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Research Paper

The Moderating Effect of Management Characteristics on the Relationship between Company Risk and Market Competition Product of Tehran Stock Exchange Corporations[1]

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INTRODUCTION

Shareholders, as business unit owners, seek to increase the return on their investments and grow their wealth. Therefore, it is crucial to consider the abilities and characteristics of managers as they determine the official strategies of the organization. In today's highly competitive markets, managers are compelled to make the right operational decisions to keep the organization competitive and achieve expected benefits. Failing to expand activities in line with competitors may lead to exclusion from the market and the risk of bankruptcy. Strong managers have better control over the business unit and can effectively manage operations. Thus, risk management is an important task of management, involving the identification, measurement, decision-making, and monitoring of various types of risks for the corporation (Mahmoudabadi and Zamani, 2015). These managers play a crucial role in increasing the corporation's competitiveness by aligning macro strategies, developing strategic and operational policies, and ensuring their successful implementation. Competitiveness directly relates

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to the corporation's market share. In highly competitive conditions, where the risk of losing market share and reducing sales is high, capable and experienced managers make timely and appropriate decisions to mitigate the corporation's risk and enhance market share management. Corporate governance mechanisms, particularly competition in the product market, are considered effective in implementing a robust control system to manage management power and company risk. Increased competition reduces the likelihood of opportunistic profit management and fraud within industries due to the presence of market mechanisms (Makiukite and Park, 2010). Consequently, this reduces the risk of the corporation's stock value decline. Previous research has explored the relationship between CEO power and corporation risk and value (Kritos, 2017), the connection between market competition and corporation risk (Laxmana and Yang, 2015), and the association between management ability and market competition (Nikbakht et al., 2019). However, there is a research gap in examining the relationship between corporation risk and market competitiveness, with a focus on the moderating effect of CEO ability, experience, expertise, and power. Thus, this research aims to investigate how management's ability, experience, power, and expertise influence the relationship between corporation risk and competition in the product market.

MATERIALS AND METHODS

In terms of its purpose, this research falls under the category of applied research. It is also considered descriptive-correlational research, which aims to describe the current situation and examine the characteristics and traits of variables, as well as investigate the relationship between variables through regression analysis. The research is post-event in terms of time since the variables have already been obtained, and it is theoretically classified as positive research. The geographical area covered in this research is the corporations listed on the Tehran Stock Exchange. A 10-year period, specifically financial statements from 1391 to 1400, is examined. The statistical population for this research includes all corporations listed on the Tehran Stock Exchange. To ensure the statistical sample represents the desired population adequately, the systematic elimination method has been utilized. The following five criteria are considered, and if a company meets all the criteria, it is selected as part of the research sample, while the remaining companies are excluded. After applying these criteria, 182 corporations remain as the screened sample, all of which have been chosen as examples.

RESULTS AND DISCUSSION

1-THE BASIC ASSUMPIONS OF REGRESSION MODELS, RESEARCH HYPOTHESES AND THEIR VALIDITY TESTS:

Data normality test

Based on the obtained results, the significance level of the Shapiro-Wilk normal distribution test for all variables is less than 5%, indicating that the data does not follow a normal distribution. However, the normality of the errors in the models was tested and it was found that the errors exhibit a normal distribution.

F limer test (Chow)

The significance level of the test conducted on all models was found to be less than 5%. As a result, the panel data approach was accepted, indicating that this approach is more appropriate compared to using consolidated data.

Haussmann's test

The Hausman test was conducted on all models, and the significance level was found to be less than 5%. As a result, the fixed effects model, specifically the width from the origin, was accepted over the random effects model.

Variance heterogeneity test

The adjusted Breusch-Pagan test was conducted on the research models, and the significance level was found to be less than 5%. This indicates the presence of heterogeneity of variance in the disturbance terms. However, this issue has been resolved in the final models by applying data weighting through the Generalized Least Squares (GLS) method, as described by Aflatouni (2016).

Autocorrelation test

The significance level of the Wald test was found to be less than 5%, indicating the presence of serial autocorrelation. To address this issue, the AutoCorrelation command in Stata was utilized, providing a solution for the autocorrelation problem.

Collinearity test

According to the rule, if the value of the Variance Inflation Factor (VIF) is greater than 10, it suggests high multicollinearity (Abrishmi, 2014). However, in the collinearity test results, it was observed that the VIF values are less than 10. This indicates the absence of collinearity among the research variables.

2-TESTING RESEARCH HYPOTHESES

First hypothesis: The hypothesis suggests that there is a significant relationship between company risk and competition in the market, with three sub-hypotheses. Let's examine each sub-hypothesis and its corresponding results:

Hypothesis 1: There is a significant relationship between total risk and competition in the market. According to the results, a direct and significant relationship between total risk and the Herfindahl-Hirschman index was observed. As the Herfindahl-Hirschman index is an inverse measure of product market competition, this suggests an inverse relationship between total risk and market competition. The parent statistic is equal to 26.90, and its significance level is less than 5%, indicating that the fitted model has sufficient validity.

Hypothesis 2: There is a significant relationship between unsystematic risk and competition in the market. The results indicate a direct and significant relationship between unsystematic risk and the Herfindahl-Hirschman index. As the Herfindahl-Hirschman index is an inverse measure of product market competition, this implies an inverse relationship between unsystematic risk and market competition. The parent statistic is equal to 58.08, and its significance level is less than 5%, suggesting that the fitted model has sufficient validity.

Hypothesis 3: There is a significant relationship between systematic risk and competition in the market. According to the results, there is a direct and significant relationship between systematic risk and the Herfindahl-Hirschman index. Since the Herfindahl-Hirschman index is an inverse measure of product market competition, this indicates an inverse relationship between systematic risk and market competition. The parent statistic is equal to 21.44, and its significance level is less than 5%, indicating that the fitted model has sufficient validity.

The second hypothesis: The hypothesis suggests that the ability, experience, expertise, and power of management have an effect on the relationship between company risk and competition in the market. Let's examine each sub-hypothesis and its corresponding results:

Hypothesis 1: The ability, experience, expertise, and power of management have an effect on the relationship between total risk and competition in the market. According to the results, the characteristics of management expertise and experience do not have a significant effect on the relationship between the independent and dependent variables. However, the characteristics of management power and ability have a direct and significant effect on the relationship between total risk and the

Herfindahl-Hirschman index. The Wald statistic is equal to 53.15, and its significance level is less than 5%, indicating that the fitted model has sufficient validity.

Hypothesis 2: The ability, experience, expertise, and power of management have an effect on the relationship between unsystematic risk and competition in the market. Based on the results, the characteristics of management expertise and experience do not have a significant effect on the relationship between the independent and dependent variables. However, the characteristics of management power and ability have a direct and significant effect on the relationship between unsystematic risk and the Herfindahl-Hirschman index. The Wald statistic is equal to 88.63, and its significance level is less than 5%, indicating that the fitted model has sufficient validity.

Hypothesis 3: The ability, experience, expertise, and power of management have an effect on the relationship between systematic risk and competition in the market. According to the results, the characteristics of management power, expertise, and experience do not have a significant effect on the relationship between the independent and dependent variables. However, the characteristic of management ability has an inverse and significant effect on the relationship between systematic risk and the Herfindahl-Hirschman index. The Wald statistic is 62.89, and its significance level is less than 5%, indicating that the fitted model has sufficient validity.

DISCUSION AND CONCLUTION

The results of the research indicate a direct and significant relationship between risk (including total risk, systematic risk, and unsystematic risk) in the product market. Additionally, the characteristics of management ability and power have an effect on the relationship between total risk and unsystematic risk, showing a direct and significant relationship with competition in the product market. However, the characteristic of management ability has an inverse and significant effect on the relationship between systematic risk and competition in the product market.

It is worth noting that these results differ from the findings of the studies conducted by Anjinro et al. (2014) and Laxmanaviang (2015). These differences may be attributed to variations in research methodology, sample size, contextual factors, or other factors specific to each study. It is important to consider these variations and conduct further analysis and investigation to better understand the reasons behind the divergent findings.

Based on the research findings, the following practical suggestions are presented:

1. Investors: It is advisable for investors to consider investing in corporations that demonstrate higher levels of competition in the product market. Such corporations are more likely to have a focus on developing their human resources and increasing the overall value of the company. By investing in competitive corporations, investors can potentially benefit from improved performance and value growth.
2. Managers: Managers are encouraged to strive for increased efficiency by implementing suitable strategies that enhance market competition. By actively working towards increasing competition in the product market, managers can steer the organization in the right direction and maintain its competitive position. This may involve initiatives such as product differentiation, marketing campaigns, or improving operational efficiency.
3. Corporations: It is recommended for corporations to appoint capable managers who can effectively manage and maintain product market competition. Competent managers play a crucial role in sustaining the company's value and even driving its growth. By focusing on recruiting and retaining skilled managers, corporations can enhance their competitive advantage and ensure long-term success.

Keywords: Corporation Risk, Market Competition, Management Ability, Management Power.

JEL Classification: G32, G41.