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The Moderating Role of Product Market Non-Financial Performance in the Relationship between ESG Activities and Financial Performance in Listed Companies in the Tehran Stock Exchange[1]

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Research Paper

INTRODUCTION

The importance of the company's performance in academic research and applied fields such as managerial rewards and the survival of companies has made understanding the factors that can influence it to be of particular importance. (Hyderpur and Shahbazi, 2014). Measuring financial performance is the basis of many decisions, such as managers' compensation, stock prices, decisions related to investments, and many other cases. (Zandi and Faghani, 2017) Financial performance information is not sufficient to assess future uncertainties caused by changes in the business environment and the possibility of achieving company sustainability, so evaluating non-financial performance is critical. Hook states that companies that create success factors through non-financial performance measurement show higher financial performance. Non-financial performance is measured by employee satisfaction level,

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stakeholder satisfaction level, external image, social reputation, and brand value. At present, the methods of fulfilling social responsibilities lead the company to pay attention to the interests of society as one of the company's beneficiaries in addition to the economic and profit-making interests of the company's activities (Shehzad, Bey and Rahman, 2021). Researchers whose activity is based on the market state that the better the environmental, social and corporate governance reporting activities are done, the better the company's financial performance will be. Companies promote environmental, social and governance activities that are critical elements for sustainable management. In previous studies, there is not much information about the relationship between environmental, social and management activities and financial performance of companies. Therefore, this research examines the moderating effect of non-financial performance on the relationship between environmental, social and governance activities and their financial performance.

MATERIALS AND METHODS

To carry out this research, we have used EVIEWS software as well as a multivariate Pooling data regression method. The research period is 6 years between 2017 and 2022. The statistical population of this research is listed companies in the Tehran Stock Exchange, 147 companies were selected using the systematic elimination method. To determine the type of pooling data, Leamer-F and Hausman tests were used. Also, the classical assumptions of regression, including the assumption of serial autocorrelation and heterogeneity of variance of Residuals, were investigated. To test the serial autocorrelation assumption, we used the Wooldrige test, and to check the variance heterogeneity assumption, we used the adjusted Wald test. To check the Multicollinearity test, the variance inflation factor test was used. Also, before the inferential tests, the descriptive statistics of the research variables including mean, median, standard deviation, maximum, minimum, skewness and kurtosis were stated. To test the significance of individual variables, T-test was used, and to Test the significance of all models, an Analysis of variance test was used.

RESULTS AND DISCUSSION

According to the results of this research, the return on assets and company size have the lowest and highest degree of dispersion, respectively. Also, the variable of environmental, social and corporate governance reporting activities has a high asymmetry and the variable of environmental activities has a small asymmetry compared to the normal distribution. The results of the Leamer-F test indicate the panel data method. The results of the Hausman test show the fixed effects method. Also, the results of the homogeneity of variance test of the residuals prove the existence of the homogeneity of variance. According to the autocorrelation test of the residuals, the models do not have autocorrelation. About the impact of environmental, social and corporate governance reporting activities on financial performance, it is concluded that there is a significant relationship between them, and further, it was found that non-financial performance has a moderating role on the relationship between environmental, social and corporate governance activities and performance it is financial.

CONCLUSION

The results of the research showed that environmental, social and corporate governance reporting activities have a positive effect on financial performance. The environmental, social and corporate governance reporting activities of the company can affect the financial performance, stock value and fluctuations. Which is in line with the research of Jafar Jam et al. (2018) who proved the existence of a positive relationship between the disclosure of sustainability information and the financial performance and value of companies in their research. Also, non-financial performance has a moderating role in the relationship between environmental, social and corporate governance activities and financial performance. It seems that financial analysts and investors in evaluating the financial performance of companies do not simultaneously consider two factors of non-financial performance and environmental, social and corporate governance reporting, and when non-financial performance and reporting information is available. Environmental, social and corporate governance focus more on non-financial performance. The mentioned result is contrary to the research findings of Liu et al. (2022) that when the non-financial

performance (market share) increases, from the point of view of the company's shareholders, it cannot realistically engage in environmental reporting activities and social and corporate governance. Therefore, the simultaneous combination of these two factors leads to a decrease in non-financial performance.

Keywords: Environmental activities, Social and corporate governance, Financial performance, Non-financial performance.

JEL Classification: G30, G32, O13, A13, M14, Z13.