International Academic Institute for Science and Technology

International Academic Journal of Economics
Vol. 1, No. 1, 2014, pp. 34-42.

ISSN 2454-2474

International Academic Journal of Economics

www.iaiest.com

The relationship between social responsibility and performance results of listed companies in Tehran Stock Exchange

Faramarz Mirzaei Domabi

Khorasgan (Isfahan) Branch, Islamic Azad University, Isfahan, Iran

Abstract

Performance measurement in the decision-making process regarding the important role of the capital market is the most important issue of financial economics; The function of economic and financial measures to evaluate the performance of companies is necessary. The aim of this study was to investigate the relationship between social responsibility and performance results of listed companies in Tehran Stock Exchange, is. This 5-year study period between 2008 to 2013, and the firms in the sample were selected on the basis of systematic elimination. It is considered a functional correlation And by using descriptive statistics such as mean and median of central tendency and Scattering parameters such as standard deviation analysis examined data And to test the significance of the model (regression coefficient significance test each of the test (T) and the autocorrelation test was applied. In this study, we used zero-one dummy variable for social responsibility so that if the Company issues related to the environment, voluntary measures, stakeholder participation, energy, human resources, customer, improve the quality of life and society under the covers disclose in its financial statements, the score is 1, otherwise it will be zero. Other criteria included the company's financial performance, net profit, return on assets, return on equity, the ratio of price to earnings ratio and earnings per share are Tobin's Q ratio. The results showed that all criteria for financial performance of companies in corporate social responsibility are significant and positive impact.

Keyword: Accounting standards for financial performance

1. Introduction

Nowadays the role of business in society has been subject to many changes. An entity can not run away from society and society can not exist without business unit, therefore, a two-way communication between business units and social. In recent years expressed no clear indications that, businesses can create wealth, employment and innovation, the market supply and strengthen their activities and improve their competitiveness, If you have to keep your community have a vital role in its implementation, work And to the community by providing the necessary conditions in order to earn returns by investors And stakeholders to help ensure the absence of arbitrage activities and unfair, to provide suitable substrates for the development of business units. (Sandhu, H S; Kapoor, Shveta, 2010) As a result of the social responsibility of companies for their business and are useful to the community

And the potential benefits it can lead to better returns on investment for companies is high. Some of these benefits include increased sales and customer loyalty pointed out, A number of studies, a large and growing market for products and services that have been created by companies with high social responsibility, point out. Creyer, Elizabeth H.; Ross, William T. (1997) Found that customers of the business units are expected to adhere to ethics in the conduct of its business units, Mohr, Lois A.; Webb, Deborah J. (2005) Also demonstrated that customers prefer to companies that are aware of the social responsibility of purchase. Among the other benefits of corporate social responsibility can be increased ability to hire new staff and keep experienced staff noted, Successfully maintain business units are obligatory. (Turban, Daniel B.; Greening, Daniel W, 1996).

2. Theoretical Framework and Research Background

1-2. Social Responsibility

Social responsibility of companies consists of company commitment to using its resources towards maximizing advantages to society and improving welfare in society through company's earnings (Kok et al, 2001). Social responsibility of organizations encompasses economy, law, ethics and humanitarian expectations of business unit which generalizes to all beneficiaries. In here, beneficiaries are defined as any guy of group who can influence on activities, decision, policies, procedures or organizational goals (Danku et al, 2008). In many researches in respect of ethical issues, the dimensions of social responsibility of company have been considered to determine the level of social responsibility of company including employees, customers, environment, hygiene and health, education, rural development and existing entities in society (Sandhu & Kapoor, 2010). According to Sandhu and Kapoor (2010) in this research, four dimensions (customer, employees, environment and existing entities in society) are considered that are explained briefly in next.

Social responsibility of company in relationship with customers consists of activities that a company do to meet customer satisfaction, so that it is referred to continuous improvement and customer – oriented principles of quality management. Customer – oriented principle states that companies are related to their customers and so they have to meet present and future needs of customers and try to overtake customer

expectation. The goal of continuous improvement in a quality management system is to increase possible achievement to more customer satisfaction and other beneficiaries (ISO Standard, 2010).

The second dimension of social responsibility is human resources that include important part of society and no company can success without sincere cooperation of employees. Generally, work conditions affects on work quality and also their social and economic progresses, because financial and social costs resulting from diseases and mortalities due to work conditions is more. Unexpected and serious pollutions of work setting for employees may have outcomes for society and environment. Accepting social responsibility for hygiene and safety activities can reduce costs, improve employee spirit and welfare and increase production level (ISO Standard, 2010).

The third dimension of social responsibility is environmental responsibility which is considered as a important aspect of social responsibility and necessary term for surviving and succeeding mankind. Environmental issues are related closely to human rights, development and participation and other important issues of social responsibility. A company can not neglect the environmental problems which operate into it. Companies can act more responsible by some measures for protecting and recovering environment including planting tree and protecting ranches, agricultural lands, frosts and its ecosystems. Companies can improve its environments by avoid pollutions such as lack of air pollution emission, no discharge of pollutants in water, earth and soil, non – use of disposal of hazardous and toxic materials and other pollutions resulting from organizational activities, productions and service.

The fourth dimension of social responsibility is responsibility sense towards existing entities in society. Today it is accepted that companies interact with societies and entities and its survival is related to stability and success of these entities. So a company is responsible for welfare and development of its peripheral entities. One of the responsibilities of business unit is spending some it's earning toward health, hygiene, cultural and educational facilitations. Because education is foundation of any social and economic development and culture is a important part of society and social identity. There is a positive effect between culture and education promotion and social cohesion and development (ISO Standard, 2010).

The reports of the companies listed in stock exchange were used to collect information related to social responsibility. According to these reports, the companies have higher than average is 1, otherwise 0

Logistic regression was used to measure theses variables

2-2- Financial Performance Index

Performance measurement criteria with respect to accounting concepts and economic concepts can be divided into two categories: Accounting & Economics. In accounting standards, corporate performance is evaluated according to accounting data While the economic criteria, the performance gain due to the power of existing assets and potential investors as well as the rate of return and cost of capital rate will be assessed. Accounting measures to evaluate the company's performance include:

- Net profit

The accounting profit is revenues minus costs. During the financial year due to the activities they do, income is educated. The company to produce goods and services amounts incurred costs. At the end of the fiscal year to determine the company's performance, revenues and related costs are matched together To find out how much profit the company has the financial year. The profits can be a method for evaluating company performance. (Jahankhani & Zarif fard, 1995).

- EPS

Earnings per share is the net profit after deduction of corporation tax, divided by the number of its shares.

- ROE

Return on equity is one of the financial ratios by dividing the profit before tax to equity is obtained.

- ROA

Return on Assets (ROA) is one of the financial ratios by dividing net income plus interest expense to total assets are obtained. ROA production and sales skills is concerned and is not affected by the corporate financial structure.

- Price to Earnings ratio (P/E)

P / E ratio of company revenue as the basis for value stock investor uses different methods to assess their share of the market index.

- Q tobin

Tobin's Q ratio Another instrument for measuring the performance of companies is that by dividing the company's market value to book value or replacement value is obtained assets.

3-2. Research Background

Scholten and Ching Kang (2012) in a article, entitled "social responsibility and earning management: evidence of Asian economies" have considered the relationship between earning management, social responsibility and investors' support in 139 companies in 10 Asian countries. The research assumes that there is a adverse relationship between social responsibility of company, investors' support and earning management. The results indicate that the companies are interested seriously in social responsibility, they have reduced earning management and there is a negative relationship between investors' support and earning management and social responsibility of company leads Asian companies use lesser earning management. It depends on the legal system.

In a research entitled "corporate governance and social responsibility disclosure of companies, evidences of emerging economy", Rahman Khan and Badrul Mottakin (2012) conducted a study. In this research some corporate governance mechanism were analyzed including managerial ownership, public ownership, foreign ownership, non – aligned managers ratio in board of directors, CEO duality and

appearance of auditing committee with disclosure of social responsibility of company. The results showed that there is a negative relationship between disclosure of social responsibility of company and managerial ownership and there is a significant and positive relationship between public and foreign ownership, non – aligned in board of director and auditing committee appearance with social responsibility disclosure of company. Also, the results indicated that there is not significant relationship between CEO duality and disclosure of social responsibility.

3- Research Method

The research is a correlation – applied research and some descriptive statistics were used to determine the variables including average, variance, standard deviation and quartiles. In addition, T- test and F-test were used to test the hypotheses. At first, the data was surveyed descriptively and then the hypotheses were tested. Excel software was used to collect the data and mixed data was used to test hypotheses. Given that independent variable is a two – option variable, two techniques of Discriminant analysis and Binary logistic regression were used.

4. Empirical Results

1-4. Hypothesis testing

In order to test this hypothesis (impact factors) of the t-statistic and its significance level used. If the absolute value of t calculated from the t table is larger, the null hypothesis is rejected and will be a significant factor that otherwise can not be null hypothesis is rejected.

1-1-4. First Hypothesis

- Between social responsibility and earnings per share in the Stock Exchange Tharan there is a significant relationship.

Evaluation of statistic value (t (3.584 social responsibility shows in the level of 5% of the independent variable Y1 (earnings per share) has a significant positive impact on social responsibility, Thus it can be stated hypothesis H0 is rejected at a confidence level higher than 95% That is a significant relationship between earnings per share of social responsibility in companies listed on the stock exchange there.

- Between rate of return on equity of social responsibility in companies listed on the Tehran Stock Exchange there is a significant relationship.

Evaluation of statistic value (t (4.579 social responsibility shows in the level of 5% of the independent variable Y2 (return on equity) has a significant positive impact on social responsibility, Thus it can be stated hypothesis H0 is rejected at a confidence level higher than 95 percent, That is a significant relationship between the rate of return on equity of social responsibility in companies listed on the Tehran Stock Exchange there.

- Between rate of return on assets, social responsibility In companies listed on the Tehran Stock Exchange there is a significant relationship.

Evaluation of statistic value (t (3.256 social responsibility shows in the level of 5% of the independent variable Y3 (Return on Assets) has a significant positive impact on social responsibility, Thus it can be stated hypothesis H0 is rejected at a confidence level higher than 95% That is a significant relationship between the rate of return on assets, social responsibility in companies listed on the Tehran Stock Exchange there.

- Between Tobin's Q ratio with the social responsibility of companies listed on the Tehran Stock Exchange there is a significant relationship.

Evaluation of statistic value (t (16.372 social responsibility shows in the level of 5% of the independent variable Y4 (Tobin's Q ratio) has a significant positive impact on social responsibility, Thus it can be stated hypothesis H0 is rejected at a confidence level higher than 95% That is a significant relationship between Tobin's Q ratio with the social responsibility of companies listed on the Tehran Stock Exchange there.

- Between ratio of price to earnings with social responsibility in companies listed on the Tehran Stock Exchange there is a significant relationship.

Evaluation of statistic value (t (5.923 social responsibility shows in the level of 5% of the independent variable Y5 (price-to-earnings ratio) has a significant positive impact on social responsibility, Thus it can be stated hypothesis H0 is rejected at a confidence level higher than 95% That is a significant relationship between social responsibility with the ratio of price to earnings in companies listed on the Tehran Stock Exchange there.

- Between net profit with social responsibility in companies listed on the Tehran Stock Exchange there is a significant relationship.

Evaluation of statistic value t (4.433) social responsibility shows in the level of 5% of the independent variable Y6 (net profit) has a significant positive impact on social responsibility Thus it can be stated hypothesis H0 is rejected at a confidence level higher than 95% The relation between the net profit with social responsibility in companies listed on the Tehran Stock Exchange there.

Table 1 shows the results of testing the first hypothesis

Y_6	Y_5	Y_4	Y_3	Y_2	Y_1		InDependent / Dependent
0.314	0.264	0.732	0.098	0.176	0.116	R	

4.433 (0.000)	5.923 (0.000)	16.372 (0.000)	3.256 (0.002)	4.579 (0.000)	3.584 (0.001)	t	social responsibility
Reject H_0	Reject H_0	Reject H_0	Reject H_0	Reject H_0	Reject H_0	Result	
2.118	2.333	2.137	2.099	2.048	2.051	Durbin Watson	

5. Result

In order to gain competitive advantage from their own resources to improve their relative position relative to competitors and companies promoting the emergence of better opportunities in the future. In studies of industrial organization, market share and growth as key performance indicators have been firm and positive relationship between market share and economic profit has been proved. According to the description given, a summary of the results is as follows:

- Between social responsibility and earnings per share in the Stock Exchange Tharan there is a significant relationship.

In analyzing this hypothesis should be stated, referring to the dividend when earnings per share after tax on the total number of shares increases, Can be expected, corporate social responsibility increases and more social activities increase. As a result of this assumption some kind of motivation among companies shows Which suggests that when companies are confident the Switch activity, more accurately track their social responsibilities. In fact, earnings per share represents the amount of profit that each firm earns per ordinary share. As a result of this hypothesis with research Oeyono, J. and Samy, M .and Bampton, R.(2011), Simpson, W. Gary; Kohers, Theodor. (2011), Choi, Jong-Seo; Kwak, Young-Ming; Choe, CHongwoo. (2010) Which states that there is a significant relationship Between earnings per share of social responsibility, correspond.

- Between rate of return on equity of social responsibility in companies listed on the Tehran Stock Exchange there is a significant relationship.

In analyzing this hypothesis should be stated, with an increase in equity which refers to the efficiency of capital in shareholder wealth creation, social responsibility is a collection of legal activities, humanitarian, social, environmental, etc. is increased. Many profitable companies, like Apple, Samsung, etc. we see that the range of activities on social responsibility to the environment are discussed.

- Between rate of return on assets, social responsibility In companies listed on the Tehran Stock Exchange there is a significant relationship.

Based on the result of this hypothesis should be stated, by increasing the rate of return on assets, which implies that assets have the necessary performance And thereby generate profits for companies have been

and productive practice, corporate social responsibility, as explained in the previous assumptions, increase.

- Between Tobin's Q ratio with the social responsibility of companies listed on the Tehran Stock Exchange there is a significant relationship.

The result shows hypothesis when Tobin's Q ratio increases, corporate social responsibility increases. Other notable result of the assumptions is that both criteria are indicative of the company's value than other competitors. Companies that increase their proper functioning through Tobin's Q ratio, a higher social responsibility, companies have a competitive advantage over the other.

- Between net profit with social responsibility in companies listed on the Tehran Stock Exchange there is a significant relationship.

The result showed hypothesis at the time, the company increased net profit, corporate social responsibility is also increasing. Results showed that all aspects of the financial performance of companies on social responsibility, at a time when companies increase financial performance, social responsibility is also increasing. Increase the ability of the Company to be more responsible to the public, society and the environment act And thereby enable more competitive advantages than their own competitors.

References

Omidvar, Alireza. (2005). "The government's policy to promote corporate social responsibility in Iran," Master's thesis, Tehran University, Faculty of Law and Political Science, field of public policy.

Jahankhani Ali, and Ali Parsaeian. (1999). financial management, publishing, and research organization Textbooks Social Sciences.

Carroll, archie(1979), " *a three dimentional conceptual model of corporate performance*"، academy of management review, page 499.

Choi, Jong-Seo; Kwak, Young-Ming; Choe, CHongwoo. (2010) . Corporate social responsibility and corporate financial performance: Evidence from Korea. *Australian Journal of Management*, 53 (3) , 291-311.

Creyer, Elizabeth H.; Ross, William T. (1997) . The influence of firm behavior on purchase intention: Do consumers really care about business ethics?. *Journal of Consumer Marketing, 14 (6)* , 421-432.

Mohr, Lois A.; Webb, Deborah J. (2005) . The effect of corporate social responsibility and price on consumer responses. *Journal of Consumer Affairs, 39 (1)* , 121-147.

Nelling, Edward; Webb, Elizabeth. (2009) . Corporate social responsibility and financial performance: The "virtuous circle" revisited. *Review of Quantitative Finance and Accounting, 32 (2)* , 197-209.

Oeyono, J. and Samy, M .and Bampton, R.(2011);"An examination of corporate social responsibility and financial performance: A study of the top 50 Indonesian listed corporations",Journal of Global

Rahman Khan ,A. and Badrul Mottakin. (2012); "Corporate Governance and Corporate Social Responsibility Disclosures: Evidence From an Emerging Economy".Journal of Business Ethics. Responsibility, Vol.2, PP.100-112

Rizk RR. (2008). Back to basics: an Islamic perspective on business and work ethics. Soc ResponsJ; 4(1/2): 246-54.

Sandhu, H S; Kapoor, Shveta. (2010) . Corporate social responsibility initiatives: An analysis of voluntary corporate disclosure. *South Asian Journal of Management, 17 (2)* , 47-80.

Scholtens, B. and Ching Kang, F.(2012). "Corporate Social Responsibility and Earnings Management: Evidence from Asian Economies".Vol 20, pp 95–112.

Simpson, W. Gary; Kohers, Theodor. (2011) . The link between corporate social and financial performance: evidence from the banking industry. *Journal of Business Ethics, 35 (2) ,* 97-109.

Tsaia, H. and Z. Gu (2013). "The Relationship Between Institutional Ownership and Casino Firm Performance." International Journal of Hospitality Management, Vol. 26, pp. 517-530.

Turban, Daniel B.; Greening, Daniel W. (1996) . Corporate social performance and organizational attractiveness to prospective employees. Academy of Management Journal, 40 (3) , 658-672.