

The Relationship of Participation in Poverty Reduction with The Cost of Equity and Cost of Debt

Extended Purpose

Purpose

Poverty alleviation is an emerging issue concerning countless earthlings. Existing studies examine poverty-related issues mainly from the perspectives of agriculture, labor, policies, and macroeconomics. In this research, we contributed to this literature by documenting the economic consequences for companies that participate in poverty alleviation. The main findings of this research make companies aware of an important benefit of helping the poor, and that important finding is the reduction of financing costs from both the equity and debt markets, which in turn encourages companies to contribute more to poverty reduction for their countries. In addition, the analysis of the mechanism of helping to reduce poverty in companies shows a potential benefit in terms of improvement in reputation and trust among stakeholders and businesses. Unlike previous studies that examined the overall performance of corporate social responsibility, this research focused on the responsibility of the company towards shareholders who have little influence (i.e., weak people) on the company's performance. Poverty reduction has little impact on the core business activities of companies compared to other corporate social responsibility activities related to the company's employees, suppliers, and customers. Hence, corporate poverty alleviation may have little incentive to earn profits and may reflect corporate empathy and compassion for others.

Methodology

Existing studies on corporate poverty reduction focused on examining the determinants of such philanthropic actions and its impact on company value or stock returns could be interesting. The main goal of this research was the relationship between participation in poverty reduction and the cost of equity and debt. The results of the research hypotheses test showed that there is a significant inverse relationship between participation in poverty reduction by companies with the cost of equity and between participation in poverty reduction by companies with the cost of debt.

Finding

According to the results obtained from the test of the research hypotheses, it is suggested to investors and other activists in the capital market to pay special attention to the participation in poverty reduction by companies as an important factor affecting the cost of debt and the cost of equity. because the results obtained from this research showed that participation in poverty reduction by companies reduce debt and equity costs in listed companies, and therefore companies that participate in poverty reduction have more financing costs. And they have lower capital requirements, so they can be more profitable stocks for their shareholders because they have lower costs for their owners, and they can be more suitable stocks to hold or buy Meanwhile, the findings of this research have two important practical implications. First, the firm's implicit benefits for contributing to poverty alleviation largely depend on whether stakeholders appreciate, recognize, or support the firm's

contribution to poverty alleviation. If shareholders do this, companies involved in poverty alleviation will reap the benefits of reduced capital costs as well as increased sales and trade credits, as suggested by research findings. Therefore, to encourage more corporate participation in poverty alleviation, governments and the media should actively promote the importance of poverty alleviation to a wide range of stakeholders and seek their understanding and support in the poverty alleviation campaign. Second, for an emerging market in Iran, investors are generally less sophisticated than Western investors and tend to maintain short-term investment horizons. However, Iranian investors still recognize and appreciate companies' contributions to poverty reduction, as evidenced by the lower cost of capital for these companies. In this regard, companies are encouraged to contribute more to the eradication of poverty for their countries in order to achieve sustainable development of the economy and societies. Poverty eradication is a priority of the United Nations Sustainable Development Program, the World Bank, as well as many governments around the world. The companies admitted to the Tehran Stock Exchange play an essential role in helping the campaign to reduce poverty in the country. The aim is to investigate whether poverty alleviation by companies shapes their financing costs or not.

Conclusion

In this research, the relationship between participation in poverty reduction with equity cost and debt cost was made for the period 1396 to 1401. The statistical sample examined in this research includes 102 companies admitted to the Tehran Stock Exchange, with a total of 612 observations for the research period. The statistical method used in this research is the multivariate regression method using the panel data method. The results of this research show that there is a significant inverse relationship between participation in poverty reduction by companies with the cost of equity and between participation in poverty reduction by companies with the cost of debt.