

Social Responsibility and Value of Firms Listed at Tehran's Stock Exchange

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Abstract

The current research is intended to study the relationship between social responsibility and value of firms listed at Tehran's stock exchange. 150 firms listed at Tehran's stock exchange were randomly selected and their book values and market values were recorded since 2006-2011. Their scores for social responsibility were collected by questionnaires and were analyzed by fitting regression models. The findings suggested that acceptance of social responsibilities is significantly positively and linearly correlated with firm's values. However two at of four responsibilities including legal, economic, moral and humanitarian ones were confirmed. It means the legal and economic responsibilities were confirmed. The results showed that the impact of social responsibilities on firm's values could be accepted. Social responsibility involves the relationships between firm and society. Specifically, it concerns the effects of firms' activities on the individuals and society. The concept has been widely used in social and political literatures. On the other hand, value of firms has always been studied as one of the criteria for firms' growth and development by many researchers.

Key Words: Book value, Economic responsibility, Humanitarian responsibility, Legal responsibility, Market value, Moral responsibility.

Introduction

The investigation carried out on strategic areas of the firms showed that the modern firms are under psychological pressures by their traditional stockholders in addition to other(social) stockholders in terms of responding to the manner the firms run and also for objective of supplying their required financial sources. these new pressures on the firms are related to the firm's social responsibilities while not related to its operational strategic decisions since the modern firms are evaluated based on traditional criteria of performance together with regarding other social criteria by their stockholders (Ibrahimi and Dizfooli, 2010). The management needs not only to accept the responsibilities for effectiveness of the operation s for its affiliated firms but it is also responsible for the actions carried out against numerous social problems. The economic units have to accept their social responsibilities as against the economic responsibilities (Baker 2003).

The traditional scales for performance which are projected in financial statements profit and loss bills and financial bills seem to be insufficient for evaluation of social effects the firms do. Thus regarding the firm's social responsibilities can serve a better evaluation of such effects. That's why the subject and concept. of social responsibility has been recently considered with respect to growth of non-governmental organizations protest movements against firm's powers, increased social awareness development of capital markets expansion of public shares and financial and moral scandals of large firms as dominating paradigms for running corporate affairs (Azimi and Khaktarik 2008).

On the other hand financial performance of the firms listed at Tehran's stock exchange is vital in terms of the competition in this industry. Indeed a firm with lower performance will be omitted from the competition arena. However financing the social responsibilities for the firms listed at stock exchange includes costs and this makes the firms hesitate when making decisions on active participation and presence in social responsibilities as if financing social responsibilities threaten firm's financial performance and values?

The current research is intended to study four aspects of firm's social responsibilities relationship between social responsibilities and traditional criteria of performance in relation to value creation in the firms. Therefore the uncertain and known side of the current research which we to answer is:

What kind of relationship does exist between firm's social responsibility and its aspects with value in those firms' listed at Tehran's stock exchange? We will discuss the research background findings and conclusions for the next parts of this research.

Background

Schmid et al(2011) studied corporate strategies and firm values and concluded that all of features of corporate strategies together with social behaviors of firms are significantly and positively correlated with firms' values.

Inoue and lee (2011) investigated the impacts of different aspects of social responsibility for the firms which were active in tourism and concluded that although stock-holder based management refers to multiple aspects of social responsibility for the firms and previous investigations showed its relationship with financial performance of the firms the current research studies the social responsibilities through five aspects including staffs' relationship, quality of service products environmental factors and factors related to variety which have been considered in terms of influencing on financial performance in industries in relation to tourism (Airplanes Casino Hotel Restaurants,). The results suggested that all of the five aspects influence positively on financial performances.

Mat Nor and Sulong (2010) studied the mechanisms of corporate strategies and market value and concluded that a significant and negative relationship exists between duality of the general manager's tasks as one of the mechanisms for corporate strategies and market values.

Lin et al (2009) investigated the impacts of social performance on the financial performances of Chinese firms. They found extended results on the relationship between social responsibility and financial performance. They investigated 1000 Taiwanese firms since 2002 to 2004 and found a positive relationship between social responsibility and financial performance.

Karami and Omrani (2010) investigated the effects oh firms' life cycle and conservatism on market value and concluded that the investors weigh more the net operational assets and abnormal operational profit of the conservative firms while the reverse condition holds when decline occurs.

Kazemi and Stanesti (2010) studied an investigation entitled “corporate social responsibility: a new approach to value creation for thinking capital “ and concluded that social responsibility commitment and focusing business on life quality of staffs, clients, local community and the entire society influence on economic development – Indeed, the scientific centers regard corporate social responsibility in terms of firms’ roles in national development and intervening a firm’s responsibilities and tasks with the government in order to shift from a government oriented economy to a competitive economy.

Shirbet Oghli et al (2010) investigated the social responsibility of the firms listed at Tehran’s stock exchange and concluded that the definitions provided by Iranian firms for social responsibility mostly regards legal aspects of Carol pyramid and they match together in terms of shared prioritization. Also the firms consider economic aspect moral aspect and legal aspect in terms of prioritization respectively.

Mohamdi et al (2009) investigated the separate and simultaneous role and effects of concentration and ownership on return and value and they found that no significant relationship exists between ownership concentration and firm’s values. On the other hand, the result from testing the effects of ownership kinds indicated that while a reverse relationship exists between firm’s values and ratio of governmental ownership a significant and direct relationship exists between ratio of individual ownership, corporate, ownership and private ownership with firms values.

Methodology

In terms of objective, the current research uses an applied research method while also applying a descriptive method for gathering data.

Statistical community and sample

The statistical community includes all the firms listed at Tehran’s stock exchange in 2010. They were matched with using screening method. The criteria used for matching the statistical community includes:

- 1- Fiscal year ends at 29th Esfand (march,20th)
- 2- Listed at Tehran’s stock exchange before 2010.
- 3- Categorized as the firms active in financial dealership (this criterion is used due to different financial ratios including asset returns and rights of shareholders and their unique nature).

Therefore, 150 firms have been sampled for investigation with respect to the above mentioned limitations.

Data Collection Tools

The data has been studied by documentation study and also with referring to financial bills of the audited firms.

A questionnaire was used to collect data for social performance of the firms. It involved 4 categories of questions for evaluation of four aspects of corporate social responsibility: these four aspects included: legal responsibility, economic responsibility, moral responsibility and humanitarian responsibility. 5 questions have been asked for each of these aspects. It should be mentioned that face validity of the questionnaire has been confirmed by the experts and instructors.

Also, Chombach alphas has been used to study the reliability. The result for research parameters included: 0.83, 0.78, 0.86, 0.74. Generally the from for the entire questionnaire was 0.81 which indicates a good reliability of the questionnaire.

Findings

Table 1 presents the descriptive findings of the variables for the firms investigated during the mentioned years.

Table 1-Descriptive findings of the variables

	No	Mean	SD	Minimum	Maximum
Firm value	150	11.856	0.691	10.17	13.99
Firm size	150	13.309	1.469	10.18	18.40
Financial leverage	150	0.688	0.285	0.002	2.66

The mean values of firm value have been estimated as equal to 11.856 with a SD of 0.691 for the firms investigated in this research. The indices were estimated for firm's size as equal to 13.3.9 and 1.469, respectively.

Also the mean leverage of financial leverage for the firms was obtained as equal to 0.698 with an SD of 0.258 and values of 0.482 and 0.335 were obtained for firm's growth rate, respectively. The mean scores for firms' economic responsibility was equal to 2.984 with an SD of 1.375. The mean and SD for the scores of firms' legal responsibility was equal to 2.981 and 1.357 respectively.

In addition, the mean scores for firms', moral responsibility has been estimated as equal to 2.933 with an SD of 1.380. However these indices have been estimated as equal to 2.970 and 1.403 for firms' humanitarian responsibility, respectively. Table 2 shows a sample of the results for inferential testing of the research hypotheses:

Table 2- Results of the effects of social responsibility on book value

Variables	R2adj.	Beta	F	P
Economic responsibility	0.81	0.034	1932.2	0.06
Legal responsibility	0.52	0.078	2019.1	0.02
Moral responsibility	0.65	0.063	2117.6	0.00
Humanitarian responsibility	0.61	0.099	2123.4	0.00

The results of table 2 indicate that firms' social responsibility aspects excluding economic responsibility aspects excluding economic responsibility which itself involves legal, moral and humanitarian responsibilities influence significantly on book value($p < 0.05$).

In order to study the effects of these aspects on firms' values of market shares two variable linear regression test was used which includes the following results in table3:

Table3: Results of the effects of social responsibility aspects on firms' market shares.

Variables	R2adj.	Beta	F	P
Economic responsibility	0.70	1.119	227.143	0.00
Legal responsibility	0.75	1.026	112.204	0.00
Moral responsibility	0.15	0.743	7.752	0.00
Humanitarian responsibility	0.12	0.658	6.078	0.00

The results of table 3 indicate that firms' social responsibility aspects including economic responsibility legal responsibility moral responsibility and humanitarian responsibility can significantly influence firms' market shares($p < 0/05$).

Table 4- results of the effects of social responsibility aspects on Tobin's Q

variable	R2adj.	Beta	F	P
Economic responsibility	0.50	-0.012	37.358	0.86
Legal responsibility	0.50	-0.076	37.844	0.32
Moral responsibility	0.56	-0.458	47.370	0.00
Humanitarian responsibility	0.56	-0.476	48.389	0.00

The results of table 4 indicate that legal and humanitarian responsibilities can significantly influence on Tobin's Q ($P < 0.05$).

Conclusion

The current environment created opportunities and threats for accounting and accountants. With increase importance of the environmental issues, social responsibilities, risk management and reporting, the profession of accounting needs to change. (Carnegie and Napier, 2010). The accountants play vital roles in such social responsibilities as reporting. Transparency, legal principles, adaptation to the law, communication with stock holders and using resources (Aly, 2005). According is a social responsibility for collection, measurement and reporting of the transactions with their mutual effects between the business units and the neighboring communities. Also, it enables firms to evaluate the potentials for doing social commitment through measuring and reporting the mutual effects of the business unit and their surroundings on each other (Jafari, 1993).

Accounting of social responsibility should include of the information to the stockholders, provision of feedback to the management with progress in environmental plans (Deegan and Rankin 1999). The relationship between economic performance of the business organization, social welfare organization underlies within the central core of social accounting (Rahahel and Shahriari, 2008).

It should be noted that the accounting information of social responsibilities is mostly comprised of non financial nature, although the information is not a part of the main report, it could be found in notes of descriptions on the annual reports (Nik Muhammad et al, 2011).

As Ramanathan (1976) believed, the major aim of accounting social responsibilities is to help determine whether the organization for social contracts manages to do its task well. Three main objectives of social responsibilities have organization been presented by Ramanathan (1976) and consequently most of the authors and researchers restated these objectives in different forms and languages:

1. Determination and measurement of social participation and profit of the business unit for a financial period through calculation of costs and social interests of business units.
2. Determination of the relationship between strategy and current operations of the business unit with priorities and social criteria.

These two objectives are considered as the ones which stress or determination and measurement of the mutual effects of business unit social transactions and society and evaluation of performance. And third objective considers the manner by which social reporting is done and its impact on users decisions.

3. Provision of information for the objectives, policies and social plans of business units in terms of reporting outside organization together with supplying information needs of the users Related, sufficient and appropriate information needs to be reported in order to enable forms on evaluation and being aware of social participation in business units (Jafari, 1993).

As mentioned above, it could be found that accounting of social responsibilities which indicate the importance and consideration given to these responsibilities by the firms is inseparable from the stability and sustaining value in the forms.

In an era when the economic corporations get larger and increase in numbers, the social system and structure will naturally be influenced more than before. In the other words, the economic corporations and forms function as a social subsystem inside a social system or structure. And they will project a wide perspective, and a kind of mutual dependence (Omidvar, 2008). Thus, the investigations carried out on performance evaluation and firms' status could be generally categorized into two classes: investigations carried out in terms of financial criteria and those investigations carried out in terms of social responsibilities for the firms. The important issue is that while these two classes of investigations considered certain, aspects of performance and financial conditions of the firms, they shared in one topic which hasn't yet been considered by the Iranian or international researchers.

Thus, it seems that doing an investigation in this area is necessary because firstly, the concepts of social accounting hasn't been recognized in Iran due to their innovativeness, also, its introduction can prepare the ground for starting more investigations in order to promote consideration on firms social responsibilities and even setting requirements for such disclosures.

Secondly, such investigations can make clear the importance of firms social responsibilities for internal pillars and external decision makers and it may create the view in the minds of the investors and analyzers to consider the criteria for firms social aspects in addition to criteria of financial performance. Making the importance of social responsibility aspects and considering more the investors can lead to better decisions for investment and a better allocation of resources.

The research has been intended to study the relationship between social responsibility and value of firms listed at Tehran's stock exchange. The results suggested that adoption of social responsibilities is significantly and positively correlated with firms values. However, among four kinds of responsibilities including legal, economic, moral and humanitarian responsibilities were confirmed. Generally speaking, the effects of social responsibilities on firms' values could be accepted. The results of this research match with previous researches.

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