

Social Responsibility, Company Value and Stock Returns in Companies Listed on the Tehran Stock Exchange; the Moderating Effect of the Corona Virus Epidemic¹

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Research Paper

INTRODUCTION

The importance and acceptance of corporate social responsibility in recent years have made users pay special attention to it.; social responsibility activities have a function like insurance, so insurance provides a shield against negative news, but it is not clear whether social responsibility activities during a crisis period such as Corona will work properly against negative news affecting stock price reduction or not. Whether companies should invest in corporate social responsibility activities during difficult times to increase stock returns and company value is still controversial. Although currently the COVID-19 disease has subsided and does not have a significant effect, because it was the most obvious and transparent crisis that everyone faced in recent decades, therefore; research in this field seems necessary as a global crisis. The present study is the first research that directly evaluates the moderating role of the corona virus in the relationship between social responsibility and company value and stock returns using a period that includes the years before and after this pandemic. Also, this research provides a better understanding of the effective factors in increasing the performance of social responsibility

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activities. It is important to address the factors affecting the ethical and social behavior of organizations during the crisis. Based on this, paying attention to the corona virus crisis and investigating its moderating effect on the relationship between social responsibility, company value and stock returns is one of the innovations of the present research.

MATERIALS AND METHODS

This research is practical in terms of purpose, and from the aspect of identification method, it is correlation and among descriptive research. The statistical population of the research is the Tehran Stock Exchange and the research sample is 135 companies listed in the Tehran Stock Exchange in 4 years between 2017 and 2018. To test the hypotheses of the research, multivariate regression was used with combined data and Eviuse software

RESULTS AND DISCUSSION

This study examines the impact of social responsibility activities on stock returns and firm value during the coronavirus crisis. Results of testing the first and third hypotheses showed that the participation of companies in social responsibility activities improves their performance in stock returns and company value. In other words, there is a positive and significant relationship between social responsibility, stock return and company value as the dependent variable of the model. The research literature also indicates that the improvement of the social performance of the company may lead to the improvement of stock returns; which can be achieved directly, through expense reduction and productivity improvement, or indirectly through improvement in the overall condition of the company, which makes analysts more willing to offer shares and investors have a greater desire to maintain it regardless of the company's costs and revenues. On the other hand, the social responsibility carried out by the company can reduce social risks and benefit the company in the long run. In addition, social responsibility proves an advantage for the company and this advantage should be used in creating value for the company.

Results of testing second and fourth hypotheses showed that the shock caused by the Covid-19 disease has a significant reduction effect on the stock returns and the value of the sampled companies. Also, companies that have

been more involved in social responsibility activities have experienced negative performance in this period. In fact, with the announcement of the corona virus epidemic, the market felt a negative reaction to these companies and considered the existence of more social responsibility activities as negative signals, and as a result, during this crisis, the Tehran Stock Exchange did not evaluate the companies that engaged in social responsibility well, It has not been a positive signal for the market. Therefore, based on the results, companies that disclosed social responsibility activities had lower stock returns and value during shocks.

In times of crisis, conflicts of representation within the company intensify due to the interests of different stakeholders. Costs associated with over-investing in social responsibility initiatives, which may potentially divert critical resources from other functions, can create financial pressures and disrupt overall company performance. But in the times when the market was in a normal state, social responsibility has been considered as a positive signal. Probably, the investor has argued that the company should invest in activities and businesses during this crisis, and the question has been raised as to why the company has focused on social responsibility investment activities. As a result, this has caused the stock price and company value to decrease. This means that the market has not seen social responsibility positively during the corona virus era. The reason for this could be the young nature of the disclosure of social responsibility activities in the Iranian capital market and the lack of awareness of investors regarding the importance of social responsibility activities and their positive effect on the company's long-term sustainability. Therefore, companies that disclosed higher social responsibility during the crisis did not receive a positive reaction.

CONCLUSION

Results showed that the social responsibility of the CSR leads to an increase in stock returns and company value. In addition, the Corona epidemic has a moderating effect of social responsibility on company value and stock returns. As a result, this crisis reduces the positive effect of social responsibility on company value and stock returns. In this way, it is possible to understand the importance of corporate social responsibility measures in the return of shares

and the value of companies, especially in critical periods such as the spread of the Corona pandemic virus.

In this research, the moderating effect of the actual shock of the corona virus on the relationship between social responsibility activities, company value and stock returns has been investigated, is that by examining a real shock, the relationship between these variables and predicting their behavior in other crises is discussed.

Keywords: Social Responsibility, Company Value, Stock Return, Corona Virus.

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