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INVESTIGATING THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND MANAGERIAL RISK-TAKING IN COMPANIES LISTED ON TEHRAN STOCK EXCHANGE

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ABSTRACT

The object of this study is to examine the impact between corporate social responsibility on the relationship between corporate governance and managerial risk-taking in the listed companies in Tehran stock exchange. The locative domain of current research is all listed companies, and its time domain is during 2005 to 2015. The research method is a kind of regression, and 150 firms were selected as the statistical sample based on the systematic elimination method. The results indicated that there is a significant relationship between corporate social responsibility and managerial risk-taking in companies listed on Tehran stock exchange. There is no significant relationship between corporate governance and managerial risk-taking in companies listed on Tehran stock exchange.

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KEY WORDS

Corporate Social Responsibility, Corporate,Governance, Managerial Risk-Taking.

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INTRODUCTION

Corporate governance system is a series of relation between executive management, board of directors, shareholders and other related parties in a firm which formulates the firms' goals with the aim of creating suitable structure, and determines the ways to reach them, the goals and monitoring on performance. This discussion is established based on agency theory and with regard to managers' social responsibilities and major shareholders .Aiming the first groups of stakeholders in firms (i.e. board of directors and institutional owners), corporate governance system looks for ensure board of directors and shareholders about their return on investment. Appropriate establishing of corporate governance mechanisms is a good action for optimum use of resources, enhancing accountability, transparency, fairness and maintaining the rights of all stakeholders. It ensures firms that they are effectively using their assets and also considers extent scope of stakeholders and the society act in .Better support from shareholders encourage firms to adopt more risks, but it increases shareholders value. For example, support from shareholders cause decreased personal interests, regarding risk avoidance. Therefore, there is a negative relationship between shareholders' support and risk-taking. John et al, found that there is a positive correlation between firm's risk-taking and firm growth with shareholders' support quality, and corporate governance leads to increased risk-taking. The current investigation is consistent with Ayadi et al. They examined the relationship between corporate social responsibility, corporate governance and managerial risk-taking and found that firms with high corporate social responsibility adopt more risks which difference in corporate governance structure highlights the relation. The main issue of the current research is to examine how corporate social responsibility effect on the relationship between corporate governance with managerial risk-taking in companies listed on Tehran stock exchange. In an investigation titled "social responsibility and restaurant firms stock value", Min Chang & Hang Hi studied the relationship between corporate social responsibility, systematic risk and financial performance (Tobin's Q) and showed that corporate social responsibility increased along with increased financial performance to enhance stock value, while weaker corporate social responsibility leads to decreased stock value and increased systematic risk.

Ayadi et al, investigated the relationship between corporate social responsibility, corporate governance and managerial risk-taking and demonstrated that firms with high corporate social responsibility take higher risks and the difference between corporate governance structure emphasize on this relationship.

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Daros et al, investigated the relationship between ownership structure, corporate social responsibility disclosure in financial institutions of Malaysia during 2008 to 2011. According to the made analyses, the results suggested that a centralized firm ownership structure in a financial institution can prevent from corporate social responsibility reporting in a way that management would disclose limited information about the relationship between corporate social responsibility for a few shareholders.

Yodin& Kamal Hassan examined the relationship among corporate governance disclosure and capital market risk in the listed companies in United Arab Emirates stock exchange. They examined 95 firms and showed that there a significant and negative relationship between corporate governance and capital risk market of the listed companies in UAE stock exchange. In contrast, there is no relationship between corporate governance disclosure and capital risk market in firms with low operational leverage.

Gregory et al, examined the relationship between corporate social responsibility and firms value with respect to free cash flows, risk and sale growth and concluded that corporate social responsibility leads to decreased risk and increased long-term growth. As well, corporate social responsibility-related risk has positive and negative influence on expected cash flows. Firm value originated from decreased systematic risk due to increased growth cash flows, low probability in cash flows shocks and not getting exposed to macro- economic condition.

MATERIALS AND METHODS

Hypotheses

- There is a significant relationship between corporate social responsibility with firms managerial risk-taking in companies listed on Tehran stock exchange.
- There is a significant relationship between corporate governance with firms managerial risk-taking in companies listed on Tehran stock exchange.

The research method

The research method is a kind of regression investigation, because the relationship existence and intensity of variables are considered here. The current investigation examines the relationship between the variables and looks for test the relationship with respect to the current conditions and based on historical data. The regression analysis (reincarnation analysis) is a statistical technique for measuring and modeling the relationship between the dependent and independent variables aiming predicting the dependent and independent variables.

The research statistical population and sample

The statistical population of the research includes all listed companies in Tehran stock exchange in period 11 during 2005 to 2015. The selected firms must have the following conditions:

1. Its fiscal year should end in march.
2. The firm should not change its fiscal year during the study.
3. Banks, insurance and investment companies are not considered, because their structure are different from other manufacturing firms.
4. The firms' data should be available.
5. They should have not experienced operating loss.

According to the imposed restrictions, 324 firms were selected using the systematic elimination method, and the final sample was 150 firms through De Morgan table.

Data analysis method and tools

In this research, the related data are collected through library method. In this method, book researches, Persian and Latin expert journals as well as internet in the form of financial statements, descriptive notes, weekly reports and journal of stock exchange.

Data analysis method

To estimate the efficiency of a regression model, inn this research, one the common effects, fixed effects and random effects model is selected using panel data by suitable test. F-Limer test is used for selecting between common effects and fixed effects methods. If fixed effects model is selected, Hausman test would be used to select among fixed effects and random effects models. Also, model’s error term autocorrelation, heteroskedasticity and data normality would have been examined.To illustrate the description power of descriptive variables, to examine the significance of variables and to investigate the adequacy of whole

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model, adjusted coefficient of determination, T-statistics and F-Fisher test are used, respectively. As well, statistical analyses are done through EVIEWS 7 and EXCEL software.

RESULTS

Durability test

A time series variable is durable when its mean, variance and autocorrelation coefficient to be fixed during the time. Durability is two types: weak and strong. We usually examine the weak case. If all torques to be fixed during the time, there is strong durability; but if first and second order torque are fixed, the durability is weak. Lin-Levene test is used in this research to examine durability. H0 indicates unit root of the variables.

Table: 1(1).Lin-Levene test

Variables	Statistics	Probability
Managerial risk-taking	-34.2393	*0.000
Corporate Social responsibility	-10.0871	*0.000
Corporate governance	-14.1270	*0.000
Financial leverage	-12.0180	*0.000
Growth	-312.583	*0.000
Firm size	-4.75042	*0.000
Firm age	-4.73401	*0.000

* 5% error level

According to the **[Table 1(1)]**, The H0 is rejected and all variables are durable.

Significance test of fixed effects method

Table: 1(2)F-Limer and Hausman test

Test	Test statistics	The amount of statistics	Freedom degree	P-VALUE
F-Limer	F	2.744352	(149.1493)	*0.0000
Hausman	Statistics	8.951371	7	*0.0162

* 5% error level

According to the tables (F and Hausman test), both obtained results are less than 5%, and the fixed effect method should be used in the related regression model.

The first hypothesis test

Table: 1(3). Hypothesis test

Variable	Estimated coefficient	Standard deviation	t-statistics	Significance level
Fixed	6.340764	0.201771	31.42562	0.0000
Corporate social responsibility	-0.019004	0.005796	-3.278668	0.0011
Financial leverage	0.020463	0.104578	0.195669	0.8449
Firm growth	-6.890110	6.580010	-1.017297	0.2951
Firm size	-0.028657	0.009175	-3.123414	0.0018
Firm age	-0.011999	0.003597	-3.336172	0.0009
Durbin-Watson	Coefficient of determinaton	The adjusted coefficient of determination	F-statistics	Significance level

1.54	0.867	0.82	3.921379	**0.000

* 5% error level, **1% error level

Regarding the [Table 1(3)] since Durbin-Watson statistic test value is determined 1.54, there is no correlation between errors and regression can be used. The coefficient of determination of corporate social responsibility is -0.019; indicating there is a negative and adverse relationship between corporate social responsibility and managerial risk-taking, i.e. managers risk-taking is decreased in firms with high corporate social responsibility. The impact of firm size and firm age (control variables) is negative and adverse on firms risk-taking. In contrast, firm growth and financial leverage have no relationship with managerial risk-taking, due to their significance level is higher than 0.05. The adjusted coefficient of determination is 0.82, indicating the control and independent variables can predict 82% of the dependent variable (managerial risk-taking). On the other hand, due to significance level of F-statistics in 1% error level, it can state that the current model is statistically significant and suitable. Finally, due to significance level of t-statistics of the independent variable is less than 5%, it can say with 95% confidence level that H0 is rejected and H1 is confirmed. Therefore, there is a significant relation between corporate social responsibility and managerial risk-taking companies listed on Tehran stock exchange.

The second hypothesis test

Table: 1(4). The regression test and significance of the model

Variable	Estimated coefficient	Standard deviation	t-statistics	Significance level
Fixed	6.543940	0.269319	24.29811	0.0000
Corporate governance	1.671206	5.561006	0.300776	0.7636
Financial leverage	0.118232	0.083896	1.409263	0.1590
Firm growth	6.970110	1.061209	-0.656736	0.5115
Firm size	-0.053687	0.019931	-2.693617	0.0071
Firm age	-0.012549	0.004497	-2.790311	0.0053
Durbin-Watson	R	R^2	F-statistics	Significance level
1.55	0.88	0.81	3.882731	**0.000

* 5% error level, **1% error level

Regarding the [Table- 1(4)], since Durbin-Watson statistic test value is determined 1.55, there is no correlation between errors and regression can be used. The coefficient of determination of corporate governance is 1.671; indicating there is a positive relation between corporate governance and managerial risk-taking, i.e. managers risk-taking is increased in firms with high corporate governance. The impact of firm size and firm age (control variables) is negative and adverse on firms risk-taking. In contrast, firm growth and financial leverage have no relation with managerial risk-taking, due to their significance level is higher than 0.05. The adjusted coefficient of determination is 0.81, indicating the control and independent variables can predict 81% of the dependent variable (managerial risk-taking). On the other hand, due to significance level of F-statistics in 1% error level, it can state that the current model is statistically significant and suitable. Finally, due to significance level of t-statistics of the independent variable is more than 5%, it can say with 95% confidence level that H1 is rejected and H0 is confirmed. Therefore, there is no significant relationship between corporate governance and managerial risk-taking in companies listed on Tehran stock exchange.

CONCLUSION

Regarding the first hypothesis regression model, there is a significant relationship between corporate social responsibility and firms' managerial risk-taking in the listed companies in Tehran stock exchange. In this regard, Rashid (2015) in his research on the relationship between corporate social responsibility and firms risk found that high levels if corporate social responsibility lead to a definite risk rate for shareholders. Increased corporate social responsibility is correlated with increased risk. According to the second hypothesis regression model, there is no significant relationship between corporate governance and managerial risk-taking in companies listed on Tehran stock exchange. In this regard, Yodin& Kamal Hassan (2014) examined the relation among corporate governance disclosure and capital market risk in the listed companies in United Arab Emirates stock exchange. They showed that there a significant and negative relationship between corporate governance and capital risk market in companies listed on UAE stock exchange. The following recommendations can be made based on the obtained results:

1.It can be suggested that the listed firms should pay attention to better transparency and accountability to stakeholders in order to reflect economic, social and environmental effects and regard them in providing corporate social responsibility strategies and their plans.

2.It is suggested that firms take an action for establishing a unit of independent committee into organizational structure to provide strategies, goals and corporate social responsibility plans.
3.It is suggested to firms to focus on corporate governance, and look for implementing and disclosing corporate governance in firms, because (1) corporate governance creates a framework for creating long-term reliance between firms and external suppliers; (2) it grants strategic thinking to a firm through appointing managers who have modern experiences and ideas; (3) it rationalizes management and monitoring on risks firms faced with; and (4) it restricts reliance on top managers and their responsibility through distributing decision-making process.

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CONFLICT OF INTERESTS
None
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None

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