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## The Impact of Corporate Social Responsibility and Financial Transparency on Investor Trust: Evidence from the Tehran Stock Exchange

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### Abstract

The main objective of this study is to examine the relationship between Corporate Social Responsibility (CSR) and financial transparency with investor trust. Given the crucial role of trust in the efficiency of financial markets and investors' decision-making processes, identifying the factors that can enhance this trust is of significant importance. Accordingly, this research adopts a quantitative approach and employs a descriptive–correlational method. The required data were collected using a standardized questionnaire, and the statistical population consisted of investors and market participants, from whom a sample was selected using convenience sampling. Data analysis was performed through normality testing, correlation analysis, and multiple regression modeling using SPSS software.

The findings reveal that CSR has a positive and significant effect on investor trust and represents the strongest predictor in the regression model. Financial transparency also demonstrates a positive and significant association with investor trust, indicating that higher levels of financial disclosure can reduce information asymmetry and increase investors' confidence. Overall, the results highlight that the combination of socially responsible behavior and transparent financial reporting plays an essential role in strengthening investor trust and improving the relationship between companies and their stakeholders. These findings offer practical implications for corporate managers, investors, and policymakers aiming to enhance organizational transparency and accountability.

**Keywords:** Corporate social responsibility, Financial transparency, Investor trust, Capital market, Financial reporting, Information asymmetry.

## 1 | Introduction

Investor trust is widely recognized as one of the most critical elements contributing to the efficiency and stability of financial markets. Investment decisions in capital markets are highly dependent on the quality of information disclosed by firms as well as on investors' perceptions of organizational behavior and

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performance [1], [2] As economic uncertainty, market volatility, and business complexity increase, the need for mechanisms that strengthen investor trust becomes even more essential. In this context, firms are expected not only to demonstrate sound economic performance but also to act responsibly toward society and stakeholders while maintaining transparency in their financial reporting [3], [4].

In recent decades, Corporate Social Responsibility (CSR) has emerged as a key managerial approach within modern organizations. Rooted in early scholarly work [5–8], CSR encompasses organizational policies and actions aimed at addressing social, ethical, and environmental expectations. Scholars argue that firms committed to CSR activities gain enhanced legitimacy and long-term credibility in the eyes of stakeholders [9], [10]. Such legitimacy increases investors' positive perceptions while reducing perceived corporate risk, thereby reinforcing trust [11]. Consequently, CSR is not merely an ethical obligation but a strategic asset that strengthens trust-based relationships between firms and investors [12], [13].

Alongside CSR, financial transparency represents a foundational mechanism for building trust in capital markets. Financial transparency refers to the clarity, reliability, timeliness, and comprehensiveness of financial information disclosed by companies [14], [15]. When firms provide transparent and comprehensible financial information, information asymmetry between managers and investors decreases, enabling investors to more accurately evaluate performance and risk [16], [17]. Conversely, insufficient or opaque disclosure can increase perceived risk, diminish investor confidence, and weaken market participation [18], [19]. Therefore, transparency is widely recognized as a crucial driver of investor trust in both developed and emerging markets [20], [21].

Although CSR and financial transparency are individually important, their combined influence on investor trust has received limited scholarly attention, particularly in emerging markets where institutional structures are still evolving. In such markets, investors rely not only on quantitative financial measures but also on a combination of behavioral, ethical, and informational cues [22], [23]. Thus, analyzing CSR and financial transparency simultaneously can provide a more comprehensive understanding of how trust is formed and sustained in capital markets.

Recent empirical studies highlight the significance of both CSR and transparent disclosure in shaping investor trust. For example, CSR initiatives have been shown to enhance perceptions of corporate credibility and ethical commitment [24], [25], while high-quality financial disclosure reduces uncertainty and increases investor confidence [16], [17]. Evidence from Iran also indicates that the joint effect of social responsibility and transparent reporting plays a critical role in improving investor–firm relationships [13].

Given the importance of these constructs and the central role of trust in the functioning of capital markets, examining how CSR and financial transparency jointly influence investor trust is essential. Accordingly, the present study focuses on firms listed on the Tehran stock exchange and seeks to investigate the relationship between CSR, financial transparency, and investor trust. Through this investigation, the study aims to provide deeper insights into the determinants of trust in emerging markets and contribute to the broader literature on responsible corporate behavior and transparent financial reporting.

## 2 | Hypotheses Development

Investor trust is a multidimensional construct influenced by economic, behavioral, and informational factors. In capital markets, investors rely not only on financial indicators but also on broader signals that reflect a firm's ethical conduct, credibility, and transparency. From the perspective of stakeholder theory, organizations strengthen stakeholder relationships—including those with investors—when they demonstrate accountability toward their social, ethical, and informational responsibilities [3]. In this context, CSR and financial transparency represent two critical mechanisms that shape investors' perceptions and expectations. Both factors can directly or indirectly influence the degree of trust investors place in firms [4], [14].

**Development of Hypothesis 1.** corporate social responsibility and investor trust.

Legitimacy theory suggests that firms must operate within the norms and expectations of society in order to maintain their legitimacy and long-term survival [9]. CSR initiatives—such as environmental protection, fair labor practices, and community engagement—signal ethical commitment and responsible corporate behavior to external stakeholders. These activities can reduce perceptions of opportunistic behavior and strengthen the credibility of the organization in the eyes of investors.

Previous empirical studies support this theoretical argument. For instance, Kim et al. [24] report that firms with stronger CSR engagement tend to receive greater trust and support from investors. Similarly, Mishra and Celestin [20] find that CSR initiatives enhance positive perceptions of corporate behavior and increase investors' willingness to invest in socially responsible firms. By signaling long-term commitment to ethical and societal values, CSR activities can reduce perceived moral hazard and increase investors' confidence in the firm [4], [12].

Based on these theoretical foundations and empirical findings, it is expected that CSR positively influences investor trust. Therefore, the first hypothesis is proposed as follows:

**H1.** Corporate social responsibility has a positive and significant effect on investor trust

**Development of Hypothesis 2.** Financial transparency and investor trust.

Information asymmetry theory suggests that conflicts may arise when managers possess more information about the firm than external investors [14]. When companies disclose financial information that is accurate, timely, and reliable, the information gap between management and investors is reduced. This transparency enables investors to evaluate firm performance more effectively and lowers the perceived risk associated with investment decisions.

Recent studies highlight the importance of financial transparency in strengthening investor confidence. Bischof et al. [16] demonstrate that firms with higher levels of financial transparency experience lower uncertainty and greater investor trust. Similarly, Lotito et al. [26] argue that transparent financial reporting reduces information asymmetry and improves market confidence. Evidence from the Iranian context also confirms this relationship, Flammer [13] show that transparent disclosure practices significantly improve investors' perceptions of corporate reliability and accountability.

Given the critical role of financial disclosure in capital markets, financial transparency is expected to be a key determinant of investor trust. Accordingly, the second hypothesis is formulated as follows:

**H2.** Financial transparency has a positive and significant effect on investor trust.

**Development of Hypothesis 3.** The combined effect of CSR and financial transparency on investor trust.

In complex and uncertain market environments, investors typically rely on multiple signals when evaluating firms. CSR provides a behavioral signal reflecting ethical commitment and social responsibility, while financial transparency provides an informational signal regarding honesty, accountability, and reporting quality [9], [14]. When these two mechanisms operate simultaneously, they create a more comprehensive and credible picture of the firm for external stakeholders.

Empirical evidence also suggests that the combined presence of responsible corporate behavior and transparent financial reporting can significantly strengthen investor perceptions. For example, Mishra and Celestin [20] emphasize that responsible corporate conduct enhances the effectiveness of disclosure mechanisms in building investor confidence. Similarly, Flammer [13] highlight that the interaction of CSR and transparent reporting improves investor perceptions and trust in emerging markets.

Therefore, examining the simultaneous influence of CSR and financial transparency can provide deeper insights into the mechanisms through which investor trust is formed in capital markets. Based on this reasoning, the third hypothesis is proposed as follows:

**H3.** Corporate social responsibility and financial transparency jointly have a positive and significant effect on investor trust

### 3 | Methodology

The present study is applied in terms of purpose and descriptive–correlational in terms of nature and methodology. This approach enables the researcher to examine the relationships among CSR, financial transparency, and investor trust within the real context of corporate activities. Given that the primary objective of the study is to assess the extent and nature of the associations among these variables-without manipulating them-correlational analysis was deemed appropriate. Furthermore, data were collected through a field survey to capture managers' direct perceptions and evaluations of the research constructs.

The statistical population consisted of chief executive officers of companies listed on the Tehran Stock Exchange, totaling 563 individuals. Due to time and accessibility constraints, a sample was selected from this population. In this regard, 240 companies were chosen as the study sample, and questionnaires were distributed among their CEOs. Ultimately, 235 completed and usable questionnaires were returned, representing a response rate of 97 percent. This high rate of return reflects the satisfactory cooperation of respondents and confirms the adequacy of the sample size for conducting the required statistical analyses.

To collect the necessary data, standardized and validated questionnaires were employed. CSR was measured using the instrument developed by Abdul and Ibrahim [27], which evaluates economic, legal, ethical, and social dimensions of corporate responsibility. Financial transparency was assessed using the questionnaire by Bushman et al. [14], covering indicators such as clarity of financial information, disclosure extent, reliability of financial reports, and timeliness of information publication. Investor trust was measured using Guiso et al. [28] questionnaire, which examines various dimensions of investors' confidence in corporate performance and the information disclosed by firms. All questionnaire items were rated on a five-point Likert scale.

To ensure instrument validity, the questionnaires were reviewed by five experts in financial management and accounting. Based on their comments, necessary modifications were applied to a number of items. Reliability was assessed using Cronbach's alpha coefficients. The results showed that the coefficients for the research variables ranged from 0.762 to 0.801. Given that values above 0.70 are considered acceptable for reliability in social science research, the instruments were deemed to possess satisfactory reliability.

After data collection, analyses were conducted using SPSS version 26. First, the Kolmogorov–Smirnov test was employed to assess the normality of data distribution. Next, Pearson correlation coefficients were calculated to examine the relationships among the study variables. To test the research hypotheses and evaluate the effects of the independent variables on the dependent variable, multiple linear regression analysis was performed. The regression results indicated that both CSR and financial transparency exert positive and significant effects on investor trust. Based on the results, the regression equation was derived as follows: investor trust equals 1.177 plus 0.408 multiplied by CSR and 0.185 multiplied by financial transparency. Additionally, the coefficient of determination ( $R^2$ ) was found to be 0.493, indicating that approximately 49.3 percent of the variance in investor trust is explained by the two independent variables.

### 4 | Data Analysis and Research Findings

To examine the relationships among the study variables and test the hypotheses, several stages of statistical analysis were performed. First, the normality of variable distributions was assessed using the Kolmogorov–Smirnov test. The results showed that the significance values for all variables exceeded the 0.05 threshold, indicating that the data followed a normal distribution. This confirmed the appropriateness and reliability of using parametric techniques such as correlation analysis and multiple linear regression.

Subsequently, simple correlations among the main variables were calculated. The results revealed that both CSR and financial transparency had positive and significant correlations with investor trust. These preliminary findings provided a suitable foundation for constructing the regression model, which aimed to evaluate the relative explanatory power of each independent variable on the dependent variable.

To assess the overall significance of the model, an Analysis of Variance (ANOVA) test was conducted. As presented in *Table 1*, the F-statistic was 78.888 with a highly significant p-value (0.0001), demonstrating that the regression model possessed strong explanatory power. This result indicates that the combined effects of CSR and financial transparency significantly predict variations in investor trust and that the model is statistically well-fitted.

**Table 1. ANOVA results for the regression model.**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	12.620	2	6.260	78.888	0.0001
Residual	25.507	233	0.109		
Total	51.327	235			

The researcher's findings

After confirming the significance of the model, regression coefficients were examined to assess the strength and direction of effects for each independent variable. *Table 2*, presents the unstandardized and standardized coefficients, standard errors, t-statistics, and multicollinearity indices, providing the basis for a precise interpretation of the variables' effects.

**Table 2. Regression coefficients and multicollinearity statistics.**

Variable	B	Std.Error	Beta	t	Sig	Tolerance	VIF
Constant	1.177	0.217	---	5.422	0.000	---	---
Corporate social responsibility CSR	0.560	0.086	0.561	6.807	0.000	0.460	2.175
Financial transparency	0.178	0.086	0.178	2.033	0.046	0.460	2.175

The researcher's findings

The results of the multiple regression analysis show that CSR, as the first independent variable, exerts the strongest effect on investor trust. The unstandardized coefficient ( $B = 0.560$ ) indicates that a one-unit increase in CSR is associated with a 0.560-unit increase in investor trust—a statistically significant finding given the p-value of 0.000. The standardized beta coefficient (0.561) further confirms that CSR contributes the most to explaining the variance in investor trust. This result aligns with theoretical perspectives such as legitimacy theory and stakeholder theory, which argue that responsible corporate behaviors enhance perceived organizational credibility and consequently strengthen investor trust.

Financial transparency also demonstrates a positive and significant effect on investor trust, although its magnitude is smaller relative to CSR. The coefficient ( $B = 0.178$ ) suggests that increased transparency leads to higher investor trust, and the significance level of 0.046 supports this conclusion. The standardized beta (0.178) indicates that financial transparency plays a complementary role, primarily through reducing information asymmetry and enhancing the reliability of financial reporting.

The multicollinearity diagnostics show that both variables have VIF values of 2.175 and acceptable tolerance levels, confirming the absence of collinearity issues and ensuring the statistical stability of the model. Thus, the presented results can be interpreted with confidence.

Overall, the significant positive effects of both CSR and financial transparency demonstrate that firms can substantially enhance investor trust by adopting socially responsible practices and providing transparent financial information. These findings carry important implications for corporate governance policies and offer valuable insights for understanding capital market behavior and guiding managerial decision-making.

## 5 | Conclusion

The findings of this study indicate that both CSR and financial transparency serve as critical determinants in shaping investor trust. The results show that when firms strengthen their socially responsible activities—such as stakeholder responsiveness, ethical conduct, and contributions to social development—investors develop a stronger sense of confidence in the firm's credibility and dependability. This outcome is consistent with stakeholder theory and legitimacy theory, as both frameworks propose that investors interpret socially and ethically responsible corporate behavior as a signal of managerial stability, integrity, and forward-looking orientation. Moreover, the findings highlight the significant role of financial transparency in enhancing investor trust. By reducing information asymmetry and ensuring equal access to firm-related information, transparency enables investors to form more accurate assessments of corporate performance and future prospects, thereby making financial decisions with greater assurance. Although the magnitude of financial transparency's effect is smaller than that of CSR, it nonetheless plays a vital and complementary role in strengthening investor trust.

These findings collectively suggest that investor trust is a multidimensional construct influenced by behavioral, social, and informational factors. Therefore, managers must adopt strategies that enhance both the social legitimacy of the firm and the reliability of its financial reporting. The results further demonstrate that the simultaneous integration of CSR and financial transparency yields the highest levels of investor trust, as the two factors operate in complementary ways to refine investors' perceptions of risk, managerial integrity, and the accuracy of corporate disclosures. In this regard, trust emerges not merely as an outcome of financial performance but as a product of firms' ethical conduct, social engagement, and transparency in communicating information.

Based on the study's findings, several practical recommendations can be proposed. First, firms should place greater emphasis on developing and implementing structured CSR programs. Actions such as voluntary disclosure of social initiatives, clarification of ethical policies, environmental stewardship, and genuine attention to employee rights can significantly improve the firm's long-term reputation in the eyes of investors. Second, firms must enhance their financial reporting mechanisms by employing modern disclosure practices that increase investors' confidence in the accuracy and sufficiency of reported information. Greater transparency in financial statements, timely information disclosure, and minimizing managerial opportunism can substantially elevate investor trust. Additionally, capital market regulators should develop stricter requirements in the areas of social responsibility and corporate disclosure to raise the behavioral and informational standards of companies.

For future research, it is recommended that various dimensions of CSR and different forms of transparency be examined more precisely to identify which components have the strongest influence on investor trust. Moreover, the use of more advanced analytical methods—such as structural equation modeling or Fuzzy-Set Qualitative Comparative analysis (FSQCA)—can provide deeper insights into the causal mechanisms underlying investor trust and offer a more comprehensive understanding of how these factors interact.

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## Data Availability

The data used in this study were collected through questionnaire surveys from investors and market participants. The processed dataset supporting the findings of this research can be made available by the corresponding author upon reasonable request.

## Conflicts of Interest

The authors declare that there are no conflicts of interest that could have influenced the findings of this study.

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