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Research Paper

The Moderating Effect of Investors' Behavioral Strains on the Relationship between Manager's Myopia and Social Responsibility[1]

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INTRODUCTION

The purpose of this study is to investigate the effect of managerial myopia on corporate social responsibility (CSR) and to examine the moderating effect of investors' behavioral biases—such as emotional behavior, investor myopia, and herding behavior—on the relationship between managerial myopia and CSR. In competitive environments and efficient markets, managers are less likely to use company resources solely to achieve profit-seeking goals. This competition fosters stable and socially responsible practices within companies. However, in inefficient markets, motivations like rewards, avoiding regulations, and maintaining job status can drive short-sighted managers to act in their own interests, often at the expense of other stakeholders, resulting in reduced social responsibility activities.

On the other hand, investors often do not behave rationally when making investment decisions. As a result, biases such as herding, emotional behavior, and short-sightedness are expected to influence individual investors' decision-making responses. Based on this, the following hypotheses are proposed: 1) Managerial myopia has a

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negative and significant effect on corporate social responsibility activities. 2) Shareholders' emotional behavior amplifies the relationship between managerial myopia and corporate social responsibility activities. 3) Shareholders' herding behavior accentuates the relationship between managerial myopia and corporate social responsibility activities. 4) Market myopia moderates the relationship between managerial myopia and corporate social responsibility activities.

MATERIALS AND METHODS

In terms of the implementation process (data type), this research is quantitative; in terms of its practical application, it is categorized as applied research; in terms of purpose, it is research-analytical; in terms of execution logic, it follows a deductive-inductive approach; and in terms of time, it is post-event. Data was collected through document analysis, utilizing Rahvard software and the audited financial statements of companies listed on the Tehran Stock Exchange. For statistical analysis of the variables, EViews and Stata software were used. The statistical population of this research comprises all companies listed on the Tehran Stock Exchange between 2013 and 2022. The sample was selected using a systematic elimination method. Companies were excluded if their financial year did not end on March 29, experienced changes in activity or fiscal year, were involved in special activities (insurance, banking, holding, and investment), or had incomplete information necessary for calculating the research variables. Ultimately, 143 companies remained, resulting in a final sample size of 1,430 firm-year observations. To measure corporate social responsibility (CSR), this research uses six dimensions—customers, employees, environment, society, shareholders, and corporate governance—based on studies like Lanis and Richardson (2015). Managerial myopia is measured using the model of Anderson and Hsiao (1982), market myopia is measured using the model of Abarbanell and Bernard (2000), investor emotional tendencies are measured using the capital market emotional tendency index, and herding behavior is assessed using the Lakonishok model (1992). To estimate the research models, a multivariate regression model was employed, accounting for the fixed effects of year and industry.

RESULTS AND DISCUSSION

Since fulfilling corporate social responsibility (CSR) has long-term effects on financial performance and may potentially reduce short-term financial performance metrics, managerial decisions and actions influenced by short-sightedness can disrupt CSR initiatives. Therefore, we anticipated that managerial myopia would negatively impact CSR, and the results of this research confirm this expectation. Short-sighted managers tend to prioritize short-term gains over long-term benefits and neglect CSR, ignoring its long-term advantages. In this study, the impact of three key investor behavioral biases on the relationship between managerial myopia and CSR was examined. These behaviors include emotional behavior, herding behavior, and investor short-sightedness. The results from the research model estimations confirmed the hypothesis that these biases amplify the effect of managerial myopia on CSR. Emotional behavior, herding behavior, and investor short-sightedness all contribute to making the negative impact of managerial myopia on CSR more pronounced.

CONCLUSION

The findings of this research suggest that short-sighted managers tend to focus on improving short-term performance, profitability, and current stock price to satisfy shareholders and maintain the company's image in the market. As a result, they are less inclined to engage in corporate social responsibility (CSR) activities, which impose short-term costs while offering long-term benefits. Furthermore, when shareholders exhibit emotional behavior, herding behavior, or are myopic themselves, the reluctance of short-sighted managers to participate in CSR increases. The research demonstrates that socially-oriented companies are more likely to value the long-term benefits that accrue to their primary shareholders, while the opposite is true for companies less focused on social initiatives. Moreover, the study reveals that social orientation interacts with market behavior and pricing patterns, which shape managerial decision-making. The novelty of this research lies in showing the negative relationship between CSR and managerial myopia, and how this relationship intensifies when investors display emotional, herding, or myopic tendencies—an area previously unexplored in the literature. By examining the link between CSR and managerial myopia in the context of investor behavior, this research contributes to the understanding of how market-driven reporting motives and company characteristics interact. Based on the findings, it is recommended that managers pay close attention to their own decision-making behaviors as well as those of shareholders, as these behaviors can negatively impact the company's long-term performance. It is also suggested that standard-setters and corporate boards, who are responsible for establishing laws, governance mechanisms, and CEO selection, consider the role of behavioral factors in their decisions. Investors are advised to adopt more prudent investment strategies, as their decision-making behaviors can influence managerial horizons and affect the company's long-term performance and sustainability. Given the increasing competitiveness of

CSR and global challenges around resource management and energy, future research should investigate additional behavioral traits of both managers and shareholders—such as overconfidence, self-attribution bias, and ambiguity aversion—that may influence CSR decisions.

Keywords: Corporate Social Responsibility, Manager's Myopia, Investor Emotional Behavior, Investor Myopia and Herding Behavior.
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