



## Linking Islamic Corporate Social Responsibility, Sharia Governance Practices, and Earnings Management in Islamic Banks

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### ABSTRACT

This paper examines the relationship between corporate social responsibility, sharia governance, and earning management in the Islamic bank industry sector. This study uses secondary data, which is analyzed using regression panel with fixed-effect model. Samples were obtained from 48 Islamic banks in 16 countries from 2009 to 2018. The sample criteria in this study are the banks that disclose their zakat payments in their annual reports. The empirical results prove that corporate social responsibility (CSR) and sharia supervisory board (SSB) expertise contributes significantly to reducing earnings management practices, while SSB size is not significantly influencing earnings management practices. The contribution to policymakers in developing CSR instruments following sharia principles; Islamic bank manager aligns CSR intentions based on the concept of monotheism to enrich the literature review on CSR, sharia governance, and earning quality.

### *Menghubungkan Tanggung Jawab Sosial Perusahaan Islam, Praktik Tata Kelola Syariah, dan Manajemen Laba di Bank Syariah*

#### ABSTRAK

Penelitian ini mengkaji hubungan antara tanggung jawab sosial perusahaan, tata kelola syariah, dan manajemen laba di sektor industri bank syariah. Penelitian ini menggunakan data sekunder yang dianalisis menggunakan regresi panel dengan model fixed-effect. Sampel diperoleh dari 48 bank syariah di 16 negara dari tahun 2009 hingga 2018. Kriteria sampel dalam penelitian ini adalah bank yang mengungkapkan pembayaran zakatnya dalam laporan tahunannya. Hasil empiris membuktikan bahwa CSR dan keahlian dewan pengawas syariah memberikan kontribusi yang signifikan terhadap penurunan praktik manajemen laba, sedangkan ukuran dewan pengawas syariah tidak berpengaruh signifikan terhadap praktik manajemen laba. Kontribusi kepada pembuat kebijakan dalam mengembangkan instrumen CSR yang mengikuti prinsip Syariah; Manajer bank syariah menyelaraskan niat CSR berdasarkan konsep tauhid untuk memperkaya tinjauan literatur tentang CSR, tata kelola syariah, dan kualitas laba.

## 1. Introduction

Investors began to worry about the issue of the relevance of the financial statements published by the company. Financial reports aim to provide information about the company's performance to stakeholders and potential investors. Financial statement information can be used as an analytical tool to project the company's financial condition in the future. The issue that becomes the centre of

attention of investors regarding earnings management practices in the financial reporting process can have a slight effect on stakeholders in conducting their investment analysis. Schipper (1989) interprets earnings management as a deliberate intervention in the published financial reporting process by manipulating transactions Healy & Wahlen (1999) to meet analyst

expectations and maintain the company's future growth projections (Leuz et al., 2003).

Islamic bank (IB) is based on Islamic law by prohibiting *usury*, *gharar*, *maysir*, and encouraging risk, loss, and profit-sharing by encouraging a decline in earnings management practices. Islamic bank faces a two-way obstacle in agency costs. First, depositors who hold investment account holders (IAH) do not have direct representatives, so they cannot monitor the performance of the IB, which adds to agency costs for depositors. Second, adherence to sharia principles implies an increase in organizational morale to reduce agency costs (Abdelsalam et al., 2016). Islamic bank has a different governance structure from commercial banks. The IB has an additional governance layer with a sharia supervisory board (SSB). SSB functions as an IB controller toward fulfilling sharia principles and moral values that are not following Islamic law (Belal et al., 2015). SSB that performs a good control function can improve the earnings management generated by the IB.

Corporate social responsibility (CSR) encourages companies to contribute to solving social problems such as environmental issues, poverty, community empowerment, and human rights. The company's contribution to solving social problems can improve the company's image, reduce business risk, save energy and increase customer loyalty. In the long run, CSR carried out by the company will provide economic and social benefits Amar & Chakroun (2018). It will positively impact the company's perspective on running a business that can prosper socially and develop sustainable development. According to Kim, Park, & Wier (2012), companies that carry out CSR tend to avoid revenue manipulation using the discretionary accrual method. This evidence contrasts with the opinion of Hoque et al. (2018) that companies that carry out various kinds of CSR activities ultimately aim to maximize profits and avoid public skepticism about companies when they make mistakes. Researchers suspect that CSR is positively related to earning management because

the CSR program can be integrated with the company's mission, governance, and long-term corporate business planning (Rezaee, 2016). Kim et al. (2012) reported that CSR activities are related to earnings management.

This study takes the view of CSR carried out by IB. Therefore, the researcher adopts the concept of Islamic corporate social responsibility. CSR in an Islamic context about human welfare and good life emphasizes brotherhood and social justice, economic justice, and maintaining material and spiritual balance. Zakat is an obligation according to Islamic teachings, while this charity is a voluntary donation (Chapra, 2003). CSR can be implemented into people's lives through zakat payments to reduce the rich and poor gap because zakat aims to redistribute wealth (Lewis, 2001). Apart from obligatory zakat, the model for distributing wealth to the poor is sadaqah. Zakat is well organized in terms of calculation by category. Alms (donations) no specific guidelines govern the calculation or distribution so that donations are more widely used.

Alfakhri, Nurunnabi, & Alfakhri (2018) designed the ICSR concept with the Islamic CSR tree model; this method is divided into roots, stems, and crowns (leaves and fruits). At the root level, CSR is associated with the concept of Tauhid, so every donation issued for CSR must be intended because of Allah SWT. The created activities must be of positive value so that the community can receive benefits in the short and long term. Second, at the stem level, which connects the roots with the crown, CSR is associated with the obligation to pay zakat and employee welfare. The third is the crown; CSR activities are related to external activities such as environmental activities. In this concept, the crown represents the health level of a company so that external parties will pay close attention to the crown's appearance.

Several previous studies have linked sharia governance and earning management. Kumari & Pattanayak (2017) relate earnings management to corporate governance in commercial banks in India,

and statistical results show a significant relationship. The finding (Abdelsalam et al., 2016) is that Islamic banks are more conservative in presenting non-performing financing, income, and discretionary accruals. Quttainah, Song, & Wu (2013) found evidence that Islamic banks tend to carry out earnings management and SSB characteristics as determinants in the supervision of earnings management. Discretionary Loan Loss Provisions (DLPP) are negatively correlated with board size and audit committee. Small SSB is more effective in decision making, and SSB with background accounting reduces discretionary behaviour (Huang & Nieh, 2004).

A review of previous studies that linked CSR to earnings management found inconsistent results. Amar & Chakroun (2018) found that CSR harms earnings management in listed companies in France. Kim et al. (2012) and Rezaee, Dou, & Zhang (2019) found that companies with high CSR ratings tend to be involved in earnings management practices by manipulating actual activities and discretionary accruals. García-Sánchez & García-Meca (2017) said that CSR activities in banks have an effect on earning management.

According to Aldin et al. (2018), CSR in Islam provides a sense of justice through equitable distribution of wealth to the community without distinguishing religion, race, ethnicity, gender, status, et cetera. Zakat aims to distribute wealth so that this concept can proxy CSR. The study by Ali and Hatta (2014), Johari et al. (2014), Ali et al. (2015), Olanipekun et al. (2015), Amuda (2013) showed that the distribution of zakat reduces income inequality and improves social welfare to create a good life and sustainable development.

This paper contributes to CSR, sharia governance, and earnings management literature. The empirical results of this study use CSR dimensions, which are still rarely used in the IB industry. This research is vital because IB has a unique governance structure, namely the presence of SSB, which is expected to reduce business practices that violate ethics. This study will

contribute to the accounting literature linking sharia governance with earning management in the IB industry. This study presents empirical evidence of whether SSB can control earnings management behaviour as a unique governance structure in IB. In the current CSR literature, there are still few who take CSR measurements according to the Islamic view, especially zakat. These two concepts are equally aimed at social welfare. Novelties study is the concept of CSR, which is proxied by Zakat in Islamic banks.

## **2. Literature review and hypothesis development**

### **Literature review**

The literature review results reveal that agency theory (Jensen & Meckling, 1976) and stakeholder theory Hannan & Freeman (1984) are two perspectives that can explain the relationship between sharia governance and earning management. Agency theory explains the emergence of information asymmetry and opportunistic behaviour of managers that lead to conflicting relationships between managers and stakeholders due to differences in interests. Objectives monitoring is required through a governance mechanism to reduce conflict and serve the interests of shareholders (Halme and Huse 1997). Stakeholder theory explains the relationship between sharia governance and earning management. This theory explains that a suitable corporate mechanism will improve the relationship between managers and stakeholders so that it can encourage company sustainability (Parbonetti, 2012). This theory supports governance mechanisms for the long-term alignment of management and stakeholder objectives (Hussain et al., 2018).

In line with the benefits offered by CSR, in the Islamic concept, there is maqasid sharia which includes the essential elements of welfare and the benefit of society. Maqasid sharia consists of five elements to protect faith, self, reason, lineage, and wealth. Therefore, contractual and commercial transactions of Islamic banks must meet the

elements of maqasid sharia (Moudud-UI-Huq, 2021).

The discussion on earnings management associated with CSR was carried out by Gargouri et al. (2010), and the result was that CSR was positively correlated with EM. Costs incurred from CSR activities can reduce the company's profit potential so that management is motivated to conduct EM so as not to reduce bonuses.

Research on the relationship between sharia governance and earnings management in IB was previously carried out by (Mersni & Ben Othman, 2016). In general, this study identifies that the IB governance mechanism through the control function of SSB can prevent earnings management practices to improve the earnings management in accounting reports.

### **CSR and earning management**

The link between CSR and earnings management (EM) can be seen from two different perspectives. First, companies that do CSR well tend to have a high level of transparency to avoid EM practices. The company complies with ethical aspects desired by stakeholders, thereby reducing information asymmetry. Second, CSR is used as a tool by managers to do EM to disguise their personal goals. In other words, EM is used as a management way to get personal benefits by utilizing CSR carried out by companies.

Almahrog et al. (2018) research shows that companies with high CSR implementation tend not to carry out earnings management through discretionary accruals. Alsaadi, Ebrahim, & Jaafar (2017) state that companies with a high level of CSR implementation tend not to manipulate so that they do not focus on earnings management. A different approach is put forward by Bozzolan et al. (2015), which states that there are two approaches to earnings management, namely natural (REM) and accrual (AEM), both of which are associated with CSR, which affects reporting quality. Companies with high CSR implementation tend not to pay attention to REM but to AEM because of its

long-term nature. CSR can provide satisfaction to stakeholders with value creation, although there is a negative side, namely the company's weakness in projecting an earnings management strategy.

The implementation of CSR can increase the company's earning management, specific to the banking industry (García-Sánchez & García-Meca, 2017b). Another factor that can increase earning management is the regulation of financial institutions and investor protection as complementary elements that support the mechanism for implementing CSR. Banks that implement CSR well will provide transparency in earnings to investors to build a good reputation. Reputation will affect investors' trust, impacting high profits and increasing the quality of the bank's assets.

Research from Khajavi et al. (2011); Kim et al. (2012b); Scholtens & Kang (2013); Bozzolan et al. (2015); and Gras-Gil et al. (2016) identifies interactions between CSR and EM using panel data for non-financial companies. The statistical results show a negative correlation between the impact caused by the implementation of CSR on EM. These results explain that a company's higher CSR will positively impact its high reputation. Besides, it will fulfil the wishes of stakeholders in terms of the effective use of resources by the company to prevent the destructive effects of EM practices.

EM practice by manipulating accounting aims to create reasonable public opinion to increase company value in the capital market. Management also does this to get bonuses. Another motivation is to lower taxes. EM practice will lead to asymmetry of accounting reports, which can impact investors' failure to analyze the company's future performance. CSR exists as a counterweight to these practices, manifesting accountable and transparent business processes. Financial reports that are produced are factual and reliable so that they can suppress earnings management activities (Kaya & Yazan, 2019).

H<sub>1</sub>: CSR has a negative correlation with earnings management

**Sharia governance and earning management**

Research linking sharia governance with earning management was previously conducted by Huang & Nieh (2004); Quttainah et al. (2013); Hamdi & Zarai (2014a); Hamid et al. (2014); Abdelsalam et al. (2016); Kolsi & Grassa (2016); Khosheghbal et al. (2017); Kumari & Pattanayak (2017); and Yazar Soyadı (2020). Shariah governance is specifically marked by the presence of SSB, which a non-sharia company does not own. SSB in this study is proxied by SSB size and SSB expertise.

**SSB size in earning management**

The governance literature confirms that a smaller board is more efficient for coordination and thus more effective in decision-making (Jensen, 1993; Lipton & Lorsch, 1992). Opportunistic managers tend to take advantage of this situation to manipulate company profits to bigger the manager's bonus (Jensen & Meckling, 1976). A smaller board size is expected to provide more effective control. On the other hand, a large board of directors has a broader background and experience, including expertise in accounting. IBs with larger board sizes can detect manipulation of financial statements, such as earnings management (Klein, 2002).

SSB context, the small number of boards can overcome communication problems and better control the problems of Islamic banks related to EM practices to reduce the risk of EM practices. Empirical studies provide mixed evidence, such as (Elghuweel et al., 2017), that board size does not significantly correlate with firm earnings management practices. Hamdi & Zarai (2014) reported that SSB size is insignificant in mitigating EM. Kolsi & Grassa (2017) found that a larger SSB size will reduce earnings management.

H<sub>2</sub>: SSB size has a negative correlation with earnings management.

**SSB expertise in earning management**

SSB's expertise means having expertise in accounting and finance, especially in the Islamic industry (Bukair & Rahman, 2015). SSB has the primary duty to inspect and supervise IB products and services from the sharia side. SSB examines and reviews financial contracts, agreements, and other documents to ensure compliance with Sharia principles (Syafa & Haron, 2019). AAOIFI Shariah Standard No. 29 said that accounting and finance knowledge would help SSB understand IB practices to control better and review IB financial reports.

The characteristics of the SSB member expertise in IB are essential to study because the results of previous literature studies suggest that board quality affects earnings management (Klein, 2002; Cornett et al., 2009). It is consistent with the findings (Quttainah et al., 2013) that SSB with background accounting can control IB from EM practice.

H<sub>3</sub>: SSB expertise has a negative correlation with earnings management.

**3. Research method****Data sources**

This research draws on IBs operating around the world from 2010 to 2018. The research data was taken from the Bank scope database. After checking the data, a sample of 48 IBs was obtained from 16 countries. Many banks do not disclose zakat payments, so the sample is smaller. Islamic bank does not disclose zakat payments because it is based on the company's basic rules that zakat is an individual obligation of the shareholder. The sample distribution by country is presented in Table 1, while the details of the Islamic bank that are the sample are attached to appendix 1 of the sample of Islamic banks.

Table 1. Sample distribution

No	Country	Sample (IB)	Percentage
1	Bahrain	8	16.7%
2	Bangladesh	5	10.4%
3	Brunei Darussalam	1	2.1%
4	Indonesia	3	6.3%
5	Jordan	4	8.3%
6	Kuwait	5	10.4%
7	Malaysia	6	12.5%
8	Maldives	1	2.1%
9	Pakistan	3	6.3%
10	Qatar	3	6.3%
11	Saudi Arabia	1	2.1%
12	Sudan	1	2.1%
13	Thailand	1	2.1%
14	Turkey	1	2.1%
15	United Arab Emirates	3	6.3%
16	United Kingdom	2	4.2%
	Total	48	100%

### Dependent variable

As the dependent variable in this research, earnings management is measured using the Loan Loss Provisions (LPP) method. Previous researchers have used the same method (Ashraf et al., 2015; Abdelsalam et al., 2016; Kolsi & Grassa, 2016; Abu-Serdaneh, 2018). In the literature, earnings management in banking generally consists of income smoothing, capital management, and the signalling hypothesis. In the case of income smoothing, the bank manager tends to put aside LLP when the bank is in good condition to cover an increase in bad credit. Capital management assumes that banks use lousy credit to support minimum capital requirements. Banks tend to use LLP to meet minimum capital regulatory requirements. The signalling hypothesis states that bank managers make high LLP a reference for financial performance. In contrast, LLP is associated with income (Ashraf et al., 2015). The formula for calculating LLP is total LLP divided by total loan (Abu-Serdaneh, 2018).

### Independent variables

This study took two independent variables, namely CSR and sharia governance. We are measuring CSR by using the size of zakat and IB donations. This concept was adopted by (El-Halaby & Ragab, 2018), who argue that CSR is a form of social care to fulfil obligations to God, society, and the ecosystem. The formula for this variable uses the natural log of the amount of zakat and IB donations.

Sharia governance uses SSB Size and SSB expertise. SSB size is measured by the number of SSB members the IB has published in the annual report at the end of the year (every 31 December). SSB expertise is measured based on the percentage of SSB with financial and accounting background to the total SSB owned by the IB. Previous researchers have used this measurement, such as (Farook, Hassan, & Lanis, 2011; Bukair & Rahman, 2015; Nomran, Haron, & Hassan, 2016; Nomran, Haron, & Hassan, 2018; Syafa & Haron, 2019).

### Control variables

This study uses control size, leverage, and audit quality variables. According to (Callen et al., 2010), firm size can affect the level of accounting conservatism caused by operational uncertainty. The bigger the company, the company's uncertainty tends to be lower, so it will be correlated with a higher level of conservatism. The size variable is measured using the natural logarithm of the IB's total assets.

The measure for the leverage variable uses the debt-to-equity ratio. The IB regulations of each country regulate the issue of capital adequacy so that banks are at risk of manipulating accounting profits for regulatory compliance reasons (Leventis & Dimitropoulos, 2012). The last control variable is audit quality using a dummy variable of 1 for IB. The big four accounting firms audit, and 0 if not audited or audited by non-big four accounting firms. IB, which the big four accounting firms will audit, is expected to produce high-quality financial reports. Leventis, Dimitropoulos, & Owusu-Ansah (2013) said that banks audited by big four audit firms showed higher conservatism as reflected by lower non-performing loans and high loan loss provisions (LLP). This study involves cross-country IB. Therefore, a macroeconomic control variable is added, namely the gross domestic product growth (GDP) in year t minus year t-1 (Shawtari, 2018; Prasojo et al., 2022).

### Regression model

To test the hypotheses developed in this study, we used Stata software. Homoscedasticity and linearity tests were carried out to ensure that the data was homogeneous and free from collinearity before hypothesis testing. The next step is the Hausman test to determine the suitable model between fixed or random effects. Outlier data is discarded because it can interfere with data processing output. The following are the main regression models for research.

$$LLP_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 SSBZ_{it} + \beta_3 SSBE_{it} + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ADQ_{it} + \epsilon_{it} \dots (1)$$

### 4. Results and discussion

Table 1 presents the descriptive statistical results of Islamic banks, which became the research sample. LLP, CSR, size, and leverage data are expressed in USD units. SSB size and SSB expertise in the ratio, while audit quality is a dummy variable. Some banks do not report zakat funds because it is based on company law that zakat is the obligation of individual shareholders and investment account holders (IAH). Data on zakat distribution and loan loss provision are available in the database, but some banks do not report consistently, so the data is collected manually from annual financial reports.

Table 1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
LLP	298	1.76528	1.97573	-2.01445	4.99366
CSR	298	0.68526	0.59695	0.98350	1.98067
ssb_size	298	1.35771	0.43521	0.00000	2.39790
ssb_exp	248	0.15000	0.28769	0.00000	2.25000
size	298	7.63093	1.79774	2.52573	10.64773
lev	298	1.53802	0.70865	0.00101	2.68729
ADQ	298	0.73826	0.44032	0.00000	1.00000
GDP grew	298	3.13805	2.80476	-7.07606	10.23216

Based on Table 1, the average LLP score was 1.76528 with a minimum score of -2.01445 and a

maximum of 4.99366. The average CSR score reached 0.68526. The average score of SSB size is

1.35771, and the SSB expert is 0.15000. Some IBs do not have SSB expertise (background in financial or accounting). Size IB is a striking difference between the minimum and maximum scores. IBs

from middle eastern countries have much more significant assets than some countries with developing Islamic banks such as Bangladesh, Pakistan, Thailand, and Sudan.

Table 2. Hypothesis test results

Variable	Dependent: LLP
CSR	-0.06736** [0.16390]
ssb_size	-0.15311 [0.34359]
ssb_exp	-1.67353** [0.88851]
size	0.29828*** [0.19247]
lev	0.00281 [0.15633]
adq	0.21260 [0.22205]
gdpgrw	0.01108 [0.05076]
_cons	-0.26366*** [1.58474]
<i>N</i>	228
F Statistic	1.17818
P-value F Statistic	0.31725
R Square	0.70547

Standard errors in brackets

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 2 presents the results of hypothesis testing with regression following the research model that was built previously. Hypothesis 1 examines the impact of CSR on earning management. The statistical results show that CSR has a significant negative correlation with earning management (-0.06736;  $p$ -value  $< 0.005$ ). This result means that CSR tends to be carried out as genuine programming, not to manipulate income.

Consistent with previous findings (Khajavi, Bayazidi, & Kangarluei, 2011; Kim, Park, & Wier, 2012b; Scholtens & Kang, 2013; Bozzolan et al., 2015; Gras-Gil, Manzano, & Fernández, 2016). Islamic bank that carries out CSR indicates that it does not practice earning management. In this study, a CSR proxy was used with the distribution

of zakat, which was reported in particular reports on uses and fund zakat and company annual reports. In terms of zakat, CSR practice is an obligation that will impact the distribution of wealth. Even though some companies consider zakat as an individual obligation. Islamic bank executives view CSR as a moral imperative that encourages transparency in financial reporting, ultimately decreasing the practice of earnings management.

This study claims that the goal of Islamic bank leaders to carry out social activities is to do charity so that they will not manipulate financial reporting and improve the earnings management (Kim et al., 2012). CSR implementation can affect the decision-making process that meets good ethical and moral values. It will be positively correlated to increasing



its reputation and will ultimately reduce earnings management practices (Gras-Gil et al., 2016).

Islam regulates that fellow humans must help each other without expecting anything. View in the context of Islamic banks, banks have a social obligation to improve the community's standard of living. This can be implied by distributing zakat, infaq, alms, benevolence funds, and qard Hasan loans. This concept was adopted in research through the concept of CSR activities. Islamic banks must be based on monotheism in carrying out CSR activities. According to the western concept, CSR will impact reputation and build good relationships with customers and communities. In the end, it will maximize shareholder value. The Islamic perspective has a different view. CSR activities are an obligation to help the poor (Alfakhri, Nurunnabi, & Alfakhri, 2018).

Hypothesis 2 refers to the relationship between SSB size and earning management. The statistical results showed a positive but insignificant correlation ( $-0.15311$ ;  $p > 0.05$ ). These results are consistent with the research (Hamdi & Zarai, 2014a; Elghuweel et al., 2017) that SSB size does not significantly affect earning management practices. The empirical evidence contradicts the predictions of agency theory in previous literature studies. We suspect that most of SSB's composition does not have sufficient knowledge in accounting. Therefore, SSB cannot provide advice in the provision of Loan Loss Provisions (LLP). The statistical results do not detect the SSB function. SSB should carry out Islamic bank operational control concerning sharia compliance. In the context of the relationship between SSB and earning management, ideally, the presence of SSB will convince stakeholders and shareholders that Islamic bank will be more transparent and reduce the potential for earnings management practices than if Islamic bank does not have SSB. Some Islamic bank in the Middle East North Africa (MENA) region does not have SSB because it is not mandatory.

Hypothesis 3 is the correlation of SSB expertise with earning management. Statistics show a significant negative relationship ( $-1.67353$ ;  $p < 0.05$ ). Consistent with the findings (Klein, 2002; Cornett et al., 2009; Quttainah et al., 2013), SSBs with an educational background and experience in accounting can control earnings management practices. SSB with good accounting basic control can show honest and accountable behaviour (Hamdi & Zarai, 2014). The more competent SSB has in accounting, the more likely it is to understand the factors leading to earnings management practices to mitigate this risk properly. Besides, the board of directors feels that they are being monitored by SSB, which has accounting competence to aggressively reduce the intensity of earnings management practices (Hamdi & Zarai, 2014a). SSBs that carry out effective supervision are proven to reduce earnings management practices, so Islamic banks must pay attention to this effect.

Islamic banks can have a SSB with an educational background in accounting and Islamic finance to improve the earning management of Islamic banks. With this educational background and experience, SSB has been carried out by many banks from the GCC Region and Malaysia. In practice in Indonesia, it is rare for an Islamic bank to recruit almost no SSB with a background in accounting or finance. SSB in Indonesia is only limited to providing advisory relating to sharia principles. The majority of SSB recruits have a background in jurisprudence or Islamic law. There are three control variables used in this study, but only the size is significant.

A robustness check was conducted to test the research model's robustness. This study conducted a robustness check using the dynamic panel generalized method of moment (GMM) model using the same model and data as the primary hypothesis test. The results of the robustness check are presented in Table 3.

Table 3. Full sample (2-step system gmm)

Variable	LLP
L.llp	0.635*** (41.423)
CSR	-0.214** (-1.302)
ssb_size	0.525 (1.031)
ssb_exp	-0.241** (0.304)
size	0.380** (2.310)
lev	0.087 (0.422)
adq	0.096 (0.459)
gdpgrw	0.093** (2.182)
_cons	-2.409** (-1.705)
Obs.	228.000
Bank	36.000
AR2 stat	-1.405
AR2 p-stat	0.160
Sargan stat	946.763
Sargan p-val	0.000

*t* statistics in parentheses

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

The results of the robustness check for the three hypotheses are consistent with the results of the main hypothesis testing; there are no critical issues between the two tests. The difference is only in the control variable for GDP growth. Therefore, it can be concluded that this research model is quite robust.

## 5. Conclusions

Empirically, corporate social responsibility can increase earnings management. The company's perspective on corporate social responsibility manifests in responsible administrative practices. The output of this activity produces reliable financial reports. Accountable reports will limit the manipulation of reporting through earnings management. This research has implications for

policymakers, Islamic bank executives, and literature. First, policymakers develop CSR instruments following sharia principles and reporting standards to facilitate implementation. Second, Islamic bank managers straighten out their CSR intentions based on the concept of monotheism. Managers can refer to this research that CSR activities can increase the transparency of financial reporting, reducing earnings management practices. Third, to enrich the literature, these results prove empirically that CSR and SSB expertise can reduce earnings management practices to increase the earning management of Islamic banks. This activity can protect Islamic bank customers, especially owners of investment account holders. The limitation of this study is that the number of observers is too small because many

Muslims do not disclose their zakat payments in their annual reports. Further research can expand the sample by adding countries and years of observation.

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