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Effect of Corporate Social Responsibility on Capital Market

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ABSTRACT: Disclosing corporate social responsibility is a tool which shareholders evaluate social performance of a company with it. It is also a mean for increasing transparency of a company in the society. By studying importance of corporate social responsibility and disclosing it we can increase amount and level of corporate social responsibility. Improving corporate responsibility level increases and promotes company's interaction with society; in this way, companies could have positive effect on society and environment and enhance their reputation and credit. By enhancing corporate social responsibility, in addition to enjoying present profits, companies could stabilize their success and position in future. Other direct benefits of promoting social responsibility include more accessibility to financial sources as a result of reputation, risk management and effective monitoring on organization, loyalty of customers, improving trust and confidence of beneficiaries to company.

***Keywords*:** transparency, capital structure, currency, volume of exchanges, intellectual property.

INTRODUCTION

In modern competitive environment, corporate social responsibility is one of the essential factors for survival of an organization. One of the best definitions for corporate social responsibility is that company observes all ethical principles, social and individual values, environmental values and benefits of beneficiaries in addition to commercial success. In other words, social responsibility includes accountability of managers to legal, social and environmental expectations of beneficiaries (Akhoundi et al., 2005). There are numerous definitions for corporate responsibility which we present some of them at below:

-world business council for sustainable development (WBCSD) defines organization's responsibility as this: business commitment for contribution and cooperation for sustainable economic growth, work with workers, their families, local communities and society in wider scope for improving quality of life.

-Business organization for social responsibility (BSR) defines companies' social responsibility as a method for achieving business success through ethical values and respect for people, commitment and natural environment.

-American society for quality defines social responsibility as a behavior and business contribution of people and organizations ethically considering society, culture and economy and knows it as an attempt which individual, organizations and governments could have positive effect through it on development, trade and society.

-Wang and Hu, (2009) have stated that in social responsibility it is assumed that organizations have wider role than meting demands in society and they can be defined as actions that present some social goods beyond that company's interests and what has been obligated in regulations.

-Parsa and Jackson, (2009) argued that corporate social responsibility is voluntary actions of companies for improving social and environmental conditions.

-Salama, (2009) states that social responsibility is voluntary and ethical responsibilities of society.

- Turker, (2009) defined corporate social responsibility as companies' behaviors with the aim of creating positive effects on behavior of beneficiaries which is beyond its economic interests.

Disclosing Corporate Social Responsibility

Disclosing corporate social responsibilities provides information about activities of firm for public. This information relates to society including decreasing environmental effects, improving environment management, observing environmental regulations and attempt for protecting personnel (Hassan et al., 2010).

Previous studies about disclosing corporate social responsibility have focused on two subjects: a) nature and size of disclosure; b) disclosures' determining factors. Companies disclose their social responsibility information for two reasons: a) to show that company has met social expectations and as a result, assuring continuous access to sources like capital and support of customers; b) providing additional information to allow participants in market evaluate position of company from different viewpoints (Wailers and Marquees, 2013). Disclosing corporate social responsibility influences capital market in two ways:

Disclosing Corporate Social Responsibility and information asymmetry

Corporate social responsibility makes investors correctly evaluate social or political risk of a company (Haung et al., 2013). It is argued that higher quality of information causes information asymmetry in capital market and leads to reducing capital cost and increasing currency (Bhattacharya et al., 2009). Wide disclosure of information gains trust of investors about various aspects of performance or operation of company and leads to reducing information asymmetry or decreasing information costs of investors (Cormeir et al., 2009). High quality of disclosure influences information asymmetry in market by two ways. First, disclosure with high quality reduces this type of information search through reducing expected interests in gaining confidential information. On the other hand, better disclosure increases relative amount of exchange by unaware investors (Brown and Hiljest, 2007).

Disclosing corporate social responsibility and capital structure

Higher financial leverage increases agency costs because credit providers could support their interests through various types of contracts and receive more information disclosure; therefore, it is expected that there would be a relationship between corporate social responsibility and capital structure.

Disclosing corporate social responsibility and stock exchange

Lack of timely and correct disclosure leads to increasing costs of undesirable selection and ethical risk as elements of information asymmetry and increases cost of exchange (Ahmadpour and Rasaeeian, 2006). Increasing exchange cost is followed by decreasing stock price, depression and exiting some investors from market. The more information asymmetry, volume of transactions showing sale of securities will decrease (Kashanipour et al., 2010).

Disclosing corporate social responsibility and income management

Theories about corporate social responsibility include: legitimacy theory, beneficiary groups theory and political economy theory that all indicate managers are willing to disclosing social information of organization for some reasons such as gaining legitimacy or pressure of beneficiary groups but in political economy theory there is a belief about establishing regulations and standards. In beneficiary groups theory there are an ethical and managerial views. This attitude emphasizes responsibility of organizations. Managerial view of beneficiaries emphasizes management of beneficiary groups (Foroughi et al., 2008). As it is seen from beneficiaries' view, because corporate social responsibility can create a better look in beneficiaries toward managers, it is expected that managers of those companies that use income management behaviors have high social responsibility and vice versa. Entering social responsibilities not only improves satisfaction of shareholders but also it has positive effect on company. On the other hand, disclosing information about social responsibility creates positive picture of company among beneficiaries. Because income management behaviors may pose risks for beneficiaries' interests it is expected that managers of those companies involving income management behaviors pay more attention to social responsibility in order to satisfy beneficiaries (Orlitzky et al., 2003).

On the other hand, it is argued that managers may use social responsibilities as a tool for preventing ownership by capital market and satisfy shareholders by this way. We can assume that managers who commit income management activities for reaching personal interests and misleading others have high social responsibility to hide their actions and satisfy beneficiaries (Pagano and Volpin, 2005).

Disclosing corporate social responsibility and productivity

Based on beneficiaries theory management considers positive relation with key beneficiaries to improve financial performance. Main assumption of this theory is that corporate social responsibility is an organizational tool which causes effective use of organization sources and has positive effect on financial performance (Donaldson and Perston, 1995). Considering all individuals and beneficiaries groups increases income of companies in long term, because it increases human source motivation, increase in social goodwill and trust between people and decreasing fines. David believes that organizations' belief gradually becomes firm that introducing ethical principles and enhancing moral culture create strategic benefits (David, 2003).

Researchers like Sims, (2003), Kutler and Lee, (2005) and Hourn and Rantzin, (2003) understood that social responsibility improves productivity in long-term. Having good relations with beneficiaries improves financial performance (Berns et al., 1999). Positive effect of social responsibility on financial performance is considered from different dimensions: first, some mangers especially those newly assigned and seeks reputation negatively influence performance of by using short-term policies and inattention to social responsibilities (Preston et al., 1997). Second, managing relationship between wide group of beneficiaries with different goals damages financial performance by using more sources (Aprel et al., 1985).

Disclosing corporate social responsibility and currency

It is argued that managers of companies with little currency publish more information in their annual report to meet information requirements of shareholders. Therefore, we expect that there is a significant relationship between social responsibility and currency. But researchers like Abdolsalam and Whiteman, (2003) argued that companies with higher currency disclose more information to distinguish themselves from those with low currency.

CONCULSION

Corporate social responsibility is commitment of company to using its sources for making profits for society and improving welfare in society from incomes of company. Disclosing social responsibility provides information about activities that are related to society like reducing environmental effects, improving loss management, observing environmental regulations and attempt for protecting personnel. Corporate social responsibilities and its disclosing in reports of company reduce costs and improve financial performance. Disclosing information about social responsibility creates a positive picture among shareholders. On the other hand, disclosing social responsibility makes investors evaluate social and political risk of a company and this leads information asymmetry. Therefore, we can conclude that disclosing corporate social responsibility influences capital market.

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