Journal of Financial Management Strategy
Alzahra University
Vol. 10, No. 37, Summer 2022

pp. 33-34

Research Paper

The Effect of Investor Protection on Stock Crash Risk: A Test of Effectiveness of Operant Conditioning Behavior Theory[1]

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Received: 2019/04/06 Accepted: 2019/12/28

Introduction

With the comprehensive development of psychology, in particular, behavioral sciences and the natural influence of the achievements of this science in other humanities, the theoretical framework of these sciences such as sociology, economics, management, accounting, and financial management in the comparative process was gradually influenced by behavioral sciences. And in practice, there was a theoretical turning point in humanities research. The key point in this process is the readiness and willingness of investors (real and legal) in the financial and capital markets to invest. In fact, capital holders in these markets need two reassurances to encourage investment. First, to ensure profitability, and second, to ensure that their capital is not invaded.

The stability of laws and regulations and the rule of law, which leads to respect for contracts and protection of private sector capital, can be considered a prominent factor in investors' assurance of non-aggression to protect their capital. In fact, investors want high returns and avoid risk. As a result, it can be concluded that they are looking for confidence in their investment.

Maintaining and protecting the interests of shareholders are considered as one of the main pillars of each capital market, which, while increasing the level of financial transparency, reduces stock crash risk. Accordingly, companies are always trying to strengthen shareholders' trust and confidence by enhancing the level of protection of shareholders' rights through effective ways such as raising the level of incentives for managers, while reducing the cost of representation. The purpose of this research is to investigate the effectiveness of operant conditioning behavior theory on the effect of investor protection on stock crash risk in Companies listed on the Tehran Stock Exchange.

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MATERIALS AND METHODS

The present study is applied research in terms of purpose and terms of data collection method is a post-event semi-experimental research in the field of positive accounting research that has been done using multivariate regression method and econometric models. The statistical population studied in this study consists of companies listed on the Tehran Stock Exchange during the years 2014 to 2018. In this research, to measure Investor protection of rights, the criteria used such as the quality of accounting information, the effectiveness of internal controls, the voting rights of shareholders, the index of ownership concentration, and the corporate governance index based on the multi-criteria decision-making model by TOPSIS and weight method entropy. Also, for measuring the stock crash risk, two criteria for negative stock skewness (NCSKEW) and (DUVOL) were used. To assess the behavior of the actor (stimulus-response), we used the competitive motivation of managers using the managers' compensation gap.

RESULTS AND DISCUSSION

The results showed that protection of investor's rights has a negative and significant effect on the stock crash risk. Estimation coefficient and t-statistic related to the variable of investor protection in both models were negative and significant at the error level of 5%, which indicates a significant negative relationship between investor protection and the stock crash risk. Accordingly, the first research hypothesis is not rejected at the 5% error level.

It was also found that competitive incentives negatively impacted the protection of investors' rights on the stock crash risk. The estimation coefficient and t-statistic related to the interactive variable (competitive motivation × investor protection) are significant in both models and at a 5% error level. Thus, the second hypothesis of the research is confirmed at an error level of 5%. That is, competitive incentives intensify the effect of protection of shareholders' rights on reducing the stock crash risk of the company.

CONCLUSION

Companies can help strengthen the protection of shareholders' rights by presenting financial statements and strengthening their areas of governance oversight, which will reduce the stock crash risk, and the presence of such oversight may reduce the accumulation of bad news in companies.

In other words, companies try to strengthen their oversight role to the extent of regulatory laws and regulations by strengthening and consolidating areas of oversight through their management system, and in this way, it strengthens the confidence in protecting the interests of shareholders by reducing the stock crash risk in shareholders.

Also, the result of the second hypothesis of the research showed that competitive incentives reinforce the negative effect of protection of shareholders' rights on the stock crash risk. In fact, competitive incentives enable managers to take steps to protect shareholders' rights because according to the operant conditioning behavior theory, individuals provide appropriate responses to stimuli such as financial stimulus, which can also be highly considered in the discussion of behavioral financial theories and used in corporate governance strategies.

Keywords: Operant Conditioning Behavior Theory, Investor Protection, Stock Crash Risk
JEL Classification: M12 ،M41 ،G40