are often small in size (Kinney and McDaniel, 1989).

Profitability (ROA)
To measure this concept, following Reverte (2009); Da Silva Monteiro and Aibar-Guzmán (2010)) and Clarkson et al. (2008), we use an accounting measure of financial performance, the Return on Assets (ROA). Although the relationship between performance and information reporting is complex, several studies have shown that firms with less profitability have a lower FRQ (Defond and Jiambalvo,1991, Hassan and Bello, 2013).

Model and Analysis Technique
Taking into account previous studies, we propose the following relation to test our hypotheses:

FRQ = f (CSR disclosure, Control Variables) (9)

This relation is empirically tested through the following dependence model:

$$FRQit = \beta 0 + \beta 1\ GRI\ it + \beta 2\ Sizeit + \beta 3\ ROAit + \mu it + \eta i \quad (8)$$

Where:

FRQ is a dependent variable that is measured by the EM, accounting conservatism, accruals quality, and value relevance.

GRI is an ordinal variable that takes values between 0 and 3, according to the compliance of the CSR information reported by the company with GRI guidelines.

Size is a numerical variable measured by the logarithm of total assets.

ROA is a numerical variable that represents the return on assets.

Result
Emphasizing the main purpose of this study, the first hypothesis is to investigate the relationship between GRI and earnings management as a representative of FRQ. GRI is statistically significant at the 95% confidence level and has a negative relationship with FRQDECHOW (joint coefficient -0.0002579), which means that a higher level of CSR is associated with a lower level of EM. The same result is obtained for FRQKOTHARI, but it is statistically significant at 90% confidence level. So the first hypothesis is not rejected.

The second hypothesis is to examine the positive relationship between CSR and accounting conservatism. We created C-score and B-score parameters respectively. In the C-score model, the relationship between GRI and accounting conservatism is negative (common coefficient, (-0.000142)) and is significant at the 90% confidence level. This means that more conservative companies, due to the difference in timeliness Disclosure of bad news and good earnings are less willing to report CSR information. However, if we consider the second measure of accounting conservatism, B-score, these results are consistent with previous models that show a positive relationship. This shows a positive relationship between CSR and accounting conservatism B-score (common coefficient 0.0000313) and is significant at 95% confidence level. As a result, conservative companies, i.e. those that recognize bad economic news very quickly, report higher levels of CSR information and show a higher level of financial reporting quality. So the second hypothesis is not rejected.

The Third hypothesis is to examine the positive relationship between CSR and Accruals Quality.

The final FRQ criteria were proposed by Dechow and Dichev (2002) and Ball and Shivakumar (2005). CSR has a positive relationship with the first defined case of the quality of accruals (common coefficient 0.0034457) and it is statistically significant at 99% confidence level. We obtained the same result in the second case, but this was significant in 90%. A higher level of CSR indicates a higher level of accrual quality and a higher level

of FRQ. So the third hypothesis is not rejected.

According to the control variables, CSR is positively related to company size and this is statistically significant at 99% confidence level. Therefore, larger companies disclose more standardized information in compliance with the GRI guidelines, as they are compelled by shareholders' demand for information on various issues. Also, CSR has a positive relationship with ROA, but this is only statistically significant at the 90% confidence level. This means that companies with high profits disclose high quality CSR information.

Conclusion

During the recent decades, the way business units interact with the society has been accompanied by many changes, forcing companies to be accountable to all stakeholders. If the companies cooperate to preserve the society that they have played an important role in creating, and in front of the society, by providing the necessary conditions to obtain a suitable return for the investors and ensure the absence of unfair activities for the beneficiaries, the platform for the growth of the unit provide commercial; They can create wealth, employment and innovation, strengthen their activities and improve competition (Sandhu and Kapoor, 2010). Corporate social responsibility implies that business organizations take measures to develop good social products or services, beyond their personal interests (Rezaei, 2016). Therefore, the long-term reliability of a company must be measured through its economic stability, which is reported in its profit and Measured through ethical behavior, social responsibility and corporate governance. Corporate social responsibility has recently attracted considerable attention from policy makers, regulatory bodies, and the investor community, and it seems that it will remain one of the key issues for the next several decades.

In Iran, measures related to social responsibility have grown in the last decade, and many organizations have become increasingly aware of the direct economic value of social responsibility and have tried to integrate it with their main business strategy and management activities, so that they can have a positive impact on society and have their own environment and at the same time, strengthen their reputation and credibility. The purpose of this research is to investigate the relationship between corporate social responsibility and the financial reporting quality. The results of the present study show that the quality of financial reporting is higher in companies with more social responsibility disclosure. This means that according to the signaling theory, companies with good social responsibility tend to develop social responsibility reporting, which is associated with improving the quality of financial reporting in order to improve the credibility and quality of services and products.

The results of this research provide useful information for policy makers, regulatory bodies and companies. The development and improvement of the corporate social responsibility score plays a key role for success in future reforms needed to improve market efficiency, investor protection, efficient use of resources and social activities in the Iranian market. The results show that investors can consider the effective and appropriate performance of corporate social responsibility as a sign of improving the quality of financial reporting, and as a result, this research is effective in enriching the research flow related to the quality of financial reporting, managerial judgment and decision-making, and sustainability. Company managers should develop appropriate social responsibility

programs in a way that provides a framework for integrating social responsibility actions and activities with the quality of financial reporting. Also, with regard to the information content of social responsibility for the capital market, it is suggested to the Securities and Exchange Organization, such as the transparency rating and disclosure level, using known models to provide a criterion for ranking the level of social responsibility disclosure for companies active in the capital market. Considering the continuity of the concept of social responsibility with corporate sustainability, conducting research on the relationship between the dimensions of corporate sustainability and the quality of financial reporting should be considered. Also, the impact of integrated reporting on the quality of financial reporting can be investigated in future research. The results of this research should be interpreted with caution due to potential limitations. There are many factors influencing the performance of social responsibility, which were not investigated in this study. Therefore, it seems that future research in the field of social responsibility relationship and financial reporting quality should examine the influence of other factors.

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