



RESEARCH ARTICLE

Are sustainable citizens firms really socially responsible? Evidence on American companies

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Abstract

The objective of this research is to check if sustainable social status is an explanatory framework or a constraint for development of sustainable opportunistic strategies. Based on a specific sample, which is sustainable citizen companies along the period 2002-2007, we examine through panel, comparative and qualitative studies: financial, governance and social characteristic of these firms. Our findings show several important facts. First, our results have proven that the earning management can be a tool to improve sustainable ranking on the list of the "100 best citizens corporate". Second, we showed a new type of negative social entrenchment which can be the main cause of discretionary earning management. These findings highlight the opportunistic practices even in ideal companies.

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Introduction

Our research is motivated in large part by the findings generated by previous research criticizing the social strategy of the U.S. corporate citizen as skeptic of their social responsibility are numerous (Frooman 1997; Danet, 2008; Capron and Quairel, 2006 Broda, 2007 Bocquet - Yven 2005; Bardelli and Pastore, 2007; Brilman and Herard, 2007; Barselli, 2006; Boyer, 2006; Antheaume, 2005; Aggeri and Acquier 2005).

This prompted us to ask whether these strategies seem to be tools to ensure sustainable social status, on one side. On the other side, the social status can explain the development of such discretionary strategies.

1.1 Literature review

The growing demands of ethics, expressed today, is interpreted often as a reaction to the lack of confidence in the business and the loss of meaning of certain behaviors, to regain their credibility and legitimacy through a social process that is living a real exploitation. Despite the awareness of the importance of stakeholders' management, most companies demonstrated reluctance towards this direction. Often the social responsibility is treated in literature as a strategic tool (Wood, 1991; Verkindt, 2004; Tchotourian, 2006; Suddaby and Greenwood, 2006; Stoney and Winstanley, 2001; Paradas, 2005; Panwar and Hansen, 2008; Pfeffer, 1981; Preston and Sapienza, 1990; Pasquero, 2004; Plender, 1997; Freeman 1994, 1984; Berman et al, 1999).

The woes of Enron and the reality of many practices of other companies reflected a blurred image of strategic corporate decisions and helped lay a great discredit to the rhetoric of ethics. It is in this sense that social responsibility is sometimes seen as a fad as some companies are very skeptical about and consider as a strategic tool (Martinet and Reynaud, 2004; Donaldson and Preston, 1995).

Also the idea of a moral and social business is still an utopia opposite to realities in business (Stoney and Winstanley, 2001). The creation of value for other stakeholders of the company is still considered as an instrument to achieve only the interests of shareholders (Friedman, 1970; Berger, 2007; Antheaume, 2005; Reich, 2008, Quairel, 2005). It seems that social responsibility has become a means to achieve a well defined goal: the search for a better image and greater profitability.

This is true for the majority of companies who adopt the status of citizens without warrant their commitments (Jeannicot and Ducassy, 2008; Frooman, 1997).

1.2 Research problem

We propose the following main research question:

Can sustainable citizens companies be prototype and do impeccable business?

1.3 Research objectives and contribution

In this research, we focus on a specific context, which is that of sustainable citizens corporate. We try to discern - in panel and comparative studies – the characteristics of these firms, their discretionary strategies and therefore their financial and social performance.

Our contribution, under a critical view, consists on proceeding in three levels. The first is to examine whether the sustainable corporate citizens manage their results. In order to measure the degree of earning management, we propose a comparative study to detect whether sustainable citizens corporate tend to do it more likely, compared with the propensity of not sustainable companies.

The second is to understand whether there are causal relationships between social and financial performances and if the financial can motivate the social orientation and vice versa.

1.4 Study plan

In order to answer our fundamental question, we propose to respond to

1. is Social sustainable status an explanatory framework or constraint to the development of discretionary strategy?
2. Are sustainable citizens corporate more prone to adopt opportunistic strategies than other not sustainable companies?

In the last section, we conclude.

2. SOCIAL PERFORMANCE AND EARNING MANAGEMENT IN SUSTAINABLE CITIZENS COMPANIES

2.1 Introduction and hypothesis development

Strategies of sustainable citizens corporate are supposed to be perfect and correct. In addition, if these companies are the elite companies, that have retained their rankings during a long period, they must be innocent of any accounting manipulation. However, it seems that these companies can adopt such discretionary strategy and Enron, Xerox, Worldcom can be examples of these practices (conditioned by the desired performance, internal and external structures), in order to establish informational strategies targeting different objectives (to be reclassified on social list, attract investors by posting good results, increase sales...).

We are interested to check the following hypothesis:

H: Companies that have been able to remain classified along the six years of our study can manage their results in a higher way than others not sustainable companies

Means that the more the companies stayed on social list the more they will be encouraged to manage their result

2.2 Sample and data collection

To validate this hypothesis, we rely on a sample of 100 best admired companies, choosing those that have remained classified for six -year of study from 2002 to 2007 on the social list. We were able to identify 11 companies.

Study period is extended over six years from 2002 till 2007.

The majority of companies that could preserve their place on six lists belong to sector one, up to 54.54 %. However sector 3 is about 36.36 % of the total sample, while the companies belonging to sector 2 that could remain classified over six years are only about 9.1%, represented by (ECOLAB).

The data are taken from many websites Edgar scan, Sec gov, Fortune, Yahoo finance... and the web site of each company.

In order to measure the degree of this irregular management we propose a comparative study. The sample of non sustainable firms was selected from "Fortune 500" so that it consists of companies which their characteristics are similar to those of citizen's companies (size, ownership structure, capital structure...).

2.3 Econometric approach

We will assess, first, the discretionary part of accruals. Then we will discuss the different meanings of the relations between the social score and the level of earning management. Then, we will conduct a comparative analysis between the levels of earnings management in sustainable and non sustainable firms.

2.4 Measurement of discretionary accruals

We deploy the model of Dechow and Al (1995) to measure the level of discretionary accruals under a pool study .

$$TA_{it} = \alpha_0 + \beta_1 (CAIT) + \beta_2 (IMMO_{it}) + \beta_3 (CA_{cashit}) + \beta_4 (CFO_{it}) + \epsilon_{it}$$

TAit: total accruals of firm i at year t.

CAit: Total sales of the company i standardized by total Assets

IMMOit: Gross value of fixed assets of the company I standardized by total assets.

CA cashit: Total sales decreased by variation in credit sales of the company i standardized by total assets.

CFOit: operating cash flow of the company I standardized by total assets

εit: the residue which is the amount of discretionary accruals of firm i.

The inclusion of a constant in the model controls hetero-scedasticity and the fact that discretionary accruals are more symmetric, while it mitigates the problems associated with an omitted variable size

To estimate the coefficients of this model, we use the method of general least squares (GLS).

We present the results of estimations, applied to the two samples in the following table:

We notice that the adjustment coefficient in the control sample regression is higher and this is due to the superiority of the explanatory power, as shown by the coefficients of the variables. However, the DW statistic for the first sample shows a value greater than that of the second sample and it is closer to the critical value, reflecting a lack of correlation between residuals terms. This means that the residues in the first equation must be greater than that of the second equation. Therefore, we expect that discretionary accruals, estimated by the residues are more important in companies 'sustainably' citizens.

2.5 Descriptive statistics of accruals

First, we present descriptive statistics of discretionary accruals of sustainable corporate citizens in the following table:

These two tables show, respectively, the mean values of discretionary accruals in sustainable corporate and in the non sustainable companies.

If we compare the average, it appears that sustainable citizens companies seem, in general, be more engaged in this practice than other companies. In addition, the trend of this management seem to be increasing over time, with the exception of 2007.

In addition, the growth rate of accruals for sustainable corporate citizens is, in most cases, larger, comparing with that of non sustainable firms. This corroborates and confirms our prediction that corporate citizens can be more prone to this kind of manipulation.

We try to strength statistically this result, if there is any, between these two samples, a significant difference in the level of earnings management. To do this, we used the test of analysis of variance, summarized in the following table :

Where ADT: discretionary accruals in non sustainable firms

ADS: discretionary accruals in sustainable firms.

These results show a statistically significant coefficient of Fisher with high level of confidence. Sustainable citizens firms seem to be more prone to manage their results, which corroborates our descriptive analysis.

We will try later to test a set of regressions in different areas to examine the relationship between the level of earning management and the level of social score of these firms and vice versa.

2.6 Social score and earning management

2.6.1 Effect of earnings management on social score

To test this direction, we propose the following equation:

$PS = F(\text{Sales, RD, Size, ROA, ROE, discretionary accrual, CF, debt})$

Where RD: research and development expenditures, CF: cash flows

We present the results of this estimation in the following table:

Where S : SALES, D: debt, T: size, CF : cash flow from operations, SC: Social score, AD : discretionary accruals

? : symbol used by the Eviews software in the case of a pool study to refer to the company X to year Y, for example.

The results show that the size seems to be a strong determinant of social performance.

To further explain the discretionary strategy, we believe that there is an indirect path between financial performance and social performance.

Financial performance seems to be main motive to undertaken correctives measures on the results.

Therefore, to determine whether managers manage their results based on past financial performance to be reclassified on the social list, we propose to examine the effect of earnings management on social performance, taking into account the effect delayed (lead lag) of financial performance.

We present this estimation in the following table:

We note that the model fitness shows a significant improvement. In addition, the coefficient of AD has increased and becomes very significant. Earnings management is positively correlated with social performance. The status can be the

output of a discretionary strategy. The overall response may be achieved in the long term. Managers reported good results that will be appreciated and benefit accordingly high social score. So the status seem to be both the output and the catalyst for the development of such strategies, taking in account the previous levels of financial performance.

2.6.2 Effect of Social score on the level of accruals

To test this direction, we propose the following equation:

$$AD = F(\text{Sales}, \text{RD}, \text{Size}, \text{ROA}, \text{ROE}, \text{SC}, \text{FC}, \text{debt})$$

We present the results of this estimation in the following table:

It seems that this estimation is less significant than the first. Social score is not significant, the correlation is more positive, the social status cannot be, then, a constraint against earnings management. More that, it appears to be motivated by more significant factors such as the values of financial performances, level of operational cash flow and especially the size of the firm.

We propose, in what follows, to consider whether the status could be an explanatory framework for performance management, taking into account past financial performance.

We present the results of this estimation in the following table:

The goodness of fit is slightly improved. Social score is significant at a confidence level of 95% and positively correlated with the level of earnings management. This means that managers, under the shelter of a social status and taking into account the past financial performance may be encouraged to handle the results. Therefore the status showed cannot be a constraint against discretionary manipulation; worst it can be driving force for such strategy

Tableau 1 list of sustainable Citizen qFirms

Sustainable Citizen firms
AUTODESK
NORTHWEST NGCO
ECOLAB
PITNEY
CISCO SYSTEM
STARBUCKS
SOUTHWEST AIRLINES CO
TIMBERLAND
INTEL
HERMANMILLER
CUMMINS

They can be distributed across sectors as follows:

S1: Food and goods / services consumption.

S2: Goods and medical and pharmaceutical services.

S3 Technologies, industrial, electrical and computer products.

Table 2: Distribution of sustainable citizens firms by industry

industries	Number of firms	Parentage
Sector1	6	54,54%
Sector2	1	9,1%
Sector3	4	36,36%
TOTAL	11	100%

Table 3 Estimation of total accruals

Sample of sustainable citizens firms		Sample of non sustainable firms	
Dependent variables	Coefficients	Dependent Variables	Coefficients
IMMO	0.011532**	IMMO	0.051399**
sales	0.027327***	sales	-0.010456
Sales CASH	0.006547***	Sales CASH	0.047993***

CF		CF	0.238943***
	0.219290***		
α_0	-	α_0	-0.525355***
	0.137282***		
Square	0.401730	Square	0.830976
D-Watson	1.528544	D-Watson	0.803724
Prob(F-tatistic)	0.000002	Prob(F-tatistic)	0.000000

*, **, *** : level risks 1%, 5% et 10%, respectively.

Table 4: Average of discretionary accruals in sustainable firms

	AUT ¹	NOR	EC	PIT	CI	STA	SOt	Tim	INTL	HERM	CUM
Mean	0.0582	-0.0003	-0.0076		0.0586	-	-			0.0033	-0.0063
				0.0014		0.0124	0.0130	0.0097	0.0758		

It is very interesting to notice that the company "Intel" seems to have the highest level of earning management compared to other companies.

We present in the following two tables, the accruals' mean per year for the two samples:

Table 5: Average of discretionary accruals per year for sustainable citizens companies

	2002	2003	2004	2005	2006	2007
Mean	-0.032760	0.002920	0.019396	0.019940	0.055307	0.046486

Tableau 6 : Average of discretionary accruals per year for non sustainable citizens companies

	2002	2003	2004	2005	2006	2007
Mean	-0.041369	-0.008474	0.002296	0.015361	0.013638	0.030918

Table 7 : Analysis of variance of accruals

Test for Equality of Variances between Series					
Sample: 1 66					
Included observations: 66					
Method	df	Value	Probability		
F-test	(65, 65)	2.253174	0.001286		
Bartlett	1	10.36113	0.001287		
Levene	(1, 130)	1.303964	0.255589		
Brown-Forsythe	(1, 130)	1.031256	0.311750		
Category Statistics					
Variable	Count	Std. Dev.	Mean Abs. Mean Diff.	Mean Abs. Median Diff.	Mean Tukey-Siegel Rank
ADT	66	0.061029	0.045382	0.045126	64.43939
ADS	66	0.091608	0.056918	0.055594	68.56061
All	132	0.077693	0.051150	0.050360	66.50000

¹ Abréviation de noms des firmes américaines

Table 8 : Effect of AD on SC

dependents Variables	Coefficients
AD?	0.210759
D?	0.226832
T?	0.035572***
ROE?	-0.310717
ROA?	0.621748
CF?	-1.061255**
RD?	-0.135460
S?	0.027601**
R-squared	0.881769
D-W	2.466896
F-Stat	50.07528
PF-Stat	0.000000

* , ** , *** : level of risk 1% , 5 % and 10% , respectively.

Table 9 effect of AD on SC taking in account the delayed effect of financial performance

Dependents Variables	Coefficients
AD?	0.375576**
D?	-0.011147
T?	0.041791***
ROE?(-1)	0.292061**
ROA?(-1)	-1.369722***
CF?	-1.810842***
RD?	-0.002973
S?	0.034860**
R squared	0.964987
D-W	2.925282
F-Stat	141.7421
PF-Stat	0.000000

* , ** , *** : Thresholds risk level of 1% , 5% and 10% , respectively.

Table 10: Regression results of the social score on accruals

Dependents Variables	coefficients
SC?	0.021984
D?	-0.020359
T?	0.004395***
ROE?	0.155375**
ROA?	0.309107***
CF?	-0.454929***
RD?	-0.012119
S?	0.001774
R-squared	0.411214
D-W	2.210137
F-Stat	4.689324
PF-Stat	0.000475

Table 11: Effect of Social score on the level of accruals With Delayed effect of the financial performance

Dependents Variables	coefficients
SC?	0.041610**
D?	-0.023417
T?	0.004105***
ROE?(-1)	0.136690***
ROA?(-1)	0.111017
CF?	-0.288898***
RD?	0.084004
S?	0.002248
R-squared	0.437843
D-W	2.253532
F-Stat	4.005584
PF-Stat	0.002463

*, **, *** : Seuils du niveau de risque à 1%, 5% et 10%, respectivement.

3. Conclusion

These companies seem to be able to disseminate false accounting information, or to find the center of fraud and questionable financial arrangements.

From the foregoing, we can believe that the financial performance is the most important asset for sustainable ranking on the list of "100 Best Corporate Citizens" Carrying on with a fictive asset(know how) of their managers.

Corporate Citizenship certainly drove benefits for these companies (avoid many problems attracting investors, customers ...)

In addition, these results highlight another type of entrenchment likely to develop instrumental and discretionary strategies: entrenchment in the social lists. Therefore, these companies are more rooted in the social list, they would be more prone to undertaken an opportunistic strategy.

Limitations

The status seems to be a paradise in the seat of which citizens corporate, hope to, in one side, be irreproachable. On the other side, to avoid transactions costs. In this case, we cannot identify exactly what is the output and what is the input in the management or in the spirit of the managers of these companies. Social performance can be the output of a good financial performance, social status can be output to a good financial performance and / or a good social performance, and good financial performance is achieved through social benefits, then we feel that we are in a vicious circle.

Even our sample was very restrain but it confers for us conclusive results.

Recommendations

These results may also mislead the assessment of social rating that takes into account a factor that can be wrong: the financial criteria. So these rating agencies should avoid this criterion from their assessment base

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