

Social Responsibility and Its Impact on Financial Performance in Companies Listed on the Amman Stock Exchange

AbedAlwahab AL-Rawashdeh¹& Fatin Ameen Al Naimi¹

¹ Faculty of Economics and Administrative Sciences, Zarqa University, Jordan

Correspondence: Abed Alwahab AL-Rawashdeh, Faculty of Economics and Administrative Sciences, Zarqa University, P.O. Box 132222, Zarqa 13132, Jordan. E-mail: arawashdeh@zu.edu.jo

Abstract

The main purpose of this study was to clarify the expenditure of Jordanian Industrial Companies on social responsibility and its impact on financial performance, and the researchers used multiple linear regressions to test the hypothesis of the study. Results showed that social responsibility has a statistical significance on the financial performance of the Jordanian industrial companies. The study recommended, more efforts to increase the interest of Jordanian industrial companies' social responsibility towards the environment, in general and in particular, to increase investment of Jordanian Industrial Companies, using their resources in education, health, and infrastructure to achieve their share of responsibility towards the society.

Keywords: social responsibility, financial performance, returns on assets, returns on equity, earnings per share

1. Introduction

Companies grow within environment and society that affected them, as they very reason of the existence of the companies and its development, and without them, no goals can be achieved. Companies are getting most of its production elements from raw materials and human resources also throw out waste products in the environment and the surrounding communities. This makes it necessary for companies to help the community through environmental preservation and investment of resources, and by ensuring the well-being of families and communities. This is known as corporate social responsibility. "The responsibility of the organization on the implications of the decisions and activities on society and environment through transparency, and the ethical behavior in accordance with sustainable development and the expectations of shareholders, to the economic well-being of the whole of society." as defined by International Organization for Standardization ISO (2007). The relationship between companies and local communities led them to do activities out of its own interests for community service. In order to invest some of resources, serve society, and environment, to gain the approval of the international community, and to ensure its survival. A study (Aga, 2007) had shown relationships between the commitment of social responsibility, and marketing. Also, relationships between the social responsibilities, and financial performance, where Financial Performance evaluation of the company done through its ability to the achieve revenue, whether through main activities or secondary activities. The main purpose of this study was to clarify the expenditure of Jordanian Industrial Companies on social responsibility and satisfaction of the community, also to draw attention to its activities and products, which will be reflected in its impact on financial performance in Jordanian companies listed on the Amman Stock Exchange.

1.1 Research Problem

Jordanian Industrial Companies spend some of their resources on environment and local communities in addition to its employees. This expenditure is within social responsibility toward environment and local communities. This may happen without any management knowledge of the implication of this on its financial performance. This study will answer the questions:

1-What is the effect of expenditure on social responsibility and returns on assets in Jordanian Industrial Companies?

2-What is the effect of expenditure money on social responsibility and returns on property rights in Jordanian Industrial Companies?

The study for Mattei et al.(2009), shown that over the past 10 years, there was clearly substantial growth in social responsibility in companies. Europe and the United States have witnessed significant increase in interest in corporate social responsibility, after comparing the social responsibility in companies in two main geographical areas. The study found the growth rate for social responsibility in Europe is higher than in the United States. Their study suggested a significant positive relationship between corporate social responsibility and performance of these firms. The financial sector (banking, insurance) was the highest rate in corporate social responsibility rather than other sector. What distinguishes this study; it is focus on Social responsibility in companies listed in Amman financial market, by spending on environment, local communities and people work in these companies. Also, the impact of expenditures on financial performance, differences in time periods (2013-2017), their dependence on actual financial, and data sample of companies studied.

The concept of social responsibility

Many companies have embraced social commitments after having been subjected to pressure on account of society during the first half of the twentieth century, leading to the emergence of the concept of social responsibility, and with more pressures and Companies expansion, more efforts is done to contribute to improvement of the quality of life, the promotion of basic human and social values.Societyunsatisfied with companies, that had no interaction with their surroundings, led to the emergence of the concept social responsibility (Gallup & Ameri, 2010).

The main characteristic of corporate social responsibility, is the responsibility to their decisions and activities on environment and local communities. Companies need take into account of its responsibility towards environment and local communities, satisfy the expectations of society through knowing these expectations and achieve it, and the views of all stakeholders have to be accommodated.

Companies should understand the influence and impact of its decisions the society and the stakeholders as they are part of the society too. Complementarily of social responsibility is one of their key characteristics, taking into account the relationship between social responsibility, and sustainable development. The primary objective should be achieving sustainable development, associated with achieving the economic goals (ISO, 2010).

OECD- Organization for Economic Co-operation and Development defined social responsibility:"organization's relationship with customers, and society as a whole" .Which result in the tendency of Companies to achieving their goals and for the benefit of the community, and shifting from the traditional concept of social responsibility that based on profit maximizations, and increase in the wealth of owners through the adoption of the concept of social responsibility to management concept of social responsibility, and this means to increase manger satisfaction, Ensuring a position of strength, given ongoing developments in company.

OECD- Organization for Economic Co-operation and Development defined social responsibility:"organization's relationship with customers, and society as a whole". Which resulting in tendency of Companies to achieving their utility and for the benefit of the community, and shifting from the traditional concept of social responsibility that based on profit maximizations, and increase in the wealth of owners through the adoption of the concept of social responsibility to management concept of social responsibility, this means increased manger satisfaction, Ensuring a position of strength, given ongoing developments in company. This concept has spread to influential elements and interacting elements, whether inside or outside the company. (Ayad,2005)

The economists realized the purpose of social responsibility didn't base on profit maximizations, and manger satisfaction, but rather on environmental and social duties. By connecting of companies to the environment and society, with the problem of lack of natural resources and getting rid of garbage, companies need to protect and preserve the environment, through the rational use of these resources, and disposal of waste properly (Zidane & Yaqubi, 2011).

Jordanian Companies realized the significance of social responsibility at the last part of the last century. These companies didn'tknow the concept of social responsibility, which also didn't get attention from the academic society. Jordanian Companies began the practice of social activities, and attention to the surrounding environment, because they realize this was the reason it continues and adapts to rapidly changing internal and external environments (Alfarah & Hindawi,2011).

Jordanian Companies started for participation in social activities, such as environmental protection, use energy-saving programs, the protection of workers' rights. Also invited some Jordanian researchers to increase attention to social responsibility, with Jordanian Government funding, assistance to improve the living standards of their people, and address the challenges that face the Government to deficit in the general State budget. Scholars developed a workshop and field study on concept of social responsibility in Jordanian Companies, also

Arab Advisors Group analyze driftly-six Jordanian Industrial companies listed on the Amman Stock Exchange, and to show that they spend approximately about (27.3) million dinars during 2013 on social activities. As the study (Naimi, 2015) the average expenditure of Jordanian Companies listed on the Amman Stock Exchange during the period (2009-2013) was JD (308.776.09) for employees (JD 17.116.037) for the environment (7.922). 260) JD on the community.

3. Financial Performance

Finance function will search for a good practical basis to assess the use of money in affective and efficient way in order to achieve its financial targets through reliable information and the results of an objective situational analysis. In addition to these reviews of performance against previously established goals and programs, it is also important to enhance the effectiveness with which existing resources are used by management, so to achieve the goals of project for specified purposes for a financial period, and their responsibility for performance appraisal to achieve the projected revenue, whether main operational activities or other secondary activities.

One of the methods used to evaluate the financial performance are financial ratios are Indicators to evaluate the financial performance. However, it wouldn't be valuable, unless if compared with this ratios, and trends in their development. Or if compared with standard ratios, used to determine the degree of aberration, or compare it with other ratios that are working in the same sector.

Financial ratios can be divided in source of information into these kinds:

- 1- Financial ratios for analyzing the income list.
- 2-Financial ratios for analyzing the statement of financial position
- 3-Combined financial ratios.

Financial ratios can also be divided into other types depending on the type of activity, which these ratios are related (e.g. profitability, liquidity, activity, indebtedness, etc.). For the purpose of this study, we were adopted the following financial ratios:

1. Return on Assets: This indicator measures the rate of return on the total of constructed asset, so improve the efficiency of management in using their assets to achieve the income. This indicator is measured by the following equation:

Return on assets = net profit / average of total assets.

2>Returns on property rights: is considered one of the financial indicators that measure the rate of return on total financial rights that can be measured by the following equation:

Returns on property rights=net profit / average of property rights.

3 - Earnings per share: It is a financial indicators and this indicator expresses its share to the ordinary shares of profits for the period ending in the financial report. This indicator is calculated according to the following equation:

EPS = (net profit after tax - distributing shares) / average).

4. Procedures and Methodologies

4.1 Methodology of the Study and Data Sources

Descriptive and analytics methods are used as it fit with the purpose of study. The primary information is collected through the financial lists, and financial reports that published in the Amman Stock Exchange.

4.1.1 Study Sample

The study population consists of (65) industrial companies listed on the Amman Stock Exchange during the study period (2013 - 2017), the whole study population was chosen.

4.1.2 Study Procedures

After the sample was selected and the data was collected for the study, the researchers processed the data that obtained from the financial reports of the industrial companies listed on the Amman Stock Exchange, to be compatible with the purposes of the study, and to do the statistical treatment for test the hypotheses through the use of multiple regressions. Also, by using the statistical package software (SPSS).

4.2 Study Variables and Methods of Measurements

- Independent variable: CSR spending on social responsibility: the sum that spent on various social responsibility activities.

Variables medium :(Size) size of company

Variables medium :(B/M) Book value to market value

- First dependent variable: Return on Assets (ROA) = Net Profit / Average Total Assets.

- Second dependent variable: Return on equity (ROE) = net profit/average total shareholders' equity

- Third dependent variable: (EPS) = (net income after tax -Preferred Stock)/Weighted Average of common stock.

4.3 Statistical Analysis and Hypothesis Testing

The study hypotheses were tested by using multiple linear regressions, and to illustrate the relationship between dependent variables and the independent variable, we use the Pearson correlation coefficient, through use the SPSS (Statistical Package for the Social Sciences).

4.3.1 Hypothesis Testing

Table 1. Descriptive statistics

	Mean	Std. Deviation	N
CRS	7.2165	1.52572	65
ROA	4.4911	1.01542	65
ROE	9.3034	2.72577	65
EPS	.4152	.18110	65
Size	7.0954	1.29191	65
BM	1.3660	.39481	65

Table 1 shows the arithmetic mean and standard deviations of the study variables. the arithmetic mean of in of the independent variable is the expenditure on social responsibility (7.216), while the arithmetic mean of the return on equity (9.303), and the arithmetic mean of the return on assets is (4.491).The arithmetic mean of the average of the EPS (0.415), the arithmetic mean of the average size of the sample companies (7.095), and the arithmetic average of the book value to the market that reached (1.366).

H01: it shows that social responsibility hasn't a statistical significance on returns on equity in Jordanian Industrial companies listed on the Amman Stock Exchange at level of significance ($0.05 \geq \alpha$).

This hypothesis was tested by applying Multiple Regression Analysis that using the following equation:

$$CSR = \beta_0 + \beta_1 ROE_{t-i} + \beta_2 SIZE_{t-i} + \beta_3 BM_{t-i}$$

Table 2. ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	108.800	3	36.267	55.057	.000 ^b
	Residual	40.182	61	.659		
	Total	148.981	64			

a. Dependent Variable: CRS

b. Predictors: (Constant), ROE, BM, Size.

The ANOVA table shows that the value of p-Value Sig is (.000) and is below in the level of significance 0.05. Therefore, we reject the null hypothesis (H0) that social responsibility hasn't a statistical significance on returns on equity in Jordanian Industrial companies listed on the Amman Stock Exchange, we accept the alternative hypothesis (H1).

Table 3. Coefficients^a

Model	Unstandardized Coefficients		Standardized	t	Sig.	
	B	Std. Error	Coefficients Beta			
	(Constant)	3.649	.733			
1	ROE	.485	.038	.866	12.805	.000
	Size	-.107	.080	-.091	-1.339	.186
	BM	-.135	.260	-.035	-.519	.606

a. Dependent Variable: CRS

Table 3 shows the results of the linear regression analysis that the value of Beta is (0.866), meaning that spending on social responsibility leads to an increase in return on equity, as the value of Sig confirms. (0.000) has a statistically significant effect. This indicates an increase in the satisfaction of members of the local community. This indicates to increase in the satisfaction of the local community. The increase of dealing with the company positively as a result of its interest in and in the environment. This led to an increase in profitability, which is reflected on the rights of owners of companies and maximize their wealth.

H02: it shows that social responsibility hasn't a statistical significance on returns on assets Jordanian Industrial companies listed on the Amman Stock Exchange at level of significance ($0.05 \geq \alpha$).

It was tested by applying Multiple Regression Analysis using that the following equation:

$$CSR = \beta_0 + \beta_1 ROA_{t-i} + \beta_2 SIZE_{t-i} + \beta_3 BM_{t-ic}$$

Table 4. ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	103.270	3	34.423	45.937	.001 ^b
	Residual	45.711	61	.749		
	Total	148.981	64			

a. Dependent Variable: CRS

b. Predictors: (Constant), BM, ROA, Size.

Table 4 (ANOVA) shows that the value of p-Value Sig is (.001) and is below the significance level of 0.05. Therefore, we reject the null hypothesis (H0) which assumes that there is no social responsibility impact on the return on assets in Jordanian Industrial companies listed on the Amman Stock Exchange; we will accept the alternative hypothesis (H1).

Table 5. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
	(Constant)	2.169	.832		2.606	.011
1	ROA	1.269	.109	.845	11.694	.001
	Size	-.132	.086	-.111	-1.534	.130
	BM	.206	.276	.053	.749	.457

a. Dependent Variable: CRS.

Table 5 shows the results of multiple linear regression analysis, and the value of Beta (0.845) with exist a positive relationship between expenditure on social responsibility and return on assets, which means that the expenditure of companies on society, environment and human resources. This will increase the loyalty of its employees, increase the satisfaction of the members of the society, and create a mental image of this company to them, which leads to increased demand for their products and increase their revenues, so we reject the null hypothesis (H0) which assumes no effect of social responsibility on the return on Assets in Jordanian industrial companies listed on the Amman Stock Exchange, and we will accept the alternative hypothesis (H1) that indicates the presence of the effect.

H03: it shows that social responsibility hasn't a statistical significance on earnings per share Jordanian Industrial companies listed on the Amman Stock Exchange at level of significance ($0.05 \geq \alpha$).

It was tested by applying Multiple Regression Analysis that using the following equation:

$$CSR = \beta_0 + \beta_1 EPS_{t-i} + \beta_2 SIZE_{t-i} + \beta_3 BM_{t-i}$$

Table 6. ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	103.708	3	34.569	46.578	.002 ^b
	Residual	45.273	61	.742		
	Total	148.981	64			

a. Dependent Variable: CRS

b. Predictors: (Constant), BM, Size, EPS.

In ANOVA (Table 6), the value of p-Value Sig is (.002), which is below level of the significance 0.05. Therefore, we reject the null hypothesis (H2) which assumes that there is no social responsibility impact on the EPS in Jordanian Industrial companies listed on the Amman Stock Exchange, so we will accept the alternative hypothesis (H1).

Table 7. Coefficients^a

Model	Unstandardized Coefficients			Standardized Coefficients	t	Sig.
	B	Std. Error	Beta			
1	(Constant)	3.626	.781		4.644	.000
	EPS	7.055	.599	.837	11.776	.002
	Size	-.010	.084	-.009	-.122	.903
	BM	.537	.275	.139	1.951	.056

a. Dependent Variable: CRS

Table 7 shows the results of multiple linear regression analysis, and Beta value (0.837) with a direct correlation between expenditure on social responsibility and return on equity. This means that what the Jordanian industrial companies spend on the local environment, society and employees, and the development of their products, leads to increase their profits and thus increase per the share. Therefore, we will reject the null hypothesis (H0) which assumes that there is no social responsibility impact on the EPS in the Jordanian industrial companies listed on the Amman Stock Exchange. We will accept the alternative hypothesis (H1) that indicates to this effect.

5. Recommendations

-Increasing the interest of industrial companies in their social responsibility towards the environment in general and the Jordanian industrial companies towards the local environment in particular.

-Increasing the volume of investment by Jordanian industrial companies in the fields of education, health and infrastructure in order to achieve their social responsibility towards society.

- Establish independent management and departments in the Ministry of Commerce and Industry, which is concerned with Jordanian companies to adopt the concept of social responsibility, and to measure the level of their preservation in the environment, and the development of society and its employees, at the end to maintain the quality of their products, and motivate them to do many things.

References

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