

Association of CSR Disclosure with Accounting Conservatism : A Study of Select Indian Mining Firms

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Abstract

The aim of the present study was to obtain evidence of the influence of corporate social responsibility (CSR) disclosure on accounting conservatism (AC). Measurement of conservatism was done by the use of discretionary accruals. The measurement of CSR reporting is based upon the guidelines issued by the Global Reporting Initiative (GRI), obtaining data from annual reports of different mining firms. The population considered in this study were Indian mining companies enlisted in PROWESS IQ database for the period from 2000-2015. This study used purposive sampling method for data collection for 34 mining companies. The results of this study indicated a significant negative relationship existing between accounting conservatism and CSR disclosure.

Key words : financial reporting quality, accounting conservatism, earnings management, corporate social responsibility, Indian mining firms

JEL Classification : L70, M40, M41, M48

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Mining business is often associated with the term corporate social responsibility (CSR). The reason being that mining business is not only oriented to profit making but also responsible for its physical and social environment to achieve a sustainable and environmentally sound enterprise. As proposed by Jenkins and Obara (2008), the term corporate social responsibility in mining business is its social responsibility for the impact of mining operations, corporate operations without social legitimacy, massive destruction, and abandoning the site when all the natural resources have been fully exploited.

Mining companies in practice may start to perform CSR right after entering the stage of field survey and the stage of exploration, although, these do not made profit from the operations. Actually at this stage of exploration, the company's physical destruction impact is not that big but the social impact on community is very big (Setyadi, Supriyono, Handayani, & Raharjo, 2013). People living around the mining site demand that the company be made responsible for social and environmental impacts of exploration activities. Provocateurs emerge in the form of organizations (Governance body in the form of Companies Act , 2013) and incite local people to demand their right for corporate social responsibility from the mining company. When the mining company is not sensitive to this issue and does not expedite disbursement of CSR funds, people reject the company's presence, which ultimately leads to inability to perform exploration activities.

Accounting and tax reporting practices of the fund for implementation of CSR are very difficult to comply with

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applicable rules in India. As suggested by Tilt (2009), the existing accounting report guidelines and mechanisms are unable to cover the overall social and environmental impacts of business. As CSR is implemented upfront together with other pre-operational expenses, its costs should be capitalized and included in the balance sheet under non-current assets, similar to deferred exploration costs or deferred exploration and development costs, or deferred environmental and reclamation costs or deferred CSR costs. Alternatively, CSR may also be included in the balance sheet under intangible assets similar to patents, trademarks, or development costs by the name of CSR. As per Indian Accounting Standards, CSR column is presented separately in annual reports of a company where researchers face difficulty in quantifying each word or figure presented in a sentence form. Hence, the only panacea to analyzing CSR reporting is performing content analysis of CSR reports.

In the Indian context, the National Mineral Policy 2008 explicitly underlines the need for mining within a Sustainable Development Framework (SDF) and specifies that the Mine Closure Plans be prepared within the SDF and it attaches a CSR document to it that gives the proposed annual expenditure on socioeconomic activities. While the CSR itself will remain voluntary, the Act mandates that both the CSR plan and the actual CSR work done should probably be disclosed in a standard manner.

In the year 2010, a series of widespread mining scams across different parts of India shook the Indian economy. While several social and political issues spilled over the effect of this setback, financial distortion was equally an indispensable cause to neglect. The country witnessed several frauds that emerged while preparing financial reports due to several problems related to the quality of several indicators in financial statements, especially, the quality of earnings indicators. Thus, our study is focuses on the financial and legal issues being faced by mining firms of India.

The present study does not address a specific issue or a course of action taken by any one individual company and therefore, it is not a traditional case study. Instead, it focuses on the quality of financial reporting of companies because accounting earning of any firm is believed to be the most important performance measure that is useful for all types of stakeholders. However, managers have the discretion to alter accounting figures without violating generally accepted accounting principles (GAAP), as per their requirement to show higher or lower incomes. GAAP is considered to be the outcome of effective corporate governance exercise which tends to diminish earnings management practices (Kumari & Pattanayak, 2015). This exercise of intervening in financial reporting numbers is called earnings management (EM). Managers try to compensate stakeholders through such activities which are community based as well as informative in nature. One such activity is that of CSR which not only satisfies different stakeholders but also builds corporate image among investors. CSR reporting, an ethical practice is a part of non-financial disclosure and is the outcome of quality reporting. It helps organizations in gaining support from various groups of stakeholders. Some researchers said that this ethical practice may be a strategic behaviour of managers to build a positive image among stakeholders (Branco, & Rodrigues, 2006; Orlitzky, Schmidt, & Rynes, 2003). In short, CSR is a deliberate managerial action, contrived to disguise the real financial position of the firm.

Another aspect is quality reporting, which ought to be synergized with stringent norms of recording financial transactions. Hence, a business is considered to follow aggressive accounting if it gives rise to the concept of accounting conservatism (AC). A great deal of research won support for the contention that firms with a better reputation for CSR tend to demonstrate discipline in the provision of high-quality earnings information (Kim, Park, & Wier, 2012 ; Labelle, Gargauri, & Francoeur, 2010). Holding this argument, this research investigated whether CSR is enforced under the pressure of accounting conservatism or it is a deliberate action to disguise manipulative earnings.

With this backdrop, the present study aims at identifying the influence of AC on CSR practices which is reflected in the reporting quality of Indian mining firms. The influence can be measured by identifying the involvement of mining firms in EM practices which establishes the relationship between AC and CSR.

Literature Review

Conservatism is an important concept in accounting which refers to a high degree of verification before making a claim to any profit. Conservative accounting is a well acknowledged concept and its relationship with CSR reporting, particularly in mining firms in Indian context is yet to be assessed. Conservatism plays an important role in accounting practice and has existed for several centuries. Conservatism was defined in 1924 by Bliss (1924) as “anticipate no profits, but anticipate all losses.” Sterling (1970) rated conservatism as the most influential principle in accounting. Feltham and Ohlson (1995) interpreted accounting conservatism (AC) as an expectation that reported net assets would be less than market value in the long run. Watts (2003) observed conservatism as asymmetry in the verification requirements for gains and losses.

Very often, conservative firms tend to provide high quality financial information (Martinez-Ferrero & Garcia-Sanchez, 2013) through creation of appropriate financial reports. A financial report shows the economic and financial situation of a company in order to inform stakeholders about its performance in a given time frame (Mathews & Perera, 1991; Moneva & Llena, 2001) and plays a crucial role in decision making by considering the interest of all stakeholders. However, sometimes the financial report does not provide relevant information about the social and environmental aspects of a company's activities. This induces companies to disclose issues such as corporate governance (CG) and CSR in their annual reports.

In the context of Indian mining firms, when many social groups and environmental communities force companies to run their business ethically, there is a moral obligation of such companies to include social reporting as a part of financial reporting practice. Despite the pressure from society and government regulations, companies may consider the inclusion of social reporting in their annual reports as one way to satisfy their stakeholders who value accountability, transparency, and integrity. CSR is one such practice implanted through distinctive regulations of the organization; reporting of CSR is believed to be conservative in nature. Hence, we can state that CSR is an outcome of quality or conservative reporting.

Conservatism in accounting warrants the manager to present the worst case scenario in financial statements. This strategy may not always be popular with managers as they have the scope to use more conservative measurements. In such situations, they are inclined to make more cautious decisions, and the outcome of one such decision is the adoption of earnings management practices. Earnings management (EM) is believed to be an unethical practice (Kaplan, 2001). It occurs when managers exercise discretionary behaviour with accounting numbers (Fields, Lys, & Vincent, 2001). Guay and Verrachia (2006) believed that conditional conservatism affects opportunistic behaviour of managers regarding financial statements. Chen, Hemmer, and Zhang (2007) also believed that conservatism can reduce the opportunistic behaviour in accounting and a company's incentives for EM. So, we can say that accounting conservatism is a measure of quality reporting, which indirectly influences in the curtailment of EM practices.

But EM reduces the quality of financial statements (Kinney, Palmrose, & Scholz, 2004) and hampers prediction of future earnings and cash flows (Lev, 2003). Companies with poor financial reporting quality may be the outcome of low accounting conservatism. Conservatism facilitates the monitoring of managerial accounting choices, potentially limiting the opportunities for accrual-based earnings management. Lara, Osma, and Penalva (2012) observed that more conservative firms have less probabilities of being suspect of having engaged in EM to achieve earnings benchmarks. Givoly and Hayn (2000) described conservatism as the choice of accounting principles that lead to a minimization of reported earnings.

This positive linkage of conservatism with earnings quality may influence business to do fair investment on CSR. Ditlev - Simonsen and Midttun (2011) provided evidence that CSR upto an extent can be perceived as a trend and that the increase in the number and scope of non financial reports does not necessarily reflect the same degree of change in corporations. Once the business gets a label of disclosing quality reports, the business or the management may start to find an opportunity to get engaged in earnings management in disguise of CSR. For this

reason, we investigate the linkage between CSR and earnings quality, which is often used as a proxy for the overall financial reporting quality. This holistic course of action circumvents EM from CSR to AC through reporting. Fukui (2000) showed that companies with higher social responsibility presented “smooth” phenomenon on surplus distribution, which indicates that the company will adopt the means of EM in order to cater to investors according to the company's future financial performance. This stands justifiable for mining firms to go devious because of huge capital and credit sales involved ; there is every tendency for managers to deform accounting figures to show a higher social responsibility, side by side fulfilling their own interests. However, Kim et al. (2012) found from empirical research that socially responsible firms are less likely to manage earnings through discretionary accruals and manipulate real operating activities.

Therefore, this study further explores the role of earnings management in identifying conservatism as well as its impact on CSR reporting. No study has been undertaken for Indian mining firms as per available literature. The influence of accounting conservatism (AC) on CSR practices by Indian mining firms has been a neglected area of study. The present study aims at bridging this gap by analyzing the influence of AC on CSR through EM practices by mining firms by developing the requisite hypotheses.

Hypotheses Development

(1) The Effect of Accounting Conservatism on Corporate Social Responsibility : When it comes to assessing the quality of financial reporting and the degree of social or financial disclosure, it seems that the disclosure side receives most of the attention. However, focusing on financial reporting quality is just as important. AC is the outcome of quality financial reporting, which is the result of managers' earnest judgment and discretion to make choices related to accounting principles. If financial reporting complied with all accounting policies and standard, its quality would automatically be manifested in its usefulness, consistency, and comparability. Conservatism has commonly been stated as a proxy for a person's integrity or ethics in psychology literature (Ter Bogt, Raaijmakers & van Wel, 2005). Taken together, in the world of business, conservatism would be the consequence of managers' integrity regarding financial reporting. Ball and Shivakumar (2005) argued that conservatism in accounting is an important element of financial reporting quality as it enhances relevance and represents faithfulness. The need for AC, particularly for a mining firm is related to the increase of credibility in accounting information, as conservatism of declaring good results of the company increases accounting credibility, and the ability to predict future (Hellman, 2008). Hamdan (2011) reached a similar conclusion and said that accounting conservatism contributes to the improvement of quality of financial reporting.

However, according to literature on financial reporting, companies can manage earnings as a tool to avoid reporting a loss (Shuli, 2011). As value relevance of accounting numbers varies depending on the type of sector under which a business runs (Rao & Nihar, 2016), managers may diligently try to manipulate accounting numbers. Earnings are considered to be an important indicator of financial performance, so managers can use the level of flexibility provided by generally accepted accounting principles (GAAP) protocol to manage earnings so as to meet stakeholder expectations. Excessive carrying out of such unethical practice leads to lowering of financial reporting quality. As a result, business starts losing its support of stakeholders and investors, and ultimately destroys corporate image.

In order to save the corporate image and gain support of stakeholders, business organization performs some ethical practices such as CSR. This is done in compliance with certain standards and policies. CSR like AC is also an outcome of quality reporting and is done to keep good relationship with stakeholders. It is very important that CSR activities are fully integrated with business strategy to acquire competitive edge to be the basis for business development and efficiency (Rahendrawan, 2006).

AC and CSR have received much attention in recent literature. In a recent study, Martinez-Ferrero and Garcia -

Sanchez (2013) investigated the conservative companies, with a high level of accruals quality and/or those that carry out EM practices to a lesser extent. These reported high quality financial information and moreover, high quality CSR information. Salewski and Zulch (2014) observed that CSR is negatively associated with the degree of accounting conservatism. Thus, we can deduce that the financial reporting quality is the genesis of both the concepts of AC and CSR. Therefore, we developed the following hypotheses:

↳ **H01:** For mining firms, the extent of CSR is positively associated with the extent of accounting conservatism.

↳ **Ha1:** For mining firms, the extent of CSR is negatively associated with the extent of accounting conservatism.

(2) Relationship of Accounting Conservatism and Earnings Management : The goal of financial reporting is to present the financial performance and financial flexibility of a business. It is beneficial for the vast variety of users. One of the most important information is earnings and loss statement. Earnings calculation which is so much under attention is affected by accounting procedures chosen by the management. GAAP (Generally Accepted Accounting Principle) provides alternative room to provide discretion to managers to report earnings. This benefit or discretion to choose accounting procedures gives opportunity to the management to make decisions about recognition and measurement of revenues (PWC, 2009). Mostly management is motivated to use aggressive (non-conservative) accounting to show higher earnings of the company (Watts, 2003).

Based on the theoretical concepts of financial reporting, the main feature to test quality is information relatedness and reliability, and conservatism is one the main features of reliability. From an accounting perspective, a question for mining companies is of particular interest is whether characteristics of a firm's accounting system, such as the extent of accounting conservatism, affects management strategy of earnings manipulations. A significant upfront investment, uncertainty over prospects or mineral resources, and long project lives creates difficulties and requires discretion and judgement by the company's management. The most significant source of value for mining entities is mineral reserves and resources, together with the mining company's ability to transform mineral resources into cash flows. Earnings management refers to management's intentional direction on managing accounting information or real life decisions as a purpose to mislead company's stakeholders (Watts & Zimmerman, 1978). Earnings can be mis-stated due to managers' own incentives or with the objective of maximizing the wealth of a company.

Conservatism accelerates the recognition of bad news in earnings, increases the reliability of earnings, and reduces information asymmetry. Recent literature predicts that conservatism imposes limits to earnings management practices. Watts (2003) argued that an important role of conservatism is to constrain management's opportunistic financial reporting behaviour and to offset biases introduced in financial reports by self-interested parties. Chen et al. (2007) believed that conservatism can reduce the opportunistic behaviour in accounting and company's incentives for EM. Reyad (2011) investigated the relationship between the degree of accounting conservatism and the level of earnings quality at the corporations listed on Bahrain Stock Exchange. The study found that the Bahraini corporations had an acceptable level of accounting conservatism and high quality of earnings in, the existence of a direct relation between the degree of accounting conservatism and the level of earnings quality; thus, if the degree of accounting conservatism increases, it will reduce the total accruals, thus, improving the quality of earning. The above argument leads to the hypotheses below :

↳ **H02:** For mining firms, AC is directly influencing in curtailment of EM practices.

↳ **Ha2:** For mining firms, AC is not influencing in curtailment of EM practices.

(3) Influence of Accounting Conservatism on the Relationship between Earnings Management and Corporate Social Responsibility : As far as the interests of both shareholders and creditors are concerned, a financial report

must provide economic and financial situation of the company. However, financial reports tend to discard reporting about social and environmental aspects of company activities. CSR report is expected to cover up these aspects. On one side, the reasons for an enterprise to fulfill social responsibility are partly to increase reputation and partly to win the trust of shareholders and outside investors in the long run, and for the enterprise to increase the transparency of financial reporting possibly to improve earnings quality.

EM and CSR are two sides of a coin, the coin being financial reporting. Both are the outcomes of financial reporting, but one is considered ethical and the other unethical. Numerous literatures on their relationship have inconclusive results. Some literatures (Prior, Surroca, & Tribo, 2008) argued that CSR is a strategic behaviour contrived to disguise with EM, while others (Hoffman, 1986) argued that it is only a voluntary or philanthropic contribution to the society. EM is closely related to the motivations underlying managers to manage earnings on the basis of economic performance of a firm. Those motivations may be tax exemption, timeliness of report, and value relevance. Management may fall into a problematic situation in meeting these incentives when it comes under scrutiny of audit committee. So, here comes the role of AC to control the process of falsifying reported earnings.

Opportunistic financial reporting (EM) is counterbalanced by accounting conservatism (Watts, 2003). Rather, this is not completely true because the persistent influence of conservatism in accounting practice suggests that it negotiates benefits with economic agents who use, prepare, or regulate financial reports (Basu, 1997 ; Sterling, 1970). AC should be reaction to uncertainty rather than an ex-ante known shifting of earnings (Glover & Linn, 2013). Due to the above arguments, there is a dichotomy to stalk upon just one connotation.

As per recent available literature, Pyo and Lee (2013) found that firms with more corporate donations have lower discretionary accruals and greater accounting conservatism. In contrast to the above findings, Belgacem and Omri (2015) revealed that firms with higher levels of corporate social disclosure have greater discretionary accruals and lower accounting conservatism. They did this by undertaking a study which comprised of firms listed on the Tunisia Stock Market (TSM) during the period 2002 to 2011. Salewski and Zulch (2014) found that CSR is positively associated with EM and negatively with accounting conservatism. The above argument leads to the following hypotheses:

↪ **H03** : For mining firms, EM is positively associated with CSR with influence of AC.

↪ **Ha3** : For mining firms, EM is negatively associated with CSR with influence of AC.

Methodology

While social reporting is voluntarily disclosed by some countries in different parts of the world, companies in India are mandated by the government to comply with standardized regulations like Companies Act, 2013 with minimum level of reporting CSR activities. However, it does not necessitate all firms to provide information about social and environmental aspects, thereby, making it difficult on their part to quantify CSR and place information in financial reports. This fallacy hinders development of a comprehensive CSR measure index in the Indian context and very often researchers use other indices developed for other countries as a proxy to measure CSR related issues of Indian firms.

In order to examine the above formulated hypotheses, we used a pooled regression model. To develop our model, we identified the requisite variables, the measures required to examine the earnings management practices, degree of accounting conservatism and the quality of accruals. The description of all the variables are put forth in Table 1.

(1) Data and Sample : Mining companies included in the study comprise of metals and mineral mining companies associated with gold, aluminium, nickel, tin, lead, copper, clay & ceramics, and limestone & coal. Selection of

Table 1. Variable Description

Variables	Description	Reason for adoption	Reference
CSR	Independent variable scoring of mining firms 1 if reporting is complied with GRI guidelines and 0 otherwise.	To respond to stakeholders' expectations and contribute to the well-being of society.	Bonson and Bednarova (2015); Morsing and Shultz (2006)
SIZE	A control variable. Company size is measured by the logarithm of the total assets.	Larger firms are subject to stronger pressure from stakeholders, and thus, are expected to report more social, economic, and environmental information.	Archel and Lizarraga (2001); Garcia-Ayoso and Larrinaga (2003)
LEV	Leverage is to reflect debt effect, which measures the risk of debt and is calculated as the ratio of debt to total value of assets.	Higher level of debt discloses more social and environmental information to satisfy supplier interest in knowing CSR strategy.	Solomon and Lewis (2002)
SALES	Sales is one of the control numerical variables measured by the total sales scaled by total assets	Increase in sales variability is associated with a higher quality of accruals and thus, higher financial reporting quality is expected.	Francis, Khurana, and Pariera (2003)
Donation	Donation expense is a moderating variable calculated as donation amount scaled by total assets	Firms with increased donation are expected to choose more/less accounting methods and lower/higher EM.	Pyo and Lee (2013)
PTA	PTA is the previous total accruals scaled by previous total assets	Decreased PTA may be the result of lower AC	Defond and Subramanyam (1998)

these companies was in tandem with the broad research objective as these companies have CSR disclosure filed with GRI guidelines for more than 10 years.

The sample used to test the proposed hypotheses consisted of 34 Indian mining firms for the period 2000-2015. The data were taken from PROWESS Database powered by CMIE (Centre for Monitoring Indian Economy) for the period November 2015 to February 2016. The panel was strongly balanced though few of the data in a particular year were unavailable. Financial information was obtained from various financial statements and CSR information was obtained from annual reports of the companies. PROWESS database provided the financial information of 174 mining firms of which 100 companies had no data about social and environmental pollution cost and donation expenditure. Then we excluded another 40 companies where social information was provided for few years. Finally, we could choose only 34 mining firms including firms representing minerals and metals sectors because these were the companies containing social information for more than 10 years, and so conducted the study with final sample of 34 mining companies multiplied by 16 years of data, that is, 544 observations.

(2) Measurement of Financial Reporting Quality (FRQ) : As identified in literature, we used various techniques/ or models as there is no universally accepted model to measure financial reporting quality. We adopted three measures as follows: (a) discretionary accruals, (b) two proxy methods of accounting conservatism, and the third (c) working capital accruals (WCA).

(i) Discretionary Accruals (DA) : Discretionary accruals (DA) measured through EM, is considered to be the inverse of financial reporting quality (Dechow & Dichev, 2002). A higher degree of EM is associated with lower earnings quality and vice-versa (Raman, Shivkumar, & Tamayo, 2013). Thus, the first measure of reporting quality is managerial discretion over accruals (Choi & Pae, 2011). According to Lara, Osma, and Mora (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.

Dechow, Sloan, and Sweeney (1995) modified the Jones model (1995), that is, they deducted the variance of receivables (ΔREC). Following Dechow et al. (1995), we estimate discretionary accruals, which have been successfully used in detecting earnings management. Extended Modified Jones model (EMJM) (Yoon, Miller, & Jiraporn, 2006) is used to estimate total accruals. A brief description of both the models is given below:

The Extended Modified Jones Model is expressed as follows:

$$TA_t = \beta_0 + \beta_1 \frac{(REV_t - REC_t)}{REV_t} + \beta_2 \frac{(\Delta EXP_t - \Delta PAY_t)}{REV_t} + \beta_3 \frac{(DEP_t + RET_t)}{REV_t} + \epsilon_i \quad \text{----- (1)}$$

TA_t = total accruals in the year t ,

REV_t = net sales revenue of the firm ' i ',

REC_t = receivables of the firm ' t ',

EXP = sum of cost of goods sold and selling and general administrative expenses excluding non-cash expenses,

PAY = payables,

DEP = depreciation expenses,

RET = retirement benefit expenses,

$A_{i,t-1}$ = total assets of the firm ' i ' in the previous year ' $t-1$ ',

Δ = change operator,

ϵ_i = residual, which represents firm-specific discretionary portion of total accruals.

(ii) Accounting Conservatism : Our second proxy is the degree of accounting conservatism, which implies a more timely incorporation of economic losses in accounting earnings than of economic gains (Ball, Kothari, & Robin, 2000). In our study, we adopted two methods to compute :

[I] In consonance with Penman and Zhang (2002), we used balance sheet items for estimating accounting conservatism ($CONS_PZ$) with both estimated reserves (ER) and net operating income (NOI).

$$CONS_PZ_{it} = \frac{ER_{it}}{NOI_{it}} \quad \text{----- (2)}$$

where,

$CONS_PZ$ = an accounting conservatism measure which utilizes Penman and Zhang (2002) approach;

ER_{it} = sum of depreciation expenses, amortization expenses, bad debt expenses, R&D expenses, and advertising expenses for the firm ' i ' in the period ' t '.

NOI = sum of equity and financial obligations, including short-term borrowings, the current portion of long-term liabilities, long-term bonds, long-term borrowings, and capital lease liabilities less financial assets including short-term securities, short-term loans, and short-term financial instruments.

[II] Second method of measuring the degree of accounting conservatism was the model developed by Givoly and Hayn (2000). The formula for its calculation is as below :

$$CONS_GH_{it} = (-1) \frac{Non-Operating\ Accruals_{it}}{A_{it}} \quad \text{----- (3)}$$

where,

$CONS_GH$ = an accounting conservatism measure which utilizes Givoly and Hayn's (2000) approach;

Non-Operating Accruals = total accruals excluding depreciation (TA_GH) less operating accruals (OA);

$TA_GH = NI + DEP - OCF$; (Total accruals obtained by Givoly and Hayn approach);

$OA = \Delta AR + \Delta INV + \Delta PREP - \Delta AP - \Delta TAXP$;

NI = net income;

DEP = depreciation expenses;

OCF = cash flows from operations;

ΔAR = the difference between accounts receivable in year t and in year $t-1$;

ΔINV = the difference between inventories in year t and in year $t-1$;

$\Delta PREP$ = the difference between prepaid expenses in year t and in year $t-1$;

ΔAP = the difference between accounts payable in year t and in year $t-1$;

$\Delta TAXP$ = the difference between taxes payable in year t and in year $t-1$;

A = total assets in year t .

(iii) Accruals Quality : The third proxy of FRQ is the quality of accruals, calculated from Dechow and Dichev (2002) model. Therefore, we focused on the role of accrual estimation errors in predicting future cash flows by examining the association between current working capital accruals (WCA_t) with cash flow from operations of the fiscal year (CFO_{t-1}).

$$\frac{WCA_{it}}{Assets_{i,t-1}} = \alpha_0 + \alpha_1 \frac{CFO_{it}}{Assets_{i,t-1}} + \alpha_2 \frac{CFO_{i,t-1}}{Assets_{i,t-1}} + \alpha_3 \frac{CFO_{i,t+1}}{Assets_{i,t-1}} + \epsilon_{it} \quad \text{----- (4)}$$

where, WCA is working capital accruals ;

CFO_{it} = cash flow from operations for the firm ' i ' in the year ' t ' ;

$CFO_{i,t-1}$ = cash flow from operations for the firm ' i ' in the previous year ;

$CFO_{i,t+1}$ = cash flow from operations for the firm ' i ' in the preceding year.

(3) Regression Models : As in prior studies (Dhaliwal, Li, Tsang, & Yang, 2011; Kim et al., 2012), we expect that corporate donation expense; and PTA are associated with financial reporting quality in equation (5) :

$$DA = \beta_0 + \beta_1 Donation_{it} + \beta_2 CSR_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 PTA_{it} + \beta_6 SALES_{it} + \epsilon_{it} \quad \text{----- (5)}$$

where,

DA = discretionary accruals calculated using Modified Jones Model (Dechow et al., 1995) and Extended Modified Jones model from equation (1) and (2).

$Donation_{it}$ = donation amount scaled by total assets in year ' t ' for the firm ' i ' ;

CSR_{it} is CSR disclosure scoring of each mining firms 1 if reporting is complied with GRI guidelines and 0 otherwise for the year ' t '.

$SIZE_{it}$ = size of the firm lagged by total assets of the firm ' i ' for the period ' t ' ;

LEV_{it} = leverage calculated as the ratio of total debt to the total value of assets of the firm 'i' for the year 't';

PTA_{it} = previous total accruals scaled by previous total assets of the firm 'i' for the year 't';

$SALES_{it}$ = the total sales scaled by total assets of the firm 'i' for the year 't' ;

$$CONS_PZ_{it} = \beta_0 + \beta_1 Donation_{it} + \beta_2 CSR_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 PTA_{it} + \beta_6 SALES_{it} + \epsilon_{it} \quad (6)$$

$$CONS_GH_{it} = \alpha_0 + \alpha_1 Donation_{it} + \alpha_2 CSR_{it} + \alpha_3 SIZE_{it} + \alpha_4 LEV_{it} + \alpha_5 PTA_{it} + \alpha_6 SALES_{it} + \epsilon_{it} \quad (7)$$

$$WCA_{it} = \mu_0 + \mu_1 Donation_{it} + \mu_2 CSR_{it} + \mu_3 SIZE_{it} + \mu_4 LEV_{it} + \mu_5 PTA_{it} + \mu_6 SALES_{it} + \epsilon_{it} \quad (8)$$

$\beta, \alpha,$ and μ are coefficients.

Results and Discussion

(1) Descriptive Statistics : The extent to which mining companies report on CSR and financial statements is shown in descriptive statistics (Table 2). All the variables are in million figures. Donation mean value is 17.36 and standard deviation (*SD*) is 114.175. *DA* mean value is 26360.59 and *SD* value is 57380.31. *CONS_GH* mean

Table 2. Descriptive Statistics

Descriptive Statistics					
	<i>N</i>	Minimum	Maximum	Mean	Std. Deviation
Donation	544	0.01	2200.40	17.3629	114.17501
Size	540	47	280730.10	18046.1026	38920.67279
Leverage	544	00	2.40	0.2347	0.26483
previous total accruals	544	-0.12	7.72	1.3875	1.11810
Sales	544	0.00	222204.90	16007.1368	32930.71882
discretionary accruals	544	-0.63	374042.54	26360.5998	57380.31802
cons_gh	544	-3.71	0.36	-0.6468	0.55290
cons_pz	544	-28.58	59.77	0.1097	3.35625
working capital accrual	544	-69.80	497510.30	28755.0478	65744.55170
Valid <i>N</i> (listwise)	540				

Table 3. Pearson Correlation

	CSR	Donat	Size	Lev	PTA	Sales	DA	CONS_GH	CONS_PZ	WCA
CSR	1									
Donation	0.173**	1								
Size	0.685**	0.469**	1							
Lev	-0.120**	0.090*	0.096*	1						
PTA	0.206**	0.283**	0.326**	0.487**	1					
Sales	0.697**	0.480**	0.989**	0.125**	0.424*	1				
DA	0.682**	0.470**	0.947**	0.178**	0.547**	0.977**	1			
CONS_GH	-0.202**	0.356**	-0.319**	-0.396**	-0.933**	-0.419**	-0.536**	1		
CONS_PZ	-0.153**	-0.053	-0.222**	0.142**	-0.163**	-0.230**	-0.257**	0.169**	1	
WCA	0.654**	0.407**	0.925**	-0.015	0.164**	0.893**	0.840**	-0.155**	-0.202**	1

** Correlation is significant at the 0.01 level ; * Correlation is significant at the 0.05 level.

Table 4. Model with Pooled Least Square (PLS) Regression Analysis

Intercepts	DA	CONS_GH	CONS_PZ	WCA
CSR	58.10 ** (0.029)	-0.002 (0.959)	-0.786 (0.071)	-20.02 (0.242)
Donation	3.57 (0.568)	0.000 (0.813)	0.0012 (0.902)	0.9001 (0.772)
Size	-0.853 ** (0.001)	2.59 (0.511)	0.0003 (0.496)	1.91 *** (0.000)
Lev	-83.32 (0.227)	0.001 (0.104)	-0.0006 (0.995)	9.641 (0.753)
PTA	37.28 (0.074)	-0.451 *** (0.000)	-0.134 (0.702)	-574.57 (0.600)
Sales	3.33 ** (0.000)	7.62 (0.822)	-6.72 (0.871)	-0.366 *** (0.001)
DA	Omitted	-658.96 (0.874)	2.26 (0.815)	-0.092 ** (.001)
Cons_GH	-11.20 (0.789)	Omitted	-2.81 (0.679)	-627.90 (0.764)
Cons_PZ	1.84 (0.996)	-0.002 (0.653)	Omitted	-103.5 (0.534)
WCA	-51.54 *** (0.001)	-1.26 (0.441)	-0.0013 (0.505)	omitted
F-value	.00362	165.81	0.46	819.94
Adj. R square	0.916	0.83	-0.0168	0.96
N	544	544	544	544

****** Correlation is significant at the .01 level and ***** Correlation is significant at the .05 level. Values without parentheses are *p* - values of each variable. Values below it (within parentheses) are their corresponding coefficients in regression model.

value is -0.6468 and *SD* value is 0.5529. *CONS_PZ* mean value is 0.1097 and *SD* value is 3.256. *WCA* mean value is 28755.04 and *SD* value is 65744.55.

(2) Correlation Analysis : In Table 3, all the variables are highly correlated with each other. *CSR* is positively and highly correlated with donation, size, *PTA*, *Sales*, *DA*, and *WCA* with values 0.173, 0.685, -0.120, 0.206, 0.697, 0.682, -0.202, -0.153, and 0.654, respectively. *CSR* is negatively correlated with leverage, *CONS_PZ* and *CONS_GH* with values -0.120, -0.202, and -0.153, respectively. *Donation* is highly and positively correlated with sales with maximum value of all the variables (0.480) at 1% significant level. This particular outcome is in line with the result of Cuganesan, Dunford, and Palmer (2012). *Donation* is positively correlated with *DA* with value (0.470) at 1% significant level.

(3) Statistical Analysis and Hypotheses Testing : Table 4 represents the proposed model using pooled least square regression analysis where we can observe that *firm size* ($p < 0.001$), *sales* (0.00), and *WCA* (0.001) are influenced by *DA*. *CONS_GH* affected only variable *PTA* (0.00) at 1 % significant level. *CONS_PZ* shows no significant relationship with any of the variables. But *WCA* affects *size* and *sales* with significance value (0.00) and (0.001), respectively at 5% significant level. *F* values for *DA*, *CONS_PZ*, *CONS_GH*, and *WCA* are 0.0036, 165.81, 0.46, and 819.94, respectively. Their respective adjusted *R* squared values are 0.916, 0.8341, -0.0168, and 0.96.

(4) Multivariate Statistics – The Generalized Least Square (GLS) Method : Two very important variables are found to be significant as per our random-effect GLS regression analysis. The variable size with value ($p > |z|$; $0.05 > 0.019$) is found to be significant. This outcome is in consonance with Da Silva Monteiro and Aibar-Guzmán (2010). *Size* is an important factor to check for CSR reporting in the sense that the more the size, the more is the expectation of voluntary disclosure about CSR. *CONS_PZ*, one of the proxies of conservatism, with value (0.001) is found to be significant. This outcome supports our second hypothesis that CSR as an outcome of AC directly influences curtailment of EM practices. Francis, Harrast, Mattingly, and Olsen (2013) had similar results positing that they found a positive relation between conservatism and strong social performance.

(5) Sensitivity : This study indicates that the information role of conservative accounting is more prominent in companies with poor governance. Our findings imply that conservatism plays a crucial role to ensure the quality of the CSR disclosure. It is identified that CSR scoring is done based on GRI guidelines; we found that the companies reporting CSR with GRI guidelines perform well according to donation expense and size. Our results are robust for a series of sensitivity tests and regression specifications. However, we acknowledge that our reliance on a skewed data set in terms of the 544 number of observations across the 34 Indian mining companies for the period from 2000 to 2015 constitutes to be the central limitation of this study.

In our panel data, we have considered the following hypotheses:

H₀: Random effect (RE) model is appropriate.

H₁: Fixed effect (FE) model is appropriate.

In the case of regression analysis with fixed variables, we can observe that Prob> F is greater than 0.05 and overall R square value 0.02 percent is very less which cannot help explain the dependent variable. Hence, we checked robustness of our data with Hausman specification test after which we could accept our random model approach. By fixing our dependent variable CSR, we see a lower R square value. In fixed model, only one variable $CONS_PZ$ 0.001 is found to be significant but R square value 0.02% is inconsiderably less. This implies that we accept our proposed regression model H_0 .

(6) Robustness Tests : Robustness check is done through Hausman specification test to check whether our model fits best to explain our dependent variable, that is, CSR. Chi square is 0.1847, as this value is greater than 0.05, we reject our fixed model and used random effect model. To decide between fixed or random effect, we conducted a Hausman test where the null hypothesis is that the preferred model is random effect vs. the alternative fixed effects.

As for time-invariant regressors: the way the Hausman test works is via a vector of contrasts between the FE and RE coefficients in common. The time-invariant regressors don't appear in the FE estimation, so they won't contribute to the test stat. But they contribute indirectly, because their inclusion/exclusion changes all the RE coefficients. Hence, our null hypothesis is rejected and our random model is appropriate for the study.

Then to choose between random-effect GLS regression model and fixed effect model, we applied Breusch and Pagan Lagrangian Multiplier (LM) test. The null hypothesis in the LM test is that variance across entities is zero. There is no significant difference across units (i.e. no panel effect). We find that random-effect model is useful as p is 0.000, which is less than 0.05. This means we reject the null hypothesis and conclude that random-effect model is appropriate. It means there is evidence of significant differences across companies; therefore, we cannot run fixed effect model and we adopt random-effect model.

(7) Interpretation : CSR is negatively correlated with $CONS_PZ$ with coefficient -0.018 and significance value 0.001 at 5% level (Table 5), which supports our first hypothesis that CSR is an outcome of accounting conservatism. Empirical evidence indicates that mandated CSR practices may be sufficient to induce conservative financial reporting. Penman and Zhang (2002) posit that if firms implement conservative accounting permanently without changing accounting methods or estimates, investment in CSR coupled with conservative accounting significantly affects the quality of current earnings. Our result is also in consonance with Salewski and Zulch (2014) which says that CSR is negatively associated with the degree of accounting conservatism. Above observations prove that CSR is negatively associated with conservatism. Hence, our first hypothesis H_0 is rejected, there by the alternate hypothesis H_1 is accepted.

Table 5 is referred to the observations as discussed here. Donation variable ($donation = 0.667$) is statistically insignificant. This means it has no effect the disclosure of CSR. Two variables are found to be significant; one is

Table 5. Random - Effect GLS Regression of CSR with Other Variables

Intercepts	Variables (CSR)
Donation	0.0045 (0.667)
Size	0.0001 ** (0.019)
Lev	-0.0087 (0.933)
PTA	0.0560 (0.133)
Sales	-5.47 (0.170)
DA	8.26 (0.993)
CONS_GH	0.0066 (0.926)
CONS_PZ	-0.018 ** (0.001)
WCA	-2.22 (0.272)
Overall R-square	0.1982
Prob>Chi	0.0006

** p - value is significant at the 0.01 level and * p - value is significant at the 0.05 level.

Values without parentheses are p - values of each variable. Values below it within parentheses are their corresponding coefficients in the regression model.

size (0.019) and another is *CONS_PZ* (0.001) at 5% and 1% significance level, respectively. Firm size can affect strategic motivation, thereby having a positive effect on CSR participation (Adams & Hardwick, 1998). Our findings are in line with prior literature indicating that conservatism is not only an essential property of accounting that can arguably, alleviate information asymmetry (LaFond & Watts, 2008), but is also a key mechanism that improves corporate governance efficacy and mitigates managerial opportunism.

Discretionary accruals (DA) is negatively correlated with *CONS_PZ* and *CONS_GH* with values -0.536 and -0.257 at 1% significance level according to Table 3. The findings indicate that managers in mining companies use their discretion over large accruals to manage earnings and influence accounting conservatism into the management's desired direction. But our regression model failed to prove the same, perhaps, because of outliers like industry and time variant. Lara et al. (2012) also found the same result as negative association between conservatism and measures of accruals manipulation. Wang (2013) also came up with similar outcome while investing all listed firms on Shenzhen and Shanghai Stock Exchange (SSE) for the period 2008-2011. He found that China's accounting earnings are conservative and are non-discretionary accrual items. Hence, we accept our second hypothesis H02 and reject the alternate hypothesis Ha2.

As shown in Table 3, DA is positive and highly correlated with CSR with value 0.682 at 1 % significance level. Our proposed regression model also supports our result in Table 4 with value 0.029 at 1 % significance level. In their study, Muttakin, Khan, and Azim (2015) have similar outcomes which can be stated as more the degree of CSR, higher is the motivation of managers to manage earnings. This is because management has the incentive to manipulate earnings to project socially-friendly image through CSR activities to gain support from stakeholders. Thus, our third null hypothesis H03 is accepted and thereby the alternate hypothesis Ha3 is rejected.

Conclusion

The purpose of this study was to find evidence of the influence of accounting conservatism on CSR. Also, we tested whether earnings management is positively associated with CSR. The following are the conclusions of research based on hypotheses testing:

(i) The first hypothesis is rejected indicating that the CSR practice is negatively associated with accounting conservatism. There exists an inverse relationship between the two.

(ii) The second hypothesis is accepted, as conservatism helps in curtailment of earnings management practices. In addition, discretionary accrual is negatively correlated with conservatism.

(iii) The third hypothesis is accepted, indicating that the earnings management practice is positively associated with CSR with less impact of accounting conservatism.

Over time, a number of frameworks and standards have been proposed in relation to CSR disclosures but there is an on-going need for a systematic, standardized, and unified format of CSR reporting framework. Using GRI framework, we examined the CSR reporting practices in Indian mining companies. Additionally, we tested a number of factors which improve quality reporting and finally tested their mutual effect on each other.

Research Implications

This study provides evidence that accounting conservatism plays an important role in facilitating the flow of firm-specific information from corporate insiders to outside investors, thus helping to improve the corporate information environment. Financial reporting standard-setters and regulators have their own incentives to favour conservative accounting and reporting. A variety of accounting approaches and policies are developed by mining companies and there is also an increasing trend in adopting International Financial Reporting Standards (IFRSs) in the industry. A single set of high quality, globally understandable accounting standard would help Indian mining companies in communicating on a transparent and globally consistent way and meeting their need for capital.

Mining firms are more sensitive towards CSR practices as they are universally blamed for polluting the environment by pursuing mining activities. As a compensating measure, these firms need to discharge their corporate social responsibility in a more feasible way. So, the implication is that when a mining firm is effectively engaged in discharging its social responsibility, it strongly associates itself with accounting conservatism and thereby, the firm will be successful in controlling its involvement in earnings management practices.

Limitations of the Study

The sample size for the present study is limited to only 34 mining firms out of the total 174 firms available in PROWESS IQ database. So the outcome of the present study may not reflect the actual association between CSR disclosure and accounting conservatism of the Indian mining industry. Also, disclosure of CSR is mandatory only after Companies Act, 2013 came into existence. Thus, it can be assumed that the disclosure before 2013 may be biased and may not be reflecting actual CSR spending by reporting firms. Furthermore, to the extent that the highly skewed nature of the data matters in the context of our study, it provides potential bias in our findings. In addition, our reliance on imperfect proxies for conservatism and CSR information, especially for a sample of sixteen years, could be another limitation of this study.

Scope for Further Research

Our results open up new avenues for future research. We analyzed the extent of CSR reporting based on international level GRI framework focusing on Indian mining firms. An interesting line of research could be to develop a CSR disclosure index in the Indian context to avoid proxy use of other international indices and bias. Additionally, further studies may be undertaken to identify additional influencing factors viz. ROE, free float etc. that may have some impact on the extent of reporting and by accommodating higher number of samples.

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| 5. Address | : | Y-21,HAUZ KHAS, NEW DELHI - 16 |
| 6. Newspaper and Address of individual | : | ASSOCIATED MANAGEMENT |
| Who owns the newspaper and partner of | : | CONSULTANTS PRIVATE LIMITED |
| Shareholder holding more than one percent. | : | Y-21, HAUZ KHAS, NEW DELHI - 16 |

I, S. Gilani, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Dated : March 1, 2017

Sd/-
S. Gilani
Signature of Publisher