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Research Paper

Corporate Social Responsibility Reporting and Stock Liquidity: The Moderating Role of External Monitoring[1]

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INTRODUCTION

According to agency theory, managers, as representatives of shareholders, may make decisions that do not necessarily maximize shareholder wealth. To address potential conflicts of interest, adequate control or monitoring mechanisms should be established. Information disclosure is one such mechanism, and it plays a crucial role in reducing information asymmetry in the market. High-quality information disclosure contributes to informed decision-making by shareholders, positively impacting their wealth. Conversely, poor financial disclosure can mislead shareholders, adversely affecting their wealth. Therefore, effective information disclosure is vital for increasing transaction volume and liquidity by reducing information asymmetry.

In contemporary business practices, there is a growing emphasis on the development of comprehensive corporate social responsibility (CSR) reporting to enhance transparency and accountability in capital markets. While CSR reports address various environmental, social, corporate governance, and economic dimensions to cater to broader stakeholder concerns, investors frequently rely on these reports for investment decision-making. Existing literature suggests that companies with high social performance are more likely to publicly disclose their social activities. Consequently, corporate social responsibility reporting is believed to enhance the transparency and quality of information provided by companies. This improvement in information quality is expected to reduce information risk and investor uncertainty, ultimately decreasing market information asymmetry. As a result, corporate social responsibility is anticipated to contribute to the reduction of information asymmetry and the subsequent increase in market liquidity.

The objective of this study is to investigate the relationship between corporate social responsibility reporting and stock liquidity, considering the potential moderating effect of external monitoring on this relationship.

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MATERIALS AND METHODS

The present study is applied research with the aim of conducting positive accounting research. The data collection method employed is a post-event semi-experimental approach, utilizing multivariate regression methods and econometric models. The statistical population under investigation comprises companies listed on the Tehran Stock Exchange for the years 2013 to 2018.

In this research, stock liquidity is measured using the illiquidity ratio, which, being an indicator of illiquidity, is represented by its negative value as a measure of stock liquidity. Corporate social responsibility (CSR) is measured using the social responsibility disclosure index, calculated by dividing the sum of disclosed items by the total items that can be disclosed. External monitoring is assessed by considering the presence of institutional investors.

RESULTS AND DISCUSSION

The results indicate a significant positive relationship between corporate social responsibility reporting and stock liquidity. The estimation coefficient and t-statistic for the corporate social responsibility variable were both positive and significant at the 5% error level, confirming a substantial positive association between corporate social responsibility reporting and stock liquidity. Therefore, the first research hypothesis is validated at the 5% error level.

Furthermore, the study found that external monitoring has a positive impact on both corporate social responsibility reporting and stock liquidity. The estimation coefficient and t-statistic for the interactive variable (external monitoring) are positive and significant at a 5% error level. Thus, the second research hypothesis is affirmed at a 5% error level, suggesting that external monitoring enhances the relationship between corporate social responsibility reporting and stock liquidity.

CONCLUSION

The results of the first hypothesis test affirm a significant positive relationship between the disclosure of corporate social responsibility reporting and stock liquidity. Companies exhibiting high social performance are more inclined to publicly disclose their social activities, thereby enhancing information transparency and reducing information asymmetry between the company and investors, ultimately leading to an increase in stock liquidity.

The findings from the test of the second hypothesis indicate that external monitoring influences the relationship between the disclosure of corporate social responsibility and stock liquidity, intensifying this relationship. Institutional investors, with their inherent characteristics, exert more influence on the company and guide management in the interests of investors. The presence of these investors reduces information asymmetry, fostering increased confidence and stock liquidity.

Keywords: Social Responsibility, Stock Liquidity, External Monitoring.

JEL Classification: G12, G14, G32, M14.