Measuring the impact ratio of strategic, operational and reporting risks management on the financial performance of companies accepted in the Tehran stock exchange

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ABSTRACT

The main purpose of the present research was to measure the impact ratio of strategic, operational and reporting risks management on the financial performance of companies accepted in the Tehran Stock Exchange. This research is located among the field of positive financial researches. Due to the fact that the historical information of the companies has been used to test its hypotheses, it is located among the quasi-experimental and post-event researches group. Also, since the purpose of conducting research is to measure the impact, according to the nature and method used in this research, it is considered as a descriptive-correlation research type. The present research epistemologically is of empiricism type; its reasoning system is inductive and in terms of the type of study is field-archival. The statistical population of this research is spatially limited to companies accepted in the Tehran Stock Exchange and in terms of time includes a five-year time period from the beginning of fiscal year of 2010 to the end of fiscal year of 2014 that as a result of applying conditions and considerations in simple sampling, 122 companies from the statistical population were selected to perform the tests. The results obtained from the analysis of research hypotheses using Eviews 8 statistical software showed that risk management (strategic risks management, operational risks management, financial reporting risks management) have significant impact on the financial performance of companies accepted in the Tehran Stock Exchange.
Keywords: Risk Management, Strategic Risks Management, Operational Risks Management, Financial Reporting Risks Management, Financial Performance

Introduction

Due to the vast changes and technology advancement in various fields, the stock market as one of the factors of development of any society has faced great changes. Therefore, considering the close relationship between countries and being influenced by each other, in order to minimize the possibility of a crisis emergence in the banking system that imposes irreparable damages to the economy of each country, by the attempt of the Central Banks of the industrialized countries a committee called the Ball Committee has been composed in Basel, Switzerland. Among the important issues investigated in this committee are issues related to risk and its effects on capital and performance, and in other words, the interests of shareholders and depositors, which have long been considered by the members of this committee and the activists of the economic area (Espinoza and Prasad, 2010). In this regard risk and its management are rooted from the fact that losses resulted from risk may happen before the occurrence of an event. Therefore, the goal of risk

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management is to realize predetermined goals related to risk affairs. This issue means that in an organization, whether it is profit or non-profit, there must be certain indicators in order to be able to control the undesirable financial effects of the organization's activities; if we cannot eliminate them completely (Shahabuddin et al., 2013).

Accurate and exact reporting is vital for a company's success in all dimensions. One criterion for low reliability of financial reporting is the combination of three variables; significant weaknesses in internal controls, conditional audit report, and reintroducing financial statements. In order to quantify the variable of internal controls weakness, the standard criterion of performance auditing, which is performed by audit consultants and internal auditors, is used, which is compulsorily calculated in stock companies. Also, in the case of the auditor's conditional report variable, the weighted average criterion of conditional reports during the years of the company's activity is used. The variable of reintroducing financial statements is also measured as the variable of conditional report of the auditor (Abu Ala, 2014).

With the entry of the company into the stock market environment, the company has no choice but to observe the rules and regulations governing relations with the environment. For this reason, companies are exposed to a wide range of risks of the non-compliance of rules and regulations. One of the effective tools in this field is the accepted auditing standards. Therefore, the criterion for measuring the risks management of non-compliance with rules and regulations in this research is the ratio of audit fees to total assets (Noman, 2015).

All management approaches pursue goals in implementation that are usually the most basic goal to achieve the desired results based on the previous planning of planners in the organization. Factors such as rapid change, budget deficit, shrinking and restructuring, and social pressures to make organizations more accountable for their financial performance have placed more emphasis on financial performance (Schefferin, 2015). Financial performance is a set of interconnected measures of policies and procedures and actions that emphasize the achievement of goals by focusing on financial performance of organizational dimensions. In other words, it is a process based on a series of activities and is founded in a way that it should be designed through ensuring the continuous improvement of the financial performance of individuals and groups for strategic goals and organizational effectiveness. Financial performance is a set of interconnected measures of policies and procedures and actions that emphasizes the achievement of goals by focusing on the financial performance of organizational dimensions (Nowruzi, 2015).

On the other hand, in recent years, a paradigm change has been created in the method of attitude towards risk management, so that instead of examining risk management from an island perspective, a holistic approach to risk management is adopted. Enterprise risk management provides the interests of all stakeholders of the organization, including shareholders, creditors, senior managers, employees, customers and member associations (Hosseini et al., 2014). On the other hand, the field of competition forces organizations to face the need to improve financial performance, and the continuous improvement of financial performance creates a huge synergistic force for the organization that these forces can support the program of growth and development and create opportunities for organizational excellence. Financial performance in a simple phrase is a set of mechanisms that is proposed as the light of the way and guide for all financial and managerial activities and the sustainable growth and development of organizations and its consequence, that is the growth of the national economy owes to its measurement (Lu and Han, 2015).

According to the stated points, in this research we wanted to discuss and investigate the effect ratio of strategic, operational and reportional risks management on the financial performance of companies accepted in the Tehran Stock Exchange.

Research Method

This research is located in the field of positive financial researches. Due to the fact that the historical information of the companies was used to test its hypotheses, it is among the quasi-experimental and post-event researches group. Also, since the purpose of conducting research is to measure the impact, according to the nature and method used in this research, it is considered as descriptive-correlation research type. The present research epistemological is of empiricism type; its reasoning system is inductive and in terms of type of study is field-archival.

Statistical Population

The statistical population of this research includes companies accepted in the Tehran Stock Exchange between 2010 and 2014, that during these years they have submitted their financial statements to the Stock Exchange Organization. This is also due to access to reliable information and audited financial statements. The number of companies active in the Tehran Stock Exchange at the beginning of 2009 is about 342 companies.

The sampling method in this research is systematic elimination.

1. The number of companies that were present in the stock exchange between the years of 2010 and 2014 and were not among investment companies and banks.

2. Companies that are not among investment companies, banks and insurance.

3. Companies whose fiscal year ends on March 20.

4. Companies that did not change their fiscal year during the research period.

5. Companies whose financial information is available in the time period under study.

Number of companies whose data has been collected (final sample of 122 companies).

As a result of applying conditions and considerations in simple sampling, 122 companies were selected from the statistical population to perform the tests. The research period is 7 consecutive years, so the final sample size is 610 year-company (122 * 5), observation.

Research Variables

The variables under investigation in the present research include the operational, reporting, strategic risks management variables as independent variables, and equity rate of return (ROE) as an indicator of financial performance was extracted as a dependent variable based on the study base of Olamide et al. (2015).

Financial Performance; Equity rate of return (ROE) is used to calculate this variable (Olamide et al., 2015).

Strategic Risks Management; to calculate this variable, we use the ratio of adjusted beta of the company to the industry average beta (Olamide et al., 2015).

Operational Risks Management; Dividing sales to the number of employees is used to calculate this variable (Olamide et al., 2015).

Reporting Risks Management; to calculate this variable, significant weaknesses in internal controls, conditional audit report, and reintroducing financial statements are used (Olamide et al., 2015).

Research Model:

$$ROE = \beta_0 + \beta_1 (SRM) + \varepsilon it$$
$$ROE = \beta_0 + \beta_1 (ORM) + \varepsilon it$$
$$ROE = \beta_0 + \beta_1 (RRM) + \varepsilon it$$

In which:

(SRM: Strategic Risks Management, ORM: Operational Risks Management, RRM: Reporting Risks Management and ROE: Financial Performance)

Research Hypotheses

Strategic risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

Operational risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

Financial reporting risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

Data Collection Method

The necessary information for this research is collected through the library and site of Tehran Stock Exchange and related databases and using the information published on this site and also the calculation of this information through financial or accounting software used to analyze the results.

Data Collection Tool

The tools used to collect data in the library method have been text reading and using receipt, statistics reading and using the balance sheet and the profit and loss statement of companies and document reading. The method of data collection is field method, and it was collected from the companies accepted in the Tehran Stock Exchange and their financial information is studied from 2010 to 2014.

Data Analysis Method

Eviews 8 software and the following stages will be used for statistical analysis and testing research hypotheses.

Descriptive Statistics: Using central indicators such as mean, median, maximum and minimum, dispersion values and indices such as standard deviation have been used.

Inferential Statistics:
1. Investigating the normality of Jarque–Bera (J-B) test model
2. Testing the reliability of data over time
3. Variance heterogeneity test
4. VIF alignment test
5. Significant student t test of variables in the model
6. Homogeneity test of data distribution; F-Limer test (panel data or composite data)
7. Testing the lack of difference in intercept of the Hausman test model
8. Determining the appropriate model type of OLS or EGLS
9. Fisher F significance test of the whole model
10. The remaining independent Fisher F test of the model
11. Determination coefficient R^2
12. Adjusted determination coefficient R^2

Results

Investigating Descriptive Statistics of Variables during the Research Period

In Table (1) some of the concepts of descriptive statistics of variables, including mean, median, minimum observations, maximum observations and standard deviation have been presented. The main central indicator is the mean, which indicates the equilibrium point and the center of gravity of the distribution, and is a good indicator to show the centrality of the data. For example, the mean value for the strategic risks management variable is equal to 0.14, indicating that most of the data is centered around this point. The median is another central indicator that shows the status of population. As it is observed in Table (1), the median of the strategic risks management variable is equal to 0.129, indicating that half of the data is less than this value and the other half is more than this value. Standard deviation is one of the most important dispersion parameters and is a criterion for dispersion ratio of observations from the mean. The value of this parameter for the strategic risks management variable is equal to 0.157.

Table 1: Descriptive Statistics of Research Variables

	SRM	ORM	RRM	ROE
Mean	0.140	0.411	0.524	0.312
Median	0.129	0.320	0.421	0.294
Maximum	0.821	0.560	0.623	0.421
Minimum	0.036	0.016	0.412	0.124
Standard Deviation	0.157	0.059	0.251	1.070
Skewness	0.179	0.716	1.253	-1.846
Kurtosis	0.623	0.081	2.102	2.410
Jarque–Bera Statistic	15.120	14.693	16.946	40.328
Significance Level	0.125	0.094	0.086	0.059
Sample	610	610	610	610

In which:

(SRM: Strategic Risks Management, ORM: Operational Risks Management, RRM: Reporting Risks Management, ROE: Financial Performance)

On the other hand, the mean value for the variable of companies' financial performance ratio is equal to 0.312, indicating that most of the data have concentrated around this point. The median of the companies' financial performance variable is equal to 0.294, indicating that half of the data is less than this value and the other half is more than this value. The standard deviation is one of the most important dispersion parameters and is a criterion for the dispersion ratio of observations from the mean. The value of this parameter for the variable of the financial performance of companies is equal to 1.070.

Investigating Correlation Coefficients of Research Variables

Table 2: Correlation Coefficients of Research Variables

Correlation				
Probability	SRM	ORM	RRM	ROE
SRM	1.000000			

ORM	0.179639	1.000000		
	0.0004	-----		
RRM	0.121016	0.594227	1.000000	
	0.0184	0.0000	-----	
ROE	0.224503	0.293009	0.247239	1.000000
	0.0000	0.0000	0.0000	-----

In which:

(SRM: Strategic Risks Management, ORM: Operational Risks Management, RRM: Reporting Risks Management, ROE: Financial Performance)

By performing the correlation test, we examine the initial relationship between the variables and according to the results, it can be said whether there is a relationship between the variables or not, these

relationships can be investigated more accurately. For example, the results obtained from the correlation coefficient table show that there is a positive and significant relationship between the variables of strategic risks management, operational risks management, reporting risks management and the risk management of non-compliance with rules and regulations and the financial performance of companies accepted in the Tehran Stock Exchange (Table 2).

Investigating the Durability of Research Variables

Before estimating the model, it is necessary to examine the durability of its variables. A variable is durable when its mean, variance, and autocorrelation coefficients remain constant over time. In general, if the temporal origin of a variable changes and the mean, variance, and covariance do not change, then the variable is durable, otherwise the variable will not be durable. The hypotheses related to the durability of the variables are as follows:

H_0: The variable is not durable.

H_1: The variable is durable.

The durability of the variables can be examined in three states: "at the level", "on the first difference" and "on the second difference". Variables whose probability obtained from their test "at the level" is less than 5%, the zero hypothesis about them is rejected and that variable is durable at the level, if it is more than 5%, it is not durable. The results of durability test have been inserted in Table (3). According to Levin, Lin and Chu test, as the P-value has been less than 5%, all independent, dependent and control variables in the research period have been at a stationarity level. Stationarity means that the mean and variance of research variables over time and the covariance of variables between various years have been constant. As it is observed in Table (3), all variables are durable and we do not require a Cointegration Test.

Table 3: Durability Test Results of Research Variables

Variables	Levin, Lin And Chu		Results
	Statistics	Probability	
SRM	-10.25	0.000	Durable
ORM	-16.77	0.000	Durable
RRM	-19.33	0.000	Durable
ROE	-16.64	0.000	Durable

In which:

(SRM: Strategic Risks Management, ORM: Operational Risks Management, RRM: Reporting Risks Management, ROE: Financial Performance)

F Limer and Hausman Tests

Before estimating the research models, it is necessary to specify the estimation method (composite or panel). For this purpose, F-Limer test has been used. For observations whose test probability is more than 5%, or in other words their test statistic is less than the table statistic, the composite method is used and for observations whose probability test is less than 5%, the panel method is used to estimate the model. The panel method can be done using the two models of "random effects" and "fixed effects". The Hausman test has been used to determine which model to be used. In observations whose probability test is less than 5%, the fixed effects model has been used and in observations whose probability test is more than 5%, the random effects model has been used to estimate the models. In general state, the F-Limer statistic is used to select one of the panel data or composite data methods. In other words, the F-Limer test statistic determines whether there is a separate intercept for each one of the companies or not? In the F-Limer test, the zero hypothesis indicates that the intercepts (composite data) are the same and the opposite hypothesis indicates the heterogeneity of the intercepts (panel data). Thus, if the zero hypothesis is rejected, the panel data method is accepted. Thus;

H_0: Composite data method
H_1: Panel data method
And for the Hausman test we have:
H_0: Random effects method
H_1: Fixed effects method
Research Hypothesis Test Models:
$ROE = \beta_0 + \beta_1 (SRM) + \varepsilon it$
$ROE = \beta_0 + \beta_1 (ORM) + \varepsilon it$
$ROE = \beta_0 + \beta_1 (RRM) + \varepsilon it$
In Table (4) the results of these tests for the research model have been reflected.

Table 4: Results Obtained from F-Limer Test and Hausman Test

Model	Test	Statistic	Probability	Result
First	F-Limer	24.351	0.000	Panel Method and Fixed Effects
	Hausman	45.625	0.000	
Second	F-Limer	10.358	0.000	Panel Method and Fixed Effects
	Hausman	21.864	0.000	
Third	F-Limer	7.574	0.182	Composite Method
	Hausman	Regarding the Probability of F-Limer Test, There Is No Need to Perform Hausman Test		

Alignment Test

Alignment is a situation that indicates that an independent variable is a linear function of other independent variables. If the alignment in a regression equation is high, it means that there is a high correlation between the independent variables and the model may have been used despite the high determination coefficient. According to the variance and tolerance inflation of the independent variables in Table (5), there is no alignment between the independent variables.

Table 5: Alignment Test Results

Variables	Tolerance	VIF
SRM	0.565	1.348
ORM	0.845	1.768
RRM	0.658	1.358
ROE	0.618	2.658

Variance Inflation Factor (VIF) is used to examine multiple alignments. If this value is more than 5, the multiple severe alignments should be suspected. According to the table above, this value is less than 5 for all variables, so this hypothesis has not been distorted.

Variance Heterogeneity Test

If the model is a composite data type, variance heterogeneity is also examined. In this research, White test has been used to investigate the heterogeneity. The value obtained from the White test indicates that there is no variance heterogeneity that the information inserted in Table (6) shows the result of this test.

Table 6: Variance Heterogeneity Test (White Test)

Research Models		Value	Significance Level
Research Model 1	F Statistic	1.18	0.63
	Multiplication (Lagrange)	1.06	0.62
Research Model 5	F Statistic	1.44	0.58
	Multiplication (Lagrange)	1.40	0.59

Testing Hypotheses

Hypothesis 1: Strategic Risks Management Has A Significant Effect on the Financial Performance of Companies Accepted in the Tehran Stock Exchange.

H_0: Strategic risks management does not have a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

H_1: Strategic risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

$ROE = \beta_0 + \beta_1 (SRM) + \varepsilon it$

Table 7: Test Results of Model 1

Variable	Coefficients	Standard Error	T Statistic	Significance Level
Fixed Coefficient	0.135	0.072	1.864	0.067
SRM	0.444	0.054	8.222	0.000
F Statistic		34.108	Determination Coefficient	0.1971
F Statistic Significance Level		0.000	Adjusted Determination Coefficient	0.1911
			Durbin-Watson Value	2.037

In order to test this hypothesis, the estimation results of model 1 presented in Table (7) and simple regression coefficient have been used. The probability value or significance level is equal to 0.000, and as this value is less than 0.05, the zero hypothesis is rejected at the 95% confidence level. Durbin-Watson statistic value is 2.037 that this value indicates the absence of autocorrelation. Also, considering that the value of t-statistic is significant for the research variables (due to not being located in the range of +1.96 and -1.96 or the same critical values at the 95% confidence level), according to the above points, the minor hypothesis 1 of the research can be considered as confirmed. This means that strategic risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange. Finally, according to the significance level of F test as obtained 0.000 (because this value is less than 0.05), it shows that the data dispersion with respect to the regression line has a reasonable and logical dispersion. The determination coefficient of the model also shows that strategic risks management has an effect of 19.71% on the financial performance of companies accepted in the Tehran Stock Exchange.

Hypothesis 2: Operational Risks Management Has A Significant Effect on the Financial Performance of Companies Accepted in the Tehran Stock Exchange.

H_0: Operational risks management does not have a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

H_1: Operational risk management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

$ROE = \beta_0 + \beta_1 (ORM) + \varepsilon it$

Table 8: Test Results of Model 2

Variable	Coefficients	Standard Error	T Statistic	Significance Level
Fixed Coefficient	0.044	0.044	1.011	0.298
ORM	0.555	0.139	3.97	0.000
F Statistic		35.428	Determination Coefficient	0.3082
F Statistic Significance Level		0.000	Adjusted Determination Coefficient	0.2998
			Durbin-Watson Value	1.999

In order to test this hypothesis, the estimation results of model 2 presented in Table (8) and simple regression coefficient have been used. The probability value or significance level is equal to 0.000, and as this value is less than 0.05, the zero hypothesis is rejected at the 95% confidence level. Durbin-Watson statistic value is 1.999, that this value indicates the absence of autocorrelation. Also, considering that the value of t-statistic is significant for the research variables (due to not being located in the range of +1.96 and -1.96 or the same critical values at the 95% confidence level), according to the above points, the hypothesis 2 of the research can be considered as confirmed. This means that operational risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange. Also, according to the obtained distinction (effect) coefficient, it shows that operational risks management has an effect of 30.82% on the financial performance of companies accepted in the Tehran Stock Exchange. Finally, according to the significance level of F test as obtained 0.000 (because this value is less than 0.05), it shows that the data dispersion with respect to the regression line has a reasonable and logical dispersion.

Hypothesis 3: Financial Reporting Risks Management Has A Significant Effect on the Financial Performance of Companies Accepted in the Tehran Stock Exchange.

H_0: Financial reporting risks Management does not have a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

H_1: Financial reporting risk management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange.

$ROE = \beta_0 + \beta_1 (RRM) + \varepsilon it$

Table 9: Test Results of Model 3

Variable	Coefficients	Standard Error	T Statistic	Significance Level
Fixed Coefficient	0.098	0.112	0.873	0.519
RRM	0.321	0.025	12.562	0.000
F Statistic		50.747	Determination Coefficient	0.1033
F Statistic Significance Level		0.000	Adjusted Determination Coefficient	0.0938
			Durbin-Watson Value	2.164

In order to test this hypothesis, the estimation results of model 3 presented in Table (9) and simple regression coefficient have been used. The probability value or significance level is equal to 0.000, and as this value is less than 0.05, the zero hypothesis is rejected at the 95% confidence level. Durbin-Watson statistic value is 2.164 that this value indicates the absence of autocorrelation. Also, considering that the value of t-statistic is significant for the research variables (due to not being located in the range of +1.96 and -1.96 or the same critical values at the 95% confidence level), according to the above points, the hypothesis 3 of the research can be considered as confirmed. This means that financial reporting risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange. Also, according to the obtained distinction (effect) coefficient, it shows that financial reporting risks management has an effect of 10.33% on the financial performance of companies accepted in the Tehran Stock Exchange. Finally, according to the significance level of F test as obtained 0.000

(because this value is less than 0.05), it shows that the data dispersion with respect to the regression line has a reasonable and logical dispersion.

Conclusion

Every activity carried out by companies faces risks in its core. Risk management in the first place requires identifying the risks of corporate activity. Financial risks are risks that are highly interdependent and in general increase the overall risk of the company. On the other hand, competition area forces organizations to face with the need to improve financial performance, and the continuous improvement of financial performance creates a huge synergistic force for the organization that these forces can support the program of growth and development and create opportunities for organizational excellence. Organizational financial performance in a simple phrase is a set of mechanisms that is proposed as the light of the way and guide for all financial and managerial activities and the sustainable growth and development of organizations and its consequence, that is the growth of the national economy owes to assessment, measurement, analysis, comparison and doing necessary and essential measures in this respect. As long as organizations strive for survival and feel themselves require for being present in the national and global arenas, they should put the principle of financial performance continuous improvement at the forefront of their activities (Al-Tamimi and Jallali, 2015). Therefore, in the present study, we assessed the impact ratio of strategic, operational and reporting risks management on the financial performance of companies accepted in the Tehran Stock Exchange. The obtained results are as follows:

1. Strategic risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange and strategic risks management has 19.71% effect on the financial performance of companies accepted in the Tehran Stock Exchange. The concept of customer orientation contributes significantly to the sales of the company. Systematic risks are also referred to as unavoidable risks. Therefore, systematic risks management can increasingly improve the company's performance.

2. Operational risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange. Also, according to the obtained distinction (effect) coefficient, it shows that operational risks management has 30.82% effect on the financial performance of companies accepted in the Tehran Stock Exchange. Operational risks management represents the company's normal operation risk management. More precisely, this section shows the optimality of capital budgeting (proper arrangement of assets) and the proper performance of the company's employees. Obviously, if the company is well managed in these areas, it will promote the company's performance.

3. Financial reporting risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange. Also, according to the obtained distinction (effect) coefficient, it shows that the financial reporting risks management has 10.33% effect on the financial performance of companies accepted in the Tehran Stock Exchange. Significant relationship in this regard in fact indicates the relationship between company performance and risk management due to the general weakness of the company's financial reporting system. The most important factor affecting the risks of this level is the weakness of the company's internal control system. Therefore, to promote the performance, the internal control system should be well controlled.

Considering that strategic risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange, companies should use strategies that to some extent gain immunity against systematic risks (such as inflation, bank interest rate, economic prosperity and recession, and so on).

Considering that operational risks management has a significant effect on the financial performance of companies accepted in the Tehran Stock Exchange, companies must adopt methods to increase the efficiency and effectiveness of the production process and to increase the asset turnover ratio to improve their performance. These methods should also be reciprocally applied regarding the employees of the company. In this regard, the use of optimal and modern production methods can be suggested to promote the company's performance. Also, effective training programs can be used to improve the activity of the employees of the company.

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