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The Impact of Company Life Cycle on Systematic Risk of Tehran Stock Exchange Listed Companies

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EXTENDED ABSTRACT

INTRODUCTION

Understanding the factors that influence investment at both micro and macro levels is crucial for economic growth and development. At the micro level, return and risk are key determinants of investment. Risk, in particular, can be categorized into two types: unsystematic risk (which can be avoided) and systematic risk (which is unavoidable). Systematic risk cannot be reduced through diversification. Therefore, awareness of systematic risk is important in decision-making processes. Since systematic risk is influenced by the structure and characteristics of firms, and these characteristics change throughout a firm's life cycle, it is reasonable to expect that risk is related to the age of the company. However, the variable of company age has been neglected and received less attention in the literature on systematic risk. Thus, the main objective of this study is to investigate the impact of company age on systematic risk.

METHODOLOGY

In this research, the beta coefficient has been utilized as a measure of systematic risk. Panel data regression analysis, conducted using Eviews and Stata software, was employed to examine the relationship between beta and its determining variables during the years 2014 to 2021. The testing procedure for the hypotheses is as follows: First, the pool model and panel model were compared using the Limer test, and based on the results of this test, the appropriate model was selected. If the panel model with fixed effects was confirmed, the Hausman test was conducted to determine whether the panel model should be fixed or random effect. In this study, company age was measured as the number of years since the establishment of the company. To

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test the effect of company age on systematic risk at different stages of the life cycle, the age variable was included in the model in the form of the logarithm of the company's age, the inverse of the company's age, and the square of the company's age.

FINDINGS

The results of the study indicate that as the age of the company increases, systematic risk also increases. However, this increase in risk diminishes over time. Specifically, when companies are young, an increase in age leads to a sharp rise in risk. However, as companies mature, the increase in risk with age becomes less pronounced. The increase in systematic risk with company age may be attributed to companies failing to adapt to changes in the market and business environment, increased competition over time, and deviations from the company's strategies. Furthermore, as companies age, they require more innovation and change to sustain growth. Failure to address this need can result in an increase in systematic risks.

CONCLUSION

Based on the findings of this study, it is observed that although the age of a company has a positive impact on its systematic risk, this effect gradually diminishes as the company becomes more established. Stated differently, the influence of this variable on systematic risk is more significant among younger companies. Consequently, companies in their early years should prioritize risk management and address the challenges associated with aging through strategies such as innovation, technological advancement, and continuous improvement in their offerings of products and services. They should also strive to diversify their products, markets, and activities, enhance the skills of their employees, upgrade their knowledge and expertise, update their strategies and processes, and adapt to the complexities of the environment. Additionally, it is recommended to establish a team of experienced professionals specialized in risk management, develop comprehensive risk management policies, formulate specific plans to identify, evaluate, and mitigate risks, and leverage available risk management technologies and tools.

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