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Responsibility and optimal financial performance of the companies listed on Tehran stock exchange (TSE)

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ABSTRACT: The importance of considering the corporate social responsibility in today's global conditions and new business environments makes it necessary for the leaders and managers of large organizations and companies in the global market to establish a balance among social, economic, and environmental sectors of their business. The aim of this research is to evaluate the commitment of the top companies listed on TSE to corporate governance and social responsibility. In this regard, the performance of 92 companies listed on TSE during the years of 2002 through 2011 were measured, categorized by 10 industries, in three steps of optimization by meta-heuristic algorithms (AMH), social responsibility pattern by DEA method, and ranking corporate governance via G-Score approach. Then, top companies in each criterion were evaluated with their reassigned codes by mean comparison test in SPSS. The results indicate the significant relationship among the companies with the top rank in each index.

KEYWORDS: Corporate governance, social responsibility, optimal financial performance.

1 INTRODUCTION

The current conditions of the world and new business environments required the leaders and managers of organizations of large companies with active participation in global markets take good governance and establish a balance between social, economic and environment sectors of their business. Thus, they can take their responsibilities to all people in the organization and the entire society. It can be said, governance as a concept has emerged with various forms of human organizations. This concept merely includes the concepts and tools by which the organizations manage themselves (Arash and Crowther, 2012). The recent scandals of the companies attracted the attentions to good corporate governance, trust, accountability and economic ethical performance (Marsiglia, and Falautano, 2008). However, the role and governance power are not considered seriously and only net profit and its increase are emphasized mostly (Jamili, 2008). According to a wide survey of "Mackenzie" institution (2009), among 2245 top managers of successful companies all over the world, 75% believe investment in successful plans in various social and non-profit fields can lead to high stock value and good performance via good reputation and universal credit for the relevant company (Khadivifard, 2011). To perform social responsibility of the companies, the economic enterprises should perform four responsibilities (voluntary, ethical, legal and economic responsibilities)(Rahimian, 2012). Under corporate governance, the companies are encouraged to be improved from ethical issues, fairness, performance transparency and accountability and they are expected to continue profitability and at the same time keep their high standards of internal governance. This study evaluated the relations of corporate governance, social responsibility and optimal performance of the companies listed on TSE.

2 THE THEORETICAL BASICS AND REVIEW OF LITERATURE

2.1 THE CONCEPT OF SOCIAL RESPONSIBILITY

Today, new problems are created with the development of industries and various business units and it is due to the outcomes and effects of business unit activities on environment and society. Thus, the method of evaluation of organizations performance and their criteria is changed and moving toward social and environmental responsibilities is a vital factor for organizations activity in long-term (Sikka, 2011). Also, the companies with different types consider their success depends upon the society demand for the business activity (Matsoshita, 2010). Besides accountability responsibility to their owners, the companies should perform their social responsibility to protect the health of society (Rahimian, 2012). Today, by raising corporate governance system and its necessity of using, the companies are encouraged to use it in the frameworks as social responsibility in the form of ethics, fairness, transparency and accountability and etc. and with expectation to increase profit in long-term (Abdzade and Beik, 2013). Harvard Boven, the father of social responsibility (1953) defines social responsibility “the obligations of tradesmen to follow the policies, taking decision or following the measures that are good in terms of goals and values of the society (Merfi and Eschel, 2013). Today, corporate social responsibility is used as a concept widely and there is no unit definition for it (*Freeman* and Amir Hasnaoui, 2011). Carol (1999) mentions social responsibility as a multi-dimensional variable evolved in recent decades and it includes various definitions (Font Ethal, 2012). Today, social responsibility is used as monitoring and reliable mechanism to adapt the company with the law and ethical standards (Hejazi et al., 2013). Social responsibilities of companies direct the goals and commercial activities along the social values and society welfare (Emrahzade and Sabet, 2013). Social responsibility of the companies emphasizes on creating wealth via responsible business (Marfue et al., 2013).The commission of the European communities (2001) defines social responsibility as the voluntary integration, by companies, of social and environmental concerns in their commercial operations and in their relationships with interested parties (Mellat Parast, M., Adams, 2012). Social responsibility is the activity performed for the progress of some of social goals beyond the financial goals (Harjoto, 2011). Corporate social responsibility in society except the shareholders is beyond what is described by law and union contract (Johnson, 2010). The main component of social responsibility is ethical accountability (Setayesh et al ., 2013). The useful perception of corporate social responsibility should be based on the attitude of interested parties and both directive and instrumental aspects are considered (Yegane and Barzegar, 2012). Generally, social responsibility follows extra- role duties of enterprise and improving the behavior of enterprise to the condition consistent with the environment and society benefits (Soheil, 2012) as it leads to the consistency of economic benefits with environment and on the other hand the growth and sustainability of business in companies (Qasemi, 20120.

2.2 THE CONCEPT OF CORPORATE GOVERNANCE

Today, protecting public benefits, observing the rights of shareholders, improving the transparency of information and obligation of the companies to play the social responsibility role are the ideals of various executive and monitoring organizations. These ideals are fulfilled based on suitable stable regulations and executive mechanisms, namely corporate governance system (Ahmadpour and Montazeri, 2011). The changes in commercial environments lead to the great corporate renovation in all over the world and fundamental changes in corporate strategy principles (Mehrabi, 2010). The development of corporate governance system mechanism is necessary for sustainable development and economic growth. Definitely, the countries applying corporate governance system mechanism experience high development and capabilities to absorb capital and finally they have better economic condition. In addition, using high quality governance system not only maximizes the wealth of shareholders but also reduces the expenditures of financing (Sheikh and Wang, 2012). Corporate governance is a basic element in the top list of international development and it increases the trust of investor, improves competitiveness and improves economic growth (Mosavi and Ghadakforushan, 2013). Corporate governance establishes balance between economic and social goals of a company regarding the effective use of resources, accountability to use power and behavior of company in social environment. Corporate governance is one of the main issues as the concern of business managers, accountants and auditors, investment managers and state authorities all over the world. The methods of corporate governance restrict various aspects of management roles of companies and establish balance and also are used to develop control mechanism to increase share value and satisfaction of other beneficiaries (Cretu, 2012). The investigations show that famous companies’ good reputation depends upon having efficient board of directors and observing corporate governance principles (Babayi and Bakhshayesh, 2013). Corporate governance plays important role in capital markets and it also emphasizes on the fact that from where, how and by which costs, the investment is provided by investors. Creating high participation of micro investors in company is an important issue to create an efficient corporate governance system (Asadi and Khori, 2011). Corporate governance establishes balance between economic and social goals of a company in effective use of resources, accountability to use power and behavior of company in social environment. Corporate governance is defined as a mechanism to solve the contradiction between the benefits of shareholders and managers (Horn, 2012). To be sure of corporate governance operation, there should be collaboration among the various components of governance system, internal audit, executive management, financial manager, board of directors, shareholders and external auditors (Yassin et al ., 2012).

2.3 THE RELATIONSHIP BETWEEN SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE AND ITS IMPACT ON THE PERFORMANCE OF COMPANIES

Based on above mentioned items, there is a definite overlapping between corporate governance and corporate social responsibility. While considering wide principles of corporate governance, corporate governance performs specific responsibilities and it is affected in this regard from the view of all main shareholders (Kendall, 1999) and it guarantees good outcomes for all shareholders (Dunlop, 1998). This assumption is raised regarding corporate governance and social responsibility and based on the principles, the companies should be accountable to their financial and ethical responsibilities (Setayesh et al., 2013). Financial activity is a vital factor to achieve profit and maintaining the trust of financial investors and other shareholders (Page, 2005). Corporate governance and social responsibility of the companies are based on transparency, accountability and honesty (Van and Louche, 2005). Marsiglia, E. and Falautano (2005) proposed that these two factors are developed from various humanitarian aids to investors of company and management strategies and the goal is achieving customers trust and at wide level society. Windsor and Priston (1988) state that in the framework of legal theory, corporate governance and corporate social responsibility are complexly relate to the concepts between the organizations and internal and external social environment and each case is considered as the main pre-requirements of sustainable growth of world trade environment (Van and Louche, 2005). These concepts have long-term and important benefits to guarantee the durability of commercial activities.

2.4 REVIEW OF LITERATURE

Jo, H., Harjoto (2011) investigated the causal the causal effect of corporate governance on corporate social responsibility. After controlling the various features of company, the results showed that lag of corporate social responsibility does not affect corporate governance variables, the lag of corporate governance variables positively affects firms' corporate social responsibility engagement. In another study, they examined the impact of internal and external governance and monitoring mechanism on selecting corporate social responsibility and the value of the companies involved in these activities. They found that selecting corporate social responsibility is positively associated with internal and external governance, monitoring mechanisms including board leadership, board *independence*, institutional ownership and etc. Khan et al., (2012 examined the relationship between corporate governance and the extent of corporate social responsibility disclosures in the annual reports of Bangladeshi companies. A legitimacy theory framework was adopted to understand the extent to which corporate governance characteristics (managerial ownership, public ownership, foreign ownership, and etc.). Various studies have been conducted regarding social responsibility and its effects on performance and it had positive and negative results. One of the reasons is the difference of these results is the variety of cultural, legal, social and economic context of countries and some of the researches are referred briefly as:

Salehi et al., (2013) in a study regarding social responsibility and financial performance of companies listed in TSE found that financial performance has not significant association with corporate social responsibility to the environment employees but financial performance had significant relation with corporate social responsibility to the existing customers and institutions in society. Scott et al., (2010) in a study " corporate social responsibility and financial performance of company" evaluated the relationship between financial performance and social performance of firms. The results of their study showed the positive association between financial performance and social performance of company. Choi et al., (2010) conducted a study among 1222 firms of Korea and the results showed that positive and significant association between financial performance and social responsibility. Neling and Web (2008) evaluated the relationship between financial performance and social responsibilities. The results of the study showed a negative and weak association between financial performance and corporate social performance. Azam et al., (2011) evaluated the impact of corporate governance and corporate performance in oil companies in Pakistan. The results of the study showed that there is a positive effect between corporate governance and corporate performance and by improving corporate governance, return on assets, return on equity, sale ratio margin are increased. Heibatollah Esmi et al., (2011) investigated the impact of corporate governance on performance and value of companies in Chinese companies. They applied an integrated index for corporate governance. They found that integrated criterion of corporate governance has positive and significant association with the value and performance of companies. Vincent O Nicole (2010) evaluated the relationship between performance of companies and size and composition of board of directors. To evaluate the performance, profit before tax and interest and sum of assets and Q-Tobin are used in the study.

The results showed that the size of board of directors and performance are associated inversely and this negative impact is less for small companies and the percent of non-executive managers had positive impact on performance of firms.

3 Study Methodology

3.1 Study Hypothesis

There is a significant association between high rank of corporate governance, performing good social responsibility and optimal performance of companies.

3.2 Study Method

This study is in supporting accounting researches. It is applied and descriptive-correlation in terms of study purpose. This study is app lied as the companies consider social responsibility and corporate governance and this leads to the survival of companies and good reputation and their universal fame in long-term.

3.3 Data Analysis Method

3.3.1 Social Responsibility Model

Charns and Cooper raised a new method to evaluate performance and calculation of efficiency of decision making units as “Data envelopment analysis”. It is a main factor for inputs and outputs with production function and it shows the maximum output value obtained by a combination of input values. The production function shows efficiency by considering inputs and out puts (Mirhosseini, 2012). The calculation of social responsibility coefficient is performed based on the following model by “data envelopment analysis” with suitable changes.

Fig. 1. Social responsibility model

The values of output coefficients of social responsibility by DEA method are ranging 0-1. All the companies are identified in each year-company as full value 1 and by considering the sum of highest total score, they are ranked.

3.3.2 The Model of Corporate Governance/ The Evaluation of Monitoring (G-Score)

To evaluate the monitoring, we can focus on two mechanism involved directly in monitoring of managers on financial reporting decisions and five characteristics of board of director include:1- Size of board of directors, 2- Percent of executive managers, 3- Duality of the role of managing director, 4- tenure of managing director in board of directors, 5- percent of share ownership of managers and two characteristics of institutional shareholders include 6-Share of institutional ownership, 7-Number of institutional shareholders are identified and we compute the monitoring extent via main components analysis. The companies are ranked based on these indices and G-score of each company is computed. For ranking the companies, we score to each of the above characteristics based on the amount and type of effect in monitoring extent and then the score of all items is added and the company with the lowest score has the best rank and the rest of companies are ranked as the same. For example, board of directors’ size, if the board of directors is 7, the supervision and decision making for the benefit of the stockholders is more than the time board of directors is 5. Thus, the lower the G-score, the shareholders rights are observed much. The statistical sample is divided into mild, moderate and severe monitoring company-year based on each of monitoring factors (score) and based on the mean of factors (score).

3.3.3 Optimization model of meta heuristic algorithms

Assigned gen Number	Type of performance
1	(ROA) Return on asset
2	(ROE) Return on equity
3	(Q tobin) Index
4	(R_i) Actual return on stock
5	(EVA)Economic value added
6	(MVE)Market value of equity
7	(CE)Cost of equity

Fig. 2. Defined variables of algorithm

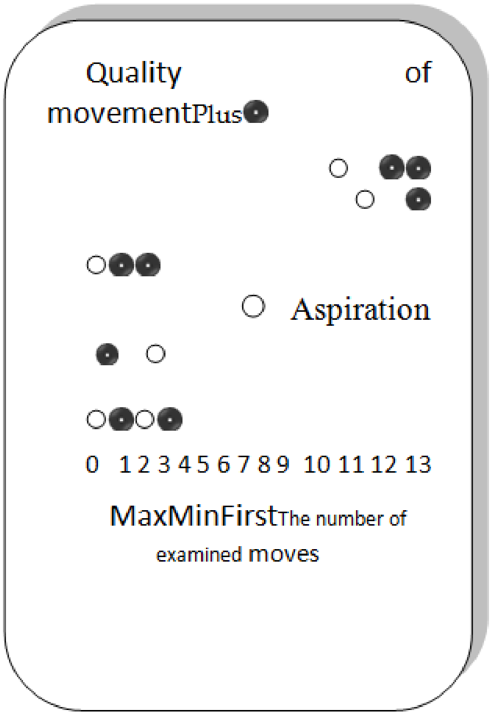

Fig. 3. Aspiration plus strategy

When the total movements are small and are not costly from evaluation aspects, the candidate list can include all present moves. Candidate list strategies considerably can be effective on quality and speed of solution. The present study applied different types of candidate list strategies and Aspiration plus strategy. Aspiration plus considers a threshold for the move being selected and it is based on the previous search information and the answers are tested to find the first answer satisfying this limit. At this moment, other answers equal to the plus is tested and then the best answer is selected. In order to prevent the very little or very much number of answers being tested, this method determines Max and Min of tests. This method is used to adjust threshold limit. If the answers are improved, the threshold limit is increased and if the answers direct to non-improvement, threshold limit is adjusted in iteration based on minimum number of initial moves.

3.3.4 STATISTICAL ANALYSIS METHOD

SPSS software is used to test normality of data (kolmogorov smirnov test) and final test of means comparison (kruskal wallis test) of optimized performance and corporate governance mechanism with the following conditions is used.

The final test of means comparison in 50% of initial top companies is performed based on the assigned code for each company with the aim of identification of the significant relation between the indices (all the companies are identified by a math code to the software and they are identified by these codes to the end of statistical test. This test is performed among the top companies of each index with the assigned code to each company.

Support hyptohesis $_0$H	μ_k $_3$ = μ_2 = μ_1 = μ_0= H	0 Sig >
Support hypothesis $_1$H	$H_1 = \mu_1 \neq \mu_2 = \mu_3 = \mu_4$ $H_1 = \mu_1 \neq \mu_2 \neq \mu_3 = \mu_4$ $H_1 = \mu_1 \neq \mu_2 \neq \mu_3 \neq \mu_k$	Sig ≤0

Fig. 4. The conditions of means comparison test

3.4 THE STUDY PERIOD AND STATISTICAL SAMPLE

The study population is all the non-financial companies (manufacturing) listed on TSE during 2002 to the end of 2011. The study population is selected by screening and based on the following criteria:1- The activity is manufacturing and the financial institutions, investment, banks, insurance, leasing and holding companies are not included. 2- The companies with maximum 6 months trading stop in the study period, 3- Fiscal year leading to the end of Esfand and those not changing their fiscal period in the study. 4- Their fiscal data is available from the beginning of fiscal year (2001) to the end of fiscal year (2011) (time scope). 5- Book value of their equity is not negative as to obtain growth, the equity book value should be positive. By stratified sampling method, 92 companies of 10 industries (mine extraction, different food and drinking products except sugar, car and parts manufacturing, metal products, other mineral and non-metal products, basic metals, plastic and rubber, machineries and equipment, electric devices and machineries and chemical products) are selected.

3.5 THE OPERATIONAL DEFINITION OF STUDY VARIABLES

Measuring social responsibility variables of DEA model to calculate Efficiency	
Voluntary responsibility	Number of employees(OMP) / Number of owners(Own)
Ethical responsibility	Total accruals (TAC)
Legal responsibility	Share of /Tax on paid performance (Tax)/ Disclosure rank(Dis) employer insurance (OMP)
Economic responsibility	Stock return($Return_i$)/ Sale growth(Δs)/ Qtobin
Social Responsibility	By conceptual model DEA efficiency coefficient of CR method with the symbol in Figure 1
Measuring corporative governance variables of G-score model designed by Gompers., Ishii,J.,Metrick,A.(2003)	
The monitoring extent and to calculate it by data collection of the characteristics of board of directors (e.g. size of board of directors, percent of executive managers, duality of managing director duty and tenure of managing director) and institutional shareholders feature (e.g. number of institutional shareholders and percent of share ownership of institutional shareholders) and ranking of the sample companies based on the above features and dividing the companies into three levels of high, moderate and low is used. Monitoring by main components analysis method on above variables, two components of variables are extracted and after finding the scores of companies on components, if the score of both components is less than the median of components, value 1 and monitoring low is assigned. If it has 1 on one component and 0 on another component, moderate variable is considered. The multiple data analysis has main role in data analysis. Generally, this method is used to reduce the number of variables and relationship between variables that is classification of variables.	
Measuring optimal performance variables	
OI :Operational profit T :Cost of paid tax $$Qtobin = \frac{OI + D - (T + I + Div)}{TA}$$ I :Paid financial cost FC :Free cash flow Div :Dividend :TA Total assets D :The cost of depreciation of fixed tangible and intangible assets	
$$Return\ On\ Asset_{i,t} = \frac{NI_{i,t}}{TA_{i,t}}$$ NI: Net income / TA :Total assets	

Figure .5 The table of dependent variables of study

$$\textbf{Return On Equity}_{i,t} = \frac{\mathbf{NI}_{i,t}}{\mathbf{TE}_{i,t}}$$

NI: Net income /TE :Total equity

$$\textbf{Cost Equity}_{i,t} = \frac{\mathbf{EPS}_{i,t}}{\mathbf{P}_{i,t}}$$

$EPS_{i,t}$: Net earnings per share for future year/

Pi,t: Final price of each share in current year of this variable is calculated by the model based on fixed growth of Gordon.

5)

Economic Value Added =NOPAT- [(TA-CL)*WACC]

NOPAT: net *operating* profit after tax/

TA: Total assets/CL: Current assets/WACC: **Weighted Average Cost of Capital**

$$\textbf{Weighted Average Cost of Capital} = \frac{\mathbf{D}}{\mathbf{D+E}} \times \mathbf{K_d} \times (\mathbf{1-t}) + \frac{E}{\mathbf{D+E}} \times \mathbf{K}_e$$

WACC: Weighted average cost of capital/D: Sum of interest liabilities/E: Equity/t: Tax rate/Kd: Interest rate

$$k_e = R_f + \beta(R_m + R_f)$$

R_f: Risk-free return rate: R_m/ Market return. R_f/ Systematic risk: **β** / Risk-free return

(6

MVE=LN(NS*MS)

LN: natural logarithm/NS: Number of shares at the end of period/MS: Value of market at the end of period.

(7

$R^i_{k,t}$: Annual return of company k in industry I in period t/

β: Percent of increasing capital from the accumulated profit/

$$R^i_{k,t} = \frac{p_t(1+\alpha+\beta)-(p_{t-1}+C\alpha)+D_t}{P_{t-1}+C\alpha}$$

Pt: The price of share market at the end of period t/ Dt:Cash earnings per share for the number of shares in period t/Pt-1: Price of share market at the end of period /C:t-1 Nominal price paid by investors for increasing capital of the claims and cash revenue as equal to 1000Rials.

Fig.6. the table of descriptive statistics

Kurtosis	Skewness	SD	Mean	Min	Max	Sample	Variable
				Performance			
40.9325	-43.00	17.2586	3.721	-43.00	181.83	920	Low Monitoring
15.9959	-133.64	24.4257	7.7360	-133.6	163.99	920	Moderate Monitoring
				Optimization			
6.893	2.353	17.858	23.33	-0.25	0.77	920	ROA
22.329	-16.161	41.672	28.19	-0.46	0.89	920	ROE
16.755	2.344	13.17	12.63	-0.79	.86	920	R_i
-1.056	0.675	10.17	3.23	0.60	124.53	920	MVE
11.598	1.493	8.598	0.095	-0.98	0.88	920	EVA
72.849	6.659	3.747	1.13	-8.82	10.21	920	Q tobin
95.653	13.200	1.119	0.124	-0.81	0.98	920	CE
				Social Responsibility			
-0.127	-0.335	0.30061	0.6790	0.00	1.00	920	CR

Fig.7. Descriptive statistics

3.6 THE TEST OF VARIABLES NORMALITY

Normality kolmogorov smirnov test for the variables of the study is based on supporting H0 of data of normal variables, H1 is regarding the distribution of the data of non-normal variables. As shown in Figure 5, Shapiro-Wilk value as sig indicating significance level is less than confidence interval 0.05 for the data of each variable. Thus, H0 is rejected and H1 hypothesis is supported and the data of the variables are non-normal with high confidence of distribution.

Significance level 0 Sig $\leq_0$= H 0 Sig $>_1$ =H	Most severe changes			Normal parameters)a.b(		Variables (dependent and independent)
	Absolute value	Positive	Negative	Mean	SD	
$_1$H	0.332	.332	0.290-	49.50	13.422	Governance Corporate Monitoring
$_1$H	0.203	.143	0.203-	41.84	33.718	Social Responsibility
$_1$H	0.046	0.046	0.036-	42.50	23.422	Optimizing

Max	Min	SD	Mean	N	Variable
66	4	13.422	49.50	46	Governance Corporate Monitoring
84	12	33.718	41.84	46	Social Responsibility
72	2	23.422	42.50	46	Optimizing

Fig.7. kolmogorov smirnov test

3.7 THE TEST OF MEANS COMPARISON (KRUSKAL-WALLIS)

Test statistics (Optimizing, Performance, Social Responsibility)	
141.875	chi-Square statistics
9.00	Degree of freedom
0.368	Significance level

Fig.8. Descriptive statistics of test

The test statistics as the result of test is as H0: The assigned codes of each company in all indices of corporate governance, social responsibility, financial performance have significant relation with each other). H1: The assigned codes of each company in all indices of corporate governance, social responsibility, financial performance have not significant relation with each other. Chi-square statistics is observed with 9 degree of freedom and significance level p-value 0 and it shows the rejection of H1 hypothesis and supporting H0. Based on the above output, the final result shows that best indices of corporate governance, social responsibility, financial performance are similar in top companies.

4 CONCLUSION

The wealth growth in developed communities increased the consideration to social responsibility and accountability of companies by social groups. The society cost is high with the managers who are not responsible to it. If the companies don't fulfill their social goals, environment pollution, disease, discrimination and disorder will be increased and if required measurements are not taken, they will be encountered with these problems. The present study has been conducted in four stages:

- Designing a good model of social responsibility in Iran without survey research (questionnaire) by DEA model to investigate the social responsibility of companies based on Archive information. 2- Ranking corporate governance to determine the extent of corporate governance by Coomps et al., (2003) method.
- Optimization of the performance of companies by category of each industry with meta heuristic algorithms, 4- The investigation of the significant relation between top companies in corporate governance, social responsibility and financial performance by non-parametric tests (means comparison). 92 companies are studied in the period 2002-2011 (10 years). The results showed the significant association between top companies regarding social responsibility and corporate governance and financial performance of the companies. In other words, the companies with high rank of corporate governance and social responsibility can experience optimal financial performance in industry.

STUDY LIMITATION

- Disclosure rank is issued since 2003 in TSE. The lack of access to 1 year (2002) is considered as the basic limitation in the study.

STUDY RECOMMENDATIONS

THE APPLIED STUDY RECOMMENDATIONS

- Social responsibility creates a good general image. The customers trust in the company observing the social responsibility principles and are anxious regarding paying price to goods or services. If the companies perform their social responsibility well, they can create fame for themselves but not consideration of the companies to this field, the company value and brand are damaged.
- Considering social responsibility encourages the employees to social participation and this creates loyalty to company as the specialized labor force honors the company.
- The consideration of companies to social responsibility and corporate governance is with achieving customers trust and at widely level society.

THE RECOMMENDATIONS FOR FURTHER STUDIES

- Using meta heuristic algorithms to design social responsibility model
- Using fuzzy systems to rank social responsibility and corporate governance
- Using more variables in designing social responsibility model as financial leverage, company size and etc.
- The investigation of the impact of corporate governance on social responsibility with neural networks

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