World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-13, August-2022
ISSN: 2749-3601

INVESTIGATING THE IMPACT OF CORPORATION SOCIAL RESPONSIBILITY AND INTELLECTUAL CAPITAL ON CORPORATION PERFORMANCE IN COMPANIES ADMITTED ON THE IRAQ STOCK EXCHANGE

Dr. Sahar Sepasi
sepasi@modares.ac.ir
Tarbiat Modares University/ Iran
Dr. Zia Zamel Khadir Al Hilali
Dhiaa.Zamil@qu.edu.iq
University of Al Qadisiyah/ Iraq
Hussein Kamil Dhamad al-Hasnawi
xyzhussein2@gmail.com
Tarbiat Modares University/ Iran

Article history:

Received: May 30th 2022
Accepted: June 30th 2022
Published: August 4th 2022

Abstract:

Purpose: The present research has investigated the effect of social responsibility and intellectual capital on the performance of companies admitted to the Iraqi Stock Exchange.

Method: This research is applied and developed in its research. The research population is all the companies that are members of the Iraq Stock Exchange, which were selected by using sampling with the screening method of 20 companies from the companies admitted in the Tehran Stock Exchange during the period of 2020-214, and by using combined data and generalized least squares regression method, the desired hypotheses in the research were tested.

The findings of the results indicate that corporation social responsibility did not affect the financial performance of companies admitted on the Iraqi Stock Exchange, but intellectual capital has a positive and significant effect on the performance of these companies.

Conclusion: The results of the research show the lack of effectiveness of corporation social responsibility due to the non-commitment of companies in disclosing information related to ethical, environmental and legal issues of Iraqi companies, which emphasizes the need to pay more attention to social responsibility indicators

Keywords: Corporation Social Responsibility, Intellectual Capital, Corporation Performance

INTRODUCTION

The growth of the global economy and increasing attention to the knowledge-based economy has caused the intellectual capital and participation in the social responsibilities of companies to be paid more attention by researchers. Recently, the goals of companies have changed from focusing only on the exponential maximization of shareholders' wealth to focus on the interests of all the stakeholders of the companies. In fact, currently, the methods of fulfilling social responsibilities lead the company to pay attention to the interests of the society as one of the company's beneficiaries in addition to the economic and profit benefits of the company's activities (Shahzad et al., 2021). On the other hand, due to the separation of management from the ownership of public companies and the emergence of a problem called the agency problem, the performance of managers in companies is not necessarily in line with the goals of the companies and the stakeholders of the society. And managers in the company may seek to exploit the company's interests in line with their private interests (Jensen et al., 1986). Participating in social activities can help reduce agency costs and conflict of interest in the company by creating related assets and moral capital, which can ultimately be shown by increasing the value and performance of the company. When companies participate in social responsibilities, they can gain many advantages, including reducing employee turnover rates, increasing employee job satisfaction, increasing customer satisfaction, strengthening customer loyalty, etc., and finally these

World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-13, August-2022
ISSN: 2749-3601

factors can help increase company performance (Rehman et al., 2015).
It can be said that forcing the company to participate in social responsibilities is one of the modern economic views based on which it is argued that companies should participate in social activities in order to achieve the expectations of society. Incorporating social aspects into organizational decision-making is not without challenges and involves a trade-off between the cost and benefits of a business at risk. In fact, in decisions related to social responsibilities, the relationship between benefit and cost should be considered (Shahzad et al., 2021). However, some researchers argue that participation in social responsibilities is not a cost or limitation but can be seen as a competitive advantage that will be useful in competitive markets to gain more market share (Purohit et al., 2015). At the end of the 20th century, global economies transitioned from the old industrial age to the knowledge age and changed the strategies of businesses to achieve their strategic goals (Chaharbaghi and Cripps, 2006). In other words, the global economy has moved towards a knowledge-based economy (Chaharbaghi et al., 2006). This revolution encouraged business units to focus more on intangible assets rather than tangible assets to achieve competitive advantage. Subsequently, in this situation, if companies have proper control over their intellectual capital and intangible assets, they can achieve more market share. (Bontis, 2003); Therefore, in contemporary businesses, knowledge-based assets are critical to the firm's internal capabilities if used effectively. The three main components of intellectual capital include human capital, structural capital and communication capital (Sveiby, 1997). Human capital includes the expertise, skills, experience and training received by employees while on the job. Structural capital includes organizational resources such as management practices, approaches, plans and databases. Structural capital enables employees to increase their on-the-job performance, which in turn increases company performance. Relational capital refers to a company's intellectual assets that help companies create, manage, and maintain external relationships and relationships with customers, suppliers, marketing channels, and stakeholders (Shahzad et al., 2021).
Despite previous studies examining the relationship between social responsibility and corporation performance, however, the role of intellectual capital in business units as one of the most important intangible assets of companies has been almost ignored in these studies. In this regard, theories and theoretical literature show that intellectual capital in the company can have a significant effect on the relationship between social participation and company performance. One of the most important theories is the bird's eye theory. According to this theory, two parallel factors and phenomena can affect the performance of companies. The first phenomenon is the move towards a knowledge-based economy and the second phenomenon is the combination of social activities in order to optimally manage intangible assets. Similarly, Sumita (2005) describes intellectual capital and corporation social responsibility as two opposite sides of the same coin, both describing the relationship between society, companies and their performance. In the resource-based theory, it is also stated that when social partnerships can increase the improvement of the company's performance increasingly when it interacts with the company's intangible assets, including intellectual capital (Jain et al., 2017). In other words, the improvement of the company's performance can depend on the interaction of social contributions and the company's intellectual capital. Some other studies also state that one of the most important competitive advantages of the company is rooted in the company's intangible assets and intellectual capital. These intangible resources (valuable and rare) are actually the real form of intellectual capital (Stewart, 1997); Therefore, in contemporary corporation environments, a company's competitive capabilities depend on the effective use of intellectual resources and organizational processes related to social partnerships. With regard to the above, the main problem of the current research is to answer the question of whether there is a significant relationship between social responsibility indicators (as social performance of companies) and disclosure of intellectual capital with company performance in companies admitted to the stock exchange of Iraq?

RESEARCH BACKGROUND

Attention to the role of social responsibilities in achieving society's expectations has increased as one of the most important stakeholders of companies. In developing countries, the issue of social partnerships has been given more attention. Fulfilling the company's social responsibilities can be beneficial and important for the company in several ways. For example, one of the most important goals of fulfilling social responsibilities in the company is to achieve society's expectations. Attracting customers and increasing their loyalty can be another important advantage of fulfilling social responsibilities. Also, in the current knowledge-based economy, the role of

World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-13, August-2022
ISSN: 2749-3601

intellectual capital in the company cannot be ignored. Intellectual capital as one of the most important intangible assets of companies is important in increasing performance efficiency and improving the company. Intellectual capital in companies is a competitive advantage whose correct management can increase the company's performance in a special way. In this regard, Esco and Norouzi (2021) concluded in a research that there is a significant negative relationship between related party transactions and company performance. Also, other results showed that corporation social responsibility has a negative and weakening effect on the relationship between related party transactions and the company's performance. The research findings of Amiri and Hasani Yekta (2020) also indicate the positive and significant impact of corporation social responsibility on financial performance, corporation social responsibility on intellectual capital and intellectual capital on financial performance. Also, the path analysis results confirm the partial mediating role of intellectual capital in the relationship between corporation social responsibility and financial performance.

The results of studies by Namazi et al. (2019) indicate the direct effect of corporation social responsibility on cost stickiness. In addition, it shows the effect of agency cost on cost stickiness. Among the different indicators of agency cost, the significant moderating effect of two measures of asset turnover ratio and the interaction between the company's growth opportunities and free cash flows on the relationship between corporation social responsibility and cost stickiness was shown. However, the necessary evidence of the moderating effect of the ratio of operating cost to net sales on the relationship between corporation social responsibility and cost stickiness was not found. Ghanbari and Parandin (2018) in a research concluded that the efficiency of human capital compared to other components of intellectual capital has the greatest impact on the company's market value. Capital efficiency coefficient has a positive and significant effect on financial performance. In foreign studies, Shahzad et al. (2021) showed that there is a positive and significant relationship between social responsibilities and company performance, and the efficiency of intellectual capital has a significant effect on this relationship. Rehman et al. (2020) also showed that the effect of social responsibility on company risk is negative and significant, while this effect on company performance is positive and significant. Also, the results of the research show that the company's reputation has a significant effect on the relationship between social responsibility and the company's performance and risk.

Shahwan et al. (2020) investigated the relationship between corporation governance and intellectual capital with corporation distress. Their findings show that corporation governance indicators do not have a significant effect on the financial distress of companies, but intellectual capital has a negative and significant effect on financial distress. Buallay et al.'s (2019) findings show that firm size only moderates the relationship between capital employed efficiency and corporation governance. In general, their results indicate that there is a positive and significant relationship between corporation governance and intellectual capital components.

RESEARCH METHODOLOGY

The method of this research is of the post-event type, which is in the field of accounting proof research and based on panel data. This research is correlational and using the collected information, the relationship between independent and dependent variables is tested. The logic of the current research is inductive and the information needed for the experimental test of research hypotheses was collected from databases. This research emphasizes the financial and accounting standards of the companies accepted in the stock exchange. In this research, using the real information of the financial statements of the companies admitted to the Iraqi Stock Exchange, the relationship between the independent and dependent variables has been tested. All the active manufacturing companies admitted to the Iraqi Stock Exchange were selected as the statistical population, and among them, the companies that met the conditions mentioned for the selection of the sample were selected as the statistical sample.

The statistical population of the research includes all member companies of the Iraqi Stock Exchange (Financial Board) except (brokerage companies, insurance companies and banking companies). Because the type of financial activities of these companies is fundamentally different from other companies. The target sample includes 21 companies admitted to the Iraqi Stock Exchange, which were examined during the years 2014-2020 and were selected using the systematic elimination sampling method.

World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-13, August-2022
ISSN: 2749-3601

RESEARCH FINDINGS

1. Descriptive findings

Table (1) description of companies' variables

Variables	Average	Middle	Standard deviation	Maximum	Minimum	Skewness	Kurtosis
company's performance	21.05	17.40	17.8	87.6	0.09	1.012	3.75
Corporation social responsibility	2.12	1	2.008	10	0.00	1.56	5.45
Intellectual Capital	23.01	21.05	19.89	87.57	-26.7	0.55	6.07
size of the company	9.7	9.5	0.87	12.55	8.4	1.7	6.07
Financial Leverage	1.10	1.22	0.04	1.9	0.04	-0.46	2.1
Company age	27.21	27	8.7	59	7	1.04	6.2
The number of board members of the company	7.23	7	2.14	13	5	1.56	7.18
Independence of the company's board	0.84	0.9	0.13	1	0.5	-0.68	2.88

INFERENTIAL FINDINGS

Panel data stationary test

Table (2) unit root test of panel data

Variable	Result		Levin, Lynn and Chow	Im and Sons and Shane	Fisher-Phillips Perron
Corporation social responsibility	stationary on the level	The value of the statistic	-6.88	-2.90	16.67
		Significance level	0.00	0.018	0.081
Company age	stationary on the level	The value of the statistic	52.9	-12.14	550.20
		Significance level	0.008	0.004	0.0009
Independence of the board	stationary on the level	The value of the statistic	-4.24	-1.80	24.27
		Significance level	0.00	0.13	0.006
Number of board members	stationary on the level	The value of the statistic	-4.92	-0.93	25.26
		Significance level	0.00	0.17	0.004
company's performance	stationary on the level	The value of the statistic	-7.03	-1.83	77.001
		Significance level	0.00	0.033	0.0004

World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-13, August-2022
ISSN: 2749-3601

Intellectual Capital	stationary on the level	The value of the statistic	-14.83	-3.04	85.15
		Significance level	0.00	0.0012	0.00
Financial Leverage	stationary on the level	The value of the statistic	67.63	-11.43	88.69
		Significance level	0.00	0.00	0.00
size of the company	stationary on the level	The value of the statistic	-13.80	-2.14	91.11
		Significance level	0.00	0.015	0.00

According to the above table and the significance level obtained from the tests, since the significance level of the test is less than 0.05, the null hypothesis based on the non- stationary of the research variables is rejected, therefore the research variables are stationary.

Table (3). Preliminary tests of data panel regression

Variable name	White's test		Limer's test		Hausman test		Watson camera statistics
	White statistics	p-value	Statistics F	p-value	Khi Do statistics	p-value	Watson camera statistics
The first research model	0.86	0.065	5.51	0.00	0.70	0.53	
The second research model	0.71	0.055	5.88	0.00	0.68	0.086	2.02

The results of the F-limer test indicate that the method used in fitting the regression model is the data panel method, and the Hausman test also shows that the random effects model is suitable for this model.

The results of White's test and the fact that the significance level of the test at the 95% confidence level is greater than 0.05, indicate the homogeneity of the variance of the research variables.

Watson camera statistics and the fact that the value of this statistic is between 1.5 and 2.5 also indicates the independence of regression model errors.

EXAMINING RESEARCH HYPOTHESES

The first hypothesis: there is a significant relationship between the social responsibility index and the performance of the company in the admitted companies of the Iraqi stock exchange

Table 4: Estimation and testing of the parameters of the first model

$$FP_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 AGE_{it} + \beta_5 LEV_{it} + \beta_5 BI_{it} + \beta_6 BS_{it} + \epsilon_{it}$$

Parameters	coefficients value	T-value	probability value	result	VIF
constant value	105.92	2.05	0.017	Positive and significant	-
Corporation social responsibility	0.40	0.39	0.69	Un significant	1.51
size of the company	-12.05	-2.019	0.045	significant and negative	1.37
Financial	-2.11	-2.10	0.025	significant and	1.18

World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-13, August-2022
ISSN: 2749-3601

Leverage				negative	
Company age	0.19	0.57	0.56	Un significant	1.56
Independence of the board	3.15	0.31	0.63	Un significant	1.92
Board size	0.025	0.035	0.87	Un significant	1.55
F value		112	The probability value of F		0.00
coefficient of determination		0.88	Adjusted coefficient of determination		0.87
Watson camera					2.02

In this hypothesis, the coefficient of determination is equal to 0.88, which shows that the independent variables have the ability to predict the dependent variable. Also, the adjusted coefficient of determination is equal to 0.87, the closeness of this value to the coefficient of determination indicates the realness of the data and the appropriate fit of the regression model.

On the other hand, the significance level of Fisher's test is less than 5%, which means that the model of this hypothesis is significant.

VIF (Variance Increment Factor) values are an indicator to check the collinearity between independent variables, if its value is higher than 10, there is a possibility of collinearity between independent variables. The amount of this index for variables is less than 10.

According to the significant level of t-test and that this value for the variable of corporation social responsibility is more than 0.05 at the 95% confidence level, it is concluded that social responsibility in admitted companies in Iraq does not have a significant effect on the performance of these companies.

Among the control variables, only company size and financial leverage have a negative and significant effect on the performance of Iraqi stock exchange companies.

2-3-4. The second hypothesis: There is a significant relationship between the performance of intellectual capital and the performance of the company in the companies admitted to the stock exchange of Iraq.

Table 5: Estimation and testing of the parameters of the second model

$$FP_{it} = \beta_0 + \beta_1 IC_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 AGE_{it} + \beta_5 BI_{it} + \beta_6 BS_{it} + \epsilon_{it}$$

Parameters	coefficients value	T-value	probability value	result	VIF
constant value	10.79	2.32	0028	Positively significant	-
Corporation social responsibility	1.09	2.47	0.039	significant and positive	1.63
size of the company	-11.15	-1.89	0.061	Un significant	2.01
Financial Leverage	-20.97	-6.75	0.00	significant and negative	1.84
Company age	0.069	0.20	0.83	Un significant	1.88
Independence of the board	1.36	0.12	0.89	Un significant	2.16
Board size	-0.28	-0.35	0.72	Un significant	1.45
F value		107	The probability value of F		0.00
coefficient of determination		0.86	Adjusted coefficient of determination		0.85
Watson camera					2.19

In this hypothesis, the coefficient of determination is equal to 0.86. This value shows that the independent variables have the ability to predict the dependent variable. Also, the adjusted coefficient of determination is equal to 0.85. It is possible that the closeness of this value to the coefficient of determination indicates the realness of the data and the appropriate fit of the regression model.

World Bulletin of Management and Law (WBML)
Available Online at: https://www.scholarexpress.net
Volume-13, August-2022
ISSN: 2749-3601

On the other hand, the significance level of Fisher's test is less than 5%, which means that the model of this hypothesis is significant.

VIF (Variance Increment Factor) values are an indicator to check the collinearity between independent variables, if its value is higher than 10, there is a possibility of collinearity between independent variables. The amount of this index for variables is less than 10. According to the above table, there is no collinearity between the independent variables.

According to the significance level of the t-test and the fact that this value is less than 0.05 for the variable of intellectual capital, it is concluded that intellectual capital has a positive and significant effect on the performance of companies admitted to the Iraqi Stock Exchange.

CONCLUSIONS AND SUGGESTIONS

The concept of "corporation social responsibility" is one of the concepts of business ethics and is related to the role that companies play in the social sphere. In order to be successful in their business, companies must fulfill their responsibility towards the society and all those who are affected by the activities of the organization. Top organizations, as accountable organizations, adopt a very ethical method for transparency and accountability to their stakeholders regarding their performance. These organizations have special sensitivity and attention to social accountability and maintaining the stability of the organization's ecosystem in the present and future, and they promote this point of view. Social responsibility is expressed in the values of these organizations. Through open communication with stakeholders, they understand and comply with local and global expectations and regulations and go beyond them.

On the other hand, the knowledge-based economy is an economy in which the production of knowledge plays the main role in the process of creating wealth. One of the distinctive features of the knowledge-based economy is the huge flow of investment in human capital and information and communication technology (intellectual capital). In today's era, the main competition is in the field of intellectual capital, which is one of the main advantages of the company. On the other hand, companies must be accountable to stakeholders (shareholders, customers, suppliers, employees, banks, legislators, environment and society). In this way, in addition to economic responsibility, they should also feel responsible for social issues. Therefore, corporation social responsibility and intellectual capital are factors that can contribute to the continuation of companies' performance.

Therefore, in the present research, the impact of corporation social responsibility and intellectual capital on the performance of companies admitted to the Iraqi Stock Exchange has been investigated.

The results of fitting the regression model related to the first hypothesis that "there is a significant relationship between the social responsibility index and the performance of the company in the listed companies of the Iraqi stock exchange." It showed that the level of significance obtained at the 95% confidence level is greater than 0.05, so the null hypothesis that there is no significant relationship between social responsibility indicators and company performance is admitted. Therefore, it can be said that there is no significant relationship between the indicators of social responsibility and the performance of companies admitted to the Iraqi Stock Exchange. In explaining these results, it can be said that one of the reasons for the lack of connection between social responsibility and the performance of Iraqi stock companies; The non-disclosure and voluntary reporting of social responsibility indicators and the fact that the information related to the social performance of companies is not properly measured and is not provided to real and potential beneficiaries. As a result, the relationship between corporation social responsibility indicators and performance is not significant. Also, it is possible that existing political issues such as the government's shadow over Iraqi stock companies have caused the conditions for the development of concepts such as social responsibility and intellectual capital not to be provided.

The research results of Moradi et al. (2019), Shahzad et al. (2021) and Rehman et al. (2020) are in contradiction with the results obtained from the present research.

The results of fitting the regression model of the second hypothesis of the research that "there is a significant relationship between the performance of intellectual capital and the performance of the company in the companies admitted to the stock exchange of Iraq." It showed that the significance level obtained from the t-test at the 95% confidence level was less than 0.05, so it can be concluded that intellectual capital in Iraqi stock exchange companies has a positive and significant relationship with the company's performance.

In explaining these results, it can be said that intellectual capital is a complete source for creating a competitive advantage in joint-stock companies. Although it is difficult to accurately measure

intellectual capital as an intangible asset, the additional value it creates in improving the company's performance cannot be ignored. In fact, intellectual capital is the main factor in company valuation. In this context, Ghanbari and Parandin (2018) in a research concluded that the efficiency of human capital compared to other components of intellectual capital has the greatest impact on the company's market value. Capital efficiency coefficient has a positive and significant effect on financial performance. Kasabi Kharesgani (2016) also concluded in a research that intellectual capital has a positive and significant effect on the rate of return on assets and return on equity. Also, Joshi et al. (2013) showed that the added value of intellectual capital of investment companies is higher compared to banks, insurance companies and financial companies due to higher levels of human capital productivity. The main focus of insurance companies is on physical capital instead of human capital. These results are consistent with the results of the present study.
According to the results obtained from the present research; the following suggestions are provided:

1. Considering the importance of analyzing information related to the financial performance of companies as a supplement to information on financial ratios of companies, accountants, information processing companies and investment consulting companies in the Iraqi Stock Exchange is better than preparing Analyze and present this information for different companies to provide the basis for using this information for investors and managers in the Iraqi Stock Exchange.
2. Considering the impact of intellectual capital on the financial performance of companies, it is suggested that the top managers of companies and financial institutions consider it important to identify, evaluate and invest in intellectual capital and research and development. Because today, intellectual capital is a strategic resource and a successful solution to create or maintain a competitive advantage that helps companies gain competitive advantage and financial performance.
3. Intellectual capital is an important factor in the growth of the company and as a result the growth of the national economy. Although making huge investments is one of the main duties of every government, however, based on the obtained results, it is suggested that considering that the development and improvement of intellectual capital in order to create value and gain a competitive advantage is not less important than physical and financial capital; Therefore, companies should balance their resources in intellectual capital, physical capital and investment in research and development.

REFERENCE

1. Esco, Vahid, Norouzi, Mohammad. (1400). Investigating the effect of corporation social responsibility on the relationship between related party transactions and company performance. Financial Accounting Research, 13(2). 19-32.
2. Namazi, Mohammad, Jafari, Zahra. (2018). Investigating the effect of agency cost moderation on the relationship between corporation social responsibility and cost stickiness in companies admitted on the Tehran Stock Exchange. Experimental Accounting Research, 9(4), 169-200.
3. Buallay, A. and Hamdan, A. (2019), "The relationship between corporation governance and intellectual capital: The moderating role of firm size", International Journal of Law and Management, Vol. 61 No. 2, pp. 384-401
4. Chaharbaghi, K. & Cripps, S. (2006). Intellectual capital: Direction, not blind faith. Journal of Intellectual Capital, 7(1), 29e42.
5. Jain, P. Vyas, V. & Roy, A. (2017). Exploring the mediating role of intellectual capital and competitive advantage on the relation between CSR and financial performance in SMEs. Social Responsibility Journal, 13(1), 1e23.
6. Purohit, H., & Tandon, K. (2015). Intellectual capital, financial performance and market valuation: A study on IT and pharmaceutical companies in India. IUP Journal of Knowledge Management, 13(2), 7e16.
7. Rehman, I. U., Shahzad, F., Latif, K. F., Nawab, N., Rashid, A., & Hyder, S. (2020). Does corporation social responsibility mediate the influence of national culture on investment inefficiency? Firm-level evidence from Asia Pacific. International Journal of Finance & Economics. https://doi.org/ 10.1002/ijfe.1972
8. Shahwan, T.M. and Habib, A.M. (2020), "Does the efficiency of corporation governance and intellectual capital affect a firm's financial

distress? Evidence from Egypt", Journal of Intellectual Capital, Vol. 21 No. 3, pp. 403-430

9. Shahzad, F. M.H. Baig, I.U. Rehman et al.,(2021). Does intellectual capital efficiency explain corporation social responsibility engagement-firm performance relationship? Evidence from environmental, social and governance performance of US listed firms, Borsa Istanbul Review, https://doi.org/10.1016/ j.bir.2021.05.003
10. Stewart, T. (1997). Intellectual capital: The new wealth of organizations (Vol. 37). New York, NY: Doubleday/Currency. No. 7, pp. 56-59.
11. Sumita, T. (2005). Japanese efforts on intellectual assets and non-financial information. Tokyo, Japan: Paper presented at the MET