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Impact of Investor' Sentiment on Corporate Social Responsibilities[1]

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Research Paper

1. INTRODUCTION

The social responsibility framework is rooted in the stakeholder theory. According to this theory, on the one hand, companies in shareholder-oriented societies are under the pressure of influential social organizations. Accordingly, the ultimate justification for stakeholder theory is its normative basis. Socially responsible activities that follow social norms lead to the reduction of these pressures. From this point of view, social responsibilities can be considered a purchase option. Since the purchase option leads to the reduction and limitation of the basic losses, the more active the social responsibilities of the company, the lower the business risks. On the other hand, proper relationships with different stakeholder groups help the company to access strategic resources and create competitive advantages. The resource dependence theory states that managers perform a cost-benefit analysis to determine the level of resources that should be allocated to CSR activities to maximize the return on investment in CSR (McWilliams & Siegel, 2001). In other words, the importance of social responsibilities has been proven in previous research (e.g, Flammer, 2015) and its impact on the performance of companies. Changing social responsibility strategies is in line with responding to investors' sentiment. Managers use social responsibility disclosure policies to respond to investor sentiments and

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to reduce shareholder pressure, access resources, or create competitive advantages (Sun et al., 2018).

Firms that are more difficult to value are more responsive to investor sentiment because the probability of detecting their deviation from intrinsic value is limited (Baker and Wurgler, 2006, 2007). Therefore, knowing and understanding investors' sentiments can make capital market activists and other members of society aware of the company's social responsibility. The reluctance of shareholders to sell their assets leads to a change in managers' approach to investment and intrinsic values are the basis of managers’ actions (Stein, 1988). In other words, companies with ephemeral investors and higher stock turnover react strongly to investor sentiments for social responsibility. In this research, unlike the previous research that investigated internal organizational factors affecting social responsibility, external factors such as investors' emotional tendencies are investigated and it is emphasized that social responsibility activities necessarily lead to improvement. Financial performance is not possible. In this research, the use of the social responsibility component of the company based on the valuation differences in the company leads to the reflection of the investor's sentiment towards the underlying economic drivers.

2. MATERIALS AND METHODS

The purpose of this study is descriptive and based on the nature and method of correlation. Considering that this research can be used in the decision-making process of investors, the type of applied research is considered. In this research, the library method has been used to collect data and information. Then, for collecting the research data, compact discs, visual and statistical archives of the Tehran Stock Exchange, the official website of the Tehran Stock Exchange and other related online databases have been used.

For this purpose, data related to 120 companies listed on the Tehran Stock Exchange from the period 2009 to 2020 were extracted and the combined data regression model was used to test the research hypotheses.

3. RESULTS AND DISCUSSION

The first hypothesis shows that investors' Sentiments have a significant effect on corporate social responsibility activities. According to the research results, it can be stated that the second hypothesis of the research has been confirmed. Also, the results show that firm valuation constraints do not have a significant effect on the relationship between investor sentiment and corporate social responsibility activities. According to the fourth hypothesis, the effect of investors' Sentiments on the social performance of the company is confirmed in terms of stock turnover, but this hypothesis is rejected in terms of stock premium.

4. CONCLUSION

The results of this study indicate that social responsibility activities lead to an impact on stock markets. In other words, after high emotional periods, socially responsible companies get lower returns. Therefore, as an important corporate strategy, disclosure of social responsibility is influenced by the sentiments of the investor. Changes in investor sentiment lead to the identification of risks and opportunities associated with changes in corporate behavioral factors and provide the conditions for improving social responsibility activities.

The current research has some limitations. Although this study shows the potential benefits of social responsibility activities, it ignores the potential costs associated with social responsibility, especially in the short term. Also, the results obtained from the analysis of the relationship between investor sentiment and company performance cannot be completely reliable because they may be affected by other intervening factors that were ignored in our study. Therefore, caution should be used in generalizing the results related to investor sentiments and the social performance of companies. The findings of the research indicate that managers can control investors' sentiment by using simultaneous or short-term stock returns to identify the increase in the company's fundamental value in the long term and the form of social responsibility plans.

To complete the results of this research, it is suggested to investigate the effect of information sources and informal information networks in the future, their reasons, and how it affects and controls the behavior of investors. And to know the investor's sentiment more accurately, they should investigate the psychological and social origin of these feelings.

Keywords: Investor sentiment, Corporate Social Responsibility, Corporate Financial Performance.
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