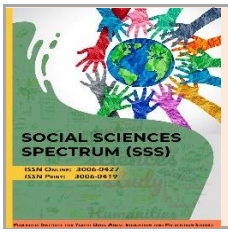

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Corporate Philanthropy, Board Gender Diversity, and Real Earnings Management: Evidence from G7 Firms

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Abstract

This study investigates whether corporate philanthropy can act as a safeguard against REM, and whether women's participation on boards strengthens this relationship. Using panel data of publicly listed firms from G7 economies from 2010 to 2022, the study employs fixed-effects regression models to test the hypotheses. REM was measured through abnormal discretionary expenses, while corporate philanthropy was captured by total donations. Women's participation was measured by the percentage of female directors on boards. The models also included market-to-book ratio, return on assets, board expertise, board size, governance score, shareholder score, corruption control, governance effectiveness, and political stability as controls. The results show that corporate philanthropy is negatively associated with REM, suggesting that genuine charitable giving helps reduce earnings manipulation. Women's participation on boards also reduces REM, reinforcing the view that diverse boards strengthen ethical oversight. Importantly, the interaction term reveals that female directors enhance the effect of philanthropy indicating that philanthropy efforts become more credible and effective when supported by gender-diverse governance. The study concludes that philanthropy and board diversity serve as complementary mechanisms for promoting ethical corporate behavior. It is recommended that firms integrate philanthropy into long-term ethical strategies and policymakers strengthen gender diversity reforms to improve financial integrity.

Keywords: Real Earnings Management (REM), Corporate Philanthropy, Board Gender Diversity, Corporate Governance, G7 Economies.

1. Introduction

Major corporate scandals such as those at Enron, Satyam Computer Services, and Toshiba have raised global concerns about the ethical integrity of financial reporting (Belgasem-Hussain & Hussaien, 2023). These cases shook investors' confidence and revealed the dangers of earnings manipulation. At the center of these scandals lies Earnings Management (EM), where managers deliberately alter financial reports to achieve specific goals. This often boosts short-term performance but comes at the expense of ethics and long-term value creation (Healy & Wahlen, 1999).

Earnings management refers to adjusting financial statements to make a company appear more profitable than it is. Common practices include accelerating revenues, delaying expenses, changing accounting estimates, or exploiting loopholes in regulations. Such activities are generally considered unethical because they mislead investors, distort markets, and deceive other stakeholders. They also bring long-term risks, including reputational damage and a loss of trust.

There are two main forms of earnings management: Accrual-based Earnings Management (AEM) and Real Earnings Management (REM). AEM relies on accounting adjustments, while REM manipulates real business activities such as production, sales, or discretionary spending (Roychowdhury, 2006). After the Sarbanes-Oxley Act (SOX) of 2002 introduced tighter rules, companies reduced AEM and shifted toward REM, which is harder to detect (Cohen, Dey, & Lys, 2008). This study focuses on REM because it directly interferes with a firm's operations and weakens its long-term competitiveness. For example, cutting research and development or overproducing to reduce unit costs may improve short-term results but harm innovation and efficiency in the long run (Gunny, 2005). Scholars warn that REM has serious consequences for investors, employees, and society as a whole (Cho & Chun, 2016).

In response to these ethical concerns, firms have adopted Corporate Social Responsibility (CSR) as a way to balance profit-making with accountability. CSR includes environmental practices, fair labor policies, and community engagement. Within CSR, corporate philanthropy is especially important (B. Pervaiz, Manzoor, & Awan, 2024). Philanthropy refers to voluntary donations, community projects, or charitable partnerships that aim to improve social welfare (Gautier & Pache, 2015). These initiatives can enhance corporate reputation, increase legitimacy, and build trust among stakeholders such as customers, employees, regulators, and local communities (Cha & Rajadhyaksha, 2021).

Scholars, however, disagree on the role of philanthropy. Some argue that companies committed to philanthropy are less likely to manipulate earnings because ethical behavior in one area often reflects a broader culture of integrity (Idrees et al., 2021). Others suggest philanthropy can be used strategically to mislead. From an agency theory perspective, managers may use charitable activities to create a "moral halo" that distracts stakeholders from unethical practices such as REM (Prior, Surroca, & Tribó, 2008). This debate raises an important question: is philanthropy a genuine safeguard against manipulation, or is it a cover for misconduct?

Board composition, particularly gender diversity, adds another dimension. The presence of women in corporate governance has become a growing topic of interest. Research suggests that female directors are more risk-averse, stakeholder-oriented, and ethically conscious than male directors. Firms with gender-diverse boards are more likely to engage in responsible CSR and less likely to adopt manipulative practices such as REM. For this reason, this study explores whether women's participation moderates the link between philanthropy and REM. It proposes that diverse boards

make philanthropic actions more credible and reduce the risk of using them as a façade for unethical behavior.

The empirical focus of this study is on the G7 economies—Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. These countries provide an ideal setting because of their developed financial systems, strong CSR structures, and significant philanthropic activity. According to the Global Philanthropy Report 2018 (Johnson, 2018), over 90% of global institutional philanthropy is concentrated in high-income countries. In the U.S., corporate giving exceeded $20 billion in 2017, an 8% rise from the year before. In France, corporate donations totaled €3.5 billion in 2019, an increase of more than 100% since 2010 (Charities Aid Foundation, 2019). These examples show how philanthropy has become a major part of corporate strategy in advanced economies.

Against this backdrop, this study asks three main questions: Does corporate philanthropy reduce REM? How does women's participation affect REM? And does gender diversity strengthen the relationship between philanthropy and reduced manipulation? By answering these questions, the study seeks to provide evidence on whether philanthropy serves as an ethical control or a reputational shield. The contribution of this study is both theoretical and practical. On the theoretical side, it adds to the growing literature that connects CSR, earnings management, and governance. By focusing specifically on corporate philanthropy and including female board participation as a moderating factor, it enriches understanding of how ethical initiatives and governance mechanisms work together to curb opportunistic behavior. The study also extends stakeholder theory by showing how interactions with stakeholder interests may prevent earnings manipulation.

On the practical side, the study provides useful insights for corporate leaders, regulators, and policymakers. It highlights that CSR should not be treated only as a reputational tool but as a genuine system of ethical control. It also shows that gender-diverse boards can strengthen ethical oversight and limit REM. These insights are especially relevant for multinational firms in the G7, where corporate behavior faces close scrutiny and where expectations for transparency and accountability are high. The policy implications are also significant. Regulators can use these findings to design rules that encourage both transparent CSR disclosure and greater gender diversity in leadership. Promoting inclusive governance and real philanthropic transparency could reduce the likelihood of financial misreporting.

Finally, the choice of G7 economies adds contextual strength. These countries combine advanced markets, institutionalized philanthropy, and rising expectations for board diversity. Their experience provides lessons for other developed economies seeking to strengthen governance and ethical corporate conduct. While prior studies have linked CSR to AEM, little attention has been paid to the connection between philanthropy and REM, particularly in advanced settings. By examining this link and the moderating effect of board gender diversity, this study addresses important gaps in the literature and offers new evidence on how corporations can balance strategy with ethics.

2. Literature Review

Earnings management received considerable attention because of major accounting scandals. At the center of these scandals was the manipulation of earnings. Researchers described earnings management as intentional changes in financial reports to meet certain goals. It was often defined as the use of flexibility allowed under Generally Accepted Accounting Principles (GAAP) to show

a desired level of earnings (Bakarich, Hossain, & Weintrop, 2019). Yahaya (2025) characterized earnings management as a practice managers used to mislead stakeholders about a firm's true performance or to influence contractual outcomes. Gras-Gil, Manzano, and Fernández (2016) further stressed that the main purpose of earnings management was to deceive stakeholders for financial gain. Such practices created ethical concerns and led to information asymmetry between managers and stakeholders (Ghaleb, Kamardin, & Al-Qadasi, 2020).

Some studies argued that earnings management was unethical and harmful in the long run (Dechow & Skinner, 2000). However, it was also suggested by some researchers that earnings management might have been necessary for a firm's survival and competitiveness (Gavana, Gottardo, & Moisello, 2017). The motivations for earnings management included executive compensation, tax minimization, debt covenant compliance, and maintaining corporate reputation. However, these actions undermined the reliability of financial statements and could cause serious reputational and financial damage. Accrual-based Earnings Management (AEM) manipulated accruals such as revenues and expenses, while Real Earnings Management (REM) involved deviations from normal business practices, such as accelerating sales, overproducing, or cutting discretionary expenses. REM gained more attention after the Sarbanes–Oxley Act because it was harder to detect than AEM and was not easily captured by auditors (Hermanson, Ackert, & Popova, 2021). However, REM could harm long-term firm value by distorting operations, lowering product quality, and increasing information asymmetry. Studies also linked REM to fraudulent practices, highlighting the need for deeper investigation (Md Nasir, Ali, Razzaque, & Ahmed, 2018).

External pressures from investors, analysts, and capital markets strongly influenced managers' use of REM. They were especially motivated to meet analyst forecasts during equity issues, restructuring, or periods of intense scrutiny. Since REM relied on operational decisions rather than accrual adjustments, it was less visible to regulators, making it an attractive strategy (Sial, Chunmei, Khan, & Nguyen, 2018). Agency theory explained that market-based compensation systems tied to stock performance or EPS targets created incentives for short-term earnings manipulation. Research confirmed a link between performance-based pay and higher earnings management (R. Pervaiz, Pervaiz, & Manzoor, 2022). Strong governance mechanisms such as independent boards, investor oversight, and audit quality helped to limit these practices, while weak governance often allowed managers to use CSR and philanthropy as reputational shields to justify REM (Braswell & Daniels, 2017).

REM had direct implications for firm performance. Although it sometimes helped firms meet analyst expectations or avoid covenant violations, it reduced long-term efficiency and shareholder value. Practices such as overproduction and cost cutting lowered gross margins and asset returns, while information asymmetry and weakened trust raised the cost of capital. REM also harmed corporate reputation, an intangible but critical asset. CSR and philanthropy could mitigate reputational risks, but when perceived as symbolic, they often increased stakeholder distrust (Hunjra, Muhammad, & Sebai, 2023).

Roychowdhury (2006) identified three main proxies for REM: abnormal cash flows, discretionary expenses, and production costs. Later studies refined these measures and showed that REM increased during IPOs, SEOs, and other market events (Kothari, Mizik, & Roychowdhury, 2016). While it could offer short-term benefits, REM often weakened innovation and stakeholder trust. The role of governance, CSR, and board diversity in shaping REM practices has been examined (Ghaleb et al., 2020). Capital structure also affected REM. Debt-heavy firms often manipulate earnings to avoid covenant violations. Equity pressures are equally significant, with evidence

showing increased REM around IPOs and SEOs. While such practices may support financing efforts, they risk long-term underperformance and reputational loss. Firms sometimes use philanthropy to offset these risks. However, philanthropy may serve opportunistic purposes unless supported by strong governance and diverse boards (Naz & Sheikh, 2023).

Corporate philanthropy, a discretionary part of CSR, carried both ethical and strategic value. It improved community relations, strengthened corporate image, and supported financial performance. Stakeholders also came to expect philanthropic efforts as a sign of responsibility. However, while philanthropy fostered goodwill, it could also be misused as symbolic CSR (Shu, Liu, Chen, Wang, & Lai, 2018). Scholars debated whether philanthropy constrained or enabled earnings management. From a stakeholder perspective, philanthropy reduced REM by building trust and strengthening reputation, which discouraged opportunistic behavior. It also improved relations with consumers, employees, and policymakers (Alqatan & Hichri, 2025). On the other hand, symbolic philanthropy could serve as a cover for unethical practices (Guo, Kim, & Shi, 2023).

Board gender diversity played a significant role in strengthening governance by improving monitoring and encouraging ethical decision-making. Recent evidence supports this view. Yami, Poletti-Hughes, and Hussainey (2023) reported that female directors reduced earnings management, particularly when supported by strong board quality. In a similar vein, Githaiga (2025) showed that gender diversity not only constrained earnings manipulation but also enhanced the effectiveness of anticorruption disclosure. Further, Al-Absy (2023) indicated that women serving on audit committees were especially effective in lowering real earnings management. More recently, Muhammad, Migliori, and Di Berardino (2025) found that when gender-diverse boards were combined with CSR engagement, they fostered ethical standards and discouraged opportunistic practices. However, a study published by Githaiga (2025) suggested that the effect of gender diversity could vary depending on institutional environments. Taken together, these findings reinforce the view that female representation strengthened oversight, improved disclosure quality, and limited managerial opportunism.

Women's participation was found to strengthen the negative link between philanthropy and REM. Stakeholder theory, as outlined by Freeman (1992), provided the main lens by stressing that firms are accountable to all stakeholders. From this perspective, philanthropy supported legitimacy and reduced opportunistic earnings management. Agency theory, however, offered a complementary view. Aiello, Cardamone, Mannarino, and Pupo (2021) argued that managers might misuse philanthropy as a shield for self-interest unless strong governance mechanisms were in place. The G7 economies offered a useful context for studying these dynamics because of their high CSR expectations and well-established philanthropic traditions. Likewise, the United States has consistently ranked among the most generous nations (Global Philanthropy Report, 2021). Gender diversity also advanced in developed economies. In the European Union, several countries introduced binding board quotas. In the United States and Canada, progress relied on market-driven reforms (Wang, Nadeem, Malik, & Xiong, 2024). These institutional differences made the G7 a suitable setting to study philanthropy, gender diversity, and REM.

3. Research Methodology

This study used a quantitative approach with panel data from G7 firms (Canada, France, Germany, Italy, Japan, the UK, and the US) for the years 2010–2022. The data was obtained from Thomson Reuters or Refinitiv Eikon / ASSET4 ESG databases. The study followed a positivist philosophy, assuming that relationships among variables could be measured objectively. A quantitative and a

deductive approach was applied to test the hypotheses with secondary numerical data, which allowed for generalizable conclusions.

3.1. Conceptual Framework

This study integrated stakeholder theory and agency theory. Stakeholder theory explains that corporate philanthropy could act as an ethical practice, increasing reputational capital and reducing REM. Agency theory, in contrast, suggested that managers might use philanthropy opportunistically, but women on boards are expected to limit this behavior. Female directors are hypothesized to strengthen the effect of philanthropy by improving monitoring and promoting ethical oversight. The following hypotheses were tested:

H1: Corporate philanthropy is negatively related to REM.

H2: Women's board participation is negatively related to REM.

H3: Women's participation moderates the effect of philanthropy on REM.

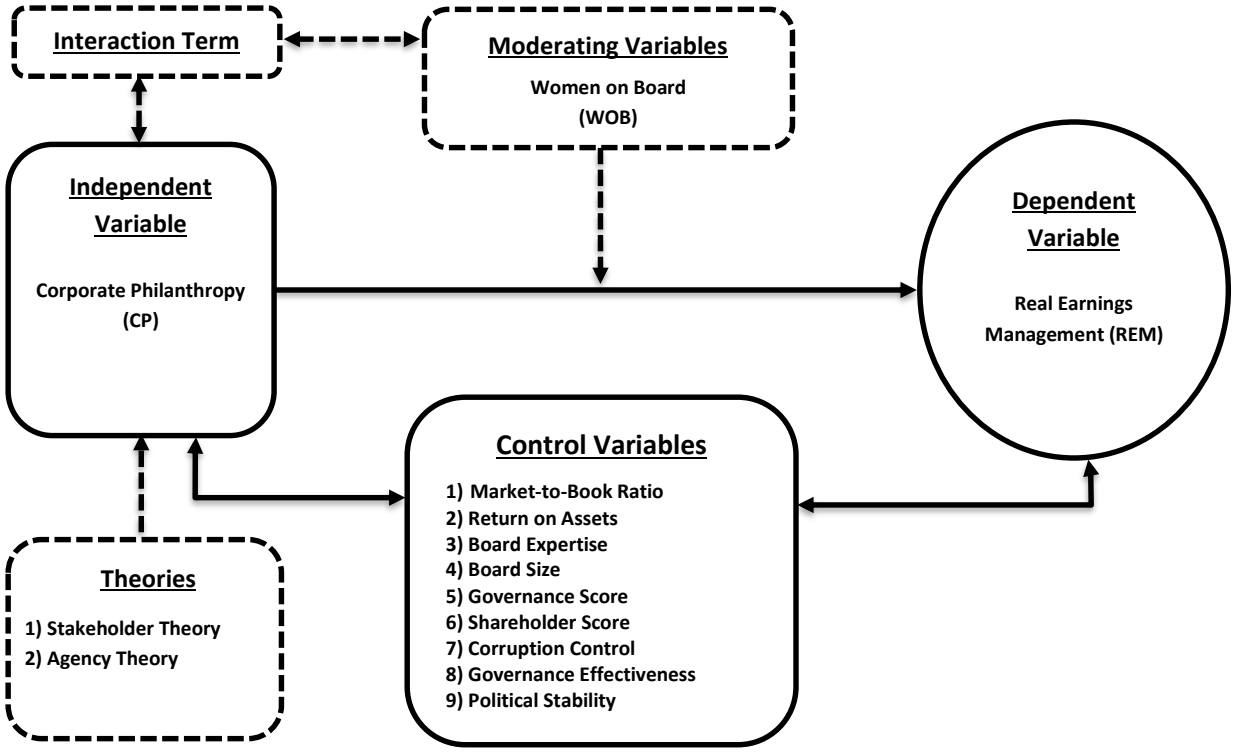

Figure 1 *Conceptual Framework of the Study*

3.2. Research Design and Data

A correlational and longitudinal panel design was employed to examine the relationships between corporate philanthropy, REM, and board gender diversity. The dataset included publicly listed firms with complete information on the key variables. It covered multiple industries and firm sizes to improve generalizability.

Table 1: *Variable Definitions, Measurement, and Expected Relationship with REM*

Sr. No.	Variables	Notation	Type	Definition & Measurement
1	Real Earnings Management	REM	Dependent	Abnormal Discretionary Expenses are used as a proxy of REM. Estimated as the residual from industry-year regression of discretionary expenses (R&D, advertising, maintenance) on lagged assets and sales (Roychowdhury, 2006). Lower (more negative) values indicate upward REM.
2	Corporate Philanthropy	CP	Independent	Total donations in millions, absolute values. Represents a firm's discretionary CSR investment.
3	Market-to-Book Ratio	MTB	Control	Market value ÷ book value of equity. Reflects growth opportunities; firms with high MTB may face pressure to sustain performance.
4	Return on Assets	ROA	Control	Adjusted ROA - industry average ROA is taken as adjusted Return of Assets. Reflects relative operating performance.
5	Board Expertise	BExpertise	Control	Percentage of directors with financial/accounting qualifications. Expertise is expected to improve oversight and reduce REM.
6	Board Size	BSize	Control	Total number of directors on the board. Larger boards may improve monitoring but also risk inefficiency.
7	Governance Score	GovnScore	Control	Composite score (0–100) that captures the quality of a firm's governance practices, including board structure, independence, diversity, executive pay, committees, and shareholder rights.
8	Shareholder Score	ShareScore	Control	Sub-score (0–100) that evaluates how well a firm protects shareholder rights and ensures ownership transparency.
9	Corruption Control	CorrupContrl	Control	Country-level indicator (0–100) that reflects the extent to which public power is exercised free from corruption.
10	Governance Effectiveness	GovnEffecv	Control	Governance indicator (0–100) that measures the perceived quality of public services, policymaking, and institutional capacity.
11	Political Stability	PolStability	Control	Governance indicator (0–100) that captures the likelihood of political instability or violence affecting governance.
12	Women on Board	WOB	Moderator	Percentage of female directors on the board in a given year. Captures board gender diversity and ethical oversight.
13	Corporate Philanthropy × Women on Board	CP x WOB	Interaction	Multiplicative term between corporate philanthropy and women's participation. Tests moderating effect of gender diversity on the philanthropy–REM link.

3.3. Econometric Models

Three fixed-effects panel models were estimated. The first model regressed REM on corporate philanthropy. The second examined REM against women's board participation. The third

combined philanthropy, women's participation, and their interaction. The econometric form of these models is as under:

Model 1:

$$\boldsymbol{REM_{it} = \beta_0 + \beta_1 CP_{it} + \beta_2 Controls_{it} + \lambda_t + \epsilon_{it}} \quad ---------- \quad (\mathbf{1})$$

Model 2:

$$\boldsymbol{REM_{it} = \beta_0 + \beta_1 WOB_{it} + \beta_2 Controls_{it} + \lambda_t + \epsilon_{it}} \quad ---------- \quad (\mathbf{2})$$

Model 3:

$$\boldsymbol{REM_{it} = \beta_0 + \beta_1 CP_{it} + \beta_2 WOB_{it} + \beta_3 (CP_{it} \times WOB_{it}) + \beta_4 Controls_{it} + \lambda_t + \epsilon_{it}} \quad ------- \quad (\mathbf{3})$$

Here in these econometric models, $\boldsymbol{REM_{it}}$**: R**eal Earnings Management for firm $\boldsymbol{i}$ in year $\boldsymbol{t}$; $\boldsymbol{CP_{it}}$: Corporate Philanthropy; $\boldsymbol{WOB_{it}}$: Women participation on board; $\boldsymbol{Controls_{it}}$: Firm level control variables; $\boldsymbol{\beta_0}$: Firm-specific fixed effects; $\boldsymbol{\lambda_t}$: Time fixed effects; and $\boldsymbol{\epsilon_{it}}$**:** Error term.

Panel data captured both cross-sectional (between firms) and time-series (within firms) variation. The Hausman test confirmed that fixed-effects estimation was appropriate. This approach controlled for firm-specific unobservable characteristics that were correlated with the independent variables. All statistical analyses were carried out in Stata. The study relied on publicly available data, which ensured that no confidential information was used. Ethical standards of transparency, accuracy, and integrity were maintained throughout the research process.

4. Results and Discussions

4.1. Descriptive Statistics

The results of descriptive analysis are shown in Table 2. It is evident that abnormal discretionary expenses (REM) had a negative mean (–0.259), which indicated that many firms reduced discretionary spending to manage earnings. Corporate Philanthropy (CP) averaged 8.36 million but varied widely, suggesting unequal levels of philanthropy across firms. The market-to-book ratio and return on assets (ROA) also displayed high variation, with ROA on average being negative, with wide dispersion. Governance indicators such as board size (BSize) (mean 8.5 members) and board expertise (56%) reflected moderate governance quality, though differences across firms were notable. Macro-level governance variables like corruption control and governance effectiveness remained consistently high, while political stability was more uneven. Women directors averaged about 26% of board membership, but representation differed considerably across firms.

Table 2: *Descriptive Statistics*

Sr. No.	Variables	Observations	Mean	Std. Dev.	Min	Max
1	REM	1,593	-0.259	1.248	-3.565	3.565
2	CP	1,593	8,355,592	1,806,705	10,469	67,000,000
3	MTB	1,593	2.057	3.150	-4.560	12.430
4	ROA	1,593	-0.900	14.197	-49.520	19.530
5	BExpertise	1,593	55.681	18.365	0	85.710
6	BSize	1,593	8.518	2.453	5	17
7	GovnScore	1,593	53.912	21.352	13.628	86.064
8	ShareScore	1,593	54.224	26.834	6.879	95.454
9	CorrupContrl	1,593	93.326	1.010	91.905	96.190
10	GovnEffecv	1,593	90.621	2.680	88.208	96.683
11	PolStability	1,593	66.411	8.828	60.190	94.286
12	WOB	1,593	25.870	11.450	0.050	55.300

4.2. Correlation Analysis

Table 3 presents the correlation matrix of the study variables. The results showed that abnormal discretionary expenses (REM) had very weak relationships with other variables, confirming that earnings management practices were not strongly explained by any single factor at the bivariate level. For instance, corporate donations were slightly and negatively related to REM (–0.046), suggesting that higher philanthropic spending tended to be associated with lower levels of earnings manipulation. In contrast, the proportion of women on board showed a weak positive correlation with REM (0.042), though the magnitude was very small.

Among governance indicators, notable associations were observed. Governance score and shareholder score were strongly and positively correlated (0.482), indicating that firms with better governance practices also tended to perform well in shareholder-related measures. At the macro level, governance effectiveness and political stability were highly correlated (0.760), reflecting the interconnected nature of institutional quality in the sample countries. Other relationships, such as between board size and women's participation (0.158), also pointed to moderate but meaningful links. Overall, the correlations were modest, and no values approached a critical threshold that might indicate multicollinearity. This implied that the variables captured distinct dimensions of corporate behavior and governance, and the dataset was suitable for regression analysis.

Table 3: *Matrix of Correlations*

Sr. No.	Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	REM	1.000											
2	CP	-0.046	1.000										
3	MTB	0.011	-0.035	1.000									
4	ROA	0.022	0.026	-0.040	1.000								
5	BExpertise	-0.009	-0.013	0.022	-0.029	1.000							
6	BSize	0.011	0.023	-0.054	-0.022	-0.051	1.000						
7	GovnScore	0.072	-0.020	0.010	-0.032	-0.033	-0.024	1.000					
8	ShareScore	0.019	0.047	0.024	-0.041	-0.043	0.008	0.482	1.000				
9	CorrupContrl	-0.020	0.015	0.045	0.117	-0.048	0.015	-0.073	-0.073	1.000			
10	GovnEffecv	-0.073	0.103	-0.004	-0.325	0.050	0.197	-0.068	-0.029	-0.093	1.000		
11	PolStability	-0.097	0.020	0.026	-0.400	-0.005	0.119	0.049	0.024	-0.192	0.760	1.000	
12	WOB	0.042	0.066	0.031	-0.053	0.024	0.158	0.049	0.062	0.014	-0.085	0.078	1.000

4.3. Regression Results: CP and REM (Fixed Effects Model)

Table 4 reported the fixed-effects results for the effect of corporate philanthropy on real earnings management (REM). Cash donations showed a consistent negative and significant impact on abnormal discretionary expenses. This meant that firms with higher philanthropic spending engaged less in earnings manipulation. For firm fundamentals, return on assets (ROA) was negative and significant, suggesting that profitable firms managed earnings less. The market-to-book ratio (MTB) was insignificant, indicating that growth opportunities did not influence REM.

Governance variables produced mixed results. Board size was positive and weakly significant, implying that larger boards were linked with slightly higher manipulation. Board expertise, governance score, and shareholder score were negative but not significant. At the macro level, corruption control and political stability both showed negative and significant effects. This suggested that stronger institutional quality reduced earnings manipulation. Governance effectiveness was not significant. The explanatory power of the models was low, with R-squared values ranging from 0.009 to 0.025. This was expected for panel data covering diverse firms. Overall, the findings confirmed that corporate philanthropy and institutional quality reduced REM, while most governance variables showed limited influence. This finding supported stakeholder theory, which suggests that ethical initiatives such as philanthropy discourage opportunistic behavior (Idrees et al., 2021).

Table 4: *Fixed Effects Regression Results for Corporate Philanthropy and REM*

Sr. No.	Description	REM	REM	REM	REM	REM
1	CP	-0.000**	-0.000**	-0.000**	-0.000**	-0.000***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
2	MTB	-0.002				0.003
		(0.017)				(0.018)
3	ROA	-0.008**				-0.008**
		(0.004)				(0.004)
4	BExpertise		-0.002			-0.002
			(0.004)			(0.004)
5	BSize		0.066*			0.072*
			(0.040)			(0.041)
6	GovnScore			-0.002		-0.002
				(0.004)		(0.004)
7	ShareScore			-0.002		-0.002
				(0.003)		(0.003)
8	CorrupContrl				-0.120**	-0.127**
					(0.049)	(0.049)
9	GovnEffecv				0.001	-0.006
					(0.026)	(0.029)
10	PolStability				-0.034**	-0.041***
					(0.014)	(0.014)
11	Constant Term	-0.134*	-0.589	0.038	13.312**	14.769***
		(0.075)	(0.420)	(0.222)	(5.323)	(5.584)
12	Observations	1593	1593	1593	1593	1593
13	R-squared	0.009	0.008	0.005	0.013	0.025

Note: *Standard errors are in parentheses; *** p<.01, ** p<.05, * p<.1*

4.4. Regression Results: WOB and REM (Fixed Effects Model)

Table 5 showed the effect of women on board on real earnings management (REM). The coefficient for women directors was negative and significant in all models. This indicated that a higher proportion of women on boards reduced earnings manipulation. Among control variables, ROA was consistently negative and highly significant. Profitable firms engaged less in REM. The market-to-book ratio was insignificant, suggesting that growth opportunities had little effect. Other governance variables were mostly insignificant. Board expertise, board size, governance score, and shareholder score did not show meaningful influence.

At the macro level, corruption control and political stability were negative and significant. This highlighted that a stronger institutional environment discouraged manipulation. Governance effectiveness was not significant. The explanatory power of the models improved gradually, with R-squared values rising from 0.009 to 0.027. This suggested that adding governance and macro-level variables explained more variation in REM. In summary, the findings supported the

hypothesis that women's participation on boards reduced earnings manipulation, while institutional quality further strengthened ethical practices.

Table 1: *Fixed Effects Regression Results for Women on Board and REM*

Sr. No.	Description	REM	REM	REM	REM	REM
1	WOB	–0.0029**	–0.0028**	–0.0031**	–0.0031**	–0.0032**
		(0.0014)	(0.0013)	(0.0013)	(0.0014)	(0.0014)
2	MTB		–0.014	–0.014	–0.015	–0.015
			(0.019)	(0.019)	(0.020)	(0.020)
3	ROA		–0.007***	–0.007***	–0.007***	–0.007***
			(0.003)	(0.003)	(0.003)	(0.003)
4	BExpertise			–0.001	–0.001	–0.001
				(0.004)	(0.004)	(0.004)
5	BSize			0.070	0.072	0.072
				(0.065)	(0.064)	(0.065)
6	GovnScore				–0.003	–0.003
					(0.042)	(0.042)
7	ShareScore				0.002	0.002
					(0.003)	(0.003)
8	CorrupContrl					–0.114**
						(0.047)
9	GovnEffecv					
10	PolStability					–0.015
						(0.022)
11	BExpertise					–0.039**
						(0.014)
12	Constant Term	–0.124	–0.566	0.044	13.214**	13.276**
		(0.081)	(0.407)	(0.219)	(5.261)	(5.298)
13	Observations	1593	1593	1593	1593	1593
14	R-Square	0.009	0.013	0.017	0.024	0.027

Note: *Standard errors are in parentheses; *** p<.01, ** p<.05, * p<.1*

4.5. Regression Results: CP, WOB, and REM (Fixed Effects Model)

Table 6 presents the regression results for the interaction between corporate philanthropy and women on board. Cash donations were negative and significant across all models. This confirmed that higher philanthropic spending reduced real earnings management (REM). Women on board also showed a negative and significant effect. This indicated that greater female representation on boards reduced earnings manipulation. The interaction term between cash donations and women on board was consistently negative and significant. This suggested that the presence of women directors strengthened the effect of philanthropy in limiting REM.

Among the control variables, ROA was negative and highly significant, meaning profitable firms engaged less in manipulation. The market-to-book ratio and most governance indicators were insignificant. Board size was positive but weak, while board expertise, governance score, and shareholder score showed no clear impact. At the macro level, corruption control and political stability were negative and significant, pointing to the role of strong institutions in discouraging REM. Governance effectiveness was not significant. The explanatory power of the models improved gradually, with R-squared values ranging from 0.010 to 0.026. In summary, the results supported all three hypotheses: philanthropy reduced REM, women on board reduced REM, and together they produced a stronger negative effect. This demonstrated that philanthropy became more effective when paired with gender-diverse boards, echoing agency theory which highlights the importance of monitoring structures.

Table 6: *Fixed Effects Regression Results for CP, WOB, and REM*

Sr. No.	Description	REM	REM	REM	REM	REM
1	CP	–0.0006**	–0.0006**	–0.0006**	–0.0006**	–0.0005**
		(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0002)
2	WOB	–0.0025**	–0.0023**	–0.0024**	–0.0024**	–0.0023**
		(0.0011)	(0.0011)	(0.0011)	(0.0011)	(0.0011)
3	CP × WOB	–0.00004**	–0.00004**	–0.00004**	–0.00004**	–0.00003**
		(0.00002)	(0.00002)	(0.00002)	(0.00002)	(0.00001)
4	MTB		–0.015	–0.015	–0.016	–0.016
			(0.018)	(0.018)	(0.018)	(0.018)
5	ROA		–0.007***	–0.007***	–0.007***	–0.007***
			(0.003)	(0.003)	(0.003)	(0.003)
6	BExpertise			–0.001	–0.001	–0.001
				(0.004)	(0.004)	(0.004)
7	BSize			0.070	0.072	0.072
				(0.065)	(0.064)	(0.065)
8	GovnScore				–0.003	–0.003
					(0.042)	(0.042)
9	ShareScore				0.002	0.002
					(0.003)	(0.003)
10	CorrupContrl					–0.114**
						(0.047)
11	GovnEffecv					–0.015
						(0.022)
12	PolStability					–0.039**
						(0.014)
13	Constant Term	–0.128	–0.580	0.036	13.311**	14.765**
		(0.081)	(0.407)	(0.219)	(5.323)	(5.584)
14	Observations	1593	1593	1593	1593	1593
15	R-Square	0.010	0.013	0.017	0.021	0.026

Note: *Standard errors are in parentheses; *** p<.01, ** p<.05, * p<.1*

Taken together, the three models highlighted consistent evidence that both corporate philanthropy and women's participation on boards reduced real earnings management. Their joint effect was even stronger, showing that inclusive governance amplified the credibility of philanthropic practices. Among control variables, profitability and institutional quality played significant roles, while other governance indicators were less consistent.

4.6. Diagnostic Tests for Panel Regression Models

Table 7 presented the diagnostic checks for the regression models. The Hausman test produced significant p-values for all three models, confirming that the fixed-effects approach was appropriate. The mean VIF values were low, ranging from 2.2 to 2.5, which indicated that multicollinearity was not a concern. The Breusch–Pagan test was insignificant in all models, suggesting the absence of heteroskedasticity. The Wooldridge test results were not significant, showing that serial correlation was not an issue in the panel data. Overall, the diagnostic results confirmed that the models were statistically reliable and that the chosen estimation strategy was valid.

Table 7: *Results of Diagnostic Tests*

Sr. No.	Tests	Model 1	Model 2	Model 3	Interpretation
1	Hausman Test (p-value)	0.017	0.008	0.011	Fixed Effects were appropriate
2	Mean VIF (Value)	2.2	2.3	2.5	No multicollinearity
3	Breusch–Pagan (p-value)	0.371	0.289	0.326	No Heteroskedasticity
4	Wooldridge Test (p-value)	0.371	0.289	0.326	No serial correlation

5. Conclusions

This study examined the relationship between corporate philanthropy and real earnings management (REM) in G7 firms, with a focus on the moderating role of women on boards. Using panel data and fixed-effects models, the results showed that firms engaging in higher levels of philanthropy were less likely to manipulate earnings through discretionary expenses. Women's participation on boards also reduced REM, confirming the importance of gender diversity in strengthening governance.

Importantly, the interaction term revealed that philanthropy became more effective when combined with female representation. This highlighted the complementary role of ethical initiatives and inclusive governance in limiting opportunistic practices. Institutional quality, particularly corruption control and political stability, further reinforced these effects. The study contributed to the literature by linking corporate philanthropy, board diversity, and earnings management in developed economies. It also provided practical insights, showing that responsible CSR and inclusive boards not only enhance reputation but also safeguard financial integrity.

In conclusion, ethical business practices and diverse governance were shown to be powerful tools for reducing earnings manipulation. By integrating philanthropy with inclusive leadership, firms could foster trust, transparency, and long-term sustainability.

6. Practical Implications

The study showed that corporate philanthropy reduced earnings manipulation, suggesting that charitable giving should be treated as part of a firm's ethical strategy rather than only a reputational tool. Boards with greater female representation further strengthened this effect, highlighting the value of diversity in monitoring management. For policymakers, the findings emphasized the need for stronger CSR disclosure and gender diversity reforms, alongside robust institutional frameworks, to discourage opportunistic practices and improve financial transparency.

7. Limitations and Future Research

This study was limited to G7 firms, which may restrict the generalizability of results to developing economies. It relied on secondary data and measured REM only through abnormal discretionary expenses, leaving out other proxies. Women's participation was captured through board representation alone, without considering their roles or influence. Future research could extend the analysis to emerging markets, use broader measures of CSR and REM, and explore additional moderators such as CEO duality or ownership structure.

Conflict of Interest

The authors showed no conflict of interest.

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