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Investigating the Effect of Stock Price Growth on the Relationship Between Risk Motivation and Financing Policy

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ABSTRACT

This study investigates the effect of stock price growth on the relationship between risk motivation and financing policy in the Tehran Stock Exchange companies. The present descriptive research is considered in the category of correlational research. The library method was used to collect data and information in this study. In the data section, the research collected data from sample companies by referring to financial statements, explanatory notes and monthly stock exchange. This study's statistical population includes companies listed on the Tehran Stock Exchange from 2013 to 2018 (6 years) that meet the conditions of the company. One hundred thirty-nine companies and 834 years companies were collected based on the limitations defined in the research of eligible companies. Multivariate regression has been used to confirm and refuse the research hypotheses (Ives software) to test hypotheses. The results indicated an inverse and significant relationship between risk motivation and company financing policy. In addition, the growth of stock prices has a positive and significant effect on the relationship between risk motivation and the company's financing policy.

Keywords: *Managers' risk-taking, financing policy, stock price growth, growth opportunities*

INTRODUCTION

Corporate executives are extremely concerned about financing for long-term investments. According to Miller&Modigliani, there is no difference in the cost of financing from the company's internal or external sources in a "complete" capital market. In this case, companies can provide the essential financial resources with a definite capital cost rate through the capital market without any problems. But the capital market can not be practically efficient.

On the other hand, the companies are managed by those managers who do not own the company and have different interests from the original owners of the company (the representation issue). In this situation, investors do not trust the company's managers and ask for a higher rate of return to finance investment projects. On the other hand, investors do not have enough information about the companies' economic conditions and overestimate the risk of investing in companies (Arsalan and Florakis Vazkan, 2006). As a result, outsourced financing (issuance of bonds) has a high cost, making the financing cost exceed the declared nominal rate



of return. These factors make companies use increasingly domestic resources to finance their investments. Our companies operate in a growing and highly competitive environment. Therefore, they must compete with many factors nationally and internationally and develop new activities to survive. In this regard, they need to issue new securities and financial resources. The modern financial theory defines the financial manager's duties in a business unit as investment, financing and profit sharing decisions. The manager makes such decisions to maximize the company's value and generate future positive cash flows. Therefore, to maximize its value, a company needs to determine from what sources it finances and where to invest. Investment is known as a dynamic factor in the economic development of any company (Talibnia, 2015).

The company's goal is to minimize the cost of financing (after tax) by selling the securities at a price higher than the present value of the funds that the company will pay to these securities holders. To achieve this goal, the company's management should provide the necessary capital at a rate lower than the current market rate because the cost of raising capital for the company is based on the rate of return expected by investors. On the other hand, the present value of the company's funds to the capital suppliers should be less than the amount the company receives from them to sell securities (Kim, 2011).

Hack Barth (2008) indicates that regarding financial decisions, risk-related bias and managerial growth are among the significant factors in explaining capital structure decisions such as financial leverage and debt release. Hack Barth (2008) claims that compared to the non-biased managers, biased managers are more interested in using debt financing by believing that the company is profitable and less risky. Due to agency problems, the company managers possibly do not use their resources to increase shareholder wealth. They use these resources to advance their personal goals and interests. Various tools and mechanisms have been measured for this purpose. None of them has been a deterrent to this problem. Corporate governance is one way to solve this problem, preventing managers from abusing it for personal gain and improving corporate performance. Corporate governance offers a framework for effectively and efficiently guiding businesses to maximize shareholder wealth. Therefore, this study investigates the risk motivation of managers and financial policy in companies listed on the Tehran Stock Exchange.

Theoretical foundations of research

Financing policy

Profitable activities like investment in projects are undoubtedly necessary for the survival and continuity of activity in the current complex and competitive business environment. Companies invest in projects by considering various factors such as risk and expected rate of return. How companies provide the financial resources needed to invest in these activities shapes the capital structure of companies. One of the main factors for the company's growth and development is the company's ability to determine the domestic and foreign potential financial resources for investments and the preparation of appropriate financial plans. Therefore, financing decisions can be one of the main decision-making areas of corporate financial managers. The financial resources of each economic unit consist of internal and external sources. Internal sources include cash flows from operations and funds from the sale of assets. In addition, external sources include borrowing from financial markets and issuing shares. Firms can provide their resources by issuing shares, raising capital, issuing participation bonds, certificates of deposit, etc. Since the mid-1980s, structured financing instruments have been an important part of the



financial industry, which increase liquidity and risk transfer in various markets. The liquidity is increased, and the risk is usually transferred by shifting securities into various financial assets such as mortgages, car loans, etc. Securitization occurs when an entity's assets are separated from the institution's balance sheet. Instead, investors who purchase a negotiable financial instrument provide funding.

Capital-based financing is one of the financing methods.

In this method, a part of the project profit is transferred in exchange for capital. This method provides the required capital by using shareholders' cash and non-cash income and adding to the company's equity volume or project.

Sukuk is one of the most important Islamic financial instruments, providing an alternative investment source for giant companies and powerful entities compared to conventional bonds. An issuer distributes mortgage bonds to participate in purchasing a mortgage facility. In addition, mortgage facilities are bank facilities based on religious assets with a maturity of more than one year to purchase land and buildings (Stock Exchange and Securities Organization, 2008). The issuer (intermediary) is a legal entity that distributes mortgage bonds to its name. The issuer is usually an investment firm in this type of bond.

A Certificate of deposit is a tradable instrument distributed by a depositor bank in international or domestic markets. Each certificate of deposit represents a certain number of ordinary shares of a company, which is responsible for depositing and maintaining a specific person. The certificate of deposit was created in 1927 in the United States to help American investors buy shares in non-US companies. Since that time, certificates of deposit have been developed as a flexible and accepted tool and give publishers access to foreign investors.



Managers' risk motivation and financing policy

Nowadays, it is impossible to achieve the economic goals of any country without the public participation of the people. Investing in the capital and stock markets is a method for individuals to participate in economic development. In this case, small and wandering savings lead to productive activities, and the production and economy industry are developed. Due to the very high diversity of investment options on the stock exchange, investors make decisions from various options. At present, the return on ordinary shares is one of the basic criteria for decision-making in the stock market. Capital market investors seek ways to identify high-yield stocks and tend to reduce their investment risk. Investing in a set of securities (portfolio or portfolio of securities) is one of these basic methods because it is more efficient than investing in a stock. The collection risk decreases by increasing the number of shares in the portfolio and in the absence of reduced returns (reducing the risk is due to the different effects that invested companies accept from different economic, political and social conditions). Many other factors can help reduce the risk, but it does not mean that it can be completely eliminated. A prominent and significant feature of investing in stocks is a risk because it is impossible to understand the economic conditions entirely to predict the future. Non-economic factors also affect stocks even if the economic consequences are completely realized. The stock market is exposed to different types of risks. The common risk in all securities markets includes systematic risk (market or irreducible risk), non-systematic risk (firm-specific or reducible risk), and liquidity. In addition to the following risks, there are some other risks or hazards in the securities market, one of which

is information risk that arises from the category of information and notices and is a general risk (the risk that remains in a portfolio despite the combination of many shares).

Previous research has investigated the relationship between corporate governance mechanisms and manager-owner representation issues. But rarely has not examined the relationship between these mechanisms and representation issues between creditor-owner and their impact on debt cost. Nevertheless, debt financing is more common in less developed countries than equity issuance. These provided funds by the lenders may deviate from the main objectives, and the company's managers may use them at the expense of the lenders for their benefit or the shareholders. Control is mainly done through market mechanisms in developed countries, but control with internal control mechanisms is more common in less developed countries. Therefore, mechanisms such as the audit committee manage conflicts between management and creditors and investors in these countries. In addition, unlike in developed countries, companies rely mainly on bank loans as a source of foreign financing in these countries. Chava, Lyudan, and Purnandam (2009) found that banks and personal lenders are more effective and more controllable than shareholders because they have more access to the company's financial information (Sepasi et al., 2017).

Lewellen et al. (1980) indicated that commercial credit decisions could not effectively increase the company value with complete financial markets. In this case, capital markets are incomplete. As a result, trade credit and inventories effect are shown on firm value (Bao, 2004).

However, there is little empirical evidence to evaluate the effects of working capital investment; it is accepted that working capital management can affect the company's value. Various explanations are presented for companies' motivation to keep a positive working capital. First, more investment in growing business credit and inventory may increase corporate performance. (Sepasi et al., 2017).

Ebrahimi et al. (2015) conducted a study entitled "The relationship between competition in the product market with investors' risk." The present study sample includes 110 companies listed on the Tehran Stock Exchange. This paper uses the modified Herfindahl-Hirschman and Lerner index to measure market competition. In addition, two criteria of company capital expenditure and return on investment have been used to measure investors' risk-taking. According to the findings, the Herfindahl-Hirschman index significantly and negatively affects capital expenditures. Therefore, growth in the market competition increases capital expenditures. There is also a positive and significant relationship between the adjusted Lerner index and the return on investments. The return on investment increases with increasing competition in the market. The findings generally show that the market mechanism affects risk-taking.

Hab et al. (2015) conducted a study entitled "Remuneration motivations and the rate of corporate fraud," which examined the relationships between the above variables using multivariate regression. They concluded that there is lower fraud in companies when the managers are motivated by remuneration. In addition, their study results showed that the company's risk would also increase with growing this type of performance.

Research Methods

The present quantitative research is applied in terms of purpose .The descriptive correlational method is used in this research. The method of research reasoning is also deductive-inductive.



According to the type of data and available statistical analysis methods, the "panel data" method is used in this study. These variables are tested in the period 2013-2018.

The model used to test the hypotheses:

$$DEBT = \beta_0 + \beta_1 VEGA + \beta_2 GROP + \beta_3 VEGA * GROP + \beta_4 AGE + \beta_5 CAPEX + \beta_6 CASH + \beta_7 GROWTH + \beta_8 PPE + \beta_9 RD + \beta_{10} ROA + \beta_{11} SIZE + \varepsilon$$

The dependent variable:

Financing Policy (DEBT): is measured by total liabilities on total assets.

independent variable:

Managers 'Risk Motivation (VEGA): is measured by managers' reward logarithm.

Stock price growth (GROP): is measured from the stock price growth ratio at the end and the beginning of the company period.

Control variables:

R&D Cost (RD): Measured by the ratio of R&D cost to the company's total assets.

Company Research and Development Cost (RDD): One is otherwise zero if the company has research and development costs.

Company Capital Cost (CAPEX): Measured by the ratio of capital purchase costs to total company assets.

Company Cash Flow (CASH): This is measured by the operating cash flow ratio to total company assets.

Company Size (ASSETS): Company size is measured by the natural logarithm of all company assets.

Sales growth (Growth): This variable is obtained by dividing this year's sales and the previous year by year's sales.

Return on Assets (ROA): This variable is obtained by dividing the net profit by the total assets.

Company Live (AGR): This variable is obtained through the logarithm of years of company activity.

Fixed Assets (PPE): This variable is obtained through the ratio of tangible fixed assets to total assets.

The present study's statistical population includes all companies listed on the Tehran Stock Exchange from 2013 to 2018.

The systematic removal method selected a statistical sample of 139 companies from the research community.

Table 1: The process of selecting a statistical sample of the research

Description	Number	Number
Companies listed on the Tehran Stock Exchange from 2013 to the end of 2018		337
Financial and insurance intermediation companies	32	
Companies whose fiscal year does not end in March	61	
Companies that have been out of business for more than three months	72	



Companies whose information is not available or has been removed from the stock market	33	
Number of companies surveyed		<u>139</u>

Research variables are prepared from raw events using Excel-2007 software for data analysis. Then, the final analysis will be performed using EViews software version 12

Research Hypotheses

Hypothesis 1: There is a relationship between company risk motivation and financing policy.

Hypothesis 2: The growth of a company's stock price impacts the relationship between risk motivation and the company's financing policy

Findings

As observed in Table (2), some of the concepts of descriptive statistics of variables, including mean, median, minimum observations, maximum observations and standard deviation, are presented. According to the results, approximately 62.28% of the companies' financial resources are financed through debt in the surveyed companies. In addition, the average return on equity is 28.89%, which has relatively high volatility due to the standard deviation (18.21%). The average tendency to pay revenues shows that 85.09% of the surveyed companies are interested in paying revenues.

Table 2: Descriptive statistics of research variables

Variable name	Symbol	Number of observations	Average	Middle	Maximum	minimum	Standard deviation
Financing policy	DEBT	834	0.573	0.590	1.566	0.013	0.222
Managers Risk Motivation	VEGA	834	3.241	3.186	5.004	1.663	0.598
Stock price growth	GROP	834	1.553	0.706	27.575	0.003	2.804
Duration of activity	AGE	834	3.685	3.784	4.230	2.708	0.338
Company capital cost	CAPEX	834	0.038	0.022	0.990	0.000	0.064
Company cash flow	CASH	834	0.112	0.097	0.642	-0.460	0.127
Sales growth	GROWTH	834	0.340	0.153	56.059	-0.931	2.100
Fixed assets	PPE	834	0.240	0.193	0.933	0.000	0.179
R&D Cost	RD	834	0.020	0.016	0.118	0.000	0.014
Return on assets	ROA	834	0.107	0.089	0.622	-0.404	0.137

Company size	SIZE	834	6.254	6.184	8.588	4.574	0.647
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The average debt financing policy in the surveyed companies is 0.573. The maximum and minimum debt financing policies are respectively 1.566 and 0.013. If companies with high financial leverage cannot pay their obligations due to external financing, they will be at risk of bankruptcy and will not be able to find new creditors in the future. If the company tends to receive a new loan, creditors will analyze it in terms of debt repayment in future periods. Therefore, sufficient cash is essential for continued operations and future profitability. This study examined the hypothesis of variance homogeneity of the residues by the White test. Table (3) shows that the null hypothesis is rejected in the research model, which is about variance homogeneity. In other words, it can be said that there is the heterogeneity of variance in the research model. Therefore, generalized least squares regression (GLS) is used to eliminate the variance heterogeneity in the model.

Table 3: Results of the error variance constant test

Model	F statistic	Possibility	Result
Research model	3.619804	0.0000	Heterogeneity of variance sentence error

According to the absence of an autocorrelation component error test, at a 95% confidence level, the probability value of the F statistic is more than 5% in the model. Therefore, the null hypothesis can be confirmed in the model. Therefore, there is no reason to deny the lack of autocorrelation between the remaining sentences. In other words, the assumption of lack of error component autocorrelation is available in the model used in the research.



Table 4: Results of the absence of autocorrelation component error test

Model	F statistic	Possibility	Result
Second	1.826959	0.5219	Absence of correlation error sentences

Table 5: Results of the absence of the collinearity test between the explanatory sentences of the research model

variable	Coefficient of variance	Inflation variance factor
GROP	0.000222	1.512070
VEGA	0.000129	1.378222
AGE	0.000312	1.063102
CAPEX	0.008925	1.081073
CASH	0.002728	1.310969
GROWTH	1.78306	1.022826

PPE	0.001175	1.123711
RD	0.198691	1.079905
ROA	0.002448	1.376051
SIZE	1.84705	1.089335

As observed in Table (5), the rate of variance inflation of the independent and control variables of the research model is within its allowable limit; therefore, there is no problem in this regard.

Table 6: Results of test stationary of research variables

Variables	symbol	Levin, Lane and Cho		Result
		statistic	Possibility	
Financing policy	DEBT	-11.95776	0.0000	station
Managers 'Risk Motivation	VEGA	-21.414187	0.0000	station
Stock price growth	GROP	-15.23142	0.0000	station
Duration of activity	AGE	-7.646305	0.0000	station
Company capital cost	CAPEX	-24.17645	0.0000	station
Company cash flow	CASH	-23.41409	0.0000	station
Sales growth	GROWTH	-29.82855	0.0000	station
Fixed assets	PPE	-11.06970	0.0000	station
Company research and development costs	RD	-11.03717	0.0000	station
Return on assets	ROA	-16.56012	0.0000	station
Company size	SIZE	-8.622444	0.0000	station

As observed in Table (6), all variables are stationary, and there is no need for a cointegration test. Therefore, there will be no problem of false regression in the estimated coefficients. In false regression, the coefficients are false.

Table 7: Results of the F-Limer test and the Hausman test

Model	test	statistic	Possibility	Result
Second	F-Limer	5.4336	0.0001	Panel method
	Hausman	116.8505	0.0000	Fixed effects

As observed in Table (7), the F-Limer probability of the research model is less than 5%. Therefore, a panel method is used to estimate this model. In addition, the possibility of the Hausmann test of the research model is less than 5%; therefore, the fixed effects model has been used to estimate this model.

Hypothesis 1: There is a relationship between company risk motivation and financing policy. The estimation results of the model presented in Table (8) have been used to test this hypothesis. The F's probability value (or significance level) is 0.0000 and less than 0.05. Therefore, the null hypothesis is rejected at the 95% confidence level, i.e., the model is significant. The value of the Watson-Camera statistic is 1.997, which indicates the absence of error correlation. According

to the adjusted coefficient of determination results, approximately 69.61% of the dependent variable changes are explained by the independent and control variables of the model.

Table 8: Estimation results of the second research model

DEBT= $\beta_0 + \beta_1$ VEGA + β_2 GROP + β_3 VEGA * GROP + β_4 AGE + β_5 CAPEX + β_6 CASH + β_7 GROWTH + β_8 PPE + β_9 RD + β_{10} ROA + β_{11} SIZE + ε					
Variable	Symbol	Estimation coefficient	standard error	statistic	possibility
Stock price growth	GROP	-0.007661	0.005294	~ 1.447118	0.1483
Managers Risk Motivation	VEGA	-0.397196	0.162457	~ 2.444931	0.0147
Interactive Risk Motivation * Stock Price Growth	VEGA*GROP	0.002359	0.001682	1.402805	0.1611
Duration of the company	AGE	-0.112839	0.032559	~ 3.465703	0.0006
Capital expenditure	CAPEX	0.135017	0.042761	3.157474	0.0017
Cash flow	CASH	0.006830	0.017009	0.401557	0.6881
company's growth	GROWTH	0.005089	0.002713	1.876027	0.0611
Tangible fixed asset ratio	PPE	-0.536380	0.032207	~ 16.65399	0.0000
Research and development costs	RD	0.149789	0.325384	0.460347	0.6454
Return on assets	ROA	-0.749668	0.023130	~ 32.41122	0.0000
Company size	SIZE	-0.004457	0.015015	~ 0.296798	0.7667
Fixed value (width from origin)	C	0.979021	0.253903	3.855877	0.0001
Determination coefficient	0.696190				
Modified coefficient of determination	0.658825				
Durbin-Watson	1.997679				
statistic F	131.1869				
Probability (Statistics F)	0.0000				

According to the results, the coefficient of variable risk motivation is -0.397196, which indicates the inverse effect of risk motivation on the company's financing policy. According to the t-statistic, the variable risk motivation coefficient is significant at a 95% confidence level. In addition, the first hypothesis of the research can be considered confirmed at the 95% confidence level, which indicates an inverse and significant relationship between risk motivation and corporate financing policy.



Hypothesis 2: The growth of the company's stock price affects the relationship between risk motivation and the company's financing policy.

As observed in table 8, the coefficient of interaction variable of risk-taking motivation * stock price growth was 0.002359, which shows the positive interaction effect of risk-taking motivation * stock price growth on the company's financing policy. According to the t-statistic, the interactive variable coefficient of risk-taking motivation * Growth of stock price is significant at a 95% confidence level. In addition, the second hypothesis of the research can be considered confirmed at a 95% confidence level. This issue shows that the growth of the company's stock price positively and significantly affects the relationship between risk motivation and the company's financing policy.

Conclusion:

This study investigates the effect of stock price growth on the relationship between risk motivation and financing policy. A sample of 139 companies was selected from the companies listed on the Tehran Stock Exchange from 2013 to 2018 to test the research hypotheses. The required data to calculate the research variables were extracted from the "Rahavard Novin" database. When the data was incomplete in this database, we referred to the manual archives available in the library of the Stock Exchange Organization, the website of the Management of Research, and the development and Islamic Studies of the Organization of the Stock Exchange Organization. Regression models were also used to test the research hypotheses. Regression models can be estimated in two ways (pooled and panel) by using the composite data. The F-Limer test was used to determine the estimation method. One of the two forms of fixed effects model and random effects can be performed if the panel method is used and the Hausmann test is used to determine the model type. The stationary of variables was also examined, and descriptive statistics and correlation coefficients related to each of the variables were presented and analyzed. The research models were estimated based on the estimation method specified during the F-Limer and Hausmann tests. In addition, the estimation results for each of the models were analyzed.

The results showed a relationship between company risk motivation and financing policy. Stock price growth also affects the relationship between company risk motivation and financing policy.

It is suggested to capital market participants to pay much attention to the effectiveness of corporate governance mechanisms (institutional shareholder ownership, major shareholder ownership, and auditor size) to evaluate the quality of accounting information and determine the expected risk and return and buy and sell stocks. In addition, it is suggested to standards developers and policymakers to develop standards and regulations that implement external corporate governance mechanisms to improve the quality of accounting information by companies operating in the capital market.

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