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“THE RELATIONSHIP BETWEEN EARNINGS MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY AND THEIR EFFECTS ON CORPORATE PERFORMANCE, COST OF CAPITAL AND REPUTATION”

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Fdo.: Isabel María García Sánchez Fdo.: Isabel Gallego Álvarez

A mis padres, mi hermana

y José, por hacer que todo

parezca más sencillo

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INTRODUCTION

INTRODUCTION

Year: 2002. It is divulged that most of the profits of the energy company Enron were false, that this company's debt was higher than reported in their financial statements, and that Enron itself was in general a big fraud. The company defaulted and its shareholders, who trusted managers' words and promises about Enron being streamlined, lost all their money.

Year: 2003. A research by auditors reveals that a document guaranteeing 3,950 millions of euros in an account in a tax haven is false. In Italy, it is divulged that Parlamat had been using companies based in tax havens to register assets that did not exist, and that the company had been falsifying its accounts for 15 years.

These are just two examples of the accounting scandals that have happened in the last few years – numerous frauds have been made public lately. The accounting scandals of Xerox or WorldCom stand out among many others. Each and every one of them, together with a climate of economic and financial difficulties, have caused a growing mistrust from investors in terms of the relevance and trustworthiness of accounting information.

These financial, economic and accounting scandals are a consequence of managers' discretionary decision-making. They act for their own benefit, regardless of causing negative effects for shareholders or stakeholders. In other words, managers manipulate financial statements – specifically, they manipulate profits in order to hide their discretionary behavior.

In this sense, research focused on Earnings Management (EM) has increased. This concept is defined as *any practice implemented by companies' managers with opportunistic and/or informative aims to report false accounting data* (García-Osma et al., 2005)[1].

Legal requirements and monitoring mechanisms that guarantee the quality of financial information divulged by companies have been reinforced. The aims is to

[1] García Osma, B., B. Gill de Albornoz Noguer, and A. Gisbert Clemente. 2005. La investigación sobre "earnings management". *Revista Española De Financiación y Contabilidad* 34 (127): 1001-1034.

rebuild the trust of investors, clients, suppliers, financial bodies, the community and stakeholders in general. Companies have also begun introducing codes of ethics to regulate their activities and strategies – they assume sustainable behavior patterns, that is, practices named Corporate Social Responsibility (CSR).

More specifically, companies are located in economic, legal and political contexts where the behaviors they promote to gain the support of their stakeholders are paid special attention. The aim of these behaviors is mainly to guarantee resource sustainability not only for the current society, but for the coming one too. Heal (2005)[2] takes into account the three key elements of CSR (economy, society and environment) and defines this construct as part of the management strategy responding to inconsistencies between social objectives and the aim of profitability.

Nevertheless, Barnett's (2007)[3] research stimulates debate about the real aim of these sustainable practices, because this author states that managers promoting sustainable actions could be using CSR practices as discretionary activities aiming to go beyond their own benefit and welfare: their final goal would be rebuilding the trust and support of stakeholders by stopping their activism and observations while improving corporate reputation (Adams, 2002[4]; Adams and Zutshi, 2004[5]).

This opens the door to a skeptical climate regarding what CSR practices really aim to: are they ethical? Are their objectives beneficial for all stakeholders? Or, on the contrary, are they used as a management mechanism that depends on managers' personal interests? Are they used to hide results management practices? Can investors and other stakeholders identify these management entrenchment strategies?

The general objective of this work is giving an answer to the abovementioned questions. So, the first aim of this research thesis is to determine the relationship

[2] Heal, G. 2005. Corporate social responsibility: An economic and financial framework. *The Geneva Papers on Risk and Insurance-Issues and Practice* 30(3): 387-409.

[3] Barnett, M. L. 2007. Stakeholder influence capacity and the variability of financial returns to corporate social responsibility. *The Academy of Management Review* 32(3): 794-816.

[4] Adams, C. A. 2002. Internal organisational factors influencing corporate social and ethical reporting: Beyond current theorising. *Accounting, Auditing & Accountability Journal* 15(2): 223-250.

[5] Adams, C. and Zutshi, A. 2004. Corporate social responsibility: Why business should act responsibly and be accountable. *Australian Accounting Review* 14(34): 31-39.

existing between EM and CSR practices. Unlike previous research, both management decisions are conceptualized from the starting point of a bidirectional relationship between them. The second aim is to determine whether the use of CSR practices (when implemented as an entrenchment strategy to hide falsified results) modifies the effect of those behaviors on the market value, on the cost of capital and on corporate reputation. This effect will prove if investors and stakeholders can or cannot identify managers' discretionary behaviors. The third objective, which originates in the use of an international database and in the consequent different characteristics between countries, is to determine the moderating role of institutional factors in the EM-CSR relationship, if they respond to entrenchment strategies, and their financial, economic and market consequences.

This research is structured in five chapters, apart from this introduction. The first one deals with the main paradigms related to the abovementioned objectives: the Stakeholders and the Legitimacy theories, for CSR practices; the Agency and the Positive Accounting theories, for EM practices; and the Institutional Theory, for institutional factors. They are the theoretical framework of this research.

The second chapter shows the methodology, which is the same for the rest of chapters. Specifically, the sample is described, but also are the variables of this work. The factors and measurements that will be used in the following chapters for EM practices, CSR, institutional factors, and control variables are also specified.

Chapter 3 analyzes the link and possible bidirectional relation between CSR and EM, as well as the moderating factors of that relation. The objective is to identify if managers behaving discretionary by means of EM practices promote and emphasize their commitment to sustainability as an entrenchment mechanism. In addition, the moderating factors of that relation are analyzed. Among them, the level of commitment to sustainability and the level of investor protection in the company's country of origin do stand out.

Regarding chapters 4 and 5, once the relation between EM and CSR has been established, a possible management strategy is posed – specifically, the consequences of that strategy on the financial performance, on the cost of capital that companies assume because of their external funding, and on corporate reputation. As in the previous

chapter, the moderating institutional factors that affect economic, financial and social consequences are analyzed. The analysis of the individual and joint effects of these corporate decisions is a consequence of companies' loss of value and of corporate image, which are linked to a discretionary management.

Finally, conclusions and theoretical and practical implications are gathered, and the main limitations and future research lines are reflected.

With these objectives in mind, the empirical analysis will use a sample of 1,960 quoted international non-financial companies, comprising 14,844 observations from 25 countries and an administrative region for period 2002-2010. The countries in the sample are: USA, United Kingdom, Ireland, Canada, Australia, Germany, Netherlands, Luxembourg, Austria, Denmark, Norway, Finland, Sweden, Switzerland, France, Italy, Spain, Belgium, Portugal, Greece, Japan, China, New Zealand, Singapore, Korea and the administrative region of Hong Kong.

The sample has been obtained by merging information available in the following databases: Thomson One Analytics, for accounting and financial data; the Ethical Investment Research Service (EIRIS), for data dealing with CSR and corporate governance data; I/B/E/S, for data on profits and growth forecasts by analysts; and, finally, the basis for corporate reputation is obtained from Fortune magazine (specifically, from the *World´s most admired companies ranking*).

Different statistical and econometric techniques are used to process information. The descriptive analyses in chapter 2 are done with SPSS software. For the following chapters, Stata software was used to obtain results of the linear dependence models in order to test the hypotheses. The indicators used in all chapters are in line with the characteristics of the variables used for each model. They are also available to apply the technique to panel data.

The results obtained in the first part of the research prove the existence of a negative bidirectional relation between both types of corporate decisions. On the one hand, a negative effect of CSR on EM has been proven, so more socially responsible companies may implement less profit manipulating practices. On the other hand, the negative link between both variables is still present if EM is considered the explanatory variable. This effect shows that the higher level of profit manipulation, the lower social

practices (and vice versa). Furthermore, the relation between CSR and EM is moderated by legal and institutional factors. Studying this relation in samples that only take into account sustainable and non-sustainable companies leaves the door open to the existence of an entrenchments strategy.

This evidence leads us to the analysis of the effects on financial performance of EM practices, of CSR strategies and of management entrenchment. The results empirically prove that CSR actions, promoted by managers as a means to hide results management, cause a negative and detrimental effect on companies' market value. This detrimental effect on financial performance is particularly important for countries strongly committed to CSR, and also for those with lower investor protection levels and lower development of the stock market.

Regarding the effects of EM, CSR and management entrenchment practices on the cost of capital and on corporate reputations, the results confirm that EM practices entail higher costs of capital because the market negatively values the information provided by companies. Also, EM practices are linked to lower corporate reputation. On the contrary, investors of companies that promote sustainable practices demand lower profit rates. These sustainable practices generate economic and financial profits. Also, companies promoting bigger social or environmental sustainable development have better corporate reputation and image. On the other hand, this research shows that the market cannot quantify the real objective aimed by managers when using CSR practices as an entrenchment strategy. This compensates the negative effect of EM practices and maintains the effect of sustainable actions (that is, the cost of capital decreases and corporate reputation increases). The entrenchment effect is particularly important in countries focused on investor protection, and its impact is lower on sustainability-committed countries.

CHAPTER I

Corporate Social Responsibility and Earnings Management. Theoretical Framework

1. INTRODUCTION

Within the framework of numerous accounting frauds, the current economic and financial situation, and increasing investors' mistrust, the objective of this research is to analyze the link and possible bidirectional relation between Corporate Social Responsibility (RSC) and Earnings Management (EM), as well as the moderating factors of that relation.

Currently, organizations are in a sphere where not only companies' good economic performance takes precedence: their concerns and actions when facing different issues (such as social and environmental ones) equally matters. In this case, citizens demand efficient and effective corporate management, and also stronger social commitment to regain the trust they lost as a consequence of the growing spiral of business scandals.

These growing social and environmental concern and conscience have generated behavior and conduct patterns leading to the achievement of a threefold goal: an economic, social and environmental objective. These behavior patterns, which are based on socially committed actions, have caused the appearance of Corporate Social Responsibility (CSR).

On the other hand, the previously mentioned accounting and financial scandals have had their origin in managers' discretionary decision-making. This generates unethical behavior patterns. Their main goal is not focused on the company but on meeting managers' own interests and needs, so they have to manipulate accounting statements (and profits in particular) to mask their discretionary behavior. Accounting manipulation practices (Earnings Management, EM), as per García-Osma et al. (2005), are "any practice implemented by companies' managers with opportunistic and/or informative purpose to report accounting results that do not correspond to those achieved".

In this sense, the quality of the information divulged by companies is gaining special relevance on a daily basis. Accounting practices by companies that divulge high quality financial information is usually more conservative, and these companies tend to carry out less unethical practices such as EM.

In the following chapters, we will focus on the relation between both concepts and on their individual and joint effect on financial performance, on the cost of capital and on corporate reputation. However, prior to this, the objective of this introductory chapter is to determine on a conceptual basis the following elements and factors: EM, the main characteristics of CSR practices and the eventual strategic use of these practices to mask EM (which is known as entrenchment strategy). With the aim of establishing some of the doctrinal bases linked to CSR and EM practices, which justify and support them, we will explicitly highlight: (i) the Stakeholders and the Legitimacy theories, for sustainable practices, and (ii) the Agency and the Positive Accounting theories, for EM behavior, financial information quality and entrenchment strategies - in the sense that managers understand sustainable practices as a way of avoiding stakeholders' activism, such as media campaigns, boycotts, adverse political climate, and specifically as a way of masking results management (Cespa and Cestone, 2007).

In addition, it must be kept in mind that companies are economic units operating within contexts where institutions affect their behavior and impose their expectations on them (Campbell and Lindberg, 1991; Roe, 1991; Campbell, 2007). Accepting this relation leads to accepting that companies operating in contexts with institutional similarities adopt homogeneous behaviors (La Porta et al, 1998; Claessens and Fan, 2002). In this sense, it is necessary to consider the Institutional Theory a theoretical paradigm explaining corporate isomorphism.

Chapter I is organized as follows: the definition, main characteristics and the reasons motivating CSR are presented in the rubric following this introduction. The Stakeholders and Legitimacy theories are described in the sub-rubrics of the second part. The third part deals with EM practices characteristics, reasons and consequences, and specifically with Financial Reporting Quality (FRQ). Similarly to the second part, the theoretical justification of these practices is described, focusing on the Agency and the Positive Accounting theories. In part number four, the main consequence of EM practices entrenchment by means of CSR (entrenchment strategy) is noted. The Institutional Theory and corporate isomorphism are conceptually described in the fifth part. The main conclusions of this chapter are gathered in the last part.

2. CORPORATE SOCIAL RESPONSIBILITY: Stakeholders and Legitimacy Theories

2.1 Corporate Social Responsibility

The importance of CSR in economy has increased very much in recent years. This is a result of market globalization and demands for greater transparency and for social commitment. However, the origin of CSR dates back to the nineteenth century, when activism and cooperation as a means of concealing business goals with social and ethical objectives emerged.

Many definitions of CSR have been posed, but most of them are based on three pillars: (i) sustainable practices are aimed at solving the conflict of interest between shareholders and other stakeholders (customers, suppliers, workers, etc.); (ii) these practices go beyond the strict legal requirements of corporate behavior; (iii) the existence of an ethical aspect: "doing right". Heal (2005), grouping these three elements, defined CSR as the part of the Corporate Strategy that responds to inconsistencies between social goals and the search for profitability. Among many other definitions, the AECA (2004) maintains that CSR must be defined as *a company's voluntary commitment to social development and with environmental preservation, developed within the company's social sphere, and also a responsible commitment to the people and social groups with who companies interact.* Again, according the AECA (2004) suggestions, the main characteristics and requirements of CSR practices are based on transparency, materiality, verifiability, broad vision, continuous improvement and the social nature of the organization.

This new strategy, which makes CSR practices management possible, is based on joining the demands of stakeholders in the corporate sphere, so that the community is generally satisfied and that the organization creates value for shareholders.

Nowadays, companies operate in an environment in which the exercise of responsibility is a prerequisite to compete, and thus CSR is a crucial strategic element (Garrigues Walker and Trullengue-San Juan, 2008). The management of moral values, norms and principles becomes a necessity for companies aiming to maintain their project in the medium and long term. This has a threefold impact – social, economic and

environmental (Adams and Zutshi, 2004) – by means of the development of environmental protection systems and policies and of the exercise of actions promoting relations with the community, customers or suppliers, which benefit both the company and the diverse stakeholders affected by the company but who also affect it on their side (Adams, 2002; Waddock, 2003).

So the company must establish policies and systems in which a wide range of stakeholders is included (Lafuente et al., 2003). For instance, policies or practices aimed to shareholders, which would be strongly linked to the adoption of corporate management principles. Also, policies or practices aimed at boosting employee relations. These practices present a wide range of opportunities, among which are: following the recommendations by the International Labor Organization, codes of conduct, free work schedules, abolishing child labor, job security, training programs, etc. For instance, and in terms of client relations, the same applies to strategies aimed at promoting client satisfaction and loyalty, and to practices linked to quality programs.

On the other hand, environmental practices can be linked to better international sectorial practices; to the establishment of specific quantitative and qualitative objectives and of environmental criteria; to a higher commitment to the preservation of environment, flora and fauna; to gas emission reduction programs, etc.

Sustainable practices boost a climate of acceptance and support among regulators and stakeholders, reduce activism and intervention by interest groups and increase job satisfaction and customer loyalty. Adams (2002) described some of the benefits companies may derive from acting responsibly and from taking stakeholders' interests under consideration. These benefits include enhanced recruitment and retention of employees, improved internal decision-making, cost saving and improved corporate image, reputation and relations with stakeholders. As a final consequence, CSR activities have a direct and positive effect on profitability and on other financial and accounting measures[1] (Ingley, 2008), as well as on business reputation: they help to

[1] The relationship between CSR and FP has been discussed many times. Although no generalizations or unanimous results have been obtained, most of the research backs that economic, social and environmental practices have a positive effect on companies' performance, and generate, in particular, a synergistic relationship (McGuire et al. 1990; Waddock and Graves, 1997; Orlitzky et al., 2003).

create a favorable image of the company, which will indirectly lead to additional economic profits (Fombrun et al., 2000).

The very limited growth of sustainable business practices has generated a climate of skepticism among many stakeholders due to the unstated behavior of many companies with respect to these practices. This has made some authors define CSR as any discretionary company activity aimed at going beyond its own welfare (Barnett, 2007). Opportunistic socially responsible behavior is mainly analyzed via the relationship between CSR and outcome quality, i.e., the quality of valuations, accounting practices and information disclosure (Pineda, 2000).

In this sense, and once the CSR construct has been defined, numerous theories try to give meaning to both CSR practices and economic, social and environmental information disclosure. Therefore, the aim of the following sub-rubrics is to determine some of the doctrinal bases linked to CSR practices, which justify and support actions promoted by socially responsible companies.

The starting point and origin of CSR practices are linked to informative asymmetries among stakeholders, who behave discretionarily in the market as consequence of separating ownership and control. This idea is developed by the Agency Theory, which will be analyzed in detail in the following rubrics because it is linked with EM practices. In line with CSR practices, companies try to reduce informative asymmetries implementing sustainable practices and divulging information to stakeholders, so that all of them operate in the market with the same level of information and on the same conditions. However, the first limitation of the Agency Theory is its focus on financial and economic issues and its lack of commitment to users of social and environmental information (Cormier et al., 2005). This information is helpful to them for decision-making processes – among these users are the press and environmental organizations.

Aiming to overcome this limitation, two more theories must be mentioned: the Stakeholder and the Legitimacy theories. They justify sustainability on the private

sector and the consequent disclosure of sustainable actions to society (Gray et al. 1995). Both theories conceptualize companies as parts of a social system within which they have an impact on certain groups, which also have an impact on these companies (Deegan, 2002).

According to Gray et al. (1996), both theories stem from a wider theory: the Political Economy Theory, which is also linked to the Institutional Theory. We will subsequently deal with this theory to refer to the institutional factors that have been taken into account in this research.

The abovementioned authors' definition of the Political Economy Theory is one of the most correct ones. They consider this theory as "*the social, political and economic framework within which human life takes place"*. Therefore, if this argument is taken into account, the social, political and economic spheres are considered to be inseparable, a whole. As Guthrie and Parket (1990) noted, corporate reports are *an exchange product between a company and its contexts that attempts to mediate and take many different interests into account.*

Nevertheless, although these two theories have the same origin, they are not based on completely similar arguments. The main difference between these two theories, which do not replace each other but complement each other, is that the Legitimacy Theory is focused on the expectations of society, because it is part of the so-called "social contract". However, the Stakeholders Theory provides with a more correct solution because it is focused on particular groups of society (stakeholders, who affect the organization but who are also affected by it) (Deegan, 2000). Therefore, just as this author states, the differences between both theories consist in an issue of question solving. Whereas the Stakeholders Theory is focused on how organizations relate and interact with their main stakeholders, the Legitimacy Theory defends this interaction as the basis of all strategies or actions.

2.2 Stakeholders Theory

As a starting point of the Stakeholders Theory, it is necessary to stress the term "stakeholders", which was firstly coined by Freeman (1984). In accordance with the definition by this author, stakeholders are "*individuals or groups of individuals who*

affect companies' activity and objectives, but who are also affected by them". Their nature and classification can be really different between one another, can also be modified, and are determined by each company's characteristics. There are many different shareholders, such as: suppliers, clients, competitors, the community, society, banks, local governments, labor unions, etc. One of the main difficulties a company must face is identifying these groups, because of their different peculiarities and interests. In this sense, Clarkson (1995) splits this collective into two sub-groups: (i) primary stakeholders and (ii) secondary stakeholders. Primary stakeholders are "*those without whose continuous participation, the company could not outlast"*. As for secondary stakeholders, "*they influence, affect, or are influenced and affected by the company, but do not operate with it and are not essential for its survival"*.

Basing on the definition of stakeholder, the Stakeholder Theory began to be posed. The objective was responding to the demands of a new strategic direction that satisfies the interests of employees, clients, suppliers and society, as well as of stakeholder (Freeman, 1984; Boatright, 1994; Jones, 1995).

Companies are defined by the Stakeholders Theory as an implicit and explicit contract relation. This theory also specifies that recognizing the importance of all the groups who create and distribute economic value is necessary (Asher et al., 2005). Therefore, companies are not only conceived as being focused on maximizing shareholders' wealth – managers are also liable to a bigger group of individuals.

Several researches have focused the attention of sustainable practices on these stakeholders. The satisfaction and realization of their diverse and difficult interests are these stakeholders' objectives (Ullman, 1985; Gray et al., 1995; Donaldson and Preston, 1995). According to Donaldson and Preston (1995), the Stakeholders Theory "*recommends attitudes, structures and practices that, as a whole, constitute the stakeholder management"*.

This concern and focus of companies on these groups' interests breaks with Friedman's (1970) classic model. This author defends that the only objective of a company is maximizing its shareholders' wealth.

The main underlying idea of the Stakeholders Theory is the distortion between

companies' objectives and society's objectives, that is, it makes the crossing between corporate ethics and society's objectives possible (González-Esteban, 2007). Therefore, this theory has created a new business model that conceives companies as pluralistic organizations. Thus, companies must be analyzed from a pluralistic perspective in terms of agents (each and every one of their members, who directly or indirectly have an effect on them). Therefore, neither companies can only be framed into a sphere where the mainly valued agents are shareholders, nor can they be framed into a sphere where a dual relation between owner and manager is the support of business values and principles. As Donaldson and Preston (1995) stated, the basis of this theory is a descriptive and instrumental sphere.

From a descriptive point of view, authors define and analyze companies as a group of competitive and cooperative interests (González-Esteban, 2001). Stakeholders are described depending on a series of attributes such as power (ability to have influence on the management and strategy of the company in order to defend its interests), urgency (pressure that can be exerted on companies in relation to those interests) and legitimacy (legitimate interests and objectives) (Navarro, 2008). Furthermore, the descriptive aspect explains the organization itself and its relation with its stakeholders.

The instrumental focus determines the functioning of the relations between organizations and stakeholders. The fundamental basis of this second focus is centering on the objectives and interests of the different stakeholders, and framing them into the corporate strategy. This is a way to achieve an economic profit, provided that it does not put at risk or condition the company's long-term economic objectives. The normative focus conceptually defines stakeholders and their representation. This focus does not consider stakeholders' interests a way to maximize shareholders' interests: these interests are legitimately legal and the company must be ethically and morally responsible towards them.

From these previous arguments, it can be deduced that the right functioning, growth and expansion opportunities, business competitiveness and all the other companies' strategic questions are not exclusively dependent on shareholders, but on each and every stakeholder. Companies' long-term survival and existence depends on a big group of stakeholders.

The theoretical assumption, which is the basis of this theory, has its origin in stakeholders' support and credibility, provided that the company can respond to the different stakeholders' needs, expectations or desires (González-Esteban, 2007).

In this sense, Gray et al. (1995) defends the existence of accountability towards stakeholders, which guarantees companies' plural commitment. All interests must be taken into account to satisfy companies' objectives. Granting social, economic and environmental concessions to the different stakeholders can improve companies' performance – and, thus, their shareholders' wealth.

We think it is necessary to understand both approaches of this theory: (i) the ethical or normative approach, and (ii) the positive approach. As for the first one, Hasnas (1998) states that all stakeholders' have the right to be fairly treated by the company. Furthermore, the impact of an organization on society determines this company's responsibility towards its stakeholders. According to this normative focus, companies must boost strategies and actions to increase financial performance. Also, the needs and interests of each and every stakeholder must be satisfied with those strategies and actions. Therefore, organizations do not only focus on adjusting to shareholders' interests, but also to all shareholders' interests. Furthermore, in case of conflicts of interests between them, an optimal outcome must be achieved by all of them so that it is as less harmful to each one of them as possible. So it can be deduced that there will be occasions when, to some degree and as less as possible, organizations will have to sacrifice shareholder's interests in favor of other stakeholders.

The positive approach focuses more on the organization. In this sense, Gray et al. (1996) postulate that "*the organization identifies stakeholders according to its concern, depending on how much the organization believes that interactions with each group must be managed to favor its interests. The more important the stakeholder to the organization, the bigger the effort to manage the relation with him*".

Stakeholders' ability to effect on the management of a company is expressed as a function of those stakeholders' degree of control on the organization's demanded resources (Ullman, 1985). When shareholders' resources guarantee the organization's viability and survival, the chances of having their demands and needs satisfied significantly increase. Therefore, as stakeholders' power increases, the importance of

satisfying and responding to their demands also increases. As it was previously mentioned, power must be considered the shareholder's ability to exercise its influence on the organization (Deegan, 2000).

In this context, information (whether it is accounting, financial, economic, social or environmental) is a company's best tool to manage its stakeholders with the aim to get their support or acceptance – or, on the contrary, to avoid their disapproval or disagreement with the company's strategy.

In conclusion, the main argument of the Stakeholders Theory is the concern about ethically treating stakeholders, who can moderate any company's economic reason or objective so that these companies take into account their moral role on society and the numerous social effects they have on citizens and society (Stoney and Winstanley, 2001).

The underlying responsibility of the Stakeholders Theory underlines that companies do not operate and implement their activities in an empty sphere or field: there is a group of collectives and companies must be able to respond to their needs. They must show their ability and skills to adapt to changes of business environment, which create new needs or modify the existing ones.

In particular, this theory postulates that companies' ability to create sustainable wealth is determined by their relations with the different relevant stakeholders, and not with society (Freeman, 1984; Carroll, 1989; Donalson and Preston, 1995). This means that disclosing sustainable information could be regarded as a way of disguising stakeholders' demands. Thus, companies can obtain the support of different agents, long-term results, their strategy can be accepted and, ultimately, survive (Gray et al, 1995). Therefore, the objective of this theory is aligning owners' objectives with the different involved agents' objectives, because the company is considered an organization with interdependent parts that have opposite interests (Gray et al. 1995, Deegan, 2002). In conclusion, CSR practices are considered a tool used by companies to respond to stakeholders' demands, which guarantees their support and restrains their activism (Adams, 2002).

2.3 Legitimacy Theory

"Generalized perception or assumption of an organization's actions as desirable, appropriate or suitable in a socially built system of rules, values, beliefs and definitions". This is Suchman's (1995) definition of "legitimacy", which is the basis of this theory and necessary to understand its theoretical argument. Therefore, legitimacy is a concept dealing with the social system where the company operates, in a certain moment and in a particular place.

This set of rules, values, beliefs or definitions is not considered prearranged and fixed. It changes as time and certain circumstances go by, so companies must reorient and adapt to those changes in order to be in line with the environment in which they implement their activity.

Legitimacy is a resource on which a company depends to guarantee its medium-term and long-term survival. Therefore, it is a resource that both public and private companies want to ensure their continuation in time.

This dependence, according to Pfeffer and Salancik's (1978) arguments, justifies the following: when managers consider a resource such as legitimacy indispensable for their company's survival, they will make decisions aiming at strategies that will allow the continuation of that essential resource. Therefore, strategies aim at achieving, keeping or repairing legitimacy.

Among some of these strategies, the following should be highlighted: disclosing information to certain sectors, control or collaboration with other parts, which are perceived by society and can develop *legitimacy via association* (Deegan and Bomquist, 2006).

The main postulate of the Legitimacy Theory states that companies operate in society from a "social contract", through which those companies commit to implement a series of actions that society wants.

This contract is very difficultly established. However, it is commonly linked to a wide variety of society's implicit and explicit expectations dealing with how organizations must carry out their activities (Deegan, 2000). In this sense, explicit expectations are requirements imposed by law, and the implicit ones are those that are

not codified and that vary depending on people because they can be differently perceived by each person.

As for these expectations to which an organization must respond via a social contract, both the explicit and implicit ones have deeply changed in the last years, and have been continuously modified and adapted. In particular, social demands have spectacularly increases. As Heard and Bolce (1981) state, organizations must act and react to take care of the human and environmental (among many others) consequences of their strategies, activities or actions, in order to respond to the increase of social demands. Therefore, social expectations are not static, but are rather modified throughout time. Also, organizations must be able to respond to current and future changes of the environment where they operate (Deegan, 2000).

In line with this change of society's expectations, it makes sense to mention the "legitimacy gap". This concept is used when there is no accordance between the way a society thinks organizations should act and participate in the market and how those actions and participations in community are perceived.

As a consequence of these social actions, companies have society's support to achieve their benefits, as well as the recognition of the different collectives and stakeholders. However, companies expect to achieve and justify their continuation and survival via the legitimacy of their actions and CSR information disclosure (Gurthrie and Parker, 1989).

Therefore, the Legitimacy Theory goes beyond economic objectives. The interests of all the agents of this "social contract" must be satisfied. In particular, to achieve economic, social and environmental objectives, CSR practices are carried out aiming at satisfying society's and shareholders' expectations, and to guarantee the organization's survival and growth (Lindblom, 1993, Archel et al., 2009).

Companies operating with a series of objectives, rules, values and principles in accordance with social rules and behavior standards unanimously approved by society are the ones who are legitimate.

In this sense, Nasi et al. (1997) state that "*a corporations is legitimate when it is judged to be support worthy" (*Dowling and Pfeffer, 1975). Therefore, legitimacy is not

an abstract measurement of a corporation's justice, but a measurement of society's perceptions of the adequacy of its corporate behavior (Suchman, 1995).

In accordance with Gray et al. (1995), the Legitimacy Theory widens and beats the Stakeholders Theory: legitimacy is not only focused on stakeholders' needs – a values, principles and moral system, coherent with society, must exist. It is an adaptation to the social environment with the aim of achieving legitimacy. As with the previous theory, legitimacy must be constantly adapting to social changes (in particular, to changes of behavior and preference patterns).

This theory assumes that society allows organizations to continue and survive provided that they satisfy their expectations, fix and prevent environmental harm, and guarantee the health and security of consumers, employees and individuals who are located in the environment where those organizations carry out their activities (Tinker and Neimark, 1987).

If a manager carries out actions considered unacceptable by society (such as employing workers with no rights or without a fair salary), the Legitimacy Theory could explain that this manager's lack of commitment towards the social contract has adverse effects for the organization, such as loss of reputation or society's loss of confidence among many other harmful effects.

Furthermore, due to the high cost of the development of these operations (which respond to the expectations of community), the organization will focus part of its efforts on being identified by society and thus achieving the initially pursued legitimacy.

Specifically, the Legitimacy Theory is the most used one to justify the reason of sustainable information disclosure. O'Donovan (2002) states that this theory is based on companies' objective of a satisfactory operating continuation, so they are required to operate inside the limits that society considers socially acceptable. Suchman (1995) considers the principles of this theory to be reflected by information disclosures. Among those principles, information disclosure allows investors to know if the strategies and actions that the organization has implemented are inside desirable limits.

Therefore, sustainable practices are considered by companies a tool that must be taken into account to satisfy diverse and changing needs, to achieve legitimacy from

society and, consequently, the ultimate objective of every company, continuation in time.

Lately, numerous researches justify social and environmental disclosure practices in terms of the Legitimacy Theory. In this sense, Hogner's (1982) pioneer work stands out. He examined social corporate reports to respond to social expectations changes. Later et al. (1996) used this theory to try to justify systematic changes in environmental report disclosure policies throughout time.

It is important to note that both theories justifying CSR practices, CSR memoranda or sustainable reports are considered indispensable and necessary for every company as a guarantee of their economic, social and environmental practices.

3. EARNINGS MANAGEMENT: Agency and Positive Accounting Theories

3.1 Earnings Management versus Financial Reporting Quality

According to Garcia-Osma et al. (2005), EM can be defined as "any practice intentionally carried out by company managers, for opportunistic and/or information purposes, to report accounting results that do not correspond to those really achieved". These authors stress that such actions may be either opportunistic or information-related, as Schipper (1989) also proposed. This author remained on the sidelines of the debate as to whether EM exclusively constitutes practices that violate generally accepted accounting principles or whether managers may use their discretionary powers, overstating or understating results, without violating these principles. In this sense, Healy and Whalen (1999) state that EM practices are linked to discretionary behavior by managers when they prepare financial statements or do certain transactions, with the aim of preventing stakeholders from knowing the actual economic and financial situation of the company and thus of influencing on contractual relations linked to that accounting information.

Earnings Management, when performed by managers using their discretionary powers, involves decisions that may be purely financial or refer to real commercial practice (Schipper, 1989). The former type of decision concerns the way in which facts are accounted for, usually by means of provisions, accruals adjustments or changes in

criteria and repayment systems. The management usually prefers these decisions, as they are less visible and less costly, unlike 'real' decisions, which affect the performance of the company and its operations, such as the optimal moment for selling or the selection of R&D projects. In other words, there are two types of EM: pure accounting decisions, such as Accruals Earnings Management (AEM), and Real Earnings Management (REM). These actions alter the timing and scale of production, sales, investment, and financing activities throughout the accounting period in such a way that a specific earnings target can be met (Roychowdhury, 2006). Managers can choose between AEM and REM actions depending on which ones are less costly and less visible to investors and to the market (Kim et al., 2011). According to Zang (2012), decisions to manage earnings through 'real' actions precede those to manage earnings through accruals.

Traditionally, studies have focused on AEM because this is a less costly method of misleading investors, and thus is preferred by managers seeking to meet income targets, while REM could be detrimental to firms' competitiveness and future value (García-Osma, 2008). However, it has been suggested that the manipulation of real activities is also widespread (Graham et al., 2005) because detecting REM is harder for auditors and regulatory bodies than detecting AEM, because REM is associated with operating, investing and financing activities (Cohen and Zarowin, 2010).

Managers have diverse reasons for manipulating accounting results. Thus, according to Roychowdhury (2006), real activities are misreported in order to avoid reporting annual losses, while Gargouri et al. (2010), in their study of Canadian companies, found that managers may seek to smooth out income flows, to minimize the tax burden, to effect changes in the control of the company, to influence labor negotiations or to respond to takeover bids. Healy and Wahlen (1999) classified these motivations as contractual (debt contracts and directive compensation based on accounting numbers), political/governmental (political costs and profits arising from the economic and financial position of the company, reflected by their accounting numbers) and valuation-based (effect of accounting numbers in the stock exchange valuation of the company).

With respect to asset valuation, numerous studies have highlighted the existence of EM prior to transactions in which valuation is a crucial aspect. Thus, Perry and

Williams (1994) observed that EM led to understated profits in periods prior to a management buyout. By contrast, Teoh et al. (1988) found that profits were often overstated during periods of equity issue.

Another question of interest are management changes. In this respect, there are opportunistic interests for both managers leaving a company and for those joining it. As shown by DeAngelo (1988), managers who believe their position within the company is being challenged have an incentive to overstate accounting results. Those who are newly arrived will seek to understate profits during their first year in order to shift responsibility to the former management and to make subsequent results more impressive.

The consequences of these management practices are beyond doubt detrimental. They reduce the value of the company, its assets, its transactions, its reputation and corporate image (Fombrun et al., 2000; Roychowdhury, 2006). At the same time, they provoke a loss of support from shareholders, investors and other stakeholders, and increasing activism and surveillance by interest groups and regulatory authorities (Zahra et al., 2005).

In relation to FRQ, we will firstly note that the goal of financial reporting is to provide useful information for decision making. However, even though companies may generate financial statements which are in accordance with generally-accepted accounting principles, these statements may present differing levels of quality (Choi and Pae, 2011). FRQ can be defined as the faithfulness of the information conveyed by the financial reporting process. This quality may be influenced by factors related to taxes, dividends and objectives, other than those regarding external providers of capital's information needs (Ball and Shivakumar, 2005; Burgstahler et al., 2006). Reporting is a final output, but the quality of this output depends on every part of its elaboration process, including disclosures about the company's transactions, the selection and application of accounting policies, the judgments involved in this respect and the estimates made (Jonas and Blanchet, 2000).

Accruals quality is achieved when the information reported to investors and to the market is credible and free of error and bias, whether they are intentional or not (Lu et al., 2012). Therefore, the scope and quality of reported information are expanded and

market participants are fully informed (Hope et al., 2012).

Providing high-quality information has numerous advantages: FRQ reduces information risk and liquidity (Lambert et al., 2007), prevents managers from using discretionary powers for their own benefit and helps them make efficient investment decisions (Chen et al., 2011). Lambert et al. (2007) obtained empirical evidence about how the quality of accounting information can influence the cost of capital, both directly (affecting market participants' perceptions about the distribution of future cash flows), and indirectly (affecting real decisions that alter the distribution of future cash flows). Chen et al. (2011) found that FRQ positively affects the investment efficiency of private firms in emerging markets, and that this effect enhances bank financing and decreases incentives to minimize earnings for tax avoidance purposes.

The separation between ownership and control can be considered the starting point of EM and FRQ, which are viewed as a variant of agency cost (Davidson III et al., 2004) and according to which company directors, acting for their own benefit, carry out actions aimed not just against shareholders' interests, in the form of non-optimal investment decisions, but also against those of other interest groups, in order to influence contractual outcomes (Healy and Wahlen, 1999). In this sense, the main theoretical justification of EM practices and of the quality of financial information is determined by the separation between ownership and control, and thus, by the Agency Theory (which is also linked to Corporate Social Responsibility practices). On its side, Earnings Management is closely linked to the choice of the accounting method and of the detection options considered inside the company. Therefore, the justification these unethical behavior patterns will be explained via the Agency Theory and the Positive Accounting Theory.

3.2 Agency Theory

One of the most important business relations are agency relationships. The problems linked to the separation between ownership and control have been analyzed since classic economy. In 1932, Berle and Means discover many big companies belong to a lot of shareholders and investors. This separation created a conflict of interest between owners' demands and company managers' demands. However, this theory is not only conceived by the conflict between owner and shareholder – all stakeholders are

part of the group of agents implied in this relationship. Not only the separation between ownership and control creates conflicts of interest, but as Young et al. (2008) note, a principal-principal conflict can exist. It is characterized by a strong ownership concentration and a weak situation in terms of minority shareholders protection.

In this sense, another main conflict coming from this theory is the "information asymmetry" issue. One of the main consequences of the separation between ownership and control is the information divergence between the different company agents. This significantly affects the decision-making process inside and outside the company.

One of the models of the Agency Theory is the research by Alchiam and Demsetz (1972). They studied the mechanisms of collective action boosting conflict solution among individuals competing in contexts where resources are scarce. The origin of these conflicts in business is mainly the separation between ownership and control, although many other types of contractual relationships that do not necessarily involve managers and shareholders can exist. For instance, managers/owners and creditors or managers/owners and stakeholders.

The Agency Theory is linked to the Property Rights Theory and the Transaction Cost Theory. It considers companies to be a set of contractual relationships between individuals, who have residual rights to assets and to companies' cash flow (Briano-Turrent, 2012).

In accordance with Jensen and Meckling (1976), who pioneered the basis of this theory, the agency relationship is defined as "*a contract in which one or more individuals (the principal) request another individual (the agent) the development of a service on his/her/their behalf, so part of the decision-making is delegated to the agent"*.

Two associated costs come from this contract: (i) monitoring costs - costs supported by the principal and linked to control mechanisms imposed to the agent to protect the principal's interests; and (ii) bonding costs – costs supported by the agent and linked to control mechanisms imposed by the agent to indemnify owners in case of abusive behaviors. The main objective of a relationship based on agency conditions is minimizing these costs, to which the residual loss linked to the lack of utility maximization must be added.

According to the Agency Theory, an organization is a connection of contracts. This means that companies are a set of contracts signed by individuals whose main objective is maximizing their own utility function.

The main goal of the Agency Theory is solving two conflicts that can occur as a consequence of agency relationships: (i) the principal's and the agent's interests are not accordant. Furthermore, the principal cannot check if the agent is acting as suitably as possible, and (ii) the principal and the agent adopt a different attitude towards risk (Eisenhardt, 1989).

According to Jensen and Meckling (1976), the main differences between principal and agent can be grouped into three aspects. Firstly, the objectives and motivations of both of them are different, and this generates the abovementioned agency conflict. Secondly, they operate in different conditions and with different amounts of information. That is, the principal does not have a full knowledge about the agent's knowledge and actions. Finally, the principal's and the agent's degree of risk aversion is heterogeneous.

Therefore, this theory is focused on determining the most efficient contract in the principal-agent agency relationship for both of them.

Eisenhardt (1989) distinguishes two variants of the Agency Theory. On the one hand, the Positive Agency Theory. On the other hand, the Principal-Agent Research. Both have in common the agency relationship between principal and agent. Their main difference is focused on aspects such as mathematical rigor, dependent variables and style.

As a brief summary of each one of these lines and according to this author, Positive Agency Theory researchers have focused on identifying situations where conflicts of interest and of objectives between the principal and the agent can occur, so control mechanisms to avoid discretionary behaviors by the agent. In this sense, mathematical rigor is less important for this approach, which mainly focuses on describing control mechanisms to solve agency conflicts. The agent's objectives can be aligned with these mechanisms in accordance with the principal's objectives.

The second approach, which was initially propounded by Fama and Jensen (1983), states that "when the principal has information on the agent's behavior, the agent tends to act more according to the principal's interest". This decreases the chances of discretionary behaviors taking place (results management, for instance). As for the type of relationship on which it focuses, this approach is usually based on the relation between managers and big or public companies (unlike the next approach, the Principal-Agent Research, which is focused on the relations between employer and employee, buyer-seller or lawyer-client, among many others). This type of approach is much more focused on assumptions and deductions with a strong mathematical component. The basis of the second approach is a conflict of interest between principal and agent, so the agent is normally more likely to boost discretionary actions – and therefore the principal must be completely informed and must reduce agency problems.

In this sense, whereas the Positive Agency Theory is focused on analyzing the most efficient contract, the Principal-Agent Research determines what is the most efficient contract based on mathematical assumptions, and also focuses on questions regarding theoretical implications.

As Lambert (2001) postulates, regarding the connection of the Agency relations contracts, the conflicts of interest that the principal-agent contract can create are especially important in their relationship with EM. The Agency Theory addresses the potential lack of alignment of goals, preferences and associations between agents (managers) and principals (shareholders or investors) (Berle and Means, 1932; Nyberg et al., 2010). Among these, the following ones can be highlighted: (i) agent's aversion effort; (ii) agent's resource deviation for his/her own profit; (iii) the timing difference, because the agent is not as concerned as the principal about the long-term (because he/she will not be a part of the company) or because his/her main concern is how others value his/her abilities and skills; or (iv) agent's and principal's different risk aversion, as the principal is who bears the risks and consequences of his/her subordinate.

As Lambert (2001) notes, because of this delegation of power, the agent could act for his/her own benefit. His/her aim would be satisfying his/her own demands, and would not take into account the maximization of the wealth of the principal or of other agents linked to his/her same relationship. Because of that, EM arises as a possible agency cost (Davidson III et al., 2004) because, in this case, the manager (the agent)

will aim at achieving his/her own interest against the interest or wealth of the owner or shareholder (the principal). Because of this situation and with the aim of getting a private benefit for his/her own, the manager carries out EM practices as a means to guarantee his position, to satisfy the demands on the remuneration contract, to guarantee his/her participation in work negotiation processes or to minimize tax payment, among many other results management motivations.

Financial information disclosed by companies and derived from this power delegation linked to the principal-agent relation is especially relevant. It should be able to decrease possible information asymmetries created by the separation of power and by the assumption of different roles in the company, as abovementioned. With them, financial information and, most of all, its quality are indispensable aspects to discover the real economic and financial situation of a company. Also, each and every market participant must have the same conditions and information in order to participate in the market.

3.3 Positive Accounting Theory

The Positive Accounting Theory arose as a consequence and in the background of the Agency Theory and of the Theory of the Firm. As Watts and Zimmerman (1986) state, the Positive Accounting Theory "*is concerned with explaining accounting practice. It is designed to explain and predict which firms will and which firms will not use a particular method… but it says nothing as to which method a firm would use*".

The objective of this theory is to explain, understand and predict accounting practice (Watts and Zimmerman, 1986). According to this argument, the Positive Accounting Theory is focused on the relations between some individuals that provide a company with resources and on the way accounting is used to help in this kind of relations. For instance, between owners and managers or between managers and financial entities (Deegan, 2000).

Watts and Zimmerman (1986) develop this theory based on the following main idea: every individual's actions are based on their own interests, and these individuals will behave opportunistically to increase their wealth (this is the basis of EM practices).

In this theory, managers, whenever they have to choose one method among various rival accounting methods, would prefer to adopt or support some accounting methods instead of others. Under particular accounting circumstances, they will choose a particular accounting method.

One of its theoretical bases is that markets are efficient and that all individuals act for their own benefit. This can be considered the first hypothesis of this theory. That is, capital markets react efficiently and impartially when there is information available. Usually, these markets are highly competitive.

With reference to this hypothesis, the Positive Accounting Theory considers the share price to be determined by the belief in the current value of future cash flows linked to that share. In case this belief changes because of certain conditions, the share price will also change (Watts and Zimmerman, 1986; Deegan, 2000).

A series of contracts are established to determine individual behaviors. They are linked to the Theory of the Firm and are a tool to control each part's interest in maximizing its own wealth. However, not all agent's opportunistic actions can be monitored and controlled by contractual agreements (the roles of the principal and the agent arise and lay the foundations of this theory because of the agency issue concerning the separation between ownership and control). A series of residual costs will always exist when an agent is appointed.

If the Positive Accounting Theory is considered done of the positive theories, and according to Deegan (2000), these can be compared with normative theories. Normative theories are created as a consequence of the theoretical application of a rule or objective that the current practice must try to achieve. In this sense, the Positive Accounting Theory is focused on the relation between different individuals who are involved providing the organization with resources and the way accounting is used to support the functioning of this relation. One example is the relation between owners and managers, which refers to the agency conflict, as it has been explained before.

Regarding this conflict of interest and based on research by Watts and Zimmerman (1986), this theory is focused on the basic idea that every individuals' actions are a consequence of their own interest, and they always behave opportunistically with the aim of increasing their wealth (i.e., discretionary behavior,

which is the key factor of EM practices). Aspects such as loyalty, morality or ethics are not taken into account by this theory.

The Agency Theory is the key to understand why managers choose some accounting methods. This theory is based (as it was explained above) on the relation between principal and agent. This relation creates excessive mistrust and insecurity due to information asymmetries.

In addition, Watts and Zimmerman (1986) state that an organization's particular attributes can also affect managers and make them choose or oppose to a particular accounting requirement.

The opportunistic accounting choice uses the abovementioned EM practices to achieve its goals. These practices arise from a series of causes. As part of managers' main motivations to implement EM practices and of the Positive Accounting Theory, Watts and Zimmerman (1986) divide the motivations that are linked to this theory into the following groups: (i) contractual motivations (linked to debt and remuneration hypotheses), and (ii) political and governmental motivations (linked to political cost hypotheses). These motivations have helped to understand the causes leading to this type of practices (García-Osma et al., 2005)

In relation to contractual motivations, Watts and Zimmerman (1978, 1986) claimed that the higher the debt ratio of a company is, the more likely its managers will implement accounting practices that transfer future profits to the present. However, researches evaluating this hypotheses obtain unalike results about the effect of debt on the choice of the accounting method that will determine EM practices (Healy, 1985; DeFond and Jiambalvo, 1994).

The tendency to EM is heightened when managers have signed remuneration contracts related to company results (Healy, 1985; Holthausen et al., 1995). The importance of accounting numbers to formalize remuneration contracts pressures managers into obeying the clauses and achieving the agreed remuneration. Therefore, managers who are pressured by remuneration contracts usually choose accounting principles that transfer future profits to present. This is part of EM conception and definition. Later, this hypothesis has been empirically matched by Healy (1985), who confirms that EM practices are linked to the role that the results will play with respect to

the levels agreed on the remuneration contract.

Watts and Zimmerman (1978, 1986) argued that the greater companies' political costs, the greater management incentives to artificially reduce its profit. The aim is reducing the potential costs of governmental actions for the company, and thus to manipulate the image perceived by market and by regulatory authorities. Similarly, Monterrey-Mayoral and Sánchez-Segura (2008) studied how taxes affect the quality of the accounting results. They also reported that, in the case of not highly indebted companies, rising taxes generate a tendency towards profits that should be lowered down. Similarly, Cahan (1992) examined EM behavior by companies facing antitrust and import-relief investigations. This author empirically proved that managers had incentives to use accounting procedures, which listed lower levels of income than those of the periods that were not being investigated.

4. ENTRENCHMENT STRATEGY

As for the possible link between results management practices and sustainable practices (CSR), which will be analyzed in chapter III, it should be taken into account that both types of practices can be very closely linked, and also that their implementation in a company can be linked to entrenchment strategies. This is the main point of reference of this research, which leads us to conceive CSR practices as an entrenchment tool to avoid the identification of EM practices.

Just like with EM practices, the origin of the entrenchment strategy is the separation between ownership and control established in the Agency Theory, and especially the existence of a professional manager who has control over many of the corporate resources and who plays a fundamental role on decision-making regarding corporate objectives and strategies.

Entrenchment strategy has been considered as one of the consequences of agency problems, with the separation between ownership and control (Jensen and Ruback, 1983).

If these arguments are taken into account, the entrenchment strategy breaks with one of the principles of the classic Financial Theory, which accepts that corporate managers adopt strategies and actions aiming to benefit shareholders even though if

they behave again their own interests (Palacín-Sánchez, 1998). The divergence of interests between managers and shareholders can create a managing behavior through which corporate value will not be maximized. Utility maximization for managers tends to increase because of questions such as higher remuneration, more power and security on one's job position, or decreasing personal risks on merger and acquisition processes, among others.

In this sense, one of the above-mentioned personal objectives is reducing managers' personal risk. Whereas shareholders can reduce and control their portfolio risk if they appropriately diversify their wealth in the market, managers' wealth is usually materialized in the company where they work. This is the reason why this risk degree can make managers choose investment projects with negative net present value, provided that this will decrease the company's risk and their own (Palacín-Sánchez, 1998). Not only can they carry out this kind of projects, but it is in this context where managers' decisions of managing corporate loss and profit (results) become a part of their practices.

In short, managers who choose this kind of strategy give preference to their personal interests and objectives instead of maximizing the company value. The main debate is whether this type of strategies are beneficial or harmful to the owners of the company's wealth.

In this sense, for instance, Rajan and Wulf (2006) prove that corporate benefits, which are continuously linked to boosting entrenchment strategies, can increase management productivity. This would cause a higher financial performance.

However, it is important not to forget that the main objective of entrenchment strategies is to transfer shareholders' wealth to the manager or to inadequately assign corporate resources (Shleifer and Vishny, 1997).

One of the main and costly characteristics of this strategy is that entrenchment allows managers to avoid myopia in decision-making and focus on the long-term, regardless of the risk of losing their jobs or their control of the company (Johnson and Rao, 1997).

Managers who promote entrenchment practices aim to collude with employees, communities, customers, and suppliers to protect themselves from disciplining mechanisms. Their purpose is to reduce shareholder's wealth (Cespa and Cestone, 2007). Among other purposes, this strategy aims at guaranteeing managers job security over a long period of time, even though managers ceased to fulfill the necessary qualifications or skills for a proper discharge of their job (Shleifer and Vishny, 1989).

It should be highlighted that this strategy is more difficultly implemented if shareholders have preferential subscriptions rights and if their representation on administrative councils is guaranteed (Mallin et al., 2007).

There are several practices that promote entrenchment strategies, such as poison pills, golden parachutes, the limitation of voting rights, long-term plans for managers (de Miguel et al., 2005), which are also taken into account by Surroca and Tribó (2009). However, sustainable practices can also be considered to be entrenchment practices.

In view of the characteristics of this type of corporate strategy, Cespa and Cestone (2007) argue that strategies focused on society, human rights or environmental matters are not thought off as an ethical commitment. Managers consider sustainable practices a mechanism to avoid stakeholder´s activism, such as media campaigns or boycotts, or even adverse political climate.

The arguments supporting CSR practices implementation as a means of transferring wealth to managers can be summarized into two fundamental aspects. Firstly, interest groups can accumulate enough power to boost actions against managers, such as a boycott (Rowley and Berma, 2000). Secondly, managers make their company less attractive to potential buyers thanks to social concessions to interest groups. An example would be formalizing contracts between employees and providers that cannot be cancelled in the short-term (Pagano and Volpin, 2005).

In addition, this type of entrenchment strategy that favors managers, and that satisfies stakeholders' interests, is more likely to be implemented in contexts where the this collective is more protected and has strong power because of the lack of pressure by financial markets (Cespa and Cestone, 2004).

In conclusion, the objective that can be circumscribed to CSR practices is masking managers' discretionary behaviors, who manipulate corporate results for their own benefit. Therefore, they avoid harmful consequences for their companies implementing sustainable practices. This way, market may not be able to identify their manipulation of results, because managers boost sustainability plans and actions to distract the attention of the market and of all of its participants. Thus, not only EM practices are a type of entrenchment strategy, but economic, social and environmental practices masking this unethical behavior are too.

5. INSTITUTIONAL CONTEXT AS A MODERATOR OF BUSINESS BEHAVIOR

Some questions to be taken into account regarding the main objective of this research (determining the possible bidirectional relationship between EM and CSR practices, as well as its effect on corporate performance, cost of capital and corporate reputation) are the moderating factors of that relationship. Among them, we will focus on two institutional factors that can have an important influence on EM and CSR relationship: (i) the level of national commitment to sustainability, and (ii) the level of investor protection in the country of origin of the companies analyzed in our sample.

In this sense, we will focus on purely institutional aspects. This is the reason why, as for the theoretical justification dealing with these factors, the main argument is the Institutional Theory. This theory explains and describes how an organization faces institutional pressures, and, as a consequence of this, it tends to adopt similar behavior patterns in the same sphere (Deegan, 2002).

It must be considered that companies are economic units operating in contexts formed by institutions that affect their behavior and impose their expectations on them (Campbell and Lindberg, 1991; Roe, 1991; Campbell, 2007). Assuming this relationship is accepting that companies operating in institutionally similar contexts adopt homogeneous behaviors (La Porta et al, 1998; Claessens and Fan, 2002). In this sense, the Institutional Theory must be considered a theoretical model explaining corporate isomorphism.

Organizations operating in countries with similar institutional structures will adopt homogeneous forms of behavior (La Porta et al, 1998; Claessens and Fang, 2002; Campbell, 2007). DiMaggio and Powell (1983) named this process 'isomorphism', and argued that it enhances companies' stability and survival, and that it facilitates political power and institutional legitimacy. These isomorphic practices emanate from the organization's decision to resemble other organizations (mimetic isomorphism), to behave professionally right (normative isomorphism) or to comply with the rules applied by external forces (coercive isomorphism) (Perez-Batres et al., 2011).

In this sense, the Institutional Theory takes into account one of the main limitations of the Agency Theory: nation divergences and diversity are not considered by the Agency Theory. These factors are a consequence of a series of institutional aspects, such as political regulation, regulatory pressure to legitimate organizations, or pressures from the community (Roe, 1994; Roy, 1997).

Institutions have been conceptualized by North (1990) as the rules of the game aiming at minimizing transaction costs linked to the market. The new institutional economy especially stands out. It originally dates from the 1960s and is based on criticism to the traditional economy model because it lacked of institutional components. This new approach specifies the role played by institutions in the creation of the rules of the games. It especially refers to the effect of political institutions on economic results (Sened, 2000).

This new theory considers institutions and institutional change necessary mechanisms to reduce transaction costs and market uncertainty, and to increase collective benefits and profits with cooperative behavior (Rutherford, 2001). At the same time, it considers them the necessary mechanisms for growth.

One of the ground-breaking researches that principally contributed to the subsequent development of this theory is the work by North (1984, 1990). This author supports the Institutional Theory on three main aspects: (i) property rights, (ii) the State, and (iii) the idea of ideology having an influence on individuals' reactions facing situation changes. According to North, political and economic institutions are partly responsible for the economic performance.

If we focus on the basic principles stated by North (1990), we can highlight the continuous interaction existing between institutions and organizations in a highly competitive context; also, the need of investing in knowledge to achieve the company's survival.

In this research, and according to the current trend, the Institutional Theory is considered the most consistent, acceptable and feasible conceptual framework to analyze the influence of corporate and institutional factors (such as the level of commitment to sustainability or the level of investor protection in the country of origin of the company).

6. CONCLUDING REMARKS

Currently, not only companies, but all of the market participants, operate and implement their decision-making in a climate marked by two components. Firstly, the mistrust caused by the continuous accounting scandals of the last few years. Secondly, the increasing concern and awareness about sustainability – the objective of the actions boosted by companies is not only economic, but also social and environmental.

In this sense, and in line with the abovementioned double component, we are making reference to CSR and EM practices, which cause a growing mistrust in the market.

Sustainable practices are boosted by companies to get a threefold benefit for their results: economic, social and environmental benefit. CSR is considered to be a rising alternative management model, and it defines the company as a set of relationships not only between owners and managers, but also between the parts or groups that are interested on the company's evolutions: employees, clients, providers, competitors, environment and society. It is theoretically justified by the Stakeholders and the Legitimacy theories. The main underlying idea in the Stakeholders Theory is the distortion of company objectives and of society objectives, that is, it makes the crossing between corporate ethics and society's objectives possible (González-Esteban, 2007). The Legitimacy Theory widens and overcomes the previous Stakeholders Theory because it is based on the argument that legitimacy is not only focused on stakeholders'

needs – a value, principles and moral system must exist and it must be coherent with society (Gray et al., 1995).

As for Healy and Whalen (1999), they consider EM practices to be linked to managers' discretionary behavior when doing financial statements or certain transactions. Managers' aim is avoiding stakeholders from knowing the company's actual economic and financial situation, and thus having an influence on the contractual relations linked to that accounting information.

The bases of EM practices have been established by the Agency and by the Positive Accounting theories. Considering the conflict of interest to be a consequence of the separation between ownership and control (which is the basis of the Agency Theory), there is a conflict of interest between managers' desired or demanded interests and shareholders' interest. This divergence, as well as information asymmetries, creates a vacuum where managers behave discretionarily, do not take into account shareholders' interests and carry out EM practices.

According to this argument, the Positive Accounting Theory is focused on the relations among individuals who provide the company with resources and on the way accounting is used to help to this type of relations (for instance, between owners and managers or between managers and financial entities (Deegan, 2000)

In short, EM has arisen as a consequence of information asymmetries due to the separation between ownership and control, of the differences between the agent's and the principal's interest (the classic conflict of interest), and of the leeway regarding discretionary behavior by means of accounting principles and rules used by managers.

One of the main contributions to this research is overcoming the limitation of the Agency Theory, because it does not take into account the effect that institutional factors may have on corporate behavior. In this sense, the conceptual framework of these factors is the Institutional Theory, which explains and describes the way and organization faces institutional pressures and, as a consequence of these, organizations tend to adopt similar behavior patterns in the same sphere (Deegan, 2002).

Finally, and as a consequence of the possible relation between results management practices and sustainable practices (CSR), it is necessary to take into

account that both of them can be closely linked and that their implementation can be linked to entrenchment strategies. These strategies have again been considered by Jensen and Ruback (1983) another consequence of the agency conflict (principal-agent). Managers give preference to their own personal interests and objectives before maximizing corporate value, and, thus, before shareholders' and investors' interests. Therefore, sustainability would be a consequence of EM practices and would aim to mask and dissuade from identifying this unethical behavior in the market. They act together with employees, communities, clients and providers, among other stakeholders, to protect themselves against disciplinary mechanisms and aiming to decrease shareholders' wealth (Cespa and Cestone, 2007).

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CHAPTER II

Empirical Research Design

1. INTRODUCTION

The objective of this chapter, which is previous to the research itself, is avoiding the duplication of the methodological aspects to measure variables and the sample. With the aim of providing our research results with more consistency and of unifying the different sections of our work, the sample used is constant and formed by international companies that will be described below.

As clarified in the introduction of this research, its main objective is analyzing the possible bidirectional relationship between Earnings Management practices and practices that boost sustainability in current and future generations' benefit. As an additional objective, the effect of both practices on financial performance, on the cost of capital and on corporate reputation is jointly analyzed. These practices are conceived as entrenchment strategies that mask unethical corporate practices with economic, social and environmental practices.

Therefore, the main subject of this doctoral thesis is focused on two fundamental questions that will be addressed in the next chapters. Firstly, Corporate Social Responsibility practices, which are boosted by companies to achieve a threefold result: (i) economic profit, (ii) social benefit, and, finally, (iii) environmental benefit. Secondly, Earning Management practices, which are implemented by managers aiming to report accounting numbers that are different from the real ones. These managers pursue personal objectives. The aim of this chapter is to determine the measurement of all the variables and to explain them in detail.

Also, in order for our research to be sounder, and taking into account that an international sample was used (so the information will be diverse), the models and hypotheses that we propound will be characterized by two institutional factors: (i) national commitment to sustainability, and (ii) the level of investor protection in the country of origin of the company.

In the same way, and in order to avoid biased results, a series of control variables are used in the following models (which will be explained in detail in their corresponding chapter). The effects of these control variables on dependent and independent variables (EM, CSR, financial performance, cost of capital and corporate reputation), which are analyzed in every model, have already been proved in previous

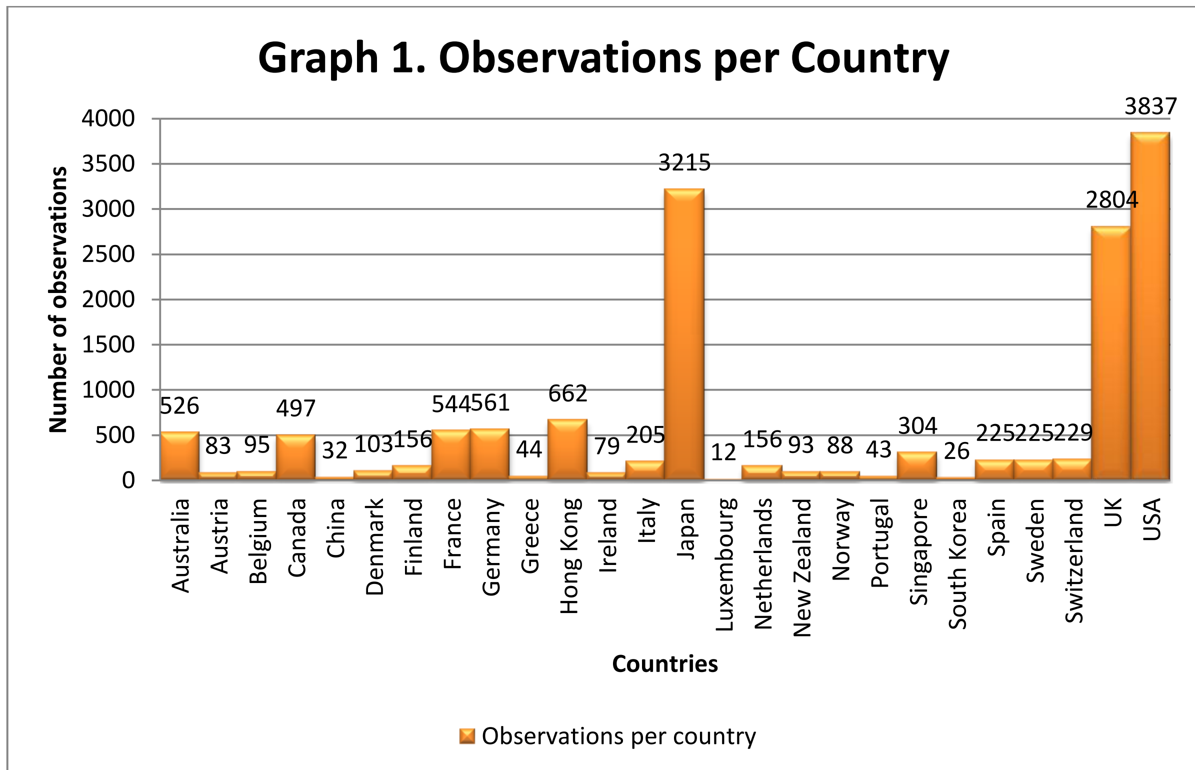
literature. Particularly, the following variables will be used in this research: company size, leverage level, market risk, operating liquidity, the company's industry sector and R&D intensity.

This chapter is structured as follows: the second section provides with an explanation of the sample and population used for the analysis. The following two sections explain CSR and EM measurement respectively. Section five deals with FRQ measurement. The sixth one describes the control variables. The descriptive statistical analysis of the previously defined variables is summarized in section eight. Finally, the main conclusions of this chapter are explained.

2. POPULATION AND SAMPLE

The sample used to test our hypotheses comprises 1,960 international non-financial companies listed for years 2002 to 2010. The sample is unbalanced, and consists of a total of 14,844 observations obtained from 25 countries and an Administrative Region (USA, United Kingdom, Ireland, Canada, Australia, Germany, Netherlands, Luxemburg, Austria, Denmark, Norway, Finland, Sweden, Switzerland, France, Italy, Spain, Belgium, Portugal, Greece, Japan, China, New Zealand, Singapore, Korea and Hong-Kong).

Graphic 1 shows how the sample is distributed and also the total number of observations per country. USA, with 3,837 observations of 14,844, is the most represented country in the sample, closely followed by Japan (with 3,215 observations) and the United Kingdom (2,804 observations).



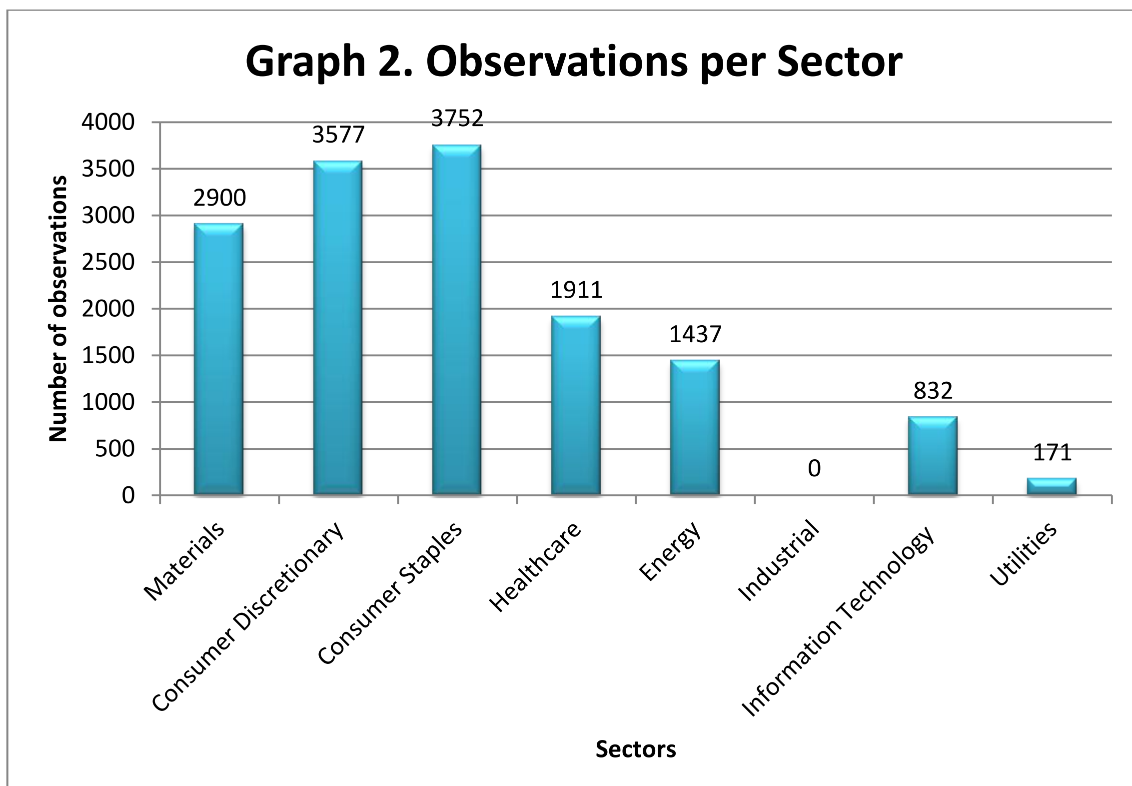
This sample was obtained from the fusion of information available in four databases: Thomson One Analytic for accounting and financial data; the Ethical Investment Research Service (EIRIS) for data on Corporate Social Responsibility and Corporate Governance; and the I/B/E/S for analysts´ earnings and long-term growth forecasts. The financial information corresponds to consolidated data of the analyzed companies. Finally, Corporate Reputation is obtained from Fortune magazine. In particular, we use the *World´s most admired companies* ranking, which is an alphabetical index of the most admired companies from the top 50 yearly surveys and industry rankings.

The sample is reduced due to the lack of data for the section of this research where we analyze the effect of EM and CSR practices, and of their entrenchment, on the cost of capital and on corporate reputation. In chapter 5, the sample used to test propounded hypotheses comprises 1,757 international non-financial companies listed for years 2006 to 2010. The sample is unbalanced and consists of 8,785 observations obtained from the abovementioned 25 countries and Administrative Region.

The sample is divided into industry groups, which are classified by the

Compustat economic activity code. It comprises companies engaged in Materials (building materials, chemicals, gases and raw materials), Consumer Discretionary (car manufacturers, builders, hotels, casinos, shops and appliance companies), Consumer Staples (food and drug retail and brewers), Healthcare (healthcare and pharmaceuticals), Energy (oil and gas companies), Industrial (conglomerates, construction, aerospace and defense, heavy equipment, airlines and shipping companies, truck, rail and business services and supplies), Information Technology (telecommunications, information technology, software, electronics, and semiconductors), and finally, Utilities (electricity, gas, water, and shipping companies). Financial companies are not included in the sample due to their special characteristics.

Graphic 2, focused on activity, shows how observations are distributed according to the sector of each of the 1,960 companies analyzed in our simple. Consumer Staples (with 3,752 observations) and Consumer Discretionary (with 3,577 observations) are the two industry groups with more companies in the sample.



3. MEASUREMENT OF CORPORATE SOCIAL RESPONSIBILITY

According to Carroll (1999), CSR practices should be measured using a multidivisional construct addressing all the actions carried out, especially those implemented in social and environmental spheres.

The information is taken from the EIRIS database, and the value of each item is between -3 and +3. Companies are considered to be socially responsible when the score is above the threshold of 0. This calculation was carried out by EIRIS using four grades that are linked to four scores. The first grade is major positive and has a score of 3. The second is minor positive and has a score of 1. On the opposite side, major negative has a score of -3, and minor negative has a score of -1. The EIRIS process begins when companies publish their data. Targeted questionnaires are then sent to companies. These questionnaires deal with areas as for which published data are unclear. This procedure creates a focused dialogue in which firms are encouraged to address the issues of concern to investors and to improve their public reporting. Sector specialists within each team review the research conducted by their colleagues before it is released.

To obtain this CSR construct, we analyzed several areas, including environmental issues, human rights, relations with stakeholders and the role of the board. The first of these areas deals with items such as the company's environmental management system and policy, its impact on environment, and whether it publishes reports regarding this. Another area of analysis concerns human resources: in this case, the analysis used to determine CSR focuses on issues such as the general scope of the company's strategy, policy, system and reporting in the field of human rights. Regarding stakeholders, the analysis focuses on aspects of the policy, management systems, quantitative information or the company's level of commitment to stakeholders, its policy and practices in support of equal opportunities and diversity, the health systems and workplace safety procedures implemented, its support to employee training and development, relationships with customers and suppliers, and the level of commitment to the community or with social projects.

CSR is determined by a non-weighted sum of these items. Additionally, sub-indices are calculated for each area, thus a robust analysis is obtained, and this also makes it possible to determine whether all CSR practices have the same relationship

with EM. In this regard, authors such as Gargouri et al. (2010) have reported a positive link between EM practices and corporate social performance, which is linked to environment and employees. They have also discovered an insignificant impact of the size of the corporate government on EM, which is partly explained by the high costs of environmental activities – they reduce financial performance and encourage managers to manipulate accounting results, or can conceal discretionary behavior, in collusion with employees. The individual sub-indices used to measure CSR are the independent variables *ENVIRONMENTAL, HUMAN RIGHTS, SOCIETY* and *BOARD*. They are used in robust analyses as a disaggregation of the global variable CSR, which is formed by the sum of all the addressed variables.

Table 1 lists the items used to prepare the CSR index and analyzes several areas (environment, human rights and the relationships with stakeholders).

Table 1. CSR PRACTICES
ENVIRONMENTAL INDEX
Environmental policy and commitment
Environmental management system
Environmental reporting
Level of improvement in environmental impact
HUMAN RIGHTS INDEX
Extent of policy addressing human rights issues
Extent of system addressing human rights issues
Extent of reporting addressing human rights issues
STAKEHOLDER INDEX
Policies towards stakeholders
Management systems for stakeholders
Quantitative reporting for stakeholders
Level of engagement with stakeholders
Policies on equal opportunities and diversity issues
Systems and practices to support equal opportunities and diversity issues
Health & safety systems
Systems and practices to improve job creation and security
Systems to manage employee relations
Systems to support employee training and development
Policies on maintaining good relations with customers – suppliers

Systems to maintain good relations with customers – suppliers
Level of commitment to community or charitable work
BOARD INDEX
The company separates the roles of Chairman and Chief Executive
The proportion of independent non-executive directors exceeds 33%
The company has an audit committee with a majority of independent non-executive directors
Number of stakeholder issues allocated to members
Gender diversity in the boardroom
Policies and procedures on bribery and corruption (policies, system and reporting)
Degree of comprehension of the code of ethics
The company discloses its managers' remuneration

4. MEASUREMENT OF EARNINGS MANAGEMENT

Earnings Management practices are proxied by management accruals and real measurements (AEM and REM) in order to determine whether results vary depending on earnings practices. Although the choice of one EM tool or another depends on various factors – the aim pursued, the applicable accounting rules and business-sector characteristics, among others (García-Osma et al., 2005) – managers prefer readily available and low cost tools such as AEM, or, in contrast, specific REM tools that are less visible to investors, market, auditors and other stakeholders.

In other words, there are two types of EM: pure accounting decisions, such as accrual earnings management (AEM), and real earnings management (REM), i.e., actions that alter the timing and scale of production, sales, investment, and financing activities throughout the accounting period in such a way that a specific earnings target can be met (Roychowdhury, 2006). Managers can choose between AEM and REM actions depending on which ones are less costly and less visible to investors and to the market (Kim et al., 2011). According to Zang (2012), decisions regarding earnings management by means of 'real' actions precede decisions regarding earnings management by means of accruals.

Traditionally, studies have focused on AEM because it is a less costly method to

mislead investors, and is thus preferred by managers seeking to meet income targets, whereas REM could be detrimental to firms' competitiveness and future value (García-Osma, 2008). However, it has been suggested that the manipulation of real activities is also widespread (Graham et al., 2005) because it is harder for auditors and regulatory bodies to detect REM than AEM, because REM is linked with operating, investing and financing activities (Cohen and Zarowin, 2010).

This research will analyze the two options that executives have to manage the accounting result. The objective of this analysis is demonstrating the possible differences between the abovementioned two types of EM measurement, the relation with CSR practices and the effect on (i) financial performance, (ii) cost of capital, and (iii) corporate reputation.

4.1 Accruals Earnings Management (AEM)

According to literature on Accounting and EM, the discretionary component of accrual adjustments should be used as a measurement of management discretionality, and therefore of earnings management. Accrual adjustments are defined as the difference between profit and cash flows from operations. In view of the inherent difficulty of manipulating cash flows, the use of accrual adjustments would be the most feasible means for managers to modify the accounting result.

As postulated by Garcia-Osma et al. (2005), not all accruals are discretionary, hence the aim of separating the discretionary component from the non-discretionary one in order to determine the presence and extent of EM. This measurement was firstly propounded by Healy (1985) and DeAngelo (1986), although the study by Jones (1991) is a landmark in this line of research.

The model applied in our analysis is a modification of the one proposed by Jones, although other models, described below, will also be used for the robust analyses. All models include dummy variables identifying the country of origin, because the sample size precludes estimating models by sector and country. This procedure has been previously used by Prior et al. (2008).

4.1.1 Jones' Standard Model

Jones (1991) propounded that the components of accrual adjustments should be separated using a linear regression model. This model accounted for the total adjustment in terms of two variables: the change in sales and gross fixed assets. Subsequently, Defond and Jiambalvo (1994) corrected the main drawback of the standard Jones model (which deals with the use of time series and the need for a large number of observations per firm) using annual cross-sectional data, grouping firms by sectors.

Methodologically, following Jones (1991) and Dechow et al. (1995), total accrual adjustments (TAA) are defined as:

$$TAAi,t = [(\Delta CAi,t) - (\Delta CASHi,t)] - [(\Delta CLi,t) - (\Delta RLTPi,t)] - DAi,t \qquad (1)$$

where $\Delta CAi,t$ represents the change in current assets for firm *i* in period *t*, $\Delta CASH$ represents the change in cash held and short-term financial investments for firm *i* in period *t*, $\Delta CLi,t$ is the change in current liabilities for firm *i* in period *t*, $\Delta RLTPi,t$ is the change in reclassified long-term obligations for firm *i* in period *t*, and DAi,t is the depreciation and amortization for firm *i* in period *t*.

On the basis of equation (1), accruals are calculated using an explanatory model. The difference between actual and expected accrual adjustments (taking into account growth, company assets and the accounting result) represents the discretionary or unexplained component of accrual adjustments, and acts as a measurement of management discretion in the reporting of results.

The standard Jones model uses the following procedure to separate the discretionary component from the non-discretionary one:

$$\frac{TAA_{it}}{A_{i,t-1}} = \alpha_{1t}\left(\frac{1}{A_{i,t-1}}\right) + \alpha_{2t}\left(\frac{\Delta Sales_{it}}{A_{i,t-1}}\right) + \alpha_{3t}\left(\frac{PPE_{it}}{A_{i,t-1}}\right) + \varepsilon_{t} \qquad (2)$$

where $\frac{TAA_{i,t}}{A_{i,t-1}}$ are the total accrual adjustments for firm *i* in period *t*; $A_{i,t-1}$ represents the assets of firm *i* in period *t*-1, and this is used as a deflator to correct potential problems of heteroskedasticity; $PPE_{i,t}$ represents the property, plant and equipment of firm *i* in period *t*; *ΔSales* is the change in sales for firm *i* in period *t*;

$\alpha_{1,t}\left(\frac{1}{A_{i,t-1}}\right)+\alpha_{2,t}\left(\frac{\Delta Sales_{i,t}}{A_{i,t-1}}\right)+\alpha_{3,t}\left(\frac{PPE_{i,t}}{A_{i,t-1}}\right)$ are the non-discretionary accrual adjustments; and e_t, the discretionary accrual adjustments for firm *i* in year *t*. Non-discretionary accrual adjustments (NDAA) are calculated by replacing the coefficients in equation (2) with the values obtained by Ordinary Least Squares. Discretionary accrual adjustments (DAA) are the residuals of this calculation.

4.1.2 Modified Jones Model (Dechow et al., 1995)

In the *modified Jones model* (Dechow et al., 1995, equation 3), the TAA use the variation in sales minus accounts receivable (which are used to measure the growth of the company, because its working capital is closely linked to sales), and minus the item *property, plant and equipment*, which is used to measure the depreciation costs of the discretionary adjustments. It is assumed that not all sales are necessarily non-discretionary, and that this will depend on the item to be received.

$$\frac{TAA_{i,t}}{A_{i,t-1}}=\alpha_{1,t}\left(\frac{1}{A_{i,t-1}}\right)+\alpha_{2,t}\left(\frac{\Delta(Sales-A*R)_{i,t}}{A_{i,t-1}}\right)+\alpha_{3,t}\left(\frac{PPE_{i,t}}{A_{i,t-1}}\right)+\varepsilon_t \quad (3)$$

where A*R represents accounts receivable, and the other variables are as defined in equation 2.

It should be noted that the coefficients in this model are calculated with the original Jones model (1991), and that the modification is only made to calculate non-discretionary adjustments.

The modified Jones model is the most used approach in empirical studies of EM; see, for example, Warfield et al. (1995), Dechow et al. (1996), Teoh et al. (1998) and Peasnell et al. (2005) and among many others.

4.2 Real Earnings Management (REM)

Several studies suggest that firms use real activities manipulation as an alternative measurement of EM, assuming there is a negative correlation between both manipulative practices (Zang, 2012). Therefore, AEM and real activities manipulation are substitutes for one another, and any of them can be used as a measurement of manipulative behavior (Kim et al., 2011). The main models for capturing REM are

those implemented by Roychowdhury (2006): estimates of abnormal levels of cash flows from operations, discretionary expenditure (advertising, R&D and SG&A), and production costs. This author employed the model by Dechow et al. (1998), which has also been used in other studies where REM is a measurement of EM (Kim et al., 2011, Chen et al., 2008; Cohen and Zarowin, 2010).

We estimate the normal level of operating cash flows, expenditure and production costs as follows:

$$\frac{OCF_{it}}{Asset_{i,t-1}} = \beta_0 + \beta_1\left(\frac{1}{Asset_{i,t-1}}\right) + \beta_2\left(\frac{Sales_{it}}{Asset_{i,t-1}}\right) + \beta_3\left(\frac{\Delta Sales_{it}}{Asset_{i,t-1}}\right) + \varepsilon_t \qquad (4)$$

where OCF_{it} represents firm *i*'s operating cash flows in year *t*, which are measured as the sum of net income, depreciation and amortization, and changes in current liabilities, minus changes in current assets; $Asset_{i,t-1}$ are firm *i*'s total assets at the end of year *t-1*; $Sales_{it}$ are sales during the period *t* for firm *i*; $\Delta Sales_{it}$ is firm *i*'s change in sales from year *t-1* to year *t*; and ε_{it} is the error term. The abnormal OCF is obtained as the residual from Eq. (4).

$$\frac{DISEXP_{it}}{Asset_{i,t-1}} = \beta_0 + \beta_1\left(\frac{1}{Asset_{i,t-1}}\right) + \beta_2\left(\frac{Sales_{it-1}}{Asset_{i,t-1}}\right) + \varepsilon_t \qquad (5)$$

where $DISEXP_{it}$ represents firm *i*'s discretionary expenditure in year *t*; $Asset_{i,t-1}$ are firm *i*'s total assets at the end of year *t-1*; $Sales_{it-1}$ are firm *i*'s sales at the end of year *t-1*; and ε_{it} is the error term. Abnormal discretionary expenditure is calculated as the difference between the actual values ($DISEXP_{it}/Assets_{i,t-1}$) and the normal level predicted in Eq. (5).

$$\frac{PRODCOSTS_{it}}{Asset_{i,t-1}} = \beta_0 + \beta_1\left(\frac{1}{Asset_{i,t-1}}\right) + \beta_2\left(\frac{Sales_{it}}{Asset_{i,t-1}}\right) + \beta_3\left(\frac{\Delta Sales_{it}}{Asset_{i,t-1}}\right) + \beta_4\left(\frac{\Delta Sales_{it-1}}{Asset_{i,t-1}}\right) + \varepsilon_t \qquad (6)$$

$$PRODCOSTS_{it} = COGS_{it} + \Delta Inv_{it} \qquad (6.1)$$

$$\frac{COGS_{it}}{Asset_{i,t-1}} = \beta_0 + \beta_1\left(\frac{1}{Asset_{i,t-1}}\right) + \beta_2\left(\frac{Sales_{it-1}}{Asset_{i,t-1}}\right) + \varepsilon_t \qquad (6.2)$$

$$\frac{\Delta Inv_{it}}{Asset_{i,t-1}} = \beta_0 + \beta_1\left(\frac{1}{Asset_{i,t-1}}\right) + \beta_2\frac{\Delta Sales_{it}}{Asset_{i,t-1}} + \beta_3\left(\frac{\Delta Sales_{it-1}}{Asset_{i,t-1}}\right) + \varepsilon_t \quad (6.3)$$

where $PRODCOSTS_{it}$ represents firm *i*'s production costs in year *t*, calculated as ($COGS_{it} + \Delta Inv_{it}$), where $COGS_{it}$ is firm *i*'s cost of its goods sold in year *t* and ΔInv_{it} is firm *i*'s change in inventories from year *t-1* to year *t*; $Asset_{i,t-1}$ are firm *i*'s total assets at the end of year *t-1*; $Sales_{it}$ are sales during period *t* for firm *i*; $\Delta Sales_{it}$ represents firm *i*'s change in sales from year *t-1* to year *t*; and ε_{it} is the error term. The residual from Eq (6) represents the abnormal production costs.

In order to obtain robust results, we combine these three measurements into the two comprehensive aggregate metrics of REM proposed by Zang (2012). For the first measurement, REM 1, the abnormal discretionary expenses are multiplied by minus one, and the result is added to abnormal production costs. The higher this aggregate measurement is, the more likely the firm is to engage in REM. According to Cohen and Zarowin (2010), we do not multiply PRODCOSTS by minus one because higher production costs, as noted earlier, are indicative of over-production, which reduces the cost of the goods sold. We do not combine abnormal production costs and abnormal CFO because, according to Roychowdhury (2006), the same activities that lead to abnormally high production costs also lead to abnormally low CFO, so combining both amounts would lead to double counting.

$$REM\ 1 = (-AbnDISEXP_{it}) + AbnPRODCOSTS_{it} \quad (7)$$

To obtain the second measurement, REM 2, we multiply the abnormal cash flow from operations and abnormal discretionary expenses by minus one, and aggregate these into a single measurement. The higher the value of this measure, the more likely the firm is to engage in sales manipulation and in reduction of discretionary expenditure, in order to boost reported earnings.

$$REM\ 2 = (-AbnOCF_{it}) + (-AbnDISEXP_{it}) + AbnPRODCOSTS_{it} \quad (8)$$

With the aim of obtaining robust results, a real EM measurement will be used as an alternative to AEM. We will use the aggregate measure REM2 (REM from now on) propounded by Zang (2012), because it comprises the three discretionary components:

abnormal operating cash flows, abnormal discretionary expenses and abnormal production costs.

5. MEASUREMENT OF FINANCIAL REPORTING QUALITY

Due to the absence of a universally accepted measurement of FRQ, several authors (Hope et al., 2012; Choi and Pae, 2012; Hong and Andersen, 2011; Lu et al, 2011) have taken alternative approaches. Dechow et al. (2010) argued that external indicators of FRQ are related to three factors: (i) SEC Accounting and Auditing Enforcement Releases; (ii) restatements; (iii) internal control. However, these three measures are not available for companies located in countries other than the USA, and so other models, such as the Ball and Shivakumar model (2006), must be used. To understand this measure of financial reporting, we will firstly examine the Dechow-Dichev model (2002).

5.1 Dechow-Dichev Model

Dechow and Dichev (2002) developed a model for expected accruals and interpreted the deviation from this expected value as the estimation error in accruals, which is then used as a measurement of earnings quality. Later, Francis et al. (2005), Hong and Andersern (2011) and Chen et al. (2011) added the change in revenues and total PPE (Property, Plant and Equipment). This model needs the abovementioned regression to be estimated on a yearly cross-sectional basis. After this, the residuals are aggregated and the standard deviations of the residuals, calculated firm-by-firm using data from all available years. The deviation of the residuals is a unique value for the firm for the whole period. The equation for the Dechow-Dichev model is as follows:

$$\Delta WC_{it} = \beta_0 + \beta_1 OCF_{it-1} + \beta_2 OCF_{it} + \beta_3 OCF_{it+1} + \beta_4 \Delta REV_{it} + \beta_5 PPE_{it} + \varepsilon_t \quad (9)$$

where the change in working capital accruals from year *t-1* to *t* is expressed as ΔWC = ΔAccounts Receivable + ΔInventory - ΔAccounts Payable - ΔTaxes Payable + ΔOther Assets. ΔREV_t is the change in revenues, and the remaining variables are as explained in the previous equations. All variables are scaled by the total assets.

The standard deviation of the residuals in equation (9) is used as a proxy of accruals quality (FRQ). Low values of the standard deviation of residuals (ε) represent high accruals quality and greater transparency in the issued financial statements (Andersen et al., 2012; Doyle et al., 2007). This model of quality of accruals offers a firm level measure (non firm-year level measure) of accruals quality (Choi and Pae, 2011). It is not used in the present study because we use of panel data, which requires a cross-section analysis.

5.2 Ball and Shivakumar Model

Ball and Shivakumar (2006) suggested that a nonlinear accrual model that incorporates timely recognition of loss would be more appropriate than linear models. Therefore, they added a current-year cash flow dummy and its interaction with the level of cash flows to the Dechow and Dichev model,

$$\Delta WC_{it} = \beta_0 + \beta_1 OCF_{it-1} + \beta_2 OCF_{it} + \beta_3 OCF_{it+1} + \beta_4 \Delta REV_{it} + \beta_5 PPE_{it} + \beta_6 DOCF_{it} + \beta_7 OCFxDOCF_{it} + \varepsilon_t \quad (10)$$

where DOCF is an indicator variable of the negative cash flows, with the value of 1 if there are negative OCF, and of 0 otherwise. All the variables except for DOCF are scaled by the total assets. In this model, the absolute values of residuals are used as a proxy of FRQ. The higher this value, the lower the quality of accruals.

6. INSTITUTIONAL FACTORS

The Institutional Theory states that firms are economic units that operate within contexts formed by a nexus of institutions, which affect their behavior and impose expectations on them (Campbell et al., 1991; Roe, 1991, Campbell, 2007). This institutional environment establishes “the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction” (North, 1990).

Due to the difficulties of categorizing countries according to their institutional environments, we follow previous studies (La Porta et al., 1998) but adopt an alternative approach: countries are identified by analyzing the individual effect of every institutional factor that characterizes the firm’s country of origin.

With the aim to control the differences among multinational companies, several institutional factors are selected in order to identify the macro-environment of the companies´ country of origin. We consider the different institutional approaches adopted in the context of CSR to be a result of public pressure or of the normative environmental context, among other aspects, that can define sustainable practices in each country (Kolk and Perego, 2008). The level of investor protection in each country has also been taken into account because it is one of the main institutional factors that affect corporate policies choices (Shleifer and Vishny, 1997).

6.1 National Approach to Sustainability

In view of the possible differences among countries, and according Prado-Lorenzo and Garcia Sanchez (2010), a dummy variable based in the National Corporate Responsibility Index (NCRI) was included. It represents the aggregate institutional context for CSR. For this purpose, ***DNCRI*** takes the value 1 if the NCRI of the company's country of origin is above average, and 0 otherwise.

6.2 Investor Protection

Regarding the effect of institutional factors, in order to operationalize investor protection, and according to Hillier et al. (2011), we create three sub-indices that arise from the country-level governance indices of La Porta et al. (1997, 1998): (i) DCL, which equals 1 if the firm is located in a common law country and zero if the firm is located in a civil law country; (ii) DAR, which equals 1 if the firm is located in a country with above-average anti-director rights, and zero otherwise; and (iii) DEF , which equals 1 if the firm is located in a country with a above-average law enforcement index, and zero otherwise. Law enforcement is formed by the sum of two indices of La Porta et al. (1998): efficiency of the judicial system, and law and order. Finally, we proxy effective investor protection by summing the three dummy variables /DCL, DAR, and DEF), and then constructing a new dummy variable: ***DINV_PROTECTION*,** which equals 1 if the firm is located in a country with above-average investor protection, and zero otherwise.

7. CONTROL VARIABLES

With the aim of avoiding biased results, we use a series of control variables. Their

effect on EM and CSR practices, as well as on the subsequent dependent variables in this research (financial performance, cost of capital and reputation), has been greatly documented in previous literature.

The control variables that may affect EM and CSR are the systematic company size, debt, risk, operating liquidity and R&D investment (Warfield et al., 1995; Yeo et al., 2002; Doyle et al., 2007).

- Company size **(SIZE)**

Company size (*SIZE)* is measured by the logarithm of total assets. Previous studies have failed to establish a clear relationship between this variable and EM. On the one hand, larger companies' incentive to adopt aggressive accounting policies will be greater, because the markets observe their performance in a critical way (Zhong et al., 2007). On the other hand, larger companies' incentive to engage in EM is smaller because they are subject to greater regulatory control, to scrutiny by financial analysts and to pressure from investors. All of these factors reduce the scope for discretionary actions to be performed by company managers (Sánchez-Ballesta and García-Meca, 2007a, b). Numerous studies have empirically confirmed the positive relationship between company size and social practices, concluding that larger companies are able to pay more attention to their stakeholders (Prior et al., 2008; Waddock and Graves, 1997).

- Leverage **(DEBT)**

DEBT is the risk of debt or default, and is calculated as the ratio of debt to equity. The relationship between debt ratio and EM is unclear. On the one hand, a positive relationship would be expected (in agreement with Park and Shin, 2004), as such financial problems are an incentive for companies to inflate their accounting results in order to avoid potential losses arising from the disclosure of this situation. Sweeney (1994) and Press and Weintrop (1990) are agreed on this positive relationship between EM and the level of indebtedness. On the other hand, Dechow and Skinner (2000) reported that the greater the debt, the lower the EM, whereas Chung and Kallapur (2003) found no evidence of a relationship between these variables.

- Risk **(RISK)**

We expected to find a positive relationship between systematic risk (*RISK*), as measured by the beta of the market model, and EM, because high-risk companies' chances and incentives to manipulate accounting results in order to reduce this perception and/or the cost of capital are greater (Warfield et al., 1995). Similarly, Kim et al. (2011) proved that the most socially responsible companies have more opportunities to grow, to have a better economic performance and to have lower levels of debt in comparison with less socially engaged companies re. Spagnolo (2005) found that companies use CSR as a means of decreasing volatility, via agreements with their stakeholders.

- Operating Liquidity **(WORKING_CAPITAL)**

WORKING CAPITAL is defined as the difference between current assets and current liabilities. It reflects liquidity, i.e. a company's ability to normally continue its activities in the short term. As with DEBT, companies with financial problems do not wish to attract the attention of stakeholders, and so they tend to manipulate accounting results when their capital structure faces problems (negative working capital) (Park and Shin, 2004). Prior et al. (2008) proved that financial resources are strongly linked to CSR practices. The greater the resources available to a company, the lower its level of social practices. Kim et al. (2011) reported that a company's profitability has a positive influence on CSR.

- R&D investment **(R&D INTENSITY)**

R&D INTENSITY measures the ratio of R&D expenditure to total revenue. Some studies, like Baber et al. (1991) and Dechow and Sloan (1991), proved that those companies that invest the most in R&D have greater incentives to implement EM. Their aim is to report the achievement of their goals or of their project targets. Furthermore, as proved by McWilliams and Siegel (2001), CSR is also dependent on R&D costs.

8. DESCRIPTIVE STATISTICS

The following tables gather descriptive statistical data of all the variables used in this research.

The mean values and standard deviations of the different EM and FRQ measures are summarized in Table 2. The mean value of EM based on accounting decisions is of 0.006538057, with a typical standard deviation of ±0.3574536. However, the mean value of REM2, which groups the different discretionary components of EM based on real accounting decisions is of -0.89555081 with a deviation of ± 0.839708. Therefore, we observe that companies, on average, prefer to carry out AEM practices. The main reasons of this choice are based on the fact that accounting tools are less visible and only affect companies in the long term. Managers prefer easily available and low cost tools such as AEM or, on the contrary, certain REM tools, which are less visible for investors, the market, auditors and other stakeholders. These tools allow them to boost this kind of practices without having them identified by the market, but this is also more costly.

Table 2. EM/FRQ Practices

	Mean	**Std. Deviation**
Jones Model	0.006538057	0.3574536
Modified Jones Model (EM_Dechow)	0.007208603	0.3749062
AbnCFO	-0.02522485	0.1093073
AbnDISCEXP	-0.002147751	0.1924435
AbnCOSTPROD	-0.8818955	0.845968
REM1	-0.8800782	0.8447338
REM2	-0.8555081	0.839708
FRQ(Ball-Shivakumar)	0.01012813	0.4972292

Table 3 represents the descriptive statistics of CSR. The mean values of the CSR variable (-22. 74 out of a possible 60 points) show that these practices are not internationally sustainable. The standard deviation was of ±27.331. The minimum and maximum values were of -40 and 57, respectively.

In relation to the four main lines of sustainable actions, analyzed companies' greatest concerns are environmental issues, followed by human rights. On the contrary,

very limited attention is paid to relations with stakeholders. However, the most important sub-index is the board. The individual analysis of each item proves that the most common CSR practices concern relationships with customers and suppliers, and the use of environmental management systems. In this regard, Raman and Shahrur (2008) observed that the CSR activities which are most often used to conceal EM practices are those aimed at altering perceptions of the company's future projects.

Table 3. Corporate Social Responsibility

	Mean	**Std. Deviation**
CSR	-22.74	27.331
ENVIRONMENTAL	-2.53	7.875
HUMAN RIGHTS	-7.19	3.770
STAKEHOLDER	-13.02	18.891
BOARD INDEX	2.52	9.640

For example, the evolution of both main practices of this research is represented on graphic 3 (the relationship between both practices will be explained in subsequent chapters). Firstly, as explained during the descriptive analysis, companies are not generally considered to be sustainable (the do not go above the threshold of 0). We can observe this in our graphic, which shows the positive trend of this practice (that is, less negative values). Our starting point is a level in which CSR practices promotion is around -40 (the threshold of CSR values is between -60 and +60). However, the weight of corporate commitment for the corporate strategy grows on a yearly basis and is of -15 in 2010. Therefore, this practices trend is growing, and really responsible companies are starting to proliferate.

As for EM practices, the nature of which is generally positive, three years stand out. 2005, 2008 and 2010 show a trend towards result manipulation. During these years, the trend towards EM is much higher than during the rest of analyzed years. This proves that discretionary accrual adjustments were used on a very frequent basis as a way to report unreal accounting numbers. The economic and financial context can be considered one of the factors that explain this result management. However, as explained in chapter I, managers' reasons to implement EM can be diverse and varied.

Also, it must be taken into account that EM can inflate or reduce the company's results, so it can have a positive or a negative effect on the accounting result.

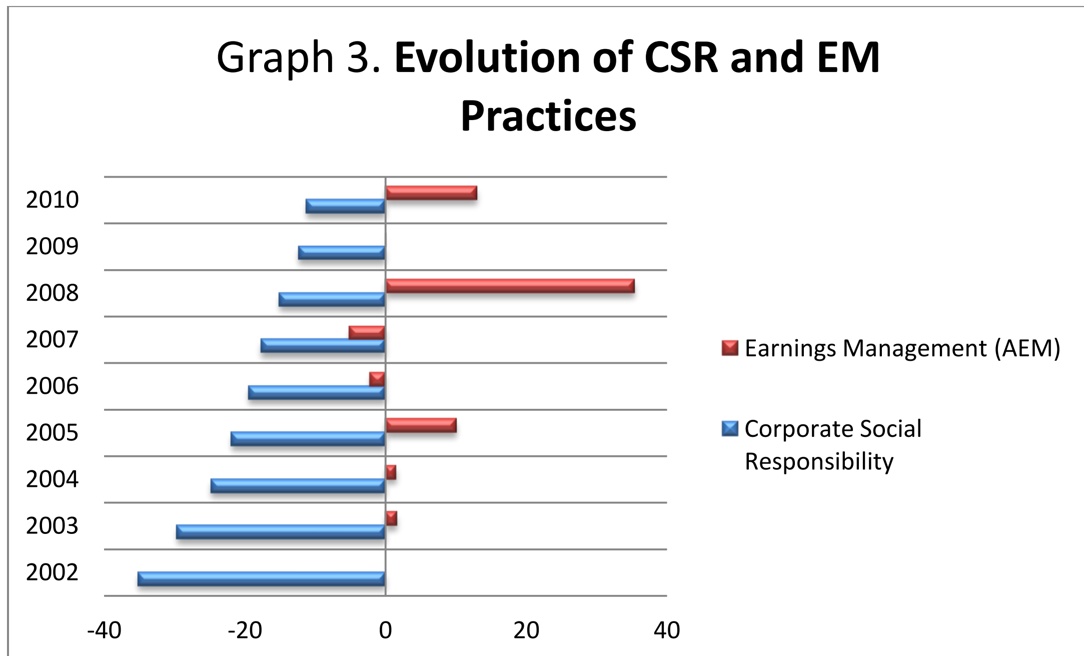


Table 4 summarizes the frequencies for each of these moderating variables. It shows that 56.7% of them are in countries with above-average investor protection, and 62.4% are located in countries with above-average commitment to CSR. Countries with above-average investor protection are the United Kingdom, the United States, Canada, Australia and Hong Kong, whereas countries with an above-average NCRI are the United Kingdom, Switzerland, the Netherlands, Germany, Sweden, Ireland, Denmark, Finland, Norway, Luxembourg, Canada and Australia.

Table 4. Institutional Factors

	Frequencies	
	Absolute	**Relative**
DINV_PROTECTION	8419	56,7
DNCRI	9258	62.4

For instance, graphic 4 gathers data about the evolution of both institutional factors. As for the institutional factor dealing with the level of investor rights protection, during the period 2002-2012 it is more or less the same (around 55 and 60%). However, it shows an increasing trend in 2010. Thus, it can be deduced that countries' protection to their investors and shareholders increases little by little as a consequence of their demands (they want their investment rights to be protected).

Regarding the level of commitment to sustainability of the different countries, the percentage stays the same (around 30 and 40%), although it decreases when compared to 2002. The current trend, observed in 2010, is decreasing. Although the previous graphic proves the increase of sustainable practices, the effect of the current economic and financial crisis has decreased economic, social and environmental demands from shareholders, clients, suppliers, financial entities, the public and the rest of stakeholders. As a consequence of less social demands, the national commitment to CSR decreases. However, it is now expected that this trend will stop and that the national approach towards sustainability-related topics will increase again, as prior to the current crisis.

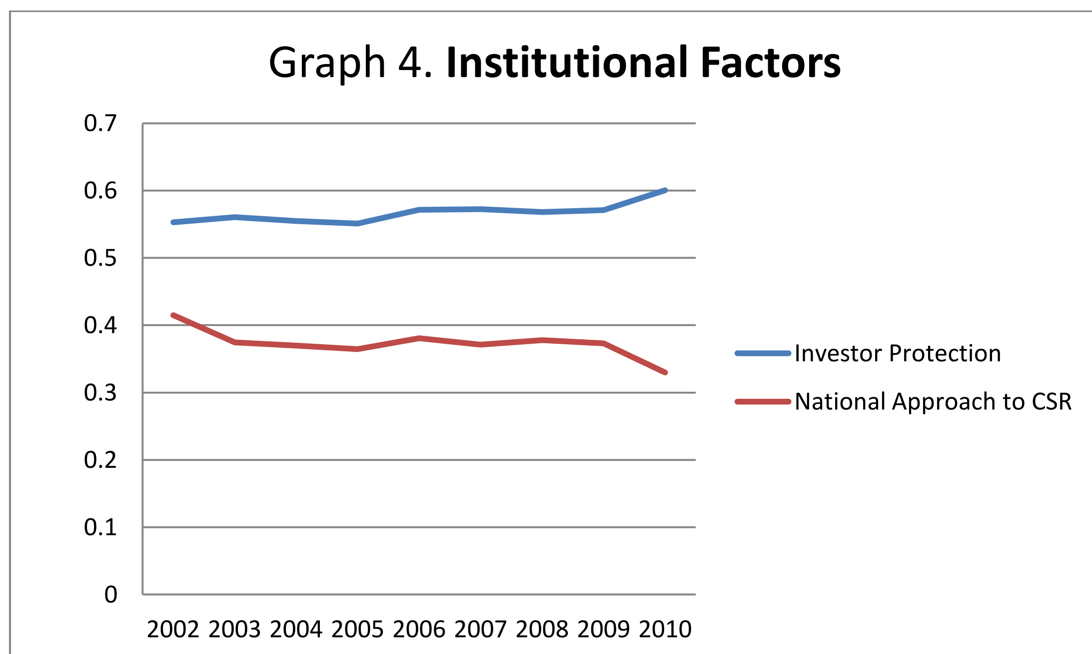


Table 5 summarizes the descriptive statistics of the control variables, expressed in millions of Euros. For example, the average size of the analyzed companies is of

7.8744, with a standard deviation of ±1.97945. The average debt stands at 0.6758, with a standard deviation of ±110.19017.

Table 5. Descriptive Statistics of Control Variables

	Mean	Std. Dv.
SIZE	7.8744	1.97945
DEBT	0.6758	0.19017
RISK	1.2122	8.26475
WORKING CAPITAL	627.4492	2840.651
R&D INTENSITY	0.1789	4.90928

9. CONCLUDING REMARKS

Throughout this chapter, the aim has been to define the measurement of the main variables used in this research. Another objective was to define the sample of companies available to carry out this study.

This sample, thanks to which we will obtain subsequent empirical evidence on the bidirectional relation between CSR and EM, as well as on its financial and market consequences, comprises 1,960 international non-financial quoted companies for years 2002 to 2010 and from 25 countries and an Administrative Region. Only the reduction of this sample in chapter 5 has been highlighted, because of the lack of data dealing with corporate reputation. So the sample ultimately comprises 1,757 companies for years 2006 to 2010.

As for the measurement of variables that are relevant to this research (CSR, EM, institutional factors and control variables), the CSR construct is measured with an index that has a value of between -60 and +60 and with the analysis of different areas or sub-indices: *ENVIRONMENTAL, HUMAN RIGHTS, SOCIETY* and *BOARD.*

Regarding EM measurement, two corporate options are to be distinguished with the aim of obtaining robust results. Firstly, EM decisions with a financial component (AEM), which are based on a discretionary measurement of the accrual adjustments of the Dechow et al. (1995) model. Secondly, EM decisions with a real component (REM),

based on individual and discretionary measurements of operating cash flows, discretionary expenses and production costs, which were propounded by Dechow et al. (1998), and also based on their complete and joint measurement via Zang's (2012) work. As noted in previous sections, EM practices decrease the quality of the information disclosed by the company. Therefore, we also take into account the FRQ variable, measured with the model propounded by Ball and Shivakumar (2006).

As for institutional variables that play a moderating role on CSR-EM relation, the level of commitment to sustainability is measured by a dummy variable with the value of 1 if the company is located in a country with higher CSR than NCRI, and of 0 if it is lower. The level of investor protection has the value 1 when dealing with companies located in countries with above-average investor protection.

Regarding control variables that allow measuring biased results, the following ones will be used in the subsequent models: company size, level of indebtedness, systematic market risk, company's liquidity, and, finally, R&D intensity.

Descriptive statistical data of the previously described variables has also been analyzed with the objective of going into detail about their mean values and typical deviations. Certain conclusions were obtained from this univariate analysis. Firstly, and on average, companies in our sample implement more EM practices via financial decisions than via real decisions. Secondly, analyzed companies are considered not sustainable because the average values of CSR are not above the threshold of 0, although the highest sub-index of this construct deals with the board of the company, followed by environmental questions and issues. Regarding institutional moderating variables, 56.7% of companies are located in countries with above-average investor protection, and 62.4% are located in countries strongly committed to sustainability. These descriptive data are confirmed via the graphic representation of both CSR and EM practices, and of institutional factors.

The next chapters of this research will make reference to the abovementioned statistical data to avoid repeating explanations.

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CHAPTER III

The Bidirectional Relationship between Earnings Management and Corporate Social Responsibility

1. INTRODUCTION

Accounting scandals that have hit the headlines in the last decade (notably those involving Enron, WorldCom, Xerox and Merck) have generated increasing mistrust among investors regarding the relevance and reliability of published accounting information.

In a bid to regain lost confidence companies have voluntarily begun to develop and perfecting diverse mechanisms for monitoring corporate performance. However, the most important fact is that they have begun to adopt sustainable patterns of business behavior, in application of what is generally termed Corporate Social Responsibility (CSR). In this regard, studies such as Shleifer (2004), Shen and Chih (2005), Kim et al. (2011), Hong and Andersen (2011) and Scholtens and Kang (2012) have reported the existence of a clear positive relation between different sustainable business practices and the quality of accounting results.

On the other hand, studies such as Prior et al. (2008) and Gargouri et al. (2010) have proved that CSR practices may conceal Earnings Management (EM) behavior. More specifically, they report that companies whose managers' decision-making is discretionary are more likely to carry out ethical and social-oriented actions. The reason is that, by doing so, they would obtain the support of stakeholders and thus reduce both the risk of dismissal (because of having implemented EM practices) and the negative effects that these accounting practices have on the company's value and reputation.

The contradiction between the proposed analysis and the results reported by different studies suggests the existence of a possible bidirectional relationship between CSR and EM, rather than a unidirectional one. This two-way effect would reflect causality between EM and CSR, and would limit the consistency of previous research results obtained from studies in which both variables were considered to be exogenous. Moreover, previous studies have mainly focused on a specific country. When an international setting is analyzed, multinational companies are considered as a homogeneous set, without controlling for the differences among them, regarding factors such as the efficiency of the capital market in the country of origin and the strength of the board of directors (La Porta et al., 1998, 2000; Claessens and Tzioumis, 2006), as well as government or stakeholder pressure with respect to sustainability issues (van

Tulder and van der Zwart, 2006; Kolk, 2008; Kolk and Perego, 2008). Therefore, it seems important to determine the roles played by institutional mechanisms and corporate governance in the process of monitoring these two aspects of business decisions.

Accordingly, the present chapter has two main aims: firstly, to analyze the possible bidirectional relationship between EM and different CSR practices; secondly, to determine the moderating role played in this relationship by institutional factors and corporate governance. To achieve these goals, the empirical analysis is based on a sample comprising 1,960 international non-financial listed companies, with 14,844 observations from 25 countries and the Administrative Region of Hong Kong, for years 2002 to 2010.

EM practices are proxied by management accruals and real measures (AEM and REM) in order to determine whether results vary depending on earnings practices. Although the choice of an EM instrument or another depends on various factors – the aim pursued applicable accounting rules and business-sector characteristics, among others (García-Osma et al., 2005) – managers prefer readily available and low cost instruments, like AEM, or, in contrast, specific REM instruments that are less visible to investors, to the market, to auditors and to other stakeholders. The effects of both instruments differ because their aims are different (Hong and Anderson, 2011). We also analyze the relationship between CSR and financial reporting quality (FRQ), in order to examine whether sustainable companies are more transparent and provide financial statements with better FRQ, and whether such accounting practices favor ethical behavior. Diverse measures of EM and FRQ are applied because it has been proven that the results obtained vary depending on the method of measurement used (Chih et al., 2008).

Regarding the moderating factors that are specific to each company, we consider various features of internal corporate monitoring procedures that could significantly influence EM/FRQ and CSR practices, such as the national approach to sustainability and the level of investor protection.

With respect to the bidirectional relationship between EM and different CSR practices, our approach is different from the one described in previous research. We test

the endogeneity linked to the CSR and EM/FRQ simultaneity and then correct for this aspect. Also, we analyze accordingly simultaneous equations for panel data, based on the Generalized Method of Moments (GMM) estimator proposed by Arellano and Bond (1991) to correct for problems of endogeneity, taking lags of CSR and EM/FRQ as instruments of these independent variables. GMM is more consistent than other simultaneous-equation estimators (De Miguel et al., 2005) because it does not only correct endogeneity, but controls for the unobservable heterogeneity, which arises because EM and CSR decisions are taken by specific individuals within a firm, and thus generate a particular behavior pattern. These individual characteristics usually remain constant over time but are unobservable to the researcher (Chi, 2005; Pindado and Requejo, 2012).

The estimation of two simultaneous GMM equations reveals an inverse bidirectional relationship between the two areas of business decisions. On the one hand, CSR exerts a negative influence on AEM and FRQ (lower values of the Ball and Shivakumar measure indicate higher FRQ), which suggests that socially responsible firms are less likely to manage their earnings, and so their financial statements provide with a better quality of information. On the other hand, the inverse relation between both variables is maintained when AEM and FRQ are used as explanatory variables. Jointly, both effects prove that higher levels of AEM tend to decrease socially responsible practices, and vice versa. In addition, results prove that a good internal monitoring mechanism is linked to the board of directors, which favors FRQ and sustainable corporate behavior. On the other hand, the relationship between REM and CSR is unidirectional; the latter does not affect REM, because such accounting instruments are less visible and only affect company performance in the long term.

With respect to our second objective (determining the moderating role played by institutional factors and corporate governance), several interactions between CSR and EM/FRQ and institutional characteristics are included in the initial GMM equations. The institutional factors that have been considered deal with: (1) institutional approaches adopted in the context of CSR as a result of public pressure or of the environmental normative context, among other aspects, that have an impact on sustainable practices (Kolk and Perego, 2008); (2) national characteristics such as investor protection and enforcement mechanisms (Gray, 1988; La Porta et al., 1998;

Leuz et al., 2003). Results prove that relationships between EM/FRQ and CSR are moderated by factors such as the legal and institutional environment. These relationships are especially important in countries with significant institutional pressure regarding sustainability. Furthermore, they are more influential in countries with stronger investor protection.

The rest of the chapter is structured into the following six sections: firstly, we review previous theoretical and empirical research in this field in order to establish our working hypotheses. Section three briefly describes the methodology that was used: analyzed sample, variables and empirical models used to test the hypotheses. The results of the empirical analysis are detailed in section four, and discussed in section five. Finally, we present the main drawn conclusions.

2. THE RELATIONSHIP BETWEEN CSR AND EM [1]: RESEARCH HYPOTHESES

It has been claimed that organizations act in the field of social responsibility as a means of concealing mismanagement, thus avoiding costly reactions, damaging campaigns in media (Bansal, 2005), and also avoiding the monetary compensation that may be demanded by shareholders and other stakeholders for losses suffered (Zahra et al., 2005). In this line, Cespa and Cestone (2007) defined CSR as a mechanism for underpinning managers who practice EM.

However, the relationship between EM and CSR has not been studied in depth, and there is no consensus as to whether this relationship is positive, negative or non-existent. Moreover, research until now has been based on the study of one-way relationships. However, there are reasons to believe that a bidirectional relationship may exist, i.e., that EM influences CSR and vice versa. In the following sections, we propound theoretical arguments underlying these relationships.

2.1 The Effect of CSR on EM (CSR as an explanatory variable)

Those who believe CSR produce a negative effect on EM argue that socially

[1] In order to avoid duplication of arguments, the theoretical justification of the hypothesis deals with the relationship between CSR and EM. The opposite arguments justify the relationship between CSR and FRQ, since EM is the opposite of FRQ (Dechow and Dichev, 2002).

responsible and ethical companies are more transparent, because their aim is to highlight their good behavior, and therefore have less incentives to indulge in EM (Gelb and Strawser, 2001; Shen and Chih, 2005).

Numerous studies have concluded that companies need to accept social responsibility as a normal obligation, and that managers are morally obliged to do what is right, to be honest and ethical and, therefore, to manage company affairs transparently (Jones, 1995; Phillips et al. 2003). Accordingly, managers who seek to be honest, transparent and ethical for their company would be expected to be less interested and to use less EM practices.

Kim et al. (2011), in an empirical study in the USA, proved that socially engaged companies are less inclined to carry out manipulative behavior, their accounting and operational decisions are more conservative, and their financial reporting is more transparent. In the same vein, Shleifer (2004) argued that EM is less common in companies strongly committed to social responsibility, due to the greater transparency of the information they disclose. Choi and Pae (2011) analyzed the relationship between business ethics and FRQ, using different measures of the latter, and found empirical evidence that companies with higher levels of ethical commitment have fewer incentives to carry out EM practices, their earnings reports are more conservative, and predict future cash flows more accurately. Shleifer (2004), Shen and Chih (2005) and Kim et al. (2011) reported a positive relationship between sustainable practices and the quality of accruals.

However, Chih et al. (2008) concluded that the relationship between CSR and EM depends on which EM practices are taken into account, and noted that CSR practices increase transparency and information impact – thus, they tend to reduce profit smoothing and loss concealment, because they reduce the possibilities of EM implementation. They concluded that there EM and CSR have a negative relation when earnings smoothing or earnings loss avoidance is an indicator of EM. However, they also identified a positive effect of social and ethical practices on EM, via actions aimed at smoothing revenues in order to reduce volatility, which makes reported earnings more predictable.

In this line, and in agreement with Jensen (2001), Leuz et al. (2003) observed that

CSR activities can exacerbate agency problems. When making decisions, internal managers, who need to take into account the priorities of diverse stakeholders (employees, customers, financial institutions, etc.), and who are aware that their company has more than one goal, behave discretionarily and use their insider information basing on their private interests, and against those of external groupings. Thus, in order to conceal such opportunistic practices, managers implement EM.

Chih et al. (2008) defined this reasoning as the *multiple objectives* hypothesis, according to which CSR intensifies the agency problem and encourages managers to carry out EM. Empirically, this relationship is supported by evidence obtained by Petrovits (2006), who observed that charitable foundations are utilized to conceal earnings management, and thus to heighten managers' job security (Yeo et al., 2002). Gargouri et al. (2010), following Riahi-Belkauoi (2003), supported this hypothesis in their study of Canadian companies.

In accordance with the abovementioned remarks, it may be the case that the more CSR implemented, the greater the likelihood of EM practices, and vice versa. Accordingly, the following hypothesis is formulated:

HYPOTHESIS 1: CSR has an effect on EM/FRQ.

2.2 The Effect of EM on CSR (EM as an explanatory variable)

An agency problem underlies EM practices: the manipulation of company results conceals management practices that enable managers to satisfy their own interests to the detriment of those of others, regardless of the potential damage not only to other stakeholders, but also to the company's financial performance should such practices continue for a prolonged period of time (Prior et al., 2008). Moreover, EM practices fuel stakeholders' activism and surveillance, as well as possible market pressures in the form of hostile takeover bids (Pagano and Volpin, 2005), all of which would harm the position of managers, especially for highly visible companies (Prior et al., 2008).

To avoid negative consequences of EM, managers may adopt CSR practices to satisfy different stakeholders' interests. In this sense, CSR could be viewed as a managerial entrenchment strategy to meet the demands of different stakeholders, especially those who are capable of influencing the image of senior managers, by

promoting them or by discrediting them (Rowley, 2000; Schneper and Guillén, 2004).

In this sense, Cespa and Cestone (2004) obtained empirical evidence proving that, in a context where EM is implemented and where managers use their discretionary powers, CSR is often implemented as a defensive measure to avoid negative reactions and subsequent stakeholders' surveillance. Similarly, Prior et al. (2008) proved that managers who implement EM, either by inflating or reducing results depending on the company's situation and the benefits to be obtained from this action, try to compensate stakeholders by carrying out social, ethical or environmental activities, thus concealing their inappropriate conduct.

However, most studies have proved that EM is negatively linked to the implementation of social and ethical actions; moreover, there is a positive relationship between sustainable business practices and the quality of the reported accounting result (which may be considered the opposite of EM) (Shleifer, 2004; Shen and Chih, 2005; Kim et al., 2011). Less EM and higher quality of information facilitate more transparent information. Managers may have incentives to disclose FRQ (fewer manipulative practices) in a more informative and transparent way, thus minimizing the negative effects of EM actions (Sun et al., 2010).

Greater concern seems to be shown for issues dealing with stakeholders in companies where managers do not behave discretionarily and have fewer incentives to manipulate accounting results. This concern can boost the implementation of CSR practices - if a company's accounting information is to be consistent with its level of social commitment, it should reflect the company's behavior through a coherent level of transparency, reliability and quality.

Moreover, managers' fundamental motivation to manipulate accounting results is to maximize their own benefit. So, it is expected that managers who distort accounting results in their own interest will not be motivated by the company's social commitment, and thus will tend to implement fewer CSR practices.

The abovementioned arguments indicate that the lower the level of EM, the greater the likelihood of CSR practices implementation. Nevertheless, the opposite effect could hold, and so we formulate the following hypothesis about the influence of

EM on CSR.

HYPOTHESIS 2: EM/FRQ has an effect on CSR.

2.3 Factors Moderating the CSR-EM Relationship

2.3.1. Mechanisms for Business Monitoring

Corporate governance has been defined as the system by which business corporations are directed and controlled (OECD 2004). According to Zheka (2005), corporate governance: (i) defines the distribution of rights and responsibilities among different participants in the company; (ii) establishes rules and procedures for decision-making; and (iii) provides structures through which the company's aims and objectives are established and monitoring is carried out. The board of directors is considered to be the mainstay of corporate governance (García-Sánchez, 2010).

It is generally believed that the role of the board is to minimize agency costs arising from the separation of ownership and control and thus preserving shareholder value (Williamson, 1985). The aim would be ensuring that shareholders, who are the funders of companies, receive an adequate return of their investments (Sheifer and Vishny, 1997). In their review of the Stakeholders and the Agency theories, Hill and Jones (1992) concluded that the board plays a fundamental role in determining the sustainable behavior of an organization and its accountability to different interest groups.

The strength of the board is assumed to be closely related to its members' degree of independence and diversity (Beasley, 1996; Kang et al, 2007). At the same time, independence is often linked to two factors: the presence of independent members ('independence' in the strictest sense), and duality, or the convergence of both President and Chairman functions.

The presence of independent board directors is considered to be a mechanism to monitor the managers' performance and to prevent opportunistic actions. This is so because this type of directors are much more motivated and interested in supervising managerial actions, so they uphold company's reputation (Fama, 1980; Fama and Jensen, 1983). With respect to the independence of the board, Warfield et al. (1995),

Xie et al. (2003), Peasnell et al. (2005) and Monterrey-Mayoral and Sánchez-Segura (2008) obtained evidence about a negative relationship between the presence of independent directors and EM. However, other empirical studies, such as Dechow et al. (1996) and Klein (2002), have reported a positive relationship between the independence of the board, which favors the control of managers' actions, and the quality of published accounting results.

Furthermore, independent directors analyze companies' management and behavior more objectively, and are more willing to undertake social commitments and to satisfy stakeholders' interests of (Ibrahim and Angelidis, 1995). In the same vein, Cheng and Courtenay (2006) and Prado-Lorenzo et al. (2009) obtained evidence of the positive influence of independent directors on CSR reporting (and other voluntary reports) as a result of their greater concern about corporate image and reputation.

Board diversity is defined as variety among members, especially in regard to nationality and gender. Many studies assume that, in general, women are more socially aware and responsible, and therefore less prone to engage in EM. Additionally, the percentage of women directors is usually higher in companies with higher levels of CSR. Empirically, Lane (1995) agrees with Ibrahim and Angelidis (1991) when they state that female members of the board's outlook are more philanthropic.

However, some researchers have concluded that the role of women in the board is often limited to an interest in certain social practices. Thus, Williams (2003) observed that there is a relationship between the percentage of women on the board and the company's philanthropic provision of services to the community. However, there is no such relationship regarding support to education or some aspects of public policies. Prado-Lorenzo et al. (2009) found a negative impact of diversity on the dissemination of CSR information.

A factor of particular contemporary importance is the increasing use of ethical codes to regulate managers' commitment to ethical and efficient practices, suggesting companies to voluntary implement them in order to protect diverse stakeholders' interests (García-Sánchez et al., 2008). These documents emphasize the need to defend and to take investors, employees, society and other stakeholders into account (Kaptein and Schwartz, 2008). This provides with the basis of socially responsible practices.

Moreover, companies have begun to voluntarily disclose information in order to be more transparent, thus enhancing confidence within the market and the company's perceived value. The content of this disclosure is particularly focused on company results, strategies and activities, as well as details of the composition and functioning of the board, especially concerning the remuneration of directors.

Accordingly, and in view of our analysis of earlier publications, we propound a further sub-hypothesis on the existence of a moderating effect in the bidirectional relationship between CSR and EM.

HYPOTHESIS 3a: The specific characteristics of the Board of Directors moderate the relationship between EM /FRQ and CSR.

2.3.2. Institutional Context with respect to CSR

It is also necessary to consider the different institutional approaches adopted with respect to CSR as a result of public pressure or of the background situation, among other factors, that may define sustainable practices in each country (Kolk and Perego, 2008).

Pressure exerted by the general public, politicians and regulatory agencies creates differences in the extent to which companies approach their triple bottom line (Kolk and Perego, 2008). As a reaction to possible types of public pressure, companies might approach CSR differently: for example, Van Tulder and Van der Zwart (2006) concluded that the American approach to CSR is neo-liberal, and that the specific function of government leads to a strong emphasis on sanctions and rules, thus producing a primarily instrumental type of CSR. By contrast, the system in Europe is designed to encourage businesses to play an active role, and at the same time discourages the kind of avoidance behavior of the USA. In Asia, the ground rules for CSR have resulted from numerous inquiries addressed to large companies, and are motivated by the need to ensure the international competitiveness of the industry in question.

These regional differences are visible even between countries. Thus, Levy and Kolk (2002), Jamali and Mirshak (2007) and Matten and Moon (2008) have confirmed that the cultural differences between countries affect the CSR regulation and

management, which proves that companies in different contexts develop different responses to changes in corporate behavior.

In view of these arguments, the following sub-hypothesis states:

HYPOTHESIS 3b: An institutional approach to CSR in the country of origin of the company moderates the relationship between EM and CSR

2.3.3. Investor Protection

Investor protection involves avoiding the expropriation of the rights of minority shareholders and creditors, within the constraints imposed by law (Leuz et al., 2003). This concept is strongly related to the presence of a common law system and to the existence of effective enforcement mechanisms (La Porta et al., 2000). Earnings management stemming from conflicts between managers and minority shareholders is less common in countries with these institutional characteristics (Leuz et al., 2003; Haw et al., 2004). Chih et al. (2008) and Scholtens and Kang (2012) proved that companies in these countries are considerably less likely to implement manipulative practices, and the likelihood is even lower if firms behave sustainably. Other authors have observed that EM is lower in these countries (Shen and Chih, 2005; Boonlert-U-Thai et al., 2006).

In contrast, companies in countries with stronger investor protection tend to be shareholder-value oriented, and there CSR concerns have less influence on managerial decision-making (Prado-Lorenzo et al., 2012). This suggests that companies in these countries will tend to be less committed to sustainable development (Ball et al., 2000; Simnett et al., 2009). Accordingly, the following sub-hypothesis is proposed:

HYPOTHESIS 3c: The level of investor protection in the country of origin of the company moderates the relationship between EM and CSR.

3. METHODOLOGY

3.1 Population and Sample

The sample used to test our hypotheses is formed by 1,960 international non-financial listed companies for years 2002 to 2010. The sample is unbalanced, with 14,844 observations from 25 countries and the Administrative Region of Hong Kong. It was obtained by gathering information available in two databases: Thomson One Analytic, for accounting and financial data, and the Ethical Investment Research Service (EIRIS), for data on CSR and on corporate governance.

3.2 Measures of Accruals Earnings Management (AEM), Real Earnings Management (REM) and Financial Reporting Quality

According to the description of variables in chapter 2 of this research thesis, EM measurement is divided into two sub-groups: (i) pure accounting decisions, such as accrual earnings management (AEM), and (ii) real earnings management (REM), i.e., actions that alter the timing and scale of production, sales, investment, and financing activities throughout the accounting period in such a way that a specific earnings target can be met (Roychowdhury, 2006). As for earnings management based on accounting decisions, the Dechow et al. (1995) model is used as a proxy of non-discretionary accrual adjustments.

With the aim of obtaining robust results, we incorporate, in addition to AEM measurement, earnings management models based on real relations and models where the role of FRQ is analyzed.

Regarding earnings management based on real decisions, we estimate the normal level of operating cash flows, expenditure and production costs. Then, we aggregate these measures into an additional one, REM, according with the study of Zang (2012).

In the same way, FRQ is measured via the Ball and Shivakumar model (2006), who added a current-year cash flow dummy variable and its interaction with the level of cash flows to the Dechow and Dichev (2002) model. In this case, the absolute values of the residuals are used as a proxy of FRQ. The higher this value, the lower the quality of accruals.

3.3 Measurement of Corporate Social Responsibility (CSR)

CSR is represented by an index representing the level of sustainable business practices in areas such as environment, human rights and stakeholder relations. The information is taken from the EIRIS database, and the value of each item is in a range between -3 to +3. Companies are considered to be socially responsible when the score is above the threshold of 0. To obtain this CSR construct, we analyzed several areas, including environmental issues, human rights and relations with stakeholders. The development of this construct, just like EM measurement, was explained in detail in the previous chapter.

3.4 Moderating Variables

In order to reflect the characteristics of the board of directors, the *Board Index* includes: (i) the independence of the board, as determined by the separation of functions between the Chief Executive and the Chairman, and the percentage of independent members in the board and in the audit committee; (ii) the diversity of these two bodies in terms of presence of women and of representatives of different stakeholders; (iii) other transparency and control practices such as the existence of codes of ethics, policies to prevent bribery and corruption, and transparency regarding remunerations.

The rest of moderator variables are: (i) the degree of national commitment to CSR, and (ii) the degree of investor protection in the country of origin of the company. These have been previously described in chapter II. The dummy variable DNCRI is used as a measure of the national approach to sustainability. It takes the value 1 if the company's country of origin NCRI is above-average, and 0 otherwise. As for the degree of investor protection, a new dummy variable is used (*DINV_PROTECTION*), which has a value of 1 if the firm is located in a country with above-average investor protection, and of 0 otherwise.

3.5 Control Variables

A series of variables are used with the aim of avoiding biased results. Their effect on EM as well as on CSR has been analyzed in depth in previous literature. The control variables that may affect EM/FRQ and CSR are the systematic company size, debt, risk, R&D investment and financial resources (Warfield et al., 1995; Yeo et al., 2002; Doyle

et al., 2007). These variables are analyzed and described in the previous chapter to avoid the duplication of definitions.

3.6 Method

In order to test our propounded hypotheses, we estimated simultaneous equations for panel data applying the estimator proposed by Arellano and Bond (1991). Company behavior can be assessed over time with panel data, by analyzing observations a series of companies for several consecutive years. Moreover, considering the temporal dimension of data, particularly in periods of great change, enriches this research. Thus, it is possible to control for the factors affecting sustainable practices every year.

Accordingly, the models were estimated with the Generalized Method of Moments (GMM), since, unlike within-group or generalized least squares estimators, this approach accounts for endogeneity. According to Wooldridge (2010), endogeneity is a problem of simultaneity because EM practices could in part account for CSR commitments and vice versa (EM is simultaneously determined with CSR). The problem of endogeneity was addressed by estimating models with instrumental variable methods considered by the GMM to be special cases (Ogaki, 1993).

Although using a simultaneous-equations estimator (such as maximum likelihood or two/three-stage least squares estimators) can control the endogeneity issue, the choice is based on consistency concerns (De Miguel et al., 2005). The latter abovementioned estimators are more efficient than GMM, but are not consistent and also generate biased results because they do not eliminate unobservable heterogeneity, i.e., firms' own specificity that gives rise to a particular behavior. These differences between individuals are potentially correlated to explanatory variables (also called individual specific effects), invariant over time, and have a direct influence on corporate decisions (entrepreneurial capacity, corporate values, etc.).

In order to control for unobservable heterogeneity, the GMM divides the random error term (ε_i) into two parts: the combined effect (μ_{it}), which varies between individuals and time periods; and the individual effect (ηi), which is a characteristic of the company.

Finally, efficiency should be considered as a secondary criterion that helps with

the choice of the best estimator among the consistent ones (Greene, 2003). Thus, the final selected GMM estimation is not only consistent, but also more efficient than the other consistent estimators (De Miguel et al., 2005). Specifically, the GMM estimator is highly efficient, because it allows using right-hand side variables in the models that are lagged twice or more as instruments. It has been proved that values of those independent variables lagged as instruments[2] are uncorrelated with the error term if the estimator is derived (Arellano and Bond, 1991; Blundell and Bond, 1998), and that they contain information about the current value of the variable, since there is a frequent delay between the an individual's decision-making and its actual implementation (Pindado and Requejo, 2012).

In accordance with the above arguments, the bidirectional relationship between CSR and EM can be tested by the two following GMM equations. They estimate EM and CSR with respect to selected control variables based on prior literature. Also, EM is a determinant of CSR, which is an explanatory variable in the EM equation. In the first equation [1], where EM_{it} is the dependent variable and CSR_{it} is the independent one, CSR_{it-2} is used as a CSR_{it} tool to avoid endogeneity with EM_{it}. Similarity, in the second equation [2], the independent variable EM_{it} is lagged two periods in order to avoid simultaneity.

$$EM_{i,t} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital + \eta_i + \mu_{it} \quad [1]$$

$$CSR_{i,t} = \phi + \phi_1 EM_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital + \eta_i + \mu_{it} \quad [2]$$

In order to test the moderating effect of the institutional CSR context, we estimate two more GMM equations in which EM and CSR are again estimated with respect to

[2] There is some debate as to the suitability of instruments. Some authors, such as Larcker and Rusticus (2010), advocate seeking an instrument outside this model in order to solve the identification problem. However, most empirical studies use internal instruments because they are more readily available and not subject to certain criticisms regarding external instruments. So it is difficult to prove that they are uncorrelated with the error term and, at the same time, that they contain enough information about the explanatory variables that are not strictly exogenous (Pindado and Requejo, 2012).

selected control variables based on prior literature. However, in those equations, the interaction of EM with DNCRI is the determinant of CSR, and the interaction of CSR with DNCRI is the explanatory variable of the EM equation. The dummy representative of the institutional sustainability context (DNCRI) and the CSR/EM independent variables are all included in these models. In the first of these equations [1.1], the two lags of CSR*DNCRI and CSR are used as instruments to avoid endogeneity with EM. Similarly, in the second equation [2.1], the independent variables EM*DNCRI and EM are lagged two periods in order to avoid the same problem.

$$EM_{i,t} = \phi + \phi_1 CSR*DNCRI_{it} + \phi_2 CSR_{it} + \phi_3 DNCRI_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it} \quad [1.1]$$

$$CSR_{i,t} = \phi + \phi_1 EM*DNCRI_{it} + \phi_2 EM_{it} + \phi_3 DNCRI_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it} \quad [2.1]$$

In order to test the moderating effect of investor protection, we estimate another two GMM equations in which EM and CSR are again estimated with respect to specific control variables based on prior literature. However, the interaction of EM with *DINV_PROTECTION* is now the determinant of CSR, and the interaction of CSR with *DINV_PROTECTION* is the explanatory variable of the EM equation. The dummy representative of the institutional context and the CSR/EM independent variables are all included in the models because there is no collinearity. In the first of these equations [1.2], the two lags of *CSR*DINV_PROTECTION* and CSR are used as instruments in order to avoid endogeneity with EM. Similarly, in the second equation [2.2], the independent variables *EM*DINV_PROTECTION* and EM are lagged two periods in order to avoid the same problem.

$$EM_{i,t} = \phi + \phi_1 CSR*DINV_PROTECTION_{it} + \phi_2 CSR_{it} + \phi_3 DINV_PROTECTION_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it} \quad [1.2]$$

$$CSR_{i,t} = \phi + \phi_1 EM*DINV_PROTECTION_{it} + \phi_2 EM_{it} + \phi_3 DINV_PROTECTION_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it} \quad [2.2]$$

where:

i, represents the company and *t* represents the time period.

ϕ, are estimating parameters.

$\varepsilon_{i,}$ represents the unobservable heterogeneity.

$\mu_{i,}$ represents the error term.

μ_{it} represents the disturbance term.

CSR_{it} is a numerical variable that reflects the sustainable practices of company *i* in period *t*. In order to test the moderating effect of the board, the CSR variable is to be considered with and without the Board Index values.

EM_{it} is a numerical variable that represents the AEM/REM/FRQ practices of company *i* in period *t*.

$Size_{it}$ is a numerical variable that represents the size of company *i* in period *t* as a logarithm of total assets.

$Debt_{it}$ is a numerical variable that reflects the debt of company *i* in period *t*.

$Risks_{it}$ is a numerical variable that represents the risk faced by company *i* in period *t*, measured by the beta.

$R\&DIntensity_{it}$ is a numerical variable that represents the ratio of R&D expenditure to total sales by company *i* in period *t*.

$Working_Capital_{it}$ is a numerical variable that represents liquidity, i.e. the company's capacity to continue normally developing of its activities in the short term, measured as the difference between current assets and current liabilities.

DNCRI and *DINV_PROTECTION* are dummy variables that reflect the characteristics of the institutional and corporate contexts of company *i* in period *t*. These variables are analyzed throughout their interaction with EM and CSR variables.

In order to test for potential misspecification of the models, we use the *m2* statistic, which tests for the absence of second-order serial correlation in the first-difference residuals. Sargan's statistic regarding over-identifying restrictions rejects the existence of a correlation between the instruments and the error term in all models, and thus confirms the suitability of the instruments used in the estimation. The Wald test validates the joint significance of the independent variables reported coefficients in the model.

4. RESULTS

4.1 Descriptive Analysis

The main variables used in this research were explained in chapter II with the aim of avoiding duplicating definitions, measurements and values. Similarly, their descriptive statistics were gathered and analyzed, so these data will be omitted in this chapter. Therefore, variables regarding EM practices as well as sustainable practices, institutional factors and control variables have been already analyzed.

However, and despite analyzing and dividing CSR variable into different sub-indices and studying their mean values and typical deviations, the sub-index *BOARD INDEX* plays a special role in this chapter. It is considered a moderator variable in the relation between CSR and EM, and it mainly represents the role played by the board as another factor of CSR.

In table 1, which shows data regarding the *Board Index* moderating variable, the most frequent item is the disclosure of executives' remuneration, followed by the level of comprehension of applicable ethical codes and the percentage of independent directors on the board (above 33%). By contrast, the items that are the least often found are gender diversity within the board and the representation of stakeholders in the board.

Table 1. Board Index

	Mean	Std. Dv.
The company separates the roles of the Chairman and Chief Executive	.93	2.851
The proportion of independent non-executive directors is above 33%	1.01	2.823
Independent non-executive directors are in the majority of the company's audit committee	.89	2.865
Number of stakeholder issues allocated to members	-1.66	2.152
Gender diversity in the boardroom	-1.95	1.652
Policies and procedures on bribery and corruption (policies, system and reporting)	.05	2.902
Level of comprehension of the code of ethics	1.10	2.181
The company discloses the remuneration of its directors	2.14	2.105
Board Index	**2.52**	**9.640**

Table 2 shows the Pearson correlation coefficients between the different variables. This allows us to analyze the bivariate correlations between them. Neither the coefficients between dependent and independent variables are very high, nor are those between the different independent variables. The highest correlation values are observed between EM and its interactions, and between CSR, its components and interactions. However, only the correlation between Environmental and Society indices could provoke multicollinearity issues, as these are jointly considered. To avoid this problem, these two variables should not be used in the same regression.

Table 2. Bivariate Correlations between Variables

	CSRwithoutCG	*CSRwithCG*	*Society*	*Human Rights*	*Environmental*	*Corporate Gov.*	*EM_Dechow*	*AbnOCF*	*AbnPRODCOST*	*AbnDISCEXP*	*Ball-Shivakumar*
CSRwithoutCG	1										
CSRwithCG	0.964	1									
Society	0.9686	0.9515	1								
Human Rights	0.6593	0.6459	0.5548	1							
Environmental	0.8408	0.763	0.7106	0.4631	1						
Corporate Gov.	0.425	0.6503	0.4723	0.3152	0.1956	1					
EM_Dechow	0.003	0.0042	0.0011	0.0065	0.0045	0.0058	1				
AbnOCF	-0.0079	-0.0091	-0.01	0.0008	-0.004	-0.0085	-0.5128	1			
AbnPRODCOST	-0.0066	-0.0089	-0.0104	0.0055	-0.0009	-0.0116	0.1478	0.6756	1		
AbnDISEXP	0.0064	0.0046	0.0019	0.0233	0.0058	-0.0025	0.528	0.2595	0.756	1	
Ball-Shivakumar	0.0145	0.0146	0.0119	0.0188	0.0123	0.0085	0.4658	-0.2553	-0.0592	0.4509	1
Size	0.305	0.2836	0.2721	0.2864	0.2679	0.0942	0.0152	0.009	0.0213	0.0236	0.0107
Debt	0.0093	0.0108	0.0102	0.0239	-0.0041	0.01	0.0065	-0.0022	0.0029	0.0038	-0.0003
Risk	-0.0272	-0.0247	-0.0272	-0.0049	-0.0274	-0.0065	0.0024	-0.002	-0.001	0.0002	0.0006
R&Dintensity	-0.0232	-0.0181	-0.0223	-0.0094	-0.0228	0.0046	-0.0001	0.0001	0.0004	0.001	0.0017
Working_Capital	0.1015	0.0922	0.0777	0.1541	0.0895	0.0239	0.0145	-0.0065	0.0025	0.0045	0.0087

	Size	*Debt*	*Risk*	*R&Dintensity*	*Working_Capital*
Size	*1*				
Debt	0.0402	1			
Risk	0.0042	0.0099	1		
R&Dintensity	-0.0413	-0.0018	-0.0006	1	
Working_Capital	0.176	-0.0152	-0.0016	-0.0062	1

CSR reflects the sustainable practices of company i for period t. In order to test the moderating effect of the board, the CSR variable is considered with and without the Board Index values. *EM* represents the accruals EM practices (Dechow model). *FRQ* represents the quality of financial reporting (Ball-Shivakumar model). *Real EM* is measured by *AbnOCF,* representing the abnormal operating cash flows. *ABNPRODCOST* represents the abnormal product cost. *AbnDISCEXP* represents the abnormal discretionary expenses. *Size* represents the size of the company, which is measured by the logarithm of its total assets. *Debt* reflects the debt of company, calculated as the ratio of debt to equity. *Risk* represents the risk faced by the company, which is measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, which is measured as the difference between current assets and current liabilities.

4.2 Effect of CSR on EM practices

Focusing on the main object of analysis in this chapter, Table 3 highlights the effect of CSR on EM, using the Dechow et al. (1995) model. Specifically, four models were estimated to reveal the effect of CSR on EM, together with the moderating role played by the Board and various institutional characteristics in this relationship.

Model A shows that CSR practices, excluding *Board_Index*, are statistically significant for a confidence level of 99% (p-value 0.000), with a negative effect on *EM* (coefficient = -0.1410). Therefore, hypothesis H1 cannot be rejected, because the more sustainable companies are, the less likely they are to practice AEM.

Model B analyzed the relationship considering the Board index within the set of sustainable practices. Again, we observed a negative and statistically significant effect for a confidence level of 99% (coefficient = -0.1097, p-value = 0.000). On the other hand, the effect of the CSR variable with *Board_Index* is stronger than without it. This proves the moderating effect of the Board in this relationship, and thus we cannot reject sub-hypothesis H3a. In view of these results, the index of corporate governance is included within the sphere of CSR in the remaining analyses.

Model C focuses on the moderating role played by the institutional standpoint with respect to sustainability on the relationship between CSR and EM. To do so, we introduced the dummy variable *DNCRI*, and examined the interaction of this variable with *CSR*. The results obtained show that the variables CSR (coefficient = -0.0548, p-value = 0.000) and *CSR*DNCRI* (coefficient = -0.1188, p-value = 0.024) have a negative effect and are statistically significant for confidence levels of 99% and of 95% respectively. These results indicate that socially responsible companies, when they are located in countries with strong institutional CSR pressure, carry out fewer EM practices (effect = -0.0548 -0.1188= -0.1736). Therefore, we cannot reject sub-hypothesis H3b, according to which the institutional approach to CSR in the country of origin moderates the relationship between AEM and CSR.

Model D focuses on the moderating role played by the level of investor protection in the country of origin. We introduced the dummy variable *DINV_PROTECTION*, and examined its interaction with CSR. The CSR variable is not significant for any of those models, but its interaction with the moderating variables shows that companies that are

more socially responsible, when they are located in countries with strong investor protection and institutional context, carry out fewer AEM practices (coefficient = -0.27532, p-value = 0.000). These results lead us to not reject sub-hypothesis H3c.

Regarding the control variables, *SIZE* and *R&D INTENSITY* have a positive impact on EM in all of the models, for a confidence level of 99%. *RISK* also has a positive impact on EM, but its significance varies (level of confidence of 99% for models A, C and D; 95% for model B). The same effect is shown by *DEBT*, but it is not applicable to all models. However, *WORKING CAPITAL* (which is not significant for models C and D) has a negative impact on AEM.

Table 3. **Effect of CSR on AEM**

	Dependent variable: **EM_Dechow**			
	MODEL A	MODEL B	MODEL C	MODEL D
	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)
CSRw/outBoardInde	-0.1410* (0.01534)			
CSRwithBoard_Inde		-0.1097* (0.0105)	-0.0548* (0.0131)	0.0319 (0.0438)
*CSR*DNCRI*			-0.1188** (0.0526)	
DNCRI			-22.796 (59.312)	
*CSR*DINV_PROT*				-0.27532* (0.0760)
DINV_PROT				-12.05472 (7.47945)
SIZE	7.2472* (0.59033)	7.112* (0.5702)	7.9711* (0.5884)	10.317* (0.72046)
DEBT	0.0676* (0.0199)	0.0536** (0.0211)	-0.0054013 (0.0339766)	-0.0445 (0.0297)
RISK	0.0863* (0.019)	0.0514** (0.0252)	0.0783* (0.0197)	0.0652* (0.0169)
R&DINTENSITY	0.0524* (0.0087)	0.0577* (0.008)	0.0712* (0.0084)	0.1166* (0.0089)
WORKING_CAPITAL	-0.0007* (0.0003)	-0.0008* (0.0029)	-0.00009 (0.0006)	-0.0002 (0.0005)
Z	336.66*	319.70*	353.15*	237. 06
m1	-1.40	-1.40	-1.40	0.99
m2	0.99	0.99	0.99	-1.40
Hansen	189.69	182.35	164.34	138.24

In order to avoid endogeneity, lags t-1 to t-2 of all numerical variables, including interaction variables, are used as instruments.
Notes:
i) Heteroskedasticity-consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate a significance of 1%, 5% and 10%, respectively.
iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship; the degrees of freedom and significance are between parentheses.
iv) m_i (m_1 and m_2) is a serial correlation test of order i that uses residuals in first differences, asymptotically distributed as $N(0,1)$ under the null hypothesis of no serial correlation.
v) Hansen is an over-identifying restrictions test, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; the degrees of freedom and significance are between parentheses.

CSR reflects the sustainable practices of company i for period t. In order to test the moderating effect of the board, the CSR variable is considered with and without the Board Index values. EM represents the accruals EM practices (Dechow model). *Size* represents the size of the company, which is measured by the logarithm of its total assets. *Debt* reflects the debt of company, calculated as the ratio of debt to equity. *Risk* represents the risk faced by the company, which is measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, which is measured as the difference between current assets and current liabilities. *DINV_PROTECTION* and *DNCRI* are dummy variables that reflect the characteristics of firms' institutional and corporate context. These variables are analyzed through their interaction with the variables EM and CSR.

MODEL A: $EM_{i,t} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital + \eta_i + \mu_{it}$ *CSR without Board Index
MODEL B $EM_{i,t} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_6 R\&DIntensity_{it} + \phi_7 Working_Capital + \eta_i + \mu_{it}$ *CSR with Board Index
MODEL C: $EM_{i,t} = \phi + \phi_1 CSR{*}DNCRI_{it} + \phi_2 CSR_{it} + \phi_3 DNCRI_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_6 R\&DIntensity_{it} + \phi_7 Working_Capital + \eta_i + \mu_{it}$
MODEL D: $EM_{i,t} = \phi + \phi_1 CSR{*}\ DINV_PROTECTION_{it} + \phi_2 CSR_{it} + \phi_3 DINV_PROTECTION_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

4.3 Effect of EM on CSR practices

The effect of AEM (*EM_Dechow*) on CSR is summarized in Table 4 (the dependent variable is CSR). As in previous analyses, we estimated several models in order to determine the moderating effect of the institutional environment.

Model A was estimated to analyze AEM. *EM_Dechow* is negative and statistically significant for a confidence level of 99% (coefficient = -0.0001, p-value = 0.000). Therefore, we cannot reject hypothesis H2. Thus, lower levels of AEM are linked to more sustainable practices. Proof of this are the empirical results showing that socially committed companies are more transparent, and their quality of information is higher. It must be noted that this is in accordance with the findings of Kim et al. (2011).

Model B, where the effect of AEM on CSR in countries that encourage sustainable practices is analyzed, shows that the variable *EM_Dechow* has a significant and positive effect for a confidence level of 99%. On the other hand, *EM_Dechow*DNCRI* has a negative effect (coefficient = -0.00308) for a confidence level of 99%. Econometrically, results indicate that firms located in countries with strong institutional pressure on sustainable development matters and not carrying out AEM practices behave more sustainably than other firms located elsewhere. In other words, higher levels of AEM in environments that encourage social practices are linked to lower levels of CSR, and thus sub-hypothesis H3b cannot be rejected.

Model C focuses on the moderating role played by the level of investor protection in the country of origin. We introduced the dummy variable *DINV_PROTECTION* and examined its interaction with *EM_Dechow*. The results show that the variable *EM_Dechow* (coefficient = -0.0002, p-value = 0.970) is not significant if the level of investor protection is included. Moreover, the interaction between it and the level of EM behavior is also not significant (p-value = 0.959). Therefore, we can reject sub-hypothesis H3c, which propounded that the level of investor protection in the country of origin moderates the relationship between EM and CSR.

As for the control variables *SIZE*, *R&D INTENSITY* and *WORKING_CAPITAL*, they all have a positive impact on EM in all models, for a confidence level of 99%. *RISK* has a negative and statistically significant influence in the effect of *EM* on *CSR* for a confidence level of 99%. The same results apply to *DEBT* in every model.

Table 4. **Effect of AEM on CSR**

Dependent variable: **CSR; Independent variable: EM_Dechow**

	MODEL A	MODEL B	MODEL C
	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)
EM_Dechow	-0.0001* (0.00003)	0.00008* (0.00001)	-0.00002 (0.0002)
*EM*DNCRI*		-0.00308* (0.00085)	
DNCRI		40.1209 (40.700)	
*EM*DINV_PROT*			0.00002 (0.00019)
DINV_PROT			-2.7293 (3.4199)
SIZE	0.6513* (0.0487)	0.6563* (0.0247)	0.7171* (0.0216)
DEBT	-0.00999* (0.0028)	-0.0079* (0.0027)	-0.0095* (0.0027)
RISK	-0.0342* (0.0012)	-0.034* (0.0011)	-0.035* (0.0012)
R&DINTENSITY	0.01102* (0.0031)	0.0131* (0.0031)	0.01236* (0.0028)
WORKING_CAPITAL	0.00018* (0.00006)	0.00015* (0.00003)	0.0001* (0.00003)
Z	1993.92	5800.060	2860.11
m1	9.60	9.42	9.36
m2	9.35	9.23	9.39
Hansen	860.72	884.69	867.27

In order to avoid endogeneity, lags t-1 to t-2 of all numerical variables, including interaction variables, are used as instruments.
Notes:
i) Heteroskedasticity-consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate a significance of 1%, 5% and 10%, respectively.
iii) *z* is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship; the degrees of freedom and significance are between parentheses.
iv) m_i (m_1 *and* m_2) is a serial correlation test of order *i* that uses residuals in first differences, asymptotically distributed as *N(0,1)* under the null hypothesis of no serial correlation.
v) Hansen is an over-identifying restrictions test, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; the degrees of freedom and significance are between parentheses.

CSR reflects the sustainable practices of company i for period t. In order to test the moderating effect of the board, the CSR variable is considered with and without the Board Index values. EM represents the accruals EM practices (Dechow model). *Size* represents the size of the company, which is measured by the logarithm of its total assets. *Debt* reflects the debt of company, calculated as the ratio of debt to equity. *Risk* represents the risk faced by the company, which is measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, which is measured as the difference between current assets and current liabilities. *DINV_PROTECTION* and *DNCRI* are dummy variables that reflect the characteristics of firms' institutional and corporate context. These variables are analyzed through their interaction with the variables EM and CSR.

MODEL A: $CSR_{i,t} = \phi + \phi_1 EM + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital + {}_{it} + \eta_i + \mu_{it}$

MODEL B $CSR_{i,t} = \phi + \phi_1 EM{*}DNCRI_{it} + \phi_2 EM/FRQ_{it} + \phi_3 DNCRI_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

MODEL C: $CSR_{i,t} = \phi + \phi_1 EM * DINV_PROTECTION_{it} + \phi_2 EM/FRQ_{it} + \phi_3 DINV_PROTECTION_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

4.4 Robust Analyses

We use two variables which are alternative to the purely accounting EM of the Dechow et al. (1995) model. The objective is to obtain robust results about the bidirectional relationship between CSR and EM. These two variables are: (i) the quality of financial information, and (ii) real EM decisions. We also analyze the relationship between CSR and EM (both of them as dependent and independent variables) depending on the different sub-indices of the CSR variable: *SOCIETY, HUMAN RIGHTS, ENVIRONMENTAL* and *BOARD INDEX*. Finally, we divide the sample into two sub-divisions: sustainable companies (CSR>0) and unsustainable companies (CSR<0). The aim is to prove if the previously obtained bidirectional relation persists with companies' sustainable commitment.

4.4.1. The Effect of CSR on FRQ and REM

With respect to the effect of sustainable practices on the quality of results, table 5 also shows the effect of CSR practices on FRQ. In that table, the dependent variable is measured according to the Ball and Shivakumar (2006) model. The absolute value of the residuals of this model was used as a proxy of the quality of accruals; the higher the value of this proxy, the lower the quality of accruals. As in the previous analysis, four models were estimated to show the effect of CSR on FRQ, together with the moderating role played by the board and various institutional characteristics in this relationship.

Model A proves that CSR practices, excluding *Board_Index*, are statistically significant for a confidence level of 99% (p-value 0.000), with a negative effect on *FRQ* (coefficient = -0.0102). This result shows that socially responsible companies are less likely to carry out EM and, therefore, present good FRQ. Accordingly, we cannot reject hypothesis H1.

In model B, we analyzed the relationship between the corporate governance index and the set of sustainable practices. Again, we observed a negative and statistically significant effect for a confidence level of 99% (coefficient = -0.0087, p-value = 0.000). Thus, socially responsible practices are linked to higher levels of quality of financial reporting. On the other hand, the effect of the CSR variable with *Board_Index* is stronger than without it. This proves the moderating effect of the board in this

relationship, and thus we cannot reject hypothesis H3a. In view of these results, the index of corporate governance is included in the remaining analyses within the sphere of CSR.

Model C focuses on the moderating role played by the institutional standpoint with respect to CSR on the relationship between CSR and FRQ. The results obtained prove that variables CSR (coefficient = -0.0057, p-value = 0.070) and *CSR*DNCRI* (coefficient = -0.0066, p-value = 0.459) have a negative effect on the Ball-Shivalumar variable, although the latter does not have econometric significance. These results indicate that socially responsible companies, independently of the level of institutional pressure in their country regarding CSR, carry out fewer EM practices and therefore have higher levels of FRQ. Thus, we can reject sub-hypothesis H3b, which propounded that the institutional approach to CSR in companies' country of origin moderates the relationship between FRQ and CSR.

Model D focuses on the moderating role played by the level of investor protection in the country of origin. CSR is significant in this model, but its interaction with the moderating variable is not (coefficient = -0.0021, p-value = 0.3897). Accordingly, sub-hypothesis H3c regarding investor protection can be reject.

As for control variables, *SIZE* and *R&D INTENSITY* have a positive impact on FRQ in all models, for a confidence level of 99% (p-value = 0.000). RISK also has a negative impact on FRQ, but its significance varies depending on the model. The remaining variables *(DEBT* and *WORKING CAPITAL*) are not significant in this analysis.

Table 5. **Robust Analysis. Effect of CSR on FRQ**

Dependent variable: **Ball-Shivakumar**

	MODEL A	MODEL B	MODEL C	MODEL D
	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)
CSRw/outBoardInde	-0.0102* (0.0028)			
CSRwithBoard_Inde		-0.0087* (0.0022)	-0.0057*** (0.0032)	-0.0079* (0.0029)
*CSR*DNCRI*			-0.0066 (0.0088)	
DNCRI			-0.8337 (1.928)	
*CSR*DINV_PROT*				-0.0021 (0.0051)
DINV_PROT				0.2070 (0.3176)
SIZE	1.084* (0.1088)	1.0618* (0.1077)	0.9308* (0.1082)	1.1106* (0.10328)
DEBT	-0.0031 (0.004)	-0.0022 (0.004)	-0.0054 (0.0055)	-0.0029 (0.0042)
RISK	-0.002*** (0.001)	-0.002** (0.001)	-0.0015 (0.00124	-0.002*** (0.001)
R&DINTENSITY	0.0128* (0.0014)	0.0111* (0.0011)	0.0073* (0.0012)	0.0116* (0.001)
WORKING_CAPITAL	9.37e-06 (0.0001)	5.13e-06 (0.0001)	-6.82e-06 (0.00002)	9.34e-06 (0.0000)
Z	106.29	108.43	119.27	129.49
m1	-2.70	-2.70	-2.69	-2.70
m2	-2.10	-2.10	-2.11	-2.09
Hansen	141.57	137.66	133.49	148.74

In order to avoid endogeneity, lags t-1 to t-2 of all numerical variables, including interaction variables, are used as instruments.

Notes:

i) Heteroskedasticity-consistent asymptotic standard error in parentheses.

ii) *, ** and *** indicate a significance of 1%, 5% and 10%, respectively.

iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship; the degrees of freedom and significance are between parentheses.

iv) m_i (m_1 and m_2) is a serial correlation test of order i that uses residuals in first differences, asymptotically distributed as $N(0,1)$ under the null hypothesis of no serial correlation.

v) Hansen is an over-identifying restrictions test, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; the degrees of freedom and significance are between parentheses.

CSR reflects the sustainable practices of company i for period t. In order to test the moderating effect of the board, the CSR variable is considered with and without the Board Index values. EM represents the accruals EM practices (Dechow model). *FRQ* represents the quality of financial reporting (Ball-Shivakumar model). *Size* represents the size of the company, which is measured by the logarithm of its total assets. *Debt* reflects the debt of company, calculated as the ratio of debt to equity. *Risk* represents the risk faced by the company, which is measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, which is measured as the difference between current assets and current liabilities. *DINV_PROTECTION* and *DNCRI* are dummy variables that reflect the characteristics of firms' institutional and corporate context. These variables are analyzed through their interaction with the variables EM and CSR.

MODEL A: $FRQ_{i,t} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital + \eta_i + \mu_{it}$ *RSC without Board Index*

MODEL B $FRQ_{i,t} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_6 R\&DIntensity_{it} + \phi_7 Working_Capital + \eta_i + \mu_{it}$ *RSC with Board Index*

MODEL C: $FRQ_{i,t\ t} = \phi + \phi_1 CSR*DNCRI_{it} + \phi_2 CSR_{it} + \phi_3 DNCRI_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_6 R\&DIntensity_{it} + \phi_7 Working_Capital + \eta_i + \mu_{it}$

MODEL D: $FRQ_{i,t} = \phi + \phi_1 CSR* DINV_PROTECTION_{it} + \phi_2 CSR_{it} + \phi_3 DINV_PROTECTION_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

Table 6 highlight the effect of CSR on REM. As in the previous analysis, four models were estimated to reveal this effect, together with the moderating role in this relationship played by the Board and various institutional characteristics.

Regarding real EM, CSR practices have a negative effect on REM but they have no statistically significant influence on REM for any level of confidence. The results are the same for all of the models (considering CSR with and without the Board index and when the moderating variables are included in the analysis). Control variables are not significant in this analysis. According to these findings, we can reject any of the null hypotheses proposed regarding REM practices.

Table 6. **Robust Analysis. Effect of CSR on REM**

Dependent variable: **REM**

	MODEL A	MODEL B	MODEL C	MODEL E
	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)
CSRw/outBoardInde	-0.7746454 (42.73422)			
CSRwithBoard_Inde		1.793965 (29.3456)	4.993978 (37.05642)	-0.5477648 (15.31526)
*CSR*DNCRI*			13870.94 (88142.17)	
DNCRI			13870.94 (293045.5)	
*CSR*DINV_PROT*				-9.954202 (82.34315)
DINV_PROT				-456.1343 (8689.632)
SIZE	-117.6764 (231.8222)	-127.7052 (249.0949)	-226.3533 (385.3345)	-94.71393 (251.817)
DEBT	0.2240613 (4.802921)	0.054028 (4.001483)	1.30769 (7.768126)	-0.1321484 (3.553112)
RISK	-0.4336729 (3.116931)	-0.0411891 (2-791971)	-0.2492981 (3.00813)	-0.3197372 (3.353757)
R&DINTENSITY	-0.8680682 (1.866931)	-0.4213692 (1.78768)	-1.098799 (3.027341)	0.0603985 (1.819587)
WORKING_CAPITAL	-0.7746454 (0.1371202)	-0.041189 (0.1345709)	-0.027655 (0.2306414)	-0.1321484 (0.1300963)
Z	0.30	0.31	0.67	0.28
m1	-0.52	-0.52	-0.52	-0.43
m2	0.98	0.99	0.85	0.98
Hansen	9.15	9.56	9.34	10.71

In order to avoid endogeneity problems, for all numerical variables, including interaction variables, their lags t-1 to t-2 are used as instruments.

Notes:

i) Heteroskedasticity consistent asymptotic standard error in parentheses.

ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.

iii) *z* is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.

iv) m_i (m_1 *and* m_2) is a serial correlation test of order *i* using residuals in first differences, asymptotically distributed as *N(0,1)* under the null hypothesis of no serial correlation.

v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

CSR reflects the sustainable practices of company i for period t. In order to test the moderating effect of the Board, the CSR variable is considered with and without the Board Index values. *Real EM* is measured by the sum of abnormal operating cash flows, abnormal discretionary expenses and abnormal production costs. *Size* represents the size of company and is measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the risk faced measured by the beta *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *DINV_PROTECTION* and *DNCRI* are dummy variables that reflect the characteristics of the institutional and corporate context. These variables are analysed by their interaction with the variables EM and CSR.

MODEL A: $REM_{,t} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital$ *RSC without board index*

MODEL B $REM_{,t} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital$ *RSC with board index*

MODEL C: $REM_{,t\,t} = \phi + \phi_1 CSR*DNCRI_{it} + \phi_2 CSR_{it} + \phi_3 DNCRI_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

MODEL D: $REM_{,t} = \phi + \phi_1 CSR* DINV_PROTECTION_{it} + \phi_2 CSR_{it} + \phi_3 DINV_PROTECTION_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

4.4.2. The Effect of FRQ and REM on CSR practices

The results concerning the effect of FRQ (Ball and Shivakumar model) on CSR (dependent variable CSR with the Board index) are also summarized in Table 7. As in the previous analyses, we estimated several models in order to determine the moderating effect of the Board and the institutional environment.

In Model A, *Ball-Shivakumar* is negative and statistically significant for a confidence level of 99% (coefficient = -0.00296, p-value = 0.000). These results lead us not reject hypothesis H2. Thus, higher levels of FRQ (lower level of *Ball-Shivakumar*) are associated with more socially responsible practices.

Model B, in which we analyze the effect of FRQ on CSR in countries that encourage responsible practices, shows that the variable *Ball-Shivakumar* has a significant and negative effect for a confidence level of 99%. Furthermore, the variable *Ball-Shivakumar*DNCRI* has a positive effect for a confidence level of 99% (coefficient = 0.0326, p-value = 0.000). Thus we cannot reject sub-hypothesis H3b with a different sign from that expected according to theory.

Model C focuses on the moderating role played by the level of investor protection of the country of origin. The results show that the interaction between *FRQ* and the level of investor protection is significant (coefficient = -0.0047, p-value = 0.000). Accordingly, null sub-hypothesis H3c, on investor protection, cannot be rejected.

Regarding the control variables, *SIZE* and *R&D INTENSITY* have a positive impact on EM in all of the models, for different confidence levels (except *R&D INTENSITY* in model B, where it is not significant). *RISK* has a negative effect and is statistically significant in the effect of *EM* on *CSR* at 99% confidence. The same results were found for *DEBT* for every model. *WORKING_CAPITAL* presents varying effects and levels of significance.

Table 7. Robust Analysis. **Effect of FRQ on CSR**

Dependent variable: **CSR; Independent variable: Ball-Shivakumar**

	MODEL A	MODEL B	MODEL C
	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)
Ball-Shivakumar	-0.00296* (0.00065)	-0.0031* (0.0005)	
*FRQ *DNCRI*		0.0326* (0.0031)	
DNCRI		-1.5021 (4.5927)	
*FRQ *DINV_PROT*			-0.0047* (0.0064)
DINV_PROT			-1.4213 (2.3937)
SIZE	0.3716* (0.08641)	0.3473* (0.0676)	0.3371* (0.0677)
DEBT	-0.0203* (0.0031)	-0.0204* (0.0029)	-0.0200* (0.0029)
RISK	-0.01545* (0.00119)	-0.0152* (0.00116)	-0.01544* (0.0012)
R&DINTENSITY	0.01075* (0.0070)	0.0092 (0.0067)	0.0113* (0.0074)
WORKING_CAPITAL	5.69e-06 (0.00004)	-4.73e-06 (0.0004)	1.53* (0.00004)
Z	314.8	498.61	352.36
m1	10.44	10.44	10.44
m2	9.72	9.71	9.72
Hansen	797.18	819.23	805.68

In order to avoid endogeneity problems, for all numerical variables, including interaction variables, their lags t-1 to t-2 are used as instruments.
Notes:
i) Heteroskedasticity consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.
iii) *z* is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.
iv) m_i (m_1 and m_2) is a serial correlation test of order *i* using residuals in first differences, asymptotically distributed as *N(0,1)* under the null hypothesis of no serial correlation.
v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

CSR reflects the sustainable practices of company i for period t. *FRQ* represents the quality of financial reporting (Ball-Shivakumar model). *Size* represents the size of company, measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the risk faced measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *DINV_PROTECTION,* and *DNCRI* are dummy variables that reflect the characteristics of the institutional and corporate context of firms. These variables are analyzed by their interaction
with the variables EM and CSR.

MODEL A: $CSR_{i,t} = \phi + \phi_1 FRQ + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital + {}_{it} + \eta_i + \mu_{it}$
MODEL B $CSR_{i,t} = \phi + \phi_1 FRQ*DNCRI_{it} + \phi_2 EM/FRQ_{it} + \phi_3 DNCRI_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$
MODEL C: $CSR_{i,t} = \phi + \phi_1 FRQ * DINV_PROTECTION_{it} + \phi_2 EM/FRQ_{it} + \phi_3 DINV_PROTECTION_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

The results concerning the effect of *REM* (real accounting measures) on *CSR* (dependent variable CSR with the Board index) are summarised in Tables 8. The aggregated measure of REM was used as independent variables in this analysis. As in the previous analyses, we estimated several models in order to determine the moderating effect of the Board and the institutional environment.

Table 8 summarises the effect of REM on CSR practices. In Model A, *REM* is negative and statistically significant for a confidence level of 99% (coefficient = -4.87e-08), p-value = 0.000) and so hypothesis H2 cannot be rejected.

Model B, in which we analyse the effect of REM on CSR in countries that encourage CSR practices, shows that the variable *REM* has a significant and negative effect for a confidence level of 99%. On the other hand, the variable *REM*DNCRI* has a positive effect for a confidence level of 99% (coefficient = 3.77e-06), p-value = 0.000). Therefore, a higher level of *REM* in environments that encourage sustainable practices is associated with higher levels of CSR, and thus we cannot reject sub-hypothesis H3b with a contrary sign to that expected theoretically.

Model C analyses the moderating effect of the level of investor protection, in the country of origin. The results obtained show that the interaction of this institutional characteristic and *REM* is not statistically significant. Accordingly, sub-hypotheses H3c can be rejected.

Regarding the control variables, *SIZE* and *WORKING_CAPITAL* have a positive impact on REM in every model, for a confidence level of 99%. *RISK* has a negative and statistically significant influence in the effect of REM on *CSR* at 99% confidence. *RISK* and *R&DINTENSITY* are not significant.

Table 8. **Robust Analysis. Effect of REM on CSR**

Dependent vaiable: CSR; Independent variable: **REM**

	MODEL A	MODEL B	MODEL C
	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)
REM	-4.87E-07* (1.10e-08)	-4.23E-06* (2.38e-08)	(omitted)
*REM*DNCRI*		3.77E-06* (2.38-e08)	
DNCRI		2.396487 (5.781721)	
*REM*DINV_PROT*			-4.94E-07 (1.31e-08)
DINV_PROT			-2.482279 (2.6592)
SIZE	0.1318981** (0.057199)	0.210961* (0.0228667)	0.1420289** (0.0557401)
DEBT	-0.004953 (0.0035504)	-0.0056094*** (0.003393)	-0.0045731 (0.0032904)
RISK	-0.0315883* (0.0011552)	-0.0316194* (0.0011453)	-0.0317764* (0.0011467)
R&DINTENSITY	0.0004078 (0.0034861)	0.0018984 (0.0032875)	0.000545 (0.0034212)
WORKING_CAPITAL	0.0002024* (0.0000318)	0.0002464* (0.000127)	0.0001967* (0.000317)
Z	5206,74	8.343+06	48288.55
m1	7,30	7.16	7.22
m2	6,61	6.61	6.62
Hansen	651.51	659.85	658.82

In order to avoid endogeneity problems, for all numerical variables, including interaction variables, their lags t-1 to t-2 are used as instruments.

Notes:

i) Heteroskedasticity consistent asymptotic standard error in parentheses.

ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.

iii) *z* is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.

iv) m_i (m_1 and m_2) is a serial correlation test of order *i* using residuals in first differences, asymptotically distributed as *N(0,1)* under the null hypothesis of no serial correlation.

v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

CSR reflects the sustainable practices of company i for period t. Real EM is measured by the sum of abnormal operating cash flows, abnormal discretionary expenses and abnormal production costs. *Size* represents the size of the company and is measured by the logarithm of its total assets. *Debt* reflects the debt of the company and is calculated as the ratio of debt to equity. *Risk* represents the risk faced measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *DINV_PROTECTION,* and *DNCRI* are dummy variables that reflect the characteristics of the institutional and corporate context. These variables are analysed by their interaction with the variables EM and CSR.

MODEL A: $CSR_{i,t} = \phi + \phi_1 REM + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risks_{it} + \phi_5 R\&DIntensity_{it} + \phi_6 Working_Capital + {}_{it} + \eta_i + \mu_{it}$

MODEL B $CSR_{i,t} = \phi + \phi_1 REM * DNCRI_{it} + \phi_2 REM_{it} + \phi_3 DNCRI_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

MODEL C: $CSR_{i,t} = \phi + \phi_1 REM * DINV_PROTECTION_{it} + \phi_2 REM_{it} + \phi_3 DINV_PROTECTION_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risks_{it} + \phi_7 R\&DIntensity_{it} + \phi_8 Working_Capital + \eta_i + \mu_{it}$

4.4.3. The relationship between EM and Different CSR practices

Table 9 shows the effect of different *CSR* practices on EM. Variables S*OCIETY* and *ENVIRONMENTAL* have a negative and significant effect for a confidence level of 99% on the dependent variable AEM. However, *HUMAN RIGHTS* and *BOARD INDEX* do not have a significant effect on the dependent variable. These results suggest that, individually, only the variables dealing with society and environmental practices have a statistically significant influence on accruals earnings. Moreover, the positive and statistically significant relationship with *SIZE, RISK* and *R&D INTENSITY* for a confidence level of 99% is confirmed.

Table 9. **Robust Analysis. Effect of Different CSR practices on AEM**

	EM_Dechow			
Society	-0.2092* (0.0187)			
Human Rights		1.1015 (0.7859)		
Environmental			-0.7472* (0.1664)	
Board Index				-0.06475 (0.0490)
SIZE	11.7588* (0.6559)	10.886* (0.8881)	10.771* (0.7495)	10.8013* (0.5955)
DEBT	0.0264 (0.0264)	0.0154 (0.0293)	0.0396 (0.0280)	0.0084 (0.0243)
RISK	0.1903* (0.0244)	0.1415* (0.0309)	0.1747* (0.0161)	0.0653* (0.0168)
R&DINTENSITY	0.0116* (0.0097)	0.1244* (0.01168)	0.1853* (0.0153)	0.11067* (0.0087
WORKING_CAPITAL	-0.0008* (0.0003)	-0.0004 (0.0004)	-0.0007*** (0.0153)	-0.006 (0.0004)
Z	355.78	165.14	301.96º	357.81
m1	-1.41	-1.41	-1.41	-1.41
m2	1.00	1.00	1.00	1.00
Hansen	206.15	122.00	150.50	181.38

In order to avoid endogeneity problems, for all numerical variables, including interaction variables, their lags t-1 to t-2 are used as instruments.
Notes:
i) Heteroskedasticity consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.
iii) *z* is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.
iv) m_i (m_1 and m_2) is a serial correlation test of order *i* using residuals in first differences, asymptotically distributed as *N(0,1)* under the null hypothesis of no serial correlation.
v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

CSR reflects the sustainable practices of company i for period t. *Size* represents the size of company, measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the risk faced measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities.

The effects of EM with respect to each of the sustainable practices are shown in Table 10. AEM has a positive and significant effect on the *SOCIETY* index (p-value = 0.006), a negative impact on the *HUMAN RIGHTS* index and on the *BOARD* index for a confidence level of 99%, and a non-significant effect on the *ENVIRONMENTAL* index.

Table 10. **Robust Analysis. Effect of AEM on Different CSR practices**

	Society Index	***Human Rights Index***	***Environmental Index***	***Board Index***
	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)	Coef. (Std. Err)
EM_Dechow	6.69E-06* (2.46e-06)	-0.00002* (3.58e-06)	-8.83E-07 (3.90e-06)	-0.000034* (7.14e-06)
SIZE	0.2705* (0.0407)	-0.0344* (0.0085)	-8.83E-07* (0.0079)	-0.00003* (0.0291)
DEBT	-0.0081* (0.0015)	0.0002 (0.0001)	0.1692 (0.001)	0.2309 (0.00216)
RISK	-0.023* (0.0008)	-0.0005 (0.0004)	0.00032 (0.0003)	-0.00285* (0.0005)
R&DINTENSITY	0.0026*** (0.0015)	0.00028** (0.0001)	-0.00127* (0.0008)	-0.00007 (0.0012)
WORKING_CAPITAL	0.00009* (0.0000)	-2.54E-06 (4.64e-06)	0.01105 (9.50e-06	0.0009** (0.0000)
Z	1333.70	20.61	805.17	391.92
m1	8.45	-0.56	-1.93	-3.11
m2	5.81	-2.12	-1.26	-1.81
Hansen	755.48	287.81	463.59	534.65

In order to avoid endogeneity problems, for all numerical variables, including interaction variables, their lags t-1 to t-2 are used as instruments.

Notes:

i) Heteroskedasticity consistent asymptotic standard error in parentheses.

ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.

iii) *z* is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.

iv) m_i (m_1 and m_2) is a serial correlation test of order *i* using residuals in first differences, asymptotically distributed as *N(0,1)* under the null hypothesis of no serial correlation.

v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

CSR reflects the sustainable practices of company i for period t. *Size* represents the size of company, measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the risk faced measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities.

4.4.4. Sustainable Companies vs Non sustainable companies

To ensure the robustness of the results concerning the effect of EM on CSR and vice versa, we divided the sample into two sub-samples: companies with a positive level of CSR and companies with a negative level of CSR. When CSR was considered the independent variable (Table 11), no statistically significant results were obtained, i.e., CSR practices do not affect AEM decisions. However, when EM was the independent variable, a positive effect of AEM on CSR was observed in sustainable companies (CSR>0). In contrast, an opposite effect was observed in unsustainable firms (CSR<0). These results suggest that the quality of accruals of companies strongly committed to CSR is higher and vice versa, but this result is not specifically limited to companies with higher CSR values.

The results obtained with the division of the sample leads us to consider the existence of an entrenchment strategy, that is, CSR practices not being carried out with social or environmental aims, but as a tool to avoid the detection of EM practices by investors, clients and stakeholders. This corporate strategy will be analyzed in depth in the following chapters, and its effect on financial performance, cost of capital and corporate reputation will be demonstrated.

Table 11. **Robust Analysis. Effect of CSR on EM. Sub-samples: CSR>0 and CSR<0**

	Effect of CSR on EM. Sub-sample CSR>0	**Effect of CSR on EM. Sub-sample CSR<0**
	Dechow	*Dechow*
CSR	0.0008	0.0159
	(0.0397)	(0.0690)
SIZE	8.6793	7.2433*
	(0.9945)*	(2.2934)
DEBT	0.0377	0.0410
	(0.0171)**	(0.0657)
RISK	-270.079	0.0509**
	(204.707)	(0.0207)
R&DINTENSITY	-0.1896	0.1274*
	(1.9750)	(0.0166)
WORKING_CAPITAL	-0.0002	-0.0040
	(0.0002)	(0.0047)
Z	80.92	338.25
m1	-1.21	-1.02
m2	-0.84	-0.23
Hansen	65.5	30.17

In order to avoid endogeneity problems, for all numerical variables, including interaction variables, their lags t-1 to t-2 are used as instruments.
Notes:
i) Heteroskedasticity consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.
iii) *z* is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.
iv) m_i (m_1 and m_2) is a serial correlation test of order *i* using residuals in first differences, asymptotically distributed as *N(0,1)* under the null hypothesis of no serial correlation.
v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

CSR reflects the sustainable practices of company i for period t. *Size* represents the size of company, measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the risk faced measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities.

Table 12**. Robust Analysis. Effect of EM on CSR. Sub-samples: CSR>0 and CSR<0**		
Effect of EM on CSR. Sub-sample CSR> 0		**Effect of EM on CSR. Sub-sample CSR< 0**
EM_Dechow	-0.0004* (0.0000)	0.00017* (0.00003)
SIZE	-0.1832* (0.0666)	1.0715* (0.1284)
DEBT	-0.0146 (0.0041)*	-0.0452* (000149)
RISK	18.7252 (21.2370)	-0.00722* (0.0096)
R&DINTENSITY	0.9763* (0.1617)	0.0096* (0.0032)
WORKING_CAPITAL	-0.0001* (0.000)	0.01103* (0.0007)
Z	8693.68	116672.18
m1	2.43	-1.49
m2	-0.79	1.76
Hansen	256.80	519.79

In order to avoid endogeneity problems, for all numerical variables, including interaction variables, their lags t-1 to t-2 are used as instruments.
Notes:
i) Heteroskedasticity consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate significance at the 1%, 5% and 10% level, respectively.
iii) *z* is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as χ^2 under the null hypothesis of no relationship, degrees of freedom and significance in parentheses.
iv) m_i (m_1 and m_2) is a serial correlation test of order *i* using residuals in first differences, asymptotically distributed as *N(0,1)* under the null hypothesis of no serial correlation.
v) Hansen is a test of over-identifying restrictions, asymptotically distributed as χ^2 under the null hypothesis of non-correlation between the instruments and the error term; degrees of freedom and significance in parentheses.

CSR reflects the sustainable practices of company i for period t. In order to test the moderating effect of the board, the CSR variable is considered with and without the board index values. The sample used only contains the values of CSR>0. *EM* represents the AEM practices. *Size* represents the size of company, measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the risk faced measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities.

Figure 1 shows empirical evidence with the aim of simplifying and illustrating the results of the dependent models previously analyzed. Firstly, the bidirectional relation between both analyzed corporate decisions: EM/FRQ and CSR. Secondly, the existence of two institutional factors moderating this relation: (i) national commitment to sustainability, and (ii) level of investor protection in the country of origin of the company.

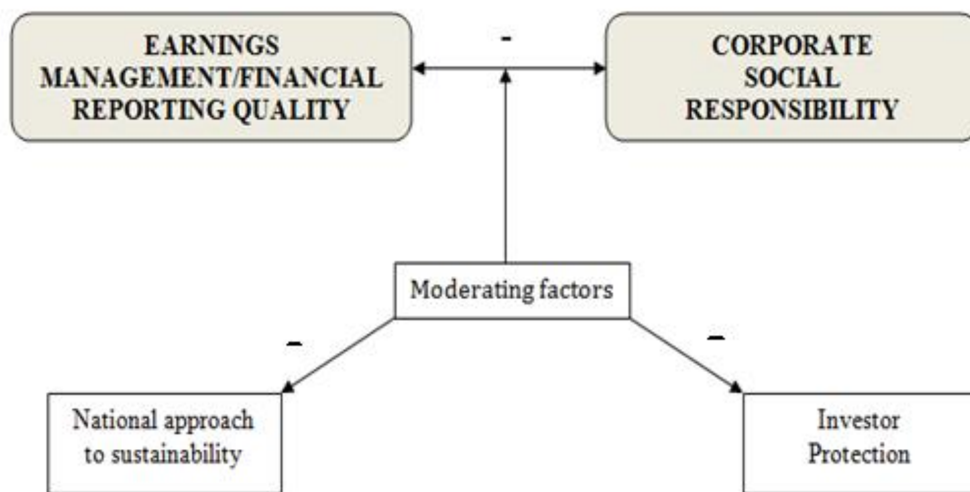

Figure 1. Bidirectional relationship between EM/FRQ and CSR.

5. DISCUSSION OF RESULTS

This research considers a possible bidirectional relationship between EM/FRQ and CSR practices: managers acting in their own interest might manipulate company earnings results and use CSR as an entrenchment mechanism to avoid the consequences of such actions. We also analyze if companies with managers who carry out responsible social, economic and environment practices, are more ethical and transparent and if the quality of their financial statements is higher.

Results confirm the existence of a negative bidirectional relationship between EM and CSR when accruals measures of EM are used. On the one hand, CSR practices have a negative effect on AEM, i.e., the more socially responsible a company is, the less likely it is to engage in AEM. Thus, the management and financial information of firms with a greater social commitment tend to be more transparent, so these companies have fewer incentives to utilize AEM. These results are consistent with the empirical evidence obtained by Gelb and Strawser (2001), Schleifer (2004), Shen and Chih (2005) and Kim et al. (2011). On the other hand, we also observed that EM has a negative impact on CSR. The empirical evidence clearly proves this negative influence on all the CSR practices that have been considered. This suggests that managers' opportunistic behavior does not lead to CSR practices, which is contrary to the evidence obtained by authors such as Cespa and Cestone (2004) and Prior et al. (2008). This also confirms the hypothesis stating that greater transparency and quality of accounting information leads to higher levels of social engagement.

This result is the same for FRQ and supports previous evidence regarding a positive relationship between various sustainable business practices and the quality of the reported accounting result (Shleifer, 2004; Shen and Chih, 2005; Kim et al., 2011; Choi and Pae, 2011). In other words, and in terms of accounting, the most ethical companies are the most responsible and socially committed ones (Gelb and Strawser, 2001). In addition, higher quality of information facilitates firms' commitments to sustainability. Our joint analysis revealed that companies with higher levels of ethical commitment have fewer incentives to carry out EM practices, produce better FRQ (more relevant, reliable and transparent) and present higher CSR values.

However, these bidirectional relationships between AEM, FRQ and CSR cannot

be extended to REM. Although several authors consider AEM and REM to be similar to EM, in view of the negative correlation between the two manipulative practices (Zang, 2012), the results obtained in the current chapter only reflect a negative effect of real manipulative practices on CSR actions, and not any bidirectional impact. The different effects of EM practices are similar to those obtained by Chih et al. (2008), who concluded there is a negative relation between EM and CSR when earnings smoothing or earnings losses avoidance are indicators of EM. However, they identified a positive effect of social and ethical practices on EM, via actions aimed at smoothing revenues in order to reduce volatility and thus to make reported earnings more predictable.

Among the possible reasons explaining the difference of results depending on the EM instrument employed, the question of their cost and visibility may be one of them. Managers tend to prefer accounting measures, because they are less visible and less costly - unlike ‘real’ decisions, which affect the performance of the company and its operations. Traditionally, studies have focused on AEM because it is a less costly method to mislead investors, and thus is preferred by management in order to meet income targets, while REM could be detrimental to the firm’s competitiveness and future value (García-Osma, 2008).

However, REM has a negative effect on social, economic and environmental practices. Thus, there is a negative relationship between both variables. This finding is in accordance with previous evidence concerning accounting measures. Companies where managers do not behave discretionarily and have fewer incentives to manipulate results seem to be very concerned about issues of great importance to stakeholders. This concern may boost the adoption of CSR practices.

These bidirectional relationships are more significant in countries where the institutional environment is strongly committed to sustainable development. This institutional characteristic is especially relevant to accruals earnings management practices.

Moreover, an exhaustive analysis supports the evidence obtained by Chih et al. (2008) and Leuz et al. (2003) regarding the fact that companies located in countries with strong legal and investor protection have considerably less tendency to employ manipulative practices, and so report better financial information. However, in contrast

with Desender et al. (2001), Kolk (2002), Leuz et al. (2003) and Chih et al. (2008), institutional pressure in company's country of origins favoring CSR does not significantly moderate the relationship between EM/FRQ and CSR, and vice versa.

Regarding the effect of institutional factors, our analysis of the effects of social, economic and environmental practices on EM and FRQ proves that the latter is moderated by the level of investor protection.

With respect to control variables, we found a positive effect of organization *SIZE* on EM. This implies that larger firms are more likely to perform aggressive accounting/reporting policies, in agreement with the findings of Zhong et al. (2007) and Gargouri et al. (2010). This was also the case of R&D intensity, meaning that companies use EM as a proof of the achievement of their goals and project targets (Baber et al., 1991; Dechow and Sloan, 1991). The effects of debt levels on EM and CSR vary depending on the model; we found no significant relationship with the level of EM, in agreement with Chung and Kallapur (2003), and in disagreement with Park and Shin (2004). These authors considered that companies with higher levels of debt have greater incentives to manipulate their accounting results, due to the pressure of financial institutions when the financial situation worsens. The level of risk, as measured by market beta, has no significant effect on EM, but does have a negative and significant effect on CSR practices. This concurs with Spagnolo (2005), who found that companies use CSR as a means of decreasing their volatility, through agreements with its stakeholders. Finally, the ability of a company to maintain its business cycle in the short term, as represented by the *WORKING_CAPITAL* variable, has a significant positive influence on CSR practices. This contradicts Prior et al. (2008), who proved the existence of a negative association between CSR and financial resources. However, this effect is confirmed by Kim et al. (2011), who reported that the profitability of a company has a positive influence on CSR.

In short, results obtained in the present chapter confirm the existence of a negative, bidirectional relationship between EM/FRQ and CSR, and the positive influence of company size and R&D intensity.

6. CONCLUDING REMARKS

As a consequence of the accounting scandals of recent years, which created a climate of distrust and uncertainty in the market, and among investors and other stakeholders, companies began to voluntarily adopt the patterns of sustainable business behaviors that form Corporate Social Responsibility (CSR), in order to regain their lost trust. However, opinions about the true purpose of these practices are considerably skeptic, and several studies have considered the use of CSR to be an entrenchment mechanism employed by managers: they would use of their discretionary powers as a means of heading off activism by the company’s stakeholders.

In this respect, one of the aspects of greatest research interest is the relationship between CSR and EM. However, conflicting evidence has been obtained to date regarding the relationship between these business decisions. These contradictions between different studies suggest there may be a bidirectional relationship between CSR and EM, rather than a unidirectional one. Accordingly, in the present chapter, we explore the possibility of a bidirectional relationship between EM (accruals and real measures of manipulative practices) and CSR, as we believe that investors and the market require more relevant, reliable and transparent financial information. This is the reason why we also analyzed the bidirectional effects of CSR and FRQ.

Our results prove there is indeed a bidirectional negative relationship between CSR practices and AEM/FRQ: there are less of these fraudulent conducts when companies implement more sustainable practices and thus disclose better financial reporting quality. At the same time, a firm’s commitment to social responsibility has a direct effect on its accounting practices. This relationship is moderated by the institutional environment, with respect to CSR, in the country in which the firm is operating. In addition, we found that the relationship between REM and CSR is positive, but not bidirectional. These relationships are especially present in countries where there is significant institutional pressure regarding sustainability. Furthermore, the relationship analyzed in this chapter is stronger in countries with better investor protection. Results obtained are robust for different measures of CSR, AEM, REM and FRQ. Furthermore, the division of the sample into two sub-groups, sustainable vs. non-sustainable firms, suggests that the negative bidirectional relationship cannot be generalized to sustainable companies.

In conclusion, we can state that there is a negative relationship between sustainable practices and EM practices, because responsible companies extrapolate this behavior to their accounting and to the financial information they offer, which deals with their economic and financial results.

However, a more detailed analysis of the CSR-EM relationship comparing sustainable and non-sustainable companies has proved that both types of companies can individually mask EM practices with social and environmental actions. This means that they implement entrenchment strategies that compensate for penalizations received from the market and its participants because of these opportunistic behaviors.

So, in the next chapters, we will analyze if investors and public can identify these practices, if they reduce companies' market value and reputation and/or if they demand higher costs of capital. In particular, chapter four will focus on analyzing if investors can identify CSR practices as management entrenchment practices. The bidirectional relationship between CSR and companies' market value, as well as the effect of EM practices on this relation, will be analyzed. The next chapter will focus on proving whether this relation also entails an increase of the risk premium that investors demand to these companies, and whether the relation observed on the capital market could also apply to other interest groups, which would cause an effect on corporate image.

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CHAPTER IV

Are Sustainable Practices an Entrenchment Strategy Reducing the Negative Effect of Earnings Management on Financial Performance?

1. INTRODUCTION

This chapter investigates the moderating role played by Earnings Management (EM) on the synergistic circle of Corporate Social Responsibility (CSR) and Financial Performance (FP): the most profitable firms are the ones that invest the most economic resources on CSR, and these sustainable practices improve the value of responsible companies (Waddock and Graves, 1997; Orlitzky et al., 2003; Tang et al., 2012). With regards to the moderating role of EM, we introduce the idea that CSR can be boosted as a consequence of managers' manipulative accounting behavior, which is carried out as an entrenchment strategy aiming at disguising their fraudulent conduct (Surroca and Tribó, 2008).

As mentioned in previous chapters, companies that manipulate accounting information carry out EM practices in order to report accounting results that do not correspond to those really achieved (Garcia- Osma et al., 2005). The consequences of these management practices are beyond doubt detrimental: they reduce the company value, its assets, its transactions, its reputation and its corporate image (Fombrun et al., 2000; Roychowdhury, 2006). At the same time, it provokes the loss of shareholders', investors' and other stakeholders' support, and an increasing activism and surveillance by interest groups and regulatory authorities (Zahra et al., 2005).

On the contrary, sustainable practices promote a climate of acceptance and support among regulators and stakeholders, dissuade activism and intervention by interest groups and increase job satisfaction and customer loyalty (Fombrun et al., 2000; Adams, 2002). In this sense, managers that boost sustainable actions could be using CSR as a discretionary activity aimed at going beyond their own interest and welfare (Barnett, 2007). More concretely, they could be committed to CSR (Prior et al., 2008) with the following aims: ensuring their continuity in their leadership position, avoiding changes in the control positions of the company, influencing labor negotiations or responding to takeover bids (Gargouri et al., 2010), because stakeholders´ have power to influence in the firm and, this way, managers would be avoiding their boycotts and activism (Cespa and Cestone, 2004). This decision-making makes entrenched managers collude with stakeholders with the aim to strengthen their strategy and continue acting in their own interest (Surroca and Tribó, 2008).

Specifically, we are testing (i) whether investors are able to distinguish opportunistic behaviors and (ii) whether the market value reinforces the negative effect of manipulative practices in the following case: when managers behave discretionarily through economic, social and environmental actions that play the role of entrenchment practices aiming to conceal the negative effects of EM. To this end, we introduce several interactions between CSR and EM. The conjoint analysis of the coefficient of CSR, EM and CSR*EM allows observing the reaction of the stock market to this managerial entrenchment practices.

The empirical analysis is based on the same previous sample (1,960 companies for period 2002-2010 from 25 countries and an Administrative Region). Just like in the previous chapter, the moderating role of two institutional factors is to be considered because of differences between international companies. Those two factors are the level of commitment to sustainability and the level of investor protection in the company's country of origin.

Results prove that CSR actions promoted by managers as a means to mask their profit management provoke a negative and detrimental effect on the company's market value. This detrimental effect on FP is especially important in countries that are strongly committed to CSR and where levels of investor protection or stock market development are lower. In addition, this effect differs depending on the type of EM and CSR practices carried out, as well as on the level of firms´ commitment to sustainability. Results regarding different EM proxies (such as Financial Reporting Quality, FRQ) are robust. In contrast, the market does not detect the use of REM because it is one of the less visible and more costly practices, and because it is usually implemented during a second accounting result management (once the accruals EM has been detected) (García-Osma, 2008).

This chapter is structured in six sections after this introduction. In the first one, we provide with the theoretical framework and describe previous empirical research in order to establish our working hypotheses. The next section describes the methodology that was used: the analyzed sample, included variables and empirical models used to test the hypotheses. Section four presents the results of our empirical analysis and the discussion of results. Finally, we present the main conclusions drawn.

2. CORPORATE SOCIAL RESPONSIBILITY, FINANCIAL PERFORMANCE AND ENTRENCHEMENT STRATEGY. Research Hypothesis

2.1 Corporate Social Responsibility and Financial Performance

As it was mentioned in previous chapters, companies have begun to adopt strong sustainable behavior patterns in order to reduce uncertainty and loss of confidence by investors and other stakeholders as a consequence of the numerous accounting scandals occurred in recent years. Moreover, sustainability issues are beginning to play a renewed role in our society, and social consciousness is gaining weight among citizens. In this sense, CSR is presented as an emerging alternative management model. It defines the company as a set of relationships, not just between owners and managers but also with parties or groups interested in the evolution of the company: employees, customers, suppliers, competitors, environment and society (Adams, 2002). Internationally, organizations and stakeholders are increasingly aware of the need for the benefits of socially responsible behavior.

However, as noted by McWilliams and Siegel (2001), there is an ideal level of CSR, which can be determined by managers through a cost-benefit analysis, which would avoid incurring in high costs that subsequently do not generate revenue, and that would have a negative effect on performance. Specifically, the aim of CSR is to reduce the agency issue, because CSR is considered to be a means of reconciling business goals with social and ethical ends and of avoiding a conflict of interest among managers, shareholders and other stakeholders.

Along the same lines, Walsh et al. (2003) conclude that it is necessary to find a way to meet corporations' economic and social objectives. Building on these arguments, sustainable actions can generate business performance, especially if the focus is on the economic element of the triple perspective of CSR practices (Adams and Zutshi, 2004; Stevens et al., 2005).

However, along the literature, the relationship between CSR and FP has been discussed many times. Although there are no generalizations or unanimous results, most of the research of this relation supports the positive effect of economic, social and

environmental practices on the firm's performance, and specifically, the existence of a synergistic relationship (McGuire et al. 1990; Waddock and Graves, 1997; Orlitzky et al., 2003). In this sense, two theories defend the existence of this positive and bidirectional effect of sustainable behavior and business performance: the "Social Impact Theory" (CSR practices have a positive influence on business performance, Waddock and Graves, 1997) and the "Theory of Slack Resources" (a higher financial performance allows companies to earmark available resources for social investment, Preston and O´Bannon, 1997). Thus, a higher financial performance endows companies with increased resources to promote economic, social and environmental activities.

2.2 The Moderating Role of Earnings Management (EM) on the Effect of Corporate Social Responsibility (CSR) Practices on Financial Performance (FP)

The increase of sustainable business practices has created a climate of skepticism among many stakeholders due to the unstated attitudes of many companies with respect to these practices. Because of this, some authors have been led to define CSR as any discretionary company activity aimed at going beyond its own welfare (Barnett, 2007). In this sense, and according to Handelman and Arnold (1999), managers can promote CSR practices as a means of self-promotion, aimed at increasing their own wealth. Therefore, managers will behave discretionarily to achieve their own interest, i.e. an entrenchment strategy to increase their remuneration or to secure their job. However, according to Johnson et al. (2012), "the ends justify the means", i.e. the ethical judgments proposed to which those who manage their results are subject to be lower and less extreme when this behavior entails favorable consequences for the company.

This is the rationale of EM practices. The main empirical proof linking CSR practices to management result was described in chapter III. Cespa and Cestone's (2007) work stood out, because they proved that managers behaving discretionarily in a scenario of EM often implement CSR as a defensive means to avoid negative reactions and subsequent surveillance by stakeholders who might be affected by EM. In the same line, the research by Prior et al. (2008) proved that managers who implement EM (either inflating or reducing numbers depending on the company's situation and on the benefits to be obtained), try to compensate stakeholders with social, ethical or environmental activities and thus to conceal their inappropriate conduct.

For managers who behave discretionarily and carry out EM, CSR practices are a mechanism to satisfy stakeholders' needs and to avoid the consequence of those inadequate practices. Specifically, among the economic and financial consequences, several authors have observed the negative impact that these unethical accounting practices have on companies' value, assets, transactions, reputation and corporate image (Fombrun et al., 2000; Roychowdhury, 2006). They also entail the loss of support from shareholders, investors and other stakeholders, and an increasing activism and surveillance by interest groups and regulatory authorities (Zahra et al., 2005). In this sense, CSR could be regarded as a managerial entrenchment strategy to meet different stakeholders' demands, especially of those who are capable of influencing the image of managers, whether by promoting them or discrediting them (Rowley and Berman, 2000; Schneper and Guillén, 2004). This is possible due to the fact that benefits derived from CSR practices are also high (Ruf et al., 2001).

In contrast, Sundaramurthy (2000) argues that company' market value decreases when they implement entrenchment practices, because these increase FP in the short term but damage shareholder´s value in the medium and long term. As Prior et al. (2008) affirmed, the effect of such actions is detrimental for the company if they are detected by stakeholders.

According to Surroca and Tribó (2008), entrenched managers can collude with stakeholders with the aim to strengthen their strategy and to continue acting in their own interest. This is due to the stakeholders´ power to influence firm value and the aim is avoiding stakeholders' boycotts and activism. When managers behave discretionarily implementing EM practices, their economic, social and environmental actions can reinforce the negative effect of this manipulative behavior on shareholders' value. Therefore, EM practices combined with CSR actions may have a negative impact on FP. In addition, as for earnings management consequences, analysts' earnings releases prove that earnings management practices are linked to worst and lower earnings releases (Louis, 2004). This author supports Rangan (1998), Gunny (2005) and Bens et al. (2002), and finds a negative link between EM and its subsequent profitability.

We hypothesize that managers who carry out EM practices to satisfy their own interest have the incentive to promote CSR practices (as an entrenchment strategy) with

the aim to avoid several stakeholders' possible activism and control. However, these manipulative actions combined with sustainable practices produce a detrimental effect on FP because the only objective of managerial entrenchment only is managerial survival, and CSR intensifies the negative aspects of entrenchment (Surroca and Tribó, 2009). Furthermore, Bebchuck et al. (2009) show that entrenchment practices have a negative effect if they are linked to corporate value. These actions can decrease the flexibility of the organization by putting manipulative companies in a disadvantaged place in relation to companies that do not manage their profits (Prior et al., 2008; Dianita, 2011). So, we propound a hypothesis regarding the moderating effect of EM practices on the relationship between CSR and FP.

HYPOTHESIS 1: Implementing an entrenchment strategy on CSR practices in order to conceal Earnings Management practices has a negative impact on Financial Performance.

2.3 Institutional Context: National Approach to CSR and Investor Protection

In the same line as in the previous chapter and as previously explained, we take into account the moderating role played by institutional factors in the effect of the entrenchment strategy within the relationship between CSR and FP.

2.3.1 Institutional Context with Respect to CSR

Regarding the institutional context, we have to take into account that many differences on national approaches to CSR exist. Differences in the importance given by each country to sustainability vary depending on the pressure that public powers exert. This can entail a different implementation of CSR practices as a means of entrenchment that masks EM. According to Prado-Lorenzo and García-Sánchez (2010), the higher the national pressure to CSR, the higher the transparency about these issues and the likelihood of having managerial entrenchment detected by investors.

Therefore, we take into account companies operating in countries with a bigger tendency and focus on sustainability. Entrenchment practices are more harmful to FP, because not only investors (considered to be a strategic stakeholder), but the entire society and market participants are strongly committed to social and environmental

questions, and are more prepared to detect this type of opportunistic behaviors and thus to penalize companies that boost these strategies.

So, we formulate the next sub-hypothesis:

HYPOTHESIS 2: The higher the level of national approach to CSR in the country of origin of the company, the higher the detrimental effect in FP because of the CSR practices entrenchment strategy that aims to conceal Earnings Management.

2.3.2 Investor Protection

The degree of investor protection in companies' country of origin has been analyzed in recent year as one of the causes that determine the development of market evaluation and corporate sustainability. It is also considered one of the factors that prevent EM practices with the aim of protecting shareholders' interests. All shareholders, investors or any other type of market agents need to have their rights protected by law and by companies (La Porta el al., 2000).

Regarding market development and corporate performance, according to La Porta et al. (2002), the role of investor protection became a decisive factor in market assessments. As these authors prove, companies located in countries with stronger legal investor protection are linked to higher market values. The reason is market agents, who can pay more for financial assets. This also means that managers stimulate expropriation less in countries where law strongly protects shareholders' interests. Therefore, market positively values an institutional setting where investor rights are a benchmark and are defended, and where laws are protective.

In this line and according to the research of La Porta et al. (1997), the anti-director rights score –as a proxy of investor protection- generate financial development across countries. This supports the fact that a higher degree of investor protection is considered to be the cause of a further market development. Thus, we expect that the corporate performance of companies located in countries with strong laws protecting shareholders and the rest of stakeholders will be better.

In regard to EM behavior, following the findings of García-Meca and Sánchez-Ballesta (2009), it is necessary to consider the legal and institutional context in the research of EM, due to the different alternative approaches to EM and CSR practices. In general, agency issues are stronger for companies located in countries with weak investor protection (La Porta et al., 1999), which increases managers' incentives to take EM opportunities into consideration.

According with previous literature, EM is lower for companies located in countries with strong laws avoiding expropriation by managers. The reason is that managers' unethical behavior is more restricted (Leuz et al., 2003; Haw et al., 2004, Chih et al., 2008). Thus, we expect that companies located in countries with strong laws protecting shareholders and other stakeholders have fewer incentives to manage earnings.

With respect to the role played by investor protection on sustainable behavior, Campbell (2007) argues that the more corporations encounter a strong coactive and normative institutional environment, the more likely they are to behave in a socially responsible way.

Firms are more sensitive to stakeholders' interests (Ball et al., 2000; Simnett et al., 2009) according to the legal status of the society in which they operate. In turn, they are expected to fulfill certain social responsibilities (Kolk and Perego, 2008). Such countries have a communitarian perspective and are characterized by laws aimed at protecting workers' and other stakeholders' rights (Marginson and Sisson, 1994; Ferrer and Quintanilla, 1998). Therefore, it seems logic that CSR entrenchment practices could be imposed higher investor sanctions.

Countries with a legal system oriented to protecting shareholders, who are the most important stakeholders between those capable of exerting an influence on managerial decision-making (Prado-Lorenzo et al., 2012), give rise to a greater prevalence of published financial information (Ali and Hwang, 2000; Ball et al., 2000; Hung, 2000; Leuz et al., 2003; Holthausen, 2009), in comparison to other types of information such as sustainability reports or other transparency practices that limit the capacity of investors to detect managerial entrenchment.

In short, we expect that companies located in countries with strong investor protection may be associated with a higher level of FP, with fewer incentives to carry out EM practices and may promote fewer sustainable practices. Despite this, investors located in countries with strong laws investor protection may not identify CSR practices as an entrenchment strategy because they consider that laws and the legal system avoid the risk of expropriation by managers, and that sustainability aims to achieve an economic, social an environmental impact, i.e. an ethical purpose.

In other words, regarding companies located in environments with strong legal investor protection, market may not identify CSR practices as an entrenchment strategy since they trust the loyalty of managers and there are less incentives to manipulation. Therefore, our next hypothesis is:

HYPOTHESIS 3: The lower the level of investor protection in the country of origin of the company, the higher the detrimental effect in FP because of the CSR practices entrenchment strategy that aims to conceal Earnings Management.

3. METHODOLOGY

3.1 Population and Sample

The same sample described in chapter II is used again: 1,960 international non-financial listed companies for years 2002 to 2010. This sample is formed by 25 countries and an Administrative Region. These data were gathered from Thomson One Analytic and EIRIS databases.

3.2 Measurement of Financial Performance

Among the numerous measurements to evaluate FP, we employ the Market Value (MV). This variable identifies market measures of FP according to previous evidence of Hillman and Keim (2001). These authors argue in their study that accounting measures are less successful than market measures because they cannot capture the long-term value of the company, as they focus on past performance and are subject to the possibility of being manipulated by managers. Moreover, market measures are more adequate to observe if investors can identify CSR entrenchment practices.

MV is a linear function of two measures corresponding to the consolidated data: book value of equity and net operating income. This construct, as the other market measures, reflects stakeholders' trust in the company not only at present, but also in the past and future. As an accounting measure, this alternative captures the value of future income streams more appropriately (Hillman and Keim, 2001) and has been used in several researches (Chen et al., 2005; Luo and Bhattacharya, 2006; Lourenço et al., 2012).

3.3 Measurement of Corporate Social Responsibility (CSR)

As explained, CSR practices are measured by an index with values between -60 and +60, which is formed by four areas: environment, human rights, relationships with stakeholders and board characteristics. This construct is explained in detail in chapter II.

3.4 Measurement of Earnings Management (Accounting and Real Measures)

As in the previous chapter, EM measures have been divided into two main branches: AEM and REM. The objective was to obtain robust results. Similarly, and taking as a basis the fact that EM is the opposite of Financial Reporting Quality (FRQ), we consider this measurement as an alternative to EM via the Ball and Shivakumar (2006) model. All the variables (AEM, REM and FRQ) have been described on chapter II.

However, it is necessary to indicate that the measures of AEM, REM and FRQ, according to the study of Prior et al. (2008), are converted into dummy variables that take the value 1 when AEM, REM or FRQ are above-average for the corresponding sector, year and country, and 0 otherwise. The use of dummy variables allows variables to interact and better interpretation of the results are obtained.

3. 5 Institutional Context Variables

As for institutional factors such as moderator variables, the dummy variable DNCRI is used as a measurement of the national approach to sustainability. It takes the value 1 if the company's country of origin has an above average NCRI, and 0 otherwise. Regarding the degree of investor protection level, we use another dummy variable, *DINV_PROTECTION*, with a value of 1 if the firm is located in a country where

investor protection is above-average, and of 0 otherwise.

3.6 Control Variables

To avoid biased results, we included several control variables regarding their effect on CSR practices and on FP, and the role of EM. In our analysis, as previously stated an explained, we defined firm size, leverage, risk, operating liquidity and R&D intensity.

3.7. Model and Analysis Technique

In order to test the propounded hypothesis, we estimated again simultaneous equations for panel data. We applied the Arellano and Bond's (1991) estimator. This methodology is explained on chapter III. However, we must highlight that this estimator enriches this research because it considers the temporal dimension of data, most of all in times of great change. In particular, the GMM estimator allows controlling endogeneity among variables and unobservable heterogeneity, which varies depending on each company but is invariant throughout time.

In order to test the moderating effect of manipulative practices, we estimate a GMM equation in which FP is estimated in accordance with CSR and with selected control variables based on prior literature. However, the interactions of EM with CSR in this equation are another determinant of FP. The dummy representative of EM practices and its interaction with CSR practices as explanatory variables are included in the model. The two lags of CSR*DEM and CSR are used as instruments in order to avoid endogeneity with FP.

$$\mathbf{FP_{it} = ø + ø_1CSR_{it} + ø_2DEMit + ø_3DEM{*}CSR_{it} + ø_4Size_{it} + ø_5Debt_{it} + ø_6Risk_{it} + ø_7Working_capital_{it} + ø_8R\&DIntensity_{it} + \eta_i + \mu_{it}} \qquad \mathbf{[1]}$$

Regarding the moderating factors on the effect of EM combined with CSR on FP, we estimate two new models to determine the role of: (i) the national approach to CSR and (ii) the firm´s country of origin level of investor protection. Therefore, our analysis considers the different national approaches adopted with respect to CSR. Thus, we estimate the next model with FP as a dependent variable:

$$\mathbf{FP_{it} = ø + ø_1CSR_{it} + ø_2DEMit + ø_3DEM{*}CSR_{it} + ø_4DEM{*}CSR{*}NCRI_{it} + ø_5DNCRI_{it} + ø_6Size_{it} + ø_7Debt_{it} + ø_8Risk_{it} + ø_9Working_capital_{it} + ø_{10}R\&DIntensity_{it} + \eta_i + \mu_{it}} \quad [2]$$

Also, we formulate the next model to determine the role of investor protection as a specific characteristic from institutional countries.

$$\mathbf{FP_{it} = ø + ø_1CSR_{it} + ø_2DEMit + ø_3DEM{*}CSR_{it} + ø_4DEM{*}CSR{*}INVESTOR_PROTECTION_{it} + ø_5DINVESTOR_PROTECTION_{it} + ø_6Size_{it} + ø_7Debt_{it} + ø_8Risk_{it} + ø_9Working_capital_{it} + ø_{10}R\&DIntensity_{it} + \eta_i + \mu_{it}} \quad [3]$$

where:

i, represents the company and t represents the time period.

ø, are estimating parameters.

$\varepsilon_{i,}$ represents the unobservable heterogeneity.

$\mu_{i,}$ represents the error term.

FP_i is a numerical variable measured by the market value.

CSR is a numerical variable that reflects the sustainable practices of company i for period t..

SIZE is a numerical variable measured by the logarithm of total assets.

DEBT is a numerical variable measured as the ratio of debt to equity.

RISK is a numerical variable measured by the beta market.

WORKING CAPITAL is a numerical variable measured by the difference between current assets and current liabilities.

R&DINTENSITY is a numerical variable measured by the ratio of R&D expenditure to total revenue

DEM is a dummy variable that takes the value 1 when EM is above-average for the corresponding sector, year and country and 0 otherwise. This variable is called DAEM for accruals EM, DREM for real earnings management and DFRQ for the dummy of FRQ.

DEM*CSR is a numerical variable measured by the interaction between DEM and CSR. It represents companies that use CSR practices as entrenchment strategies concealing EM practices.

DNCRI is a dummy variable that takes the value 1 if the company’s country of origin National Corporate Responsibility Index (NCRI) is above-average, and 0 otherwise.

DEM*CSR*DNCRI is a numerical variable measured by the interaction between DEM*CSR in companies located in countries that are greatly oriented to CSR.

DINVESTORPROTECTION is a dummy variable that takes the value 1 if the firm is located in a country where investor protection is above-average, and 0 otherwise.

DEM*CSR*INVESTORPROTECTION is a numerical variable measured by the interaction between DEM*CSR in companies located in countries with strong investor protection.

With the aim of obtaining robust results, we will not only consider EM based on accounting decisions, but also EM real measures as well as financial reporting quality (FRQ).

4. RESULTS

4.1 Descriptive Analysis

The main variables used in this research were explained in detail in chapter II in order to avoid duplication of definitions, measures and values. Their descriptive statistics were also analyzed, so these data will not be mentioned in this section.

Table 1 represents the descriptive statistics of the new variable used in this chapter, FP, which is expressed in millions of Euros. Regarding this variable, which is measured trough the Market Value, its mean value is 7422.135, and its standard deviation, 17268.3.

Table 1. Descriptive Statistics

	Mean	**Std. Dev.**
MARKET VALUE	7422.135	17268.3

Table 2 summarizes the frequencies of every EM moderating variable. Regarding the frequencies of DAEM and DREM, 62.10% of firms carry out EM (accounting measures) above the average, whereas 36.57% of the firms use real measures for their manipulative actions. These frequencies prove that firms prefer accounting measures such as discretionary accruals to implement their non-ethical behavior. Meanwhile, 24,41 % of the firms report financial statements with better quality than the average.

Table 2. Frequencies of EM and FRQ

	Frequencies	
	Absolute	**Relative**
DAEM	9,218	62.10
DREM	5,429	36.57
DFRQ	3,624	24.41

Table 3 shows the Pearson correlation coefficients between different variables. We can thus analyze the bivariate correlations between them. Coefficients are not very high between dependent and independent variables or between each of the different independent variables.

Table 3. Bivariate Correlations between Variables

	CSR	*Society*	*HumanRights*	*Environment*	*Board*	*MarketValue*	*DAEM*	*DREM*	*DNCRI*	*DInv_Protection*	*Size*	*Debt*	*Risk*
CSR	1												
Society	0.9538	1											
Human Rights	0.6365	0.5513	1										
Environment	0.7617	0.7003	0.4615	1									
Board	0.6810	0.5156	0.3276	0.2362	1								
MarketValue	0.2896	0.2626	0.3279	0.2005	0.1840	1							
DAEM	-0.0909	-0.0789	-0.0499	-0.0201	-0.1205	-0.0514	1						
DREM	-0.0287	-0.0236	-0.0660	-0.0389	0.0056	-0.0826	0.0815	1					
DNCRI	0.2013	0.1449	0.0929	0.0562	0.3232	-0.1076	-0.0235	0.0454	1				
DInv_Protection	-0.0593	-0.1208	-0.1699	-0.3165	0.3601	0.0375	-0.0205	-0.0173	0.2272	1			
Size	0.3022	0.2862	0.2940	0.2982	0.1142	0.4578	-0.0165	-0.0929	-0.3495	-0.1702	1		
Debt	0.0060	0.0064	0.0138	-0.0034	0.0053	-0.0100	0.0135	0.0189	-0.0032	-0.0150	0.0387	1	
Risk	-0.0230	-0.0251	-0.0045	-0.0252	-0.0072	-0.0148	-0.0074	0.0002	-0.0160	-0.0031	0.0020	0.0073	1
Working_Capital	0.0905	0.0801	0.1403	0.0864	0.0270	0.2400	0.0262	-0.0247	-0.0449	-0.0382	0.1738	-0.0130	-0.0005
R&DIntensity	-0.0129	-0.0163	-0.0082	-0.0180	0.0058	-0.0056	-0.0020	-0.0060	0.0180	0.0124	-0.0407	-0.0015	-0.0002

	Work_Capital	*R&DIntensity*
Working_Capital	1	
R&DIntensity	-0.0053	1

CSR reflects the sustainable practices of company i for period t. It is disaggregated into four indexes: *Society, Human Rights, Environment and Board*.
FP represents the financial performance, which is measured by means of the market value.
Size represents the size of company and is measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity.
Risk represents the faced risk, and is measured by the beta. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

4.2. Moderating Role of EM on the Relationship between CSR and FP

The main goal of this chapter is to determine the effect of CSR strategic entrenchment to conceal EM on FP. To this end, we consider the interaction between CSR practices to be an explanatory variable. We also consider the dummy DEM, which takes the value 1 when EM is above-average for the corresponding sector, year and country, and 0 otherwise.

In this first model, we employed accounting measured by the Dechow et al. (1995) model based in discretionary accruals. The results presented in Table 4 allow us to prove the positive and significant effect of sustainable practices in business performance (CSR: coef. 107.0989) at a 99% confidence level.

However, when these practices are boosted as a result of previous earnings management, the outcome varies. The effect of the interaction between DAEM and CSR actions was found to be negative (coef. -11.1420) and statistically significant at a confidence level of 99%. Therefore, we can assert that the use of CSR practices as a means to disguise manipulative behavior entails a negative and detrimental financial performance (effect = 107.0989 - 11.1420 = 95.9569). Hence, we cannot reject the hypothesis H1.

With the aim of simplifying, we are going to show the effect of control variables on all the models that FP considers to be dependent variables. The logarithm of assets (*SIZE)* and operating liquidity (*WORKING CAPITAL*) are the only ones with the same effect in all the models and remain statistically significant at a confidence level of 99%. The first variable is positive in all models, while the second one is negative. On the one hand, this means that larger companies perform better than smaller ones. On the other hand, companies with higher levels of operating liquidity perform worse than their opposite companies. Concerning the rest of control variables, *DEBT* is positive in all models, but not always significant. On their side, *RISK* and *R&DINTENSITY* are not always significant and their effect on FP varies.

Thanks to this analysis, the impact of each country's different characteristics (like the company's country of origin commitment to sustainable practices) can be determined, as well as the degree of investor protection in those countries.

Table 4. Moderating Effect of EM on the Relation between CSR and FP

	Dependent variable: ***Market_Value***	
	Coef.	Std. Err.
CSR	107.0989*	5.0490
DAEM	-325.5892*	99.2983
*DAEM*CSR*	-11.1420*	1.6552
Size	615.9698*	74.3776
Debt	2.1846	1.4021
Risk	0.4345	1.4687
Working_Capital	-0.2667*	0.0826
R&DIntensity	-3.6150*	1.2206
Z	793.74	
m1	-3.18	
m2	-0.93	
Hansen	552.31	

In order to avoid endogeneity, lags t-1 to t-2 of all numerical variables, including interaction variables, are used as instruments.

Notes:

i) Heteroskedasticity-consistent asymptotic standard error in parentheses.

ii) *, ** and *** indicate a significance of 1%, 5% and 10%, respectively.

iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as $\chi 2$ under the null hypothesis of no relationship; the degrees of freedom and significance are between parentheses.

iv) mi (m1 and m2) is a serial correlation test of order i that uses residuals in first differences, asymptotically distributed as N(0,1) under the null hypothesis of no serial correlation.

v) Hansen is an over-identifying restrictions test, asymptotically distributed as χ 2 under the null hypothesis of non-correlation between the instruments and the error term; the degrees of freedom and significance are between parentheses.

CSR reflects the sustainable practices of company i for period t. FP represents the financial performance, measured by means of the market value. DEM is a dummy variable that takes the value 1 when EM is above-average for the corresponding sector, year and country, and 0 otherwise. This variable is called DAEM for accruals EM. DAEM*CSR is a numerical variable measured by the interaction between DAEM and CSR, and it represents companies that implement CSR practices like entrenchment strategies concealing EM practices. *Size* represents the size of the company and is measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the faced risk and is measured by the beta. *Working Capital* represents liquidity, measured as the difference between current assets and current liabilities. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

$$\mathbf{FP_{it} = \text{ø} + \text{ø}_1 CSR_{it} + \text{ø}_2 DEMit + \text{ø}_3 DEM{*}CSR_{it} + \text{ø}_4 Size_{it} + \text{ø}_5 Debt_{it} + \text{ø}_6 Risk_{it} + \text{ø}_7 Working_capital_{it} + \text{ø}_8 R\&DIntensity_{it}} + \eta_i + \mu_{it}$$

4.3 Relationship between CSR and FRP: Effect of the Institutional Factors on the Moderating Role of EM

With the objective of controlling the differences among multinational companies on the moderating role of EM, the national approaches adopted in the context of CSR as a result of public pressure or of the normative environmental context are firstly considered. Therefore, we included in our model the dummy variable *DCNCRI* and its interaction with *DAEM*CSR*. This new variable reflects sustainable practices by manipulative companies located in countries that are strongly committed to CSR.

The results gathered by Table 5 prove again the positive effect of economic, social and environmental practices on firms' performance (coef. 111.771) at a confidence level of 99%. The effect of *DAEM*CSR* is negative on FP (coef. -8.1703) at a confidence level of 99%. The effect of *DAEM*CSR*DNCRI* is negative on FP (coef. -23.367) at a confidence level of 99%. So, there is a global negative effect of entrenchment practices that increases when managers carry out those practices in countries that are strongly committed to CSR (-8.1703 - 23.367= -31.5373).

This proves that the effect of entrenchment practices is more detrimental for the company's performance if these practices are implemented by firms in a country that is pressured to carry out CSR practices. If those companies were not strongly committed to sustainability, the effect would not be that harmful. Hence, we cannot reject hypothesis H2.

Table 5. The Moderating Effect of EM on the Relation between CSR and FP: the Role of National Approaches to CSR

Dependent variable: ***Market_Value***		
	Explanatory Variable: DAEM	
	Coef.	Std. Err.
CSR	111.771*	4.8920
DAEM	-3.5752*	104.998
*DAEM*CSR*	-8.1703*	2.2481
DNCRI	-13542.06**	6573.3
*DAEM*CSR*DNCRI*	-23.367*	4.0547
Size	639.9678*	78.086
Debt	1.8161	1.2670
Risk	1.2321	1.3998
Working_Capital	-0.3112*	0.08432
R&DIntensity	-4.6535*	1.0448
Z	1635.80	
m1	-3.23	
m2	-0.93	
Hansen	543.36	

In order to avoid endogeneity, lags t-1 to t-2 of all numerical variables, including interaction variables, are used as instruments.
Notes:
i) Heteroskedasticity-consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate a significance of 1%, 5% and 10%, respectively.
iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as $\chi 2$ under the null hypothesis of no relationship; the degrees of freedom and significance are between parentheses.
iv) mi (m1 and m2) is a serial correlation test of order i that uses residuals in first differences, asymptotically distributed as N(0,1) under the null hypothesis of no serial correlation.
v) Hansen is an over-identifying restrictions test, asymptotically distributed as χ 2 under the null hypothesis of non-correlation between the instruments and the error term; the degrees of freedom and significance are between parentheses.

CSR reflects the sustainable practices of company i for period t. FP represents financial performance, measured by means of the market value. DEM is a dummy variable that takes the value 1 when EM is above-average for the corresponding sector, year and country, and 0 otherwise. This variable is called DAEM for accruals earnings management. DAEM*CSR is a numerical variable measured by the interaction between DAEM and CSR, and it represents companies that implement CSR practice as entrenchment strategies to conceal AEM practices. DNCRI is a dummy variable that takes the value 1 if the company's country of origin National Corporate Responsibility Index (NCRI) is above-average, and 0 otherwise. DAEM*CSR*InvestorProtection is a numerical variable measured by the interaction between DAEM*CSR in companies located in countries with strong investor protection. *Size* represents the size of a company and is measured by the logarithm of its total assets. *Debt* reflects the debt of the company and is calculated as the ratio of debt to equity. *Risk* represents the faced risk, and is measured by the beta. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

$$\mathbf{FP_{it} = ø + ø_1CSR_{it} + ø_2DEMit + ø_3DEM{*}CSR_{it} + ø_4DEM{*}CSR{*}DNCRI_{it} + ø_5DNCRI_{it} + ø_6Size_{it} + ø_7Debt_{it} + ø_8Risk_{it} + ø_9Working_capital_{it} + ø_{10}R\&DIntensity_{it} + \eta_i + \mu_{it}}$$

Secondly, we consider the level of investor protection in the country of origin (Table 6). We include "Investor Protection" as a dummy variable and then, its interaction with *DAEM*CSR*, which reflects the sustainable practices of manipulative companies located in countries with strong levels of investor protection.

The effect remains the same for CSR on FP (coef. 13.5593), and also the negative effect of the interaction *DAEM*CSR* (coef. -5.2558). However, including *DAEM*CSR*DINVESTORPROTECTION* as an institutional factor (which reflects the impact of sustainable practices with above-average AEM levels in countries with strong levels of investor protection) proves its positive effect on performance (coef. 33.1978) for a confidence level of 99%. The global effect indicated that, if companies implement sustainable actions such as entrenchment practices in countries with higher levels of investor protection (13.5593 -5.2558 + 33.1978= 41.5013), the market value increases in relation to other macro-environment factors (effect = 13.5593 -5.2558 = 8.3035).

With these results, we can confirm that investors located in countries with strong investor protection laws do not identify CSR practices with entrenchment strategies, since they consider that the legal system protects them and that managers carry out CSR practices with an ethical aim. So, we can affirm that market agents of countries with higher levels of investor protection do not conceive sustainability as an entrenchment strategy. Thus, the market does not detect these practices and therefore, corporate performance does not decrease. In contrast, in other markets, companies boost CSR practices as a mechanism to disguise the EM and the detrimental effect of the entrenchment strategy on financial performance reduces. Therefore, we cannot reject hypothesis H3 - the level of investor protection moderates the relationship between CSR (if considered an entrenchment strategy) and FP.

Table 6. The Moderating Effect of EM on the Relation between CSR and FP: the Role of Investor Protection

Dependent variable: ***Market_Value***		
	Explanatory Variable: DAEM	
	Coif.	Std. Err.
CSR	13.5593*	8.2023
DAEM	-847.83*	148.6049
*DAEM*CSR*	-5.2558*	8.32466
DInvestorProtection	14625.62*	2566.638
*DAEM*CSR*InvestorProtection*	33.1978*	7.15610
Size	573.607*	87.787
Debt	2.6299***	1.4714
Risk	0.0794476	1.4198
Working_Capital	-0.23428**	0.09571
R&DIntensity	1.8481	1.15050
Z	1359.90	
m1	-3.30	
m2	-0.89	
Hansen	436.01	

In order to avoid endogeneity, lags t-1 to t-2 of all numerical variables, including interaction variables, are used as instruments.
Notes:
i) Heteroskedasticity-consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate a significance of 1%, 5% and 10%, respectively.
iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as $\chi 2$ under the null hypothesis of no relationship; the degrees of freedom and significance are between parentheses.
iv) mi (m1 and m2) is a serial correlation test of order i that uses residuals in first differences, asymptotically distributed as N(0,1) under the null hypothesis of no serial correlation.
v) Hansen is an over-identifying restrictions test, asymptotically distributed as χ 2 under the null hypothesis of non-correlation between the instruments and the error term; the degrees of freedom and significance are between parentheses.

CSR reflects the sustainable practices of company i for period t. FP represents financial performance, measured by means of the market value. DEM is a dummy variable that takes the value 1 when EM is above-average for the corresponding sector, year and country, and 0 otherwise. This variable is called DAEM for accruals earnings management. DAEM*CSR is a numerical variable measured by the interaction between DAEM and CSR, and it represents companies that implement CSR practice as entrenchment strategies to conceal AEM practices. InvestorProtection is a dummy variable that takes the value 1 if the firm is located in a country with above-average investor protection, and zero otherwise. DAEM*CSR*InvestorProtection is a numerical variable measured by the interaction between DAEM*CSR in companies located in countries with strong investor protection. *Size* represents the size of a company and is measured by the logarithm of its total assets. *Debt* reflects the debt of the company and is calculated as the ratio of debt to equity. *Risk* represents the faced risk, and is measured by the beta. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

$$\mathbf{FP_{it} = \text{ø} + \text{ø}_1 CSR_{it} + \text{ø}_2 DEMit + \text{ø}_3 DEM{*}CSR_{it} + \text{ø}_4 DEM{*}CSR{*}InvestorProtection_{it} + \text{ø}_5 DInvestorProtection_{it} + \text{ø}_6 Size_{it} + \text{ø}_7 Debt_{it} + \text{ø}_8 Risk_{it} + \text{ø}_9 Working_capital_{it} + \text{ø}_{10} R\&DIntensity_{it} + \eta_i + \mu_{it}}$$

With the aim of simplifying previously obtained results, figure 1 shows the evidence obtained regarding the effect of entrenchment strategies on financial performance. It also shows the moderating effect of the level of national commitment to CSR and the level of investor protection in the company's country of origin.

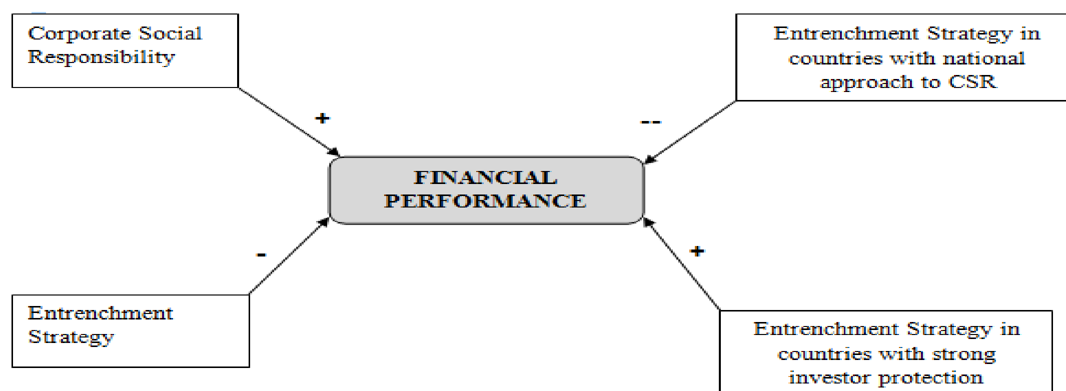

Figure 1. Effect of Entrenchment Strategies on Financial Performance

4.4. Robust Analysis

In order to obtain robust data regarding the relationship that has been analyzed, two variables that are alternative to purely accounting EM will be used: REM and FRQ. The relation between CSR*EM and FP will also be analyzed in accordance with the different sub-indices of the CSR variable: *SOCIETY, HUMAN RIGHTS, ENVIRONMENTAL* and *BOARD INDEX.*

In the first model of Table 7, we have used EM real measures of, based on the aggregated measure of abnormal operating cash flow, abnormal product cost and

abnormal discretionary expenses, as proposed by Zang et al. (2012). The results prove that the effect of sustainable practices on performance is positive (coef. 111.6436) at a confidence level of 99%. Its interaction with EM is neither negative nor statistically significant (coef. 2.0011 and p-value= 0.2940). In order to understand this non-significant effect, it is necessary to take into account that REM instruments, compared with AEM practices, are less visible for investors, market, auditors and other stakeholders.

In the second model, we have used the FRQ measured with the Ball and Shicakumar (2006) model. The results prove that the effect of sustainable practices on performance is positive (coef. 112.1541) at a confidence level of 99%. However, the effect of the quality of financial information reported by companies on FP is not significant. Similarly, the interaction between CSR and the DFRQ dummy variable, gathering data of companies with above-average FRQ, is not significant in market valuation. This null effect has been justified by the fact that it is too difficult for investors to identify the level of quality of financial reporting.

Table 7. Robust Analysis. Moderating Effect of REM and FRQ on the Relation between CSR and FP

	Dependent variable: ***Market_Value***			
	Coef.	Std. Err.	Coef.	Std. Err.
CSR	111.6436*	4.030905	112.1541*	3.755014
DREM	-18.7468	97.0485		
*DREM*CSR*	2.0011	1.9089		
DFRQ			-387.2974	91.67747
*DFRQ*CSR*			-8.119041	1.764525
Size	631.5697*	70.22328	654.8486*	64.45743
Debt	2.679145**	1.358576	2.710104***	1.426074
Risk	-2.9505**	1.3663	-4.078354*	1.507285
Working_Capital	-0.2693*	0.0763	-0.3350521*	0.0782069
R&DIntensity	-2.8440	1.7531	-5.046659*	0.9795799
Z	1343.34		1590.78	
m1	-3.145		-3.23	
m2	-0.94		-0.97	
Hansen	569.92		583.22	

In order to avoid endogeneity, lags t-1 to t-2 of all numerical variables, including interaction variables, are used as instruments.
Notes:
i) Heteroskedasticity-consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate a significance of 1%, 5% and 10%, respectively.
iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as $\chi 2$ under the null hypothesis of no relationship; the degrees of freedom and significance are between parentheses.
iv) mi (m1 and m2) is a serial correlation test of order i that uses residuals in first differences, asymptotically distributed as N(0,1) under the null hypothesis of no serial correlation.
v) Hansen is an over-identifying restrictions test, asymptotically distributed as χ 2 under the null hypothesis of non-correlation between the instruments and the error term; the degrees of freedom and significance are between parentheses.

CSR reflects the sustainable practices of company i for period t. FP represents the financial performance, measured by means of the market value. DEM is a dummy variable that takes the value 1 when EM is above-average for the corresponding sector, year and country, and 0 otherwise. This variable is called DREM for real earnings management, and DFRQ for the quality of financial statements. DREM/FRQ*CSR is a numerical variable measured by the interaction between DREM/FRQ and CSR that represents companies that implement CSR practices as entrenchment strategies to conceal EM practices. Size represents the size of a company and is measured by the logarithm of its total assets. Debt reflects the debt of a company and is calculated as the ratio of debt to equity. Risk represents the risk faced, and is measured by the beta. Working Capital represents liquidity, measured as the difference between current assets and current liabilities. R&DIntensity represents the ratio of R&D expenditure to total sales.

$\mathbf{FP_{it} = ø + ø_1 CSR_{it} + ø_2 DREM/FRQit + ø_3 DREM/FRQ*CSR_{it} + ø_4 Size_{it} + ø_5 Debt_{it} + ø_6 Risk_{it} + ø_7 Working_capital_{it} + ø_8 R\&DIntensity_{it}} + \eta_i + \mu_{it}$

Table 8 represents the moderating role of EM in the relationship between different aspects of CSR (society, human rights, environment and board) and FP. In the same line as the first analysis, EM practices have a detrimental effect on companies' performance due to the negative effect of this manipulative behavior. However, only society and corporate governance issues are significant in our model. In these areas, the implementation of CSR practices as an entrenchment practice to avoid disclosure and EM actions generate a detrimental effect on performance (in the case of society issues, coef: 209.4913 – 11.78905= 197.70225; in the case of CG issues, 261.3007-35.05967= 226.24103). With these results, we can specify previous results. There is a relationship between FP and sustainable practices, i.e. companies with good performance have resources to carry out economic, social and environmental actions. Stakeholders of companies that manipulate their profits and use society and corporate governance CSR practices as entrenchment strategies to avoid EM practices are able to detect this entrenchment strategy. However, the reason why this cannot be extrapolated to environmental and human right practices could be the high cost of these activities. This could lead investors to consider that they are not being used by managers in order to obscure manipulated accounting results.

Table 8. Robust Analysis. Moderating Effect of EM on the Relation between CSR (sub-index) and FP

	Independent variable: ***Market_Value***							
	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.	Coef.	Std. Err.
Society	209.4913*	6.972415						
Human Rights			697.0308*	113.7059				
Environmental					468.4748*	39.57315		
Corporate Goverance							261.3007*	9.102385
Size	748.6637*	73.82992	870.4635*	80.25009	647.2504*	75.5704	617.056*	73.13615
Debt	3.6528*	1.383457	1.136288	1.395011	0.8418519	1.755987	1.736852	1.170198
Risk	-1.501779	1.72167	-6.303849*	0.8063676	-8.736793*	1.632827	-1.539478	1.403918
Working_Capital	-0.38705*	0.0911871	-0.1534563**	0.0613762	-0.2057927**	0.0892191	-0.2899698*	0.0699572
R&DIntensity	-1.120613	1.501391	3.183726**	1.363937	-3.493374*	1.218072	5.399274	3.571229
DAEM	-367.7455*	112.3087	-903.0503**	349.0466	-210.5264**	88.04836	-80.07198	63.37714
*DAEM*Society*	-11.78905*	3.351703						
*DAEM*Human Rights*			-65.45617	39.87258				
*DAEM*Environmental*					-6.842739	8.633572		
*DAEM*Board*							-35.05967*	6.578157
Z	1256.61		483.82		334.47		2592.17	
m1	-3.30		-3.18		-3.07		-3.17	
m2	-0.99		-1.00		-0.86		-0.98	
Hansen	572.55		554.16		469.59		549.78	

In order to avoid endogeneity, lags t-1 to t-2 of all numerical variables, including interaction variables, are used as instruments.
Notes:
i) Heteroskedasticity-consistent asymptotic standard error in parentheses.
ii) *, ** and *** indicate a significance of 1%, 5% and 10%, respectively.
iii) z is a Wald test of the joint significance of the reported coefficients, asymptotically distributed as $\chi 2$ under the null hypothesis of no relationship; the degrees of freedom and significance are between parentheses.
iv) mi (m1 and m2) is a serial correlation test of order i that uses residuals in first differences, asymptotically distributed as N(0,1) under the null hypothesis of no serial correlation.
v) Hansen is an over-identifying restrictions test, asymptotically distributed as χ 2 under the null hypothesis of non-correlation between the instruments and the error term; the degrees of freedom and significance are between parentheses.

5. DISCUSSION OF RESULTS

The aim of this research is to highlight the effect of entrenchment strategies on FP. The reason is that CSR can be conceived as a mechanism to mask EM practices and to avoid their detection by the market. In addition, our second aim is to analyze the role of institutional factors in this relationship.

The empirical evidence obtained allows us to support similar results from Sundaramurthy (2000). This author argues that the market value of a company decreases when it carries out entrenchment practices. We can also support Surroca and Tribó (2008), who proved that entrenched managers can collude with stakeholders with the aim of strengthening their strategy and of continuing acting in their own interest - therefore, causing a worst performance. Consequently, our empirical evidence is discordant with organizations that opt for greater socially responsible as a means of concealing mismanagement by their directors, thus avoiding costly boycotts, damaging campaigns in media (Bansal, 2005) and the monetary compensation that shareholders and other stakeholders may demand for the losses suffered (Zahra et al., 2005).

Our empirical evidence is in accordance with the hypothesis propounded and evidence obtained by Surroca and Tribó (2008), who argue that "managerial entrenchment practices are positively related to improvements in CSR which, in turn, negatively affects firms' financial performance". Including EM in this analysis leads to lower FP, and this is evidenced when CSR actions promoted by managers as a means to mask their profit lead to a negative and detrimental effect on the company's market value. In addition, institutional factors moderate the effect of entrenchment strategies in the relation between CSR and FP.

Furthermore, our research shows that investors located in countries with strong investor protection laws do not identify CSR practices as an entrenchment strategy, since they consider that the legal system protects them and that managers carry out CSR practices with an ethical aim.

Regarding the national commitment to sustainability, we got proof regarding the fact that firms located in a country where pressure to implement CSR practices is high, the effect of entrenchment practices is much more detrimental in those firms' performance than in companies located in countries with fewer commitment to

sustainability. According to Marginson and Sisson (1994) and Ferrer and Quintanilla, (1998), such countries have a communitarian perspective and are characterized by laws aimed at protecting workers' and other stakeholders' rights. Therefore, it seems logic that CSR entrenchment practices could be imposed higher investor sanctions.

In short, the results of this research prove that CSR actions promoted by managers as a means to mask their own management profit provoke a negative and detrimental effect on the market value of the company. This detrimental effect on FP is especially important in countries that are strongly commitment to CSR, and where levels of investor protection or stock market development are lower. In addition, this effect differs depending on the type of EM and CSR practices carried out, as well as on the level of firms´ commitment to sustainability.

6. CONCLUDING REMARKS

The dramatic increase of firms´ sustainable commitments posed again a debate about the impact of sustainable practices on business performance, an area in which there was no previous agreement. Moreover, this continued growth calls into question the real purpose behind CSR practices. Several studies have defined the use of CSR as an entrenchment mechanism employed by managers, who use their discretionary powers as a means of heading off activism by company's stakeholders. This unethical behaviour increases the deep interest shown by employees, shareholders, government agencies, regulators and other stakeholders in the profit obtained by a company, as well as in its connection with social practices.

For this reason, the aim of this research is to clarify the moderating role of EM in that relationship, since managers might commit to CSR in order to avoid the negative impact of earnings management on FP. As in the previous chapter, thanks to the use of an international database (and consequently, of the diversity between countries), it is possible to study if the analysis relation differs depending on the institutional context. Therefore, national commitment to CSR and the level of investor protection are used as macro-environment characteristics. These factors have been recently analyzed as one of the causes that determine the development of market valuation, of corporate sustainability, and as one of the mechanisms that avoid EM practices aiming to protect shareholders' interests.

Results prove the existence of a moderating effect of manipulative behavior. CSR actions promoted by managers as a means to mask their profit manipulation lead to a negative and detrimental effect on the company's market value. In spite of the positive impact of CSR activities on firms' performance, they lead to lower FP if they are the result of the mixing and implementing EM practices. However, investors have several problems to detect REM practices as well as the use of both environmental and human rights as managerial entrenchment strategies in order to limit the negative consequences linked to managers' discretionary actions. In this sense, firms that are highly committed to these type of CSR are less analyzed by the stock market and carry out EM practices without any consequences, because interest groups have a good image of these firms.

In addition, these relationships differ depending on the national commitment to CSR and the level of investor protection. The detrimental impact on FP increases if entrenchment strategies are carried out in countries that are strongly committed to CSR. This is due to the fact that stakeholders may identify these unethical practices. On the other hand, better investor protection reduces the detrimental effect of EM practices on FP. Markets located in environments with strong investor and stakeholders protection legislation do not consider sustainable practices to be a strategy that would damage their own interests. Quite the opposite, they consider them to be a kind strategy with economic, social and environmental components. Thus, investors do not penalize such practices when they assess companies, and the negative impact of these practices is reduced. In short, market is not able to detect managerial entrenchment in companies located in countries with better investor protection.

In this sense, it is necessary to remark that market is unable to detect the use of CSR as a tool to avoid the negative impact of EM in countries where the stock market is strongly developed. In this context, managers could report accounting results that do not correspond to those really achieved, by promoting sustainable actions aimed at going beyond their own interest and welfare. This would guarantee their continuity and their leadership position, as well as the continuation of manipulative accounting practices for a prolonged period of time.

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CHAPTER V

Effect of Earnings Management and Sustainable Practices on the Cost of Capital and Corporate Reputation. Additional evidence for Managerial Entrenchment

1. INTRODUCTION

Relevance and quality of accounting information have become a topic of interest, concern and deep controversy for society because the increasing spread of conduct codes and codes of good governance. Their objective is to improve corporate monitoring and to promote business ethics with the aim of reducing the number of financial and accounting scandals. Although company agents of different rank or different level of responsibility have been involved in most of these accounting decisions, we are focused on the same kind of accounting discretional practices as in previous chapters: Earnings Management (EM). This is due to the negative consequences of this decision (i.e., Fombrun et al., 2000; Francis et al., 2004, 2005; Lambert et al., 2007).

According to Zahra et al. (2005), consequences of discretional behavior are very different and could affect several market agents - not only investors, but also employees, local communities, society or even corporate reputation itself, and thus, the these companies' market value. Regarding its effect on the cost of capital, earnings quality (the opposite of EM) is linked to a decrease of information asymmetries, which affect the cost of capital (Bhattacharya et al., 2003; Francis et al., 2005, 2008a; Blanco et al., 2009). This plays a fundamental role in financing and general decision-making (Dhaliwal et al., 2011). In addition, these unethical accounting practices produce a negative effect on companies' value, assets, transactions, reputation and corporate image (Fombrun et al., 2000; Roychowdhury, 2006). It also causes a loss of support from shareholders, investors and other stakeholders, and increasing activism and surveillance by interest groups and regulatory authorities (Zahra et al., 2005).

Corporate Social Responsibility (CSR) is playing a fundamental role in companies´ strategies. Among some of the reasons that managers may have to implement sustainability actions are: increasing sales, enhancing a positive corporate image for investors, improving the reputation of the company (Sen and Bhattacharya, 2001), reducing investors' and market's risk perception, and subsequently, the cost of capital. In other words, managers have many incentives to boost a sustainability strategy in order to achieve incremental gains and to maintain, protect and improve their firm´s

reputation (Peloza, 2005; McWilliams et al., 2006). This helps to create a favorable image of the company (Fombrun et al., 2000).

However, as shown in the previous chapter, a debate on the real objective of sustainable practices is again posed. The reason is that these practices may mask entrenchment strategies, the objective of which would be not having EM practices identified (Prior et al., 2008; Gargouri et al., 2010).

In order to improve previous empirical evidence, the aim of this research is to clarify the effect of one of the most important non-ethical management behaviors, EM, on the cost of capital and on company reputation. Similarly, this chapter analyzes the effect of sustainable practices on the same dependent variables, in order to understand whether and how CSR practices have an impact on companies' reputation and on the cost of capital. With the aim to highlight the possible use of CSR practices as entrenchment strategies, the third objective is to analyze the effect of CSR on the cost of capital and on reputation (when CSR is used as a tool to disguise EM practices). We hypothesized that corporate reputation is a consequence of the information received by the public about companies' sustainable behavior or strategies (Brammer and Pavelin, 2004), which affects stakeholders´ image of the firms, and entails lower returns in the case of investors.

Due to the lack of data on reputation and on cost of capital for the period we were working on, our sample has been modified and has decreased. Our empirical analysis is now based on a sample comprising 1,757 international non-financial listed companies, with 8,785 observations from 25 countries and the Administrative Region of Hong Kong for years 2006 to 2010. Just like in previous chapters, several institutional factors were selected in order to identify the macro-environment of companies´ country of origin. This way, we can control the differences among multinational companies.

According to Botosan and Plumlee (2005), Blanco et al. (2009) and El Ghoul (2011), we use the PEG ratio proposed by Easton (2004), which is positively related to risk measures. Therefore, it is a good measure of implied cost of capital. As for corporate reputation, we use a methodology based on the Fortune Index, which is a commonly-used measure of corporate reputations in several researches (Fombrun and Shanley, 1990; Melo and Garrido-Morgado, 2012). Specifically, we use the W*orld´s*

most admired companies 2006-2010 rankings (alphabetical indices of the most admired companies according to the top 50 yearly surveys and industry rankings). We defined a dummy variable to identify if firms are between the most admired companies or not.

In order to determine the effect of these corporate practices on the cost of capital, the Generalized Method of Moments (GMM) estimator proposed by Arellano and Bond (1991) will be used again. Evidence on corporate reputation will be obtained with the use of a Logit methodology for panel data. Both techniques control each company's unobservable heterogeneity, which is invariant throughout time.

Results prove that EM practices entail higher costs of capital as a consequence of market's negative value of the information disclosed by companies. On the contrary, investors of companies boosting sustainable practices demand lower rates of return. Therefore, companies obtain economic and financial profits from this type of practices. Unlike previous literature, this research highlights that the implementation of CSR practices as entrenchment strategies is not penalized by the market, because it does not demand a higher risk premium when it detects the real aim pursued by managers. This is especially important for investor protection oriented countries, but cannot be extended to companies operating in countries committed to sustainability.

As for reputation, results prove the detrimental effect of managers' discretionary behavior on companies' corporate reputation. Therefore, market detects unethical actions and punishes these companies with less market value, and thus with less reputation. However, the reputation of companies that boost the most social or environmental sustainable development is higher, and are considered to be among the *World´s most admired companies*. Regarding previous research, this chapter has also highlighted that the effect of CSR practices (when implemented as entrenchment strategies to conceal EM) is neutral on corporate reputation. However, contexts with strong investor protection and great commitment to sustainability favor the detection of discretionary managerial behavior, which causes a negative effect on corporate reputation.

This article is structured in five sections after this introduction. In the first one, we provide with the theoretical framework and previous empirical research in order to establish our working hypotheses. The next section describes the methodology: the

sample, variables and empirical models used to test hypotheses. Section four presents the results of our empirical analysis, and section five, the discussion of results. Finally, we present the main conclusions drawn.

2. THEORETICAL FRAMEWORK. RESEARCH HYPOTHESES

2.1 Earnings Management, Cost of Capital and Corporate Reputation

EM, when performed by managers using their discretionary powers, involves decisions that may be purely financial or refer to real commercial practices (Schipper, 1989). Without a doubt, consequences of these management practices are detrimental – they reduce companies' value, assets, transactions, reputation and corporate image (Fombrun et al., 2000). They also cause a loss of support from shareholders, investors and other stakeholders, and increasing activism and surveillance by interest groups and regulatory authorities (Zahra et al., 2005). In particular, we are going to focus on the consequences of EM practices on the cost of capital and on company reputation, which are some of the detrimental results of this kind of practices.

2.1.1 EM and Cost of Capital

Cost of Capital is defined by Botosan (2006) as "the minimum rate of return on equity to investors providing capital to the firm". This variable plays a fundamental role in financing and general decision-making (Dhaliwal et al., 2011). Throughout literature, several researches have considered earnings quality to be linked to the decrease of information asymmetries, which affect the cost of capital (Bhattacharya et al., 2003; Francis et al., 2005, 2008a).

Theory suggests that investors and market demand higher rates of return for the capital provided to companies that have had manipulative behaviors (Lambert et al., 2007). Investors that detect EM are not able to estimate the cash flows – therefore, the risk perception and the cost of capital increase.

From a theoretical point of view, arguments determining this direct relation between EM and cost of capital are mainly focused on two aspects. Firstly, the cost of capital varies depending on the risk (Lambert et al., 2007). So, when managers behave discretionarily against shareholders' wealth, the risk perceived by the market regarding

these companies is higher, just like the profitability demanded to invest in them (principle of profit-risk). This causes higher costs of capital. Secondly, EM practices, when they are considered to be agency costs (Davidson et al., 2004), increase information asymmetries between investors and managers. Investors demand a higher rate of profit for their shares because of the lack of complete information that would allow the market to participate with the same conditions. This causes higher costs of capital again (Francis et al., 2008b). In short, the relation between EM and cost of capital is based on risk perception and on the profitability demanded by investors according to the risk perceived.

The Signaling Theory is especially important in this theoretical justification because top quality financial information and less EM practices decrease information asymmetries between managers and investors or creditors. Therefore, the latter can assess and be conscious of the risk they accept when investing. As propounded by Meek and Gray (1989), every international company must face financial and market pressures to disclose information when competing for investors. Disclosing the real financial situation of a company to market and its participants has a positive effect on the company value and entails lower costs of capital. Market positively values the decrease of information asymmetries, and will provide these companies with a benefit dealing with the reduction of the cost of capital, because investors demand lower rates of profit for their investments when they perceive less risk.

Francis et al. (2005), Gray et al. (2009) and Kim and Sohn (2011) proved that companies that implement manipulative practices support higher costs of capital. This is so because unethical policies increase company risk, and thus, investors demand higher return.

Francis et al. (2004) and Blanco et al. (2009) find that companies with better earnings quality (the opposite of EM) are linked to lower costs of capital. They proved evidence that the cost of capital of companies with poor quality of accruals have is higher because “this information risk is a priced risk factor”.

Lambert et al. (2007) corroborated that better financial reporting quality reduces the likelihood of the implementation of EM practices by managers pursuing their own

interests. Therefore, increasing the quality of information also entails lower cost of capital.

García-Lara et al. (2011) find a negative link between conditional conservatism and cost of capital. Conservatism, a proxy of financial reporting quality, entails a more timely incorporation of economic loss into accounting earnings in comparison with economic profits (Ball et al., 2000). In this sense, the cost of capital of companies with stronger verification requirements for the recognition of profits and losses is lower. Again, the reason is the decrease of information asymmetries between managers and investors, and the subsequent decrease of perception risk.

In short, several researches have previously considered earnings quality to be linked to a decrease of information asymmetries, which affect the cost of capital. Our first objective is to determine whether the cost of capital of companies is higher as consequence of EM practices. In this sense, these companies have a bigger asymmetry problem that makes investors demand higher returns. According to previous evidence and arguments, we propound the next hypothesis:

HYPOTHEIS 1a: The increase of the Cost of Capital is a consequence of Earnings Management practices.

2.1.2 EM and Corporate Reputation

Reputation could be defined as “a perceptual representation of a company´s past actions and future prospects that describe the firm´s overall appeal to all its key constituents when compared to other leading rivals” (Fombrun, 1996). In this sense, corporate reputation is considered to be one of the critical factors to achieve an inimitable and long-lasting competitive advantage (Dowling, 2004; Choi and Wang, 2009).

Any company’s corporate reputation is a consequence of the information received by the public about its behavior, either via press, the market or the company itself (Brammer and Pavelin, 2004). Some authors have observed the negative impact that these unethical accounting practices have on companies’ value, assets, transactions, reputation and corporate image (Fombrun et al., 2000; Roychowdhury, 2006). They also

cause the loss of support from shareholders, investors and other stakeholders, and increasing activism and surveillance by interest groups and regulatory authorities (Zahra et al., 2005). If stakeholders do not receive valuable outcomes from their managers, corporate reputation is damaged. This lowers both the attraction of external capital and revenues (Fombrun et al., 2000).

Therefore, from a theoretical point of view, the starting point of the inverse relation between EM and reputation is the detection of this type of practices by the market. A series of consequences is triggered when the manager of a company boosts discretionary practices and the market or one of its participants detect the unethical nature of these practices. Among these consequences are: the loss of support not only from investors, clients, suppliers or financial entities, but also from society; the loss of trust in corporate management, and in the validity and reliability of accounting information; and, finally, and as a consequence of the previous factors, the deterioration of corporate image and the loss of corporate reputation.

It must be highlighted that losing corporate reputation as a consequence of EM practices does not only affect companies: it individually causes a loss of managerial reputation (Zahra et al., 2005) when accounting scandals or EM practices are exposed and market knows about these actions.

EM consequences on corporate reputation have not been studied in depth. There is few research about this topic, but there is evidence about managers' loss of reputation when cases of fraud are exposed (Kasznik, 1998; Francis et al., 2008b). Managers who are involved in accounting or financial scandals practices are not the only ones whose reputation decreases because of these unethical practices. Companies themselves are also and especially affected by the actions of their managers, who were delegated responsibility by them. Market and investors strongly penalize companies that implement earnings management strategies or management entrenchment, because they lose confidence in them regarding and in the relevance and reliability of published accounting information.

According to previous evidence and in accordance with the detrimental effect of EM practices, our second objective is to highlight the effect of EM practices on corporate reputation. Our hypothesis propounds the existence of a negative link between

EM and reputation: manipulative practices produce a detrimental effect on companies' corporate reputation and also the loss of support from shareholders, investors and other stakeholders.

HYPOTHESIS 1b: The decrease of Corporate Reputation is a consequence of Earnings Management practices.

2.2 Corporate Social Responsibility, Cost of Capital and Corporate Reputation

CSR could be defined as corporate actions aimed at "creating economic, social and environmental short-term and long-term value. It contributes to the the welfare of present and future generations, in both their immediate environment and in our planet" (Nieto and Fernández, 2004). It involves practices aimed at resolving the conflict of interest between shareholders and other stakeholders (customers, suppliers, workers, etc.). It also involves going over and above strict legal requirements for corporate behavior, and the ethical aspect of "doing right". In other words, the aim of sustainability is to adopt strategies that must be compatible with the company and society (Basu and Palazzo, 2008).

By means of these economic, social and environmental practices, companies do not only achieve a threefold impact on their income statements: this social policy also benefits the company itself and its stakeholders.

Moreover, economic, social and environmental performance aims to reduce the cost of capital and to increase corporate reputation (Peloza, 2005).

2.2.1 CSR and Cost of Capital

Companies that carry out and promote sustainable practices achieve a positive assessment by investors and by market, which reduces the cost of capital. This is so because market agents are significantly sensitive to social and environmental issues and the risk of companies committed CSR is lower according to them (Gregory et al., 2011).

The cost of capital varies depending on the risk (Gregory et al., 2011). In this sense, several authors have reported that the risk level of non-sustainable companies is

higher (Robinson et al., 2008). By means of sustainability, companies can reduce information asymmetries between managers, market and investors.

Investors who have information available on ethical business aspects of companies are more certain about the actions, policies and strategies that these companies carry out. They are therefore willing to receive a lower return on their investment. Thus, we can consider that the cost of capital of ethical companies is lower.

According to El Ghoul et al. (2010), the cost of capital of companies implementing CSR policies is lower because investors and market consider these companies to be less vulnerable and more confident. In this sense, tobacco and nuclear power companies increase their cost of equity. Social concessions reduce the systematic risk, which determines the cost of capital. These companies have to remunerate investors with higher returns to compensate for their greater risk (El Ghoul et al., 2010).

Dhaliwal et al. (2011) find that the cost of capital increases the likelihood of releasing CSR reports. This is so because the cost of capital of companies that disclose information about their sustainable behaviors is lower as a consequence of their transparence, which suggests they are behaving ethically.

According to previous evidence and arguments, we propound the next hypothesis:

HYPOTHESIS 2a: The decrease of the Cost of Capital is a consequence of sustainable strategies.

2.2.2 CSR and Corporate Reputation

Sustainable strategies can affect financial performance (Orlitzky et al., 2003) and cost of capital, as well as business reputation. Thus, they help to create a favorable image of the company, which will indirectly entail additional economic benefits (Fombrun et al., 2000). CSR practices must be considered to be investment strategies aiming at improving or maintaining corporate reputation (Knox and Maklan, 2004; McWilliams et al., 2006).

According to the Stakeholders Theory, companies' ability to generate sustainable wealth is determined by their relations with different relevant groups of stakeholders

(Carroll, 1979; Freeman, 1984; Jones, 1995; Donaldson and Preston, 1995; Mitchell et al., 1997; Post et al., 2002). Their aims are to obtain the support of interest groups, which helps to achieve long-term performance and the acceptance of their strategy (Gray et al, 1995). When companies get long-term support from their stakeholders and their credibility on the market is reinforced, their reputation, considered to be a precious intangible asset, increases (Branco and Rodrigues, 2006).

Several studies have focused on the impact of sustainable commitment on investors', customers' and market's perceptions. These researches have reported the positive link existing between CSR strategies and corporate reputation. For example, Williams and Barrett (2000) prove the positive relationship between philanthropy and corporate reputation. Credible sustainable practices improve the corporate image of companies as perceived by customers, investors, bank, market and suppliers (Sen et al., 2006). Furthermore, this ethical behavior reduces the information asymmetry issue; thus, brand value or reputation are created, specifically when CSR strategies aim at satisfying community interests (Torres et al., 2012).

In the same way, authors such as Brammer and Pavelin (2004), Lai et al. (2010) or Melo and Garrido-Morgado (2012) have reported the positive effect of CSR on reputation. These authors observed that corporate reputation is the result of diverse management strategies, but stated that the most effective ones are sustainable practices.

In line with previous arguments and evidence, we propound the following hypothesis:

HYPOTHESIS 2b: The increase of Corporate Reputation is a consequence of sustainable strategies.

2.3 CSR practices as Entrenchment Strategy

The increasing importance of sustainability all over the world has focused the attention on CSR (Yip et al., 2011), which created a climate of skepticism among many stakeholders due to the unstated attitudes of many companies with respect to these practices (Barnett, 2007): they could be used as entrenchment strategies to help managers to achieve their own utility function (Handelman and Arnold, 1999).

The state of the art in the conception of sustainable practices is described in the previous chapter. These practices are considered to be entrenchment strategies that are a consequence of unethical management by the corporate board of directors.

Among all the research dealing with this matter, Cespa and Cestone (2007) stand out. These authors proved that managers who use their discretionary powers when EM is being implemented in a company often implement CSR. They do so to prevent negative reactions and subsequent surveillance by stakeholders who might be affected by EM

Basing on previous arguments, we are agreed with the existence of entrenchment strategies that are the result of the combination of economic, social and environmental practices with results management practices. The aim of these strategies is to conceal discretionary behaviors. As explained in the previous chapter, market can detect these strategies. Regarding this, there are two options. Firstly, the market may identify CSR practices and consider them to be managerial entrenchment strategies. In this case, the market would punish those companies with higher costs of capital and less reputation. Secondly, investors, market and stakeholders (although they may assume that this situation may happen) might not have the necessary information (because of information asymmetries) that would allow them to clearly identify the risk linked to the use of CSR practices to conceal EM ones. Therefore, they would not penalize the company. That is, investors and interest groups would still considered sustainable actions to be an economic, social and environmental commitment of the company. Thus, they would demand lower costs of capital and grant higher corporate reputation. This means that, even if the market does not have enough information to identify the risk linked to entrenchment strategies, it keeps on positively valuing the company thanks to CSR practices. As a consequence of this, the market grants the company higher corporate reputation and image, and investors demand lower rates of return because the risk of these companies is lower.

In this research, we consider the market and stakeholders incapable of identifying the risk of the corporate entrenchment strategy based on the use of CSR as a means to conceal managers' opportunistic and discretionary behaviors, who manipulate corporate results. The reason is that managers use EM tools, which are less visible for investors,

market, auditors and other stakeholders, and which allows them to boost these practices without having them identified by the market (even though this is more costly).

This may be partly due to the current great social consciousness of social and environmental issues. This focuses public's attention on sustainability, although its ultimate goal is concealing EM practices and avoiding their detection.

HYPOTHESIS 3a: Entrenchment strategies on CSR practices aiming to conceal Earnings Management decrease the Cost of Capital.

HYPOTHESIS 3b: Entrenchment strategies on CSR practices aiming to conceal Earnings Management increase Corporate Reputation.

2.4 Institutional Context: National Approach to CSR and Investor Protection

With the aim to control the differences among multinational companies, both institutional factors have been selected in order to identify the macro-environment of the companies´ country of origin.

In accordance with García-Sánchez et al. (2013) o La Porta et al. (1998), classifying countries according to their institutional contexts is difficult, so we will implement an alternative approach: countries will be identified by an analysis of the individual effect of each institutional factor that characterizes the company's country of origin.

2.4.1 Institutional Context with Respect to CSR

As for the first institutional factor (institutional commitment to the level of sustainability), numerous differences regarding the national approach to CSR practices must be taken into account, as previously mentioned. According to Kolk and Perego (2008), the different levels of corporate sustainability might be caused by the pressure exerted by the public regarding these questions. The national approach to sustainability may have influence on market's detection of entrenchment strategies because of pressure, as well as other public characteristics.

In this sense, companies operating in contexts where commitment with sustainability is high and carrying out entrenchment strategies by means of CSR might

be more easily identified and quantified by the market. One of the reasons that may justify this finding is that market is nowadays more concerned about this type of actions, and considers them to be more important now. Prado-Lorenzo y García-Sánchez (2010) prove that there is greater transparency on environmental issues in national contexts where commitment and concern about CSR are greater. Therefore, investors are more likely to detect managerial entrenchment. Shareholders and stakeholders interacting with companies located in this type of environment value this kind of sustainable practices so much that they use to act as activist means. This makes them able to detect and recognize the true aim pursued by these practices.

In this sense, the participants in the market of companies located in environments where CSR pressure is strong are socially committed and detect entrenchment strategies. Therefore, the market can penalize companies that follow unethical behaviors, which are harmful to the interests of shareholders, investors, moneylenders, employees and the rest of stakeholders. As a consequence of this, the first of the previously mentioned two options regarding the detection of these strategies applies. So, the market value of the company is negative, which entails higher costs of capital and lower reputation. With this argument as a basis, we propound the following hypothesis about the moderating factor of institutional contexts.

HYPOTHESIS 4a: The national approach to CSR modifies the effect of CSR entrenchment strategies on the Cost of Capital.

HYPOTHESIS 4b: The national approach to CSR modifies the effect of CSR entrenchment strategies on Corporate Reputation.

2.4.2 Investor Protection

The second institutional factor deals with the level of protection of investors' rights and interests in companies' country of origin. It is considered to be a determining factor of the development of market value and corporate sustainability. Investors' interests come first in companies located in countries with high levels of investor protection. These interests complicate the identification and quantification of the entrenchment effect considered a consequence of managers' directives tendency towards the implementation of EM and CSR practices in these countries.

Previous chapters have mentioned authors who proved the existence of an inverse relation between the level of investor protection and EM practices (La Porta et al., 1999; Haw et al, 2004; Chih et al, 2008). Countries where investor protection is weaker are usually more stakeholder-oriented (Prado Lorenzo et al., 2012): they satisfy their interests (Ball et al, 2000; Simnett et al., 2009) and voluntarily assume certain social responsibilities (Kolk and Perego, 2008).

If previous characteristics are jointly analyzed, it can be observed that companies located in countries where investor protection is strong may not consider CSR practices to be entrenchment strategies, because its investors think that investor protection legislation prevents the risk of managerial expropriation. Furthermore, low commitment to sustainability and low demand of sustainable information complicate the analysis of companies' social and environmental actions. Therefore, we conclude that this gives more importance to CSR practices and so market value is higher, the cost of capital is lower, and corporate image is better.

According to this argument, we propound the following hypothesis about the moderating factor of the institutional environment.

HYPOTHESIS 5a: The level of investor protection does not modify the effect of CSR entrenchment strategies on the Cost of Capital.

HYPOTHESIS 5b: The level of investor protection does not modify the effect of CSR entrenchment strategies on Corporate Reputation.

3. METHODOLOGY

3.1 Population and Sample

The sample used to test the proposed hypotheses involves 1,757 international non-financial listed companies for years 2006 to 2010. The sample is unbalanced, consisting of 8785 observations from 25 countries and an Administrative Region (USA, United Kingdom, Ireland, Canada, Australia, Germany, Netherlands, Luxemburg, Austria, Denmark, Norway, Finland, Sweden, Switzerland, France, Italy, Spain, Belgium, Portugal, Greece, Japan, China, New Zealand, Singapore, Korea and Hong-Kong). This sample was obtained from the fusion of information available in three databases:

Thomson One Analytic, for accounting and financial data; the Ethical Investment Research Service (EIRIS), for data on CSR and corporate governance; and I/B/E/S, for analysts´ earnings and long term growth forecasts. The financial information corresponds to consolidated data of the companies that are analyzed. Corporate Reputation is obtained from Fortune magazine. In particular, we use the *World´s most admired companies* ranking.

3.2 Measurement of the Cost of Capital

Cost of capital is defined by Botosan (2006) as “the minimum rate of return on equity to investors for providing capital to the firm”. According to El Ghoul et al. (2011), Botonsan and Plumlee (2005) and Blanco et al. (2009), we use the PEG ratio Easton model (2004). This is a good measurement of the cost of capital and is positively linked to risk measures (Botosan and Plumlee, 2005). It is based on Price-Earnings-Growth of Ohlosn and Juettnet-Nauroth (2005), and is more useful since it isolates the effect of growth and cash flow (Hail and Leuz, 2006). The $\boldsymbol{r_{PEG}}$ ratio is calculated as follows:

$$r_{PEG} = \sqrt{\frac{EPS_5 - EPS_4}{P_0}}$$

where eps_t means earnings per share in year t, and P_0 is the market price of the firm´s stock. Just like Blanco et al. (2009), we use five-year long-term growth rates from I/B/E/S and Compustat databases to calculate these earnings per share forecasts in year 4 and 5. The model requires positive one-year-ahead and two-year-ahead earnings forecasts as well as positive change in earnings forecast.

3.3 Measurement of Corporate Reputation

Data about corporate reputation came from Fortune magazine. We use a methodology based on the Fortune Index, which is a commonly-used measure of corporate reputations in several researches (Melo and Garrido-Morgado, 2012; Fombrun and Shanley, 1990). In particular, we use of the 2006-2010 *World´s most admired companies* rankings (alphabetical indices of the most admired companies according to

the top 50 yearly surveys and industry rankings). This index is based on the answers to questionnaires sent to executives, outside directors and securities analysts. However, they do not have to answer to every survey – only to those dealing with their own sector or economic activity. Thanks to these results, companies can be classified with respect to their competitors in response to eight reputation attributes. ***REPUTATION*** variable will be a dummy variable with the value of 1 if the company is in the *World´s most admired companies* ranking and of 0 if it is not. This is so in order to avoid the loss of international companies in our sample (we would have to exclude companies that are not listed in the ranking).

3.4 Measurement of Earnings Management

According to our research lines, accounting decisions based on accruals discretionary measures propounded by Dechow et al., (1995) will be our main EM measurement.

With the aim of obtaining robust results, and in addition to AEM measurement, we use models where accounting manipulation is based on real relations, and models that analyze the role of FRQ.

Therefore, the variables that were described and used in previous chapters are the same in this one.

3.5 Measurement of Corporate Social Responsibility (CSR)

CSR is represented by an index regarding the level of sustainable business practices in areas such as environment, human rights and stakeholder relations. The information is taken from the EIRIS database, and the value of each item is in the range -3 to +3. Companies are considered to be socially responsible when the score is above the threshold of 0. To obtain this CSR construct, we analyzed several areas, including environmental issues, human rights and relations with stakeholders. The development of this construct, as with previous measurements, has been previously explained.

3. 6 Institutional Context Variables

Similarly, and with the aim of analyzing the differences between countries with

different institutional contexts, we analyzed two factors: the level of commitment to sustainability (measured by dummy variable *DNCRI*) and the level of investor protection in the company's country of origin (measured by the dummy variable *DINV_PROTECTION*).

3.7 Control Variables

In order to avoid biased results, we included several control variables. In our analysis, we defined firm size, leverage, risk, operating liquidity and R&D intensity as control variables.

3.7 Model and Analysis Technique

The objective of this research is determining the effect of EM and CSR practices on the cost of capital and on corporate reputation – especially, when CSR practices are used as an entrenchment strategy aiming at preventing the detection by the market of managers' results management.

With these objectives in mind, the econometric analysis is sub-divided into two models: A and B. The dependent variable of the first one is the cost of capital. Corporate reputation is the dependent variable of the second one.

According to our previous arguments, $\boldsymbol{r_{PEG}}$ and ***REPUTATION*** are estimated with respect to EM practices and control variables that were selected from previous literature in this field.

$$r_{PEG}/REPUTATION_{it} = \phi_1 EM_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risk_{it} + \phi 5 Working_capital_{it} + \phi_6 R\&DIntensity_{it} + \eta_i + \mu_{it} \quad [1]$$

Just like the previous model, the effect of CSR practices on the cost of capital and on company reputation is analyzed. Again, cost of capital and reputation are analyzed according to the level of sustainability and to the rest of control variables.

$$r_{PEG}/REPUTATION_{it} = \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risk_{it} + \phi 5 Working_capital_{it} + \phi_6 R\&DIntensity_{it} + \eta_i + \mu_{it} \quad [2]$$

In order to test the moderating effect of sustainable practices, we estimate another model, in which r_{PEG} and *REPUTATION* are estimated again with respect to control variables selected from previous literature in this field. However, the interaction of EM with CSR in this model acts an explanatory variable in the equation. The numerical variable representing CSR and EM practices, as well as their interaction as independent variables, are included in the following models.

$$r_{PEG}/REPUTATION_{it} = \phi_1 EM_{it} + \phi_2 CSRit + \phi_3 CSR*EM_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risk_{it} + \phi_7 Working_capital_{it} + \phi_8 R\&DIntensity_{it} + \eta_i + \mu_{it} \quad [3]$$

Regarding the moderating factors on the effect of CSR combined with EM on r_{PEG} and *REPUTATION*, we estimate two new models to determine the role of: (i) the national approach to CSR; and (ii) the level of investor protection in the company's country of origin. Regarding the first moderating factor, we estimate other equation in which r_{PEG} (*REPUTATIO*N) is estimated again with respect to the interactions of EM with CSR practices on countries where the national approach is strong. Therefore, we estimated the next model:

$$r_{PEG}/REPUTATION_{it} = \phi_1 EM_{it} + \phi_2 CSR_{it} + \phi_3 CSR*EM_{it} + \phi_4 CSR*EM*DNCRI_{it} + \phi_5 DNCRI_{it} + \phi_6 Size_{it} + \phi_7 Debt_{it} + \phi_8 Risk_{it} + \phi_9 Working_capital_{it} + \phi_{10} R\&DIntensity_{it} + \eta_i + \mu_{it} \quad [4]$$

Accordingly, our analysis considers different investor protection contexts with respect to CSR. Thus, we estimated the next model:

$$r_{PEG}/REPUTATION_{it} = \phi_1 EM_{it} + \phi_2 CSR_{it} + \phi_3 CSR*EM_{it} + \phi_4 CSR*EM*DInv_Prot_{it} + \phi_5 DInvestorProtection_{it} + \phi_6 Size_{it} + \phi_7 Debt_{it} + \phi_8 Risk_{it} + \phi_9 Working_capital_{it} + \phi_{10} R\&DIntensity_{it} + \eta_i + \mu_{it} \quad [5]$$

where:

i, represents the company and t represents the time period.

ø, are estimating parameters.

$\varepsilon_{i,}$ represents the unobservable heterogeneity.

$\mu_{i,}$ represents the error term.

r_{PEG} is a numerical variable measured by the Cost of Capital.

REPUTATION is a dummy variable that represents if the firm is one of the most admired companies worldwide or not.

EM is a numerical variable that represents the accounting EM practices measured by the Dechow et al. (1995) model for accruals EM. In order to obtain robust results, this accruals EM measure is replaced by the ral EM measure (REM) and by the FRQ measure (FRQ).

CSR is a numerical variable that reflects the sustainable practices of company.

CSR*EM is a numerical variable measured by the interaction between CSR and EM. It represents companies implementing CSR practices as entrenchment strategies to conceal EM practices.

DNCRI and DINV_PROT are dummy variables that reflect characteristics of the institutional and corporate context. These variables are analyzed by their interaction with CSR*EM.

SIZE is a numerical variable measured by the logarithm of total assets.

DEBT is a numerical variable measured as the ratio of debt to equity.

RISK is a numerical variable measured by the beta market.

WORKING CAPITAL is a numerical variable measured by the difference between current assets and current liabilities.

R&DINTENSITY is a numerical variable measured by the ratio of R&D expenditure to total revenue.

To test the hypotheses regarding the cost of capital (Model 1) that have been proposed, we estimated simultaneous equations for panel data by applying the estimator proposed by Arellano and Bond (1991).

To test the hypothesis regarding reputation (Model 2), a Logit model for panel data will be used. As mentioned in this section, ***REPUTATION*** variable is a dummy variable with the value of 1 if the company is among the *World´s most admired companies* ranking companies, and of 0 if not. In order to avoid that dependent variables may be outside the range of 0 and 1, the solution found among all the possibilities was to use non-linear probability models. They guarantee a result between 0 and 1.

4. RESULTS

4.1 Descriptive Analysis

Table 1 shows the descriptive statistics of the new variables used in this study, expressed in millions of Euros. Regarding the cost of capital, the mean value is 0.000188, and its standard deviation, ± 0.0002264. Table 1 also gathers the absolute and relative frequencies of the dummy ***REPUTATION*** variable, the values of which are 0 or 1. Only 645 companies in the sample (7.38%) are in the *World´s most admired companies* ranking, which is a reputation index of Fortune magazine.

Table 1. Descriptive Statistics

	Mean	**Std. Dev.**
r_{PEG}	0.000188	0.0002264
	Frequencies	
	Absolute	**Relative (%)**
REPUTATION	645	7.38

Table 2 shows the Pearson correlation coefficients between the different variables. Thanks to it, we can analyze the bivariate correlations between these variables. The coefficients are not very high comparing dependent and independent variables, as well as between independent variables.

Table 2. Bivariate Correlations between Variables

	r_{PEG}	*REPUTATION*	*EM*	*CSR*	*DNCRI*	*DINV_PROT*	*Size*	*Debt*	*Risk*	*Working_capital*	*R&Dintensity*
r_{PEG}	1										
REPUTATION	-0.008	1									
EM	-0.0739	0.0354	1								
CSR	-0.2964	0.1545	0.1924	1							
DNCRI	0.0808	-0.0099	-0.028	-0.2049	1						
DINV_PROT	0.0196	-0.0894	-0.0229	-0.1091	0.0401	1					
Size	-0.4205	0.2276	0.0586	0.393	-0.3711	-0.0428	1				
Debt	-0.0204	0.1168	-0.0204	-0.0493	0.0005	-0.0083	0.0346	1			
Risk	0.0049	-0.0271	-0.0005	0.1196	0.1711	0.1176	0.0561	0.0041	1		
Working_capital	-0.1949	0.1921	0.0855	0.2704	-0.1310	0.0521	0.1921	0.0485	0.0881	1	
R&DIntensity	0.0435	-0.1064	0.019	0.1144	0.0201	0.079	0.1272	0.0522	-0.0793	0.0091	1

r_{PEG} *represents* the implied cost of capital, measured by the Easton (2004) model. *REPUTATITON* is a dummy variable that represents if the firm is one of the most admired companies worldwide or not. *EM* represents Earnings Management practices measured with the Dechow et al. (1995) model. *CSR* reflects company i's sustainable practices in period t. *Size* represents the size of a company and is measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the faced risk, measured by the beta. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

4.2 Earnings Management, Corporate Social Responsibility and Cost of Capital

Empirical evidence about the effect of EM, CSR and entrenchment strategies on the cost of capital is shown in Table 3. Firstly, model 1A shows the positive and 99% significant positive effect of EM on the cost of capital (coef. 1.14e-08). Therefore, we cannot reject hypothesis H1a, which deals with the positive link between both variables. Companies that implement unethical management behaviors are penalized by the market with higher costs of capital. Model 2A shows that sustainable practices have a negative relation with the cost of capital (coef. -1.47e-06), at a 95% confidence level. This proves that companies that earmark investors' money for sustainable practices bear lower costs of capital, thus hypothesis H2a cannot be rejected. Both effects are the same for the rest of models (3A, 4A y 5A).

As for the relationship with entrenchment strategies for which CSR is a tool to avoid EM detection (model 3A), the effect on the cost of capital is very negative (-9.08e-10), at a 99% confidence level. In this senses, investors cannot quantify the risk linked to CSR practices when they are implemented as managerial entrenchment strategies. Thus, the cost of capital that investors demand to companies that carry out EM practices decreases. Therefore, hypothesis H3a cannot be rejected.

If we take into account the institutional environment, the effect linked to entrenchment strategies is the same in contexts where investor protection is strong (model 5A). The result of the interaction of EM_CSR_DINV_PROTECTION is again negative (-2.31e-09) at a confidence level of 99%, and it reinforces the low cost of capital obtained when an entrenchment strategy is applied. Therefore, in companies operating in contexts where investors are safe and their interests and rights tend to be protected by law, managers implement CSR practices to conceal EM. The reason is that both the market and in particular investors do not consider entrenchment to be a consequence of the confidence that market has towards legislation protecting its interests and towards managers' ethical behavior. Therefore, hypothesis H5a cannot be rejected.

However, as model 4A shows, the effect on the cost of capital of entrenchment strategies carried out in countries strongly committed to sustainability is penalized by

investors - these companies' cost of capital increases. The effect of the interaction between EM_CSR_DNCRI, which reflects entrenchment practices in contexts with strong commitments to CSR is positive (1.44e-09) at a 99% confidence level. Investors and the market demand a strong commitment to sustainability and are very concerned about the real aim pursued by managers who implement social, economic and environmental practices. Thus, we cannot reject hypothesis H4a.

As for control variables, the negative effect at a confidence level of 99% of the company size on reputation stands out. Thus, investors of big companies demand lower costs of capital. *RISK* variable has a negative effect on the cost of capital. *WORKING_CAPITAL* has a positive effect on the dependent variable of model A when the effect of EM and CSR on the cost of capital is individually analyzed. However, when the entrenchment effect and institutional factors are analyzed, the effect is negative and produces less cost of capital. The confidence level varies between 95 and 99%. The other variables (*DEBT* and *R&DINTENSITY*) are not significant for the most part of the analysis models.

Table 3. Consequences of EM, CSR and Entrenchment Practices on the Cost of Capital (MODEL A: COST OF CAPITAL)

	Coef. (Std. Error)	Coef. (Std. Error)	Coef. (Std. Error)	Coef. (Std. Error)	Coef. (Std. Error)
EM (Dechow et al., 1995)	1.14e-08* (1.15e-10)		2.82e-08* (2.01e-09)	4.62e-08* (3.04e-09)	8.63e-08* (7.85e-09)
CSR		-1.47-06** (7.41e-07)	-2.19e-06* (4.08e-07)	-2.53e-06* (2.58e-07)	-1.88e-06* (4.38e-07)
CSR_EM			-9.08e-10* (1.96e-11)	-1.56e-09* (8.93e-011)	-3.39e-10* (6.53e-11)
DNCRI				-0.000117 (0.0000272)	
CSR_EM_DNCRI				1.44E-09* (9.29e-11)	
DINV_PROTECTION					-4.80e-06 (0.0000893)
CSR_EM_DINV_PROTECTION					-2.31e-09* (2.07e-10)
Size	-0.0002474* (2.87e-06)	-0.0001304* (0.0000179)	-0.0001623)* (0.0000143)	-0.0001663* (0.0000146)	-0.00016* (0.00014)
Debt	1.48e-07 (3.46e-07)	-5.40e-08) (3.46e-07)	-1.05e-07 (3.40e-07)	-8.86e-08 (3.33e-07)	-2.20e-08 (3.32e-07)
Risk	0.0010676* (0.0003981)	-0.0031478 (0.0019204)	-0.0026698 (0.0017764)	-0.0052834* (0.0017781)	-0.0035811** (0.001752)
Working_Capital	2.89e-08)* (8.57e-10)	6.18e-09 (5.22e-09)	-8.52e-09** (3.79e-09)	-1.53e-08* (3.18e-09)	-1.01e-08* (3.71e-09)
R&DIntensity	-1.96e-06 (1.22e-06)	-1.18e-06 (1.21e-06)	-1.59e-06 (1.22e-06)	-1.60e-06 (1.19e-06)	-1.47e-06 (1.20e-06)
Z	30453.75	61.47	546.29	4853.92	636.23
m1	-3.08	-2.80	-2.84	-2.85	-2.85
m2	1.28	1.50	1.42	1.41	1.41
Hansen	102.56	55.14	90.47	115.84	96.82

EM represents Earnings Management practices measured with the Dechow et al. (1995) model. *CSR* reflects the sustainable practices of company i in period t. *CSR_EM* represents the use of sustainable practices as entrenchment strategies with the aim to disguise EM. *CSR_EM_DNCRI* represents entrenchment practices in countries with strong commitment to CSR. *DNCRI* is a dummy variable with the value of 1 if the company's country of origin National Corporate Responsibility Index (NCRI) is above-average, and of 0 otherwise. *CSR_EM_DINV_PROT* represents entrenchment practices in countries with stronger law enforcement protecting shareholders' interests. *DINV_PROT* is a dummy variable with the value of 1 if the firm is located in a country with above-average investor protection, and of 0 otherwise. *Size* represents the size of a company and is measured by the logarithm of its total assets. *Debt* reflects the debt of a company and is calculated as the ratio of debt to equity. *Risk* represents the faced risk, measured by the beta. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

$r_{PEGit} = \phi + \phi_1 EM_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risk_{it} + \phi_5 Working_capital_{it} + \phi_8 R\&DIntensity_{it} + \eta_i + \mu_{it}$ **[1.A]**

$r_{PEGit} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risk_{it} + \phi_5 Working_capital_{it} + \phi_8 R\&DIntensity_{it} + \eta_i + \mu_{it}$ **[2.A]**

$r_{PEGit} = \phi + \phi_1 EM_{it} + \phi_2 DCSRit + \phi_3 DCSR*EM_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risk_{it} + \phi_7 Working_capital_{it} + \phi_8 R\&DIntensity_{it} + \eta_i + \mu_{it}$ **[3.A]**

$r_{PEGit} = \phi + \phi_1 EM_{it} + \phi_2 CSRit + \phi_4 CSR*EM*DNCRI_{it} + \phi_5 DNCRI + \phi_6 Size_{it} + \phi_7 Debt_{it} + \phi_8 Risk_{it} + \phi_9 Working_capital_{it} + \phi_{10} R\&DIntensity_{it} + \eta_i + \mu_{it}$ **[4.A]**

$r_{PEGit} = \phi + \phi_1 EM_{it} + \phi_2 CSRit + \phi_3 CSR*EM_{it} + \phi_4 CSR*EM*DINV_PROT_{it} + \phi_5 DINV_PROT + \phi_6 Size_{it} + \phi_7 Debt_{it} + \phi_8 Risk_{it} + \phi_9 Working_capital_{it} + + \phi_{10} R\&DIntensity_{it} + \eta_i + \mu_{it}$ **[5.A]**

With the aim of simplifying things, the consequences of EM, of sustainable practices and of the entrenchment strategy on the cost of capital are shown in figure 1.

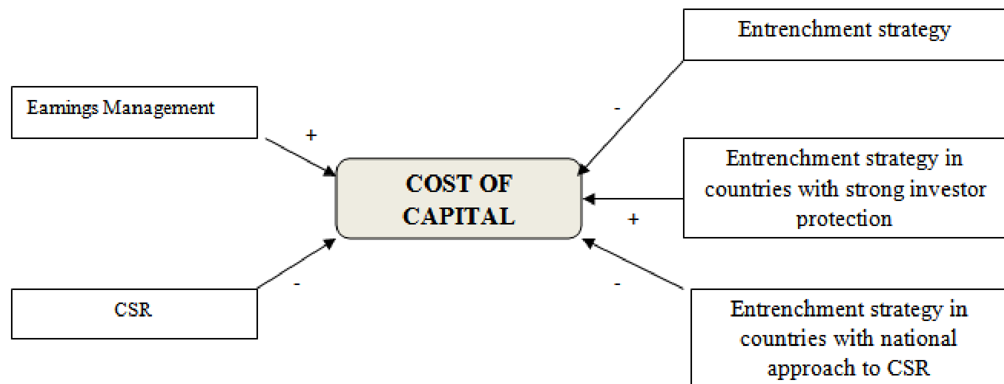

Figure 1. Effect of EM, CSR and Entrenchment Strategies on the Cost of Capital

4.3 Earnings Management, Corporate Social Responsibility and Corporate Reputation

Empirical evidence about the effect of EM, of CSR and of the entrenchment strategy on corporate reputation is shown in Table 4. As it is necessary to use a Logit methodology for panel data, the signs of estimates are presented as probabilities.

As for model 1B, the link between EM practices and reputation is negative and significant at a 99% confidence level. This proves that companies that perform results management are negatively valued by the market (coef.-0.0002482). Therefore, they are much less likely to belong to the group of companies with higher international reputation. Thus, hypothesis H1b cannot be rejected. We obtain opposite results when we analyze the consequences of sustainable practices on reputation (coef. 0.0024888), at a 99% confidence level. Implementing this type of practices makes sustainable companies more likely to be listed in the index that gathers the most admired companies. Therefore, hypothesis H2b cannot be rejected. The negative link between EM and reputation, and the positive one between CSR and reputation are also present in the rest of models (3B, 4B y 5B).

Again, regarding the objective of determining whether entrenchment strategies

that conceal EM by means of CSR can be detected by the market, model 3B shows that this effect is neutral. So, companies that carry out CSR practices because their managers have discretionarily managed results are not very likely to be in the group of the most admired companies. Unlike the model that was previously estimated for the cost of capital, the market does not value this strategy, so the negative effect of EM practices and the positive effect of sustainable practices on reputation is not modified. Therefore, hypothesis H3b can be rejected.

In addition, when entrenchment practices are carried out in contexts strongly committed to sustainability (model 4B) and in contexts with strong legislation protecting investors' interests and rights (model 5B), this managerial strategy is lightly penalized by interest groups. This makes these companies less likely to be in the group of companies with greatest reputation. Therefore, hypothesis H4b cannot be rejected. Also, hypothesis H5b must be rejected because shareholder-oriented institutional contexts are less prone to consider sustainable behavior one of the criteria used to determine corporate reputation. According to the abovementioned factors, the analysis of control variables showed that the reputation of the biggest companies that also have the higher levels of working capital is better.

Table 4. Consequences of EM, CSR and Entrenchment Practices on Corporate Reputation (MODEL B: REPUTATION)

	Coef. (Std. Error)	Coef. (Std. Error)	Coef. (Std.Error)	Coef. (Std. Error)	Coef. (Std. Error)
EM (Dechow et al., 1995)	-0.0002482* (0.0003197)		-0.0002467* (0.0003272)	-0.0004297*** (0.0004368)	-0.0002645** (0.0003295)
CSR		0.0024888** (0.0030622)	0.0022356*** (0.003064)	0.0122858* (0.00034121)	0.0077592** (0.0032804)
CSR_EM			3.56e-07 (7.11e-06)	-8.23e-06 (0..0000254)	-6.66e-06 (0.0000197)
DNCRI				-2.16913* (0.2745429)	
CSR_EM_DNCRI				-0.0000108*** (0.0000293)	
DINV_PROTECTION					3.172891* (0.2565357)
CSR_EM_DINV_PROTECT					-0.0000101** (0.0000219)
Size	0.7687156* (0.0657358)	0.7467548* (0.0709864)	0.7471624* (0.01710631)	0.599561* (0.0750459)	0.8161495* (0.01735662)
Debt	-0.0066054 (0.0057095)	-0.0065955 (0.0057237)	-0.0063553 (0.0057066)	-0.0058113 (0.0057624)	-0.0046801 (0.0050512)
Risk	-0.0028207 (0.0178137)	-0.0024081 (0.017332)	-0.0024936 (0.0174271)	-0.0027965 (0.017445)	-0.023433 (0.0557236)
Working_Capital	0.0001837* (0.0000295)	0.0001841* (0.0000297)	0.0001844* (0.0000297)	0.0001759* (0.0000299)	0.0002179* (0.0000328)
R&DIntensity	0.0020714 (0.0424841)	0.0018351 (0.0451344)	0.001504 (0.0454505)	0.0039014 (0.0265294)	-0.1571414 (0.2671009)
_cons	-11.85273* (0.642717)	-11.66092* (0.6891808)	-11.64869* (0.6910358)	-9.752626* (0.7409192)	-14.14401* (0.7638672)

EM represents Earnings Manangement practices measured with the Dechow et al. (1995) model. *CSR* reflects sustainable practices of company i in period t. *CSR_EM* represents the use of sustainable practices as entrenchment strategies to disguise EM. *CSR_EM_DNCRI* represents entrenchment practices in countries with strong commitment to CSR *DNCRI* is a dummy variable with the value of 1 if the company's country of origin National Corporate Responsibility Index (NCRI) is above-average, and of 0 otherwise. *CSR_EM_DINV_PROT* represents entrenchment practices in countries with strong law enforcement protecting shareholders' interests. *DINV_PROT* is a dummy variable with the value of 1 if the firm is located in a country with above-average investor protection, and of 0 otherwise S*ize* represents the size of a company and is measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the faced risk, measured by the beta. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

$REPUTATION_{it} = \phi + \phi_1 EM_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risk_{it} + \phi_5 Working_capital_{it} + \phi_6 R\&DIntensity_{it} + \eta_i + \mu_{it}$ [1.B]

$REPUTATION_{it} = \phi + \phi_1 CSR_{it} + \phi_2 Size_{it} + \phi_3 Debt_{it} + \phi_4 Risk_{it} + \phi_5 Working_capital_{it} + \phi_6 R\&DIntensity_{it} + \eta_i + \mu_{it}$ [2.B]

$REPUTATION_{it} = \phi + \phi_1 EM_{it} + \phi_2 DCSRit + \phi_3 DCSR*EM_{it} + \phi_4 Size_{it} + \phi_5 Debt_{it} + \phi_6 Risk_{it} + \phi_7 Working_capital_{it} + \phi_8 R\&DIntensity_{it} + \eta_i + \mu_{it}$ [3.B]

$REPUTATION_{it} = \phi + \phi_1 EM_{it} + \phi_2 CSRit + \phi_4 CSR*EM*DNCRI_{it} + \phi_5 DNCRI + \phi_6 Size_{it} + \phi_7 Debt_{it} + \phi_8 Risk_{it} + \phi_9 Working_capital_{it} + \phi_{10} R\&DIntensity_{it} + \eta_i + \mu_{it}$ [4B]

$REPUTATION_{it} = \phi + \phi_1 EM_{it} + \phi_2 CSRit + \phi_4 CSR*EM*INV_PROT_{it} + \phi_5 DINV_PROT + \phi_6 Size_{it} + \phi_7 Debt_{it} + \phi_8 Risk_{it} + \phi_9 Working_capital_{it} + \phi_{10} R\&DIntensity_{it} + \phi_{11} Growthit + \eta_i + \mu_{it}$ [5.B]

Again, with the aim of simplifying things, the consequences of EM, of sustainable practices and of entrenchment strategies on corporate reputation are shown in Figure 2.

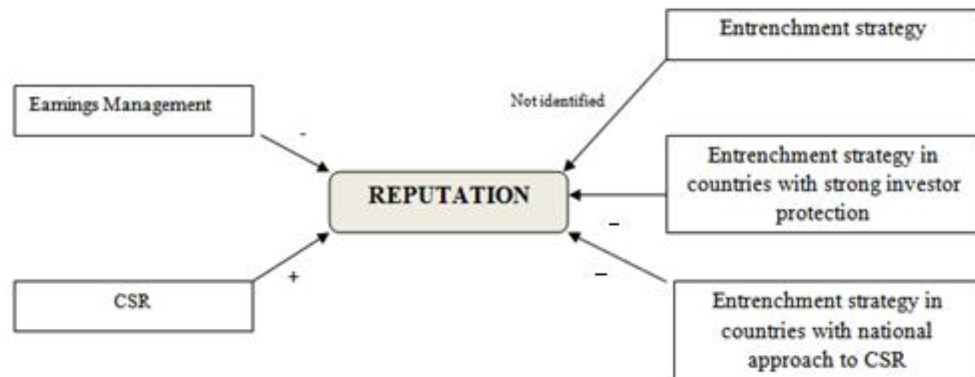

Figure 2. Effect of EM, CSR and Entrenchment Strategies on Corporate Reputation

4.4 Robust Analysis

With the aim of obtaining robust results, previous models will be estimated for REM and FRQ. The evidence obtained that deals with the effect of REM and FRQ practices on the cost of capital is shown in Table 5. EM practices that are based on real decisions have the same effect on the determination of the cost of capital as the accounting ones. Results management has a positive effect of the cost of capital (0.0014594) at a confidence level of 90%. This confirms previous results dealing with AEM. Similarly, CSR practices have again a positive effect on market value and reduce profitability demanded by investors (coef. -0.0154873). As for entrenchment strategies that use sustainability as a means to mask REM and that implement EM, the market does not manage to identify results management either, and does only detect CSR practices. Again, the risk perceived by the market is lower, and linked to the quality of the information disclosed by sustainable companies. That is, the market favors these companies – their cost of capital is lower. Therefore, previously obtained results are robust for different EM measurements.

As for FRQ, its effect is neither significant nor determinant of the cost of capital, just like its interaction with CSR practices. The only proof is that sustainability is rewarded by investors with lower costs of capital (-0.0165286) when information asymmetries decrease and when companies respond to stakeholders' social and environmental demands. This variable is the only one that is significant at a 99% confidence level.

Table 5. Robust Analysis. Consequences of REM/FRQ, CSR and Entrenchment Practices on the Cost of Capital (MODEL A: CAPITAL)

	Coef.	Sts. Dev.	Coef.	Std. Error
REM	0.0014594**	0.0005981		
FRQ			-0.0256919	0.0531016
CSR	-0.0154873*	0.0025968	-0.0165286*	0.0030232
CSR_ REM	0.0000318**	0.0000139		
CSR_FRQ			0.0003105	0.0018408
Size	-0.0691429*	0.0038631	-0.0076087	0.0143167
Debt	-0.0009535	0.0010349	-0.0033003	0.0025715
Risk	15.69122	614.9806	-0.0000254	0.0000159
Working_Capital	-0.0000178***	0.0000102	-0.0198537	0.3024973
R&DIntensity	-0.0793495	0.1060837	-0.0256919	0.0531016
Z	499.78		586.16	
m1	-2.94		-3.53	
m2	-0.96		0.58	
Hansen	79.48		58.99	

REM/FRQ represents Earnings Management practices measured by means of real EM and FRQ. *CSR* reflects sustainable practices of company i in period t. *CSR_REM/FRQ* represents the use of sustainable practices as entrenchment strategies with the aim to disguise EM. *CSR_EM_DNCRI* represents entrenchment practices in countries with strong commitment to CSR. S*ize* represents the size of a company and is measured by the logarithm of its total assets. *Debt* reflects the debt of a company and is calculated as the ratio of debt to equity. *Risk* represents the faced risk, measured by the beta. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

Regarding the effect of REM and FRQ practices on corporate reputation, results obtained are shown in Table 6. They were obtained by means of a Logit methodology for panel data.

As for EM practices based on real decisions, they are not significant to determine corporate reputation, just as CSR practices or their entrenchment. Regarding the model where FRQ measurement is an independent variable used as an alternative to AEM, there is a negative relationship between both variables (coef. -0.278948). Companies that disclose top quality financial information (lower levels of FRQ) are more likely to belong to the group of most admired companies and to have better corporate reputation. However, the rest of examined variables are not significant.

Table 6. Robust Analysis. Consequences of REM/FRQ, CSR and Entrenchment Practices on Corporate Reputation (MODEL B: REPUTATION)

	Coef.	Std. Error	Coef.	Std. Error
REM	7.57E-06	0.0000311		
FRQ			-0.278948**	0.1192461
CSR	0.0010864	0.0030483	0.0000678	0.0032586
CSR_REM	1.53E-07	7.52E-07		
CSR_FRQ			0.0046882	0.0024523
Size	0.7244827*	0.0707179	0.6099034*	0.0731169
Debt	-0.0063035	0.005658	-0.0050043	0.0058127
Risk	-0.0032583	0.0187698	-0.0026783	0.016584
Working_Capital	0.0001831	0.0000298	0.0002111*	0.000036
R&DIntensity	0.0015158	0.0426178	0.0002475	0.041682
_cons	-10.91204	0.6503838	-9.751933*	0.6638784

REM/FRQ represents Earnings Management practices measured by means of real EM and FRQ. *CSR* reflects sustainable practices of company i in period t. *CSR_REM/FRQ* represents the use of sustainable practices as entrenchment strategies with the aim to disguise EM. *CSR_EM_DNCRI* represents entrenchment practices in countries with strong commitment to CSR. *Size* represents the size of a company and is measured by the logarithm of its total assets. *Debt* reflects the debt of company and is calculated as the ratio of debt to equity. *Risk* represents the faced risk measured by the beta. *Working_Capital* represents liquidity, measured as the difference between current assets and current liabilities. *R&DIntensity* represents the ratio of R&D expenditure to total sales.

5. DISCUSSION OF RESULTS

Regarding the determinants of the corporate cost of capital, and in accordance with Dahliwal et al. (2011), the role played by the cost of capital in financial and strategic decision-making can be determined. Firstly, market risk increases, and the market itself distrusts companies that manipulate their results. Therefore, investors and shareholders demand a higher rate of profit to face this risk. This means that companies that implement unethical management must face higher costs of capital (Francis et al., 2005, 2008; Lambert et al., 2007). In this sense, our results support Bhattacharya et al., (2003) and Kim and Sohn (2011) among others. These authors proved the negative relationship existing between the quality of income and the cost of capital. The lower the quality of income, the bigger information asymmetries – thus, the bigger the cost of capital.

Regarding CSR practices, and similarly to El Ghoul et al. (2010) and Gregory et al., (2011), these types of practices satisfy investors' demands and need. Therefore, they demand less profitability to socially, economically and environmentally committed companies, which are considered to be less vulnerable and safer.

Another matter is the use of these sustainable practices as an activity or tool for managers who aim at pursuing their own economic objective by means of implementing discretionary managerial behaviors (Handelman and Arnold, 1999; Barnett, 2007). The results that have been obtained prove that these practices successfully conceal results management. They are also supported by different stakeholders – in particular, by investors, whose risk perception of the company decreases. This perception entails lower costs of capital. Results are the same for EM based on both accounting and real decisions.

Regarding factors determining corporate reputation, our research results support Fombrun et al. (2000) and Roydchowry (2006) among others. These authors claim that EM practices have a negative effect of reputation. The market and other interest groups negatively value companies in which managers behave discretionarily to pursue their own objectives and against shareholders', investors' and the rest of stakeholders' interests. The consequence of these unethical corporate practices is the loss of support

from stakeholders affected by them and the increase of their activism (Zahra et al., 2005).

On the contrary, and as proved by Kasznik (1999) and McWilliams et al. (2006), companies considered sustainability an instrument to increase the positive perception that shareholders, banks, regulation agencies and the society have of them. These CSR practices help the company to create a positive image of itself and to keep and increase their reputation and corporate image. In the same line as Brammer and Pavelin (2004), corporate reputation is considered to be a consequence of market's perceptions of each company. So, when the market does not detect entrenchment strategies that conceal EM, there are no negative effects on the corporate image of these companies.

Just like with the effect on the cost of capital, the market cannot detect managerial entrenchment if CSR practices are implemented too. Therefore, as Prior et al. (2008) and Gargouri et al. (2010) proved, managers satisfy the needs of all stakeholders, and thus their corporate image about companies in question improves without really knowing the objective pursued by those sustainable practices. However, the institutional context plays an important role, because it corrects the neutral effect of entrenchment.

In general, the effect on the cost of capital and on reputation corroborates and confirms the moderating role played by the institutional factors analyzed in this chapter: national commitment to sustainability and the level of investor protection in the company's country of origin. These results support previous results by Scholtens and Kang (2012), and Leuz et al. (2003) with regards to an existing relation between EM and CSR practices depending on the context.

This research has increased previous empirical evidence, as it has proved that the effect of entrenchment strategies on the cost of capital is identified by the market if these strategies are carried out in countries with strong commitment to sustainability. The market negatively values this effect, and this is detrimental for companies' reputation. It also causes the increase of their cost of capital. On the contrary, if these strategies are carried out in contexts where investor protection is strong, these investors' confidence on their manager's behavior leads them to reduce the cost of capital demanded by their investment. This is so because they believe that managers never behave opportunistically.

6. CONCLUDING REMARKS

Earnings Management is an economic and financial issue that has drawn public and private interest regarding its consequences and causes. Meanwhile, sustainability has become one of the requirements demanded by investors and the market for companies to provide a competitive advantage. In this sense, voices are skeptical about the real aim pursued by CSR practices and about whether they can be considered a management entrenchment strategy that dismisses opportunistic behaviors.

The purpose of this research is to clarify the effect of non-ethical management behavior and sustainable practices on the cost of capital and on corporate reputation. Another aim is to highlight if the use of CSR practices as entrenchment strategies to disguise EM practices could make market and stakeholders reward sustainable companies with lower costs of capital or higher reputation.

The sample used to test our propounded hypotheses comprises 1,757 international non-financial companies listed for years 2006 to 2010. The sample is unbalanced, with 8,785 observations from 25 countries and an Administrative Region.

If we use Arellano and Bond's (1991) GMM methodology, we obtain proof regarding the positive effect of earnings management on the cost of capital that must be supported by companies because of market's negative values. On the contrary, the rate of profit demanded by investors to companies that boost sustainable practices is lower. So, these practices may entail economic and financial profits. As for CSR practices as entrenchment strategies, the market does not detect them. They are considered to be of great importance and prevent the market from identifying the real objective pursued by managers. Therefore, their effect on the cost of capital is the same that sustainable actions produce: they reduce it. This also happens in institutional contexts where investor protection systems are strong. However, if these managerial entrenchment practices that mask results management are carried out in countries strongly committed to sustainability, they are detected by the market, which negatively valued them and increases the cost of capital of the companies in question.

Regarding corporate reputation, our results were obtained using a Logit methodology for panel data (the variable measuring reputation becomes a dummy

variable 1 and 0). These results prove the existence of a detrimental negative effect on corporate reputation for companies in which managers behave discretionarily. The market detects these unethical actions and penalizes these companies with lower market value and, therefore, with lower reputation. However, the reputation of companies boosting sustainable economic, social or environmental development is higher, as their chances of being listed in the *World´s most admired companies* ranking. Again, entrenchment practices performed by companies aiming at concealing EM are not detected by the market, unless companies are located in contexts where investor protection is strong and are committed to sustainability. In these institutional scenarios, market detects entrenchments strategies, which causes a detrimental effect on corporate reputation.

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CONCLUSIONS

Continuous accounting scandals that have been marking not only the last decade on a daily basis, but also the current national and international context, have produced a climate of mistrust towards corporate strategies, managers' objectives, reliability and viability of companies' divulged accounting information, among many other adverse consequences for companies.

On the other hand, companies currently develop their activities in scenarios where citizen worry and concern regarding social and environmental issues is increasing. This is one of the reasons why, together with the will of regaining the trust that was lost because of accounting scandals and the current economic and financial crisis, it is no longer enough to apply economic criteria to evaluate corporate performance. Companies have begun to adopt ethical, social and environmental behavior patterns, that is, Corporate Social Responsibility (CSR). Its objectives are going beyond what law demands, doing right and doing it in an ethical and moral way.

On this point, one of the most interesting aspects for this research is the relationship between EM and CSR. Throughout literature dealing with this matter, the CSR-EM relationship has already been analyzed; however, those analyses are contradictory between each other, and the results suggest that a bidirectional relationship between both constructs may exist (not only a unidirectional relationship). Whereas some papers state that EM practices reduce the level of sustainability, many others affirm that companies that manage their results via accounting boost CSR practices to stop their stakeholders' activism and vigilance.

The first objective of this research is to determine if the bidirectional relationship between EM and sustainable practices exists. The use of an international database, with data on many different countries and legal context, generated another interest: analyzing if this relationship is different depending on the institutional context. Therefore, both the national commitment to sustainability and the level of investor protection in the company's country of origin are taken into account.

According to the results dealing with the EM-CSR relationship, an entrenchment strategy may exist. This strategy would consider sustainable practices to be tools to prevent the market from detecting results management. Thus, CSR practices would be a

consequence of previous EM – that is, they would be part of managers' discretionary actions.

Taking the possible existence of an entrenchment strategy as starting point, the second objective of this research is to determine the financial and reputational consequences of EM and CSR practices, and of the entrenchment effect that may exist between them. Therefore, their impact has been considered according to three aspects that are fundamental for every company: (i) financial performance, (ii) cost of capital to be assumed and (iii) corporate reputation. The study of characteristics dealing with the conflict between management and shareholders is particularly interesting. This conflict determines managerial entrenchment, and those peculiarities contribute to companies' market value. All the empirical analysis take into account the moderating role of the abovementioned institutional factors.

The sample used to obtain empirical evidence about the bidirectional relationship between CSR and EM, as well as its financial and market consequences, comprises 1,960 international non-financial listed companies for years 2002 to 2010, from 25 different countries and an Administrative Region. However, this sample had to be reduced in chapter 5 as a consequence of the lack of data dealing with corporate reputation and cost of capital. So, in this case, the sample comprises 1,757 companies for years 2006 to 2010.

The results of this research prove that companies carry out on average more EM practices by means of financial decisions than by means of real decisions. Their corporate practices must be globally considered non-sustainable, because the average values of CSR are not above the threshold of 0, although there is a tendency towards sustainability. As for institutional moderator variables, more than 50% of the companies in our sample are located in countries with strong investor protection systems, and around 60%, in countries that are strongly committed to sustainability.

Empirical evidence has proved that a negative bidirectional relationship exists between CSR and EM practices. When companies carry out high levels of sustainable practices, the tendency towards fraudulent practices is lower. This means that these practices entail better quality of financial information. Also, the better the quality of financial information, the bigger the commitment of the company to social

responsibility. The abovementioned bidirectional relationship is stronger in countries that are strongly committed to sustainability, and in contexts where the protection of investors' rights is also strong. It must be highlighted that the results of this research are robust for different EM and CSR measures.

On the other hand, dividing the sample into two sub-groups (sustainable companies versus non-sustainable companies) suggests that the negative bidirectional relationship cannot be generally applied to sustainable companies individually analyzed. This leads us to think about the possible use of CSR practices as an entrenchment strategy to mask managers' discretionary behaviors.

Regarding the economic consequences of entrenchment on financial results, our results prove that manipulative conducts have a moderating effect. CSR actions, when they are boosted by managers as a means to conceal that they are manipulating profits, have a negative and detrimental effect on the company's market value. Despite the positive effect of CSR actions on this result, and provided that these actions are a consequence of combining EM practices, the practices in question decrease financial performance. However, it is very difficult for investors to detect EM practices based on real decisions, as well as CSR actions used as entrenchment strategies.

In addition, this relationships can be distinguished in terms of national commitment to CSR and the level of investor protection. The negative effect on FP increases if entrenchment strategies are carried out in countries that are strongly committed to CSR, because stakeholders can consider these practices unethical. On the other hand, better investor protection entails a less negative effect of EM practices on FP. Sustainable practices are not considered to be strategies that can be harmful for one's own interests by participants in the market that are located in contexts where legislation favoring investors and different groups of interest is strong. They consider these practices as economic, social and environmental strategies. Therefore, companies' value for investors does not decrease, and the negative effect on financial performance decreases.

Finally, as explained in chapter 5, we obtained empirical evidence regarding the positive and direct relationship existing between EM practices and the cost of capital that must be assumed by companies as a consequence of negative market values.

Consequently, companies that manipulate their results assume higher costs of capital and lose corporate reputation. Opposite results apply to CSR practices, which are positively valued by the market and thus reduce the risk rate demanded by investors. Therefore, these practices entail financial profits and reputational benefits.

As for CSR practices as entrenchment strategies, the market cannot quantify this type of strategies, therefore the weight of CSR practices is higher – also, these practices does not allow the market to detect the real objective pursued by managers. Therefore, their effect on the cost of capital is the same as the one produced by sustainable actions (they reduce the cost of capital) and as the one they produce on corporate reputation (they increase it). This can also be applied to institutional contexts where investor protection systems are strong (but only in the case of the cost of capital). However, the market actually manages to quantify this managerial entrenchment that masks results management if it is carried out in countries that are strongly committed to sustainability. In this case, the market values the company negatively and, thus, its cost of capital increases and the chances of having good corporate reputation and image decrease.

The present research contributes to previous literature in some aspects. On one hand, the bidirectional relationship between EM and CSR is defined. Until now, there was evidence only about ambiguous unidirectional relationships. Moreover, the economic, financial and reputational impact of these relationships has been observed. Also, it is important to note that the use of GMM methodology has allowed to correct endogeneity issues between CSR and EM practices, so more coherent and efficient results have been obtained in comparison with other studies.

A more subtle contribution deals with the moderating role of institutional factors. The relationships that have been analyzed vary depending on the level of commitment to sustainability and of investor protection in the company's country of origin.

On the other hand, the results of our research entail certain implications to managers, because they can be aware of the consequences of their sustainable actions and EM. So, the results of this research will be quite interesting for company owners willing to test their managers' efficiency, as well as for investor and public authorities, who will be able to assess the impact of EM, of CSR practices and of entrenchment

strategies on financial performance, corporate reputation and cost of capital. In particular, they will be able to identify what organizations are more likely to present manipulated financial statements. Results also consider the market to be an alternative means to evaluate the quality of companies' published information. On the other hand, our research provides with evidence regarding market penalizations to companies in which managers behave discretionarily.

This research has some limitations. For instance, the use of an international database. Further research on the relationships analyzed in this work would be necessary, but in the framework of just one country. The aim would be corroborating the results obtained for each country, as each one of them is characterized by different corporate governance systems and different institutional contexts. So, important differences in corporate accounting and economic ethics may exist depending on each company's geographical location.

Other limitations deal with the different CSR, FP, cost of capital and reputation measures. Therefore, the objective of future research should be examining the relationships described in this study for different measurements. Furthermore, this research does not take into account other possible variables that have influence on the relationship between CSR and EM, such as the role of accountants and ownership concentration. These variables can be a tool to control EM, CSR and entrenchment practices.

SPANISH SUMMARY: Resumen en español

"La relación entre las prácticas de Manipulación Contable y la Responsabilidad Social Corporativa y su efecto en el rendimiento, coste de capital y reputación corporativa"

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1. INTRODUCCIÓN

Numerosos son los ejemplos de escándalos contables y financieros acontecidos en los últimos años. Entre otros muchos, destacan los fraudes contables de Enron, Parmalat, Xerox o WorldCom. Todos y cada uno de ellos, unidos a un clima de dificultades económicas y financieras, han generado una creciente desconfianza por parte de los inversores en relación con la relevancia y fiabilidad de la información contable.

Estos escándalos financieros, económicos y contables son consecuencia del empleo de la discrecionalidad por parte de los directivos en la toma de decisiones, actuando en su propio beneficio, independientemente de que con ello generen efectos perjudiciales para los accionistas o el resto de stakeholders. En otras palabras, los directivos optan por la manipulación de los estados contables, especialmente, de los beneficios, para ocultar el ejercicio de su discrecionalidad.

En este sentido, durante los últimos años, se ha producido un incremento sustancial de las investigaciones centradas en el término acuñado como Earnings Management (Manipulación Contable, MC), entendida como "*cualquier práctica llevada a cabo por los directivos de las compañías con fines oportunistas y/o informativos para reportar cifras contables distintas de las reales*" (García-Osma et al., 2005).

Para recuperar la pérdida de confianza experimentada por inversores, clientes, proveedores, entidades financieras, comunidad y stakeholders en general, se han reforzado las exigencias legales y los mecanismos de monitorización que garanticen la calidad de la información financiera emitida por las empresas. Asimismo, las compañías han comenzado a implantar normas éticas que regulen sus actividades y estrategias, adoptando patrones de comportamiento sostenible, prácticas denominadas Responsabilidad Social Corporativa (RSC).

Más concretamente, las empresas se encuentran ubicadas en entornos económicos, legales y políticos donde los comportamientos que éstas promueven para conseguir el apoyo de sus grupos de interés han adquirido especial atención. El objetivo perseguido por tales actuaciones se centra principalmente en garantizar la sostenibilidad de recursos no sólo para la sociedad presente, sino también para la sociedad venidera. En este sentido, Heal (2005) incorpora los tres elementos clave de la RSC (económico, social y medioambiental) y define

este constructo como parte de la estrategia corporativa que responde a las inconsistencias entre los objetivos sociales y la búsqueda de rentabilidad.

Sin embargo, el estudio de Barnett (2007) genera un debate en torno al verdadero fin perseguido con tales prácticas sostenibles. Este autor defiende que los directivos que promueven acciones sostenibles podrían estar utilizando las prácticas de RSC como actividades discrecionales destinadas a ir más allá de su propio interés y bienestar, al tener como objetivo final recuperar la confianza perdida y el apoyo de los stakeholders. Con estas prácticas, además, consigue frenar el activismo y vigilancia de este colectivo, a la vez que mejora su reputación corporativa (Adams, 2002; Adams y Zutshi, 2004).

Se abre las puertas, por tanto, a un clima de escepticismo sobre el verdadero fin perseguido por las prácticas de RSC: ¿Son realmente éticas? ¿Persiguen un beneficio para el conjunto de los stakeholders? ¿O, por el contrario, se emplean como un mecanismo directivo en función de sus intereses particulares? ¿Son utilizadas para ocultar prácticas de gestión del resultado? ¿Son los inversores y otros grupos de interés capaces de identificar y cuantificar estas estrategias de atrincheramiento directivo?.

Los objetivos del presente trabajo pretenden responder a las incógnitas previas. Así, el primer objetivo de la presente tesis de investigación se centra en determinar la relación existente entre las prácticas de MC y las prácticas de RSC. A diferencia de los estudios previos, ambas decisiones directivas son conceptualizadas a partir de la existencia de una relación bidireccional entre ellas. El segundo de los objetivos se centra en determinar si el uso que determinadas empresas hacen de las prácticas de RSC como estrategia de atrincheramiento -enmascarando así las prácticas contables de manipulación del resultado- modifica el efecto que ambos comportamientos tienen en el valor de mercado, en el coste de capital y en la reputación corporativa. Dicho efecto permitirá evidenciar si los inversores y stakeholders son capaces de identificar y cuantificar el comportamiento discrecional de los directivos. Adicionalmente, y derivado del uso de una base de datos internacional y la consiguiente divergencia respecto a las características entre países, el tercer objetivo de este trabajo es determinar el papel moderador que los factores institucionales desempeñan en la relación MC-RSC, su posible atrincheramiento y sus consecuencias financieras, económicas y de mercado.

2. CARACTERÍSTICAS DEL TRABAJO: Estructura y Contenido.

El presente trabajo se estructura en cinco capítulos. En el primero de ellos, se abordan los principales paradigmas relacionados con las decisiones empresariales analizadas: el análisis de la Teoría de los Stakeholders y la Teoría de la Legitimidad, para las prácticas de RSC; la Teoría de la Agencia y la Teoría Positiva de la Contabilidad, para las prácticas de MC, y la Teoría Institucional para los factores de carácter institucional que son considerados como factores moderadores, determinan el marco teórico de esta investigación.

El segundo capítulo se destina a reflejar la parte metodológica común al resto de capítulos. Concretamente, se describe la muestra de análisis, así como las principales variables involucradas en este estudio, precisando los factores y medidas que se emplean en los capítulos posteriores para las prácticas de MC, RSC, factores institucionales y variables de control.

El capítulo 3 se centra en analizar la conexión y posible relación bidireccional entre RSC y MC, así como los factores moderadores de dicha relación. El objetivo es identificar si aquellos directivos que hacen uso de su discrecionalidad directiva a través de las prácticas de MC, promueven y enfatizan su compromiso con la sostenibilidad como mecanismo de enmascaramiento. Además, se analizan los factores moderadores de tal relación, entre los que destacan el nivel de compromiso hacia la sostenibilidad y el grado de protección al inversor en el país de origen de la compañía.

Por lo que respecta al capítulo 4 y 5, una vez identificada la relación entre MC y RSC, se aborda la posible estrategia de atrincheramiento derivada de la combinación MC-RSC, y específicamente, las consecuencias de esta estrategia en el rendimiento financiero, en el coste de capital que ha de asumir una empresa por su financiación externa y el efecto en la reputación corporativa. De la misma forma que en el capítulo previo, se analizan los factores institucionales moderadores que afecten a las consecuencias económicas, financieras y sociales. El análisis del efecto individual y conjunto de estas decisiones empresariales es consecuencia de la pérdida de valor e imagen de la compañía asociado a la discrecionalidad directiva.

Con estos objetivos en mente, para el análisis empírico se emplea una muestra de 1.960 compañías internacionales, no financieras y cotizadas que conllevan 14.844 observaciones

pertenecientes a 25 países y una región administrativa para el periodo 2002-2010. Los países pertenecientes a la muestra son: EE.UU., Reino Unido, Irlanda, Canadá, Australia, Alemania, Países Bajos, Luxemburgo, Austria, Dinamarca, Noruega, Finlandia, Suecia, Suiza, Francia, Italia, España, Bélgica, Portugal, Grecia, Japón, China, Nueva Zelanda, Singapur, Corea y Hong–Kong, como región administrativa.

La muestra ha sido obtenida de la fusión de la información disponible en las siguientes bases de datos: Thomson One Analytic, para datos contables y financieros; Ethical Investment Research Service (EIRIS) para datos relativos a las prácticas de RSC y de gobierno corporativo; I/B/E/S para datos de ganancias y previsiones de crecimiento por parte de analistas; y finalmente, la base establecida para la reputación corporativa, la cual se obtiene de la revista anual *Fortune*. Específicamente, hacemos uso del ranking denominado "*World´s most admired companies ranking*", que recoge las empresas más admiradas y con mayor reputación a nivel internacional.

En el tratamiento de la información diversas técnicas estadísticas y econométricas han sido aplicadas. Los análisis descriptivos recogidos en el capítulo dos se realizan a través del software SPSS. Por su parte, el software Stata ha sido empleado para obtener los resultados de los modelos de dependencia lineales para testar las hipótesis propuestas. Los estimadores usados en los diferentes capítulos se encuentran en consonancia con las características de las variables usadas para cada modelo y se encuentran disponibles para la aplicación de la técnica para datos de panel.

3. CAPÍTULO I. Marco Teórico de la investigación

Tal y como se ha mencionado anteriormente, en el marco de un escenario de numerosos fraudes contables junto a la actual situación económica y financiera y la creciente desconfianza del inversor, el objetivo de este trabajo de investigación es analizar la conexión y posible relación bidireccional entre las prácticas de Responsabilidad Social Corporativa (RSC) y la Manipulación Contable (MC), así como los factores institucionales moderadores de dicha relación. Por ello, con el fin de establecer las principales justificaciones teóricas de estas decisiones empresariales, se ha procedido a desarrollar el marco teórico de la investigación. En primer lugar, haciendo referencia a las prácticas de RSC y de MC, y en segundo lugar, a los factores institucionales moderadores de tal relación.

3.1 Responsabilidad Social Corporativa (RSC)

Actualmente, la organizaciones se encuentran en una esfera donde no sólo prima el buen hacer económico de las empresas, sino también su preocupación y actuación ante problemas de diversa índole, tales como los sociales y medioambientales. Es aquí, donde además de exigir la ciudadanía un gobierno corporativo eficaz y eficiente, demanda a las empresas un mayor compromiso social, que les permita recuperar la confianza perdida como consecuencia de la creciente espiral de escándalos empresariales.

En este sentido, la RSC ha adquirido una gran importancia dentro de la economía en los últimos años, como consecuencia de la globalización de los mercados y de las demandas de una mayor transparencia y compromiso con la sociedad, aunque sus inicios se remontan al siglo XIX, con el origen del activismo y la cooperación como medio eficaz para conciliar los objetivos de negocio con fines sociales y éticos.

Numerosas son las definiciones propuestas para las practicas de RSC, sin embargo, la mayoría se basan en tres pilares: (i) que dichas prácticas estén dirigidas a resolver el conflicto de interés entre accionistas y stakeholders (clientes, proveedores, trabajadores, etc); (ii) que tengan el objetivo de ir más allá de los estrictos requisitos legales de comportamiento empresarial; y finalmente, (iii) la existencia de un aspecto ético, "hacer lo correcto". Heal (2005), incorpora estos tres elementos y define la RSC como parte de la estrategia corporativa que responde a las inconsistencias entre los objetivos sociales y la búsqueda de la rentabilidad.

En este sentido, una vez definido el constructo de RSC, existen numerosas teorías que tratan de dar sentido y argumento tanto a la existencia de prácticas de RSC como a la divulgación de información económica, social y medioambiental.

El punto de partida y el origen del por qué de las prácticas de RSC se encuentran en las asimetrías informativas entre los diferentes stakeholders que actúan discrecionalmente en el mercado como consecuencia de la separación entre propiedad y control. Esta idea es desarrollada por la Teoría de la Agencia, que será analizada en detalle por su conexión con las prácticas de MC. En línea con las prácticas de RSC, las empresas tratan de reducir esas asimetrías informativas a través de las prácticas sostenibles y de la revelación hacia los stakeholders, para que todos ellos actúen en el mercado con el mismo grado de información y

las mismas condiciones. Sin embargo, la principal limitación de la Teoría de la Agencia es su orientación hacia consideraciones monetarias y económicas y su ausencia de compromiso hacia los usuarios de la información social y medioambiental (Cormier et al., 2005), quienes hacen uso de esa información para el proceso de toma de decisiones, como por ejemplo, la prensa u organizaciones medioambientales.

Con el objetivo de superar esta limitación, otras dos teorías deben ser mencionadas, concretamente, la Teoría de los Stakeholders y la Teoría de la Legitimidad, las cuales justifican teóricamente la sostenibilidad en el sector privado y su revelación a la sociedad (Gray et al., 1995). Ambas teorías conceptualizan la empresa como parte de un sistema social en el cual ella impacta a ciertos grupos dentro de la sociedad y éstos, impactan a la empresa (Deegan, 2002).

Siguiendo a Gray et al. (1996), ambas teorías se derivan de una teoría más amplia, la cual ha sido denominada Teoría de la Economía Política. Estos autores establecen la que es conocida como una de las definiciones más acertadas para expresar tal paradigma. Para ellos, esta teoría se concibe como *"el marco social, político y económico dentro del cual la vida humana toma lugar y sentido"*. Por tanto, teniendo en cuenta este argumento, la esfera social, política y económica se concibe como un todo, como entes inseparables. En esta línea, tal y como señalaron Guthrie y Parket (1990), los informes corporativos son "*un producto de intercambio entre la empresa y su entorno que trata de mediar y poner en consideración una gran variedad de intereses*".

Sin embargo, aunque estas dos teorías tengan un mismo origen, no se basan en argumentos totalmente similares. La principal diferencia entre estas dos teorías, no sustitutivas sino complementarias, es que mientras la Teoría de la Legitimidad se centra en las expectativas de la sociedad en general, ya que está inmersa en el denominado "contrato social", la Teoría de los Stakeholders proporciona una solución más adecuada al centrarse en grupos particulares dentro de esa amplia sociedad (los stakeholders, que afectan y son afectados por la organización) (Deegan, 2000). Por tanto, tal y como sostiene este autor, las diferencias entre ambas teorías residen en un problema de resolución de cuestiones. Mientras la Teoría de los Stakeholders se centra en cómo una organización se relaciona e interactúa con sus stakeholders principales, la Teoría de la Legitimidad defiende esa interacción como la base de toda estrategia o acción.

3.2 Manipulación Contable (MC)

Por su parte, los previamente mencionados escándalos contables y financieros han tenido su razón de ser en el empleo por parte de los directivos de su discrecionalidad en la toma de decisiones, lo que genera patrones de comportamiento carentes de ética empresarial y cuyo principal objetivo no se centra en la empresa, sino en satisfacer los intereses y necesidades propias de los gerentes, siendo necesario que los directivos recurran a manipular los estados contables, especialmente, los beneficios para ocultar su discrecionalidad.

Es por ello que día a día está adquiriendo especial relevancia la calidad de la información emitida por las empresas. Las empresas que proporcionan información financiera de alta calidad tienden a ser más conservadores en su contabilidad y menos inclinadas a llevar a cabo prácticas contrarias a la ética, tales como la MC.

Siguiendo a García-Osma et al. (2005), las acciones de MC pueden ser definidas como "cualquier práctica llevada a cabo intencionadamente por la gerencia, con fines oportunistas y/o informativos, para reportar las cifras contables deseadas, distintas de las reales". Destaca, por tanto, que dichas acciones pueden tener carácter oportunista o informativo por parte de la gerencia, tal y como ya propusiera Schipper (1989), quien se mantuvo al margen de la polémica suscitada sobre si se concibe la MC únicamente como las prácticas que violan los principios contables generalmente aceptados, o por otra parte, los directivos también pueden emplear su discrecionalidad aumentando o disminuyendo los resultados reales sin violar dichos principios.

La gestión de resultados realizada por los directivos en el empleo de su discrecionalidad se basa en prácticas de MC sobre decisiones puramente financieras o sobre decisiones reales (Schipper, 1989). Las primeras son aquellas que se refieren a la forma de contabilizar los hechos, normalmente mediante provisiones, ajustes por devengo o cambios en los criterios y sistemas de amortización. Éstas primeras decisiones pueden considerarse las más empleadas por la gerencia, al ser menos visibles y menos costosas, a diferencia de las decisiones reales, que son aquellas que afectan a la marcha de la empresa y a su funcionamiento, tales como el momento óptimo para realizar las ventas o la selección de proyectos de I+D.

Las bases doctrinales de las prácticas de MC han sido establecidas principalmente por la Teoría de la Agencia y la Teoría Positiva de la Contabilidad. Partiendo del conflicto de

intereses como consecuencia de la separación entre propiedad y control base de la Teoría de la Agencia, se plantean un conflicto de intereses entre los deseados o demandados por los directivos y los propios para los accionistas. Esta divergencia, así como las asimetrías informativas, genera un vacío en el cual los directivos hacen uso de su discrecionalidad directiva, sin tener en cuenta los intereses de los accionistas, que se derivan en prácticas de MC.

Tal y como señala Lambert (2001), ante esta delegación de poder dentro de la relación de agencia, surge la posibilidad de que el agente actúe en su propio beneficio con el objetivo de satisfacer sus demandas personales, sin tener en cuenta la maximización de la riqueza del principal o incluso de otros agentes asociados. Ante esta opción o posibilidad, surge el concepto de MC como un posible coste de agencia (Davidson III et al., 2004), dado que en este caso, el directivo (agente) buscará conseguir su propio interés en detrimento del interés o riqueza del propietario o accionista (principal). Ante esta situación y con el objetivo de obtener un beneficio propio y privado, el directivo opta por prácticas de MC como mecanismo y vía para asegurar su puesto de trabajo, conseguir satisfacer las exigencias en el contrato de remuneración, asegurar su participación en procesos de negociación laboral o minimizar el pago de impuestos, entre otras de los muchas motivaciones de la gestión del resultado.

Derivada de esta delegación de poder asociada a la relación principal- agente, adquiere especial relevancia la información financiera emitida por las empresas, que tenga la capacidad de disminuir las posibles asimetrías informativas generadas por la separación de poder y la asunción de diferentes roles en la empresa, anteriormente mencionadas. Con ellos, el concepto de información financiera, y sobre todo, de calidad de la información financiera, se convierte en aspecto indispensable para conocer la verdadera situación económica-financiera de la empresa, y de la misma forma, que todos y cada uno de los participantes en el mercado disfruten de las mismas condiciones y la misma información para participar en él.

Por su parte, como segunda justificación teórica de las prácticas de MC, la Teoría Positiva de la Contabilidad se centra en las relaciones entre varios individuos que proporcionan recursos a una empresa y cómo la contabilidad es empleada para ayudar en este tipo de relaciones, como por ejemplo, entre propietarios y directivos o entre directivos y

entidades financieras (Deegan, 2000). El objetivo que se persigue con esta teoría es poder explicar, comprender y predecir la practica contable (Watts y Zimmerman, 1986).

Siguiendo con este conflicto de intereses y basándonos en el trabajo de Watts y Zimmerman (1986), esta teoría está centrada en la idea base de que las acciones de cualquier individuo son consecuencia de su interés propio, y que éstos siempre actúan de una forma oportunista con el objetivo de ver incrementada su riqueza (comportamiento discrecional, clave de las prácticas de MC).

Esta teoría desarrolla una perspectiva de como los directivos, siempre que se enfrentan a una elección entre métodos contables rivales, preferirían adoptar o apoyar determinados métodos contables con respecto a otros. Bajo determinadas circunstancias contables, se optará por un determinado método de contabilidad.

En definitiva, la existencia de MC ha surgido como consecuencia de las asimetrías informativas debido a la separación entre propiedad y control, las diferencias en los intereses entre agente y principal (el clásico conflicto de intereses) y el margen de actuación discrecional por medio de los principios y normas de contabilidad empleados por los directivos.

3.3 Estrategia de atrincheramiento

Derivado de la posible relación entre las prácticas de gestión del resultado y las prácticas de sostenibilidad (RSC) que se analizan en el capítulo III, es necesario tener en cuenta que ambas pueden estar estrechamente ligadas y que su aparición dentro de una empresa puede estar ligada a estrategias de atrincheramiento. Este aspecto constituye el principal punto de referencia de esta investigación, que nos lleva a concebir las prácticas de RSC como un mecanismo de atrincheramiento que evite la identificación de las prácticas de MC.

Al igual que ocurría en las prácticas de MC, el origen de la estrategia de atrincheramiento se encuentra en la separación entre propiedad y control recogida en la Teoría de la Agencia, y especialmente, en la existencia de un directivo profesional que ostenta el control de la buena parte de los recursos empresarial y juega un papel fundamental en la toma de decisiones sobre los objetivos y estrategia de la compañía.

La estrategia de atrincheramiento rompe con uno de los principios de la Teoría Financiera tradicional, la cual acepta que los dirigentes empresariales adoptan estrategias y acciones que persigan el beneficio de los accionistas, aun cuando vayan en contra de sus intereses personales (Palacín-Sánchez, 1998). La divergencia de intereses entre directivos y accionistas puede generar un comportamiento directivo a través del cual no se maximice el valor empresarial. La maximización de utilidad para los directivos tiende a ser creciente con cuestiones tales como una mayor remuneración, mayor poder y seguridad de su puesto de trabajo, o reducir su riesgo personal en procesos de fusiones y adquisiciones, entre otros.

En este sentido, uno de los objetivos personales anteriormente comentados, es la reducción del riesgo personal del directivo. Mientras los accionistas pueden reducir y controlar el riesgo de su cartera con una adecuada diversificación de su riqueza en el mercado, los directivos suelen tener su riqueza materializada en la empresa donde trabajan. Es por ello, que este nivel de riesgo puede determinar que los directivos opten por proyectos de inversión con un valor neto actualizado negativo, siempre y cuando les permita reducir el riesgo de la empresa y el suyo (Palacín-Sánchez, 1998). No sólo pueden llevar a cabo ese tipo de proyectos, sino que es en este escenario donde entran a formar parte las decisiones de los directivos de gestionar las pérdidas y ganancias empresariales, el resultado.

En definitiva, los directivos que optan por este tipo de estrategia, anteponen sus intereses personales y objetivos personales a la maximización de valor para la empresa. El principal debate reside en el hecho de si este tipo de estrategias benefician o perjudican la riqueza de los propietarios de la empresa.

Los directivos que promueven prácticas de atrincheramiento tienen el objetivo de conseguir una connivencia con los empleados, comunidades, clientes y proveedores para protegerse de los mecanismos disciplinarios, con el fin de reducir la riqueza de los accionistas (Cespa y Cestone, 2007). Entre otros, esta estrategia tiene el objetivo de garantizar la seguridad de empleo de los directivos durante un largo periodo de tiempo aún cuando éstos dejan de cumplir los requisitos o las habilidades necesarias para el adecuado desempeño de su trabajo (Shleifer y Vishny, 1989).

En vista de las características de este tipo de estrategia corporativa, Cespa y Cestone (2007) sostienen que las estrategias centradas en la sociedad, en los derechos humanos o en cuestiones ambientales (acciones de RSC) no tiene un fin u objetivo marcado por el

compromiso ético. Los gerentes conciben las prácticas sostenibles como un mecanismo para evitar el activismo de los grupos de interés, las dañinas campañas de los medios de comunicación y boicots o, incluso, un clima político adverso.

Los argumentos que sostienen la implementación de prácticas de RSC como medio de expropiación de riqueza en favor del directivo pueden resumirse en dos aspectos fundamentales. En primer lugar, los grupos de interés pueden acumular suficiente poder para promover acciones en contra del directivo, tales como un boicot (Rowley y Berma, 2000). En segundo lugar, gracias a las concesiones sociales hacia esos grupos de interés, el directivo está haciendo menos atractiva la empresa para potenciales compradores, como por ejemplo, por la formalización de contratos entre empleados y proveedores que no sean rescindibles en el corto plazo (Pagano y Volpin, 2005).

3.4 Entorno institucional

Dentro del principal objetivo de esta investigación, determinar la posible relación bidireccional entre las prácticas de MC y de RSC, así como su efecto en el rendimiento empresarial, el coste de capital y la reputación corporativa, uno de las cuestiones a tener en cuenta son los factores moderadores de esta relación. Entre ellos, en esta investigación nos centraremos en dos factores institucionales que pueden ejercer una influencia significativa en la relación entre MC y RSC: (i) el nivel de compromiso nacional hacia la sostenibilidad y, (ii) el grado de protección al inversor en el país de origen de las compañías analizadas en la muestra. Hacemos referencia, por tanto, a una serie de aspectos puramente institucionales.

Es por ello que dentro de la justificación teórica que haga referencia a tales factores, el principal argumento reside en la Teoría Institucional, la cual explica y describe como una organización se enfrenta a presiones institucionales y como resultado de tales presiones las organizaciones tienden a asumir patrones de comportamiento similares dentro de una misma esfera (Deegan, 2002).

Hay que tener en cuenta que las empresas son unidades económicas que operan dentro de contextos formados por instituciones que afectan a su comportamiento e imponen expectativas sobre ellas (Campbell y Lindberg, 1991; Roe, 1991; Campbell, 2007). Asumir esta relación permite aceptar que las compañías que operan en entornos con similitudes institucionales adoptan comportamiento homogéneos (La Porta et al, 1998; Claessens y Fan,

2002). En este sentido, es necesario considerar la Teoría Institucional como paradigma teórico explicativo del isomorfismo empresarial.

Las organizaciones que operan en países con una estructura institucional similar tienden a adoptar formas homogéneas de comportamiento (La Porta et al, 1998; Claessens y Fang, 2002; Campbell, 2007). DiMaggio y Powell (1983) denomina este proceso como "isomorfismo" y argumentaron que mejora la estabilidad y la supervivencia de las empresas, facilitando el poder político y la legitimidad institucional. Estas prácticas "isomórficas" emanan de la decisión de la organización por parecerse a otros (isomorfismo mimético), de hacer lo profesionalmente correcto (isomorfismo normativo) o de cumplir con las normas aplicadas por las fuerzas externas (isomorfismo coercitivo) (Perez-Batres et al., 2011).

En este sentido, la Teoría Institucional tiene en consideración una de las principales limitaciones de la Teoría de la Agencia, ya que ésta última no hace referencia dentro de sus principios a las divergencias y diversidad entre naciones, las cuales son consecuencia de una serie de aspectos institucionales, tales como la regulación política, presiones normativas para conseguir legitimidad para la organización o presión de la comunidad (Roe, 1994; Roy, 1997).

Es por ello, que debido al uso de una base de datos internacional con una amplia divergencia en las características de cada uno de los entornos, se tiene en consideración analizar los factores moderadores en la relación MC-RSC y en sus efectos económicos, financieros y de mercado.

4. CAPÍTULO II. Diseño empírico de la investigación

La temática central de la presente tesis doctoral se centra en dos cuestiones fundamentales. En primer lugar, las prácticas de Responsabilidad Social Corporativa promovidas por las empresas con el objetivo de conseguir un triple resultado: (i) económico, (ii) social y finalmente, (iii) medioambiental. En segundo lugar, las prácticas de Manipulación Contable llevadas a cabo por los directivos con el objetivo de reportar unas cifras contables distintas de las reales y persiguiendo una serie de objetivos propios a los directivos. El objetivo del segundo capítulo es determinar la medida de cada una de las variables y su explicación en detalle, junto con el resto de variables que entran a formar parte de los modelos de dependencia y la composición de la muestra seleccionada para el análisis.

4.1 Población y muestra

La muestra usada para testar las hipótesis está constituida por 1.960 empresas internacionales, no financieras y cotizadas para el periodo 2002-2010. La muestra es no balanceada, con un total de 14.844 observaciones pertenecientes a 25 países y una región administrativa (EEUU, Reino Unido, Irlanda, Canadá, Australia, Alemania, Holanda, Luxemburgo, Austria, Dinamarca, Noruega, Finlandia, Suecia, Suiza, Francia, Italia, España, Bélgica, Portugal, Grecia, Japón, China, Nueva Zelanda, Singapur, Corea y Hong Kong como región administrativa).

La muestra ha sido obtenida de la fusión de la información disponible en las siguientes bases de datos: Thomson One Analytic, para datos contables y financieros; Ethical Investment Research Service (EIRIS) para datos relativos a las prácticas de RSC y de gobierno corporativo; I/B/E/S para datos de ganancias y previsiones de crecimiento por parte de analistas; y finalmente, la base establecida para la reputación corporativa, la cual se obtiene de la revista anual *Fortune*. Específicamente, hacemos uso del ranking denominado "*World´s most admired companies ranking*", que recoge las empresas más admiradas y con mayor reputación a nivel internacional.

4.2 Responsabilidad Social Corporativa

La medición de las prácticas sobre RSC debe realizarse mediante un constructo multidimensional que englobe las actuaciones realizadas, principalmente, en los ámbitos social y medioambiental (Carrol, 1999). En nuestro caso la variable RSC es representada mediante un índice que identifica el nivel de sostenibilidad de las prácticas empresariales en diversos aspectos. La información se ha extraído de la base de datos EIRIS, y el valor de cada ítem analizado se encuentra comprendido en el intervalo de -3 a 3, considerándose empresas socialmente responsables las que superen el umbral de 0 y no socialmente responsables las que se sitúen por debajo de 0.

Para conseguir dicho constructor de RSC se han analizado diversas áreas –medioambiente, derechos humanos, relaciones con *stakeholders* y gobierno corporativo-. La tabla que recoge el compendio de ítems analizados aparece reflejada en la página 60-61.

4.3 Manipulación Contable

Las prácticas de gestión del resultado son representadas a través de medidas de manipulación financieras y medidas de manipulación reales (AEM y REM, denominadas así a lo largo del trabajo por sus siglas en inglés) con el fin de determinar si los resultados varían en función de las prácticas de MC. Si bien la elección de un instrumento u otro depende de varios factores - como el objetivo perseguido, las normas contables aplicables y el sector empresarial, entre otros (García-Osma et al, 2005.) – los gerentes prefieren aquellos instrumentos que están disponibles y de bajo coste, como los basados en decisiones contables, por el contrario, seleccionar instrumentos de MC real siempre que sean menos visibles para los inversores, el mercado, los auditores y otros grupos de interés.

En otras palabras, hay dos tipos de MC: decisiones puramente financieras, como la MC basada en los ajustes por devengo (AEM) y la MC basada en decisiones reales (REM), es decir, las acciones que alteran el tiempo y la escala de la producción, las ventas, la inversión y la financiación de actividades durante todo el período de contabilidad, de tal manera que el objetivo de beneficios marcado pueda cumplirse (Roychowdhury, 2006).

4.3.1 Decisiones financieras

La literatura contable sobre *Earnings Management* coincide en emplear el componente discrecional de los ajustes por devengo como medida de la discrecionalidad directiva, y por tanto, de la MC basada en decisiones financieras. Los ajustes por devengo se definen a partir de la diferencia entre el beneficio y los flujos de caja de las operaciones, y partiendo de la dificultad de manipular los flujos de caja, la manipulación de los ajustes de devengo sería la vía más factible para los directivos a la hora de modificar el resultado.

Tal y como postulan García- Osma et al. (2005), los ajustes por devengo no son todos discrecionales, de ahí el objetivo de separar el componente discrecional del no discrecional para el cálculo de la MC. Medida que fue propuesta inicialmente por Healy (1985) y DeAngelo (1986), aunque es Jones (1991) el que marcó un punto de inflexión en esta línea de investigación. Precisamente, el modelo propuesto para el análisis es el de Jones modificado por Dechow et al. (1995). Este modelo junto con su punto de partida (el modelo original de Jones de 1991) es explicado en detalle en las páginas 63 y 64.

Específicamente, todos los modelos incorporan dummys identificativas del país de origen debido a que el tamaño muestral impide estimar los modelos por sector y país. Este procedimiento ha sido empleado previamente por autores como por Prior et al. (2008).

4.3.2 Decisiones reales

Numerosos estudios sugieren que las empresas utilizan la manipulación real de las actividades como una medida alternativa de la MC basada en decisiones contables, suponiendo la existencia de una correlación negativa entre las dos prácticas de manipulación (Zang, 2012). Por lo tanto, podemos concebir la MC contable y la MC real como prácticas sustitutivas y ambas pueden ser empleadas como una medida del comportamiento discrecional (Kim et al., 2011). Los principales modelos para la captura de la manipulación real son los aplicados por Roychowdhury (2006) basados en la estimación de los niveles anormales de los flujos de caja operativos, de gasto discrecional (publicidad, I + D) y de los costes de producción. Este último autor emplea el modelo presentado por Dechow et al. (1998) y que ha sido empleado en diversos estudios que incorporan REM como una medida de la MC (Chen et al, 2008; Cohen y Zarowin, 2010; Kim et al, 2011). Al igual que en el anterior tipo de MC, los modelos analizados han sido explicados en detalle en las páginas 64, 65 y 66.

4.3.3 Calidad de la información financiera

Las prácticas de MC guardan una relación inversa con la calidad de la información financiera emitida por las empresas (Dechow et al., 2010), en el sentido de que aquellas empresas que promuevan menos prácticas de MC tienen una mayor probabilidad a reportar unos estados financieros de mayor calidad que las empresas más propensas a la MC. Debido a la ausencia de una medida universalmente aceptada de esta calidad informativa, varios autores (Hong y Andersen, 2011; Lu et al, 2011: Hope et al, 2012; Choi y Pae, 2012) han adoptado enfoques alternativos. En este sentido, partimos del modelo de Dechow y Dichev (2002) explicado en la página 67, para detallar la medida empleada, el modelo de Ball y Shicakumar (2006), que ha sido empleado en la investigación como análisis complementario a la MC (página 68).

Con el objetivo de evidenciar las posibles diferencias que pueden existir entre los dos tipos de medidas de MC y de calidad de la información financiera, su relación con las

prácticas de RSC y sus efectos en el (i) rendimiento financiero, (ii) coste de capital y, (iii) reputación corporativa, a pesar de que esta investigación se centra en la MC basada en decisiones de carácter financiero, se analizan de manera complementaria los modelos de dependencia para las prácticas de MC reales y la calidad de la información financiera, como análisis robustos.

4.4 Factores institucionales y variables de control

Asimismo, para dar una mayor robustez al estudio y teniendo en cuenta el uso de una muestra internacional con la consiguiente diversidad de información, los modelos e hipótesis propuestas estarán caracterizados por la consideración de dos factores institucionales: (i) el compromiso nacional hacia la sostenibilidad, y (ii) el grado de protección al inversor en el país de origen de la compañía.

4.4.1 Enfoque nacional hacia la sostenibilidad

En vista de las posibles diferencias entre los países, y siguiendo a Prado-Lorenzo y García Sánchez (2010), se tiene en consideración una variable dummy basada en el Índice Nacional de Responsabilidad Corporativa (NCRI, por sus siglas en inglés, National Corporate Responsibility Index), que identifica el contexto institucional global hacia la RSC. Para ello, DNCRI toma el valor 1 si el país de origen de la compañía tiene un NCRI por encima de la media y 0 en caso contrario.

4.4.2 Grado de protección al inversor

En cuanto al grado de protección al inversor, siguiendo a Hillier et al. (2011), creamos tres subíndices que se derivan de los índices nacionales de gobierno empleados por La Porta et al. (1997, 1998): (i) DCL, que toma el valor 1 si la empresa se encuentra en un país de “common law” y cero si la empresa se encuentra en un país de “civil law”; (ii) DAR, que toma el valor 1 si la empresa se encuentra en un país con derechos anti-director superiores a la media de la muestra, y cero en caso contrario, y (iii) DEF, que toma el valor 1 si la empresa se encuentra en un país con un índice de aplicación de la ley superior a la mediana de la muestra, y cero en caso contrario. Esto se forma por la suma de dos índices establecidos por La Porta et al. (1998): la eficiencia del sistema judicial y la ley y el orden. Por último, la protección efectiva al inversor se aproxima mediante la suma de las tres variables dummies

anteriores, DCL, DAR y DEF, y la construcción de una nueva variable dummy, DINV_PROTECTION, que toma el valor 1 si la empresa se encuentra en un país con una protección al inversor superior a la media, y cero en caso contrario.

4.4.3 Variables de control

De la misma forma, para evitar resultados sesgados, se incorporan en los sucesivos modelos explicados en detalle en el correspondiente capítulo, una serie de variables de control cuyos efectos sobre las variables dependientes e independientes (MC, RSC, rendimiento financiero, coste de capital y reputación corporativa) analizadas en cada modelo han sido demostrados en la literatura previa. En particular, en este trabajo de investigación van a ser empleadas las siguientes variables: el tamaño empresarial (medido por el logaritmo del total de activos), nivel de endeudamiento (medido por la ratio total de deuda a patrimonio neto), riesgo del mercado (medido a través de la beta del modelo CAPM), fondo de rotación (medido como la diferencia entre activos corrientes y pasivos corrientes), así como la intensidad en I+D (medido por la proporción de gasto en I + D a los ingresos totales).

4.5 Análisis descriptivos

Como paso previo y necesario a los análisis empíricos realizados en los capítulos siguientes, se ha estudiado y analizado la composición de la muestra, los valores medios de las prácticas de MC y de RSC, así como la evolución de determinados aspectos institucionales. De los resultados obtenidos (los cuales aparecen reflejados en las páginas 71 a 75) del análisis descriptivo se obtienen una serie de conclusiones. En primer lugar, Estados Unidos con un total de 3.837 observaciones de las 14.844 que componen la muestra, es el país que tiene una mayor representación en la muestra, seguido de Japón (con un total de 3.215 observaciones) y de Reino Unido (con 2.804 observaciones). Por su parte, centrándonos en el sector de actividad, la industria de bienes de consumo básico (con un total de 3.752 observaciones) y la de bienes de consumo discrecional (con un total de 3.577 observaciones) son los dos grupos industriales a los que pertenece un mayor número de empresas.

Por otra parte, centrados en las decisiones de MC y de RSC se observa que las empresas, por término medio, prefieren llevar a cabo prácticas de MC basadas en decisiones financieras. Las razones principales de esta elección se fundamentan en que los instrumentos

contables son menos visibles y sólo afectan a rendimiento de la empresa en el largo plazo. Los directivos prefieren los instrumentos que están fácilmente disponibles y a bajo coste, como las prácticas financieras, o, por el contrario, determinados instrumentos de manipulación real que son menos visibles para los inversores, el mercado, los auditores y otras partes interesadas, y que les permite promover tales prácticas sin llegar a ser identificadas por el mercado, pero de manera más costosa. Por lo que respecta a las prácticas de RSC, los valores medios (-22,74 de un máximo de 60 puntos) muestran que estas prácticas, a nivel internacional, no son sostenibles. En relación con las cuatro líneas principales de acciones sostenibles, las empresas analizadas muestran mayor preocupación por las cuestiones medioambientales, seguida de los derechos humanos. Por el contrario, se presta una menor atención a las relaciones con los stakeholders. Cabe destacar que el sub-índice que disfruta de una mayor preocupación es el relacionado con el Consejo de Administración.

Por lo que respecta a los factores institucionales, el 56,7% de la muestra analizada se encuentran en países con una protección al inversor superior a la media, y el 62,4% se encuentran en países que tienen un compromiso hacia la sostenibilidad superior a la media. Los países con una protección al inversor superior a la media son: Reino Unido, Estados Unidos, Canadá, Australia y Hong Kong. Mientras tanto, los países con un promedio superior al NCRI son: Reino Unido, Suiza, Holanda, Alemania, Suecia, Irlanda, Dinamarca, Finlandia, Noruega, Luxemburgo, Canadá y Australia.

De cara a analizar las variables de control y sin entrar en detalle en cada una de ellas, por ejemplo, el tamaño medio de las empresas analizadas es de 7.8744, con una desviación estándar de ± 1,97945 y la deuda media se sitúa en 0,6758, con una desviación estándar de ± 0,19017, todo ello expresado en millones de euros.

5. CAPÍTULO III. Relación bidireccional entre la Manipulación Contable y las prácticas de Responsabilidad Social Corporativa

Tal y como previamente ha sido comentado, con el fin de recuperar la confianza perdida tras los numerosos escándalos contables y financieros, junto al desarrollo y perfeccionamiento de distintos mecanismos de monitorización, las compañías han comenzado

voluntariamente a asumir comportamientos empresariales sostenibles que conforman la Responsabilidad Social Corporativa (RSC).

No obstante, ante el espectacular crecimiento experimentado por las prácticas de RSC, numerosas son las voces que defienden que las organizaciones optan por un mayor desempeño social como un medio para ocultar la mala gestión de los directivos, evitando costosos boicots y dañinas campañas en los medios de comunicación (Bansal, 2005), así como las indemnizaciones que pueden solicitar accionistas y otros stakeholders por la pérdida de valor sufrida (Zahra et al., 2005). En esta línea, uno de los puntos de partida de esta investigación es el trabajo de Cespa y Cestone, (2007), quienes definieron la RSC como un mecanismo de atrincheramiento de los directivos que practican la MC.

Sin embargo, la literatura sobre la relación entre RSC y MC es escasa, no existiendo un consenso en las investigaciones anteriores sobre si la relación es de naturaleza positiva, negativa o nula. Además, las aproximaciones se han basado en el estudio de relaciones unidireccionales. La contradicción en los resultados mostrados por la literatura previa sugiere la existencia de una posible relación bidireccional, en contraposición a una exclusiva relación unidireccional, entre la RSC y la MC. Por otra parte, los citados estudios consideran globalmente un conjunto de empresas multinacionales sin controlar las divergencias que existen entre ellas, tanto en lo que se refiere a la eficacia del mercado de capitales de sus países de origen y la fortaleza del consejo de administración (ej. La Porta et al., 1998, 2000; Claessens y Tzioumis, 2006), como al impulso que los poderes públicos o la presión que los *stakeholders* realizan en temas de sostenibilidad (i.e., van Tulder y van der Zwart, 2006; Kolk, 2008; Kolk y Perego, 2008). En este sentido, parece relevante conocer el papel que los mecanismos institucionales y de gobierno corporativo desempeñan en el proceso de monitorización de ambas decisiones empresariales.

Así, el capítulo tiene un doble objetivo. Por una parte, analizar la posible relación bidireccional entre las diversas prácticas de RSC y la manipulación contable, y por otra, determinar el papel moderador que diversos factores institucionales tienen en esta relación.

Por lo que respecta a la posible relación bidireccional entre ambas decisiones empresariales, es necesario analizar la literatura previa y nuestras hipótesis estableciendo la RSC tanto como variable dependiente como variable explicativa.

Partiendo de la RSC como variable explicativa, los defensores de la existencia de un efecto negativo de la RSC en la MC argumentan que las compañías socialmente más éticas y responsables, son más transparentes con el fin de mostrar su comportamiento, motivos por los que presentan menores incentivos a la gestión del resultado (Gelb y Strawser, 2001; Shen y Chih, 2005). Son numerosos los estudios que establecen necesidad de aceptar la responsabilidad social por parte de las empresas como una más de sus obligaciones y el compromiso moral para los directivos de hacer las cosas correctamente, de ser honestos y éticos en sus negocios, y por tanto, transparentes en su gestión (Jones, 1995; Phillips et al. 2003).

Sin embargo, Chih et al. (2008) consideraron que esta relación entre RSC y MC dependía de las prácticas de gestión de resultados consideraras y así, observaron por una parte, que las prácticas de RSC incrementaban la transparencia y la capacidad informativa y por tanto, conducían a menores prácticas de alisamiento de las ganancias y de evasión de pérdidas, ya que se reduce la posibilidad de gestionar el resultado. Sin embargo, por otra parte, también identificaron un efecto positivo de las prácticas sociales y éticas en la MC, basada en acciones que tiendan a suavizar los ingresos para reducir la volatilidad y conseguir que los ingresos reportados sean más predecibles.

En esta línea y de acuerdo con Jensen (2001), Leuz et al. (2003) observaron como las actividades en RSC pueden agravar los problemas de agencia. Los gerentes internos, al tener que atender los objetivos de diversos colectivos (empleados, clientes, entidades financieras…) y no existir un objetivo único para la compañía, emplean su discrecionalidad y su información privilegiada en la toma de decisiones basándose en su interés privado y en contra de los intereses de otros colectivos externos. Con el fin de ocultar su comportamiento oportunista hacen uso de prácticas de MC. Empíricamente, esta relación se ve respaldada por la evidencia empírica obtenida por Petrovits (2006) quien observó como son utilizadas las fundaciones benéficas para ocultar la gestión del resultado que intensificaría la seguridad de los directivos en su puesto de trabajo (Yeo et al., 2002). De la misma forma, Gargouri et al. (2010) siguiendo con las investigaciones de Riahi-Belkauoi (2003) apoyaron esta hipótesis en su estudio para empresas canadienses.

Sobre los argumentos previos se formula la siguiente hipótesis:

Hipótesis 1: Existe un efecto de las prácticas de sostenibilidad en la manipulación contable y en la calidad de la información financiera.

Considerando las prácticas de RSC como consecuencia de la MC y por ende, como variable dependiente, a lo largo de la literatura se ha puesto de manifiesto como la MC está relacionada de manera positiva con la implementación de acciones sociales y éticas. Se ha evidenciado en estudios anteriores una relación positiva entre diversas prácticas empresariales sostenibles y la calidad del resultado contable, entendida como la inversa de la MC (Shleifer, 2004; Shen y Chih, 2005; Kim et al., 2011). Una menor gestión del resultado, asociada a una mayor calidad de la información, fomenta una mayor transparencia de dicha información.

En aquellas compañías donde los directivos no emplean su discrecionalidad y tienen menores incentivos a la manipulación, éstos parecen mostrar una mayor preocupación por los aspectos que guardan relación con sus *stakeholders*. Dicha preocupación, puede derivar en prácticas de RSC y para que la información contable esté en consonancia con el compromiso social de la empresa, debe reflejar su comportamiento, con una transparencia, fiabilidad y calidad acordes.

Sin embargo, de nuevo se observa una contradicción en resultados obtenidos previamente. Estudios como los de Prior et al. (2008) o Gargouri et al. (2010) ponen de manifiesto que las prácticas de RSC esconden comportamientos de manipulación del resultado. Más concretamente, que las compañías donde los directivos emplean su discrecionalidad en la toma de decisiones son más propensas al desarrollo de acciones éticas y sociales con el fin de contar con el apoyo de *stakeholders* y reducir su riesgo de despido por la gestión del resultado y los efectos negativos que tales prácticas contables tienen para el valor y la reputación de la firma.

Es por ello, que los argumentos previos nos permiten formular la siguiente hipótesis:

Hipótesis 2: Existe un efecto de las prácticas manipulación contable y de la calidad de la información financiera en el nivel de sostenibilidad.

En relación con los factores moderadores propios de cada compañía, se consideran diversas características de los mecanismos internos de monitorización corporativos que

podrían influir notablemente en las prácticas de MC y RSC, tales como la independencia y diversidad del Consejo de Administración (Dechow et al., 1996; Peasnell et al., 2005) y del Comité de Auditoría (Klein, 2002); y la existencia de políticas y sistemas que regulen el comportamiento ético de los consejeros, como son los Códigos éticos y los sistemas de remuneración (García-Sánchez et al. 2008, García-Sánchez, 2010). Ello nos permite formular la siguiente hipótesis de investigación:

Hipótesis 3a: Las características específicas del Consejo de Administración modera la relación entre manipulación contable y responsabilidad social corporativa.

Entre los factores institucionales, se considerarán: (i) el diferente enfoque institucional en el marco de la RSC, como consecuencia de las presiones públicas o el entorno legal o medioambiental, entre otros aspectos, que pueden definir las prácticas sostenibles en cada país (Kolk y Perego, 2008); y (ii) nivel de protección al inversor en el país de origen de la compañía. Respecto al enfoque nacional hacia la sostenibilidad, la presión pública ejercida por la población en general, políticos y las agencias de regulación, conduce a diferencias en la medida en que las empresas abordan su triple cuenta de resultados (Kolk y Perego, 2008). De todos los posibles tipos de presión pública, es posible distinguir diferentes enfoques de las empresas en relación a la RSC. Por ello, se formula la siguiente hipótesis:

Hipótesis 3b: El enfoque institucional hacia la sostenibilidad del país de origen de la compañía modera la relación entre manipulación contable y responsabilidad social corporativa.

Por lo que respecta al segundo de los factores institucionales analizados, la protección al inversor implica impedir que los derechos de los accionistas minoritarios y de los acreedores sean expropiados dentro de las limitaciones impuestas por la ley (Leuz et al, 2003). Este concepto está estrechamente relacionado con la presencia de un sistema de derecho común y de la existencia de mecanismos que garanticen su aplicación efectiva (La Porta et al., 2000). La MC que se deriva de los conflictos entre los gerentes y los accionistas minoritarios es menos frecuente en países con estas características institucionales (Leuz et al, 2003; Haw et al, 2004). Por su parte, Chih et al. (2008) y Scholtens y Kang (2012), muestran que las empresas ubicadas en países con una fuerte protección a los derechos del inversor son mucho menos propensas a emplear prácticas de manipulación, y esta posibilidad es aún menor cuando las empresas se comportan de una manera sostenible. No obstante, la evidencia

previa es confusa. En países con una fuerte legislación y aplicación de las leyes que garantizan los derechos de los inversores, las empresas tienden a orientarse a la creación de valor para el accionista y la influencia del compromiso sostenible es menor (Prado-Lorenzo et al., 2012), lo que sugiere que las empresas localizadas en estos entornos tienden a estar menos comprometidas con el desarrollo sostenible (Ball et al, 2000; Simnett et al, 2009). Por ello, nos planteamos la siguiente hipótesis:

Hipótesis 3c: El nivel de protección al inversor en el país de origen de la compañía modera la relación entre manipulación contable y responsabilidad social corporativa.

En lo que respecta a la metodología, en el análisis empírico se utiliza una muestra 1.960 compañías internacionales no financieras cotizadas que conllevan 14.844 observaciones pertenecientes a 25 países y una región administrativa para el periodo 2002-2010. La metodología empleada se basará en ecuaciones simultáneas para datos de panel basados en el Estimador GMM de Arellano y Bond (1991) con el fin de corregir problemas de heterogeneidad inobservable y de endogeneidad. Este método permite obtener estimadores consistentes para el modelo de regresión múltiple y corroborar la independencia de las variables exógenas del modelo a estudiar. No requiere del supuesto de normalidad y permite estimaciones de mayor nivel de confianza, al emplear condiciones de ortogonalidad o momentos para conseguir estimaciones más eficientes.

Los modelos estimados se especifican a continuación. Los dos primeros modelos tienen el fin de comprobar la existencia de una posible relación bidireccional (MC como variable dependiente, y a su vez, en el segundo modelo, MC como variable explicativa).

$\mathbf{MC_{i,t}} = \emptyset + \emptyset_1\, RSC_{it} + \emptyset_2 Tamaño_{it} + \emptyset_3 Endeudamiento_{it} + \emptyset_4 Riesgo_{it} + \emptyset_5 Intensidad\ I{+}D_{it} + \emptyset_6 Fondo_Rotación + \eta_i + \mu_{it}$ [1]

$\mathbf{RSC_{i,t}} = \emptyset + \emptyset_1\, MC_{it} + \emptyset_2 Tamaño_{it} + \emptyset_3 Endeudamiento_{it} + \emptyset_4 Riesgo_{it} + \emptyset_5 Intensidad\ I{+}D_{it} + \emptyset_6 Fondo_Rotación + \eta_i + \mu_{it}$ [2]

En los siguientes modelos se pretende testar el efecto moderador de los factores institucionales. En el modelo 1.1 y 2.1 el factor moderador que recoge el compromiso nacional hacia la sostenibilidad. En el modelo 1.2 y 2.2, el factor moderador que recoge el nivel de protección al inversor en el país de origen de la compañía.

$$\mathbf{MC_{i,t}} = ø + ø_1 RSC{*}DNCRI_{it} + ø_2 RSC_{it} + ø_3 DNCRI_{it} + ø_4 Tamaño_{it} + ø_5 Endeudamiento_{it} + ø_6 Riesgo_{it} + ø_7 Intensidad\ I{+}D_{it} + ø_8 Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [1.1]$$

$$\mathbf{RSC_{i,t}} = ø + ø_1 MC{*}DNCRI_{it} + ø_2 MC_{it} + ø_3 DNCRI_{it} + ø_4 Tamaño_{it} + ø_5 Endeudamiento_{it} + ø_6 Riesgo_{it} + ø_7 Intensidad\ I{+}D_{it} + ø_8 Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [2.1]$$

$$\mathbf{MC_{i,t}} = ø + ø_1 RSC{*}\ DINV_PROTECCION_{it} + ø_2 RSC_{it} + ø_3 DINV_PROTECCION_{it} + ø_4 Tamaño_{it} + ø_5 Endeudamiento_{it} + ø_6 Riesgo_{it} + ø_7 Intensidad\ I{+}D_{it} + ø_8 Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [1.2]$$

$$\mathbf{RSC_{i,t}} = ø + ø_1 MC{*}\ DINV_PROTECCION_{it} + ø_2 MC_{it} + ø_3 DINV_PROTECCION_{it} + ø_4 Tamaño_{it} + ø_5 Endeudamiento_{it} + ø_6 Riesgo_{it} + ø_7 Intensidad\ I{+}D_{it} + ø_8 Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [2.2]$$

donde:
i indica la empresa y t hace referencia al periodo temporal,
ø son los parámetros estimados,
ε_i representa la heterogeneidad inobservable,
μ_{it} representa el término de error,
RSC_{it} , es una variable numérica que refleja las prácticas sostenibles de la compañía i para el periodo t. Con el fin de testar el efecto moderador del Consejo de Administración, la variable RSC será considerada con y sin los valores de Consejo de Administración,
MC_{it}, es una variable numérica que representa las prácticas de manipulación contable de la compañía i para el periodo t (recoge tanto las prácticas de MC basadas en decisiones contables, como reales, y la calidad de información financiera como robusto),
$Tamaño_{it}$, es una variable numérica que representa el tamaño de la compañía i para el periodo t,
$Endeudamiento_{it}$, es una variable numérica que refleja el nivel de endeudamiento para la compañía i en el periodo t,
$Riesgo_{it}$, es una variable numérica que representa el riesgo para la compañía i en el periodo t
$Intensidad\ I{+}D_{it}$, es una variable numérica que representa la inversión en I+D de la compañía i en el periodo t,
$Fondo_Rotación_{it}$, es una variable numérica que refleja la liquidez, la capacidad que tiene una empresa para continuar con el normal desarrollo de sus actividades en el corto plazo,

DNCRI y DINV_PROTECCION son variables dummies que reflejan las características del contexto institucional de la empresa i para el período t. Estas variables se analizan por su interacción con las variables MC y RSC.

Los resultados obtenidos ponen de manifiesto una relación negativa bidireccional entre ambas decisiones empresariales, entre las prácticas de RSC, la MC basada en decisiones financieras y la calidad de la información financiera empleada como análisis robusto.

Por un lado, las prácticas de RSC tienen un efecto negativo en la MC estimada a partir de los ajustes por devengo discrecionales, es decir, a mayor responsabilidad social de una empresa, menor es la probabilidad de participar en prácticas de MC. Por lo tanto, aquellas empresas con un mayor compromiso social tienden a ser más transparente en su gestión y en el suministro de información financiera, y por lo tanto tienen menos incentivos para llevar a cabo una gestión de resultados. Estos resultados son consistentes con la evidencia empírica obtenida por Gelb y Strawser (2001), Schleifer (2004), Shen y Chih (2005) y Kim et al. (2011). Por otro lado, también se observa que la MC tiene un impacto negativo sobre la RSC. La evidencia empírica muestra claramente esta influencia negativa en cada una de las prácticas de responsabilidad social, lo que sugiere que el comportamiento oportunista por parte de los gerentes no da lugar a prácticas de RSC, evidencia contraria a la obtenida por autores como Cespa y Cestone (2004) y Prior et al. (2008), pero que confirma la hipótesis de que una mayor transparencia y calidad de la información contable conduce a mayores niveles de compromiso social. Este resultado se mantiene para la medida que recoge la calidad de la información financiera y apoya la evidencia previa de que existe una relación positiva entre las diversas prácticas sostenibles y la calidad del resultado contable reportado por las empresas (Shleifer, 2004; Shen y Chih, 2005, Kim et al, 2011; Choi y Pae, 2011). En otras palabras, las empresas más éticas, en términos de su contabilidad, son aquellas más responsables y comprometidas socialmente (Gelb y Strawser, 2001).

Nuestro análisis conjunto revela evidencia empírica de que las empresas con mayores niveles de compromiso ético tienen menos incentivos para llevar a cabo las prácticas de MC, y emitir información financiera de mayor calidad (más relevante, segura y transparente) y presentan valores más altos de RSC.

Sin embargo, esta relación bidireccional entre las decisiones contables de MC, la calidad de la información financiera y la RSC, no resulta extensible al uso de decisiones

reales de MC. Aunque varios autores consideran las decisiones contables y reales como similares, a la vista de la correlación negativa entre las dos prácticas de manipulación (Zang, 2012), los resultados obtenidos en el presente capítulo sólo reflejan un efecto negativo de las prácticas de MC real en las acciones de RSC, y no un impacto bidireccional. Es decir, un hallazgo unidireccional que concuerda con la evidencia previa de decisiones contables. En aquellas empresas donde los gerentes no hacen uso de su discrecionalidad directiva y tienen menores incentivos a la gestión de resultados, se obtiene evidencia empírica de la mayor preocupación por temas de sostenibilidad. Esta mayor preocupación puede promover la adopción de prácticas de RSC.

Las relaciones aquí halladas son especialmente destacables en países donde existe una fuerte presión institucional hacia la sostenibilidad y un mayor nivel de protección al inversor, lo cual garantiza la no expropiación de los derechos de accionistas minoritarios y acreedores.

Por otra parte, la división de la muestra en dos subgrupos, las empresas sostenibles frente a no-sostenibles, sugiere que la relación bidireccional negativa no es generalizable a las empresas sostenibles.

En definitiva, podemos afirmar que se ha evidencia una tendencia general que permite afirmar la existencia de una relación negativa entre las prácticas de sostenibilidad y las prácticas de MC, en el sentido de que las empresas que muestran un mayor responsabilidad extrapolan ese comportamiento al ámbito contable y a la información financiera que ofrecen sobre sus resultados económicos-financieros.

Sin embargo, un análisis más minucioso de la relación RSC-MC para empresas sostenibles contra no sostenibles ha puesto de manifiesto que, ambas tipologías de empresas analizadas individualmente, pueden enmascarar las prácticas de MC mediante acciones sociales y medioambientales, existiendo una estrategia de atrincheramiento directivo que permite compensar las acciones penalizadores del mercado y sus participantes asociadas a estos comportamiento oportunistas.

6. CAPÍTULO IV. ¿Pueden ser concebidas las prácticas de Responsabilidad Social Corporativa como una estrategia de atrincheramiento? Efecto en el Rendimiento Financiero.

A lo largo de la literatura, la relación entre la RSC y rentabilidad o rendimiento financiero ha sido analizada en numerosas ocasiones. Aunque no exista un resultado generalizado o unánime sobre la relación unidireccional o bidireccional ambos conceptos, la mayoría de las investigaciones apoyan el efecto positivo de las prácticas económicas, sociales y ambientales sobre el resultado empresarial, y en concreto, la existencia de un círculo virtuoso (McGuire et al., 1990; Waddock y Graves, 1997; Orlitzky et al., 2003). En este sentido, dos teorías defienden la existencia de este efecto positivo y bidireccional entre el comportamiento sostenible y el rendimiento. Por una parte, la "Teoría del impacto social" (las prácticas de RSC tienen una influencia positiva en el rendimiento corporativo, desarrollada por Waddock y Graves, 1997) y la "Teoría del exceso de recursos" (los niveles más altos de rendimiento financiero permite destinar recursos a la inversión sostenible, desarrollada por Preston y O'Bannon, 1997). Por lo tanto, los niveles más altos de rendimiento financiero dotan a las empresas de mayores recursos para promover las actividades económicas, sociales y medioambientales de la RSC.

En este capítulo se analiza el papel moderador que desempeña la MC en el círculo sinérgico entre las prácticas de RSC y el rendimiento financiero (RF). Partimos de la idea del capítulo previo de que la RSC puede ser concebida y promovida como una estrategia de atrincheramiento como consecuencia de la conducta discrecional llevada a cabo por los gerentes, y por tanto, con la finalidad de ocultar esta conducta fraudulenta (Surroca y Tribó, 2008).

Como se mencionó anteriormente, las empresas que manipulan la información contable, realizan prácticas de MC con el fin de informar sobre unos resultados contables que no se corresponden con los realmente alcanzados (García-Osma et al., 2005). Las consecuencias de estas prácticas de gestión del resultado son francamente dañinas para la empresa, reduciendo su valor, el de sus activos, sus operaciones, su reputación y su imagen corporativa (Fombrun et al., 2000; Roychowdhury, 2006), y al mismo tiempo, provocan una pérdida de apoyo y un incremento del activismo y vigilancia de accionistas, inversores, otros stakeholders, y agencias reguladoras (Zahra et al., 2005).

Por su parte, las prácticas sostenibles promueven un ambiente de aceptación y apoyo entre las agencias reguladoras y los stakeholders, disuaden el activismo y la intervención de los grupos de interés y aumentan la satisfacción laboral y la lealtad del cliente (Frombun et al., 2000; Adams, 2002). En este sentido, los directivos que promueven acciones sostenibles podrían estar utilizando la RSC como una actividad discrecional destinada a ir más allá de su propio interés y bienestar (Barnett, 2007). Más concretamente, el compromiso con la sostenibilidad podría ser adquirido con el objetivo de asegurar la continuidad en su posición de liderazgo (Prior et al., 2008), para evitar cambios en el control de la empresa, para influir en las negociaciones laborales, para responder a las ofertas públicas de adquisición (Gargouri et al., 2010) o porque limitaría el poder de los grupos de interés para influir en el valor de la empresa y de esta manera, evitar posibles comportamientos activistas (Cespa y Cestone, 2004). Esta decisión provoca que los directivos atrincherados pacten con las partes interesadas con el fin de fortalecer su estrategia y seguir actuando en su propio interés (Surroca y Tribó, 2008).

Cuando los directivos hacen uso de su discrecionalidad a través de las prácticas de MC, sus acciones económicas, sociales y ambientales pueden reforzar el efecto negativo de esta conducta manipuladora en la valoración del accionista a la empresa. Por lo tanto, se puede esperar que el MC cuando se combina con acciones de RSC tenga un impacto aún más negativo en el rendimiento corporativo. Además, de acuerdo con las consecuencias de la MC, toda gestión del resultado está asociada con peores niveles de rentabilidad posterior a esa conducta (Rangan, 1998; Bens et al., 2002; Louis, 2004).

Nuestra hipótesis se basa en que los directivos que desarrollan prácticas de MC para satisfacer sus propios intereses tienen el incentivo para promover prácticas de RSC (entendida como estrategia de atrincheramiento) con el objetivo de evitar las consecuencias negativas de la gestión del resultado. Sin embargo, esta estrategia tiene un efecto perjudicial sobre el rendimiento, ya que el atrincheramiento directivo sólo tiene como objetivo principal la supervivencia empresarial y la RSC intensifica sus aspectos negativos (Surroca y Tribó, 2009). Estas acciones pueden reducir la flexibilidad de la organización, otorgando a las empresas que gestionan sus resultados una desventaja en relación con las empresas que no los alteran (Prior et al, 2008; Dianita, 2011).

En definitiva, el objetivo es determinar si cuando los directivos emplean su comportamiento discrecional y las acciones económicas, sociales y ambientales de la RSC son concebidas como una práctica de atrincheramiento capaz de ocultar y evitar los efectos negativos de las prácticas de MC, los inversores pueden o no distinguir este comportamiento oportunista y el valor de mercado refuerza o no el efecto negativo de la prácticas de manipulación. En base a los argumentos previos, se plantea la hipótesis de la existencia de un efecto moderador que ejerce la MC sobre la relación entre la RSC y el rendimiento:

Hipótesis 1: La estrategia de atrincheramiento perseguida por las prácticas de RSC con el objetivo de enmascarar una gestión de resultados tienen un impacto negativo en el rendimiento financiero.

En relación al contexto institucional, tenemos que tener en cuenta que existen múltiples diferencias en los enfoques nacionales adoptados con respecto a la RSC. Las diferencias en el énfasis otorgado en cada país hacia la sostenibilidad varían en función de la presión ejercida por los poderes públicos, pudiendo provocar un diferente uso de las prácticas de RSC como atrincheramiento que enmascara la MC. Siguiendo a Prado-Lorenzo y García-Sánchez (2010), a mayor presión nacional hacia la sostenibilidad, mayor es la transparencia sobre esas cuestiones y por ende, podemos extenderlo a la posibilidad de que los inversores detecten el atrincheramiento directivo.

Por ello, consideramos que aquellas empresas que operan en países con una mayor tendencia y enfoque hacia la sostenibilidad, las prácticas de atrincheramiento generan un mayor detrimento en el valor de mercado ya que no sólo los inversores (como grupo estratégico dentro de los stakeholders) sino toda la sociedad y participantes en el mercado, tienen un fuerte compromiso con las cuestiones sociales y medioambientales y una mayor preocupación para identificar estos comportamientos oportunistas, penalizando a aquellas empresas que promueven tal estrategia. Por tanto, se formula la siguiente hipótesis:

Hipótesis 2: A mayor compromiso nacional hacia la sostenibilidad en el país de origen de la compañía, mayor es el efecto negativo en rendimiento financiero derivado de la estrategia de atrincheramiento de la RSC para enmascarar la MC.

El nivel de protección de los derechos de los inversores ha sido analizado en años anteriores como una de las causas que determinan la valoración del mercado y la sostenibilidad empresarial y como uno de los factores que evitan las prácticas de MC, ya que tiene el objetivo de proteger los intereses de los accionistas. Todos los accionistas, inversores u otro tipo de agente del mercado deben tener sus derechos protegidos por la ley y por las empresas (La Porta et al., 2000).

Partiendo del análisis de la literatura y evidencia previa, se espera que las empresas ubicadas en países con fuerte protección a los inversores puedan estar asociadas con un mayor nivel de RF, menos incentivos para llevar a cabo las prácticas de MC y puedan promover un menor número de prácticas sostenibles. En primer lugar, siguiendo la evidencia de La Porta (1997, 1998), el mayor grado de protección de los derechos de los inversores, y la existencia de una estricta legislación que garantice el cumplimiento de la ley de protección, están asociados con un mayor rendimiento empresarial, ya que el mercado e inversores valoran positivamente a las empresas ubicadas en este tipo de entornos y están dispuestas a pagar más por las inversiones en sus activos. Por su parte, la evidencia obtenida hasta hoy en día nos muestra que las empresas ubicadas en países con leyes más estrictas para evitar la expropiación de los directivos se caracterizan por una menor tendencia a la MC, ya que el comportamiento oportunista está más restringido (Leuz et al., 2003; Haw et al., 2004; Chih et al., 2008). Por lo tanto, esperamos que las empresas localizadas en países con fuertes leyes para proteger a accionistas y otros stakeholders muestren menores incentivos a las prácticas de MC. Y en tercer lugar, con respecto al comportamiento sostenible, Campbell (2007) sostiene que las organizaciones son más propensas a comportarse de una manera más socialmente responsable siempre que se lleven a cabo su actividad en un entorno institucional con una fuerte presión coactiva y normativa.

A pesar de ello, puede ocurrir que los inversores situados en países con fuertes leyes de protección de los inversores no identifiquen las prácticas de RSC como estrategia de atrincheramiento, ya que consideran que las leyes y el sistema legal tienen la capacidad para

evitar el riesgo de expropiación por parte de los directivos y la sostenibilidad tiene como objetivo lograr un impacto económico, social y ambiental, es decir, un propósito ético.

En otras palabras, para aquellas empresas ubicadas en entornos con fuerte protección a los derechos de los inversores, el mercado no es capaz de identificar las prácticas de RSC como estrategia de atrincheramiento, ya que confían en la lealtad de los directivos y en su menor incentivo a la manipulación. Por lo tanto, nuestra siguiente hipótesis es:

Hipótesis 3: A menor nivel de protección al inversor en el país de origen de la compañía, mayor es el efecto negativo en rendimiento financiero derivado de la estrategia de atrincheramiento de la RSC para enmascarar la MC.

El análisis empírico se basa en la misma muestra de 1.960 empresas para el periodo 2002-2010 pertenecientes a 25 países y una región administrativa. De la misma forma que en el anterior capítulo, debido a las diferencias entre empresas internacionales, consideramos el papel moderador de dos factores institucionales: el nivel de compromiso con la sostenibilidad y el grado de protección al inversor en el país de origen de la compañía.

La metodología empleada se basará en ecuaciones simultáneas para datos de panel basados en el Estimador GMM de Arellano y Bond (1991) con el fin de corregir problemas de heterogeneidad inobservable y de endogeneidad. Los modelos estimados se especifican a continuación. En el primero de ellos, se analiza el efecto de la estrategia de atrincheramiento basada en prácticas de RSC que oculten la gestión de resultados, en el rendimiento financiero.

$$\mathbf{RF_{it}} = \text{ø} + \text{ø}_1 RSC_{it} + \text{ø}_2 DMCit + \text{ø}_3 DMC*RSC_{it} + \text{ø}_4 Tamaño_{it} + \text{ø}_5 Endeudamiento_{it} + \text{ø}_6 Riesgo_{it} + \text{ø}_7 Intensidad\ I{+}D_{it} + \text{ø}_8 Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [1]$$

En los siguientes dos modelos, se analiza el efecto moderador de los factores institucionales. En primer lugar, el nivel de compromiso nacional hacia la RSC, y en segundo lugar, el grado de protección al inversor en el país de origen de la compañía.

$$\mathbf{RF_{it}} = \text{ø} + \text{ø}_1 RSC_{it} + \text{ø}_2 DMCit + \text{ø}_3 DMC*RSC_{it} + \text{ø}_4 DMC*RSC*DNCRI_{it} + \text{ø}_5 DNCRI_{it} + \text{ø}_6 Tamaño_{it} + \text{ø}_7 Endeudamiento_{it} + \text{ø}_8 Riesgo_{it} + \text{ø}_9 Intensidad\ I{+}D_{it} + \text{ø}_{10} Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [2]$$

$$\mathbf{RF_{it}} = ø + ø_1 RSC_{it} + ø_2 DMCit + ø_3 DMC{*}RSC_{it} + ø_4 DMC{*}RSC{*}DINV_PROTECCION_{it} + ø_5 DINV_PROTECCION_{it} + ø_6 Tamaño_{it} + ø_7 Endeudamiento_{it} + ø_8 Riesgo_{it} + ø_9 Intensidad\ I{+}D_{it} + ø_{10} Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [3]$$

donde:

i indica la empresa y t hace referencia al periodo temporal,

ø son los parámetros estimados,

ε_i representa la heterogeneidad inobservable,

μ_{it} representa el término de error,

RF_{it} es una variable numérica que representa el rendimiento financiero, medido por el valor de mercado de la compañía,

RSC_{it} , es una variable numérica que refleja las prácticas sostenibles de la compañía i para el periodo t. Con el fin de testar el efecto moderador del Consejo de Administración, la variable RSC será considerada con y sin los valores de Consejo de Administración,

MC_{it}, es una variable numérica que representa las prácticas de manipulación contable de la compañía i para el periodo t (recoge tanto las prácticas de MC basadas en decisiones contables, como reales, y la calidad de información financiera como robusto),

$Tamaño_{it}$, es una variable numérica que representa el tamaño de la compañía i para el periodo t,

$Endeudamiento_{it}$, es una variable numérica que refleja el nivel de endeudamiento para la compañía i en el periodo t,

$Riesgo_{it}$, es una variable numérica que representa el riesgo para la compañía i en el periodo t,

Intensidad $I{+}D_{it}$, es una variable numérica que representa la inversión en I+D de la compañía i en el periodo t,

$Fondo_Rotación_{it,}$ es una variable numérica que refleja la liquidez, la capacidad que tiene una empresa para continuar con el normal desarrollo de sus actividades en el corto plazo,

DNCRI y DINV_PROTECCION son variables dummies que reflejan las características del contexto institucional de la empresa i para el período t. Estas variables se analizan por su interacción con las variables MC y RSC,

DMC es una variable dummy que toma el valor 1 cuando la MC (o la calidad de la información financiera) es mayor que la media del correspondiente sector, año y país, y 0 en caso contrario,

DMC*RSC es una variable numérica medida por la interacción entre DMC y la variable RSC que representa a las empresas que utilizan prácticas de RSC como estrategia de atrincheramiento que oculten las prácticas de MC,

DMC*RSC*DNCRI es una variable numérica medida por la interacción entre DMC*RSC en las empresas ubicadas en los países con una mayor orientación a la RSC,

DMC*RSC*DINVESTOR_PROTECCION es una variable numérica medida por la interacción entre DMC*RSC en empresas ubicadas en países con una fuerte protección a los inversores.

Al igual que en el capítulo previo, con el objetivo de obtener resultados robustos, consideraremos no sólo la MC basada en decisiones financieras, sino también las medidas reales de MC, así como la calidad de la información financiera.

La evidencia empírica obtenida nos permite apoyar los resultados obtenidos previamente por Sundaramurthy (2000), quien sostiene que el valor de mercado de una empresa disminuye cuando se adoptan prácticas de atrincheramiento. De la misma forma, Surroca y Tribó (2008) obtuvieron evidencia de que los gerentes atrincherados pueden confabularse con las stakeholders con el objetivo de reforzar su estrategia y seguir actuando en su propio interés, lo cual repercute en un peor resultado financiero y de mercado. En consecuencia, nuestra evidencia empírica muestra el efecto perjudicial en el valor de mercado para aquellas organizaciones que optan por un mayor compromiso y actuación en el ámbito de la responsabilidad social como un mecanismo para ocultar la mala gestión por parte de sus directores, evitando así costosos boicots, dañinas campañas en los medios de comunicación (Bansal, 2005), así como la compensación monetaria que puede ser exigida por los accionistas y otras stakeholders por las pérdidas sufridas (Zahra et al., 2005).

La evidencia empírica obtenida está en consonancia con nuestra hipótesis y a su vez con la evidencia obtenida por Surroca y Tribó (2008), quienes sostienen que "las prácticas de atrincheramiento se relacionan positivamente con la mejora de las acciones de RSC, que, a su vez, afectan negativamente al desempeño financiero de las empresas". La inclusión en el análisis de las prácticas de MC conduce a un rendimiento menor para la empresa, evidenciado cuando las acciones de RSC son promovidas por el director como un mecanismo para enmascarar su gestión basada en maximizar su propio beneficio, lo cual conduce a un efecto negativo y perjudicial para el valor de mercado de la empresa. Además, se observa el efecto moderador de los factores institucionales en la relación rendimiento financiero y estrategia de atrincheramiento.

Se obtiene evidencia de que en aquellos países caracterizados por fuertes leyes de protección hacia los inversores, no se identifican las prácticas de RSC como estrategia de atrincheramiento ya que considera que el sistema legal protege a los accionistas minoritarios

y acreedores y por ende, los gerentes únicamente promueven prácticas de RSC con un objetivo ético.

En cuanto al factor institucional relacionado con el compromiso nacional hacia la sostenibilidad, los resultados arrojan evidencia de como para aquellas empresas ubicadas en un país caracterizado una fuerte presión y compromiso hacia las prácticas de RSC, las prácticas de atrincheramiento realizadas tienen un mayor efecto negativo y perjudicial en el rendimiento, que para aquellas empresas ubicadas en países menos comprometidos socialmente. Según Marginson y Sisson (1994) y Ferrer y Quintanilla, (1998), estos países cuentan con una perspectiva comunitaria y se caracterizan por tener unas leyes destinadas a proteger los derechos no sólo de trabajadores, sino también de otros stakeholders, por lo que parece lógico que las prácticas de RSC como estrategia de atrincheramiento reciba mayores sanciones por parte de los inversores.

En resumen, los resultados de esta investigación muestran que las acciones de RSC promovidas por el director como un medio para ocultar la gestión de resultados, generan un efecto negativo y perjudicial sobre el valor de mercado de la empresa. Este efecto perjudicial sobre el valor de mercado es especialmente importante en países con un fuerte compromiso hacia la sostenibilidad, en aquellos con niveles inferiores de protección hacia el inversor y en aquellos caracterizados por un menor desarrollo del mercado de valores. Además, el efecto diverge en función de las prácticas de MC y de RSC consideradas.

7. CAPÍTULO V. Efecto de la Manipulación Contable y las prácticas de sostenibilidad en el coste de capital y en la reputación corporativa. Evidencia adicional en el atrincheramiento directivo.

Una vez delimitada la relación entre las prácticas de MC y de RSC, su posible estrategia de atrincheramiento, así como el efecto en el rendimiento financiero de ambas decisiones conceptualizadas de manera conjunta, el objetivo del capítulo cinco es determinar el efecto tanto de la MC y de la RSC, como de la estrategia de atrincheramiento en el coste de capital y en la reputación corporativa.

Tal y como se ha mencionado anteriormente, las consecuencias del comportamiento discrecional son muy diferentes y pueden afectar a diversos agentes que participen en el mercado, no sólo inversores, sino también empleados, comunidades locales, sociedad o incluso a la propia reputación e imagen corporativa de esas empresas (Zahra et al., 2005). Es por ello, que se considera necesario analizar el efecto que tales prácticas genera en el coste de capital y en la reputación e imagen empresarial.

En primer lugar, y como ha sido enumerado en múltiples ocasiones a lo largo de este trabajo de investigación, las consecuencias de las prácticas de MC son especialmente dañinas para la compañía que las promueve. Específicamente, nos referimos a las consecuencias en el coste de capital y en la reputación, entre otras muchas desventajas de la MC.

En primer lugar, el coste de capital es definido por Botosan (2006) como "la mínima tasa de retorno exigida por los inversores de capital por proporcionar capital a la empresa". Por ello, esta variable genera un papel fundamental en determinadas tomas de decisiones financieras y estratégicas (Dhaliwal et al., 2011). La teoría sugiere que los inversores y el mercado demandan una mayor tasa de rentabilidad por sus acciones ante la evidencia de MC, ya que no pueden realizar estimaciones de los flujos de caja, lo que incrementa su percepción de riesgo y en consecuencia, el coste de capital. Ello puede estar basado en dos argumentos. En primer lugar, cuando los directivos hacen uso de su discrecionalidad en detrimento de la riqueza de los accionistas, el riesgo que percibe el mercado de esta empresa es mayor, y la rentabilidad que exigen para invertir en ella es mayor (principio rentabilidad-riesgo) lo cual determina un mayor coste de capital. En segundo lugar, las prácticas de MC, consideradas como coste de agencia (Davidson et al., 2004), incrementan las asimetrías informativas entre directivos e inversores. Debido a la ausencia de una información completa y que permita participar al mercado en las mismas condiciones, los inversores demandan una mayor tasa de rentabilidad por sus participaciones, lo que de nuevo genera un mayor coste de capital (Francis et al., 2008). En definitiva, la relación MC-coste de capital está fundamentada en la percepción del riesgo y la rentabilidad exigida por los inversores en función de ese riesgo.

Empíricamente, Francis et al. (2005), Gray et al. (2009) y Kim y Sohn (2011) evidencian que aquellas empresas que gestionan sus resultados han de asumir un mayor coste de capital, por el mayor riesgo percibido por el mercado. De la misma forma, Francis et al. (2004) y Blanco et al. (2009) encuentran que aquellas empresas con una mayor calidad de la

información financiera disfrutan de menor coste de capital. Nuestro primer objetivo se resume en la siguiente hipótesis:

Hipótesis 1a: El incremento en el coste de capital es consecuencia de las prácticas de manipulación contable.

La reputación puede ser definida como "la representación perceptual de las acciones pasadas y proyectos futuros que describen el atractivo general de la empresa en todos sus componentes clave, en comparación con otros rivales principales (Frombun, 1996). Por su parte, también es considerada como uno de los aspectos básicos para conseguir y mantener una ventaja competitiva duradera e inimitable en el tiempo (Dowling, 2004; Choi y Wang, 2009). Se entiende que esta reputación es consecuencia de la información que recibe el público sobre el comportamiento empresarial (Brammer y Pavelin, 2004). En este sentido, cuando los stakeholders no reciben los resultados esperados por parte de sus directivos, esto deriva en un daño para la imagen corporativa lo cual perjudica a la capacidad para atraer capital externo y decrece los ingresos (Frombun et al., 2000).

Por tanto, desde el punto de vista teórico la justificación de la relación inversa entre MC-reputación tiene su punto de partida en la identificación del mercado de tales prácticas. En aquellas empresas donde sus directivos promueven prácticas discrecionales y el mercado o alguno de los participantes en él identifican el carácter no ético de esas prácticas, comienza una cadena de consecuencias. Entre ellas se encuentran la pérdida de apoyo no sólo de inversores, clientes, suministradores o entidades financieras, sino también de la sociedad en general, la pérdida de confianza en la gestión empresarial, de la validez y fiabilidad de la información contable, y en consecuencia, un daño para la imagen corporativa y una pérdida de reputación corporativa.

Cabe destacar que la menor reputación empresarial como consecuencia de las prácticas de MC no afecta únicamente a la empresa, sino que de manera individual genera una pérdida de reputación directiva (Zahra et al., 2005) una vez que los escándalos contables o las prácticas de MC salen a la luz y el mercado toma conocimiento de dichas acciones.

El mercado y los inversores fuertemente penalizan aquellas empresas con estrategias de MC o atrincheramiento directivo, debido a la pérdida de confianza en relación a la relevancia

y fiabilidad de la información contable (Kasznik, 1998; Francis et al., 2008). Siguiendo la evidencia previa, se formula la siguiente hipótesis:

Hipótesis 1b: La menor reputación corporativa es consecuencia de las prácticas de manipulación contable.

Por su parte, la RSC se ha convertido en un aspecto con un papel fundamental en la estrategia empresarial. Por medio de estas prácticas económicas, sociales y medioambientales, las empresas no sólo consiguen un triple impacto en su cuenta de resultados, sino que está política social consigue un beneficio tanto para dicha compañía como para los diversos stakeholders. Entre algunos de los objetivos de los directivos a la hora de promover estas prácticas podemos encontrar: incremento en ventas, mejorar la imagen positiva hacia sus inversores, mejorar la reputación e imagen de la empresa, reducir la percepción de riesgo por parte de inversores y mercado, y en consecuencia, reducir el coste de capital.

De una parte, las empresas que promueven prácticas de RSC consiguen una positiva valoración por parte de inversores y del mercado que se refleja en un menor coste de capital, ya que los agentes que participan en el mercado son sensibles significativamente a las cuestiones sociales y medioambientales y valoran con un menor riesgo a aquellas empresas comprometidas socialmente con la RSC, partiendo de la asunción de que el coste de capital varía con el riesgo (Gregory et al., 2011). Numerosos estudios han evidenciado el mayor riesgo percibido para aquellas empresas menos comprometidas con la RSC (Robinson et al., 2008). A través de la RSC, las empresas pueden reducir las asimetrías informativas entre directivos, mercado e inversores, ya que éstos tiene disponible más información sobre la ética en los negocios de la empresa y por ende, gozan de una mayor seguridad en sus inversiones. Esto deriva en que los inversores están dispuestos a exigir una menor tasa de rentabilidad por sus inversiones, es decir, un menor coste de capital para la empresa (El Ghoul et al., 2010). Esperamos, por tanto, que las empresas comprometidas socialmente con patrones de RSC sean positivamente valoradas por el mercado con una menor percepción de riesgo, y en consecuencia, éstas vean reducido su coste de capital.

En base a los argumentos previos, podemos formular la siguiente hipótesis:

Hipótesis 2a: La reducción en el coste de capital es consecuencia de una estrategia de sostenibilidad.

Los directivos tienen numerosos incentivos para promover una estrategia de sostenibilidad que permita incrementar y mantener sus ganancias, así como mejorar su reputación (Peloza, 2005; McWilliams et al., 2006), lo cual ayuda a crear una imagen favorable de la compañía que le reporte una mayor cifra de beneficios (Frombun et al., 2000). La RSC puede ser considerada como una estrategia de inversión que mejore o mantenga la reputación corporativa (Knox y Maklan, 2004; McWilliams et al., 2006).

Numerosos estudios se han centrado en evaluar el impacto del compromiso sostenible en la percepción de los inversores, de los clientes o del mercado. Estas investigaciones han mostrado evidencia del link positivo entre RSC y reputación. Por ejemplo, Williams y Barrett (2000) encuentran evidencia de la relación positiva existente entre filantropía e imagen empresarial. Las prácticas de RSC, cuando son creíbles, tienen la capacidad para mejorar la imagen percibida por los participantes en el mercado (Brammer y Pavelin, 2004; Sen et al., 2006; Lai et al., 2010). Además, este comportamiento ético tiene la ventaja de disminuir los problemas de asimetrías de información, y por tanto, el resultado es la creación de un valor de marca o imagen empresarial, específicamente cuando la RSC está orientada a satisfacer los intereses de la comunidad (Torres et al., 2012).

En base a los argumentos previos, podemos formular la siguiente hipótesis:

Hipótesis 2b: El incremento en la reputación corporativa es consecuencia de una estrategia de sostenibilidad.

En el capítulo anterior, se descubre el estado del arte respecto a la concepción de las prácticas de sostenibilidad como una estrategia de atrincheramiento como consecuencia de la gestión carente de ética por parte de la cúpula directiva empresarial. Dentro de esta literatura, destacábamos el trabajo de Cespa y Cestone (2007), quienes mostraban como las prácticas de RSC pueden esconder una previa gestión de resultados y son concebidas como un mecanismo que evite las negativas reacciones y consecuencias a tal MC.

Basándonos en los argumentos previos, caben dos posibilidades. En primer lugar, que el mercado identifique las prácticas de RSC como un atrincheramiento directivo y ante tal

estrategia penalice a las empresas con un mayor coste de capital y una menor reputación. O en segundo lugar, que los inversores, mercado y stakeholders en general, aún asumiendo que puede producirse dicha situación, no disponen de la información necesaria (por las asimetrías informativas) que les permitan identificar claramente el riesgo asociado al uso de las prácticas de RSC para ocultar las de MC y por tanto, no penalizarían a la compañía. Es decir, los inversores y grupos de interés seguirían concibiendo las acciones sostenibles como un compromiso económico, social y medioambiental de la empresa, exigiendo un menor coste de capital y otorgando una mayor reputación corporativa. Es decir, si el mercado no dispone de la suficiente información para identificar el riesgo asociado a la estrategia de atrincheramiento, continua valorando positivamente a la empresa por su prácticas de RSC y en consecuencia, otorgándoles una mayor reputación e imagen empresarial y los inversores exigiendo una menor tasa de retorno para sus inversiones por el menor riesgo asociado a estas empresas.

En este trabajo, consideramos que el mercado y los diferentes stakeholders no son capaces de identificar el riesgo de la estrategia de atrincheramiento empresarial fundamentada en el uso de la RSC como medio para enmascarar el comportamiento oportunista y discrecional de los directivos que manipulan el resultado empresarial, debido a que éstos emplearán determinados instrumentos de MC que sean menos visibles para los inversores, el mercado, los auditores y otras partes interesadas, y que les permite promover tales prácticas sin llegar a ser identificadas por el mercado, aunque sea de manera más costosa.

Esta no identificación puede estar motivada, en parte, por la mayor conciencia social que hoy en día toman las cuestiones centradas en problemas sociales y medioambientales, lo que hace que el público focalice su atención hacia la sostenibilidad, aunque el fin último de esta sea enmascarar y evitar el reconocimiento de las prácticas de MC.

Hipótesis 3a: Una estrategia de atrincheramiento de las prácticas de RSC con el objetivo de enmascarar la gestión de resultados reduce el coste de capital.

Hipótesis 3b: Una estrategia de atrincheramiento de las prácticas de RSC con el objetivo de enmascarar la gestión de resultados incrementa la reputación corporativa.

Por lo que respecta al primero de los factores institucionales, el compromiso institucional con el nivel de sostenibilidad, tal y como se ha señalado, es necesario tener en cuenta que existen numerosas diferencias en el enfoque nacional adoptado con respecto a las prácticas de RSC. En este sentido, aquellas empresas que operan en un entorno con fuerte compromiso hacia la sostenibilidad y llevan a cabo estrategias de atrincheramiento a través de la RSC, pueden ser más fácilmente identificadas y cuantificadas por el mercado. Una de las posibles razones que justifiquen este hallazgo se encuentra en la mayor preocupación e importancia que el mercado otorga a este tipo de acciones. En este sentido, Prado-Lorenzo y García-Sánchez (2010) evidencian una mayor transparencia sobre temas medioambientales en entornos nacionales donde el compromiso y preocupación hacia la RSC es mayor. Por tanto, la posibilidad de que los inversores detecten el atrincheramiento directivo es mayor. Los accionistas y stakeholders que participan e interaccionan con empresas ubicadas en estos entornos, valoran tanto este tipo de prácticas sostenibles, que suelen actuar como medios activistas, lo cual les permite identificar y reconocer la verdadera finalidad perseguida con estas prácticas.

En este sentido, las empresas localizadas en entornos con fuerte presión hacia la RSC cuentan con participantes en el mercado comprometidos socialmente que identifican la estrategia de atrincheramiento y penalicen a las empresas que siguen patrones de comportamiento no ético que dañan los intereses de accionistas, inversores, prestamistas, empleados, y demás stakeholders. Como consecuencia de ello, en estos entornos el mercado valora negativamente a la empresa, lo que se traduce en un mayor coste de capital y en una menor reputación. Partiendo de este argumento, se plantea la siguiente hipótesis sobre el factor moderador del entorno institucional.

Hipótesis 4a: El compromiso nacional hacia la sostenibilidad modifica el efecto de la estrategia de atrincheramiento de la RSC en el coste de capital.

Hipótesis 4b: El compromiso nacional hacia la sostenibilidad modifica el efecto de la estrategia de atrincheramiento de la RSC en la reputación corporativa.

El segundo de los factores institucionales considerados hace referencia al grado de protección de los derechos e intereses del inversor en el país de origen de la empresa como determinante del desarrollo de la evaluación del mercado y la sostenibilidad corporativa. Las empresas ubicadas en países con mayores niveles de protección al inversor se caracterizan

por una primacía de los intereses de los mismos que dificultan la identificación y cuantificación del efecto atrincheramiento como consecuencia de la tendencia de los directivos de estos países hacia la MC y hacia las prácticas de RSC.

Analizando conjuntamente las características previas al igual que en el capítulo previo, las empresas localizadas en países con fuerte protección al inversor pueden no identificar las prácticas de RSC como estrategia de atrincheramiento ya que éstos inversores consideran que las leyes de protección al inversor evitan el riesgo de expropiación por directivos. Además el menor compromiso con la sostenibilidad y la existencia de una menor demanda de información sostenible, dificulta el análisis de la actuación social y medioambiental de las empresas. Por tanto, concluimos que esa no identificación otorga un mayor peso en la relación a las prácticas de RSC y por tanto, generan una mayor valoración en el mercado que deriva en un menor coste de capital y una mayor imagen empresarial.

Partiendo de este argumento, se plantea la siguiente hipótesis sobre el factor moderador del entorno institucional.

Hipótesis 5a: El grado de protección al inversor no modifica el efecto de la estrategia de atrincheramiento de la RSC en el coste de capital.

Hipótesis 5b: El grado de protección al inversor no modifica el efecto de la estrategia de atrincheramiento de la RSC en la reputación corporativa.

El objetivo del presente capítulo es determinar el efecto que las prácticas de MC y de RSC generan en el coste de capital y en la reputación empresarial, especialmente, cuando las prácticas de RSC son empleadas como una estrategia de atrincheramiento con el objetivo de evitar que el mercado identifique la gestión del resultado llevada a cabo por los directivos. Es necesario puntualizar que debido a la no disponibilidad de datos sobre reputación y coste de capital para todo el periodo inicialmente seleccionado, la muestra ha sido modificada, reduciéndose su tamaño. Para conseguir estos objetivos, el análisis empírico está basado en una muestra compuesta por 1.757 empresas internacionales, cotizadas y no financieras, constituyendo 8.785 observaciones pertenecientes a los mismos 25 países y región administrativa que en capítulos previos.

Con estos objetivos en mente, el análisis econométrico se subdivide en dos modelos: A y B. El primero tomará como variable dependiente el coste de capital y el segundo, la reputación empresarial.

En los primeros modelos se refleja el efecto de las prácticas de MC (1) y de RSC (2) en el coste de capital y en la reputación. De manera conjunta, en el modelo 3 se recoge la interacción entre MC*RSC para determinar el efecto de la estrategia de atrincheramiento.

$$\mathbf{r_{PEG}/REPUTACION_{it}} = ø_1 MC_{it} + ø_2 Tamaño_{it} + ø_3 Endeudamiento_{it} + ø_4 Riesgo_{it} + ø_5 Intensidad\ I{+}D_{it} + ø_6 Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [1]$$

$$\mathbf{r_{PEG}/REPUTACION_{it}} = ø_1 RSC_{it} + ø_2 Tamaño_{it} + ø_3 Endeudamiento_{it} + ø_4 Riesgo_{it} + ø_5 Intensidad\ I{+}D_{it} + ø_6 Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [2]$$

$$\mathbf{r_{PEG}/REPUTACION_{it}} = ø_1 MC_{it} + ø_2 RSCit + ø_3 RSC{*}MC_{it} + ø_4 Tamaño_{it} + ø_5 Endeudamiento_{it} + ø_6 Riesgo_{it} + ø_7 Intensidad\ I{+}D_{it} + ø_8 Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [3]$$

Los modelos 4 y 5 recogen el factor moderador del compromiso nacional hacia la sostenibilidad y del grado de protección al inversor, respectivamente.

$$\mathbf{r_{PEG}/REPUTACION_{it}} = ø_1 MC_{it} + ø_2 RSC_{it} + ø_3 RSC{*}MC_{it} + ø_4 RSC{*}MC{*}DNCRI_{it} + ø_5 DNCRI_{it} + ø_6 Tamaño_{it} + ø_7 Endeudamiento_{it} + ø_8 Riesgo_{it} + ø_9 Intensidad\ I{+}D_{it} + ø_{10} Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [4]$$

$$\mathbf{r_{PEG}/REPUTACION_{it}} = ø_1 MC_{it} + ø_2 RSC_{it} + ø_3 RSC{*}MC_{it} + ø_4 RSC{*}MC{*}DINV_PROTECCION_{it} + ø_5 DINV_PROTECCION_{it} + ø_6 Tamaño_{it} + ø_7 Endeudamiento_{it} + ø_8 Riesgo_{it} + ø_9 Intensidad\ I{+}D_{it} + ø_{10} Fondo_Rotación_{it} + \eta_i + \mu_{it} \quad [5]$$

donde:

i indica la empresa y t hace referencia al periodo temporal,

ø son los parámetros estimados,

ε_i representa la heterogeneidad inobservable,

μ_{it} representa el término de error,

r_{PEG} es una variable numérica que representa el coste de capital medido a través del ratio PEG propuesto por Easton (2004),

REPUTACION es una variable dummy que toma el valor 1 si la compañía es una de las empresas pertenecientes al "*World´s most admired companies ranking",*

RSC_{it} , es una variable numérica que refleja las prácticas sostenibles de la compañía i para el periodo t. Con el fin de testar el efecto moderador del Consejo de Administración, la variable RSC será considerada con y sin los valores de Consejo de Administración,

MC_{it}, es una variable numérica que representa las prácticas de manipulación contable de la compañía i para el periodo t (recoge tanto las prácticas de MC basadas en decisiones contables, como reales, y la calidad de información financiera como robusto),

RSC*MC es una variable numérica medida a través de la interacción entre RSC y MC que representa las empresas que hacen uso de la RSC como una estrategia de atrincheramiento que enmascare la MC,

DNCRI y DINV_PROTECCION son variables dummies que reflejan las características del contexto institucional de la empresa i para el período t. Estas variables se analizan por su interacción con las variables MC y RSC,

$Tamaño_{it}$, es una variable numérica que representa el tamaño de la compañía i para el periodo t,

$Endeudamiento_{it}$, es una variable numérica que refleja el nivel de endeudamiento para la compañía i en el periodo t,

$Riesgo_{it}$, es una variable numérica que representa el riesgo para la compañía i en el periodo t,

Intensidad $I{+}D_{it}$, es una variable numérica que representa la inversión en I+D de la compañía i en el periodo t,

$Fondo_Rotación_{it,}$ es una variable numérica que refleja la liquidez, la capacidad que tiene una empresa para continuar con el normal desarrollo de sus actividades en el corto plazo.

Para testar las hipótesis propuestas del modelo 1 (coste de capital), empleamos el estimador GMM de Arellano y Bond (1991) para datos de panel. Sin embargo, en relación al modelo 2 (reputación corporativa) se emplea un modelo Logit para datos de panel. La variable REPUTACION es una variable dummy que toma el valor 1 si la empresa está ubicada dentro del "*World´s most admired companies ranking*" y 0 en caso contrario. Con el fin de evitar que nuestra variable dependiente pueda encontrarse fuera del rango de valores entre 0 y 1, la solución dentro de las alternativas existentes es utilizar modelos de probabilidad no lineales, donde se garantice un resultado para la estimación que se encuentre comprendido entre 0 y 1.

Por lo que respecta a los determinantes del coste de capital empresarial, en línea con Dahliwal et al. (2011), la evidencia obtenida nos permite determinar el papel que el coste de capital tiene en la toma de decisiones de carácter financiero y estratégico. En primer lugar, el

mercado ve incrementado su riesgo y desconfía de las empresas que manipulan sus resultados. Por ende, los inversores y accionistas requieren como necesidad ante tal riesgo una mayor tasa de rentabilidad por sus inversiones, lo cual supone que las empresas menos éticas en su gestión han de hacer frente a un mayor coste de capital (Francis et al., 2005, 2008; Lambert et al., 2007). En este sentido, nuestros resultados permiten apoyar la evidencia previa obtenida por Bhattacharya et al. (2003) y Kim y Sohn (2011) entre otros, quienes mostraron la asociación negativa entre la calidad de los ingresos y el coste de capital. Una menor calidad de los ingresos incrementa las asimetrías informativas, lo cual genera un mayor coste de capital.

Por lo que respecta a las prácticas de RSC, de manera similar a la evidencia obtenida por El Ghoul et al. (2010) y Gregory et al., (2011), permiten satisfacer las demandas de inversores y sus necesidades, y en consecuencia, demandan una menor rentabilidad a las empresas comprometidas social, económica y medioambientalmente. Estas empresas son percibidas como menos vulnerables y más seguras.

En relación con el uso de estas prácticas sostenibles como actividad o mecanismo que permite a los directivos perseguir sus propios objetivos económicos haciendo uso de su discrecionalidad directiva (Handelman y Arnold, 1999; Barnett, 2007), los resultados obtenidos ponen de manifiesto que permiten con éxito ocultar la gestión de los resultados, obteniendo el apoyo de los diversos stakeholders y, en especial de los inversores que reducen su percepción de riesgo sobre la empresa, percepción que favorece un menor coste de capital. Los resultados se mantienen tanto para una MC basada en decisiones financieras como reales.

Por lo que respecta a los factores determinantes de la reputación empresarial, nuestros resultados permiten apoyar la evidencia previa de Frombun et al. (2000) y de Roydchowry (2006) entre otros, quienes sostiene el impacto negativo que las prácticas de MC generan en la reputación. El mercado y otros grupos de interés valoran negativamente aquellas empresas en las cuales sus directivos hacen uso de su discrecionalidad directiva para conseguir sus propios objetivos, en detrimento de los intereses no sólo de accionistas o inversores, sino también del resto de stakeholders. Todo ello genera una pérdida de apoyo por parte de los stakeholders afectados e incrementa su activismo como consecuencia de tales prácticas carentes de ética empresarial (Zahra et al., 2005).

En el lado opuesto a esta pérdida de reputación, al igual que Kasznik (1999) y McWilliams et al. (2006) evidenciaron, las empresas conciben la sostenibilidad como un mecanismo que les permite incrementar la percepción positiva que los accionistas, bancos, agencias de regulación y sociedad en general tienen de ellas. Estas prácticas de RSC ayudan a la empresa a crear una imagen favorable de ellas y les permite no sólo mantener sino también incrementar su reputación e imagen empresarial. En la misma línea que Brammer y Pavelin (2004), la reputación corporativa es concebida como consecuencia de las percepciones del mercado hacia cada empresa. De ahí que cuando las prácticas de atrincheramiento para enmascara la MC no son identificadas por el mercado, no generen un detrimento en la imagen empresarial de dichas compañías.

Al igual que ocurría con el efecto en el coste de capital, el atrincheramiento directivo no logra ser identificado por el mercado al combinar prácticas de RSC, y por ello, al igual que Prior et al. (2008) y Gargouri et al. (2010), los directivos logran satisfacer las necesidades del amplio colectivo de stakeholders y éstos reaccionan concediendo una mejor imagen empresarial, sin conocer realmente el objetivo perseguido con estas prácticas de sostenibilidad. Sin embargo, el entorno institucional desempeña un importante papel al respecto, corrigiendo la neutralidad del efecto atrincheramiento.

De manera general, el efecto observado en coste de capital y en la reputación permite contrastar y aceptar el papel moderador ejercido por los factores institucionales analizados en el presente trabajo: el compromiso nacional hacia la sostenibilidad, y el grado de protección al inversor del país de origen de la compañía. Tales resultados apoyan la evidencia previa de Leuz et al. (2003) y Scholtens y Kang (2012) respecto a la relación existente entre las prácticas de MC y de RSC en función del entorno considerado.

Además, se ha ampliado la evidencia empírica previa observando que el efecto de la estrategia de atrincheramiento en el coste de capital que es llevado a cabo en países con un fuerte compromiso hacia la sostenibilidad es identificado por el mercado valorándolo de manera negativa, perjudicando la reputación de la compañía e incrementando el coste de capital que deben soportar. Por el contrario, cuando esta estrategia es realizada por empresas ubicadas en entornos con una fuerte protección al inversor, la confianza que los inversores tienen sobre el comportamiento directivo basada en la creencia de que existe una ausencia de

motivos oportunistas por parte de los gestores les lleva a reducir el coste de capital exigido por su inversión.

8. CONCLUSIONES

En definitiva, los continuos escándalos contables que día tras día han estado marcando no sólo la última década, sino también el actual panorama nacional e internacional, han generado y continúan generando un clima de desconfianza a cerca de la estrategia empresarial, de los objetivos de los directivos, de la fiabilidad y validez de la información contable emitida por las empresas, entre otras muchas consecuencias adversas para las mismas.

Por otra parte, actualmente las empresas desarrollan sus actividades dentro de un escenario donde la preocupación y conciencia ciudadana por cuestiones de carácter social y medioambiental continúa en crecimiento. Ello, unido al deseo de recuperar la confianza pérdida como consecuencia de los escándalos contables y la actual crisis económica y financiera, ha provocado que la aplicación exclusiva de criterios económicos en la evaluación de la actuación empresarial no sea suficiente. Para ello, las empresas han comenzado a asumir patrones de comportamiento de carácter ético, social y medioambiental, es decir, la denominada Responsabilidad Social Corporativa (RSC) que tiene como objetivo ir más allá de lo exigido por ley, hacer lo correcto y siempre con un carácter ético y moral.

A este respecto, uno de los aspectos más interesantes para la investigación es la relación MC-RSC. A lo largo de la literatura, la relación entre MC y RSC ha sido previamente analizada, sin embargo, la contradicción entre los análisis propuestos y los resultados obtenidos sugiere la existencia de una posible relación bidireccional entre ambos constructos y no únicamente una relación unidireccional. Mientras unos estudios sostienen que las prácticas de MC reducen el nivel de sostenibilidad, otros muchos, consideran y defienden que aquellas empresas que gestionan contablemente su resultado promueven prácticas de RSC para frenar el activismo y la vigilancia de sus stakeholders.

El primer objetivo de este trabajo se ha centrado en determinar la posible relación bidireccional entre las prácticas de MC y las prácticas de sostenibilidad, Debido a la utilización de una base de datos internacional con la consiguiente diversidad entre países y entornos legales, ha surgido un interés adicional por analizar si tal relación diverge en

función del entorno institucional, para lo cual, se tiene en consideración tanto el compromiso nacional hacia la sostenibilidad, como el grado de protección al inversor en el país de origen de la compañía.

En función de los resultados obtenidos respecto a la relación MC-RSC, cabe la posibilidad de existencia de una estrategia de atrincheramiento, que conciba las prácticas sostenibles como un mecanismo que evite la identificación por el mercado de la gestión de resultados. Por tanto, estas prácticas de RSC serían consecuencia de una MC previa, es decir, entrarían dentro de una actividad de carácter discrecional por parte de los directivos.

Partiendo de la existencia de la posible estrategia de atrincheramiento, el segundo objetivo de esta investigación es determinar las consecuencias financieras y de reputación de las prácticas de MC, de RSC, y del efecto atrincheramiento que puede existir entre ellas. Para ello, se ha considerado su impacto en tres aspectos fundamentales para toda empresa: (i) su rendimiento financiero, (ii) el coste de capital que ha de asumir, y (iii) su reputación corporativa. Tiene especial interés estudiar las peculiaridades relacionadas con el conflicto existente entre la dirección y los accionistas que determina el atrincheramiento directivo y que pueden contribuir a la valoración de la empresa en el mercado. En todos los análisis empíricos se considera el papel moderador de los factores institucionales mencionados en párrafos anteriores.

La muestra a partir de la cual hemos obtenido evidencia empírica sobre la relación bidireccional entre RSC y MC, así como sus consecuencias financieras y de mercado, ha sido compuesta por 1.960 empresas internacionales, cotizadas y no financieras para el periodo 2002-2010, pertenecientes a 25 países y una región administrativa. Si bien, esta muestra se ha reducido para el capítulo 5 como consecuencia de la ausencia de datos sobre reputación corporativa y coste de capital, lo que ha determinado que la muestra esté compuesta por 1.757 empresas para el periodo 2006-2010.

La evidencia empírica ha puesto de manifiesto la existencia de una relación negativa bidireccional entre las prácticas de RSC y de MC, detectándose una menor tendencia a tal conducta fraudulenta cuando la empresa implementa un nivel más alto de prácticas sostenibles. Es decir, estas prácticas redundan en una mejor calidad de la información financiera. Así mismo, a mayor calidad de la información financiera, mayor es el compromiso de la empresa hacia la responsabilidad social. La relación bidireccional es más

fuerte en aquellos países con un fuerte compromiso hacia la sostenibilidad y en entorno con un mayor grado de protección de los derechos del inversor. Cabe destacar que los resultados obtenidos son robustos para diferentes medidas de MC y de RSC.

Por otra parte, la división de la muestra en dos subgrupos, empresas sostenibles frente a no-sostenible, sugiere que la relación bidireccional negativa no es generalizable a las empresas sostenibles cuando se observan individualmente. Esta evidencia es la que nos lleva a considerar el posible uso de las prácticas de RSC como una estrategia de atrincheramiento que enmascare las conductas discrecionales del directivo.

En relación a las consecuencias económicas que tal efecto atrincheramiento tiene en el resultado financiero, los resultados nos permiten obtener evidencia empírica de un efecto moderador de la conducta manipuladora. Las acciones de RSC emprendidas por el director como un medio para enmascarar su manipulación, generan un efecto negativo y perjudicial sobre el valor de mercado de la empresa. A pesar del efecto positivo de las actividades de RSC sobre dicho resultado, siempre y cuando éstas sean consecuencia de la combinación de las prácticas de MC, causan una reducción del desempeño financiero. Sin embargo, los inversores tienen serias dificultades para la identificación las prácticas de MC basadas en decisiones reales, así como en el uso de diversas acciones de RSC como estrategia de atrincheramiento.

Además, estas relaciones se diferencian entre el compromiso nacional con la RSC y el nivel de protección de los inversores. El impacto negativo en el desempeño financiero se incrementa si la estrategia de atrincheramiento es llevada a cabo en países con un fuerte compromiso con la sostenibilidad, ya que los stakeholders pueden identificar estas prácticas no éticas. Por otro lado, una mejor protección de los inversores reduce el efecto perjudicial de las prácticas de MC en tal rendimiento. Aquellos participantes en el mercado situados en un entorno con una fuerte legislación en favor de los inversores y los diferentes grupos de interés, no conciben las prácticas sostenibles como una estrategia que pueda dañar sus propios intereses, sino más bien como una estrategia con componente económico, social y ambiental. Por lo tanto, los inversores no penalizan en sus evaluaciones tales prácticas y el impacto negativo en el rendimiento financiero se reduce.

Finalmente, obtenemos evidencia empírica de la relación directa y positiva entre las prácticas de MC y el coste de capital que debe asumir una empresa, como consecuencia de la

valoración negativa que el mercado hace de ellas. Ello genera que, no sólo aquellas empresas que manipulan su resultado asuman un mayor coste de capital, sino también, la consiguiente pérdida de reputación corporativa. Resultados opuestos son los hallados para las prácticas de RSC, las cuales son positivamente valoradas por el mercado y en consecuencia, reducen la tasa de riesgo exigida por sus inversores, lo que les permite obtener beneficios financieros y de reputación por tales acciones.

Por lo que respecta a las prácticas de sostenibilidad como una estrategia de atrincheramiento, este tipo de estrategia no logra ser cuantificada por el mercado y son las prácticas de RSC las que ejercen un mayor peso sin permitir al mercado identificar el verdadero objetivo perseguido por los directivos. Por ende, el efecto que generan en el coste de capital es el ejercido por las acciones sostenibles, es decir, reduciendo esa rentabilidad exigida por inversores, y el que generan en la reputación corporativa, es decir, incrementándola. Esta evidencia también se encuentra en aquellos entornos institucionales con un fuerte sistema de protección al inversor (únicamente en el caso del coste de capital). Sin embargo, cuando ese atrincheramiento directivo para enmascarar la gestión del resultado es llevado a cabo en países con un fuerte compromiso hacia la sostenibilidad, sí que llega a ser cuantificado por el mercado que lo valora de manera desfavorable y perjudicial y por ende, aumenta el coste de capital y reduce la posibilidad de tener una buena reputación e imagen empresarial.

El presente estudio contribuye en varios aspectos a la literatura previa. Por un lado, se determina la relación bidireccional entre MC y RSC, ya que hasta ahora únicamente se tenía constancia de relaciones unidireccionales equívocas. Además, se ha observado el impacto económico, financiero y de reputación que estas relaciones tienen. Asimismo, debe destacarse que el uso de la metodología GMM ha permitido corregir los problemas de endogeneidad entre las prácticas de RSC y MC, lo que ha permitido obtener resultados más consistentes y eficientes que otros estudios.

Otra contribución más sutil se relaciona con el papel moderador de los factores institucionales. Las relaciones analizadas varían con respecto al nivel de compromiso hacia la sostenibilidad y en función del grado de protección al inversor en el país de origen de la compañía.

Por otra parte, los resultados de nuestra investigación tienen una serie de implicaciones para los directivos, debido a que pueden estar al tanto de las consecuencias de sus acciones en la realización de acciones de sostenibilidad y MC. Por lo tanto, los resultados de este estudio serán de particular interés para los propietarios de la empresa, que deseen determinar la eficacia de sus directores y gerentes, y también para los inversores y las autoridades públicas, para evaluar el impacto de la MC, de las prácticas de RSC y de la estrategia de atrincheramiento en el rendimiento financiero, en la reputación de la empresa y en el coste de capital. Concretamente, les permite identificar las organizaciones con más probabilidades de presentar estados financieros que reflejen una manipulación de los resultados. Los resultados también consideran el mercado como un medio alternativo de evaluación de la calidad de la información publicada por las empresas. Por otra parte, nuestro trabajo proporciona evidencia de la penalización que otorga el mercado a aquellas empresas en la cuales sus directivos tienen un comportamiento discrecional.

Este trabajo presenta algunas limitaciones, como por ejemplo el uso de una base de datos internacional. Serían necesarios más estudios que determinaran las relaciones analizadas en este trabajo en el marco de un solo país, con el fin de confirmar los resultados obtenidos por cada país, ya que cada uno de ellos se caracteriza por diferentes sistemas de gobierno corporativo y diversos contextos institucionales, que sugieren la posible existencia de importantes diferencias entre la contabilidad de las empresas y la ética económica en función de su ubicación geográfica.

Otras limitaciones encontradas en este estudio corresponden a las diferentes medidas de RSC, rendimiento financiero, coste de capital y reputación. Por lo tanto, la investigación futura debería tener como objetivo explorar las relaciones aquí descritas para diferentes medidas. Además, nuestra investigación no tiene en cuenta otras posibles variables que influyen en la relación entre la RSC y la MC, tales como el papel del auditor y la concentración de la propiedad, variables que pueden actuar como un mecanismo de control de las prácticas de MC, RSC y de atrincheramiento.

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ANNEX I

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ANNEX II

Research Hypothesis

ANNEX II. RESEARCH HYPOTHESES

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HYPOTHESIS 3b: An institutional approach to CSR in the country of origin of the company moderates the relationship between EM and CSR	ACCEPTED
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HYPOTHESIS 2: The higher the level of national approach to CSR in the country of origin of the company, the higher the detrimental effect in FP because of the CSR practices entrenchment strategy that aims to conceal Earnings Management.	ACCEPTED
HYPOTHESIS 3: The lower the level of investor protection in the country of origin of the company, the	ACCEPTED

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HYPOTHESIS 4a: The national approach to CSR modifies the effect of CSR entrenchment strategies on the Cost of Capital	ACCEPTED
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ANNEX III

Variables of the empirical analyses

ANNEX III. VARIABLES OF THE EMPIRICAL ANALYSES

Corporate Social Responsibility (CSR)	Multidimensional construct that analyzes a series of items with values from -3 to +3. These values are gotten from the EIRIS database, by using four grades associated to four scorings. We analyze different sustainability areas in order to obtain CSR: • ENVIRONMENT • HUMAN RIGHTS • SOCIETY • THE BOARD
Earnings Management (EM)	**Accruals Earnings Management (AEM):** based on separating the discretionary component from the non-discretionary one in accrual adjustments. It was propounded by Dechow et al. (1995). $\frac{TAA_{i,t}}{A_{i,t-1}} = \alpha_{1,t}\left(\frac{1}{A_{i,t-1}}\right) + \alpha_{2,t}\left(\frac{\Delta(Sales - A*R)_{i,t}}{A_{i,t-1}}\right) + \alpha_{3,t}\left(\frac{PPE_{i,t}}{A_{i,t-1}}\right) + \varepsilon$ The discretionary accrual adjustments (DAA) are the residuals of this calculation
	Real Earnings Management (REM): Roychowdhury (2006) implemented the main models for capturing REM. This author employed the model propounded by Dechow et al. (1998): estimates of abnormal levels of cash flows from operations, discretionary expenditure (advertising, R&D and SG&A) and production costs. We combine these three measurements into the two comprehensive aggregate metrics of REM proposed by Zang (2012): $REM\ 1 = (-AbnDISEXP_{it}) + AbnPRODCOSTS_{it}$ $REM2 = (-AbnOCF_{it}) + (-AbnDISEXP_{it}) + AbnPRODCOSTS_{it}$

Financial Reporting Quality (FRQ)	Ball and Shivakumar (2006) make the model by Dechow and Dichev (2002) progress – they use a nonlinear model to measure FRQ, because they incorporate loss recognition into it. $\Delta WC_{it} = \beta_0 + \beta_1 OCF_{it-1} + \beta_2 OCF_{it} + \beta_3 OCF_{it+1} + \beta_4 \Delta REV_{it} + \beta_5 PPE_{it} + \beta_6 DOCF_{it} + \beta_7 OCFxDOCF_{it} + \varepsilon_t$ The absolute values of the residuals are used as a proxy of FRQ. The higher this value, the lower the quality of accrual.
Financial Performance (FP)	Market Value (market measure of FP). MV is a linear function of two measures corresponding to consolidated data: book value of equity and net operating income
Cost of Capital (r_{PEG})	We use the PEG ratio Easton model (2004) $r_{PEG} = \sqrt{\frac{EPS_5 - EPS_4}{P_0}}$
Corporate Reputation	Dummy variable providing companies in the *World´s most admired companies ranking* of the Fortune Index with a value of 1, and of 0 if they are not in this ranking. This ranking is an alphabetical index of the most admired companies taken on a yearly basis from the top 50 surveys and industry rankings.
DNCRI	Dummy variable based in the National Corporate Responsibility Index (NCRI), which identifies the aggregate institutional context for CSR. For this purpose, ***DNCRI*** takes the value 1 if the NCRI of the company's country of origin is above average, and 0 otherwise.
DINVESTOR_PROTECTION	We create three sub-indices that stem from the country-level governance indices of La Porta et al. (1997, 1998): (i) **DCL**, which equals 1 if the firm

	is located in a common law country or 0 if the firm is located in a civil law country; (ii) **DAR**, which equals 1 if the firm is located in a country with anti-director rights higher than the sample median, and zero otherwise; and (iii) **DEF** , which equals 1 if the firm is located in a country with a higher than median law enforcement index, and zero otherwise. ***DINV_PROTECTION***, which equals 1 if the firm is located in a country with a higher than mean investor protection, and zero otherwise.
CSR_EM	Entrenchment Practices measured by the interaction of CSR and EM (AEM or REM). Companies implementing a directional directive to manage their accounting results use CSR practices with the aim to disguise this type of EM.
Control Variables	• *SIZE* is measured by the logarithm of the total assets. • *DEBT* is the risk of debt or default, and is calculated as the ratio of debt to equity. • *RISK* is measured by the beta of the market model. • *WORKING CAPITAL* is the difference between current assets and current liabilities. • *R&D INTENSITY* measures the ratio of R&D expenditure to total revenue.

“Somos lo que hacemos día a día. De modo que la excelencia no es un acto, sino un hábito”

Aristóteles