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Risk management and its effect on board of director allocation in listed companies in Tehran Stock Exchange

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Abstract
Every company will face to some risks, so the risk management is so important in order to survive a company. The goal of this research is identifying and describing of risk management and its effect on board of director allocation in listed companies in Tehran Stock Exchange. This study is a descriptive research and Statistical population in this research was included the listed companies in Tehran Stock. Data gathered with verified questionnaire. Statistical population has been chosen by using by Cochran formula. Data analysis was done by SPSS and LISREL by using Pierson correlation coefficient. Some hypotheses were investigated in this research by using above statistical tools. α-Cronbach was used to calculate the validity of questionnaire. The confidence coefficient of this study was obtained as 0.05. According to this study, the main hypothesis was confirmed which indicated the effects of risk management on board of director allocation. This study concluded there is a significant relation between risk management and its effect on board allocation in listed companies in Tehran Stock Exchange.
Key words: Strategic Risk, Board of director's allocation, listed companies in Tehran Stock Exchange

Introduction

According to definition of Hasas Yeganeh and Baghumian(Hasas Yeganeh, 1385): "Corporate governance, is including of rules and regulations, structures, processes, cultures and systems that causes achieving to the objectives of responsiveness (Accountability) ,transparency, justice and the rights of stakeholders. "The basic fundamental emphasis of corporate governance is focused on the corporates strategies issue and rights of stakeholders and thereafter with newer perspectives, trends toward serious attention to the rights of all stakeholders and society.
In corporate governance, its goal, having of an effective and efficient board of director and achieving to this goal, requires to evaluate of the board of director characteristics (Particularly desirable).In this state, this question is put forward that whether to be different of the board of director characteristics of companies can be effective in the report properties of the independent auditors? By achieving to answer this question can to improve the company performance, implements the appropriate measures and to guide the stakeholders towards to the selection of the desirable board of director.

Research Problem

The facts indicate that in the companies, managers are more seeking of their self-interested rather than the beneficiaries' interests. For solving of this problem, there are two solutions: First solution is, to encourage managers towards of the expected behavior performance, that be considered rewards for them, second solutions, the empowerment of the board is so that can to have the merit control over the managers performance.
The increase in awareness and knowledge gives to the board the possibility of decision-making and creates positive impact the supervisory (Governance) structures and the company's control environment. It is probable that auditors respect to the managers boards that participate actively in risk management.
Instead, it reduces this similarity that the uncontrolled trade risks leads to unexpected losses, validity (Credit) damages and or strategic withdrawals. In addition, the companies take apart in risk management activities, not only have the ability to identify and prevent of fraud, but also makes to promote of their financial report quality.
The activities and researches that have been conducted recently, implies to this that the auditing committee is fully aware of the increasing involvement of the risk management, but there is guess and assumption about powerful challenges which the auditing committees can provide for profitability of risk management.
Therefore, the following discussion supports of the risk management's role to help with strengthen to internal control system of a company. The Board of director's allocation that establish a self-sufficient committee that merely focus on their risk management performance, are seeking to prove its commitment to promote reform of their companies cooperative

control structures. On this basis, the most manifest issue in the current research is "investigation of the relationship between the risk management and Board of director's allocation in the accepted companies of Tehran Stock Exchange".

The importance and necessity of research

In general, the previous studies have confirmed that lack of dependency and freedom of the board from the management, among other things, provides most effective control for company activities. The risk management has been paid attention of the boards committees. The risk management committee, financial management or the board of auditing are considered on the whole, the risk management. This research deals with a general attitude in along with risk management and this study works related to cooperative, Participation control. This study is not only in effort for achieving to the relevance factors in order to organizing parameters of a risk management committee, but also it deals with presenting viewpoints in relation to the organizational environment that where the companies requires to the formation of an auditing committee and acceptance announcement of internal control. In the end, while the companies are required to the formation and establishment of an auditing committee, in relation to stabilization of the other board committee, such as risk management committee that do not declare any similar requirement.

Literature Review

Qalibaf and Rezaei (1386) are examined the impact of board composition over the accepted companies performance in Tehran Stock Exchange. The sampling study results includes of 72 companies during of 1382 to 1384 years, it was indicate that there is not the significant relationship between the board irresponsible members and the company performance.

Sadeghpoor and et al (2006) have done a research entitled of "The evaluation factors and the new standards of boards of directors ".In this paper, based on extensive and accurate researches, deal with description of 12 new standards for boards of directors. Thus, we have attempted to consider these standards, so that they are adaptable with the board situation inside of country. Then according to these standards, to measure of the boards' performance, the questions have been raised in the different groups that their response will show the set of performance assessment scores. The board of directors by using of this assessment model can to measure of their future and past performance. This set of standards, can be the basis path of development and progress of the board committees in future.

Lasfer (2006) paid to study of the interrelationships between managerial property and the board composition. The sampling study results, includes of 1583 British firms during the period of 1996 to 1997, was indicate of the corporate governance mechanisms, such as the separation of general manager role and chief of board of directors, the percentage of board irresponsible members, have the significant relationship and strong negative with the managerial property.

Yon and et al (2007) have tested the effective factors on the boards composition of American companies, by using of general three hypotheses, include of the operation hypotheses, control hypotheses and dialog hypotheses. The sampling study results includes of1019 companies during of 1988 to 1992 years, it was indicate that generally, the expansion of company and variation in trade departments has the significant and positive impact on the size and independence of the board directors.

Lee and et al (2009) have examined to study and determine of the size and the board composition of American companies. The sampling study results includes of 81 company during the years of1935 to 2000, it was indicate that the company size and the growth opportunities, describe the major changes in size and the board composition, moreover the results showed that the merger of the firms and geographical development of company is considered as the important and effective variables in the size determinant.

Patan and Eskoli (2010) have examined to study of internal structure of the American banks board of directors. The sampling study results includes of 1534 observation from 212 bank during the years of 1997 to 2004, it was indicate that bigger and varied of the banks activities, leads to increase the size of the board role, in irresponsible members and combinations role of the chief of the board and the general manager.

Research Objectives

1-To investigate relationship between Strategic Risk and Board of director's allocation
2-To identify relationship between Market Risk and Board of director's allocation

Research Hypotheses

1- There is significant relationship between Strategic Risk and Board of director's allocation
2- There is significant relationship between Market Risk and Board of director's allocation

Research Conceptual Model

The concepts related to risk management and its various dimensions is influenced in organizations over the Board of director's allocation. The forming logic of this framework based on concept of risk management influenced on the Board of director's allocation is regarded as one of their effectiveness criterion on the Board of director's allocation.

Subject Domain

In general, the subject domain of this research is about of investigation the relationship between risk management and Board of director's allocation of Accepted Firms in Tehran Stock Exchange.

Time Domain

The time domain of this study was included the second six months of year 2013 and the first six months of year 2014

Research Methodology

The Research Method of this research based on in terms of objective was applied and in terms of descriptive research data collection is based on correlation. In this research in terms of matrix analysis was based on correlation or covariance in which it has been used of structural equation modeling (SEM) method. In fulfillment of this research has been used of the field method and also in this research required data collection has been used of referring to the available information in Tehran Stock Exchange organization site, the published DVD by Tehran Stock Exchange organization, as well as the available information in auditing organization, review of documents, financial statements and notes with for companies. For the information analysis and hypothesis test was used of regression analysis, and for the data analysis has been used of SPSS and $LISREL_{8.7}$ programme.

Statistical Population

The statistical population in this research was included the managers and the boards members of accepted companies in Tehran Stock Exchange, that the number of 423 people were considered as the statistical population by using of Cochran's sample size formula, about 201 people have been selected as the managers and the board's members as the statistical sample.

Sampling method and Sample size

In this research was used the simple random sampling method. Since that the statistical population of this research was the limited population, therefore was used of Cochran's sample size formula (The limited population for sampling):

$$n = \frac{N \times Z_{\frac{\alpha}{2}}^{2} \times P \times (1 - P)}{d^{2} \times (N - 1) + Z_{\frac{\alpha}{2}}^{2} \times P \times (1 - P)}$$

Research Findings:

Result of Research Hypotheses

First Hypothesis:

There is significant relationship between Board of director's allocation and Strategic Risk

There is not significant relationship between Board of director's allocation and Strategic Risk

$$H0: \rho = 0$$

There is significant relationship between Board of director's allocation and Strategic Risk

$$H1: \rho \neq 0$$

Results of testing are shown in the following table 1

Table 1: Results of testing the Pearson's correlation coefficient between Board of director's allocation and Strategic Risk

	Strategic Risk	
Board of director's allocation	**Pearson's correlation**	0.660
	Significance level	0.000
	Number	216

$^{*}p < 0.01$

According to the above table results, since that the significance level is less than 0.01 and its result is that the hypothesis of H_0 is rejected and the hypothesis of H_1 is accepted. As it is observed, there is the direct and significant relationship between Board of director's allocation and Strategic Risk at level of 99 percent and its correlation coefficient is equal to 0.660

Second Hypothesis

There is significant relationship between Market Risk and Board of director's allocation

There is not significant relationship between Market Risk and Board of director's allocation

$$H0: \rho = 0$$

There is significant relationship between Market Risk and Board of director's allocation

$$H1: \rho \neq 0$$

Results of testing are shown in the following table 2.

Table 2: Results of testing the Pearson's correlation coefficient between Board of director's allocation and Market Risk

	Market Risk	
Board of director's allocation	**Pearson's correlation**	0.596
	Significance level	0.000
	Number	216

* $p <$ * 0.01

According to the above table results, since that the significance level is less than 0.01 and its result is that the hypothesis of H_0 is rejected and the hypothesis of H_1 is accepted. As it is observed, there is the direct and significant relationship between Board of director's allocation and Market Risk at level of 99 percent and its correlation coefficient is equal to 0.596

Conclusion

All the research hypotheses in this study were confirmed. Because of T path coefficient of all variables was greater than 1.96, thus all the hypotheses were confirmed. It was observed that there is a significant relationship between risk management and its dimensions with the Board of director's allocation. The results showed that the strategic risk with (0.66 ratio coefficient) has significant impact on the Board of director's allocation. Among these dimensions, strategic risk with (0.59 ratio coefficient) has the lowest value impact on Board of director's allocation. As if by analyzing of independent variables were determined that the strategic risk has high impact on the Board of director's allocation, the issues such as the economic stability at macro level and the ability to get of international validity over these risks from one aspect leads to increase of these risks due to the economic sanction in short term. But in long term, this issue leads to apply of the local expertise people and it's consequently, growth and dehiscence of the local talent and steps towards of self-sufficiency by these big companies.

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