

The Effect of Social Responsibility on Financial Performance of Automotive Companies listed in Tehran Stock Exchange

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Abstract: The goal of this study is to study the effect of social responsibility on financial performance of automotive companies listed in Tehran Stock Exchange. For this purpose, 30 managers and accountants companies listed in Tehran Stock Exchange were selected by using simple random sampling and responded to the researcher made questionnaire. Then, the collected data from these questionnaires were analyzed by using bivariate linear regression test and the results indicated that the components of social responsibility including legal, economical, moral and humanitarian responsibilities have positive and significant effect ($p < 0.01$) on financial performance of listed automotive companies in Tehran Stock Exchange.

Keywords: Automotive companies, financial performance, social responsibility, stock exchange

INTRODUCTION

During past recent years, responding to the demands of shareholders and also efforts in line with promoting social values is a complex contradiction which committed commercial organizations are dealing with it (Jamali, 2007, as cited in EbrahimiDezfoli (2010)). Creating conciliation and balance between the demands of shareholders and the society is a topic defined in the social responsibility framework of a company and contributes to the relationship among business and society (Synder and Graves, 1994). Although there is no accurate and exact definition of a company's social responsibility, but most of scholars refer to it as a method of business as well as creation of social values which is according and even beyond the legal, moral requirements and public demands and legal actions is beneficial in responding to group values (Luetkenhorst, 2004; Waddock, 2002, as cited in EbrahimiDezfoli (2010)). Company social responsibility like classification of general concept of sustainable development, is often classified into economic, social and environmental classes. Company social responsibility given the definition provided by International Center for Business and Sustainable Development is defined as working in line with colleagues, family, local society and in general society for improving the life quality (Karna *et al.*, 2004, as cited in Salimi (2010)).

The oldest modern attention to company social responsibility is in 1953, when Bowen provided business commitments and business people for following those policies, decisions and activities which

are desirable from according to the goals and values of the society as a primary definition of company social responsibility (Choi and Gary, 2008, as cited in Salimi (2010)). Therefore, company social responsibility can be seen as a business activity which takes care of the society in which they are being performed (Zhu and Tan, 2008, as cited in Salimi (2010)).

Social responsibility is a business and an elevated approach to business, which considers social effect of an organization on society, both internal and external, with the aim of in lining the economic interests with environment, growth and business sustainability (Omidwar, 2007). But as western countries focus on company social responsibility, it is not given similar attention to it in developing countries. Contrary to the available works regarding company social responsibility in these countries it seems, the motivations and incentives of company social responsibility in these countries both in demand and provision is small and different, in a way that according to conducted researches, ideological and religious motivations play a significant role in the focus of businesses toward humanitarian approach of company social responsibility in these countries and it seems that lack of awareness in this field, limited executive capacities and emergence of organizations which their focus is only directed toward traditional business and obtaining profit are among reason of this lack of attention.

On the other hand, financial performance for listed automotive companies in Tehran Stock Exchange due to the current competitive world in this industry, is a critical issue and in fact a company which is not having

a high financial performance, sooner or later will be deleted from the competition field. In the meantime provision of social responsibilities of automotive companies is expensive and this would result in them having doubts while making decisions for cooperation and active presence in social responsibility programs, as to whether providing social responsibility will have any kind of risk to their financial performance or not?

Therefore, the current paper is seeking to answer this fundamental problem that: "what is the effect of social responsibility on financial performance of automotive companies listed in Tehran Stock Exchange?" For this purpose, initially we would provide a few examples of the studies in line with this research, which this would create more clarity regarding the subject under study.

REVIEW OF RELATED LITERATURE

Regarding the studies done in this area, we can mention the followings:

Inoue and Lee (2011) in their study entitled "the effect of different components of social responsibility on financial performance in tourism industry" have found that although from the point of view of long-term and short term effects and depending on the fact that in which industry it is occurring, this effect is different, but in general the components of social responsibility has a positive effect on financial performance.

Chin-Huang *et al.* (2009, as cited in Inoue and Lee (2011)) in their study on "the effect of social responsibility on financial performance: cases of trade in Taiwan" and with studying around 1000 companies in Taiwan have found that social responsibility have positive significant effect on financial performance of the companies under the study.

Scholten (2008), as cited in EbrahimiDezfoli (2010)) in his study about "the relationship between social responsiveness and financial performance" has found that there is a positive interaction between financial performance and company social responsibility.

EbrahimiDezfoli (2010) in his study entitled "the study of the relationship between organization capabilities and financial performance of the listed companies in Tehran Stock Exchange" they found that capabilities of an organization have positive and significant effect on financial performance of the mentioned companies.

Selgi (2010) in his study on "studying the effect of intellectual capital on financial performance and value of companies in Tehran Stock Exchange" found that intellectual capital has positive and significant effect on financial performance and value of companies in Tehran Stock Exchange.

Finally, Salimi (2010) in his study entitled "the relationship between the role of board of directors on

designing leadership management and the financial performance of the company" found that that there is a significant relationship between them.

RESEARCH METHODOLOGY

The current research is applied research from the point of view of goal, descriptive-correlation from the point of view of methodology and survey research from the point of view of conduct.

Research population and sample: The population of the current research includes managers and account employees of all the listed and active companies in Tehran Stock Exchange during 2005-2010 and there are a total number of 31 companies and among the managers and accounting employees, 30 were selected with the use of simple random sampling method as the sample of the research.

Instruments: Instrument for data collection related to social responsibility in this study is an authored made questionnaire containing 20 questions in Likert scale (completely disagree to completely agree). For studying the financial performance variable we have used field method which is conducted through studying documents, financial statements and data centers of Pars Portfolio institute and the library of Stock and Securities Office. For testing the content validity of the survey questionnaire we have used the opinions of experts in this field and the reliability of the questionnaire is obtained equal to 0.83 with the use of Cronbach's Alpha test. The value of Cronbach's Alpha indicates a proper reliability for the questionnaire.

RESULTS AND DISCUSSION

In this research, the two-variable linear regression test has been used for identifying the effect of social responsibility on financial performance of the automotive companies listed in Tehran Stock Exchange. Table 1 show the inferential results and the results of each hypothesis were reported separately.

Research hypothesis 1: Legal responsibility has a significant effect on financial performance of automotive companies listed on Tehran Stock Exchange.

The results of regression test indicate that legal responsibility has a significant effect ($p < 0.01$; R^2 adj. = 0.17) on financial performance of automotive companies listed in Tehran Stock Exchange.

Research hypothesis 2: Economical responsibility has a significant effect on financial performance of automotive companies listed on Tehran Stock Exchange.

Table 1: The results related to the rate of the effect of social responsibility on financial performance of companies

Variable	Adjusted R ²	β	F	P
Legal responsibility	0.17	0.44	7.08	0.00
Economical responsibility	0.24	0.51	10.23	0.00
Moral responsibility	0.26	0.53	11.62	0.00
Humanitarian responsibility	0.28	0.55	12.71	0.00

The results of regression test indicate that economical responsibility has a significant effect ($p < 0.01$; R^2 adj. = 0.24) on financial performance of automotive companies listed in Tehran Stock Exchange.

Research hypothesis 3: Moral responsibility has a significant effect on financial performance of automotive companies listed on Tehran Stock Exchange.

The results of regression test indicate that moral responsibility has a significant effect ($p < 0.01$; R^2 adj. = 0.26) on financial performance of automotive companies listed in Tehran Stock Exchange.

Research hypothesis 4: Humanitarian responsibility has a significant effect on financial performance of automotive companies listed on Tehran Stock Exchange.

The results of regression test indicate that humanitarian responsibility has a significant effect ($p < 0.01$; R^2 adj. = 0.28) on financial performance of automotive companies listed in Tehran Stock Exchange.

CONCLUSION

Emergence of social responsibility topic clearly can be traced back to the period of Adam Smith, i.e., the end of 18th century. He has studied the topic of the promotion of general welfare and believes that the efforts of competing entrepreneurs are naturally directed toward supporting public interests (Najaf Beigi, 2004, as cited in Ahmad (2008)).

The requirements of success of an organization, is its proper performance. Indexes such as: profitability, survival, growth rate and ability to achieve competitive advantages can be considered as the achievements of proper performance. Some of the scholars such as Hignens and Wichens have assumed organizational success to be equivalent of organizational performance. They believe that in general financial performance of an organization is a result which occurs as a consequence of the behavior of the organization (Higgins and Vinze, 1993).

In addition, Islamic Republic of Iran with the implementation of Article 44 of the constitution and the vision in the arena of privatization, requires specific initiatives and principles and unless that these beds are provided, achievement of desirable goals and their following reduction in expenses and damages will not

be possible. The reason is that because the experiences of privatization and creation of competitive market for economical agencies in other countries indicate that the realization of these types of goals are subjected and based on formation of a collection of pre-assumptions and norms, cultural and social patterns and otherwise the policy of privatization will face so many of problems at the implementation stage and will result in unexpected and harmful results. Among these requirements and initiatives which have been emphasized today, we can name giving attention to responsibilities and commitments of agencies and companies active in the field of industry, trade, economy, service, etc. It means the mission of a company which is naturally created for following profitable, should simultaneously beat the service of the general goals and ideals of the society and the social system. Also and in addition to respecting the individuals rights and relevant organizations, should provide extensive range of services to the people of the society and in other words should share the whole society in its profit and interests and should be at the service of all the elements of the social system.

Social responsibility is a critical and essential characteristic and behavior and in other words is the basic foundation for creation a healthy society and quality social life in which shades all the individuals and social classes can feel satisfaction (Rasouli, 2009). Social responsibility is going beyond the boundaries of the minimum framework of legal requirements under which organizations are performing their activities. In fact social responsibility is an elevated approach toward business which considers both external and internal social effect of an organization on society and its main goal is to gather all the sections including public, private and volunteers for cooperating with each other for in lining economical interests with environment on one hand and on the other hand causing the success, growth and sustainability of a business (Ahmad, 2008). Social responsibility will result in morality governance and dominance, i.e., in the framework of the social responsibility of an organization, will perform the actions and tasks which are good, useful and appropriate for society and will avoid from those affairs which can be harmful for it (Azimi and Khak, 2008).

The reasons of agreement toward companies and organizations social responsibility, is derived from the potential advantages which would be achieved by them and the society. One of the mentioned reasons is that performing social responsibility by a company would lead it to achieve its benefits and goals at the long run and on the other hand social activities would lead to less interference and engagement of the government in activities which is in turn again beneficial to the company in the long run (KhaliliAraghi and Yaghinloo, 2004). Considering the above stated results and contents in this study we have intended to study the effect of social responsibility on financial performance of automotive companies listed in Tehran Stock Exchange. The obtained results indicate that the

components of social responsibility including legal, economical, moral and humanitarian responsibilities have significant effect ($p < 0.01$) on the financial performance of the automotive companies listed in Tehran Stock Exchange. These results are in the same direction of the results found by Inoue and Lee, (2011), Scholtens (2008), EbrahimiDezfoli (2010), Selgi (2010) and Salimi (2010) in their studies.

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