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Research Article

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The Impact of Corporate Social Responsibility Disclosure (CSRD) On the Financial and Accounting Information Transparency of Corporates Listed In Tehran Stock Exchange

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ABSTRACT

This study aims to assess the impact of social responsibility disclosure (CSRD) level on the financial and accounting information transparency of corporates listed in Tehran stock exchange from 2011 to 2015. It considers SCRD level as the independent variable and financial and accounting information transparency as the dependent variables. Data was collected using desk method. They were extracted from Tadbirpardaz and Rahavard Novin software, Tehran stock exchange database and Iranian Audit Organization documents. The sample size of this study exceeded 96 corporates selected among 378 corporates listed in Tehran stock exchange using systematic method. According to results, SCRD level has a significant impact on financial and accounting transparency of Tehran stock exchange-listed corporates.

KEYWORDS: ***Corporate Social Responsibility, Financial Information Transparency, Accounting Information Transparency***

1. Introduction

Corporate social responsibility (CSR) phrase implies the emergence of a movement looking for introducing social and environmental factors to the commercial decisions of corporates and their trading strategies aimed at promoting their social and environmental performance, in addition to economic dimensions, in a manner that it is beneficial to the corporate, society and the environment [McKinley, 2008].

CSR disclosure (CSRD) both affects the sustainable development of corporates and their risk levels and enriches corporates financial transparency. On the other hand, high quality CSR is followed by financial information transparency enabling shareholders to decrease capital risk. This, in turn, promotes their confidence to their business. CSRD encapsulates economic, environmental, social and ownership performances. It is underpinned by challenges and risks to be faced by corporates. It helps investors to understand corporate position and decreases information asymmetry. Therefore, CSR and information transparency well correlate with information relevancy. Kim et al (2012) found that corporates with better CSR pay more attention to ethical issues and have high-quality financial reporting. Dhaliwal et al (2011) and El Gal et al (2011) showed in a study the inverse relationship of CSRD and CSR performance with

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the cost of equity. Dhaliwal et al (2014) indicated that the inverse relationship between CSR and the cost of equity is stronger due to financial information transparency. There are few studies on the relationship between financial information transparency and CSR. Therefore, the main hypothesis of this study is that what is the relationship between CSR and financial and accounting information transparency in Tehran stock exchange-listed corporates?

2. Theoretical Fundamentals and Framework

Financial Information Transparency

The specialist department of transparency in Brookings University defines transparency as the degree of openness of corporates i.e. the extent to which the activities of internal employees of an organization (such as managers) are supervised by external people (such as shareholders)". Vishwanath and Kaufmann (1999) and Kaufman (2002) define transparency as "the promotion of the timely and reliable flow of economic, social and political information made accessible to all stakeholders". In addition, Fluorine (1999) defines transparency as "the disclosure of that data which is beneficial to assessing the performance of firms".

Corporate Social Responsibility (CSR): CSR is a process by which managers consider their responsibility for identification of those groups being influenced by organizational activities in order to comply and adopt with the benefits of the groups [Henry et al, 2012].

Lu and Bacharta (2009) studied the relationship of CSRD with financial information transparency and the cost of equity and concluded that taking CSR into consideration decreases information asymmetry on the one hand and increases financial information on the other hand.

El Gal et al (2011) studied the relationship of CSRD with financial information transparency and the cost of equity and found that there is a significant negative relationship between CSRD and the cost of equity while the relationship between CSRD and financial information transparency is positive.

Kim et al (2012) studied the relationship of performance and CSRD with financial information transparency and concluded that corporates which take social performance into account pay special attention to ethical issues. In addition, they concluded that CSR promotes financial information transparency.

Dhaliwal et al (2014) evaluated the relationship between financial information transparency, CSRD and the cost of equity and found that there is a negative relationship between CSRD and the cost of equity and this relation is stronger due to financial information transparency. Cheng et al (2015) assessed the same relationship and concluded that CSRD promotes financial information transparency and decreases the cost of equity and information asymmetry.

Zhang et al (2015) studied the relationship between CSRD and financial information transparency and concluded that not only CSRD both affects the sustainable development of corporates and risk levels and enriches information transparency.

Darini (2014) evaluated in a study the relationship between voluntary disclosures of valuable financial information of delegated companies. The examination of her hypotheses showed that as corporates further disclose their financial information investors overestimate the value of them.

Ahmadpour and Farmanbordar (2014) evaluated the relationship between CSRD and the forecast of earning per share error in companies listed in Tehran stock exchange.

Gao et al (2011) studied the relationship between CSR and financial information transparency in companies listed in China stock exchange. According to evidences, voluntary CSRD promotes financial information transparency.

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Kim et al (2012) assessed the relationship of performance and CSRD with financial information transparency. Dhaliwal et al (2014) evaluated the relationship of financial information transparency and CSRD with the cost of equity. According to their results, there is a negative relationship between CSR and the cost of equity. This relationship is stronger due to financial information transparency. Cheng et al (2015) studied the relationship of CSR and financial reporting with capital cost and showed that a better performance and CSRD results in better financing. Zhang et al (2015) conducted a study titled “the relationship between CSR and financial information transparency” and showed that CSRD both affects sustainable development of firm and their risk level and enriches information transparency.

The review of the aforementioned studies shows that there are few studies on the importance of financial and accounting information transparency in terms of social responsibility. To this end, our study suggests the following conceptual model:

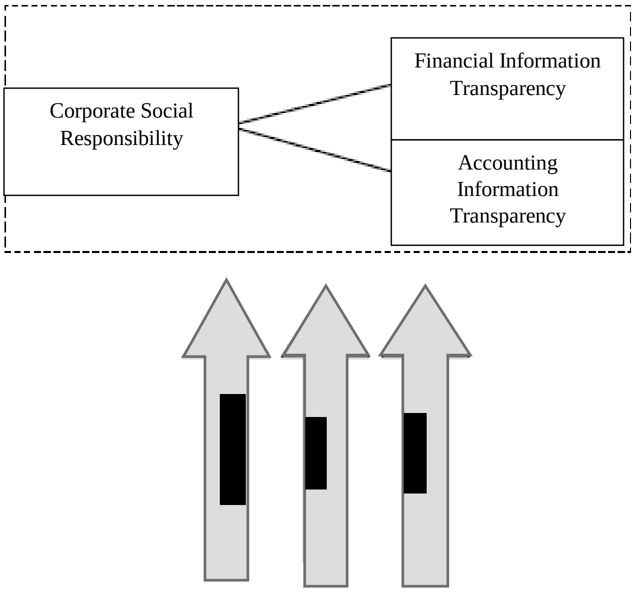

Fig. 1: the conceptual model of study

3. Objective of Study

The objective of this study is to explain the effect of CSRD level on the financial and accounting information transparency in companies listed in Tehran stock exchange.

4. Questions of study

* Does CSRD affect the financial information transparency of companies listed in Tehran stock exchange?
* Does CSRD affect the accounting information transparency of companies listed in Tehran stock exchange?

5. Hypotheses of Study

* CSRD has a significant impact on the financial information transparency of companies listed in Tehran stock exchange
* CSRD has a significant impact on the accounting information transparency of companies listed in Tehran stock exchange

6. Method of Study

This is an applied study in terms of method and a descriptive and survey study in terms of the nature. In addition, it is a regression model study in terms of execution method.

$$\text{Accounting information transparency}_{\text{it}} = a_0 + a_1\ \text{CSR disclosure}_{it} + a_2 size_{it} + a_3 lev_{it} + a_4 Growth_{it} + \epsilon_{it}$$

$$\text{financial information transparency it} = a_0 + a_1\ \text{CSR disclosure}_{it} + a_2 size_{it} + a_3 lev_{it} + a_4 Growth_{it} + \epsilon_{it}$$

where

Corporate social responsibility disclosure= CSR disclosure $_{it}$

Corporate size = $size_{it}$

Financial leverage = lev_{it}

Sales growth = $Growth_{it}$

Following Barth et al (2009), we used profit transparency index to measure accounting information transparency. This index equals to the regression coefficient of determination originated

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from the effect of Return on stock on earning and earning change [Ghaemi and Alavi]:

$$R_{i,t} = \alpha_0 + \alpha_1 E_{i,t}/P_{i,t-1} + \alpha_2 \Delta E_{i,t}/P_{i,t-1} + \varepsilon_{i,t}$$

The variables of this model are:

$R_{it:}$ return on stock i at year t on annual basis. It is calculated from the comprehensive equation of the rate of return.

$E_{ir;}$ earning per share before abnormal accrual of corporate i at year t

$\Delta E_{i.t}$: Change in earning per share before abnormal accrual from year t-1 to t

$P_{i,t-1:}$ stock price at the end of year t-1 [Khorrami et al, 2013].

Two-value variable is derived by calculating the average of transparency scores extracted from Tehran stock exchange website. Corporates with a score higher than the mean score were categorized within corporates with high financial information transparency (value 1) and remained companies were categorized within corporates with low financial information transparency (null value) [Mehrazin et al, 2012].

CSR disclosure (dependent variable)

To conduct content analysis for determining CSR level of the studied corporates, this study adopts disclosure checklist as well as Barzegar's CSR model (2012) which is applied in the form of zero and 1. Indeed, this study adopts Ernst and Ernst (1978) and Abbott and Monsen (1979) scoring method to measure the CSR of the studied corporates. In this method, if at least one item of CSRD is met, the score will be 1; otherwise, it will be zero. This means that the ratio of the number of disclosed items to total disclosable items in CSR reports, based on data of annual reports of corporates, implies CSR disclosure percentage or the corporate CSR score. This score is used to determine CSR level in each corporate.

$$\text{CSR score}= \frac{\textit{disclosed items}}{\textit{total disclosable items}}$$

Firm size: natural logarithm of the book value of total assets [Nezami et al, 2012]

leverage: total debt to total assets ratio (Nezami et al, 2012]

Sales growth: The ratio of current year sales minus previous year sales to previous year sales [Khodaei et al, 2011] is considered a correlation.

7. Population and Samples

This study uses classified and audited financial data of Tehran stock exchange-listed corporates to examine the aforementioned hypotheses. The population of study consists of all corporates with the following criteria:

1. Corporates with fiscal year ending to March
2. Corporates with no change in fiscal year from 2011 to 2015
3. Corporates with available financial data required for extracting necessary data
4. Corporates listed in Tehran stock exchange up to the end of fiscal year 2009
5. Corporates, which are not categorized within banks and financial institutes such as investment companies, financial mediatory, holding and leasing companies because they have different organizational strategy and financial information disclosure structure.

Considering the above criteria, 96 corporates out of 378 were selected as samples in accordance with systemic deletion method.

8. Data analysis and findings:

Based on the definition of dependent and independent variables, required data were extracted from reliable and available sources and were used to examine the hypotheses of study. Following data collection and the determination of study model, the normality test was conducted on dependent variable data. Next, regression test was carried out using F and t statistics, correlation coefficient and coefficient of determination in order to examine the hypotheses of study and to make decision in an error level of 5% (confidence level of 95%). Data auto-correlation test was performed using Durbin-Watson statistics. In

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addition, Hausman test was used to decide that whether fixed effect model or random effect model should be adopted. Finally, by comparing the R-value of both models, the hypotheses of study were analyzed. It should be noted that the addition of each item to the model would raise R-value. However, this study added no item. Instead, it broke an item to some sub-items. Therefore, it is still possible to use R-value to compare relevant models. This study uses Eviwes 7 to analyze data.

Test for determining the significance of fixed effect method

Our model uses panel data for estimation purposes. Panel data combines time series and cross-section data. Both types of data have some deficiencies and panel data can reduce them. Panel data first uses F-Limer and Hausman tests to determine that whether fixed effect method or random effect method should be used. Table 1 shows the results of both tests.

Table 1: F-Limer test

description	value	Degree of freedom	probability
Cross-section F	5.161514	95	0.025*
Cross-section Chi-square	184.521774	95	0.017*

* error level 5%

Table 2: Hausman test

description	value	Degree of freedom	probability
Cross-section F	5.926312	37	0.001*

* error level 5%

According to table 1-1, the obtained probability for both F-Limer and Hausman tests is less than 5%. Therefore, fixed effect method should be used in the employed regression method.

Lin and Levin's Method

Lin and Levin showed that the use of data unit root test in panel data is more powerful than conventional unit root tests such as Dickey-Fuller, advanced Dickey-Fuller and Philips-Prawn test. This study uses Lin and Levin test. The null hypothesis of this study indicates the existence of unit root for the studied variables.

Table 3: Panel data unit root test on variables based on Lin and Levin method

Variables	Statistic	Probability
Financial information transparency	3.625	0.0037*
Accounting information transparency	-5.487	0.0023*
Corporate social responsibility	-6.925	0.0008*
Corporate size	2.187	0.0056*
Leverage	6.619	0.0012*
Sales growth	3.558	0.0041*

* error level 5%

According to table 1-1 and considering the calculated statistics and relevant accepting probability, the null hypothesis, indicating the non-stationarity of variables is rejected for all variables. This indicates that all the studied variables are in a stationarity level.

Examination of hypothesis 1:

H0: CSRD has not a significant impact on the financial information transparency of Tehran stock exchange-listed corporates.

H1: CSRD has a significant impact on the financial information transparency of Tehran stock exchange-listed corporates.

Table 4: regression test for hypothesis 1

Variable	Estimated coefficients	Estimation deviation	t-statistics	Sig. level
fixed	0.302	0.057	5.298	0.014*
CSR	0.418	0.092	4.543	0.036*
Size	2.306	0.306	7.535	0.000*
Leverag-e	-0.518	0.502	-1.031	0.084
Sales growth	0.416	0.396	1.051	0.086

*error level 5%

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Table 5: explanatory capacity and overall significance of the model

R		Durbin - Watson	ANOVA	
Coefficient of determinate -on	Adjusted coefficient of determination		F-statistic	Sig. level
0.336	0.318	2.518	66.329	0.000 **

** error level 1%

According to table 1-1, the value of Durbin-Watson statistic ranges from 1.5 to 2.5. Therefore, the assumption of correlated errors is rejected and regression technique can be used. The adjusted coefficient of determination is 0.318 implying that 31.8% of the overall changes of financial information transparency depends on the independent and control variables. On the other hand, since F-statistic (66.329) is significant in an error level<0.01, it can be argued that the regression model of this study, which is composed of dependent, control and independent variables, is a fit model and the set of independent variables can explain the changes of financial information transparency. The estimated coefficient for the impact of CSRD on financial information transparency (0.418) shows the direct and positive effect of CSRD level on financial information transparency. On the other hand, considering the sig. level, the obtained t-statistic of the variable of the effect of CSRD level on financial information transparency is 0.036, which is smaller than error level 5%. Therefore, this hypothesis can be rejected with a confidence level of 95% and it can be argued that CSRD has a significant impact on the financial information transparency of Tehran stock exchange-listed corporates.

$$\text{financial information transparency it} = 0.302 + 0.418\ \text{CSR disclosure}_{it} + 2.306\ size_{it} - 0.518\ lev_{it} + 0.416\ Growt\square_{it} + \epsilon_{it}$$

Examination of hypothesis 2:

H0: CSRD has not a significant impact on the financial information transparency of Tehran stock exchange-listed corporates.

H1: CSRD has a significant impact on the financial information transparency of Tehran stock exchange-listed corporates.

Table 6: regression test for hypothesis 2

Variable	Estimated coefficients	Estimation deviation	t-statistics	Sig. level
fixed	0.623	0.106	5.877	0.009 *
CSR	0.548	0.121	4.528	0.024 *
Size	1.714	0.30	5.675	0.011 *
Leverag e	-0.625	0.547	-1.142	0.074
Sales growth	0.332	0.298	1.114	0.083

*error level 5%

Table 7: explanatory capacity and overall significance of the model

R			ANOVA	
Coefficien -t of determin-ation	Adjusted coefficient of determination	Durbin-Watson	F-statistic	Sig. level
0.418	0.412	2.036	62.423	0.00 0**

** error level 1%

According to table 1-1, the value of Durbin-Watson statistic ranges from 1.5 to 2.5. Therefore, the assumption of correlated errors is rejected and regression technique can be used. The adjusted coefficient of determination is 0.412 implying that 41.2% of the overall changes of accounting information transparency depends on the independent and control variables. On the other hand, since F-statistic (66.329) is significant in an error level<0.01, it can be argued that the regression model of this study, which is composed of dependent, control and independent variables,

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is a fit model and the set of independent variables can explain the changes of accounting information transparency. The estimated coefficient for the impact of CSRD on accounting information transparency (0.548) shows the direct and positive effect of CSRD on accounting information transparency. On the other hand, considering the sig. level, the t-statistic obtained for the variable of the effect of CSRD on accounting information transparency is 0.027, which is smaller than error level 5%. Therefore, this hypothesis can be rejected with a confidence level of 95% and it can be argued that CSRD has a significant impact on the accounting information transparency of Tehran stock exchange-listed corporates.

$$\text{Accounting information transparency it} = 0.623 + 0.548\ \text{CSR disclosure}_{it} + 1.714 size_{it} - 0.625\ lev_{it} + 0.332\ Growth_{it} + \epsilon_{it}$$

9. Findings

Hypothesis 1

The examination of hypothesis 1 showed that CSRD level has a significant impact on the financial information transparency of corporates listed in Tehran stock exchange. This agrees with the studies of Zhang et al (2015), Cheng et al (2015), Dhaliwal et al (2014), Gao et al (2011), El Gal et al (2011) and Darini (2014).

Hypothesis 2

The examination of hypothesis 2 showed that CSRD level has a significant impact on the accounting information transparency of corporates listed in Tehran stock exchange. This agrees with the studies of Zhang et al (2015), Cheng et al (2015), Dhaliwal et al (2014), Gao et al (2011), El Gal et al (2011) and Darini (2014).

10. Suggestions based on obtained results

1. Considering the results obtained from the proposed disclosure model and its indices, it is suggested that stock exchange corporates pay more attention to the economic, social and environmental impacts of their activities and include them in their CSR strategies and plans in order to become more transparent and accountable.
2. It is suggested that the managers of stock exchange corporates always follow information transparency strategy in order to avoid information asymmetry. They should always pay sufficient attention to their CSR and disclose their CSR data in order to let investors, shareholders and other stakeholders use such data in their decisions.
3. Organizational reporting authorities, including stock exchanges, should formulate appropriate regulations and requirements by the cooperation of active social and environmental institutions in order to respond the expectations of stakeholders. In addition, states should enforce corporates, especially active industrial large-size public corporates, to commit themselves to disclose their CSR information in their annual report.

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