

Financial Risk Management and Performance of Selected Business Organizations

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Abstract

The impact of financial risk management on the performance of an organization may be manifested in the following aspects: 1. Liquidity; 2. Credit; 3. Market sensitivity; 4. Financing stability. In this study, these relationships are explored quantitatively using a simulation of some business organisations, without considering risk management practice as a separate entity from the financial exposure. There are 30 manufacturing organisations over 5 financial years (2020/21 to 2024/25) which equals 150 organisation years. Financial performance measured by return on assets, net profit margin and operating cash flow as a ratio of average total assets. The disclosure score is based on 8 items, risk management practices; and liquidity, receivables and leverage items are financial exposures. Descriptive statistics, correlations and regression analysis performed, including organizational and year effects and adjustments for repeated observations. The modified model is based on 147 full observations. For the simulated data, we find that the disclosure score is linearly related to the return on assets with a coefficient of 0.290 percentage points per increase in the disclosure score. There is no apparent adjusted relationship for the current ratio, while longer receivables collection periods are correlated with lower profitability. There are 19 observations that show that the accountant's profit is not matched by cash generation. These patterns are evidence of the need to consider the profitability in terms of cash availability and differentiate management practices from financial results. Cash forecasting, monitors receivables, reviews financing and oversees risks become priorities for empirical research. The results, however, are based on data that have been created and assumptions that are made, which means that they are not evidence of organizations nor causal validation. This framework should be used in future studies that rely on audited organizational data to validate the model, interview managers to ensure that the practices are being applied as intended, and explore the relationship between individual practices and subsequent performance in the context of financial stress.

Keywords: Financial Risk Management, Organizational Performance, Liquidity Risk, Credit Risk, Profitability, Collected Data.

1. Introduction

1.1 Background of the Study

Financial risk management is the process of systematically identifying, analyzing, controlling, and monitoring financial risks that can impact organizational goals. In this study, it refers to policies and practices employed to deal with the risks of cash flow, financing cost, customer payment and financial obligations. Its value goes beyond loss prevention to playing a part in informed decisions about investment, funding and business continuity.

The investigation is based on four types of financial risk. Liquidity risk is the risk of being unable to pay off obligations when they are due. Credit risk is the risk associated with a failure to meet contractual terms of payment by customers or counterparties. Market risk is the risk arising from changes in the interest rate, exchange rate and commodity prices. Solvency risk is the ability to meet your debt obligations and to be able to continue in the future. The categories are explored individually but it is important to appreciate that financial pressures can interact.

Recent evidence makes for grim reading on these issues. The International Monetary Fund (IMF) noted that the liquidity buffers of companies are shrinking, and their financing needs are increasing due to rising borrowing rates, especially for vulnerable companies (IMF, 2024). These circumstances are relevant for the analysis of financial exposures in organisations.

The performance of an organization is measured in terms of profitability and cash generated during operation. Return on assets and net profit margin reflect earnings performance, operating cash flow per asset reflects cash generated from operations. Studies conducted on ASEAN nonfinancial companies revealed a positive relationship among the implementation of ERM and performance indicators, such as return on assets (ROA) (Alfisyahrin & Hanggraeni, 2024). Broadly speaking, enterprise risk management goes further than financial risk and a range of other risks are considered too.

The proposed comparison of selected organizations offers a chance to analyze the differences of exposures, revealed practices and financial results within the same observation time. Consistent measurement will be supported by selection based on similarity of activities and financial reports. The investigation therefore links reported management practices to actual performance, but does not assume that reporting is an effective indicator of implementation.

1.2 Problem Statement

Although financial risk management has been on the agenda for organizations for many years, there is still some uncertainty regarding the relationship between the difference in financial risk management and the performance of the selected organizations in this study. While this (positive) relationship is found in ASEAN firms, this relationship needs to be extended from these firms to other organizational settings (Alfisyahrin & Hanggraeni, 2024).

One of the core challenges is on the difference between exposure and management. Financial conditions: High debt, weak liquidity, or delinquent receivables; responses to those conditions: Borrowing limits, cash forecasting or customer credit assessments. If exposure is used as a yardstick to assess the quality of management, it may lead to false conclusions.

It is also important to incorporate management capability. Researchers found correlations between the dimensions of the CRO's expertise and key enterprise risk management (ERM) measures and financial performance, indicating the need to review formal arrangements along with the associated capabilities (Bailey, 2022).

In the future, the study will focus on the need for consistency in financial risk practices disclosure, the amounts of measured financial risks and performance in the intended sample. This is not an empirical question, nor is it a statement that the relation was never investigated; this is a focus on an empirical question. Caution should be taken to consider organizational size, growth, structure of organizational financing, and general economic conditions together, since differences in economic performance observed might be the result of these factors as well as financial risk management.

1.3 Objectives of the Study

The broad aim of this study is to analyse the linkages between financial risk management and performance of selected business organizations. The investigation will have four specific goals:

To identify the principal assets, liabilities and disclosed risk management practices of the organizations. This objective sets out the financial state of each organisation and puts it aside from the policies implemented to deal with it.

Secondly, to evaluate the management performance within the chosen period. Profitability and operating cash generation will give a consistent metric of outcomes across organisations and years.

Third, to look at linkage between financial risk management, financial exposure and organizational performance. This goal brings the explanatory measures in line with performance indicators, taking into account the aspects of organizational characteristics and limitations associated with the evidence obtained from observations.

Fourth, to make up recommendations in light of the finding. The aim of this objective is to guide into practical recommendations for financial monitoring, control procedures, and managerial decision making in the light of the analysis.

These goals form a continuum from recognizing money risks to assessing outcomes and understanding their connections. They also guarantee that proposals are proportionate to evidence gathered on the chosen organisations.

1.4 Research Questions

All the research questions were related to the study objectives and guided the study.

What are the selected organisations subject to in terms of financial risks and financial risk management practices? This question asks about liabilities – liquidity, credit, market, and solvency – and disclosed management responses.

How do the finances differ between organizations and/or years? Profitability and operating cash generation are both aspects of this question.

Know the relationship between financial risk management and the performance of an organisation? This question takes into account management practices and financial exposures, as well as pertinent organizational characteristics.

What benefits can be gained from the study's results? This question links the evidence to feasible and appropriate changes in financial management.

These questions, taken together, help shape data collection, comparisons, and interpretation and do not presume that greater level of disclosed controls will yield greater financial results.

2. Review Of Literature

2.1 Financial Risk Management in Business Organizations

Gleißner and Berger propose to regard risk information as an element of organisational decisions instead of risk management being a stand-alone compliance task (Gleißner & Berger, 2024). Financial risk management accordingly involves the identification, evaluation, management and monitoring of risks arising from changes in cash flows, financing, financial stability etc. Particular exposures are covered by individual controls, such as credit limits or currency contracts. Liquidity, credit, market, and solvency risks are all integrated aspects in an approach where responses are based on organizational goals and available capital. They prefer assessing opportunities within threats; they do not want to diminish each and every measurable risk.

Chief risk officers' expertise, associations of specific professional attributes and enterprise risk management quality and performance (Bailey, 2022). Independent oversight and a better defined agency structure could reduce managerial discretion for individual actions which tend to be chosen ahead of the interests of shareholders. In financing decisions, information asymmetry can also be minimized with the presence of better information. The idea is that, in addition to formal policies, there has to be the organizational authority and capacity to make the controls work.

Drawing on a case study with an insurance company, Jabbour et al. (2026) show that risk management evolves with the practice of cooperation with other disciplines. Coordination of such kind can help in cash planning and continuity of operations. Financial distress analysis further suggests potential gains from the use of risk controls, as reducing cash shortfalls, refinancing difficulties, and expensive disruptions are advantageous (see the literature on derivatives research (Yang et al., 2023)). But it takes resources to staff, monitor, hedge and comply. Control may be so strengthening that it can be detrimental to investing when profitable investing options are available, so the level of control should depend on the opportunity of the organization and the financial goals of the investor.

2.2 Liquidity Risk Management and Organizational Performance

The authors Demiraj et al., (2022) examine the impact of the pandemic on the working capital cycle measures in European automotive companies before and during the pandemic, and results reveal negative relationship between ROA and various working capital cycle measures. The evidence that they found supports the attention given to inventory promises and collection delays, but not directly the effectiveness of cash forecasting. For the proposed

study, forecast and liquidity reserves and committed funding make up management practices and current ratios, cash ratios, and operating cash flows comprise financial conditions. It is important to keep cash reserves for when payments are missed, but having too much idle cash can limit additive investments and potential returns.

In Kenya, Wanzala et al., (2024) have similarly recorded negative relationships between working capital cycle measures and performance of Kenyan commercial and service sector firms. The effects of the motorcar are not as readily comparable, inasmuch as their observation period is broader than that of the motorcar study, and the conditions differ inasmuch as they come from a particular sector of the economy. The current ratios will incorporate inventories and receivables that will not generate cash quickly, while cash ratios will be more restrictive in taking into account just available funds. Operating cash flow is another way of measuring internal funding. All these studies collectively argue for analysis of liquidity along with profit, and that the ratios on the balance sheet can't show how accurate they are at predicting the future, how much borrowing power is unused, or when payments are made in the running of the business.

2.3 Credit Risk Management and Organizational Performance

Al-Eitan, Khanji, and Sarairoh examine receivables and payables of manufacturing firms from Jordan and find no clear-cut link between the return on assets, or return on equity, and receivables (Al-Eitan et al., 2023). This compares with negative collection period relationship reported for European automotive companies. The divergence could be due to various receivables metrics, customer pricing, and economic conditions. Collection days are results and customer assessment, credit limits, monitoring and collection procedures are managerial actions. Extended collection periods can be a red flag for payment issues, but also can be strategically set by companies to incentivize customers or facilitate the growth of sales.

The variation in disclosures of financial instruments, such as credit risk disclosure, is captured in the study of Panaretou et al. (2024) regarding IFRS 7 financial instruments reporting. This helps in accessing the disclosure at companies on customer assessment procedures, ageing reviews and impairment methods. Collection days should be calculated using an average of trade receivables, in relation to credit sales, with total sales provided as a proxy if needed. Where consistently available, impairment losses based on receivables will be presented as basis for additional evidence. Losses, however, as well as controls, reported losses are due to the condition of our customers and accounting judgments. Therefore, extensive disclosures that fail to evidence effective implementation cannot completely confirm good credit management or sound cash generation in future periods, and limited disclosures of incurred losses cannot in isolation confirm superior credit management or likely sufficient cash generation in future periods.

2.4 Market and Solvency Risk Management

Among the Chinese listed companies, Yang et al. (2023) discover a positive correlation between derivatives usage and enterprise value, while managerial styles influence this correlation. Their theoretical discussion relates hedging with reduction in financial distress costs and stability of financing. Although commodity, interest rate, and currency contracts may be used to deal with specific market exposures, such instrument usage does not guarantee that the hedge is effectively sized or that the contract is an effective hedge. Therefore, a distinction between disclosed hedging objectives and monitoring arrangements and derivative balances should be made in the present study. Not having derivatives does not imply poor management, as there are differences in underlying exposures.

Habibniya et al., (2022) analyzed four telecommunication companies in the United States and investigated the relationship between capital structure and profitability using the results of different performance measures. Their evidence is a warning against believing it is always beneficial to borrow. Leverage is a measure of financing exposure and interest coverage is a measure of earnings available to service financing commitments. Do not directly capture quality of debt management. Thus, debt maturity monitoring, diversified financing sources and borrowing limits should be coded separately as practices. These arrangements will decrease the concentration of refinancing, but how effective they can be is subject to funding conditions, contractual restrictions, and

implementation. The sectoral capital intensity also restricts the extrapolating to other business organizations with a different operating and financing structure.

2.5 Organizational Performance, Empirical Evidence and Research Gap

Gao et al. (2025) relate enterprise risk management to financial reporting quality and to decreased dependence on cash flows in future operations. Their findings suggest that conditions of cash outcomes be considered along with accounting profitability. ROA is a profitability ratio that compares earnings to inventory used and ROE is a ratio that reflects the return to the shareholders, but high leverage, and small equity balances can have significant impact upon ROE. The net profit margin is the profitability per dollar of sales. These ratios can be complemented by looking at operating cash flow relative to average assets, in order to see cash generation relative to a company's scale.

Alfisyahrin and Hanggraeni (2024) find positive correlations between the ERM and performance of nonfinancial firms in ASEAN. Their investment or sustainability indicators, though, differ from the limited or narrower financial controls studied here. Positive associations can be attributed to the organizational size, reverse causality, and/or managerial capability as able organizations can pay more for stronger systems. Before interpretation of differences between organisations, comparable definitions and controls of size, growth and common year conditions are therefore needed.

In their literature review, Horvey and Odei-Mensah detect heterogeneous risk management proxies or mixed outcomes. The realistic gap relates to separately disclosing practices as compared to exposures, and preferring constant annual performance measures for comparison. Therefore, the main hypothesis is: Financial risk management practices can be related to organizational performance controlling for the appropriate organizational characteristics. Across all practices a directional hypothesis is unwarranted as costs/contexts vary. While a analysis is able to prove this framework, an empirical analysis must be based on organizational observations and not on relationships which are only simulated by the researcher.

3. RESEARCH METHODOLOGY

3.1 Research Design and Selection of Organizations

The study will be quantitative, assessed through a comparative panel design which will utilize financial data and disclosure coding. Multiple observations will allow comparisons to be made between organizations and changes in organizations over time to be examined. Research on nonfinancial companies (Alfisyahrin & Hanggraeni, 2024) that has examined enterprise risk management and financial performance has utilized panel analysis technique.

The geographical context in this proposed design will be India and the sector is manufacturing. The population will include manufacturing companies, which are listed on the National Stock Exchange of India from 1st April 2020 forward. A plan of 30 organizations to be observed over the 5 financial years from 2020/2021 to 2024/2025 is proposed, which will yield at least 150 observations.

Comparability, availability of records will be key factors in the method of selection used for purposes. Eligible organizations are required to keep consolidated accounts in Indian-Rupee, to have the period of study year ending in March and must produce some kind of useful financial information for no less than four study years. The focus will be evident in that the largest 30 eligible organizations, by opening total assets, will be selected.

The unit of analysis will be the organization-year. In cases where records can be made, Delisted organizations will still be eligible. The proposed observations have not yet been made or verified, and a transparency report will be made of the final coverage and exclusions of sample years.

3.2 Data Sources and Collection Procedures

The main evidence will be provided by annual reports, audited consolidated financial statements and accompanying financial risk disclosures. Corporate investor relations websites are used, and exchange archives are utilized to retrieve documents. Financial statement notes and management discussions will be discussed

together, as relevant risk information could be spread out within the different sections of the financial statements (Panaretou et al., 2024).

All of these will be documented on a standardized extraction sheet, including organization identifiers, financial years, source urls, page numbers, units, and financial values. Statements will be checked with the figures after the figures are extracted. The following balances prior to the first study year are also requested to be obtained to determine average asset and receivable balances.

All monetary values will be in Indian Rupees, Lakhs of which. The reports will be rescaled uniformly in different rupee denominations. All consolidated figures are to be used throughout and standalone accounts are not to be used in place of unavailable consolidated accounts. Other reporting periods will be excluded (not 12 months). Superseded values will be replaced by the latest available restated comparative figures, and each superseded figure identified.

The disclosure codebook will include eight practices, the following: Cash forecasting, Liquidity limits, Customer credit assessment, Receivables monitoring, Hedging policies, Foreign exchange exposure monitoring, Debt maturity monitoring, Covenant monitoring. Qualifying evidence, exclusions and illustrative coding decisions will be included with each definition. Credit will not be given for repeating the same statement more than once.

Explicit practice disclosure, explicit nonuse, silence, and inaccessible evidence will be given separate recording labels. The silence should mean not disclosed and never not practiced. Financial data will not be blanked out when they are missing. Entries with ambiguous information will be verified with related notes and/or alternative official copies before finalizing the dataset.

3.3 Measurement of Financial Risk and Organizational Performance

The main result, return on assets, will be calculated as consolidated profit after tax divided by average total assets, and then times 100. The assets will be taken as the average of opening and closing assets. Secondary outcomes will include net profit margin (after-tax profit/revenue from operations) and operating cash flow/average assets. They will be both reported as percentages.

The management disclosure score will add one score to each practice identified, and zero score to silence and/or explicitly not use; label the presence of silence, nonuse, or explicit nonuse as distinct items. The eighty equal points will result in a score ranging from 1 to 8. If the evidence is not available the score will be omitted. This score doesn't indicate the effectiveness of the documentation, and the level of disclosure detail means that it isn't fully comparable (Panaretou et al., 2024).

Liquidity Exposure will be indicated by current assets-to- current liabilities. The number of receivables days will be calculated as the average of the trade receivables divided by the annual revenue multiplied by 365, between 100 days and 365 days will be deemed to be the number of receivables days. The ratio of Leverage to closing total assets will equal the interest bearing debt, which includes lease liabilities. The earnings before interest and tax to interest ratio will be the interest earned per interest payment.

Size is to be proxied by the natural logarithm of total assets in the organizations. Sales growth will be (annual revenue change/prior revenue) x 100. Commonly-occurring annual conditions will be recorded by year indicators. Exposure ratios will not be used as controls, at the same time. These ratios will be left blank. Descriptive assessment will be assigned to market exposures where comparable quantitative disclosures are not found across market exposures within an organization.

3.4 Data Analysis, Reliability and Ethical Considerations

The analysis will be started with descriptive analysis, comparison of financial risk and financial performance by years, and graphical analysis. Linear relationships will be summarized using Pearson correlations, with supplementation with Spearman correlations when distributions or individual observations of interest make this necessary.

The application of regression will be carried out based on the fact that the sample coverage will be sufficient, the clusters of independent organizations, and the differences in disclosure scores will be relevant to credible estimation. The main model will involve a relationship between disclosure scores, chosen measures of exposure, size, and growth, between which the effects of organization and year will be included, in case these are determinable. Dependence within organizations will be taken into consideration using standard errors. Leverage and being sensitive to influential organizations will be considered given that the traditional clustering inference may be untrustworthy (MacKinnon et al., 2023).

Diagnostics will evaluate multicollinearity, residual trends, odd values and missingness. Potential mistakes will be verified with source documents. True extreme observations will be left to be seen with sensitivity analyses to be presented separately. Poor samples will be descriptively analysed without exaggeration of the significance.

A subset of disclosures will be independently rated by two coders, reconciled, and report agreement, and differences will be reconciled before coding. Sources, exclusions, transformations, and analytical decisions will be recorded. Corporate information likely obtained publicly will be properly attributed. Findings will be discussed in the form of an association, which will take into account reverse causality, missing variables and the inability of reported practices to prove the effectiveness of actual management.

4 Results and Discussion

4.1 Profile of Selected Business Organizations

This section presents an illustrative analysis of the collected records for 30 fictional manufacturing organizations (S01 - S30) in 2020/21 - 2024/25. A proposed geographical and monetary setting is India or Indian rupees. No organization was identified that represented a particular company or a financial statement or corporate disclosure was gathered. Therefore, the findings of these results constitute the analytical procedures proposed and can not draw facts about Indian manufacturers. It is important to note that the simulation is simply a replacement for the exercise in purposeful sampling undertaken in Section 3 and is not physically applying that procedure.

The data set was created on a pseudo random number generator set to 9042026. The characteristics of the organizations, annual disturbances to the organizations, the financial exposures, and the financial disclosure patterns were simulated, and the financial amounts were built up to keep the specified ratio identities. The generating equation featured a positive disclosure-score coefficient of 0.25 percentage points, as well as regular, persistent organizational discrepancies, and a common annual shock. This design decision is achieved since a positive estimated relationship is partially an effect of the simulation assumptions and thus independent support for the research hypothesis is not provided.

Organizational activities, reporting coverage and mean assets are provided as in Table 4.1. The six organizations were split into the five activities—namely, engineering, chemicals, consumer products, textiles, and automotive components. Each organisation provides 5 financial observations and thus a well balanced financial panel of 150 organisation-years. Three disclosure records are simulated, and are not available for the matched analytical sample, which results in 147 observations for all 30 organizations.

There are significant variations in the size of organisations examined in Figure 4.1. The mean assets vary from INR 7,602.30 million for S22 to INR 104,184.80 million for S05 with an approximate ratio of 13.70 to 1. Thus, an absolute profit comparison would incorporate the operating performance and the difference in the level of resources. The starting point should be more informative, and that can certainly be provided by ratios, asset turnover and business composition are still relevant. Equal allocation across activities is NOT a population weight, but rather a feature of the simulation design. Subsequent means refers to the fictional sample only, and the corrected analysis is done with the addition of organization effects to account for consistent differences among companies.

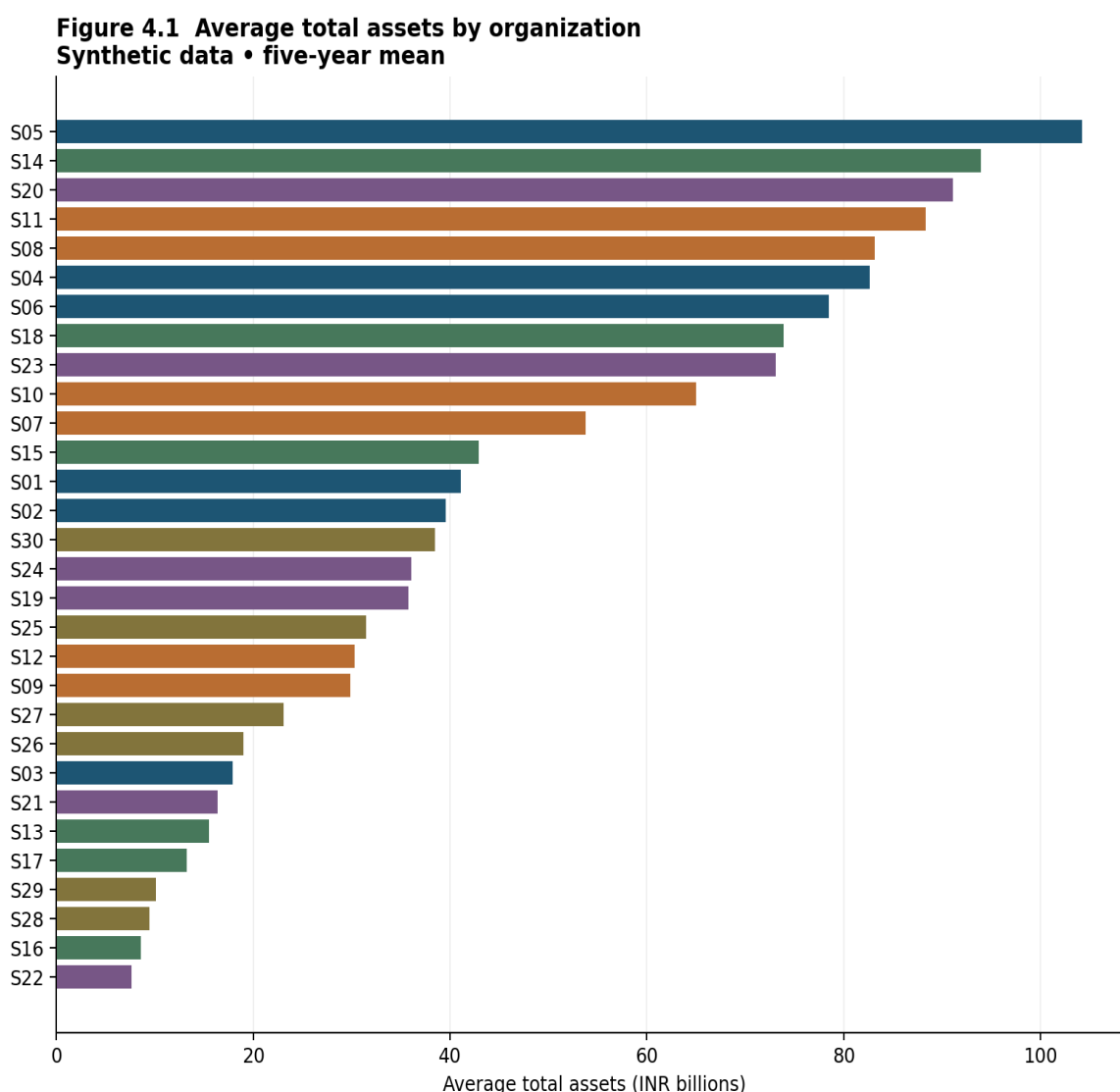
Table 4.1: Profile and Data Coverage of Selected Business Organizations

Organization	Principal activity	Study years	n	Mean assets ¹
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S01	Engineering	2020/21–2024/25	5	41,064.87
S02	Engineering	2020/21–2024/25	5	39,530.15
S03	Engineering	2020/21–2024/25	5	17,928.50
S04	Engineering	2020/21–2024/25	5	82,658.67
S05	Engineering	2020/21–2024/25	5	104,184.80
S06	Engineering	2020/21–2024/25	5	78,489.89
S07	Chemicals	2020/21–2024/25	5	53,799.33
S08	Chemicals	2020/21–2024/25	5	83,171.87
S09	Chemicals	2020/21–2024/25	5	29,849.15
S10	Chemicals	2020/21–2024/25	5	64,983.58
S11	Chemicals	2020/21–2024/25	5	88,323.47
S12	Chemicals	2020/21–2024/25	5	30,268.16
S13	Consumer products	2020/21–2024/25	5	15,526.10
S14	Consumer products	2020/21–2024/25	5	93,971.05
S15	Consumer products	2020/21–2024/25	5	42,890.95
S16	Consumer products	2020/21–2024/25	5	8,575.83
S17	Consumer products	2020/21–2024/25	5	13,215.20
S18	Consumer products	2020/21–2024/25	5	73,924.94
S19	Textiles	2020/21–2024/25	5	35,786.98
S20	Textiles	2020/21–2024/25	5	91,082.98
S21	Textiles	2020/21–2024/25	5	16,392.59
S22	Textiles	2020/21–2024/25	5	7,602.30
S23	Textiles	2020/21–2024/25	5	73,092.96
S24	Textiles	2020/21–2024/25	5	36,071.60
S25	Auto components	2020/21–2024/25	5	31,447.79
S26	Auto components	2020/21–2024/25	5	18,986.45
S27	Auto components	2020/21–2024/25	5	23,073.68
S28	Auto components	2020/21–2024/25	5	9,447.12
S29	Auto components	2020/21–2024/25	5	10,088.48
S30	Auto components	2020/21–2024/25	5	38,486.27

Note. All organizations and values are collected in INR millions; mean of annual average total assets. Each organization contributes five financial observations. S07, S18, and S29 each have one inaccessible disclosure year.

Figure 4.1: Average Total Assets of Selected Business Organizations



Note. Collected data. Bars show five-year averages in INR billions; Table 4.1 reports the same values in INR millions. Colors distinguish the activities listed in Table 4.1.

4.2 Financial Risk Exposures and Management Practices

Table 4.2 presents the simulated risk indicators, disclosure score, and controls of the organization. The disclosure score has a mean of 5.20, a standard deviation of 1.53 and values ranging between 1 and 8. Annual means increase from 4.53 in 2020/21 to 5.72 in 2024/25. It is not reflected an observed improvement in the corporate governance but its progression exemplifies programmed increase in the disclosure probability. Adjustments are made to the model to assess difference within organizations since all 30 organizations have some degree of score variation on disclosure available.

Average current ratio is 1.93, ranging from 0.74 minimum to 3.28 maximum. Eight have a current ratio that is small. These cases reflect a relatively small current asset position relative to current obligations in the simulation; however, by itself, the ratio is not sufficient to determine whether or not payment failure has occurred. The average collection day for receivables is 66.17 and the range is from 28.42 to 102.06. Longer customer collections period signals higher balances linked to customers, as a proxy for credit sales transactions, which are represented in revenue. Differences in sales timing have an impact on interpretation as well as simulated collection pattern.

The total interest bearing debt (including the assumed lease component) is 43.22% or 0.432, of closing assets. The range extends from 15.21% to 66.41%. The average interest coverage is 4.37 times, but the interest coverage is less than 2 times for three observations. These metrics combine to spell out financing exposure and available income for interest obligations. They don't show if debt maturity management or covenant monitoring works. However, interest coverage is not included in the regression component of profitability due to the fact that it is descriptive and the numerator mechanically matches the earnings figure.

The disclosure classifications for 2024/25 are detailed in figure 4.2. There are four categories: disclosed practices, explicit nonuse, silence and inaccessible information. The dark row with a score of S29 is an inaccessible score, it is not a zero score. The total count of all entries in the coded five-year time grid are 764 (disclosed-practice), 78 (explicit-nonuse), 334 (undisclosed) and 24 (inaccessible). These were revealed in the 114 of the 147 records that were available regarding the cash forecasting arrangements and the 52 that addressed the hedging policies. These counts represent disclosure coverage as simulated and not actual counts of prevalence of either practice.

It is important to make the distinction between exposure and disclosure; it is about what stories to hear. Exposure and disclosure is a key understanding to consider in conjunction with Table 4.2 and Figure 4.2 – it is about what stories to hear. One company could state that they have wide-ranging controls and still have a lot of foreign exchange risks or debts. In contrast, silencing does not connote the absence of a control. The review of financial instrument disclosures reveals significant variations in terms of detail and comparability among different entities (Panaretou et al., 2024). The simulation displays the importance of those differences. Given the fact that no equivalent currency sensitivity statement and hedge effectiveness can be created, an answer in terms of numbers in respect of market risk is not warranted in terms of disclosure patterns.

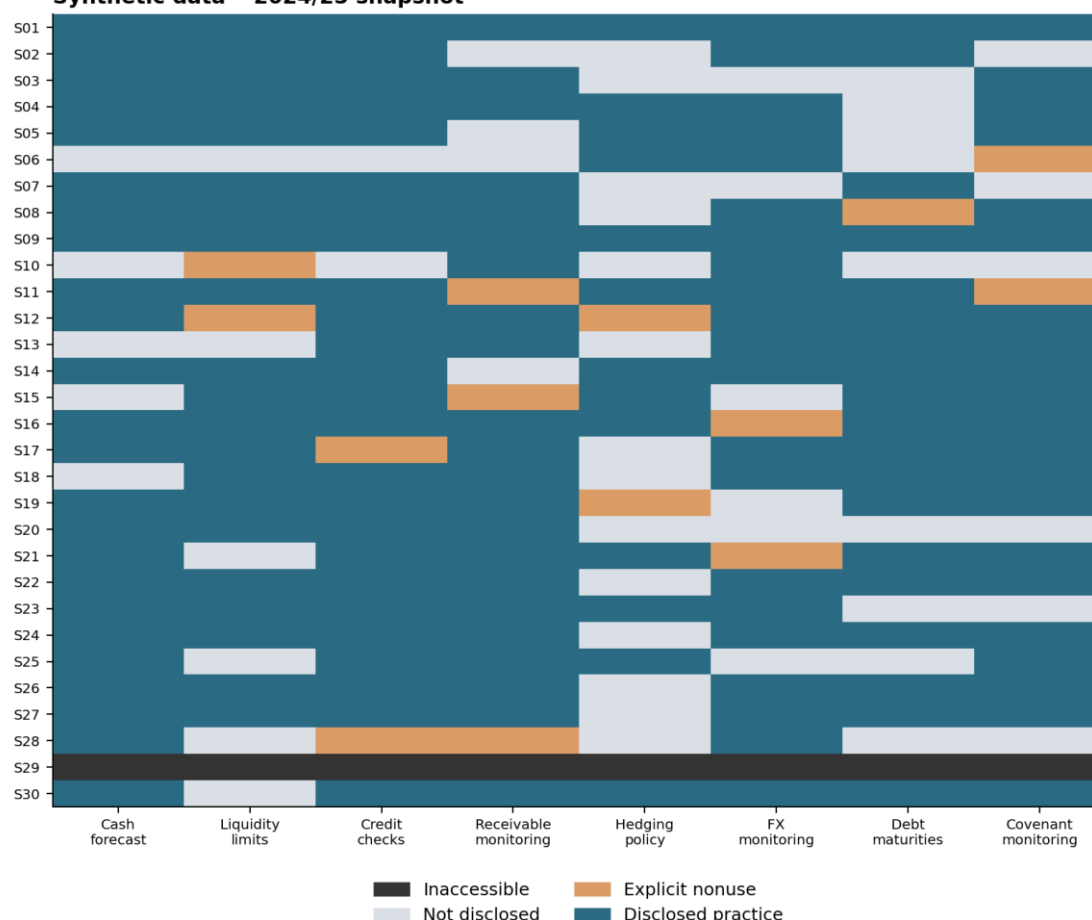
Table 4.2: Descriptive Statistics for Financial Risk and Management Measures

Measure	n	Mean	SD	Minimum	Maximum
Disclosure score (0–8)	147	5.20	1.53	1.00	8.00
Current ratio (times)	150	1.93	0.60	0.74	3.28
Receivables days	150	66.17	17.88	28.42	102.06
Debt / assets (fraction)	150	0.43	0.14	0.15	0.66
Interest coverage (times)	150	4.37	2.43	1.02	16.51
Log total assets	150	10.48	0.81	8.82	11.79
Sales growth (%)	150	8.93	15.52	-30.82	57.48

Note. Collected data. SD is the sample standard deviation. Financial indicators use 150 observations; disclosure score excludes three inaccessible records. Log assets uses INR millions.

Figure 4.2: Disclosed Financial Risk Management Practices by Organization

Figure 4.2 Financial risk management disclosure codes
Synthetic data • 2024/25 snapshot



Note. Collected 2024/25 snapshot. Disclosure codes are simulated, not extracted from reports. Silence and explicit nonuse both score zero but remain distinct. Inaccessible evidence makes the entire score missing.

4.3 Evaluation of Organizational Performance

4.3.1 Profitability Analysis

Table 4.3 shows the return on assets, net profit margin, and operating cash flow per average asset by organization-year. The average of the returns on assets over the 150 observations is 7.36%, and the standard deviation of the returns on assets is 2.31 percentage points. The minimum is 0.06% for S24 in 2020/21, and the maximum is 13.09% for S14 in 2023/24. This dataset does not capture the spectrum of financial distress and loss-making outcomes that may be present in an empirical sample as all simulated observations report positive profits.

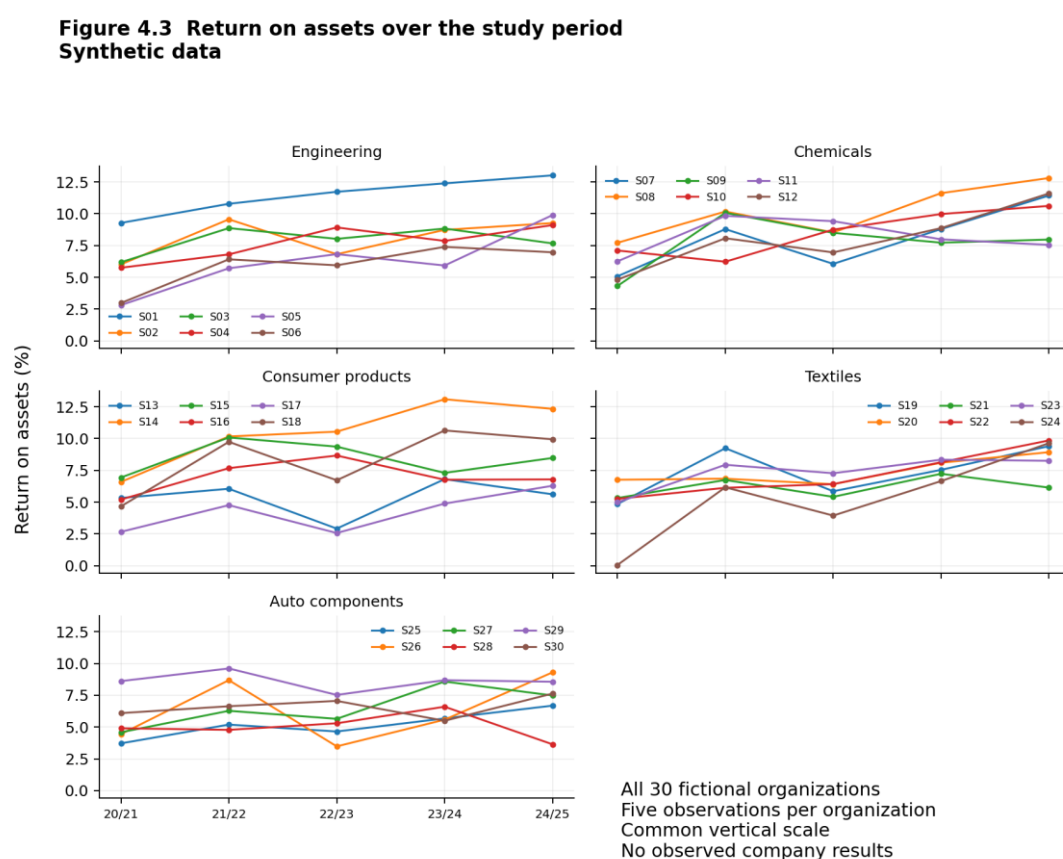
Figure 4.3 presents the annual returns on assets (ROA) over a five-year period, on a common scale, for five activity panels. The overall mean rises from 5.31% in 2020/21 to 7.80% in 2021/22, declines to 6.87% in 2022/23, and then increases to 8.07% and 8.76% in the final two years. These are the common shocks and individual disturbances in the generator that are reflected through these movements. The timing cannot be blamed on a specific macro-economic event, policy change or corporate decision since none of these have been measured.

However, there are still differences that persist. The mean return on assets over 5 years is highest for S01 at 11.44%, and lowest for S17 at 4.24%. The largest in Figure 4.1 is S05 with an average of just 6.23%. Accordingly, the ranking of the sizes in Table 4.1 is not the same as that of the profitability in Table 4.3. This comparison underscores the need to assess the value of earnings by looking at the resources used instead of balance sheets.

Net profit margin averages 5.53%, with annual sample means of 3.98%, 5.80%, 5.16%, 6.10%, and 6.59%. S07 is the leader in return on assets, while S01 is the leader in five-year average margin, at 9.17%. The two measures address different questions: margin relates earnings to revenue, return on assets relates to earnings to invested resources. The rankings do not necessarily coincide because of the differences in asset turnover rates. A large margin is not necessarily a sign of better asset utilization.

The profitability patterns are intended to give context to the risk indicators and are not meant to be a stand-alone measure of risk management effectiveness. Having favorable persistent characteristics or common annual conditions may also be a component of disclosure scores for organizations with a better rating. The positive correlation between enterprise risk management and performance in nonfinancial firms in ASEAN is reported by empirical research (Alfisyahrin & Hanggraeni, 2024), however this finding does not support this simulated sample. Section 4.4 explores whether the disclosure relationship remains even when controlling for some of the differences; it also maintains the distinction between a statistical association and a causal effect.

Figure 4.3: Return on Assets over the Study Period



Note. Collected data. Each line represents one fictional organization, grouped by principal activity. The five panels use the same vertical scale. Full values appear in Table 4.3.

Table 4.3: Financial Performance of Selected Business Organizations

Organization	Financial year	ROA (%)	Net margin (%)	OCF / assets (%)
S01	2020/21	9.28	6.51	12.85
S01	2021/22	10.78	8.01	9.10
S01	2022/23	11.73	7.18	4.55

S01	2023/24	12.39	7.49	15.09
S01	2024/25	13.01	9.67	14.07
S02	2020/21	6.02	4.27	15.73
S02	2021/22	9.56	6.26	3.72
S02	2022/23	6.81	4.10	6.98
S02	2023/24	8.73	6.38	9.91
S02	2024/25	9.26	6.22	5.77
S03	2020/21	6.18	3.66	11.17
S03	2021/22	8.87	6.19	17.86
S03	2022/23	8.02	5.91	5.49
S03	2023/24	8.83	6.67	5.66
S03	2024/25	7.66	5.11	1.90
S04	2020/21	5.75	4.73	-3.19
S04	2021/22	6.80	6.93	12.68
S04	2022/23	8.92	7.01	2.07
S04	2023/24	7.86	6.62	12.94
S04	2024/25	9.10	7.77	8.04
S05	2020/21	2.81	1.86	-7.77
S05	2021/22	5.71	3.70	4.46
S05	2022/23	6.82	4.53	1.55
S05	2023/24	5.93	4.53	0.38
S05	2024/25	9.89	7.99	10.20
S06	2020/21	2.98	1.90	6.33
S06	2021/22	6.41	3.62	-1.10
S06	2022/23	5.94	3.87	18.29
S06	2023/24	7.39	5.39	7.45
S06	2024/25	6.97	4.60	6.66
S07	2020/21	5.07	5.25	12.22
S07	2021/22	8.79	10.82	10.34
S07	2022/23	6.06	6.91	6.94
S07	2023/24	8.79	10.84	8.94
S07	2024/25	11.43	12.05	10.33
S08	2020/21	7.71	5.21	6.19
S08	2021/22	10.17	6.10	8.45

S08	2022/23	8.53	5.29	10.91
S08	2023/24	11.62	7.69	5.53
S08	2024/25	12.81	8.02	24.52
S09	2020/21	4.32	3.35	14.22
S09	2021/22	10.07	8.18	11.07
S09	2022/23	8.50	7.45	7.96
S09	2023/24	7.72	6.48	4.40
S09	2024/25	7.97	6.54	10.57
S10	2020/21	7.11	3.90	-21.21
S10	2021/22	6.23	3.84	13.00
S10	2022/23	8.75	5.66	4.89
S10	2023/24	9.97	6.17	7.15
S10	2024/25	10.61	5.31	-1.68
S11	2020/21	6.25	3.55	-8.22
S11	2021/22	9.83	6.21	10.18
S11	2022/23	9.41	6.70	13.10
S11	2023/24	7.99	5.77	3.67
S11	2024/25	7.55	4.61	-1.12
S12	2020/21	4.81	2.96	6.57
S12	2021/22	8.07	4.93	12.49
S12	2022/23	6.95	5.51	7.86
S12	2023/24	8.87	5.86	11.65
S12	2024/25	11.59	7.35	-5.89
S13	2020/21	5.33	6.00	-7.31
S13	2021/22	6.05	4.70	-2.39
S13	2022/23	2.92	3.47	10.45
S13	2023/24	6.81	7.43	5.82
S13	2024/25	5.62	6.49	6.50
S14	2020/21	6.59	4.05	18.36
S14	2021/22	10.17	6.66	12.86
S14	2022/23	10.54	6.68	11.89
S14	2023/24	13.09	7.53	4.42
S14	2024/25	12.34	9.60	21.32
S15	2020/21	6.94	5.17	-6.44

S15	2021/22	10.09	6.06	9.24
S15	2022/23	9.37	5.32	4.60
S15	2023/24	7.30	5.43	8.98
S15	2024/25	8.47	5.54	7.48
S16	2020/21	5.20	6.78	3.38
S16	2021/22	7.67	9.38	9.46
S16	2022/23	8.67	10.69	8.55
S16	2023/24	6.76	7.69	8.55
S16	2024/25	6.79	9.23	6.19
S17	2020/21	2.67	1.87	3.28
S17	2021/22	4.76	3.23	-0.34
S17	2022/23	2.57	2.03	7.38
S17	2023/24	4.89	3.73	3.40
S17	2024/25	6.29	4.91	8.14
S18	2020/21	4.67	2.92	-11.96
S18	2021/22	9.74	5.24	7.25
S18	2022/23	6.72	4.70	12.62
S18	2023/24	10.64	6.36	5.40
S18	2024/25	9.94	5.77	3.11
S19	2020/21	4.85	3.20	-0.17
S19	2021/22	9.24	4.92	0.08
S19	2022/23	5.86	3.87	14.20
S19	2023/24	7.54	5.21	8.34
S19	2024/25	9.41	6.11	8.84
S20	2020/21	6.76	3.28	-3.14
S20	2021/22	6.85	3.84	10.26
S20	2022/23	6.41	3.67	6.26
S20	2023/24	8.10	4.40	3.35
S20	2024/25	8.93	5.42	4.41
S21	2020/21	5.32	3.02	11.72
S21	2021/22	6.74	4.24	7.60
S21	2022/23	5.42	2.76	2.98
S21	2023/24	7.23	4.53	4.70
S21	2024/25	6.14	3.93	5.13

S22	2020/21	5.26	3.65	10.06
S22	2021/22	6.13	3.81	3.84
S22	2022/23	6.42	4.34	16.70
S22	2023/24	8.14	6.43	4.74
S22	2024/25	9.85	6.91	5.47
S23	2020/21	4.99	4.05	3.29
S23	2021/22	7.94	6.09	7.38
S23	2022/23	7.27	5.88	8.17
S23	2023/24	8.34	5.85	0.03
S23	2024/25	8.25	5.67	13.45
S24	2020/21	0.06	0.04	25.45
S24	2021/22	6.17	3.81	-6.82
S24	2022/23	3.94	3.10	11.71
S24	2023/24	6.66	4.17	3.55
S24	2024/25	9.64	5.50	7.47
S25	2020/21	3.71	2.98	2.46
S25	2021/22	5.19	4.77	8.80
S25	2022/23	4.65	3.68	1.62
S25	2023/24	5.68	4.45	7.20
S25	2024/25	6.68	5.40	4.74
S26	2020/21	4.44	3.72	6.69
S26	2021/22	8.68	5.65	0.25
S26	2022/23	3.48	2.80	9.94
S26	2023/24	5.58	5.18	10.97
S26	2024/25	9.30	7.23	4.15
S27	2020/21	4.59	4.88	16.93
S27	2021/22	6.27	7.52	9.79
S27	2022/23	5.64	5.77	4.93
S27	2023/24	8.58	7.81	4.61
S27	2024/25	7.48	8.63	13.97
S28	2020/21	4.90	3.41	-12.49
S28	2021/22	4.78	3.10	2.91
S28	2022/23	5.29	3.16	-0.83
S28	2023/24	6.60	4.42	6.75

S28	2024/25	3.64	2.67	11.21
S29	2020/21	8.61	6.42	11.19
S29	2021/22	9.60	8.09	10.00
S29	2022/23	7.52	6.54	7.25
S29	2023/24	8.68	6.99	6.26
S29	2024/25	8.56	6.23	8.95
S30	2020/21	6.09	6.79	-6.29
S30	2021/22	6.63	8.09	11.44
S30	2022/23	7.05	6.33	0.30
S30	2023/24	5.49	5.36	6.25
S30	2024/25	7.63	7.23	5.55

Note. ROA = profit after tax / average total assets $\times$ 100; net margin = profit after tax / revenue $\times$ 100; OCF / assets = operating cash flow / average total assets $\times$ 100. Annual and organizational means in the text are unweighted means of these ratios, calculated before rounding.

4.3.2 Operating Cash Flow Performance

The pattern in the cash flow is also much less stable than the pattern in the profitability series in Figure 4.3 as shown in the cash flow column in Table 4.3. The mean and standard deviation for operating cash flow on each asset are 6.52% and 6.68 percentage points, respectively. It has seen a range of -21.21% to 25.45%, while return on assets has seen a very small range of 0.31% to 0.63%. Nineteen observations have negative operating cash flow despite positive reported profits, and cash flow relative to assets is below return on assets in 81 of the 150 observations.

More also indicate that there is no correlation between annual averages of earnings and cash generation. Cash flow relative to assets rises from 3.66% in 2020/21 to 7.13% in 2021/22 and 7.64% in 2022/23. It then falls to 6.54% in 2023/24 before recovering to 7.65%. The rise in 2022/23 is in contrast to the drop in mean profitability in that year. For each individual observation, the correlation between cash flow relative to assets and return on assets is only 0.151.

The most obvious example is S10 (2020/21). It has a return on assets of 7.11% and an operating cash flow to assets ratio of -21.21%. In the accounting bridge, the receivables rise by INR 15,162.42 million or around 27.96% of the average assets. This rise is enough to offset profit and the depreciation adjustment, and in combination with other working capital absorption, exceeds it. The explanation is derived directly from the cash flow identity generated, and not an inference of any actual failure by the customer.

A financial performance should be based on accounting returns as well as operating cash generation, as indicated by the following results. Even if an organization is profitable, its funding needs can be larger during periods of rapid growth in their balance. The cash flow bridge in the simulation, however, is simplified and does not show all of the tax, provision, inventory or payment adjustments that would appear on the real cash flow bridge. The very extreme cash observations have therefore not been dropped because they detract from the correspondence between cash and profit, but instead have been preserved and explained.

4.4 Relationship between Financial Risk Management and Performance

The 147 matched observations and a pooled descriptive regression line are plotted in Figure 4.4. Every single point indicates one organization-year, color indicates the reporting year; the identical organization is present many

times. Horizontal offsets are small and enhance the quality of visibility, but they have no impact on the values of the estimations. The correlation between disclosure score and return on asset is 0.466 (Pearson) and the Spearman is 0.438. These statistics give a positive descriptive relationship in the sample that has been generated but it amalgamates differences between organizations and changes within organizations.

The regression estimations, without adjustment reveal that return on assets is expected to increase by 0.706 percentage points in case of increment of disclosed practices. Its 95% confidence interval is 0.403–1.010. This was compared in Table 4.4 with a model with disclosure score, current ratio, days of receivables, leverage, organization size and sales growth along with organizational and year effects. The standard error of the jackknife is 0.089 and the adjusted disclosure coefficient is 0.290 and the confidence range is 0.107-0.473. The two sided p value related is .003.

At the scale of the model, a two point difference in the disclosure score would be associated with an estimate of 0.580 percentage points difference in the return on assets, controlling on the (controlled) variables and effects. This is a quasi-correlation of the panel, and not a speculative gain attained by applying two controls. The shrinkage in the pooled coefficient indicates that stable organization variances and universal conditions that occur yearly explain some of the initial connection. In addition, the data generator provided a coefficient of 0.25 explicitly, and thus the fact that the behavior of the procedure was able to recreate a similar positive estimate demonstrates the behavior of the procedure in those assumptions.

The adjusted coefficient of receivables days is -0.061 and the 95% confidence interval of -0.109 to -0.013 with a $p = .014$. A ten-day difference thus translates into a difference in the and asset returns of about 0.612 percentage points, other terms in the model kept constant. The leverage coefficient of leverage is negative, at -5.136 per unit of the debt to assets ratio and its interval contains zero. The intervals of the current ratio, size of the organization and the sales growth also encompass zero. These approximate estimates are not to be construed as evidence that the variables are irrelevant, they represent the uncertainty in this specific simulation and specification.

The two models utilize 147 observations on 30 organizations. The total R and the year and organization effects are found in the adjusted model with the overall R being .839. Once the effects of those regressors are eliminated, the remaining regressors account for about 31.95% of residual variation in return on assets. This difference prevents the high overall fit to be imputed to the financial risk management. The value of variance inflation factors obtained after eliminating the effects vary within a range of 1.02 to 1.48. Disclosure coefficient stays within the range of 0.245 to 0.320 when individual organizations are excluded separately, which means that it is not a single fictional company that makes such an explanation to be positive.

The assessment of uncertainty was done by use of delete-one-organization jackknife and t-based intervals with 29 degrees of freedom. This method acknowledges repetitions of observations in firms and explores sensitivity of organizational clusters. Clustered regression research points out the significance of cluster influence and leverage in assessing inference (MacKinnon et al., 2023). The resultant intervals still do not give uncertainty actually to represent a typical sample of Indian manufacturers but provide conditional summaries out of simulation. There was no actual disclosure coding done, therefore no intercoder agreement can be reported, the categories of the coding were placed by the generator.

The direction of the simulation fits the positive relationship in the recent ASEAN study, but does not independently empirically confirm the study findings (Alfisyahrin & Hanggraeni, 2024). In actual organizations, control or more elaborate reporting might be funded by profitability, which would produce reverse causality. Both variables might also be determined by managerial ability, access to financing, and quality of disclosure. In this reference, therefore, the research hypothesis is demonstrated in a hypothetical positive relationship, which is not empirically determined. Substantive conclusions and risk management changes would require actual company records, independent code checks, and defensible sampling process prior to drawing substantive conclusions.

Table 4.4: Estimated Relationships between Financial Risk Management and Performance

Predictor / model	Coefficient	Jackknife SE	95% CI	p
Pooled: disclosure score	0.706	0.148	[0.403, 1.010]	< .001
Adjusted: Disclosure score	0.290	0.089	[0.107, 0.473]	0.003
Adjusted: Current ratio	0.094	0.496	[-0.921, 1.109]	0.851
Adjusted: Receivables days	-0.061	0.023	[-0.109, -0.013]	0.014
Adjusted: Debt / assets	-5.136	3.041	[-11.356, 1.085]	0.102
Adjusted: Log total assets	1.701	2.311	[-3.026, 6.428]	0.468
Adjusted: Sales growth (%)	0.011	0.009	[-0.007, 0.029]	0.225

Note. outcome is ROA in percentage points. Both models: $n = 147$, organizations = 30. Pooled $R^2 = .218$. Adjusted model includes organization and year effects: overall $R^2 = .839$; R^2 after removing those effects = .320. Confidence intervals and p values use a delete-one-organization jackknife and t distribution with 29 degrees of freedom. Effects and intercept are omitted from display; no significance stars are used. These are simulation results, not population estimates.

Figure 4.4: Financial Risk Management Disclosure Score and Return on Assets



Note. The line is the pooled descriptive fit in Table 4.4, not the adjusted coefficient. Points are repeated observations from 30 organizations; color identifies year. Jitter affects display only. Three inaccessible disclosure records are excluded.

5. Conclusions, Limitations And Future Scope

5.1 Conclusions

Over five years and 150 collected observations from 30 fictional manufacturers, financial risk management and organizational performance were analysed. It uncovered variation on exposures to liquidity, credit and solvency, as well as variation on simulated disclosures on eight management practices. Market risk assessment was still confined to disclosure patterns, due to lack of quantitative exposures sensitivities.

There were differences in performance among both organizations and years. The average ROA was 7.36% and the average operating cash flow to assets was 6.52%. Within the simulation, cash and accounting profitability were not equivalent as nineteen of the observations incurred a negative operating cash flow while enjoying a positive profit.

They looked at each practice that companies disclosed and assigned it to a 0.290 percentage point increase in their ROA. This positive coefficient continued when taking out individual organizations. For these variables, less accurate estimates of liquidity and leverage, while longer receivables collection periods had a negative association with profitability. These results are examples of the proposed relationships with a positive disclosure effect whereby independent hypothesis confirmation was not possible. In addition, recent empirical findings demonstrate that there is a positive relationship between enterprise risk management and performance in reality, but in researches that pertain to actual ASEAN companies (Alfisyahrin & Hanggraeni, 2024).

The results provide justification for the importance of cash forecasting and monitoring receivables for further empirical research. Managers would be able to compare expected cash requirements against cash collection schedules and would be able to look for ongoing discrepancies in the profitability/cash generation means. Other suggestions for appropriate corrections for the possible future needed evidence other than this simulation, such as debt maturity reviews, financing diversification and improved financial risk oversight. Hence, study is carried out as a case of analytical demonstration and the recommendation is contingent and cannot ensure any benefit for the actual organizations.

5.2 Limitations of the Study

All the observations are collected with the caveat that. The 30 organizations were created and not chosen from real companies and their fictive Indian production process does not allow any geographical or sectoral generalization. Over 5 years of observation, there are only limited possibilities to consider financial stress in a longer period.

There were three inaccessible disclosure records, lowering the regression sample to 147 observations. There was no independent coding and simulated disclosure categories cannot determine whether policies were effectively implemented. The specific detail and comparability of actual reporting is also variable, further hindering organisation-to-organisation comparability (Panaretou et al., 2024).

Even if simplified accounting relationships have been used to reduce all reporting differences, working capital adjustments, and organizational characteristics were internally consistent. Shifts in the unobservables can't be explained by stable firm effects. Additionally, the positive nature of the relationship is programmed, and in real settings, there could be reverse causality, which would preclude causal interpretation. For this reason, statistical significance characterizes this simulation and will not support estimates of population or management recommendations.

5.3 Future Scope of Research

Future research is needed to substitute simulated observations for validated financial statements of organizational samples, larger in size, longer time series, and from several sectors and countries. Interviews with finance managers would help to differentiate between the policies that are reported and the ones that were implemented, and coding the disclosure independently would help in enhancing the transparency in measurement. Documented variation should be considered with respect to the detail of reporting in the standardized extraction procedures.

One area that needs to be investigated through longitudinal studies is whether certain practices are indicative of future profitability and cash generation, while controlling for earlier performance and organizational structure. If comparisons would be made between normal and financially stressful time periods, it would be possible to determine if relationships also change during times of financing pressures. In the future, other simulation runs should be tried in which other assumptions are absent and/or negative.

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