



Studying the Effect of Corporate Social Responsibility on Accounting Conservatism Using Maximum Likelihood-Structural Methods

Sepideh Shahryan¹, Seyed Fakhreddin Fakhrehosseini^{2*},
Neamat Rostami Mazoi³

1. Ph.D. Student in Accounting, Islamic Azad University, Tonekabon, Iran.

sepideshahrian@gmail.com

2. Associate Professor, Karaj Branch, Islamic Azad University, Karaj, Iran. f_fkm21@yahoo.com

3. Assistant Professor of Accounting, Islamic Azad University, Chalus, Iran.

nrostami60@gmail.com

1. Introduction

Corporate Social Responsibility (CSR) refers to voluntary actions taken by companies to address social and environmental challenges within their communities. In recent years, CSR has become increasingly important as businesses aim to meet stakeholder expectations. By adopting responsible practices, companies can strengthen stakeholder relationships, improve financial performance, and increase market value. CSR initiatives also encourage information sharing among stakeholders, enriching the company's informational environment.

This research focuses on how CSR activities influence corporate relationships with stakeholders and the company's information environment. It examines whether there is a link between CSR performance and accounting conservatism, which involves financial reporting methods that prioritize

recognizing losses over profits. Understanding this relationship is essential for uncovering how CSR impacts financial reporting practices. Stakeholders such as investors, creditors, customers, and suppliers expect accounting conservatism to reduce risky management practices and address information gaps. The study suggests that strong CSR performance may reduce the need for conservative accounting because positive stakeholder perceptions foster trust and confidence. Transparency in CSR activities further enhances this trust, diminishing the reliance on conservative practices. In Iran, CSR and accounting conservatism promote transparency, build trust, and improve overall company performance. These efforts also support sustainable growth by reducing information gaps and fostering investment efficiency. However, more research is needed to fully understand the relationship between CSR and conservatism.

2. Research hypothesis

In Iran, CSR and accounting conservatism promote transparency and trust while supporting sustainable growth. However, further research is needed to clarify their relationship. According to existing theories and past studies, strong CSR performance helps ease worries about management misconduct among parties in a contract and reduces information gaps in capital markets, resulting in less need for conservative measures. This leads to the following hypotheses:

H1: CSR performance is negatively related to conservatism.

H2: Among different models of conservatism, the Basu model more accurately reflects the link between CSR performance and conservatism than others.

3. Research Methodology

This study focuses on all companies listed on the Tehran Stock Exchange from 2012 to 2023. Since variables like conservatism require data from previous years, information from 2010 to 2023 is necessary. These criteria resulted in a final sample of 93 companies from the adjusted population. This research examines and compares the effects of corporate social responsibility (CSR) on different models of accounting conservatism. It employs the Generalized Method of Moments (GMM) and Maximum Likelihood-Structural Equation Modeling (ML-SEM) techniques for dynamic panel models focused on companies listed on the Tehran Stock Exchange from 2012

to 2023. A total of 93 companies were selected through a screening method.

4. Results

The study utilizes four conservatism models: Basu (1997), Ball and Shivakumar (2005), Givoly and Hayn (2000), and Beaver and Ryan (2000) to analyze the impact of CSR on conservatism metrics. This is the first study in Iran to use the ML-SEM method for dynamic panel models and to compare it with GMM in finance and accounting applying CSR indicators. The results suggest that the ML-SEM method outperforms GMM based on the Wald statistic and observation counts across all conservatism models. Result show that, CSR significantly negatively affects conservatism in the Basu and Ball and Shivakumar models when using the ML-SEM approach. On the other hand, results show that using the ML-SEM approach, CSR has a significant positive effect on conservatism in the Beaver and Ryan (2000) and Givoly and Hayn (2000) models. Regarding other variables' effects on conservatism, results indicate that company size positively and significantly affects conservatism in Basu (1997) and Ball and Shivakumar (2005) models. Conversely, this variable negatively impacts conservatism in Givoly and Hayn (2000) and Beaver and Ryan (2000) models because larger firms with greater financial flexibility may face fewer concerns about financial distress or bankruptcy, leading them toward less conservative accounting practices. The results also indicate that financial leverage negatively affects conservatism in Ball and Shivakumar (2005) and Givoly and Hayn (2000) models but positively influences Basu (1997) and Beaver and Ryan (2000) models. The variable of book-to-market equity ratio shows a negative impact on Basu (1997) and Ball & Shivakumar (2005) models but a significant positive effect on Givoly & Hayn (2000) and Beaver & Ryan (2000) models concerning conservatism. This ratio influences conservatism positively through indicators of financial health while reducing information asymmetry among investors' expectations impacting debt contract dynamics positively. conversely, it negatively influences conservatism by affecting market perceptions leading to income management motivations that exacerbate information asymmetry impacting future investment decisions negatively.

5. Discussion and Conclusion

The study employs four conservatism models—Basu, Ball and

Shivakumar, Givoly and Hayn, and Beaver and Ryan—to assess the influence of Corporate Social Responsibility (CSR) on conservatism metrics. This research is notable for being the first in Iran to utilize the ML-SEM method for dynamic panel models and to compare it with GMM in the context of finance and accounting using CSR indicators. Findings indicate that the ML-SEM method outperforms GMM based on statistical criteria. Notably, CSR negatively impacts conservatism in the Basu and Ball and Shivakumar models, while it positively affects conservatism in the Givoly and Hayn and Beaver and Ryan models. Additionally, company size shows a positive effect on conservatism in some models but a negative impact in others, suggesting larger firms may adopt less conservative practices due to financial flexibility. Financial leverage also demonstrates mixed effects across models. Furthermore, the book-to-market equity ratio negatively influences certain models while positively affecting others, reflecting its dual role in financial health and market perceptions. Overall, these results highlight the complex interactions between CSR, accounting conservatism, and various financial metrics, indicating a need for further exploration in this area.

Keywords: Accounting Conservatism, Corporate Social Responsibility, Maximum Likelihood-Structural (ML/SEM) Approach.

JEL classification: G32, G38.