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## Corporate Social Responsibility Market Reaction and Accounting Conservatism with Investor Protection and Stock Liquidity

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### ABSTRACT



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**Purpose** – This study investigates the links between CSR, market response and accounting conservatism, focusing on the moderating influences of investor protection and stock liquidity. We hypothesise that active involvement in CSR initiatives tends to improve accounting conservatism and that this relationship is moderated by external governance mechanisms.

**Design/methodology/approach** – This study uses multi-year panel data of listed companies and applies a two-stage least squares (2SLS) regression model. To ensure robustness, several CSR proxies are examined. These include environmental, social and governance (ESG) dimensions. To address endogeneity concerns, the study controls for both firm characteristics, industry-specific effects and aggregator macro conditions.

**Findings** – The results show that CSR affects accounting conservatism positively, especially when in firms with effective investor protection and high stock liquidity. Companies with higher CSR engagement show less earnings management, a sign of increased accounting quality and governance. These results are stable across robustness checks as to alternative conservatism proxies and CSR components.

**Originality/value** – While previous studies considered CSR and conservatism separately, this study takes investor protection and stock liquidity as moderator variables, thus showing a comprehensive view of the governance role of CSR. Moreover, it uses various CSR proxies and alternative conservatism measures, providing a much more detailed and reliable analysis.

**Research Implications** – The research emphasises that CSR goes beyond social objectives. As a strategic tool, it is a means for companies to increase financial transparency and investor confidence. Policy makers should explore ways to further strengthen investor protection regimes to reap the governance benefits of CSR. And investors and regulators can use CSR disclosures to assess companies' financial prudence and risk management practices, thereby promoting more stable and trusted financial markets.

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### 1. Introduction

Corporate Social Responsibility (CSR) has recently become the subject of considerable attention academically and by practitioners, and CSR is increasingly integrated into corporate strategies. CSR initiatives are seen as critical drivers in building company reputation, stakeholder trust and financial performance. An example of recent literature includes (Susen and Etter 2024) which reveal a positive relation between ESG performance and employee satisfaction in S&P 500 firms. Research complements this by (Surroca, Tribó, and Waddock 2010) involved the finding that CSR activities lead to intangible resource development, which enhances financial performance. Moreover, in addition to mandatory integrated reporting, which covers CSR disclosures, Steyn (2014) pointed out that CSR disclosures also lead to improved organizational benefits as well as stakeholder perspectives. These findings highlight CSR's increasing relevance within current corporate strategies.

Although CSR has its associated advantages, the linkage of CSR to accounting conservatism is still a controversial issue. The principle of recognizing potential losses and liabilities in a timely manner, but delaying the recognition of gains, is referred to as accounting conservatism, which can serve as a safeguard against possible management misrepresentation to protect investors by preventing firms from overestimating their financial position



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(Anagnostopoulou, Tsekrekos, and Voulgaris 2021). Nonetheless, the relationship between CSR and accounting conservatism is not clearly defined (Garanina and Kim 2023; Guo, Huang, and Zhang 2020). This emerges because robust CSR practices can lead, in some studies, to firms adopting conservative accounting approaches to harmonize with ethical commitments, while in other studies CSR makes them display less conservatism due to a long-run vision perspective in value creation (Dahlin et al. 2020; Peng et al. 2021). Such a bifurcation poses a challenge to the stakeholders wanting to comprehend the intersection of corporate social responsibility (CSR) and financial reporting (Devine et al. 2021; Wilson and Post 2013).

This research is founded upon the theoretical premise of stakeholder theory, which proposes that companies should have obligation to wider groups of stakeholders than only shareholders. These firms should or should be expected to take into account the interests of all parties, such as investors, employees, customers, and the general community, in their decisions (Barney 2018; Rock 2021). As a result, these firms are able to implement accounting practices that embody transparency and caution, ultimately serving to protect investors and build trust (Alsalmi, Ullah, and Rafique 2023; Konovalova, Tuck, and Ormeño Pérez 2023; Rock 2021). Empirical studies have shown mixed evidence in this regard. Garcia (2020), García-Sánchez (2019), on the positive impact of sustainability reporting on corporate reputation, which may facilitate conservative accounting to preserve stakeholder trust. Kotsantonis (2016), Parfitt (2024), reported that absence of standardized ESG criteria may result in inconsistent accounting among firms.

This urgency arises from mixed conclusions of previous survey on the effect of CSR on the accounting conservatism and market behaviors. Although a number of studies have showed a positive association between CSR involvement and conservative financial reporting, some others found either insignificant relationship or negative correlation (Garanina and Kim 2023; Wang, Cao, and Ye 2018). Found a positive relationship between ESG funds performance and financial performance, which hints at some inherent connection with sound accounting practices (Velte 2023). By contrast, previous studies by Aupperle et al. (1985) determined that corporate social responsibility (CSR) and corporate profitability also had no meaningful relationship implying CSR activities may not impact accounting conservatism. All of these contrarian outcomes signal a deficiency in the literature that warrants additional investigation into how CSR initiatives impact accounting practices and investor perceptions.

In particular, this study tries to investigate the effect of corporate social responsibility on accounting conservatism from the perspective of market reactions. The paper examines if CSR initiatives lead to more conservative accounting practices and assesses the implication of investor protection and stock liquidity in this relationship. Furthermore, the study aims at investigating whether CSR pushes accounting conservatism through the market reaction channel, offering insights on its wider financial implications.

## 2. Method

The data on CSR in this study is obtained from Rankins CSR Ratings (RKS), a third-party agency that rates CSR performance from all privately held companies in China. The data covers 2019–2024, covering firms listed on the Shanghai Stock Exchange (SHSE) and the Shenzhen Stock Exchange (SZSE). The financial and market-related data are gathered from the China Stock Market and Accounting Research CSMAR database. We require firms to have published a CSR report without which we cannot construct our main variables, have adequate financial disclosures (this is needed to measure our measure of accounting conservatism, and exclude firms in the financial sector because they have distinct regulatory and financial structures. Our final sample includes 1,200 firm-year observations, yielding robust insights into the relationship between CSR and accounting conservatism, as well as the moderating relationships of investor attention and stock liquidity after applying this set of criteria.

### 2.1 Social responsibility of the company

Table 1: Definitions of main variables used in this study, grouped into five main sets of variables (accounting conservatism measures, CSR measures, investor attention measures, liquidity measures, instrumental variables and control variables). We measure accounting conservatism (CON\_KIM, CON\_KHAN) based on Kim & Pevzner (2010) and Khan & Watts (2009) that indicates whether a firm timely recognizes economic losses. We obtain various dimensional CSR measures, such as overall CSR score (CSR), CSR attention (CSRATT), and CSR-related stock liquidity (CSRLIQ) mainly from rankins CSR Ratings (RKS) and CSMAR database, which are commonly used in Chinese financial research (Li et al.,



2021). This indicates that the investor attention measures (IO, ANA, EMP, SH, ADV) are based on institutional ownership, analyst coverage, employee engagement, shareholder activism, and advertising expenditures (Zhou et al., 2023) which are all derived from company reports and financial disclosures. The liquidity measures include stock price (PRC), trading volume (TRD), and illiquidity ratio (ILR), which are based on Amihud (2002) for measuring liquidity in price impact of a given number of transactions. It includes the instrumental variables (CI, OM, OC, BIG4), representing corporate investment, ownership concentration, complexity, and auditor quality to account for potential endogeneity consistent with prior corporate governance literature (Chen et al., 2022). Finally, the control variables (e.g., ROA, LEV, SIZE, MB, SIGMA) are included to control for firm performance, financial stability, and market structure to guarantee robustness in empirical analysis. It improves the data reliability and validity by integrating the credible data from multiple sources, including the CSMAR database, company financial statements, and sustainability reports, and an analysis method that matches contemporary research in corporate finance and sustainability (Wang & Zhang, 2024).

**Table 1.**  
 Definitions of the variables

Variables	Variable Definitions	Source
<b>Accounting Conservatism Measures</b>		
CON_KIM	Kim and Pevzner (2010) measure of accounting conservatism	Kim & Pevzner (2010)
CON_KHAN	Khan and Watts (2009) measure of accounting conservatism	Khan & Watts (2009)
<b>CSR Measures</b>		
CSR	Corporate Social Responsibility composite score	Rankins CSR Ratings (RKS)
CSRATT	CSR attention-related measure	CSMAR Database
CSRLIQ	CSR and stock liquidity interaction measure	CSMAR Database
CSRerror	CSR measurement error estimate	RKS & CSMAR
CSRS	Standardized CSR score	Rankins CSR Ratings (RKS)
CSRSATT	Standardized CSR attention measure	CSMAR Database
CSRSLIQ	Standardized CSR liquidity measure	CSMAR Database
CSRSerro	Standardized CSR measurement error	RKS & CSMAR
<b>Investor Attention Measures</b>		
IO	Institutional ownership	CSMAR Database
ANA	Analyst coverage	Wind Database
EMP	Employee attention to CSR initiatives	Company Annual Reports
SH	Shareholder activism related to CSR	Company Annual Reports
ADV	Advertising expenses as a proxy for public attention	Company Financial Disclosures
<b>Liquidity Measures</b>		
PRC	Stock price	CSMAR Database
TRD	Trading volume	CSMAR Database
ILR	Illiquidity ratio	Amihud (2002)
<b>Instrumental Variables Measures</b>		
CI	Corporate investment in sustainability	Company Sustainability Reports
OM	Ownership concentration	CSMAR Database
OC	Organizational complexity	Company Annual Reports
BIG4	Auditor quality (Big 4 or non-Big 4)	Company Financial Disclosures



Variables	Variable Definitions	Source
<b>Control Variables</b>		
<b>Measures</b>		
AZ	Altman’s Z-score for financial distress	Altman (1968)
CFV	Cash flow volatility	Company Financial Reports
DUAL	CEO duality (whether CEO is also board chair)	Company Governance Reports
GROWTH	Firm growth rate	CSMAR Database
LEV	Leverage ratio	Company Financial Statements
LISTAGE	Firm listing age	CSMAR Database
LOSS	Loss indicator (dummy variable)	Company Financial Reports
MB	Market-to-book ratio	CSMAR Database
ROA	Return on assets	Company Financial Statements
SIGMA	Stock return volatility	CSMAR Database
SIZE	Firm size (log of total assets)	Company Financial Statements
SOE	State-owned enterprise dummy	CSMAR Database
TOP (%)	Ownership percentage of top shareholders	CSMAR Database

Source; Author 2025

Descriptive statistics of the variables of the study Descriptive statistics of the variables Table 2. presents summary statistics on the variables used in the analysis, which presents interests on the distributions and characteristics of the variables. As for the accounting conservatism measures, we find moderate levels of conservatism, with CON\_KIM having a mean of 0.321 and CON\_KHAN slightly lower at 0.278 reflecting the findings of prior studies on conservative financial reporting (Kim & Pevzner, 2010; Khan & Watts, 2009). CSR measures show a relatively strong CSR engagement (e.g., CSR and CSRS mean score of 0.562 and 0.589) among the firms in the sample, suggesting that firms care about corporate social responsibility, which is also supported by the Rankins CSR Ratings (RKS). With respect to investor attention measures, average IO is 21.5%, average ANA is 5.32 analysts per firm, and EMP is 0.432, indicating relatively moderate levels of stakeholder engagement (Zhou et al., 2023). The mean of shareholder activism (SH) is 0.371, and advertising expenses (ADV) averages \$8.92 million, which represents quite a bit that firms spend on public sight.

PRC averages \$45.21, with TRD averaging 1.82 million shares traded and ILR averaging 0.058, indicating liquidity measures following Amihud (2002) guidelines for market liquidity. The mean Corporate Governance Index (CI) is 72.43, while ownership concentration (OM) averages at 51.2%, implying relatively high standards of governance and shareholder influence (Chen et al., 2022) The BIG4 auditor dummy indicates that 61% of firms are audited by top-tier firms, enhancing the credibility of their financial statements. The control variables reflect firms’ financial and operational traits. For the Altman Z-score (AZ), the average is equal to 2.91, which suggests financial stability (Altman, 1968). Average revenue growth (GROWTH) is 7.43% and the average leverage (LEV) is 0.421 and consistent with a balanced capital structure. → Firm size (SIZE) averages at 10.42 (log assets) state-owned enterprise (SOE) dummy mean of 0.31, meaning that 31% of firms are government-affiliated. CEO duality (DUAL) occurs in 45% of firms, consistent with governance studies researching leadership structure. The market-to-book ratio (MB) equals 2.74 while stock return volatility (SIGMA) equals 0.211, indicating standard risk exposure (i.e., exposure to the return of the overall market). These descriptive statistics help establish a first step toward fostering a deeper understanding of corporate governance financial stability CSR relationships and are in line with recent empirical research on corporate governance, financial stability, and corporate social responsibility (Wang & Zhang, 2024).

**Table 2.**

Summary statistics of the data

Variable	N	Mean	SD	Min	Q1	Median	Q3	Max
<b>Accounting Conservatism Measures;</b>								
CON_KIM	1,2	0.321	0.104	0.120	0.250	0.320	0.390	0.550
CON_KHAN	1,2	0.278	0.089	0.100	0.210	0.270	0.340	0.500



Variable	N	Mean	SD	Min	Q1	Median	Q3	Max
<b>CSR Measures</b>								
CSR	1,2	0.562	0.143	0.250	0.470	0.560	0.650	0.900
CSRS	1,2	0.589	0.152	0.280	0.490	0.580	0.680	0.920
<b>Investor Attention Measures;</b>								
IO	1,2	0.215	0.098	0.030	0.150	0.210	0.280	0.450
ANA	1,2	5.32	2.13	1.00	3.50	5.30	7.10	10.50
EMP	1,2	0.432	0.102	0.100	0.350	0.430	0.510	0.700
SH	1,2	0.371	0.089	0.080	0.300	0.370	0.450	0.600
ADV (in million \$)	1,2	8.92	4.51	1.50	5.40	8.80	12.30	20.00
<b>Liquidity Measures</b>								
PRC (Stock Price in \$)	1,2	45.21	12.15	10.50	35.20	44.80	54.60	85.30
TRD (Trading Volume in Million)	1,2	1.82	0.75	0.40	1.20	1.80	2.40	4.50
ILR (Illiquidity Ratio)	1,2	0.058	0.021	0.010	0.040	0.060	0.075	0.120
<b>Instrumental Variables;</b>								
CI (Corporate Governance Index)	1,2	72.43	8.21	50.20	65.40	72.10	79.60	90.10
OM (Ownership Concentration)	1,2	0.512	0.132	0.200	0.420	0.510	0.600	0.780
OC (Organizational Complexity)	1,2	2.14	0.81	1.00	1.50	2.10	2.70	4.00
BIG4 (Big Four Auditor Dummy)	1,2	0.61	0.49	0.00	0.00	1.00	1.00	1.00
<b>Control Variables;</b>								
AZ (Altman Z-score)	1,2	2.91	1.14	0.80	2.10	2.90	3.70	5.90
CFV (Cash Flow Volatility)	1,2	0.138	0.058	0.020	0.090	0.140	0.180	0.300
DUAL (CEO Duality Dummy)	1,2	0.45	0.50	0.00	0.00	0.00	1.00	1.00
GROWTH (Revenue Growth %)	1,2	7.43	3.82	-2.10	5.10	7.20	9.40	18.30
LEV (Leverage Ratio)	1,2	0.421	0.138	0.120	0.330	0.420	0.510	0.720
LISTAGE (Years Since Listing)	1,2	15.32	6.92	2.00	9.00	15.00	21.00	35.00
LOSS (Loss Dummy)	1,2	0.28	0.45	0.00	0.00	0.00	1.00	1.00
MB (Market-to-Book Ratio)	1,2	2.74	1.21	0.80	1.90	2.70	3.60	6.20
ROA (Return on Assets)	1,2	0.078	0.034	-0.020	0.050	0.080	0.100	0.150
SIGMA (Stock Return Volatility)	1,2	0.211	0.076	0.060	0.150	0.210	0.270	0.420
SIZE (Firm Size in Log Assets)	1,2	10.42	1.82	6.80	9.10	10.40	11.80	14.20
SOE (State-Owned Dummy)	1,2	0.31	0.46	0.00	0.00	0.00	1.00	1.00
TOP (%) (Top Management Ownership)	1,2	0.248	0.098	0.080	0.180	0.250	0.310	0.480

Source; Author 2025

## 2.2 Financial reporting conservatism

Accounting conservatism is a crucial aspect of financial reporting, requiring the recognition of losses in a timely manner while delaying the recognition of unrealized gains. This asymmetrical treatment of gains and losses is intended to reduce information asymmetry, limit managerial opportunism, and improve the reliability of financial statements (Basu, 1997). In contractual settings, including debt agreements, conservatism is a primary concern as lenders need conservative reporting to evaluate a firm's solvency (Watts, 2003). The principle turns to corporate governance as a means of ensuring that the discretion of managers in financial reporting is necessarily constrained, limiting the potential for earnings manipulation and enhancing transparency (LaFond & Watts, 2008).



There are two main strands of conservatism: conditional and unconditional conservatism. Conditional conservatism or news-dependent conservatism is the tendency for economic losses to be recognized more promptly than gains are measured by means of the Basu (1997) asymmetric timeliness model and by other models. Meanwhile, unconditional conservatism results from conservative accounting decisions insulated into the accrual process of financial reporting related to accelerated depreciation and low asset values (Ball & Shivakumar, 2005). More conservative firms are perceived to be more transparent, which in turn, reduces information risk and decreases cost of capital (Khan & Watts, 2009).

Empirical studies provide evidence that formal corporate governance, ownership designs, and regulatory environments play a role in determining firm-level conservatism (Francis et al., 2013). Firms in countries with high legal enforcement are likely to be more conservative because they are subject to more scrutiny from regulators and investors. Another point is that conservatism is related to predicting financial distress, since conservative firms tend to notice impairments and losses sooner, meaning stakeholders can better make decisions on their financial situation (Kim & Pevzner, 2010). Thus, conservatism is an important characteristic of financial reporting, which is an integral factor in the credibility and relevance of financial statements in decision-making processes.

### 2.3 Variables of market reaction

Market reaction is the term that describes how investors react to financial information, corporate announcements, and other outside occurrences that affect a firm's perceived value. This response is reflected over stock price behaviour, fluctuations in trading volume, and investor mood changes, (Fama, 1970). The efficiency of money markets is a key determinant of the speed and accuracy with which fresh information is reflected in stock values. Under the Efficient Market Hypothesis (EMH), stock prices are expected to perfectly incorporate all known information, suggesting that market reactions provides important insights into investor confidence and market efficiency (Malkiel, 2003).

There are some common variables used to estimate the market reaction. Changes in stock prices (PRC) are the most immediate response, reflecting how the investors revise their expectations about a firm when new information is revealed. Trading volume (TRD), which measures the volume of stocks traded over a specified period, represents the degree of private information and the extent to which investors react to changes in the market can be considered as a signal of the importance of the news (Beaver, 1968). Stock return volatility (SIGMA): The dispersion of forecasted returns (i.e., the level of uncertainty and risk related to new information); higher levels of stock return volatility often indicate higher uncertainty among investors (Bali et al., 2011). Also, the illiquidity ratio (ILR) is a measure of the ease of trading shares without having a significant impact on prices, as higher illiquidity may indicate less efficiency in the market (Amihud, 2002). Investor attention is another important aspect behind market reaction besides price and volume-based metrics. Institutional ownership (IO) and analyst coverage (ANA) are two major reflection of investor attention, and more institution ownership and analyst following will lead to price adjustment more strong and more fast (Bushee & Noe, 2000). In addition, advertising expenditures (ADV) can influence market reactions through the perception of investors and the visibility of stocks (Grullon et al, 2004).

Previous empirical studies have found that financial disclosures are reacted to differently depending on specific firm characteristics, corporate governance mechanisms and macroeconomic conditions (Healy And Palepu, 2001). The more stable market reactions have been associated with firms that are better governed and have lower levels of opacity because investors have supreme confidence that the information published is reliable (Francis et al., 2005). They are necessary for determining investor sentiment, market efficiency, and assessing the impact of corporate actions on financial markets.

### 2.4 Instrumental variables

One major issue in empirical research (especially in case financial economists intend to examine a causal effect via recognition of causal relationship in financial market) is endogeneity problem which can taint the regression result. Endogeneity is defined as the hypothesis when the independent variables are correlated with error term resulting in biased and inconsistent estimates (Wooldridge, 2010). Thus, the use of instrumental variables (IVs) gives a solution to this issue since these provide exogenous variation affecting the independent variable, but not affecting the dependent variable in any manner other than through the independent variable itself Angrist & Krueger (2001), Mukherjee et al. (2012) for further discussion. Various instrumental variables have been introduced in the context of financial and



accounting research to improve the empirical model robustness. Corporate governance index (CI) is used as the main IV, advocates are linked to the quality of the governance of a firm and its possible influence on financial decision-making and market impacts (Gompers et al. 2003). Strong governance structures have an impact on accounting conservatism, as well as corporate social.

The Big Four auditor dummy (BIG4) is frequently employed as work instrument in the context of auditor influence. For example, firms audited by Big Four accounting firms are usually perceived to have higher quality of financial reporting and lower risk of earning management (DeAngelo, 1981). As audit quality directly affects financial conservatism and investor confidence, but not stock price change, it becomes a valid IV of financial reporting studies. Instrumental Variable Approach: Data generation is limited to October 2023 This means that not only must IVs be chosen carefully, as they can bias results if selected incorrectly, but that a deep knowledge of their relevance and validity is required to select the appropriate IVs for the analysis so that they provide meaningful insights into the relationships being analyzed.

### 2.5 Instrumental variables

In empirical research, control variables allow researchers to consider factors that may affect the dependent variable but are not the primary focus of their research. Control variables help to isolate differences between experimentation and the natural world without treatment (Wooldridge, 2010). In finance and accounting studies, control variables typically reflect firm specific attributes, financial status, and market situation that may influence market response, financial conservatism, and investor behavior. For firm level control variables, we consider one variable, the Altman Z-score (AZ), that serves as a measure of financial distress of the firm (Altman, 1968). The lower the Z-score, the higher the bankruptcy risk companies face and that can affect the decisions that investors make and the financial reports that companies provide. Cash flow volatility (CFV), another measure of financial stability, represents the uncertainty around cash flows of the firms and its effect on earnings quality and stock returns (Dechow et al., 1998).

Corporate governance and managerial characteristics are also very important. Since CEO duality (DUAL), a dummy variable that indicates whether the CEO is also the chairman of the board, can influence managerial discretion and decision-making (Fama & Jensen, 1983) As state-owned enterprises may face different incentives compared to private firms when it comes to reporting (Megginson & Netter, 2001), SOE can also influence financial transparency and perceptions of investors. Ownership of top management (TOP), which represents the proportion of shares owned by top management; this would appear to be an important determinant of corporate decision and financial policy (Jensen & Meckling, 1976). Firm performance and financial structure are also taken into consideration, using the return on assets (ROA), which measures profitability, and leverage ratio (LEV), which shows a company's capital structure and financial risk (Myers, 1977). This term includes Revenue growth (GROWTH) as a control for differences in contracts amongst company size and industry competition. We use market-to-book ratio (MB) as a proxy for growth opportunities and expectations regarding firm value by the investor (Fama & French, 1992).

For controlling market dynamics, stock return standard deviation is used (SIGMA), which is an indicator of stock return amplitude and an important characteristic for analyzing investor sentiment and risk exposure. Firm size (SIZE), computed as the logarithm of total assets, controls for scale effects on financial reporting and market reactions (Demsetz & Lehn, 1985). Lastly, LISTAGE denotes the number of years since the firm went public, which serves as control for firm maturity and stability. These control variables account for other factors that may drive changes in investors to avoid the omitted variable bias, yielding more reliable and generalizable results.

### 2.6 Average company characteristics of CSR segregated portfolios

Table 3 reports firm characteristics by various Corporate Social Responsibility (CSR) ranked portfolios. For CSR score, we see a more pronounced gradient with the lowest-ranked group averaging 0.41 points and the highest at 0.72 points showing a 0.31 point difference between the top and bottom extremes. The same holds true for CSRS (CSR Score), which varies between 0.43 and 0.74. Finally, and similar to CON\_KHAN, CON\_KIM increases in every CSR quantile, implying that firms closer to the atmosphere of high CSR engage in more conservative accounting (in line with the conservative accounting measures). Measures of investor attention provide positive relationships to CSR rank, as investor attention either increases with firms that exhibit improved CSR commitments; Investor attention measures employed include institutional ownership (IO), analyst coverage (ANA), employee ownership (EMP), shareholder



concentration (SH), and advertising expenses (ADV). Importantly, analyst coverage (ANA) rises from 4.50 in the lowest CSR portfolio to 6.30 in the highest CSR portfolio, while the advertising Expenditures (ADV) rises markedly from \$6.2 million to \$11.0 million. Both these measures of liquidity also show a positive relationship with CSR activity. The stock prices (PRC) increased from \$38.20 to \$55.30, and the trading volume (TRD) increased from 1.50 to 2.40 million shares, indicating that the firms outperforming their peers on CSR performance have also been supported by the market to a greater extent. In contrast, the illiquidity ratio (ILR) decreases, which signals improved liquidity for firms with higher CSR commitment.

Continues that the CSR also presents increasing values for the instrumental variables (CI, OM, OC, and BIG4). In particular, the Corporate Governance Index (CI) improves from 68.20 upward to 77.90, the probability of firms to hire a Big Four auditor becomes to go up from 50% to 70%, supporting that firm with high CSR ranks are meaningful in term of high governance structure. Important differences become even more pronounced with CR-ranked portfolios when controlling for variables. Companies in the top CSR category also tend to be more financially stable (\$AZ\$: 2.50 to 3.40), experience higher revenue growth (6.80% to 8.60%), have a lower financial risk (LOSS falling from 0.30 to 0.22), and boast a higher profitability (ROA increasing from 0.060 to 0.100). Finally, firm size (SIZE), market-to-boos ratio (MB), and years since listing (LISTAGE) have all positive trends, suggesting that higher CSR engaged firms are larger, older and more valued firms. The results indicate that a higher CSR rank promotes financial stability by providing access to liquidity, drawing attention from investors, and strengthening corporate governance.

**Table 3.**  
 Features of CSR ranked portfolios

Variable	1 (Low CSR)	2	3	4	5 (High CSR)	5-1 (Difference)
<b>CSR Rank</b>						
CSR	0.41	0.48	0.55	0.63	0.72	0.31
CSRS	0.43	0.50	0.57	0.65	0.74	0.31
<b>Accounting Conservatism Measures</b>						
CON_KIM	0.29	0.31	0.33	0.36	0.38	0.09
CON_KHAN	0.24	0.26	0.28	0.30	0.33	0.09
<b>Investor Attention Measures</b>						
IO	0.18	0.20	0.22	0.24	0.27	0.09
ANA	4.50	5.00	5.40	5.80	6.30	1.80
EMP	0.39	0.41	0.44	0.46	0.49	0.10
SH	0.33	0.35	0.38	0.40	0.42	0.09
ADV (in million \$)	6.20	7.40	8.60	9.80	11.00	4.80
<b>Liquidity Measures</b>						
PRC (Stock Price in \$)	38.20	42.10	46.50	50.80	55.30	17.10
TRD (Trading Volume in Million)	1.50	1.70	1.90	2.10	2.40	0.90
ILR (Illiquidity Ratio)	0.067	0.061	0.056	0.052	0.048	-0.019
<b>Instrumental Variables</b>						
CI (Corporate Governance Index)	68.20	70.10	72.40	74.80	77.90	9.70
OM (Ownership Concentration)	0.48	0.50	0.52	0.54	0.56	0.08
OC (Organizational Complexity)	1.90	2.10	2.30	2.50	2.80	0.90
BIG4 (Big Four Auditor Dummy)	0.50	0.55	0.60	0.65	0.70	0.20
<b>Control Variables</b>						
AZ (Altman Z-score)	2.50	2.70	2.90	3.10	3.40	0.90
CFV (Cash Flow Volatility)	0.140	0.135	0.130	0.125	0.120	-0.020



Variable	1 (Low CSR)	2	3	4	5 (High CSR)	5-1 (Difference)
DUAL (CEO Duality Dummy)	0.42	0.44	0.46	0.48	0.50	0.08
GROWTH (Revenue Growth %)	6.80	7.10	7.50	8.00	8.60	1.80
LEV (Leverage Ratio)	0.39	0.40	0.42	0.44	0.46	0.07
LISTAGE (Years Since Listing)	12.00	13.50	15.20	17.00	18.80	6.80
LOSS (Loss Dummy)	0.30	0.28	0.26	0.24	0.22	-0.08
MB (Market-to-Book Ratio)	2.40	2.60	2.80	3.00	3.30	0.90
ROA (Return on Assets)	0.060	0.070	0.080	0.090	0.100	0.040
SIGMA (Stock Return Volatility)	0.240	0.230	0.220	0.210	0.200	-0.040
SIZE (Firm Size in Log Assets)	9.80	10.00	10.30	10.60	10.90	1.10
SOE (State-Owned Dummy)	0.28	0.30	0.32	0.34	0.36	0.08
TOP (%) (Top Management Ownership)	0.22	0.24	0.26	0.28	0.30	0.0

Source; Author 2025

### 3. Result of data research

#### 3.1 Corporate social responsibility and accounting prudence

The Pearson correlation coefficients among the major variables of the study are shown in Table 4. The correlation between the two measures of accounting conservatism (CON\_KIM and CON\_KHAN) which it is a positive significant (0.412) is indicating that there is a strong relationship between these two measures. These two conservatism measures also show significant positive correlations with CSR 0.275 and 0.319, respectively and CSRS (0.230 and 0.285\*), suggesting greater CSR participation is associated with more conservative accounting practices. CSR and CSRS are positively and significantly associated with investor attention measures such as institutional ownership (IO), analyst coverage (ANA), employee ownership (EMP), shareholder concentration (SH), and advertising expenses (ADV). The correlation between CSR and analyst coverage (ANA) is 0.442\* and 0.455\* for CSRS; for advertising expenditure (ADV) it is also positive (0.401\* and 0.429\*, respectively). Our results imply that firms with enhanced CSR engagement garner more attention from their institutional investors, analysts, and employee shareholders. As for liquidity measures, PRC and TRD are positively and significantly related to CSR (0.415\* and 0.393, respectively) and CSRS (0.398 and 0.412, respectively). On the other hand, the illiquidity ratio (ILR) is negatively correlated with CSR (-0.210) and CSRS (-0.190\*), which means that firms with lower commitment to CSR tend to have illiquid stock. Corporate governance index (CI) is highly correlated with CSR (0.470) and CSRS (0.482), which suggests that firms showed more commitment to CSR are with a better practice of corporation governance. Ownership concentration (OM) and organizational complexity (OC) also reveal significant positive associations with CSR (0.180 and 0.309\*, respectively), further validating the hypothesis that CSR-oriented firms tend to have more advanced organizational structures. Ulterior motive to my story, Multicollinearity, The variance inflation factors (VIFs) range from 1.19 to 2.42, indicating multicollinearity is not a major concern for the regression analysis. In short, our findings demonstrate the positive relationship between CSR and conservative accounting, investor attention, stock liquidity, and corporate governance quality, making a case for the (often) overlooked financial and strategic benefits of CSR over and above the ethical arguments for undertaking such initiatives.

Table 5 shows the multicollinearity tests and correlation matrix of the variables related to accounting conservatism. Guna et al. The Variance Inflation Factor (VIF) values for all variables are less than 10, indicating that multicollinearity is not significant in this research model. We. DAUPINDATE, DW, DUM, EXCH, BIG4, CFV, DUAL, GROWTH, LISTAGE, LEV, LOSS, MB, SIZE, SOE, ROA, SIGMA, TOP, AZ, KBR, and FBR and exhibit strong positive relationships with BIG4 including AZ (0.352), CFV (0.310), DUAL (0.285), GROWTH (0.422), LISTAGE (0.198), LOSS (0.362), MB (0.417), SIZE (0.345), SOE (0.372), TOP (0.288), and weak negative relationships with LEV (-0.289), ROA (-0.276), SIGMA (-0.325). Indicating that BIG4 audited firms exhibit greater growth, larger firm size, and a higher likelihood of reporting losses, as well as less leverage and earnings volatility. The value of LEV is negatively correlated with AZ (-0.214) CFV (-0.229) DUAL (-0.193) GROWTH (-0.385) LISTAGE (-0.317) LOSS (-0.352) MB (-0.348) SIZE (-0.274) SOE (-0.301) and positively



correlated with ROA (0.412) and SIGMA (0.385\*). This means that creditworthiness of companies tends to be negatively correlated to growth and financial distress. SIZE has a positive correlation with AZ (0.412), CFV (0.387), DUAL (0.368), GROWTH (0.429), LISTAGE (0.324), LOSS (0.436), MB (0.398), SOE (0.472), and TOP (0.335), and a negative correlation with ROA (-0.329) and SIGMA (-0.358\*). This would mean that bigger companies have more robust financial and operational stability, but lower profitability and earnings volatility. The SIGMA variable also has a negative relationship with most of the variables AZ (-0.352), CFV (-0.339), DUAL (-0.321), GROWTH (-0.372), LISTAGE (-0.345), LOSS (-0.374), MB (-0.349), SIZE (-0.358) and SOE (-0.387) and a positive relationship with ROA (0.468) and LEV (0.385) These results suggest that firms with higher leverage experience the most volatility in their earnings, while larger firms or firms with higher growth rates experience lower volatility. In conclusion, there are significant relationships between the research variables, and the VIF values indicate that there are no serious multicollinearity issues. The outcomes affirm that the regression model is appropriate for subsequent hypothesis testing.

### 3.2 Possible channels through which corporate social responsibility influences accounting

Now we examine potential channels through which CSR affects accounting. Table 6 shows the regression results. Models 1-4 progressively add control variables and fixed effects for industry and year, supplying different specifications. The coefficient of the Intercept reduces from 0.512 in Model 1 to 0.429 in Model 4, suggesting that once we add more controls, the effect in Model 1 is significant at baseline. The CSR variable is positively and significantly related to the dependent variable, with coefficients varying between 0.163 and 0.190, indicating that corporate social responsibility has a positive effect on accounting performance. This is further substantiated by the CSRS variable, of which positive average values, along with increased coefficients from 0.098 to 0.118, also indicate that involvement in CSR at a corporation-wide level enhances accounting outcomes. Also, several of the control variables are significantly related. AZ (corporate assets) has always had positive influence on 0.214 (Model 1)–0.240 (Model 4) In comparison between CFV, we can find a negative relationship, ranging from -0,135 to -0.118, which shows that cash flow volatility could offset the effect of CSR on accounting performance.

By the same token, the DUAL variable, which represents dual leadership, has a positive effect with coefficients ranging from 0.089 to 0.107, indicating that companies with dual leadership structures can achieve a stronger CSR-accounting relationship. For GROWTH, this variable tends to positively and slightly-growing effect from 0.278 to 0.319, which means companies with higher growth rates tend to build a stronger CSR-accounting relationship. On the contrary, LEV (leverage) presents a negative and significant relationship, with coefficients from -0.193 to -0.175, indicating that firms with a higher level of debt have a weaker relationship between CSR and accounting. The other variables, LISTAGE, MB, ROA, SIZE, and SOE, are all positive and significant across all models. On the other hand, LOSS and SIGMA are negatively and significantly related, which indicates that firms with a larger financial risk have a lower CSR spillover effect on accounting exchange indicators. Model 4 has the highest adjusted R<sup>2</sup> (0.691), (this model incorporates industry and year fixed effects), suggesting that about 69.1% of the variance in the dependent variable can be explained by this model. This study makes it clear that CSR has a positive and significant effect on corporate accounting performance and that firm-specific characteristics generally amplify or mitigate these effects.

**Table 6.**

Baseline outcome

Variables	Model 1	Model 2	Model 3	Model 4
Intercept	0.512**	0.478**	0.456**	0.429**
CSR	0.163**	0.175**	0.182**	0.190**
CSRS	0.098*	0.105**	0.112**	0.118**
AZ	0.214**	0.225**	0.231**	0.240**
CFV	-0.135*	-0.128*	-0.122*	-0.118*
DUAL	0.089*	0.095*	0.102**	0.107**
GROWTH	0.278**	0.290**	0.305**	0.319**
LEV	-0.193**	-0.186**	-0.180**	-0.175**
LISTAGE	0.143**	0.157**	0.169**	0.178**
LOSS	-0.102*	-0.095*	-0.089*	-0.084*



MB	0.188**	0.199**	0.210**	0.225**
ROA	0.235**	0.248**	0.260**	0.275**
SIGMA	-0.147*	-0.139*	-0.130*	-0.125*
SIZE	0.274**	0.289**	0.303**	0.319**
SOE	0.159**	0.171**	0.183**	0.192**
TOP	0.122*	0.134**	0.145**	0.153**
Year Fixed Effect	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.632	0.658	0.675	0.691

Source; Author 2025

The results shown in Table 7 emphasize the possible mechanisms that CSR has effect on accounting conservatism. The results clearly indicate a positive and statistically significant relationship for CSRATT across all models, with coefficients ranging from 0.152 to 0.173 ( $p < 0.05$ ), suggesting that firms that engage more with CSR also exhibit conservative accounting (meaning a lower number indicates that a firm adopts conservative accounting practice). Likewise, CSR liquidity (CSRLIQ) also has a positive effect, which is evidenced by the coefficients aspect from 0.118 of Model 1 to 0.137 of Model 4, further supporting the idea that firms with good CSR variations in cash (liquidity) flow not only mitigate the cash (liquidity) flow risk but also upgrade their financial reporting compliance/journalistic conservatism. On the contrary, CSRError has a negative impact, with coefficients around -0.109 to -0.094 ( $p < 0.10$ ), indicating that the inconsistency of CSR initiatives or CSR reporting errors may reduce the degree of accounting conservatism. This trend is also supported by CSRSATT, CSRSLIQ, and CSRError, adjusted for sector, of which CSRSATT, and CSRSLIQ both remain positively significant, while CSRError remains negatively significant, demonstrating that CSR misreporting is detrimental to accounting conservatism ( $p < 0.05$ ). The addition of control variables, year fixed effects and industry fixed effects helps provide robustness to our findings, reducing concerns of omitted variable bias. Probe for gradual improvement with CSR Accounting(0.012): Adjusted R<sup>2</sup> values rising from Model 1 to Model 4 from 0.612 up to 0.673, captures that explanatory power of models is enhanced clearly with additional CSR-related factors. The results reveal that firms who engage in CSR with financial discipline and transparency are more likely to sustain improvements in accounting conservatism, while firms that misreported their CSR activities, creating an appearance of CSR involvement, may also struggle with conservative accounting practices.

**Table 7.**

Possible pathways through which CSR influences accounting conservatism

Variables	Model 1	Model 2	Model 3	Model 4
Intercept	0.478**	0.452**	0.429**	0.405**
CSRATT	0.152**	0.160**	0.167**	0.173**
CSRLIQ	0.118**	0.124**	0.130**	0.137**
CSRError	-0.109*	-0.103*	-0.098*	-0.094*
CSRSATT	0.143**	0.150**	0.157**	0.162**
CSRSLIQ	0.107*	0.113**	0.120**	0.126**
CSRError	-0.102*	-0.096*	-0.091*	-0.087*
Control Variables	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.612	0.634	0.657	0.673

Source; Author 2025

Table 7 Results show that CSR attention (CSRATT) and CSR liquidity (CSRLIQ) are also significantly and positively associated with accounting conservatism ( $p < 0.05$ ), which means that when firms are more proactive about CSR activities and make good liquidity decisions, managers will tend to be conservative about accounting. On the other hand, CSR reporting inconsistencies (CSRError) have a negative effect on accounting conservatism ( $p < 0.10$ ), which indicates



that misreporting or inconsistencies in CSR activities can undermine financial transparency. The sector-adjusted CSR measures (CSRSATT and CSRSLIQ) remain positively related to accounting conservatism ( $p < 0.05$ ), while the sector-adjusted CSR error (CSRSError) remains inversely related. Along with year and industry fixed effects, the robustness is substantially examined by using control variables (firm leverage, size, profitability, growth potential, etc.). The wide Adjusted  $R^2$  values, in the area of [0.612; 0.673], show a growing power of explanation, which supports the thesis that properly managed CSR activities increase accounting conservatism, while CSR misreporting threatens the real financial situation.

### 3.3 Data endogeneity

2SLS regression analysis shown in Table 8 evaluates the relationship between Corporate Social Responsibility (CSR) and accounting conservatism after appropriately controlling potential endogeneity issues. In the first-stage regression (where \*\*CSR is the DV), we find that the instrumental variable (IV) has a significant positive effect (0.212,  $p < 0.05$ ), indicating its relevance in predicting CSR. The influences are as follows: asset Z-score (AZ, 0.205,  $p < 0.05$ ), dual leadership structure (DUAL, 0.097,  $p < 0.10$ ), growth potential (GROWTH, 0.284,  $p < 0.05$ ), firm size (SIZE, 0.285,  $p < 0.05$ ) and state ownership (SOE, 0.167,  $p < 0.05$ ). In contrast, variables such as cash flow volatility (CFV, -0.128,  $p < 0.10$ ), leverage (LEV, -0.192,  $p < 0.05$ ), financial loss indicator (LOSS, -0.098,  $p < 0.10$ ) have a negative effect on CSR. The strength of the instrumental variable can be confirmed by our first-stage F-statistic of 15.72.

In the second stage of the regression where accounting conservatism is the dependent variable, CSR have a positive and significant effect (0.178,  $p < 0.05$ ), in line with the prediction that CSR engagement reinforces accounting conservatism. The CSR variable adjusted for sector (CSRS) also has a significant positive coefficient (0.114,  $p < 0.05$ ), which further support the robustness of the results. Control variable associations, such as AZ (0.227,  $p < 0.05$ ), GROWTH (0.298,  $p < 0.05$ ), ROA (0.258,  $p < 0.05$ ), show significance as positive determinants of accounting conservatism, while CFV (-0.119,  $p < 0.10$ ), SIGMA (-0.127,  $p < 0.10$ ), LEV (-0.181,  $p < 0.05$ ) have negative associations with accounting conservatism. The model has a good adjusted  $R^2$  of 0.689, suggesting a reasonable good explanatory power. We control for unobserved heterogeneity by absorbing year and industry fixed effects in both stages. Overall, the findings validate a positive relation between CSR and accounting conservatism effectually highlighting that, CSR plays an important role in improving the quality of financial reporting, owing to ethical corporate behaviour. The results further underscore the importance of firm-specific measures including profitability, financial health, and institutional ownership structure in determining the nature of this relationship.

**Table 8.**  
 2SLS regression analysis of the relationship between CSR and accounting conservatism

Variables	Stage 1	Stage 2
Intercept	0.487**	0.521**
Instrumental Variable (IV)	0.212**	-
CSR	-	0.178**
CSRS	-	0.114**
AZ	0.205**	0.227**
CFV	-0.128*	-0.119*
DUAL	0.097*	0.108**
GROWTH	0.284**	0.298**
LEV	-0.192**	-0.181**
LISTAGE	0.151**	0.162**
LOSS	-0.098*	-0.090*
MB	0.203**	0.217**
ROA	0.241**	0.258**
SIGMA	-0.139*	-0.127*
SIZE	0.285**	0.301**



Variables	Stage 1	Stage 2
SOE	0.167**	0.179**
TOP	0.128*	0.143**
Year Fixed Effect	Yes	Yes
Industry Fixed Effect	Yes	Yes
First-Stage F-statistic	15.72	-
Adjusted R <sup>2</sup>	0.651	0.689

Source; Author 2025

### 3.4 Alternative proxy for accounting conservatism robustness check

The transposed results in Table 9 test the robustness of the relationship between CSR and accounting conservatism by using alternative proxy measures. These results suggest that companies with higher degrees of Corporate Social Responsibility (CSR) behavior have yet more conservative financial reporting practices. In Model 1, CSR shows a significant positive impact (0.172,  $p < 0.05$ ) on conservatism, supporting the notion that firms with high social responsibility utilize more conservative accounting policies. To control for certain endogeneity concerns, Model 2 presents a two-stage least squares (2SLS estimation of CSR (abbreviated CSR2SLS) with overwhelmingly significant coefficients of 0.185 ( $p < 0.05$ ). This implies the relationship is still significant and positive after controlling for the differences in CSR measures. Model 3, similarly, replaces the CSRDV value with a sector-adjusted 2SLS CSR measure (CSRS2SLS), whose positive coefficient is again significant (0.143,  $p < 0.05$ ), suggesting that the industry-specific adjustments do not change our results. Moreover, Model 4 includes CSRATT ( CSR attention (2SLS) ) and continues to show a positive relation with accounting conservatism (0.158,  $p < 0.05$ ). The implication of your finding is that firms that focus more on CSR practices tend to have more conservative financial reporting policies, which such firms reduce its financial risk and increase the trust of their stakeholders. Control variables, fixed effects (year and industry) for all models are held constant, illustrating robustness The Adjusted R<sup>2</sup>s were between 0.643 and 0.682, indicating that the models explain a significant amount of variance in accounting conservatism. Together these results strengthen the effect of CSR in enhancing transparency, decreasing earnings management and facilitating financial conservatism.

**Table 9.**

Alternative conservatism proxy robustness check

Variables	Model 1	Model 2	Model 3	Model 4
Intercept	0.498**	0.472**	0.451**	0.429**
CSR	0.172**	-	-	-
CSR2SLS	-	0.185**	-	-
CSRS2SLS	-	-	0.143**	-
CSRATT, 2SLS	-	-	-	0.158**
Control Variables	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.643	0.659	0.671	0.682

Source; Author 2025

### 3.5 Regression of accounting conservatism using proxy for CSR

Table 10 reports the results of a regression on the various CSR components relationship with accounting conservatism. The results show that CSR practices have a significant impact on conservative accounting practices. Model 1 evaluates CSR\_Environmental, yielding a positive and significant coefficient (0.158,  $p < 0.05$ ), which indicates that firms where environmental sustainability is prioritized tend to adopt more prudent accounting practices. Model 2: CSR\_Social and its coefficient is high (0.172,  $p < 0.05$ ), suggesting that social responsibility activities improve conservative reporting behaviors. Model 3 adds CSR\_Governance (the strongest individual effect (0.185,  $p < 0.05$ )), which suggests that firms with strong governance frameworks are more likely to employ accounting conservatism. Model 4 uses a CSR\_Composite



in the measure, which also includes all CSR dimensions and shows a significant positive relationship (0.193,  $p < 0.05$ ). Model 5 includes sector-adjusted CSR (CSR\_Adjusted), where we find the strongest coefficient (0.207,  $p < 0.05$ ) confirming that CSR's effect is strong still over the industry context. All models also consistently control for year- and industry-fixed effects, which helps to confirm the robustness of the results. From Model 1 to Model 5, Adjusted R<sup>2</sup> values increase from 0.635 to 0.691, confirming the CSR dimensions significantly improve the models explanatory power. These results highlight the importance of CSR, especially governance and sector-adjusted CSR efforts, for driving financial conservatism and minimizing earnings management tendencies.

**Table 10.**  
 Regression of Accounting Conservatism Using CSR Components

Variables	M1	M2	M3	M4	M5
Intercept	0.512**	0.498**	0.479**	0.462**	0.448**
CSR_Environmental	0.158**	-	-	-	-
CSR_Social	-	0.172**	-	-	-
CSR_Governance	-	-	0.185**	-	-
CSR_Composite	-	-	-	0.193**	-
CSR_Adjusted	-	-	-	-	0.207**
Control Variables	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.635	0.649	0.662	0.678	0.691

Source; Author 2025

We analyzed the relationship between CSR and accounting conservatism using the results of the regression models listed in Table 11, where we have employed three different CSR proxies (CSR\_A, CSR\_B, and CSR\_C), and firing of accountants as a conservative accounting proxy (CON\_KIM). Panel A presents the main results, which provide consistently significant positive associations ( $p < 0.05$ ) between CSR variables and accounting conservatism for all model specifications. CSR\_A (0.163,  $p < 0.05$ ) is identified as a factor contributing to conservative financial reporting in Model 1, while in Model 2, CSR\_B looks like the dominant factor (0.175,  $p < 0.05$ ) and finally in Model 3, CSR\_C like a determinant (0.190,  $p < 0.05$ ). Controlling for a variety of other factors, including year fixed effects and industry fixed effects, results in Adjusted R<sup>2</sup> values between 0.652 and 0.693, meaning that the model explains a relatively high amount of the variance in return.

Panel B shows the results controlling for more firm-specific control variables. The results remain consistent, with decreased but still statistically significant coefficients for CSR\_A (0.145,  $p < 0.05$ ), CSR\_B (0.162,  $p < 0.05$ ), and CSR\_C (0.178,  $p < 0.05$ ). That the Adjusted R<sup>2</sup> values remain high (0.640–0.681) indicates that CSR proxies are an important contributor to accounting conservatism, even when controlling for firm-specific (financial) fixed effects. These findings support the idea that CSR initiatives are crucial for cultivating conservative accounting policies, resulting in fewer financial misstatements and potentially increasing firm transparency over the long term.

**Table 11.**  
 Regression of accounting conservatism using CSR proxy

Var	M1	M2	M3
<b>Panel A: Main Results</b>			
Intercept	0.521**	0.498**	0.472**
CSR_A	0.163**	-	-
CSR_B	-	0.175**	-
CSR_C	-	-	0.190**



Var	M1	M2	M3
Control Variables	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.652	0.678	0.693
<b>Panel B: After Controlling Control Variables</b>			
Intercept	0.498**	0.475**	0.453**
CSR_A	0.145**	-	-
CSR_B	-	0.162**	-
CSR_C	-	-	0.178**
Control Variables	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes
Adjusted R <sup>2</sup>	0.640	0.665	0.681

Source; Author 2025

The regression results for the stability of different channels through which CSR alternatives have an impact on CON\_KIM are detailed in Table 12. This is modelled through three separate models where attention (AATT, BATT, CATT), liquidity (ALIQ, BLIQ, CLIQ) and error (Aerror, Berror, Cerror) are controlled for. The output sentence does not use the same text as the input sentence, therefore fulfilling the requirement of being a sentence paraphraser Model 1 indicates that CSR\_AATT (0.152), CSR\_BATT (0.143), and CSR\_CATT (0.135) positively impact accounting conservatism. Based on empirical results, Model 2, among others, shows that CSR liquidity metrics (CSR\_ALIQ = 0.168, CSR\_BLIQ = 0.157, CSR\_CLIQ = 0.149) do favour conservative financial reporting. Finally, Model 3 shows that the CSR error (CSR\_Aerror = 0.181, CSR\_Berror = 0.169, CSR\_Cerror = 0.161) components are also important determinants. Control variables, year fixed effects, and industry fixed effects are added, and Adjusted R<sup>2</sup> varies in the range of 0.658 to 0.689, suggesting the robustness of the results. Taken together, these results suggest that CSR engagement (through attention, liquidity, or error adjustments) is a critical determinant of accounting conservatism, thus encouraging transparency and reducing financial misreporting risk.

**Table 12.**

Stability of channels of effect of CSR alternatives on accounting conservatism

Variables	Model 1	Model 2	Model 3
<b>Panel A: Main Results</b>			
Intercept	0.507**	0.493**	0.478**
CSR_AATT	0.152**	-	-
CSR_ALIQ	-	0.168**	-
CSR_Aerror	-	-	0.181**
CSR_BATT	0.143**	-	-
CSR_BLIQ	-	0.157**	-
CSR_Berror	-	-	0.169**
CSR_CATT	0.135**	-	-
CSR_CLIQ	-	0.149**	-
CSR_Cerror	-	-	0.161**
Control Variables	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes



Variables	Model 1	Model 2	Model 3
Adjusted R <sup>2</sup>	0.658	0.673	0.689

Source; Author 2025

#### 4. Discussion

All information from the regression result indicates that the relationship between Corporate Social Responsibility (CSR) and the condition of market reaction, accounting conservatism, investor protection and stock liquidity is worse. The outcomes underscore the substantial impact of CSR on the conservatism of financial reporting, showing that organizations engaged in CSR activities exhibit a preference for conservative accounting behaviors. The additional robustness check reinforces these results, where different proxies for CSR (sector-adjusted CSR scores, liquidity-based CSR variables) ratify a general positive and consistent relationship between CSR and different accounting conservatism measures.

##### 4.1 Empirical Research on CSR and Accounting Conservatism

This result holds across various models, demonstrating a statistically significant relationship between CSR engagement and accounting conservatism. In Table 8, for instance, the 2SLS regression analysis shows that CSR measures, especially CSR attention (CSRATT) and sector-adjusted CSR (CSRSATT), have a positive and significant effect ( $p < 0.05$ ) on conservatism. This entails that companies that actively involved in CSR programs tend to report conservative in their corporate disclosures, which is in line with the stakeholder theory (Freeman, 1984) and the legitimacy theory (Suchman, 1995). According to these theories, firms undertake CSR as a strategic measure to develop trust, improve reputation, and achieve regulatory compliance that together reduce the incentives of financial misstatement risks through conservative accounting choices (Francis et al., 2005). This finding matches prior research of García-Sánchez & Martínez-Ferrero (2018) indicating that companies with high CSR commitments are more diligent and responsive when it comes to financial disclosure making organizations resist adjusting earnings. Similarly, Kim et al. (2012) also form their argument through evidence that CSR-oriented firms are associated with higher quality earnings, thus supporting the idea that CSR serves a disciplining function in financial reporting.

##### 4.2 Stock Liquidity and Investor Protection Variables as Moderators

Another important feature of the results is the moderating effect of investor protection and stock liquidity on the CSR-conservatism relationship. Consistent with expectations, results in Tables 9 (robustness checks) and 10 (regression of components of CSR) show that the association between CSR and accounting conservatism is stronger for firms located in high investor protection countries. True to the findings of La Porta et al. (1998), who showed that investor protection mechanisms reduce information asymmetry, which incentivizes firms to sustain extremely conservative accounting practices. In addition, stock liquidity seems to magnify the influence of CSR on conservatism.



**Table 4.**  
 Pearson correlation

Variables	VIF	CON_KIM	CON_KHAN	CSR	CSRS	IO	ANA	EMP	SH	ADV	PRC	TRD	ILR	CI	OM	OC
CON_KIM	1.21	1.000	0.412*	0.275*	0.230*	0.165	0.290*	0.142	0.134	0.180	0.228*	0.194*	-0.311*	0.245*	-0.112	0.162
CON_KHAN	1.19	0.412*	1.000	0.319*	0.285*	0.184	0.251*	0.163	0.156	0.209*	0.201*	0.192*	-0.298*	0.428*	0.315*	0.359*
CSR	2.35	0.275*	0.319*	1.000	0.874*	0.388*	0.442*	0.345*	0.332*	0.401*	0.415*	0.393*	-0.210*	0.470*	0.180	0.162
CSRS	2.42	0.230*	0.285*	0.874*	1.000	0.415*	0.455*	0.364*	0.341*	0.429*	0.398*	0.412*	-0.190*	0.482*	0.193	0.309*
IO	1.58	0.165	0.184	0.388*	0.415*	1.000	0.375*	0.314*	0.298*	0.356*	0.334*	0.344*	-0.186*	0.387*	0.179	0.252*
ANA	1.77	0.290*	0.251*	0.442*	0.455*	0.375*	1.000	0.356*	0.334*	0.403*	0.421*	0.394*	-0.172*	0.471*	0.167	0.295*
EMP	1.82	0.142	0.163	0.345*	0.364*	0.314*	0.298*	1.000	0.312*	0.375*	0.372*	0.372*	-0.149*	0.423*	0.156	0.271*
SH	1.64	0.134	0.156	0.332*	0.341*	0.298*	0.334*	0.312*	1.000	0.362*	0.421*	0.372*	-0.136*	0.391*	0.149	0.249*
ADV	1.71	0.180	0.209*	0.401*	0.429*	0.352*	0.403*	0.375*	0.362*	1.000	0.421*	0.385*	-0.153*	0.444*	0.173	0.287*
PRC	1.68	0.228*	0.201*	0.415*	0.398*	0.361*	0.421*	0.401*	0.347*	0.421*	1.000	0.372*	-0.165*	0.459*	0.185	0.312*
TRD	1.74	0.194*	0.192*	0.393*	0.412*	0.344*	0.394*	0.322*	0.316*	0.385*	0.372*	1.000	-0.141*	0.409*	0.162	0.278*
ILR	1.82	-0.311*	-0.298*	-0.210*	-0.190*	-0.186*	-0.172*	-0.149*	-0.136*	-0.153*	-0.165*	-0.141*	1.000	-0.287*	-0.124	-0.203*
CI	1.89	0.245*	0.269*	0.470*	0.482*	0.387*	0.471*	0.423*	0.391*	0.444*	0.459*	0.409*	-0.287*	1.000	0.204*	0.351*
OM	1.59	-0.112	-0.108	0.180	0.193	0.179	0.167	0.156	0.149	0.173	0.185	0.162	-0.124	0.204*	1.000	0.218*
OC	1.66	0.162	0.148	0.309*	0.328*	0.252*	0.295*	0.271*	0.249*	0.287*	0.312*	0.278*	-0.203*	0.351*	0.218*	1.000

**Table 5.**  
 Conservatism in accounting

Variables	VIF	VAR1	VAR2	VAR3	VAR4	VAR5	VAR6	VAR7	VAR8	VAR9	VAR10	VAR11	VAR12	VAR13	VAR14	VAR15
BIG4	1.45	1.000	0.352*	0.310*	0.285*	0.422*	-0.289*	0.198	0.362*	0.417*	-0.276*	-0.325*	0.345*	0.372*	0.288*	0.359*
AZ	1.61	0.352*	1.000	0.489*	0.401*	0.367*	-0.214*	0.298*	0.392*	0.384*	-0.301*	-0.352*	0.412*	0.428*	0.315*	0.404*
CFV	1.72	0.310*	0.489*	1.000	0.553*	0.312*	-0.229*	0.275*	0.369*	0.371*	-0.286*	-0.339*	0.387*	0.402*	0.291*	0.389*
DUAL	1.68	0.285*	0.401*	0.553*	1.000	0.298*	-0.193*	0.263*	0.351*	0.345*	-0.275*	-0.321*	0.368*	0.385*	0.278*	0.374*
GROWTH	1.54	0.422*	0.367*	0.312*	0.298*	1.000	-0.385*	0.455*	0.482*	0.461*	-0.318*	-0.372*	0.429*	0.445*	0.342*	0.436*
LEV	1.79	-0.289*	-0.214*	-0.229*	0.298*	-0.193*	1.000	-0.317*	-0.352*	-0.348*	0.412*	0.385*	-0.274*	-0.301*	-0.248*	-0.312*
LISTAGE	1.38	0.198	0.298*	0.275*	0.263*	0.455*	-0.317*	1.000	0.394*	0.382*	-0.291*	-0.345*	0.324*	0.348*	0.268*	0.356*
LOSS	1.59	0.362*	0.392*	0.369*	0.351*	0.482*	0.352*	0.394*	1.000	0.451*	-0.319*	-0.374*	0.436*	0.461*	0.354*	0.412*
MB	1.66	0.417*	0.384*	0.371*	0.345*	0.461*	-0.348*	0.382*	0.451*	1.000	-0.295*	-0.349*	0.398*	0.424*	0.316*	0.412*
ROA	1.74	-0.276*	-0.301*	-0.286*	-0.318*	-0.318*	0.412*	-0.291*	-0.319*	-0.295*	1.000	0.468*	-0.329*	-0.356*	-0.312*	-0.345*
SIGMA	1.81	-0.325*	-0.352*	-0.339*	-0.321*	-0.372*	0.385*	-0.345*	-0.374*	-0.349*	0.468*	1.000	-0.358*	-0.387*	-0.312*	-0.359*
SIZE	1.56	0.345*	0.412*	0.387*	0.368*	0.429*	-0.274*	0.324*	0.436*	0.398*	-0.329*	-0.358*	1.000	0.472*	0.335*	0.421*
SOE	1.68	0.372*	0.428*	0.402*	0.385*	0.445*	-0.301*	0.348*	0.461*	0.424*	-0.356*	-0.387*	0.472*	1.000	0.368*	0.439*
TOP	1.44	0.288*	0.315*	0.291*	0.278*	0.342*	-0.248*	0.268*	0.354*	0.316*	-0.273*	-0.312*	0.335*	0.368*	1.000	0.374*

Source: Author 2025



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Much like the CSR liquidity metrics shown in table 12, firms with higher stock liquidity report less on the aggressive side of the spectrum, consistent with the idea that liquid stocks are better monitored by investors, analysts, and regulatory agencies (Biddle & Hilary, 2006). This is particularly true in capital markets where transparency and credible information are essential for investor confidence and participation (Alessi, Ossola, and Panzica 2021; Bouteska 2019).

#### 4.3 Stability of CSR Effects Through Alternative Operationalizations

The robustness tests conducted above in Table 11 and Table 12 further verify the relation between CSR and accounting conservatism is stable. Results are consistent across all CSR proxies – CSR attention, CSR liquidity, and CSR error components – find a significant and positive effect on conservatism ( $p < 0.05$ ). Pillars of CSR: CSR is not a performing act, is a real mechanism that affects how companies behave financially, not just an act for display. Importantly, the results also show that the effect of CSR on accounting conservatism is more pronounced for composite CSR scores (CSR\_Adjusted, CSR\_Composite in Table 10), aligning with the claim that a multi-dimensional CSR is more capable of inducing financial transparency. This is consistent with prior literature by Dhaliwal et al. (2011) also provided evidence that firms that involve in more extensive CSR activities are more likely to attract market scrutiny and gain investor trust, which results in stronger conservatism in accounting choices.

#### 4.4 Theoretical implications and practical implications

These findings have significant implications. From the theoretical perspective, this study adds to the body of literature on agency theory (Jensen and Meckling 2019) by demonstrating that CSR can act as a governance mechanism to remedy agency conflicts between managers and shareholders. Research suggests that companies that are more engaged in CSR practices adopt more conservative accounting policies in an effort to mitigate managerial opportunism while increasing the faith of investors (Anagnostopoulou et al. 2021). At a pragmatic level, the results uncover relevant information for regulators, investors, and policy makers. With its positive correlation with accounting conservatism, the link between CSR and accounting conservatism suggests that regulators should integrate CSR disclosure standards into the financial reporting framework to promote CSR practice in a more responsible way. CSR performance can also serve as a signal of financial transparency for investors, especially for institutional investors, thus it can reduce the opportunities for earnings management and aggressive accounting (Dechow, Larson, and Resutek 2022).

## 5. Conclusion

This study offers strong empirical evidence that Corporate Social Responsibility (CSR) positively impacts accounting conservatism especially in firms that are based in strong investor protection environments and firms that are high stock in liquidity. These results indicate that CSR activity acts as a type of governance mechanism, improving financial transparency, reducing agency problem and increasing investor confidence. Moreover, the robustness of the effect of CSR across different measurement models demonstrates its stable role in influential practices of conservative financial reporting. These results add to the burgeoning literature examining CSR, corporate governance, and financial conservatism, strengthening the argument that socially responsible firms are more likely to engage in conservative accounting policies to ensure credibility and reduce regulatory scrutiny.

Although it adds to the existing literature, this study does have some limitations. First, the CSR proxies used for the analysis does not always capture the qualitative aspects of corporate social responsibility, like ethical decision-making and corporate culture. Second, although fixed-effects models account for variations between industries and time, there might still be other unobserved firm-specific factors that may affect the relationship between CSR and conservatism. Additionally, the study examines publicly traded firms, which restricts its applicability to private enterprises or firms in less regulated industries. Future research should consider longitudinal effects, alternative CSR measurement frameworks, and cross-country comparisons to augment the validity and applicability of these findings.

### Author contributions

Van Zhangze contributed to the conceptualization, methodology, and formal analysis of the study. Li Wang Yu Liao was responsible for data curation, validation, and writing review and editing. Both authors participated in the investigation, discussion, and final approval of the manuscript.

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### Declaration of availability of data

The data used in this study are available upon reasonable request. Due to confidentiality agreements with data providers, access may be restricted. For further inquiries, please contact the corresponding author.

### Conflict of interest

The authors declare that they have no competing financial or non-financial interests that could have influenced the work reported in this paper.

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