

Review of: "Corporate giving as earnings quality signal: some new evidence from Nigeria"

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Potential competing interests: No potential competing interests to declare.

General:

1. Please use MS Word 365's Editor or Grammarly to polish the grammar. Examples of errors (this is not an exhaustive list):
 - a. Pg 1: 'the first papers' should be singular.
 - b. Pg 1: the first sentence under 'Originality/value' does not make sense.
 - c. Pg 2: 'of recent attention' would read better with a comma after 'of recent'.
 - d. Pg 4: 'CSR reports publications'; tautology.
2. References:
 - a. CSR and earnings management are vibrant fields. However, there are only a handful of recent studies cited. Most sources are for 2018 and older. Before you submit to a journal, include some more recent studies and also from your target journal, if relevant.
 - b. Many journals now require that you use DOIs for each publication if available.
 - c. Moratis and van Egmond's reference contains the name of the journal twice.
3. There is a conceptual difference between CSR (or environmental and social) *performance*, i.e., what companies actually do in this regard and their *reporting* about it in a CSR/ESG/Sustainability report (which is where the whole dilemma of greenwashing comes in). When discussing prior studies, please be more clear about what aspect of CSR was used as the variable in the study. If you want to observe 'ethical' behaviour, the focus should be on CSR performance and not the reporting.
4. It is confusing when you refer to CSR when you actually mean 'making donations'.
5. The use of one-directional hypothesis and one-tailed significance tests is not standard practice in accounting research. The theoretical discussion did not make a clear case of why the relationships would only be one-directional.

Title:

1. Can be more concise. Remove the words 'some new'. The word 'some' diminishes your contribution.

Abstract:

1. Purpose: you are already stating that you investigate the matter 'beyond' some previous approach. There is no need to use 're-examine'; 'examine' is fine.
2. Design/methodology:
 - a. some journals might have an issue with the recency of your sample. 2018 is a while back.
 - b. No need to elaborate in the Abstract on the pre-study power analysis conducted. You can describe it in the Methodology section.
3. Findings: your title uses the word 'quality signal'. Instead of using 'not related', bring it back to not being a reliable signal of earnings quality.
4. Originality/value: we never state that our study is 'probably the first'. Rather state something like 'In an underresearched area, ...'. The first sentence does not make grammatical sense. It looks like 'index needed' is a new thought.

Introduction:

1. Please define what is generally meant by CSR in a business context.
2. The citation in the first sentence to yourself (Inekwe et al., 2019) might seem gratuitous. Many authors have made this statement; rather cite those studies. If you want to cite yourself, cite a finding that was unique to your prior research.
3. How do you relate 'financial reporting quality' with 'earnings quality'? Financial reports can be deemed of high quality, i.e., it complies with IFRS, yet they can still contain earnings manipulation (management). Is your study about 'reporting quality' or 'earnings quality'?
4. Pg 2, the end of paragraph 1: Please name this 'important aspect' in the last sentence.
5. Pg 2, the start of paragraph 2: What is meant by 'corporate giving'? Are you talking about corporate donations and philanthropy? Or CSR in the broad sense? Please define concepts and use them consistently.
6. Rather start this paragraph by describing the problem of developing countries not having large samples. This then leads to the importance of rather using practical significance and not statistical significance. This then leads to why you are examining the issue in a developing country, Nigeria.
7. RQ – clarify 'corporate giving' vis-à-vis CSR as discussed above.
8. Pg. 2, the second last paragraph: Please provide a bit more context to what was done in the additional analyses before referring to the 'income-decreasing discretionary accruals subsample'.

Literature review and hypothesis:

1. Pg. 3, paragraph one: please provide a citation(s) for the last statement regarding 'fierce debate'.
2. Pg. 3, the start of paragraph two: maybe replace 'climates' with 'regions'.
3. Pg. 3, start of paragraph three: you use 'Recently' and then cite '2008'. By 2023, this can no longer be recent.
4. Pg 3, fourth paragraph, last sentence: Have the two Bills to establish a CSR Commission and to amend the FRC Act been signed into law yet by 2023? If signed into law, you can use this to motivate why your study's most recent year of analysis is 2018, i.e., the conditions were still voluntary at that time as the laws were not adopted yet, and hence

companies focused largely on 'philanthropic giving'.

5. Please provide a few examples of 'corporate philanthropic giving' so that readers have a precise understanding of how that differs in Nigeria from broader CSR activities.
6. What are the implications of Nigeria's Corporate Governance Code on companies' CSR behaviour?
7. Pg 3, section 2.2.:
 - a. In the first paragraph: please start by defining what 'earnings quality' or 'earnings management' is. Move the discussion in paragraph one on page 4 earlier.
 - b. The second paragraph: please also include Fama & Jensen (1983) and Jensen & Meckling (1976) in the discussion around agency theory.
8. Pg 4, the top paragraph: regarding your statement, supported by the citation to Prior et al. (2008) that earnings management heightens agency costs, i.e., owners try to prevent earnings management, is there an argument to be made that meeting analysts' earnings forecasts, also *benefits owners* in that the share price is stable, i.e., the price did not drop if a 'true' decline in earnings is reported? I.e., in some circumstances, earnings management (upward) by managers can benefit owners.
9. Pg 4, second paragraph, first sentence: 'are viewed as a sign of agency problem'. This statement is too strong. It is viewed by *some* as a sign of agency problems.
10. Pg 4, second paragraph: information asymmetry is also linked to signalling theory (Akerlof, 1970; Spence, 1973).
11. Pg 4, third paragraph:
 - a. A discussion of stakeholder theory should include Freeman (1984) and Freeman, Wicks & Parmar (2004).
 - b. I understand why you use stakeholder theory to explain why companies engage in CSR, but it's not immediately clear how it relates to earnings quality. Is the obligation to behave 'ethically' related to reporting 'true' accounting numbers even when discretion in making assumptions in many IFRS is allowed?

Hypothesis development:

1. CSR can be proxied by many variables. In your discussion of the prior research, please expand a bit more on what aspect of CSR was studied in relation to earnings quality in each study.
2. Partition your discussion of prior studies between those that studied 'other' aspects of CSR and those that studied focused on the narrower concept of 'corporate giving' = *philanthropy*.
3. You partly motivate your study on the bases that *developing countries* don't have large datasets and hence researchers in those domains may focus more on practical significance. When discussing prior studies, please indicate for each which countries' companies were sampled. The source country is not always indicated for each prior study. This will allow readers to judge the veracity of your motivation regarding the sample size difference between developed and developing countries.
4. It is also not always clear in the discussion whether the CSR variable is the explanatory variable or the dependent variable in relation to earnings quality.
5. In the last paragraph on pg 5, you refer to 'the relation between CSR *disclosures* and earnings quality'. Refer to the

previous comments. In the discussion of prior research, it is not clear whether these studies focused on CSR disclosure or CSR performance. The discussion should focus on the concepts in your hypothesis.

6. Hypothesis:

- a. you jump between using 'CSR' and 'corporate giving'. It is not necessarily clear in readers' minds that this is the same concept, especially when in section 2.1. you motivate that in Nigeria CSR boiled down to philanthropic endeavours only (in the narrow sense). You then state that corporate giving is proxied by *donations*.
- b. The hypothesis refers to 'corporate giving *disclosures*'. Is the issue that companies *disclose* that donations were made (do they quantify the donations or just state that donations were made), or the *size* of the donations, i.e., donations 'performance' or donations 'disclosure'?
- c. I am not convinced by your theoretical foundations that the association is only one-directional when previous studies found conflicting results. Companies can engage in CSR (or making donations) as a means to obtain 'outside' legitimacy or positive impressions, whilst internally engaging in earnings manipulation e.g., for rent-seeking purposes.

Methodology:

1. Some journals might query the lag between '2018 was the most current available data' and the fact that it is now 2023. Maybe there is some other justification for stopping at 2018, e.g., a change in legislation regarding CSR or something to that effect that changed the landscape post-2018. Otherwise, you must take your chances.
2. Your prior literature mentions conflicting findings for the relationship between your two main variables. Why do you choose a directional hypothesis, and hence a one-tailed power test?
3. Independent variable CSR:
 - a. You cite Prior et al. (2008) and Seifert et al. (2004) as support for stating that CSR (the 'wider' concept) measurements are 'needlessly complicated' and 'lacks comparability across firms'. These sources are quite old. What is your view on the use of ESG ratings agencies' scores for ESG/CSR as a solution to the mentioned problems, e.g., ratings provided by Refinitiv and S&P Global? Was this data unavailable to you and hence you relied on another measure, i.e., donations?
 - b. Your use of the word 'disclosure' is confusing to me. My understanding is that you are measuring the 'performance', i.e., the quantum of the donations and not the fact that donations were 'disclosed'. In my opinion, disclosure studies are about content analysis, checklists and completeness measured against a standard or regulation that compels what should be disclosed.
4. The use of ROA as a control variable is confusing. Why is an increase in profitability associated with higher earnings quality? Reported profitability could be higher precisely because of earnings management.
5. Rather include the discussion in Appendix C on 'financial distress' here.
6. The model in Equation 1 contains six variables. What is the impact on the sample size with effect size calculation (you used 5 predictors a priori, pg 7)?

7. CSRD = corporate social responsibility disclosures:

- a. your previous discussion stated that this is operationalized by the natural logarithm of donation amounts. Why not use a more appropriate variable name?
- b. In the descriptive results (pg 9), you mention that 19 firm-years had zero donations. I suppose that you added '1' to all values before it was converted to its natural logarithm.

8. Running one-tailed tests is not usually advised. As stated before, I'm not convinced that the relationship between donations and earnings quality is only one-directional.

Descriptive statistics:

1. CSRD: It would be interesting to readers to see the descriptive statistics for the donation amounts before the application of the natural logarithm just to understand the economic size of the phenomenon.
2. Please provide a chart of the mean discretionary accruals and raw donation amounts per year.

Correlation analysis:

1. Why are the correlations with the dependent variable not disclosed?
2. L_TA: instead of bringing size in as a control variable, why were donations not expressed as a relative measure, i.e., as a percentage of total assets or total sales?
3. What is your view about Leverage's correlation of 0.6223 with Distress? This is reasonably high for business studies (you state that L_TA was 'highly correlated with CSRD' at 0.67). It is potentially explained by the fact that highly leveraged firms are usually likely to be distressed. Leverage is included in the Zmijewski model as X_2 . I agree that multicollinearity between control variables is not such a big risk, but maybe consider whether you are measuring the same concept twice. Could you not bring in a dummy variable for reporting a loss in the period instead of the Distress variable (if you want to keep Leverage)?
4. If your results are sensitive to multicollinearity, please display an extra column at the end of the correlation matrix with the VIF for each variable.

Regression results:

1. Tables IV and V: please report the t-values and the p-values for each variable. It is very difficult to interpret the results without this.
2. My understanding is that for one-tailed tests you do not have Confidence Intervals, but only an upper or lower limit against which your variable is tested.

Conclusion:

1. I would not consider that reporting practical effect sizes is a notable contribution worth mentioning in a conclusion. It has become more common practice for it to be reported.
2. Regarding the policy implications, it is unclear if currently there are no existing Acts that regulate CSR. Google

searches indicate some reference to acts relating to CSR, but I'm not an expert on CSR legislation in Nigeria per se.

3. On the theoretical contribution, I suggest that you report your model with the signed accruals as one way of investigating the relationship between donations and earnings quality. The literature review did not contain enough details of the prior studies' variables for the reader to judge whether signed accruals were used in the main or robustness tests.