



## Investigation of corporate social responsibility disclosure impact on cash holding by idiosyncratic risk and systematic risk in companies listed on the Tehran Stock Exchange

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ARTICLE INF	ABSTRACT
<i>Article history:</i> Received: 12-02-2018 Accepted: 10-05-2018	Cash inventories are an important part of a business's assets and they have always attracted the attention of various researchers. In this study, the effect of corporate social responsibility disclosure (CSR) on the level of cash holding of companies listed in the Tehran Stock Exchange has been investigated, and two communication channels of special risk and systematic risk have been considered to explain how the independent variable affects the dependent variable. In order to achieve the research goal, 122 companies have been selected from the companies listed on the Tehran Stock Exchange from 2009 to 2016 by a systematic elimination sampling method. The research findings showed that the corporate social responsibility disclosure has a positive and significant effect on the level of cash holding. The results also showed that an increase in the corporate social responsibility disclosure does reduce the specific risk of the company and the level of cash holding.
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### 1- Introduction

We identify two channels and the corresponding mechanisms through which corporate social responsibility disclosure (CSR) may affect corporate cash holdings. CSR firms are expected to have relatively low cash holdings because they tend to have low idiosyncratic risk due to their higher social capital with stakeholders. CSR firms also tend to have low systematic risk due to greater loyalty from CSR investors and/or customers. The lower systematic risk may increase or decrease cash holdings. Although low systematic risk induces firms to reduce their cash holdings, it also induces firms to hold a short debt maturity structure, with higher refinancing risks that higher cash

holdings may mitigate.

## 2- Hypotheses

While the determinants of corporate cash holdings have been widely studied in the literature, the direct relationship between corporate social responsibility disclosure (CSR) and corporate cash holdings remains largely unexplored. We fill this gap by examining whether and how CSR relates to corporate cash holdings. In particular, we identify and test two channels through which CSR may explain cash holdings.

Thus, research hypotheses developed as follows:

**H1:** *Corporate social responsibilities disclosure impact on companies' cash holding by influencing on idiosyncratic risk.*

**H2:** *Corporate social responsibilities disclosure impact on companies' cash holding by influencing on systematic risk.*

## 3- Methods

To test the research hypotheses, we specify the following empirical model:

$$\text{Cash}_{i,t} = \beta_0 + \beta_1 \text{Idio}_{i,t} + \beta_2 \text{CSR}_{i,t} + \sum_{j=0}^n \beta_j \text{Control}_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\text{Idio}_{i,t} = \alpha_0 + \alpha_1 \text{CSR}_{i,t} + \sum_{j=2}^n \alpha_j \text{Control}_{i,t} + \omega_{i,t} \quad (2)$$

$$\text{Cash}_{i,t} = \beta_0 + \beta_1 \text{Beta}_{i,t} + \beta_2 \text{CSR}_{i,t} + \sum_{j=0}^n \beta_j \text{Control}_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$\text{Beta}_{i,t} = \alpha_0 + \alpha_1 \text{CSR}_{i,t} + \sum_{j=2}^n \alpha_j \text{Control}_{i,t} + \omega_{i,t} \quad (4)$$

The model consists of four equations. Equation (1) describes how the idiosyncratic risk (Idio) channel, the systematic risk (Beta) channel to determine corporate cash holdings (cash). The presence of corporate social responsibility disclosure (CSR) in equation (1) allows for the possibility that CSR may have a direct effect on corporate cash holdings. Equations (2) and (3) describe how CSR affects the idiosyncratic risk channel (Equation (2)) and the systematic risk channel (Equation (3)), respectively. In this model, idiosyncratic risk and systematic risk, are the channels through which CSR

affects cash holdings indirectly. Note that the control variables may overlap with each other in these three equations.

As for estimation we use the Ordinary Least Squares (OLS) and Two-Stage Least Squares (TSLS) methods (i.e., Equations (1) to (4)) as a simultaneous equations model.

#### **4- Results**

The results reported in Table (8) and (9) show that corporate cash holdings are related positively (and statistically significantly) to idiosyncratic risk while they are related negatively (and statistically significantly) to systematic risk, confirming the results of Bates et al. (2009) and Acharya et al. (2013). Consistent with Luo and Bhattacharya (2009) and Albuquerque et al. (2014), it reveals that CSR is negatively related to idiosyncratic risk and systematic risk.

#### **5- Discussion and Conclusion**

This study examines whether and how corporate social responsibility disclosure affects corporate cash holdings. In particular, it examines two channels through which corporate social responsibility affects cash holdings. The first channel argues that CSR-related activities can build up the social (or moral) capital of firms because they enhance good relationships with stakeholders. Firms can use the social (or moral) capital to weather bad times and reduce the need to hold excessive cash. The second channel posits that price-inelastic demand due to customer loyalty and/or investor loyalty to CSR firms makes these firms less sensitive to aggregate market shocks (i.e., lowers the systematic risk), and this may increase or decrease the cash holdings. On the one hand, the need for cash hoarding may decrease because of lower systematic risk; on the other hand, the need may increase because firms with lower systematic risk tend to have a shorter debt maturity structure and, thus, a higher refinancing risk.

Using 122 firms with 976 firm-year observations over the period 1388-1395, we find that CSR is correlated with corporate cash holdings significantly and positively. Also, the findings of the study show that there is a significant relationship between corporate social responsibility disclosure and cash holding through mediator variables of idiosyncratic risk and systematic risk.

**Keywords:** Corporate Social Responsibility Disclosure, Cash Holding, Idiosyncratic Risk, Systematic Risk