



Examining the Relationship between Social Responsibility and Disclosure of Remuneration Paid to Board of Directors

Hamidreza Ghiabi^{a,*}

^aDepartment of Accounting, Arak Branch, Islamic Azad University, Arak, Iran.

ARTICLE INFO

Article history:

Received 02 April 2016

Accepted 28 August 2016

Keywords:

Board bonus,

Disclosure of social
Participation,

Disclosure of information,

Employee relations,

Social participation.

ABSTRACT

Corporate social responsibility and its revelations in an essential factor leads to companies' continuity, because all companies have some relations with the society; Therefore, the society provides long-term survival of the company.

In this way, companies in addition to economic responsibility must take responsibility of social issues. Therefore, with respect to corporate social responsibility and its revelations, the current paper examines the relationship between social responsibility and disclosure of remuneration paid to board of directors within the years 1388 to 1392. The study sample consists of 55 companies that were selected by systematic removal, that, there are a total of 275 years of companies. In this study, for examining the hypothesis, the person's correlation coefficient and t test were used. In order to analyzing data and testing study hypothesis EVIEWS software was used, after designing and testing hypothesis which has done by dividing each sub-hypothesis, it was concluded that there is a reasonable relationship between the factors social responsibility (employed relations and social participation) and Board Bonus.

1. Introduction

Moving across the responsibilities is a crucial and necessary factor which leads to continuation of organizations activity in long-term. Wide studies and examinations at late 2002 by price water house Institute at the international level showed that, nearly 70% of senior managers believed that showing the social responsibilities of the company plays an important role in profitability of company's activity [6].

Proposed theories about company's social responsibilities (the theory of legitimacy, the theory of interest groups, the theory of political economy) all indicate this fact manager for various reasons such as organizational legitimacy or social pressure of interest groups are selling to disclose the company's

* Corresponding author

✉ E-mail address: h-ghiabi@iau-arak.ac.ir

social information. However, all these above theories assert that if the optional disclosure of information about the social impact of the company's activities, managers are only willing to provide information that shows the positive aspects of the organization's activities, so that they can draw a good image of the company in the public mind, so they impact on investor's decisions and are able to achieve their interests.

Since each business unit is part of the community in which it operates and continually interacts with other community members and according to the unwritten social contract between community members who have been enacted to protect the interests of all, is essential, entity be aware of their obligations and responsibilities and does not limit them to protect the interests of shareholders, but also feel other obligations and responsibilities toward other social groups such as creditors, employees, customers, vendors and groups in the community as well as environment.

The importance of research is due to show to the investment manager, shareholders and financial analysts that, due to the role of social responsibility disclosure can have in maintaining communication between business and their interest, increase the awareness of stakeholders on corporate responsibility and moral obligations to society, and will be considered in financial and investment decisions, and consequently encourages investors which should support the right to legislate corporate social responsibility and are required to meet a company's commitment and their performance against the community.

Corporate social responsibility (CSR) is a form of corporate self-regulation integrated in to a business model.

The aim is to increase long-term profits and sharing holder trust through positive public relations and high ethical standards to reduce business and legal risk by taking responsibility for corporate actions. CSR strategies encourage the company to make apposite impact on the environment and shake holders including consumers' employees, investors, communities and others.

The ordinary members of the board of directors receive a fixed base fee as consideration for their board duties. The chairman of the board of directors receives a fixed fee equaling up to three times the base fee received by the ordinary board members. In addition, the board members may receive a fixed fee for their work on committees established by the board of directors. The remuneration of the board of directors is determined on the basis of standards in the market and reflects demands to competencies and efforts in light of the scope of their work and the number of board meetings.

As from 2010 members of the board of directors no longer receive warrants as a part of their remuneration. Each year the general meeting approves the fees to the board of directors.

CSR becomes more important in the context of the global financial and economic crises because public confidence in the social and environmental responsibility of businesses has been effected [16].

The overriding principle in respect of board remuneration is that of openness. Sharing holders are entitled to a full and clear statement of directories present and future benefits, and of how they have been determined [15]. Good corporate governance system requires certain mechanisms in the process of improving firm performance and monitoring management incentives. Such schemes include the presence of independent directors or remuneration committees on the board, separation of responsibilities between the board director and the CEO [16].

2. Research history

The relationship between corporate social responsibility disclosure and institutional ownership of none of the four dimensions and social responsibility disclosure had not a significant impact on institutional ownership [8].

The relationship between social responsibility disclosure and percentage of institutional ownership in the wood and paper industry, there is a positive significant relationship between percentage of institutional ownership with social responsibility disclosure and employee relations. There is no meaningful relationship between the percentage of institutional ownership and society and environment participation and there is a significant and negative relationship between percentages of institutional ownership with production [12].

The use of social reporting of companies listed on the Icelandic stock showed the exchange result, but important increase in the level and quality of social information disclosure during the period under review [11].

Charts used in social reporting showed that organizations use charts in order to increase effective communication of social and environmental disclosure and their employees [9].

The impact of corporate social disclosure of information on the behavior investors in us Japan, France, Sweden using stakeholder's theory; the findings show that there is a significant difference in the reaction of investors toward the company's social information disclosure among the above countries [7].

The relationship between company's social responsibility disclosure and its aspects with institutional ownership is significant negative relationship between social responsibility disclosures, the disclosure of information related to employee relations, production and environment with institutional ownership [1].

The impact of Denison organizational culture components on different aspects of corporate social responsibility in the SaipaCompany; The results indicate company's corporate culture is above average Saipa company and estimate its corporate culture's profound impact on social responsibility of the company [3].

Assess the quantity and nature of social accounting information disclosure in Tehran stock exchange research findings show, Iranian companies prefer environmental and social information in the report of the Board to disclose news information. Most of the revealing has been in the human resources and then in the products and services [5].

The effect of non-executive board members and the institutional ownership and the social responsibility during the study there is no relationship between the percentage of non-executive board and institutional ownership on company's social responsibility [4].

The attitude of managers to social accounting information disclosure; Iranian managers are willing to disclose information about social benefits and welfare of their employee, but not willing to disclose information about the social costs of their organization [6].

The effect of social accounting information on manager's decision making managers tend to increase their profit to manage company's profit in terms of profit and loss, and in terms of the profit to pay income smoothing [2].

The appointments remuneration and corporate governance committee reviews indri's policies regulations, procedures and practices in this area and presents relevant proposals to the board of directors which holds final responsibility for approving them and superusing their application.

The statement on the remuneration of the company's chief executive officer (CEO) and other members of the coprolite management board has been prepaid in accordance with the provisions of the Norwegian public limited companies Act, the Norwegian Accounting act and the Norwegian code of practice for corporate governance.

The committee functions as an advisory body for the Board of directors and the CEO and is responsible primarily for making recommendations to the board of directors based on the committee's evaluation of the principals and systems underlying the remuneration of the CEO and other members of the corporate management board.

Making recommendations to the board of directors based on the committee's evaluation of the overall remuneration of the CEO, including the annual basis for bonus payment and bonus payments actually made.

Assisting the CEO by consulting on the remuneration of the other members of the corporate management board.

Advising the board of directors and the CEO in compensation matters which the committee finds to be of material of principal importunes for Hydro.

2. Research hypothesis

The hypothesis of the present study provides as follows:

The main hypothesis: There is a relationship between social responsibility disclosure and board bonus in companies listed (accepted) on Tehran stock exchange.

The first sub-hypothesis: There is a significant relationship between the disclosure of information related to employee relations and board bonus.

The second sub-hypothesis: There is a relationship between disclosure of information related to social participation and board bonus.

4. Research method

The present study in terms of the goal is an applied research.

In terms of method and nature it is a solidarity research. The method of data collection in this research is library method. The theoretical arguments of research were collected from studying resources, publications: Internal and external sources in books and using internet. The population in this study is, all companies listed on Tehran stock exchange, of which 55 companies were selected as systematic sample, the research period is from the beginning of the year 1388 to 1392. For analyzing the data EVIEWS software was used and finally with the help of t test the calculated probability proceed to judge and assess the likelihood of any statistical hypothesis. Regression models of study are as follows:

The main hypothesis of the study:

$$PHM = \beta_0 + \beta_1 EMPD + \beta_2 COMD + \beta_3 SIZE + \beta_4 GROWTH + \beta_5 BETA + \varepsilon_{i,t} \quad (1)$$

The first sub-hypothesis

$$PHM = \beta_0 + \beta_1 EMPD + \beta_2 SIZE + \beta_3 GROWTH + \beta_4 BETA + \varepsilon_{i,t} \quad (2)$$

The second sub-hypothesis

$$PHM = \beta_0 + \beta_1 COMD + \beta_2 SIZE + \beta_3 GROWTH + \beta_4 BETA + \varepsilon_{i,t} \quad (3)$$

Where in:

PHM: Board bonus

EMPD: Disclosure standards of social partnership (participation)

COMD: Disclosure standards related to employee relations

Size: size of the company

GROWTH: growth opportunity

Beta: Beta (Systematic Risk)

the dependent variable: Board bonus

achieved by the company's financial statements as well as notes to the financial statements.

Independent variables:

The disclosure of information related to the level information disclosure related to employee relations, is the level of information disclosure to social participation. In this study the content analysis was used in order to evaluate independent variables. Content analysis are classified on the classification of sentences in the text notes attached financial statement.

The disclosure of company's social responsibility:

achieved by the total value of the part of corporate social responsibility and is calculate by the following formula [12, 13].

$$CSR D = EMPD + COMD + PROD + ENVD \quad (4)$$

Total score of disclosure of corporate social responsibility

$$CSR DJ = \frac{\sum_{t=1}^{nj} X_{ij}}{nj} \quad (5)$$

CSR D: Disclosure score of CSR

n = the number of estimated cases for company

X_{ij} = If disclosure cases quantitative and its details numerically, a detailed description of activities and, if possible, pictures, charts, tables, the disclosure score is 3. If none quantitative information and explanations provided in clause, the disclosure score is 2. If qualitative disclosure and the explanations be in the format of sentence of paragraph, the disclosure score is 1. If nothing disclosed, the disclosure score is zero.

The disclosure of information related to employee relations: For showing the disclosure of information related to employee relations we need six criterions:

- Environmental health of staff
- Staff training
- Employee benefits
- Employee specifications
- Employee share ownership
- Employee health and safety ISO 18000

The next disclosure score of employee relation is obtained by the below formula:

$$EMPD = \frac{\sum A}{6} \tag{6}$$

EMPD: The score of employee relations disclosure

A: The disclosure score of each of the employee relations, criteria in the company

The six in the denominator represents the six criteria related to the disclosure of employee relations.

Disclosure of information related to the community involvement:

For showing the disclosure of information related to the community involvement we six criterions:

- Cash donation program
- Charity program
- Scholarship program
- Sponsors for sports programs
- Supporters of national prides
- public projects

Community involvement disclosure score calculate by the following formula:

$$COMD = \frac{\sum B}{6} \tag{7}$$

COMD: The disclosure of social relations

B: The disclosure score of each of social relations criteria in the company

The six in the denominator represents the six criteria related to the disclosure of social relations.

Control variables:

1) Accounting beta (Systematic risk): That part of the total portfolio risk that cannot be removed and created because of the factors that affect the total price of securities. For calculating the systematic risk the index of stock price (which is indicative of the general level of prices in the stock market) was used. Beta coefficient for a particular share is determined by company the degree of systematic risk contribution with systematic risk of stock price index.

$$\beta = \frac{COV(Rm, Ri)}{\sigma^2 Rm} \tag{8}$$

Ri= Stock returns

Rm = Stock market (index) returns

$\sigma^2 Rm$ = Variance Rm

2) Growth opportunity: that measured by the rate of market value to book value of assets:

$$GROWOP = P_{ij} / BV_{ij} \tag{9}$$

GROWOP: growth opportunity

P_{ij} = The market value of the company's capital

BV_{ij} = The book value of the company' capital

3) Size of the company: Which is equal to the logarithm of the book value of assets at the beginning of the period.

$$Size = \log(V_E) \tag{10}$$

Table1. F Limer and Houseman test Results

Theories	Model	Statistic Quantity		P-Value	Result
main Hypo Thesis	PHM _{it}	F. Limer	16.850408	0.000	Method Panel
		Houseman	14.728052	0.0346	Fix Effects
Frist Sub - Hypo Thesis	PHM _{it}	F. Limer	55.4750657	0.000	Method Panel
		Houseman	4.771433	0.3116	Fix Effects
Second Hypo Thesis	PHM _{it}	F. Limer	47.825396	0.000	Method Panel
		Houseman	10.684781	0.0303	Fix Effects

5. Results and analysis of the research

5.1. Limer F test and Hausman test

The results from Limer F test and Hausman test were conducted for models. The results are as follows: As it is shown in the Table 1, the probability of Limer F test is less than 5% for all the assumption; Thus assuming H_0 (integrated model) is not confirmed and in order to estimate the model panel data should be used, in the next step, according to show and Hausman test results for parameter estimation and first main assumption and second sub-assumption test, the second model of fixed effects was used, and for other assumptions, because the probability value of the test is more than 0/05, so for parameter estimation and hypothesis testing, random effect model was used.

5.2. Summary analysis for each hypothesis

After performing Limer F and Hausman tests and determining the estimation method (sign and Combined), the models are estimated. The results of the estimation model used in the study is described and presented in the following.

5.2.1. Testing and analyzing the main assumption

There is a relation between social responsibility disclosure and Board bonus at Tehran stock exchange.

Table2. Main Hypothesis Results

		Estimate Co efficient	Standard Error	Possibility of t-statistic	Probability Value of Test
Basis from latitude		-250.3053	381.8693	-0.655474	0.5127
Disclosure standards related to employee relations	COMD	152.4557	76.75785	1.986190	0.480
Disclosure standards of social partnership	EMPD	-739.7774	146.7492	-5.041100	0.000
Size of the company	SIZE	111.7112	24.34265	4.589116	0.000
Growth opportunity	GROWTH	1.852041	4.329983	0.427725	0.6692
Systematic Risk	BETA	31.96625	41.65881	0.767335	0.4436
Adjusted Coefficient		0.380749	F	8.415340	D.W
Adjusted Coefficient of determination		0.364463	Probability F	0.0000	2.153752

As Table 2 shows, the results of estimation that the possibility of t-statistics for the coefficients of information disclosure variables related to employee relations, the information disclosure of social participation and the size of company to board bonus is less than 5%. The estimate coefficient of the

above variable, in terms of statistics is significant and the possibility of t-statistics of information disclosure variables related to growth opportunity and systematic risk to board bonus is more than 5%; so, the above relationship is not statistically meaningful. Therefore, the first assumption with 95% certainty is rejected. Adjusted coefficient of determination shows the explanatory power of the independent variables that can explain 36% of dependent variable changes. There is a relationship between disclosure of social responsibility and board bonus in companies listed on the Tehran stock exchange. The regression equation is as follows:

$$PHM = -250/3053 + 152.4557COMD - 739.7774EMPD + 111.7112SIZE \quad (11)$$

5.2.2. Testing and analyzing the first sub-assumption

According to this assumption it is expected that there is a significant relationship between the information disclosure of employee relations and board bonus.

Table 3. First Sub – Hypothesis

		Estimate Co efficient	Standard Error	Possibility of t-statistic	Probability Value of Test
Basis from latitude		1293.144	670.3037	1.929191	1.929191
Disclosure standards related to employee relations	COMD	254.1749	102.1693	2.487781	2.487781
Size of the company	SIZE	-37.69999	47.94893	-0.786253	-0.786253
Growth opportunity	GROWTH	-1.247759	2.050937	-0.608385	-0.608385
Systematic Risk	BETA	22.80498	15.40238	1.480614	1.480614
Adjusted Coefficient		0.938189	F	56.52593	56.52593
Adjusted Coefficient of determination		0.921591	Probability F	0.000	0.000

As Table 3 shows, the possibility of t-statistics for the coefficients of information disclosure variables related to employee relations to board bonus is less than 5%; so the estimated coefficient of the above variable, in terms of statistics is meaningful and the t-statistics of the size of the company, growth opportunity and systematic risk variables to board bonus is more than 5%; so the above relationship is not statistically meaningful. Therefore, the first assumption is rejected, and there is a significant relationship between the level of information disclosure related to employee relations and board bonus. The regression equation is as Follows:

$$PHM = 1293.144 + 254.1749COMD - 37.69999SIZE \quad (12)$$

5.2.3. Testing and analyzing the second sub-assumption

According to this assumption it is expected that there is a significant relationship between the information disclosure of social participation and board bonus.

Table 4. Second Sub – Hypothesis

		Estimate Co efficient	Standard Error	Possibility of t-statistic	Probability Value of Test
Basis from latitude		-354.0156	338.4355	-1.046036	0.2965
Disclosure standards related to employee relations	EMPD	-764.0034	148.3024	-5.151660	0.000

Size of the company	SIZE	107.7352	24.54819	4.388723	0.000
Growth opportunity	GROWTH	4.113660	4.298922	0.956905	0.3395
Systematic Risk	BETA	34.11512	42.19734	0.808466	41.95
Adjusted Coefficient		0.346035	F	11.54304	D.W
Adjusted Coefficient of determination		0.336311	Probability F	0.000	2.146660

As Table 4 shows, the possibility of t-statistics for the coefficient of information disclosure variable related to the social participation and the size of the company to board bonus is less than 5%; so the estimated coefficient of the above variable, in terms of statistics is meaningful and the t-statistics of the growth opportunity and systematic risk variables to board bonus is more than 5%; so, the above relationship is not statistically meaningful. Therefore, the first assumption with 95% certainty is rejected. Adjusted coefficient of determination shows the explanatory power of the independent variables that can explain 34% dependent variable changes.

There is a relationship between the level of information disclosure related so social responsibility and board bonus. The regression equation is as follows:

$$PHM = -354.0156 - 764.0034EMPD + 107.7352SIZE \quad (13)$$

6. Conclusion

The aim of this study was to investigate the relationship between social responsibility disclosure and board bonus during the years 1388 to 1392 in Tehran stock exchange.

The results indicate that there is meaningful relationship between the factor of information disclosure related to social responsibility and board bonus and also there is a significant relationship between information disclosure related to employee relations and board bonus. In previous studies Rahimi [4] showed that during the study period, there is no relationship between the percentage of non-executive board and institutional ownership on company's social responsibility, that are not computable with the results of current study. Monitoring and ensuring the proper implementation of laws related to disclosure of corporate social responsibility in this regard is required to publish separate annual report. Suggestion for futures work it is suggested that, ways to strengthen the enforcement of such reports be investigated. It can be expected that with increased awareness of managers about the organization's social responsibility and its fields as well as train them in the management of social issue on one hand and do comprehensive auditing an evaluating on the other hand, the performance of the organizations participating in solving social problems be better than the past and present.

Companies consider corporate social responsibility as a business strategy; in order to their contribution is added in the highly competitive reputation in the market intensifies.

References

- [1] Pour Ali Mohammad Reza. M., *Examining the relationship between social responsibility and institutional ownership in companies listed on Tehran Stock exchange knowledge adurity and accounting*, 2013,10, P. 135-150.
- [2] KhoshTinat. M. & Raie, H., *Effect presentation social accounting on decision inviters*. Examination audit and accounting, 2004, 37, P. 73-92.
- [3].Daraiee. M.R.& ParsaAmal, E., *Examination effect organizational education on the social responsibility in*

- the Company Saipa*. Government management, 2013,4,P. 101-120.
- [4].Rahimi, R., *The effect on non-executive board members and the institutional ownership on the social responsibility on companies listed on stock exchange*. National congress new ideas in Audit and accounting university Azad of Khorasgan,2011,P.78-95.
- [5].Talebnia, Gh., Ali Khani, R and Merangouri, M., *Asses the quantity and nature of environmental and social information in Iran*. *Journal examines Audi and accounting*, 2012, 64, P. 43-60.
- [6].Foroughi, D., Mirshams-Shahshahni, M., Pourhossein S., *The attitude of managers to social accounting. Companies listed on Tehran Stock exchange*. *Examines audit and accounting*, 2009, 52, P. 55-70.
- [7] Ander Laan S.J., Adhikari, A., Tondkar, R. H., Andrews, R. L., *The impact of corporate social disclosure on investment behavior: A cross – national study*, *Journal of Accounting and Public Policy*, 2010, 29, P. 177-192.
- [8] Damayanti, M, DulMuid, M. S., Abdul Rohman, S., *Corporate social responsibility disclosure and its relation on institutional ownership: Evidence from public listed companies in Malaysia*, *Managerial Auditing Journal*,2011, P.35-50.
- [9] Jones, J. M., *The nature, use and impression management of graphs in social and environmental accounting*, *Accounting Forum*, 2011, 35, P.75-89.
- [10] Lynch, B., *An examination of environmental reporting by Australian state government departments*, *Accounting Forum*, 2010, 34, P. 32-45.
- [11] Mahadeo, J., Oogarah – Hanuman, V., Soobaroyen, T, *Changes in social and environment reporting practices in an emerging economy: Exploring the relevance of stakeholder and Legitimacy theories*. *Accounting Forum*, 2011,38, P.1-18.
- [12] Nirwanto, M.&. Rahardja, H., *Corporate social responsibility disclosure and its relation on institutional ownership: Evidence from public listed companies in Malaysia*, *Managerial Auditing Journal*,2011, P.21-30.
- [13] Saleh, M, Zulkifli, N, Rusnah, M., *Corporate social responsibility disclosure and its relation on institutional ownership: Evidence from public listed companies in Malaysia*. *Managerial Auditing Journal*, 2010, 25, P.6-14.
- [14] Balachandran V., Chandrasekaran V., *Corporate governance, Ethics and social responsibility*, 2011, P. 40-148.
- [15] Sabri B., DucKhuong N. *Corporate governance, Ethics and social responsibility*, 2012,P. 50-64.