

Social responsibility, financial performance and institutional ownership reporting

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ABSTRACT

Social responsibility is a source of disagreement between different stakeholders to reduce the company's resources from unnecessary costs and create a competitive disadvantage with companies that are less socially responsible. The purpose of this paper is to examine the relationship between social responsibility reporting, financial performance and institutional ownership. The statistical population consists of all companies accepted in Tehran Stock Exchange which 40 companies were selected as the statistical sample of the research during the 2013 -2014. To test the hypotheses, regression analysis and for data analysis Eviews software has been used. The findings of the paper showed that there is no relationship between social responsibility and financial performance. The findings also showed that social responsibility of the organization and institutional ownership in investment firms has a significant effect through indirect effect, the return on assets.

Keywords: Social responsibility, Financial performance, Institutional ownership.

Introduction

In the last two decades, capital markets have witnessed the emergence of new stakeholders among corporate owners, which have been given the name of institutional investors in the literature on corporate supervision. The presence of this group in the domain of ownership, due to the amount of stock that is focused on them, attracted the attention of researchers in two different domains. The first area is based on the role that the presence of institutional investors can play in limiting the problems arising from representing and maximizing the interests of stakeholders (economic performance). Another area pursues this role with regard to corporate social function and the form of corporate interests. Most financial institutions and

investment companies collect their funds by selling their share and then buy a set of securities and other financial assets from their acquired resources. In fact, these institutions represent small and average investors in the market, which typically is a kind of specialized people representation for non-specialists. In this sense, the presence of institutional investors in financial markets plays two important roles: first, it minimizes the risk by diversifying acquired financial assets and creating the right mix of them, minimizes the risk. Small investors do not have the potential and play with much more risk in the market, and the institutions have far more ability to control executives due to the expertise needed to critique and evaluate the performance of corporate executives. Institutions create values by playing such roles.

Investment firms are risk averse and accreditation involves social and environmental responsibility that reduces stock fluctuations, companies that invest in social programs can attract more investment firms ^[1].

Since there is a high probability that investing in social responsibility programs will incur significant short-term costs and the market is often responsive to long-term social responsibility programs, there is less chance that investment firms prefer companies that are socially responsible ^[2]. However, while many investors are critical to social

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responsibility, financial performance is still a major concern^[3]. Therefore, the present study aims to investigate the effect of financial performance on the relationship between social responsibility of companies and investment institutions and tries to answer this question “whether it would be expected that the relationship between social responsibility and institutional ownership is affected by financial performance?”

Research hypothesis:

There is a meaningful relationship between social responsibility and institutional ownership under the influence of financial performance.

Background:

Ahmadpour and Farmanbordar (2015) investigated the relationship between disclosure of corporate social responsibility information and competition in the product market using the information of 54 companies listed in Tehran Stock Exchange between 2011 and 2012. The results of their research indicate that there is no significant relationship between disclosure of corporate social responsibility and product market competition.

Arab Salehi et al. (2013) examined the relationship between social responsibility and financial performance in companies admitted to the Tehran Stock Exchange^[4]. The results of their research showed that financial performance does not have a significant relationship with corporate social responsibility than employees and the environment, but financial performance has a significant relationship with the corporate social responsibility of customers and institutions in society.

Wahaba and al-Sayd (2015) concluded in a research entitled "Effective of moderating role of financial performance on the relationship between social responsibility and capital structure" that better (or worse) financial performance and corporate social responsibility are a way to direct institutional stakeholders that make decisions for their investments^[5].

Scott et al. (2010) examined the relationship between corporate social responsibility and financial performance, and the research results of these researchers indicated a positive and significant relationship between financial performance and corporate social performance.

Theoretical Foundations

Social responsibility

Corporate social responsibility provides the methods that organizations act in their business environment and meet the expectations of society and their business, legal, ethical and social expectations. Because organizations have great responsibilities in social, economic and environmental terms in line with employees, shareholders, customers, government, suppliers and all stakeholders. Based on the representation and stakeholder theory, some studies have argued that the use of valuable institutional resources can have significant managerial benefits in using corporate social responsibility (Freeman, 1984).

Corporate Social Responsibility is a management approach that defines the company's ethical and transparent relationship with all stakeholders, as well as those who are involved in determining the company's goals, and is coordinated with sustainable development of society, environmental protection and natural resources for future generations, accepting change and promoting a reduction of social issues.

The social responsibility of organizations encompasses the economics, law, ethics and humanitarian expectations of business units that are generalized to all stakeholders. Here, the stakeholders are defined as any individual or group that can affect activities, decisions, policies, procedures or goals. Another group of social responsibility writers define the Corporate Social Responsibility as follows: Corporate Social Responsibility means that companies are responsible for constructive groups in a community other than shareholders, beyond what is described in the law and the union agreement. Also, some researchers define corporate social responsibility as a continuous commitment of the business unit that behaves ethically and works for economic progress, so that improve the quality of life of the workforce and their families as well as local and community institutions to a large extent. But in general, it can be said that all definitions are based on the principle that social responsibility represents the tasks of organizations towards all their beneficiaries.

Social responsibility is a subset of the company's responsibilities that are related to volunteer activities in society.

Institutional ownership

Institutional ownership, in accordance with risk aversion theory, is logical investors by considering the risks of associated returns are looking for efficient investment. Therefore, it may be possible to consider corporate programs and measures as a means of reducing potential risk^[5]. This is most likely to occur when gaining credit in social and environmental activities reduces stock price fluctuations.

Therefore, according to this theory, the impact of social responsibility on the ownership of the institution will be positive. In other words, companies that invest more in social capital will be able to attract more institutional ownership^[6]. On the contrary, according to the theory of short-sighted institutions, institutional ownership is considered as short-sighted investors, who only pay attention to short-term returns, and managers of such institutions are measured and encouraged based on their short-term returns. Since investing in such programs and activities is a long-term decision that takes time to save money, organizations that invest in social responsibility cannot acquire institutional ownership capital. Accordingly, this claim shows that the social responsibility of the organization has a negative impact on institutional ownership^[5].

Financial performance

Organizational performance is defined as a measure in order to assess the effective achievement of an action based on specified goals, which can be estimated by the effectiveness of the organization in achieving goals^[7].

Therefore, organizational performance is a general concept that refers to how an organization performs. The most well-known definition of performance is presented by Neilly et al. (2002): (The Process for Explaining the Quality of Effectiveness and Efficiency of Past Activities). According to this definition, the function is divided into two parts:

1. Performance that describes how the organization uses resources in the production of services or products, that is, the relationship between the actual and desired combination of inputs for generating outputs;
2. Effectiveness that describes the degree to which the goals of an organization are achieved^[8].

In fact, people who are inside or outside the organization can provide different definitions for performance. Definitions provided by an individual from within the organization focus on creating results through performed actions. In this case, if individuals within the organization do not have different views on the performance, a single, common definition of performance will be provided, which will be difficult in practice. On the other hand, a person outside the organization considers public indicators based on predefined statistical definitions, such as those found in financial analysis, and the actual work of the organization will remain in the black box. In this case, the definition of performance by such a person will focus on the prediction of actions, as well as on the estimation of the probability of certain future outcomes.

Measuring performance metrics can be divided into accounting and economic categories according to accounting concepts and economic concepts. In accounting metrics, the company's performance is evaluated according to accounting data. While in the economic criteria, the company's performance is assessed by considering the power to raise the profit of existing and potential investments and the rate of return and capital cost (Safdari, 2012).

Research Methodology

The present research is an applied research in terms of the purpose of the research. In terms of its nature, it is a descriptive-correlative research. The financial information is based on the actual information of the financial statements of the companies accepted in the securities market of Tehran. In this research, a standard questionnaire for assessing social responsibility of organizations was used to confirm or disprove the assumptions from the company's historical information and statistical methods of data and information about social responsibility. It should be noted that for assessing the validity of the questionnaire, professors and experts' comments were used, and the Cronbach's alpha, which is equal to 0.75, that was indicative of the reliability of the questionnaire. In addition, library studies on theoretical foundations and theoretical concepts and related records reviews have been made.

Statistical population and statistical sample

The statistical population of this study consists of companies accepted in Tehran Stock Exchange (551 companies) during 2013-2014 and the sampling method is elimination method. In order to estimate the models of this research, those companies that have the following conditions are included in the statistical sample and those companies are excluded that do not have these conditions from the statistical sample. The conditions are as follows:

- In order to increase their comparability, their fiscal year ends at the end of March.
- Throughout the research period, they should be part of the accepted companies in Tehran securities market.
- They should not be a member of financial intermediation companies, holding companies (parent companies) and banks.
 - Should not be from companies with monetary losses.
 - Do not have a three-month lag.

Therefore, data collection is limited to companies that meet the requirements, which led to the selection of a sample of 40 companies with complete information, and the same number of companies will be considered as a sample of the research.

Findings

Two variables were used to evaluate the variables of research:

Model 1:

$$ROA_{it-1} = a + b_1CSR_{it-2} + b_2SIZ_{it-1} + b_3LEV_{it-1} + b_4DIV_{it-1} + b_5LIQ_{it-1} + b_6CAP_{it-1} + \varepsilon$$

Model 2:

$$INS_{it} = a + b_1CSR_{it-2} + b_2ROA_{it-1} + b_3SIZ_{it} + b_4LEV_{it} + b_5DIV_{it} + b_6LIQ_{it} + b_7CAP_{it} + b_8SIC_i + \varepsilon_i$$

The results of the probability of the F is 0,000, which is indicated by the use of the panel data method. Therefore, the Hausman test should be followed, which is as follows:

As it was determined in the F lemmer test, the type of research data is panel type data. Then, we must examine whether the width of the source is either constant or random effects, for the following assumption:

$$\begin{cases} H_0: b = \hat{\beta} \\ H_1: b \neq \hat{\beta} \end{cases}$$

If the null hypothesis is accepted, then the constant effects method should be used and if hypothesis 1 is accepted, then the method of random effects should be used. The results of the review are presented in the following table:

Coefficient of determination (R2)	0.413697	F	31.314533
		F Sig. level	0.000

Table 1: Results of F and Hausman tests

Type of test	Probability statistics	Value	Result
F Limer test (model 1)	3.342237	0.000	Panel data method
Hausman Test (Model 1)	197.450269	0.000	Random effects method
F Limer test (model 2)	3.342237	0.031	Panel data method
Hausman Test (Model 2)	197.450269	0.001	Random effects method

The value of the Hausman test statistic is 0/00 which, as a result of the H0 hypothesis, is rejected and the use of the random effects method is acceptable. Therefore, the regression method should be used with the method of panel-random effects data.

Results of estimation of research models

Table 2: Results of estimation of the first model of research relationship

Variable	coefficient	Standard deviation	t	Sig. level
Intercept	0.326458	0.003268	12.832751	0.0001
social responsibility	-0.0432101	1.0432101	1.657211	0.000
Financial Leverage	-4.843285	-4.543285	-2.874032	0.000
Dividend	6.523197	6.523197	1.043210	0.000
Liquidity	-0.213456	0.004551	-4.843285	0.0023
Capital Increase	-0.324173	0.008542	6.523197	0.0044
justified R ²		0.801235	Durbin-Watson test	1.978342
Coefficient of determination (R2)	0.354398		F	3.298521
			F Sig. level	0.000

According to the results obtained in Table 2, the significance level is 0.022 and it is less than 0.05. Therefore, at 95% confidence level, the zero hypothesis is rejected. Also, there is a positive and significant relationship between profitability control variables with asset returns, but financial leverage has a reverse relationship with financial performance. Therefore, overall social responsibility has a negative impact on the financial performance variable.

Table 3: Results of the Estimation of Research Relationship Model 2

Variable	coefficient	Standard deviation	t	Sig. level
Intercept	0.326458	0.003268	12.832751	0.0001
social responsibility	-0.0432101	1.0432101	1.657211	0.000
Return on assets	-0.843212	-5.543285	-3.071031	0.000
Dividend	0.123437	5.623172	3.1452104	0.000
Liquidity	-1.414051	0.004551	-3.953186	0.0023
Capital Increase	-0.324173	0.008542	6.523197	0.0044
justified R ²		0.706211	Durbin-Watson test	2.178342

According to the results of the second model analysis and the significance level of 0.07 is more than 0.05, there was no significant relationship between social responsibility and institutional ownership.

Conclusion

Since there is a high probability that investing in social responsibility programs will incur significant short-term costs and the market is often responsive to long-term social responsibility programs, there is less chance that investment firms prefer companies that are socially responsible. The emergence of social responsibility has largely been in response to changes and challenges such as globalization. In this study, the relationship between social responsibility and institutional ownership was investigated. The results of panel analysis showed that social responsibility of organizations as an independent variable under the regression model 1 has a negative and significant effect on the mediating variable of return on assets. When the return on assets and social responsibility as well as control variables are added in model 2, we find that social responsibility of the organization lacks any direct effect on institutional ownership, while asset returns have a negative relationship with the institutional ownership of investment companies. The findings of the paper showed that there is no relationship between social responsibility and financial performance. The findings also showed that social responsibility of the organization and institutional ownership in investment firms have a significant effect through indirect effect, through the return on assets.

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