Resistive Economics
International Journal

The Open Access Journal of Resistive Economics (OAJRE)
Volume9, Number2 **Authors**: M. Ezzati Jadidi(2021)

Original Article

Pages: 85-93

Investigating the Short-Term and Long-term Effects of Risk Management on Liquid Assets of the Listed Companies on Tehran Stock Exchange

Maedeh Ezzati Jadidi[1*]

1 Faculty member, Department of Business Administration, Sari Branch, Islamic Azad University, Sari, Iran (Corresponding Author) Email: ezzatimaedeh84@gmail.com

Received: 2020/08/18 **Revised**: 2020/10/28 **Accepted**: 2021/01/16 **Published**: 2021/04/01

ABSTRACT: The present research examines the short- and long-term effects of risk management on liquid assets of the listed companies on Tehran Stock Exchange (TSE). This is an applied research conducted based on a post-event, descriptive - analytical design. The research data are collected using documents and library research. To adapt economic theories to the realities of society, the causal relationships between the variables were tested using the published statistics and figures. Next, using the econometric dynamic panel data and the ARDL panel data methods in Eviews software, the research hypotheses were tested. The results indicate that risk management, both in the short- and long-term, has a significant effect on liquid assets of the TSE-listed companies, confirming the research hypotheses.

KEYWORDS: risk management, investment, firm size, liquid assets, listed companies on Tehran Stock Exchange (TSE)

HOW TO CITE THIS ARTICLE:

Ezzati Jadidi, M (2021). Investigating the Short-Term and Long-term Effects of Risk Management on Liquid Assets of the Listed Companies on Tehran Stock Exchange. *Journal of Resistive Economics* (OAJRE), 9(2), 85-93.

COPYRIGHT

1. INTRODUCTION

The shareholders and owners, seeking to reduce investment risks, have taken various measures to ensure that the company reaps its benefits. They, among others, employed the services of independent auditors in the past years. However, the occurrence of big scandals in recent years and the inability of the audit profession in detection and prevention of some organized corrupt practices have undermined the trust in the activities of this group and as a result, efforts to take other appropriate measures have also increased. The regulatory bodies, as an important constituent of the capital market, have taken various actions to resolve this issue. They, among others, recommended the use of internal auditors and an audit committee as a proper solution. Consequently, requirements have been made to companies in recent years to use the services of internal auditors, which were expected to reduce shareholders' risks. This issue has been welcomed by companies to a significant extent, and studies show that a considerable number of companies operating in the capital market profit from the services of internal auditors. Prior research underlines the significance of education and work experience for the quality of independent and internal auditing.

This research addresses internal controls as an important monitoring mechanism employed to improve the quality of financial reporting. By improving the quality of internal controls and regularly updating them, the firm improves its financial reporting and prevents the misuse of its assets (Nasiri, 2019). Therefore, the use of the employees with sufficient expertise in these issues can enhance the quality of internal controls (and financial reporting) and thereby render their risk management more effective. In sum, considering the ability and experience as well as the expertise that internal auditors build in the design and implementation of internal controls and their organizational position that allows them to monitor the company's internal activities, it is assumed that the presence of internal auditors in the organizational structure is conducive to better functioning of the firm's internal controls and higher effectiveness of its risk management (Nazari, 2017).

2. Theoretical framework

Liquid assets

Liquid assets are assets that can be easily and quickly converted into cash. The asset should not lose any (or a lot) of its value during the process. According to most articles, liquid assets are also called quick assets. Liquid assets include the following:

- Cash (in one's hand or business account),
- Receivables (for your work),
- Demand deposit (a kind of investment),
- Prepayment insurance (you get your money back, if canceled), and
- Investments that mature in less than 90 days (e.g. stocks, bonds, mutual funds, money market funds).

Assets are anything of financial value to a business (or person). A business uses its assets to manufacture its goods or provide its services. Current assets are liquid assets (Sony, 2020).

Risk

There are different definitions of risk and its types, but, in a broad sense, any phenomenon that can deviate the result from what the investor expects is called risk. In common language, risk is the danger that may arise due to uncertainty about the occurrence of an accident in the future, and the higher the level of uncertainty, the greater the risk. Webster's dictionary defines risk as "being exposed to danger". The investment dictionary considers risk as the potential investment loss that can be calculated. Galitz views risk as fluctuations in any kind of yield. The latter definition specifies that possible future changes in a particular index, whether positive or negative, confront us with risk. Thus, the changes, depending on their direction, may cause profit or loss.

Harry Markowitz was the first who, based on the provided quantitative definitions, introduced multi-period standard deviation as a numerical indicator for risk. There is also another view to risk that only focuses on the negative aspect of fluctuations. For example, Hube defines risk as the probability of decrease in income or capital loss. Therefore, risk can be defined from two points of view (Berik, 2020).

Numerous categories are conceivable for risk, but in a well-known typology, risk is divided into two broad categories: financial and non-financial risks. Financial risks are a major risk category that directly affect the firm's profitability. The second category, non-financial risks, some of which beyond the firm's control, are the risks that indirectly put the firm's interests at risk. There is also a third category, management risk, that arises from the wrong decisions of executives at different management levels. The degree of risk caused by incorrect decisions varies and affects the quality of the organization's performance to varying degrees (Mizik, 2010).

Soni (2020) investigated the relationship between internal control and excessive investment with credit risk in Vietnamese listed companies for the period 2010 through to 2019. The results showed that the internal control and excessive investment had an effect on the credit risk in the understudy Vietnamese companies.

Fanish (2020) investigated the relationship between effective risk management and asset improvement of financial companies. The study showed that risk had an important role in the firm's main activities, and that performance improvement was linked with the maturity of the effective risk management and the degree to which stakeholders were engaged in effective risk management and asset improvement.

Meyk (2020), examining the relationship between effective risk management and liquid assets of the listed companies on the stock exchange, showed that two of the effective risk management factors, i.e. the industry competition and the firm size, had a positive relationship with the firm assets. The two other factors of effective risk management, i.e. environmental uncertainty and board supervision, were not found related to the firm performance.

Nasiri et al (2019) investigated the effect of effective risk management and liquid assets on the degree of the firm performance. The results indicated a significant positive relationship between the firm assets and comprehensive risk management.

3. Research method

This is an applied research conducted with an inferential (post-event) descriptive-analytic design using econometric, panel data methods.

The statistical population included all the TSE-listed companies. The required data were manually extracted from the financial statements available in the research, development and studies management sites affiliated to the Securities and Exchange Organization and the codal network (Rahavar Novin), the comprehensive information systems of publishers, the Iran Financial Information Processing Center and the compact discs of the Securities and Exchange Organization.

To adapt the economic theories to the realities of society, the causal relationships between the variables were investigated using the published figures and statistics. Next, based on inferential statistics and using an econometric dynamic panel data method and ARDL panel model, the research hypotheses were tested.

4. Findings

The research hypotheses were tested using the regression models proposed in Chen et al (2020) as follows:

$$LNCASH_{i,t} = \beta_0 + \beta_1 Size_{i,t} + \beta_2 NP_{i,t} + \beta_3 GROWTH_{i,t} + \beta_4 LEV_{i,t} + \beta_5 CF_{i,t} + \beta_6 CF\_VOL_{i,t} + \beta_7 RET\_VOL_{i,t} + \beta_8 SEG_{i,t} + \beta_9 AGE_{i,t} + \beta_{10} SOE_{i,t} + \beta_{11} CAPEX_{i,t} + \beta_{12} R\&D_{i,t} + \beta_{13} M\&A_{i,t} + \beta_{14} DIV_{i,t} + \varepsilon_{i,t}$$

Where

Cash: equivalent cash divided by total assets

SOE: Ownership percentage of shareholders who own over 5% of the company's shares

NP: the company's financial instability

SIZE: company size (logarithm of assets book value)

LEV: Financial leverage of firm i in year t

GROWTH: company growth rate measured by changes in total sales divided by total sales of the previous year.

Age: company age is the logarithm of the years since founded

R&D: R&D cost

Div: Dividend payment

CF: Average liquidity growth over the past 3 years multiplied by last year's cash flows

CAPEX: Capital expenditure based on company assets

Re_VOL: standard deviation of monthly stock returns in the previous year

CF_VOL: The standard deviation of liquidity growth over the past 3 years multiplied by last year's cash flows
SEG: Equipment to Total Assets
M&A: profit (loss) after tax
The regression model used to test the hypotheses is estimated as follows:

$$LNCASH_{i,t} = \beta_0 + \beta_1 Size_{i,t} + \beta_2 NP_{i,t} + \beta_3 GROWTH_{i,t} + \beta_4 LEV_{i,t} + \beta_5 CF_{i,t} + \beta_6 CF\_VOL_{i,t} + \beta_7 RET\_VOL_{i,t}$$

Table 1. The estimation results for the regression model by ARDL panel data method

Variables	Long Run Equation			
	Coef.	Std. Err.	t	P>|z|
SIZE	0.106604	0.020692	5.151821	0.0000
NP	-0.408043	0.056132	-7.269314	0.0000
GROWTH	-0.204690	0.089165	-2.295631	0.0300
LEV	0.381218	0.074073	5.146531	0.0000
CF	0.237776	0.086521	2.748188	0.0054
CFVOL	0.078470	0.021217	3.698436	0.0000
RETVOL	0.380087	0.068221	5.571415	0.0000
SEG	-0.016839	0.006021	-2.796881	0.0049
AGE	-0.110132	0.055542	-1.982849	0.0491
SOE	-0.371010	0.045698	-8.120335	0.0000
CAPEX	0.319158	0.058288	5.475566	0.0000
RD	-0.016559	0.007091	-2.335214	0.0355
MA	-0.483512	0.071280	-6.783245	0.0000
DIV	-0.288743	0.100192	-2.881899	0.0040
Variables	**Short Run Equation**			
COINTEQ01	-0.235516	0.085117	-2.762255	0.0053
D(SIZE)	0.141679	0.027859	5.085530	0.0000
D(NP)	-0.442456	0.066494	-6654123	0.0000
D(GROWTH)	-0.276170	0.096685	-2.856400	0.0042

D(LEV)	0.334108	0.093332	3.579772	0.0003
D(CF)	0.318554	0.087143	3.655551	0.0001
D(CFVOL)	0.076822	0.023725	3.238037	0.0011
D(RETVOL)	0.413142	0.069053	5.982970	0.0000
D(SEG)	-0.014838	0.006607	-2.245690	0.0378
D(AGE)	-0.120704	0.060604	-1.991677	0.0487
D(SOE)	-0.403483	0.056364	-7.158523	0.0000
D(CAPEX)	0.413976	0.073704	5.616675	0.0000
D(RD)	-0.187219	0.067270	-2.787588	0.0108
D(MA)	-0.107655	0.045222	-2.385228	0.0300
D(DIV)	-0.034628	0.006430	-5.385230	0.0000
C	0.305260	0.058288	5.237120	0.0000

Given the calculated probability (0.0000) for the assumed relationships in the short- and long-term, respectively, which is less than 0.05, the null hypothesis is rejected. That is, risk management has a significant effect on liquid assets of the listed companies in short- and long-term. Hence, the research hypothesis is confirmed.

What is most important in the error correction model (ECM) is the coefficient of the error correction term (ECM_{1-t} = -0.235516), which is the speed of the imbalance adjustment process. As can be seen, this coefficient is significant and has a negative sign which means that as we move from one period to the next, 23% of the deviation of the company's liquid assets function from its long-term track is corrected by the model's variables in one period. However, the pace of the movement towards equilibrium is moderate in the studied companies.

5. Discussion and conclusion

Organizational risk management has rapidly grown in the last two decades, and shareholders, legislators, professional bodies, and rating organizations use risk management and internal controls for better handling of corporate issues. Organizational risk management is a relatively new branch, and multiple studies are still investigating how risk managers influence decision processing in organizations. But what is organizational risk management? Duruigbo (2012) states that organizational risk management is a systematic and integrated approach to managing the total risks a company faces. Chowdhury (2012) notes that organizational risk management is an attempt to manage all company risks. In fact, organizational risk management has a responsibility structure that helps management achieve its goal - which is to maximize the value of the company's assets. According to Erikson (2011), organizational risk management is a

method in which all risks are observed in a coordinated and strategic framework. Mavruk et al (2015) consider organizational risk management as an integrated approach to managing risks in an organization that seeks the most effective ways to deal with these risks.

References

Berik(2020)Audit committees, boards of directors, and remediation ofmaterial weaknesses in internal control. Contemporary AccountingResearch.

Chowdhury, J. (2012). *Managerial Myopia: A New Look*. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1991429.

Duruigbo E. (2012). Tackling shareholder short-termism and managerial myopia. Available at: http://works.bepress.com/emeka_duruigbo/3.

Eriksen, K.W. & Kvaloy, O. (2011). *Myopic risk-taking in tournaments*, Available at: http://www.sv.uio.no/esop/english/research/news-and-events/events/2011/kvaloy.pdf.

Fanish(2020)Internal auditor characteristics, internalaudit effectiveness, and moderating effect of senior management. Journalof Economic and Administrative Sciences,

Mavruk, Taylan and Carlsson, Evert, How Long is a Long-Term Firm Investment in the Presence of Governance Mechanisms? (February 25, 2015). Eurasian Business Review 5, 117-149 Available at SSRN: http://ssrn.com/abstract=2594303 or http://dx.doi.org/10.2139/ssrn.2594303

Meyk(2020)Corporate governance in emerging economies. Oxford Review of Economic Policy,

Mizik, N. (2010). The Theory and Practice of Myopic Management. *Journal of Marketing Research*, 47 (4): 594-611.

Nasiri, Jamal (2019) Event analysis of the requirements of internal controls governing financial reporting with an emphasis on the role of the audit committee. Knowledge of accounting and auditing 13.

Nazari, Saber (2017) Investigating the effectiveness of internal audit in the performance of risk management and control of government organizations. Management of government organizations.

Soni(2020)The impact of internalaudit attributes on the effectiveness of internal control over operations and compliance. Journal of Contemporary Accounting & Economics.

JOURNAL DESCRIPTION

Name: *Journal of Resistive Economics (OAJRE),*
Homepage: *www.oajre.ir*
e-ISSN: *2345-4954*
Volume & Issue: *Vol 9, No 2, April 2021*
Publisher: *Imam Hossein University*
Publisher Address: *No 19, 36th Street, Shahr Ara, Jalal Ale Ahmad High Way, Tehran, Iran.*
Publisher Phone: *+989214240452*

JOURNAL STATISTICS

No of Figures: 0
No of Tables: 1
No of References:11
No of Authors: 1
No of Pages: 9

How to Cite This Article
Ezzati Jadidi, M (2021). Investigating the Short-Term and Long-term Effects of Risk Management on Liquid Assets of the Listed Companies on Tehran Stock Exchange. Journal of Resistive Economics (OAJRE), 9(2), 85-93.

OPEN REVIEW PROCESS (IN ABSTRACT)

Submitted for Reviewer(s): 15/09/2020

First Reviewer	Second Reviewer		Final Reviewer
Acceptance of Review: 20/09/2020	Accept of Review: 05/10/2020		Acceptance of Review: 22/10/2020
Review Result: 30/09/2020	Review Result: 14/10/2020		Review Result: 03/11/2020
Result: ◉ Acceptance without Amendment ○ Require to Amend (Literal, Substantial, etc.) ○ Rejection	Result: ○ Acceptance without Amendment ● Require to Amend (Literal, Substantial, etc.) ○ Rejection		Result: ● Acceptance ○ Rejection
Back to Author(s): 05/11/2020 Amendment by Author: 22/11/2020			

AUTHOR (S) BIOSKETCHES

Maedeh Ezzati Jadidi

Faculty member, Department of Business Administration, Sari Branch, Islamic Azad University, Sari, Iran.
Email: ezzatimaedeh84@gmail.com

ACKNOWLEDGMENTS

ETHICAL CONSIDERATION

Authenticity of the texts, honesty and fidelity has been observed.

AUTHOR CONTRIBUTIONS

Maedeh Ezzati Jadidi contributed to the design and implementation of the research, to the analysis of the results and to the writing of the manuscript.

CONFLICT OF INTEREST

Author/s confirmed no conflict of interest.