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Reputation and Charity, Signaling and Economic Hypotheses of Corporate Social Responsibility

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Abstract

Purpose: The purpose of this research is to investigate the existence of motivations related to charity, signaling, and economic hypotheses of social responsibility, as well as the role of reputation in creating these motivations, if any.

Method: This research is practical in terms of its purpose and falls under the category of descriptive-correlational research due to its examination of the relationship between variables. Based on the applied conditions and restrictions, the screened statistical sample consisted of 101 companies admitted to the Tehran Stock Exchange during the years 1392 to 1401 and was tested using multivariate regression models.

Results: The results indicate that the participation of companies in social responsibility activities is driven by motivations other than charitable goals. The company's reputation has a positive and significant effect on optimal social responsibility, which includes economic motivations. It also has a negative and significant effect on deviations from optimal social responsibility.

Conclusion: Companies can perform better by implementing social responsibility activities driven by motives beyond benevolent goals. Companies with higher reputations engage in social responsibility activities with economic and profit goals. These reputable companies are less likely to send opportunistic signals through social responsibility, resulting in more optimal social responsibility aimed at economic goals, profit earning, and increasing the company's value.

Contribution: By examining three hypotheses of charity, economic, and signaling, this research aims to clarify the motivations of companies in carrying out social responsibility activities. It seeks to determine which of these hypotheses is most consistent with reality and how companies with high reputations exploit these activities. Conducting this research can enhance understanding in this area. The results can help company managers adopt better strategies for managing their reputation and social responsibility, and assist researchers in better understanding the relationship between corporate reputation and social responsibility activities.

Keyword: Reputation, Charity Hypothesis, Signaling Hypothesis, Economic Hypothesis, Corporate Social Responsibility.

Research Article

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Introduction

This research has investigated the motivations of companies to engage in social responsibility activities based on charitable, economic, and signaling hypotheses. It was posited that if companies undertake social activities to achieve charitable goals, social responsibility is not expected to have a significant impact on the company's performance. If this hypothesis is rejected, it implies that companies pursue other motives beyond benevolent goals. Consequently, the study investigated the effects of the company's reputation on the economic and branding hypotheses to determine which economic hypothesis or branding strategy companies employ. Information related to 101 companies listed on the Tehran Stock Exchange from 1392 to 1401 was collected and analyzed using EViews and Stata software.

Materials and Methods

This research is practical in terms of its purpose and falls under the category of descriptive-correlational research due to its examination of the relationship between variables. Based on the applied conditions and restrictions, the screened statistical sample consisted of 101 companies admitted to the Tehran Stock Exchange during the years 2013 to 2022 and was tested using multivariate regression models.

Results and Discussion

The charity hypothesis posits that companies engage in social responsibility activities for their positive societal impact rather than for increasing the company's value. These activities are seen as benevolent and moral actions aimed at improving social conditions. From this perspective, social responsibility is not expected to directly affect the financial performance of companies. However, these activities can indirectly bring benefits, such as attracting and retaining customers and committed employees, and increasing shareholding (Lys et al., 2015). Therefore, if social responsibility does not affect company performance, philanthropic motives can be considered for these activities. The results of the first hypothesis showed that social responsibility has a positive and significant effect on company performance, suggesting that among Iranian companies, other motives for participating in social responsibility activities should be investigated. To this end, the company's reputation was examined, and the second and third hypotheses were tested to determine the presence or absence of economic incentives and branding. The results of the second hypothesis proved that the company's reputation has a positive and significant effect on optimal social responsibility. As stated in the theoretical foundations section, optimal social responsibility includes the economic motivation behind social responsibility activities. In other words, companies undertake these activities to increase their value, gain profit, and perform better. The research literature suggests that companies with high reputations engage in these activities to maintain their reputation due to increased media and stakeholder attention and pressure (Porter, 2006). Reputation can act as a strong motivation for carrying out social responsibility activities, thereby having a positive effect on these activities (Jabbar Abdul Ali et al., 1403). The results of the second hypothesis confirm this positive effect and demonstrate that a company's reputation in conducting social responsibility activities creates economic incentives, aligning with the economic hypothesis of social responsibility. Finally, the results of the third hypothesis indicated that the company's reputation has a negative and significant effect on the deviation from optimal social responsibility. Deviation from optimal social responsibility reflects part of the company's motivation to send a signal, which may not always be positive or favorable for the company's future prospects and may involve opportunistic motives by managers (Lupata et al., 2022). Considering the negative impact of the company's reputation on deviation from optimal social responsibility, it can be concluded that managers in companies with high reputations are less likely to engage in opportunistic signaling. Thus, the results show that the motivations generated through the company's reputation align with the economic hypothesis and also reduce managers' opportunistic motives, consistent with the signaling hypothesis.

Conclusion

Based on the results of this research, it can be concluded that companies can perform better by implementing social responsibility activities with motives beyond benevolent goals. The company's reputation has a positive and significant effect on optimal social responsibility, indicating that companies with higher reputations engage in these activities for economic and profit-making purposes. Additionally, the company's reputation has a negative and significant effect on deviation from optimal social responsibility, proving that companies with a good reputation are less likely to send opportunistic signals through social responsibility. Therefore, social responsibility in these companies is more optimal and aimed at economic goals, profit-making, and increasing company value. Given that reputation can act as a strong driver for conducting social responsibility activities, managers should focus on strengthening and maintaining the company's reputation through these activities. Managers should be aware of stakeholders' expectations and strengthen positive relationships with them by engaging in social responsibility activities.

Conflict of Interest

The authors of this article declare that they have fully adhered to publishing ethics and assert the originality of its content. Furthermore, this work has not been published elsewhere and has not been submitted to another publication

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