

DOES CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE CONSTRAIN EARNINGS MANAGEMENT? ACCRUAL AND REAL ACTIVITIES EVIDENCE FROM THE PALESTINE EXCHANGE

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Abstract: *This study examines whether corporate social responsibility disclosure (CSR) constrains earnings management through a portfolio-wide governance mechanism or induces substitution from accrual-based to real activities manipulation. Drawing on stakeholder theory, legitimacy theory, and the information asymmetry reduction framework, and using an unbalanced panel of 30 non-financial firms listed on the Palestine Exchange (PEX) over 2013–2023 (310 firm-year observations), we employ Random Effects GLS estimation with entity-clustered robust standard errors. We find that CSR is negatively and significantly associated with both accrual-based earnings management ($\beta = -0.079$, $p = 0.040$) and real earnings management ($\beta = -0.215$, $p = 0.004$), with evidence inconsistent with the substitution hypothesis. Sub-index decomposition reveals that human resources and community disclosure dimensions drive the disciplining effect, while environmental disclosure exerts no significant constraint — a pattern consistent with the structure of stakeholder monitoring in a frontier market lacking institutional investor pressure. Findings are directionally consistent across six alternative specifications, including one-period lagged CSR and first-difference estimation, though the first-difference result does not achieve statistical significance. The results support a compensatory governance interpretation: in the absence of formal monitoring infrastructure, voluntary CSR assumes a portfolio-wide disciplining role that contradicts the substitution prediction established in developed markets.*

Keywords: Corporate social responsibility disclosure; earnings management; real earnings management; frontier market; Palestine Exchange

1. Introduction

Corporate social responsibility disclosure (CSR) is increasingly viewed as a governance mechanism because public commitments to transparency, ethical conduct, and stakeholder accountability increase the reputational cost of opportunistic reporting. Yet the governance interpretation is incomplete when earnings management is examined through accruals alone. Managers may reduce accrual-based earnings management (AEM) while substituting toward real earnings management (REM), which operates through production, sales, and discretionary

expenditure decisions and is harder for outsiders to detect. The substitution mechanism documented by Cohen et al. (2008) and formalised by Zang (2012) therefore changes the central question: does CSRD reduce the full manipulation portfolio, or merely reallocate manipulation between channels?

Prior dual-channel evidence is mixed. Khuong et al. (2023) report accrual-to-real substitution in Vietnam; García-Sánchez et al. (2020) find a robust constraint on AEM but model-dependent evidence for REM; and Kim et al. (2012) and Liu and Lee (2019) report constraining effects across both channels. These differences suggest that institutional context determines whether disclosure operates as a channel-specific constraint or as portfolio-wide discipline.

The Palestine Exchange (PEX) provides a theoretically relevant frontier-market test. Listed firms operate with concentrated ownership, limited analyst coverage, predominantly voluntary disclosure under PCMA Instructions No. (1) of 2013, and constrained enforcement capacity associated with persistent geopolitical instability (Barakat et al., 2015). These conditions support competing predictions. Weak infrastructure may attenuate the credibility of CSRD, or voluntary disclosure may compensate for underdeveloped formal monitoring because firms that self-select into transparency face high reputational costs when their conduct contradicts disclosed commitments.

This study makes three contributions. It provides the first dual-channel examination of CSRD and earnings management in a frontier market; tests whether the developed-market substitution mechanism travels to a controlling-owner-dominated, weak-enforcement setting; and decomposes CSRD to identify the disclosure dimensions that carry governance content. Using 310 firm-year observations for 30 non-financial PEX firms over 2013–2023, the evidence indicates negative associations between CSRD and both AEM and REM. Human-resources and community disclosure drive the result, supporting a compensatory, portfolio-wide governance interpretation rather than substitution.

The distinction matters for both inference and policy. A negative CSRD–AEM coefficient cannot by itself establish improved reporting integrity if managers can replace accrual choices with operational actions that damage future cash flows. REM may be particularly costly because price discounts, overproduction, and reductions in discretionary expenditure can weaken long-term firm value while remaining difficult to classify as manipulation. A dual-channel design therefore avoids interpreting a change in the composition of earnings management as a reduction in its total magnitude.

The study is also motivated by the limited portability of governance mechanisms across institutional settings. Most evidence on substitution originates in developed markets with deep capital markets, stronger enforcement, and specialised monitoring intermediaries. In a frontier market, the same formal governance mechanism may operate differently because ownership, disclosure incentives, stakeholder proximity, and enforcement capacity alter both the credibility of disclosure and the costs of opportunistic reporting. The PEX is not used merely as a novel setting; it provides a boundary-condition test of whether the substitution prediction remains valid when formal monitoring is weak and voluntary disclosure may carry relatively greater signalling content.

2. Literature Review and Hypothesis Development

2.1 Earnings Management as a Portfolio and CSRD as Governance

Earnings management comprises two economically related channels. AEM exploits judgement in accrual estimation and accounting choices without directly changing cash flows (Dechow et al., 1995). REM alters normal operations through overproduction, sales acceleration, or cuts in discretionary expenditure (Roychowdhury, 2006; Cohen & Zarowin, 2010). Because managers choose between these channels according to their relative costs and detection risks, governance mechanisms must be evaluated against the total portfolio rather than one proxy in isolation (Graham et al., 2005; Zang, 2012). A constraint focused narrowly on accruals may unintentionally make REM more attractive.

Three theoretical mechanisms explain why CSRD could instead discipline both channels. Stakeholder theory predicts that disclosure expands the monitoring audience to employees, communities, civil society, and regulators (Freeman, 1984). Legitimacy theory implies that inconsistency between public ethical commitments and either accounting or operational manipulation threatens the firm's social licence (Lindblom, 1994; Suchman, 1995). The information-asymmetry framework adds that non-financial disclosure about operations, employment, products, and communities can make REM-related distortions more observable (Healy & Palepu, 2001). Unlike channel-specific regulation, voluntary CSRD may therefore raise the reputational cost of the entire manipulation portfolio.

The portfolio perspective also clarifies why CSRD differs from a narrowly targeted accounting rule. Regulation such as the Sarbanes–Oxley Act directly increases the expected cost of accrual manipulation, making REM relatively more attractive (Cohen et al., 2008). CSRD is broader and reputational rather than channel-specific. Its disclosures concern workforce practices, community relations, products, and environmental conduct as well as general transparency. When stakeholders can compare these commitments with observable operations, the mechanism can reach the real-activities channel rather than merely tightening scrutiny of reported accruals. The empirical question is whether that broader monitoring actually operates in the Palestinian institutional environment.

2.2 Institutional Conditionality and Competing Predictions

These mechanisms are institutionally conditional. The PEX combines concentrated ownership and limited minority-investor recourse with low analyst coverage, voluntary CSRD, and constrained regulatory enforcement (Abu Alia & Awwad, 2022; Aljadba et al., 2021). Under the attenuation view, weak verification permits selective or boilerplate disclosure, reducing governance credibility (Patten, 2002; Haniffa & Cooke, 2005). Under the compensatory-governance view, voluntary disclosure is particularly informative where formal monitoring is scarce: firms that publicly distinguish themselves through transparency incur a greater reputational penalty when opportunistic behaviour is detected.

The empirical literature supports both possibilities. Developed-market and meta-analytic evidence generally links CSR or CSRD to lower AEM (Kim et al., 2012; Gras-Gil et al., 2016; Shi et al., 2024), but emerging-market findings range from negative to positive associations (Kumala & Siregar, 2020; Saraireh et al., 2022). Dual-channel evidence is equally heterogeneous, making the PEX setting a direct test of whether institutional fragility weakens disclosure or allows it to substitute for missing formal governance.

H1: CSRD is negatively associated with accrual-based earnings management among PEX-listed firms.

H2a: CSRD is positively associated with real earnings management, consistent with accrual-to-real substitution.

H2b: CSRD is negatively associated with real earnings management, consistent with portfolio-wide governance discipline.

H2a and H2b are mutually exclusive and define the study's central empirical test.

Existing evidence does not resolve this issue. Kim et al. (2012) report higher earnings quality among socially responsible firms, while Liu and Lee (2019) find lower earnings management and tax avoidance in China. By contrast, Khuong et al. (2023) document a negative CSRD–AEM relationship accompanied by a positive REM relationship in Vietnam, directly supporting substitution. García-Sánchez et al. (2020) report a strong AEM constraint, but the REM result varies across specifications. Prior et al. (2008) further show that firms may increase CSR activity after engaging in earnings management, consistent with a legitimacy shield rather than discipline. These conflicting findings justify competing hypotheses rather than assuming that CSRD is inherently constraining.

The Palestinian context sharpens the distinction between attenuation and compensation. Concentrated control can reduce external scrutiny and allow dominant owners to influence disclosure and reporting choices. At the same time, employees and local communities are close to firms and may observe operational conduct more directly than dispersed capital-market actors. Voluntary social disclosure may therefore be credible where it creates commitments visible to these proximate groups, even when environmental or investor-oriented monitoring remains underdeveloped. The sub-index analysis is designed to test this institutional mechanism rather than treating CSRD as a homogeneous construct.

3. Research Design and Methodology

3.1 Sample and Data

The initial population comprised all PEX-listed firms from 2013 to 2023. Financial firms were excluded because their reporting and regulatory structures are not comparable with non-financial firms. After removing ten firm-years with incomplete financial data, the baseline sample contains 310 observations for 30 firms. Continuous variables were winsorised at the 1st and 99th percentiles. Lagged-CSRD specifications use 287 observations because the first observation in each firm series is unavailable. The period begins with the 2013 CSR disclosure instructions and ends in 2023 to avoid post-2023 structural disruptions in reporting availability.

Table 1. Sample Selection Procedure

Selection criterion	Firms	Firm-year observations
All PEX-listed firms, 2013–2023	48	528
Less: financial-sector firms	(18)	(198)
Less: incomplete firm-years	—	(10)
Baseline regression sample	30	310
Lagged-CSRD sample (R4–R5)	30	287

Annual reports and audited financial statements provide the accounting variables, while CSR items are hand-collected through quantitative content analysis. A disclosed item receives one

only when it is explicitly reported; otherwise it receives zero. Equal weighting across the four normalised dimensions prevents the larger human-resources and environmental item sets from mechanically dominating the composite index. The baseline sample remains unbalanced because firms differ in listing history and data availability, but all 30 firms contribute to the principal models.

3.2 Variable Measurement

AEM is measured as the absolute value of discretionary accruals from the Modified Jones model (Dechow et al., 1995), scaled by lagged total assets. Because the PEX has only 30 firms, the first stage is estimated by pooled OLS with industry and year controls rather than separate industry-year cross-sections:

$$TA_{it}/A_{i,t-1} = \alpha_0 + \alpha_1(1/A_{i,t-1}) + \alpha_2(\Delta R_{it} - \Delta AR_{it})/A_{i,t-1} + \alpha_3(PPE_{it}/A_{i,t-1}) + \varepsilon_{it}. \quad (1)$$

REM follows Roychowdhury (2006). Abnormal cash flow, production costs, and discretionary expenditure are residuals from pooled first-stage models with industry and year controls. The aggregate measure is $AGG_REM = AB_PROD - AB_CFO - AB_DISX$, so higher values consistently indicate greater income-increasing manipulation. CSRD is measured through a 53-item binary checklist grounded in GRI and adapted to Palestinian and MENA reporting. The checklist comprises environmental (15 items), human-resources (17), community (13), and product/consumer (8) dimensions. Each dimension is normalised to [0,1], and CSRD_INDEX is their equally weighted mean. Reliability is high overall (Cronbach's $\alpha = 0.924$; McDonald's $\omega = 0.927$) and acceptable for every dimension.

Table 2. Definitions and Measurement of Study Variables

Variable	Construct	Measurement	Data source
AEM	Accrual earnings management	Absolute Modified Jones discretionary accruals; pooled first stage with industry and year controls.	Annual reports / financial statements
AGG_REM	Real earnings management	$AB_PROD - AB_CFO - AB_DISX$; higher values indicate more income-increasing REM.	Annual reports / financial statements
CSRD_INDEX	CSR disclosure	Mean of four normalised sub-indices from a 53-item binary checklist.	Annual reports / content analysis
CSRD_ENV	Environmental disclosure	15-item normalised sub-index.	Annual reports
CSRD_HR	Human-resources disclosure	17-item normalised sub-index.	Annual reports
CSRD_COMM	Community disclosure	13-item normalised sub-index.	Annual reports
CSRD_PROD	Product/consumer disclosure	8-item normalised sub-index.	Annual reports
SIZE	Firm size	Natural logarithm of total assets.	Financial statements

Variable	Construct	Measurement	Data source
LEV	Leverage	Total debt / total assets.	Financial statements
ROA	Profitability	Net income / total assets.	Financial statements
LIQ; GROW; AGE	Liquidity; growth; age	Current ratio; annual revenue growth; years since incorporation.	Financial statements / PEX registry

Note. All continuous variables are winsorised at the 1st and 99th percentiles. Sub-indices enter separate decomposition models and are not entered simultaneously with CSRD_INDEX.

The REM first stages estimate normal CFO as a function of sales and sales changes, normal production costs as a function of sales and current and lagged sales changes, and normal discretionary expenditure as a function of lagged sales. Residuals represent abnormal operating choices. Positive AB_PROD indicates overproduction; negative AB_CFO indicates sales acceleration through discounts or extended credit; and negative AB_DISX indicates expenditure suppression. Combining the components as AB_PROD – AB_CFO – AB_DISX gives a common direction in which larger AGG_REM represents more income-increasing manipulation.

The control variables reflect established incentives and capacity for earnings management. SIZE captures scale and monitoring, LEV captures debt pressure, ROA captures performance-related reporting incentives, LIQ captures short-term financial flexibility, GROW captures expansion pressure, and AGE captures organisational maturity. The sub-index models replace CSRD_INDEX with one dimension at a time to avoid mechanical multicollinearity among the composite and its components.

The checklist's reliability evidence supports aggregation while preserving the logic of decomposition. Overall internal consistency is excellent ($\alpha = 0.924$; $\omega = 0.927$), and each dimension exceeds conventional acceptability thresholds: environmental $\alpha = 0.879$ and $\omega = 0.892$; human resources $\alpha = 0.794$ and $\omega = 0.835$; community $\alpha = 0.811$ and $\omega = 0.851$; and product/consumer $\alpha = 0.780$ and $\omega = 0.836$. These statistics indicate coherent disclosure domains, but they do not establish external validity or eliminate judgement in manual coding. The dimension-level regressions are therefore used to identify where the aggregate association originates rather than to claim that all disclosure categories operate through identical governance mechanisms.

3.3 Model Specification and Estimator

Both baseline models include SIZE, LEV, ROA, LIQ, GROW, and AGE. The Hausman test does not reject random effects for either outcome; Random Effects GLS (Swamy–Arora) is therefore used with entity-clustered robust standard errors. Year indicators are excluded after a joint test finds no systematic time effects, and residual diagnostics show no first-order serial autocorrelation.

$$|AEM|_{it} \text{ (or AGG_REM}_{it}) = \alpha + \beta_1 \text{CSRD_INDEX}_{it} + \sum \beta_k \text{Controls}_{it} + \varepsilon_{it}. \quad (2)$$

Estimator selection is treated as a diagnostic decision rather than a claim that unobserved firm effects are absent. The Hausman results provide no statistical basis for preferring fixed effects, while the small number of firms can make the FE–RE covariance difference imprecisely estimated. The RE and FE coefficient vectors were therefore compared as a

numerical cross-check and were directionally similar. Entity-clustered robust standard errors address within-firm dependence and heteroscedasticity, and all reported tests are two-tailed.

4. Empirical Results

4.1 Descriptive Evidence and Specification Tests

CSR_D_INDEX averages 0.268 (SD = 0.176) and ranges from 0.019 to 0.830, indicating low-to-moderate disclosure with sufficient cross-sectional variation for identification. Mean disclosure rises from 0.235 in 2013 to 0.319 in 2023. |AEM| averages 0.054, while AGG_REM averages −0.031. CSR_D is negatively correlated with both earnings-management measures. Its correlation with SIZE is 0.616, but the maximum variance inflation factor is 2.05, indicating no distortive multicollinearity. Hausman statistics are insignificant for AEM ($\chi^2(7) = 3.75$, $p = 1.000$) and REM ($\chi^2(7) = 0.43$, $p = 0.999$); FE estimates are directionally comparable, supporting the RE choice.

Table 3. Descriptive Statistics for Key Variables

Variable	Mean	SD	Min	Median	Max
AEM	0.0018	0.077	−0.202	−0.000	0.282
AEM	0.054	0.055	0.000	0.037	0.282
AGG_REM	−0.031	0.147	−0.403	−0.028	0.445
CSR _D _INDEX	0.268	0.176	0.019	0.226	0.830
LEV	0.340	0.186	0.013	0.329	0.720
ROA	0.032	0.068	−0.183	0.031	0.218
SIZE	17.141	1.580	13.409	16.943	20.744

Note. N = 310 for baseline models. Variables are winsorised at the 1st and 99th percentiles.

The distributional evidence is consistent with a frontier market in which voluntary disclosure remains uneven. The standard deviation and range of CSR_D are large relative to its mean, while the steady increase over the study period indicates gradual institutionalisation rather than a sudden regulatory break. GROW and LIQ are strongly skewed in the unadjusted data; sensitivity checks using more aggressive 5th–95th percentile winsorisation produce qualitatively similar inferences. These patterns support the use of robust standard errors and reduce concern that a few extreme observations generate the baseline results.

4.2 Main Results

CSR_D_INDEX is negatively associated with |AEM| ($\beta = -0.0787$, $p = 0.040$), supporting H1. Moving from the 25th to the 75th percentile of CSR_D corresponds to an estimated 2.08 percentage-point reduction in |AEM|, approximately 27% of the AEM standard deviation. ROA is positive and significant, while the remaining controls are insignificant. The between- R^2 exceeds the within- R^2 , indicating that accrual-management differences are primarily cross-sectional.

For real activities, CSR_D_INDEX is negative and significant in the aggregate model ($\beta = -0.2151$, $p = 0.004$), supporting H2b and rejecting H2a. The interquartile change in CSR_D corresponds to a 5.68 percentage-point decline in AGG_REM, approximately 39% of its standard deviation. Component results are internally consistent: CSR_D reduces abnormal production costs ($\beta = -0.1084$, $p = 0.023$) and increases abnormal operating cash flow ($\beta =$

0.0794, $p = 0.011$), indicating less overproduction and less sales acceleration. The AB_DISX coefficient is marginal ($\beta = 0.0250$, $p = 0.079$). The REM coefficient is nearly three times the AEM coefficient, suggesting that disclosure is particularly consequential in the less transparent operational channel.

Table 4. RE-GLS Estimates for Accrual and Real Earnings Management

Variable	AEM	AGG_REM	AB_CFO	AB_PROD	AB_DISX
CSRD_INDE X	-0.0787** (0.0382)	-0.2151*** (0.074)	0.0794** (0.031)	-0.1084** (0.047)	0.0250* (0.014)
LEV	0.0461 (0.0369)	0.1682** (0.075)	-0.0680** (0.030)	0.0738 (0.050)	0.0161 (0.018)
ROA	0.3810*** (0.1034)	-0.2742* (0.157)	0.1751** (0.073)	-0.1012 (0.122)	-0.0543* (0.033)
SIZE	-0.0004 (0.0012)	-0.0020 (0.003)	0.0008 (0.001)	-0.0009 (0.002)	-0.0003 (0.001)
AGE	0.0001 (0.0009)	0.0007 (0.002)	-0.0005 (0.001)	0.0004 (0.001)	0.0001 (0.000)
GROW	0.0002 (0.0014)	-0.0036 (0.004)	0.0013 (0.001)	-0.0001 (0.004)	0.0006 (0.000)
LIQ	0.0004 (0.0003)	0.0005 (0.001)	-0.0004 (0.000)	-0.0000 (0.001)	0.0004 (0.000)
R ² overall	0.163	0.200	0.135	0.106	0.011
N	310	310	310	310	310

Note. Entity-robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ (two-tailed).

The control results do not alter the central inference. Profitability is the strongest correlate of |AEM|, consistent with performance affecting accrual opportunities and incentives. Leverage is positively associated with aggregate REM and negatively associated with AB_CFO, suggesting that financially pressured firms may rely more heavily on operating actions. Most other control coefficients are statistically weak. The low within-R² and larger between-R² in the AEM model indicate that the estimated CSRD relationship reflects persistent differences across firms more than year-to-year changes within the same firm, a feature that becomes important in interpreting the first-difference result.

Economic significance complements statistical significance. The interquartile movement in CSRD is 0.264. Multiplying this change by the AEM coefficient implies a decline of about 0.0208 in absolute discretionary accruals, while the corresponding REM change is about 0.0568. Relative to the observed standard deviations, these represent approximately 27% and 39%, respectively. The component signs also matter for interpretation: lower AB_PROD indicates less inventory overproduction, while higher AB_CFO indicates less reliance on price discounts or lenient credit to accelerate sales. The aggregate result is therefore not driven by a mechanically constructed index whose components move in contradictory directions.

4.3 Robustness and Sub-Index Decomposition

The negative CSRD association is directionally stable across six alternative specifications. Raw disclosure counts reproduce the baseline AEM and REM results; one-period lagged CSRD remains significant for both outcomes; and signed-accrual analysis supports a reduction in

manipulation magnitude. First-differencing produces a negative but insignificant REM coefficient ($\beta = -0.0475$, $p = 0.891$). This attenuation is consistent with the descriptive dominance of between-firm variation and also leaves time-invariant omitted heterogeneity as an alternative explanation, so the estimates should be interpreted as associations rather than causal effects.

Dimension-level results identify the source of the aggregate effect. Human-resources disclosure is negative for AEM ($\beta = -0.0711$, $p = 0.019$) and REM ($\beta = -0.1351$, $p = 0.037$); community disclosure is likewise negative for AEM ($\beta = -0.0762$, $p = 0.030$) and REM ($\beta = -0.2050$, $p = 0.004$). Environmental disclosure is insignificant for AEM and only marginal for REM, while product responsibility is insignificant in both models.

Table 5. Robustness and CSRD Sub-Index Results

Panel / specification	Outcome	β (CSRD)	SE	p-value	Result
A. Signed AEM	AEM	-0.0587	0.0261	0.026	Significant
A. Raw CSRD total	AEM	-0.0015	0.0007	0.040	Significant
A. Raw CSRD total	AGG_REM	-0.0041	0.0014	0.004	Significant
A. Lagged CSRD	AEM	-0.0913	0.0405	0.025	Significant
A. Lagged CSRD	AGG_REM	-0.2004	0.0776	0.010	Significant
A. First difference	AGG_REM	-0.0475	0.3470	0.891	Not significant
B. Environmental	AEM / REM	-0.0308 / -0.0919	0.024 / 0.049	0.201 / 0.061	ns / marginal
B. Human resources	AEM / REM	-0.0711 / -0.1351	0.030 / 0.065	0.019 / 0.037	Significant
B. Community	AEM / REM	-0.0762 / -0.2050	0.035 / 0.071	0.030 / 0.004	Significant
B. Product responsibility	AEM / REM	-0.0155 / -0.0852	0.030 / 0.054	0.602 / 0.115	Not significant

Note. Panel A reports alternative specifications. Panel B reports separate RE-GLS regressions substituting each sub-index for CSRD_INDEX; the full control vector is retained.

The lagged models reduce, but do not eliminate, concern that firms change disclosure after manipulating earnings. Their coefficients remain close to the contemporaneous estimates, which is inconsistent with a purely immediate reverse-causality explanation. The raw-count results show that equal normalisation across dimensions does not create the findings. However, the insignificant first-difference estimate is a substantive limitation: once stable cross-firm differences are removed, the remaining annual changes in CSRD contain too little information to identify a precise REM relationship. The robustness evidence therefore supports directional stability but not causal identification.

5. Discussion

5.1 Portfolio-Wide Discipline and Institutional Context

The central result is that CSRD is negatively associated with both AEM and REM. The data therefore do not support the substitution prediction established when external constraints target the accrual channel (Cohen et al., 2008; Zang, 2012). Instead, the pattern is consistent with portfolio-wide discipline: disclosure broadens the monitoring constituency and increases the reputational cost of inconsistency across both accounting and operational behaviour. In the PEX setting, voluntary CSRD may compensate for limited analyst coverage, weak enforcement, and underdeveloped formal monitoring.

This interpretation does not imply that voluntary disclosure is universally effective. Prior et al. (2008) show that earnings-managing firms may use CSR as a legitimacy shield, and Sarairoh et al. (2022) report a positive CSR–AEM association in Jordan. The difference may depend on whether disclosure is sufficiently heterogeneous and informative to distinguish firms. In the PEX sample, the broad range of CSRD scores suggests that voluntary disclosure carries cross-sectional governance content rather than representing uniform boilerplate. Nevertheless, the predominantly between-firm nature of the results means that stable firm characteristics may partly account for the observed associations.

The result also qualifies the claim that mandatory disclosure is always more credible than voluntary disclosure. Hickman et al. (2021) show that binding CSR requirements can strengthen discipline, but in a weak-enforcement environment formal compliance may be achieved through low-information statements. Self-selected disclosure can carry governance content when it is costly, visible, and sufficiently heterogeneous to separate firms. The PEX evidence is consistent with this mechanism, although the observational design cannot distinguish whether disclosure itself disciplines managers or whether better-governed firms both disclose more and manipulate less.

The Palestinian evidence sits between two established interpretations of CSR reporting. The attenuation view expects weak enforcement to reduce credibility, while the legitimacy-shield view expects opportunistic managers to use social disclosure strategically. The observed negative associations do not eliminate either possibility in all firms, but they indicate that the dominant cross-sectional pattern is more consistent with compensation than camouflage. Firms with stronger disclosure profiles also exhibit lower manipulation across accounting and operating channels. This is especially informative because the PEX lacks the analyst and institutional-investor infrastructure normally assumed to transmit disclosure into market discipline; the relevant monitoring may instead arise from locally embedded stakeholders with direct knowledge of organisational practices.

5.2 Why the REM Effect Is Larger and Why Social Disclosure Matters

The larger REM coefficient is theoretically meaningful. REM is historically harder to detect because it is embedded in ordinary operating decisions. When non-financial disclosure exposes information about production, employees, communities, and customer practices, it can reduce informational opacity precisely where conventional financial monitoring is weakest (Healy & Palepu, 2001). A successful disclosure constraint on REM may therefore generate a larger association than in the accrual channel, where auditors and financial reporting controls already provide partial oversight.

The sub-index results reinforce this mechanism. Employees, trade unions, and community organisations are proximate stakeholders who can observe whether disclosed social commitments align with actual conduct. Their monitoring capacity gives human-resources and community disclosure governance relevance. Environmental monitoring is less institutionalised because ESG-oriented investors, technically specialised NGOs, and mandatory environmental verification remain limited. Aggregate CSRD indices can therefore conceal which disclosure domains are genuinely enforceable in a specific institutional setting (Patten, 2002; Jamali et al., 2020).

This dimension-specific interpretation has a methodological implication. Composite CSRD measures assume that disclosure categories contribute equally to governance, but institutional capacity determines which commitments stakeholders can verify. An environmental item may have limited disciplinary value without specialised monitoring, while a workforce or community item can be checked by actors who interact with the firm daily. Researchers should therefore report both aggregate and disaggregated results and avoid transferring environmental-governance conclusions from developed ESG markets to settings where the relevant monitoring infrastructure is absent.

5.3 Policy Implications

The findings support three practical implications. First, Palestinian regulators can strengthen standardisation and verification of voluntary CSR disclosure because it is associated with lower manipulation across both channels. Second, disclosure rules should reflect locally active monitoring constituencies, particularly employees and communities, rather than mechanically importing environmental frameworks whose enforcement infrastructure is absent. Third, regulators, boards, and audit committees should extend oversight beyond financial-statement accruals to production scheduling, sales practices, and discretionary expenditure, because the operational channel constitutes a substantial residual governance risk.

For policy, the objective should not be disclosure volume alone. Standard setters should improve comparability, require clearer evidence for reported practices, and develop verification capacity. Audit committees can incorporate selected non-financial indicators into risk assessment and challenge unusual production, sales, or expenditure patterns that may signal REM. Because the strongest results arise in social dimensions, early regulatory efforts can prioritise disclosures that employees and communities are positioned to monitor while environmental assurance capacity is developed gradually.

6. Conclusion

This study tests whether CSRD reduces the total earnings-management portfolio or induces accrual-to-real substitution in a frontier market. Using 310 firm-year observations from 30 non-financial PEX firms over 2013–2023, RE-GLS estimates show negative and significant associations between CSRD and both $|AEM|$ ($\beta = -0.0787$, $p = 0.040$) and AGG_REM ($\beta = -0.2151$, $p = 0.004$). H1 and H2b are supported, while H2a is rejected. The larger REM association and the significance of human-resources and community disclosure are consistent with compensatory governance: voluntary non-financial disclosure may discipline opaque operational behaviour where formal monitoring infrastructure is limited.

The contribution is bounded by the design. The sample is small and single-country; CSRD was coded by one primary coder; ownership concentration is not included in the control vector; and the robustness analysis does not provide a valid external instrument. The first-

difference result is insignificant, and the dominance of between-firm variation prevents causal interpretation. Future work should incorporate independently coded disclosure, ownership and board variables, stronger identification strategies, and comparative frontier-market samples. Within these limits, the evidence shows that the institutional effect of CSRD cannot be inferred from developed-market substitution models alone: disclosure may function as a portfolio-wide governance mechanism when proximate stakeholders can monitor the commitments it communicates.

Several limitations qualify the conclusions. The 30-firm sample restricts statistical power and generalisability, and the single-country setting cannot determine whether the same pattern holds in other frontier or conflict-affected markets. Manual coding by one primary researcher creates potential measurement error despite high internal consistency. Ownership concentration, a central feature of the theoretical setting, could not be included because sufficiently consistent firm-year data were unavailable. The lagged and first-difference models address selected endogeneity concerns but do not solve simultaneous determination, and no valid external instrument is available. Finally, earnings-management proxies are estimated measures rather than direct observations of intent. These constraints require cautious associational language and motivate replication with independent coding, governance controls, longer panels, and comparative institutional designs.

The paper contributes to the earnings-management literature by evaluating both manipulation channels simultaneously, to voluntary-disclosure research by identifying a setting in which self-selected CSRD is associated with portfolio-wide discipline, and to frontier-market governance research by specifying the stakeholder conditions under which disclosure may compensate for weak formal institutions. These contributions remain associational and should be read as evidence about institutional boundary conditions rather than proof that increasing disclosure mechanically causes reporting quality to improve.

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