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An Investigation of the Relationship between Corporate Social Responsibility and Profitability Measure of Food and Beverage Company's Ratio Accepted in Iran Stock Exchange

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Abstract: Many experts believe that regardless of short term social responsibility, taking into account of the social responsibilities in the long run by company could have financial interests. Accordingly, the aim of this study was to investigate the relationship between social responsibility and profitability of Food and Beverage companies accepted in Iran stock exchange. To achieve the research goal, six hypotheses have been proposed. To collect the necessary data on the financial performance, Exchange databases, and to collect social responsibility data of researcher's questionnaire were used. The validity of the questionnaire was calculated with face validity and its reliability was calculated using Cronbach's alpha coefficient. For data analysis Kolmogorov - Smirnov and regression tests were used. Previous studies show that social responsibility of firms is positively related to company's profit-making ratios.
Keywords: Corporate Social Responsibility, Profitability Measure, Iran Stock Exchange

INTRODUCTION

Today, CSR has a broad sense than past activities. The origins of social responsibility, is the Western industrialized countries. CSR in general, refers to the activities that organization do, as an effective and useful members of society. In fact, business organizations are game systems that not only should design their activities for profit, but also must take note of what society expects of them and their activities [1]. About the legitimacy and value of social responsibility adopted by the firms, there are different views. Some experts believe that social problems are to be solved by government. They argue that organizational resources are not enough to solve social problems, and organizational resources should not be wasted in order to solve the problems of society. Another group of scholars believe that although the governmnt are responsible for solving society's problems, but participating organizations in this regard are resourceful. These experts believe that, since economical power, has been transferred from the government to organizations, organization's participation is essential in solving social problems [2]. Most experts agree that the cost of short term social responsibility and its benefits are often of long term. Social responsibility, in fact is a form of capital for future investments hoping to achieve sustainable and long-term competitive advantage. Senior managers, who have a short-term perspective, do not reflect the short-term costs of social responsibility arguing that social problems can be solved by the government and easily pass this category. Conversely, managers having long-term vision are willing spend money on social welfare improvement, social problems, environmental pollution, working conditions improvement, human rights and participation in public affairs to benefit from long-term social advances, and on the other hand among stakeholders, community, customers who want to earn reputation for themselves, indicators such as profitability, survival, growth rate and achieving a competitive potential can be regarded as indispensable for the proper functioning of this effective relationship with the societies. In general it can be said that this research tries to solve the problem that some senior managers consider solving social and environmental problems as administration duties and believe social responsibility is costly for organization, and thus significantly reduces profitability ratio through increasing costs. What is certain is that public awareness about the interdependence of society and the environment towards each other will increase and all have come to understand that on one hand, companies relying on the availabile resources achieve goals and on the other hand organization must have benefits and gains for the society. These companies are always trying to improve public interest of the company in a way the people benefit more than they have paid to companies and in other words in addition to making profit, create value. Therefore, the aim of this study was to investigate the relationship between social responsibility and profitability of the Food and Beverage Companies accepted in Stock Exchange.

Accordingly, the following hypotheses are posed:

Hypothesis 1. Corporate Social Responsibility (CSR) positively influences the Return on Equity (ROE).
Hypothesis 2. Corporate Social Responsibility (CSR) positively influences the Return on Assets Ratio (ROA).
Hypothesis 3. Corporate Social Responsibility (CSR) positively influences the Profit Margin Ratio (PMR).
Hypothesis 4. Corporate Social Responsibility (CSR) positively influences the Gross Profit Ratio (GPR).
Hypothesis 5. Corporate Social Responsibility (CSR) positively influences the Earning per Share (EPS).
Hypothesis 6. Corporate Social Responsibility (CSR) positively influences the Price-Earning Ratio (P/E).

LITERATURE REVIEW

Howard Bowen with the effective book of social responsibility for businessman raised the concept of social responsibility in management and organizations academic literature, for the first time. "Bowen" in this book stated that social responsibility for businessman are commitment to policies and making decisions and actions in relation to measures of social goals and values [3]. Social responsibility and spiritual values in 1960 was also considered by pioneers of the concept of strategy. Igor Ansef in his company’s strategy book, objectives, implicit referred to impact on non-economic objectives of the company. He aims in non-economic issues include altruism, personal ethics, social responsibility, social status and credibility [4].

Hatan & Hatan, define social responsibility of the firm from the view point of stakeholders: discussion of social responsibilities of corporations comes to the debate when no harm is awarded to the interests of stakeholders. Firm’s disregard towards external stakeholders, may cause adverse consequences for the user of the firm supplier and space and boundariesof a community can be broken in this way. The BSR definition for Social Responsibility is in this way: "to achieve commercial success through respect, ethical values, people, communities and environment». Mc Williams and Siegel define social responsibility as: measures to improve the welfare of the community above the interests of the company and legal requirements [2]. Carol divided social responsibility into four subsystems, economic, legal, moral and humanitarian obligations which are done voluntarily [6]. Its economical dimension is allocated to distribution of goods and services. Organizations can behave in a way that the allocation of inputs and distribution of the products are done in such a way that the efficiency of production and consumption is high and firms have reasonable long-term benefits. The legal deminsion of social responsibility is allocated to obey the rules and regulations set by the government on business development and are socially considered the least good or bad. This is due to a lack of confidence in the proper functioning of business, households, communities and the environment regulated in the form of civil and criminal laws. Ethical and philanthropy dimensions are behaviors the community expects from businesses centers but that are not codified in law. Ethical structures, relations, morality, culture, religion, normative and legal systems, family systems, social learning, faith and Experiences and attitudes of people are affected [7,8]. Altruism and charitable social responsibility of the firm's activities are defined as activites organizations do to help the community [9]. Taking into account different views benefits of social responsibility activities sre presented in different studies. Table (1) presents some of the research focusing on social responsibility benefits.

No much work has been done on the impact of cooperate social responsibility on profit ratio but several studies have investigated the role of CSR on financial performance which in many cases profitability ratios is used as indicators of financial performance. The following are some of the latest research in this area.

Wen Wu and Hua Shen [19] developed frameworks describing the investigates the association between corporate social responsibility (CSR) and financial performance (FP), and discusses the driving motives of banks to engage in CSR. The empirical results show that CSR positively associates with FP in terms of return on assets, return on equity, net interest income, and non-interest income. In contrast, CSR negatively associates with non-performing loans.
Hence, strategic choice is the primary motive of banks to engage in CSR. Herzig and Moon [20] Explained Four discourses emerge from our analysis providing insights into distinct types of corporate social responsibility (CSR) and their relationship with corporate social irresponsibility (CSI), attitudinal change and expectations of the change required to ensure a more responsible financial sector. Lee eta al [21] in this study examines the role played by economic conditions (recessionary periods) on the link between corporate social responsibility (CSR) and corporate financial performance (CFP) in the U.S.

Table-1: Business advantages of Corporate social responsibility

Benefits of CSR	Authors
Reducing costs, increasing revenue brand value and reputation, employee satisfaction, and attracting and retaining a work permit	[10]
Direct financial impacts, market impacts (eg customer care), the effect on business and production processes (such as lower production costs), the effects on organizational development and learning (eg, employee motivation, innovation) and non-market effects (eg, shareholder resistance against lower production loans)	[11]
Risk management, efficiency gains, improved relations with regulators, greater brand value, higher employee productivity, reducing capital costs	[12]
Risk management and cost reduction, positive impact on shareholder value, more reputation	[13]
Reducing costs, increasing competitiveness, resourcing conservation, improving company image	[14]
Market Development and reducing costs, development , maintaining market share, long-term survival	[15]
Avoiding negative pressure, consumer boycotts and negative effects of the market, employee's motivation, positive relationships with legislators and stakeholders, reducing costs, improving access to capital and more market share	[16]
Positive impact on employee's motivation, retention and employment	[17]
Gains in efficiency, discrimination, tax benefits and tax advantages, reducing risk	[18]

This study further examines the relationship between CSR and CFP by dichotomizing CSR activities based on whether they are related to the firm's core operations or not, thus parsing out the effect of operations-related (OR) and non-operations-related (Non-OR) CSR activities, providing a more nuanced explanation of how some CSR activities may be more beneficial than others, to firm value in hard economic times. Grosbois [22] evaluates corporate social responsibility (CSR) reporting practice among the largest hotel companies in the world. This study demonstrates that whilea large number of companies report commitment to CSR goals, much smaller number of them provide details of specific initiatives undertaken to contribute to these goals and even less of them report actual performance achieved. Becchetti eta al [23] presented Corporate social responsibility (CSR) has become one of the core components of corporate strategy and a crucial instrument to minimize conflicts with stakeholders. The results reveal a significant negative effect on abnormal returns after exit announcements from the Domini index. The effect persists even after controlling for concurring financial distress shocks and stock market seasonality. .Inoue and Lee [24] explained purpose of this study was to disaggregate CSR into five dimensions based on corporate voluntary activities for five primary stakeholder issues: (1) employee relations, (2) product quality, (3) community relations, (4) environmental issues, and (5) diversity issues. The findings can provide tourism managers with insights into which dimensions of CSR activities would improve their companies' financial performance. Goss and Roberts [25] in this study examine the link between corporate social responsibility (CSR) and bank debt. Our focus on banks exploits their specialized role as delegated monitors of the firm. Low-quality borrowers that engage in discretionary CSR spending face higher loan spreads and shorter maturities, but lenders are indifferent to CSR investments by high-quality borrowers.Ghoul eta al [26] examine the effect of corporate social responsibility (CSR) on the cost of equity capital for a large sample of US firms. Using several approaches to estimate firms' ex ante cost of equity, they find that firms with better CSR scores exhibit cheaper equity financing. In particular, our findings suggest that investment in improving responsible employee relations, environmental policies, and product strategies contributes substantially to reducing firms' cost of equity..Kang eta al [27] presented In spite of growing concern for corporate social responsibility (CSR) in various industries including the hospitality industry, Findings suggest mixed results across different industries and will contribute to companies' appropriate strategic decision-making for CSR activities by providing more precise information regarding the impacts of each directional CSR activity on financial performance. HsienTsaieta eta al [28] The purpose of this paper is to present an integrated approach and scientific techniques for corporate social responsibility (CSR) programs selection decisions and costs evaluation in the hotel industry. The result shows that the improvement on the image of an organization is the major dispatch for driving the international tourist hotel to fulfill CSR goals.Lin eta al [29] identified a positive relationship between CSR and financial performance. When the model is properly specified, they found that while CSR does not have much positive impact on short-term financial performance, it does offer a remarkable long-term fiscal advantage. Sadler and Lloyd situate the rise of corporate social responsibility in the context of a re-casting of the boundaries between corporate- and state-centredregulation. They conclude that demonstrating how hegemony is constructed in and through neo-liberalising corporate social responsibility remains to be fully explored, but argue that it is beneficial to consider the diversity of political projects involved in this ongoing process.

PROBLEM FORMULATION

This research is an applied one from the objective viewpoint and a correlative- descriptive one considering the nature and method for the execution of study. Library studies have been utilized for the purpose of preparing and developing the theoretical concepts and literature review in this research. In addition, field methods have been used for gathering the necessary data and information on the achievement of the research objectives.

The population of the study includes all food and beverage company accepted on the Stock Exchange of Iran. Based on the statistics of the Stock and Exchange Company’s the number of this population is 62.

Companies which were members of sample group were selected from among those companies that have the following qualifications: 1) Are accepted on the Stock Exchange before 2000; 2) have been active until the end of 2012, 3) their financial information are available until the end of 2012; 4) are not Investment Co and financial intermediaries; 4) responded to the questionnaire of social responsibility. Given these conditions, 48 companies have been selected as the research sample. Fiche research has been used for gathering the theoretical concepts and literature review. In addition, In order to collect data , related to dependent variable (rate of return on equity, return on assets, the rate of profit margins, gross profit rate, profit per share and price-to-earnings ratio) softwares and Exchange databases information were used. In order to collect data about cooperate social responsibility of a questionnaire was used.

Validity of questionnaire has been defined by face validity method. It means the professors and experts familiar with this subject have been asked to express their comments on the designed questionnaire after studying it. By applying the received comments on the questionnaire, it concluded that the designed questionnaire has the necessary validity. Cronbach's alpha coefficient has been employed for defining the reliability of this questionnaire and that is to say the questionnaire has been sent to 25 members of the statistical population and this coefficient has been computed for them. The computed value is 0.91 and it indicates a high reliability for the questionnaire.

PROBLEM SOLUTION

Having collected, summarized and classified the data, whether or not the data were normal was tested by the Kolmogorov Smirnov test. Then, to evaluate the impact of social responsibility on the Profitability, regression analysis was used. Kolmogorov - Smirnov test results are shown in (Table 2) and the regression results in Tables (3) and (4).

Table-2: Results Of Normal Distribution

Result	Variable description	Kolmogorov-Smirnov Z	Sig.	
1	CSR	1.284	0.069	Normal
2	ROE	1.113	0.139	Normal
3	ROA	0.831	0.462	Normal
4	PMR	1.011	0.253	Normal
5	GPR	1.002	0.268	Normal
6	EPS	0.760	0.610	Normal
7	P/E	1.061	0.203	Normal

Table-3: Model Summary & ANOVA Results

	Model Summary				**ANOVA**	
Hypothesis Number	R	R Square	Adjusted R Square	Durbin-Watson	F	Sig
1	0.899	0.808	0.805	2.04	244.61	0.000
2	0.652	0.425	0.416	1.74	42.94	0.000
3	0.429	0.184	0.170	1.98	13.087	0.001
4	0.488	0.238	0.225	1.69	18.148	0.000
5	0.336	0.113	0.098	1.66	7.392	0.009

As shown in Table (3) R calculated for the first hypothesis is 9/89% and this means that the correlation coefficient between the dependent and independent variables is 9/89 percent. The coefficient of determination equals to 808/0 that shows the amount of the dependent variable explained by the independent variables. One of the assumptions considered in regression is that errors be independent from each other. If the hypothesis of independence of errors is rejected and errors are correlated, there is the possibility of regression. In order to check the independence of the errors of each Dorbin- Watson test is used. If this statistic ranges between 5/1- 5/2 is, H0 lack of correlation between errors is accepted; According to Watson/Dorbin test (Table 2), the lack of correlation between errors is accepted for all hypothesis. Another outlet for regression models, regression, is analysis of variance regression (ANOVA) to determine the certainty of linear relationship between 2 variables estimated through the F-statistic. This statistic is presented in Table 3. The sig calculated for all hypotheses is less than 05/0, and then the assumption of linear relationship between two variables in the entire premise is confirmed.

Table-4: Coefficients

	Constant				The coefficient of the independent variable			
Hypothesis Number	a	t	sig	Result	β	t	sig	Result
1	1.401	11.06	0.000	Confirming Hypothesis	0.899	15.64	0.000	Confirming Hypothesis
2	1.422	4.848	0.000	Confirming Hypothesis	0.652	6.553	0.000	Confirming Hypothesis
3	1.916	4.915	0.000	Confirming Hypothesis	0.429	3.618	0.001	Confirming Hypothesis
4	2.111	7.327	0.000	Confirming Hypothesis	0.488	4.260	0.000	Confirming Hypothesis
5	3.914	16.652	0.000	Confirming Hypothesis	0.336	2.719	0.009	Confirming Hypothesis
6	2.680	8.383	0.000	Confirming Hypothesis	0.194	2.001	0.048	Confirming Hypothesis

According to the results in Table (4), sig obtained from the test results show that the assumption of equality of regression coefficients and constant amount with a zero value in all hypothesis are rejected. In other words, it can be argued with 95% confidence level, CSR has a positive impact on the organization's profitability ratio (positively influences).

CONCLUSION

Hypothesis test results of research indicated that CSR has a positive impact on profitability ratios. Generally, because of today's social and environmental problems concept of corporate social responsibility has taken a back. Some experts believe that social problems should be solved by the government. They argue that organizational resources are not enough to solve social problems and organizational resources should not be wasted to solve the problems of society. Another group of scholars believed that the state is responsible for solving society's problems, but organizations 'participating in this regard is resourceful. These experts believe that since nowadays economical power passes to the organization by the government the organizations' participation is essential in solving social problems. Organizations can also benefit from the long-term interests of corporate social responsibility and improve their financial performance. The results of this paper also indicated CSR have a positive impact on profitability, although this effect can occur in the long run.

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