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Corporate Governance Quality and Stakeholder Management: The Mediating Role of the Likelihood of Fraudulent Reporting[1]

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Research Paper

INTRODUCTION

Today, one of the debates in corporate governance is how to increase the wealth of shareholders within the framework of agency theory and at the same time meet the interests and needs of a large group of stakeholders. In stakeholder theory, it is assumed that the establishment of rules and principles of corporate governance is not only aimed at resolving the agency issue between shareholders as employers and managers as their agents; but, corporate social responsibility in the first place requires that corporate governance rules be organized to provide the rights of all stakeholders. Examining the causes and conditions of financial scandals in companies shows that the lack of effective control over managers and imperfect governance of shareholders over how to manage affairs, along with delegating unlimited

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authority to management, provides grounds for fraud and fraudulent reporting. Fraudulent reporting diverts the company's interests to specific groups, thus intensifying the conflict of interests of the stakeholders. The use of fraudulent financial reporting degrades the quality of accounting information that can directly affect the company's cash flow, which is a measure of the interest of each stakeholder group, and prevents stakeholder management from being done in the best possible way. Therefore, the present study examines the impact of corporate governance quality on stakeholder management with an emphasis on the mediating role of fraudulent financial reporting.

MATERIALS AND METHODS

In this research, the library method, including the study of books, articles, and Internet databases, was used to collect information related to literature and theoretical foundations. The data and information required to calculate the research variables were extracted from the financial statements of companies listed on the Tehran Stock Exchange and software packages such as Rahavard Novin. To test the research hypotheses, the GLS regression model was used for panel data analysis. To measure stakeholder management, the ratio of cash flows allocated to each stakeholder group to the total cash inflows (operating cash flows) of the company was used. The statistical sample of this research, after applying some restrictions, consists of 96 firms listed on the Tehran Stock Exchange from 2010 to 2020. After a brief description of the studied variables, performing unit root tests, examining the classical regression assumptions, and determining the type of regression model, the final models were estimated using the generalized least squares method and finally, the results were interpreted. Data were analyzed by using Excel Eviews and Stata software.

RESULTS AND DISCUSSION

Findings showed that there is a direct and significant relationship between the quality of corporate governance and the second method of stakeholder management, but this relationship is not significant in the first method of stakeholder management. Also, there is a significant inverse relationship between the quality of corporate governance and the likelihood of fraudulent reporting; it was also found that there is an inverse and significant relationship between the possibility of fraudulent reporting and the second method of stakeholder management. Consequently, the mediating role of the possibility of fraudulent reporting in the relationship between the quality of corporate governance and the second method of stakeholder management was confirmed.

CONCLUSION

Even though shareholders are one of the most important sources of financing in companies, paying attention to the interests of all stakeholders is more compatible with Islamic values and religious teachings; According to religious teachings, social interests take precedence over personal interests, and the achievement of personal goals at the cost of wasting collective interests is condemned. Therefore, the attention of standard makers and legislators to the category of stakeholders is something to consider. The results of research performed about stakeholder's show that balancing the interests of all stakeholder groups in companies improves performance and productivity. In interpreting the lack of a significant relationship between the quality of corporate governance and stakeholder management in the first method, we can state that these findings are consistent with the hypothesis of opportunism of managers in the agency theory. According to this theory, managers at high levels of profitability reduce unnecessary costs that are necessary for the interests of other stakeholders. In general, the results indicate that the issue of stakeholder management in Iran’s business environment is more to ensure the interests of shareholders and the concepts of agency theory are more prominent.

Keywords: Corporate Governance, Stakeholder Management, Fraudulent Reporting.
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