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The Effect of Social Transparency on Firm Value and Performance: Evidence from Firms Listed in Tehran Stock Exchange

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Abstract

In this study, the impact of social transparency on the firm value and performance of companies listed in Tehran stock exchange (TSE), based on data from 101 companies in year of 2015 is examined. To do this, two main hypotheses and two sub-hypotheses were specified. The statistical method used in testing hypotheses is panel data regression. Findings show that social transparency is positively associated with firm Value and Performance. Overall, the results suggest that social transparency plays an important role in firm value and performance. This paper will help the management to develop effective social responsibility policies required to achieve better financial performance in long-term and provide awareness for firms in the field of role of social responsibility of firms to achieve future benefits.

Keywords: Social transparency, firm value, performance, Tehran Stock Exchange.

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Introduction

Nowadays, firms' morality and social responsibility are identified as critical issues in decision making of life's aspects. Companies' social responsibility is also known as corporate responsibility, corporate accountability, corporate ethics, citizens or corporate stewardship, responsible entrepreneurship and etc. Social responsibility is a notion in which companies consider social and environmental concerns in commercial activities and interactions with beneficiaries (staffs, customers, shareholders, investors, government). Corporate social responsibility and related disclosures is the necessary factor leading to sustained activity in firms. Since all companies have some relationships with community; hence, the community makes long-term sustainment of companies possible. The society utilizes companies' behavior and activities. Developing companies' social responsibility implies that corporate responsibility has gone beyond what was intended in the past i.e. providing money for shareholders. Companies need to be accountable before stakeholders (shareholders, customers, staffs, goods suppliers, banks, regulators, environment and society). Therefore, companies must take social responsibility in addition to economic responsibility (Baharmoghaddam et al, 2013). According to the significance of corporate social responsibility and related disclosures, financial reporting requires adequate care. Butasan (1997) believes that more information disclosing may cause reduced cost of capital and thus increases firm value. According to signaling theory, firms compete to achieve limited sources of capital. If the firm is well-known in financial reporting and discloses more information of its activities, it may be more capable in capital attraction as it attracts investors' confidence.

Business unit insist and tending toward social responsibility in all dimensions significantly influences financial value and performance. Indeed, tending toward disclosing social responsibility encourages the business unit to try for improved environment, using less energy and materials, as well as waste management, etc. (Sandhoo and Kapour, 2010). Thus, business units voluntarily maximize long-term returns through reducing negative effects on the community. Such that today this thinking is increasingly formed among business units that long-term success achieved by corporate operation management along with ensuring environmental support and progressed corporate social responsibilities (Sami et al, 2008). Therefore, disclosing and implementing corporate social responsibility leads to improved long-term success; it increases economic growth and companies' compatibility; and finally, improves financial value and performance (Sanchez et al, 2011).

According to aforementioned, this research intends for studying the effect of social transparency on firms' value and performance. The research seeks for this main question that whether there is a significant relationship between social transparency and firm value and performance. The study is organized as follows theoretical basics, research history, research methodology, research findings, discussion and conclusion.

Research theoretical basics

Social transparency

Generally, disclosure means information reflection. It embraces the information that are useful for common investment and prevent reader's misleading. Clearly, disclosure principle means that no important information of common investor interest may be deleted or hidden. The information that firms disclose about environmental issues, social values, human resource issues, health and safety, observing fair business as well as stakeholders' concerns are referred as social transparency.

Scholars presented different definitions for organizations' social responsibility disclosure as follows. The most common notion of social responsibility disclosure was stated by Carol (1991). He distinguished between four types of responsibility including economic responsibility (job, wages, and services), legal responsibility (compliance with laws and role playing), moral responsibility (morality and do what is right, just and fair), and humanitarian accountability (voluntarily humanitarian aids). World Business Council for Sustainable Development (WBCSD) defines social responsibility disclosure as firms' commitment to participation in improving sustained economy development, staffs and their families, and society. Hosseini (2010) explains corporate social responsibility as firms' responsibility to respond the consequences of activities influencing the community. The society here has a general meaning embracing all firms' stakeholders. The firm must consider the interests of all stakeholders in making decisions, activities and operations. Stakeholders are all individuals influenced by firms' decisions and activities' consequences and outcomes. These stakeholders including consumers, staffs, owners, shareholders and society directly or indirectly play in a firm achievement. Azimi and Khaktarik (2008) define social responsibility of enterprises as follows: commitment to meet and satisfy expectations of external stakeholders such as customers, suppliers, distributors, environmentalists as well as staffs of manufacturing/servicing unit with the interests of local stakeholders including owners or shareholders and staffs of business unit.

The firm obtains abundant benefits and advantages by the aid of effective and efficient management and disclosing its social responsibilities. These benefits contain improved competitive advantage and increased firm's reputation, effective risk management, enhanced performance and increased firm value, reduced cost of capital, decreased operational costs, limited lawsuits, etc. (Mac Adam and Leonard, 2003). In the following it is discussed in details.

Social responsibility, firm value and performance

Considering theoretical basics and according to earlier studies, social responsibility may have a positive, negative or neutral relationship with firm value and financial performance. There are several perspectives about the positive relationship between corporate social responsibility and financial performance. The first view states that there is a relationship between companies' quantitative costs such as interest payments to bondholders and qualitative costs like product quality or security costs. The efforts that companies do for undergoing less qualitative costs through social activities may lead to higher quantitative costs. In addition, social effect hypothesis is presented as the foundation of positive relationship between firm's financial performance and social performance. In fact, this hypothesis suggests that meeting total needs of non-owner stakeholders positively influences financial performance. According to second

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hypothesis, financially successful companies apply fewer resources for creating high financial performance; thus, the major part of resources is assigned to their social performance. Third perspective expresses that the companies taking more social responsibility are less exposed to the risk of negative events as the probability of environmental pollution's heavy fines as well as costly claims decreased and negative social activities rarely taken place to destroy their reputation; consequently, these factors positively influence firms' financial performance. In general, if the two firms are totally equal except in social acceptance and disclosure at broad level by one of these two firms and non-acceptance and disclosure of social responsibility by the other, it is expected that the former has less negative risk facing fewer harmful events.

On the other hand, the negative relationship between firm social responsibility and financial performance is consistent with ideas of Freedman and neoclassic economists. They state that social responsibility causes firms undergone some costs, which finally leads to lower profits, reduced wealth of shareholders and thus the firm value.

Management opportunistic hypothesis is offered as the basis of negative relationship between corporate social responsibility and financial performance. According to this hypothesis, once financial performance is strong, mangers decrease social responsibility costs since whereby they increase short-term profitability and increase their individual reward, which is related to short-term profitability. On the contrary, when financial performance is weak managers would focus on increasing social apparent planning costs. And finally, neutral relationship (no relationship) of these two variables is also seen in some studies. It is argued that due to community and firm's complex situation, there is no direct relationship between firm social responsibility and financial performance (Simpson and Kohers, 2002; Ti Sooth Soura, 2004).

Literature review

Domestic studies

Hajiha and Sarafraz (2014) studied the relationship between social responsibility and cost of equity of companies listed in Tehran stock exchange. Research findings show that social responsibility has a significant, inverse relationship with the cost of equity. Therefore, managers cause reduction in investors' expected rate of return (the cost of equity) and offer lower costs of financing through increased social performance disclosing. In other word, responsibility data considered as information content for investors.

Arabsalehi et al (2013) investigated the relationship between social responsibility and financial performance of companies listed in Tehran stock exchange. The results demonstrate that financial performance is associated to corporate social responsibility toward customers and existing institutes; whereas, financial performance is not significantly correlated with corporate social responsibility to staffs and environment.

Nikmard (2013) in a study on social responsibility concluded that there is no significant relationship between corporate social responsibility and the quality of accruals. Moreover, research results also show that there is seen a direct, significant

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relationship between corporate social responsibility and the quality of information disclosure. Furthermore, according to results, there is no significant relationship between corporate social responsibility and financial information relevance; while, there is a direct significant relationship between corporate social responsibility in environment and financial information relevance.

Alikhani kashkak et al (2012), in a research entitled assessing the quantity and nature of environmental and social accounting information disclosure in Iran, revealed that Iranian companies prefer to disclose social and environmental information as optional information in reporting to the board of directors. The highest disclosure is in human resources department followed by products and service departments in second and third.

International studies

Gregory and et al (2014) in a research studied the relationship between social responsibility and firm size and demonstrated that corporate social responsibility influences firm size. Furthermore, observing corporate social responsibility causes enhanced performance in firms.

Sharif and Rashid (2014) in a study about the relationship between corporate governance and corporate social responsibility concluded that there is a positive relation seen between corporate governance and social responsibility.

Koppel and Regner (2014) in another study deduced that corporate social responsibility at workplace leads to increased efficiency of employees and workers, which consequently causes enhanced efforts.

Li et al (2013) inferred that the firms with better performance more probably try for disclosing corporate social responsibility. Moreover, the probability of social responsibility disclosure is smaller in government companies comparing non-government ones.

Fillip Curts et al (2011), studying the relationship between social transparency and firms' value and performance in Brazil, presented that social transparency decreases firm value and there is seen a negative, significant correlation between social transparency and firm value. In addition, research results revealed that there is a neutral (no relationship) relationship between social transparency and financial performance.

Nelling and Web (2009) examined the relationship between financial performance and corporate social responsibility.

Ti Suth Sura (2004) investigated the relationship between corporate social responsibility and financial performance. Research results indicated a positive, significant relationship between financial performance and corporate social performance.

Simpson and Kohers (2002) studied the relationship between financial performance and corporate social performance in banking industry in Netherland. The research results indicated a positive relationship between financial performance and corporate social performance.

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Research hypotheses

According to theoretical basics and research purposes, two main hypotheses and two sub-hypotheses were formulated as follows:

H1: There is a significant relationship between social transparency and firm value.

H2: There is a significant relationship between social transparency and firm performance.

H2a: There is a significant relationship between social transparency and firm return on assets.

H2b: There is a significant relationship between social transparency and return on equity.

Research methodology

This is an applied study in term of goal and a descriptive study focusing on correlations in term of nature, as it checks the current status, on one side; and, it determines the relation between various variables by using regression analysis, on the other side. Moreover, it is considered as ex post facto study (using past events) and is based on real information of firms' financial statements. Research data collected through financial statements of companies listed in Tehran stock exchange and market data. Therefore, since data gathered based on existing documents, the research methodology is librarian method.

Statistical population and participants

Statistical population included all companies listed in Tehran stock exchange in 2014. The major reasons of selecting this statistical population are the quality of information, easy accessibility to financial statements and other information.

According to research nature and some inconsistencies among companies listed in Tehran stock exchange, systemic elimination sampling method (purposive). Research statistical population qualifications were as follows:

1. Companies are listed in Tehran stock exchange earlier than 2014.
2. The financial period ended to March in order to increase comparability.
3. Financial intermediation companies are excluded.
4. Required financial information is easily accessed for data extraction.

According to the above qualifications, 101 companies within the year of 2014 were selected as statistical participants (samples).

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Operational definition of research variables and models

As stated earlier, the purpose of this research is to study the effect of social transparency on firm value and performance of companies listed in Tehran stock exchange. In order to test research hypotheses and considering that three variables (return on assets, return on equity, and the ratio market value to the equity book value) were used for measuring firm value and financial performance, the following multivariate linear regression models were studied:

Model 3-1

$$ROA = \beta_0 + \beta_1(CSR)_{i'j} + \beta_2(SIZE)_{i'j} + \beta_3\left(\frac{cash}{assets}\right)_{i'j} + \beta_4 LEV_{J'T} + \beta_5(logmonth)_{i'j} + \varepsilon$$

Model 3-2

$$ROE = \beta_0 + \beta_1(CSR)_{i'j} + \beta_2(SIZE)_{i'j} + \beta_3\left(\frac{cash}{assets}\right)_{i'j} + \beta_4 LEV_{J'T} + \beta_5(logmonth)_{i'j} + \varepsilon$$

Model 3-3

$$FIRM\ VALUE = \beta_0 + \beta_1(CSR)_{i'j} + \beta_2(SIZE)_{i'j} + \beta_3\left(\frac{cash}{assets}\right)_{i'j} + \beta_4 LEV_{J'T} + \beta_5(logmonth)_{i'j} + \varepsilon$$

Where, in models:

CSRjt= social transparency,

SIZEjt= the size of firm i in year t,

LEVjt= financial leverage of firm i in year t,

Logmonth= the life of company,

Cash/Assets= the ratio of cash to firm’s total assets,

ROA= Return on assets,

ROE= Return on Equity,

FIRM VALUE= firm value, and

Ejt= error component.

In the following, each variable is defined and measured.

Research variables

Firm's social transparency is considered the research independent variable. Corporate social transparency is measured by using the checklist in the appendix.

Firm value and performance regarded as research dependent variable. Firm value is computed by the ratio of equity's market value to book value. Moreover, firm performance was also measured by the two ratios of return on assets and return on equity.

Return on assets is operating benefit divided by total assets; and return on equity is special profit divided by total equity.

Research control variables are firm size, financial leverage (debt ratio), life of company, and the ratio of cash to total assets. Firm size was determined by several indices in different studies. In this research, assets' natural logarithm was used to identify firm size.

Furthermore, financial leverage calculated by the ratio of total debt to total assets. Life of company was measured using natural logarithm of firm's operation years.

Data analysis and testing hypotheses

Research hypotheses were tested by multivariate linear regression model with panel data. The present research used Stata software, version 12 and excel, version 22.

Research findings

Descriptive statistics

As seen in Table 1, research dependent variables are firm value and performance. Therefore, results demonstrate that understudied companies by average are in almost proper condition in term of growth and investment, as their market value is about 2.270 times than their book value, which shows the growing value trend of these companies. Return on assets in companies of interest is on about 13.45% on average indicating inefficient use of assets to create profit. Moreover, return on equity in understudied companies is about 30.24% on average showing the equity share of net profit.

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Table 1: Descriptive statistics of research variables

Description	Variables							
Descriptive statistic	Dependent			Independent	Control			
	The ratio of market value to book value	Return on assets	Return on equity	Social transparency	Firm size	Cash holdings	Financial leverage	Firm age
Mean	2.270	0.134	0.302	0.656	14.261	0.067	0.569	5.320
Median	2.009	0.108	0.262	0.684	14.011	0.030	0.565	5.375
Maximum	6.532	0.552	0.790	0.736	18.378	0.451	0.962	6.335
Minimum	0.529	0.000	0.000	0.421	11.701	0.000	0.122	4.682
Standard deviation	1.188	0.112	0.202	0.060	1.278	0.092	0.183	0.401
Skewness	1.605	1.206	0.424	- 0.880	1.092	2.374	- 0.154	0.637
Kurtosis	6.245	4.436	2.179	4.227	4.556	8.050	2.455	2.851
Number of observations	101	101	101	101	101	101	101	101

Social transparency is research independent variable. Therefore, according to results, social transparency in companies of interest is about 65.65%, which shows disclosure of check list items in sample companies.

About control variables, firm size is about 14.26 on average. Cash holding of understudied companies consisted almost 6.755% of assets on average indicating a small cash share in the sample companies' assets structure. Financial leverage of understudied companies is around 56.95% of assets, which represents the major share of debts in financing structure of companies. In addition, age of companies of interest was about 5.320 units on average.

In descriptive statistics of variables distribution, data standard deviation shows data dispersion from mean. Small standard deviation indicates low data dispersion; while, large standard deviation is data high dispersion from mean. Social transparency variable has the lowest dispersion from mean and firm size variable has the maximum dispersion from mean. Furthermore, the factors of skewness and kurtosis of all research variables excluding skewness of social transparency and financial leverage are positive. Research variables descriptive statistics are illustrated in Table 1.

Research hypotheses

Classic hypotheses testing play a critical role in estimating regression models' parameters. Therefore, these (including zero mean remaining, constant variance of residuals, lack of first-order autocorrelation of residuals, and normal distribution of residuals) were analyzed and verified through descriptive and inferential methods in regression models by using panel data. Moreover, according to Hausman and Chow test results, in all models, the best regression estimation method is constant effect- panel data method.

First main hypothesis test

The purpose of research first main hypothesis test is to study whether there is a significant relation between social transparency and firm value. Statistical hypothesis is expressed as follows:

H_1: There is a significant relationship between social transparency and firm value.

The results of first hypothesis test are presented in Table 2.

Considering F statistics and P-value, it concluded that the aforementioned model is significant ($p<0.05$). Moreover, social transparency factor equals 2.668, and its significance level (0.0000) is less that error level (0.05); thus, this hypothesis is maintained. Indeed, it inferred that there is a positive and significant relationship between social transparency and firm value. In other word, the more social transparency increases, the higher the firm value enhances. Furthermore, for control variables, it cleared that firm size, cash holdings, financial leverage and firm age variables have negative, negative, positive, and positive significant relationship with firm value, respectively. To say the matter differently, decreasing firm size and cash holdings in addition to increasing financial leverage and firm age causes increased firm value.

Table 2: Results of research first main hypothesis test

Dependent variable: Firm value					
Method: Generalized least Squares					
Sections: 101 Periods: 1 Observations (balanced): 101					
Variables	Symbols	Coefficients	Standard error	T-statistics	Significance level
Interception	C	1.5452	0.4834	3.1960	0.0019
Social transparency	ST	2.6689	0.4742	5.6270	0.0000
Firm size	SIZE	-0.1807	0.0185	-9.7424	0.0000
Cash holdings	CH	-1.3159	0.3542	-3.7146	0.0003
Financial leverage	LEV	1.6927	0.1053	16.069	0.0000
Firm age	AGE	0.0237	0.0054	4.3693	0.0000
F-Fisher statistics		70.771	F-Fisher statistics probability		0.0000
Adjusted coefficient of determination		0.7772	Durbin-Watson statics		2.0413

In the aforementioned fitted model, coefficient of determination (R^2) is 0.77; in other word, 77% of dependent variables changing explained by independent variable. Furthermore, Durbin-Watson statistics is 2.04, which shows lack of autocorrelation error in model.

Second main hypothesis test

The purpose of testing research second hypothesis is to study that whether there is a significant relationship between social transparency and firm performance. Statistical hypothesis is stated as follows:

H_2: There is a significant relationship between social transparency and firm performance.

As firm performance indicators in this research include two variables of return on assets and return on equity; so, the result of second main hypothesis is divided into two sub-hypotheses.

First sub-hypothesis test

The purpose of research first sub-hypothesis is to study whether there is a significant relationship between social transparency and firm return on assets. Results of testing this hypothesis are shown in Table 3.

According to obtained F-statistics and p-value, it is concluded that the aforementioned model is significant ($p<0.05$). Moreover, social transparency coefficient is 0.2678 and significance level (0.0000) is smaller than error level 0.05; thus, this hypothesis is maintained. In fact, it deduced that there is a positive and significant relationship between social transparency and return on assets. To say differently, increased social transparency increases return on assets. In addition, in control variables it was also shown that firm size, cash holdings, financial leverage, as well as firm age variables have positive, positive, negative, and negative significant relationship with return on assets, respectively. In other word, larger firm size and cash holdings as well as smaller financial leverage and firm age lead to increased return on assets.

Table 3: Results of research first sub-hypothesis

Dependent variable: Return on assets					
Method: Generalized least squares					
Sections: 101 Periods: 1 Observations (balanced): 101					
Variables	Symbols	Coefficients	Standard error	T-statistics	Significance level
Interception	C	0.1656	0.0523	3.1608	0.0021
Social transparency	ST	0.2678	0.0381	7.0182	0.0000
Firm size	SIZE	0.0077	0.0025	3.0012	0.0034
Cash holdings	CH	0.2713	0.0531	5.1060	0.0000
Financial leverage	LEV	- 0.3112	0.0112	- 27.7534	0.0000
Firm age	AGE	- 0.02995	0.0045	- 6.6553	0.0000
F-Fisher statistics		185.2117	F-Fisher statistics probability		0.000000
Adjusted coefficient of determination		0.90262	Durbin-Watson statistics		2.134574

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In the above fitted model, adjusted coefficient of determination (R^2) equals 0.90; in other word, 90% of changes in dependent variables are explained by dependent variable. Besides, Durbin-Watson statistics is 2.13 indicating lack of autocorrelation error in the model.

Second sub-hypothesis test

The purpose of the second sub-hypothesis is to study whether there is a significant relationship between social transparency and return on equity. Results of testing this hypothesis are shown in Table 4.

Table 4: Results of second sub-hypothesis test

Dependent variable: Return on equity					
Method: Generalized least squares					
Sections: 101 Periods: 1 Observations (Balanced): 101					
Variables	Symbols	Coefficients	Standard error	T-statistics	Significance level
Interception	C	0.3606	0.0439	8.2073	0.0000
Social transparency	ST	0.3512	0.0739	4.7502	0.0000
Firm size	SIZE	0.0212	0.0054	3.8772	0.0002
Cash holdings	CH	0.2724	0.0529	5.1416	0.0000
Financial leverage	LEV	- 0.1033	0.0236	- 4.3628	0.0000
Firm age	AGE	- 0.0658	0.0114	- 5.7380	0.0000
F-Fisher statistics		47.07366	F-Fisher statistics probability		0.000000
Adjusted coefficient of determination		0.697308	Durbin-Watson statistics		1.957652

According to obtained F statistics and p-value, it concluded that the aforementioned model is significant ($p<0.05$). Moreover, social transparency factor is 0.3512 in which significance level (0.0000) is less than error level (0.05); thus, this hypothesis is maintained. Indeed, it concluded that there is a positive, significant relationship between social transparency and return on equity. To say it differently, increased social transparency also enhances return on equity. Furthermore, variables of firm size, cash holdings, financial leverage, and firm age have positive, positive, negative, and negative significant relationships with return on equity, respectively. In other word, larger firm size and cash holdings in addition to smaller financial leverage and firm age may lead to increased return on equity.

In the above fitted model, coefficient of determination (R^2) equals 0.70 meaning that 70% of changes in dependent variables explained by independent variable. Moreover, Durbin-Watson statistics 1.95 indicates lack of autocorrelation error in the model.

Discussion and conclusion

This research studied the effect of social transparency on firm value and performance of companies listed in Tehran stock exchange based on data of 101 companies in 2014. In this regard, two main hypotheses and two sub-hypotheses were formulated.

First main hypothesis investigates the relationship between social transparency and firm value. According to results, social transparency coefficient and its significance level is less than acceptable error level; thus, this hypothesis is maintained. As a result, it inferred that there is a positive, significant relationship between social transparency and firm value such that increasing social transparency increases firm value, too. In justifying this relationship, it is expressed that observing social responsibility influences organization achievement through enhancing organization legitimacy, using the benefits of increased diversity and increased revenue, profitability and improved competitive advantage; in addition, it intensifies firm value. Results of this hypothesis are consistent with Servaes and Tamayo (2013).

Research second main hypothesis studies the relationship between social disclosure and financial performance. Since firm performance factors here include two variables of return on assets and return on equity; thus, the second main hypothesis is divided into two sub-hypotheses. Significance level of social transparency in both sub-hypotheses was less than accepted error level (0.05); thus, this hypothesis is maintained. Indeed, it is concluded that there is a positive, significant relationship between social transparency and firm performance (return on assets and return on equity). Obtained results are consistent with findings of Arabsalehi et al (2013) and Li et al (2013). For justifying this hypothesis, it is stated that disclosed information in firm annual reports considered as management means to send specific messages to the society and to try to convince the users accepting management point of view to the society and correcting the wrong image that the community take about firm environmental performance (Chu et al, 2013). When organization reputation is threatened by environmental disasters and its legitimacy is diminished, the organization seeks for legitimacy process management through advertising useful strategies (Kamir and Gordon, 2001).

Recommendations

According to obtained results of testing hypotheses and the positive relationship between social transparency disclosure and financial performance, it is recommended that investors prioritize investing on companies that have the highest social responsibility disclosure in order to maximize profitability and increase investment value. Moreover, according to the positive relationship between social transparency and firm value, it is suggested that professional institutes that take the responsibility of formulating accounting standards pay attention to formulating social accounting standards and provide the required conditions for disclosing such information by mangers of business units through conducting more studies and considering national social and cultural features. Furthermore, since information disclosure of business units' social effects is impossible without binding regulations; thus, it is necessary that regulatory institutes adopt some measures on binding regulation formulation as observing social responsibility through enhancing organization legitimacy, using the benefits of increased diversity and increased revenue, performance, value and improved competitive advantage influence organization achievement.

It is also recommended that further studies consider the following issues more: studying and testing the effect of social responsibility effect on financial performance and firm value of unprofitable companies comparing profitable ones, small firms comparing large ones as well as during firm lifecycle and testing of this study models for different industries.

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