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

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Abstract

This research aims at the relation between corporate social responsibility and financial performance of listed companies in Tehran Stock Exchange. Employee Satisfaction, Product quality, social involvement, environmental issues and work force diversity are social responsibility aspects of this study. This research is of correlation type and is classified as an applied research regard to its goal and its method is descriptive. The results of this study show that there is a positive and significant relation between social responsibility and long-term profitability. Existence of significant relation between employee satisfaction, product quality, social involvement with long-term profitability and lack of significant relation between environmental issues and work force diversity with long-term profitability was confirmed. The results also indicated that there is no significant relation between social responsibility and its dimensions with short-term profitability as well as between corporate size and risk with its profit. Based on the results of path analysis social involvement, product quality and employee satisfaction respectively have the most effect on long-term profitability.

Keywords: Companies listed in Tehran Stock Exchange, financial performance, social responsibility.
Introduction

"Profit" has always been one of the motivating factors of commercial organizations. Companies try to make profit and wealth as much as possible order to thereby maintain the efficiency of the organization and use the existent advantages of innovation and contribution to growth. Factors such as organizational culture, capacity of knowledge management (Lin and Kuo, 2007), involvement (Wagner, 1994), expectations of stakeholders (Moullin, 2007), goals and strategies and social responsibility (Inoue and Lee, 2011), are effective on the profitability of the organization in the short and long term. But among these organization's social responsibility is described as the main source of competition and ability of the company to survive.

Social responsibility means to value interdependent communications exist among organization, beneficiary groups, economic system and Communities. In other words, social responsibility is a method for proposing policy-making ideas in practicing the organization's commitments in front of society and is a tool that by its help can determine the interests of organization and society in practicing commitments. (Chandler, 2006)

Yong Qiang (2009) states that an organization involved with social responsibility, can achieve customers' positive view on evaluating the brand and selecting and recommending it to others. Williams and Barrett (2008) have pointed out that the humanitarian activities of organization can reduce the harmful effects of criminal activities and bad behaviors. Scholtens (2008) has stated that social activities not only help companies to improve their profits but also increases its social value and credibility of the company.

Relations between profitable goals and social goals, is important for the survival, success and value of the organization. It is true that an organization can't ignore profitable and wealth-producing activities for its survival and produce, but if such an organization wants to survive beyond a short term, should pursue its profit and wealth-producing targets through methods which is acceptable to society. In other words, in fact, we need those organizations which are efficient both economically and socially and an organization which can provide both groups of goal is better acceptance publically (Alvani, 1998).

On the one hand, Stock Exchange is place of competition and gaining competitive advantage and companies accepted in Stock Exchange are looking to increase their share value. On the other hand, Stock Exchange Organization enjoys necessary tools to promote social responsibility, requiring companies to their social commitment and responsibility. These companies because a large number of shareholders play a role in their running and enjoying economic-social power, have the required ability more than other companies for taking a role of social responsibility. On this basis, according to the importance stated for social responsibility and the great roles that it can have in improving the performance, the problem of this research is expressed on this basis that whether in units under study of this research, that is the companies listed on the stock exchange, social responsibility could have any relation with financial performance that is short-term and long-term profitability or not. If there is a relationship between social responsibility and financial performance, companies under study can achieve maximum profit and wealth through strengthening these aspects and see the increased value of their shares in capital markets in future.
Today, for the proper implementation of company's social responsibility the critical importance of human resources is emphasized. Employees involvement is a key success factor for the company's social responsibility performance. On the other hand, organizations when can find their best place that reflect variable and sensitive values of the market environment in which they operate. The fact that companies be able to meet the needs of customers which are consistently increasing is considered very important. Social responsibility asks organizations to ensure the fairness of their work and have a positive contribution in a society they operate. The most important points paid attention in the framework of social responsibilities are observance of human rights requirements at economic enterprises, including non-discrimination between gender of work force, giving wage regardless of their gender, race, religion and responsibility for preserving environment which cannot be restored after the destruction (Inoue Lee, 2011). So according to the criteria found in the database (KLD), aspects of social responsibility are as follows:

**Employees’ satisfaction:** Pleasant sensitive state due to task evaluation as access or facilitating access to the values expected from job (Trivellas et al, 2013).

**Quality of product / service:** The rate of meeting demands through a set of inherent feature of product or service (Thareja, 2009).

**Social Involvement:** Types of individual and group actions to get involved in determining social fate and affecting on public decision-making process (Rabbani, Kalantari and Hashemian far, 2010).

**Environmental issues:** issues related to the Earth system which are as a result of human activities or natural evolution of the earth and are increasing (Ding, 2012).

**Workforce diversity:** any significant difference which is distinguished from one individual to another, and includes a wide range of obvious factors (age, class, gender, etc.) and intangible ones (beliefs and values ...) (Kreitz, 2008).

Over years, researchers have developed models of this field. The models help to visualize the different elements of social responsibility. The models are:

**Hierarchical model of corporate social responsibility:** in this pyramid economic responsibility becomes important for every company to remain on the market and having interest to the community, must have profit and productivity. Legal liability is important because every business needs to follow the rules established for the good of everyone. Moral responsibility becomes important as the society expectations from organization to take the society's values and norms into consideration and voluntarily responsibility refers to the company's participation in a variety of activities that reduce difficulties in the society and improve the quality of life (Lantos, 2001).

**Abreast model of corporate social responsibility:** this model examines motive principles of responsible behavior, accountability processes and social performance results. An approach of a comprehensive corporate social responsibility ideally requires attention to all three
dimensions of social responsibility, social accountability processes and results of corporate behavior, in all operating areas of the company (Ma, 2012).

**Abreast model of corporate social responsibility:** This framework has contributed to understanding the nature of corporate, encouragement in taking new external stakeholders into consideration (other than traditional stakeholders, customers and employees) and legitimizing new forms of management. Based on this model, management must simultaneously pay special attention to six groups of beneficiaries such as stakeholders, society, company's environment, employees, suppliers and customers (Ma, 2012).

**Coordination model of corporate social responsibility:** In this model there are two related dimensions to analyze social responsibility including motivation dimension (strategic vs. friendly) and the dimension of responsibility focus (corporate versus individual). Strategic motivation dimension is going to match the company's interests and management interests with the interests of society; while friendly motivation is humanitarian or philanthropic and includes voluntarily measures by the company. Corporate responsibility focus dimension assigns the responsibility related to social actions and social responsibility the entire members of company; while individual responsibility focus dimension focus pays attention to the role of individual directors as champions of social responsibility (Galbreath, 2009).

One of the most important topics in the area of social responsibility is relationship between social welfare and companies' profits. Corporate social responsibility describes the company's commitment to maintain and improvement of social welfare in the present and the future, through the creation of stable profit and benefits to the beneficiaries (Lin et al, 2008). Based on various studies, corporate social responsibility is widely defined as activities to create an organizational good citizen who pays attention to community's welfare beyond his/her personal interest. With regard to the relationship between companies' responsibly activities and their performance three claim are set forth (Kang et al, 2010).

The first group of researchers in their study have found a negative relationship between social responsibly activities and financial performance, which is determined through changes of stock prices, stock returns or expected earnings per share. From their viewpoint, the only social responsibility of business is to use their resources and engage in activities determined to increase shareholders' wealth. The second group propose the positive impact of social responsibly activities on the company's performance. The group's argument based on beneficiaries theory shows that companies in their decision-makings and activities go beyond the shareholders, and takes into account the interests of other beneficiaries. The third group believes that there is no specific relationship between social responsibly activities and companies' financial performance. Seemingly contradictory arguments between the views rises from this hypothesis that the social responsibility which takes into account interests of a broad group of beneficiaries is a loss for activities of maximizing corporate value. Jensen in 2001 tried to eliminate potential conflict among the viewpoints through proposing beneficiaries theory and stating that company, through ignoring interests of beneficiaries groups cannot maximize its long-term value. From the viewpoint of some researchers, the power of a company which seeks sustainable wealth creation over time and long-term value is determined based on the relationship between internal and external beneficiaries.

Several studies have been done on social responsibility, which we point to some:
Fox (2004), in his article with the title of "Corporate social responsibility and development", examines the role of social responsibility by companies in national development. The results suggest that the implementation of corporate social responsibility is an effective policy for the company by which can absorb low-income customers and thus reduce poverty.

Kang, Lee, Huh (2010), in a paper studies the positive and negative effects of the social responsible activities on corporate performance (hotel, casino, restaurant and aviation industry). In summary, analyses for hotel and restaurant industries show the positive impact of social responsible activities the value of company. In contrast for aviation industry, the results show there is a negative impact of social responsibility on profit.

Lee, Singal, and Kang (2013) address this issue whether the social responsibility activities affect financial performance during various economic periods (prosperity and recession)? They tested the moderating effect of economic conditions in relationship between the social responsibility aspect and company's value performance in restaurant industry and concluded that taking into account the different economic conditions, social responsibility has a considerable impact on company's value performance.

Moshabaki et al. (2010), have conducted a research to examine the relationship between organizational culture and organizations' social responsibility in Ministry of Energy. The results show that: 1- there is a positive and significant correlation between organizational culture and social responsibility in the Ministry. 2- Employees' shared ideal is a determining factor in the creation organizational social responsibility among employees; and 3- Employees' team-working index doesn’t affect social responsibility.

F. Faghani (2012), in an article has examined the relationship between social responsibility and organizational reputation in Iran Khodro Company. The results indicate there is a significant relationship between social responsibility and organizational reputation in Iran Khodro Company.

**The conceptual model of research**

To explain the subject as good as possible and outlining the way of relationship between the dimensions of social responsibility and financial performance, including short-term and long-term profits, then we refer to the conceptual model.
Research method

This research with regard to purpose is applied and with regard to data collection is descriptive - surveying. In development and formulation of theoretical foundations, Library method and evidence and document examination instruments have been used, in the next step, to collect data and information needed on social responsibility, field research (questionnaire) and in financial performance dimension, financial statement and explanatory notes of companies listed on the Stock Exchange have been used. To meet the validity of the questionnaire, formal validity (professors' comments) and construct validity (causal confirmatory analysis using software AMOS) has been used as major means of examining validity. In confirmatory validity of causal load all indexes were more than 0.3, which can be concluded that the desired questionnaire enjoys a good validity. Also to examine the reliability of questionnaire, Cronbach's alpha coefficient has been used. With attention to preliminary example, test results have shown that Alpha values for each part of the questionnaire was more than 0.7, so the test has acceptable reliability. Statistical population of this research includes companies listed in Tehran Stock Exchange (companies of main board of the first market, minor board of the first market as well as the second market) with the exception of banks, insurance and investment companies. Analysis unit in this research is company. After sending the questionnaire by different styles such as fax, e-mail, designing web site, only 75 completed questionnaires were delivered to the researcher and research analysis was conducted on these companies. Also data analysis has been performed by proper descriptive statistics and deduction statistics methods as well as using SPSS software.

Research variables

Predictor variables (social responsibility): its first plan has been extracted and localized from the questionnaire of promotion center for social responsibility and governance, standard questionnaire for increasing organizational self-awareness, which was prepared by social responsibility Commission of Europe, and Dabbas standardized questionnaire (2012).
Criterion variables (Short-term and long-term profit): short-term profit has been estimated with the rate of return on assets in 2012, as well as long-term profit through average rate of return on assets in the years 2010, 2011, 2012.

Control variables (size and risk): to measure the size of company sale natural logarithm criterion has been used and to measure risk the ratio of debt to total assets is used.

**Research hypotheses**

The main hypothesis:

1- There is a significant relationship between company's social responsibility and its short-term profit.
   H0: There is no significant relationship.  H1: There is a significant relationship.

2- There is a significant relationship between company's social responsibility and its long-term profit.
   H0: There is no significant relationship.  H1: There is a significant relationship.

Sub-hypotheses:

1- There is a significant relationship between the rate of employee's satisfaction and short-term profit.
   H0: There is no significant relationship.  H1: There is a significant relationship.

2. There is a significant relationship between product quality and short-term profits.
   H0: There is no significant relationship.  H1: There is a significant relationship.

3. There is a significant relationship between social involvement and short-term profits.
   H0: There is no significant relationship.  H1: There is a significant relationship.

4. There is a significant relationship between observance of environmental issues and short-term profit.
   H0: There is no significant relationship.  H1: There is a significant relationship.

5. There is a significant relationship between the diversity of workforce and short-term profits.
   H0: There is no significant relationship.  H1: There is a significant relationship.

6- There is a significant relationship between the rate of employee's satisfaction and long-term profit.
   H0: There is no significant relationship.  H1: There is a significant relationship.

7. There is a significant relationship between product quality and long-term profits.
   H0: There is no significant relationship.  H1: There is a significant relationship.

8. There is a significant relationship between social involvement and long-term profits.
   H0: There is no significant relationship.  H1: There is a significant relationship.
9. There is a significant relationship between observance of environmental issues and long-term profit.
H0: There is no significant relationship.  H1: There is a significant relationship.

10. There is a significant relationship between the diversity of workforce and long-term profits.
H0: There is no significant relationship.  H1: There is a significant relationship

1. The findings of descriptive statistics based on samples collected indicate that most respondents are formed of managers (64%). On the other hand, based on these results most respondents have master degree or higher (46.7 %). From the demographic data of respondents to the questionnaire it can be concluded that generally respondents have had professional experience necessary to respond to questions.

2- With regard to the control variables in this study was it was tried to examine the relationship between the variables with financial performance including short-term and long-term profits. Through Spearman correlation coefficient test at the 5% significance level, the results showed that there is no significant relationship between the size of the company and short-term profit (correlation coefficient = -0.055 and Sig = 0.638) and the size of the company and long-term profit (correlation coefficient = -0.036 and Sig= 0.759). Also through Spearman correlation coefficient at the 5% significance level, the results showed that there is no significant relationship between company's risk and short-term profit (correlation coefficient = -0.176 and Sig= 0.130) as well as between company's risk and long-term profit (correlation coefficient = -0.151 and Sig= 0.195)

3- With the first main test of research through Spearman correlation coefficient test at the 5% significance level, the results showed that there is no significant relationship between social responsibility and short-term profit (correlation coefficient = 0.160 and Sig= 0.170). Based on this H0 is confirmed and H1 is rejected. This means that there is no significant relationship between social responsibility and short-term profit.

4 - With the first main test of research through Spearman correlation coefficient test at the 5% significance level, the results showed that there is a positive and significant relationship between social responsibility and long-term profit (correlation coefficient = 0.353 and Sig= 0.002). Based on this H0 is rejected and H1 is confirmed. This means that there is a positive and significant relationship between social responsibility and long-term profit. In other words, for every unit increase in the variable of social responsibility, the value of the dependent variable of long-term profit increases by 0.353 in a society that the research group has come out of it.

5. With the first sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is no significant relationship between employees' satisfaction and short-term profit (correlation coefficient = 0.134 and Sig= 0.253). Based on this H0 is confirmed and H1 is rejected. This means that there is no significant relationship between employees' satisfaction and short-term profit.

6. With the second sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is no significant relationship
between product quality and short-term profit (correlation coefficient = 0.197 and Sig= 0.091). Based on this H0 is confirmed and H1 is rejected. This means that there is no significant relationship between product quality and short-term profit.

7. With the third sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is no significant relationship between social involvement and short-term profit (correlation coefficient = 0.188 and Sig= 0.106). Based on this H0 is confirmed and H1 is rejected. This means that there is no significant relationship between social involvement and short-term profit.

8. With the forth sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is no significant relationship between environmental issues and short-term profit (correlation coefficient = 0.138 and Sig= 0.239). Based on this H0 is confirmed and H1 is rejected. This means that there is no significant relationship between environmental issues and short-term profit.

9 - With the fifth sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is no significant relationship between diversity of workforce and short-term profit (correlation coefficient = -0.011 and Sig= 0.925). Based on this H0 is confirmed and H1 is rejected. This means that there is no significant relationship between diversity of workforce and short-term profit.

10- With the sixth sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is a positive and significant relationship between employees' satisfaction and long-term profit (correlation coefficient = 0.367 and Sig= 0.001). Based on this H0 is rejected and H1 is confirmed. This means that there is a positive and significant relationship between employees' satisfaction and long-term profit. In other words, for every unit increase in employee satisfaction, the dependent variable long-term profit rises by 0.367 in a society that research group has come out of it.

11- With the seventh sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is a positive and significant relationship between product quality and long-term profit (correlation coefficient = 0.392 and Sig= 0.001). Based on this H0 is rejected and H1 is confirmed. This means that there is a positive and significant relationship between product quality and long-term profit. In other words, for every unit increase in product quality, the dependent variable long-term profit rises by 0.392 in a society that research group has come out of it.

12- With the eighth sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is a positive and significant relationship between social involvement and long-term profit (correlation coefficient = 0.456 and Sig= 0.000). Based on this H0 is rejected and H1 is confirmed. This means that there is a positive and significant relationship between social involvement and long-term profit. The amount of correlation coefficient is 0.456, indicating a relatively strong relationship between social involvement and long-term profit. With regard to the calculated coefficient B of 0.174 (Non- standardized coefficients) in multivariable regression analysis, 0.174% is the amount of changes in long-term profit attributable to change of social involvement, also, the amount of Beta coefficient (standardized coefficients) has been obtained 0.456 for social
involvement, which means that with one unit change in social involvement, approximately 45 percent change occurs in the dependent variable, long-term profit.

13 - With the ninth sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is no significant relationship between environmental issues and long-term profit (correlation coefficient = 0.016 and Sig= 0.890). Based on this H0 is confirmed and H1 is rejected. This means that there is no significant relationship between environmental issues and long-term profit.

14. With the tenth sub-test of research through the Pearson correlation coefficient test at a significance level of 5 Percent, the results showed that there is no significant relationship between the diversity of workforce and long-term profit (correlation coefficient = 0.173 and Sig= 0.139). Based on this H0 is confirmed and H1 is rejected. This means that there is no significant relationship between the diversity of workforce and long-term profit.

Operating model of the research

According to the obtained results from the tests of major and minor hypothesis, the following operating model is presented:

![Operating model of the research](image)

Discussion and conclusion

This research aims to study the relationship between corporate social responsibility and financial performance of listed companies in Tehran Stock Exchange. Findings of this study with the test of hypothesis show that there is a positive significant relationship between social responsibility and long-term profit. Also employees' satisfaction and product quality dimensions as inner-organization factors and social involvement as an outer-organization factor have direct and significant relationship with long-term profit.

The rate of social involvement is the most effective in the company's long-term profits. This means that the more the company take part in social activities (charitably and voluntarily activities), profit increases in long-term. Active participation in social affairs causes to increase corporate value and increased wealth in the long run. The variable product quality after social involvement has the greatest impact on long-term profit of the companies studied. This dimension of social responsibility leads to increased value of company through customer loyalty and producing and distributing distinctive product. About employees' satisfaction I
can be said that the employees who are pleaded with their organization and consider him/herself committed to their organization, greatly affect the growth, efficiency and productivity of their organization. On this basis it can be said that today the organizations and companies accept the governance and standards of social responsibility and put it into practice, can see their success and promotion in financial performance in the long run and will be able to attract people's and market's trust to their services more than past.

In this regard it is proposed that through holding conferences, period short-term training courses and various lectures change the perspective horizon of managers toward this direction that the goal of business is to provide suitable services and creating added value and not only to obtain pure profit; in organizations to implement programs of social responsibility, specialized committees such as committee for research and innovation, educational and cultural committee, health committee should be formed; companies which are anyway engaged in social responsibility activities, should be granted privilege and national awards. Organizations through the establishment of curing and rehabilitation centers support disabled persons and cancer patients. In areas such as school building, releasing financial prisoners and … have more active participation. In the production process consider the needs, demands and responses of each class of society.
References


