Volume 6, Number 1, 2022, 38-51

Corporate social responsibility and corporate financial fraud: evidence from China

Wang Gen
wang.gen@student.president.ac.id
Faculty of Business, Accounting Study Program, President University, Indonesia

Andi Ina Yustina
a.inayustina@president.ac.id
Faculty of Business, Accounting Study Program, President University, Indonesia

Andrianantenaina Hajanirina
hajanirina@president.ac.id
Faculty of Business, Accounting Study Program, President University, Indonesia

Mila Austria Reyes
mila.reyes@president.ac.id
Faculty of Business, Accounting Study Program, President University, Indonesia

Abstract

With the development of globalization, corporate social responsibility has become a hot subject of shared concern for all nations in the globe. The lack of CSR performance in modern China has prompted worries about CSR in both academic and practical circles in China. In this work, the authors continue Liao's research and seek to re-analyze if CSR is connected to financial fraud. Through the analysis of A-share companies in the construction industry listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, this paper finds that CSR scores are negatively correlated with financial fraud activities, which suggests that CSR companies are less likely to engage in financial fraud. Thus, to some degree, it may also argue that CSR is an ethical activity that has the power to minimize corporate financial misbehavior.

Keywords: *Corporate social responsibility; financial fraud; construction industry*

Abstrak

Dengan perkembangan globalisasi, tanggung jawab sosial perusahaan telah menjadi topik hangat yang menjadi perhatian bersama bagi semua negara di dunia. Kurangnya kinerja CSR di China modern telah memicu kekhawatiran tentang CSR di kalangan akademis dan praktis di China. Dalam karya ini, penulis melanjutkan penelitian Liao dan berusaha menganalisis kembali apakah CSR terkait dengan penipuan keuangan. Melalui analisis perusahaan A-share di industri konstruksi yang terdaftar di Shanghai Stock Exchange dan Shenzhen Stock Exchange, makalah ini menemukan bahwa skor CSR berkorelasi negatif dengan aktivitas penipuan keuangan, yang menunjukkan bahwa perusahaan CSR cenderung tidak terlibat dalam keuangan tipuan. Jadi, sampai tingkat tertentu, dapat juga dikatakan bahwa CSR adalah aktivitas etis yang memiliki kekuatan untuk meminimalkan perilaku keuangan perusahaan yang salah.

Kata Kunci*: Tanggung jawab sosial perusahaan; penipuan keuangan; industri konstruksi*

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

INTRODUCTION

Background

This study attempts to reanalyse (Liao's, etc. 2019) research and continues Liao's research period to explore if corporate social responsibility is connected to corporate financial fraud. Among the differences between this paper and Liao's research is that this paper will continue Liao's research period and focus particularly on A-share listed companies in the construction industry.

In recent years, the implementation of CSR in numerous nations has attracted considerable attention. In the early 1970s, researchers have performed a systematic study on CSR. After decades of research, the theory and system of CSR have been refined. For example, in the 1990s, a wave of in-depth discussions on corporate social responsibility was launched in China, and research on the topic continues today. An investigation into the matter is currently underway.

On December 3, 2015, China hosted the 8th International Symposium on CSR Reporting. The 8th International Conference on CSR Reporting in China mentioned responsible information disclosure under "One Belt, One Road," namely the 8th International Conference on CSR Reporting in China, which gave an in-depth interpretation and discussion on the latest international and domestic CSR reporting trends and hot topics related to responsible information disclosure on December 3, 2015. The drive of "One Belt, One Road" development has resulted in a significant increase in foreign investment in China's infrastructure building business, compelling firms to publish social responsibility information actively and accurately.

However, in 2017, the National People's Congress proposed a paper on how Chinese enterprises can better "go global" under the "One Belt One Road" strategy, pointing out that the Ministry of Commerce should actively implement the Regulations on the Management of Foreign Contracting Projects, the Statistical System for Foreign Contracting Projects, and other regulations and policies. Regulations and policies such as "Regulations on Administration of Foreign Contracted Projects," "Statistical System of Foreign Contracted Projects," and "Guidelines on Social Responsibility in Foreign Contracted Projects" of the Ministry of Commerce.[1] It also reveals that Chinese enterprises have to take more social responsibility and, at the same time, set an excellent example for more Chinese enterprises to go global.

The 19th report of the Communist Party of China proposed that "we have to take the construction of 'One Belt, One Road' as the focus, adhere to the introduction and go out, follow the principle of common business, common construction, and sharing, and strengthen the open cooperation of innovation capacity. China had signed 173 cooperation agreements with 125 nations and 29 international institutions by the end of March 2019; from 2013 to 2018, Chinese companies have completed more than $400 billion in foreign engineering contracts and invested more than $90 billion in direct investment in countries bordering the region.[2] Since 2013, major firms have been actively reacting to the "One Belt One Road" program and have been the "front-runners," with Chinese enterprises contracting more than 70% of the investments and projects in countries along the route. More than 70% of Chinese

[1] Juan, S. (2017 August 15), How Chinese enterprises can better "go global" under the "One Belt, One Road" strategy, China National People's s Congress Magazine, http://www.npc.gov.cn/npc/c16115/201708/beaa1f3aa71b4cdda2bf4cfdbf07b89a.shtml.

[2] Jun, J.L. (2019 December 06), the opening development trend and policy suggestions of China's overseas parks along with the One Belt One Road, The development research, http://www.rdiu.net/index.php?m=content&a=show&catid=6&id=272.

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

firms' investments and projects in countries along the route are done by central enterprises. The "One Belt One Road" initiative has enabled central enterprises to participate more deeply in the global and regional value chains. Central enterprises have proposed "industrial chain integration" to extend their internal value chain and export capital, technology, and management experience to countries bordering the region. According to the survey, Zhang Min Xiang, executive director of the Blue Book research group, said that 92 percent of central government enterprises are involved in the One Belt One Road initiative. Sixty-three percent of central government enterprises have equity investments in countries along the One Belt One Road. Central enterprises are mainly involved in manufacturing, mining, and construction along the One Belt One Road.[3] Therefore, this research will focus on the relationship between corporate social responsibility in the construction industry and corporate financial fraud.

In addition, the sample companies are all A-share companies in the construction industry listed on the two major stock exchanges in China. According to the 20 cases of typical financial violations audited by the China Securities Regulatory Commission, there are still many incidents of dishonesty in the Chinese stock exchange. For example, in the financial fraud case of Kangmei Pharmaceuticals, whose company's actual controller and chairman of the board of directors bribery, counterfeiting, key transactions, manipulation of share prices, and other means, to make more money, the chairman of Kangmei Pharmaceuticals also chose to reduce the quality of products. between 2016 and 2017, Kangmei Pharmaceuticals' chrysanthemum royal tea, chrysanthemum, ginseng products were repeatedly punished and notified by the National Medical Product Administration due to illegal additive practices, pesticide residue items, and other failures. And this practice of leaving corporate social responsibility behind in order to make more money will inevitably be punished and spurned by society.

In December 2018, Kangmei Pharmaceuticals was investigated by the SFC for alleged information disclosure violations. Under the SEC's investigation, on April 29, 2019, Kangmei Pharmaceuticals issued an Announcement on Correction of Prior Period Accounting Errors, stating that accounting errors in financial data resulted in an overcount of RMB 8.898 billion in operating revenues, RMB 7.6 billion in operating costs, RMB 0.5 billion in selling expenses, RMB 0.2 billion in financial expenses, RMB 10.2 billion in sales of goods, RMB 29.9 billion in monetary funds, and RMB 0.3 billion in cash items related to financing activities in 2017. accrual of $29.9 billion, and an over accrual of cash items related to financing activities of $0.3 billion. The result was Kangmei Pharmaceuticals, whose company's de facto controller and chairman increased monetary funds by a total of 88.7 billion yuan from 2016 to 2018 by falsely issuing and altering VAT invoices and falsifying bank documents, inflating revenue by 27.5 billion yuan and profit by 3.9 billion yuan, among other things. Due to the lack of corporate social responsibility, disclosure violations, and financial fraud, the company has been punished by the relevant authorities, and the losses caused to investors are also going through the legal process.

LITERATURE REVIEW

[3] Xiao L. W. (2019 January 02), Central enterprises promote local employment along the One Belt One Road, CHINADAILY, https://china.gov.cn.admin.kyber.vip/xinwen/2019-01/02/content_5354072.htm.

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

Corporation Social Responsibility in China

Corporate social responsibility (CSR) is defined by the following terms: It is described as a concept in which firms actively incorporate social and environmental concerns into their economic activity while also engaging with stakeholders. However, in China, the concept of CSR resembles a heritage of Confucianism and communist tradition. Li (2016) identifies the Chinese political aspects as the background for CSR-related debate in China, with a focus on three specific issues: the country's Confucian tradition, which highlights relational duties instead of personal rights; its socialist legacy, which forms a distinct corporate role in the community; and its recent transition to a market economy. Confucianism, Buddhism, and Taoism have all impacted Chinese culture. In cooperation with the policies directed by the central government, listed firms are urged to engage in social responsibility behaviors while providing an example for small and medium-sized enterprises. For example, Liao et al. (2019) noted that in 2006 and 2008, the Shenzhen and Shanghai stock exchanges released rules on listed businesses' social responsibility and a circular on increasing their social responsibility commitment.

Corporate Financial Fraud

In this study, we leaned on the research on organizational financial fraud. Existing methodologies are confined to examining standard corporate governance systems such as CEO compensation, financial analysts, and investment companies, however, these systems are considered effective in developed legal systems (Conyon & He, 2016; Wu et al., 2016). For example, Yiu et al. (2019) enhance earlier research on financial performance and financial fraud to demonstrate how alternative governance frameworks may minimize corporate fraud. Meanwhile, Cressey (1953) pointed out that the fraudster must damage the trust in three ways. These are the elements of pressure, opportunity, and rationalization.

Ambition, personal debt, living beyond your means, excessive bills or credit, financial losses, and unforeseen necessities are the most common financial stresses (Said et al., 2018) and thus create the potential for financial fraud. The opportunity may arise from various factors, including insufficient internal controls, inadequate monitoring, a lack of prosecution, ineffective anti-fraud programs, policies, and a weak ethical culture. Such opportunism can increase the likelihood that companies will cheat. Rationalization is a mentality that enables managers to rationalize and justify their dishonest activity (Hashim et al., 2020).

However, in this study, the researcher assessed and researched the study subjects using the CSRC classification of regulatory breach activities into three types of fraud. Profits misrepresentation, asset falsification, misleading statements, and other basic accounting mismanagement breaches are all examples of fraudulent accounting. Delayed disclosures, significant omissions, and erroneous disclosures are all examples of fraud disclosures. Furthermore, the categorization goes to fraudulent listing, irregular financing, unlawful change in use of funds, misappropriation of business assets, insider trading, unauthorized stock trading, stock price manipulation, and unauthorized guarantee as fraudulent others.

Hypothesis development

CSR and Fraud

Corporate social responsibility (CSR) is a hot topic that is receiving increasing academic attention in research. Most definitions of CSR suggest that it is the concept of a company's duty to clients, society, and the environment while earning profits and taking legal duties to shareholders and workers, incorporating them into its operations (Kludacz, A. M. & Cygańska, M. 2021). According to stakeholder theory (Freeman, 1984), CSR is the strategic orientation of a company that is able to implement environmentally and socially responsible activities while achieving its economic goals (Franco et al., 2020). And the stakeholders

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

within an ethical company are more inclined to be responsible for the company and socially responsible, thus being able to avoid fraud to a certain extent.

However, there is a growing body of accounting research on corporate social responsibility and corporate misconduct. They highlight how ethical stance is linked to internal control mechanisms to manage different fraudulent situations. Titman, S., Wei, C., & Zhao, B. (2020) mentioned that stock splits are an excellent tool for companies to manipulate share prices because they cost little to nothing and are then publicized through the media, thus attracting retail shareholders and achieving the effect of manipulating share prices. Actions like this fraudulent listing of stock and manipulation defined by the researcher as Fraud-Others can generate misleading information to investors and therefore may lead to losses for investors. Disclosures such as this one can be misleading information to investors and therefore may result in losses investors Furthermore, Christensen (2016) investigated companies that issue CSR reports about corporate social responsibility (CSR) experience a less negative stock price reaction than those that do not. Companies that publish CSR reports can enhance the protection of their company's reputation while also reducing the impact of corporate misconduct. Thus, it is also shown that improving CSR can help companies improve their credibility, and investors and consumers are more willing to trust and defend companies' relevant behavior. Franco et al. (2020) also contributed to stakeholder theory by demonstrating that stakeholders react poorly to companies with low CSR and react positively to companies with strong CSR. If the company has low CSR, then it will have poor financial performance. If the company has high CSR, it will be a solid financial performance.

So the firm has a strong CSR that will not be a fraud. Therefore, the following are the study hypotheses:

H1a: CSR score has a negative impact on fraud.
H1b: CSR score has a negative impact on Fraud_Accouting.
H1c: CSR score has a negative impact on Fraud_Disclosure.
H1d: CSR score has a negative impact on Fraud_Others.

Firm Size and Fraud

Research on the effects and correlates of company size may be linked back to a seminal article, Coase (1937), where it addresses the concerns as to just how company borders impact the distribution of resources and also what determines boundaries and limits (Dang et al., 2018). However, firm size elements significantly influence the association between ownership structure and fraud financial statements (Syamsudin et al., 2017). The firm's shareholder base and capital basis will be determined by the size of the company, which will decide the degree of management of the managers and the board of directors. Meanwhile, as companies operate within social boundaries, they must meet responsibilities, not only those stated by shareholders but also those prescribed by stakeholders (Cho et al., 2019).

Due to the wide range of shareholders and their different backgrounds, all the necessary information to maintain and expand the company's brand, invest and attract more investors is disclosed to the giant companies. Larger companies are more voluntary about disclosing information and also pay more attention to the correctness of disclosure as a way to get more support and the company can grow better and become larger as a result. As Foyeke et al. (2015) showed that there is a positive relationship between voluntary disclosure and firm size and corporate governance. Thus, companies with larger sizes can make better disclosures of information and are also extremely less likely to be at risk of fraud.

H2a: Firm size has a negative impaction on fraud.
H2b: Firm size has a negative impact on Fraud_Accouting.
H2c: Firm size has a negative impact on Fraud_Disclosure.
H2d: Firm size has negative impaction to Fraud_Others.

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

Growth and Fraud

Penrose (2009) stated in his theory of business growth that management is a team effort. Olawale et al. (2017) also extended for it that every employee inside the company experienced specialized, vocational skills training and specific skills for more efficient teamwork. Companies that command large resources and recruit the top management are anticipated to perform better than their counterparts. Penrose (2009) created this theory, which presented long-term rules guiding business development and the pace at which companies may expand effectively and profitably. Based on the company's growth theory, firms with vast resources and the most proper management are supposed to outperform their counterparts (Eyigege, 2018). Also, In addition to operational success, corporate governance may be tied to other aspects of performance, such as corporate social performance (Stuebs & Sun, 2015).

Growth ratios measure how the scale and performance have increased over a particular period (Subagyo, 2021) and are an external form of the company's financial performance. With new growth choices, the firm's value rises; as a result, it does leverage fall indeed, but so does the company's optimum overall debt level. Logically, firms that are less in debt are more ready to take on social responsibility than those that are more in debt, lowering the potential of corporate financial deception. We can make the hypothesis that the relationship between Growth and Fraud should be:
H3a: Growth has a negative impaction on fraud.
H3b: Growth has a negative impaction on Fraud_Accouting.
H3c: Growth has a negative impact on Fraud_Disclosure.
H3d: Growth has a negative impact on Fraud_Others.

ROA and Fraud

Various variables assessing business performance are generally accounting-based performance measures determined from financial statements, such as Return on Equity, Net Profit Margin, and ROA, although stock market return and fluctuation in returns are also employed as firm performance metrics (Nassar, 2016). Therefore, this paper also takes ROA as an essential indicator to evaluate corporate performance, but it is more important to explore the relationship between ROA and Fraud. Cho et al. (2019) studied ROA, Tobin's Q, and asset growth rate as alternative financial performance variables to investigate their correlation with CSR performance. Through this, the indicators of financial performance have been expanded. However, the financial performance test has a significant positive effect on fraud prevention. For instance, according to Hendri et al. (2020), the financial performance contains knowledge of liquidity, profitability, and stabilities capable of improving fraud protection Tarakanita Schools in Indonesia. Therefore, we hypothesis that:
H4a: ROA has a negative impact on fraud.
H4b: ROA has a negative impact on Fraud_Accouting.
H4c: ROA has a negative impact on Fraud_Disclosure.
H4d: ROA has a negative impact on Fraud_Others.

Research Framework

Based on the literature and hypothesis development discussed above, the researcher created the graph below to determine the relationship between CSR, Firm size, Growth, and ROA as independent variables and Fraud, etc. as dependent variables.

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

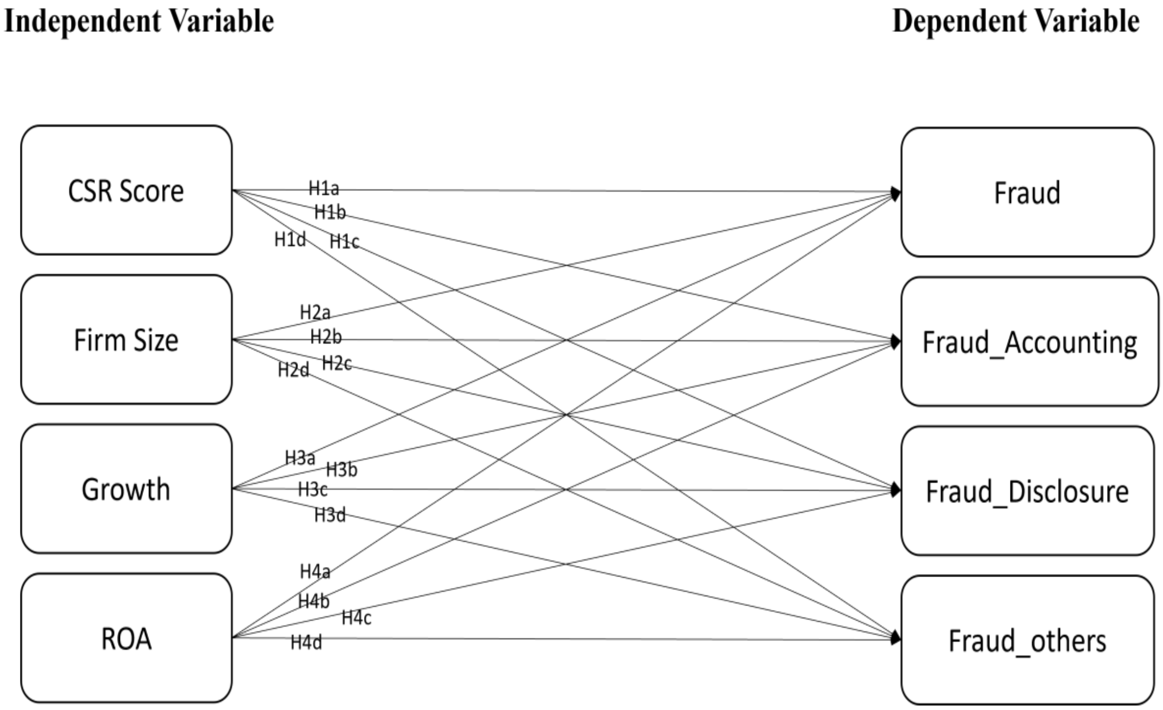

Figure 1. Research Framework

RESEARCH METHOD

Research Design

Throughout this paper, we attempted Liao, et al (2019) 's logistic regression model so that we could examine the association between CSR and corporate financial fraud:

$$Fraud_i = \beta_0 + \beta_1 CSR\_Score_i + \beta_2 Size_i + \beta_3 ROA_i + \beta_4 Growth_i + \beta_5 LEV_i + \beta_6 Big10_i + \varepsilon_{1i} \quad (1)$$

$$Fraud\_Accounting_i = \beta_7 + \beta_8 CSR\_Score_i + \beta_9 Size_i + \beta_{10} ROA_i + \beta_{11} Growth_i + \beta_{12} LEV_i + \beta_{13} Big10_i + \varepsilon_{2i} \quad (2)$$

$$Fraud\_Disclosure_i = \beta_{14} + \beta_{15} CSR\_Score_i + \beta_{16} Size_i + \beta_{17} ROA_i + \beta_{18} Growth_i + \beta_{19} LEV_i + \beta_{20} Big10_i + \varepsilon_{3i} \quad (3)$$

$$Fraud\_Others_i = \beta_{21} + \beta_{22} CSR\_Score_i + \beta_{23} Size_i + \beta_{24} ROA_i + \beta_{25} Growth_i + \beta_{26} LEV_i + \beta_{27} Big10_i + \varepsilon_{4i} \quad (4)$$

The dependent variable fraud in this research report is a dummy variable coded one if fraud was committed in a specific year and zero alternatively. Furthermore, all of the data is sourced from the China Stock Market and Accounting Research (CSMAR). The data shows that the Shanghai stock exchanges, Shenzhen stock exchanges, the Chinese Security Regulatory Committee, and the Ministry of Finance have punished and penalized the companies violating the rules and regulations. The violation activities such as Fictitious profit, Misstatement of assets, False statements, generally improper accounting treatment that is classified into Fraud-Accounting. Delayed disclosure, Material omission, Incorrect disclosure are classified into Fraud-Disclosure. Also, the classification includes the Fraudulent listing, Funding irregularities, Unauthorized change in use of funds, misappropriation of company assets, Insider trading, Sale and purchase of shares without authorization, Stock price manipulation, Unauthorized guarantee, and others into Fraud-

Others. These three categories are dummy variables that equal one if the fraud occurred in a specific year and zero alternatively. The Appendix contains extensive descriptions of the variables.

Sample selection

Table 1 shows the sample selection. The sample companies are all A-share companies listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Because A-share, which are Stocks of firms formed and listed in China denominated in Chinese yuan and are exclusively available to non-qualified overseas investors via the stock connect programs.[4] This paper continues Liao's research period from 2015 to 2019. Here is more concentrate on the construction industry. The CSMAR also helps the researcher with information about fraudulent firm practices, financial accounting, and corporate governance. As a result, after integrating the two databases, we removed organizations that had lost financial and government data (35 observations). Over the sample period from 2015 to 2019, this procedure yields a final sample of 37 (Including firms not issuing CSR reports[5]) firm-year observations.

Table 1. Sample selection

	Sum
Complete sample during 2015-2019 in the construction industry	72
Less	
Observation with missing financial and government data	35
Final sample	37

This table summarizes the processes for selecting our final sample.

Panel A: Sample distribution in the industry		
Industry \ Year	Total	Ratio (%)
Construction	37	1.00
Total	37	100.00

Panel B: Detail description of the fraud	CSR_Score_High = 1	CSR_Score_High = 0	Total
(A) Disclosure fraud			
Delayed disclosure	2	20	22
Material Omissions	0	17	17
Fraudulent disclosure	1	6	7
(B) Accounting fraud			
Fictitious profit	0	0	0
Misstatement of assets	0	0	0
False statements	1	11	12

[4]Jian, S.C. CFA, What are Chinese A, B, H shares? --- A brief guide to Chinese share classes, LinkedIn, https://www.linkedin.com/pulse/what-chinese-b-h-shares-brief-guide-share-classes-shi-cortesi-cfa.

[5] We also include observations that did not issue a CSR in our sample. If a company does not issue CSR, we set the variable CSR Score to zero.

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

Generally improper accounting treatment	0	8	8
(C) Other Fraud			
Fraudulent listing	0	0	0
Funding irregularities	0	0	0
Unauthorized change in the use of funds	0	0	0
Misappropriation of company assets	1	2	3
Insider trading	0	2	2
Sale and purchase of share without the authorization	1	20	21
Stock price manipulation	0	0	0
Unauthorized guarantee	0	2	2
Others	2	29	31

Our sample's industry is reported in Panel A. The deception is described in detail in Panel B. Because some of the companies in the sample had multiple and multiple violations, the total number of fraud incidents and the total number of annual company observations did not coincide.

Table 2. Descriptive statistics

Variable	(1) N	(2) Mean	(3) SD	(4) P25	(5) Median	(6) P75
Dependent variable						
Fraud	37	0.146	0.354	0.00	0.00	0.00
Fraud_Accounting	37	0.103	0.304	0.00	0.00	0.00
Fraud_Disclosure	37	0.227	0.420	0.00	0.00	0.00
Fraud_Others	37	0.243	0.430	0.00	0.00	0.00
Independent variable						
CSR_score	37	17.382	25.356	0.00	0.00	37.480
Size	37	10.264	0.713	9.821	10.143	10.492
Growth	37	0.694	6.134	0.010	0.104	0.243
ROA	37	0.008	0.074	0.008	0.017	0.030
Control Variable						
Leverage	37	0.666	0.172	0.565	0.705	0.799
Big 10	37	0.694	6.134	0.010	0.104	0.243

Panel A of Table 2 shows descriptive and inferential statistics for the variables applied to the logistic regressions, which are for the full sample of 37 company-year data. The dependent variable fraud had an average value of 0.146. This indicates that in a given year, 14.6 percent of businesses were engaged in at least one sort of fraud. However, among the characteristic fraud types, 10.3% of the observed sample is related to accounting fraud, and 22.7% is related to disclosure-related fraud. Moreover, the mean value of CSR score performance for the independent factors is 17.382. Size and ROA have typical values of 10.264 and 0.008, respectively. Over the sample period, the firms in the observation sample saw an average growth rate of 69.4 percent (Growth). Finally, among the control variables, the "Big10 accounting firm" audited 69.4 percent of the companies, and the company's

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

financial leverage score was 0.666. Because various customer attributes impact CSR and Fraud, we derive this paper's results by controlling for these variables in a multivariate study.

RESULT AND ANALYSIS

Table 3 shows the logistic regression model's relationship between CSR and Fraud. For instance, in CSR Score to Fraud the P-value is 0.0915* significant at 10% level, besides, the results demonstrate that the CSR Score factor has a negative and major link with fraud. Thus, hypothesis H1a: CSR Score has a negative impact on fraud is supported. The result is also the same as the research of Liao et al. (2019). It means that CSR may be a practical approach to lower the frequency of corporate Fraud in China.

We can observe in Table 3 that the CSR Score to Fraud-Disclosure P-value is 0.0695 significant at 10% level. And the coefficient between CSR Score and Fraud-Disclosure is positive. So, for H1c: CSR Score has a negative impact on Fraud-Disclosure is not supported.

But according to the study research of Franco et al. (2020), they contend that a U-shaped connection is acceptable to represent the CSR and Corporate Financial Performance relationship, in which poor CSR outcomes are related to poor performance, however after a negative peak, CSR implementation favorably influences Corporate Financial Performance. It can also be logically explained since its listed companies may be reluctant to disclose things that affect the stock price for the sake of the company's share price.

Table 3 Relationship between CSR and Fraud

Variable	Fraud	Fraud-Accounting	Fraud-Disclosure	Fraud-Others
Independent variable				
CSR score	-0.0202794	-0.0127089	0.0160074	0.0111518
	0.0915*	0.2375	0.0695*	0.138
Size	-0.5018376	-0.8517551	-1.007555	-1.217024
	0.2135	0.1205	0.0185**	0.0065***
Growth	0.0452985	-0.6658079	-2.37945	-0.5283197
	0.1755	0.1235	0.0025**	0.0515*
ROA	-8.328987	-0.1356239	-4.947849	-7.731325
	0.0185**	0.48	0.144	0.0425**
Control variable				
LEV	0.128832	-2.100274	0.7246566	1.838477
	0.4695	0.134	0.3155	0.105
Big 10	0.5468623	0.3825533	-0.0194066	-0.1388948
	0.125	0.2385	0.4815	0.362

This table summarizes the effect of CSR on fraud. The Appendix contains definitions for all variables. Z-statistics are presented in parenthesis and are grouped by the firm. *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

We discover that large enterprises with substantial profits and cross-listing international markets are less likely to participate in fraudulent activities. Through table 3 we can see that Size has a negative relationship with the dependent variable. The Fraud-Disclosure is significant at a 5% level (coefficient = -1.00, P-value = 0.0185), implying that companies with big sizes are less prone to participate in financial reporting fraud. So, our hypothesis H2c: Firm Size has a negative impact on Fraud-Disclosure is supported. It is also in line with

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

the findings of Foyeke et al. (2015), who discovered a favorable association between business size and voluntary disclosure of corporate governance.

In Firm Size to Fraud-Others the P-value is 0.0065 significant at 1% level, besides, it has a negative coefficient. As a result, hypothesis H2d Firm size has negative impaction to Fraud-Others is validated. From a logical standpoint, this makes sense. The greater the firm's size, the more attention it receives, and the less likely there will be anomalies in the use of cash, misuse of corporate assets, etc. Table 3 presents that Growth has a negative connection with the dependent variable. The Fraud-Disclosure is significant at the 5% level (coefficient = -2.37, P-value = 0.0025), meaning that in organizations with more growth options, the firm's worth rises, and the corporation cares more about outside attention to the company are less likely to engage in financial reporting fraud. As a result, our hypothesis H3c: Firm Size Influences Fraud-Disclosure is validated. And the P-value for the relationship between Growth and Fraud-Others is 0.0515 at the 10% level, and it also has a negative coefficient. As a consequence, hypothesis H3d: Growth has a negative effect on Fraud Others is confirmed. From a logical standpoint, this makes sense. Because greater growth means more value for the firm, the less likely there will be anomalies such as fake listings, stock price manipulation, and unapproved assurances.

There is a similarity to the variable of company size in terms of ROA. ROA also showed a negative correlation and significance with the dependent variable of Fraud and Fraud-Others (coefficient = -8.32, P-value = 0.0185; coefficient = -7.73, P-value = 0.0425). This finding is consistent with the findings of the literature review. Cho et al. (2019) investigated ROA, Tobin's Q, and asset growth rate as proxy factors for financial performance, and we can confirm in Hendri et al. (2020) that financial performance can increase fraud prevention in Tarakanita Schools in Indonesia.

In conclusion, the regression analysis study presented in this section concludes that corporate social responsibility (CSR) of companies has a relationship with corporate financial fraud, in particular, that CSR rating scores have a strong negative relationship with corporate financial fraud, and that companies with higher CSR scores are less likely to be involved in corporate wrongdoing.

CONCLUSION

The association between corporate social responsibility and corporate fraud in the construction industry was studied based on a sample of Chinese A-share listed companies in the construction industry from 2015 to 2019. From an ethical behavior perspective, the researcher hypothesizes that CSR enterprises are more engaged in cultivating stakeholder connections and are willing to prioritize social well-being as their top priority, and thus have no motive to participate in corporate fraud. This means that organizations with high CSR are even less likely to perpetrate financial fraud. The empirical results can also verify that CSR does have a negative association with financial fraud. One limitation of this study should be mentioned here. Firms are more likely to cover up their misconduct through CSR from an opportunistic behavior perspective. Li et al. (2021) show that managers within low ethical firms will actively try to find ways to improve CSR performance when fraudulent fraudulent activities are taking place, in an attempt to make a big deal out of CSR activities in order to use the benefits of CSR to conceal their fraudulent financial reporting veracity. However, in this research, we did not explore whether corporations employ CSR activities to conceal fraudulent conduct in order to minimize regulators' and stakeholders' suspicions regarding corporate financial wrongdoing in this study. But this does not affect the empirical results of findings of this research reveal that CSR is strongly and adversely connected to the incidence of corporate fraud, demonstrating that CSR may effectively lower the risk of fraudulent corporate activity. In addition, we find that variables such as size, ROA, and growth also have a significant negative relationship with some fraud types. It is more indicative that the larger the size of the listed company as well as the better the financial performance, the less likely the company is to commit financial fraud. Corporate Social Responsibility has a negative and significant impact on Fraud and Fraud-Disclosure; however, it does not have an impact on Fraud-Accounting and Fraud- Others in Chinese Companies. Firm Size has a negative and significant impact on Fraud-Disclosure and Fraud-Others; however, it does not have an impact on Fraud and Fraud-Accounting in Chinese Corporations. Corporate Growth has a negative and significant impact on Fraud-Disclosure and Fraud-Others however it does not have an impact on Fraud and Fraud-Accounting in Chinese Corporations. ROA has a negative and significant impact on Fraud and Fraud-Others; however, it does not have an impact on Fraud-Accounting and Fraud- Disclosure in Chinese Companies. So we can conclude that CSR might be a practical approach to minimize corporate Fraud in China.

REFERENCE

Conyon, M. J., & He, L. (2016). Executive compensation and corporate fraud in China. *Journal of Business Ethics*, *134*(4), 669-691.

Christensen, D. M. (2016). Corporate accountability reporting and high-profile misconduct. *The Accounting Review*, *91*(2), 377-399.

Cho, S. J., Chung, C. Y., & Young, J. (2019). Study on the relationship between CSR and financial performance. *Sustainability*, *11*(2), 343.

Coase, R.H., 1937. The nature of the firm. *Economica*,4(16),386-405.

Cressey, D. R. (1953). *Other people's money: A study of the social psychology of embezzlement*. Glencoe, IL: Free Press.

Roden, D. M., Cox, S. R., & Kim, J. Y. (2016). The fraud triangle as a predictor of corporate fraud. *Academy of Accounting and Financial Studies Journal*, *20*(1), 80-92.

Dang, C., Li, Z. F., & Yang, C. (2018). Measuring firm size in empirical corporate finance. *Journal of banking & finance*, *86*, 159-176.

Eyigege, A. I. (2018). Influence of firm size on the financial performance of deposit money banks quoted on the Nigeria Stock Exchange. *International Journal of Economics and Financial Research*, *4*(9), 297-302.

Freeman, R. E., & McVea, J. (2001). A stakeholder approach to strategic management. Available at SSRN 263511.

Foyeke, O. I., Odianonsen, I. F., & Aanu, O. S. (2015). Firm size and financial performance: A determinant of corporate governance disclosure practices of Nigerian companies. *Journal of Accounting and auditing*, *2015*, 1.

Franco, S., Caroli, M. G., Cappa, F., & Del Chiappa, G. (2020). Are you good enough? CSR, quality management, and corporate financial performance in the hospitality industry. *International Journal of Hospitality Management*, *88*, 102395.

Hendri, H., Yuliantoro, Y., & Ama, M. K. (2020). Determinants of fraud prevention and financial performance as an intervening variable. *International Journal of Economics and Financial Issues*, 10(1), 19.

Hashim, H. A., Salleh, Z., Shuhaimi, I., & Ismail, N. A. N. (2020). The risk of financial fraud: a management perspective. *Journal of Financial Crime*, 27(4), 1143-1159.

Kludacz-Alessandri, M., & Cygańska, M. (2021). Corporate social responsibility and financial performance among energy sector companies. *Energies*, *14*(19), 6068.

Liao, L., Chen, G., & Zheng, D. (2019). Corporate social responsibility and financial fraud: evidence from China. *Accounting & Finance*, *59*(5), 3133-3169.

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

Li, X., Kim, J. B., Wu, H., & Yu, Y. (2021). Corporate social responsibility and financial Fraud: The moderating effects of governance and religiosity. *Journal of Business Ethics*, *170*(3), 557-576.

Nan Li, J. (2016). CSR with Chinese characteristics: An examination of the meaning of corporate social responsibility in China. *Journal of Corporate Citizenship*, (61), 71-93.

Nassar, S. (2016). The impact of capital structure on financial performance of the firms: Evidence from Borsa Istanbul. *Journal of Business & Financial Affairs*, *5*(2).

Olawale, L. S., Ilo, B. M., & Lawal, F. K. (2017). The effect of firm size on the performance of firms in Nigeria. *Aestimatio: The IEB International Journal of Finance*, (15), 68-87.

Penrose, E. (2009). *The theory of the growth of the firm*. Oxford University Press, 4th Ed.

Stuebs, M., & Sun, L. (2015). Corporate governance and social responsibility. *International Journal of Law and Management*, 57(1), 38-52.

Syamsudin, S., Imronudin, I., Utomo, S. T., & Praswati, A. N. (2017). Corporate governance in detecting lack of financial report. *JDM (Jurnal Dinamika Manajemen)*, *8*(2), 167-176.

Said, J., Alam, M. M., Karim, Z. A., & Johari, R. J. (2018). Integrating religiosity into fraud triangle theory: Findings on Malaysian police officers. *Journal of Criminological Research, Policy and Practice*.

Subagyo, H. (2021). Relationships between debt, growth opportunities, and firm value: empirical evidence from the Indonesia Stock Exchange. *The Journal of Asian Finance, Economics, and Business*, *8*(1), 813-821.

Titman, S., Wei, C., & Zhao, B. (2020). Stock price manipulation: corporate actions and the exploitation of retail investors in China. Available at SSRN 3569429.

Wu, W., Johan, S. A., & Rui, O. M. (2016). Institutional investors, political connections, and the incidence of regulatory enforcement against corporate fraud. *Journal of Business Ethics*, *134*(4), 709-726.

Yiu, D. W., Wan, W. P., & Xu, Y. (2019). Alternative governance and corporate financial fraud in transition economies: Evidence from China. *Journal of Management*, *45*(7), 2685-2720.

APPENDIX

Table 4. Operational variable definition

Variable	Definition
Fraud	A dummy variable with the value one if the company has committed fraud and 0 otherwise.
Fraud_Accounting	Dummy variables that are considered 1 if the enterprise has accounting fraud and 0 if there is no fraud.
Fraud_Disclosure	Dummy variables that are considered 1 if the enterprise has disclosure fraud and 0 if there is no fraud.
Fraud_Others	A dummy variable coded one if the business has committed other fraud and 0 if it has not.

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614

CSR_Score	The overall score of a company's CSR, as supplied by the Chinese independent rating organization Rankins CSR Ratings. This score is a weighted average ranging from 0 to 100.
Size	Total assets natural logarithm.
Growth	Estimated ratio of increase in sales.
ROA	Net income scaled by total assets.
LEV	Total debt scaled by total assets.
Big 10	A dummy variable coded one if a company is audited by one of China's Big ten auditors and 0 otherwise.

DOI: http://dx.doi.org/10.33021/jaaf.v6i1.3614