THE EFFECT OF DISCLOSURE LEVEL OF CORPORATE SOCIAL RESPONSIBILITY (CSR) ON CORPORATE FINANCIAL PERFORMANCE (CFP) IN TEHRAN STOCK EXCHANGE

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Abstract

This study has examined impact of the level of disclosing corporate social responsibility (CSR) on corporations' financial performance (CFP). The study's statistical population consisted of listed companies in Tehran Stock Exchange in 1391, which in this study content of 83-corporation sample was analyzed to assess the level of corporations' disclosing corporate social responsibility through reports on the activities of the board. For this purpose, 105 Disclosure indices were analyzed in three economic, social and environmental dimensions using a zero-one procedure and rating of each corporation's disclosing corporate social responsibility was extracted to determine their level of disclosure. To investigate the association between variables of this research, the level of corporations' disclosing corporate social responsibility CSRD (independent variable) and performance metrics based on accounting data (ROS,ROA,ROE) and market data (SR,QT,P/E) (dependent variable) are considered. In this study, to analyze research data and the models estimation, the multiple-linear regression test was used and control variables have included size, financial leverage, industry, age and financial risk. Based on the research results, there is a significant relationship between the level of disclosing corporate social responsibility and financial performance criteria of corporations based on both accounting data and market data.

Keywords: Disclosing corporate social responsibility (CSR), financial performance (CFP), content analysis, the Tehran Stock Exchange.

1. Introduction

Today, corporation's executives are facing towards dynamic and challenging task for the implementation of socio-ethical standards for being responsible for business practices. Increasing pressure for social responsibility is one of the most important business challenges for corporations. More than the past, corporations, particularly those operating in global markets, while maximizing shareholders' value will requires to balance social, economic and environmental themselves business elements. In the new millennium, corporation's social responsibility has earned prominent, top role and position in the field of academy (Vieser 2006), and many consider it to be an absolute necessity for corporations to being able to define their role in society and they utilize the responsible social, ethical, legal and environmental standards (Leendgrin, 2004). Corporation's social responsibility is a concept being developed and evolved which understood as a way the corporations incorporation their social, economic, environmental worry of values, cultures, decision-makings, strategy and operation to response transparently, and formulate ,therefore, the better procedures for corporation, creating welfare and improving the community (Terker, 2007). Knight (2007) states that the corporation's social responsibility is a conceptual umbrella with the varied terminology and fully associated that refers to the community and environment, and with linguistic transparency, accountability and lasting along with multi-dimensional and business ethic approach, it considers the parameters of corporations' social role. Indeed, the argument that corporations have a responsibility to a wide range of stakeholders beyond shareholders is located in the center of the concept of corporations' social responsibility.

Nowadays, along the growth and development of industries and different business units, there have been new problems and difficulties that mainly resulted from backwashes and impacts of the business activities on the environment and community (Sika, 2011). This paper seeks to examine the impact of the level of disclosing corporate social responsibility (CSR) on financial performance in the Tehran Stock Exchange. For this purpose, 105 Disclosure indices in three dimensions (economic, social and environmental) have analyzed in zero-one method and the score of disclosing corporate social responsibility of each corporation to determine the level of disclosure has been extracted and then the its relationship with two criteria of performance based on both accounting and market was examined.Financial corruption and economic crisis has led to increased attention to corporation social responsibility, since corporations are socially responsible to provide security for staff and community. Hence, most corporations have recognized the importance of social accountability process. In this approach, it is evident that economic efficiency is not only the corporations' purpose, but also social performance should be noted that represent social responsibility in relation to staff, the environment, the community and stakeholders. In recent decades, the level of corporations' attention to integrate social aspects in their business strategy is rising to achieve lasting goals. This process is derived from this paradigm that corporations' social responsibility causes to improve financial performance and many studies have supported a direct link between corporations' social responsibility and financial performance through the empirical evidence. Generally, it is believed that corporations' social responsibility improve corporations'financial performance through improving corporation's communication with relevant stakeholder groups and maybe a comprehensive and more desirable approach is necessary to understand the impact of corporations' social responsibility on certain stakeholders (Barnett, 2007).

Hence,Wang (2013) has examined the relationship between corporations' environmental performance and financial performance as well as the relationship between corporate governance and financial performance of corporations in Kenya. His findings showed that the CSR reporting of stock corporations have had different effects on financial performance indicators. Fagimi's research results (2012) showed CSR has had a positive and significant relationship on the measures of financial performance and to measure CSR, the indices of voluntary disclosure items were used in the annual reports of the sample corporations. Ehsan and Colin (2012) investigated the nature of the relationship between CSR and financial performance in Pakistan. Their results showed that the nature of the relationship between CSR and their financial performance in the manufacturing sector of Pakistan is positive. Li, Lu and Wang (2013) experimentally examined the impact of corporation's performance on CSR disclosure with moderating effect of ownership of corporation in stock corporations in China. Their findings showed that corporations with better performance disclose more information about CSR and their CSR reports have higher quality. Also the relationship is weaker between corporation's performance and CSR disclosure in government-owned corporations compared to non-state corporations. Also, Touint and Visink (2012) have examined the relationship between CSR and financial performance based on two theories of instrumental stakeholders and theory based on the limited resources. Their findings showed that higher CSR increase rate of return on sales (ROS) and rate of return on assets (ROA). But the return on equities (ROE) is not associated with corporations' social performance and in fact, outcomes of corporations' social performance are not increase of the rates of return on equities. Flamre (2013) examined the effect of CSR on financial performance. His findings suggest that the adoption of the CSR plans by the shareholders in future periods results in superior financial performance and will increase approximately %7-%8 return on assets during two years after the adoption of the CSR plans. Finally, results of Granhookin and Vikstroun's study (2013) showed that corporation's size influences the relationship between CSR and CFP.

2. Methodology

2.1. The Research hypotheses

The main hypothesis:

- The level disclosing corporate social responsibility has a significant effect on the corporations' financial performance.

Alternative Hypothesis:

- The level of disclosing corporate social responsibility has a significant impact on return on sales (ROS).
- The level of disclosing corporate social responsibility has a significant impact on return on assets (ROA).
- The level of disclosing corporate social responsibility has a significant impact on return on equity (ROE).
- The level of disclosing corporate social responsibility has a significant impact on the P/E proportion.
- The level of disclosing corporate social responsibility has a significant impact on corporations' Tobin's Q.
- The level of disclosing corporate social responsibility has a significant impact on return on stock.

2.2. Research objectives

The main theoretical goal of this study is how to illustrate the relationship between the level of corporations' disclosing corporate social responsibility and their performance. Another objective of this study is to resolve contradiction of the inconsistent results of previous research done on the relationship between corporations' social responsibility and corporations' performance, particularly in developing countries and emerging economies. Doing present research, however, is considered a small step in order to explain the previous researchers' inconsistent findings and enriching of the international relevant literature as well as can provide new evidence of different environments (Iran). In terms of the applicable target, it also is to motivate managers of corporations and business units to participate more in the area of corporations' social responsibility.

2.3. Statistical sample and population of research

Statistical population is of all firms listed in Tehran Stock Exchange for the year 1391. To determine the level of corporations' disclosing corporate social responsibility and testing experimental model, hypotheses of the research from statistical population of typical listed corporations in Tehran Stock Exchange will be selected based on the following criteria:

1- In order to become the homogeneity of the statistical sample and with regard to the data period of information (1391), corporation is listed in the stock before 1391 and by the end of 1391 its name hasn't been removed from the list.
2- Because of the increasing comparability and unification of selected corporations' conditions, financial year is up to the end of Esfand 1391.
3- 3-In order to be similar the nature of the activity, the type of items and their classification in the financial statements and homogeneity of disclosed items in social and environmental dimensions and since the manufacturing corporations emphasize on legal and ethical activities more than service corporations (Sharbat Oghly et al, 1389), corporations are selected to be manufacturer.

Based on the above criteria, the number of selected corporation is equal to 83.

2.4. The research model

Each conceptual model is considered as a starting point and a basis to study and research, so that they can determine the variables considered by research and relationship between them (Edwards et al, 2000), hence this model is as follows:

$$\boldsymbol{CFP = B_o +}$$

CSRD: Level of disclosing corporate of social responsibility
Industry: Type of industry
Age: the corporation's age
Risk: risk of the corporation
Size: size of corporation
Leverage: financial leverage

2.5. Method to measure variables of the research

Table 1: variables of the research and their measurement procedure

Dependent variable	ROE	Book value of equity / net profit
	ROS	Net sales / net profits
	ROA	Total assets / (financial expenses+ net profit)
	QT	Book value of assets / (book value of the stock + market value of debts)
		First and last period stock price changes plus other

	SR	incomes resulted from share purchase such benefits resulted from priority, gift stock and stock dividends divided by stock price at the beginning of the period
	P/E	Stock price / earnings per share
Independent variable	CSRD	105 Disclosure index in three dimensions: economic, social and environmental development of zero and one.
The control variables	SIZE	Natural logarithm of total assets
	LEV	Total debts divided by total assets
	RISK	Beta
	AGE	Number of years since the adoption of the Stock Exchange
	IND	Classification of Stock

3. Results

H_0: Dimensions of corporations' social responsibility reporting and disclosure have no significant effect on the financial performance.
H_1: Dimensions of corporations' social responsibility reporting and disclosure have significant effects on the financial performance.

Table 2: Co-linearity test

Tolerance	CSRD	0.942
	SIZE	0.928
	LEVERAGE	0.955
	RISK	0.915
	AGE	0.981
	INDUSTRY	0.931
VIF	CSRD	1.064
	SIZE	1.077
	LEVERAGE	1.047
	RISK	1.092
	AGE	1.020
	INDUSTRY	1.074

According to the above table, in terms of the results obtained for the co-linearity between independent variables, due to the tolerance value close to 1 and tolerance coefficient being between zero and one, we see non-co-linearity between independent variables, which indicates it is possible to run multiple-linear regression test.

Table 3: Multiple Linear Regression

Dependent variables		Accounting criteria		
		ROE	ROA	ROS
BETA	Fixed	0.558	0.300	0.466

	CSRD	0.516*	-0.368*	0.334*
	SIZE	0.657	0.136	0.221
	Leverage	-0.230	-0.674	0.012
	Risk	0.110	-0.022	-0.118
	Age	-0.046	-0.104	0.074
	Industry	0.071	0.182	0.143
Adjusted-R square		0.516	0.459	0.636
ANOVA	F	15.376	6.441	5.526
	Sig.	0.000**	0.000**	0.000**
Durbin - Watson		2.144	1.446	1.966

* Error level of 5%
** Error level of 1%

According to results in Table 3. since the statistic value of the Durbin – Watson (DW) test of all regression models tested is between 1.5 to 2.5, the hypothesis of the lack of corrolation between the errors cannot be rejected and multiple-linear regression can be used. Considering to the adjusted determination coefficient (R^2) in all regression models tested, it can be concluded that more than half of the corporation's total financial performance depend on the control and independent variables of the equation. Given the significant F-test for all regression models tested (less than 0.01 percent), it can be concluded that the multiple-linear regression model of the research consisting of the independent, dependent and control variables (corporations' financial performance) has been a good model and a set of independent and control variables are able to show changes in the financial performance of corporations. In the regression model of the research, coefficient on the impact of CSR score on ROS is equal to 0.334, which represents a positive and direct impact. The adjusted coefficient of determination (R^2) in this regression model is equal to 0.636 which indicates that 63.6 percent of all changes (ROS) depends on independent variable mentioned in this equation. On the other hand, the coefficient on the impact of CSR score is equal to -0.368, which represents a negative and inverse impact.The adjusted coefficient on determination (R^2) in the regression model is equal to 0.459, indicating that 45.9 percent of all the changes (ROA) depends on the independent variable mentioned in this equation. Finally, the coefficient on the impact of CSR score on ROE is equal to 0.516, which represents a positive and direct impact. The value of adjusted coefficient of determination (R^2) in this regression model is equal to 0.516, which indicates that 51.6% of all the changes is related to the independent variable mentioned in this equation. Due to the significance level of t-test t, all independent variables are significant at the 5% error level, hence three hypotheses of the research related to accounting performance measures are approved.

Table 4: Multiple Linear Regression

Dependent variables		Market criteria		
		SR	QT	P/E
BETA	Fix	0.570	0.593	0.642
	CSRD	0.396*	0.008*	0.016*
	Size	-0.139	0.218	0.172
	leverage	0.115	-0.224	0.113
	Risk	-0.224	0.254	-0.255
	Age	0.152	-0.172	0.465

	Industry	-0.017	0.283	-0.068
Adjusted-R square		0.426	0.674	0.564
ANOVA	F	4.665	4.079	4.182
	Sig.	0.001**	0.006**	0.000**
Durbin - Watson		2.015	1.583	1.570

* Error level of 5%
** Error level of 1%

According to results in Table 4. since the statistic value of the Durbin – Watson (DW) test of all regression models tested is between 1.5 to 2.5, the hypothesis of the lack of correlation between the errors cannot be rejected and multiple-linear regression can be used. Considering to the adjusted determination coefficient (R^2) in all regression models tested, it can be concluded that more than half of the corporation's total financial performance depend on the control and independent variables of the equation. Given the significant F-test for all regression models tested (less than 0.01 percent), it can be concluded that the multiple-linear regression model of the research consisting of the independent, dependent and control variables (corporations' financial performance) has been a good model and a set of independent and control variables are able to show changes in the financial performance of corporations. In the regression model of the research, coefficient on the impact of CSR score on P/E is equal to 0.016, which represents a positive and direct impact. The adjusted coefficient of determination (R^2) in this regression model is equal to 0.564, indicating that 63.6 percent of all changes in P/E depends on independent variable mentioned in this equation. On the other hand, the coefficient on the impact of CSR score on QT is equal to 0.008, which represents a positive and direct impact. The value of adjusted coefficient on determination (R^2) in the regression model is equal to 0.674, indicating that 67.4 percent of all the changes in QT depends on the independent variable mentioned in this equation. Finally, the coefficient on the impact of CSR score on SR is equal to 0.426, which 42.6 percent of all the changes in SR depends on the independent variable mentioned in this equation. Due to the significance level of t-test t, all independent variables are significant at the 5% error level, hence three hypotheses of the research related to market criteria are approved.

4. Conclusions and Discussion

In summary, with respect to the regression models of the research hypotheses it can be said the effect coefficient of CSRD on financial performance of these mentioned models has been positive, also, all regression models used are good models for predicting the effect of independent variables on the dependent variables and most of the mentioned regression models have included relatively high coefficient of determination to determine them. Also, due to the significance level of t-test for all test models of research, all research hypotheses were confirmed. As part of the literature mentioned, the results of similar studies conducted in different regions and different countries have been different. However, most of the meta-analysis and comparison researches done recently have emphasized on the impact of and positive relationship between the disclosing corporate corporations' social responsibility and financial performance, this study's results also confirmed it, but being limited period of research (since 1391) that is caused due to lack of last year information about the status of disclosing corporate corporations' social responsibility in the annual report, the results cannot be considered definitive and comprehensive, and therefore the results should be interpreted with more caution. As noted in this study, CSR studies have been a paradigm of research process in the field of finance and accounting in recent years and further investigations in this direction is necessary to better understand way and how arising changes in the quantity and quality of CSR in Iran. The most important theoretical proposals for future research include:

1. Evaluate relationship between CSR and innovative performance measures based on value such as EVA, MVA.
2. Conduct this experimental study to analyze the relationship between CSR and financial performance of corporations providing requirements and regulations of reporting and CSR disclosure are legislated based on mentioned model in the coming years.
3. Examine effects of costs or CSR investments on long-term financial performance and long-term value creation in the stock corporations in Iran.
4. Investigate the causal relationship between social performance and financial performance of corporations in different period. And investigate the level of disclosing corporate CSR information as a predictor of Iranian corporations' better performance and specifically listed companies on the Stock Exchange.

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