



Investigating the Impact of Financial Innovation on Corporate Risk Management

Mohammad Norouzi¹, Farhad Azizi², Vahid Oskou³

1. Assistant Professor, Lecturer, Accounting Department, Gonbad-Kavoos University, Gonbad- Kavoos, Iran. Email: Mohammad_n488@yahoo.com
2. Department of Accounting, Safadasht Branch, Islamic Azad University, Tehran, Iran. Email: f.azizi@iau.ac.ir
3. Assistant Professor, Faculty of Administrative and Economic Sciences, Gonbad Kavous University, Gonbad Kavous, Iran. Email: vahidoskou@gonbad.ac.ir

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*Correspondence:

Mohammad Norouzi
Mohammad_n488@yahoo.com

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Abstract

Development theory emphasizes the efficient use of economic resources in the economy; because the optimal use of economic resources converts them into productive investment, which ultimately leads to sustainable economic growth. The development of financial innovations in the economy with technology creates more change and efficiency in financial institutions that can provide better financial products and services. Therefore, based on this argument, the purpose of the present study is to investigate the effect of financial innovation on risk management of companies listed on the Tehran Stock Exchange using a sample of 167 companies during the period 2015 to 2023. The results of the research findings show that financial innovation improves organizational risk management. Also; in accordance with the second hypothesis of the study, financing constraints have an interactive effect on the relationship between financial innovation and organizational risk management.

Keywords: Financial innovation, risk management, financial constraints.

JEL Classification: [C53](#), [C45](#), [C61](#)

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INTRODUCTION

Financial innovation has led to the development of technological advances. These advances have led to the introduction of many new financial models, products, and institutions. As a developing country, Iran should encourage rational and scientific financial innovation and create a financial system consistent with its national development strategy. There are several studies on how financial innovation affects the market. Financial innovation can improve the overall efficiency of market financing at the macro-market level. However, it may increase the possibility of financial risks. Therefore, business model innovation leads to lower product or service production costs compared to other organizations and leads to the introduction of a new product or a new production process, which ultimately results in the organization's performance and creates a competitive advantage over other competitors. Business model innovation is considered as an organizational capability due to the creation of a new ability for the organization to create value. Therefore, based on these arguments, the purpose of the present study is to examine the impact of financial innovation on corporate risk management.

METHODOLOGY

The present study is applied research in terms of its purpose and semi-experimental post-event research in terms of data collection method in the field of accounting positive research, that is, it was conducted based on the analysis of past information. In terms of data analysis method, it is also correlational research, because the present study seeks to find the relationship between research variables in a statistical population. Research data were collected from the Tehran Stock Exchange website and the new Rahavard software. Finally, considering the sample size, the 13th version of Iviews software was used for data analysis. The statistical population studied in this study includes all companies listed on the Tehran Stock Exchange during the years 2014 to 2019.

RESULTS

Development theory emphasizes the efficient use of economic resources in the economy, because the optimal use of economic resources translates into productive investment, which ultimately leads to sustainable economic growth. The development of financial innovations in the economy with technology creates greater change and efficiency in financial institutions that can provide better financial products and services. Financial market transactions and the use of derivative instruments are closely related to the daily business activities of companies. As an important part of business operations, organizational risk management is influenced by financial innovations that can improve investment returns and corporate stability, and this makes it easier for corporate managers to refinance and manage financial risks. Corporate refinancing in Iran is currently mainly based on bank loans. The traditional financial market in the capital market, dominated by banks, tends to issue short-term secured loans, which contrasts with the high returns and long innovation cycles of private companies. Therefore; Financial innovations expand a company's financing options, allowing them to choose appropriate financing methods and reduce operational risks. Meanwhile, financial innovations reduce risk and transaction costs in the financial system by improving payment mechanisms and system efficiency. This reduces stress on financial transactions and improves the company's risk management ability. In the same vein, financial innovations promote macroeconomic development and stability. For example, the evolution of lending practices and loan markets increases the borrowing capacity of companies and helps to open up the market environment. Therefore, more companies are able to reduce financing constraints, improve the efficiency of capital allocation, and reduce business risks. In more stable economic environments, managers focus more on corporate risk management and enhance their risk management capabilities. According to traditional theories, financing constraints are caused by information asymmetry, agency problems, and transaction costs, and this type of financing constraints can affect managers through company development, investment opportunities, and company growth.

The results of the research findings show that financial innovation improves organizational risk management. Also, according to the second hypothesis of the research, financing constraints have an interactive effect on the relationship between financial innovation and organizational risk management.

CONCLUSION

Financial innovation promotes the restructuring and optimization of the financial system by overcoming the problems of insufficient supply, low efficiency, and high cost. Financial innovation can overcome the traditional financial system credit resource allocation model and financial service efficiency by reducing the risk of manipulation caused by information asymmetry, forcing the financial sector to change shape, and improving the quality. The development of financial products and services has created new business risks, thereby increasing the need for effective daily risk management. In summary, previous research has examined the relationship between financial innovation and macro-market development or micro-firm behavior. However, the impact of financial innovation on organizational business risk management has not yet been investigated. Today, in Iran, in addition to competitive challenges, companies are also facing a series of problems resulting from the lack of favorable development of the institutional environment for businesses, such as the imposition of sanctions, changes in customs, banking, tax, and foreign exchange policies and regulations, and as a result, increased production and domestic and international exchange costs, limited access to raw materials, increased prices of production inputs, export challenges, etc., which make strategic modernization and the provision of new revenue architectures more necessary for these companies than ever before. In particular, studies by the Global Entrepreneurship Monitor in Iran show that the rate of organizational entrepreneurial behaviors and strategic modernization in Iran is much lower than the global average, which has reduced the competitiveness of Iranian businesses in the national and international arenas.

Contribution of Authors

All authors participated in the process of writing the article, collecting data, and analyzing it.

Ethical Approval

All stages of the research were conducted with the informed consent of the participants and their information will remain confidential.

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Conflict of Interest

No conflicts of interest have been declared by the authors.

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