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PH.D IN MANAGEMENT – CYCLE XXVIII

BEHAVIOUR OF FIRMS: VIRTUES AND VICES
FROM CSR TO FINANCIAL STATEMENTS FRAUDS

Abstract

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ABSTRACT

The ethical connotation of each economic activity has distant roots in literature (Freeman, 1984), but it is especially in recent years, after the issuing of an increasing number of laws related to the protection of the environment and to the defense of workers' rights, that it is acquiring importance among management scholars. The notion of Corporate Social Responsibility (CSR), defined by the Commission of the European Communities in 2011 as "*the responsibility of enterprises for their impacts on society*", is becoming a strategic tool because both scholars and managers are realizing its potential value. However, even if the management literature is paying increased attention to the influence that a CSR's policy can have on several aspects of a firm's life like its financial performance (McWilliams and Siegel, 2000; McGuire, Sundgren and Schneeweis, 1988) and its relationship with stakeholders (Carrol, 1991; Clarkson, 1995), same gaps are still existing, above all if we refer the analysis to a particular kind of firm like family firms.

Family firms represent the most ancient form of business organization (Miglietta, 2009) and empirical evidences show how still nowadays, both in emerging countries and in more developed ones, they significantly contribute to the general economic growth. Considering all the differences between family and non family firms, the first article of this thesis focuses on the relationship between family firms and CSR and aims to infer that family firms, as compared to non family firms, have some differences regarding their CSR investments and can invest in social actions with a different objective function. In this sense, the paper develops an integrated framework to CSR decisions in family firms, distinguishing among (a) determinants, (b) dimensions and (c) motivations. These elements are linked to different aspects of the family socioemotional wealth theory (Gomez-Mejia, 2011), which shows how family owners tend to be guided by a very different set of motives in running their business and in approaching CSR decisions (Berrone et al., 2010). Starting from this consideration, the research proposes that family firms are particularly likely to engage in local CSR activities rather than non-local ones (focusing on the community) and their attention is focused on primary stakeholders (employees) rather than secondary stakeholders (Clarkson, 1995). At the same time, the attachment to the local community (and, hence, the investments in social actions related to the belonging community) is higher when the founder runs the business, while following generations have a weaker tie to the business and to the belonging community and are more inclined to open the business to new markets and, for this reason, to promote broad-based social actions (non-local).

Continuing the analysis about CSR practices, the second paper has a more empirical approach. The paper wants to fill another gap in the literature about CSR, which refers to the

relationship between CSR disclosure and firm's ownership structure. In particular, three different ownership structures are considered: family ownership, State ownership and dispersed ownership. The differences among these three ownership structures are relevant and affect differently firm's CSR reporting process. With an empirical study, a content analysis on the CSR documents disclosed by 192 Italian listed firms in 2014 is firstly provided. Then, data are analysed using a logit regression model. The focus of the analysis is set in the Italian context, which seems to be a suitable background for the purpose of the paper because the presence of both family firms and State-owned firms is relevant (Corbetta and Montemerlo, 1999; Trento and Giacomelli, 2004; Secci, 2005; Caselli and Di Giuli, 2009; Campopiano and De Massis, 2015). The arguments of the paper are grounded on the *Agency Theory*, which offers several explanations for firms' differences based on their ownership structures. Final findings show that firms with concentrated ownership, both family and State-owned, disclose less CSR information related to the topics analysed when compared to firms with dispersed ownership.

After the examination of some CSR practices from theoretical and practical points of view, that can be considered as virtuous behaviours of firms, this work continues with the other side of the story: an empirical analysis of financial statements frauds. Together with the CSR reports analysed in the second papers, firms disclose also another mandatory and more important report, their financial statements. According to IAS n.1, this document must "*present fairly*" the financial position, financial performance and cash flows of an entity. However, often this principle is not observed and managers may incur in some financial statements manipulations, like earnings management practices or, even, in financial statements frauds. Since the huge legal and reputational costs of acting a financial statements fraud can be avoided using earnings management practices (Dechow, Sloan and Sweeney, 1996), the third paper of this thesis argues that firms involved in frauds have previously manipulated their financial statements through legal procedures, trying at first to show a better situation acting legally. Only when the earnings management practices are not enough to show a positive economic and financial situation, firms start to cheat on accounting numbers illegally. Thus, the baseline of this paper is the relation between the earnings management practices and the financial statements fraud. First, it aims to test if there is a connection between these two practices. Later, it introduces a new path of research, which investigates on the intensity of the fraud. In other words, the paper tests if the existence of earnings management practices before the fraud occurrence affects the amount deceived with the fraud. The empirical analysis is conducted using a sample of 70 fraud and 70 no-fraud US firms and final results confirm the hypothesis that firms committing fraud of higher intensity have managed earnings in the two years before the fraud occurrence.

Finally, this doctoral thesis concludes with an article about the economic sustainability of biobanks. For the first three years of my PhD program, I have benefited from a scholarship funded by Istituto Superiore di Sanità and during the second year, together with dott.ssa Mariarosaria Napolitano and dott.ssa Elena Bravo, we developed a paper which aims to be a guide for the implementation of business plans in biobanking and proposes models for the facilitation of their preparation, thus contributing to recognition of the importance of efficient management of resources of public health services. The paper has been published on “Biopreservation and Biobanking” in 2017. Even if the paper has any connection with the other three articles and with the main topics of my thesis, I included it in this final work in order to provide the results of my collaboration with the Istituto Superiore di Sanità.