VALUE RELEVANCE OF CORPORATE SOCIAL RESPONSIBILITY (COMPANIES LISTED IN TEHRAN STOCK EXCHANGE)

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Abstract: Both book value and market value of a profit organization belong to a single figure (for profit entity) so reasonably they must be close to each other. This failure may be due to conservative accounting methods and structural problems such as historical cost principle, matching principle, unit of measure assumption etc. In recent years with increasing societal expectations of organizations, legislative bodies, customers, social institutions and governments have paid special attention to the matter of corporate social responsibility (CSR). Accordingly, 68 companies listed on the stock exchange in 2014 were investigated. Data processing using cross sectional regression model for the 68 sample companies stipulated the absence of information content resulted from disclosure of social responsibility.

Keywords: information content, social responsibility, social performance, relevance

1 Introduction

With the creation of large corporations and their undeniable impact on human life as well as reduction of the state role in the economy, building mutual relationships and interactions between companies and communities will be of great challenges faced by global economy. In the meanwhile, companies have paid much more attention to the community to achieve greater reliability and strengthen their economic and trade relations. As society underlies economic and trade activities and all beneficiary groups and those who have a role in business are known as a member of society, corporate social performance is now more influential than it was in the past in company's evaluation and allocation of resources. If companies have poor social performance beneficiaries may restrict corporate access to resources which affects company's social legitimacy. To have a stronger social performance and be able to maintain its social legitimacy, company should allocate resources to social responsibilities (Etemadi and Chalaki, 2005).

If we can inform all stakeholders of how social responsibilities are implemented and their expected results, it can be predicted that all of them will benefit from the profit through a logical interaction and contribute to their success and other beneficiaries through the benefit synergy so it'll lead to enterprise positive performance in appropriate economic conditions of the society.

On the other hand, the main purpose of financial report is to help users especially investors to make economic decisions and company's value assessment is the main basis for this process. Company's market value reflects shareholders wealth and according to balanced scorecard approach, the value of shares is one of the measures of company's performance evaluation so to be able to forecast it is of special importance both for investors and managers.

With regard to economic aspects of information, financial and non financial reporting play a vital role in efficient capital market. Thus, compilers of accounting standards attempt to increase compliance of accounting system information with useful information required by investors. For them, the main objective of accounting is to meet capital market information needs. So assessment of usefulness of accounting information in stock evaluation or relevance of accounting information to the company's value which has attracted many interests in recent research has been proposed as the main model in accounting investigations.

Relevance means that accounting information should have the ability to make a difference in a decision. Usefulness in prediction and evaluation and timeliness are of elements of the relevance feature. Relevant information is the one that can be used in prediction models. These predictions are related to variables interested by investors and creditors such as cash received, future stock price and other variables. Each of these variables can predict a part of total return on invested capital (by investors and creditors). The total return includes dividends received and gains (losses) arising from changes in price. Every day, millions of securities are traded in the stock market. Pricing practices of traded securities is the result of the interplay of several variables each of which affect security prices in a different way and with varying intensity. So one of the most important issues to explore patterns and rules governing the market system is how the securities are priced. What factor or factors in the stock market determines the price of a share? Whether the price of a share is determined on the basis of a regular pattern or not?

Hence, if accounting information can be inserted in prediction models related to variables such as received cash, stock price, companies' market value and other variables associated with the return as input, then the hypothesis of accounting information relevance can be accepted.

According to the accounting information, company's value is specified based on its financial situation and activities. But whether disclosure of other important non financial information such as social responsibility has information content or not. Therefore this study examines information content of social responsibility.

2 Theoretical framework

Nowadays, operational scope of companies has a much wider range than in the past with the addition of issues such as environment, human rights, labor standards and anti-corruption principles. However, the relationship between financial performance and social performance is not clear. Basically, there are two factors to explain the positive relationship between financial returns and social performance. The first factor that increases profit stems from the overall increase in productivity and the second factor refers to increase in profitability by improving the company's image in the community, increasing social capital and company's stability. Although possible negative relationship between financial performance and social performance cannot be rejected. Because making positive financial returns for stakeholders in short run would be contrary to corporate social obligations and that implementation of social responsibilities entails some cost of the company (Foroughi and Mazaheri, 2009).

There are four theories in the financial literature on the necessity of social performance: the theory of political economy, legitimacy theory, stakeholders theory and theory of support from investors (bonding theory).

According to Gary and his colleague’s viewpoint, theory of political economy is defined as the economic, political and social framework of human's life and these dimensions are inseparable. In terms of classic political economy, as long as disclosure of social information is optional all information required for the society won't be issued thus company's legitimacy will be met. This theory considers the government as the one body that protects the powerless group’s interests which is responsible for maintaining the legitimacy of social system by mandatory disclosure. In other words, government could endorse social reporting by legal requirements (Foroughi, 2008). This theory is largely consistent with the concept of economic embeddedness posed by Karl Polanyi. An embedded economy is a system in which economic relations of the society are formed influenced by non economic institutions and the economic context is defined integrated with cultural, political and social grounds. On the contrary, there is the disembeddedness concept. A disembedded economy is a system in which economic relations are influenced by institutions that have been established with economic incentives. In fact, in such system the economy is detached from social contexts and has independent rules and laws. In this terms, social reporting of enterprise is an integral part of company's activities (Al-Hares et al. 2012).

On the other hand, the legitimacy theory claims as long as organization is legitimated by the community will be able to continue its activities. From this perspective, companies take authority of using public and human resources through a social contract with all people. Over this process, however, organization will affect the society and the environment. In case that major social and environmental events occur, it'll be necessary to change reporting procedures to include social values.

The stakeholders theory emphasizes on two ethical (normative) branch on how the beneficiaries must be treated and managerial (positive) branch which represents special beneficiary groups' management. Organization in this theory defines the relationship with the beneficiary group based on its importance. According to this theory, the main way of communicating with stakeholders is by disclosure of social information. Through this path, organization must raise its accountability level from focusing solely on the owners of capital to other stakeholders and society in general. Because as stakeholders and community affect and get affected by organization's operation, then meeting organization's interests depends on a good relationship with stakeholders and creation of a favorable social context for organization's activities (Foroughi, 2008).

Another concept used to justify social reporting is the theory of minority rights protection or bonding theory was proposed by Saghafi and Talaneh (2004) and developed later by Pourheydari and colleagues (2005). Saghafi, defines bonding as a mechanism to protect minority investors and suggests companies to voluntarily adopt a higher level of disclosure and attract minority investors by assuring them. He believes that minority stakeholders may be deterred from investing due to the risk of lack of ownership and tend to reduce their share capital in the company. Minority investors are supported and assured through the legal means or oversight of institutions such as support of underwriters, auditors, credit rating agencies, stock analysts and stock exchange organization. The main idea behind bonding mechanisms is increased protection for investors and thereby reduced representation costs. Pourheydari et al. (2005) stated that there should be a useful bonding and monitoring as costs of loss of ownership for large stakeholders lead them to the exclusion of other investors. They believe that control of company's activities in order to prevent other investors expropriation will result in lower costs of capital because minority shareholders do not want to lose their ownership in the company. Companies' good social performance is the most desirable way that can defend the right of minorities. More social reporting, disclosure and transparency and implementation of corporate governance are some of social functions of the company.

Such theories and about the necessity of fulfilling corporate social performance and discovering their practical results have attracted scientists' attention. There are different opinions about determining the limits of corporate social responsibility and how company should deal with them. Many people believe that the invisible hand of the market guides the firm on how to fulfill its obligations and other liabilities should not be considered for the firm. The main task of the enterprise is to deliver goods and services to the community and increase profits and wealth that will lead to the development of the society. Some advocates of the market economy like Milton Friedman disagree with social responsibility and state that it is in contrast with the mechanism of a free market economy. Friedman believes that reducing product prices to curb inflation, recruitment in order to fight unemployment and spending a lot of money to decease environmental pollution are a waste of money and capital of stakeholders which is a result of good-heartedness of some people. According to Friedman, the only social responsibility defined for a business company is to use resources in the society and engage in activities to increase profits in accordance with rules of the game (with no deception).

Others believe that enterprise survival depends on community so it should take responsibility to solve social problems and issues. Carol depicts four economic, legal, ethical and sacrifice responsibilities for firms and believes that disregarding social responsibilities leads to government intervention and reduced performance. In his view, performing social responsibility voluntarily is a way to obtain more profits.

Apart from the last two viewpoints, there are other perspectives such as Peter Drucker's. Drucker takes the moderation route and introduces responsibility fulfillment as the first and main responsibility of each institution and says that if a firm fails to perform its main task well, it won't be able to do any other thing. According to this view, social performance is deemed desirable as long as it helps to maximize shareholders' wealth.

What was discussed above was a summary of the most important ideas of Western thinkers on the issue of corporate social performance. According to the first approach, individual values are the basis of thoughts and achieving economic utility is rooted in performance and among all, America and Britain support and spread this idea. The second approach is seen in non-Anglo-Saxon countries such as China, Japan and Germany in which the economic utility is resulted from social interests and what is of great importance is collective effort and common values (Hand, 1999).

On the other hand, the relevance of a variable with stock value is the explanatory power and ability to predict that variable (accounting data) based on stock value.

The relationship between accounting figures and variables and stock price and the value of company can be addressed from two aspects:

A) The relevance with company's value
B) Greater explanatory power of company's value which is obtained by comparing two information resources:

Preliminary research on the prediction of company's value has been conducted using accounting variables of earnings and book value. Given that book value is the final result of accounting system, if accounting measurements are done in such a way that book value and market value are considered to be equal, financial analysts won't need accounting variables such as profit and cash flows. But company's book value is not equal to market value in accounting measurements and that's why stock price provides a good criterion to evaluate the usefulness of accounting numbers.

3 Literature

Dechow et al. (2004) examined the relationship between social responsibility and financial performance using data from a five-year period. The results indicated that there was a significant positive relationship between social responsibility and financial performance.

Dastgir and Khodadadi, (2007) investigated the effect of social responsibility on financial and nonfinancial performance. Data related to 150 senior managers of Indian companies was collected through questionnaires. The results show that ownership, company's size, and favorable perception of managers of social responsibility are related to improvement of financial and non financial performance.

Anandarajan et al (2006) examined the relationship between social responsibility, financial and market performance.

According to the results, social responsibility increases company's financial performance but has no significant impact on market performance.

Chen Charles et al (2000) studied the relationship between information asymmetry and corporate social responsibility. The results revealed there is a significant negative relationship between companies' social responsibility and information asymmetry. In fact, findings here indicate that companies with higher level of social responsibility have less information asymmetry.

Midelton (2015) reviewed information content of social responsibility. The results indicated that social performance of Russian companies has information content.

Haziwan (2013) studied the relationship between managerial ownership and various aspects of CSR in the hospital industry. The results revealed a negative relationship with staff dimension and a weak negative relationship with aspects of society, environment and customers.

Arabsalehi et al (2013) examined the relationship between social responsibility and financial performance of companies listed in Tehran stock exchange. The results showed that financial performance is associated with corporate social responsibility towards customers and institutions in the society. However, there was no significant relationship between financial performance and corporate social responsibility towards employees and environment. This research will help managers develop effective policies on corporate social responsibility which are required to achieve better financial performance in the long run. It also provides companies with an insight on the role of social responsibility in earning benefits in the future.

Hassas Yegane and Barzegar (2013) reviewed the status of corporate social responsibility and the history of its concepts and definitions. In this study, the status of corporate social responsibility in Iranian business environment was considered and the importance of developing standards, regulations and legislative bodies measures to oblige companies to pay special attention to social responsibility in terms of accountability and transparency according to the attitudes of stakeholders.

4 Research hypotheses

This study aims to analyze the relationship between social responsibility and company's market value. In order to achieve this objective and considering the literature and theoretical framework discussed above, research hypothesis is considered as follows:
Three main aspects including, disclosure of corporate social responsibility of environmental aspect, corporate social responsibility of economy aspect, and corporate social responsibility of societal aspect significantly impact on the stock price crash risk of companies listed in Tehran Stock Exchange.

5 Methodology

This study is a quasi-experimental, causal-comparative and descriptive-correlation research based on cross-sectional data which is carried out using multiple regression and econometric models. To collect the literature and theoretical framework, library method is used. Data required was collected through questionnaires and the database of Tadbirpardaz Company. To analyze the data, spss and Eviews software was used. The population consisted of all companies that meet the following provisions:

1. Listed on Tehran Stock Exchange before 2014.
2. The end of their fiscal year is March 29.
3. Not belonging to the financial companies (such as banks, insurance institutions) and investment firms.
4. Companies that have not changed their fiscal year during the period studied and their financial information is available.
5. Companies that have not had any financial losses over the period studied.

Considering the limitations mentioned above, populations was comprised of 136 companies. The entire population was selected to be studied. In the next step, social responsibility questionnaire was sent to the entire population member. In the end, 68 companies completed the questionnaire. The objective of this study was examine the information content of the disclosure of corporate social responsibility in Tehran Stock Exchange so the following regression models are used to test the hypotheses:

1) $MV_{it} = \alpha_0 + \alpha_1 BV_{it} + \alpha_2 E_{it} + \varepsilon_{it}$
2) $MV_{it} = \alpha_0 + \alpha_1 BV_{it} + \alpha_2 E_{it} + \alpha_3 CSR_{it} + \varepsilon_{it}$

Table 1: Variables introduction

Variables symbols	Descriptions
$\mathbf{MV}_{it}$	The market value of equity to total assets
$\mathbf{BV}_{it}$	The book value of equity to total assets
$\mathbf{E}_{it}$	Net income before unusual and extraordinary items of company i during year t to total assets
CSR	Corporate social responsibility

By comparing the explanatory power of models 1 and 2, the hypothesis is tested indicating whether added responsibility disclosure to the net income and book value for company value will provide more relevant information or not. (table1)

6 Data analysis

One of the most commonly used methods of measuring the reliability of a questionnaire is Cronbach's alpha coefficient. In this study, Cronbach's alpha obtained was 82%. However, to determine the reliability, alpha rates of both parts of the questionnaire should be taken into consideration. Our questionnaire is divided into two parts of social responsibility within and outside the organization whose alpha coefficients were respectively 72% and 74% therefore questionnaire has optimum reliability.

Descriptive statistics of the study population in terms of social responsibility are as follows:

Table 2: Descriptive statistics of social responsibility (68 observations)

Title	Number of questions	Score	Mean of each class	Total rating mean
Social responsibility (customers)	476	345	0.72	0.16
Social responsibility (employees)	544	374	0.68	0.17

Social responsibility (environment)	272	182	0.66	0.08
Social responsibility (society)	816	341	0.41	00.16
Total	2108	1242		0.58

As shown in table 2, the average scores obtained from the total points is equal to 58% whose highest and lowest amounts were respectively related to the employees and environment.

Descriptive statistics of other variables are as follows in table 3:

Table 3: Descriptive statistics of variables

Variables	Number of observations	Minimum	Maximum	Median	Mean	Standard deviation
Market value	68	0.032093	16.24201	1.099431	1.407344	1.981731
Book value	68	0.031452	0.921022	0.248178	0.381234	0.295584
Earn	68	-4.294033	0.547820	0.106953	0.042420	0.623587

First, Im, Pesaran and Shin test was used to examine the stationarity of variables. Non stationary variables result in a spurious regression. In order to identify durability of data in the present study, the Hadri test was used. (table 4)

Table 4: Results of Hadri test

Variables	Probability	Statistics	Stationary status
MV	0/0000	-7.7489	Stationary
BV	0/0000	-5.4195	Stationary
EARN	0/0000	-8.2887	Stationary
CSR	0/0000	-8.9094	Stationary

If a model with cross-sectional data is used, variance heteroscedasticity is investigated as well. To assess the heteroscedasticity, ARCH test is used. The value obtained from ARCH test show that heteroscedasticity is present on both models. (tables5, 6)

Table 5: Results of the heteroscedasticity for the first model

Description	Statistics	Cross multiplication
Statistics	0.026752	0.027563
Probability	0.8706	0.8681

Table 6: Results of the heteroscedasticity for the second model

Description	Statistics	Cross multiplication
Statistics	0.026552	0.027563
Probability	0.8711	0.8686

The final estimation of models studies are as follows in table 7:

Table 7: Results of the first model

Dependent variable: market value of equity			
Explanatory variable	Cross-sectional data test		
	Coefficient	Statistics t	Probability
Book value	21626/2	15687/6	000/0
Earn	94901/0	377657/1	1691/0
F statistics	87/31	Durbin-Watson test	92/1
Probability	000/0	Adjusted coefficient of determination	39/0

Table 8: Results of the second model

Dependent variable: market value of equity			
Explanatory variable	Cross-sectional data test		
	Coefficient	Statistics t	Probability
Social probability	0.500976	0.981851	0.3266
Book value	0.020549	2.164187	0.0309
Earn	-0.119599	-0.422013	0.6732
F statistics	4.321	Durbin-Watson test	1/92
Probability	0.0000	Adjusted coefficient of determination	0/36

According to table 8, significance of total regression based on F statistics at a confidence level of 99% is confirmed. According to table 4, the amount of t-statistics is equal to 0.98 and the possibility social responsibility is almost 0.32. On the other hand, adjusted coefficient of determination for the second model 0.36 (0.39 in the first model) so it is increased by adding social responsibility.

7 Conclusion

One of the main purposes of financial reporting is to provide useful information for decision making. Users of accounting information assess company's profitability and anticipate its future cash flows based on data reported in the financial statements. Then they make a logical connection between profitability and future cash flows to evaluate company's value and make decisions based on these anticipations.

The relevance of a variable with a share value is explanatory and predictive power of the variable (accounting information) on stock value. The relationship between accounting figures and variables and stock prices and the value of company can be addressed from two aspects including A) the relevance with company's value; and B) greater explanatory power of company's value which is obtained by comparing two information resources.

Although the purpose of organizations is to increase efficiency profitability, but now in the information age and competition breakthrough we should respond social expectations properly. In recent years, legislators, customers, social institutions and governments are paying special attention to the issue of social responsibility. Neglecting environmental and social issues and so on can create problems for organizations and jeopardize its measures and mission and thus affect its success.

This study was conducted to evaluate the information content of social responsibility disclosure. The results suggested that social responsibility does not have information content in Iran's stock market. This result corresponds with Midelton's (2015) findings. The reason is that disclosure of social responsibility in Iran is not estimated in an appropriate way and is not available for users.

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