Research Paper

In the context of pakistan, the regression model of risk management and firm performance under the parallel mediation by managerial autonomy and political intervention: a comparison of pakistani firms

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ABSTRACT

This study's foundation is the examination of the concurrent mediating functions of managerial autonomy and political intervention in the regression model of risk management and its effect on firm performance in the context of Pakistani businesses operating in a highly volatile and politically influenced economic environment. Based on Agency Theory, Stakeholder Theory, which holds that all stakeholders are significant, and Resource-Based View (RBV), the study employs a quantitative methodology based on data collected from 220 managers and senior executives from both government and state-owned enterprises (SOEs), with a comparison to private companies.Statistical analysis are done by using SPSS linear regression is used to test effect of risk management on firm performance and Andrew F. Hayes' Process Macro (Model 4) reveals that political intervention and managerial autonomy have a positive partial parallel mediation in the relationship of risk management and firm performance. For testing correlation among variables spare man correlation test and for differentiation Man-Whitney U test is used. Managerial autonomy enhances the effectiveness and efficiency of risk management, on the other hand political intervention presents both supportive and limiting effects depending on the firm type. The findings also highlights a significant higher level of political intervention among SOEs with the comparison to private firms. The study provides critical theoretical contributions by means of proving a parallel mediation model and also highlights practical implications for governance reforms, especially in politically influenced firms I.e:SOE'S. Overall, this research informs the policymakers and leaders of a organization on how to balance political influence by political stakeholders with managerial freedom in emerging markets like Pakistan.

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1. INTRODUCTION

1.1. Background

In highly volatile emerging markets like Pakistan in which firms also face the highly complex political and economic situations firms must develop good strategies to respond risk so they can mitigate the risk and maintain sustainable performance. Risk management known as a critical facilitator of firm performance, which allows firm to respond proactively to financial, operational, threats, risk [1]. However, the effectiveness and efficiency of such practices is often effected by both external political factors and internal governance structures.

One of the major challenge arises due to political intervention, which can effect firm-level decisions through involvement of state actors directly and indirectly, specially in state-owned enterprises (SOEs). Specially the level of managerial autonomy (the level of freedom to which managers can make independent decisions) is essential for performing risk management strategies effectively and efficiently. Despite a growing body of literature address these factors separately, their group mediating roles in the regression model of risk management and firm financial performance this particular relationship is less known, particularly in the framework of parallel mediation. By taking into account and investigating how managerial autonomy in decision-making and political intervention work together to mediate the impact of risk management on firm financial performance, this research aims to close that gap. The study's foundations include the Resource-Based View (a firm's competitive advantage based on its unique internal resources and capabilities) [2], Agency Theory (a principal's agent acts on their behalf) [3], and Stakeholder Theory (all stakeholders have right to serve equally by the firm not just shareholders only) [4] to explain the mechanisms through which these constructs interact with each other. Findings from this study provide valuable insights and regulations for policymakers and business leaders operating in politically influenced environments.

1.2 Problem Statement

While the effect of risk management has been widely acknowledged and discussed as a driver of firm performance, its effectiveness and efficiency is often limit or enhanced by political and managerial factors. On a special note, political intervention can either support or create a negative impact on corporate governance, while managerial autonomy shapes the level of internal execution of risk management strategies. Most recent studies have explored these mediators separately or treated political intervention as a moderator in this relationship. However, the parallel mediation effects of the mediating variables of this model i.e: management decision-making and political interference Autonomy is empirically under-studied in the regression model of the relationship between risk management and corporate financial performance, particularly in highly volatile and politically influenced economies like Pakistan.

1.3. Research Objectives

RO1: Examine the impact of risk management on the business's financial results.
RO2: Examine how the degree of political intervention and managerial decision-making autonomy affect the relationship between the firm's financial performance and the risk management regression model.

RO3: Analyze the connections between risk management strategies, corporate financial performance, managerial decision-making autonomy, and political participation.
RO4: Examine is the degree of political intervention in SOEs is higher than in private companies.

1.4. Research Questions

RQ1: What effect does risk management have on Pakistani firms' financial performance?
RQ2: Does the link between the regression model of risk management and business financial performance undergo concurrent mediation by political intervention and managerial decision-making autonomy?
RQ3: What connection exists between political involvement, managerial decision-making autonomy, firm financial performance, and risk management practices?
RQ4: Compared to private companies, is political intervention more prevalent in SOEs?

1.5. Significance of the Study

This study highly contributes in the literature theoretically and practically. First, it explores the effect of risk management literature by introducing a parallel mediator model, which offers a novel understanding that how political and managerial dynamics shape the outcomes of performance. Secondly, it provides actionable insights for the policymakers, regulators and firm leaders operating in politically sensitive environments, which enables them to structure the governance systems that balance the oversight in the context the managerial freedom. Third, in the context of Pakistani firms, where state influence is already strong, this research informs the strategies to optimize risk management systems under political pressure which can mitigate operational and financial risk cause by excessive political influence by political stakeholders in a firm.

2. RELATED WORK

2.1. Literature Review

Firm performance is commonly known as the ability of a firm to achieve financial and strategic objectives through use of resources effectively and efficiently. Traditional measures of firm performance focus on profitability, return on asset, return on equity and market value of a particular firm [5], [6]. In emerging markets like Pakistan, firm performance is highly sensitive and severe to macroeconomic factors, uncertainties in regulations, and governance structures [6], [7].

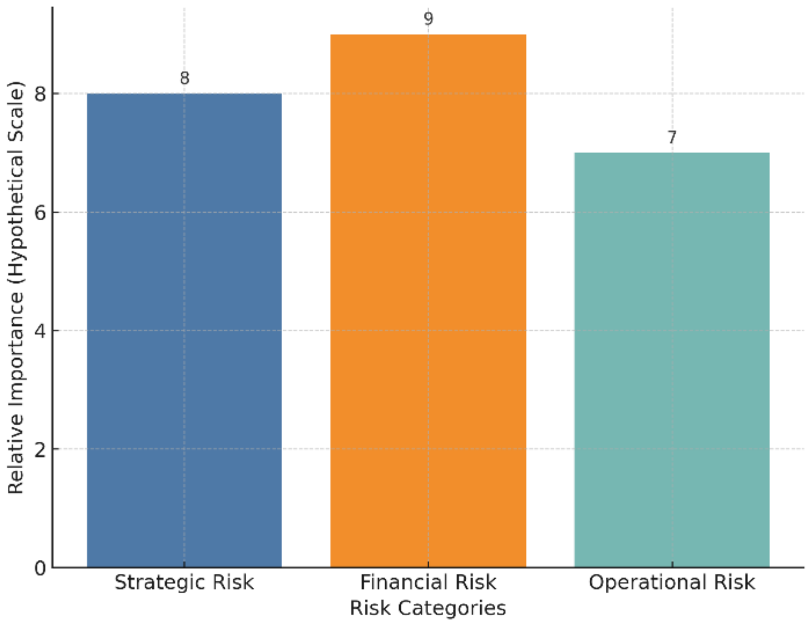

Figure 1. Types of Enterprise Risk Management

Performance is also closely related to organizational adaptability in highly volatile political contexts. Another variable which is deeply discussed with firm financial performance is risk management. Risk management refers to the identification, evaluation, and mitigation of uncertainties systematically which can affect firm performance [1]. Based on the probability theory and portfolio theory [8], it has evolved into strategic risk, financial risk, and operational risks as shown in the Figure 1. In highly volatile country like Pakistan, effective risk management has been shown to contribute significantly in the success of the firm even under high economic instability [9]. Enterprise risk management systems increases the decision-making, stakeholder confidence on firm, and resilience [10], [11].

Another variable which is little known or under known Political interference was found to be a factor in the association between risk management techniques and corporate financial performance using their regression model. According to [12], [13], political intervention is the influence of political actors and stakeholders on firm-level decision-making, primarily through regulation, state ownership, or board involvement as shown in Figure 2.

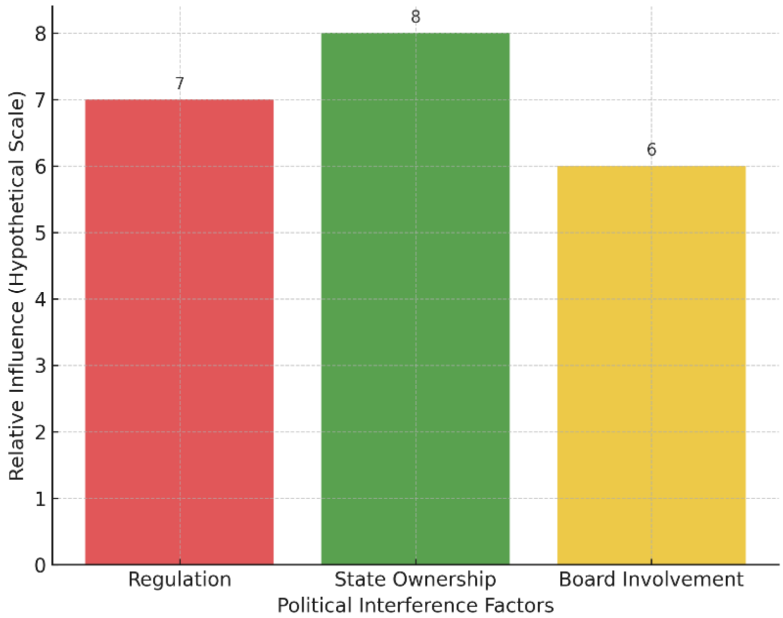

Figure 2. Dimension of Political Interference Affecting Corporate Performance

In SOEs, political connections provide financial security against financial and operational risk of firm but also restrict independent strategic decision making, actions, which are leading towards the inefficiencies [14], [15]. Some studies highlight that politically connected firms gain benefit from regulatory leniency authorities and access to capital, while others agenda is to analyze long-term performance decline due to agency problems between managers and shareholders specially and twisted incentives [16]. As a result, political intervention positively mediates this particular relationship between risk management practices and firm financial performance positively but its personal effect is negative on all other variables, depending on the context. Another variable which is little known or under discovered between the relationship of risk management and firm performance is managerial autonomy. Managerial autonomy refers to the freedom and easiness of decision making process of managers without interference from external or political forces and other parties as well [17]. It plays a important role in strategic flexibility, innovation, and effectiveness of operational activities of all firms. Studies show that high managerial autonomy enhances the better risk assessment and mitigation [7].

In SOEs, political oversight and intervention often restricts, became a hurdle towards managerial autonomy, which in turn weakens the effectiveness and efficiency of risk management strategies. Thus, managerial autonomy can act as a key mediator, translating risk management capacity of firms into performance outcomes of that particular firm. On the other hand parallel mediation impact of both mediators is under known both managerial autonomy and political intervention positively mediates the relationship among risk management and firm performance regression model which fulfil the potential gap in the literature which covers by this study.

2.2. Supporting Theories

- **Agency Theory:** This theory explains that how political intervention introduces agency problems especially in SOEs, which also cause of limiting managerial autonomy and dislocating risk management practices of a firm [3].
- **Resource-Based View (RBV):** It explains the positions of risk management as a strategic, firm-specific resource that drives the competitive advantage in a firm only if internal governance allows its proper execution because such effective and efficient risk management gain competitive advantage to firm with respect to its competitors [2]. It also highlight that SOE's gain competitive advantage due to political intervention so they are able to sustain in financial market and manage its operational and financial risk due to presence of political support of government to firms.
- **Stakeholder Theory:** It suggest that political stakeholders may overshadow or gain more attention with respect to financial stakeholders, which may cause towards shifting managerial priorities and start affecting performance outcomes of a particular firms [4]. Political intervention enables the SOE's to sustain in financial market and manage its operational and financial risk due to presence of political support of government to firms but in the other hand its excessive intervention may cause negative impact on other variables: Managerial autonomy, Firm performance and Risk management.

2.3. Conceptual Model

Based on the literature, we propose a parallel mediation model where both Political Intervention (M1) and Managerial Autonomy (M2) mediate the relationship between Risk Management (IV) and Firm Performance (DV) as shown in Figure 3.

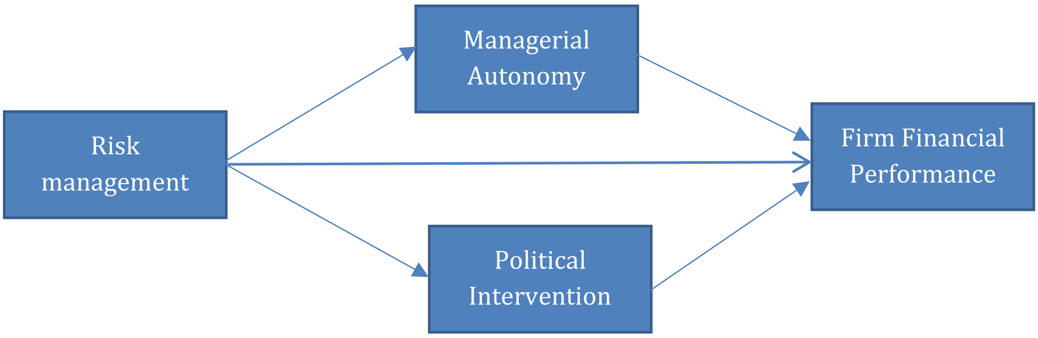

Figure 3. Research Model

2.4. Hypotheses

H1: Risk management techniques improve the financial performance of the company
H2: The relationship between risk management and firm financial performance is mediated by managerial decision-making autonomy and political intervention.
H3: Political intervention, corporate financial performance, managerial autonomy, and risk management are all correlated.
H4: Compared to private companies, SOEs have a higher level of political intervention.

3. METHODOLOGY

Philosophy: Positivism because all study proved through statistical and mathematical tools and provide a empirical evidence of the research.
Approach: Deductive because this study first take guide line from literature then develop hypothesis for testing it.

Methodological Choice: This study's methodology is quantitative since questionnaires are used to gather data.
Strategy: Data gathering is accomplished through the use of questionnaires.
Population: All firms in Pakistan SOE's Govt firms, Private firms etc
Sample Size and Technique: Sample size of this study is 220 (22*10) firms technique is snowball sampling, referral base sampling which is the type of non probability sampling because in this case all population does not have equal chance to select as sample.
Data Collection Procedure: 1 respondent of managerial and upper managerial staff from each firm is used for data collection because they know very well about political intervention, governance mechanisms, managerial autonomy and performance of firm
Time Horizon: Cross sectional because data is collected in one go without any gap
Data Analysis: Data analysis is done on SPSS descriptive analysis is used to describe the data of discrete as well as for continuous variable then test reliability for ensuring consistency of instrument for testing impact Linear regression test is used because there are one IDV and one DV for mediation Andrew F Hayes process macro model 4 is which is able to perform mediation up to 10 mediators used for correlation spear men correlation is used because normality assumption does not fulfill.

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics

These are the following descriptive analysis of this study as shown in the Table 1, Table 2, Table 3, Table 4, Table 5, and Table 6.

Table 1. Type of Firm of Respondents

Type of Firm	Frequency
SOE and Government Firm	101
Private firms	119
Total	220

Table 2. Industry Type of Respondents

Industry Type	Frequency
Manufacturing	49
Services	153
Agriculture	6
Technology	5
Others	4
Missing	3
Total	220

Table 3. No of Employees

No of Employees	Frequency
1-50	1
51-200	1
201-500	49
501-1000	63
More than 1000	105
Missing	1
Total	220

Table 4. Annual Revenue of Firm

Annual Revenue	Frequency
Less than 10 Million PKR	96
10-50 Million PKR	77
50-100 Million PKR	36
More than 100 Million PKR	11
Missing	1
Total	220

Table 5. Post of Respondent

Post of Respondents	Frequency
Manager	195
CEO	6
Director	11
HOD	6
Missing	2
Total	220

Table 6. Descriptive Analysis of Continuous Variable

Statistic	R_M (n=219)	F_P (n=217)	M_A (n=219)	P_I (n=218)
Mean	15.63	9.32	6.26	15.54
Median	15.00	11.00	5.00	21.00
Mode	8.00	5.00	3.00	8.00
Standard Deviation	7.72	4.60	3.05	7.57
Variance	59.58	21.17	9.27	57.30
Skewness	0.01	0.01	0.04	-0.03
SE of Skewness	0.16	0.17	0.16	0.17
Kurtosis	-1.96	-1.91	-1.83	-1.97
SE of Kurtosis	0.33	0.33	0.33	0.33
Minimum	6.00	3.00	2.00	6.00
Maximum	25.00	15.00	10.00	25.00
25th Percentile	8.00	5.00	3.00	8.00
75th Percentile	23.00	14.00	9.00	23.00

4.2. Reliability Analysis

Table 7. Reliability Analysis

Variables	No of Items	Cronbach's Alpha
Risk Management (RM)	5	.977
Firm Performance (FP)	3	.961
Managerial Autonomy (MA)	2	.937
Political Intervention (PI)	5	.976

Interpretation: The reliability assumption of this study is met because all of the Cronbach's Alpha values shown in the Table 7. Reliability Analysis Reliability Analysis: are more than 90%, which is higher than the reliability level of both fundamental and applied research.

4.3. Normality Test

Table 8. Normality Test

Items	Sig 2 Tailed Alpha
Risk Management (RM)	.000

Firm Performance (FP)	.000
Managerial Autonomy (MA)	.000
Political Intervention (PI)	.000

Interpretation: This study uses non-parametric tests to test the hypotheses in order to meet the goal of testing normalcy. The 1-Sample K.S. test is applied to all of the variables in this model, and all sig 2 tailed alpha values are less than 0.05 as shown by Table 8.

Note: After testing the normality this study also explore the outliers because normality can be effected by the presence of outliers but there are no outliers present among variables.

4.4. Hypotheses Testing

H1: Risk management techniques improve the financial performance of the company

Table 9. Regression Table

Items	Values
R	.957
R square	.916
Adj R square	.915
F test	2319.36
Sig 2 tailed Alpha	0.000
Standardize coefficient Beta	.957

Interpretation: As the Table 9 shows since there is only one IDV and one DV and no outliers in the data set, this study uses the linear regression test to evaluate the hypothesis. Even if the normalcy assumption is not met, linear regression can still be used. With a higher F test value indicating a good fit and a high standardized coefficient Beta of 0.957, the regression analysis for H1 provides strong support for the hypothesis that the variable risk management has a positive impact on firm performance. The sig 2 tailed alpha is 0.000, which is less than 0.05, indicating that the null hypothesis is rejected and the alternative is accepted on the other hand standard deviation increase in risk management leads to a 0.957 standard deviation increase in firm performance. The model tells and explains 91.6% of the variance in firm performance (R^2 = 0.916) so it concludes that risk management has a positive impact on firm performance in the analyzed sample size.

H2: The relationship between risk management and firm financial performance is mediated by managerial decision-making autonomy and political intervention.

Table 10. Mediation Table

Items	Values
Direct Effect of X on Y	.1617
T test	5.44
P value	0.000
Indirect effect of MA	.1789
Indirect effect of PI	.2303

Interpretation: This study uses Andrew F. Hayes Process Macro Model No. 4, which can test 10 mediators at once, to test the parallel type of mediation of MA and PI in the link between RM and FP. Since our model only contains two mediators, model 4 is appropriate for evaluating mediation. While the indirect effect of MA=.1789 and PI =.2303 greater than 0 indicates that there is also an indirect effect of mediation, the direct effect of PI and MA is.1617 with a p value of 0.00 less than 0.05, indicating that there is a partial parallel positive mediation by PI and MA in the relationship of RM and FP which reflect by the Table 10.

H3: Political intervention, corporate financial performance, managerial autonomy, and risk management are all correlated.

Table 11. Correlation Matrix Table

Items	RM	FP	MA	PI
RM	1			
FP	.775**	1		
MA	.783**	.806**	1	
PI	-.747**	-.800**	-.814**	1

Interpretation: This study uses a non-parametric technique, the Spearman Correlation test, to test for correlation between variables because the normalcy assumption is not met. Since there is correlation between the variables, the alternative hypothesis is accepted and the null hypothesis is rejected, as the table indicates when the sig 2-tailed alpha is less than 0.05. Firm financial success (77.5%) and managerial decision-making autonomy (78.3%) are significantly positively correlated with risk management practices While political involvement has a strong negative association with risk management practices (74.7%), managerial decision-making autonomy (81.4%), and firm financial performance (80%), managerial autonomy has a large positive link with firm financial performance (80.6%). large positive correlations between variables indicate that when one rises, the others follow suit, and large negative correlations indicate that when one variable declines, the others follow suit, or vice versa shown in the Table 11.

H4: Compared to private companies, SOEs have a higher level of political intervention.

Table 12. Differentiation Table

Items	Values
No of SOE and Govt firms	100
No of Private firms	118
Mean rank of SOE and Govt firms	158.83
Mean Rank of Private firms	67.69
Sig 2 tailed alpha	0.000

Interpretation: As the Table 12 shows since the normalcy assumption is not met, this study suggests using the non-parametric Man-Whitney test to test for group differentiation. According to the results of the U test for differentiation, there are 118 private companies and 100 SOEs and government businesses. Out of the total 220 sig, 2 are absent. The null hypothesis is rejected and the alternative is accepted because the two-tailed alpha is 0.000, which is less than 0.05, and the mean rank of SOE and government firms is 158.83, while the mean rank of private firms is 67.69. These results indicate that there is a difference in the degree of political intervention between SOEs and government firms and private firms.

4.5. Discussion

In the context of Pakistani firms, this study focuses on the simultaneous mediation of managerial decision-making autonomy and political involvement in the relationship between risk management practices and business financial performance. In line with previous research that highlights how proactive and innovative risk strategies support a firm's operational and financial performance, particularly in volatile situations, the results confirm that risk management has a significant positive impact on firm performance (β =.957, R2 = 0.916, P value = 0.05), indicating that the null hypothesis is rejected and the alternative is accepted [1], [9].

The impact of risk management on business performance is partially mediated by managerial decision-making autonomy and political interference, according to the parallel mediation study. While the indirect effect of MA=.1789 and PI =.2303 greater than 0 indicates that there is also an indirect effect of mediation, the direct effect of PI and MA is.1617 with a p value of 0.00 less than 0.05, indicating that there is a partial parallel positive mediation by PI and MA in the relationship of RM and FP. This binary path mediation concludes that the political factors and internal governance structures have a joint impact on the effectiveness of risk mitigation and management strategies. While managerial autonomy facilitates effective and efficient execution of risk management protocols [7], political intervention presents itself as a double-edged sword. On one side, it supports firms especially in the case of SOEs through policy shielding and capital accessibility in financial market [18], but on the other, it reduce the level of autonomy of managers in SOE's and impairs long-term strategic decisions [14], [16]. but in the case of the parallel mediation both are partial parallel positive mediators of RM and FP.

While political intervention has a significant negative relationship with risk management (74.7%), managerial autonomy (81.4%), and firm performance (80%), risk management practices have a significant positive relationship with firm financial performance (77.5%) and managerial decision making autonomy (78.3%). On the other hand, firm financial performance has a significant positive relationship with managerial autonomy (80.6%). large positive correlations between variables indicate that when one rises, the others rise as well, and large negative correlations indicate that when one rises, the others fall, or vice versa.The important dynamics in politically impacted economies like Pakistan are supported by these findings. Man-Whitney is also used in this investigation. According to the results of the U test for differentiation, there are 118 private companies and 100 SOEs and government businesses [19], [20]. Out of the total 220 sig, 2 are absent. There is a difference in the degree of political influence, as evidenced by the 2 tailed alpha of 0.000, which is less than 0.05, and the mean rank of SOE and government enterprises, which is 158.83, and the mean rank of private firms, which is 67.69. Since government and SOE companies are more politically involved than private companies, the null hypothesis is disproved and the alternative is approved [21], [22], [23], [24]. Especially in the hybrid business climate of Pakistan, political involvement in SOEs is much higher than in private companies, which supports earlier claims but also raises questions regarding agency issues in SOE governance.

These results support on the basis of agency theory, which suggests political interference is a way to create agency conflicts and problems between stakeholders. On the other hand, the Resource-Based View and Stakeholder theory concludes that how managerial autonomy is a special and unique internal resource which plays a key role for enhancing competitive edge for enterprises and their performance when political pressures are controlled.

4.6. Theoretical Implications

This study makes following important contributions to organizational theory and governance research. This study verifies a parallel mediation model**,** which are the main bridging gaps in literature where political intervention and managerial autonomy have traditionally been studied separately or linear terms. It expands the Agency Theory by providing a example with proof that how excessive political control in SOEs introduces agency conflicts and problems between managers and all stakeholders specially shareholders that damage managerial autonomy and firm performance [25], [26], [27]. It support the Resource-Based View after showing that managerial autonomy, as an internal capability of firms that enhances the effect of risk management on firm performance outcomes. The research also contributes towards the Stakeholder Theory by providing a example that overemphasis and over reliance on political stakeholders may disturb firm objectives, and also lead towards ignorance of broader stakeholder interests [28], [29], [30].

4.7. Practical Implications

For regulators, policymakers and piratical workers, this study provides the following actionable insights:

For Policymakers: There is a need of time to recreate and redefine the boundaries of political supervision in SOE'S to prevent a high level of interference during the process of maintaining public accountability.

For Firm Leadership: Increasing the managerial autonomy is an important factor to unlock the full potential of effective risk management systems. SOE'S should consider internal policy reforms to empower the managers for effective and efficient decision making.

For Regulators: Findings Spotlight the importance of governance reforms which focused at reducing political intervention in firm decision-making process [31].
For Investors and Stakeholders: The level of political intervention by political stakeholders may also act as factor which lead towards the increase in the level of risk related to governance of SOE'S evaluated by political stakeholders.

4.8. Limitations

- This study applies a Cross-sectional timeline design which limits the ability of this study to establish causality.
- Use of self-reported data collected through questionnaire may bias
- The Sample size is restricted to Pakistani firms which may cause potentially restricting generalizability of this study.
- Relies solely on quantitative methods so this study apply mono method mixed method technique should be considered.

4.9. Delimitations

- This study is focused to collect data only from managerial and upper-level employees.
- The use of the snowball sampling to access limitations, which may lead towards the introducing the selection bias.

5. CONCLUSION

This study concludes by confirming that a firm's performance can be significantly improved by good risk management. The relationship between risk management and corporate performance is somewhat mediated by both managerial autonomy and political intervention. Although political intervention restricts the firm performance results on a personal level, managerial autonomy rises, and both positively somewhat parallel mediate the relationship between risk management and business performance. Compared to private companies, SOEs are more likely to engage in political involvement. By providing empirical support for a model based on parallel mediation that highlights how managerial autonomy and political intervention coexist to influence business dynamics in developing nations like Pakistan, these findings add to the theoretical conversation. For policymakers and business leaders, this study implies that there is a need to balance excessive political intervention in SOE'S for the effective regulation of managerial independence which lead towards to unlock the full potential of risk management systems in highly volatile market like Pakistan.

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Author Contributions Statement

Name of Author	C	M	So	Va	Fo	I	R	D	O	E	Vi	Su	P	Fu
Soban Ali	✓	✓	✓	✓	✓	✓		✓	✓	✓			✓	
Dr. Haleema Tariq		✓				✓		✓	✓	✓	✓	✓		
Dr. Nisar Ahmad				✓		✓					✓		✓	

Mehar Muhammad Bilal Rasool					✓			✓				✓		

C : **C**onceptualization
M : **M**ethodology
So : **So**ftware
Va : **Va**lidation
Fo : **Fo**rmal analysis
I : **I**nvestigation
R : **R**esources
D : **D**ata Curation
O : Writing - **O**riginal Draft
E : Writing - Review & **E**diting
Vi : **Vi**sualization
Su : **Su**pervision
P : **P**roject administration
Fu : **Fu**nding acquisition

Conflict of Interest Statement

The authors declare no conflict of interest regarding this research.

Informed Consent

Informed consent was obtained from all participants involved in this study.

Ethical Approval

The study was conducted in accordance with ethical research standards, and approval was obtained from all the participants for data collection process.

Data Availability

The data is collected through a structured questionnaire so the data is not openly available the datasets generated and analyzed during the current study will be obtain from the corresponding author upon reasonable request.

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