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Impact of corporate social responsibility disclosure on the accounting, economic and market-based measures of corporate performance evaluation

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Introduction

From the earliest classic studies by Bowen (1953), Carroll (1979), Friedman (1984), the importance of Corporate Social Responsibility (CSR) and its impact on society have been explored from various viewpoints. However, their opinions are divided on the need for Corporate Social Responsibility. Some studies with a positive appraisal of corporate social responsibility argued that a corporation has a duty to society, whereas others such as Friedman (1962, 1970) reported that a corporation only has the duty to maximize its benefit within the fence of law and minimum ethical restrictions. Summarizing literature shows that the literature findings have been mixed until now, and so further research is needed. On this basis, the aim of this paper is to examine the impact of social responsibility disclosure on accounting, economic and market-based Measures of Performance Evaluation of Iranian Companies.

The purpose of this study was to conduct research on whether corporate social responsibility have a significant relationship with corporate performance evaluation in terms of accounting-based measures (return on assets and earnings per share), Economic based measures (Economic value added and market value added) and Market based measures (Stock returns and Cost of Capital).

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Hypotheses

H1: *Social responsibility disclosure has positive effects on accounting-based measures of corporate performance evaluation.*

H2: *Social responsibility disclosure has positive effects on economic based measures of corporate performance evaluation.*

H3: *Social responsibility disclosure has positive effects on market-based measures of corporate performance evaluation.*

Methods

The research includes a sample of 104 companies (1040 firm – years) in the Tehran Stock Exchange for a period of 10 years from 2006 to 2015. In this research, corporate social responsibility is an independent variable, and corporate performance evaluation (accounting-based measures, Economic based measures and market-based measures) is the dependent variable. Content analysis was used to extract information about corporate social responsibility initiatives and in order to measure social responsibility used environment, products and services, employees, social, cultural-ideological and energy involvement dimensions. In accordance with previous studies, 1 indicates presence of CSR information and 0 if otherwise to measure social responsibility of companies. Measures of financial performance and control variables were collected from the annual reports. Testing of hypotheses was conducted by applying multivariate regression techniques utilizing longitudinal data analysis of company's annual reports. Two well-established models firm-year approach (Using fixed effects model and random effects model) and industry-year approach (Using pooled OLS) are conducted in this paper.

Results

This study attempts to address the question whether corporate social responsibility is linked to financial performance. Using empirical methods, we tested the sign of the relationship between corporate social responsibility and corporate performance evaluation. The results indicate that corporate social responsibility disclosure has a direct and significant effect on the rate of return on assets, Earnings per share and economic value added. Also, corporate social responsibility disclosure has an inverse and significant effect on the cost of capital. In other words, increasing the level of corporate social responsibility disclosure reduces

information asymmetry, reduces risk and finally reduces cost of capital. Finally, it is revealed that corporate social responsibility disclosure has no significant effect on Stock returns and market value added.

Discussion and Conclusion

The results of the research show that although the impact of social responsibility of Iranian firms and their impact on the financial performance is low and there is a great distance to achieve the desired outcome, however, based on the theory of stakeholders, Iranian firm managers are trying to provide a better image of company in the society. Because firms will earn higher profits due to their reputational premium. On the other hand, managers have used social activities as a strategy to increase the firm's economic benefits. In addition, our findings are consistent with the literature that states that corporate social responsibility is negatively related to the cost of capital. We suggest that Iranian firms increase their corporate social responsibility activities, which could be a communication tool between firms and investors and reduce both the firms 'cost of capital and information asymmetries. Considering the negative relationship between social responsibility and cost of equity, it is suggested to the organization directors to consider the concept of social responsibility as the organization's survival factor in the long run and take stronger actions regarding their social performance enhancement. Lastly, it is suggested that Tehran Stock Exchange adopt rules to be able to measure and determine, as much as possible, the real rate of CSR during their years of activity.

Keywords: *Corporate Social Responsibility, Economic Performance, Market Performance, Accounting Performance.*