The impact of financial risk management on firm performance: a study in financial management practices

O impacto da gestão de riscos financeiros no desempenho das empresas: um estudo sobre as práticas de gestão financeira

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Hariprasad Soni²

Abstract
In the framework of financial management techniques, this study explores the crucial link between financial risk management and corporate success. The study explores how effective risk management techniques have a direct impact on the overall performance of organizations via extensive research and analysis. The study highlights the important role that proactive risk management plays in boosting a firm's stability, profitability, and long-term growth by looking at a variety of risk reduction approaches and their results. The results highlight how crucial it is to implement effective financial risk management procedures in order to deal with uncertainties, allocate resources efficiently, and ultimately achieve sustained success in today's changing business environment.


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Resumo
No contexto das técnicas de gestão financeira, este estudo explora a ligação crucial entre a gestão de riscos financeiros e o sucesso empresarial. O estudo explora como técnicas eficazes de gerenciamento de riscos têm impacto direto no desempenho geral das organizações por meio de pesquisa e análise abrangentes. O estudo destaca o importante papel que a gestão proativa de riscos desempenha no aumento da estabilidade, lucratividade e crescimento a longo prazo de uma empresa, analisando uma variedade de abordagens de redução de riscos e seus resultados. Os resultados destacam o quão crucial é implementar procedimentos eficazes de gestão de riscos financeiros para lidar com incertezas, alocar recursos eficientemente e, em última análise, alcançar sucesso sustentado no atual ambiente de negócios em mudança.


Introduction

Effective financial risk management has become a critical factor in determining a firm's performance and long-term viability in the dynamic world of modern business. Businesses are vulnerable to a wide range of financial concerns that can have a substantial impact on their bottom line as markets become more complicated and linked. Financial risk management has become more popular as a strategic means of minimizing possible losses and maximizing possibilities in response to this changing environment. With a focus on the context of more general financial management practices, this study aims to explore the complex link between financial risk management and company performance.

Identification, appraisal, and mitigation of the different financial hazards that a business may experience are all part of financial risk management. These risks cover a broad variety of variables, such as market volatility, interest rate changes, loan defaults, and changes in currency exchange rates. The capacity of a company to successfully manage these risks can affect its capacity to produce revenue, maintain stability, and develop sustainably. As a result, adopting effective risk management tactics has become crucial to contemporary financial management techniques.
Review of the Literature

Both academic and professional circles have paid close attention to the complex link between financial risk management and corporate success. Many academics have looked into the complex aspects of this connection, providing insight on how important risk management is in determining how well organizations perform.


Miller (1998) emphasized the trade-offs between risk reduction and company performance and questioned the value supplied by risk management.


Cotter (2005) reported the influence of risk management on business value with a focus on the use of derivatives, highlighting moderating effects.
Statement of the Problem

The successful management of financial risks has evolved into a crucial aspect impacting the performance and longevity of organizations in the modern business world, which is characterized by globalization, market volatility, and complex financial interdependencies. Despite the fact that financial risk management is widely acknowledged to be important, there is a vacuum in our understanding of how precisely these risk management methods contribute to enhanced business performance. There is not much conclusive evidence to support the theoretical theories that effective risk management should increase stability, profitability, and growth.

The inability of companies and policymakers to make informed decisions is hampered by the absence of thorough empirical studies on the effect of financial risk management on corporate performance. In the context of larger financial management practices, where a holistic approach to risk management is essential for navigating the complicated web of financial risks, this gap is especially obvious. Without a thorough knowledge of how different risk management tactics affect key performance metrics, businesses may find it difficult to allocate resources efficiently, give the highest priority to risk mitigation initiatives, and eventually experience sustainable success.

Objectives of the Study

1. To investigate the effects of financial risk management procedures on business performance.
2. To examine various techniques used by businesses to control financial risk.
3. To evaluate how risk management affects the resilience and stability of an organization.
4. To look at the connection between risk management and business success.
5. To investigate how risk management aids in business expansion.
6. To offer helpful suggestions for enhancing financial risk management tactics.

Scope of the Study

In "A Study in Financial Management Practices," the effectiveness of organizations is examined in relation to financial risk management techniques. The goal of the study is to
examine how efficient risk management practices relate to several elements of company performance, including profitability, liquidity, and general stability. The study will examine the strategies and instruments used by businesses to recognize, evaluate, and manage financial risks, taking into account both quantitative and qualitative financial variables. The study will focus on the efficacy of the practices and their effects on various types of companies, covering a wide variety of sectors and geographical areas. The study aims to offer insightful information for academics and industry practitioners, leading to a greater understanding of the relationship between various financial management approaches and their results.

**Conceptual Framework**


The examination of the influence of financial risk management methods and company performance indicators on future directions holds significant importance within the realm of corporate strategy and decision-making. In order to comprehend the intricacies of this relationship, it is possible to develop a conceptual framework that delineates the fundamental elements and their interconnectedness.

The conceptual framework refers to the theoretical structure that underlies the understanding and use of financial risk management practices (FRMP). FRMP involves a variety of approaches and actions that are designed to detect, evaluate, and reduce the financial risks that a firm may encounter.

Some examples of Financial Risk Management Practices (FRMP) encompass various strategies such as hedging, diversification, liquidity management, and capital allocation.

Firm Performance Indicators (FPI) refer to quantitative metrics employed for the evaluation of a firm's financial well-being, operational effectiveness, and comprehensive performance.

Frequently utilized financial performance indicators (FPI) encompass many categories such as profitability ratios (e.g., return on equity, return on investment), liquidity ratios (e.g., current ratio), leverage ratios (e.g., debt-to-equity ratio), and market-based indicators (e.g., stock price, market capitalization).
Future orientations encompass the strategic decisions and initiatives undertaken by an organization to effectively address obstacles and capitalize on potential advantages in the forthcoming period. The aforementioned directions encompass many strategic initiatives, such as market expansion, product diversification, mergers and acquisitions, and innovation.

**Research Methodology**

1. **Research Design:** The research design for this study combines quantitative analysis with qualitative findings. By capturing both numerical trends and contextual details, the design enables a thorough investigation of the effect of financial risk management on corporate performance.

2. **Data Collection:**
   a. **Quantitative Data:** Key performance measures including profitability ratios, liquidity ratios, and growth metrics will be included in the historical financial data of the chosen companies. Additionally, data will contain the risk management tactics used by businesses, enabling correlation analysis. The questionnaire’s internal consistency and reliability was assessed measuring the reliability statistic Chronbach’s alpha (0.86).
   b. **Qualitative Data:** To get qualitative insights into the justification for risk management decisions, difficulties encountered, and observed results, semi-structured interviews with financial managers and specialists will be undertaken.

3. **Sample Selection:** We’ll pick a varied sample of businesses from different industries. In order to compare various strategies, the organizations will be grouped according to their risk management procedures.

4. **Data Analysis:**
   a. **Quantitative Analysis:** Regression analysis and other statistical techniques will be utilized to measure the connection between risk management procedures and company performance indicators. This study will assist detect patterns and establish relationships.
   b. **Qualitative Analysis:** To identify significant themes and patterns pertaining to decisions, obstacles, and observable effects of risk management, thematic analysis of interview transcripts will be done.

5. **Ethical Considerations:** Throughout the course of the study, data privacy and financial information confidentiality will be kept. Participants in interviews will
be asked for their informed consent before their identities are revealed in the final report.

6. **Limitations:** Due to the accessibility of historical financial data and the inherent subjectivity of qualitative interview replies, the study may have certain limitations.

7. **Contribution:** This study attempts to give a comprehensive knowledge of the link between financial risk management and company performance by using a mixed-methods methodology. The synthesis of quantitative trends and qualitative insights will provide companies looking to strengthen their risk management strategies with useful advice for better performance and long-term viability.

**Limitations of the Study**

But there are other restrictions on this study as well, which must be noted. First off, the accuracy and accessibility of historical financial data from certain organizations may have an influence on the scope of the investigation. The study's generalizability may be hampered by the sample size restriction resulting from practical considerations. It may be difficult to prove a connection between risk management and corporate success since there may be other unaccounted-for factors at play. Biases in the qualitative information gleaned from interviews may alter how results are interpreted. In addition, the study's emphasis on a certain time period does not take into consideration developing economic situations or other factors that could have an impact on the findings. Despite these drawbacks, the study offers insightful information on how financial risk management and business success relate to one another.

**Analysis and Interpretation**

<table>
<thead>
<tr>
<th>Demographic variables</th>
<th>Particulars</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td>82</td>
<td>54.7</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td>68</td>
<td>45.3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>150</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 18 Years</td>
<td></td>
<td>6</td>
<td>4.0</td>
</tr>
<tr>
<td>18-24 Years</td>
<td></td>
<td>61</td>
<td>40.7</td>
</tr>
<tr>
<td>25-34 Years</td>
<td></td>
<td>44</td>
<td>29.3</td>
</tr>
<tr>
<td>35-44 Years</td>
<td></td>
<td>36</td>
<td>24.0</td>
</tr>
<tr>
<td>45 and above</td>
<td></td>
<td>3</td>
<td>2.0</td>
</tr>
</tbody>
</table>
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Table 1: Demographic variables of the respondents
Source: Primary data processed

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>8</td>
<td>5.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18</td>
<td>12.0</td>
</tr>
<tr>
<td>Technology</td>
<td>74</td>
<td>49.3</td>
</tr>
<tr>
<td>Healthcare</td>
<td>47</td>
<td>31.3</td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>100.0</td>
</tr>
</tbody>
</table>

9.1 Gender

82 respondents were male (54.7%), 68 respondents were female (45.3%).

The conclusion is that the survey's participant gender distribution was largely balanced. Both genders were well represented in the survey, while men made up a somewhat bigger share (Table 1) and Figure 1.

9.2 Age

Ages 18 to 24: 61 responses (40.7%), 25 to 34: 44 respondents (29.3%), and age 35 to 44: 36 respondents (24.0%), 6 respondents (4.0%) were under the age of 18, while 3 respondents (2.0%) were above 45.

According to the interpretation, the majority of responders were in the younger age groups, with the 18 to 24 year old group having the largest percentage. The participant pool for the study seems to have been somewhat younger (Table 1).

9.3 Industry Sector

Technology received 74 responses (49.3%), healthcare received 47 (31.3%), manufacturing received 18 (12.0%), and finance received 8 (5.3%). Additional: 3 responses (2.0%).

According to the interpretation, manufacturing, healthcare, and technology were the three industries with the most representation among the respondents. Comparatively, finance had a smaller presence. The Descriptive Statistics for Financial Risk Management Practices are presented in the Table 2.
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Figure 1: Demographic variables
Source: Primary data processed

<table>
<thead>
<tr>
<th>Gender</th>
<th>Male</th>
<th>Female</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>54.70</td>
<td>45.30</td>
<td>150</td>
<td>1.94</td>
<td>1.119</td>
</tr>
<tr>
<td>Age</td>
<td>4.00</td>
<td>40.70</td>
<td>150</td>
<td>2.75</td>
<td>.884</td>
</tr>
<tr>
<td>18-24 Years</td>
<td>29.30</td>
<td>24.00</td>
<td>150</td>
<td>3.12</td>
<td>.794</td>
</tr>
<tr>
<td>25-34 Years</td>
<td>2.00</td>
<td>5.30</td>
<td>150</td>
<td>2.30</td>
<td>1.140</td>
</tr>
<tr>
<td>35-44 Years</td>
<td>12.00</td>
<td>49.30</td>
<td>150</td>
<td>2.89</td>
<td>.963</td>
</tr>
<tr>
<td>45 and above</td>
<td>31.30</td>
<td>2.00</td>
<td>150</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Descriptive Statistics for Financial Risk Management Practices
Source: Primary data processed


According to the interpretation, respondents generally showed a low level of agreement (mean of 1.94) with the claim that risk management procedures have a direct influence on a firm's stability. The moderate standard deviation (1.119) indicates that replies were not completely uniform, showing that individuals' opinions varied. This shows that while some respondents disagreed with the assertion, others did.
9.5 Effective Risk Management Strategies Can Enhance a Firm's Resilience During Economic Downturns

The results indicate that, on average, respondents agreed to a modest degree (mean of 2.75) with the statement that sound risk management practices may increase a company's resilience in times of economic uncertainty. The considerably smaller standard deviation (0.884) indicates that responses were more evenly distributed and that participants' perceptions were generally consistent.

9.6 Integrating Risk Management into Financial Decisions Leads to Better Resource Allocation

The interpretation is that, on average, respondents showed a reasonably high level of agreement (mean of 3.12) with the claim that improved resource allocation results from incorporating risk management into financial choices. Responses were somewhat distributed, as seen by the modest standard deviation (0.794), which points to a range of participant viewpoints. Financial risk management practices for the study variables are presented in Figure 2.

9.7 A Well-Structured Risk Management Framework Can Improve a Firm's Ability to Seize Growth Opportunities

According to the interpretation, respondents generally expressed a moderate level of agreement (mean of 2.30) with the claim that a well-structured risk management framework may increase a firm's capacity to take advantage of development prospects. The comparatively large standard deviation (1.140) indicates that responses were fairly distributed and that participants had a range of perspectives.

9.8 Risk Management is an Integral Part of Strategic Decision-Making in My Organization

According to the interpretation, respondents generally agreed to a modest extent (mean of 2.89) with the statement that risk management plays a crucial role in strategic
decision-making in their firm. Responses were somewhat distributed, as indicated by the moderate standard deviation (0.963), which suggests that participants' perspectives varied.

![Financial Risk Management Practices](image)

**Figure 2: Financial Risk Management Practices**
Source: Primary data processed

### 9.9 Comparison Between Industry Sector and Various Factors Related to Financial Risk Management on Firm Performance

Ho1: No relationship is there between industry sector and various factors related to financial risk management on firm performance

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Risk Management Practices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>8</td>
<td>2.53</td>
<td>0.658</td>
<td>1.363</td>
<td>.250</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18</td>
<td>2.69</td>
<td>0.683</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>74</td>
<td>2.64</td>
<td>0.459</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthcare</td>
<td>47</td>
<td>2.49</td>
<td>0.514</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>3.07</td>
<td>0.462</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>2.60</td>
<td>0.521</td>
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<tr>
<td>Finance</td>
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<td>2.10</td>
<td>0.513</td>
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<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18</td>
<td>2.58</td>
<td>0.643</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>74</td>
<td>2.59</td>
<td>0.535</td>
<td>2.428</td>
<td>.049</td>
</tr>
<tr>
<td>Healthcare</td>
<td>47</td>
<td>2.72</td>
<td>0.512</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>3</td>
<td>2.33</td>
<td>1.270</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>2.60</td>
<td>0.567</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Firm Performance Indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>8</td>
<td>2.90</td>
<td>0.701</td>
<td>943</td>
<td>.441</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>18</td>
<td>3.00</td>
<td>0.800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>74</td>
<td>2.82</td>
<td>0.701</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthcare</td>
<td>47</td>
<td>2.95</td>
<td>0.673</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
There is no significant difference between financial Risk Management Practices (0.250), Future Directions (0.441). There is a significant difference between Firm Performance Indicators (0.049) (Table 3).

9.10 Firm Performance Indicators

The firm performance indicator ANOVA findings show that there is a marginally significant difference in the mean scores between the industrial sectors (F = 2.428, p = .049). This shows that the perception of the influence of financial risk management on company performance measures may differ across various industrial sectors. With an overall mean score of 2.60, the mean scores vary from 2.10 (Finance) to 2.72 (Healthcare).

Conceptual Framework


<table>
<thead>
<tr>
<th>Full Model</th>
<th>CMIN/DF</th>
<th>P</th>
<th>RMR</th>
<th>GFI</th>
<th>AGFI</th>
<th>IFI</th>
<th>CFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtained</td>
<td>0.785</td>
<td>0.000</td>
<td>0.815</td>
<td>0.913</td>
<td>0.932</td>
<td>0.721</td>
<td>0.823</td>
<td>0.021</td>
</tr>
<tr>
<td>Observed</td>
<td>≤ 5</td>
<td>&lt; .05</td>
<td>&lt; 1</td>
<td>&gt; 0.90</td>
<td>&gt; 0.90</td>
<td>0.7-1.0</td>
<td>0-1</td>
<td>&lt; .08</td>
</tr>
</tbody>
</table>

Table 4: Results of goodness-of-fit test for sub-concept model
Source: Primary data processed

The results of the goodness-of-fit test (Table 4) for the sub-concept model indicate that the model fits the data very well. The low p-value and the observed values of various fit indices being in acceptable ranges indicate that the model is a strong fit for the data. This suggests that the relationships between financial risk management practices, firm performance indicators, and future directions are well-represented by the model.
Table 5: Co-efficient for Impact of financial risk management practices and firm performance indicators on future directions
Source: Primary data processed

<table>
<thead>
<tr>
<th>Dependent</th>
<th>Independent</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Performance Indicators</td>
<td>Future Directions</td>
<td>.230</td>
<td>.101</td>
<td>.185</td>
<td>.025</td>
<td>S</td>
</tr>
</tbody>
</table>


The observed coefficient of 0.157 suggests that a one-unit rise in Financial Risk Management Practices is associated with an anticipated increase of 0.157 units in the dependent variable "Future Directions." Given the low p-value, which is commonly indicative of statistical significance, the observed association can be deemed statistically significant. This implies that financial risk management methods exert a positive and substantial influence on future outcomes (Table 5).

10.3 Firm Performance Indicators <--- Future Directions

The observed coefficient of 0.230 indicates that a one-unit increase in the Firm Performance Indicators is associated with a corresponding increase of 0.230 units in the dependent variable "Future Directions." The obtained p-value of 0.025 is lower than the commonly accepted significance level of 0.05, suggesting that there is a statistically significant link at the 0.05 level. Hence, it can be observed that company performance indicators exert a favourable and statistically substantial influence on future trajectories. The structural equation modelling conceptual framework presented in Figure 3.
Findings

- The bulk of responses were men.
- The technology sector was the most represented among respondents, followed by healthcare and manufacturing. The majority of respondents were younger age groups, with the largest percentage in the 18-24 years group.
- Strongly disagree that risk management procedures have a direct bearing on a company's capacity to remain stable.
- Effective risk management techniques can increase a company's resistance to losses during economic downturns.
- Integrating risk management with financial choices improves the allocation of resources to agree.
- A well-designed risk management framework may enhance a company's capacity to grasp expansion opportunities.
- In my business, risk management is a crucial component of strategic decision-making.
- Firm Performance Measures for disapproval
Suggestions

The survey's responses and the information acquired from them offer important insights on the attitudes, views, and demographics of the participants. A considerable gender imbalance in the sample may be seen in the fact that men made up the majority of responders. Future research might make an attempt to enrol a more varied group of individuals in order to guarantee a more representative sample. The majority of responders were between the ages of 18 and 24, which may indicate that younger people are interested in the subject. Reaching out to more people of different ages could result in a greater understanding of financial risk management. A wider range of sectors should be targeted in order to gain a more thorough knowledge of the effects of financial risk management, as shown by the dominance of the technology industry. The diverse viewpoints are further shown by the various answers to various risk management strategies and company performance measures. Future research should think about probing more deeply into the causes of these disparities, perhaps using qualitative interviews or open-ended questions. This would enhance the study's findings and give a more comprehensive knowledge of participants' perspectives.

Conclusion

As a result, the study's findings offer important new understandings into how participants perceive and hold beliefs on the connection between financial risk management and business success in the context of financial management techniques. The demographics show that the sample is heavily weighted towards male participants and that younger age groups are significantly represented, indicating the need for greater participant diversity. The industries with the most interest in the study's topic are those in the technology sector, followed by healthcare and manufacturing. Notably, different degrees of agreement were found between respondents' opinions on risk management strategies and their effects. While respondents tended to strongly disagree that risk management procedures had a direct impact on a firm's capacity to remain stable, they tended to agree on the efficacy of risk management techniques during. Contrarily, there was a greater degree of agreement that including risk management into financial choices has a beneficial impact on how resources are allocated and encourages grabbing development possibilities. Furthermore, it was generally acknowledged that risk management is essential to making strategic decisions. The
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opposing opinion first surfaced in relation to company performance metrics. These results highlight the complex nature of the connection between risk management techniques and company performance, calling for more research and in-depth analysis. Overall, this study advances knowledge of the complicated relationship between financial risk management and corporate performance and encourages future research into the underlying causes of these viewpoints.

References


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