

Examining the Relationship Between Social Responsibility and Financial Performance Regarding the Mitigating Variable of Organizational Risk in the Companies Admitted in Tehran Stock Market

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Abstract: The present study aims to investigate the relationship between social responsibility and its dimensions including working environment conditions, environment, society, society and local community, working etiquette, size and risk with financial performance of the companies admitted in Tehran stock market. With respect to method, the study is descriptive-oriented and in terms of purpose it is function-oriented. Companies admitted in Tehran stock market make up the population of the study. The sample includes 91 companies accepted in Tehran stock market in 2014. To collect the data on social responsibility variable and its dimensions researcher-generated questionnaire was used and to measure the financial performance variable financial statements (return on assets) of the companies were used. Two mitigating variables in this study are size and organizational risk. Pearson coefficient and multiple linear regressions were used to analyze the data.

Key words: Financial performance, organizational risk, environment, social responsibility, size of the company

INTRODUCTION

In 1850s companies just played a financial role and were constricted to bring maximum benefit to the shareholders. In this regard, this relationship was in line with the classical view that all companies just considered the benefits of top managers and shareholders. Nowadays the idea of social responsibility on the company part is a response to the widespread challenge which not only involves in financial issues but also in social, humane and environmental interactions. Any company intending to ensure the sustainable development of the performance shouldn't neglect the advantages of following the social trend (Senobar *et al.*, 2010). Thus, companies apart from being financial institutions are basically social organizations. Therefore, they should care about the repercussions of their social contributions and activities and strike a balance between the conflicting responsibilities they have in various projects and have reputation for possessing social responsibility. Ahmad business company inclination toward and insistence on commitment to social responsibility in all dimensions has a tremendous impact on financial performance. In fact, tendency toward social responsibility persuades these companies to attempt to improve environment, use less energy and materials, manage waste and so on and so forth (Sandehu *et al.*, 2010). As a result, business units voluntarily can maximize their long-term returns through

lowering the negative impacts on society and eventually result in economic growth, increase in competition potentiality and improving financial performance. Regarding the importance of the issues mentioned earlier, the main hypothesis in this study is whether there is a relationship between social responsibility and its dimensions with financial performance with regard to mitigating variables of risk and the size of the institution in companies admitted in Tehran stock market?

Review of literature: These days Company Social Responsibility (CSR) has a broader meaning compared to past activities. Social responsibilities generally are the activities in which investors and financial companies are voluntarily involved effectively contributing members of the society.

Griffin and Barney define social responsibility as: "social responsibility is a series of duties and responsibilities that a company should stick to in order to preserve, protect and help the society in which it works". French and Savard (1998) about social responsibilities in the book: "management etiquette" state that: social responsibilities are the obligations that private companies should meet that is they shouldn't leave detrimental effects on the society they live in. And generally these obligations include:

Not polluting, no discrimination in employing, not being involved in immoral affairs, informing the

consumers about the quality of the products and on top of that responsibilities inclined to positive interaction in people's life. In texts of strategic management, social responsibilities are regarded as general ideas and morality is in particular considered as an indispensable issue of writing and implementing these strategies. Social responsibilities experts fall into two groups of proponents and opponents.

Some champions of market economy like Milton Friedman are opposed to social responsibilities and see it against the mechanism of free economy. He regards lowering the price of the product to reduce the inflation, employing to fight unemployment and spending money on reduction in environmental pollution as waste of money and shareholders' assets. He believes that social responsibilities are basically a destructive doctrine. Friedman believes that business companies only responsibility is to exploit resources of society and contribute to activities which result in increase in profit according to the rules of the game (without deceit and hypocrisy).

In contrast, Carl who is an advocate of social responsibility believes that top managers of business institutions have economic, legal, moral and sacrificing obligations. Carl mentions these four obligations in order of priority and is of the opinion today's moral and sacrificing obligations turn into legal and moral obligations, respectively in the future. Both Friedman and Carl claim that either of them based their theory on the effects of social responsibilities on the corporate profit. Friedman states that social responsibility-oriented measure is not beneficial to the efficiency of the company.

Carl holds the idea that disregarding the social responsibilities brings about more intervention by the government and results in reduction in efficiency of the corporate. If the corporate voluntarily meets some of the moral and social obligations it can gain the expected profit (Hunger and Wheelen, 2005). According to the criteria of Vago institution of social responsibilities five dimensions of the social responsibilities are as:

- Dimension of working condition
- Strategic dimension of the corporate
- Social and local dimension
- Environmental dimension
- Dimension of business etiquette (Van de Valde *et al.*, 2005)

Financial performance: Tsoutsoura (2004) utilized the criterion of "return of assets" to measure the financial performance of a company. This criterion measures the net profit versus assets used. To measure this criterion, the criterion of the "proportion of net profit to total assets" is used (Tehrani, 2005).

Size and risk of the institution: There are different criteria to measure the variable of size of an institution which include total assets, sale and the total number of the employees. Since, balance sheets in Iranian companies include prices according to the date in this research the author discard the total assets and to measure the size of the institution using total number of the employees. In order to measure the variable of the risk of the organizations debt ratio was used. This ratio is the result of total debt divided by total assets and demonstrates that what percentage of assets is financed via debt. The ratio of debt increases with the rise of financial risk (not paying the debt, therefore bankruptcy) increases (Tehrani, 2005).

Review of literature: Arabsalehi conducted a study named social responsibilities relationship with financial performance of the companies admitted in Tehran stock market. The findings of the study showed that there is a relationship between the financial performance and the social responsibilities of the company toward customers and present organizations in society. However, financial performance does not have a significant relationship with the social responsibility of the company toward the employees and environment.

Senobar *et al.* (2010) carried out a study examining the relationship between social responsibilities and financial performance of institutions. The findings of the research showed that there is no relationship between the social responsibilities and any of the five-folded dimensions with financial performance. On the other hand, there is a positive and significant relationship between the size and financial performance of an institution.

Van de Valde *et al.* (2005) carried out a study to investigate the relationship between social responsibility and financial performance. The results of the study showed that there is a positive relationship between social responsibilities and financial performance. To measure social responsibility in this study the company applied the information of the Vago institution of social responsibility and to measure financial performance used Fama model and French one.

Theoretical framework: According to chart 1 two main variables of this study are social responsibility and financial performance. In fact this research is looking into the relationship between these two variables. Social responsibility has five dimensions: working conditions, environment, business etiquette, society and local community. The size and risk of the company are regarded as two mitigating variables in this study (Fig. 1).

Research purposes

Main objectives of the research: To examine the relationship between social responsibility and financial performance of the companies admitted in Tehran stock market.

Secondary purposes: Examining the relationship between dimensions of social responsibility (working conditions, environment, strategy of the corporation, society and local community and business etiquette) and financial performance of the companies admitted in Tehran stock market.

Examining the relationship between the size and the financial performance of the companies admitted in Tehran stock market.

Research hypothesis

Main research hypothesis: There is positive relationship between social responsibility and financial performance of the corporations admitted in Tehran stock market.

Secondary hypothesis of the study: There is a positive relationship between dimensions of social responsibility, working conditions, environment, strategy of the corporation, society and local community and business etiquette and financial performance of the companies admitted in Tehran stock market. There is a positive relationship between the size and the financial performance of the companies admitted in Tehran stock market.

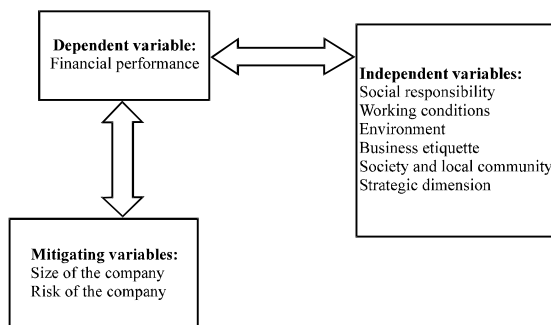


Fig. 1: The conceptual model (Senobar *et al.*, 2010)

MATERIALS AND METHODS

The present study is functional in terms of purpose and with respect to data collection is descriptive and co-relational.

Regarding the nature of the present study and the subject of examination and the purposes of the research, the population of the study includes the companies admitted in Tehran stock market in 2014. And of this population companies possessing the following qualifications have been chosen as sample:

- They should have been admitted in Tehran stock market by March
- Their fiscal year should be toward middle of March and during the investigation should not witness any changes
- The companies should be constantly active over the period of examining and its shares should be traded constantly
- It should not belong to an investment company
- Required information on definition of variables should be available
- Information required for conducting the research in 2014 should be presented comprehensively
- Regarding the analysis conducted, 91 companies admitted in Tehran stock market qualified for the conditions mentioned above were used as sample (Table 1)

Data collection instrument: To collect the required data for the study questionnaire and document were used by the researcher and also to collect the data for the financial performance return of assets were applied. This criterion was calculated using net profit divided by total assets. The required information was gathered via financial document of the companies. Two mitigating variables are risk and size of the companies. Risk of company was measured by ratio of debt to total assets and size of the company was calculated with the help of calculating the total number of employees. The questionnaire used in this study was devised by the researcher on social

Table 1: Categories of industry and frequency of the sample

Rows	Industry	Sub-category of industry	Frequency
1	Food	Sugar, food and medication products	13
2	Lastic and plastic	Tire production and reconstruction of steel tire	6
3	Machinery and equipment	Machineries and equipment, electrical appliances and automobile and manufacturing	22
4	Metal and metal productions	Major metals and manufacturing metal products	18
5	Cement ceramics	Cement, lime, stucco, tiles and ceramics	10
6	Non-metallic minerals	Other non-metal minerals	5
7	Pharmaceutical materials and products	Pharmaceutical materials and products	7
8	Chemical products	Chemical products	10
	Total		91

responsibility and contains five dimensions (working conditions, environment, strategy of the corporation, society and local community and business etiquette) which were examined.

To determine the reliability of the questionnaire, content reliability was considered according to the experts' idea. Then the questionnaire was given in to the professors and experts. After consulting them and receiving their recommendations the revisions were done. To measure the consistency of the questionnaire Cronbachs' alpha test was used. The result of Cronbachs' alpha test was 0.87%. Since, it is over 0.7% one can conclude that the questionnaire has a good consistency.

Data analysis method: To analyze the data, first the descriptive statistics of the social responsibility and its dimensions should be examined. And in inferential statistics first via Kolmogorov-Smirnov test (K-S) the normality of the distribution of data was determined. Since, the data distribution was normal to measure the variables pearson coefficient correlation and multiple linear regression tests were used.

Descriptive statistic: According to Table 2-5, the mean of social responsibility is 76/153, median and mode are 71.75 and 6.327, respectively. Mean of environment is 14.6154 and median 14 and mode is 14 as well and standard deviation is 1.554. Mean of business etiquette is 10.9560, median, mode and standard deviation are 11.9 and 1.7056, respectively. Mean of working condition 18.3956, median, mode and standard deviation are 16, 19, 2.526, respectively. Finally, the mean of society and local community is 16.0220. Median, mode and standard deviation are 15, 18 and 1.977, respectively.

Inferential statistic

5 test of normality: Kolmogorov-Smirnov test (K-S) was used to show the normality or non-normality of the distribution of variables. The criterion is considered bigger than 0.05, so the distribution is normal and parametric tests can be used to analyze the data otherwise the non-parametric tests will be used.

Table 3: Kolmogorov-Smirnov test

Variables	Working conditions	Business etiquette	Environment	Corporate strategies	Society and local community	Financial performance
Number	91	91	91	91	91	91
SD	2/230	1/705	1/554	2/526	1/977	1/606
Mean	18/39	10/956	14/615	16/164	16/52	16/90
K-S	1/650	1/974	1/254	1/47	1/57	1/32
Level of significances	0/320	0/673	0/809	0/542	0/440	0/785

RESULTS AND DISCUSSION

The results of test shows that since the criterion was determined bigger than 0.05% the variables in the study are normally distributed. As a result, parametric tests can be used to analyze the data.

Inferential analysis of the main hypothesis: There is a relationship between social responsibility and financial performance of companies admitted in stock market.

Null hypothesis: There is no relationship between social responsibility and financial performance of companies admitted in stock market.

Hypothesis 1: There is a relationship between social responsibility and financial performance of companies admitted in stock market.

Results of the main hypothesis show that H_0 is rejected because level of significance is lower than 0.05. That is regarding the data of the study one can state that there is a relationship between social responsibility and financial performance (Table 2-5).

Inferential analysis of the secondary hypothesis 1: There is a positive relationship between dimensions of social responsibility and (working conditions, environment, strategy of the corporation, society and local community, and business etiquette) and financial performance of the companies admitted in Tehran stock market.

H_0 hypotheses: There is not a positive relationship between dimensions of social responsibility and (working conditions, environment, strategy of the companies, society and local community and business etiquette) and financial performance of the companies admitted in Tehran stock market.

Table 2: Descriptive statistic of the social responsibility and its dimensions

Variables	Mean	Median	Mode	SD
Social responsibility	76/153	75	71	6/327
Environment	14/6154	14	14	1/554
Business etiquette	10/9560	11	9	1/7056
Working conditions	18/3956	18	18	2/220
Corporation strategies	16/164	16	19	2/256
Society and local community	16/0220	15	18	1/977

H₁ hypothesis: There is a positive relationship between dimensions of social responsibility and (working conditions, environment, strategy of the companies, society and local community and business etiquette) and financial performance of the companies admitted in Tehran stock market.

Results of the secondary hypothesis 1 of the study show that hypothesis H₀ is rejected since level of significance is below 0.05. Regarding the data in the study one can suggest that there is a relationship between dimensions of social responsibility and (working conditions, environment, strategy of the companies, society and local community, and business etiquette) and financial performance of the companies admitted in Tehran stock market.

Inferential analysis of the secondary hypothesis 2: There is a positive relationship between size and risk with financial performance of the companies admitted in Tehran stock market.

H₀: There is no relationship between size and risk with financial performance of the companies admitted in Tehran stock market.

H₁: There is a relationship between size and risk with financial performance of the companies admitted in Tehran stock market.

Data of the Table 6 shows that multiple regression[®] is 0.86 which demonstrates that size and risk of companies can justify or predict financial performance simultaneously. Since, level of significance is lower than 0.05 there is a relationship and a correlation with financial performance. Therefore, H₀ is rejected and H₁ is confirmed

Table 4: Pearson coefficient correlation between social responsibility and financial performance

Variables	No.	Coefficient correlation	Level of significance
Financial performance; social responsibility	91	0/621	0/000

Table 5: Multiple linear regression dimensions of social responsibility between size and financial performance of companies

Variables	No.	Coefficient correlation	Level of significance
Financial performance	91	0/326	0/000
Working conditions environment	91	0/643	0/000
Strategy of the corporation	91	0/407	0/000
society and local community	91	0/455	0/000
Business etiquette	91	0/344	000/0

Table 6: Multiple linear regression tests between size, risk and financial performance of companies

Independent variables	Depended variables	Beta (β)	Watson camera	Statistics	R ² coefficient	Multiplr correlation R	No.	Level of significance	Result
Size and risk	Financial performance	0/429 0/532	1/919	0/334 0/115	0/73	0/86	91	000/0	Confirmed

indicating that there is a relationship between size and risk of companies with financial performance. R² is 0.73. That is 0.73% of changes in financial performance is the due to size and risk of companies. Remaining 27% is due to other factors. Ratio of F according to level of significance test of mitigating coefficient is 115.334 which is at high level of statistical significance (Table 6).

Analysis of the data related to resting main hypothesis:

Regarding the pearson coefficient correlation test it has been seen that since the coefficient correlation is lower than 0.05 H₀ is rejected. On the other hand, since the coefficient correlation is positive there is a positive and direct relationship between social responsibility and financial performance.

Analysis of the findings of secondary hypothesis 1:

Regarding pearson coefficient correlation test which showed that the coefficient correlation wasis lower than 0.05 then H₀ is rejected. Since, the coefficient correlation is positive there is a direct and significant relationship between dimensions of social responsibility (working conditions, environment, strategy of the compan, society and local community and business etiquette) and financial performance.

Analysis of the findings of secondary hypothesis 2:

Multiple linear regression showed that multiple coefficient correlation (R) is 0.86 indicating that size and risk of company are 0.86% correlated to financial performance simultaneously. R² coefficient is 0.90 that is 0.90% of changes in financial performance is due to size and risk of corporations and remaining 10% is due to other factors.

Further suggestions according to findings of research Suggestions according to the main hypothesis of the research:

Gaining the maximum profit should not be the only purpose of the businessperson and companies should take social purposes into consideration besides financial ones.

Suggestions according to the secondary hypothesis 1 in the research:

Contribution of the more managersof different units in team work and benefiting the potentials and talents of employees to advance the purposes of the company.

Managers of companies should use the ranking of the environmental performance as an index of environmental performance.

More organizations and institutions should pay attention to audit reports in use them in their decision making regarding to granting any kind of services and facilities to the companies and financial companies and passing the guidelines of principles of the companies and making it obligatory.

Understanding and acceptance of dependence and close relationship of the companies with society and consolidating the suitable reaction of the companies to social and expectations and moral obligations.

Examining and closer attention of the companies to taking comments, objections, complaints and suggestions made by the customers and suppliers of the raw materials into consideration.

Suggestions according to secondary hypothesis 2:

Organizations should increase the size of their organizations by raising the number of employees and not through the increase in capital. The argument which can be proposed for this suggestion is that increase in workforce only leads to increase in changing cost of the product while using more capital results in increase in fixed costs and eventually lead to increase in final cost of the product and decrease in profit.

Further suggestions: Examining the relationship between social responsibility and financial performance in other institutions and comparing their findings with the results of the present study. Longer term study in other industries in Tehran stock market can be conducted.

Examining the relationship between social responsibility and financial flexibility. In future studies one can examine the financial motivations of the corporate managements about obtaining ISO 26000

certification and publicizing environmental information in framework of proved accounting research hypotheses as well.

CONCLUSION

The findings of the study showed that there is a positive relationship between the social responsibility and any of the five-folded dimensions with financial performance and there is a significant relationship between the size and organizational risk with financial performance as well.

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