Journal of Accounting and Social Interests "Scientific Journal"
Alzahra University- Faculty of Social Sciences and Economics
Accounting and Social Interests, VOL. 13, NO. 2, Summer 2023, Pages 9-12

Corporate Sustainability Performance and Systematic Risk[1]

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Received: 2023/04/28
Accepted: 2023/08/30

Research Paper

INTRODUCTION

In today's business environment, the role of commercial companies has changed from maximizing profits to creating value for shareholders and in recent years to supporting the interests of all stakeholders (Rezaei, 2016). A company is a subset of a society, which means that value production is primarily measured by the fulfillment of specific social expectations (Velte, 2017). Business sustainability is a relatively new concept defined as the process of focusing on economic, social, environmental, governance and ethical dimensions. Among the dimensions of sustainability, the three environmental, social and corporate governance dimensions represent the non-financial issues that have been strongly paid attention to by investors and policymakers in recent years.

The possible link between non-financial sustainability performance and financial performance dimensions has been widely discussed. At first, not all scientists (such as Milton Friedman) thought that good social performance would have financial benefits for companies. The theoretical intuition for the potential link between short-term financial performance in the direction of creating shareholder value and long-term sustainable performance in the direction of creating common value for all stakeholders is to follow Jensen's theory (2001) about "Enlightened Value Maximization". The Enlightened Value Maximization shows that while the main goal of each business unit is to

1. DOI: 10.22051/JAASCI.2023.43559.1773
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maximize the value of the company, there must be a proper balance between sustainable financial performance and non-financial dimensions of sustainable performance (Rezaei, 2017).

In recent years, researchers have investigated the relationship between sustainability performance and different dimensions of financial performance. Considering the importance of the role of corporate sustainability and the mixed empirical results of the link between the non-financial components of sustainability performance and financial dimensions, the purpose of this research is to examine the relationship between the extra-financial dimensions of sustainability performance and the systematic risk of the company, which can help business, managers and investors in understanding the impact of sustainable performance in creating common value for making investment decisions. In this research, to approach the disclosure results to the performance of sustainability, sustainability measurement indicators have been designed with a focus on the quality of disclosure.

MATERIALS AND METHODS

In terms of the purpose, the current research is classified as applied research, and according to the method of data collection (research design), it has a descriptive-correlational nature. This research is based on the rationalist paradigm and has been carried out using quantitative methods. A sample of 96 companies from 1393 to 1397 (a total of 480 companies-years) was selected from the target statistical population, i.e. companies admitted to the Tehran Stock Exchange, and the related data, were analyzed using multivariate linear regression. In this research, the information related to the theoretical framework and research literature using library sources and the data needed to measure the variables from the financial statements and annual activity reports of the companies (available in the Codal, Publishers Information Organization) and Rahavard Novin software were compiled. Data summarization was done using an Excel spreadsheet and the final analysis was done using Eviuse software (version 10).

RESULTS AND DISCUSSION

Table 1 shows the descriptive statistics of the research variables. As can be seen, the variable average of the corporate sustainability score is equal to 0.514, which shows that the studied companies have scored about 51% of the desired indicators on average. Also, the number of 0.8 for the average systematic risk of companies shows that the investigated companies are less risky than the market. Among the variables of the research, the market value to book value variable has the highest dispersion and the corporate sustainability score variable has the lowest dispersion. Also, according to the skewness criterion, the market value to book value variable has the highest asymmetry and the corporate sustainability score variable has the lowest asymmetry compared to the normal distribution. In terms of kurtosis, the company's asset return variable has the highest prominence and the corporate sustainability score variable has the least prominence compared to the normal distribution.

Table 1. Descriptive statistics of research variables

Variable		Observations	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis
Systematic Risk	SRISK	480	0.818	0.723	2.039	-0.069	0.615	0.399	2.170
Corporate Sustainability Score	CSS	480	0.514	0.520	0.700	0.330	0.107	0.080	1/988
Size Of The Company	SIZE	480	14.699	14.398	17.690	12.605	1.402	0.646	2.549
Market Value To Book Value	MTB	480	2.823	2.467	6.313	0.939	1.510	0.836	2.800
Return On Assets	ROA	480	0.124	0.108	0.404	-0.068	0.123	0.657	2.841
Degree Of Financial Leverage	LEV	480	0.560	0.569	0.828	0.242	0.168	-0.257	2.126

In the process of statistical inference, after examining the stationarity and non-correlation of the variables, a panel data model with fixed effects was selected and finally, the research model was estimated as described in Table 2.

Table 2. The final estimate of the model

$$SRISK_{i,t} = \beta_1 + \beta_2 CSS_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 MTB_{i,t} + \beta_5 ROA_{i,t} + \beta_6 LEV_{i,t} + \varepsilon_{i,t}$$

Variable		Coefficient	Std. Error	t-Statistic	Prob
Corporate sustainability score	CSS	0.202119	0.523141	0.386357	0.6995
Size of The Company	SIZE	-0.027598	0.073681	-0.374553	0.7083
Market value to book value	MTB	-0.047194	0.023373	-2.019170	0.0444
Return on assets	ROA	1.091078	0.396419	2.752336	0.0063
Degree of financial leverage	LEV	0.053730	0.334600	0.160579	0.8725
R-squared		0.701917		F-statistic	6.574701
Adjusted R-squared		0.595157		Prob(F-statistic)	0.000000
Durbin-Watson stat		2.479071			

Considering that the significance level of the F-statistic is equal to 0.00, it is concluded that the estimated model justifies the changes in a significant way, or other words, the model is suitable. The value of Durbin-Watson's statistic is equal to 2.47, which shows the absence of autocorrelation between model errors. Also, the adjusted coefficient of determination of the model shows that almost 60% of the changes in the dependent variable can be explained by the independent variables. As the probability of t-statistic shows, the sustainability performance of companies has no significant relationship with systematic risk at a significance level of 0.05.

CONCLUSION

The research results show that the sustainability performance of companies has no significant relationship with their systematic risk. This result is contrary to the results of the research conducted by Farah et al. (2021), Brooks and Oikonomou (2018), Dunn et al. (2018), Oikonomou et al. (2012), Salama et al. (2011) - It can originate from the excessive influence of political and economic fluctuations and exchange rate changes on the systematic risk of companies and the weakening of the effects of sustainable performance on systematic risk in Iran; As believed by Oikonomou et al. (2012), the instability of financial markets has a moderating role in the nature and strength of the relationship between risk and social performance of companies. Also, corporate sustainability is considered a new concept in Iran, while the effect of sustainability performance is emerging in the long term. Therefore, it should be considered as a strategic factor in the commercial future of the country; If today, in developed countries, the effect of corporate sustainability on financial success and risk reduction is evident; As a result, managers are suggested to consider the impact of sustainability performance on their company's risk according to the conditions and to bring the company's sustainability to its optimal level with medium-term and long-term plans. Due to the possibility of sustainability becoming prominent shortly, the audit organization can help the integration of sustainability reporting by companies by designing standards. Also, with the increasing importance of sustainability, the need to create a database to measure corporate sustainability in Iran is felt.

Keywords: Environmental Performance, Social Performance, Corporate Governance, Systematic Risk.

JEL Classification: M14, G32.