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ATTENDANCE AND STUDENT PERFORMANCE IN AN INTRODUCTORY ACCOUNTING COURSE

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INTRODUCTION

The purpose of this paper is to study the effect of attendance on student performance. The study uses data on students who took an introductory accounting course during the 2014/2015 academic year at a medium-sized state university located in the south east of the United States. The introductory accounting course is a core requirement for all business majors at the university, and therefore the student population consisted of students with various majors including accounting, marketing, finance, management, economics etc. The study covered two semesters and had a total population comprising of 158 students; however 3 students withdrew from the course during the 2 semesters, so a final sample size of 155 students was used.

Each student's attendance was recorded on an attendance log during the two semesters covered by the study. Student performance was evaluated using multiple choice examinations and the score on homework assignments as follows: A: 90% - 100%, B: 80% - 89%, C: 70% - 79%, D: 60% - 69%, and F: below 60%.

LITERATURE REVIEW

There have been several international studies on the effect of attendance on undergraduate student performance. These studies span many decades and involve several disciplines.

Purcell, P, (2007), studied the levels of attendance by civil engineering students of the University College Dublin in the United Kingdom during the 2006/2007 academic year. He sought to ascertain whether lecture attendance influenced examination performance. He found that the attendance rate was 68%; he also found a strong correlation between lecture attendance and examination performance.

Shimoff, E & A. C. Catania (2001), studied attendance and performance of 114 students in an introductory psychology class at the University of Maryland. They found that simply recording attendance (without awarding course credit for attendance) increased both attendance and overall academic performance.

Halpern, N. (2007), studied whether attendance affected the academic achievement of 179 students who completed an undergraduate course in Airport Business Management at the London Metropolitan University the between 2003/4 and 2006/7 academic years. He found that attendance had a significant moderately positive relationship with academic achievement.

Marburger, D.R. (2001) investigated the relationship between undergraduate students' absenteeism during principles of microeconomics course and their subsequent performance on examinations at Arkansas State University. His findings revealed that students who missed class on a given date were significantly, likely to respond incorrectly to questions relating to material covered that day than students who were present.

Chen J. and T. F. Lin (2008) studied whether student's attendance at lectures affected students' examination performance. Their results suggested that class attendance had a positive and significant impact on college students' examination performance. They estimated, that on average, the effect of attending lectures corresponded to a 9.4 - 18.0 percent improvement in examination performance.

Stanca, L, (2006) also investigated the effect of attendance on academic performance using panel data evidence for introductory microeconomics course at the University of Milan, Biocca, Italy. The study involved 766 individuals who took the course between 2001 and 2004. His results indicated that, after controlling for unobservable student characteristics, such as effort and motivation, attendance had statistically significant and quantitatively relevant effect on student learning.

Also, Durden G.C. and L.V. Ellis (1995) studied the effect of attendance on student learning in principles of economics course using data collected by surveying students at the end of three semesters, spring and fall 1993, and spring 1994, at Appalachian State University. Their results indicated that attendance did matter for academic achievement in the course, however the effect was nonlinear, and that what really mattered was excessive absenteeism.

Paisley C., and N. Paisley (2004) studied student attendance and performance from two perspectives, namely, the reasons why some students do not attend classes and secondly the issue of whether attendance improves academic performance. Their analysis was based on data from a third year compulsory module in Financial Accounting in a bachelor's degree program at Glasgow Caledonian University in the United Kingdom. They found that students' participation in a part – time employment was the most frequently cited reason for non-attendance. They also found a clear positive relationship between attendance and subsequent academic performance.

Spaho A, and M. Godolja (2014) studied the correlation between lecture attendance and final examination success using population of 143 first year business students taking a general mathematics course at the University of Tirana, Albania, during the 2012-2013 academic year. Their results indicated that lecture attendance of business students had a significant impact on their final success the general mathematics course.

Using several statistical tests, Gupta K and M.M. Maksy (2014) examined the determinants of student performance in an undergraduate investment course. They found that of the factors they studied only course study hours, homework, and attendance had a positive explanatory power for student performance.

Finally, using data on 368 students enrolled in three online and three face-to-face sections of an introductory-level sociology course, Driscoll A., K. Jicha, A.N. Hunt, L. Tichavsky and G. Thompson (2012), evaluated the effect of the different course settings on student performance and satisfaction. Their results indicated that the difference in the student performance in the two settings was accounted for by the selection effect, meaning that the academically stronger students were more likely to enroll in the face-to-face course than the online class.

DATA

The data for the study consisted of 158 students who took an introductory accounting course for two semesters (fall 2014 and spring 2015) during the 2014/2015 academic year at a medium-sized state university in southeastern United States. The sample size of 158 is considered adequate for this study and is similar to those used by prior studies; Purcell, P. (2007) used sample size of 136, Shimoff and Catania, (2001), used sample size of 114 students and Driscoll et al (2012) used 368 students. The classes met twice a week throughout the semester; a detailed attendance log was maintained for each student throughout the period. Students were evaluated through a combination of multiple choice examinations and the score on homework assignments. Three students withdrew from the course during the two semesters, and were excluded from the study. Hence the actual sample size used was 155.

METHOLOGY

The average attendance percentage for the classes was calculated for each student by taking the number of days attended and dividing it by the number of days classes was held during the semester. This is similar to the method used by Purcell P. (2007). The average score for each student was calculated by taking the student's total score for the examinations and homework assignments and dividing it by the maximum possible score. Assuming linearly, regression analysis of the data was undertaken using Microsoft Excel and the equation:

Y_1= a+bX_1+e, where
Y_1=Student performance (Average Score)
X_1= Attendance Percentage

RESULTS

Table 1 shows the descriptive statistics. The average attendance percentages was 67%. This is consistent with the average attendance percentage of prior United States studies of this nature which ranged from 66% to 89% (Purcell, P. 2007) and also with the 68% found by Purcell (2007) for 136 engineering students. The table also shows that the mean students score was 79.9% or approximately a grade of B.

Table 2 shows the frequency distribution. Those who attended less than 20% of the classes had an average score of 70% or C and represented 4.5% of the students. Those who attended between 21% - 39% of the classes represented 15.5% of the students and had an average score of 76% or C. Those who attended between 40 and 59% of the classes represented 18.7% and had an average of 75% or C. Those who attended 60% to 79% of the classes were 20.7% of the student population and scored an average 81% or B. Finally those who attended between 80% - 100% of the classes were 40.6% of the class and had an average score of 84% or B. Thus there was no difference in grade whether one attended 0% - 20%, 21% - 39%, and 40% - 59%, the grade was a C. The same result was found for those attending 60% - 79% or 80% - 100%, the average grade was a B.

In summary, those who attended more than 60% of classes had a B (average score of 80% to 89%) and those who attended less than 60% had a grade of C (average score of 70% to 79%). The results also show that a pass mark of 70% can be attained at relatively low attendance levels (< 20% attendance).

Table 3 and Table 4 show the results of the regression analysis. The results show that there was a moderately positive relationship between attendance and average score; and this relationship is significant (p-value=.0000). The result is similar to the results of prior studies. (Durden & Ellis, 1995; Lockwood & Guppy 2006).

Table 1
DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Standard Deviation.
Average Attendance	155	0	100	67.02	26.821
Average Score	155	27	100	79.909	11.089

Table 2 **FREQUENCY DISTRIBUTION**		
Attendance	No. of students (%)	Average Score (%)
0-20	7 (4.5%)	70
20-39	24 (15.5%)	76
40-59	29 (18.7%)	75
60-79	32 (20.7%)	81
80-100	63 (40.6 %)	84

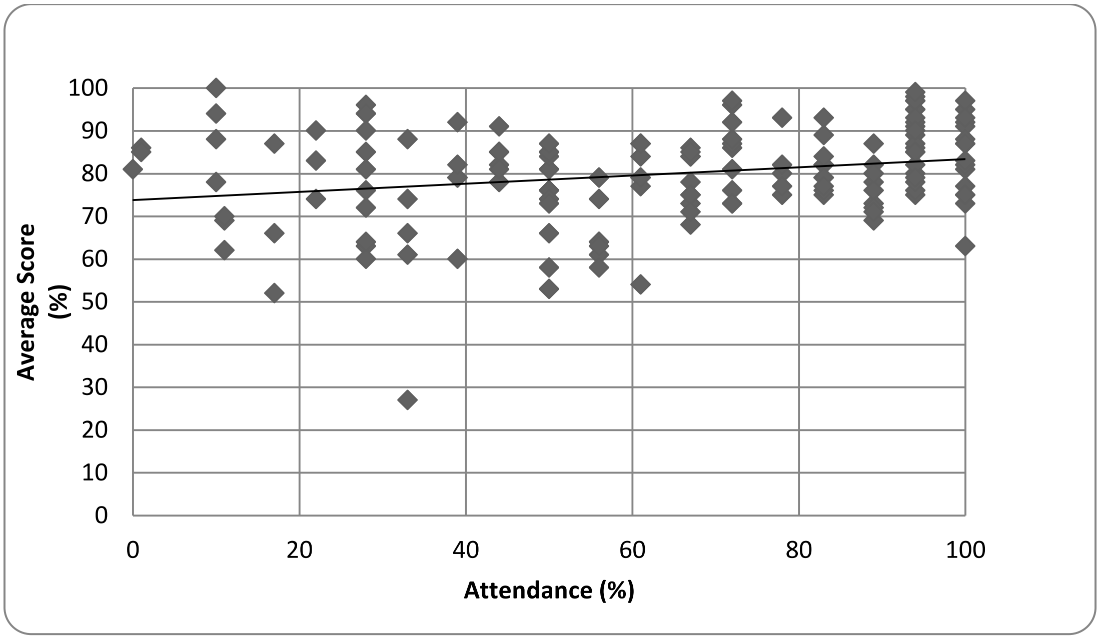
Table 3 **ANOVA**					
Model	df	Sum of Squares	Mean Square	F	P-value
Regression	1	1.47265	1.47265	23.4566	0.0000
Residual	153	9.6065	0.06278		
Total	154	11.0782			

a. Dependent Variable: Average Score
b. Predictor: Attendance Percentage
c. R^2=0.1329
d. Adjusted R^2 = 0.1273

Table 4 **COEFFICIENTS**				
	Coefficients	Std. Error	t Stat	P-Value
Intercept	0.03444	0.146885	-0.23445	0.81495
Attendance	0.008819	0.00182	4.8432	0.0000

Figure 1 shows the distribution of student attendance versus average score for the classes (each student is represented by a dot in Figure 1). Figure 1 clearly shows that those students who have high attendance rates clearly outperform those who have poor attendance. Halpern, (2007) and Purcell, (2007) found similar results. Those students who attended 80% - 100% of the lectures appeared to be the best performers in their classes. Surprisingly, the data shows that 8 students in the 0% – 19% attendance category scored in the top 20% of the range, suggesting that there were some students who could do well without attending classes. Furthermore, most of the students with an average score of less than 70% (grade of D or F) attended less than 60% of the classes; and of those who attended more than 60%, few scored below 70% (grade of D or F).

Figure 1
ATTENDANCE VS. AVERAGE SCORE



CONCLUSION

The results of this study indicate that attendance has a significant moderately positive effect on student performance in an introductory accounting course. The average class attendance rate for the students in this study was 67% which was similar to that of prior United States studies of 66% - 89%. The students who attended more than 60% of the classes obtained an average grade of a B (average score of 80% - 89%), while those who attended less than 60% of the time had an average grade of C (average score of 70% - 79%). Also, the significant majority of those who scored below 70% attended less than 60% of the classes.

A limitation of this study is that it does not control for student characteristics which affect performance such as entry qualifications (e.g. SAT scores), effort, motivation, maturity, and part time employment. Prior studies have found that when these characteristics are controlled for, attendance still positively affected student performance. Halpern, (2007) found that attendance has a significant positive effect on performance; however, the effect is reduced when these student characteristics are controlled for. Stanca, L, (2006), also found that, after controlling for unobservable student characteristics, such as effort and motivation, attendance has statistically significant and quantitatively relevant effect on student learning.

A MODEL FOR INCORPORATING FINANCE LITERATURE INTO UNDERGRADUATE COURSES

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ABSTRACT

The reading of academic literature typically occurs at the graduate level - often at the masters level and certainly for doctoral students. This article presents a way in which undergraduate students at a regional state university benefit from reading and reporting on scholarly articles in finance. Undergraduates in the course on Security Analysis and Portfolio Management are required to present published papers as if the papers were their own research. Students have historically performed well on multiple choice, short answer and discussion questions that assess their knowledge of the papers. Student feedback has been very positive. This article serves to help instructors incorporate articles into their undergraduate curriculum and provide some suggestions learned from years of doing so.

ACCOUNTING CUSTOMER SERVICE, CULTURAL DIFFERENCES, & THE BIG 5 IN ARGENTINA, KENYA, THE UNITED KINGDOM, AND THE UNITED STATES OF AMERICA

Miguel Hernandez, University of Texas at Dallas
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Hannah Steinberg, University of Georgia

ABSTRACT

Hofstede's 6D model is comprised of power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence. The two countries of Argentina and the United States score differently in terms of the norm 6D factors. For starters, power distance is rated similarly for both countries. Argentina has a score of 49, while the United States has one of 40. In Argentina, status is important. The types of clothes you wear and people you hang around define your societal status. The same is true for the United States. Image is very important for individuals in both countries. The power distance score could be an influencing factor is how clothing retail stores advertise. In the United States, advertising efforts from retail stores try to project an image of who should shop in their store. The portrayals of people in Old Navy ads are much different than people in Men's Warehouse. People that want to be a part of a group would purchase clothes from the same retail shop as the current members of that group. One alarming difference between the two countries is individualism. Argentina scores lower than the United States. The people of Argentina tend to be collectivist, helping their family and in-group. The United States, on the other hand, is very high on individualism. Individuals in the United States help only themselves and immediate family. Individuals of the United States find it easier to be self-sufficient and initiative. In the work place, if a problem needed to be solved, management would expect employees to find the means to resolve it. This can tie into customer service by the fact that an employee would be responsible for handling an unsatisfied customer. Argentina may require more intervention from management in handling a similar situation. Masculinity is a dimension that is within ten units of each other. Both countries feel the need to be the "winner" or the best that they can be. As a result, it is common place to have a system in place that tracks the performance of employees. In terms of customer service, management identifies metrics to define good customer service. Employees are monitored and routinely scored based on these metrics. Management would let the employee be aware of their score and at times provide feedback. The purpose of this is to drive the employee to outperform the expectations of management. This could positively impact customer service.

Big Five Personality

1. ***Openness:*** *The traditional society in Kenya can be described as resistant to change as they prefer to practice their own culture and norms even during the ever-changing world today. On the other hand, the United Kingdom society seems to have a high level of openness where they seek a variety of experience and are continuously curious to participate in unusual adventures.*

2. ***Conscientiousness:*** *Both countries have a high level of conscientiousness. Since they are both flourishing nations, they would both follow planned, organized and dependable social, political and economic etc. duties to benefit their citizens.*
3. ***Extraversion:*** *The society in Kenya would be seen to have low extraversion as people tend to be reserved and more reflective rather than being outspoken. In the United Kingdom, the society has a high extraversion as they are more opinionated and seek success whilst being in the company of others.*
4. ***Agreeableness:*** *Kenya and the United Kingdom both have a high level of agreeableness where the societies have a tendency to be supportive and compassionate towards each other.*
5. ***Neuroticism:*** *Both countries should ideally have a low neuroticism level as it is important for the society to be stable and to be able to maintain control even during dynamic situations.*

Hofstede's 6D Model

1. Power Distance: *Kenya has a score of 70 demonstrating it has a hierarchical society. In the organisation, people accept centralization and the presence of subordinates reflect inequalities and unequal distribution of power in the hierarchical order. On the other hand, UK has a more decentralized and non-hierarchical structure resulting in democracy and a more supportive labor force.*
2. Individualism: *Kenya's score of 25 shows evidence of a close-knit, loyal society where members have long term commitment to their group. Members in the society have strong relationships and often take responsibility for others in the group. UK's score of 89 shows more individualism in the society where members take care of themselves and their direct family.*
3. Masculinity: *Kenya has a score of 60 and UK had a score of 66 demonstrating a 'Masculine' society in both countries. Behavior in these societies is based on shared values. Members aim to be the best and are proud of their drive and achievements.*
4. Uncertainty Avoidance: *A score of 50 for Kenya shows that there is no preference in this case. UK has a low score of 35 showing that the society does not get threatened by the unknown or the future.*
5. Long Term Orientation: *Kenya does not have a score for this factor, whereas UK's score of 51 demonstrates an intermediate level between maintaining past culture in the present society and engaging in more modern traditions and education in order to prepare for the future.*
6. Indulgence: *Kenya does not have a score in this dimension. UK has a relatively high score of 69 indicating that it is a 'Restraint' society where members control their behavior and actions based on the way they were raised. Strategic Customer Service since Kenya was a British colony until 1964; we seem to have maintained the same strategy for customer service as in the United Kingdom. This involves a friendly yet helpful relationship between store employees and customers, to ensure a positive outlook on the service industry whilst aiming to maintain the high level of customer loyalty.*

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TRANSPARENCY DISCLOSURE AND CULTURAL VALUES: A TEST FOR MULTINATIONAL CORPORATIONS

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ABSTRACT

This paper aims to examine the influence of cultural values on reporting and disclosure practices of multinational corporations by utilizing the transparency index developed by Transparency International and examining the effect of Hofstede's six cultural values on the level of disclosure by multinational corporations. In addition to testing traditional cultural values' effect on disclosure, this study is the first, in accounting realm, to include the cultural dimension of indulgence. A regression analysis was used to test the relationship between cultural values and the level of disclosure for the largest 122 multinational company operating in 23 countries. The main conclusion is drawn that to a varying extent, national culture has an effect on the level of disclosure by multinational corporations. The cultural values of power distance, uncertainty avoidance, and masculinity are significantly related with the level of disclosure, while individualism, long-term ordination, and the new cultural dimension introduced by Hofstede, indulgence, are not significantly related to the level of disclosure by multinational corporations.

INTRODUCTION

In 2015, the market value for the world 100 largest multinational corporations (MNCs) around the world exceeded US$16 trillion (PwC, 2015). This amount exceeds the GDP of many countries. With such an increased power and spread for MNCs around the globe, there has been an increased call for enhancing transparency and disclosure for this very important sector in the world economy (Devereux, 2011; Murphy, 2009; Dyreng *et al.*, 2014). The benefits of enhanced disclosure by MNCs are enormous. In 2014, Transparency International, an international non-governmental organization that monitors corporate and political corruption in at the multinational level, issued a report titled "Transparency in Corporate Reporting: Assessing the world's largest companies" (hereafter referred to as TI, 2014). In this report, Transparency International evaluated the transparency of corporate reporting by the world’s 124 largest publicly listed companies.

This paper extends the literature on the influence of cultural values on reporting and disclosure practices of MNCs by utilizing the transparency index developed by Transparency International (TI, 2014) and examining the effect of the six cultural values included in Hofstede *et al*. (2010) on the level of disclosure by MNCs. The reminder of this proceedings version of the paper is structured as follows: Section two discusses MNCs' reporting and the Transparency Index developed by Transparency International. Section three discusses Hofstede's cultural values in relation to corporate reporting and develops hypothesis. The methodology is discussed in Section four, followed by analysis of results in Section five. Section six is devoted to the discussion of results.

TRANSPARENCEY INDEX DEVELOPED BY TI

Transparency International that was created in 1993, is a civil society organization devoted mainly to the fight against corruption. This organization focuses on the global and regional fight against corruption and assists national chapters who fight corruption within their countries (Castelo, 2013). Transparency International recognized early that disclosing information, especially by MNCs, is crucial in the fight against corruption. In 2012, Transparency International issued a report titled "Transparency in Corporate Reporting: Assessing the World's Largest Companies" in which it evaluated the transparency of corporate reporting by the world's 105 largest publicly listed companies (TI, 2012). A similar methodology was used in 2014 to evaluate corporate reporting by the world's 124 largest publicly listed companies in a report that carries the same title as 2012's report (TI, 2014). The data used by TI is publicly available information, mainly the information available in the MNCs' websites (Kowalczyk-Hoyer, 2012, p.3).

HOFSTEDE'S CULTURAL VALUES AND CORPORATE REPORTING

Accounting researcher have extensively studied different factors that affect the level of corporate reporting, hence transparency at cross-national context (Archambault and Archambault, 2003; Jose and Lee, 2007; Chand *et al*., 2008; Clements *et al*. 2010; Cannizzaro and Weiner, 2015). Culture has been identified as a main factor that affects reporting at cross-national context. Hofstede's (1980) view of national cultures has influenced accounting research through the work of Gray (1988).

Hofstede (1980) defines four cultural dimensions: masculinity, uncertainty avoidance, individualism and power distance. Later, Hofstede introduced another two cultural values; long-term orientation (Hofstede, 1991) and Indulgence (Hofstede, *et al*. 2010). Long-term orientation, as opposed to short-term orientation, refers to the societies take a long-term view of life while others go for a traditional short-term outlook. Indulgence stands for a society that allows relatively free gratification of basic and natural human desires related to enjoying life and having fun. Restraint stands for a society that controls gratification of needs and regulates it by means of strict social norms (Hofstede, 2011, p. 15).

With regards to the relationship between cultural values and accounting values, Radebaugh and Gray (2001) summarized the relationship between the first 5 cultural diminutions (Hofstede, 1991) with the four accounting values in the following table:

	Accounting Values			
Cultural Dimension	**Professionalism**	**Uniformity**	**Conservatism**	**Secrecy**
Power distance	Negative	Positive	N/A	Positive
Uncertainty avoidance	Negative	Positive	Positive	Positive
Individualism	Positive	Negative	Negative	Negative
Masculinity	Positive	N/A	Negative	Negative
Long-term orientation	Negative	N/A	Positive	Positive

Borker (2013) expanded the relationships by including the new cultural dimension suggested by Hofstede *et al*. (2010) (Indulgence) by suggesting the following relations

	Accounting Values			
Cultural Dimension	**Professionalism**	**Uniformity**	**Conservatism**	**Secrecy**
Indulgence	Negative	Negative	Positive	Negative

Of relevance to this paper is the value of secrecy versus transparency; Gray (1988) argues that the accounting value most relevant to the extent of information is the secrecy value (p.12). As secrecy increases, the amount of public disclosure decreases (Archambault and Archambault, 2003, p. 178). Based on the relations under the Secrecy value and Hofstede's (2011) six cultural dimensions, the following six hypotheses could be developed.

H1: There will be a negative relationship between the level of transparency and power distance
H2: There will be a negative relationship between the level of transparency and uncertainty avoidance
H3: There will be a positive relationship between the level of transparency and individualism.
H4: There will be a positive relationship between the level of transparency and masculinity.
H5: There will be a negative relationship between the level of transparency and long-term orientation.
H6: There will be a positive relationship between the level of transparency and indulgence.

METHODOLOGY

The initial population of this study included the world's largest 124 MNCs included in the TI's report on corporate reporting in 2014 (TI, 2014). The transparency index developed by TI (TI, 2014) is used as the dependent variable as a measure for the level of disclosure by MNCs. The transparency index scores range from 0 to 10, where 0 is least transparent and 10 is most transparent. With regards to independent variables, cultural-dimensions scores were gathered from Hofstede *et al.* (2010). The relationship between dependent and independent variables were tested using hierarchical regression analysis (Hayes, 2013). The regression model is:

$$TI = \alpha + \beta 1PD + \beta 2UA + \beta 3ID + \beta 4MS + \beta 5LO + \beta 6IN + \varepsilon$$

Where; TI is the transparency index developed by Transparency International (TI, 2014); PD is the power distance score from Hofstede *et al*. (2010); UA is the uncertainty avoidance score from Hofstede; ID is the individualism score from Hofstede; MS is the masculinity score from Hofstede, LO is the long-term orientation score from Hofstede; and IN is indulgence score from Hofstede.

RESULTS OF ANALYSIS

Table 1 presents the results of the regression model. Model A includes only the six cultural dimensions as independent variables. In Model B, we added the firm size to the six cultural dimensions. The R^2 for Model A is 0.234. Three cultural values; power distance, uncertainty avoidance, and masculinity are significantly related with the level of disclosure. While power distance and masculinity are negatively related to the level of disclosure, uncertainty avoidance is positively related to level of disclosure level. Model B results (shown in table 3), gave close results, with R^2 increasing to 0.239. Firm size proved to be of no significant effect in this model.

Table 1 RESULTS OF REGRESSION ANALYSIS					
Variable	**Expected sign**	**Model A**		**Model B**	
		β	**Significance**	**β**	**Significance**
Constant		7.472	.000	7.487	
Power Distance	(-)	-.617	.000	-.604	.000
Uncertainty Avoidance	(-)	.283	.003	.267	.008
Individualism	(+)	.081	.628	.077	.643
Masculinity	(+)	-.251	.004	-.251	.004
Long-term Orientation	(-)	-.043	.792	-.035	.831
Indulgence	(+)	-.170	.307	-.169	.311
Firm Size				-.052	.546

DISCUSSION OF RESULTS

As originally suggested by Gray (1988), this study found significantly negative relationship between power distance and level disclosure. This is also consistent with De Jong (2006) and Aggarwal and Goodell (2013) results but contrary to Zarzeski (1996), and Hope (2003) findings. For uncertainty avoidance, and contrary to what was originally hypothesized, the analysis shows a significant positive relationship between uncertainty avoidance and level of disclosure. Although not statistically significant, the relationship between Individualism and level of disclosure was positive, which is consistent with expected sign and the finding of previous literatures (Salter and Niswander, 1995; Zarzeski, 1996; Jaggi and Low, 2000, Archambault and Archambault, 2003). The relationship between long-term orientation and level of disclosure was negative, as expected, although not significantly significant.

One of the main contributions of this study is that it included the sixth cultural dimension, indulgence as opposite to restrain, (Hofstede *et al*., 2010). As Hofstede *et al*. (2010) argued that indulgence is correlated with the call for human rights like free expression of opinions; this view led us to hypothesize a positive relationship between indulgence and level of disclosure. However, the statistical analysis did not support such hypothesis. Perhaps the freedom of expression in societies where MNCs operate is a not a significant factor that affect the transparency of these companies.

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ACCOUNTING CUSTOMER SERVICE, CULTURAL DIFFERENCES, & THE BIG 5 IN CHINA AND THE USA

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ABSTRACT

The Power Distance dimension for the United States is half of China's. The fact that everybody is unique implies that we are all unequal. One of the most salient aspects of inequality is the degree of power each person exerts or can exert over other persons; power being defined as the degree to which a person is able to influence other people's ideas and behavior. This dimension deals with the fact that all individuals in societies are not equal, and it expresses the attitude of the culture toward these power inequalities amongst us. Power distance is defined as the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. It has to do with the fact that a society's inequality is endorsed by the followers as much as by the leaders. The Individualism dimension for the United States is much higher than China's. The fundamental issue addressed by this dimension is the degree of interdependence a society maintains among its members. It has to do with whether people´s self-image is defined in terms of "I" or "We". In Individualist societies people are only supposed to look after themselves and their direct family. In Collectivist societies people belong to "in groups" that take care of them in exchange for unquestioning loyalty. The fairly low score on Power Distance (40) in combination with one of the most Individualist (91) cultures in the world reflects itself in the following: The American premise of "liberty and justice for all." This is evidenced by an explicit emphasis on equal rights in all aspects of American society and government. Within American organizations, hierarchy is established for convenience, superiors are accessible and managers rely on individual employees and teams for their expertise. Both managers and employees expect to be consulted and information is shared frequently. At the same time, communication is informal, direct and participative to a degree. The society is loosely-knit in which the expectation is that people look after themselves and their immediate families only and should not rely (too much) on authorities for support. There is also a high degree of geographical mobility in the United States. Americans are the best joiners in the world; however it is often difficult, especially among men, to develop deep friendships. Americans are accustomed to doing business or interacting with people they don't know well. Consequently, Americans are not shy about approaching their prospective counterparts in order to obtain or seek information. In the business world, employees are expected to be self-reliant and display initiative. Also, within the exchange-based world of work we see that hiring, promotion and decisions are based on merit or evidence of what one has done or can do. The Masculinity dimensions for the US is about the same as China's, just slightly lower. A high score (Masculine) on this dimension indicates that the society will be driven by competition, achievement and success, with success being defined by the "winner" or "best-in-the-field". This value system starts in childhood and continues throughout one's life – both in work and leisure pursuits. A low score (Feminine) on the dimension means that the dominant values in society are caring for others and quality of life. A Feminine society is one where quality of life is the sign of success and standing out from the crowd is not admirable. The fundamental issue here is what motivates people, wanting to be the best (Masculine) or liking what you do

(Feminine). The score of the US on Masculinity is high at 62, and this can be seen in the typical American behavioral patterns. This can be explained by the combination of a high Masculinity drive together with the most Individualist drive in the world. In other words, Americans, so to speak, all show their Masculine drive individually. The British, however, have the same culture in this respect. The question, therefore, should be: is the same drive not normally to be seen on the surface? This difference is a reflection of the higher score of the US on Uncertainty Avoidance than of the UK. In other words, in both societies we find the same drive, but Americans show it up-front whereas the British will take you by surprise. This American combination reflects itself in the following: Behavior in school, work, and play are based on the shared values that people should "strive to be the best they can be" and that "the winner takes all". As a result, Americans will tend to display and talk freely about their "successes" and achievements in life. Being successful per se is not the great motivator in American society, but being able to show one's success. Many American assessment systems are based on precise target setting, by which American employees can show how well a job they did. There exists a "can-do" mentality which creates a lot of dynamism in the society, as it is believed that there is always the possibility to do things in a better way. Typically, Americans "live to work" so that they can obtain monetary rewards and as a consequence attain higher status based on how good one can be. Many white collar workers will move to a more fancy neighborhood after each and every substantial promotion. It is believed that a certain degree of conflict will bring out the best of people, as it is the goal to be "the winner". As a consequence, we see a lot of polarization and court cases. This mentality nowadays undermines the American premise of "liberty and justice for all." Rising inequality is endangering democracy, because a widening gap among the classes may slowly push Power Distance up and Individualism down. The Uncertainty Avoidance dimension for the US is slightly higher than China's. The dimension Uncertainty Avoidance has to do with the way that a society deals with the fact that the future can never be known: should we try to control the future or just let it happen? This ambiguity brings with it anxiety and different cultures have learnt to deal with this anxiety in different ways. The extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these is reflected in the score on Uncertainty Avoidance. The US scores below average, with a low score of 46, on the Uncertainty Avoidance dimension. As a consequence, the perceived context in which Americans find themselves will impact their behaviour more than if the culture would have either scored higher or lower. Thus, this cultural pattern reflects itself as follows: There is a fair degree of acceptance for new ideas, innovative products and a willingness to try something new or different, whether it pertains to technology, business practices or food. Americans tend to be more tolerant of ideas or opinions from anyone and allow the freedom of expression. At the same time, Americans do not require a lot of rules and are less emotionally expressive than higher-scoring cultures. At the same time, 9/11 has created a lot of fear in the American society culminating in the efforts of government to monitor everybody through the NSA and other security organizations. The Long Term Orientation dimension for the US is much lower than China's (approximately a third). This dimension describes how every society has to maintain some links with its own past while dealing with the challenges of the present and future, and societies prioritize these two existential goals differently. Normative societies which score low on this dimension, for example, prefer to maintain time-honoured traditions and norms while viewing societal change with suspicion. Those with a culture which scores high, on the other hand, take a more pragmatic approach: they encourage thrift and efforts in modern education as a way to prepare for the future. The

United States scores normative on the fifth dimension with a low score of 26. This is reflected by the following: Americans are prone to analyze new information to check whether it is true. Thus, the culture doesn't make most Americans pragmatic, but this should not be confused with the fact that Americans are very practical, being reflected by the "can-do" mentality mentioned above. The polarization mentioned above is, so to speak, strengthened by the fact that many Americans have very strong ideas about what is "good" and "evil". This may concern issues such as abortion, use of drugs, euthanasia, weapons or the size and rights of the government versus the States and versus citizens. The US is the one of the only "Caucasian" countries in the world where, since the beginning of the 20th century, visiting church has increased. This increase is also evident in some post-Soviet republics such as Russia. American businesses measure their performance on a short-term basis, with profit and loss statements being issued on a quarterly basis. This also drives individuals to strive for quick results within the work place. The Indulgence dimension for the US is much higher than China's. One challenge that confronts humanity, now and in the past, is the degree to which small children are socialized. Without socialization we do not become "human". This dimension is defined as the extent to which people try to control their desires and impulses, based on the way they were raised. A tendency toward a relatively weak control over their impulses is called "Indulgence", whereas a relatively strong control over their urges is called "Restraint". Cultures can be described as Indulgent or Restrained. The United States scores as an Indulgent (68) society on the sixth dimension. This, in combination with a normative score, is reflected by the following contradictory attitudes and behaviour: Work hard and play hard, the States has waged a war against drugs and is still very busy in doing so, yet drug addiction in the States is higher than in many other wealthy countries, and it is a prudish society yet even some well-known televangelists appear to be immoral. The Big Five Personality traits are present in both countries.

1. Decision-making: *The Internet is the most widely used channel through which customers in China gather product and service information. But it is the impressions of colleagues, friends and family that have the greatest influence on buying decisions.*

2. Social media: *The rise of digital technologies and social media has influenced consumers' impressions of products and services and significantly affected their buying behaviors.*

3. Loyalty: *While consumers in China are somewhat loyal to businesses they frequent, they do shop around for the best deals and are swayed by better quality of goods and services. A low price is no longer the driver of customer satisfaction that it once was.*

4. Expectation-setting: *Expectations for fast and easy-to-access customer service are at an all-time high.*

5. Innovation: *Consumers in China would welcome the opportunity to take part in their providers' innovation efforts.*

Each of these trends sheds light on distinct opportunities for businesses to:

- *develop a unique sales and service strategy,*
- *build strong customer enablement and channel integration capabilities, and*
- *focus on customer retention and growth.*

By pursuing these opportunities, businesses will be in a better position to achieve high performance. They will be the ones that really know the customers. And they will be the ones that engage them with highly satisfying and differentiated experience.

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AN ANALYSIS OF US PUBLIC COMPANIES COMPREHENSIVE INCOME REPORTING

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ABSTRACT

In June 2011 the Financial Accounting Standards Board (FASB) issued an accounting standards update which required all U.S. public companies to report comprehensive income, starting from December 15, 2011, in either a separate statement or a combined net and comprehensive income statement. The third alternative method of reporting, as part of the stockholders' equity section, was eliminated. The reason given by FASB for the change was that the users of financial statements wanted comprehensive income information reported more prominently in financial statements, implying that comprehensive income items provided value relevant information for the users. The purpose of this paper is to analyze the comprehensive income items reported by U.S. public companies for the periods from 2011 to 2015 to examine the reaction in the market, especially for those companies that have a wide divergence in the reporting of net income and comprehensive income for the same period. Our results show that there is a wide divergence in the amounts reported in Comprehensive Income and Net Income for most Fortune 500 companies. Since some of the elements of unrealized gains or losses are included in Comprehensive Income and these are adjusted for the amounts of the realized gains or losses in the period, the interpretation of the amount of CI becomes difficult for users. The results of our study will be useful to regulators to examine if more changes are necessary in the reporting of comprehensive income.

WHEN FINANCIAL MARKETS FALL, A ROTH IRA CAN HELP THE INVESTOR

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ABSTRACT

Volatile financial markets can be a challenge for investors. When financial markets fall, investors can panic as they see their savings dwindle. Downswings have included the Great Depression of the 1930s and the Great Recession starting in 2007. Upswings have included the Roaring 1920s as well as the 1990s. Despite the pain of downswings, there are opportunities for patient investors. One opportunity is for investors to utilize Roth accounts when markets reach their bottoms.

This paper demonstrates how investors can effectively move their wealth into Roth accounts when markets approach a perceived trough. The investor's strategy capitalizes on the tax rules underlying the Roth vehicle. When markets downturn, investors can convert a traditional IRA into a Roth and pay limited income tax on a diminished account. When the market turns up, the gains are forever excluded from Federal income taxation. Investment models can demonstrate the power of this Roth strategy over a long investment horizon when compared to a buy-and-hold strategy. Other models can show how an investor using this Roth strategy can especially outperform the nervous investor who sells stocks and moves into bonds during bleak downturns.

GOING-CONCERN OPINION SURVIORS

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ABSTRACT

In 1988, AICPA issued the Statement on Auditing Standards (SAS) No. 59 (AICPA, 1988), The Auditor's Consideration of an Entity's Ability to Continue in Existence. The main purpose of this statement was to bridge an expectation gap; a gap between what the financial statement users believe auditors are responsible for and what the auditors believe their responsibilities are. As part of every engagement, the auditor must consider whether there is substantial doubt about the entity's ability to continue operations for a reasonable period of time not to exceed one year from the date of the financial statements. For all significant problems, auditors must seek evidence about any mitigating factors such as management plan to overcome the problems. If, after considering the mitigating factors, the auditor still has substantial doubt about the entity's ability to continue as a going concern, the auditor must include an explanatory paragraph in the standard audit report, a going-concern opinion.

According to a 15-year study of going-concern opinions by Audit Analytics, the going-concern modifications peaked at 3,355 (21.1% of all opinions) in 2008 and dropped to 2,403 (16.7%) in 2013, the lowest level over a 15-year period. Also, this study shows that the most common reason for apprehension regarding a company's continued existence is the operating losses (including recurring losses). The second reason is attributable to inadequate working capital or current ratio deficits. Interestingly, only a small percentage (ranging from 5% to 9%) of companies that had going-concern report modifications in a previous year, rebounded with an unqualified, clean opinion in the following year.

From the LexisNexis Academic database, we found 15 companies that filed a going-concern opinion in 2012 and 2013, and then filed a clean opinion a year after. The financial characteristics of those companies were examined in this study. The preliminary results show that these companies have made an improvement in operating income, working capital and cash flows from operating activities.

Keywords: *Audit opinion, going-concern, financial characteristics.*

A CONCEPTUAL APPROACH TO INTEGRATE ETHICAL FRAMEWORKS IN A GRADUATE FINANCE COURSE

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ABSTRACT

The integration of ethical frameworks and related topics in MBA programs has gained increased acceptance over the last few decades. Behavioral oriented courses grounded in management and marketing have seen greater success in integrating ethics than quantitative oriented courses. In this paper, we propose an innovative approach that links key finance topics and theories to four widely used ethical frameworks in a graduate finance course.

The need for integrating ethics in business courses is driven by many factors. A compelling need exists to "produce" graduates who not only who display business acumen but also have an ability to factor in time-tested and well-grounded ethical models in their decision-making approaches (Cagle & Baucus, 2006; Carrithers, Ling & Bean, 2008). Such a need is reinforced by recent events where managers of well-known firms such as Volkswagen, Wells Fargo, Valeant Pharmaceuticals, etc. have been accused of widespread unethical and oftentimes illegal behaviors. These actions have resulted in substantive fines, loss of market share, reduced profits, terminations, civil and criminal lawsuits, negative media publicity, etc.

The mission statements of many B-Schools have undergone fundamental changes. Language encompassing sustainability, societal impact, and environmental issues are increasingly integrated as core features of mission statements (Evans, Trevino, & Weaver, 2006). Consequently, the MBA curriculum has undergone fundamental changes where the coursework, study abroad and internship programs increasingly place graduate students in new and unfamiliar situations. Students are applying business skills to address issues that juxtapose the need for profitability and maximizing stakeholder returns along with issues of environmental stewardship, fair labor practices, and sustainability (Castiglia & Nunez, 2010). While we acknowledge that corporate social responsibility (CSR) issues cited here are broader than ethics, many CSR issues have strong ethical overtones that cannot be ignored.

So, how have B-Schools addressed this issue of integrating ethics in their curriculum? A review of the literature shows that three broad options have been adopted (Welker and Bernadino, 2014; McDonald, 2004). First, some B-Schools have taken the time-honored approach of adding an ethics course in the core curriculum. Another approach is to offer the ethics course as a strongly recommended elective. The third and final approach is where the discussion of ethics is integrated into specific courses and reinforced by pedagogical approaches that include case studies and class discussions (Cagle, Glasgo, & Holmes, 2008).

Our paper is focused on offering a pedagogical framework and discussion that reinforces and adds to the body of work reflecting the third approach. First, we identify and describe four widely-known ethical frameworks whose theoretical foundations are well-established and whose applications are relevant to many business and CSR issues (see the first citation for the Markkula

Center for Applied Ethics which has a more comprehensive discussion). Second, we identify and discuss key finance concepts and theories that are impacted/influenced by the ethical frameworks. Third, we discuss the advantages gained in a classroom setting when an instructor combines the previous two sections to offer a more enlightened and broadened discussion. Students benefit from this approach because they are able to connect ideas from multiple disciplines, see new perspectives, and acquire skill-sets to make decisions grounded in integrity and probity (Falkenberg & Woicheshyn, 2008; Skinner & Lawson, 2006).

These ideas are contained in the following table.

Table 1
INTEGRATIVE FRAMEWORK

Ethical Framework	Financial concepts and theories	Opportunities for class discussion
Utilitarian Solely focused on outcomes or consequences that result in maximum utility for most stakeholders. Rule-following certain rules provides maximum utility Act-certain actions promote most utility	The traditional net present value (NPV) calculation follows the utilitarian philosophy by assuming the rule that the higher the monetary return the better, but returns are only acceptable if they equal or exceed the level demanded by the project's risk. Another common rule example is to choose the projects with maximum internal rates of return (IRR).	NPV, IRR, etc. are topics that are extensively covered in every introduction to corporate finance course. This is an opportune place to introduce and reinforce concepts of utilitarian ethics. For example, contrary to the literal rules of judging projects based on NPV, a project with an NPV of $-500,000 would be ethically justifiable if it resulted in a cure for cancer. The utility of curing cancer would outweigh the loss of $500,000.
Rights The action or behavior should respect the basic rights of each of the individuals involved. Sometimes the rights of individuals will come into conflict and one has to decide which right has priority.	The mission of the SEC, accompanying the philosophical approach of GAAP, is to ensure accurate and adequate financial information is available from publicly-traded companies, and until recently, that "insider trading" is illegal due to its inherent unfairness (Eisenberg, 2015).	Investors enjoy the right to buy and sell shares of stock. However, insiders may have an unfair informational advantage, which violates the rights of outsiders to compete "fairly," where "fairly" is defined as having access to the same information (i.e., public information). So, in the U.S. there are laws limiting the rights of insider stock trading.
Fairness/Justice Distributive justice-benefits and burdens are distributed among society's members in ways that are fair and just. Compensatory justice-people are fairly compensated for their injuries by those who have injured them; just compensation is proportional to the loss inflicted on a person.	Sole proprietorships and partnerships are owned by mortals, and taxation occurs at the individual income level. Corporations are owned, in effect, by immortals, and thus pay their own taxes. Also, federal income taxes are paid only by those who earn income, which "compensates" people for their "injuries of business losses" by freeing them from paying income taxes.	Each of the following topics directly address the issue of distributive justice. Should corporations pay taxes? Should there be income taxes? Should there be sales taxes? Should there be property taxes?
Common Good The common good consists of having the social systems, institutions, and environments on	How do investors in a society decide which companies are worthy of additional capital? Investors "vote" with their investment dollars, so in that sense the common good is	Some mutual funds are "social consciousness" oriented, which means they don't invest in companies which they feel are detrimental to society.

which we all depend work in a manner that benefits all people.	defined by those who invest, in proportion to their investments.	Municipal bonds are another example of the common good approach to ethics. Voters decide whether to proceed with issuing the bond, and then investors decide whether to support the underlying projects by investing in the bonds.

Our approach offers a framework for incorporating discussions of ethics into a graduate finance course in an integrated manner. The discussion of ethics is more effectively addressed using relevant examples which fit within the finance topic of focus, as opposed to being addressed as a standalone chapter. With increasing sophisticated software capabilities, there is ample opportunity for reducing class time spent toward performing routine calculations-this leaves more time for examining complex ethical issues without compromising time constraints. We are optimistic that our attempt to engage in this innovative pedagogical endeavor will produce more well-rounded, capable and mindful graduates.

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ARE CHANGES IN CORPORATE EXTRA-FINANCIAL PERFORMANCE A DURABLE SOURCE OF ABNORMAL RETURNS?

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ABSTRACT

This study examines the impacts of extra-financial performance score upgrades and downgrades on financial performance of 266 Canadian firms from 2007 to 2012. Using a conditional model, our results suggest that, upgrades (downgrades) in extra-financial performance, especially for firms with already-high scores predict negative (positive) abnormal returns (alpha). The results are consistent with the notion that the expected stock return (or cost) must be lower for socially responsible firms than for socially irresponsible firms since the former are less risky.

INTRODUCTION

Although the concept of socially responsible investing (hereafter SRI) originated in the US in the 17th century with the Quaker religious movement, it did not take hold institutionally until the late 1920s, when the first "ethical" investment funds were created. The movement started gaining notable popularity during the second half of the 1990s. Canada is currently among the leaders in the world of socially responsible investment. According to the 2015 Canadian Responsible Investment Trends Report published by Responsible Investment Association (RIA), Canada's responsible investment market is experiencing rapid growth. Total assets under management using responsible investment strategies have expanded from $600.88 billion at the start of 2012 to $1.01 trillion at the start of 2014. This reflects an increase of 68%, over two years. For example, responsible investment mutual funds alone have increased by 52.3%, compared to 29.8 % growth in non-responsible investment funds during the same period. Currently, Canadian responsible investment assets account for 31% of total assets under management, while they represent 18% in the United States (see Social Investment Forum Report on US Sustainable, Responsible and Impact Investing Trends 2014). The growing awareness of the importance of responsible investing is particularly remarkable among institutional investors, including pension funds, because the long-term nature of their portfolio holdings leaves them vulnerable to risk over time.

Growing enthusiasm for SRI has led to a surge in rating agencies specializing in social and environmental rating and scoring (e.g. MSCI ESG STATS in the US; EIRIS in the UK; Thomson Reuter's ASSET4 and Sustainalytics which operate globally). In addition to their main role of providing investors with information on corporate social responsibility (CSR) strategies, some agencies also publish extra-financial performance scores. We use the term "extra-financial" performance to include all types of non-financial performance that are deemed "responsible". These include the social, governance and environmental performances of firms.

Institutional investors, who are the main clients of extra-financial rating agencies, increasingly recognize that extra-financial determinants of business performance can both create value and uncover significant risks within a business or investment portfolio. But what about it empirically? Is environment, social and governance (ESG) performance a durable source of abnormal return (alpha)?

Research is ongoing, but produces mixed empirical findings which reflect the contrasting theoretical views on the subject. Renneboog et al. (2008) conclude that whether or not CSR is priced by capital markets remains an open question. Our paper seeks to further the understanding of the CSR-financial performance relationship by examining whether extra-financial performance score upgrades and downgrades affect firms' alpha. In addition to the scarcity of empirical work on market reaction, the interest of this study is motivated by the following considerations. Firstly, given the enhanced awareness of investors of non-sustainability risk and the information availability in recent years, we can expect markets to react increasingly to extra-financial performance rating upgrades and downgrades, like they would for credit rating changes (e.g. Holthausen and Leftwic (1986)). Indeed, since institutional investors are the main clients of extra-financial rating agencies, and in view of the importance of such institutions on financial markets, extra-financial scores are likely to play a role in asset pricing. Moreover, the inclusion in recent years of ESG information on platforms such as Bloomberg is an indication of the mainstreaming of corporate responsibility in capital markets.

Secondly, our study seeks better understanding of the fairly controversial issue of how CSR strategies affect corporate financial performance and risk. Indeed, the mainstream acceptance of ESG factors implies that managers and analysts who understand and use ESG factors will gain value in the marketplace. Some empirical studies support this idea (e.g. Kim and Statman (2012), Edmans (2011), Jiao (2010), Filbeck and Preece, (2003)). For example, Edmans (2011) uses Fortune magazine's annual rankings of the 100 best companies to work for in the US to examine the relationship between employee satisfaction and long-term stock returns and finds that a portfolio consisting of these firms would have yielded an abnormal annual return (alpha) of 3.5% between 1984 and 2009. In contrast, other authors (e.g. Chava (2014), Hong and Kacperczyk (2009), Sharfman and Fernando (2008), Derwall and Verwijmeren (2007), Heinkel et al. (2001)) argue that, low ESG factors firms should earn a higher absolute return compared to high ESG factors firms and explain that this return difference represents a risk premium associated with holding fundamentally riskier stocks. For Derwall and Verwijmeren (2007), because investors are judged using performance evaluation models that do not explicitly incorporate ESG risk premiums, the possibility emerges that investors holding weak ESG firms earn a positive risk-adjusted returns (i.e. positive alpha) and outperform investors holding more responsible firms because not all risks are adequately accounted for by current models. The authors conclude that this abnormal performance would disappear if an ESG risk premium was in performance evaluation techniques.

Our study extends the existing literature by investigating market reactions to changes in corporate extra-financial performance. Unlike prior studies which mainly investigate the impact of extra-financial performance score levels on corporate financial performance (e.g. Edmans (2011), Sharfman and Fernando (2008), Heinkel et al. (2001)), there have been relatively few empirical studies examining the impacts of extra-financial performance score change on the financial performance and/or firms risk (e.g. Kim and Statman (2012)). Yet, changes in corporate extra-financial score are fundamentally different from score levels previously examined in the literature. Indeed, a company can experience a downgrade and still maintain a high score, or it can experience a positive change in its extra-financial score and still have a low score level. Kim and Statman (2012), for example, examine how the increases and decreases in annual KLD extra-financial rating, affect the financial performance of US firms, as measured by return on assets (ROA) and Tobin's Q and focussing on one particular dimension of CSR (the environment). Unlike Kim and Statman (2012), using an event study methodology, we examine how extra-financial performance score upgrades and downgrades affect firms' financial performance (alpha). Another difference with this study is that, we take a comprehensive approach that examines three dimensions related to extra-financial performance, namely, environment, social, and governance characteristics, as well as aggregate extra-financial performance score. Moreover, we use Sustainalytics database, which updates the firms' extra-financial performance score on a more or less continuous basis, contrary to KLD, which updates the rating of firms annually.

Also, unlike earlier studies, the specification of our model allows us to test the informational value of extra-financial agencies' scorings. Specifically, we check whether the market reacts before or following changes in firms' extra-financial performance. In other words, if extra-financial scoring agencies are able, through their analysis of a company's ESG criteria, to predict future losses or risk events (e.g. operational losses, reputational losses, etc.), then we would expect the market to react after changes (downgrades or upgrades) in firms' extra-financial score. If, however, scoring agencies are mostly reacting to corporate events related to extra-financial performance, then we expect the market to react before the score changes.

Further, we use the conditional model framework by Ferson and Schadt (1996) and Christopherson, Ferson and Glassman (1998), which allow us to condition alpha and beta on pre-determined macroeconomic variables as well as changes in firms' extra-performance scores. Recent studies (e.g. Albuquerque et al. (2014), Oikonomou (2012), Chen et al. (2010)) have shown that extra-financial performance measured using ESG criteria and macro-economic factors may co-vary. The advantage of this particular approach is that the respective impacts of the economic context and events (in this case, score changes) on corporate financial performance can be assessed distinctly.

Our results show that downgraded (upgraded) firms have positive (negative) abnormal returns. At first, this result may appear counter-intuitive, but can be explained by the fact that the expected stock return (or cost) must be lower for socially responsible firms than for socially irresponsible firms since the former are less risky. Specifically, our findings show that most extra-financial performance score changes are leading indicators of alpha variations.

The rest of the study is structured as follows. Section 2 presents the theoretical framework and research hypotheses. Section 3 describes the methodology and the data used in order to test our hypotheses. Section 4 presents and discusses our empirical results, and finally, section 5 concludes the paper and discusses contributions of scholarship.

THEORETICAL BACKGROUND

The literature regarding CSR offers a large theoretical background that explains the relationship between corporate extra-financial performance and financial performance.

Agency Theory

Agency theory, which argues for a negative relationship between extra-financial performance and financial performance, is consistent with the view that CSR represents private benefits (e.g., respect, job security, public image, etc.) that managers extract at the expense of shareholders. Research based on neoclassical economics argues that CSR unnecessarily raises a firm's costs, putting the firm in a position of competitive disadvantage vis-à-vis its competitors (e.g. Jensen (2002), McWilliams and Siegel (2001), Ullmann (1985), Vance (1975), Friedman, 1970)).

Some authors argue that employing valuable firm resources to engage in CSR results in significant managerial benefits, rather than financial benefits, for the firm's shareholders (e.g. Bénabou and Tirole (2010)). Hemingway and Maclagan (2004) argue that one motivation for companies to adopt CSR is to cover up corporate misbehavior. For example, Prior et al. (2008) show that some firms may use CSR as a tool to disguise bad news and divert shareholder scrutiny. As Bradley (2009) points out, Enron, as one example, was widely respected as a model for the CSR movement and won several awards for its environmental and community programs while at the same time engaging in massive accounting frauds that lead to its collapse in 2001.

Stakeholder Theory

Contrary to their agency theory counterparts, stakeholder theory proponents (e.g. Freeman, (1984), Freeman, Harrison and Wicks (2008), Freeman et al. (2010), Jiao (2010), Mishra and Modi (2012)) argue for a positive relationship between extra-financial performance and financial performance. For Jiao (2010), a positive effect of CSR on corporate performance is consistent with the view that CSR represents an investment in intangible assets, such as reputation and human capital that contribute to enhancing firms' competeviness.

For stakeholder theory proponents, firms that identify and manage their relationships with principal stakeholders are more likely to enjoy a variety of benefits in the long run. For instance, they can elicit customer loyalty and even attract new socially responsible customers, thus increasing sales (e.g. Hillman and Keim (2001), Luo and Bhattacharya (2006)) or attract competent employees, increase retention rates in the firm and thereby improve firm productivity (e.g. Turban and Greening (1997)). Further, they can attract financial resources from socially responsible investors, and even gain access to more capital compared to firms that fail to pay attention to their social image (e.g. Cheng et al. (2014)). They can also lessen the likelihood of negative regulatory, legislative or fiscal action (e.g. Freeman, (1984), Ullman (1985)). In addition, good CSR references make for efficient government lobbying for tax breaks (e.g. Hillman and Keim (2001)). Socially responsible firms also receive more favorable analysts' recommendations (e.g. Luo et al. (2015)).

Non-Sustainability Risk Premium Theory

Whereas the agency and stakeholder theories suggest opposite results with regards to the relationship between financial and extra-financial performance, a third theory, the non-sustainability risk theory, emerges in the literature and provides another explanation. Proponents of this risk premium theory (e.g. Chava (2014), Albuquerque et al. (2014), El Ghoul et al. (2011), Sharfman and Fernando (2008), Derwall and Verwijmeren (2007), Heinkel et al. (2001)) argue that extra-financial performance might in fact affect the risk profile of firms by adding a non-sustainability risk component to the market risk, size, book-to-market and other risk premiums documented empirically. As a result, expected returns for firms with low extra-financial performance should be higher because they carry a premium for non-sustainability risk.

For example, theoretical models of the relationship between extra-financial performance and expected returns (e.g., Fama and French (2007), Barnea et al. (2005), Heinkel et al. (2001)) relax the assumption of perfect capital markets by assuming differences in investor preferences (i.e. segmented capital markets based on extra-financial performance) and assume the existence of two types of investors in financial markets: traditional investors and socially responsible investors. Traditional investors consider only financial criteria (risk and return) in their investment decisions, whereas socially responsible investors consider both financial and nonfinancial criteria (e.g., extra-financial performance). The latter's pool of allowable stocks is therefore larger, improving risk sharing opportunities. The main prediction of these models is that socially responsible stocks will have an excess demand which leads to lower risk and expected return, thus overvalued stock price based on traditional asset pricing models that do not include such an irresponsible risk premium. In contrast, socially irresponsible stocks will have a weaker demand due to the "neglect effect", which leads to higher risk and expected return because investors require additional premiums as a compensation for the lack of risk sharing opportunities. In a broader context, some authors reach results consistent with these arguments. For example, Merton (1987, p. 500) develops a capital market equilibrium model in which increasing the relative size of a firm's investor base will result in a lower cost of capital and higher market value for the firm. In summary, in these models, if there is a significant number of responsible investors, we should have traditional risk-adjusted abnormal returns (i.e. Jensen's alpha), positive for firms with low extra-financial performance and negative for firms with high extra-financial performance. However, if there are few responsible investors, both firms with high extra-financial performance and firms with low extra-financial performance should have similar expected returns, and there should be no abnormal returns.

In light of new developments in theoretical finance (e.g. Albuquerque et al. (2014), Fama and French (2007), Barnea et al. (2005); Heinkel et al. (2001), Merton (1987)) and the latest empirical results (e.g. Chava (2014), Hong and Kacperczyk (2009), Sharfman and Fernando (2008), Derwall and Verwijmeren (2007), Heinkel et al. (2001)), and given the strong growth of responsible investment, as mentioned earlier in the introduction, we expect risk-adjusted abnormal returns (Alpha), positive for downgraded firms and negative for upgraded firms. Our empirical analysis will shed light on this important issue.