



Case Report

The Impact of Effective Risk Management on Corporate Financial Performance

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ABSTRACT

This Present study examines the corporate financial performance and risk management in oil and gas companies. Basically, the importance and qualitative method of any research can be examined from two basic and applied aspects. In general, no comprehensive research has been conducted, regardless of the limited number of articles and sources that have occasionally examined and referred to the subject, as well as studies conducted at the theoretical level. Risk management is essentially the process of identifying, analyzing and accepting or reducing uncertainty in investment decisions. In terms of risk management in all financial markets, there are people who are always right and well-planned, both in terms of analysis and investment. In today's modern world, the importance of monetary and financial science is not hidden from anyone. In the meantime, the discussion of proper financial reporting and its various methods have particular importance due to the analysis of the next steps of investors. The most important type of financial information is information about companies and their performance.

GRAPHICAL ABSTRACT



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Introduction

Today, all managers are looking for tools and techniques that can reduce the risks and consequences of decisions. Risk management is a new tool that has been able to find a good place in a short time and since the nature of business and investment activities is such that earning revenues requires risk-taking, it is important to note that risk management can go a long way toward success. Understanding risk in a variety of ways can help investors understand opportunities, trade balances and costs involved with different investment approaches [1-3]. Effective risk management is one of the main strategies that can play a role in improving business performance [4]. The goal of any activity in any business unit is to achieve the highest level of efficiency and effectiveness, which is called performance [5]. Financial performance is the results of measurement of a company's policies and operations in monetary terms. In the financial world, risk management is the process of identifying, analyzing, accepting or reducing uncertainty about investment decisions. Risk management occurs when an investor or fund manager tries to determine the potential risk of investment losses and then takes appropriate action with investment measures and risk tolerance [6]. A widely used definition of investment risk is the rate of deviation from the expected outcome [7]. This amount of deviation can be positive or negative (no pain, no gain) [8]. To achieve higher revenues in the long run, risk must be taken in the form of fluctuations in the short and long term. Investors use a variety of methods to identify risk. One of the criteria of absolute risk that is always used is the standard deviation rate, which is a statistical scale for measuring the scattering rate around the mean value [9]. Look at the average revenue on investment and then find your standard deviation over the same period [10]. Effective enterprise risk management with a general approach plays a role in optimal performance

control and in all business activities, there is room for effective risk management given the potential for business growth. Lack of effective risk management in the company leads to the imposition of additional costs on both the financier and the investor and of course, the reduction of company's performance level, which is evidence of the impact of effective risk management on performance [11]. Risk of the Italian word RISCARE means TO VENTURE. This concept implies risk-taking in the conscious decision-making, in other words, the tolerance of the amount of loss or the probability of future loss resulting from any potential decision or phenomenon [12].

In general, until the 1950s, attitudes toward risk were limited, one-dimensional, and qualitative. American scientist Markowitz was the first to downplay the risk [13]. Markowitz said the financial decisions had to be made based on risk and return, and that the result was efficient and efficient. All points on this line were optimal, meaning that at a certain level the return was the least risky and at a certain level, the highest return on the investor. William Sharp introduced beta. Beta measures the movement of a stock against the movement of the market and is called relative risk [14].

In the 1970s, McCully introduced its late, and late measurement is a measure of risk that measures changes in the price of fixed-income securities against changes in interest rates. In the 1980s and early 1990s, companies changed their perspectives on risk in many cases. Beyond that, many events over the years have changed the long-term goals of risk forever [15]. The managers, who were unaware of this, had big problems and paid a heavy price. Also they rate have reached unprecedented levels since the 1930s.

Even companies that were able to save themselves only had very little value added and little growth [16].



Fig. 1. Financial Risk in Industrial Companies (Original Risk)

Finally, in the 1980s and 1990s, risk management came to the attention of senior executives.

In those years, risk management, like any other variable, could affect a company's profits. In Fig. 1 financial risk in industrial companies is shown. Numerous studies show that implementing an effective enterprise risk management system will improve financial performance [17]. One of the influential variables in the relationship between effective risk management and financial performance of a company is financial leverage. Financial leverage can have a direct impact on effective risk management results. Financial leverage indicates the amount of debt and ordinary stock used to finance assets. Maintaining low financial leverage ensures that more capital remains in the company as an anti-shock to absorb adverse economic effects and counteract environmental uncertainty. Also in recent years, corporate attention to better performance and competitive advantage has shifted from investing in visible resources to investing in invisible resources. The importance of these resources in maintaining the competitive position of companies is very high [18].

In other words, while the company's performance depends directly on the products, it also indirectly depends on the resources with the products are made. Intellectual capital is one of the intangible resources in the organization.

Intellectual capital is capital beyond physical and visible assets. Today, intellectual capital can play an important role in creating added value and gross domestic product due to the production of knowledge and information and consequently, the production of wealth in a knowledge-based economy. For this reason, the financial performance of companies can be affected by intellectual capital at the level of economic enterprises. In fact, intellectual capital provides a complete view of the true value of organizations and can be used to calculate the future value of a company; In other words, in a knowledge-based economy, intellectual capital is used to create value for the organization and in today's world the success of any organization depends on the ability to manage these assets. According to the present study, the aim of this study is to investigate the effect of effective risk management on corporate financial performance.

Background Research

In a study, Yahya Zadehfar *et al.*, (2014) examined the relationship between intellectual capital and financial performance of companies listed on the Tehran Stock Exchange. The findings of this study show that the revenue on equity and the total revenue on ordinary shares are directly related to only one of the variables of intellectual capital, namely communication capital. Also, revenue on assets and earnings per share are directly related to the two variables of intellectual capital, namely communication capital and human capital. In addition, the total revenue on investment is directly related to all three variables of intellectual capital, namely communication capital, human capital, and structural capital [19].

Hosseini *et al.*, (2014) examined the relationship between effective risk management techniques and the performance of food industry companies. The results showed that the use of effective enterprise risk management techniques has a significant positive relationship with

organizational performance. Also, in the study of sub-hypotheses, the only effective management of strategic risks has no significant relationship with the performance of the organization [20].

City Zaleha *et al.*, (2014) examined the relationship between management accounting systems, effective risk management and organizational performance in financial institutions. The findings showed that Performance and implementing effective risk management requires the use of complex information from management accounting systems. Management accounting systems and company effective risk management complement each other and are used as an integral part of decision-making, planning and control in an organization. The results also showed that effective risk management plays an important role in improving non-financial performance [21].

Impact of psychology and risk management on corporate financial performance

Another important factor that motivates people to buy stocks and invest in the stock market is to gain a reputation as a shareholder. This means that some people become shareholders in a particular company just because they make money in other words, by buying shares, such people are mentally satisfied with their own companies and in fact, they are motivated to buy shares in order to obtain this prestige. Another important factor that can affect people's behavior is the degree of risk-taking, which is one of the most important factors in financial markets, especially the stock market. In terms of risk, individuals are divided into risky and risk-averse. Investors in the stock market act rationally and demand the expected revenue in exchange for accepting a certain amount of risk [22].

Role of risk management in investments

As soon as many people hear the word risk, they remember the danger and think of it as

risky. They like to avoid taking risks as much as possible. But the point is, this thinking is wrong and risk-taking is not the same as hazard. Risk management cannot be ignored or eliminated. Risk lies in the nature of any activity and basically the nature of life is based on risk. So one of the keys to success is taking the risk seriously.

Importance of risk in the stock market and its management

Undoubtedly, risk management will not be possible without sufficient knowledge of the part where you are going to invest your capital. Those who decide to invest without a thorough study, and only through apparent and cross-sectional fluctuations, or those who want to make a quick profit and Rome wasn't built in a day, they will usually have awkward and unprincipled risks. Instead, risk-taking combined with patient and of course, deep analysis, even if less profitable, yields more sustainable returns and is a better experience [23].

Importance of risk in the foreign exchange

Another important stock market which is the riskiest, is the foreign exchange market. Given that the price of a currency depends on a variety of factors and conditions and sometimes its sudden variables affect it, participation in it is associated with greater risk. One of the most important factors in the volatility of the stock market is political developments which are usually unpredictable and can have a serious impact on this market. In figure 2 4 methods of financial Risk in Industrial Companies is shown.

Importance of risk in the commodity exchange

Another stock market that may be less affected by certain developments is the commodity exchange. The commodity exchange can be more or less risky, depending on the type of stuff in

which it is intended. In general, rising commodity value leads to greater risk-taking.



Fig. 2. The method of financial Risk in Industrial Companies (4 methods)

For example, the gold exchange is one of those cases that its price is partly related to currency and political relations [24].

Risk management steps in a variety of stock exchanges

Identifying risk factors is one of the first steps in risk management in the stock market. No matter how high-risk a person is, you will have a hard time if you do not have the right analysis of the dangerous conditions. In the stock market, you also need to know the various factors that reduce profits or losses and the loss of capital value. The next step in risk management is being prepared to respond to the risks. Those who know the sources of danger well will know how to reduce or eliminate the effects of any eventuality. For example, if they see certain political tensions and the possibility of a change in market conditions, they will change their place of capital before the time is lost. Another issue, especially for stockbrokers and stockholders, is the direct monitoring of various probabilities and variables. This means that the result of each change may not be the same as before.

Process analysis

Global competition and technological advances have made business environments more complex. Companies face a wide variety of risks

due to environmental uncertainty. The chaotic business environment, along with intense advertising during the company's bankruptcy, imposes a focus on effective risk management on corporate policymakers and managers, making effective risk management has been converted to one of the main business processes. In fact, effective risk management is a vital part of the control system and no business can be profitable without effective risk management. Unlike traditional risk management, in which each risk was managed separately, companies that use effective risk management must manage a wide range of risks in a coordinated manner. Implicit risk management activities are often not understood as a strategic management process, but rather as a special effort to create an anti-shock that can absorb and transmit economic shocks. In other words, effective risk management is not only used to limit losses, but also to identify, develop and exploit opportunities. Effective risk management is also a powerful and two-way tool for both defense and market competition in today's competitive financial services [25].

Conclusion

In recent years, the gap in debt instruments and risk coverage in the capital market, on the one hand, and the need for capital market growth and development, on the other, have increased the tendency to design financing and risk management tools. The first point is being aware of the importance of risk in capital management. Therefore, this phrase is usually expressed as risk and capital management. It cannot expect a person to succeed in the capital market without considering the risk of investing and managing it. So one of the things that should always be considered in investing is risk. The second point is investment diversification to reduce risk. This does not mean a large number of trades or baskets containing a large number of different stocks. If you have a large number of

transactions, especially when you do the profit and loss interval manually, it is difficult to manage. You need to be able to manage your transactions manually when the market is strong. This is difficult even when you are trading fluctuating. As a result, you have to limit the number of open trades (the number of stocks in the stock portfolio). Our suggestion to you is to have a maximum of eight open positions. A range of five to eight open trades at the same time can be a good time for a trader. The third point in risk and capital management is that you have to make a balance between your expected profit and the risk of loss that you can bear. The best way to do this is seeing how many percent of your profits are willing to risk a percentage of your capital with the specified loss.

Conflicts of Interest

No conflict of interest was declared by the authors.

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