ABSTRACT

With globalization pressures and increasing burdens on governments to provide comprehensive social services, there is now a need to better understand how firms play their part in sharing these burdens. In this study, the influence of social performance on financial performance in the listed companies at Tehran Stock Exchange (T. S. E) is evaluated. The relationship between corporate social performance and corporate financial performance has been studied intensively with mixed results. Although the relationship between corporate social responsibility and financial performance has become a hot topic of the Western management community after several decades of arguments, there is still no empirical literature about the relationship between Iranians companies’ CSR and financial performance. According to these the purpose of the paper is to examine the relationship between corporate social performance and financial performance in Iranian context. In this study, based on the rating of a specialized rating agency; Vigeo, the CSR variable include four dimensions: Work conditions, Environment, Business behavior and society and local community. There are two control variables: Size of firm that has been measured by” number of personnel” and risk of firm that has been measured by” debt/asset”. In our study, firm financial performance measured by ROA, ROE, Tobin's Q and EVA. For gathering information about CSR and it's dimensions, we have used a questionnaire and also about financial performance, we have used financial documents of firms and "Rah Avarde Novin " software (one Iranian software) and formal website of Tehran stock exchange. For analyzing data, our statistical technique is multivariate regression. Population of this study is all the accepted firms at the TSE. The results showed that in the short term, social performance has negative and significant impact on accounting measures of financial performance. Also social performance in the long term, affect financial performance and its components positively.

Key words: social responsibility, financial performance, Tehran Stock Exchange.

Introduction

One of the issues in the managerial research that has been always considered with the researchers, improving the organization's financial performance and its influencing factors. Financial performance is Outcome and returns of all organization operations and strategies [2]. Although creation of reasonable monetary system is out of control, But to help the financial and commercial systems, social performance culture must be expanded among the employees [13]. In most cases, the power and authority to make decisions in corporate are often provided with managers that they have a conflict of interest with external interest groups, particularly shareholders. This conflict of interest is that the separation of ownership from management, much attention has been focused in the past [1]. In order to adjusted the conflict of interest, Criteria for evaluating managers’ performance has been developed and used [11].

Many measures of performance, are based on accounting models, especially models reported earnings or earnings per share. Over time, managers in order to maintain and improve bonuses, Began to manage earnings through the distortion of accounting numbers. This issue has caused despite some of the company's desirable financial position and accounting measures of performance are based on accounting models, facing financial crisis including the lack of liquidity [10].

With the emergence of the theory of economic profit or residual income; Models was proposed to calculate the economic benefit [16]. So measures of economic value added, refined economic value added, market value added and economic residual
income, attempt to Due to the Complexity of the behavior of managers, engage in evaluating their performance and modifying conflicts of interest.

According to historical three stages of social responsibility (include: Maximize profit based management, trust management, quality of life management). There are three fundamental approaches that are influences on corporate behavior. These perspectives include: the classical perspective, responsibility and public perception, which we discussed here:

Classical perspective:

This view is consistent with the first historical stage (Maximize profit based management). According to this view, the main issue of economic institution must be profit maximizing and organization long-term interests. With these conditions, the social responsibility can be defined as producing goods and services with the least cost to society. This opinion is based on the theory of the invisible hand of “Adam Smith”. Accordingly, it is not necessary that the concepts of social responsibility, ethical standards and commitment to the welfare of others must be defined [5].

Responsibility perspective:

This view is consistent with the historical stage (trust management). Based on this perspective, an enterprise not only should responsible to their shareholders and investors, but also is responsible for the other groups that are involved in his success. These groups include shareholders, customers, government agencies, competitors, unions, employees, suppliers, creditors and others.

Public perspective:

General view of social responsibility is consistent with the third stage of history. Public perception, defines economic enterprises as partners with government and other institutions of society and believes that organization is required to solve the problems of society and improve the quality of life for everyone. As a result, profitability, is just one of the goals of the enterprise. From this perspective, the organization is committed to pursuing their individual goals as well as goals for humanitarian track.

Organization against whom is responsible? The answer to this question gives us the ability to set a vast network of people and organizations that organization activities directly affect their lives [9].

Social performance in Iran is a new concept. Therefore, in this study we have tried to use CSR as a way to improve the efficiency and effectiveness of our companies. As mentioned above, the main issue of this research is to examine is there a significant relationship between CSR and FP?

Previous Research:

One aspect of CSR interesting to many financial economists is the economic domain: financial impact of CSR for profit-seeking corporations. Regarding the relationship between companies’ CSR activities and their performances (especially, financial performance), the literature presents three assertions.

The first group of researchers, based on the viewpoint of Friedman (1970), has found a negative relationship between CSR activities and FP as measured by, for example, stock price changes [18], excess return [20], or analysts’ earnings-per-share forecasts [6]. Friedman argued that managements are selected by the stockholders as agents and their sole responsibility is acting on behalf of the principals’ best interests. From Friedman’s perspective, the one and only social responsibility of business is to use its resources and engage in activities designed to increase profits and wealth of owners. Any other activities disturbing the optimal allocation of scarce resources to alternative uses exert an adverse influence on firm performance.

The second group argued for positive impact from companies CRS activities on FP. This group’s assertion, based on stockholder theory [8], suggests that firms expand the scope of consideration in their decision-making and activities beyond shareholders to several other constituencies with interests, such as customers, employees, suppliers and communities. The second group asserts that CSR activities, which encompass all legitimate stakeholders’ implicit claims as stakeholder theory suggests, can improve firm value by (1) immediate cost saving, (2) enhancement of firm reputation, and (3) dissuasion of future action by regulatory bodies including governments which might impose significant costs on the firm [4].

A third group has supported no particular relationship between CSR activities and FP, partially arguing for the existence of too many confounding factors for researchers to uncover a particular impact from CSR on firm performance.

Seemingly contradictory themes between Friedman’s (1970) viewpoint and the stakeholder theory arise from the assumption that CSR, which considers the interests of a broad spectrum of stakeholders (suggested by stakeholder theory), is in fact detrimental to value maximization activities of the firm (asserted by Friedman’s viewpoint).

While empirical results concerning the nature of the relationship between CSP and FP continue to be mixed, the largest number of investigations found a positive relationship. This tendency towards the positivism of the CSP-FP link is supported by subsequent meta-analysis [3,14].
Another vein of research focused on the causal relationship between CSP and FP. For instance, using traditional statistical techniques, Waddock and Graves [19] find a positive synergistic relationship between CSP and FP showing the existence of a virtuous circle between the two constructs.

Materials and Methods

The current study aims to determine the relationship between CSR and FP in Tehran stock exchange (service firms). After studying literature review and expressing research questions, the following research hypotheses are as follows:

The first main hypotheses: CSR has a significant impact on accounting measures of financial performance.

The sub-assumptions of the first main hypothesis:
1. CSR has a significant impact on ROA.
2. CSR has a significant impact on ROE.
3. CSR has a significant impact on Tobin’s Q.

The second main hypotheses: CSR has a significant impact on economic measures of financial performance.

According to the above hypotheses, the conceptual model of this research will be as follows:

Fig. 1: Conceptual model of research

This study is a practical research in terms of the purpose and nature and for doing this study that has been conducted on Tehran Stock Exchange (TSE), it has been tried to present a suitable explanation of what is the effect of CSR on CFP?

In this study, multivariate regression analysis to test the hypotheses have been used. In this study’s regression model, corporate financial performance Components which include ROA (y1), ROE (y2), Tobin’s Q (y3) and EVA (y4) have been used as dependent variables. Also, the independent variable of regression model i.e. corporate social performance, includes the dimensions of Society and local communities (x1), Environment (x2), Customers and suppliers (x3), Human Resources (work environment) (x4). Control variables include: Corporate size(x5) and corporate risk (x6). According to what has been noted above regarding research variables, research patterns include the pattern related to first hypothesis test to the pattern related to fourth hypothesis test are four multivariate regression patterns that is generally shown as follows:

\[ Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon \]

Define the variables:

1. ROA: Rate of return on assets indicates the profitability of the company is to what extent it is related to total assets [12].
2. ROE: Annual return on equity, which is the income of the holder of the shares awarded during the financial period.
3. Tobin’s Q: Tobin’s Q ratio is a statistic that can be represented as the value of the company is for
investors. And this answer to shareholders that what extent management has contributed to increase their wealth.

4. EVA: A positive EVA (economic value added) means the rate of return on capital is greater than the cost of capital. Finally, positive EVA i.e., create (increase) value for shareholders [15].

5. Corporate size: There are different criteria for measuring the variable "size of organization": The amount of total assets, total sales and employees. Since at Iranian companies, asset on the balance sheet are recorded historical prices, therefore we regard less of total assets criterion, in this study for measuring the size variable, the criterion "Number of employees" will be used.

6. Risk: In order to measure the risk variable "debt ratio" is used. This ratio is calculated by dividing the total debt to total assets and shows that the percentage of assets are financed from debt. As the debt ratio increases, financial risk (non-payment of debts and bankruptcy) will increase.

7. CSR: Institution BSR provides a definition from social responsibility: "to achieve commercial success through respect for ethical values, people, communities and the environment." [17].

In this research, we investigate companies listed in Tehran Stock Exchange and service companies. We study the companies listed in TSE because of, ease of access to the data of these companies, as well as, regulations of the TSE cause the more harmonious financial statements information. At the time of this study the financial statements for five years are available, therefore, the time period of the study restricted to 2005-2010.

The sample that used in this study consists of all 2005 to 2010 years- service firms that have data needed for calculating ROA, ROE, Tobin’s Q, and EVA. In this study, a statistical sample selection method is used remove systematic. To select the sample, companies that have the following characteristics were selection and the rest excluded from the sample:

1. In this study, service firms were considered and manufacturing companies excluded.

2. For a homogeneous sample selection, selected companies before 2005 are accepted in Tehran Stock Exchange and since 2005, its shares are traded on the stock exchange.

3. To select active companies, deals of these companies during the years 2005-2010 in stock be active, and the interrupt is not more than three months.

4. Financial Statements and the accompanying explanatory notes are available on TSE.

After applying the above features, finally, 44 companies were selected as sample.

For the aim of gathering the needed data related to financial performance of sample companies, we use the electronic archival data provided by TSE. In some cases that, the needed data is incomplete we use the manual archive existed in the TSE's library. We also, acquire a part of needed data from Tadbir pardaz and Sahra and also Rahavarde Novin soft wares (three Iranian Software).

For companies listed in Tehran Stock Exchange, in addition to data collected from financial statements, the other data are also needed to calculate stock returns. We collect the data for calculating stock returns from companies' stock transaction information and information about decisions of annual meeting of stockholders.

In order to collect primary information about social responsibility as an independent variable, the standard questionnaire and telephone interviews with senior managers, is used. In order to verify its validity, in addition to obtaining university professors in the fields of business management, research methods and statistics, as well as some of the senior managers of organizations were consulted, and its validity was confirmed by them. To determine reliability, in a trial stage the questionnaire was distributed among ten percent of respondents, and Cronbach’s Alpha Was 0.818. Then questionnaires were distributed among the total respondents and collecting data, Cronbach's alpha coefficients were calculated that is equal to 0.938.

Results:

Descriptive statistics for demographic information:

In this section, statistical analysis and background information on sample is as follows:

**Table 1: descriptive statistics background information**

<table>
<thead>
<tr>
<th>Cumulative Percent</th>
<th>Valid percent</th>
<th>Percent</th>
<th>Frequency</th>
<th>indicator variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.3</td>
<td>27.3</td>
<td>27.3</td>
<td>48</td>
<td>M</td>
</tr>
<tr>
<td>100</td>
<td>72.7</td>
<td>72.7</td>
<td>128</td>
<td>F</td>
</tr>
<tr>
<td>8.53</td>
<td>8.53</td>
<td>8.53</td>
<td>15</td>
<td>&lt;=5</td>
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<tr>
<td>24.44</td>
<td>15.91</td>
<td>15.91</td>
<td>28</td>
<td>6-10</td>
</tr>
<tr>
<td>69.32</td>
<td>44.88</td>
<td>44.88</td>
<td>79</td>
<td>11-20</td>
</tr>
<tr>
<td>100</td>
<td>30.68</td>
<td>30.68</td>
<td>54</td>
<td>&gt;20</td>
</tr>
<tr>
<td>45.32</td>
<td>45.32</td>
<td>45.32</td>
<td>79</td>
<td>Diploma</td>
</tr>
<tr>
<td>84.42</td>
<td>39.1</td>
<td>39.1</td>
<td>69</td>
<td>BA</td>
</tr>
<tr>
<td>100</td>
<td>15.9</td>
<td>15.9</td>
<td>28</td>
<td>=&gt;MA</td>
</tr>
</tbody>
</table>

**Gender**

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Years of Experience</td>
</tr>
<tr>
<td>Male</td>
<td>27.3</td>
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<tr>
<td>Female</td>
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<td>&lt;=5</td>
<td>15.91</td>
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<tr>
<td>6-10</td>
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<td>&gt;20</td>
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<td>Diploma</td>
<td>39.1</td>
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<tr>
<td>BA</td>
<td>15.9</td>
</tr>
<tr>
<td>=&gt;MA</td>
<td>28</td>
</tr>
</tbody>
</table>

**Education**
The results of first main hypothesis testing:

The first main assumption of this study is focuses to examine the impact of the CSR to accounting criteria of performance. As the table below shows, different dimensions of social performance (the work environment, the environment, the behavior of businesses and the local community and society) have significant relationship with the dependent variable (Sig <0.05). The regression coefficients indicate that work environment among all aspects of the independent variable has the greatest effect on dependent variable. Also the relationship between social performance and accounting measures of performance are positive and significant.

Table 2: The results of first main hypothesis multiple regression analysis

<table>
<thead>
<tr>
<th>Sig</th>
<th>T-statistics</th>
<th>Coefficient</th>
<th>Variable name</th>
<th>Symbol</th>
<th>Variable type</th>
</tr>
</thead>
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<tr>
<td>0/023</td>
<td>2/745</td>
<td>2/783</td>
<td>accounting criteria</td>
<td>Y</td>
<td>Dependent variable</td>
</tr>
<tr>
<td>0/011</td>
<td>2/385</td>
<td>0/381*</td>
<td>Society and local community</td>
<td>X1</td>
<td>Independent variables</td>
</tr>
<tr>
<td>0/029</td>
<td>1/259</td>
<td>0/379*</td>
<td>Environment</td>
<td>X2</td>
<td></td>
</tr>
<tr>
<td>0/025</td>
<td>2/159</td>
<td>0/291*</td>
<td>Business behavior</td>
<td>X3</td>
<td></td>
</tr>
<tr>
<td>0/022</td>
<td>2/698</td>
<td>0/557*</td>
<td>work environment</td>
<td>X4</td>
<td></td>
</tr>
<tr>
<td>0/014</td>
<td>0/413</td>
<td>0/171</td>
<td>Risk</td>
<td>X5</td>
<td></td>
</tr>
<tr>
<td>0/021</td>
<td>0/462</td>
<td>0/367</td>
<td>Company size</td>
<td>X6</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1/381</td>
<td>Durbin Watson</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0/029</td>
<td></td>
<td>4/543</td>
<td>F-statistic</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>0/763</td>
<td>The correlation coefficient</td>
<td>R Square</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>0/582</td>
<td>The coefficient of determination</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>0/585</td>
<td>Adjusted coefficient of determination</td>
<td>Adjusted R Square</td>
<td></td>
</tr>
</tbody>
</table>

The regression model of the first main hypothesis is as follows:

\[
Y = 2.783 + 0.381X_1 + 0.379X_2 + 0.291X_3 + 0.557X_4 + 0.171X_5 + 0.367X_6 + \varepsilon
\]

Accordingly, the regression models of subsidiary hypotheses are as follows:

Regression model of the first subsidiary hypothesis:

\[
Y_1 = 1.702 + 0.563X_1 + 0.435X_2 + 0.376X_3 + 0.511X_4 + 0.548X_5 + 0.499X_6 + \varepsilon
\]

Regression model of the second subsidiary hypothesis:

\[
Y_2 = 1.549 + 0.451X_1 + 0.579X_2 + 0.559X_3 + 0.692X_4 + 0.549X_5 + 0.611X_6 + \varepsilon
\]

Regression model of the third subsidiary hypothesis:

\[
Y_3 = 2.753 + 0.595X_1 + 0.349X_2 + 0.559X_3 + 0.289X_4 + 0.591X_5 + 0.483X_6 + \varepsilon
\]

Based on regression models, the social performance has a Positive and significant impact on ROA, ROE and Tobin’s Q.

The results of second main hypothesis testing:

The second main assumption of this study is focuses to examine the impact of the CSR to economic criteria of performance.

As the table below shows, different dimensions of social performance (the work environment, the environment, the behavior of businesses and the local community and society) have significant relationship with the dependent variable (Sig <0.05). The regression coefficients indicate that environment among all aspects of the independent variable has the greatest effect on dependent variable. Also the relationship between social performance and economic measures of performance are positive and significant.

The regression model of the second main hypothesis is as follows:

\[
Y_B = 2.478 + 0.435X_1 + 0.746X_2 + 0.678X_3 + 0.349X_4 + 0.603X_5 + 0.435X_6 + \varepsilon
\]

Discussion and conclusion:

According to the results, in general, the effect of social performance on financial performance of listed service companies in Tehran Stock Exchange for the period 2005-2010 is positive and significant (Of course, in the long term. Within a short period of two years, according to the survey findings, Social performance has a significant and negative impact on accounting measures of performance. of course, such a result was not unexpected considering that the social performance has a cost. Also consider that shareholders want to maximize the company's value and managers want to maximize profits, so attention
to the criteria of social responsibility lead to decreasing and losses of accounting measures of performance in the short term. However the impact of social performance on economic measures of performance was positive and significant in both short term and long-term.

In other words, with the increased attention to corporate social performance and increase their responsibility towards the society, gradually their financial performance has improved to the extent that all variables of financial performance during mentioned period began to increase.

So attention and practice to social responsibility is essential for any society, particularly Iran. In light of this, less social problems, pollution reduction, satisfied customers and suppliers and ultimately the company's own will benefit from this.

Table 3: the results of second main hypothesis multiple regression analysis

<table>
<thead>
<tr>
<th>Sig</th>
<th>F-statistics</th>
<th>Coefficient</th>
<th>Variable name</th>
<th>symbol</th>
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</thead>
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<td>2/478</td>
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<td>Dependent variable</td>
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<td>1.194</td>
<td>0/435*</td>
<td>Society and local community</td>
<td>X1</td>
<td>Independent variables</td>
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<td>0/746*</td>
<td>Environment</td>
<td>X2</td>
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<tr>
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<td>Business behavior</td>
<td>X3</td>
<td></td>
</tr>
<tr>
<td>0.030</td>
<td>2/678</td>
<td>0/603</td>
<td>Risk</td>
<td>X5</td>
<td></td>
</tr>
<tr>
<td>0.030</td>
<td>1/678</td>
<td>0/435</td>
<td>Company size</td>
<td>X6</td>
<td></td>
</tr>
</tbody>
</table>

Acknowledgments

The author would like to thank the staff and managers of service companies in Tehran Stock Exchange Because of showed sincere cooperation during this study.

References

